Heidelberg PHARMA

Focused Cancer Therapies

ANNUAL REPORT 2018

KEY FIGURES

	2018[1] €'000	2017[1] €'000
Earnings		
Sales revenue	3,668	1,900
Other income	706	582
Operating expenses	(16,045)	(13,235)
of which research and development costs	(10,679)	(9,323)
Operating result	(11,672)	(10,753)
Earnings before tax	(11,672)	(10,970)
Net loss for the period	(11,672)	(10,970)
Earnings per share in €	(0.41)	(0.76)
Balance sheet at end of period		
Total assets	31,192	41,490
Cash and cash equivalents	19,440	30,381
Equity	25,886	37,024
Equity ratio[2] in %	83.0	89.2
Cash flow statement		
Cash flow from operating activities	(9,983)	(7,940)
Cash flow from investing activities	(1,001)	(416)
Cash flow from financing activities	0	34,181
Employees (number)		
Employees as of the end of the period[3]	66	58
Employees as of the end of the period (full-time equivalents)[3]	60	52

[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 and specialized in oncology and Antibody Targeted Amanitin Conjugates (ATACs).

We were the first company to start research and development of the Amanitin toxin for use in cancer therapies to develop safe and effective drugs in the future. Amanitin has a unique biological mode of action which could serve as the basis for developing highly effective, innovative drugs. It works by inhibiting RNA polymerase II, which results in programmed cell death, or apoptosis. 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 lead to major clinical advances.

We use our proprietary and innovative ATAC technology for the manufacturing of Antibody Targeted Amanitin Conjugates, which we use for our own development as part of a hybrid business model, further develop within research cooperations and market to licensing partners. We develop proprietary ATACs until the early clinical development stage in order to demonstrate their applicability and efficacy in patients. Through research collaborations we are collaborating with various partners on different ATAC candidates. The partner provide specific antibodies that are combined with Amanitin and carry out the preclinical and clinical development of these ATACs.

Our mission is to research and develop new therapy options 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.

Strong partnerships with international pharmaceutical and biotech companies as well as important scientific research institutes and medical institutions support this mission and our long-term goal of developing a successful company.

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
ATAC licensing projects								
TAK-XX-ATACs	n/a	n/a						Takeda/Millennium
MGTA-XX-ATACs	CD117, CD45	Conditioning programs for bone marrow transplant in AML						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)

There are also several R&D projects based material transfer agreements (MTAs) signed with different companies.

HIGHLIGHTS OF FISCAL YEAR 2018

In 2018, Heidelberg Pharma made significant progress in the development of its ATAC technology for potential use in cancer therapies. Details of the highlights summarized here are presented in the section on the course of business in 2018 and in the Company's press releases.

2018

March

License agreement with the University of Texas MD Anderson Cancer Center
Heidelberg Pharma acquires an exclusive license from the University of Texas System, on behalf of MD Anderson, related to its patent rights for diagnosis and treatment of select patient groups with RNA polymerase II deletion based on preclinical data created in cooperation with Heidelberg Pharma.

Exclusive research agreement with Magenta Therapeutics
Magenta is granted access to Heidelberg Pharma's ATAC technology and has an option for an exclusive license for global development and commercialization rights to up to four targets and the product candidates resulting from the research collaboration. In return, Heidelberg Pharma receives technology access and exclusivity fees and payments for research support. Including performance-related payments for clinical development, regulatory and sales-related milestones, Heidelberg Pharma could receive up to USD 334 million, if Magenta were to exercise the options on all target molecules and reach all milestones.

April

Research results presented at the 2018 AACR Annual Meeting
In two poster presentations at the Annual Meeting of the American Association for Cancer Research (AACR), Heidelberg Pharma shows structure-effect relationships for synthetic variants of Amanitin-linker molecules which are particularly suitable for the treatment of solid tumors, as well as preclinical data of an ATAC targeting PSMA, a protein that is relevant for prostate cancer, among others.

August

Partner Telix Pharmaceuticals submits application for Phase III trial for kidney cancer imaging

Telix submits a clinical trial application (CTA) to initiate a Phase III trial in Europe with TLX250-CDx for the diagnostic imaging of renal cancer using positron emission tomography (PET). In January 2017, Heidelberg Pharma granted Telix exclusive worldwide rights for the development and commercialization of the imaging agent REDECTANE®, which is being optimized and developed further by Telix under the name TLX250-CDx.

Oktober

Partner Magenta Therapeutics exercises option to further develop a target molecule as an ATAC

Magenta exercises its first option to further develop a target molecule and continues to develop an Antibody Targeted Amanitin Conjugate based on the target molecule under an exclusive licensing agreement. Heidelberg Pharma receives a milestone payment in return.

November

Presentations of research results on ATAC technology at the 2018 ASH Annual Meeting

In a presentation at the 60th Annual Meeting of the American Society of Hematology (ASH), the leading conference for hematologic diseases, cooperation partner MD Anderson Cancer Center unveils preclinical data on HDP-101 for effective 17p deletion in multiple myeloma.

Heidelberg Pharma's partner Magenta presents three posters with preclinical data on the use of Antibody Targeted Amanitin Conjugates in the pretreatment of patients with bone marrow transplants.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

Our activities are currently focused on developing the ATAC technology for use in cancer therapies. Particularly significant in this context are the preparation of the clinical trial for our HDP-101 development candidate in the multiple myeloma indication, the collaboration with our license partners Takeda and Magenta Therapeutics, and the expansion of our portfolio through new projects and partnerships. Over the past year, we have made significant progress in manufacturing the compound Amanitin and the HDP-101 development candidate. We are proud of the fact that, as far as we are aware, we are the world's first and so far only industrial source of chemically produced Amanitin. Our partnerships have progressed well as a result of intensive and trustworthy collaboration with our partners. We signed a research agreement with Magenta and reached an initial milestone by exercising a license option. Away from our ATAC technology, our licensed clinical projects also made encouraging progress.

Planned clinical trial with HDP-101

In 2018, we focused on preparing a clinical program for our HDP-101 development candidate. The availability of the compound to meet the requirements of Good Manufacturing Practice (GMP) is a fundamental prerequisite for the clinical trial. Many steps and different partners are ultimately needed to obtain a product that can be used for therapeutic purposes and satisfies GMP requirements. We have successfully transferred this technology from the lab to an industrial plant with our partners Celonic for the antibody and Carbogen for the Amanitin linker.

This technology transfer to industrial-scale production was a key milestone for securing the supply of material both for our own projects and for our licensees. Due to the unique and complex challenges of manufacturing Amanitin, we were unable to meet our ambitious original timetable for preparing the material for the first clinical trial with HDP-101 as planned. The initial material from this batch is currently being used for the final toxicity studies run according to GLP guidelines in preparation for clinical trials.

Work on the design of the first-in-humans trial for HDP-101 proceeded in parallel to production. During the presentation of this novel therapeutic approach to the regulatory authorities in Germany and USA, the preclinical program was agreed on and Amanitin's potential for treating cancer was explained. We have had many discussions with opinion leaders and clinical centers that treat multiple myeloma patients in order to refine the development strategy and trial protocol.

Cooperation with Magenta opens up new application areas

Another important milestone in our ATAC technology partnerships was the signing of an exclusive research agreement for several target molecules with US company Magenta Therapeutics in March 2018. The agreement enabled us to form another partnership with an ambitious biotech company after entering into a license agreement with Takeda in the previous year. Magenta is active in the field of bone marrow transplant and is opening up new application areas for our technology. In October 2018, Magenta exercised its option for the further development of a target molecule and will proceed to develop an antibody-targeted Amanitin conjugate based on this as part of an exclusive license agreement.

The company has already compiled scientific data for the use of our Amanitin compound as an ATAC and presented these at the ASH Annual Meeting in San Diego in December 2018. Several ATACs for two biological targets were preclinically tested for their suitability in conditioning (preparing) patients for the transplantation of bone marrow cells and showed very positive results.

Our existing partnership with Takeda is also progressing well. The first ATAC molecules have been produced and are currently being tested.

Advancement in clinical license portfolio

Our partners are making progress with the former WILEX projects out-licensed as part of the realignment of Heidelberg Pharma. Telix Pharmaceuticals has improved what was previously REDECTANE® as TLX250-CDx and began a new Phase III trial at the end of 2018. The Girentuximab antibody is expected to be used with different radioactive labeling in diagnostics and for therapeutic purposes. Heidelberg Pharma is eligible to receive milestone payments and eventual license income if these projects are successful.

After the end of the fiscal year, our Chinese partner Link Health was granted approval to conduct a clinical program with MESUPRON® in China and is currently reviewing the exact arrangements for a Phase II trial.

Financial position of Heidelberg Pharma

The Group's financial position has developed positively and according to plan. Sales revenue nearly doubled compared to the previous year. While expenses rose year-over-year, they did not increase as sharply as initially planned as certain R&D expenses were postponed until 2019.

The corporate actions implemented in 2017 secured our financial reach until mid-2020. All activities currently planned can begin or continue in 2019. Nevertheless, we are constantly reviewing further financing opportunities to demonstrate proof of concept for HDP-101 and forge ahead with other programs.

The service business was successful and performed in line with expectations.

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

Our activities focus on the significant therapeutic potential of the Amanitin conjugate. We are pursuing our strategy of driving the development and marketing of our ATAC technology by securing additional licensing and cooperation partners for the technology platform but also through our own validation, particularly by carrying out clinical development of HDP-101 for patients with multiple myeloma.

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

Ladenburg, 19 March 2019

Yours sincerely,

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

Professor Andreas Pahl
Chief Scientific Officer

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: the development strategy for HDP-101, potential follow-up projects, licensing negotiations, technology partnerships, M&A matters 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 2018 fiscal year

In the 2018 fiscal year (1 December 2017 to 30 November 2018), the Supervisory Board met for five regular meetings. In addition, several conference calls were conducted as a regular part of monitoring and advising the Executive Management Board.

In the 2018 fiscal year, the Supervisory Board discussed and approved the following items requiring its approval:

- The budget and corporate objectives for the 2018 fiscal year and the budget for the 2019 fiscal year
- Approval of the 2017 annual and consolidated financial statements
- Preparations for the clinical development of HDP-101
- Review of and support for M&A activities;
- Negotiation mandates for potential contractual partnerships
- Review of additional potential financing options
- Creation of new Authorized Capital 2018/I
- Approval of the 2018 Stock Option Plan including creation of Contingent Capital 2018/I
- Reduction of Contingent Capital II
- Settlement of the lawsuit with Siemens
- Contract renewal for Dr. Jan Schmidt-Brand

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. Establishing its own pipeline is becoming an increasingly important aspect of the Company's overall strategy. A particular focus in this context is on the development candidate HDP-101, an antibody drug conjugate targeting BCMA.

The Supervisory Board was regularly informed about activities at Heidelberg Pharma AG's licensees for MESUPRON® and REDECTANE® and about negotiations with a potential licensing partner for the RENCAREX® Phase III project.

The Executive Management Board also regularly briefed the Supervisory Board 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 26 June 2018 approved the following changes regarding authorized and contingent capital:

- Creation of new Authorized Capital 2018/I in the amount of €14,051,267 by issuing 14,051,267 no par value shares
- Creation of Contingent Capital 2018/I in the amount of €1,490,622 by issuing 1,490,622 no par value shares for the purpose of satisfying the 2018 Stock Option Plan
- Reduction of Contingent Capital II from €237,194 to €59,994

Corporate governance

The Supervisory Board together with the Executive Management Board decided on 1 February 2019 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 6 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 all 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 2018. The renewal of Dr. Schmidt-Brand'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 2018 fiscal year. Based on a proposal by the Supervisory Board, Deloitte was elected by the Annual General Meeting on 26 June 2018 and subsequently commissioned by the Supervisory Board to audit the Company's annual financial statements for the 2018 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 2018 with the auditor, Deloitte. The Audit Committee discussed the interim management statements and the half-yearly report for 2018 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 (R&D Committee) held two meetings 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. The R&D Committee deals with R&D topics that require a more intensive discussion of scientific details and therefore a higher level of professional expertise. In the past year, this mainly concerned the preparations for the clinical development of HDP-101. The meetings of the R&D Committee took place when the Committee met with potential clinical centers for the trial and/or with advisory experts.

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 2018, including the underlying accounting, and issued an unqualified auditor's report. 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 (1) 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 the meeting of the Audit Committee held on 15 March 2019 and today's accounts 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 (1) of the German Stock Corporation Act (dependent company report) prepared by the Executive Management Board was also reviewed by Deloitte in accordance with Section 313 (3) of the German Stock Corporation Act.

The auditors issued the following unqualified auditor's report on 18 March 2019:
"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 GmbH for the impressive commitment they showed in the 2018 fiscal year. It is due to their commitment that key milestones, such as the cooperation and license agreement with Magenta, the establishment of the manufacturing processes for HDP-101 and important precursors were reached together with partners.

Ladenburg, 19 March 2019

For the Supervisory Board

Professor Christof Hettich
Chairman of the Supervisory Board

INVESTOR RELATIONS

Market development

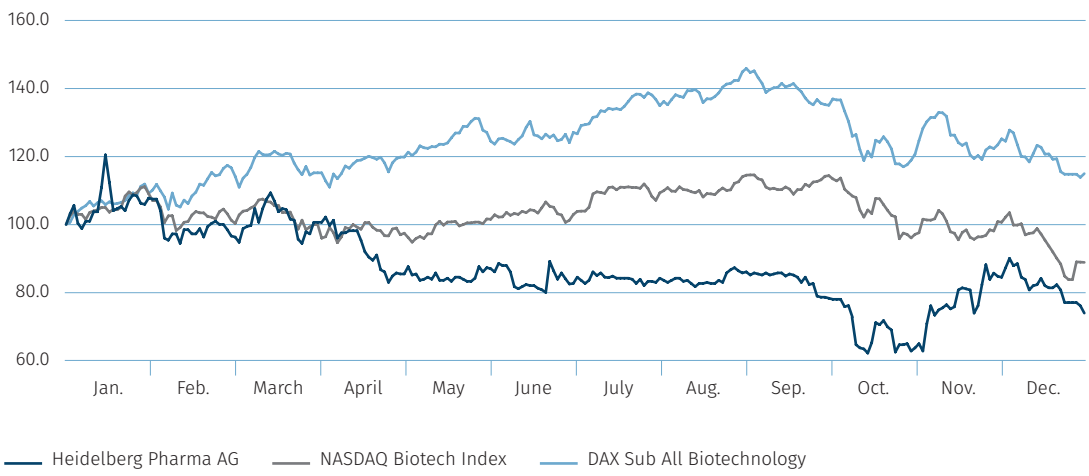
Compared to previous years, 2018 was a difficult year for all equity markets. Germany's benchmark index, the DAX, ended 2018 down 18 %, while the TecDAX technology index fell by 3 %. This significant, downward-trending volatility was caused by economic risks triggered by political developments such as the trade dispute between the USA and China and continuing uncertainty over Brexit.

2018 was also a mixed year on the capital markets for the biotechnology sector. After the poorest quarter for biotech indices in the last 16 years, the NASDAQ Biotechnology Index closed the year with a 9 % loss on 31 December 2018.[1] Despite this, the industry set new financing records during the year under review. A total of USD 11.3 billion was raised in 101 IPOs (+98 %), while a further USD 27 billion was raised in 257 capital increases (+19.5 %) – the second-highest total proceeds in the last 20 years.[2] 2018 was also a good year for mergers and acquisitions in the biotechnology sector. Although the number of transactions fell from 60 to 55, the total reported value of these deals rose to USD 65.2 billion (2017: USD 59.8 billion).[3]

In Germany, biotech stocks generally performed well (DaxBiotech index +14 %). New financing records were also set here in 2018. As a result, German biotechnology companies succeeded in raising more than € 1.3 billion (+95 %) from investors, of which € 889 million was raised via the stock exchange.[4]

Share price performance of the Heidelberg Pharma share

Heidelberg Pharma's share price performance, indexed as of 1 January 2018



1 BioCentury, 31 December 2018: Biotech ends 2018 in the red. https://www.biocentury.com/bc-extra/financial-news/2018-12-31/biotech-ends-2018-red?kwh=nasdaq%3C|%3Ebiotech%3C|%3Eindex

2 BioCentury, 12 January 2019: Warning: Cash needed. https://www.biocentury.com/biocentury/finance/2019-01-11/why-biotechs-may-need-seek-alternative-financing-options-2019

3 Ibid.

4 transkript, 11 January 2019: Finanzierungen auf 1,3 Mrd. Euro verdoppelt. https://transkript.de/meldungen-des-tages/detail/finanzierungen-auf-13-mrd-euro-verdoppelt.html

Like many stocks, Heidelberg Pharma's shares suffered as a result of generally poor sentiment in the stock market, which triggered significant price losses across all sectors, particularly in the second half of the year. The shares began 2018 trading at € 3.35 and quickly rose to their annual high of € 3.98 before leveling out around the € 3.00 mark during the first quarter. However, the stock steadily shed value from April onwards, reaching its annual low of € 1.88 in October. Although the share price recovered somewhat in the last few weeks of the year, it closed the year at € 2.41, down 28 % from a year earlier.

Trading and liquidity

At 26,125 shares, the average daily trading volume of Heidelberg Pharma's shares in the 2018 fiscal year (1 December 2017 to 30 November 2018) was 36 % higher than the prior-year average of 19,172 shares. Due to the higher number of shares, the Company's market capitalization at the end of November 2018 was € 79.90 million (€ 61.30 million).

Key share figures as of the end of the reporting period	FY 2018	FY 2017
Market capitalization in € million	79.90	61.30
Number of shares issued	28,133,308	22,452,570
Closing price (XETRA) in €	2.840	2.730
High[1] in €	3.980 (on 15 Jan. 2018)	3.514 (on 20 Nov. 2017)
Low[1] in €	1.880 (on 11 Oct. 2018)	1.845 (on 6 Dec. 2016)
Volatility (260 days; XETRA) in %	48.34	60.39
Average daily trading volume[1] in shares	26,125	19,172
Average daily trading volume[1] in €	78,807.60	54,104.22

[1] All stock exchanges

Source: Bloomberg

Corporate actions and financing

No corporate actions were implemented during the year under review. The Company issued convertible bonds as part of the mixed non-cash and cash increase completed in November 2017. By converting several bonds during the fiscal year ended, the Company increased its share capital by € 5,680,738 from € 22,452,570 to € 28,133,308 as of 30 November 2018.

Annual General Meeting

The Annual General Meeting of Heidelberg Pharma AG took place in Heidelberg on 26 June 2018. Of the Company's share capital at that time (28,129,782 no par value bearer shares), 22,615,020 shares, or 80 %, were represented with the same number of votes. In addition to adopting the annual financial statements , formally approving of the actions of the members of the Executive Management Board and Supervisory Board and appointing 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:

- Creation of new Authorized Capital 2018/I in the amount of € 14,051,267 by issuing 14,051,267 no par value shares
- Reduction of Contingent Capital II from € 237,194 to € 59,994
- Creation of Contingent Capital 2018/I in the amount of € 1,490,622 by issuing 1,490,622 no par value shares for the purpose of satisfying the 2018 Stock Option Plan

The Annual General Meeting also approved the remuneration system for the Executive Management Board.

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 them[2]	75.05 %
UCB	4.02 %
Corporate bodies (held directly)	0.78 %
Free float	20.15 %

[1] As of 30 November 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	
Listed:	Regulated Market (Prime Standard)
Stock exchange symbol:	WL6
WKN/ISIN:	000A11QVV/DE000A11QVV0
Share capital:	€ 28,133,308
Admitted capital:	28,133,308 bearer shares of common stock
Designated sponsors:	Pareto Securities AS (formerly Equinet Bank), OddoSeydler Bank AG

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Please see page 140 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 Heidelberg Pharma AG, Ladenburg

for the fiscal year from 1 December 2017 to 30 November 2018

1 Company overview

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

Pages 16 and 30

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

1.1 Corporate structure, locations and reporting

Heidelberg Pharma AG was founded in 1997 in Munich as WILEX GmbH. In November 2006, the Company was listed on the Regulated Market (Prime Standard, stock exchange symbol WL6, ISIN DE000A11QVV0) of the Frankfurt Stock Exchange. The Company today is domiciled in Ladenburg near Heidelberg, Germany. Since October 2017, the Company has been doing business as Heidelberg Pharma AG and has been registered in the Commercial Register of Mannheim Local Court under HRB 728735. The Company's Executive Management Board consists of Dr. Jan Schmidt-Brand and Professor Andreas Pahl.

The only subsidiary Heidelberg Pharma Research GmbH (formerly: Heidelberg Pharma GmbH) has been part of the Heidelberg Pharma Group since March 2011. The subsidiary's Managing Director is Dr. Jan Schmidt-Brand. Heidelberg Pharma Research is also domiciled in Ladenburg, Germany.

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 315e (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 2018 fiscal year (1 December 2017 to 30 November 2018).

1.2 Business activities

Glossary

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 and research strategy, finance, investor relations, business development, 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 Research is the first company to 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 new 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 2018." Page 21

1.3 Corporate strategy and goals

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

In recent years, Heidelberg Pharma through its subsidiary Heidelberg Pharma Research GmbH has developed extensive expertise and an extensive patent portfolio around the compound Amanitin, which can be linked with various antibodies. This is the basis for a hybrid business model, which comprises both developing a proprietary product pipeline and licensing the technology to other companies.

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. Following extensive preclinical development, the Company in 2019 plans to submit the application with the authorities to conduct a clinical trial. The timeline for GMP has been specified in the meantime, which enables the Company to discuss details of the trial with the FDA and Paul-Ehrlich-Institut in the fourth quarter of 2019. Approval for the planned Phase I trial is expected for early next year.

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 such ATAC alliances and the preclinical service business to continually generate sales revenue and license payments.

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 ATAC candidates as well as parallel collaboration with various pharmaceutical and biotech companies for their candidates. The development candidates resulting from these activities can be developed as different products and for different indications.

Glossary

The main objective of parent company Heidelberg Pharma AG is to continue developing the corporate strategy and securing finance for the Group. Heidelberg Pharma AG's existing clinical R&D projects (WILEX portfolio) are and will be developed by licensing partners only. 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®.

Since the total income generated to date has not been sufficient to finance Heidelberg Pharma's ongoing research activities, the R&D activities will require external financing in the next years as well.

1.4 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 next few years. 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. Section 5.9 entitled "Overall assessment of the fiscal year 2018 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 2018

2.1 Macroeconomic environment

The International Monetary Fund (IMF) is reporting a global growth rate of 3.7 % for 2018 (2017: 3.7 %). For the eurozone, the IMF is estimating lower growth year-over-year in gross domestic product (GDP) of 1.8 % in 2018 (2017: 2.4 %). With expected GDP growth of 1.5 % in 2018, the German economy is developing at a slower pace than the eurozone and will again clearly remain below the prior-year figure (2017: 2.5 %).[1]

2.2 Development of the pharmaceutical and biotechnology industry

2018 was a record year for the approval of new drugs in the USA. The US Food and Drug Administration (FDA) approved 59 new drugs (2017: 46)[2], including 16 anti-cancer drugs.[3] In Germany, the number of newly approved drugs was slightly higher than the previous year's figure at 36, including ten anti-cancer drugs.[4,5] Particularly noteworthy is the approval of Novartis's CAR-T cell therapy Kymriah for the treatment of the ALL and DLBCL forms of leukemia. Kymriah is the first CAR-T cell therapy to be approved for leukemia in Europe and the first drug to successfully complete the accelerated PRIME approval process.[6]

1 https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

2 https://www.fda.gov/Drugs/DevelopmentApprovalProcess/DrugInnovation/default.htm

3 https://www.centerwatch.com/drug-information/fda-approved-drugs/therapeutic-area/12/oncology

4 https://www.vfa.de/embed/2018-in-deutschland-neu-eingefuehrte-medikamente-mit-neuem-wirkstoff.pdf

5 https://www.vfa.de/de/arzneimittel-forschung/neueinfuehrungen/neueinfuehrungen-und-zulassungserweiterungen-seit-2003.html

6 Deutsche Apotheker Zeitung, 27 August 2018: Gentherapie bei Leukämie: Novartis erhält EU-Zulassung für Kymriah. https://www.deutsche-apotheker-zeitung.de/news/artikel/2018/08/27/gentherapie-bei-leukaemie-novartis-erhaelt-eu-zulassung-fuer-kymriah

According to estimates from the World Health Organization (WHO), 9.6 million people worldwide died from cancer in 2018, equivalent to one in every six deaths.[7] The number of new cancer cases diagnosed per year is expected to reach 23.6 million worldwide by 2030.[8] The global cost of oncology therapeutics and drugs for supportive treatments totaled approximately USD 133 billion in 2017, and is expected to rise to USD 180–200 billion in the next five years.[9]

Therapies using monoclonal antibodies and ADCs

2018 was a highly dynamic and successful year for the clinical development of therapeutic antibodies. By the end of November 2018, 12 new antibodies had been granted approval by the FDA or EMA. Of the 570 antibody therapies at different stages of development, 62 monoclonal antibodies (mAbs) are currently in advanced clinical development, including 33 mAbs focusing on treating cancer. More than half (18) of these advanced anti-cancer antibody therapies are immune checkpoint modulators or ADCs.[10]

Glossary

According to estimates, the market for ADCs will grow to around USD 4.2 billion in 2021.[11] 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. The two most common indications are lymphomas and breast cancer[12], but also other solid tumors.[13]

At the end of 2018, ten (2017: seven) oncological ADCs were in clinical Phase III trials, an additional 34 (2017: 20) ADCs in Phase II trials and 57 (2017: 67) in Phase I trials. 49 ADC candidates (2017: 58) are currently in preclinical studies.[14]

No ADCs were granted regulatory approval in 2018. However, ADCETRIS® (brentuximab vedotin) from Seattle Genetics received several label extensions for the treatment of previously untreated systemic anaplastic large cell lymphomas (sALCL) or other CD30-expressing peripheral T-cell lymphomas (PTCL) in combination with chemotherapy as well as for the treatment of a previously untreated Stage III or IV Hodgkin's lymphoma in combination with chemotherapy. The EMA also recommended extending the ADCETRIS® label for the treatment of previously untreated CD30-positive Stage IV Hodgkin's lymphomas in combination with doxorubicin, vinblastine and dacarbazine.[15]

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).

7 WHO Cancer Fact Sheet, http://www.who.int/mediacentre/factsheets/fs297/en/ (September 2018)

8 https://www.cancer.gov/about-cancer/understanding/statistics

9 IQVIA Institute for Human Data Science „Global Oncology Trends 2018" (May 2018)

10 Hélène Kaplon & Janice M. Reichert (2018): Antibodies to watch in 2019, mAbs, DOI: 10.1080/19420862.2018.1556465 https://doi.org/10.1080/19420862.2018.1556465

11 BCC Research, Antibody Drug Conjugates (June 2017)

12 Ibid.

13 BioCentury data base BCIQ, as of 8 January 2019

14 Ibid.

15 BioCentury, 21 December 2018: CHMP backs Besremi for Polycyhemia Vera, two Shionogi drugs

The ATAC candidate HDP-101 will initially be developed with the multiple myeloma indication. Twenty companies are currently working in BCMA antigens, focusing on three technologies and multiple myeloma (MM) in particular. Most companies are working with CAR-T cell therapies and are primarily conducting Phase I and some isolated Phase II/III trials so far. Some companies are active in the area of bispecific antibodies, which are currently in either preclinical or early clinical development. Apart from Heidelberg Pharma, GlaxoSmith-Kline[16], Celgene/Sutro[17] and MedImmune[18] are currently dealing with the development of ADCs for MM. GSK and MedImmune's candidates are already in Phase II or Phase I, while the Celgene/Sutro candidate is still at the preclinical stage. In 2017, GSK received US Breakthrough Therapy status and EU PRIority MEdicines (PRIME) status for the development of its ADC in the MM indication.[19]

Chemotherapy is still being used as standard therapies for MM, including in combination with autologous hematopoietic stem cell transplantation or radiotherapy.[20] At present, the most commercially successful therapy in this indication is the immunomodulator REVLIMID® from Celgene. With global revenue of USD 7.1 billion in the first nine months of 2018[21] (2017: USD 4.2 billion), it was the most commercially successful anti-MM drug.[22]

Other BCMA-independent therapeutic approaches for multiple myeloma are also currently in clinical development. Given the existing preclinical data for HDP-101 and the properties of the ATAC technology, Heidelberg Pharma considers itself to be in a very strong position, albeit in an increasingly competitive environment.

16 https://www.gsk.com/en-gb/research/product-pipeline/

17 https://www.sutrobio.com/pipeline/

18 https://www.medimmune.com/our-science/pipeline.html

19 GSK press release dated 2 November 2017

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

21 BioCentury, 03 January 2019: New Year splash as BMS to acquire Celgene in $74B deal.
https://www.biocentury.com/bc-extra/company-news/2019-01-03/new-year-splash-bms-acquire-celgene-74b-deal

22 https://www.thebalance.com/top-cancer-drugs-2663234
Celgene press release dated 26 January 2017 and https://igeahub.com/2017/09/23/top-30-oncology-drugs-2017/

3 Course of business in 2018

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 by the cell 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 anti-tumor therapy. New cytotoxic substances such as Amanitin can be developed in this way for anti-tumor therapy. Selective treatment of tumors using cytotoxins via specific antibody drug conjugates could thus enable much more effective therapies with acceptable side effect profiles. Antibody Targeted Amanitin Conjugates (ATACs) are third generation ADCs that have shown improved efficacy in preclinical models, including in quiescent tumor cells, which are rarely 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.

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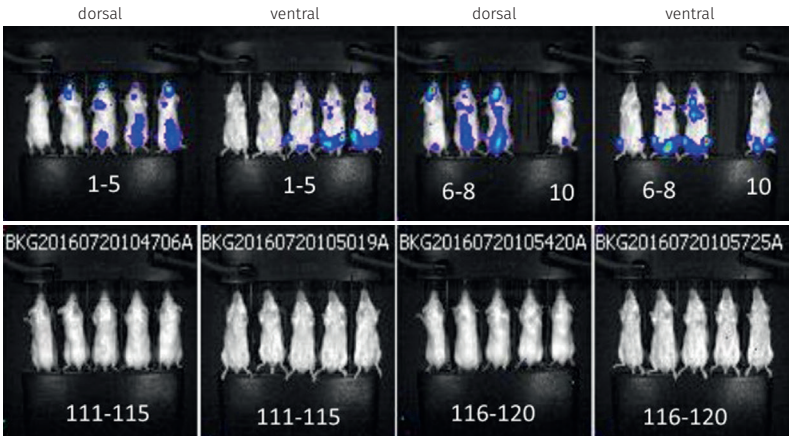
Building Heidelberg Pharma's own ATAC pipeline

Various antibodies have been in-licensed to build a proprietary pipeline, and used for the manufacture and preclinical testing of ATACs. The data generated so far support the assumption that the advantages of Amanitin-based ATAC candidates can also be transferred for use in different cancer indications.

BCMA ATAC project/HDP-101: A license agreement covering BCMA antibodies is in place between Heidelberg Pharma Research GmbH and the Max Delbrück Center for Molecular Medicine in the Helmholtz Association (MDC) in Berlin. BCMA is a surface protein that is highly expressed in multiple myeloma cells and to which the in-licensed antibodies specifically bind. Using the ATAC technology has resulted in the development candidate HDP-101, which consists of a BCMA antibody, a specific linker and the Amanitin compound.

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.



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.

In the previous fiscal year, preparations were made for the formal preclinical and clinical development of HDP-101. Heidelberg Pharma Research has successfully transferred the technology for the manufacture of the Amanitin derivative and the other basic components from the Heidelberg Pharma Research laboratory to an industrial-scale facility. To the best of Heidelberg Pharma's knowledge, this remains the world's first and only industrial-scale source of chemically produced Amanitin. This technology transfer to industrial-scale production was a key milestone for safeguarding the supply of material both for our own projects and for our licensees.

At our production partners Carbogen AMCIS AG, Bubendorf, Switzerland, (Carbogen), the first technical batch of the development candidate HDP-101 based entirely on a synthetic Amanitin derivative and the BCMA antibody manufactured previously was subsequently produced. The BCMA antibody was produced in accordance with GMP guidelines by Celonic AG, Basel, Switzerland, (Celonic) a contract development and manufacturing organization (CDMO) for biopharmaceutical proteins.

The material from this batch is currently being used for the concluding toxicity studies run according to good laboratory practice (GLP) guidelines in preparation for clinical trials. The complexity of the synthesis presented Heidelberg Pharma and Carbogen with a number of challenges that were successfully overcome by including additional process steps. The manufacturing process has now been established, although with a delay to the original schedule.

Work proceeded in parallel on the design of the clinical development program for HDP-101. During the presentation of this novel therapeutic approach to the regulatory authorities (the Paul-Ehrlich-Institut in Germany and the FDA in the USA) using the format of a 'scientific advice' (Germany) or 'Type C Meeting' (USA), the preclinical program was agreed on and Amanitin's potential for treating cancer was explained. As the production schedule is now clearer, the application for the first clinical trial with HDP-101 will be submitted following the conclusion of the toxicity studies and release of the trial medication.

Other ATAC research projects

As reported, Heidelberg Pharma Research is working on various options for further proprietary projects to supplement HDP-101, including the projects PSMA-ATAC (PSMA – prostate-specific membrane antigen) and CD19-ATAC (B lymphocyte antigen). In addition, several ATACs with antibodies for other antigens have now also been manufactured and tested successfully, both *in vitro* and *in vivo*. Heidelberg Pharma Research will use the data obtained, the competitive situation, and the investment sums needed as criteria when deciding about the next steps to take for these ATAC candidates.

Predictive biomarker p53/RNA polymerase II project: Amanitin has the potential to be particularly effective against aggressive tumors in connection with a 17p deletion. The name '17p' refers to the short arm of chromosome 17, whose DNA includes both the gene for the tumor suppressor protein TP53 and the largest subunit for RNA polymerase II. Tumors frequently suppress TP53 in tumor cells to weaken the cells' natural defenses. Since RNA polymerase II is also routinely suppressed, this change makes the tumor cells particularly sensitive to Amanitin. Heidelberg Pharma Research is now working on the development of a companion diagnostic with the aim of detecting and quantifying a TP53/polymerase II deletion in patients. The associated potential for the identification of especially suitable patient groups could also accelerate the clinical development of appropriate treatments.

Glossary

This project is based on the academic collaboration with the MD Anderson Cancer Center in Texas, USA, (MD Anderson). Jointly achieved study results showed exceptionally good efficacy of an ATAC 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 magazine in 2015.[23]

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 Research's ATAC technology. The university administration is acting on behalf of the US-based tumor center MD Anderson.

In December 2018, MD Anderson presented preclinical data concerning 17p deletion and HDP-101 at the 60th Annual Meeting of the American Society of Hematology (ASH). At this meeting, which is the world's premier event for hematological diseases, MD Anderson's research team demonstrated that the Amanitin conjugate HDP-101 was especially effective and efficient at attacking tumor cells from multiple myeloma patients with a 17p deletion.[24]

23 https://www.nature.com/articles/nature14418

24 https://ash.confex.com/ash/2018/webprogram/Paper118412.html

ATAC partnerships

Licensing model for toxin linker technology: The second key pillar in the business model of Heidelberg Pharma Research involves the granting of ATAC technology licenses and application on antibodies provided by customers. Heidelberg Pharma Research also offers customers the necessary preclinical work related to 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 for the long-term. Such agreements provide for upfront payments, assumption of development costs, milestone payments and royalties.

Heidelberg Pharma Research has signed exclusive multi-target research agreements with partners that include Magenta Therapeutics, Cambridge, MA, USA, (Magenta) in March 2018 and Takeda Oncology, Cambridge, MA, USA, (Takeda) in June 2017. These partners are granted access to Heidelberg Pharma's ATAC platform technology for use on their antibodies and have the option of obtaining an exclusive license for the global development and commercialization rights to each of the product candidates resulting from this collaboration. Takeda has this option for up to three targets, Magenta for up to four. In October 2018, Magenta exercised its option for the further development of a target molecule and will proceed to develop an antibody-targeted Amanitin conjugate based on this as part of an exclusive licensing agreement. In the event of all four options being exercised together with successful development, Heidelberg Pharma would be eligible to receive milestone payments relating to clinical development, regulatory events, and sales of up to USD 334 million.

Magenta has published its initial work with CD45 and CD117 antibodies. Preclinical trials were used to investigate the suitability of these ATACs in the conditioning (preparing) of patients for bone marrow cell transplants.

The partnership with Takeda is also proceeding as agreed, although no data have yet been published.

Product partnerships: In this model, Heidelberg Pharma Research will contribute the toxin linker technology to the cooperative partnership as a contribution in kind, while other biotechnology companies will contribute their antibodies or innovative target molecules. Together, novel ATACs will be developed up to the preclinical stage, in which their efficacy and tolerability can be meaningfully assessed. A number of product partnerships are now being evaluated with potential partners. Despite positive data, the R&D collaborations entered into with MabVax Therapeutics Holdings Inc., San Diego, USA, in 2015 and with Nordic Nanovector ASA, Oslo, Norway, in 2016 will not be pursued further, however, due to differences in interests.

Technology partnerships: Through its subsidiary, 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: Following the successful conclusion of the ETN MAGICBULLET project, Heidelberg Pharma Research and several other applicants were successful in receiving funding for further projects as part of the EU's HORIZON 2020 program. With the INTEGRATA and pHionic projects, the Company will participate in research projects with a number of European universities, research institutions and companies, and receive funding from the program as a result.

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.

Glossary

All of the 2018 revenue targets of the customer-specific service business were met.

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.

Since 2014, license agreements have been in place for the development and potential commercialization of MESUPRON® with Link Health Co., Guangzhou, China, (Link Health) and RedHill Biopharma Ltd., Tel Aviv, Israel, (RedHill).

In 2016, Heidelberg Pharma's partner Link Health submitted an investigational new drug (IND) application to the Chinese regulatory authority for a Phase I dose-escalation study with MESUPRON®. For more information, please see the report on post-balance sheet date events.

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In recent years, RedHill has filed a number of patent applications and generated interesting data on newly identified target molecules. While RedHill announced very little progress in 2018, the company is working on a development plan for the new target molecules to evaluate corresponding indications, patient populations and compound combinations.

TLX250-CDx (formerly REDECTANE®) – diagnostic antibody

Over the past 12 months, our licensing partner for girentuximab (for radiopharmaceutical indications) has made considerable progress. Telix Pharmaceuticals Limited, Melbourne, Australia, (Telix) has developed a modernized production process for manufacturing the girentuximab antibody and is currently conducting scale-up studies in preparation for new GMP manufacturing. This new production system will enable both diagnostic and therapeutic radiopharmaceutical indications of girentuximab in clear cell renal cell cancer (ccRCC).

Due to more favorable properties in terms of manufacturing and diagnostic quality, Telix has elected to use zirconium-89 instead of iodine-124 for radiolabeling, and has defined 89Zr-DFO-Girentuximab (TLX250-CDx) as the product candidate. To evaluate comparability with the earlier REDECT Phase III trial, a bridging study (ZIR-DOSE) was initiated in partnership with Radboud University Medical Centre (RUMC) and this study is now complete.

Glossary

In 2018 Telix submitted a clinical trial application (CTA) to initiate a Phase III trial in Europe and Australia (ZIRCON) with TLX250-CDx for the diagnostic imaging of renal cancer using positron emission tomography (PET). The study is being conducted as a global multicenter Phase III trial at sites in Europe and Australia and will enroll around 250 renal cancer patients who are to undergo kidney surgery. Sites will be added in the US and Canada later this year, subject to regulator approval. The study will determine the sensitivity and specificity of TLX250 PET imaging to detect and stage ccRCC in comparison with histologic ground truth determined from sur gical resection specimens.

Telix is also further developing a therapeutic radioimmunoconjugate (177Lu-girentuximab, TLX250) program based on a lutetium-177-labeled Girentuximab antibody conjugate. Previous clinical data from Phase I and Phase II studies in salvage patients with progressive ccRCC demonstrated progression-free survival of over 10 months, significantly slowing the progression of the disease while also reducing tumor growth.[25] Additional Phase II studies in conjunction with checkpoint inhibitor immunotherapy are expected to commence in the US in the next few months, subject to FDA approval.

RENCAREX® – therapeutic antibody

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. This antibody also forms the basis for the radioconjugates licensed to Telix.

Heidelberg Pharma AG no longer conducts development activities.

3.4 Other key events in fiscal year 2018

Legal dispute with Siemens Corporation

Heidelberg Pharma AG had to assume a rent guarantee from Siemens Corporation (Siemens) in 2010 in connection with the acquisition of WILEX Inc. (Oncogene Science). WILEX Inc. was sold to Nuclea Biotechnologies Inc. in 2013. Since bankruptcy proceedings were opened for Nuclea in mid-2016, Siemens demanded that Heidelberg Pharma AG pay a total of USD 832 thousand plus interest. In May 2017, Siemens brought an action against Heidelberg Pharma AG for this amount before the United States District Court for the District of Massachusetts, MA, USA.

In 2018, a judgment was handed down, requiring Heidelberg Pharma to pay USD 549 thousand. Following further negotiations with Siemens, an agreement was reached on a final payment of USD 500 thousand (€ 434 thousand) including legal costs and interest, to settle the legal dispute. The amicable agreement ends the legal dispute. Heidelberg Pharma had previously recognized a provision covering almost all of the financial obligation.

Annual Meeting of the American Society of Hematology (ASH)

In early November, various abstracts were published for the 60th Annual Meeting of the American Society of Hematology (ASH), which was held in December in San Diego. At the event, licensing partner Magenta presented several posters with very positive data concerning the two ATAC projects (CD45 and CD117 antibodies)

25 Stilebroer et al, European Urology 2013, Telix Company update, January 2019

from its collaboration with Heidelberg Pharma.[26] For HDP-101, a presentation was used to introduce data from the collaboration with the US-based MD Anderson Cancer Center. These data show that ATACs have the potential to preferentially attack tumor cells in aggressively progressive cancers – and even multiple myelomas – in connection with a 17p deletion. These findings supplement the study on colon cancer cells published in 2015 in Nature with positive data for multiple myeloma and HDP-101.

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. Under the agreement, Heidelberg Pharma Research was granted an exclusive license to the licensed patent rights and know-how for the development, production and distribution of ATACs.

Furthermore, an exclusive license agreement is in place with the Max Delbrück Center for Molecular Medicine in the Helmholtz Association (MDC) in Berlin covering the use of various BCMA antibodies for the development of ATACs. In addition, through license agreements with the University of Freiburg and the DKFZ, Heidelberg Pharma Research has had access since 2017 to several antibodies for exclusive use in the production and development of ATACs as oncology therapeutics.

Exclusive research and option agreements were signed with Takeda Pharmaceutical Company Limited (acting through its US subsidiary Millennium Pharmaceuticals, Inc.) in 2017 and with Magenta Therapeutics Inc. (Magenta) in the 2018 fiscal year for the joint development of ATACs. The contracts provide for an upfront technology access fee as well as future payments for the research services to be provided. Under the terms of exclusive license agreements that may be subsequently entered into, Heidelberg Pharma Research stands to receive clinical development, regulatory and (in the event of later successful market approval) sales-related milestone payments, as well as attractive royalties.

In October 2018, Magenta exercised the license option for a first project.

26 https://ash.confex.com/ash/2018/webprogram/Paper114881.html
https://ash.confex.com/ash/2018/webprogram/Paper112726.html
https://ash.confex.com/ash/2018/webprogram/Paper117167.html

Heidelberg Pharma Research GmbH has also entered into several contracts for manufacturing antibody targeted Amanitin during the last few years. Important contracts in this context include those with Carbogen for the chemical GMP synthesis of Amanitin linkers and with Celonic for the production of antibodies under GMP conditions.

Contracts entered into by Heidelberg Pharma AG

Contracts relating to the antibody Girentuximab

Several of these agreements entered into by Heidelberg Pharma AG concern the development and potential future commercialization of Girentuximab, the antibody on which both REDECTANE® and RENCAREX® are based. The Girentuximab antibody was licensed from Centocor Inc., Malvern, PA, USA, (today trading as Janssen Biotech Corp.) and Leiden University, The Netherlands, in 1999. In addition, various sublicenses were acquired from Bayer Corporation Business Group Diagnostics, Tarrytown, NY, USA; the Biomedical Research Center, Slovak Academy of Sciences, Slovakia; and Genentech Inc., San Francisco, CA, USA.

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, since 2004.

Contracts relating to REDECTANE®

In January 2017, Heidelberg Pharma AG signed a license agreement for REDECTANE® with the Australian company Telix Pharmaceuticals Ltd. (Telix). Telix has been granted the worldwide licensing rights and has taken over further development and commercialization of the diagnostic antibody.

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 2014, Heidelberg Pharma AG signed a licensing and development partnership for MESUPRON® with Link Health Co., Guangzhou, China, (Link Health) for China, Hong Kong, Taiwan and Macao, and with RedHill Biopharma Ltd., Tel Aviv, Israel, (RedHill) for the rest of the world. Both companies intend to handle the further clinical development of the candidate and the potential future marketing of the product.

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 Heidelberg Pharma 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

Heidelberg Pharma Research GmbH holds technology patents protecting its ATAC technology. The inventions on which this technology is based have been filed as patents by Prof. Faulstich and the DKFZ, and Heidelberg Pharma Research GmbH has been granted an exclusive license to use them in an ATAC technology context. Some of these patents have already been granted, especially in the USA and Europe. Heidelberg Pharma Research has systematically improved the technology and expanded its patent portfolio with several new filings. In the meantime, applications for 13 more international patents have been filed, which have already been nationalized and regionalized in many countries. A total of three priority applications for the development candidate HDP-101 have been submitted to the European Patent Office. In addition, patents have also been filed that protect specific methods for the modification and manufacture of antibodies. 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. Of particular relevance is the patent granted in Europe and the USA for the chemical synthetic building block dihydroxyisoleucine for the production of Amanitin, since this has no natural source. This is a key patent for the manufacture of GMP-quality Amanitin for clinical applications. Overall, the current patent horizon extends until 2039.

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 2018 fiscal year, Heidelberg Pharma AG held licensed intellectual property rights and owned more than 110 patents and patents pending worldwide in 17 patent families. While 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.

4.4 Employees and remuneration system

The Heidelberg Pharma Group employed 66 (November 30, 2017: 58) people (including members of the Management Board) at the end of the fiscal year. Heidelberg Pharma Research GmbH employed 59 people at the end of the fiscal year, while Heidelberg Pharma AG, which primarily engages in holding company activities for the Group, employed a team of seven people (including the two members of the Executive Management Board). A total of 41 women work at the Group, which corresponds to a share of 62 %. The proportion of part-time employees is 23 % (15 employees).

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

Employees	30 Nov. 2018	30 Nov. 2017
Administration	16	15
Research and development	32	23
Manufacturing, service and distribution	18	20
Employees, total	**66**	**58**

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. Stock option plans give employees a stake in the Company's performance.

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 Group 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. The goal of Heidelberg Pharma 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 are subject to stringent regulatory requirements, such as GMP, which are monitored by Heidelberg Pharma, licensing partners and the authorities in the context of routine audits.

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 legal obligations directly to their immediate supervisor or the responsible member of the Executive Management Board, or, if applicable, to the Supervisory Board. For further information about compliance, please see chapter 6 "Corporate Governance ", specifically the disclosures under "Compliance in the 2018 fiscal year" in section 6.2 „Corporate Governance Report".

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

The 2018 fiscal year concerns the period from 1 December 2017 to 30 November 2018. 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 and Heidelberg Pharma Research GmbH.

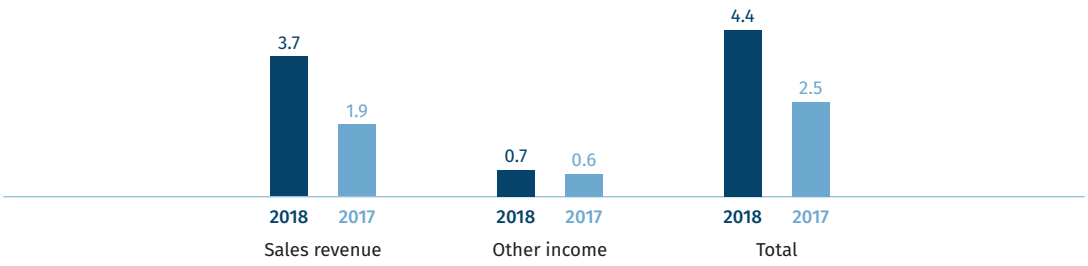
Heidelberg Pharma does not have business units that differ materially in their risk/reward profiles and would therefore require segment reporting.

5.1 Sales revenue and other income

In fiscal year 2018, the Heidelberg Pharma Group lifted sales revenue to € 3.7 million (previous year: € 1.9 million), which was mainly attributable to Heidelberg Pharma Research GmbH (€ 3.5 million). Of this figure, the ATAC technology accounted for € 2.6 million and the service business for € 0.9 million. The parent company's sales revenue (€ 0.2 million) was related to the out-licensing of REDECTANE®.

In the previous year, Heidelberg Pharma Research GmbH reported sales revenue of € 1.6 million, of which € 0.7 million was from the ATAC technology and € 0.9 million from the service business. The parent company also contributed € 0.3 million to sales revenues by out-licensing REDECTANE®.

Income in € million[1]



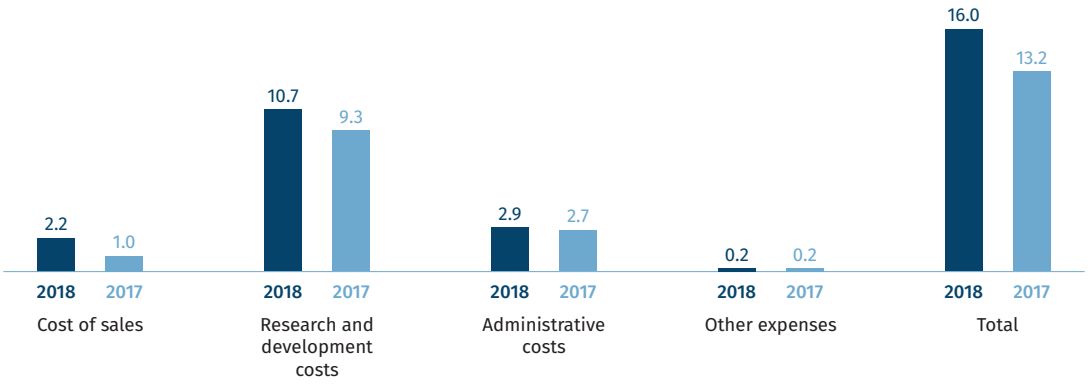
[1] rounded

At € 0.7 million, other income was up compared to the previous year (€ 0.6 million). This figure includes German and European grants, which support Heidelberg Pharma Research GmbH projects in the amount of € 0.1 million (previous year: € 0.2 million). Furthermore, income of € 0.2 million (previous year: € 0.3 million) was generated from the reversal of unutilized accrued liabilities and provisions, most of which were subject to limitation. The parent company generated € 0.2 million for the first time from passing on patent costs in the context of out-licensing. Other items amounted to income of € 0.2 million (previous year: € 0.1 million).

5.2 Operating expenses

Operating expenses including depreciation and amortization rose according to plan to € 16.0 million in 2018 (previous year: € 13.2 million).

Operating expenses in € million[1]



[1] rounded

The cost of sales concerns the Group's costs directly related to sales revenue. These correspond to 14 % of operating expenses and increased disproportionately to the increase in sales revenue to € 2.2 million (previous year: € 1.0 million).

This is attributable to one-off costs for external services in the ADC domain, which will become part of the basis for further sales revenue from ADC cooperation agreements in the future. Cost of sales mainly related to Heidelberg Pharma Research GmbH expenses for customer-specific research.

Research and development costs rose year-over-year to € 10.7 million (previous year: € 9.3 million) due to the expansion of cost-intensive external good manufacturing practice (GMP) production.

The reason for these activities is that the Company is preparing HDP-101, its first ATAC candidate, for clinical development. At 67 % of operating expenses, R&D remained the largest cost item.

Administrative costs were € 2.9 million, an increase on the prior year (€ 2.7 million), and accounted for 18 % of operating expenses.

Administrative costs include staff costs of € 1.6 million (previous year: € 1.2 million), of which € 0.2 million concerned expenses for issuing stock options (previous year: € 0.1 million). This line item also includes legal and operating consulting costs (€ 0.6 million; previous year: € 0.5 million), rent and utilities (€ 0.3 million; previous year: € 0.2 million), as well as expenses related to the Annual General Meeting, Supervisory Board remuneration and the stock market listing (combined: € 0.3 million; previous year: € 0.5 million). Other items amounted to € 0.1 million (previous year: € 0.3 million).

Other expenses for business development, marketing and commercial market supply activities, which mainly comprise staff, travel and consulting costs, were unchanged year-over-year at € 0.2 million and accounted for 1 % of operating expenses.

5.3 Earnings

The Heidelberg Pharma Group recognized earnings before tax of € –11.7 million (previous year: € –11.0 million) in the 2018 fiscal year. The net loss for the year was also € 11.7 million (previous year: € 11.0 million). Despite the higher loss, earnings per share increased from € –0.76 in the previous year to € –0.41 due to the increase in the average number of shares issued.

5.4 Financing and liquidity

The Group had cash and cash equivalents of € 19.4 million at the close of the fiscal year (30 November 2017: € 30.4 million). The decrease resulted from the liquidity outflow triggered by the operating business. Cash and cash equivalents remain sufficient according to the financial planning to ensure the continued solvency of the Company until mid-2020.

As in the previous year, no finance income was generated in the fiscal year ended due to 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. There were also no finance costs. The financial result thus amounted to € 0 thousand (previous year: € –218 thousand as a result of the interest expense incurred for the shareholder loan from dievini, which was added to the capital increase in November 2017 as a contribution in kind).

5.5 Cash flow statement

Net cash outflow from operating activities during the reporting period was € 10.0 million (previous year: € 7.9 million). Despite the increase in sales revenue and income, the year-over-year increase is attributable

to the higher operating expenses, especially for R&D. In addition, € 0.4 million had to be paid as a result of the settlement of the legal dispute with Siemens.

Total cash outflow from investing activities was € 1.0 million (previous year: € 0.4 million) and was mainly due to the acquisition of property, plant and equipment, specifically laboratory equipment, by Heidelberg Pharma Research GmbH.

There was no cash flow from financing activities in the financial year. The prior-year cash flow 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.

Furthermore, there was a positive exchange rate effect of € 43 thousand (previous year: exchange rate loss of € 18 thousand).

The total net change in cash in the 2018 fiscal year was € –10.9 million (previous year: inflow of € 25.8 million). This corresponded to an average net change of € –0.9 million per month (previous year: € 2.2 million per month).

Adjusted for the effect from capital increases and the issue of a mandatory convertible bond, the average cash outflow in fiscal year 2017 was € 0.7 million per month.

Cash flow	2018 € million	2017 € million
Cash as of 01 December	30.4	4.6
Net change in cash from operating activities	(10.0)	(7.9)
Net change in cash from investing activities	(1.0)	(0.4)
Net change in cash from financing activities	0	34.2
Exchange rate effect	0.04	(0.02)
Cash as of 30 November	**19.4**	**30.4**

5.6 Assets

The cash and cash equivalents raised from the capital increases and the issue of a mandatory convertible bond in fiscal year 2017 extended the Company's cash reach, and this year's financial statements were also prepared on a going-concern basis.

Non-current assets rose to € 10.9 million as of 30 November 2018 (previous year: € 10.3 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.

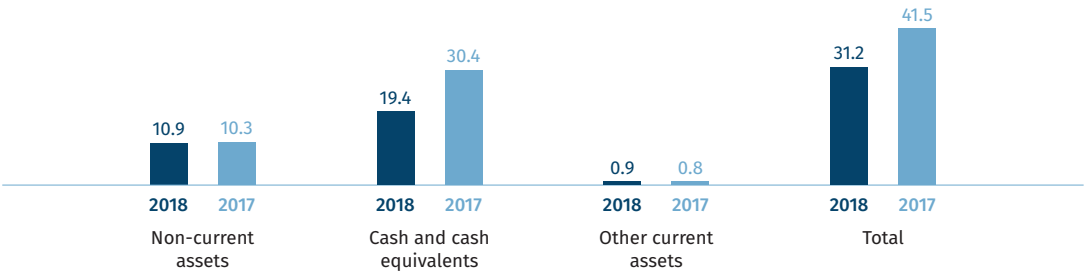
Glossary

As of 30 November 2018, property, plant and equipment increased to € 1.9 million (previous year: € 1.3 million), particularly as a result of investments in laboratory equipment, whereas intangible assets excluding goodwill and IP R&D remained steady at € 0.3 million.

Other non-current assets of € 41 thousand decreased compared to the previous year (€ 51 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 decreased from € 31.2 million in the previous year to € 20.3 million. Cash and cash equivalents included in this item amounted to € 19.4 million and were down on the prior-year figure of € 30.4 million due to outflows triggered by the business.

Other current assets increased to € 0.9 million (previous year: € 0.8 million). Inventories and prepayments made included in this figure remained virtually stable at € 0.3 million. At € 0.6 million, aggregated trade receivables and other receivables at the reporting date were higher than the previous year (€ 0.5 million), however.

At the end of the fiscal year, total assets amounted to € 31.2 million, down € 10.3 million from the previous year (€ 41.5 million), due mainly to the expense-related decrease in cash funds and the corresponding decrease in equity.

5.7 Liabilities

Non-current liabilities of € 9 thousand were reported for a pension liability in the previous year. In the fiscal year ended, this liability increased to € 12 thousand. However, because it has since become current, there are no longer any non-current liabilities as of the 2018 reporting date.

Current liabilities rose to € 5.3 million at the close of the reporting period (previous year: € 4.5 million).

Whereas trade payables (€ 0.4 million) decreased significantly from the figure on 30 November 2017 (€ 1.5 million), other current liabilities increased from € 2.5 million to € 4.9 million. This increase is largely due to expanded R&D activities, which were reflected in substantially higher accrued liabilities as of the end of the financial year.

Last year's provision was utilized in full in 2018 due to the Company being held liable under a rent guarantee (€ 0.4 million) and therefore no longer has to be recognized.

Other current liabilities included the following:

Other current liabilities	30 Nov. 2018 € million	30 Nov. 2017 € million
Provisions for holidays not taken	0.2	0.1
Other deferred income	1.6	0.8
Social security and other taxes	0.2	0.1
Other accrued liabilities	2.9	1.5
Total	**4.9**	**2.5**

The considerably higher other deferred income of € 1.6 million (previous year: € 0.8 million) had to be recognized in the context of the Takeda license agreement and of the Magenta license agreement signed during the year.

Heidelberg Pharma recognized other accrued liabilities (€ 2.9 million; previous year: € 1.5 million) for goods and services (€ 2.6 million; previous year: € 1.1 million) as well as for employee bonuses (€ 0.2 million; previous year: € 0.3 million) and for the auditing of the financial statements (€ 0.1 million; previous year: € 0.1 million).

5.8 Equity

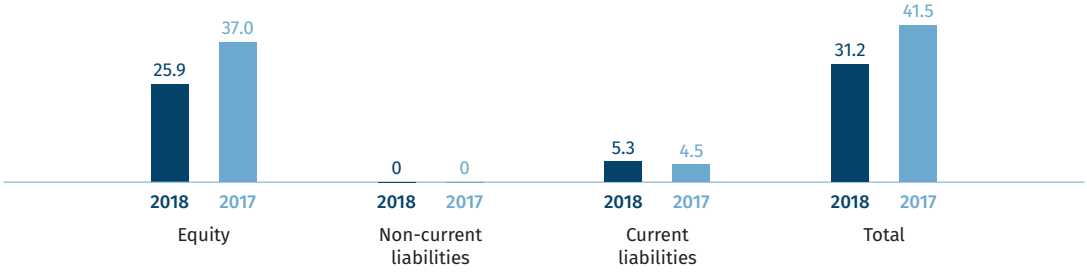
Equity of the Heidelberg Pharma Group at the end of the reporting period was € 25.9 million (30 November 2017: € 37.0 million).

As a result of the conversions during the year of the mandatory convertible bonds issued in November 2017, the total number of Heidelberg Pharma shares issued as of the reporting date increased from 22,452,570 by 5,680,738 to 28,133,308. The proportion of converted mandatory convertible bonds thus amounts to 98.67 %.

Similarly, and taking into account the effect from issuing stock options, the capital reserve decreased by a net € 5.2 million, from € 219.8 million in the previous year to € 214.6 million as of 30 November 2018.

The losses accumulated since the foundation of the Heidelberg Pharma Group totaled € 216.9 million (30 November 2017: € 205.2 million). The equity ratio was 83.0 % (30 November 2017: 89.2 %).

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



[1] rounded

5.9 Overall assessment of the 2018 fiscal year by the Executive Management Board

From the Executive Management Board's perspective, fiscal year 2018 was very successful. Having almost doubled, sales revenue performed well and in line with planning. The loss for the year was somewhat smaller than projected, particularly because R&D expenses shifted to 2019. Important progress was made in putting the corporate strategy into practice. On the one hand, the initiation and implementation of the partnership with Magenta shaped our activities. On the other hand, the Amanitin manufacturing process and preparations for the clinical trial with HDP-101 were major endeavors.

In March 2018, a research and licensing option contract was signed with Magenta for up to four targets. Magenta exercised the licensing option for the first target in October 2018. The partnership with Magenta is unlocking new areas of application for the ATAC technology in cancer treatment, specifically the conditioning of patients for bone marrow transplants. Heidelberg Pharma also devoted considerable time and resources during the fiscal year to cooperation with our other partners, particularly Takeda.

A key milestone was transferring the technology for synthesizing the Amanitin linker on an industrial scale to the Company's production partner Carbogen, and subsequent production of an initial batch of HDP-101 for the final GLP toxicity studies.

During preparations for the clinical trial, scientific advice was obtained from Paul-Ehrlich-Institut, the responsible German agency, and a Type C meeting was conducted at the FDA. In this context, Heidelberg Pharma presented the ATAC technology and the HDP-101 project, and decided the details of the preclinical development program. Possible clinical centers were subsequently identified, and work was begun on the clinical protocol.

There were also major advances in the clinical portfolio apart from the ATAC technology. Our licensing partner for the diagnostic antibody, Telix, made substantial progress in the course of the year on the reestablishment of antibody production. In addition, improved radioactive marking was developed and TLX250-CDx tested in a clinical dosimetry study. An application to conduct a Phase III trial in Europe and Australia was submitted, and a pivotal, global Phase III trial started.

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

Based on the current planning, the Group and its consolidated companies have sufficient financing up to mid-2020 and can initiate or continue all currently planned activities in 2019. Additional financing options are constantly being reviewed.

Comparison of target to actual performance for certain targets and key indicators in the 2018 fiscal year:

Operational goals	Targets 2018	Actual 2018
ADC	• Extension of the GMP manufacturing process for the Amanitin, linker and antibody to industrial scale	• GMP manufacturing of the BCMA antibody completed • Manufacturing of Amanitin linker for HDP-101 toxicology phase completed
	• GMP availability of complete ATAC molecule HDP-101	• HDP-101 manufactured for toxicology studies to prepare for clinical trial
	• Coordination of the preclinical development program with regulatory authorities Paul-Ehrlich-Institut (Germany) and the FDA (USA)	• Positive talks • Development fleshed out further
	• Design and preparation of clinical trial	• Study design prepared, study centers identified and contacted
	• Approval process for clinical trial initiated	• Actual submission postponed to 2019
	• Expansion of business-to-business activities	• Multi-target research agreement signed with Magenta • Existing research agreements (MTAs) expanded and renewed
Portfolio	• MESUPRON®: Advance development activities at partners Link Health and RedHill	• IND in China for Link Health in the approval process (see report on post-balance sheet date events)
	• Development progress with TLX250-CDx (formerly REDECTANE®)	• Application for global Phase III trial submitted in Europe and Australia; trial initiated
	• Commercialization of RENCAREX®	• Review at potential licensees ongoing
Financing	• Signing of license agreements as a part of financing	• Signing of Magenta license agreement • Sales revenue from the Takeda cooperation • Increased income from MTA collaborations

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The guidance for the current fiscal year published in March 2018 was adjusted in October 2018. Whereas the forecast for sales revenue was narrowed down only within the previously published range, the figures for operating expenses and funds required were decreased due to a foreseeable shifting of costs into the subsequent year. For this reason, the operating result figure was raised.

Financials	Guidance 03/2018 € million	Guidance 10/2018 € million	Actual 2018 € million
Sales revenue and other income	3.0–5.0	3.5–4.5	4.4
Operating expenses	16.0–20.0	14.0–16.0	16.0
Operating result	(12.0)–(16.0)	(10.0)–(12.0)	(11.7)
Total funding requirement[1]	13.0–17.0	10.0–13.0	10.9
Funds required per month[1]	1.1–1.4	0.8–1.1	0.9

[1] Not including any capital increases and the conversion of mandatory convertible bonds

Total assets and equity decreased year over year because in 2018 the Company saw an excess of expense over income as well as negative cash flow from operating activities and investing activities.

6 Corporate governance

6.1 Statement on Corporate Governance pursuant to Sections 289f, 315d German Commercial Code for the 2018 fiscal year

The Statement on Corporate Governance pursuant to Sections 289f and 315d 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.

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The Statement on Corporate Governance was posted on the Company's website under "Press & Investors > Corporate Governance" on 1 February 2019. Pursuant to Section 317 (2) sentence 6 of the German Commercial Code, the content of the statement on corporate governance in accordance with Sections 289f and 315d of the German Commercial Code is not part of the audit of the financial statements. The audit of the disclosures pursuant to Sections 289f (2) and (5) and Section 315d shall be limited to whether the disclosures have been made.

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. 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 section 6.3 "Remuneration Report" of chapter 6 "Corporate Governance" 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.

The transactions by Heidelberg Pharma AG executives subject to disclosure in accordance with Article 19 of the European Market Abuse Regulation (MAR) (Directors' dealings) published in fiscal year 2018 can also be inspected on the Heidelberg Pharma website under „Press & Investors > Announcements > Directors' Dealings".

Name	Date	Transaction	Marketplace	Price €	Number	Volume €
Professor Andreas Pahl (Executive Management Board member)	26 July 2018	Purchase	Tradegate Exchange	2.72	3,700	10,064

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]	20,008,085
Professor Christof Hettich	Chairman of the Supervisory Board	Indirect[1] Indirect[2]	20,008,085 40,141
Dr. Mathias Hothum	Member of the Supervisory Board	Indirect[1]	20,008,085
Dr. Birgit Kudlek	Member of the Supervisory Board	Direct	3,203
Dr. Jan Schmidt-Brand	Spokesman of the Executive Management Board	Direct	78,910
Professor Andreas Pahl	Head of Research and Development	Direct	49,071

[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 50,105 shares in the Company as of 30 November 2018; both members of the Executive Management Board together directly hold a total of 127,981 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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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. The Company's corporate communication 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.

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 Meeting. 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 archived Declarations of Conformity. The Company website also offers comprehensive information on the Company and its shares.

Compliance in the 2018 fiscal year

Ethical standards, professionalism and compliance with statutory requirements are among the key ingredients of Heidelberg Pharma AG's corporate governance. In the 2018 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.

The EU Market Abuse Regulation (MAR) and the EU Market Abuse Directive (CRIM-MAD), which revised and tightened existing financial market laws, became effective on 3 July 2016. All members of the corporate

bodies and employees have been or will be briefed 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 section 7.2 "Internal control system relevant to the financial reporting process".

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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 315e 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 combined management report, the annual financial statements of Heidelberg Pharma AG and the consolidated financial statements for the 2018 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 315a (2) and Section 289a (2) 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 the Company, 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 his fixed remuneration of € 227 thousand, Dr. Schmidt-Brand receives the following non-cash benefits: Under the director's contract, Heidelberg Pharma Research GmbH makes payments into a defined-contribution, reinsured pension plan. In 2018, this payment amounted to € 11 thousand (previous year: € 11 thousand). As in the previous year, € 3 thousand were paid into a pension fund.

No non-cash benefits within the context of a pension were granted to Professor Pahl in the fiscal year ended in addition to his fixed remuneration of € 200 thousand.

In addition, company cars were made available to Dr. Schmidt-Brand and Professor Pahl for the entire fiscal year. The value of this non-cash benefit in 2018 was € 9 thousand for Dr. Schmidt-Brand (previous year: € 9 thousand) and € 11 thousand (previous year: € 10 thousand) for Professor Pahl.

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 the achievement of defined milestones.

According to his director's contract, which was renewed during 2018, Dr. Schmidt-Brand receives a maximum annual bonus of € 100 thousand (previously € 80 thousand). In the fiscal year now ended, Dr. Schmidt-Brand was paid a bonus of € 58 thousand for the 2017 fiscal year.

Professor Pahl's annual bonus is capped at € 100 thousand. In the fiscal year now ended, Professor Pahl was paid a bonus of € 57 thousand for the 2017 fiscal year.

Remuneration component with incentive and risk features

This remuneration component is based on the 2011 and 2017 Stock Option Plans which were adopted by the Annual General Meetings on 18 May 2011 and 20 July 2017, respectively, and can be exercised after a lock-up period of four years at the earliest.

The Supervisory Board grants stock options based on the tasks of the respective member of the Management Board, his/her personal performance, the economic situation, the performance and outlook of the enterprise as well as the common level of the remuneration taking into account the peer companies and the remuneration structure.

As a result of a new issue in the 2018 fiscal year, the number of share options held by the two members of the Executive Management Board has increased. As of the 30 November 2018 reporting date, the active members of the Executive Management Board thus held 312,000 options under the 2011 Stock Option Plan (Dr. Schmidt Brandt 222,000 options, Professor Pahl 90,000) and 201,200 options under the 2017 Stock Option Plan (each Executive Management Board member held 100,600 options).

At the reporting date of 30 November 2018, three former members of the Executive Management Board held a total of 25,500 options under the 2011 Stock Option 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 2018 fiscal year:

Executive Management Board member	Fixed remuneration €		Variable remuneration[1] €		Other remuneration (non-cash benefits) €		Total remuneration[1,2] €	
	2018	2017	2018	2017	2018	2017	2018	2017
Dr. Jan Schmidt-Brand[2]	226,682	217,242	63,750	60,000	22,672	22,624	313,103	299,866
Professor Andreas Pahl	200,000	170,833	75,000	59,380	10,578	10,388	285,578	240,601
Total	**426,682**	**388,075**	**138,750**	**119,380**	**33,249**	**33,011**	**598,681**	**540,466**

[1] The exact variable remuneration is usually determined and paid in the following fiscal year. The figures shown here for the 2018 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 € 201 thousand of the total remuneration is attributable to his work as a member of the Executive Management Board of Heidelberg Pharma AG.

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. 2017 Number	Additions Number	Expiry/ return Number	Exercise Number	30 Nov. 2018 Number
Dr. Jan Schmidt-Brand	222,000	100,600	0	0	322,600
Professor Andreas Pahl	90,000	100,600	0	0	190,600
Total	**312,000**	**201,200**	**0**	**0**	**513,200**

Executive Management Board member	Expense in the 2018 IFRS statement of comprehensive income €	Fair value of the options held on 30 Nov. 2018[1] €
Dr. Jan Schmidt-Brand	127,942	503,147
Professor Andreas Pahl	96,252	261,150
Total	**224,194**	**764,297**

[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. 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 Andreas Pahl	90,000	0	0	0	90,000
Total	**312,000**	**0**	**0**	**0**	**312,000**

Executive Management Board member	Expense in the 2017 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 Andreas Pahl	32,112	126,864
Total	**89,913**	**450,475**

[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, the maximum amount paid by Heidelberg Pharma AG for committee activities of all Supervisory Board members combined is capped at € 39,000 per fiscal year. 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 2018 fiscal year, the members of the Supervisory Board were paid remuneration of € 171,750 (previous year: € 183,750) plus reimbursement of travel expenses.

The table below shows the individual remuneration.

	Fixed remuneration €		Attendance allowance €		Committee fee €		Total remuneration €	
Supervisory Board member	2018	2017	2018	2017	2018	2017	2018	2017
Professor Christof Hettich	35,000	35,000	10,500	18,000	7,000	7,000	52,500	60,000
Dr. Georg F. Baur	25,000	25,000	6,750	7,500	10,000	10,000	41,750	42,500
Dr. Friedrich von Bohlen und Halbach	15,000	15,000	4,500	3,000	7,000	7,000	26,500	25,000
Dr. Birgit Kudlek	15,000	15,000	5,250	9,000	6,000	6,000	26,250	30,000
Dr. Mathias Hothum	15,000	15,000	6,750	8,205	3,000	3,000	24,750	26,250
Total	**105,000**	**105,000**	**33,750**	**47,750**	**33,000**	**33,000**	**171,750**	**183,750**

6.4 Disclosures under Section 289a (1) and 315a (1) of the German Commercial Code as well as explanatory report

Summary of subscribed capital

As a result of the mandatory convertible bonds converted during the reporting period, the Company's subscribed capital increased from € 22,452,570 to € 28,133,308 compared with the end of the previous year.

The share capital is composed of 28,133,308 no par value bearer shares. 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 2018.

Equity interests exceeding 10 % of voting rights

Section 315a (1) 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 them [1]	approx. 75.05 %

[1] Shares of dievini Hopp BioTech holding GmbH & Co. KG and DH-Holding Verwaltungs GmbH (based on voting rights notifications received as of November 2018)

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 by 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. This does not apply to changes which only affect the wording and which may be made by the Supervisory Board in accordance with the Articles of Association.

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

Authorized capital:

On 26 June 2018, the Annual General Meeting approved new authorized capital of € 14,051,267, denominated in 14,051,267 new no par value bearer shares (Authorized Capital 2018/I). The Executive Management Board is 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 € 14,051,267 by issuing up to 14,051,267 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 25 June 2023 (Authorized Capital 2018/I).

Contingent capital:

The Company's share capital was contingently increased by a total of up to €3,116,515 (previous year: €7,483,831) as of the 30 November 2018 reporting date. The various underlying contingent capitals after stock options and convertible bonds are summarized in the following table:

Contingent capital	As of 30 Nov. 2017 €	Conversion[1] €	New issue €	Reduction €	As of 30 Nov. 2018 €	Purpose of use
II (from 2005)	237,194	–	0	177,200	59,994	2005 Stock Option Plan
2011/I	598,437	–	0	0	598,437	2011 Stock Option Plan
2017/I	661,200	–	0	0	661,200	2017 Stock Option Plan
2017/II	5,987,000	5,680,738	0	0	306,262	Convertible bonds
2018/I	0	–	1,490,622	0	1,490,622	2018 Stock Option Plan
Total	**7,483,831**	**5,680,738**	**1,490,622**	**177,200**	**3,116,515**	

[1] Conversion not applicable when used for stock options

By 30 November 2018, 14,769,946 (98.67%) 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 5,680,738 new no par value shares that increased the share capital of Heidelberg Pharma AG from €22,452,570 to €28,133,308 divided into 28,133,308 no par value bearer shares.

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.

Acquisition of own shares

The Company is not authorized at present to acquire own shares pursuant to Section 71 (1) No. 8 of the German Stock Corporation Act.

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 2018, 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. This entity is attributable to Mr. Dietmar Hopp, parties related to him and companies controlled by them because it represents 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 2018 fiscal year during the period from 1 December 2017 to 30 November 2018, 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. All potential risks with significant ramifications and a reasonable probability of occurring are recorded, assessed and closely monitored on a regular basis.

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 the subsidiary are included.

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 (ICS) 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). The ICS 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.

Using IT-based solutions, among others, the ICS is intended to ensure compliance with applicable accounting principles required for 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).

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.

With Heidelberg Pharma's organizational, control and monitoring structures, the ICS 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 ICS 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 Going-concern risks

Due to the financing measures successfully implemented in 2017, the executive directors expect that business activities can be maintained until mid-2020 based on the available budget despite going-concern risks, provided that there are no exceptional developments.

According to the assessment of the executive directors when the financial statements were prepared, the Group's cash and cash equivalents as of the 30 November 2018 reporting date are sufficient to ensure the Company's solvency until mid-2020, provided that all goes to plan and no exceptional developments change the situation.

If the executive directors are unable to implement the ADC-technology-focused corporate strategy according to plan based on the inflow of sufficient funds, or if the Company fails to obtain additional funding on the capital markets, Heidelberg Pharma AG and/or its subsidiary might be unable to satisfy their payment obligations from mid-2020, and shareholders could lose some or all of their invested capital. As a result, there is currently significant uncertainty about the Group's and/or both Group companies' ability to continue as a going concern.

The IFRS consolidated financial statements and the HGB annual financial statements continue to be prepared on a going-concern basis in accordance with IAS 1.25 and Section 252 (1) No. 2 German Commercial Code (HGB), as the executive directors expect the Group's operations to continue beyond mid-2020.

7.5 Operational risks

Risks of product development and of a lack of market maturity of the proprietary ATAC technology

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 or is unable to demonstrate a sufficiently broad therapeutic window (ratio of efficacy to intolerable side effects) in clinical trials.

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.

Preclinical data collected so far show that undesirable side effects may occur with some of 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.

Risks arising from the performance of clinical trials

Drug development is subject to risks typical for the industry, including setbacks in clinical development and the associated discontinuation of clinical development of the respective product candidates. Licensing partners conducting development activities are also exposed to this risk, which thus indirectly affects Heidelberg Pharma as the licensor.

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.

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.

Heidelberg Pharma Research GmbH is currently preparing to start the clinical program of the development candidate HDP-101. Following extensive preclinical development, the Company in 2019 plans to submit the application to conduct a clinical trial. There is a risk that the new therapeutic approaches in this indication in ADC, bispecific antibodies and above all CAR-T will further increase the number of trials and make patient recruitment more difficult than currently expected. This could have a significant impact on the cost and timing of the clinical trial.

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. 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. As soon as Heidelberg Pharma carries out clinical trials, the Company is 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 previous clinical trials.

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. 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.

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.

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.

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 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 and are therefore reviewed regularly. 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.

7.6 Financial risks

Financing risks

The Company has been successful so far in raising funds through corporate actions, most recently in 2017. Cash inflows from sales revenue or royalties are not yet sufficient to sustain the Company's operations. According to the planning, the establishment of a proprietary ATAC pipeline will result in an increase in research and development expenses in the future, the financing of which probably from mid-2020 will require sufficient inflows of funds if the corporate strategy focused on ADC technology is successfully implemented or by additional borrowing on the capital market.

There is a risk therefore (see section 7.4 "Going-concern risks" in the combined management report) that the cash flow to be generated at Heidelberg Pharma will not be sufficient to ensure financing of the planned business activities beyond mid-2020 or fulfill its payment obligations thereunder. Page 50

Other financing measures along with the expansion of the revenue base must continue to be considered or prepared in the short and medium term. To avoid insolvency, sales revenue will need to be increased or further financing measures will need to be implemented. In the event of the subsidiary becoming insolvent, most of the investments in the its business and the shareholder loan extended to it 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.

The executive directors assume 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.

Risks arising from the impairment of assets

Assets, particularly equity investments, goodwill, not yet ready for use in process research and development (IP R&D) 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.

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 "IP R&D" 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.

Risks related to the allowance of tax losses carried forward

According to the tax calculation, tax losses carried forward as of 30 November 2018 were mainly attributable to Heidelberg Pharma AG (loss carryforward of € 175.8 million for corporation tax; € 172.8 million for municipal trade tax) and may be carried forward indefinitely. According to the tax calculation, Heidelberg Pharma Research GmbH shows a loss carryforward of € 56.2 million for corporation tax and € 55.9 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 amended Section 8c German Corporation Tax Act (Körperschaftsteuergesetz, KStG) 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.

Germany's Federal Constitutional Court has declared the provision in Section 8c sentence 1 and (1) sentence 1 of the KStG to be unconstitutional, at least for the period from 1 January 2008 to 31 December 2015, and ordered legislators to adopt an amendment no later than 31 December 2018, otherwise the provision would be null and void as of 1 January 2008.

According to the 2018 Annual Tax Act (Jahressteuergesetz, JStG), the amended version of Section 8c of the German Corporation Tax Act only provides for a single set of circumstances, i. e. the full extinguishment of loss carryforwards in the event of the transfer of more than 50 % of the shares in a corporation within five years. As a result, the loss carryforwards are no longer extinguished proportionately, if more than 25 % and up to 50 % of the shares are transferred within five years. The group clause and the hidden reserve clause in Section 8c of the KStG and the loss carryforward subject to continuation of the business ("fortführungsgebundener Verlustvortrag") in Section 8d of the KStG were preserved unchanged.

Because capital increases also cause shifts in shareholdings and thus adverse acquisitions of equity as defined in Section 8c of the KStG, the capital increases implemented after 2014 and the changed identity of the Company as a result of the restructuring measures might possibly have led to the elimination of the tax loss carryforwards.

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.

7.7 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, 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.

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.

7.8 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 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.

7.9 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. There is also a general risk that even if the case is won, the corresponding titles cannot be enforced due to a possible insolvency of the opposing party. Even if litigation was successful or settlements were reached, these could adversely affect the Group's results of operations and shorten the currently expected cash reach.

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. 75.05 %) 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.

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. The low number of shares in freefloat implies a reduced liquidity or tradability of Heidelberg Pharma shares.

Compliance and security risks

Compliance risks can arise when quality standards are not upheld, or when business processes are not carried out flawlessly from a legal perspective. Heidelberg Pharma has taken organizational precautions to fulfill the requirements in question and control the internal processes. Specifically, risks can arise when legal requirements are not met, or a company fails to implement internal systems to uncover defects in quality, for instance.

Moreover, fines can be imposed or lawsuits can be brought due to insufficient or delayed financial communication or non-compliance with statutory reporting obligations. Mistakes at annual general meetings can result in legal disputes with shareholders and give rise to substantial costs in the event of actions for avoidance or annulment, or repetition of the general meeting.

In order to minimize this risk, the responsible internal departments and external attorneys are tasked with closely monitoring and reviewing the preparations for and operation of the Annual General Meeting along with all relevant documents and processes. Auditors handle these tasks with regard to the financial statements.

Risk could arise from the use of computer systems, networks, software and data storage devices despite precautions typical for the industry. Heidelberg Pharma has taken steps regarding both hardware and software to minimize these risks.

The introduction of the EU's General Data Protection Regulation (GDPR) in May 2018 harmonized data protection requirements across Europe. The implementation regulations, rights to protection and information of natural persons, control mechanisms, and sanctions have all been tightened up. Improving data protection

can be expensive, and the amount of possible fines can be damaging to the financial situation of small companies in particular.

Other risks related to the protection of the environment and human health, purchasing as well as general safety requirements are not deemed significant.

7.10 Overall assessment of the risk situation

From the current perspective, there are no risks other than the aforementioned risks that would endanger the Company's position as a going concern in the short term. Management aims 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 will on the other hand produce better marketing opportunities for the ATAC technology, and therefore enhance the revenue potential of Heidelberg Pharma Research GmbH. The Executive Management Board of Heidelberg Pharma AG believes that successful entry into the clinical phase by our subsidiary, positive safety and efficacy data, and progress on projects by our partners will significantly reduce the risks to which the Company is exposed.

8 Report on post-balance sheet date events

IND approval and milestone payment from Link Health

In January 2019, Heidelberg Pharma announced that the IND application for a Phase I and II trial with MESUPRON® was approved after the reporting period at the end of 2018. Details of the planned trials are not yet available as the Chinese regulatory authorities have changed the trial regulations, as a result of which Link Health will have to revise the clinical development plan for MESUPRON®. However, there is now a chance that a Phase II trial can begin immediately based on earlier data from the USA and Europe. A milestone payment became payable to Heidelberg Pharma when the trial was granted approval in principle. In this context, € 421 thousand was recognized in profit or loss.

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 IMF is forecasting slower global economic growth of 3.5 % for 2019 (2018: 3.7 %). Moderate growth of 1.6 % is expected for the eurozone (2018: 1.8 %). The forecast for Germany was lowered to 1.3 % (2018: 1.5 %).[27]

27 https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

Growth in the German economy was particularly impacted by stresses in the automotive industry as well as subdued external demand. On a global level, financial market fluctuations and trade conflicts increased the risks of a more substantial downward correction.[28] The Kiel Institute for the World Economy (Institut für Weltwirtschaft, IfW) estimates that the interest rate path will remain flat.[29]

9.2 Market opportunities in the biotechnology industry

Glossary

The healthcare industry is in good shape; a variety of new therapies and a rising trend towards combination therapies and treatments designed to target specific patient populations are expected worldwide in 2019.[30] 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 %.[31] The main growth drivers of this trend will be drugs for the treatment of cancer, autoimmune diseases and diabetes.[32] North America continues to be the largest pharmaceutical market with 40 % of revenue, followed by China.[33]

Tumor diseases are amongst the most frequent causes of death worldwide, and the number of cancer diagnoses is expected to continue to rise as a result of numerous factors such as unhealthy lifestyles and changes in the environment.[34] According to the World Health Organization (WHO), 18 million new people were diagnosed with cancer globally in 2018[35], a figure that will continue to rise in the next two decades.[36] 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 more than 700 molecules in advanced clinical development, of which 34 % are targeted therapies associated with relevant biomarkers.[37]

The global cost of oncology therapeutics and drugs for supportive treatments totaled approximately USD 133 billion in 2017.[38] IQVIA expects oncology costs to rise by between 10 % and 13 % annually until 2022.[39]

Experts predict a rise in M&A transactions in 2019 – not least due to the acquisition of Celgene by Bristol-Myers Squibb for USD 74 billion announced at the start of the year – which could generate renewed interest in biotechnology among investors and bring new funds into the sector.[40] However, low risk appetite among investors – which has more to do with macroeconomic factors than the industry itself – is also expected to

28 manager magazin, 22 January 2019: IWF senkt Prognose für Deutschland und die Welt. http://www.manager-magazin.de/unternehmen/artikel/iwf-waehrungsfonds-senkt-wachstumsprognose-fuer-deutschland-und-welt-a-1249140.html

29 IfW, Kieler Konjunkturberichte Nr. 49 (2018|Q4), 11 December 2018

30 Scrip Pharma Intelligence, 24 December 2018: What will 2019 hold for biopharma? Part 1: Therapeutic Advances

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

32 Ibid.

33 Ibid.

34 https://www.who.int/en/news-room/fact-sheets/detail/cancer (as of 22 January 2019)

35 http://gco.iarc.fr/today/data/factsheets/cancers/39-All-cancers-fact-sheet.pdf (as of 22 January 2019)

36 https://www.who.int/en/news-room/fact-sheets/detail/cancer (as of 22 January 2019)

37 IQVIA Institute for Human Data Science „Global Oncology Trends 2018“ (May 2018)

38 Ibid.

39 Ibid.

40 BioCentury, 12 January 2019: Warning: Cash needed. https://www.biocentury.com/biocentury/finance/2019-01-11/why-biotechs-may-need-seek-alternative-financing-options-2019

continue adversely affecting the biotechnology sector.[41] There are indications that the financing environment could be challenging for biotechnology companies in 2019 due to high capital costs in particular.[42]

9.3 Opportunities

ADC technology

ADC technology continues to be a focal point of the pharmaceutical and biotechnology industry. According to a recent report by Grand View Research, Inc. the global market for ADC will reach USD 9.93 billion by 2025. A CAGR of 25.9 % is expected during this forecast period, driven by rising cancer rates combined with a growing geriatric population. According to the WHO, people aged over 65 are expected to make up 16 % of the global population by 2050 (2000: 7 %).[43]

The number of clinical development candidates rose to 101 ADCs in 2018, up from 80 a year earlier. Another 49 candidates are in preclinical development (2017: 58).[44]

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 research and option agreements with Takeda and Magenta. There is also growing interest among pharmaceutical and biotechnology companies in this innovative anti-cancer treatment option. New preclinical data, including from work carried out with partners Magenta and MD Anderson on 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.

The Executive Management Board of Heidelberg Pharma AG expects to enter into additional partnerships similar to the collaborations agreed with Takeda and Magenta. 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 additional 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 2019. 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 four companies working on an ADC with this antigen.

MESUPRON®

After the end of the reporting period, the Company's partner Link Health was issued an Investigational New Drug (IND) by the Chinese regulatory authority National Medical Products Administration (NMPA) for the out-licensed product candidate MESUPRON®. According to the new NMPA regulations, drug developers can

41 Ibid.

42 Ibid.

43 Grand View Research, January 2019: Antibody Drug Conjugate Market Size Worth USD 9.93 Billion By 2025. https://www.grandviewresearch.com/press-release/global-antibody-drug-conjugates-market

44 BioCentury data base BCIQ, as of 5 January 2018

now use data from Europe or the USA to start a Phase II in China, for example. Link Health is now working on a revised development plan for China.

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.

TLX250-CDx (formerly REDECTANE®) and TLX250

Australian partner Telix has developed a comprehensive development program for the Girentuximab antibody and has already begun implementing it.

Telix has modernized the production process for manufacturing this antibody and introduced improved radioactive labeling using zirconium instead of the iodine previously used. In further clinical trials, the superior diagnosis of clear cell renal cell carcinoma by molecular imaging with TLX250-CDx and PET compared to standard CT will be evaluated. The lead candidate is also expected to be validated as a companion diagnostic for therapy review with academic partners in the USA and Europe and evaluated for a potential role in other types of cancer such as colon cancer.

In addition, Telix is also evaluating the development of therapies based on the CAIX antibody Girentuximab with both beta- and alpha-emitting radionuclides, which could serve as therapeutic candidates for a variety of malignancies. The Lutetium-177-labeled antibody Girentuximab (177Lu-TLX250) is to be evaluated for disease-stabilizing effects in patients with advanced metastatic renal cancer. Two US trials are set to begin from mid-2019 onwards to investigate whether progressive patients treated with checkpoint inhibitors can be resensitized for retreatment or whether treating metastases with TLX250 in combination with immunotherapies leads to improved immunotherapy response rates.[45] The companion diagnostic TLX250-CDx is expected to be used for patient selection and therapy review.

Glossary

Heidelberg Pharma AG is eligible to receive milestone payments and royalties if these trials are successful, with the latter applicable to both products.

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®. There 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 and outlook

Heidelberg Pharma's strategy focuses on the development and marketing of its proprietary ATAC technology by its subsidiary Heidelberg Pharma Research GmbH. 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 long-term license agreements, as well as the broadening of the technology base.

The proprietary ATAC candidate HDP-101 will be tested in patients with multiple myeloma. Preparations for conducting this clinical trial are well advanced. According to the clinical development strategy, applications for the Phase Ia (dose escalation) and Phase Ib (dose expansion) will be submitted simultaneously in the USA and Germany. The timeline for GMP has been specified in the meantime, which enables the Company to

45 Telix Company update, January 2019

discuss details of the trial with the FDA and the Paul-Ehrlich-Institut in the fourth quarter of 2019. Approval for the planned Phase I trial is expected for early next year. The recruitment of patients is then expected to take place based on the activation of the clinical centers. The steps listed below must be completed before the clinical trial can begin:

- Conducting a final GLP toxicity study on monkeys
- Drafting a study protocol and contracts with trial centers
- Manufacturing HDP-101 in accordance with GMP to provide the clinical studies with trial materials.
- Submitting an application to the regulatory authorities for approval to conduct a Phase I trial
- Being issued with approval to conduct a Phase I trial by regulatory authorities
- Establishing clinical centers, including approvals by ethics commissions

An additional aim is to identify 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 Research, additional research and option agreements are to be signed with pharmaceutical partners. The partnership with existing partners is expected to continue as planned, ideally culminating in a therapeutic candidate.

New target molecules and/or antibodies and alternative conjugation processes are currently being evaluated as part of further development of the ATAC technology. This work should be carried out systematically to identify additional project candidates or offer our partners further 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 fiscal year 2017 have laid the foundation for implementing these development goals into 2020. We believe that the current financing plan ensures that clinical development can 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 € 5.0 million and € 7.0 million in revenue and other income (2018: € 4.4 million) in the 2019 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. Sales revenue from a potential license agreement or from the partnering of RENCAREX® was not included in this planning. Other income will mainly comprise government grants.

Based on current planning, operating expenses are expected to be in the range of € 14.0 million to € 18.0 million, comparable to the figure recognized in the reporting year (€ 16.0 million).

Earnings before interest and taxes (EBIT) in the 2019 fiscal year are expected to be between € –8 million and € –12.0 million (2018: € –11.7 million).

The results of operations in the next few years will generally depend to a large extent on whether Heidelberg Pharma Research will be able to enter into additional agreements for ATAC partnerships and license agreements with various pharmaceutical partners.

Heidelberg Pharma assumes that over the next few years expenses will exceed income.

Expected financial position and net assets

If income and expenses develop as anticipated, the net change in cash and cash equivalents in the 2019 financial year is expected to be between € –10.0 million and € –14.0 million. This corresponds to an average monthly use of cash of € 0.9 million to € 1.2 million.

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

Consolidated equity (30 November 2018: € 25.9 million) would decline despite any corporate actions given the anticipated loss for the 2019 fiscal year.

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All measures being discussed to improve the Company's financial situation are described in detail in sections 7.4 "Going-concern risks" and 7.6 "Financial risks", sub-section "Financing risks" of chapter 7 "Risk report."

Financial outlook	Actual 2018 € million	Plan 2019 € million
Sales revenue and other income	4.4	5.0–7.0
Operating expenses	16.0	14.0–18.0
Operating result	(11.7)	(8.0)–(12.0)
Total funding requirement	10.9	10.0–14.0[1]
Funds required per month	0.9	0.9–1.2[1]

[1] Not including any corporate actions

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 2018 fiscal year have been combined in accordance with Section 315 (5) 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 € –1.8 million (previous year: € –3.0 million) in the 2018 fiscal year (1 December 2017 to 30 November 2018) according to German commercial law. Net loss for the year was € 0.2 million (previous year: € 2.1 million).

Sales revenue and operating income (combined: € 0.5 million; previous year combined: € 0.6 million) fell year-over-year, as did operating expenses (2018: € 2.3 million; previous year: € 3.6 million).

Heidelberg Pharma was thus able to meet the expected ranges for income (€ 0.5 million to € 1.0 million) and operating expenses (€ 1.5 million to € 2.5 million), while missing the forecast range for its operating result (€ –1.0 million to € –1.5 million).

Sales revenue and other operating income

Sales revenue fell from € 0.3 million in the previous year to € 0.2 million in fiscal year 2018. These stem from the out-licensing of REDECTANE®.

Other operating income of € 0.3 million was level with the previous year and on the one hand included income from the reversal of unutilized provisions attributable to other periods that were subject to limitation (€ 0.1 million; previous year: € 0.3 million). On the other hand, income of € 0.2 million was generated in 2018 from charging on patent costs resulting from license agreements.

Operating expenses

Personnel expenses rose from € 0.9 million in the previous year to € 1.0 million in the fiscal year ended, due to general salary increases, larger bonuses and the hiring of a new member of staff working on research strategy.

Depreciation of property, plant and equipment totaled € 3 thousand (previous year: € 9 thousand). In the meantime, all fixed assets have been completely depreciated.

Other operating expenses of € 1.3 million (previous year: € 2.7 million) include legal and consulting costs (€ 0.3 million; previous year: € 1.6 million), among others.

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 reduction is attributable to the previous year's tasks in connection with financing and contract drafting. In the previous year, the costs of the two capital increases, which required extensive banking and legal services, alone amounted to € 1.3 million.

In addition to the legal and consulting costs mentioned above, costs comprised other expenses related to the stock market listing (€ 0.4 million; previous year: € 0.4 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 (€ 0.1 million; previous year: € 0.2 million). An additional total of € 0.2 million was incurred for office costs, insurance and contributions, and for other operating expenses (previous year combined: € 0.2 million).

Interest

Interest and similar income exclusively consists of interest income on the loan to affiliated company Heidelberg Pharma Research GmbH (€ 1.6 million; previous year: € 1.1 million). Conventional interest income on monetary assets is currently not achievable on the market.

Interest and similar expenses of € 218 thousand were incurred only in the previous year due to the dievini shareholder loan.

Earnings

Heidelberg Pharma AG posted a net loss for the year of € 0.2 million in the reporting year (previous year: € 2.1 million).

Financing and liquidity

Heidelberg Pharma AG had sufficient funds throughout fiscal year 2018 to ensure the financing of its business operations.

Heidelberg Pharma AG had cash and cash equivalents of € 18.9 million at the close of the fiscal year (30 November 2017: € 30.4 million). Specifically, there are sufficient funds according to the Group's financial planning to ensure the financing of the companies included in the consolidated financial statements until mid-2020.

Capital expenditures

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

Net assets and financial position

Total assets/total equity and liabilities fell by around 1% to € 68.3 million from € 69.1 million the year before. This has been triggered by the outflow of cash from operating activities. The corresponding decrease in total equity and liabilities was mainly due to the utilization of provisions and the associated outflow of cash.

Fixed assets were mainly unchanged compared to the previous year at € 13.3 million at the end of 2018, with the carrying amount of the equity investment in Heidelberg Pharma Research GmbH recognized under financial assets accounting for 100 % of non-current assets as all fixed assets have now been fully depreciated.

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 in respect of company planning and uses the present value of the cash flow calculated in this way to determine the enterprise value.

Planning of the ADC business is based on a detailed five-year plan for the period from 2019 to 2023 (preclinical phase and clinical phases I and II). This is followed by a second, longer-term 15-year planning phase from 2024 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 7.9 %. Furthermore, an effective tax rate of 28.43 % was used for the calculation.

Further model parameters:

- Derivation of potential sales revenue based on comparison data of approved cancer drugs
- Significant license income from 2021 onwards with sustained positive cash flows in subsequent years
- 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 € 25.3 million to € 35.9 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.

Trade receivables increased from € 1 thousand in the previous year to € 49 thousand as a result of an outstanding payment in the context of patent cost reimbursements.

Due to a VAT claim against the tax authorities, other assets rose from € 120 thousand in the previous year to € 229 thousand as of the reporting date. Prepaid expenses of € 43 thousand (previous year: € 18 thousand) mainly related to advance payments to service providers.

Cash and bank balances totaled € 18.9 million at the end of the fiscal year (previous year: € 30.4 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 sections 7.4 "Going-concern risks" and 7.6 "Financing risks."

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Equity according to commercial law increased to € 67.2 million at the balance sheet date (previous year: € 52.6 million). The increase is mainly attributable to the exercise of the convertible bonds during the year, as the bond liability decreases to the same extent from the time of conversion.

Subscribed capital rose to € 28.1 million due to matter described above (30 November 2017: € 22.5 million). The capital reserve also increased correspondingly from € 215.4 million in the previous year to € 224.5 million at the end of the fiscal year.

Accumulated losses rose by € 0.2 million from € 185.3 million to € 185.5 million due to the net loss.

Provisions decreased by 50 % overall, from € 1.2 million in the previous year to € 0.6 million as of 30 November 2018. These mainly included provisions for the bonus program for the Executive Management Board and employees (€ 0.2 million), for outstanding invoices and other items (€ 0.3 million) and for costs of preparing and auditing financial statements (€ 0.1 million). The previous year's provision for a rent liability in the amount of € 0.4 million was fully utilized during the reporting period.

After issuing convertible bonds as part of the capital increase completed in November 2017, Heidelberg Pharma AG in the previous year for the first time recognized a corresponding liability for convertible bonds in the amount of € 15.0 million, which decreased to € 0.2 million as a result of the conversions carried out during the year.

Trade payables fell by € 0.1 million, from € 0.3 million in the previous year to € 0.2 million as of 30 November 2018.

The Company recognizes liabilities to affiliated companies (€ 0.2 million) in connection with the consolidated VAT tax group that exists with the subsidiary. No such item was recognized in the previous year.

Other liabilities increased marginally from € 21 thousand in the previous year to € 32 thousand at the reporting date.

Cash flow statement

Cash outflow from operating activities during the reporting period was € 11.5 million (previous year: € 7.9 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 2018 for investing activities to purchase property, plant and equipment and intangible assets.

There was no change in cash flow from financing activities in 2018. In the previous year, cash flow from financing activities was primarily driven by the capital increases and the issue of convertible bonds, and the associated cash inflows of € 34.2 million.

Furthermore, there was a positive exchange rate effect of € 8 thousand (previous year: exchange rate loss of € 20 thousand).

Total net outflow of cash and cash equivalents was € 11.5 million in 2018 (previous year: inflow of € 26.2 million). This corresponds to an average outflow of cash of € 1.0 million per month (previous year: inflow per month of € 2.2 million). Adjusted for the prior-year effects of cash inflows from capital increases, the issue of convertible bonds and the shareholder loan (i. e. the entire financing component), net cash outflow was € 7.9 million, which corresponded to an average monthly outflow of € 0.7 million.

At the end of the period, the Company had cash and bank balances of € 18.9 million (previous year: € 30.4 million).

10.2 Other disclosures

In addition to the two Executive Management Board members, the Company had five salaried employees at the reporting date, four of whom worked in administration and one in R&D. The average number of employees during the year was four, all working 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 € 1.5 million in sales revenue and other operating income in the 2019 fiscal year (2018: € 0.5 million). The earnings target for 2019 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 2019 are expected to be in the range of € 2.0 million to € 3.0 million if business proceeds as planned, thus coming in slightly above the level seen in the 2018 reporting period (€ 2.3 million).

The operating result in the 2019 financial year is expected to come in between € –1.0 million and € –2.0 million (2018: € –1.8 million).

It is assumed that expenses will continue to exceed income in the next few years.

Expected financial position and net assets

If income and expenses develop as anticipated, financing requirements in the 2019 fiscal year for Heidelberg Pharma AG's business operations are expected to remain at the 2018 level (€ 10.9 million) or increase. Thus, the funds used in the Company's role as the parent company of Heidelberg Pharma Research GmbH will be approximately in the range of the consolidated figure of € 10.0 million to € 14.0 million. This corresponds to an average monthly use of cash of € 0.9 million to € 1.2 million.

Equity as defined by German commercial law (30 November 2018: € 67.2 million) would increase regardless of any corporate actions given the anticipated profit for the 2019 fiscal year as a result of the higher interest income from the shareholder loan.

All measures being discussed to improve the Company's financial situation are described in detail in sections 7.4 "Going-concern risks" and 7.6 "Financial risks", sub-section "Financing risks" of chapter 7 "Risk report." Pages 50 and 53

Ladenburg, 18 March 2019

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 2017 to 30 November 2018

	Note	2018 €	2017 €
Sales revenue	20	3,667,812	1,900,153
Other income	21	705,644	581,848
Income		**4,373,456**	**2,482,001**
Cost of sales	22	(2,208,118)	(956,656)
Research and development costs	22	(10,679,001)	(9,323,181)
Administrative costs	22	(2,966,420)	(2,747,979)
Other expenses	22	(191,897)	(206,774)
Operating expenses		(16,045,436)	(13,234,590)
Operating result		**(11,671,980)**	**(10,752,589)**
Finance income	25	0	0
Finance costs	25	0	(217,583)
Financial result	**25**	**0**	**(217,583)**
Earnings before tax		**(11,671,980)**	**(10,970,172)**
Income tax	26	0	0
Net loss for the year		**(11,671,980)**	**(10,970,172)**
Net currency gain/loss from consolidation		0	0
Other comprehensive income		**0**	**0**
Comprehensive income		**(11,671,980)**	**(10,970,172)**
Earnings per share	**27**		
Earnings per share (basic)		(0.41)	(0.76)
Average weighted number of shares issued		28,209,639	14,372,316

Rounding of exact figures may result in differences.

CONSOLIDATED BALANCE SHEET (IFRS)

for the fiscal year ended 30 November 2018

Assets	Note	30 Nov. 2018 €	30 Nov. 2017 €
Property, plant and equipment	9	1,949,922	1,299,623
Intangible assets	10	2,800,914	2,819,272
Goodwill	10	6,111,166	6,111,166
Other non-current assets	11	41,350	51,350
Non-current assets		**10,903,351**	**10,281,411**
Inventories	12	177,559	178,032
Prepayments	13	56,032	154,942
Trade receivables	14	365,949	232,508
Other receivables	14	248,734	261,880
Cash and cash equivalents	15	19,440,352	30,381,061
Current assets		**20,288,625**	**31,208,423**
Total assets		**31,191,977**	**41,489,833**

Equity and liabilities	Note	30 Nov. 2018 €	30 Nov. 2017 €
Subscribed capital	16	28,133,308	22,452,570
Capital reserve	16	214,643,257	219,789,793
Accumulated losses	16	(216,890,476)	(205,218,496)
Equity	**16**	**25,886,089**	**37,023,866**
Pension obligations	17	0	8,803
Non-current liabilities		**0**	**8,803**
Trade payables	18	405,498	1,501,090
Provisions	18	0	408,201
Pension obligations	17	12,101	0
Other current liabilities	18	4,888,288	2,547,873
Current liabilities		**5,305,887**	**4,457,164**
Total equity and liabilities		**31,191,977**	**41,489,833**

Rounding of exact figures may result in differences.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

for the fiscal year from 1 December 2017 to 30 November 2018

	Note	Shares	Subscribed capital €	Capital reserve: Corporate actions/ premium €	Capital reserve: Stock options €	Accumulated losses €	Total €
				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	23				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
				216,121,501	3,668,292		
As of 1 December 2017		22,452,570	22,452,570	219,789,793		(205,218,496)	37,023,866
Measurement of stock options	23				534,203		534,203
Net loss for the year						(11,671,980)	(11,671,980)
Exercise of mandatory convertible bonds		5,680,738	5,680,738	(5,680,738)			
Net change in equity							**(11,137,777)**
				210,440,763	4,202,495		
As of 30 November 2018	16	28,133,308	28,133,308	214,643,257		(216,890,476)	25,886,089

Rounding of exact figures may result in differences.

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

for the fiscal year from 1 December 2017 to 30 November 2018

	Note	2018 €	2017 €
Net loss for the year		**(11,671,980)**	**(10,970,172)**
Adjustment for items in the statement of comprehensive income			
Stock options	23	534,203	128,323
Depreciation, amortization and impairment losses	22	368,961	406,242
Exchange rate effects		(43,430)	17,847
Finance costs	25	0	217,583
		859,735	**769,995**
Changes in balance sheet items			
Inventories	12	473	12,206
Prepayments	13	98,910	(113,054)
Trade receivables	14	(133,441)	(141,164)
Other receivables	14	13,147	(169,838)
Other non-current assets	11	10,000	(20,000)
Trade payables	18	(1,095,591)	1,369,026
Provisions	18	(408,201)	0
Other liabilities	18	2,343,713	1,359,727
		829,009	**2,296,904**
Cash flow from operating activities		**(9,983,237)**	**(7,903,273)**
Finance costs paid	25	0	(36,678)
Net cash flow from operating activities		**(9,983,237)**	**(7,939,952)**
Cash flow from investing activities			
Purchase of property, plant and equipment	9	(976,056)	(400,436)
Purchase of intangible assets	10	(24,846)	(15,638)
Net cash flow from investing activities		**(1,000,902)**	**(416,074)**
Cash flow from financing activities			
Proceeds from capital increases	16	0	20,529,960
Capital procurement costs of capital increases	16	0	(755,716)
Proceeds from the issue of the mandatory convertible bond	16	0	14,968,380
Capital procurement costs for the issue of the mandatory convertible bond	16	0	(562,072)
Net cash flow from financing activities		**0**	**34,180,551**
Influence of exchange rate and other effects on cash and cash equivalents		43,430	(17,847)
Net change in cash and cash equivalents		**(10,940,709)**	**25,806,679**
Cash and cash equivalents			
at beginning of period	15	30,381,061	4,574,382
at end of period	15	19,440,352	30,381,061

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 2018
from 1 December 2017 to 30 November 2018

1 Business and the Company

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, 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, business development, 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 Research GmbH (formerly Heidelberg Pharma GmbH until it was renamed) 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 subsidiary became a wholly-owned subsidiary of what was then WILEX AG and is now Heidelberg Pharma AG. It has thus become part of the Heidelberg Pharma Group.

2 Application of new and revised standards

2.1 New and revised standards and interpretations

The following International Financial Reporting Standards (IFRSs) newly issued or amended by the International Accounting Standards Board (IASB) which must be applied to the consolidated financial statements as of 30 November 2018 had the following effects on Heidelberg Pharma GmbH's financial statements:

Standard/interpretation		Effective for fiscal years beginning on or after	Adopted by the European Union	Effects on Heidelberg Pharma
IAS 7 (Amendments)	Disclosure Initiative	1 Jan. 2017	Yes	None
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealized Losses	1 Jan. 2017	Yes	None
Annual Improvements to IFRS Standards 2014–2016 Cycle	Amendments to various IFRSs, particularly IFRS 12	1 Jan. 2017	Yes	None

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

The following new and amended standards issued by the IASB or interpretations by the International Financial Reporting Interpretations Committee (IFRIC) which were not yet required to be applied in the reporting period or have not yet been adopted by the European Union will not be applied prior to the effective date. Effects on the consolidated financial statements by standards marked "Yes" are considered likely and are currently being reviewed. Only material effects are described in greater detail below. Standards marked "None" are not expected to have any effect or to only have non-material effects on the consolidated financial statements.

Standard/interpretation		Effective for fiscal years beginning on or after	Adopted by the European Union	Effects on Heidelberg Pharma
IFRS 9	Financial instruments	1 Jan. 2018	Yes	No material effects
IFRS 15 and IFRS 15 (Amendments)	Revenue from Contracts with Customers	1 Jan. 2018	Yes	Yes
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 Jan. 2018	Yes	None
IFRS 2 (Amendments)	Classification and Measurement of Share-Based Payment Transactions	1 Jan. 2018	Yes	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan. 2018	Yes	None
IAS 40 (Amendments)	Transfers of Investment Property	1 Jan. 2018	Yes	None
Annual Improvements to IFRS Standards 2014–2016 Cycle	Amendments to various IFRSs, particularly IFRS 1 and IAS 28	1 Jan. 2018	Yes	None
IFRS 16	Leases	1 Jan. 2019	Yes	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	1 Jan. 2019	Yes	None
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 Jan. 2019	Yes	No material effects
IFRS 14	Regulatory Deferral Accounts	1 Jan. 2016	No (rejected to date)	None
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 Jan. 2019	No	None
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 Jan. 2019	No	None
Annual Improvements to IFRS Standards 2015–2017 Cycle	Amendments to various IFRSs, particularly IFRS 3, IFRS 11, IAS 12, IAS 23	1 Jan. 2019	No	None
IFRS 3 (Amendments)	Definition of a Business	1 Jan. 2020	No	None
Conceptual Framework for Financial Reporting (Amendments)	Amendments to various IFRSs, particularly IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32	1 Jan. 2020	No	None
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 Jan. 2020	No	None
IFRS 17	Insurance Contracts	1 Jan. 2021	No	None
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Delayed for an indefinite period	No	None

New standard IFRS 9:

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 not result in material changes to existing accounting practices.

New standard IFRS 15:

This standard governs the time when and amount in which revenue from contracts with customers 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.

Heidelberg Pharma's assessment indicates that the mandatory application of IFRS 15 will have a quantitative effect on the consolidated financial statements, because the revenue from one of the existing contracts will not be recognized over a period of time as in IAS 18, but instead at a point in time as per IFRS 15. The transition to IFRS 15 has no effect on the other existing contracts. Heidelberg Pharma will apply IFRS 15 on the basis of the modified retrospective method so that any transition effects will be recognized cumulatively in the equity item "Accumulated losses" as of 1 December 2018 and the comparative period will be presented in accordance with previous applicable regulations.

In fiscal year 2017, Heidelberg Pharma conducted an analysis of IFRS 15, which was supplemented with a detailed review in the 2018 fiscal year. As a result, the Company estimates that in 2018, the revenue included in the "Sales revenue from the provision of services" category (see note 20) from a research agreement will decrease by around €150 thousand. Accordingly, deferred income within "Other current liabilities" increases at the transition date, with a corresponding decrease in sales revenue. Other revenue categories and other income not resulting from a seller-customer relationship within the meaning of IFRS 15 will be recognized as previously.

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New standard IFRS 16:

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. In the future most lease liabilities will have to be recognized in the balance sheet. 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. The Group is currently in the process of evaluating how this standard will change the accounting policies.

Heidelberg Pharma rents office and laboratory space, office equipment and vehicles. To date, these have been considered operating leases. Payments made to date in connection with operating leases have been recognized in the income statement over the term of the lease. In the future, however, the rights of use and liabilities arising from these leases must be carried as assets and liabilities on the balance sheet. The assumption here is that total assets and liabilities will increase at the time of initial adoption of the standard. The expenses currently recognized in the income statement will instead be reported as depreciation of the right-of-use assets and interest expense for the lease liabilities. This can result in total expenses differing from the treatment as per IAS 17.

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 315e German Commercial Code (HGB) were applied.

3.2 Basis for preparation of the consolidated financial statements

- The reporting period begins on 1 December 2017 and ends on 30 November 2018. It is referred to hereafter as the "2018 fiscal year" ("2017 fiscal year" for the previous period).

- Based on Group-wide financial and liquidity planning, cash and cash equivalents ensure a cash reach until mid-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 18 March 2019 and released for publication in accordance with IAS 10. The consolidated financial statements are to be approved by the Supervisory Board on 19 March 2019. 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 Annual General Meeting would have to decide on the approval of the consolidated financial statements.

- 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 IFRS 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.

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, in other foreign currencies. In fiscal year 2018, 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 2018: € 1 = USD 1.1391 (previous year: € 1 = USD 1.1872)
- Average exchange rate in fiscal year 2018: € 1 = USD 1.1837 (previous year: € 1 = USD 1.1186)

Swiss francs:
- Closing rate 30 November 2018: € 1 = CHF 1.1353 (previous year: € 1 = CHF 1.1706)
- Average exchange rate in fiscal year 2018: € 1 = CHF 1.1577 (previous year: € 1 = CHF 1.1036)

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, if applicable, 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 liabilities including contingent liabilities.

See section 3.20 for information on the accounting treatment of leases. Page 87

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 2018, 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 Glossary

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 section 3.8 and note 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 allocated to the cash generating unit of the Group that is 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 section 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.

Due to the short maturities, the 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. Equity as of the end of the reporting period was € 25.9 million (30 November 2017: € 37.0 million).

As a result of the conversions during the year of the mandatory convertible bonds issued in November 2017, the total number of Heidelberg Pharma shares issued as of the reporting date increased from 22,452,570 by 5,680,738 to 28,133,308. The proportion of mandatory convertible bonds already converted thus amounts to 98.67 %. 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.

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. However, in the fiscal year ended neither a capital increase was carried out nor was capital 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. 2018 € '000	30 Nov. 2017 € '000
Liquidity	**19,440**	**30,381**
In % of total capital	62.3 %	73.2 %
In % of current liabilities (cash ratio)	366.4 %	681.6 %
Equity	**25,886**	**37,024**
In % of total capital	83.0 %	89.2 %
Liabilities	**5,306**	**4,466**
In % of total capital	17.0 %	10.8 %
Total capital	**31,192**	**41,490**

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

The ratio of liquidity to total capital fell from 73.2 % to 62.3 %. Analogously, the cash ratio, defined as cash and cash equivalents divided by current liabilities, decreased from 681.6 % to 366.4 %.

The equity ratio was 83.0 % as of 30 November 2018. This is lower than in the previous year (89.2 %) due to the loss posted for fiscal year 2018. In contrast, liabilities increased as a percentage of total capital from 10.8 % in the previous year to 17.0 % as of 30 November 2018.

Preventing the share capital from being reduced by more than half by losses in the separate financial statements prepared under German commercial law is the main 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 any financial liabilities, liabilities are carried at their settlement amount. In contrast, any 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 (except for mergers) 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 section 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 23.

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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 Heidelberg Pharma'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 Research 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 2018 fiscal year, Heidelberg Pharma paid € 291 thousand in employer contributions to the statutory pension insurance scheme; this expense is allocated to staff costs (previous year: € 234 thousand).

3.20 Leases

There were no finance leases either in the fiscal year ended or in the previous year.

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 royalties

Sales revenue from such license 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 license agreement. 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 18.29 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 use.

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

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.

Sales revenue from the provision of services can also 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 research 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 18.20 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 revenues 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.

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. In addition, income was generated from costs passed on to third parties to maintain patents in the context of out-licensing.

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

Any 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

As a rule, any interest expense comprises interest expense on non-current andcurrent liabilities, interest expense for pension provisions and any interest portion arising 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. This means that Heidelberg Pharma no longer has any reportable business segments for internal management purposes. The Executive Management Board is currently in charge of all control variables and decisions of the Group as a whole. R&D activities have since focused on the operations of the subsidiary Heidelberg Pharma Research GmbH.

In fiscal year 2018, the Heidelberg Pharma Group lifted sales revenue to € 3.7 million (previous year: € 1.9 million), which was mainly attributable to Heidelberg Pharma Research GmbH (€ 3.5 million). Of this figure, the ATAC technology accounted for € 2.6 million and the service business for € 0.9 million. The parent company's sales revenue (€ 0.2 million) was related to the out-licensing of REDECTANE®.

In the previous year, Heidelberg Pharma Research GmbH reported sales revenue of € 1.6 million, of which € 0.7 million was from the ATAC technology and € 0.9 million from the service business. The parent company also contributed € 0.3 million to sales revenues by out-licensing REDECTANE®.

The following table shows the regional distribution of 2018 sales revenue in terms of a customer's or collaboration partner's domicile:

	2018		2017	
Region	€ '000	%	€ '000	%
Germany	761	21 %	824	43 %
Europe	1,111	30 %	147	8 %
of which B	5	–	58	–
of which CH	1,060	–	89	–
of which UK	46	–	0	–
USA	1,582	43 %	701	37 %
Rest of the world	214	6 %	229	12 %
Total	3,668	100 %	1,900	100 %

All sales revenue was generated in euros (€ 0.9 million), USD (€ 1.8 million) and CHF (€ 1.0 million).

Heidelberg Pharma generated more than 10 % of its sales revenue with three companies: one Swiss company under an MTA agreement (€ 1.0 million) and two American companies (€ 0.8 million) under a research and license agreement in each case.

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

Currency risks arise when future business transactions, or recognized financial assets or liabilities are denominated in a currency other than the Group's functional currency. Heidelberg Pharma operates internationally and cooperates with different customers and 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 other foreign currencies. 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.

5.1.1.3 Interest rate risk

Fluctuations in market interest rates affect the cash flows of floating-rate assets or liabilities or their fair values.

Since Heidelberg Pharma holds neither floating-rate nor fixed-rate financial instruments as of the reporting date, the Company is not exposed to any interest rate risks.

5.1.2 Liquidity risk

The financial instruments from which a liquidity risk can arise for Heidelberg Pharma are mainly cash, cash equivalents and receivables. Heidelberg Pharma has no obligations under long-term financial investments. The Group 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. With regard to any long-term liquidity risks, please see note 6 “Going-concern risk”.

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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 € 366 thousand and corresponds to the trade receivables balance sheet item. The maximum default risk from other receivables is € 249 thousand, which mainly comprises receivables from the tax authorities.

The other non-current assets comprise receivables in connection with rent and lease security deposits (€ 36 thousand; previous year: € 46 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 inflow in 2018. This conservative investment approach ensures that there is no nonpayment risk (see section 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 19):

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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 equal to their fair value on account of the short maturities.

6 Going-concern risk

As the Group's financing is expected to be ensured until mid-2020 based on the budget available from the executive directors, and the executive directors also expect the Group's operations to continue as planned beyond this date, the IFRS consolidated financial statements have also been prepared on a going-concern basis. A going-concern assumption was therefore made in accordance with IAS 1.25 and Section 252 (1) No. 2 German Commercial Code.

If the executive directors are unable to implement the ADC-technology-focused corporate strategy according to plan based on the inflow of sufficient funds, or if the Company fails to obtain additional funding on the capital markets, Heidelberg Pharma AG and/or its subsidiary might be unable to satisfy their payment obligations from mid-2020, and shareholders could lose some or all of their invested capital.

For information on the most important events and conditions that cast significant doubt on our company's ability to continue as a going concern, as well as on our plans and measures to deal with these events and conditions, please refer to our explanations in sections 7.4 "Going-concern risks" and 7.6 "Financial risks" of the Group's combined management report.

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7 Critical estimates and discretionary decisions

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Application of the accounting policies described under note 3 requires management 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.

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 (€ 3.7 million; previous year: € 1.9 million) and other income (€ 0.7 million; previous year: € 0.6 million) are in some cases based on estimates by the Executive Management Board.

Determining the expense in the reporting year from the measurement of stock options granted (€ 534 thousand; previous year: € 128 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.

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 reporting date (98.67 %) proves this assumption to be accurate.

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

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Heidelberg Pharma recognizes expenses in the amount of € 534 thousand (previous year: € 128 thousand) from the granting of stock options during the reporting year under staff costs (see note 23). 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.

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.

8 Impairment testing pursuant to IAS 36

The following is a description of impairment testing in January 2019 (previous year: January 2018) 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 and only identifiable cash generating unit (Heidelberg Pharma Research GmbH), which is monitored by the Executive Management Board as a cash generating unit based on the management approach.

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 2018 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 2019 to 2026. Continuous annual growth of 1.75 % is assumed from 2027 to 2038. For the period after 2038, a terminal value of € 0.5 million and a growth rate of 0 % 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 2019 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 five-year period from 2019 to 2023 (preclinical and clinical phases I and II). This is followed by a second, longer-term 15-year planning phase from 2024 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 five-year period from 2019 to 2023, sharply negative cash flows (discounted) are expected for 2019 and 2020 due in particular to the budgeted preclinical expenses and clinical phase I expenses for HDP-101. Provided all goes to plan, positive cash flows (discounted and adjusted for tax effects) are forecast as early as 2021 due to the material royalties expected. Overall, a sustained positive cash flow is expected from this point onwards.

In the phase from 2019 to 2023, the model projects cumulative discounted cash flows (adjusted for tax effects) of € 2.3 million in total, while for the phase starting in 2024 it assumes cumulative discounted cash flows (adjusted for tax effects) of € 41.9 million (including terminal value).

The carrying amount of the cash generating unit analyzed was € 7.0 million as of the reporting date (previous year: € 7.9 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 10.9 % (previous year: 10.3 %) before taxes and 7.9 % (previous year: 8.2 %) after taxes. If the discount rate were to increase by one percentage point, the value in use would decrease by € 4.8 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 2018. Not until a discount factor of 27.9 % (after tax) (previous year: 18.1 %) 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 2018 and 30 November 2017, property, plant and equipment comprised the following:

	Laboratory equipment (owned) € '000	Other office equipment € '000	Total € '000
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**
2018 fiscal year			
Opening carrying amount	1,178	122	1,300
Additions	865	150	1,015
Disposals	(48)	0	(48)
Reclassification	20	(20)	0
Impairment	32	0	32
Depreciation	(282)	(66)	(349)
Net carrying amount as of 30 Nov. 2018	**1,764**	**186**	**1,950**
As of 30 Nov. 2018			
Cost	4,677	978	5,655
Accumulated depreciation and impairment	(2,913)	(793)	(3,705)
Net carrying amount as of 30 Nov. 2018	**1,764**	**186**	**1,950**

Unless allocable to cost of sales, the full amount of depreciation totaling € 349 thousand (previous year: € 368 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 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 2018 and 30 November 2017, 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
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**
2018 fiscal year							
Opening carrying amount	4	1	279	41	2,493	6,111	8,930
Additions	10	0	16	0	0	0	26
Impairment	5	0	0	0	0	0	5
Amortization and impairment	(10)	(1)	(20)	(18)	0	0	(50)
Net carrying amount as of 30 Nov. 2018	**10**	**0**	**275**	**23**	**2,493**	**6,111**	**8,912**
As of 30 Nov. 2018							
Cost	720	1	1,565	320	2,493	6,111	11,210
Accumulated amortization and impairment	(710)	(1)	(1,290)	(297)	0	0	(2,298)
Net carrying amount as of 30 Nov. 2018	**10**	**0**	**275**	**23**	**2,493**	**6,111**	**8,912**

All of the additions stem from separate acquisitions. Unless allocable to cost of sales, € 50 thousand (previous year: € 39 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 and 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 2018 during the impairment test carried out in January 2019. 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 2018 reporting date, the acquired customer base is carried at € 23 thousand (previous year: € 41 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 (2018: € 41 thousand; previous year: € 51 thousand) mainly comprise rent security in the amount of € 16 thousand (previous year: € 16 thousand) and security for leased equipment and property in the amount of € 20 thousand (previous year: € 30 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 and work in progress recognized at cost (2018: € 178 thousand; previous year: € 178 thousand) mainly concern work in progress. 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 € 948 thousand in the fiscal year (previous year: € 663 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. 2018 € ‘000	30 Nov. 2017 € ‘000
Insurance	4	10
Prepayments to service providers	52	145
Prepayments	**56**	**155**

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 € 366 thousand (previous year: € 233 thousand) mainly result from services invoiced by Heidelberg Pharma Research GmbH.

	30 Nov. 2018 € ‘000	30 Nov. 2017 € ‘000
Trade receivables	366	233
Total	**366**	**233**

The aging structure of trade receivables as of the reporting date was as follows:

	30 Nov. 2018 € ‘000	30 Nov. 2017 € ‘000
0–30 days	339	233
30–90 days	27	0
More than 90 days	0	0
Total	**366**	**233**

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. 2018 € ‘000	30 Nov. 2017 € ‘000
VAT claim	214	223
Other tax receivables	0	8
Other items	35	31
Other receivables	**249**	**262**

Heidelberg Pharma expects all trade receivables and other receivables to be realized within the next 12 months.

15 Cash and cash equivalents

	30 Nov. 2018 € '000	30 Nov. 2017 € '000
Cash and cash equivalents	19,440	30,381
Total	**19,440**	**30,381**

Cash and cash equivalents were down on the prior-year figure due to the cash outflows from operating activities. There were no cash equivalents as defined in IAS 7.6 as of the reporting date of 30 November 2018.

16 Equity

As of 30 November 2018, the share capital consisted of 28,133,308 (30 November 2017: 22,452,570) no par value bearer shares with a notional value of € 1.00 per share.

No corporate action was implemented during the fiscal year ended. The increase in share capital is attributable to the conversions during the year of the mandatory convertible bonds issued in November 2017.

The following shares were issued or created by way of converting the mandatory convertible bond in the reporting period or in the previous year:

Issue date	Entry in the commercial register	Number of shares	€
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**
Continually, converted during the fiscal year	Three entries during the year, most recently on 17 Jan. 2019	5,680,738	5,680,738
On 30 Nov. 2018		**28,133,308**	**28,133,308**

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.

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 € 534 thousand (previous year: € 128 thousand) was recognized in this context in the period under review (see note 23).

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As of the reporting date of 30 November 2018, the capital reserves amounted to € 214,643 thousand (previous year: € 219,790 thousand). The decline is due to the conversion of the mandatory convertible bond, which increases the subscribed capital accordingly.

The costs of € 1,318 thousand directly attributable to the capital transactions in fiscal year 2017 were not recognized as an expense in fiscal year 2017, but charged to the capital reserve in accordance with IAS 32.37.

Taking into account the cumulative losses of € 216,890 thousand accumulated from the date of the Company's establishment through to the reporting date (previous year: € 205,218 thousand), the equity of Heidelberg Pharma amounted to € 25,886 thousand (previous year: € 37,024 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 RT2018G actuarial tables. The interest rate used in the calculation was 3.25 % (previous year: 3.71 %)

As of 30 November 2018, the pension obligation, which is now current, amounted to € 45 thousand (previous year: € 41 thousand). The present value of the pension obligation as of 30 November 2018 will amount to € 45 thousand (previous year: € 41 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 € 33 thousand as of 30 November 2018 (previous year: € 32 thousand). The net liability resulting from the defined benefit pension plan has therefore increased by € 3 thousand to € 12 thousand in fiscal year 2018 (previous year: € 9 thousand), which is reported under current pension obligations. Due to the interest rate situation on the capital markets, the net liability is expected to increase by € 2 thousand, from € 12 thousand to € 14 thousand, until the one-off payment is made in 2019.

No service cost was recognized in the reporting year or the previous fiscal year. In fiscal year 2018, the interest income was € 1 thousand (previous year: € 2 thousand) and the interest expense was € 4 thousand (previous year: € 4 thousand). The net interest expense therefore amounted to € 3 thousand in (previous year: € 2 thousand). In line with the expectations mentioned above, net interest expense until payout in 2019 would amount to € 2 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 decreased as of the reporting date from € 1,501 thousand in fiscal year 2017 to € 405 thousand in the fiscal year ended. The significantly higher figure in the previous year was due in particular to the capital increase completed shortly before the reporting date and the consulting and other services received for this purpose.

In addition, a provision set up in 2015 was recognized as of 30 November 2017 in the amount of € 408 thousand for the event the Company were held liable for a rent guarantee furnished to Siemens Corporation, the landlord of insolvent Nuclea Biotechnologies Inc. (legal successor to WILEX Inc.) for its rent liabilities. This provision was fully utilized in 2018 as a result of the settlement of the legal dispute.

Other current liabilities included the following:

	30 Nov. 2018 € '000	30 Nov. 2017 € '000
Obligation for holidays not taken	159	124
Other deferred income	1,629	830
Social security and other taxes	175	50
Accrued liabilities	2,925	1,544
Other current liabilities	**4,888**	**2,548**

The accrued liabilities are composed as follows:

	30 Nov. 2018 € '000	30 Nov. 2017 € '000
Employee bonuses and profit-sharing bonuses	200	265
Costs for preparing the financial statements	91	148
Deliveries/services	2,634	1,131
Total	**2,925**	**1,544**

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. The year-over-year increase is due to the intensification of development activities for HDP-101.

Employee bonuses are granted depending on the performance of the Company and of individual employees or members of the Executive Management Board, and, once determined, are due for payment in the following fiscal year. The year-on-year decrease is attributable to the assumption that the Company expects to pay lower bonuses than in the fiscal year ended.

As in the previous year, the other current liabilities have a remaining life of less than one year.

19 Other disclosures on financial instruments

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 section 3.14):

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	Measurement category according to IAS 39	Measurement as of 30 Nov. 2018		Measurement as of 30 Nov. 2017	
		Carrying amount € ‘000	Fair value € ‘000	Carrying amount € ‘000	Fair value € ‘000
Trade receivables	Loans and Receivables	366	366	233	233
Cash and cash equivalents	Loans and Receivables	19,440	19,440	30,381	30,381
Trade payables	Financial Liabilities Amortized Costs	405	405	1,501	1,501
Accrued liabilities	Financial Liabilities Amortized Cost	2,925	2,925	1,544	1,544
Total		**23,136**	**23,136**	**33,659**	**33,659**
Aggregation by measurement criteria					
	Loans and Receivables	19,806	19,806	30,614	30,614
	Financial Liabilities Amortized Costs	3,330	3,330	3,045	3,045

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.

No expense or income arose from loans and receivables 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.

2018	Measured at amortized cost		Measured at fair value	Not within the scope of IFRS 7	Balance sheet item as of 30 Nov. 2018
	Carrying amount €'000	Fair value €'000	€'000	€'000	€'000
Assets					
Trade receivables	366	366	0	0	366
Cash and cash equivalents	19,440	19,440	0	0	19,440
All other recognized assets	0	0	0	11,386	11,386
Total assets	**19,806**	**19,806**	**0**	**11,386**	**31,192**
Equity and liabilities					
Trade payables	(405)	(405)	0	0	(405)
Accrued liabilities	(2,925)	(2,925)	0	0	(2,925)
Equity and all other recognized liabilities	0	0	0	(27,862)	(27,862)
Total equity and liabilities	**(3,330)**	**(3,330)**	**0**	**(27,862)**	**(31,192)**

The following figures apply to the previous year:

2017	Measured at amortized cost		Measured at fair value	Not within the scope of IFRS 7	Balance sheet item as of 30 Nov. 2017
	Carrying amount €'000	Fair value €'000	€'000	€'000	€'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)
Accrued liabilities	(1,544)	(1,544)	0	0	(1,544)
Equity and all other recognized liabilities	0	0	0	(38,445)	(38,445)
Total equity and liabilities	**(3,045)**	**(3,045)**	**0**	**(38,445)**	**(41,490)**

Fair value hierarchy levels

In accordance with IFRS 13.76 ff., Heidelberg Pharma uses hierarchy levels to determine and disclose the fair value of financial instruments (see section 5.2).

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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 2018 and 2017, 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 (€ 19,440 thousand; previous year: € 30,381 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 (€ 366 thousand; previous year: 233 thousand) at the close of the fiscal year were attributable to business customers; they were invoiced as of the 30 November 2018 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 2018, there were foreign currency risks concerning trade payables in the amount equivalent to € 9.0 thousand in CHF and € 1.5 thousand in USD. 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. Swiss franc (CHF)	0.8	(1.0)
Euro vs. US dollar (USD)	0.1	(0.2)

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In 2018, some of the sales revenue was affected by the prevailing USD/euro and CHF/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 2018, the equivalent of € 1,796 thousand was generated in USD (previous year: € 557 thousand), and for the first time sales revenue of € 1,060 thousand was generated in CHF.

An increase of 10 % in the average USD exchange rate in fiscal year 2018 as part of a sensitivity analysis (i. e. the USD appreciates against the euro) would have lifted sales revenue by € 200 thousand (previous year: € 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 € 163 thousand (previous year: € 51 thousand).

An increase of 10 % in the average CHF exchange rate in fiscal year 2018 as part of a sensitivity analysis (i. e. the CHF appreciates against the euro) would have lifted sales revenue by € 118 thousand. A decrease of 10 % in the average CHF exchange rate (i. e. the CHF depreciates against the euro) would have depressed sales revenue by € 96 thousand. As no foreign currency sales revenue was generated in Swiss francs in the previous year, a change in the average CHF exchange rate would have had no effect on sales revenue.

Heidelberg Pharma's only cash and cash equivalents held in foreign currencies (USD only) 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 2018 reporting date were equivalent to € 359 thousand (30 November 2017: € 220 thousand).

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.

20 Sales revenue

Sales revenue in the fiscal year just ended totaled € 3,668 thousand (previous year: € 1,900 thousand).

	2018 € '000	2017 € '000
Sales revenue from the provision of services	3,454	1,642
Sales revenue from royalties	214	258
Sales revenue	**3,668**	**1,900**

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: € 0.9 million) and the ADC technology accounted for € 2.6 million (previous year: € 0.7 million). Sales revenue from royalties (€ 0.2 million) stems from the out-licensing of REDECTANE® to Telix.

21 Other income

Other income (€ 706 thousand; previous year: € 582 thousand) comprises the following items:

Other income	2018 € '000	2017 € '000
Income from grants	135	165
Liabilities and provisions not utilized to date	186	325
from sublease and sales of fixed assets	11	7
Income from exchange rate gains	62	5
Income from passing on patent costs	154	0
Proceeds from non-monetary benefits	26	27
Other items	132	53
Total	**706**	**582**

At € 0.7 million, other income was up compared to the previous year (€ 0.6 million). This figure includes German and European grants, which support Heidelberg Pharma Research GmbH projects in the amount of € 0.1 million (previous year: € 0.2 million). Furthermore, income of € 0.2 million (previous year: € 0.3 million) was generated from the reversal of unutilized accrued liabilities and provisions, most of which were subject to limitation. The parent company generated € 0.2 million for the first time from passing on patent costs in the context of out-licensing. Other items amounted to income of € 0.2 million (previous year: € 0.1 million).

22 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 and amortization rose according to plan to € 16.0 million in 2018 (previous year: € 13.2 million).

Operating expenses	2018 € million	2017 € million
Cost of sales	2.2	1.0
Research and development costs	10.7	9.3
Administrative costs	2.9	2.7
Other expenses	0.2	0.2
Total	**16.0**	**13.2**

The cost of sales concerns the Group's costs directly related to sales revenue. These correspond to 14 % of operating expenses and increased disproportionately to the increase in sales revenue to € 2.2 million (previous year: € 1.0 million). This is attributable to one-off costs for external services in the ADC domain, which are expected to become part of the basis for further sales revenue from ADC cooperation agreements in the future.

Research and development costs rose year-over-year to € 10.7 million (previous year: € 9.3 million) due to the expansion of cost-intensive external good manufacturing practice (GMP) production.

The reason for these activities is that the Company is preparing HDP-101, its first ATAC candidate, for clinical development. At 67 % of operating expenses, R&D remained the largest cost item.

Administrative costs were € 2.9 million, an increase on the prior year (€ 2.7 million), and accounted for 18 % of operating expenses.

Administrative costs include staff costs of € 1.6 million (previous year: € 1.2 million), of which € 0.2 million concerned expenses for issuing stock options (previous year: € 0.1 million). This line item also includes legal and operating consulting costs (€ 0.4 million; previous year: € 0.5 million), rent and utilities (€ 0.3 million; previous year: € 0.2 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: € 0.5 million). Other items amounted to € 0.1 million (previous year: € 0.3 million).

Other expenses for business development, marketing and commercial market supply activities, which mainly comprise staff, travel and consulting costs, were unchanged year-over-year at € 0.2 million and accounted for 1 % of operating expenses.

The following expenses are recognized in the statement of comprehensive income:

	2018 € '000	2017 € '000
Staff costs	5,296	4,176
Travel costs (incl. conference fees)	200	208
Office costs (incl. utilities and maintenance)	559	422
Laboratory and other internal costs	2,004	1,354
External research and development costs	5,740	4,792
Legal and consulting costs (incl. patent costs)	1,294	1,354
Depreciation	399	406
Stock market listing	523	485
Other expenses	30	38
Total	**16,045**	**13,235**

The increase in staff costs in the past fiscal year is attributable to the higher number of employees (eight FTEs as of the reporting date), general salary increases and higher expenses for the measurement of stock options issued (see note 23).

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Despite the higher number of employees, travel expenses remained at a similar level year-over-year.

Higher office costs are the result of an increase in the costs required to expand and maintain the technical systems at the company sites.

Laboratory and other internal costs include expenses for inventories of € 21 thousand (previous year: € 59 thousand). External research and development costs comprise the cost of purchased services. As planned, both items rose considerably year-over-year due to the expansion of research and development work at Heidelberg Pharma Research GmbH.

Legal and consulting costs result from 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 comparable to 2017 because of the investments made in the laboratory and buildings in the reporting period.

The costs of listing on the stock exchange include, among other things, expenses for the Annual General Meeting, the remuneration of the Supervisory Board and other expenses directly attributable to this matter.

The expenses contained in the statement of comprehensive income include € 2,208 thousand in costs of sales (previous year: € 957 thousand).

23 Staff costs

In the comparative periods, Heidelberg Pharma employed the following number of staff on average (headcount):

	2018	2017
Administration	16	14
Manufacturing, service and distribution	19	17
Research and development	27	24
Average number of employees[1]	**62**	**55**

[1] Including the Executive Management Board

Staff costs for this purpose are comprised as follows:

	2018 € '000	2017 € '000
Wages and salaries	3,705	3,218
Social security costs	641	546
Bonuses	206	208
Expense from the measurement of stock options	534	128
Continued professional development	34	5
Recruitment	58	11
Occupational safety and employer's liability insurance association	35	31
Other staff costs	83	29
Total staff costs	**5,296**	**4,176**

The wages and salaries and social security costs items rose year-over-year due to the increased headcount and salary structure.

The granting of stock options in accordance with IFRS 2 "Share-based Payments" resulted in considerably higher staff costs of € 534 thousand in 2018 (previous year: € 128 thousand). This was due to the new issue of stock options under the 2017 Stock Option Plan.

The following is a breakdown of the stock option plans that became effective during the reporting period, all of which were classified and measured as equity-settled share-based payments. There were no changes to or cancellations of plans in either the past fiscal year or the prior period.

2005 Stock Option Plan (2005 SOP)

The Annual General Meeting on 8 September 2005 voted to authorize Heidelberg Pharma AG to issue a total of 1,289,157 stock options as part of the 2005 Stock Option Plan to members of the Executive Management Board and employees of Heidelberg Pharma AG.

The first time the stock options can be exercised is after a lock-up period of two years from the issuing date. The stock options can only be exercised if Heidelberg Pharma AG'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 10 % (absolute performance target).

The authorization to grant stock options from the 2005 Stock Option Plan expired in 2010. No new options can therefore be granted under this plan. Heidelberg Pharma no longer incurred any costs in 2018 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 1,156,412 stock options as part of the 2011 Stock Option Plan to members of the Executive Management Board and employees of Heidelberg Pharma AG as well as beneficiaries of affiliates.

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 AG'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).

The authorization to grant stock options from the 2011 Stock Option Plan expired in 2016. 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: € 128 thousand).

2017 Stock Option Plan (2017 SOP)

The Annual General Meeting on 20 July 2017 voted to authorize Heidelberg Pharma AG to issue a total of 661,200 stock options as part of the 2017 Stock Option Plan to members of the Executive Management Board and employees of Heidelberg Pharma AG as well as beneficiaries of affiliates.

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 AG'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).

Heidelberg Pharma for the first time incurred staff costs of € 406 thousand under the 2017 Stock Option Plan as a result of the new issue in 2018.

2018 Stock Option Plan (2018 SOP)

The Annual General Meeting on 26 June 2018 voted to authorize Heidelberg Pharma AG to issue a total of 1,490,622 stock options as part of the 2018 Stock Option Plan to members of the Executive Management Board and employees of Heidelberg Pharma AG as well as beneficiaries of affiliates.

No stock options have yet been issued under the 2018 Stock Option Plan.

The following table shows a summary of the Company's stock option plans/stock options with respect to their measurement:

Stock option plan	2005	2011		2017
Issue	Tranche 8[3]	Tranche 1	Tranche 2	Tranche 1
Measurement date	30 Sep. 2010	30 March 2012	02 June 2016	23 Apr. 2018
Measurement method	Binomial model	Monte Carlo model in each case		
Fair value per option	€ 1.96–2.33	€ 2.13	€ 1.41	€ 1.07
Exercise price (uniform and therefore also average)[1]	€ 11.20	€ 14.12	€ 1.89	€ 3.41
Price of the Heidelberg Pharma share as of the measurement date	€ 4.70	€ 3.82	€ 1.83	€ 2.82
Maximum term	10 years	10 years	10 years	10 years
Expected vesting period until the measurement date	24–48 months	4.81 years	3.95 years	4.00 years
Expected volatility of the Heidelberg Pharma share[2]	61.7–72.0 %	57.83 %	89.42 %	54.96 %
Expected dividend yield of the Heidelberg Pharma share	0.00 %	0.00 %	0.00 %	0.00 %
Risk-free interest rate	0.72–1.20 %	0.61 %	(0.47 %)	(0.19 %)
Remaining term as of 30 Nov. 2018	1.83 years	3.33 years	7.50 years	9.39 years

[1] For the 2005 SOP and tranche 1 of the 2011 SOP taking into account the 4:1 capital reduction in 2014

[2] 2005 SOP: Determined on the basis of a peer group. 2011 / 2017 SOP: Determined on the basis of the historical volatility of Heidelberg Pharma shares

[3] Tranches 1–7 have already expired

The following table shows a summary of the Company's stock option plans/stock options related to the stock option plans of 2005, 2011 and 2017 with respect to their issue:

All information provided in no. of options	2005 Plan	2011 Plan	2017 Plan	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**	**653,430**	**2,500,587**
of which Executive Management Board[1]	894,515	364,000	201,200	1,459,715
of which employees	266,916	321,726	452,230	1,040,872
Max. number of stock options still available for issue	**0**	**0**	**7,770**	**7,770**
of which Executive Management Board	0	0	0	0
of which employees	0	0	7,770	7,770
Return of stock options by beneficiaries leaving the Company	**201,753**	**91,413**	**5,180**	**298,346**
of which Executive Management Board	165,180	26,500	0	191,680
of which employees	36,573	64,913	5,180	106,666
of which Executive Management Board in 2018	0	0	0	0
of which employees in 2018	0	4,124	5,180	9,304
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 2018	0	0	0	0
of which employees in 2018	0	0	0	0
Stock options outstanding	**59,994**	**594,313**	**648,250**	**1,302,557**
of which Executive Management Board	0	337,500	201,200	538,700
of which employees	59,994	256,813	447,050	763,857
Vested stock options (outstanding)	**59,994**	**441,078**	**121,547**	**622,619**
of which Executive Management Board	0	243,000	37,725	280,725
of which employees	59,994	198,078	83,822	341,894
of which have vested in 2018 YTD	0	102,158	121,547	223,704
of which Executive Management Board	0	63,000	37,725	100,725
of which employees	0	39,158	83,822	122,979
Non-vested stock options (outstanding)	**0**	**153,235**	**526,703**	**679,938**
of which Executive Management Board	0	94,500	163,475	257,975
of which employees	0	58,735	363,228	421,963
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.

24 Net currency gains/losses

Heidelberg Pharma posted a currency gain of € 43 thousand (previous year: currency loss of € 18 thousand) in the 2018 fiscal year.

25 Financial result

	2018 € '000	2017 € '000
Interest income from bank accounts/Other	0	0
Finance income	**0**	**0**
Interest expense from shareholder loans and others	0	(218)
Finance costs	0	(218)
Financial result	**0**	**(218)**

As in the previous year, no finance income was generated in the fiscal year ended due to the current lack of interest accruing on credit balances. There were also no finance costs. The financial result thus amounted to € 0 thousand (previous year: € –218 thousand as a result of the interest expense incurred for the shareholder loan from dievini).

26 Income taxes

Due to operating losses in the periods under review, no significant income tax was payable in the fiscal year ended. Neither expenses nor income from deferred taxes were included in tax expenses in 2017 and 2018.

Deferred tax assets or liabilities were determined using the tax rates in effect in each case. A composite tax rate of 28.43 % (previous year: 28.43 %) is 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 trade tax of 12.60 % (previous year: 12.60 %).

A tax rate of 28.43 % (unchanged from the previous year) was also 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: 28.43 %) must be applied to income in accordance with IFRSs. Reconciliation of the differences is shown in the following table:

	2018 € '000	2017 € '000
Earnings before tax	(11,672)	(10,970)
Tax rate	28.43 %	28.43 %
Expected tax income	**3,318**	**3,118**
Deferred taxes on losses for the period not qualifying for recognition	(2,699)	(2,874)
Change in non-recognized temporary differences	1	(24)
Non-deductible operating expenses/Other	(620)	(220)
Reported tax expense	**0**	**0**

The existing deferred tax assets and deferred tax liabilities as of 30 November are attributable as follows:

	2018 € '000	2017 € '000
Deferred tax assets		
Other current assets	51	0
Other non-current assets	259	1,117
Different carrying amount of the equity investment	94	94
Loss carryforwards taken into account	704	710
	1,109	**1,921**
Deferred tax liabilities		
Intangible assets	715	720
Other non-current assets	0	848
Other liabilities/provisions	335	350
Other	58	3
	1,109	**1,921**
Deferred income taxes, net	**0**	**0**

As in the previous year, a portion of € 94 thousand of the deferred tax assets resulted from outside basis differences in respect of different measurements of the equity investment.

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 is equal to the existing deferred tax liabilities.

As further losses can be expected over the next years, no deferred tax assets were recognized regarding the following matters:

	2018 € '000	2017 € '000
Loss carryforwards		
for corporation tax	231,935	220,849
for trade tax	228,710	217,624
Deductible temporary differences	**0**	**0**
Loss carryforwards	**2,477**	**2,499**

The tax loss carryforwards shown in the table above based on current tax calculations are mainly attributable to Heidelberg Pharma AG (corporation tax loss carryforward of € 175,778 thousand; trade tax loss carryforward of € 172,775 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 € 56,157 thousand and € 55,935 thousand in losses carried forward for corporation tax and trade tax purposes, respectively. Deferred tax assets (amounting to € 704 thousand) were recognized in the fiscal year just ended for € 2,477 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 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, KStG) 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.

Germany's Federal Constitutional Court has declared the provision in Section 8c sentence 1 and (1) sentence 1 of the KStG to be unconstitutional, at least for the period from 1 January 2008 to 31 December 2015, and ordered legislators to adopt an amendment no later than 31 December 2018, otherwise the provision would be null and void as of 1 January 2008.

According to the amendment of Section 8c German Corporation Tax Act pursuant to the 2018 Annual Tax Act (Jahressteuergesetz, JStG), the amended Section 8c now only provides for a single set of circumstances, i. e. the full extinguishment of loss carryforwards in the event of the transfer of more than 50 % of the shares in a corporation within five years. As a result, the loss carryforwards are no longer extinguished proportionately, if more than 25 % and up to 50 % of the shares are transferred within five years. The group clause and the hidden reserve clause in Section 8c of the KStG and the loss carryforward subject to continuation of the business ("fortführungsgebundener Verlustvortrag") in Section 8d of the KStG were preserved unchanged.

Because capital increases also cause shifts in shareholdings and thus adverse acquisitions of equity as defined in Section 8c of the KStG, the capital increases implemented after 2014 and the changed identity of the Company as a result of the restructuring measures might possibly have led to the elimination of the tax loss carryforwards.

In 2011, Heidelberg Pharma AG acquired 100 % of the shares in Heidelberg Pharma Research GmbH, which had recognized accumulated tax loss carryforwards of € 40,286 thousand up to the acquisition date. The only thing not in doubt was 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 amounted to € 12,808 thousand. Pursuant to tax notices issued in the meantime, a portion of the accumulated loss carryforwards of Heidelberg Pharma Research were not recognized by the tax authorities. Based on the tax notices and calculations generated, the loss carryforwards accrued by Heidelberg Pharma Research GmbH as at 30 November 2018 were set at € 56.2 million (corporation tax) and € 55.9 million (trade tax).

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 at the time in the same amount by deferred tax assets from tax loss carryforwards taken over. As of 30 November 2018, € 715 thousand (previous year: € 720 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.

27 Earnings per share

27.1 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 AG 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.

		2018	2017
Net loss for the year attributable to equity providers	€ '000	(11,672)	(10,970)
Level of capital and corporate actions in the fiscal year[1]			
Number of issued shares at the beginning of the fiscal year	**in thousand**	**28,210**	**12,928**
Number of shares newly issued during the fiscal year	in thousand	0	15,282
Average number of shares issued during the fiscal year	**in thousand**	**28,210**	**14,372**
Basic earnings per share based on the weighted average number of shares issued in the reporting period	**in € per share**	**(0.41)**	**(0.76)**

[1] Incl. future conversions of the mandatory convertible bond into shares in accordance with IAS 33.23

Basic earnings per share in 2018

In fiscal year 2018, basic earnings per share amounted to € –0.41 based on the weighted average number of shares issued in the reporting period (28,209,639 shares and earnings attributable to equity providers of € –11,672 thousand).

Basic earnings per share in 2017

In fiscal year 2017, basic earnings per share amounted to € –0.76 based on the weighted average number of shares issued in the reporting period (14,372,316 shares and earnings attributable to equity providers of € –10,970 thousand).

27.2 Diluted

The Company's Annual General Meetings in 2005, 2011, 2017 and 2018 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.

28 Leases, guarantees and obligations

As of the reporting date, a total of € 30 thousand in security were made available for finance and operating leases (previous year: € 40 thousand).

28.1 Finance leases

A portion of the laboratory equipment was purchased in prior periods by means of finance leases subject to 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.

28.2 Operating leases, guarantees and obligations

Heidelberg Pharma has leased office equipment and vehicles under operating leases, which will expire at different times until 2021. 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:

	2018 € '000	2017 € '000
Expenses from operating leases	**105**	**107**
of which from tenancy agreements	81	83
of which from other operating leases	24	24

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.

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. 2018	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)	26	32	0	59
	107	**32**	**0**	**140**

[1] Due to short notice periods (six and three months) assuming that the leases for the offices have been terminated effective at the end of 2019 at the latest.

Below are previous year's figures:

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	81	0	0	81
Obligations under operating leases (laboratory and other office equipment, vehicles)	20	7	0	27
	101	**7**	**0**	**108**

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.

Last year's contingent liability to Siemens in the context of the 2013 sale of former subsidiary WILEX Inc. to Nuclea no longer exists because the related litigation has been settled in 2018.

Heidelberg Pharma Research GmbH entered into sub-leases that generated €11 thousand (previous year: €7 thousand). Heidelberg Pharma Research can expect minimum payments of €8 thousand from existing sub-leases as of the reporting date.

29 Corporate bodies and remuneration

29.1 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.

29.2 Supervisory Board

The Supervisory Board members of Heidelberg Pharma AG as of 30 November 2018 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

29.2.1 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 consolidated half-yearly report, the consolidated interim management statements, 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.

29.2.2 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
• Cytonet GmbH & Co. KG, Weinheim, Germany, now Weinheim 216 GmbH & Co. KG i. L.	Chairman of the Advisory Board
• immatics biotechnologies GmbH, Tübingen, Germany	Vice Chairman of the Advisory Board
• SRH Holding SdbR, Heidelberg, Germany	Chairman of the Executive 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	Chairman of the Supervisory Board (Chairman of the Board of Directors)

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
• 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
• Cytonet GmbH & Co. KG, Weinheim, Germany, now Weinheim 216 GmbH & Co. KG i. L.	Member of the Advisory 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. Birgit Kudlek is also a member of the following body:

Company	Position
• Bormioli Pharma S.p.A., Milan, Italy	Member of the Supervisory 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

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.

29.3 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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29.3.1 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 € 599 thousand (previous year: € 540 thousand) in fiscal year 2018, € 427 thousand (previous year: € 388 thousand) of which was fixed remuneration, € 139 thousand (previous year: € 119 thousand) was variable remuneration and € 33 thousand (previous year: € 33 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 held a total of 513,200 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 € 764 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 € 224 thousand (previous year: € 92 thousand).

29.3.2 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 2018 fiscal year, the members of the Supervisory Board were paid remuneration of € 172 thousand (previous year: € 184 thousand) without taking into account reimbursement of travel expenses.

30 Related party transactions and disclosures on 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.

30.1 Shares held by the Executive Management Board and the Supervisory Board

As of 30 November 2018, members of the Executive Management Board held 127,981 shares of Heidelberg Pharma AG (representing 0.45 % of the Company's share capital of 28,133,308 shares).

Members of the Supervisory Board held 50,105 shares directly and 20,008,085 shares indirectly (representing 0.18 % and 71.12 %, respectively, of the Company's share capital). A disclosure of the shareholdings of the individual Board members is contained in the sub-section "Shares held by the Supervisory Board and the Executive Management Board" of section 6.2 "Corporate governance report" of the combined management report.

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30.2 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.

The transactions by Heidelberg Pharma AG executives subject to disclosure in accordance with Article 19 of the European Market Abuse Regulation (MAR) (Directors' dealings) published in fiscal year 2018 can also be inspected on the Heidelberg Pharma website under „Press & Investors > Announcements > Directors' Dealings".

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Name	Date	Transaction	Marketplace	Price €	Number	Volume €
Professor Andreas Pahl (Executive Management Board member)	26 July 2018	Purchase	Tradegate Exchange	2.72	3,700	10,064

30.3 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 and 2017 stock option plans, Heidelberg Pharma AG has issued a total of 513,200 subscription rights to current members of the Executive Management Board, all of which are still outstanding. As of the end of the reporting period, 255,225 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 € 12 thousand in the reporting period (previous year: € 51 thousand). 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 2018, transactions took place for preclinical services provided by Heidelberg Pharma Research GmbH to the entities controlled by dievini or its affiliated companies, specifically Apogenix AG, Heidelberg (amounting to € 345 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.

30.4 Expenses for the auditors

Deloitte GmbH Wirtschaftsprüfungsgesellschaft was appointed the auditor of the Company's consolidated financial statements at its Annual General meeting on 26 June 2018. The following fees for services were recognized in the periods reviewed:

	2018 € '000	2017 € '000
Auditing services	123	134
Other assurance services	0	188
Tax advisory services	0	0
Other services	10	0
Expenses for auditors	**133**	**322**

The audit fees for fiscal year 2018 (€ 123 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 rendered in the previous year (€ 188 thousand) were provided in connection with the capital increases. These were not recognized as an expense but deducted from the capital reserve. The other services (€ 10 thousand) were incurred in connection with an audit carried out during 2018 in accordance with Section 342 (2) sentence 3 no. 3 German Commercial Code (sample audit by the German Financial Reporting Enforcement Panel).

30.5 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.

As dievini exercised convertible bonds in January 2018 that were issued by Heidelberg Pharma and subscribed to by dievini as part of the capital increase in November 2017, the equity interest held by dievini and its affiliated companies and the shares in Heidelberg Pharma AG held personally by Mr. Dietmar Hopp, parties related to him, and the companies they control increased to approximately 75.05 % of the Heidelberg Pharma shares.

The shareholdings of Dietmar Hopp, parties related to him, and the companies they control, therefore 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.

31 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 2019. It has been made permanently available to all shareholders and interested parties on the Company's website.

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32 Events after the reporting period

32.1 IND approval and milestone payment from Link Health

In January 2019, Heidelberg Pharma announced that the IND application for a Phase I and II trial with MESUPRON® was approved after the reporting period at the end of 2018. Details of the planned trials are not yet available as the Chinese regulatory authorities have changed the trial regulations, as a result of which Link Health will have to revise the clinical development plan for MESUPRON®. However, there is now a chance that a Phase II trial can begin immediately based on earlier data from the USA and Europe. A milestone payment became payable to Heidelberg Pharma when the trial was granted approval in principle. In this context, € 421 thousand was recognized in profit or loss.

Ladenburg, 18 March 2019

Heidelberg Pharma AG, the Executive Management Board

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

Prof. Dr. Andreas Pahl
Chief Scientific Officer

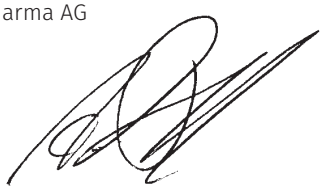
RESPONSIBILITY STATEMENT OF THE EXECUTIVE MANAGEMENT BOARD

"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, 18 March 2019

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 2018, 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 2017 to 30 November 2018, 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 2017 to 30 November 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sections 289f, 315d German Commercial Code (HGB), which is referred to in section 6.1 of the combined management report, and 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. Page 38

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 IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) 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 2018, and of its financial performance for the fiscal year from 1 December 2017 to 30 November 2018, 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 statement on corporate governance mentioned above and the corporate governance report mentioned above.

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 7.4 "Going-concern risks" and 7.6 "Financial risks" of the combined management report as well as to chapter 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, will be unable from mid-2020 to satisfy their payment obligations if the cash inflows resulting from the implementation according to plan of the corporate strategy focused on the ADC technology are not sufficient or if there is no possibility to raise additional liquidity on the capital market. As outlined in the above-mentioned sections and chapters 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 ability of the group and its companies included in consolidation 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 2017 to 30 November 2018. 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 additional to the matter described in the section "Material uncertainty in connection with the Company's ability to continue as a going concern", we present the recoverability of goodwill as the key audit matter we have determined in the course of our audit.

Our presentation of this key audit matter has been structured as follows:

a) Description (including reference to corresponding information in the consolidated financial statements)
b) Auditor's response
c) Key observations

Recoverability of goodwill

a) Goodwill of € 6,111 thousand (approximately 19 % 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.

Other information

The executive directors are responsible for the other information. The other information comprises

- the statement on corporate governance for the 2018 fiscal year pursuant to Sections 289f, 315d German Commercial Code (HGB), which is referred to in section 6.1 of the combined management report,
- 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,
- the executive directors' confirmations relating to the consolidated financial statements and to the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) sentence 5 German Commercial Code (HGB) 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 315e (1) German Commercial Code (HGB) 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 315e (1) German Commercial Code (HGB).

- 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 26 June 2018. We were engaged by the Supervisory Board on 9 October 2018. 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, 18 March 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Jörg Wegner)	(Steffen Schmidt)
Wirtschaftsprüfer [German Public Auditor]	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.

BCMA (B-cell maturation antigen): Surface protein that is highly expressed in multiple myeloma cells.

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.

Computed tomography (CT): Radiological method for imaging anatomical structures.

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 (proinflammatory) 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 respective national authority. 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.

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.

Product license agreement (PLA): Agreement for the use of a product/technology based on a license that usually concerns a patent or protected, secret know-how.

POLR2A: A gene containing the information for RNA polymerase II. RNA polymerase II is a protein complex that enables the synthesis of mRNA and thus the reading of DNA. This is a fundamental process for protein synthesis in eukaryotic cells (in animals and humans).

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.

TP53 (tumor suppressor gene): Tumor suppressor genes are genes whose products (usually proteins) suppress the uncontrolled division of genomically damaged cells and can thus prevent the development of tumors. Protein p53 is one of the most important control mechanisms for cell growth, which makes it a focus of oncological research.

uPA: Urokinase-type plasminogen activator.

FINANCIAL CALENDAR 2019

Date	Type of report/event
21 March 2019	Annual Report 2018, financial press conference and analysts' meeting
11 April 2019	Interim management statement on the first three months of 2019
21 May 2019	Annual General Meeting 2019
11 July 2019	Half-yearly Financial Report 2019
10 October 2019	Interim management statement on the first nine months of 2019

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Please see our website for the current list of conferences for 2019.

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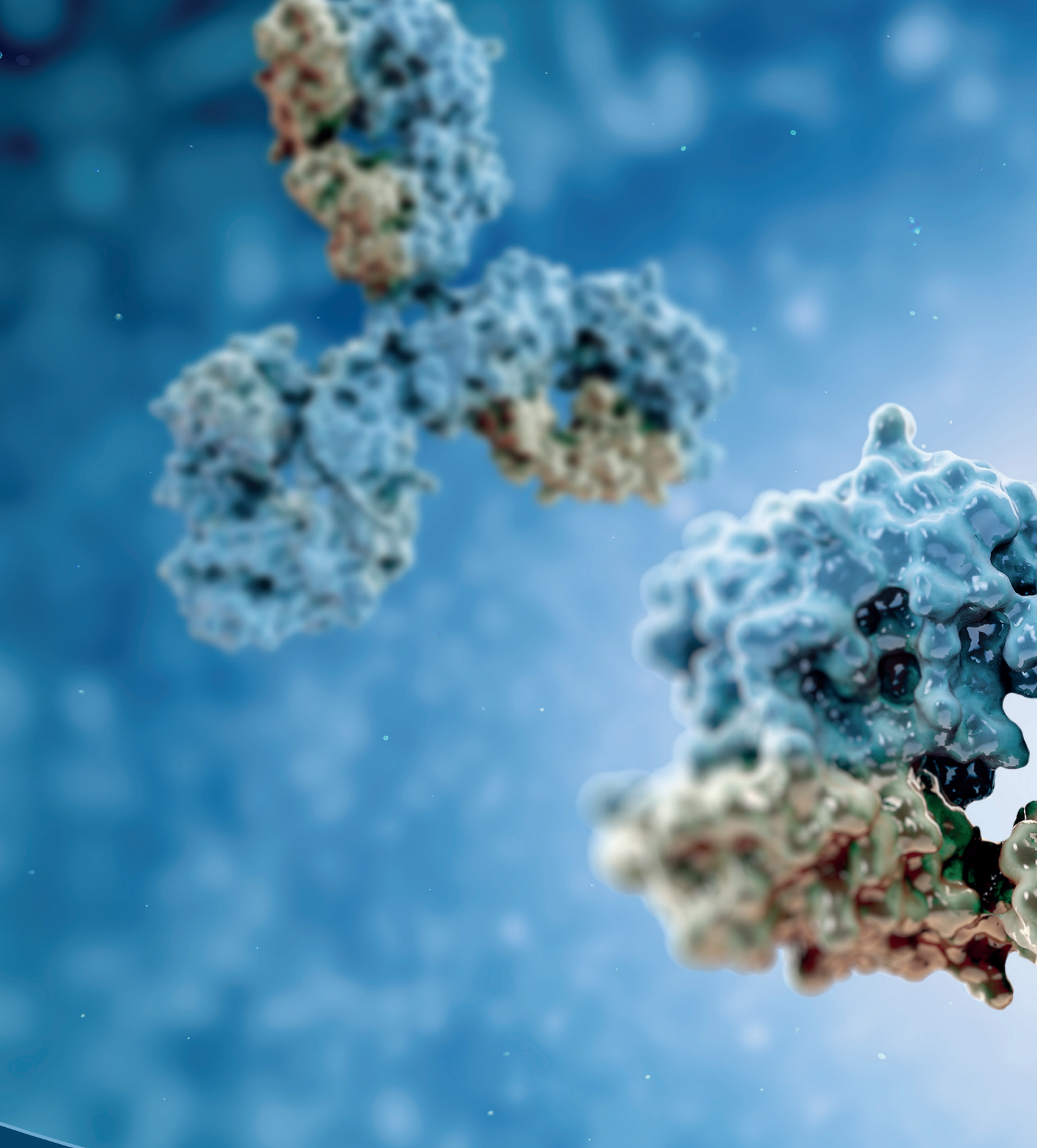
The Annual Report is also published in German and is available for download from our website at www.heidelberg-pharma.com.

The English translation of the Annual Report is provided for convenience only. The German original is definitive.

As of: 20 March 2019



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