formycon®

Progress

Annual Report 2017

formycon®

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To Our Shareholders

Dr. Carsten Brockmeyer CEO

Letter to Shareholders

Dr. Stefan Glombitza COO

Dr. Nicolas Combé CFO

Dear Shareholders

2017 was a record year for biosimilars. With five new approvals in the U.S. and 16 in the EU, based upon seven different reference drugs, more biopharmaceutical follow-on products than ever before received the green light from the authorities to enter the market. As of the end of 2017, 33 biosimilar drugs have, in total, been approved so far in the EU, and nine in the U.S. And according to industry experts, many more new biosimilars will enter the market this year. These figures underscore the fact that this drug class, although still relatively young, has assumed an important permanent position in the global healthcare industry.

FORMYCON has also made significant progress over the past year. In December 2017 we achieved a particularly important milestone, when we signed a deal to contribute our development project FYB202, a biosimilar candidate for Stelara®[1] (ustekinumab), to a newly founded joint venture with Aristo Pharma GmbH. Through our 24.9% stake in the joint venture entity, which aims to drive the remaining development of FYB202 through to regulatory approval, we will retain a significant stake in this project, and we see this partnership as a consistent implementation of FORMYCON's growth strategy. Aristo Pharma is a member of the Strüngmann Group, and the establishment of this new joint venture means a further intensification of our cooperation with one of the most successful and competent investor groups in the biotechnology sector, not only in Germany but in all of Europe.

Our furthest advanced biosimilar candidate FYB201, a follow-on product to the eye drug Lucentis®[2] (ranibizumab), showed great promise as development work proceeded. To our knowledge, FYB201 remains the world's only biosimilar candidate for Lucentis® currently in phase III clinical trial for the key regulated markets. In addition to this advanced clinical trial, which is under the aegis of our licensee partner, FORMYCON itself is working intensively on the preparation of the registration documents, the requirements for which are being closely coordinated in advance with the respective regulatory authorities. Assuming that development efforts remain on their successful track, market launch is being planned starting from 2020, upon expiry of legal protections for the reference product in the U.S. With the development of an innovative application system underpinned by our own patent filings, FORMYCON is working to further strengthen the prospective future market position of FYB201.

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

At FORMYCON, every one is an expert in his or her field, and makes a decisive contribution to the success of our projects.

The progress of 2017 was also reflected in the growth of our company, not only in terms of revenue but also in terms of our staff. We started the year with 70 employees, and ended 2017 with 83. To ensure that we are optimally prepared for the future requirements of our project pipeline, we pushed ahead with the further development of our business processes and our organization. During 2017, and in parallel with the intense project work being carried out by our team, we successfully implemented a number of targeted measures to create the necessary framework for an efficient and growing, scalable organization.

A biotechnology company like FORMYCON, which on the one hand has the virtue of manageable size, but on the other hand works to develop vastly complex biopharmaceutical projects, can only function as a true team. It depends on each individual member of its staff. At FORMYCON, every one of these is an expert in his or her field, and makes a decisive contribution to the success of our projects. Despite our rapid growth, however, we retain our entrepreneurial culture of informality, openness and constructive, fruitful discussion. This also makes us special, and it is something we are proud of.

With all of this now in place, we remain fully committed to our goal, which is to develop biosimilars that improve patients' access to vital drugs, that create new treatment options for physicians, and that provide financial relief to healthcare systems. The challenges in product development are often in the details, and what really makes our team stand out is that it invariably manages to come up with the needed solutions.

The positive view of FORMYCON'S prospects seems to be shared by many capital market participants. In numerous discussions with investors and analysts over the past year, we heard repeatedly that we are on the right track. It is also worth mentioning that the editors of Focus, one of Germany's leading news magazines, are also of this view: In November 2017, we were, for the second time in a row, selected as one of the top growth companies in Germany. In the new rankings, FORMYCON came in at #1 within the pharmaceutical and chemical sector, and at #3 among all 500 companies reviewed. Finally, the gratifying performance of our shares, which rose in price by roughly one third last year, further attests to the successful past year.

Sales of all reference products to our three publicly announced biosimilar candidates have also grown, reaching a combined total of more than USD 13 billion in 2017. And the markets for these blockbuster drugs continue to expand. Eylea®[3], the reference product for our FYB203 biosimilar, and like Lucentis® a drug for the treatment of age-related macular degeneration and other serious eye diseases, has become one of the world's top drugs by revenue. Stelara®, likewise with strong revenue growth during 2017, holds out significant additional potential through proposed new indications in the field of immunology. This emphatically confirms that we have made the right choices with our product candidates and are positioned in highly attractive areas of drug indications.

Biosimilars will, in the future, account for a significant part of the global market for patient care through biopharmaceuticals, and although 2017 was a record year, it is still only the beginning. We are working hard to ensure that the biosimilar drugs developed by FORMYCON take their place in the world and play an important, lasting role.

Remain with us as we continue on our journey of progress.

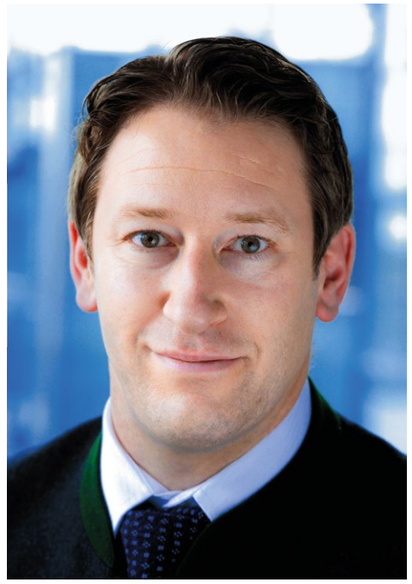
Dr. Carsten Brockmeyer

Dr. Nicolas Combé

Dr. Stefan Glombitza

[3] Eylea® is a registered trademark of Regeneron Pharmaceuticals Inc.

Report of the Supervisory Board



Dr. Olaf Stiller
Chairman of the Supervisory Board

During fiscal year 2017, the Supervisory Board properly carried out its duties under governing law and under the company's articles of incorporation, supervising and advising the Executive Board on an ongoing basis in its management of the company. The Supervisory Board was directly involved in all decisions of fundamental importance and received regular written and oral reports on the company's business performance, the further development of its strategy, and its financial performance.

In addition, the Chairman of the Supervisory Board remained in continual contact with the Executive Board, discussing current developments and business events of key importance. Furthermore, regular consultations were held with the Executive Board on matters of the company's strategy, planning, business development, risk position, risk management, and regulatory compliance.

In the course of four board meetings, all business matters and pending decisions requiring concurrence of the Supervisory Board under governing law or under the company's articles of association were discussed in depth. All members of the Supervisory Board were in attendance at these meetings.

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

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

The annual financial statements and consolidated financial statements as of December 31, 2017, including the respective management reports, were examined by the Munich office of PanTax Audit GmbH, the audit and tax firm appointed by the Annual Meeting of Shareholders for fiscal year 2017, which also examined the company's bookkeeping. The audit firm, having determined that these were in compliance with all legal requirements, provided its unqualified audit opinion. Furthermore, the audit firm determined that the Executive Board has enacted measures, as required under sec. 91 para. 2 of the German Stock Corporation Act, to establish a risk monitoring system in appropriate form, and that this system is suitable for recognizing, at an early stage, any developments which might endanger the company's continued existence.

Advance copies of the financial statement documents to be examined and of the audit reports were provided to the Supervisory Board to ensure that it was comprehensively informed. In addition, the Supervisory Board asserted its right to inspect the accounts and papers of the company, in particular by requesting presentation of certain legal agreements it deemed important, including documents not specifically requiring its concurrence. All transactions requiring concurrence of the Supervisory Board under governing law or under the company's articles of incorporation were examined by the Supervisory Board before reaching its decision on such concurrence.

A representative of the audit firm attended the meeting of the Supervisory Board on April 4, 2018, at which the financial statements were discussed, and reported on the key findings of the audit examination. The Supervisory Board noted and concurred with the audit findings.

As a result of its own examination, the Supervisory Board found no cause to raise any objections to the financial statement documents which it reviewed, including also the concluding statement of the Executive Board. The Supervisory Board thus approves the annual financial statements of FORMYCON AG and consolidated financial statements of FORMYCON Group as presented to it. The annual financial statements of FORMYCON AG are adopted accordingly.

The Supervisory Board did not form any committees.

The Supervisory Board would like to thank the Executive Board along with the entire staff of FORMYCON for their continued commitment and for all their hard work during 2017.

Munich,
April 2018

Dr. Olaf Stiller
Chairman of the Supervisory Board

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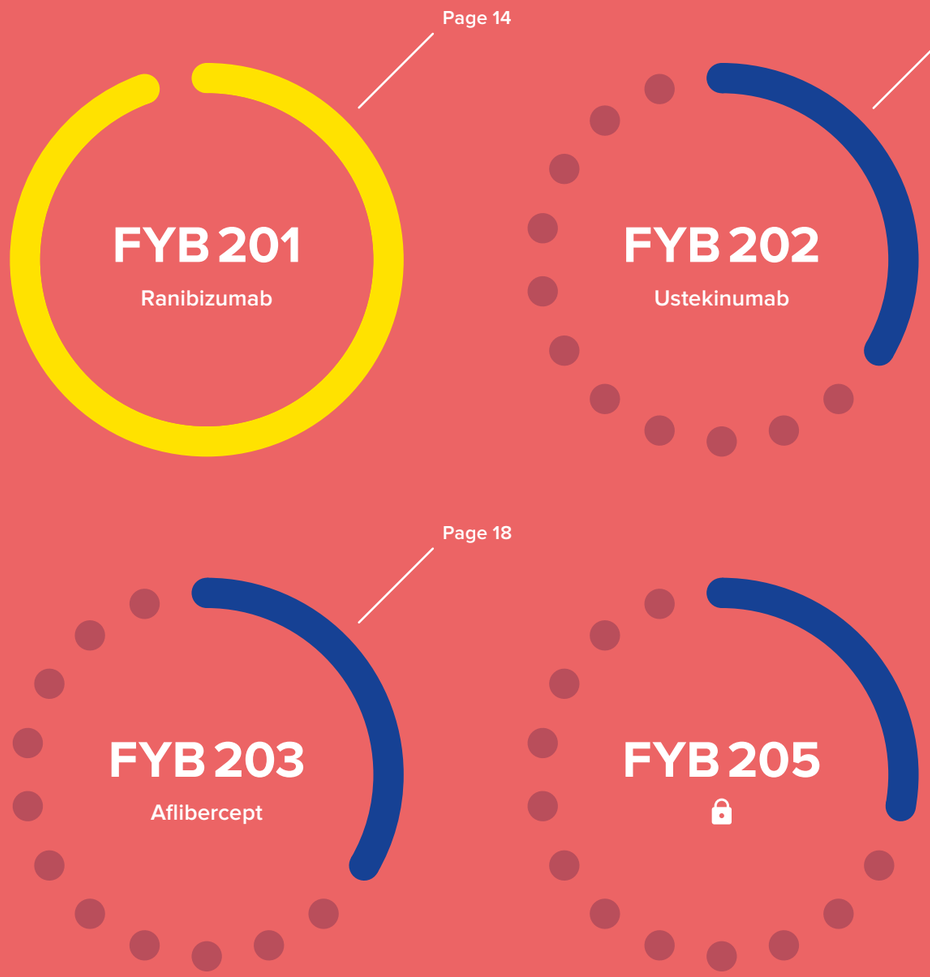
Our Biosimilar Projects

FORMYCON'S product pipeline currently consists of four biosimilar projects. Of these, three are in advanced stages of development, with two in the preclinical phase (FYB202 and FYB203) and one (FYB201) at the end of phase III clinical trials. Details on the fourth biosimilar candidate (FYB205) have not yet been publicly announced.

In the following sections, the respective project managers will give you an overview of FYB201, FYB202 and FYB203, with some key facts about their areas of therapeutic indication, their market environments, and FORMYCON'S development work.



FYB 201

Candidate Biosimilar to Lucentis®*

FYB201 is our furthest advanced development project. It is a biosimilar candidate to Lucentis® (active ingredient: ranibizumab), the ophthalmic blockbuster drug marketed by Genentech and Novartis.

State of Development December 2017

Preclinical Phase

Clinical Phase III

* Lucentis® is a registered trademark of Genentech Inc.

“FYB201 is anticipated to be our first biosimilar product to reach the market.”

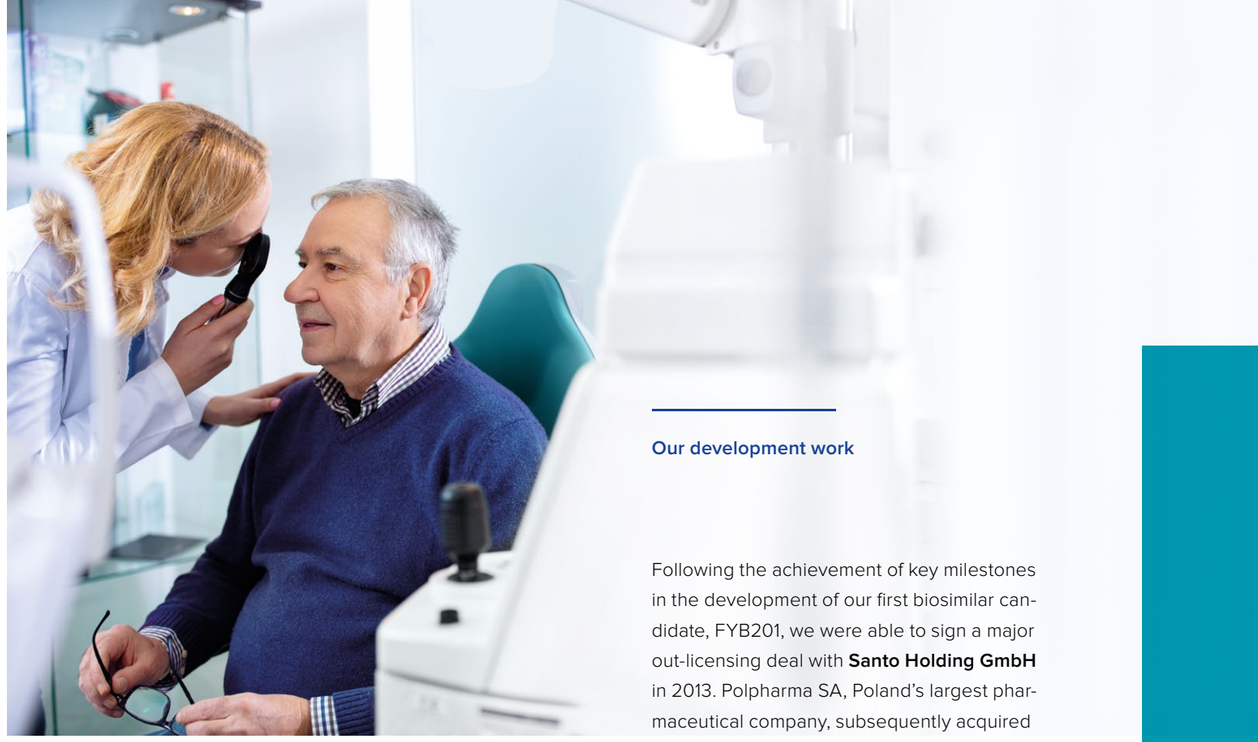
Dr. Maria Mayr
Senior Program Manager

FYB 201

Therapeutic indications

Ranibizumab is used in the treatment of various **eye diseases** in adults which cause damage to the retina, thereby impairing vision. In these diseases, a protein called vascular endothelial growth factor (VEGF) causes excessive blood vessels to form within the retina, resulting in a progressive loss of central vision. In many cases, this process leads to a severe visual impairment or even blindness.

A particularly important application of ranibizumab is in the treatment of **neovascular or "wet" age-related macular degeneration** (nAMD). Due to the increasing aging in our society, the proportion of the population affected has increased significantly over recent years and decades. Today, AMD is the leading cause of blindness in developed countries among people over 50, responsible for 32 percent of new blindness diagnoses, followed by glaucoma and diabetic retinopathy, each at 16 percent. Worldwide, at least **25 to 30 million** people are affected, with some estimates ranging from 30 to 50 million. Every year, some 500,000 new cases are added. In Germany alone, some two million people suffer from some form of macular degeneration, with 33,000 to 45,000 new patients diagnosed each year.



In cases of macular degeneration, a distinction is made between "wet" and "dry" forms of the disease. Of these, "dry" macular degeneration is by far the more common diagnosis, with an estimated 85 to 90 percent of patients suffering from this variety, for which no effective therapy exists to date. On the other hand, the remaining approx. 15 percent of cases are the "wet" form – medically known as neovascular age-related macular degeneration (nAMD) – which can be treated. This is done by injecting an inhibitor of retinal vascular growth called an anti-VEGF (anti-vascular endothelial growth factor) into the vitreous body of the eye. In this way, further VEGF-induced vascular growth is prevented, and thus the progression of visual deterioration can be stopped.

This disease process takes place slowly and is often not noticed by the patient until relatively advanced. However, once detected, "wet AMD" can be treated effectively with these existing therapies.

Our development work

Following the achievement of key milestones in the development of our first biosimilar candidate, FYB201, we were able to sign a major out-licensing deal with **Santo Holding GmbH** in 2013. Polpharma SA, Poland's largest pharmaceutical company, subsequently acquired a 50 percent stake in the project, then Santo Holding and **Polpharma** together established a joint venture entity, **Bioeq IP AG**, to which FYB201 was transferred.

Global phase III clinical trials of FYB201 were initiated in early 2016, under the direction and responsibility of Bioeq. The study aims to demonstrate the comparability of FYB201 with Lucentis® in patients with neovascular age-related macular degeneration (nAMD) in terms of safety, efficacy and immunogenicity. The study was planned in coordination with the U.S. Food and Drug Administration (FDA) and the European Medicines Agency (EMA) in order to facilitate the regulatory approval of FYB201 in these and other highly regulated markets.

In addition to the biosimilar drug itself, we are also developing our **own proprietary application system** for administering the drug, which should help to further improve FYB201's market position.

The market

Ranibizumab is, along with aflibercept, among the most widely used anti-VEGFs today. In 2017, Lucentis® generated global sales of **USD 3.4 billion**, with revenue growth continuing at a significant rate.

FYB201 is anticipated to be our first biosimilar product to reach the market. If and when achieved, this will mark a major success for FORMYCON, and the reward for years of intensive development work. Because FORMYCON will participate in any potential future product revenues, this reward will also be financial.

Next steps

Following evaluation of phase III data, our partner plans to file the initial application for the **approval** of FYB201 with the U.S. Food and Drug Administration (FDA). Subject to this regulatory approval, our partner expects to be the first company to introduce a ranibizumab biosimilar in 2020, upon expiry of the reference production's patent protection in the United States. Market launch in Europe is planned for 2022.

2020

Expected market launch in the USA

2022

Expected market launch in Europe

FYB 203

Candidate Biosimilar to Eylea®*

FYB203 is a biosimilar candidate for aflibercept, an eye drug marketed by Regeneron and Bayer under the trade name Eylea®. Like Lucentis®, Eylea® is used in the treatment of neovascular age-related macular degeneration (nAMD), along with other serious eye diseases such as diabetic macular edema (DME), retinal venous occlusion (RVO) and choroidal neovascularization (CNV) secondary to pathologic myopia (PM), the formation of new blood vessels in the choroid layer of the eye which may result from extreme myopia (nearsightedness).

State of Development
December 2017

Preclinical Phase — Clinical Phase I — Clinical Phase III

* Eylea® is a registered trademark of Regeneron Pharmaceuticals Inc.

Our partner should be able to launch FYB203 in the U.S. market in the year 2023.

Dr. Björn Capsius
Director Clinical Development

FYB 203

Therapeutic indications

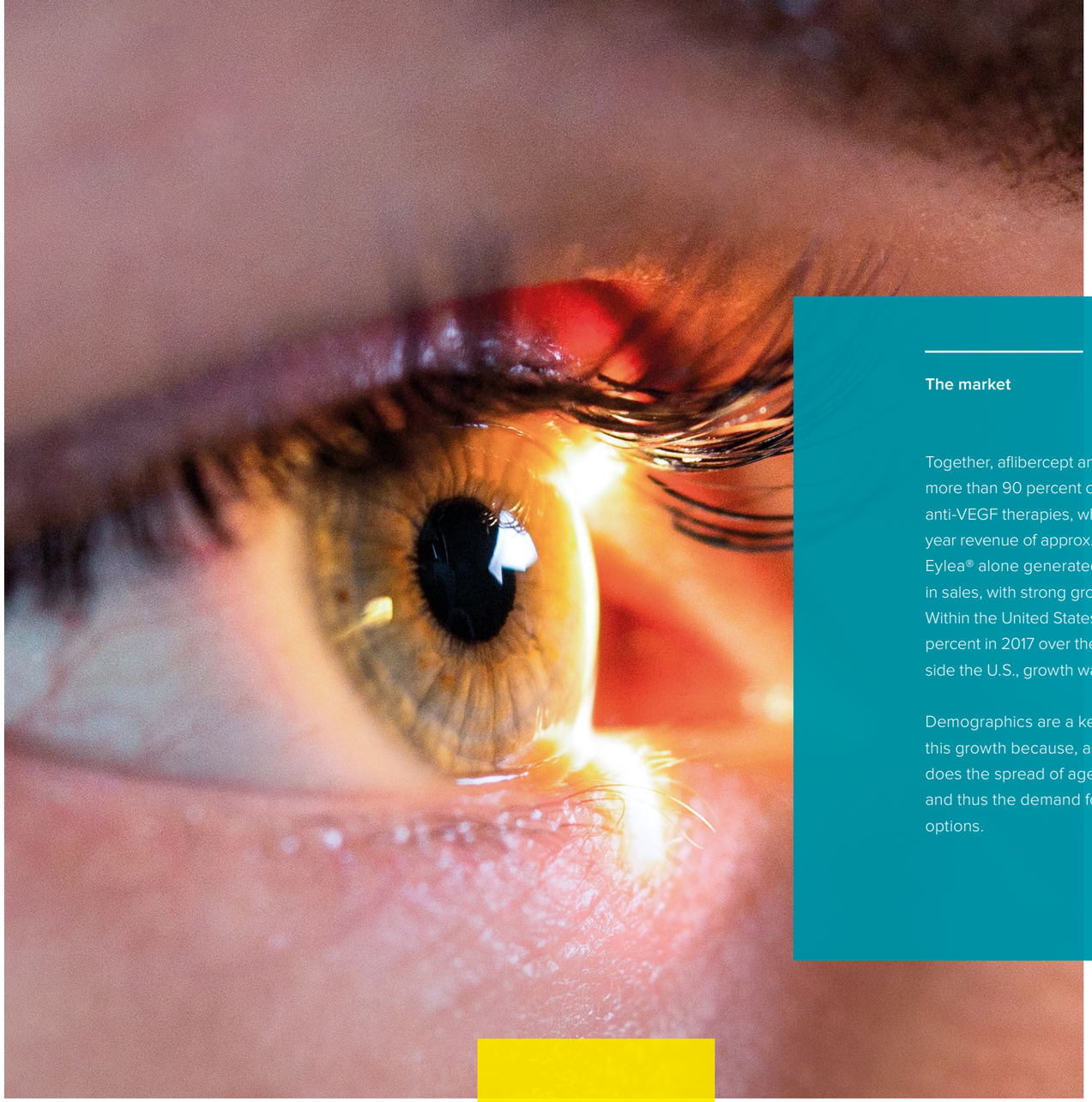
Aflibercept is a recombinant human fusion protein which works by binding to vascular endothelial growth factors A and B (VEGF-A; VEGF-B), as well as to placental growth factor (PLGF). Through this action, aflibercept suppresses the formation of blood vessels in the retina, which otherwise **impair vision**. Like Lucentis®, Eylea® is injected directly into the vitreous body of the eye. This usually takes place once a month during the initial treatment phase, followed by subsequent intravitreal treatment in the case of nAMD or DME every two months.

Aflibercept and ranibizumab complement each other very well in clinical practice. Some patients respond better to aflibercept, while others see more benefit from ranibizumab. Our biosimilar drugs seek to provide patients with better access to effective treatment with high-quality biopharmaceuticals by offering more cost effective treatment options to ophthalmologists.

Our development work

The development of FYB203 is currently in the advanced preclinical phase, meaning that we have already been able to analytically demonstrate the biosimilarity of our product to the reference product. In addition, we have largely completed the development of an **efficient process to manufacture** the drug. As with FYB201, we are also working on our own proprietary application system for administering this drug within the eye.

In May 2015, we signed a deal to out-license FYB203 to **Santo Holding GmbH**. As with FYB201, we will participate significantly in any potential future product revenue.



The market

Together, aflibercept and ranibizumab make up more than 90 percent of the world market for anti-VEGF therapies, which generated 2017 full-year revenue of approx. **USD 9.3 billion.** In 2017, Eylea® alone generated some USD 6 billion in sales, with strong growth in market volume: Within the United States, 2017 sales grew by 11 percent in 2017 over the prior year, while outside the U.S., growth was almost 20 percent.

Demographics are a key long-term driver of this growth because, as people grow older, so does the spread of age-related eye diseases and thus the demand for effective treatment options.

Next steps

The next step is to **enter into the clinical phase**. Should the clinical development proceed according to plan, our partner should be able to launch FYB203 in the U.S. market in the year 2023, when patent protection for the reference product expires. Market launch in Europe is anticipated in 2025.

$ 5,929 bn

Global sales of the reference product

90 %

Global market coverage of anti-VEGF therapies by aflibercept and ranibizumab

FYB 202

Candidate Biosimilar to Stelara®*

With FYB202, our biosimilar candidate to Stelara® (active ingredient: ustekinumab), we have an exciting project in our development pipeline aimed at multiple therapeutic indications in the anti-inflammatory area.

State of Development December 2017

Preclinical Phase | Clinical Phase I | Clinical Phase III

“An efficient manufacturing process for our biosimilar candidate has been developed.”

Dr. Susanne Pippig
Director Preclinical Research and Development

* Stelara® is a registered trademark of Johnson & Johnson

FYB 202

Therapeutic indications

Ustekinumab, a human monoclonal antibody which targets the cytokines interleukin-12 and interleukin-23, is used for the treatment of several different **serious inflammatory diseases**, such as moderate to severe psoriasis. In 2016, its therapeutic indications were extended to also include the treatment of Crohn's disease, a chronic inflammatory bowel disorder. In addition, the drug is also indicated for the treatment of psoriatic arthritis. Possible extensions to other indications, such as ulcerative colitis, are currently under evaluation.

Psoriasis is a non-contagious inflammatory skin disease. It manifests itself primarily through red, scaly skin changes, often with severe itching, which may range in size of a pinhead to patches the size of a fist. The nails may also be affected. Worldwide, roughly 125 million people suffer from this disease, of which some two million are in Germany.

The course of the disease is different for each patient. In some, it seems to be a one-time condition which heals spontaneously. In many others, however, the disease persists and may alternate between phases of intensive symptoms and relative dormancy. Psoriasis often involves significant social stigma. For those who suffer from the disease, itchy, scaly, peeling skin is generally a major chronic burden.

Crohn's disease is one of several chronic inflammatory bowel diseases that can occur anywhere throughout the digestive tract, from the oral cavity to the anus. Its cause and progression are still not fully understood. The current state of scientific research regards Crohn's disease as an autoimmune disease in the broader sense, as the intestinal mucosa is damaged through the body's immune reaction against intestinal flora. Typical symptoms of Crohn's disease are abdominal pain and diarrhea, which can sometimes contain blood. It may also result in fever, weight loss, loss of appetite, nausea and vomiting.

In Western industrialized countries, about seven to eight new diagnoses of Crohn's disease per 100,000 people are made each year, with a total patient population of roughly 150 per 100,000.The incidence of the disease has been increasing over the past 20 years, with the disease typically striking young adults between the ages of 15 and 35 or older people above the age of 60.

Like psoriasis, Crohn's disease often poses great limitations and burdens on its sufferers, in particular because of the severe abdominal pain and diarrhea that it typically entails.

An important distinction must be made between two different forms of treatment for Crohn's disease: short-term treatment to control symptoms and induce remission, and long-term treatment to keep the disease in remission. The former aims to treat flare-ups and acute symptoms as they occur, while the later aims to reduce the frequency of such relapses. In addition to medication, complementary surgical procedures may provide symptomatic relief to sufferers.

Under current treatment guidelines, patients who suffer frequent or severe relapses, as well as patients in whom relapses flare up when cortisone treatment is halted, should receive long-term remission-preserving therapy. There are, at present, three groups of approved drugs which can be used for such treatment: immunosuppressants, such as cortisone or azathioprine; tumor necrosis factor (TNF) alpha inhibitors; and vedolizumab, which is an integrin antagonist. These therapies do not always achieve remission, and their risks and side effects may include increased risks of infection and cancer.

Stelara® offers an **effective treatment alternative** of particular scientific and clinical interest. In phase III clinical trials in patients with Crohn's disease who did not respond to TNF inhibitors or other standard drugs, this monoclonal antibody has been shown to induce remission and to prevent relapse as a maintenance therapy. As to its long-term safety, the drug has already been proved safe in long-term use for the treatment of psoriasis and psoriatic arthritis.

Our development work

The FYB202 project is currently in the final stages of the preclinical phase. By applying a large range of analytical methodologies, we have been able to demonstrate **analytical comparability** of our proposed biosimilar to the reference product. An efficient manufacturing process for our biosimilar candidate has been developed and is now in place. We have, in addition, filed **our own patent applications**, such as in the area of drug formulation. Our immediate next objective is to prepare for the entry into the clinical study phase.

$4 bn

Global sales of the reference product

The market

Stelara® is an expensive medication, with its price ranging from roughly **EUR 4,500** for one low-dose application in the European Union to roughly **USD 19,000** for a higher-dosed application in the United States.

Global sales of this relatively new drug were thus **USD 4 billion** in 2017, with growth continuing at a rapid rate. The potential use of ustekinumab for additional therapeutic indications offers additional revenue potential.

Next steps

At the end of 2017, we transferred the FYB202 project to a new joint venture entity called “FYB 202 GmbH & Co. KG”, in which FORMYCON holds a 24.9 percent interest. The remaining 75.1 percent is owned by Berlin-based Aristo Pharma GmbH, which is part of **Strüngmann Group**. Under the terms of the deal, all development costs incurred subsequent to the pilot phase, as well as all prior project investments, will be allocated in proportion to the respective ownership shares.

Likewise, both of the joint venture partners will share any future income from out-licensing or product sales in proportion to their ownership shares. The objective of the joint venture is to drive the development of FYB202 all the way through to regulatory approval. As with FYB201 and FYB203, FORMYCON will act as a service provider in carrying out portions of the development work. Should the project proceed as planned, market launch would take place in the United States in 2023 and in the European Union in 2024.

+100 %

The number of employees at FORMYCON has doubled in recent years.

A successful team

The development of biopharmaceutical drugs requires close collaboration between a wide variety of specialists. The FORMYCON team covers the entire value chain from technical development to the clinical phase III as well as the preparation of dossiers for marketing approval.

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Management Report

I Basic Information About the Group

Business model

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

As of the end of 2017, FORMYCON was working on the following biosimilar projects:

- FYB201 is a biosimilar candidate for Lucentis®[1] (ranibizumab), an ophthalmic drug used in the treatment of neovascular ("wet") age-related macular degeneration (nAMD) and other serious eye diseases. As of the end of 2017, the project was in global phase III clinical trials.

- FYB202 is a biosimilar candidate for Stelara®[2] (ustekinumab), a biopharmaceutical used in the treatment of certain serious inflammatory diseases, such as moderate to severe psoriasis, as well as for the treatment of Crohn's disease. As of the end of 2017, FYB202 was in the preclinical study phase.

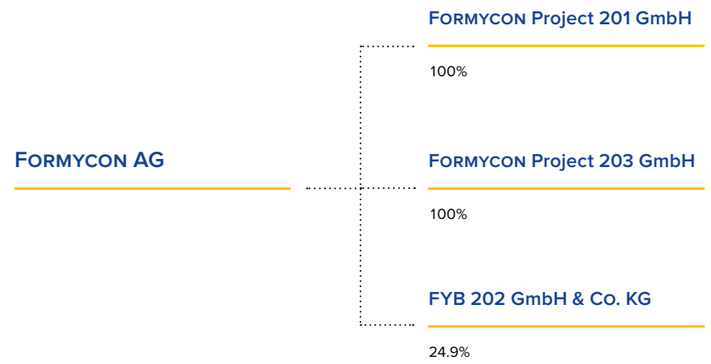
- FYB203 is a biosimilar candidate for Eylea®[3] (aflibercept). Like Lucentis®, Eylea® is used to treat neovascular age-related macular degeneration (nAMD) and other serious eye diseases. As of the end of 2017, the project was in preclinical studies.

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

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

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

The structure of FORMYCON Group is as follows:



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

In addition, FORMYCON established a joint venture in December 2017 together with Aristo Pharma GmbH, a member of the Strüngmann Group, to further develop its biosimilar candidate FYB202. FORMYCON owns 24.9 percent of the joint venture company, named FYB 202 GmbH & Co. KG, with the remaining 75.1 percent held by Aristo. FORMYCON and Aristo will bear the remaining development costs and share the potential future income from the marketing of FYB202 according to their respective ownership shares.

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

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

II Report on Business Performance

General economic conditions and industry conditions

According to the German Federal Ministry for Economic Affairs, the German economy grew during 2017 at the fastest rate since 2011, with GDP increasing 2.2 percent in real terms (after adjustment for price changes). The German economy was, in the view of the Ministry, in a steady and broad upswing during the past year, based on a solid foundation within the domestic economy. Capacities were well utilized, employment was at record levels, and consumer prices were stable.

While consumer spending had been the driving force behind the economy in prior recent years, the improved global economic environment during 2017 meant that external economic stimulus was also stronger. Robust exports further stimulated investment in capital equipment. Investment in construction likewise remained buoyant, given strong demand and the favorable financing environment. Thus, on the whole, the past year saw a broad economic upswing in Germany based on both domestic and foreign factors. According to the Ministry, however, a shortage of skilled workers has become noticeable in certain segments of the job market.

In the view of the Ministry, prospects for the German economy in 2018 remain good, with real GDP growth for the year expected to come in at 1.9 percent.

Like the overall economy, the trend in the German pharmaceutical sector in 2017 was likewise once again favorable. According to figures from Statista, a leading German data portal, sale revenue in the German pharmaceutical sector for the first nine months totaled EUR 30.6 billion, a slight increase over the same period last year. For the whole of 2016, German pharmaceutical sales were EUR 39.5 billion, with revenues rising steadily over prior years. In 2006, ten years earlier, they were only EUR 25.3 billion.

The chemical and pharmaceutical industries in Germany, taken together, posted strong sales growth of more than five percent in 2017, as reported by the German Chemical Industry Association (VCI). Strong industrial activity throughout Europe, which had picked up pace over the course of the year, meant that production increased significantly while equipment utilization remained high.

International business within the German industry sector benefited from robust demand from China, the recovery in the U.S. economy, and economic stabilization in emerging markets. According to the VCI, overall growth in chemical production, including pharmaceuticals, was 2.5 percent. The VCI further noted that the upswing in Germany's third-largest industry, with 451,500 employees, led to the highest level of employment in 13 years. “Following more mixed results over the prior three years, 2017 may be labeled as a ‘good’ year, without qualification,” said VCI President Kurt Bock.

In addition to these broadly positive sector trends, the German Association of Research-Based Pharmaceutical Companies (vfa) specifically noted the further improvement in patient treatment options during 2017, with 31 new drugs involving a new active substance (and thus not even including biosimilars).

Business development during the period

Business performance during the reporting period was in accordance with plan, for both FORMYCON Group and FORMYCON AG. The Group ended the year with an annual consolidated net loss of −€ 1,581.3 K on consolidated revenue of € 29,004 K. For the parent company only, the net loss was −€ 1,492.1 K on revenue of € 16,391.4 K. Neither FORMYCON AG nor FORMYCON Group has any financial debt.

During fiscal year 2017, FORMYCON was once again able to attain important company milestones:

1 In February 2017, FORMYCON announced that its listing on the Frankfurt Stock Exchange would, with effect from March 1, be shifted from the Entry Standard segment to the newly created “Scale” segment for small- to medium-sized companies.

2 In May, FORMYCON published its Annual Report 2016, with the Company’s financial statements once again showing significant growth.

3 Also in May, the Company publicly announced that its FYB202 development product is a candidate biosimilar to Stelara® (ustekinumab).

4 In July of 2017, FORMYCON signed a letter of intent with Santo Holding (Deutschland) GmbH on the joint development of FYB202.

5 In the same month, FORMYCON raised gross proceeds of EUR 6 million through a private placement issuance.

6 In November, FORMYCON renewed the management contracts of the two members of its Executive Board, Dr. Carsten Brockmeyer and Dr. Nicolas Combé, through mid 2022. The management contract for Dr. Stefan Glombitza, who was appointed as the third member of the Company’s Executive Board in the fall of 2016 as Chief Operating Officer, already runs through September 30, 2021.

7 Also in November, Focus, one of Germany’s leading news magazines, selected FORMYCON for the second time in a row as one of the top growth companies in all of Germany. FORMYCON was ranked #1 within the pharmaceutical and chemical sector, and at #3 among all 500 companies reviewed.

8 In December 2017, and pursuant to the letter of intent signed in the summer of 2017, FORMYCON established a joint venture with Aristo Pharma GmbH, another member of the Strüngmann Group, to drive forward with the remaining development of the FYB202 project, a biosimilar to Stelara®. FORMYCON now holds a 24.9% stake in the new joint venture entity, FYB 202 GmbH & Co. KG.

In addition to the above milestones, FORMYCON and its partner under the out-licensing agreement, Bioeq IP AG, moved forward with the phase III clinical trials under which FYB201, its Lucentis® biosimilar candidate, is being tested against the reference product. Further milestones arising from these development efforts are expected to be attained in the course of 2018.

The advance of the Company's biosimilar projects into later stages of development, its significant increase in staff, and its preparations for later stages of growth were, moreover, accompanied by further developmental changes in its organization and processes during 2017. The guiding aim of these changes has been to consistently focus on operational excellence, meaning clear and effective processes as well as appropriate organizational structures. More specifically, the changes seek to make internal processes as streamlined and effective as possible, so that FORMYCON's entrepreneurial agility and high quality standards may be retained while, at the same time, creating a scalable organization which can seamlessly grow with future expansion of the product portfolio. Towards this end, FORMYCON added several highly competent and experienced managers to strengthen key areas of the Company.

In November and December, FORMYCON successfully completed a health and safety review by the German Employers' Liability Insurance Association (RCI). Following this comprehensive audit, the Company was awarded the "Sicher mit System" ("Safe with System") seal of quality.

In addition, FORMYCON once again filed several project-related patents in the course 2017. Such patent applications can play a significant role in the further development and subsequent regulatory approval of biosimilars.

FORMYCON continues to strategically position itself as a leading independent company in the development of high-quality biosimilar drugs, with a particular focus on the highly regulated markets of Europe and the United States. Through the Company's sophisticated development processes, it is able to achieve results rapidly and reliably. FORMYCON strives to be, and to remain in the future, a desirable partner for both major pharmaceutical corporations and producers of generic drugs.

Shares

Approx. 50 percent of the shares of FORMYCON AG are held by family offices and institutional investors. A further approx. 20 percent are held by the Company's founders and management. The remaining approx. 30 percent are widely held. Until the end of February 2017, shares of FORMYCON AG were listed in the Entry Standard segment of the Frankfurt Stock Exchange. Since March 1, 2017, the Company's shares have been listed in the Exchange's "Scale" segment for small- to medium-sized companies. Moreover, since the launch of Deutsche Börse's new "Scale 30 Index" on February 7, 2018, FORMYCON shares have been included within this market index of the 30 most liquid shares within the Exchange's Scale segment.

In addition, FORMYCON has, since July 2016, been subject to the requirements of the Market Abuse Regulation (MAR), under which the Company is obligated to publicly release ad hoc announcements of information relevant to its share price, to report securities transactions by its executives (directors' dealings), and to maintain a registry of Company insiders. FORMYCON has implemented these requirements and, where necessary, integrated corresponding processes into its existing risk management system.

Shares of FORMYCON AG opened 2017 at an exchange price of € 24.45 and ended the year on December 29, the last trading day of the year, at € 32.20. This corresponds to increase in share price over the course of the year of almost 33 percent.

Staff

Fiscal year 2017 was, once again, marked by a significant increase in staff. While FORMYCON employed 70 people at the beginning of the year, the number grew to 83 by the end of December, of which 72 worked in research and development.

Among the significantly expanded functional areas was, in particular, regulatory affairs, which is responsible for regulatory approvals as well as other regulatory issues. The underlying reason for this expansion is to adequately prepare the Company for the planned submissions for drug approvals.

Research and development

The Group's activities, during 2017 as in prior years, were substantially comprised of research and development activities at the parent company level, the expenditures for which may be broken down as follows:

in €	Current year
Cost of raw materials, consumables and supplies	2,485,694
Third-party services	18,692,440
Staff expenses	6,325,264
Depreciation and amortization	784,774
Other	2,792,593
	31,080,765

As of the end of 2017, 72 employees worked in research and development. Expenditures during the period totaled € 31,080,765, and these were all were charged as current expense. Research and development expenditures exceeded sales revenue. No research and development expenditures were capitalized. Relevant patent applications were filed, and product development activities are proceeding on schedule, so that these development activities remain in line with plan.

Financial performance

The financial results herein are reported for the fiscal year from January 1, 2017 to December 31, 2017. Because of rounding errors, it is possible that the figures cited do not precisely add up to the stated total, or that percentages do not precisely correspond to the absolute figures.

a. Results of operations

During the reporting period, **FORMYCON Group** generated consolidated revenue of € 29,004 K, compared to € 19,533 K in the prior year, resulting in an annual consolidated net loss of – € 1,581 K. Cost of materials rose to € 21,178 K, leading to an increase in consolidated gross profit from € 4,276 K to € 8,365 K.

During fiscal year 2017, **FORMYCON AG** continued to drive forward with the development of its four biosimilar projects according to plan. As a result of the out-licensing deals for FYB201 signed in late 2013 and for FYB203 in 2015, the Company continued to post significant sales revenue. Under the terms of these deals, FORMYCON AG received ongoing payments for its product development services provided on behalf of the licensee.

As part of the creation of a new joint venture with Aristo Pharma GmbH, FORMYCON transferred its intellectual property rights in its FYB202 biosimilar project to the joint venture entities, FYB 202 GmbH & Co. KG and its subsidiary FYB 202 Project GmbH. FORMYCON received payment for this sale of rights, which had a positive impact on both revenue and earnings. Total sales revenue for FORMYCON AG (parent only) was thus € 16,392 K, resulting in an annual net loss of – € 1,492 K.

b. Financial position

The financial position of both FORMYCON AG and FORMYCON Group remains stable, with key liquidity ratios significantly above average, as in prior years. Current assets totaled € 26,631 K, compared to total current liabilities of € 5,280 K. The Company did not have any bank loans or long-term loans during the period.

As of the period closing date, cash and equivalents amounted to € 4,505 K, while marketable securities, also included in cash and liquid resources in the following Statements of Cash Flows, totaled € 10,974 K. Return on sales (annual net income/loss divided by sales revenue) for the period was – 5.45%, while EBIT (operating profit) was – € 1,538 K and EBITDA (operating profit plus depreciation and amortization) was – € 753 K.

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

Consolidated Statement of Cash Flows

per German Accounting Standard (DRS) 21

	in € K	2017	2016	Change € K	Change %
	Net income/loss	– 1,581.4	– 4,066.1	2,484.7	– 61.1
+/–	Depreciation. amortization. writedowns (impairments) and write-ups of fixed assets	784.8	698.9	85.9	12.3
–/+	Gain/loss resulting from disposals of fixed assets	11.6	28.9	– 17.3	– 59.8
=	**Gross cash flow before change in working capital**	**– 785.0**	**– 3,338.3**	**2,553.3**	**– 76.5**
+/–	Additions to/subtractions from medium- and short-term reserves	555.4	56.1	499.2	889.3
–/+	Changes to inventories and trade receivables. as well as other assets not included among investing and financing activities	– 4,415.3	– 3,710.2	– 705.1	19.0
+/–	Changes to trade payables. as well as other liabilities not included among investing and financing activities	433.0	1,962.5	– 1,529.4	– 77.9
+/–	Interest expense/interest income	40.7	– 8.5	49.2	– 580.3
=	**Cash flow from operating activities**	**– 4,171.2**	**– 5,038.4**	**867.3**	**– 17.2**
–	Payments for investments in intangible assets	– 78.5	– 61.9	– 16.5	
+	Proceeds from disposals of property. plant and equipment	0.0	0.3	– 0.3	– 100.0
–	Payments for investments in property. plant and equipment	– 432.3	– 1,325.3	893.0	– 67.4
–	Payments for investments in financial assets	– 0.2	0.0	– 0.2	0.0
+	Interest received	1.4	33.2	– 31.8	– 95.8
=	**Cash flow from investing activities**	**– 509.6**	**– 1,353.7**	**844.1**	**– 62.4**
+	Proceeds from shareholders of the parent company for additions to equity capital	6,233.5	86.5	6,147.0	7,104.7
–	Interest paid	– 42.1	– 24.7	– 17.4	70.3
=	**Cash flow from financing activities**	**6,191.4**	**61.8**	**6,129.6**	**9,918.2**
	Total changes in cash and liquid resources from cash flows	1,510.6	– 6,330.4	7,841.0	– 123.9
+	Cash and liquid resources at the beginning of the period	13,966.9	20,297.2	– 6,330.4	– 31.2
=	**Cash and liquid resources at the end of the period**	**15,477.5**	**13,966.9**	**1,510.6**	**10.8**

Statement of Cash Flows (parent company only)

per German Accounting Standard (DRS) 21

	in €K	2017	2016	Change €K	Change %
	Net income/loss	−1,492.2	−4,182.1	2,689.89	−64.32
+/−	Depreciation, amortization, writedowns (impairments) and write-ups of fixed assets	784.8	698.9	85.89	12.29
−/+	Gain/loss resulting from disposals of fixed assets	11.6	29.2	−17.60	−60.20
=	**Gross cash flow before change in working capital**	**−695.8**	**−3,454.0**	**2,758.18**	**−79.86**
+/−	Additions to/subtractions from medium- and short-term reserves	470.3	56.1	414.12	737.74
−/+	Changes to inventories and trade receivables, as well as other assets not included among investing and financing activities	−6,039.7	−2,589.0	−3,450.70	133.29
+/−	Changes to trade payables, as well as other liabilities not included among investing and financing activities	1,374.2	770.0	604.22	78.47
+/−	Interest expense/interest income	37.5	−8.5	45.95	−541.98
=	**Cash flow from operating activities**	**−4,853.5**	**−5,225.3**	**371.78**	**−7.12**
−	Payments for investments in intangible assets	−78.5	−61.9	−16.53	26.70
−	Payments for investments in property, plant and equipment	−432.3	−1,325.3	893.00	−67.38
−	Payments for investments in financial assets	−20.2	−9.7	−10.60	109.83
+	Interest received	1.4	33.2	−31.81	−95.84
=	**Cash flow from investing activities**	**−529.6**	**−1,363.7**	**834.06**	**−61.16**
+	Proceeds from shareholders of the parent company for additions to equity capital	6,233.5	86.5	6,146.99	7,106.34
−	Interest paid	−38.9	−24.7	−14.13	57.18
=	**Cash flow from financing activities**	**6,194.6**	**61.8**	**6,132.85**	**9,926.67**
	Total changes in cash and liquid resources from cash flows	811.5	−6,527.1	7,338.69	−112.43
+	Cash and liquid resources at the beginning of the period	13,610.6	20,137.7	−6,527.12	−32.41
=	**Cash and liquid resources at the end of the period**	**14,422.1**	**13,610.6**	**811.57**	**5.96**

c. Net assets

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

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

Financial and non-financial performance indicators

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

Working capital, measured as the difference between current assets and current liabilities, amounted to € 21,351K as of the period closing date. Cash flow (calculated as annual net income + depreciation and amortization + changes in long-term provisions) for the period was −€ 785K, in line with Company plan. Cash flow from investing activities of −€ 509K was below the amount of annual depreciation and amortization.

Return on equity for the fiscal year was −6.8%, while return on total capital was −5.5%. With respect to non-financial indicators, reference is made to the above report on research and development.

FORMYCON undertakes development for selected clients who see themselves as partners of FORMYCON. Because of the small number of relationship clients, this implies a low conflict potential. In its business activities, the Company has been able to attain high levels of customer satisfaction. The Company's staff works primarily in research and development. Staff turnover is low, likewise demonstrating the high general level of employee satisfaction.

III Report on Subsequent Events

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

With effect from its launch in February 2018, FORMYCON was included in the Deutsche Börse's new "Scale 30 Index". This selection index measures the price performance of the 30 most liquid stocks listed in the Frankfurt Stock Exchange's "Scale" segment, as determined by order book turnover on the Frankfurt Stock Exchange plus Xetra trading. The weightings of the component stocks are based on their respective market capitalizations and adjusted quarterly. With the creation of this new selection index, the most actively traded stocks within the Exchange's "Scale" segment should gain greater visibility among investors.

IV Report on Outlook

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

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

With its strong financial foundation and range of services and capabilities, the Group enjoys a strong market position, and its biosimilar projects are moving forward satisfactorily. Provided that development remains on track, the launch of FYB201 in the U.S. is possible in the year 2020, immediately upon expiry of the reference product patent. Market entry in Europe is planned for 2022.

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

Based upon contractual income from its two projects already licensed out, FYB201 and FYB203, as well as the fee revenue from its provision of development services for FYB202, the Company expects that sales revenue in fiscal year 2018 will slightly exceed the prior-year figure. The annual result for 2018 will be significantly influenced by the Company's outlays into development projects not yet licensed out.

Following the significant increases in staffing levels over 2017, FORMYCON anticipates a further modest rise in the number of staff during 2018. This should likewise lead to a moderate increase in staff expenses.

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

V Report on Opportunities and Risks

Opportunities

FORMYCON takes an optimistic view of future growth in the healthcare sector, which is decisively important to the Company, for the following reasons:

- Advances in medical technology – in particular, powerful biopharmaceuticals – has, in recent years, enabled the treatment of diseases that were considered untreatable or only poorly treatable even just ten to 20 years ago. Because of the intensity of medical research, notably in the field of genetic technology, these advances will continue in the coming years and decades.
- Because of demographic trends, there is an ever increasing number of seniors who require extensive medical care. Moreover, the life expectancy of the population as a whole is increasing, so that their medical treatment, in particular with pharmaceuticals, is often possible or necessary over a significantly longer period of time.
- FORMYCON established its position in the highly promising market for biosimilars development at an early stage and, with its comprehensive expertise, is able to exploit the potential of this fast-growing market. FORMYCON's business model is scalable. The continued growth of both the market environment and the Company itself shows that FORMYCON is on the right path with its strategy.

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

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

Biosimilars have the advantage over their reference products of considerably more cost-effective development because of procedures which are, for the most part, already scientifically proven and development processes which are largely well established. At the same time, the level of competition in the area of biosimilar development is modest compared to the market for conventional generic drugs due to the

comparatively high barriers to market entry, in particular the complexity of producing biopharmaceuticals and the specialized expertise required. Because the similarity and comparability of a biosimilar to its reference product must already be demonstrated in preclinical studies, the likelihood that the development of the biosimilar will fail in one of the subsequent clinical phases is generally far lower than in the case of innovative biopharmaceuticals.

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

Risks

Principles

FORMYCON, one of the few independent developers of biosimilars, operates in a global market with many different participants and influencers. Business success is determined by the identification of profit opportunities, along with the best possible assessment of the many and varied risks associated with these. In order to ensure that this happens, the entire staff of FORMYCON, up to and including the Executive Board, must adhere to the Company's established risk management system, thereby aiming to ensure that that these risks are handled optimally while at the same time providing the necessary entrepreneurial and operational flexibility. Regular reviews of this system further ensure that it is constantly improved and that, as circumstances change, changes are likewise made to the system promptly and in accordance with evolving needs.

Towards this end, individual risks are identified across all relevant business areas and projects and are categorized according to the probability of occurrence as well as to their potential harmfulness. Where changes in these individual risks occur, or structural changes, these are then reevaluated through periodic reviews.

This process aims to ensure that the Company steers clear of such risks to the extent possible, or if they arise, that their consequences are managed as effectively and expeditiously as possible.

Strategic risks

Compared to the development of an entirely new biopharmaceutical, the financial investment required for the development of a biosimilar drug is considerably less. Nevertheless, the development costs of a biosimilar may be in the range of USD 100 to 150 million, requiring several years of cost-intensive clinical studies to demonstrate its comparability to the reference product.

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

The future size and growth trajectory of these markets may be derived from existing sales statistics for the respective reference products. Declining sales of a reference product could, however, result in a potential future market size for a biosimilar under development which is significantly smaller than originally assumed. This could, in the worst case, lead to future product sales inadequate to make the biosimilar development effort profitable. At present, FORMYCON is developing biosimilars to compete with three of the world's best-selling biopharmaceuticals set to lose their patent protection following the year 2020, so that – provided that their development is successful – the profitability of the projects would seem assured.

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

Industry and market risks

From the standpoint of FORMYCON, conditions in the healthcare sector have remained favorable. Moreover, advances in medical technology have been enabling the treatment of diseases which a few decades or even years ago were regarded as untreatable or only poorly treatable. These advances are likely to continue.

Demographic trends around the globe are also playing a key role as populations continue to age and live longer. Older people require more extensive medical care, regardless of economic cycles and consumer purchasing power.

Biosimilar drugs, however, face special challenges compared to traditional generic drugs. This relatively new class of medications has not yet established itself in all markets, meaning that doctors, patients and insurers in many regions must become familiar with biosimilars and their use in clinical practice. Therefore, compared to traditional generics, not only development and production costs but also marketing costs for biosimilars could be significantly greater.

Financial controls

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

Environmental, health and workplace safety

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

Financing and liquidity risks

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

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

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

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

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

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

With its strong financial footing, FORMYCON is well positioned to overcome future risks as these may arise. The Company's existing financial resources should be sufficient to cover its short- to medium-term capital needs. This, however, cannot be used to infer any sort of assurance as to the availability of long-term financial resources.

There are, at present, no identifiable fundamental risks which would jeopardize the Company's continued existence.

Organizational risks

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

Patent risks

Legal disputes with competitors over intellectual property rights cannot be excluded. The avoidance of infringements upon intellectual property rights, or the defense against charges of such infringements, can pose a considerable financial burden. Particularly in the U.S., such legal actions generally involve high costs. In the worst case, such a dispute could result in restrictions on, or even the prohibition of, the marketing of one or more products on one or more relevant markets, and/or the imposition of sizable fines. Such a legal action could also make it necessary to cease the development, launch, or ongoing marketing of one or more products.

Staff risks

The expertise and many years of experience of its employees are key pillars of FORMYCON's success. In particular, the development of a biosimilar drug, from early-

stage analysis through to regulatory approval, requires highly qualified specialists. Over recent years, FORMYCON has recruited numerous new staff members, many of them highly qualified scientists and managers. This demonstrates that the Company is a highly attractive employer, able to successfully fill these critical positions, even in a tight labor market. Staff turnover is likewise low. The loss of key staff would constitute a significant risk. To keep this risk as low as possible, the Company has implemented a number of staff motivation and retention initiatives.

Risks associated with product development

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

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

Within the scope of the Company's development activities, the production of active ingredients and finished products by third-party producers represents a substantial cost component. It should be specifically noted here, in the context of risks that might arise, that such production capacities must typically be planned and arranged with lead times of one to two years and that, for this reason, short-term changes to the project cycle could result in additional waiting periods along with substantial cancellation fees. Another risk is that such outside partners might not be able to comply with the stringent regulatory requirements which apply to gaining regulatory approval of a biosimilar drug. Should such an event arise, regulatory approval could be delayed or completely denied. In addition, difficulties arising in the recruitment of patients for clinical trials may also affect the profitability of a drug development project.

Because all of the Company's projects are currently in various stages of development, risks involved with manufacture and marketing are not yet relevant.

Legal risks

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

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

Regulatory risks

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

Competitive risks

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

Through the experience and expertise of its staff and its strategic partners, the strategic positioning of its product development portfolio, and its strong financial footing, FORMYCON strives to face these competitive challenges. Nevertheless, it cannot be exclud-

ed that competitors might, in an unexpected or unpredictable way, find themselves in an advantageous competitive position relative to, and to the detriment of, FORMYCON.

Summary assessment of risks

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

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

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

Overall assessment

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

VI Report on Risks Relating to the Use of Financial Instruments

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

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

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

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

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

VII Report on Branches

The Company does not currently maintain any branches.

Martinsried/Planegg, Germany,
March 28, 2018

Dr. Carsten Brockmeyer

Dr. Nicolas Combé

Dr. Stefan Glombitza

D

FORMYCON Group
Consolidated Financial Statements

Consolidated Balance Sheet – Assets

as of December 31

in €	Dec. 31, 2017	Dec. 31, 2016
A. Fixed assets		
I. Intangible assets		
1. Purchased concessions, industrial property rights, and similar rights and assets, as well as licenses for such rights and assets	109,395.90	83,289.88
2. Goodwill	748,695.00	906,315.00
	858,090.90	**989,604.88**
II. Property, plant and equipment		
1. Land and buildings, including property-like rights and buildings on third-party land	134,484.48	193,784.52
2. Technical equipment and machinery	2,678,355.60	2,353,165.58
3. Other plant, production equipment and office equipment	442,401.67	502,437.58
4. Advance payments and plant under construction	0.00	360,000.00
	3,255,241.75	**3,409,387.68**
III. Financial assets		
Investment participations	249.00	0.00
	249.00	**0.00**
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	149,359.85	248,604.95
2. Unfinished products and services	428,500.00	0.00
3. Advance payments	0.00	383,449.05
	577,859.85	**632,054.00**
II. Receivables and other assets		
1. Trade accounts receivable	10,519,237.84	5,208,887.66
2. Other assets	55,967.82	864,053.45
	10,575,205.66	**6,072,941.11**
III. Securities		
Other securities	10,973,553.73	10,972,156.57
	10,973,553.73	**10,972,156.57**
IV. Cash and cash equivalents	**4,504,723.39**	**2,994,728.58**
C. Prepaid expenses	**82,669.63**	**115,441.54**
	30,827,593.91	**25,186,314.36**

Consolidated Balance Sheet – Liabilities and Equity

as of December 31

in €	Dec. 31, 2017	Dec. 31, 2016
A. Equity		
I. Subscribed capital[1]	9,343,853.00	9,099,603.00
II. Capital reserve	35,032,791.84	29,043,554.34
III. Loss carryforward	– 17,251,750.93	– 13,185,620.05
IV. Annual net income (loss)	– 1,581,383.62	– 4,066,130.88
	25,543,510.29	**20,891,406.41**
B. Provisions		
Other provisions	1,275,386.00	720,029.00
	1,275,386.00	**720,029.00**
C. Liabilities		
1. Liabilities toward banks	789.85	0.00
of which due within one year € 789.85 (prior year: € 0.0 K)		
2. Trade accounts payable	1,767,156.09	2,309,134.70
of which due within one year € 1,767,156.09 (prior year: € 2,309.1 K)		
3. Other liabilities	2,236,986.90	1,260,097.15
of which due within one year € 1,667,008.83 (prior year: € 303.4 K)		
of which from taxes € 1,335,964.69 (prior year: € 218.7 K)		
of which relating to social security € 260.00 (prior year: € 0.6 K)		
	4,004,932.84	**3,569,231.85**
D. Deferred income	**3,764.78**	**5,647.10**
	30,827,593.91	**25,186,314.36**

[1] Conditional Capital (1): € 100,250.00
Conditional Capital (2): € 715,260.00

Consolidated Income Statement

for the period from January 1, 2017 to December 31, 2017

in €			Current year	Prior year
1.	Sales revenue		29,003,536.99	19,532,995.62
2.	Increase or decrease in inventories of finished and unfinished products		428,500.00	0.00
	Total revenue		**29,432,036.99**	**19,532,995.62**
3.	Other operating income		111,070.06	130,680.27
	of which income attributable to foreign currency translation € 52,343.84 (prior year: € 66K)			
4.	Cost of materials			
	a. Cost of raw materials, consumables and supplies and of purchased goods	2,485,694.23		6,921,588.72
	b. Cost of purchased services	18,692,440.10		8,466,187.51
			21,178,134.33	15,387,776.23
	Gross profit		**8,364,972.72**	**4,275,899.66**
5.	Staff expenses			
	a. Wages and salaries	5,436,561.70		4,329,413.26
	b. Social contributions and costs for retirements benefits and for support benefits	888,703.28		787,739.54
	of which for retirement benefits € 93,405.85 (prior year: € 89K)			
			6,325,264.98	5,117,152.80
6.	Depreciation and amortization of intangible assets and on property plant and equipment		784,774.64	698,880.00
7.	Other operating expenses		2,792,593.49	2,531,629.66
	of which expenses arising from foreign currency conversions € 24,890.98 (prior year: € 97K)			
	Operating income		**– 1,537,660.39**	**– 4,071,762.80**
8.	Other interest and similar income		1,381.69	33,196.36
9.	Interest and similar expense		42,100.92	24,718.44
	Financial result		**– 40,719.23**	**8,477.92**
10.	**Income after tax**		**– 1,578,379.62**	**– 4,063,284.88**
11.	Other taxes		3,004.00	2,846.00
12.	**Annual net income (loss)**		**– 1,581,383.62**	**– 4,066,130.88**
13.	Loss carryforward from prior year		17,251,750.93	13,185,620.05
14.	**Accumulated loss to balance sheet**		**– 18,833,134.55**	**– 17,251,750.93**

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

General information about the Company

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

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

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

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

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

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

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

Fiscal year and period of consolidation

These Consolidated Financial Statements have been prepared as of December 31, 2017, which is the balance sheet closing date for FORMYCON AG, the parent company.

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

Scope of consolidation

These Consolidated Financial Statements include, in addition to FORMYCON AG, two other companies in which FORMYCON AG has a direct or indirect controlling interest.

An overview of these shareholdings and of the scope of consolidation is provided as Attachment 1 to these Notes.

Principles of consolidation

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

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

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

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

Foreign currency translation

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

The remaining term of liabilities, along with their collateralization through liens or similar rights, as well as their relationship to other balance sheet items, is shown in the Consolidated Schedule of Liabilities included as Attachment 4 to these Notes.

Derivatives

The Group did not hold any derivative financial instruments as of December 31, 2017.

Principles of balance sheet presentation and valuation

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

Fixed assets

Purchased intangible assets (including software) are capitalized and amortized based upon expected useful life. Purchased software for which the individual cost of acquisition does not exceed € 410.00 may, in following the relevant tax accounting regulations ("trivial programs" per German Income Tax Guideline 5.5 para. 1 sentences 2 and 3), be treated as chattel. The Group has not made any use of its elective right under sec. 248 para. 2 of the Commercial Code to capitalize self-produced intangible assets.

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

The long useful life was chosen because this goodwill represents, among other factors, licensing opportunities over long periods. The remaining useful life is five years.

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

Low-value fixed assets with an individual acquisition cost of up to € 410.00 are expensed in full in their year of acquisition. For reasons of simplification, the tax write-off method allowed under German law is also applied to this balance sheet under the Commercial Code, as the resulting differences in valuation compared to individual valuation of each such asset are immaterial.

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

Current assets

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

Receivables and other assets are valued at their nominal value, taking all recognizable risks into account, and if they have a residual period of more than one year and are non-interest bearing, discounted to their present value as of the balance sheet closing date. Receivables are reduced by a general allowance to reflect general credit risk.

Securities are stated at their cost of acquisition, insofar as their fair market value as of the balance sheet closing date does not require a lower valuation.

Cash and cash equivalents are stated at their nominal value.

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

Assets to which all other creditors are denied access and which serve exclusively **to fulfill liabilities from retirement benefit obligations**, or comparable long-term obligations, are offset against such pension liabilities. The valuation of such offsetting assets is at their fair value. In the calculation of the financial result, outflows and inflows from the discounting of such liabilities are netted against the inflows and outflows of these offsetting assets.

Provisions

Other provisions are stated at the amount required for their fulfillment using prudent business judgment, and considering future increases in prices and costs at the time of their fulfillment. Provisions due after more than one year are discounted from the time of their expected fulfillment at the average market interest rate over the past seven fiscal years as published by the Deutsche Bundesbank.

Tax provisions are determined according to the principles of prudent business judgment.

Liabilities

Liabilities are stated at the amount required for their fulfillment.

Additional Notes to the Consolidated Balance Sheet

The names of other companies in which shares are held as well as the amount of these shareholdings are listed in Attachment 6.

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

Other provisions are comprised of the following:

Information on other provisions

per sec. 285 no. 12 of the Commercial Code

in €	Current year
Bonuses	573,086.00
Unpaid invoices	428,500.00
Accrued vacation	86,900.00
Other pension provisions	67,900.00
Safekeeping obligations	52,500.00
Audit and advisory costs	56,300.00
Occupational cooperative and other social expenses	10,200.00

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

The changes to the Company's consolidated equity are presented in the Consolidated Schedule of Changes in Equity provided as Attachment 4.

Additional Notes to the Consolidated Income Statement

Sales revenue may be broken down as follows:

Information on sales revenue

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

in €	Current year
Sales revenue from development services	23,139,744.18
Sales revenue from transfer of FYB202	5,863,792.81
Total	**29,003,536.99**

Other operating income includes income attributable to foreign currency translation in the amount of € 52,343.89 (prior year: € 66 K).

Staff expenses include costs for retirement contributions in the amount of € 93,405.85 (prior year: € 89 K).

Other operating expenses include expenses attributable to foreign currency translation in the amount of € 24,890.98 (prior year: € 97 K).

Total research and development costs during the fiscal year were € 31,080 K.

Other Information

Information on governing bodies per sec. 314 para. 1 no. 6 of the Commercial Code

Members of the Executive Board:

- **Dr. Carsten Brockmeyer**, residing in Marzling, Chief Executive Officer
- **Dr. Nicolas Combé**, residing in Munich, Chief Financial Officer
- **Dr. Stefan Glombitza**, residing in Holzkirchen, Chief Operating Officer

Members of the Supervisory Board:

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

Remuneration

During the fiscal year, the members of the Supervisory Board received total remuneration of € 22,500.00, while total remuneration to members of the Executive Board was € 1,120,145.96 (of which € 450,000 was success-based).

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

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

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

- **Audit services:** 30,000.00 €
- **Tax advisory services:** 5,000.00 €

Number of staff

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

	Current year
Administration	8
Research and development	64
Total company staff	**72**

Shareholdings

The information about subsidiaries, affiliates and other shareholdings required under sec. 313 para. 2 nos. 1 to 4 of the Commercial Code is included as Attachment 6 to these Notes.

Capital increase from approved capital

During the fiscal year, 190,500 no-par-value bearer shares were issued from approved capital, at an imputed value of € 1 per share, determined according to their nominal value

Appropriation of profits

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

Other financial obligations

The total amount of other financial obligations, within the meaning of sec. 285 sentence 1 no. 3a of the Commercial Code, results from contractual obligations for ongoing performance. For obligations up to one year, the total amount is € 385,799.14, for obligations between one and five years € 480,658.84, and for obligations beyond five years, € 0.00.

Information required per sec. 160 of the Stock Corporation Act

Number of shares outstanding

The Company has registered capital (Grundkapital) of € 9,343,853.00, which is divided into 9,343,853 bearer shares without par value.

Approved capital

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

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

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

The Conditional Capital 2010, which was put in place for subscription rights in accordance with sec. 192 para. 2 no. 3 of the Stock Corporation Act, has been reduced and currently totals € 100,250.00, providing entitlement to the subscription of 100,250 no-par-value bearer shares

Martinsried/Planegg, Germany,
March 28, 2018

Dr. Carsten Brockmeyer

Dr. Nicolas Combé

Dr. Stefan Glombitza

Consolidated Schedule of Fixed Assets

Attachment 1

in €	Changes in historical cost of acquisition					Changes in accumulated depreciation & amortization				Changes in net book value		
	Historical cost of acquisition or production at Dec. 31, 2016	Additions	Rebookings	Historical cost of disposals	Historical cost of acquisition or production at Dec. 31, 2017	Accumulated depreciation & amortization at Dec. 31, 2016	Current-year depreciation & amortization	Depreciation & amortization on disposals	Accumulated depreciation & amortization at Dec. 31, 2017	Net book value at Dec. 31, 2016	Net book value of disposals	Net book value at Dec. 31, 2017
Intangible assets												
Purchased concessions, industrial property rights, and similar rights and assets, as well as licenses for such rights and assets	315,982.22	78,451.33	0.00	0.00	394,433.55	232,692.34	52,345.31	0.00	285,037.65	83,289.88	0.00	109,395.90
Goodwill	1,576,200.00	0.00	0.00	0.00	1,576,200.00	669,885.00	157,620.00	0.00	827,505.00	906,315.00	0.00	748,695.00
Property, plant and equipment												
Land and buildings, including property-like rights and buildings on third-party land	445,810.03	854.44	0.00	0.00	446,664.47	252,025.51	60,154.48	0.00	312,179.99	193,784.52	0.00	134,484.48
Technical equipment and machinery	4,308,936.94	362,994.14	358,244.90	102,287.89	4,927,888.09	1,955,771.36	387,289.07	93,527.94	2,249,532.49	2,353,165.58	8,759.95	2,678,355.60
Other plant, production equipment and office equipment	955,924.29	68,449.87	1,755.10	19,229.23	1,006,900.03	453,486.71	127,365.78	16,354.13	564,498.36	502,437.58	2,875.10	442,401.67
Advance payments and plant under construction	360,000.00	0.00	−360,000.00	0.00	0.00	0.00	0.00	0.00	0.00	360,000.00	0.00	0.00
Financial assets												
Investment participations	0.00	249.00	0.00	0.00	249.00	0.00	0.00	0.00	0.00	0.00	0.00	249.00
Total	**7,962,853.48**	**510,998.78**	**0.00**	**121,517.12**	**8,352,335.14**	**3,563,860.92**	**784,774.64**	**109,882.07**	**4,238,753.49**	**4,398,992.56**	**11,635.05**	**4,113,581.65**

Consolidated Schedule of Receivables

Attachment 2

in € (prior year in € K)	Dec. 31, 2017	of which due in more than 1 year	of which from companies in which an ownership interest exists
Trade accounts receivable	10,519,237.84	0.00	0.00 (prior year: 0.0)
Receivables from companies in which an ownership interest exists	0.00	0.00	-.-
Other assets	55,967.82	0.00	0.00 (prior year: 0.0)
Total	**10,575,205.66**	**0.00**	**0.00**

Consolidated Schedule of Liabilities

Attachment 3

in €	Dec. 31, 2017	of which due within 1 year	of which due in 1 – 5 years	of which due in more than 1 year (prior year)	of which collateralized
Liabilities toward banks	789.85	789.85	0.00	0.00	0.00
Trade accounts payable	1,767,156.09	1,767,156.09	0.00	0.00	0.00
Other liabilities	2,236,986.90	1,667,008.83	569,978.07	956,669.20	869,128.78
Total	**4,004,932.84**	**3,434,954.77**	**569,978.07**	**956,669.20**	**869,128.78**

Trade accounts payable and other liabilities are secured by conditional reservation of ownership title as usual and customary within the industry.

Consolidated Schedule of Changes in Equity

Attachment 4

in € K	Subscribed capital	Capital reserves	Profit reserves	Profit (loss) carryforward	Consolidated net income	Consolidated equity
as of Dec. 31, 2016	**9,100.0**	**29,044.0**	**0.0**	**– 13,186.0**	**– 4,066.0**	**20,892.0**
Additions to equity	244.0	5,989.0	0.0	0.0	0.0	6,233.0
Appropriation of prior-year profit	0.0	0.0	0.0	– 4,066.0	4,066.0	0.0
Annual consolidated net income	0.0	0.0	0.0	0.0	– 1,581.0	– 1,581.0
Stand per 31,12,2017	**9,344.0**	**35,033.0**	**0.0**	**– 17,252.0**	**– 1,581.0**	**25,544.0**

Consolidated Statement of Cash Flows

Attachment 5

per German Accounting Standard (DRS) 21

	in €K	2017	2016	Change €K	Change %
	Net income/loss	−1,581.4	−4,066.1	2,484.7	−61.1
+/−	Depreciation, amortization, writedowns (impairments) and write-ups of fixed assets	784.8	698.9	85.9	12.3
−/+	Gain/loss resulting from disposals of fixed assets	11.6	28.9	−17.3	−59.8
=	**Gross cash flow before change in working capital**	**−785.0**	**−3,338.3**	**2,553.3**	**−76.5**
+/−	Additions to/subtractions from medium- and short-term reserves	555.4	56.1	499.2	889.3
−/+	Changes to inventories and trade receivables, as well as other assets not included among investing and financing activities	−4,415.3	−3,710.2	−705.1	19.0
+/−	Changes to trade payables, as well as other liabilities not included among investing and financing activities	433.0	1,962.5	−1,529.4	−77.9
+/−	Interest expense/interest income	40.7	−8.5	49.2	−580.3
=	**Cash flow from operating activities**	**−4,171.2**	**−5,038.4**	**867.3**	**−17.2**
−	Payments for investments in intangible assets	−78.5	−61.9	−16.5	
+	Proceeds from disposals of property, plant and equipment	0.0	0.3	−0.3	−100.0
−	Payments for investments in property, plant and equipment	−432.3	−1,325.3	893.0	−67.4
−	Payments for investments in financial assets	−0.2	0.0	−0.2	0.0
+	Interest received	1.4	33.2	−31.8	−95.8
=	**Cash flow from investing activities**	**−509.6**	**−1,353.7**	**844.1**	**−62.4**
+	Proceeds from shareholders of the parent company for additions to equity capital	6,233.5	86.5	6,147.0	7,104.7
−	Interest paid	−42.1	−24.7	−17.4	70.3
=	**Cash flow from financing activities**	**6,191.4**	**61.8**	**6,129.6**	**9,918.2**
	Total changes in cash and liquid resources from cash flows	1,510.6	−6,330.4	7,841.0	−123.9
+	Cash and liquid resources at the beginning of the period	13,966.9	20,297.2	−6,330.4	−31.2
=	**Cash and liquid resources at the end of the period**	**15,477.5**	**13,966.9**	**1,510.6**	**10.8**

Shareholdings and Scope of Consolidation

Attachment 6

	Share of capital (in %)	Equity (in €)	Annual net income (in €)
FORMYCON Project 201 GmbH	100	−3,497.99	−23,961.38
FORMYCON Project 203 GmbH	100	−1,629,367.22	−65,231.25
FYB 202 GmbH & Co, KG	24.9	1,000.00	

Audit Opinion

We have audited the consolidated annual financial statements prepared by FORMYCON AG, comprising the consolidated balance sheet and income statement, the notes to the consolidated financial statements, the statement of cash flows and schedule of changes in equity, and the group management report for the fiscal year from January 1, 2017 to December 31, 2017. The preparation of the consolidated financial statements and group management report in accordance with German commercial law, as well as supplementary provisions under the Company's articles of incorporation, is the responsibility of the Group's management. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the group management report.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 of the German Commercial Code (Handelsgesetzbuch, HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with [German] principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in consolidated financial statements and group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessment of the individual company financial statements drawn into the consolidated financial statements, the scope of consolidation, the principles of accounting and consolidation which have been used, of significant estimates made by management, and of the overall presentation of the consolidated annual financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated annual financial statements comply with the legal requirements, including supplementary provisions under the Company's articles of incorporation, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with [German] principles of proper accounting. The group management report is consistent with the consolidated annual financial statements and with [German] statutory requirements, as a whole provides a suitable view of the Group's position, and suitably presents the opportunities and risks relating to future development.

Munich, Germany,
March 28, 2018

PanTaxAudit GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Rudolf Schmitz
Wirtschaftsprüfer
[German Public Accountant]

Doris Wolff
Wirtschaftsprüferin
[German Public Accountant]

Legal and Tax Information

Company name	FORMYCON AG
Legal form	German stock corporation (Aktiengesellschaft)
Registered offices	Martinsried/Planegg, Germany
Street address	Fraunhoferstr. 15 82152 Martinsried/Planegg, Germany
Founding and articles of incorporation	The Company was founded through its articles of incorporation (Satzung) of May 5, 2010, which were most recently amended as of August 9, 2017.
Subject of business	The subject of the Company's business is the development of pharmaceutical and biopharmaceutical products, the developmessssnt of drug delivery systems, the provision of diagnostic laboratory services and works for third parties, and the carrying out of diagnostic laboratory services.
Commercial register	The Company is entered into the commercial register (Handelsregister) of the District Court of Munich under number HR B 200801.
Fiscal year	The Company's fiscal year runs from January 1 to December 31 of each year.
Registered capital	The Company's registered capital (Grundkapital) is € 9,343,853.00.
Executive Board and legal representation	Dr. Carsten Brockmeyer, residing in Marzling
	Dr. Nicolas Combé, residing in Munich
	Dr. Stefan Glombitza, residing in Holzkirchen
Supervisory Board	Dr. Olaf Stiller, residing in Marburg, Chairman
	Hermann Vogt, residing in Dieburg, Deputy Chairman
	Peter Wendeln, residing in Oldenburg

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FORMYCON AG
Financial Statements

Balance Sheet – Assets

as of December 31, 2017

in €	Dec. 31, 2017	Dec. 31, 2016
A. Fixed assets		
I. Intangible assets		
1. Purchased concessions, industrial property rights, and similar rights and assets, as well as licenses for such rights and assets	109,395.90	83,289.88
2. Goodwill	748,695.00	906,315.00
	858,090.90	**989,604.88**
II. Property, plant and equipment		
1. Land and buildings, including property-like rights and buildings on third-party land	134,484.48	193,784.52
2. Technical equipment and machinery	2,678,355.60	2,353,165.58
3. Other plant, production equipment and office equipment	442,401.67	502,437.58
4. Advance payments and plant under construction	0.00	360,000.00
	3,255,241.75	**3,409,387.68**
III. Financial assets		
1. Shares in affiliated companies	50,000.00	50,000.00
2. Loans to affiliated companies	1,577,000.00	1,557,000.00
3. Investment participations	249.00	0.00
	1,627,249.00	**1,607,000.00**
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	149,359.85	248,604.95
2. Unfinished products and services	343,500.00	0.00
3. Advance payments	0.00	362,397.50
	492,859.85	**611,002.45**
II. Receivables and other assets		
1. Trade accounts receivable	6,978,013.44	0.00
of which due in more than one year € 0.00 (prior year: € 0.0 K)		
2. Receivables from affiliated companies	4,128,386.29	4,114,007.73
of which due in more than one year € 0.00 (prior year: € 0.0 K)		
3. Other assets	55,967.82	857,794.69
of which due in more than one year € 0.00 (prior year: € 0.0 K)		
	11,162,367.55	**4,971,802.42**
III. Securities		
Other securities	10,973,553.73	10,972,156.57
	10,973,553.73	**10,972,156.57**
IV. Cash and cash equivalents	**3,448,577.97**	**2,638,437.20**
C. Prepaid expenses	**82,669.63**	**115,441.54**
of which original issue discounts (disagio) € 0.00 (prior year: € 0.0 K)		
	31,900,610.38	**25,314,832.74**

Balance Sheet – Liabilities and Equity

in €	Dec. 31, 2017	Dec. 31, 2016
A. Equity		
I. Subscribed capital[1]	9,343,853.00	9,099,603.00
II. Capital reserve	35,032,791.84	29,043,554.34
III. Loss carryforward	– 15,658,078.35	– 11,475,997.06
IV. Annual net income (loss)	– 1,492,190.99	– 4,182,081.29
	27,226,375.50	**22,485,078.99**
B. Provisions		
Other provisions	1,179,486.00	709,229.00
	1,179,486.00	**709,229.00**
C. Liabilities		
1. Liabilities toward banks	789.85	0.00
of which due within one year € 789.85 (prior year: € 0.0 K)		
2. Trade accounts payable	1,234,384.52	854,780.50
of which due within one year € 1,234,384.52 (prior year: € 854.8 K)		
3. Liabilities toward affiliated companies	18,822.83	0.00
of which due within one year € 18,822.83 (prior year: € 0.0 K)		
4. Other liabilities	2,236,986.90	1,260,097.15
of which due within one year € 1,667,008.83 (prior year: € 303.4 K)		
of which from taxes € 1,335,964.69 (prior year: € 218.7 K)		
of which relating to social security € 260.00 (prior year: € 0.6 K)		
	3,490,984.10	**2,114,877.65**
D. Deferred income	**3,764.78**	**5,647.10**
	31,900,610.38	**25,314,832.74**

[1] Conditional Capital (1): € 100,250.00
Conditional Capital (2): € 715,260.00

Income Statement

for the period from January 1, 2017 to December 31, 2017

in €			Current year	Prior year
1.	Sales revenue		16,391,413.79	13,861,612.60
2.	Increase or decrease in inventories of finished and unfinished products		343,500.00	0.00
	Total revenue		**16,734,913.79**	**13,861,612.60**
3.	Other operating income		70,565.52	126,168.70
	of which income attributable to foreign currency translation € 11,839.30 (prior year: € 61.6 K)			
4.	Cost of materials			
	a. Cost of raw materials, consumables and supplies and of purchased goods	2,485,694.23		6,921,588.72
	b. Cost of purchased services	5,925,398.47		2,949,963.35
			8,411,092.70	9,871,552.07
	Gross profit		**8,394,386.61**	**4,116,229.23**
5.	Staff expenses			
	a. Wages and salaries	5,436,561.70		4,329,413.26
	b. Social contributions and costs for retirements benefits and for support benefits	888,703.28		787,739.54
	of which for retirement benefits € 93,405.85 (prior year: € 89.0 K)			
			6,325,264.98	5,117,152.80
6.	Depreciation and amortization of intangible assets and on property plant and equipment		784,774.64	698,880.00
7.	Other operating expenses		2,736,062.89	2,487,909.64
	of which expenses arising from foreign currency conversions € 8,215.87 (prior year: € 84.6 K)			
	Operating income		**– 1,451,715.90**	**– 4,187,713.21**
8.	Other interest and similar income		1,381.69	33,196.36
9.	Interest and similar expense		38,852.78	24,718.44
	Financial result		**– 37,471.09**	**8,477.92**
10.	**Income after tax**		**– 1,489,186.99**	**– 4,179,235.29**
11.	Other taxes		3,004.00	2,846.00
12.	**Annual net income (loss)**		**– 1,492,190.99**	**– 4,182,081.29**

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

I General Information About the Company

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

II General Information About the Content and Structure of These Financial Statements

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

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

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

III Accounting and Valuation Methods

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

Foreign currency translation

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

Principles of balance sheet presentation and valuation

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

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

Purchased **intangible assets** (including software) are capitalized and amortized based upon expected useful life. Purchased software for which the individual cost of acquisition does not exceed € 410.00 may, in following the relevant tax accounting regulations (“trivial programs” per German Income Tax Guideline 5.5 para. 1 sentences 2 and 3), be treated as chattel.

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

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

The long useful life was chosen because this goodwill represents, among other factors, licensing opportunities over long periods. The remaining useful life is five years.

Property, plant and equipment are valued at their cost of acquisition, less accumulated depreciation. The depreciation of all moveable assets is linear, with depreciation in the year of acquisition on a pro rata basis.

Low-value fixed assets with an individual acquisition cost of up to € 150.00 are expensed in full in their year of acquisition.

Low-value fixed assets with an individual acquisition cost of between € 150.00 and € 410.00 are depreciated in full in their year of acquisition.

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

Inventories are valued at their rolling moving average prices. Both finish and unfinished goods are valued at their cost of production in accordance with sec. 255 para. 2 sentence 2 of the Commercial Code.

All recognizable risks to inventory arising from such factors as extended inventory holding periods or diminished usability are reflected through appropriate write-downs.

Receivables and other assets are stated at the lower of their nominal value or other fair value. Non-specific credit risks are taken into account through a general provision for credit risk. In the case of doubtful accounts, individual provisions are taken.

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

Cash and cash equivalents are stated at their nominal value.

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

All liabilities are stated at the amount required for their fulfillment.

IV Additional Notes to the Balance Sheet

Fixed assets

A schedule of changes in fixed assets, including depreciation and amortization, is provided as Attachment 1.

Receivables and other assets

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

Equity

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

Information required per sec. 160 of the Stock Corporation Act

Number of shares outstanding

The Company has registered capital (Grundkapital) of € 9,343,853.00, which is divided into 9,343,853 bearer shares without par value.

Approved capital

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

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

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

The Conditional Capital 2010, which was put in place for subscription rights in accordance with sec. 192 para. 2 no. 3 of the Stock Corporation Act, has been reduced and currently totals € 100,250.00, providing entitlement to the subscription of 100,250 no-par-value bearer shares.

Capital increase from approved capital

During the fiscal year, 190,500 no-par-value bearer shares were issued from approved capital, at an imputed value of € 1 per share, determined according to their nominal value.

The changes to the Company's equity are presented in the schedule of changes in equity provided as Attachment 4.

Provisions

The amount for other provisions includes the following significant individual items:

Information on other provisions per sec. 285 no. 12 of the Commercial Code

in €	Current year
Bonuses	573,086.00
Unpaid invoices	343,500.00
Accrued vacation	86,900.00
Other staff provisions	67,900.00
Safekeeping obligations	51,700.00
Audit and advisory costs	46,200.00
Occupational cooperative and other social expenses	10,200.00

Liabilities

A schedule of liabilities, including their collateralization through liens or similar rights, as well as their relationship to other balance sheet items, is provided as Attachment 3.

Contingent liabilities

The Company has issued a letter of comfort (Patronatserklärung) in support of its subsidiary FORMYCON Project 203 GmbH. Claims under this letter of comfort are not anticipated because the subsidiary has sufficient liquidity to fulfill its obligations.

Other financial obligations

The total amount of other financial obligations, within the meaning of sec. 285 sentence 1 no. 3a of the Commercial Code, results from contractual obligations for ongoing performance. For obligations up to one year, the total amount is € 385,799.14, for obligations between one and five years € 480,658.84, and for obligations beyond five years, € 0.00.

V Additional Notes to the Income Statement

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

in €		Current year
	Annual net loss	1,492,190.99 €
+	Loss carryforward from prior year	15,658,078.35 €
=	Accumulated loss to balance sheet	17,150,269.34 €
	of which: Loss carryforward to 2018	**17,150,269.34 €**

VI Other Information

Number of staff

Sec. 285 no. 7 of the Commercial Code requires the following information regarding the average number of staff (excluding Executive Board members) during the fiscal year:

Information on number of staff per sec. 285 no. 7 of the Commercial Code

	Current year
Administrative activities	8
Research activities	64
Total	**72**

Information on members of the Executive Board and Supervisory Board per sec. 285 no. 10 of the Commercial Code

Members of the Executive Board:

- **Dr. Carsten Brockmeyer**, residing in Marzling, Chief Executive Officer
- **Dr. Nicolas Combé**, residing in Munich, Chief Financial Officer
- **Dr. Stefan Glombitza**, residing in Holzkirchen, Chief Operating Officer

Members of the Supervisory Board:

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

Remuneration

During the fiscal year, the members of the Supervisory Board received total remuneration, within the meaning of sec. 285 no. 9 of the Commercial Code, of € 22,500.00, while total remuneration to members of the Executive Board was € 1,120,145.96 (of which € 450,000 was success-based).

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

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

Shareholdings and scope of consolidation

	Share of capital (in %)	Equity (in €)	Annual net income (in €)
FORMYCON PROJECT 201 GMBH	100	−3,497.99	−23,961.38
FORMYCON Project 203 GmbH	100	−1,629,367.22	−65,231.25
FYB 202 GMBH & CO, KG	24.9	1,000.00	

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

- **Audit services:** 30,000.00 €
- **Tax advisory and other services:** 5,000.00 €

Appropriation of profits

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

Martinsried/Planegg, Germany,
March 28, 2018

Dr. Carsten Brockmeyer

Dr. Nicolas Combé

Dr. Stefan Glombitza

Schedule of Fixed Assets

Attachment 1

in €	Changes in historical cost of acquisition					Changes in accumulated depreciation & amortization				Changes in net book value		
	Historical cost of acquisition or production at Dec. 31, 2016	Additions	Rebookings	Historical cost of disposals	Historical cost of acquisition or production at Dec. 31, 2017	Accumulated depreciation & amortization at Dec. 31, 2016	Current-year depreciation & amortization	Depreciation & amortization on disposals	Accumulated depreciation & amortization at Dec. 31, 2017	Net book value at Dec. 31, 2016	Net book value of disposals	Net book value at Dec. 31, 2017
Intangible assets												
Purchased concessions, industrial property rights, and similar rights and assets, as well as licenses for such rights and assets	315,982.22	78,451.33	0.00	0.00	394,433.55	232,692.34	52,345.31	0.00	285,037.65	83,289.88	0.00	109,395.90
Goodwill	1,576,200.00	0.00	0.00	0.00	1,576,200.00	669,885.00	157,620.00	0.00	827,505.00	906,315.00	0.00	748,695.00
Property, plant and equipment												
Land and buildings, including property-like rights and buildings on third-party land	445,810.03	854.44	0.00	0.00	446,664.47	252,025.51	60,154.48	0.00	312,179.99	193,784.52	0.00	134,484.48
Technical equipment and machinery	4,308,936.94	362,994.14	358,244.90	102,287.89	4,927,888.09	1,955,771.36	387,289.07	93,527.94	2,249,532.49	2,353,165.58	8,759.95	2,678,355.60
Other plant, production equipment and office equipment	955,924.29	68,449.87	1,755.10	19,229.23	1,006,900.03	453,486.71	127,365.78	16,354.13	564,498.36	502,437.58	2,875.10	442,401.67
Advance payments and plant under construction	360,000.00	0.00	–360,000.00	0.00	0.00	0.00	0.00	0.00	0.00	360,000.00	0.00	0.00
Financial assets												
Shares in affiliated companies	50,000.00	0.00	0.00	0.00	50,000.00	0.00	0.00	0.00	0.00	50,000.00	0.00	50,000.00
Loans to affiliated companies	1,557,000.00	20,000.00	0.00	0.00	1,577,000.00	0.00	0.00	0.00	0.00	1,557,000.00	0.00	1,577,000.00
Investment participations	0.00	249.00	0.00	0.00	249.00	0.00	0.00	0.00	0.00	0.00	0.00	249.00
Total	**9,569,853.48**	**530,998.78**	**0.00**	**121,517.12**	**9,979,335.14**	**3,563,860.92**	**784,774.64**	**109,882.07**	**4,238,753.49**	**6,005,992.56**	**11,635.05**	**5,740,581.65**

Schedule of Receivables

Attachment 2

in €	Dec. 31, 2017	of which due in more than 1 year	of which due from legal representatives of the Company	of which due from Supervisory Board members
Trade accounts receivable	6,978,013.44	0.00	0.00	0.00
Receivables from companies in which an ownership interest exists	4,128,386.29	0.00	0.00	0.00
Other assets	55,967.82	0.00	0.00	0.00
Total	**11,162,367.55**	**0.00**	**0.00**	**0.00**

Schedule of Liabilities

Attachment 3

in € (prior year in € K)	Dec. 31, 2017	of which due within 1 year	of which due in 1 – 5 years	of which due in more than 5 years	of which due in more than 1 year	of which due in more than 1 year (prior year)	of which collateralized
Liabilities toward banks	789.85	789.85	0.00	0.00	0.00	0.00	0.00
Trade accounts payable	1,234,384.52	1,234,384.52	0.00	0.00	0.00	0.00	0.00
Liabilities toward affiliated companies	18,822.83	18,822.83	0.00	0.00	0.00	0.00	0.00
Other liabilities	2,236,986.90	1,667,008.83	569,978.07	0.00	569,978.07	956,669.20	869,128.78
Total	**3,490,984.10**	**2,921,006.03**	**569,978.07**	**0.00**	**569,978.07**	**956,669.20**	**869,128.78**

Trade accounts payable and other liabilities are secured by conditional reservation of ownership title as usual and customary within the industry.

Schedule of Changes in Equity

Attachment 4

in €	Subscribed capital	Capital reserves	Profit (loss) carryforward	Net income	Equity
as of Dec. 31, 2016	**9,099,603.00**	**29,043,554.34**	**– 11,475,997.06**	**– 4,182,081.29**	**22,485,078.99**
Capital increases	244,250,00		0,00	0,00	244,250,00
Additions to capital reserves	0,00	5,989,237,50	0,00	0,00	5,989,237,50
Appropriation of prior-year profit	0,00	0,00	– 4,182,081,29	4,182,081,29	0,00
Annual net income				– 1,492,190,99	– 1,492,190,99
as of Dec. 31, 2017	**9,343,853,00**	**35,032,791,84**	**– 15,658,078,35**	**– 1,492,190,99**	**27,226,375,50**

Audit Opinion

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of FORMYCON AG for the fiscal year from January 1, 2017 to December 31, 2017. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law, as well as supplementary provisions under the Company's articles of incorporation, are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion, based on our audit, on the annual financial statements, together with the bookkeeping system, and on the management report.

We conducted our audit of the annual financial statements in accordance with Sec. 317 of the German Commercial Code (Handelsgesetzbuch, HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and provide a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the consolidated annual financial statements and with [German] statutory requirements, as a whole provides a suitable view of the Company's position, and suitably presents the opportunities and risks relating to future development.

Munich, Germany,
March 28, 2018

PanTaxAudit GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Rudolf Schmitz
Wirtschaftsprüfer
[German Public Accountant]

Doris Wolff
Wirtschaftsprüferin
[German Public Accountant]

Legal and Tax Information

Company name	FORMYCON AG
Legal form	German stock corporation (Aktiengesellschaft)
Registered offices	Martinsried/Planegg, Germany
Street address	Fraunhoferstr. 15 82152 Martinsried/Planegg, Germany
Founding and articles of incorporation	The Company was founded through its articles of incorporation (Satzung) of May 5, 2010, which were most recently amended as of August 9, 2017.
Subject of business	The subject of the Company's business is the development of pharmaceutical and biopharmaceutical products, the development of drug delivery systems, the provision of diagnostic laboratory services and works for third parties, and the carrying out of diagnostic laboratory services.
Commercial register	The Company is entered into the commercial register (Handelsregister) of the District Court of Munich under number HR B 200801.
Fiscal year	The Company's fiscal year runs from January 1 to December 31 of each year.
Registered capital	The Company's registered capital (Grundkapital) is € 9,343,853.00.
Executive Board and legal representation	Dr. Carsten Brockmeyer, Member of Executive Board
	Dr. Nicolas Combé, Member of Executive Board
	Dr. Nicolas Combé, Member of Executive Board
Supervisory Board	Dr. Olaf Stiller, residing in Marburg, Chairman
	Hermann Vogt, residing in Dieburg, Deputy Chairman
	Peter Wendeln, residing in Oldenburg
Prior year financial statements	The financial statements as of December 31, 2016, were audited by us and provided with an unqualified audit opinion.

Imprint

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