



Heidelberg

**PHARMA**

Focused Cancer Therapies



ANNUAL REPORT 2019

# KEY FIGURES

	2019 <sup>1</sup> €'000	2018 <sup>1</sup> €'000
<b>Earnings</b>		
Sales revenue	7,309	3,668
Other income	655	706
Operating expenses	(18,107)	(16,045)
of which research and development costs	(10,942)	(10,679)
Operating result	(10,143)	(11,672)
Earnings before tax	(10,143)	(11,672)
Net loss for the period	(10,148)	(11,672)
Earnings per share in € (basic)	(0.36)	(0.41)
<b>Balance sheet at end of period</b>		
Total assets	22,990	31,192
Cash and cash equivalents	9,884	19,440
Equity	16,293	25,886
Equity ratio <sup>2</sup> in %	70.9	83.0
<b>Cash flow statement</b>		
Cash flow from operating activities	(8,557)	(9,983)
Cash flow from investing activities	(976)	(1,001)
Cash flow from financing activities	0	0
<b>Employees (number)</b>		
Employees as of the end of the period (headcount) <sup>3</sup>	75	66
Employees as of the end of the period (full-time equivalents) <sup>3</sup>	70	60

<sup>1</sup> The reporting period begins on 1 December and ends on 30 November.

<sup>2</sup> Equity/total assets

<sup>3</sup> Including members of the Executive Management Board

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

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 = Glossary (term marked in blue) or cross reference

 = Internet reference

## ABOUT US

Heidelberg Pharma is a biopharmaceutical company specializing in oncology and Antibody Targeted Amanitin Conjugates (ATACs).

We are working towards developing a novel approach to cancer treatment. This approach focuses on the unique biological mode of action of Amanitin, a mushroom toxin. Antibodies are used to systematically release this substance into cancer cells. Amanitin works by inhibiting RNA polymerase II, which results in programmed cell death, or apoptosis. RNA polymerase inhibition is a novel principle in cancer therapy and offers the possibility of breaking through drug resistance and destroying dormant tumor cells, which could produce major clinical advances.

We apply our proprietary and innovative ATAC technology to produce the Antibody Targeted Amanitin Conjugates which we use for our own development activities, enhance by way of research collaborations and market to license partners under our hybrid business model. We develop our proprietary ATACs until the early clinical development phases with the aim of demonstrating their applicability and efficacy in patients. We collaborate with different biopharmaceutical companies to research different ATAC candidates which are also tested for other indications such as autoimmune diseases or gene therapies. Our partners provide specific antibodies that are combined with Amanitin and they handle the entire preclinical and clinical development of these ATACs.

Our own, most advanced product candidate HDP-101 is a BCMA-ATAC that was first used to fight multiple myeloma. HPD-101 is still in preclinical development and is being prepared for the first clinical trial.

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

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

# PORTFOLIO

Product	Target	Indication	Research	Preclinic	Clinic			Partners
					I	II	III	
<b>Proprietary</b>								
HDP-101	BCMA	Multiple myeloma (DLBCL/CLL)						Proprietary
PSMA-ATAC	PSMA	Prostate cancer						Proprietary
CDXX-ATAC	CDXX	NHL						Proprietary
CDXX-ATACs	CDXX	Solid/hematological tumors						Proprietary Open for partnering
<b>ATAC technology partners</b>								
MGTA-XX-ATACs	CD117, CD45	HSCs, Conditioning programs for blood cancers and genetic diseases						Magenta
TAK-XX-ATACs	n/a	n/a						Takeda/Millennium
EMR-XX-ATAC	n/a	n/a						JV Emergence

# HIGHLIGHTS OF FISCAL YEAR 2019

In 2019, Heidelberg Pharma made significant progress in the development of its ATAC technology for potential use in cancer therapies. Details of the highlights summarized here are presented in the section on the course of business in 2019 and in the Company's press releases.

## January

### **Heidelberg Pharma receives milestone payment from partner Link Health**

Heidelberg Pharma receives a milestone payment from its partner Link Health because Link Health obtained the approval of the Chinese National Medical Product Administration to conduct clinical trials with the product candidate MESUPRON®.

## March

### **ATAC technology platform presented at the 2019 AACR Annual Meeting**

In a poster presentation, Heidelberg Pharma presents preclinical data on an ATAC that is aimed against the breast cancer antigen HER2. This ATAC has the potential to efficiently target tumors with low HER2 expression, which are frequent in triple negative breast cancer. Further, the data show that aggressive tumors with a 17p deletion are particularly susceptible to this treatment.

## May

### **Annual General Meeting of Heidelberg Pharma AG**

## June

### **Heidelberg Pharma receives milestone payment from Partner Telix Pharmaceuticals**

Heidelberg Pharma receives a milestone payment from its Partner Telix. After licensing the imaging, radiolabelled antibody TLX250-CDx, Telix achieved a contractually agreed milestone by setting up a new and modernized production process for the antibody Girentuximab.

### **Heidelberg Pharma presents proprietary ATAC technology platform at two scientific conferences**

Heidelberg Pharma presents its proprietary ATAC technology as a potential approach to cancer therapies at the World ADC Asia Conference and the Next Generation Protein Therapeutics & Bioconjugates Summit.

## September

**Heidelberg Pharma receives European Union research grant for the ETN MAGICBULLET project**  
As a member of the European Training Network (ETN) MAGICBULLET, Heidelberg Pharma receives research funds as part of the follow-up funding project MAGICBULLET:reloaded. The consortium's research field is expanded to include small chemical molecules.

## October

### Guidance changed

The guidance issued in March 2019 is adjusted. This is due to additional sales resulting from the supply of Amanitin material to the partners (supply model), as well as additional income from research collaborations.

## November

### Partner Magenta Therapeutics exercises option to further develop Antibody Targeted Amanitin Conjugates targeted to CD45

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

### Heidelberg Pharma participates in Franco-German joint venture Emergence Therapeutics and signs collaboration and license agreement

Heidelberg Pharma participates in the joint venture Emergence Therapeutics AG together with French and German investors, led by lead investor Kurma Partners. The partners will work together to develop novel ATACs.

### Convertible bond program is completed

The final maturity date for the program is reached in November 2019 and Heidelberg Pharma exercises the right to request mandatory conversion.

# 2019

# LETTER TO THE SHAREHOLDERS

Dear Shareholders,

We reached important milestones in the development of our ATAC technology for use in cancer therapies during the 2019 fiscal year. Our entirely new treatment approach has the potential to address current and largely unmet needs in cancer therapy, such as overcoming drug resistance, killing of the dormant, non-dividing tumor cells and improving efficacy in particularly aggressive tumors. Our activities focus on preparation of the first clinical trial for our HDP-101 development candidate in multiple myeloma, on continuing the collaborations with our international partners and on the expansion of our portfolio through new projects and partnerships. During the past year, we became part of the Franco-German joint venture Emergence Therapeutics to work together on the development of ATACs. Our collaborations with Takeda and Magenta Therapeutics are continuing to progress well. We are glad that we are now in a position to supply our partners with GMP-quality Amanitin.

## Partnership with Magenta opens up new application areas

We are seeing particularly good progress in the collaboration with our partner Magenta. The second licensing option for the CD45 target molecule has already been exercised during the current fiscal year as part of the cooperation agreement. Based on compelling preclinical data, Magenta also named MGTA-117, the first specific development candidate for the CD117 target that was exclusively in-licensed by Magenta in 2018.

MGTA-117 is an ATAC (Antibody Targeted Amanitin Conjugate) that consists of a CD117-targeting antibody and the toxin Amanitin and was developed as part of the partnership with Heidelberg Pharma.

In addition to showing that MGTA-117 potently depletes stem and progenitor cells and is very well tolerated, the preclinical data also indicate that MGTA-117, using our ATAC technology could be used with suitable antibodies both in the preparation of patients for cell and gene therapies, e.g. for leukemia. Magenta is preparing MGTA-117 for clinical development, with the first clinical data expected in 2021.

## Providing partners with Amanitin material

At the start of 2019, we decided to offer and coordinate the production of GMP-quality Amanitin linkers to our license partners. We created the organizational and contractual requirements to provide our license partners with the necessary GMP-quality Amanitin linker material together with our GMP manufacturer Carbogen, and received the first orders from our partners.

## Proprietary development candidate HDP-101

Unfortunately, we were forced to accept significant delays to our most important proprietary pipeline project HDP-101 during the reporting period. The pharmaceutical formulation of the clinical compound for our HDP-101 development candidate presented us with unexpected challenges. The formulation originally used proved to be unsuitable and had to be redesigned. This led to delays in GMP manufacturing and in completing the preclinical GLP toxicity program. Our plan now is to be able to complete the preparatory preclinical programs with the new trial material during 2020. The application for the first clinical trial can then be submitted to the authorities. At the same time, we were able to recruit renowned oncologists and hematologists for our treatment approach and to carry out the clinical trial. We are planning to conduct trials in several clinical centers in Germany and the USA.



### Advancement in clinical license portfolio

Our out-licensed clinical projects also made progress. Telix Pharmaceuticals, our licensing partner for the diagnostic antibody <sup>89</sup>Zr-Girentuximab, began a pivotal and global Phase III trial at several centers in Europe and Australia. The execution of the trial in the USA was approved in early 2020, which meant that patient recruitment was stepped up in the first quarter and is now expected to be completed by the middle of the year. Telix might submit its application for regulatory approval for TLX250-CDx as early as this year. Clinical development of the antibody Girentuximab as the therapeutic agent TLX250 for the treatment of renal cancer is expected to start during the current fiscal year.

### Financial position of Heidelberg Pharma

We are pleased with our strong revenue performance during the 2019 financial year. Successful collaborations and the start of our supply of GMP-quality Amanitin to licensing partners generated sales revenue well in excess of the previous year at almost double the 2018 figure. This prompted us to adjust our guidance for the fiscal year in October 2019. Although expenses increased year-over-year in line with planning, part of these expenses were deferred to 2020 due to the reformulation of the compound.

In January, we received a financing commitment of €15 million from our main shareholder dievini, which ensures that Heidelberg Pharma can continue its course of business until mid-2021. The specific arrangements for implementing this financing have yet to be determined by the Company's corporate bodies.

### Breaking through cancer drug resistance with Amanitin

Our mission is to harness the significant therapeutic potential of the Amanitin conjugate in order to allow cancer patients to receive individual treatment that is both highly effective and as well-tolerated as possible. The particular mode of action of this innovative compound offers the possibility of breaking through drug resistance and destroying dormant tumor cells – which would represent a major clinical advance. We are pursuing this goal by expanding our own pipeline, particularly with the development of HDP-101, but also by collaborating with our current and prospective licensing and cooperation partners.

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

Ladenburg, 16 March 2020

Yours sincerely,



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



Professor Andreas Pahl  
Chief Scientific Officer

# REPORT OF THE SUPERVISORY BOARD

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

The Supervisory Board worked closely with the Executive Management Board, regularly advising it on the management of the Company and monitoring the Executive Management Board's activities. The Executive Management Board presented all significant strategic and operational measures to the Supervisory Board and agreed to their implementation in advance with the Supervisory Board. The Supervisory Board obtained regular reports on the situation and development of the Company, both at regular Supervisory Board meetings and in additional conference calls. It also received regular, comprehensive and timely information on all major business developments and basic issues relating to business policy, corporate management and planning (including financial, investment and personnel planning). Discussions included, in particular, the following topics: the development strategy for HDP-101, potential follow-up projects, licensing negotiations, technology partnerships, M&A matters and financing. Without exception, the Supervisory Board examined all documents submitted and prepared by the Executive Management Board and the related departments. The parties providing the information, in particular the members of the Executive Management Board, were consulted on significant matters.

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

## Main topics at the meetings of the Supervisory Board in the 2019 fiscal year

In the 2019 fiscal year (1 December 2018 to 30 November 2019), the Supervisory Board met for four regular meetings. In addition, conference calls were conducted as a regular part of monitoring and advising the Executive Management Board.

In the 2019 fiscal year, the Supervisory Board discussed and approved the following items requiring its approval:

- The budget and corporate objectives for the 2019 fiscal year and the budget for the 2020 fiscal year
- Approval of the 2018 annual and consolidated financial statements
- Preparations for the clinical development of HDP-101
- Amanitin production in accordance with Good Manufacturing Practice (GMP) – provision of material to partners (supply model)
- Review of and support for M&A activities
- Exercise of a further option by Magenta
- Participation of the Company's subsidiary in the German-French joint venture Emergence Therapeutics
- Negotiation mandates for potential contractual partnerships
- Review of additional potential financing options
- Issue of new options on the basis of the 2018 Stock Option Plan.

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

The Supervisory Board was informed, regularly and comprehensively, about the Company's financial situation, its future funding requirements and the risk management system and discussed the Company's future strategy with the Executive Management Board. Establishing its own pipeline is becoming an increasingly important aspect of the Company's overall strategy. A particular focus in this context is on the development candidate HDP-101, an antibody drug conjugate targeting BCMA.

The Supervisory Board was regularly informed about activities at Heidelberg Pharma AG's licensees for MESUPRON® and REDECTANE®.

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

### Annual General Meeting

The Annual General Meeting of Heidelberg Pharma AG held in Heidelberg on 21 May 2019 adopted all proposed resolutions with a majority of over 99%.

### Corporate governance

The Supervisory Board together with the Executive Management Board decided on 31 January 2020 to implement the recommendations and suggestions of the German Corporate Governance Code (GCGC) to a large extent. The new joint Declaration of Conformity by the Executive Management Board and the Supervisory Board was adopted on the same day and is available on the Company's website under "Press & Investors > Corporate Governance > Declaration of Conformity". More information on corporate governance at Heidelberg Pharma is available on the Company's website under "Press & Investors > Corporate Governance".

 [www.heidelberg-pharma.com](http://www.heidelberg-pharma.com)

### Conflicts of interest on the Supervisory Board

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

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

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

## Activities of the Committees

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

For efficiency, a joint Compensation and Nomination Committee was established, which covers both areas separately in its meetings. The Compensation Committee met once in fiscal year 2019.

The Audit Committee met four times in the year under review. Among other actions, the committee recommended to the Supervisory Board that the board propose to the Annual General Meeting to reappoint Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, Germany (Deloitte) as auditor for the 2019 fiscal year. Based on a proposal by the Supervisory Board, Deloitte was elected by the Annual General Meeting on 21 May 2019 and subsequently commissioned by the Supervisory Board to audit the Company's annual financial statements for the 2019 fiscal year. The Supervisory Board obtained in advance a declaration of the auditor's independence in accordance with Section 7.2.1 of the GCGC. The Audit Committee also discussed the annual report for 2019 with the auditor, Deloitte. The Audit Committee discussed the interim management statements and the half-yearly report for 2019 with the Executive Management Board prior to publication. The Supervisory Board also discussed in depth the Company's risk management system.

The Research and Development Committee (R&D Committee) held no meeting during the reporting period. As a rule, the full Supervisory Board discusses at its meetings the status of in-house research activities at Heidelberg Pharma Research. The R&D Committee deals with R&D topics that require a more intensive discussion of scientific details and therefore a higher level of professional expertise.

The Supervisory Board did not establish any other committees.

## Adoption of the annual financial statements

The auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, audited the combined management report, the annual financial statements of Heidelberg Pharma AG and the consolidated financial statements as of 30 November 2019, including the underlying accounting, and issued an unqualified auditor's report. The auditors conducted their audit in compliance with the generally accepted German standards for the audit of financial statements of the German Institute of Public Auditors (IDW). The combined management report, the annual financial statements of Heidelberg Pharma AG and the consolidated financial statements were each prepared pursuant to the principles of the German Commercial Code and in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, taking into account Section 315a (1) of the German Commercial Code.

The aforementioned documents as well as the dependent company report and the audit reports of Deloitte GmbH Wirtschaftsprüfungsgesellschaft were made available to all members of the Supervisory Board in a timely manner and discussed in detail with the auditors both at the meeting of the Audit Committee held on 12 March 2020 and today's accounts meeting of the Supervisory Board. The auditors reported to the Supervisory Board on the material findings of their audit, that the combined management report presents a true and fair view of the risks and opportunities and that the measures taken by the Executive Management Board in accordance with Section 91 (2) of the German Stock Corporation Act were suitable for identifying at an early stage any developments which could jeopardize the Company's existence. The auditors also discussed the audit's scope, focal points and costs.

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

The Report by Heidelberg Pharma AG on Relationships with Affiliated Companies in Accordance with Section 312 (1) of the German Stock Corporation Act (dependent company report) prepared by the Executive Management Board was also reviewed by Deloitte in accordance with Section 313 (3) of the German Stock Corporation Act.

The auditors issued the following unqualified auditor's report on 16 March 2020:

"On completion of our review and assessment in accordance with professional standards, we confirm that

1. the actual disclosures contained in the report are accurate, and
2. that the consideration paid by the Company for the transactions listed in the report was not inappropriately high."

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

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

#### Recognition of commitment

The Supervisory Board would like to take this opportunity to thank the Executive Management Board and all employees of Heidelberg Pharma AG and its subsidiary Heidelberg Pharma Research GmbH for the impressive commitment they showed in the 2019 fiscal year.

Ladenburg, 16 March 2020

For the Supervisory Board



Professor Christof Hettich  
Chairman of the Supervisory Board

# INVESTOR RELATIONS

## Market development

Despite fears of recession, the prospect of Brexit, growing populism in Europe and the US-China trade conflict, 2019 was a highly successful year on the stock markets. Germany's benchmark index, the DAX, ended the year up 25% compared to the previous year, while the TecDAX technology index almost matched this performance with a 23% gain.

The upturn across the entire stock market was reflected in the biotechnology segment of the markets. After a strong fourth quarter, the NASDAQ Biotechnology Index closed the year up 24% as of 31 December 2019. The German index for biotech stocks – the DAXsubsector Biotechnology Index – even ended 2019 with a remarkable 36% gain.

The biotechnology sector was also able to look back on a good year in terms of financing activities. The USD 11.5 billion of capital raised in the course of 97 IPOs was a repeat of the prior year's strong performance (2018: USD 11.3 billion).<sup>1</sup> The fourth quarter of 2019 was one of the most successful quarters for follow-on financing; in addition, five M&A deals worth more than USD 1 billion in upfront payments were announced in this quarter alone.<sup>2</sup> Although German biotechnology companies were unable to repeat the previous year's financing record (2018: € 1.27 billion), they raised a solid € 860 million of capital in total in 2019, of which € 333 million was raised via the stock exchange.<sup>3</sup>

## Share price performance of the Heidelberg Pharma share

Unfortunately, the positive sentiment in the capital markets during 2019 did not have a significant impact on the performance of Heidelberg Pharma's shares. The shares began 2019 trading at €2.41 and passed the €3.00 mark in March, remaining there until the start of May. They reached their annual high of €3.39 in April. Over the summer months the shares, like the major indices, steadily declined in value to reach a low of €1.98 at the end of October. Although they recovered moderately during the fourth quarter, they were unable to catch up at the same rate as other biotechnology stocks. As a result, the shares closed the year down 22% at €2.11. This was due to a delay in formulating the main product candidates, which led to share selling with weak trading volume.

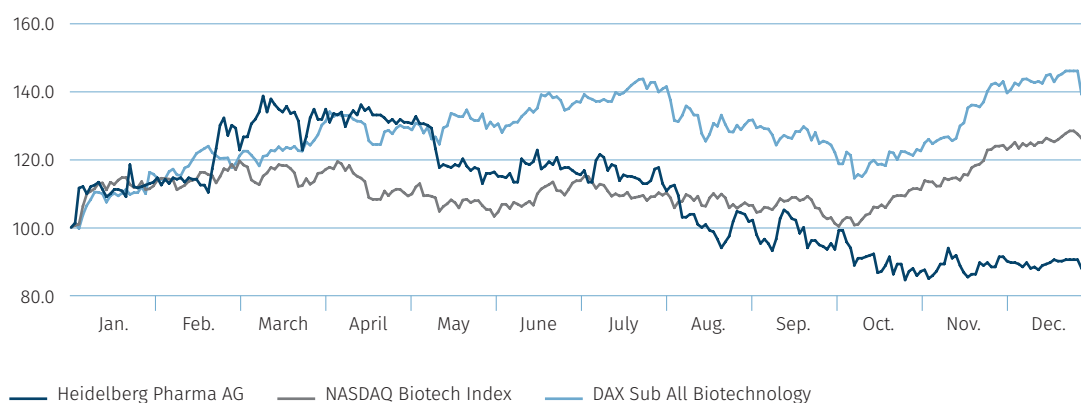
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<sup>1</sup> BioCentury, 4 January 2020: Politics aside, 2020 could be a good year for bringing back generalists

<sup>2</sup> Ibid.

<sup>3</sup> Bio Deutschland, 13 January 2020: Trends in der deutschen Biotechnologiebranche. <https://www.biodeutschland.org/de/id-2019-2020.html>

### Heidelberg Pharma's share price performance, indexed as of 1 January 2019



### Trading and liquidity

The average daily trading volume of Heidelberg Pharma's shares in the 2019 fiscal year (1 December 2018 to 30 November 2019) was 9,441 shares, down 59% from the prior-year average of 22,582 shares. The Company's market capitalization at the end of December 2019 was €59.52 million (2018: €67.80 million).

Key share figures	2019	2018
Period under review: 1 January to 31 December 2019 <sup>1</sup>		
Market capitalization in € million	59.52	67.80
Number of shares issued	28,209,611	28,133,308
Closing price (XETRA) in €	2.110	2.410
High <sup>2</sup> in €	3.390 (on 17 Apr. 2019)	3.980 (on 15 Jan. 2018)
Low <sup>2</sup> in €	1.980 (on 31 Oct. 2019)	1.880 (on 11 Oct. 2018)
Volatility (260 days; XETRA) in %	36.84	48.55
Average daily trading volume <sup>2</sup> in shares	9,441	22,582
Average daily trading volume <sup>2</sup> in €	24,953.43	68,338.59

<sup>1</sup> As of the end of the reporting period

<sup>2</sup> All stock exchanges

Source: Bloomberg

## Corporate actions and financing

No corporate actions were implemented during the year under review. The Company issued convertible bonds as part of the mixed non-cash and cash increase completed in November 2017. These bonds matured in November 2019. The Conversion of bonds during the fiscal year ended, including the final mandatory conversion in November, increased the Company's share capital by €76,303 from €28,133,308 to €28,209,611 as of 30 November 2019.

## Annual General Meeting

The Annual General Meeting of Heidelberg Pharma AG took place in Heidelberg on 21 May 2019. Of the Company's share capital at that time (28,129,782 no par value bearer shares), 22,615,020 shares, or 80 %, were represented with the same number of votes. The Annual General Meeting voted on the adoption of the annual financial statements, the formal approval of the actions of the members of the Executive Management Board and the Supervisory Board, and the election of the auditor. All proposed resolutions were adopted by majorities of more than 99%.

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### Shareholder structure of Heidelberg Pharma AG<sup>1</sup>

Dietmar Hopp, parties related to him and companies controlled by them <sup>2</sup>	74.85 %
UCB	4.01 %
Corporate bodies (held directly)	0.77 %
Free float	20.37 %

<sup>1</sup> As of 30 November 2019

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

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### General information

Listed:	Regulated Market (Prime Standard)
Stock exchange symbol:	WL6
WKN/ISIN:	000A11QVV/DE000A11QVV0
Share capital:	€ 28,209,611
Admitted capital:	28,209,611 bearer shares of common stock
Designated sponsors:	Pareto Securities AS, OddoSeydler



# COMBINED MANAGEMENT REPORT

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# COMBINED MANAGEMENT REPORT

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

for the fiscal year from 1 December 2018 to 30 November 2019

### 1 Company overview

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

- Pages 16–36 and 59
- Pages 43–64
- Page 43

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

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

#### 1.1 Corporate structure, locations and reporting

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

The only subsidiary Heidelberg Pharma Research GmbH (formerly: Heidelberg Pharma GmbH) has been part of the Heidelberg Pharma Group since March 2011. The subsidiary’s Managing Director is Dr. Jan Schmidt-Brand. Heidelberg Pharma Research is also domiciled in Ladenburg, Germany. Since November 2019, the subsidiary has also held an equity interest in the newly founded joint venture Emergence Therapeutics AG, Duisburg, Germany, (Emergence), which is included in the consolidated financial statements as an associate under investments accounted for using the equity method.

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, United Kingdom, as applicable in the European Union (EU), taking into account the recommendations of the International Financial Reporting Standards Interpretation Committee (IFRS IC). The provisions applicable in accordance with Section 315e (1) German Commercial Code (Handelsgesetzbuch – HGB) were also taken into account. The IFRS consolidated financial statements include Heidelberg Pharma AG as the parent company as well as the subsidiary Heidelberg Pharma Research GmbH for the full 2019 fiscal year (1 December 2018 to 30 November 2019).

#### 1.2 Business activities

The purpose of Heidelberg Pharma AG as a holding company in fiscal year 2019 was to act as the parent company of the Group and to out-license the portfolio of diagnostic and therapeutic **oncology** drug candidates

- Glossary

with the related intellectual property rights. The Heidelberg Pharma AG team mainly performs functions relating to Group and research strategy, finance, investor relations, business development, legal affairs and contract management. Other areas covered are alliance and data management, as well as patents. In addition, strong **research & development (R&D)** support is being provided to the partner to develop an out-licensed clinical drug candidate.

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In the fiscal year ended, R&D activities were focused on the operations of the subsidiary Heidelberg Pharma Research GmbH in Ladenburg, which refines and markets a proprietary novel approach for therapeutic **antibody drug conjugates (ADCs)** and offers **preclinical** services. To the best of the Company's knowledge, Heidelberg Pharma Research is the first company to develop the compound **Amanitin** for cancer therapies. It uses the toxin's biological mode of action as a new therapeutic principle, employing its proprietary **ATAC (Antibody Targeted Amanitin Conjugates)** technology platform for the purpose of producing, researching and developing selected proprietary Antibody Targeted Amanitin Conjugates as well as new ATAC candidates in collaborations with external partners.

For detailed information regarding the projects and the current status of development, please see chapter 3, "Course of business in 2019."

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### 1.3 Business model, corporate strategy and goals

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

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

On the one hand, the Company will produce its own ATAC **molecules** based on licensed or internally generated antibodies, test these as R&D candidates and thus build its own pipeline. This approach was enabled by selecting and optimizing suitable antibodies in recent years. At present, the most important of the Company's pipeline projects is **HDP-101**, consisting of an antibody targeting the protein **BCMA** and an Amanitin **linker** construct. Following extensive preclinical development, the Company expects the preclinical data set to be available in 2020 and plans to submit the application to conduct a clinical trial with the authorities after that. At the same time, additional ATAC candidates will undergo preclinical testing to determine their efficacy and tolerability. The goal is to identify additional potential development candidates and transfer them to the development stage.

In addition, work is underway with partners to produce ATACs using the partners' antibodies as part of early-stage research partnerships. These early-stage collaborations are expected to culminate in license agreements based on which the partners would make payments for technology support and licenses. Heidelberg Pharma expects such ATAC alliances and the preclinical service business to continually generate sales revenue and license payments.

Heidelberg Pharma's own development activities and envisaged out-licensing take place exclusively for a specific **antigen** (biological target protein) in each case. Given that numerous tumor-specific antigens exist, this enables the development of the Company's own ATAC candidates as well as parallel collaboration with various pharmaceutical and biotech companies for their candidates. The development candidates resulting from these activities can be developed as different products and for different indications.

The main objective of the parent company Heidelberg Pharma AG in fiscal year 2019 was to continue developing the corporate strategy and securing finance for the Group. Heidelberg Pharma AG's existing clinical R&D projects (WILEX portfolio) are and will be developed by licensing partners only.

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

#### 1.4 Internal management system

Cash funds, cash reach, sales revenue and other income, as well as operating expenses, are reviewed at least monthly and are the key control variables of Heidelberg Pharma. Research and development expenses are a particularly important measure of performance. These expenses exceed income and will continue to do so in the next few years. Hence the average change in cash funds – i.e. the cash flow in a given period – is a key financial indicator. The ratio of liquid funds to cash usage shows how long sufficient cash will be available to fund operations. Section 5.9 entitled, "Overall assessment of the fiscal year 2019 by the Executive Management Board of Heidelberg Pharma" in chapter 5, "Results of operations, financial position and net assets of the Group", contains a qualitative and quantitative assessment of the Company's internal control system.

#### 1.5 Patents

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

##### Patents for the ATAC technology held by Heidelberg Pharma Research GmbH

Heidelberg Pharma Research GmbH holds technology patents protecting its ATAC technology. The inventions on which this technology is based have been filed as patents by Professor Heinz Faulstich and the German Cancer Research Centre (DKFZ), Heidelberg, and Heidelberg Pharma Research GmbH has been granted an exclusive license to use them in an ATAC technology context. Some of these patents have already been granted, especially in the USA and Europe. Heidelberg Pharma Research has systematically improved the technology and expanded its patent portfolio with several new filings. In the meantime, applications for 14 more international patents have been filed, which have already been nationalized and regionalized in many countries. A total of three priority applications for the development candidate HDP-101 have been submitted to the European Patent Office. In addition, patents have also been filed that protect specific methods for the modification and manufacture of antibodies. Patent protection for the improved toxin linker technology has been strengthened in recent years through the granting of intellectual property rights in Europe and the United States. Of particular relevance here is the patent granted in Europe and the USA for the chemical synthetic building block dihydroxyisoleucine for the production of Amanitin, since this has no natural source. This is a key patent for the manufacture of Amanitin in [good manufacturing practice \(GMP\)](#) quality for clinical applications. New priority applications that protect certain synthesis processes and derivatives of Amanitin were filed in the fiscal year ended again. Overall, the current patent horizon extends until 2040.

##### Patents held by Heidelberg Pharma AG

These patents refer to the clinical portfolio and were submitted by and granted to the Company under its former name WILEX AG. At the end of the 2019 fiscal year, Heidelberg Pharma AG held licensed intellectual property rights and owned more than 98 patents and patents pending worldwide. While most of these patents were developed by the Company itself, Heidelberg Pharma AG has expanded its intellectual property rights in targeted ways through strategic acquisitions of patent portfolios.

## 2 Economic environment 2019

### 2.1 Macroeconomic environment

At present, the effects of the coronavirus on the global economy are not foreseeable. The Heidelberg Pharma Group is currently not restricted in its activities and so far has no problems in its supply chains, for example.

### 2.2 Development of the pharmaceutical and biotechnology industry

In 2019, fewer new drugs were approved by the FDA than in the record year of 2018 (2019: 48; 2018: 59). Many of these novel drugs are significant, however, because of their unique contribution to high-quality healthcare and therapies for patients.<sup>1</sup> In Germany, the number of approvals for new drugs, at 25, also failed to match that of the preceding year (2018: 36).<sup>2</sup> The approval in the USA of the new gene therapy drug Zolgensma® from Novartis is particularly noteworthy. The gene therapy, which has not yet been approved in Europe and costs around two million US dollars (USD), is said to be the most expensive drug in the world. Just one injection, however, promises to cure spinal muscular atrophy (SMA) in children under two.<sup>3</sup>

 Glossary

The World Health Organization (WHO) has estimated that cancer was responsible for 9.6 million deaths in 2018.<sup>4</sup> According to forecasts, more than 27 million new cancer cases will be diagnosed every year until 2040.<sup>5</sup> The high demand for effective cancer therapies is also reflected in the approvals of new drugs: In 2019 ten new cancer drugs were approved in the USA.<sup>6</sup> The corresponding figure for Germany was nine.<sup>7</sup> The global cost of oncology therapies and drugs for supportive treatments increased by approximately USD 150 billion in 2018 and is expected to rise to USD 200–230 billion annually over the next five years.<sup>8</sup>

#### Therapies using monoclonal antibodies and ADCs

2019 was another dynamic year for the clinical development of therapeutic antibodies. Seven new antibodies were approved for the first time by the FDA or the EMA. Of the almost 670 antibody therapies at different stages of development, 79 novel antibodies are currently in advanced clinical development, including 40 antibodies focusing on treating cancer. Just under 75 percent (29) of these advanced anti-cancer antibody therapies are immune checkpoint modulators or ADCs.<sup>9</sup>

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- 1 FDA's Center for Drug Evaluation and Research, January 2020: New Drug Therapy Approvals 2019, <https://www.fda.gov/drugs/new-drugs-fda-cders-new-molecular-entities-and-new-therapeutic-biological-products/new-drug-therapy-approvals-2019>
  - 2 <https://www.vfa.de/de/arzneimittel-forschung/neueinfuehrungen/neueinfuehrungen-und-zulassungserweiterungen-seit-2003.html>
  - 3 Deutsche Apotheker Zeitung, 19 November 2019: Zolgensma: Kassen fordern Härtefallprogramm auf Herstellerkosten, <https://www.deutsche-apotheker-zeitung.de/news/artikel/2019/11/19/zolgensma-kassen-fordern-haertefallprogramm-auf-herstellerkosten>
  - 4 WHO, January 2020: World Cancer Report. Cancer research for cancer prevention. <http://publications.iarc.fr/586>
  - 5 Ibid.
  - 6 Scrip, 31 December 2019: 2019 Drug Launches: New Specialty And Rare Disease Blockbusters Take Shape. <https://www.centerwatch.com/drug-information/fda-approved-drugs/therapeutic-area/12/oncology>
  - 7 <https://www.vfa.de/embed/2019-in-deutschland-neu-eingefuehrte-medikamente-mit-neuem-wirkstoff.pdf>
  - 8 IQVIA Institute for Human Data Science "Global Oncology Trends 2019" (May 2019)
  - 9 Hélène Kaplon, Mrinalini Muralidharan, Zita Schneider & Janice M. Reichert (2020): Antibodies to watch in 2020, mAbs, 12:1, 1703531, DOI: 10.1080/19420862.2019.1703531

According to estimates, the market for ADCs will grow to just under USD 10 billion in 2025.<sup>10</sup> Most ADCs are developed as cancer therapies, with antibodies in particular used against antigens (targets) that are typically highly expressed on the surface of cancer cells. The two most common indications are lymphomas and breast cancer, but also other solid tumors.<sup>11</sup>

At the end of 2019, ten (2018: ten) oncological ADCs were in clinical Phase III trials, an additional 38 (2018: 34) ADCs in Phase II trials and 70 (2018: 57) in Phase I trials. A total of 54 ADC candidates (2018: 49) are currently in preclinical studies.<sup>12</sup> This means that the number of ADC programs has gone up overall.

Three of the ADCs first approved in 2019 were cancer therapies. Shortly before the end of the year, the FDA granted accelerated approval to ADC Padcev® (enfortumab vedotin), developed by Astellas Pharma and Seattle Genetics, the first therapy ever to have been approved specifically for patients with locally advanced or metastatic bladder cancer.<sup>13</sup> ADC Enhertu® (trastuzumab deruxtecan) from Daiichi Sankyo and AstraZeneca was also approved by the FDA. Enhertu® is an ADC for the treatment of adult patients with advanced, inoperable or metastatic HER2-positive breast cancer who have already received two or more anti-HER2-based treatments in the area of the metastasis.<sup>14</sup> In March 2019, with an advance payment of USD 1.35 billion, AstraZeneca secured the global (apart from Japan) rights to the ADC.<sup>15</sup>

Also in 2019, the FDA granted accelerated first-time market approval to ADC Polivy® (polatuzumab vedotin) from Genentech. The drug treats relapsed/refractory diffuse large B-cell lymphoma in combination with bentamustin and rituximab.<sup>16</sup> Another Genentech product, Kadcyla® (ado-trastuzumab emtansine), which already has approval, received a label extension for early-stage HER2-positive breast cancer with residual invasive disease after neoadjuvant treatment.<sup>17</sup>

#### Competitive environment for HDP-101

In particular the B-cell maturation antigen (BCMA), a cell surface protein generally expressed by malign plasma cells, has proven to be an extremely selective antigen and is thus a target of novel treatments for multiple myeloma (MM), the second most common type of blood cancer, chronic lymphatic lymphoma (CLL) and diffuse large B-cell lymphoma (DLBCL).<sup>18</sup>

The ATAC candidate HDP-101 will initially be developed with the MM indication. Around 27 companies are currently working on BCMA antigens in this indication, focusing on three technologies in particular. Most companies are working with CAR-T cell therapies and are primarily conducting Phase I and some isolated Phase II/III trials so far.<sup>19</sup> Some companies are active in the area of bispecific antibodies, most of which are currently in preclinical or early clinical development and were able to generate the first positive data.<sup>20</sup> Apart

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

11 BioCentury data base BCIQ, as of 12 January 2020

12 Ibid.

13 Scrip, 19 December 2019: Astellas, Seattle Genetics Break Ground With US ADC Approval

14 Scrip, 31 December 2019: 2019 Drug Launches: New Specialty And Rare Disease Blockbusters Take Shape.

15 BioCentury, 29 March 2019: Daiichi gets \$1.35B up front from AZ in antibody-drug conjugate deal

16 PR Genentech, 10 June 2019 [https://www.gene.com/meta/search?\\_token=&q=Polivy+approval](https://www.gene.com/meta/search?_token=&q=Polivy+approval)

17 <https://www.gene.com/media/press-releases/14785/2019-05-03/fda-approves-genentechs-kadcyla-for-adju>

18 BioCentury, 14 December 2019: BCMA programs begin to find their niches

19 BioCentury data base BCIQ, as of 16 January 2020

20 Scrip, 12 December 2019: Seven Talking Points at ASH 2019

from Heidelberg Pharma, GlaxoSmithKline (GSK)<sup>21</sup>, Celgene/Sutro<sup>22</sup> and AstraZeneca (formerly MedImmune)<sup>23</sup> are currently dealing with the development of ADCs for MM. At the end of 2019, GSK was the first company to submit an application to the FDA for approval of its anti-BCMA ADC belantamab mafodotin (GSK2857916) in the MM indication.<sup>24</sup> In 2017, GSK had received US Breakthrough Therapy status and EU PRiority MEDicines (PRIME) status for the development of its ADCs in the MM indication.<sup>25</sup> The candidates of AstraZeneca and Celgene/Sutro are both in Phase I clinical trials.

**Chemotherapy** is still being used as standard therapies for MM, including in combination with autologous hematopoietic stem cell transplantation or radiotherapy.<sup>26</sup> At present, the most commercially successful therapy in this indication is the immunomodulator REVLIMID® from Celgene (acquired by Bristol-Myers Squibb in November 2019). With global revenue of USD 9.7 billion in 2018, it was the most commercially successful anti-MM drug and the second most successful drug worldwide after Humira® from AbbVie.<sup>27</sup>

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Other BCMA-independent therapeutic approaches for multiple myeloma are also currently in clinical development.

## 3 Course of business in 2019

### 3.1 Research and development projects of Heidelberg Pharma Research GmbH

#### Amanitin as an innovative compound for cancer therapy

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

To enable therapeutic use of this natural toxin, Heidelberg Pharma Research GmbH is utilizing already clinically proven ADC technology, which is being refined for use with Amanitin. The core of the ADC technology consists of using a chemical compound (linker) to crosslink a suitable antibody to a toxin. The role of the antibody is to transport the crosslinked toxin specifically to – and then into – the cancer cell. After binding

21 <https://www.gsk.com/en-gb/research-and-development/our-pipeline/>

22 <https://www.sutro.bio.com/pipeline/>

23 <https://www.astrazeneca.com/our-science/pipeline.html>

24 GSK press release dated 16 December 2019

<https://www.gsk.com/en-gb/media/press-releases/pivotal-dreamm-2-study-demonstrated-a-clinically-meaningful-overall-response-rate-with-belantamab-mafodotin-gsk2857916-for-patients-with-relapsedrefractory-multiple-myeloma/>

25 GSK press release dated 2 November 2017

26 <http://www.myelom-deutschland.de/das-multiple-myelom/therapie-des-multiplen-myeloms/>

27 BioCentury, 21 May 2019, Making Orphan drug prices work for society.

<https://www.biocentury.com/biocentury/product-development/2019-05-20/guest-commentary-how-external-forces-could-drive-down->

to the tumor cell, the ADC is taken up by the cell and releases the toxin within the cell. The released toxin then destroys the tumor cell without affecting healthy tissue.

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

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

An exclusive patent and expertise license agreement has been in place since 2009 between Heidelberg Pharma Research GmbH, and Professor Heinz Faulstich and the German Cancer Research Centre, Heidelberg, Germany. Under the agreement, Heidelberg Pharma Research was granted an exclusive license to the licensed patent rights and know-how for the development, production and distribution of ATACs.

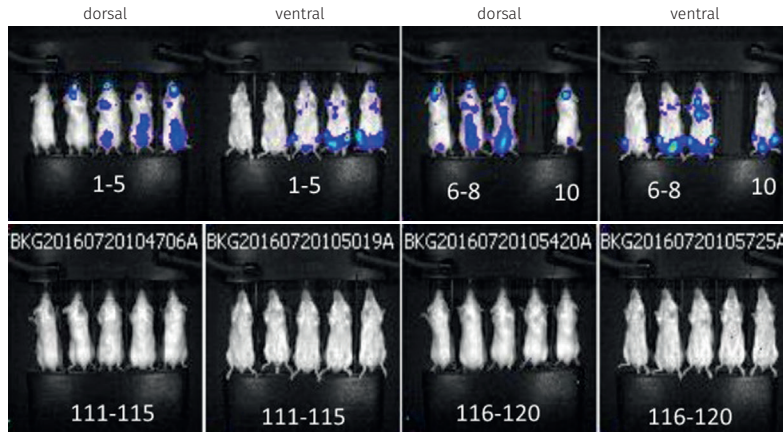
#### **Building Heidelberg Pharma's own ATAC pipeline**

To build a proprietary pipeline, the Company in-licensed various antibodies, manufactured ATACs from them and tested them preclinically in various cancer indications. The data generated so far support the assumption that Amanitin-based ATAC candidates could be suitable for the treatment of various cancer indications.

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

Preclinical data for HDP-101 showed complete tumor remission in mouse models for multiple myeloma even at very low doses. In addition, tolerability studies conducted in different *in vivo* models identified a broad therapeutic window.





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

After a successful technology transfer in 2018 for the industrial manufacture of the Amanitin derivative and other basic elements, the Company continued to push ahead with preparations for formal preclinical and clinical development of HDP-101 in 2019.

In 2019, the first batch of the HDP-101 development candidate was manufactured by our production partner Carbogen AMCIS AG, Bubendorf, Switzerland, (Carbogen), which is responsible for manufacturing the Amanitin linker. In addition to a synthetic variant of Amanitin, the starting materials also included the BCMA antibody already manufactured by Celonic AG, Basel, Switzerland, (Celonic). For use in patients, this substance invariably requires formulation with additives (galenic formulation) to enhance its efficacy and achieve the best possible bioavailability.

As part of this process, the tolerability of the clinical trial material must be demonstrated in a series of toxicity studies to ensure patient safety. In the first half of 2019, those studies revealed that the galenic formulation would have to be improved prior to use in patients. The research departments at Heidelberg Pharma worked with the external manufacturers to make the necessary changes to the process. The implementation of those changes and ensuring the necessary manufacturing capacities delayed the development schedule by approximately one year. Heidelberg Pharma expects the preclinical data package to be fully available during 2020, enabling the application to be made thereafter.

At the same time, certain parts of the toxicology program agreed with the authorities were completed successfully in 2019. Heidelberg Pharma Research commissioned other service providers to perform the outstanding toxicology studies in order to ensure that they would be finished on time. The clinical team completed the synopsis for the Phase I trial in the clinical development program for HDP-101. Clinical centers in the USA and Germany have been identified and enlisted for the program. Heidelberg Pharma signed a framework agreement with a service provider for the clinical trial, and work on the documentation for submitting the clinical trial application has begun.

Amanitin production in accordance with Good Manufacturing Practice (GMP) – provision of material to partners (supply model): The successful technology transfer of Amanitin production to an industrial scale was a key milestone for safeguarding the supply of material for our own projects and those of our partners. In the meantime, processes for other Amanitin variants which extend beyond the derivative used for HDP-101 are being established. In a complementary move, Heidelberg Pharma Research developed organizational and contractual obligations to safeguard production plans for the synthetic precursors of Amanitin and its timely supply not only for its own projects, but also for those of its partners. Framework agreements with GMP manufacturer Carbogen and licensees were signed to ensure that Heidelberg Pharma Research can offer to provide materials together with Carbogen. We have begun manufacturing several batches for our partners.

As a result, Heidelberg Pharma Research now has the technology and organization in place to provide its license partners with the necessary GMP-quality Amanitin linker material.

#### Other ATAC research projects

As reported, Heidelberg Pharma Research is working on various options for further proprietary projects to supplement HDP-101, including the projects PSMA-ATAC (PSMA – prostate-specific membrane antigen) and various project candidates for additional hematologic indications. Several ATACs with antibodies for other antigens have now also been manufactured and tested successfully, both *in vitro* and *in vivo* to serve as a data basis for making selection decisions. Based on the data obtained, the competitive environment and the necessary investment sums, Heidelberg Pharma will make a decision in the coming months on the start of preclinical development of these ATAC candidates.

PSMA ATAC research project: PSMA is overexpressed in prostate cancer and might be a promising target antigen for ATAC technology in this indication. A license agreement with the University of Freiburg provides access to PSMA antibodies. After humanization and de-immunization of the chosen anti-PSMA antibody by Heidelberg Pharma Research, this was used to produce various ATACs, which will be further optimized preclinically in terms of safety, tolerability and efficacy.

Meanwhile, metastatic castration-resistant prostate cancer (mCRPC), an oncological disease with a high medical need, has been selected as a clinical indication for the PSMA project. In recent months, preclinical studies have been conducted to determine *in vitro* and *in vivo* efficacy, tolerability and pharmacokinetics. The data show that certain PSMA ATACs have a broad therapeutic window. At 63%, there is also a very high prevalence of a 17p deletion in mCRPC, which is outlined further below. The occurrence of a 17p deletion has already been preclinically validated for prostate cancer.<sup>28</sup> Since tumor cells with a 17p deletion are particularly sensitive to Amanitin, this in turn means that PSMA-ATACs might be particularly suitable for tumor therapy of mCRPC.

Predictive biomarker p53/RNA polymerase II project: The available preclinical data show that Amanitin has the potential to be particularly effective against aggressive tumors in connection with a 17p deletion. The name '17p' refers to the short arm of chromosome 17, whose DNA includes both the gene for the tumor suppressor protein TP53 and the largest subunit for RNA polymerase II (POLR2A). Tumors frequently suppress TP53 in tumor cells to weaken the cells' natural defenses. Since RNA polymerase II is also routinely suppressed, this change makes the tumor cells particularly sensitive to Amanitin. Heidelberg Pharma Research is now working on the development of a companion diagnostic with the aim of detecting and quantifying a TP53/polymerase II deletion in patients. The associated potential for the identification of especially suitable patient groups could also accelerate the clinical development of appropriate treatments.

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<sup>28</sup> <https://www.nature.com/articles/s41467-018-06811-z>

This project is based on the academic collaboration with the MD Anderson Cancer Center in Texas, USA, (MD Anderson). Jointly achieved in study results showed exceptionally good efficacy of an ATAC in a colorectal cancer subpopulation with changes in the status of the tumor suppressor gene TP53. In a clinical setting, selecting patients based on their TP53 or POLR2A gene status could broaden the therapeutic window of ATACs and ensure high efficacy while minimizing side effects. These data were published in Nature magazine in 2015.<sup>29</sup>

In December 2018, more preclinical data concerning 17p deletion and HDP-101 were presented at the 60th Annual Meeting of the American Society of Hematology (ASH), one of the world's premier events for hematologic diseases. At this meeting, MD Anderson's research team demonstrated that the Amanitin conjugate HDP-101 was especially efficient at attacking tumor cells from multiple myeloma patients with a 17p deletion.<sup>30</sup> The use of TP53 and POLR2A gene status as biomarkers for ATAC sensitivity could permit the stratification of patients who are very likely to benefit from ATAC therapy. There could also be a possible accelerated market approval for this patient population, provided that the preclinical data can be translated into clinical efficacy.

#### ATAC partnerships

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

Heidelberg Pharma Research has signed exclusive multi-target research agreements with partners that include Magenta Therapeutics, Cambridge, MA, USA, (Magenta) in March 2018, and Takeda Oncology, Cambridge, MA, USA, (Takeda) in June 2017. These partners are granted access to Heidelberg Pharma Research's ATAC platform technology for use on their antibodies and have the option of obtaining an exclusive license for the global development and commercialization rights to each of the product candidates resulting from this collaboration. Takeda has this option for up to three targets, Magenta for up to four. After exercising the option for the further development of the first target molecule for CD117 in October 2018, Magenta also exercised the option for the target molecule for CD45 in November 2019 and will proceed to develop Antibody Targeted Amanitin Conjugates based on these under an exclusive license agreement. In the event of all four options being exercised together with successful development, Heidelberg Pharma Research would be eligible to receive milestone payments relating to clinical development, regulatory events, and sales of up to USD 334 million from Magenta.

Magenta has presented work with CD45 and CD117 ADCs. Preclinical trials were used to successfully investigate the suitability of these ATACs in conditioning (preparation) for stem cell transplants. A CD45-ADC has also been tested in preclinical models of autoimmune diseases. The idea behind these trials is to use ADCs to 'reset' the blood and immune system. The ADC should remove the disease-causing cells from the bone marrow, lymphatic system or bloodstream and then they are replaced with healthy stem cells to rebuild the

<sup>29</sup> <https://www.nature.com/articles/nature14418>

<sup>30</sup> <https://ash.confex.com/ash/2018/webprogram/Paper118412.html>

blood and immune system. The ADCs are being developed for stem cell transplants as well as gene therapies. Further development of these successful approaches could open doors for innovative applications in autoimmune diseases, oncology and genetic diseases.

In January 2020, Magenta announced ATAC MGTA-117 as a clinical candidate for the targeted preparation of patients (conditioning) for stem cell transplants or gene therapies. MGTA-117 is an ATAC that consists of a CD117 antibody and the compound Amanitin. The ATAC was developed in partnership with Heidelberg Pharma Research.

The partnership with Takeda is also proceeding as agreed, although neither antibodies, nor indications and data have yet been published.

**Product partnerships:** In this model, Heidelberg Pharma Research will contribute the toxin linker technology to the cooperative partnership as a contribution in kind, while other biotechnology companies will contribute their antibodies or innovative target molecules. Together, novel ATACs will be developed up to the preclinical stage, in which their efficacy and tolerability can be meaningfully assessed.

#### Participation in the Franco-German joint venture Emergence Therapeutics

Since November 2019, Heidelberg Pharma has held an equity interest in the newly founded joint venture Emergence Therapeutics AG together with French and German investors.

As a co-partner, Heidelberg Pharma Research will contribute its proprietary toxin linker technology for Antibody Targeted Amanitin Conjugates (ATACs) under a license and development agreement. Heidelberg Pharma Research will also manufacture the experimental ATAC molecules and carry out research activities. Emergence Therapeutics will provide antibodies to the partnership.

The license agreement is designed to license the project to a pharma or biotechnology company for further development and marketing after proof of concept. In these circumstances, the license agreement provides for regulatory and commercial milestone payments and royalties. As a shareholder, Heidelberg Pharma Research will also participate in any increases in the value of the joint venture.

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

**Funding projects:** Following the successful conclusion of the ETN MAGICBULLET project, Heidelberg Pharma Research and several other applicants were successful in receiving funding for further projects as part of the EU's HORIZON 2020 program. In September 2019 it was announced that MAGICBULLET, which has been a part of the HORIZON 2019 program, will continue from 2019 to 2023 and involve total funding for all project partners amounting to up to €3.9 million. The research field is being expanded from small molecule-drug conjugates to include peptide-drug conjugates and is focusing on candidates that stimulate the immune response to tumors and can overcome resistance to immunotherapies. Heidelberg Pharma is also planning to expand its Amanitin conjugate research to include peptide-Amanitin conjugates and will not only identify and validate tumor-specific drug conjugates during the new funding period, but will also investigate their biological activity in *in vitro* and *in vivo* tests.

With two other projects — INTEGRATA and pHionic – Heidelberg Pharma Research participates in research projects with a number of European universities, research institutions and companies, and receives pro rata funding from the programs as a result.

INTEGRATA funds research which assesses the potential of NAD enzymes as a novel therapy for cancer. The project receives EU funding totaling €3.7 million for all project partners and will run until the end of 2022.

The pHionic program focuses on research on pancreatic ductal adenocarcinoma. Heidelberg Pharma will use this opportunity to assess new target structures for pancreatic cancer and their suitability for therapy with ATACs. The European Union intends to issue a total of approximately €4 million in funding for all the project partners.

### 3.2 Customer-specific preclinical services business

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



The customer-specific preclinical service business will be continued with existing customers, but has significantly less strategic importance than the ATAC technology.

### 3.3 Clinical portfolio of Heidelberg Pharma AG – partnering

#### TLX250-CDx (formerly REDECTANE®) – diagnostic antibody

TLX250-CDx is a radiolabeled form of the antibody Girentuximab, which binds to the tumor-specific antigen CAIX on clear cell renal cell carcinoma. Accumulation of this antibody in tumor tissue can be visualized by positron emission tomography scans (PET). This could fundamentally change therapy planning for renal cancer patients and avoid potentially unnecessary surgery. The diagnostic agent may also prove suitable for monitoring response to treatment, detecting metastases and diagnosing other kinds of tumors.

Under the name REDECTANE®, the project was developed up to an initial Phase III trial (REDECT) at Heidelberg Pharma AG and licensed in 2017 to the Australian firm Telix Pharmaceuticals Limited, Melbourne, Australia, (Telix). The license agreement also covers the development of a therapeutic radioimmunoconjugate program.

Last year Telix developed a modernized production process for the manufacture of the antibody Girentuximab. In June, Telix achieved one of its agreed milestones and paid USD 250 thousand to Heidelberg Pharma.

Due to more favorable properties in terms of processing and diagnostics, Telix has decided to use zirconium-89 instead of iodine-124 for radiolabeling, and has defined <sup>89</sup>Zr-DFO-Girentuximab (TLX250-CDx) as the product candidate. To ensure comparability with the earlier REDECT Phase III trial, the ZIR-DOSE study was carried out and completed successfully.

In August 2019, Telix began a Phase III study (ZIRCON) with TLX250-CDx for diagnosing renal cancer using positron emission tomography (PET). The study will be conducted as a global multicenter Phase III trial at sites in Europe, Australia, and the USA, and is scheduled to enroll around 250 renal cancer patients who are to undergo kidney surgery. The study will determine the sensitivity and specificity of TLX250 PET imaging to detect clear cell renal cell cancer (ccRCC) in comparison with histologic ground truth determined from

surgical resection specimens. Patient recruitment began in Australia and is now being carried out in Europe and the USA as well. Recruitment for the entire study is scheduled for completion in the second quarter of 2020.

Telix is also planning the further development of a therapeutic radioimmunoconjugate (<sup>117</sup>Lu-girentuximab, TLX250) program based on the lutetium-177-labeled Girentuximab antibody. Telix plans to submit study applications in the USA in the first half of 2020.

#### MESUPRON® – oral uPA inhibitor

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

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

In 2016, Heidelberg Pharma's partner Link Health submitted an investigational new drug (IND) application to the Chinese National Medical Device Administration (NMPA) for a Phase I/II study with MESUPRON®. The application was approved at the end of 2018. Details of the planned trials are not yet available as the Chinese regulatory authorities have changed the trial regulations, as a result of which Link Health will have to revise the clinical development plan for MESUPRON®. However, there is now a chance that a Phase II trial can begin immediately based on earlier data from the USA and Europe. Heidelberg Pharma AG received a milestone payment of € 421 thousand when the trial was granted approval in principle.

In recent years, RedHill has filed a number of patent applications and generated interesting data for new areas of application. In 2019, RedHill continued to conduct preclinical studies to evaluate patient populations and drug combinations for several indications.

### 3.4 Other key events in fiscal year 2019

#### Mandatory conversion of the convertible bond

In late October 2019, Heidelberg Pharma gave notice to the holders of convertible bonds issued in November 2017 that it was requesting the mandatory conversion of the notes provided that the notes had not been redeemed, converted, or repurchased and canceled as of the maturity date (22 November 2019). The conversion price was €2.60. The 131,277 notes that had not yet been converted by 22 November 2019 were mandatorily converted into 50,481 new shares. Including the other conversions, a total of 76,303 shares were created during the fiscal year.

## 4 Non-financial performance indicators

### 4.1 Employees and remuneration system

The Heidelberg Pharma Group employed 75 (30 November 2018: 66) people (including members of the Management Board) at the end of the fiscal year. Heidelberg Pharma Research GmbH employed 68 people at the end of the fiscal year, while Heidelberg Pharma AG employed a team of seven people (including the two members of the Executive Management Board). A total of 52 women work at the Group, which corresponds to a share of 69%. The proportion of part-time employees is 20% (15 employees).

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

Employees	30 Nov. 2019	30 Nov. 2018
Administration	18	16
Research and development	40	32
Manufacturing, service and distribution	17	18
<b>Employees, total</b>	<b>75</b>	<b>66</b>

Heidelberg Pharma has developed a performance-related remuneration system for its employees. Every employee is paid variable remuneration based on defined goals in addition to an annual fixed salary. Stock option plans give employees a stake in the Company's performance.

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

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

The 2019 fiscal year concerns the period from 1 December 2018 to 30 November 2019. Due to rounding, it is possible that individual figures in this combined management report may not add up exactly to the totals and that percentages given may not precisely reflect the absolute figures to which they relate. The results of operations, financial position and net assets according to the German Commercial Code (HGB) of Heidelberg Pharma AG as an independent company are explained separately in chapter 10.

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

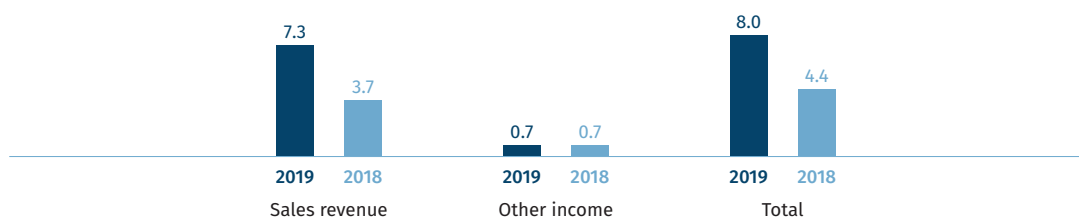
Heidelberg Pharma does not have business units that differ materially in their risk/reward profiles and would therefore require segment reporting.

### 5.1 Sales revenue and other income

In the 2019 fiscal year, the Heidelberg Pharma Group generated sales revenue and other income totaling €8.0 million, thus considerably surpassing the prior-year figure of €4.4 million. This is attributable in particular to the almost two-fold increase in sales revenue to €7.3 million (previous year: €3.7 million), which mainly stems from the research collaborations for the ATAC technology of Heidelberg Pharma Research (€6.1 million). In addition to the service business of Heidelberg Pharma Research GmbH (€0.6 million), the parent company contributed another €0.6 million to sales revenue generated from the out-licensing of the product candidates TLX250-CDx and MESUPRON®.

In the previous year, Heidelberg Pharma Research reported sales revenue of €3.5 million, of which €2.6 million was from the ATAC technology and €0.9 million from the service business. The parent company also contributed €0.2 million to sales revenues by out-licensing TLX250-CDx.

### Income in € million<sup>1</sup>



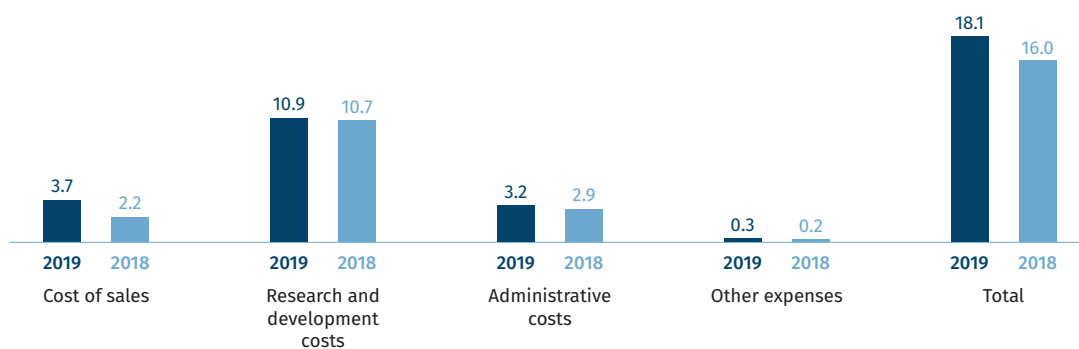
<sup>1</sup> rounded

At €0.7 million, other income was on a level with the previous year. This figure includes government grants supporting Heidelberg Pharma Research projects in the amount of €0.2 million (previous year: €0.1 million). Furthermore, as in the preceding year, income of €0.2 million was generated from the reversal of unutilized accrued liabilities. An amount of €0.1 million was generated from passing on patent costs in the context of out-licensing (previous year: €0.2 million). Other items amounted to income of €0.2 million (previous year: €0.2 million).

### 5.2 Operating expenses

Operating expenses including depreciation and amortization rose to €18.1 million in 2019 (previous year: €16.0 million).

### Operating expenses in € million<sup>1</sup>



<sup>1</sup> rounded

The cost of sales concerns the Group's costs directly related to sales revenue. These costs mainly related to expenses for customer-specific research and for the supply of Amanitin linkers to licensing partners. They amounted to €3.7 million (previous year: €2.2 million), representing 21% of operating expenses.



Research and development costs at € 10.9 million (previous year: € 10.7 million) remained stable despite the expansion of cost-intensive external good manufacturing practice (GMP) production due to the postponement of expenses for clinical development. At 60% of operating expenses, R&D remained the largest cost item.

Administrative costs were € 3.2 million, an increase on the prior year (€ 2.9 million), and accounted for 17% of operating expenses.

Administrative costs include staff costs of € 1.8 million (previous year: € 1.6 million), of which € 0.3 million concerned expenses for issuing stock options (previous year: € 0.2 million). This line item also includes legal and operating consulting costs (€ 0.6 million; previous year: € 0.5 million), rent and utilities (€ 0.1 million; previous year: € 0.1 million), as well as expenses related to the Annual General Meeting, Supervisory Board remuneration and the stock market listing (combined: € 0.5 million; previous year: € 0.5 million). Other items amounted to € 0.2 million.

Other expenses for business development, marketing and commercial market supply activities, which mainly comprise staff and travel costs, were € 0.3 million. They were higher than in the previous year (€ 0.2 million) and represented 2% of operating expenses.

### 5.3 Earnings

The Heidelberg Pharma Group recognized earnings before tax of € -10.1 million (previous year: € -11.7 million) in the 2019 fiscal year. Earnings per share thus improved from € -0.41 in the previous year to € -0.36.

### 5.4 Financing and liquidity

The Group had cash and cash equivalents of € 9.9 million at the close of the fiscal year (30 November 2018: € 19.4 million). The decrease resulted from the liquidity outflow triggered by the operating business. On 22 January 2020, the Group's main shareholder dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany, (dievini) confirmed a financing commitment in the amount of € 15 million. According to the assessment of the executive directors and based on the updated budget, the funding volume pledged and the funds available as of the 30 November 2019 reporting date would be sufficient to finance the business activities of Heidelberg Pharma AG and its subsidiary until mid-2021, provided that no exceptional developments change the situation.

As in the previous year, no finance income was generated in the fiscal year ended due to the current lack of interest accruing on credit balances. Heidelberg Pharma exclusively used short-term deposits for investing its liquid funds (e.g. overnight money); at no time were investments made in stock or share-based financial instruments. There were also no finance costs. The financial result was therefore € 0 thousand, as in the previous year.

### 5.5 Cash flow statement

Net cash outflow from operating activities during the reporting period was € 8.6 million (previous year: € 10.0 million). The year-over-year decline was attributable to the increase in sales revenue.

As in the previous year, total cash outflow from investing activities amounted to € 1.0 million and was mainly due to the acquisition of property, plant and equipment, specifically laboratory equipment, by Heidelberg Pharma Research.

There was no net change in change from financing activities in 2018 and 2019.

In addition, a currency loss of €24 thousand (previous year: €43 thousand currency gain) was recognized.

Total cash outflow in fiscal year 2019 was €9.6 million (previous year: €10.9 million). This corresponds to an average capital requirement of €0.8 million per month (previous year: €0.9 million per month).

Cash flow	2019 € million	2018 € million
Cash as of 01 December	19.4	30.4
Net change in cash from operating activities	(8.6)	(10.0)
Net change in cash from investing activities	(1.0)	(1.0)
Net change in cash from financing activities	0	0
Exchange rate effect	(0.02)	0.04
<b>Cash as of 30 November</b>	<b>9.9</b>	<b>19.4</b>

## 5.6 Assets

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The financing commitment of €15 million from the Group's main shareholder dievini that was secured on 22 January 2020 significantly extends the cash reach if business proceeds as planned, so when the balance sheet was being prepared it was assumed that the Company will continue as a going concern.

Glossary

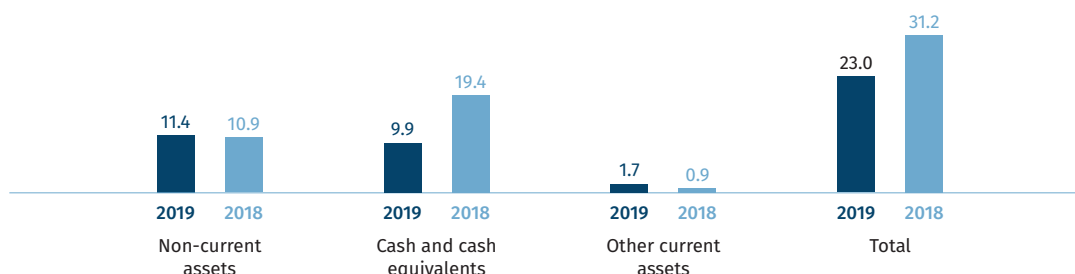
Non-current assets rose to €11.4 million as of 30 November 2019 (previous year: €10.9 million). As in the previous year, they mainly included the goodwill of Heidelberg Pharma Research (€6.1 million) as well as the recognition of the not yet ready for use intangible assets "In Process Research & Development" (IP R&D) (€2.5 million) identified in connection with the purchase price allocation.

As of 30 November 2019, property, plant and equipment increased to €2.4 million (previous year: €1.9 million), particularly as a result of investments in laboratory equipment, whereas intangible assets excluding goodwill and IP R&D remained steady at €0.3 million.

Other non-current assets (€45 thousand) are up slightly on the prior-year level (€41 thousand) and consist mainly of security for leased equipment.

The participation of Heidelberg Pharma Research in a joint venture led to the first-time recognition of a related asset in the amount of €13 thousand.

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

Balance sheet – assets in € million<sup>1</sup>

<sup>1</sup> rounded

Current assets decreased from €20.3 million in the previous year to €11.6 million. Cash and cash equivalents included in this item amounted to €9.9 million and were down on the prior-year figure of €19.4 million due to outflows triggered by the business.

Other current assets increased to €1.7 million (previous year: €0.9 million). While inventories (€0.2 million), prepayments (€0.1 million) and other receivables (€0.2 million) all remained unchanged compared with 2018, trade receivables rose from €0.4 million in the previous year to €1.2 million at this year's reporting date as a result of the expansion of business activities.

At the end of the fiscal year, total assets amounted to €23.0 million, down €8.2 million from the previous year (€31.2 million), due mainly to the expense-related decrease in cash funds and the corresponding decrease in equity.

## 5.7 Liabilities

Contract liabilities, which due to the first-time application of IFRS 15 'Revenue from Contracts with Customers' are required to be disclosed separately as non-current or current contract liabilities (> 12 or < 12 months), total €0.2 million. In connection with non-current liabilities they consist of government support programs and a research collaboration (€0.1 million in each case). There were no non-current liabilities in the previous year.

Current liabilities rose to €6.5 million at the close of the reporting period (previous year: €5.3 million).

Last year's pension obligation was utilized in full during the year and therefore no longer needs to be recognized.

Current contract liabilities, which were previously recognized as other deferred income under other current liabilities, total €1.9 million (previous year: €1.6 million) and are comprised of current contract liabilities from government support programs (€0.1 million; previous year: €0.2 million) and from research collaborations (€1.8 million; previous year: €1.4 million).

Trade payables (€1.0 million; previous year: €0.4 million) and other current liabilities (€3.5 million; previous year: €3.3 million) both rose, mainly due to the expansion of business activities at the subsidiary.

Other current liabilities included the following:

Other current liabilities	30 Nov. 2019 € million	30 Nov. 2018 € million
Provisions for holidays not taken	0.2	0.2
Social security and other taxes	0.3	0.2
Other accrued liabilities	3.0	2.9
<b>Total</b>	<b>3.5</b>	<b>4.9</b>

Heidelberg Pharma recognized other accrued liabilities (€3.0 million; previous year: €2.9 million) for goods and services (€2.7 million; previous year: €2.6 million) as well as for employee bonuses (€0.2 million; previous year: €0.2 million) and for the auditing of the financial statements (€0.1 million; previous year: €0.1 million).

## 5.8 Equity

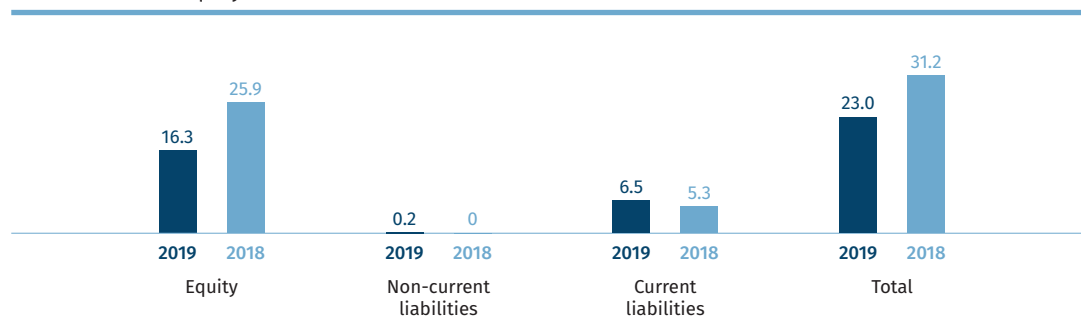
Equity of the Heidelberg Pharma Group at the end of the reporting period was €16.3 million (30 November 2018: €25.9 million).

As a result of the conversions during the year of the mandatory convertible bonds issued in November 2017, the total number of Heidelberg Pharma shares issued as of the reporting date increased from 28,133,308 by 76,303 to 28,209,611. The volume of conversion of the mandatory convertible bonds amounts to 100% and this has thus now been completed.

Taking into account the effect from issuing stock options, the capital reserve increased by a net €0.7 million, from €214.6 million in the previous year to €215.3 million as of 30 November 2019.

The losses accumulated since the foundation of the Heidelberg Pharma Group totaled €227.2 million (30 November 2018: €216.9 million). This includes the effect of IFRS 15, to be applied for the first time in the 2019 fiscal year, in the amount of €0.1 million. The equity ratio was 70.9% (30 November 2018: 83.0%).

Balance sheet – equity and liabilities in € million<sup>1</sup>



<sup>1</sup> rounded

## 5.9 Overall assessment of the 2019 fiscal year by the Executive Management Board

The 2019 fiscal year involved overcoming a major obstacle. The pharmaceutical formulation for the clinical substance for HDP-101 had to be adapted to the specific properties of the ATAC technology after it was discovered that the first formulation was unsuitable. These changes also had to be factored into the manufacturing process and led to delays in GMP production and the completion of the preclinical GLP toxicity program by at least one year. Now that some of the toxicity trials are complete, the GLP toxicity program is to be concluded during 2020 with the new test material. At the same time, further preparations are to be undertaken for the commencement of clinical development: Clinical centers in Germany and the US have been identified and enlisted for clinical studies. The clinical study protocol has been designed and the clinical application is scheduled for the second half of 2020.

 Glossary

The ATAC portfolio was enhanced to include project candidates for further hematologic indications, as were the data for the project on the treatment of prostate cancer.

To the best of its knowledge, Heidelberg Pharma is the first company in the world to establish the supply of Amanitin linker with GMP quality. This will not only cover the company's own supply for the clinical study, but also meet the already increasing demand of its licensing partners.

In November 2019, partner Magenta exercised the license options for the second of four target modules. The partnership with Magenta is unlocking new areas of application for the ATAC technology not only in cancer treatment but also in other uses, such as autoimmune diseases. For stem cell transplant and gene therapies, 2019 data showed that MGTA-117 has the potential to offer significant improvements in what is known as the 'conditioning' or preparation of patients. The Executive Management Board views these developments as attractive and innovative opportunities for the application of the technology beyond the scope of oncology.

Further activities have also been agreed and commenced with our partner Takeda, the details of which are confidential, however.

Sales revenue has enjoyed positive growth and has even doubled. This can be attributed to the ATAC collaboration, reaching milestones and the supply of materials from partners. Some of the costs for clinical development were pushed back to 2020 due to the above delays in the formulation of the material, and additional expenses were incurred for establishing the material supply.

Telix, our licensing partner for diagnostic antibodies, mobilized several European and Australian centers in a pivotal and global Phase III study and is currently continuing to recruit patients. The study was approved in the US at the beginning of 2020, meaning that patient recruitment can be expected to commence there in the first quarter of 2020.

Our partner Link Health received approval for a Phase I/II study with MESUPRON® in China at the end of 2018.

The second partner for the uPA inhibitor, RedHill, did not achieve any clinical milestones in 2019.

Based on the current planning and due to a financing commitment secured from main shareholder dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany, (dievini) on 22 January 2020, the Group and the companies included in the consolidated financial statements have sufficient financing up to mid-2021 if business proceeds as planned and the financing commitment is successfully implemented. Additional financing options are constantly being reviewed.

The guidance for the current fiscal year published in March 2019 was adjusted in October 2019. Whereas the forecast for sales revenue was raised and earnings before interest and taxes improved, the funding requirement decreased in parallel. In addition, operating expenses were reduced within the previously published range.

Financials	Guidance 03/2019 € million	Guidance 10/2019 € million	Actual 2019 € million
Sales revenue and other income	5.0–7.0	7.5–8.5	8.0
Operating expenses	14.0–18.0	15.5–17.5	18.1
Operating result	(8.0)–(12.0)	(7.5)–(9.5)	(10.1)
Total funding requirement	10.0–14.0	8.0–10.0	9.6
Funds required per month	0.9–1.2	0.7–0.9	0.8

Total assets and equity decreased year-over-year because in 2019 the Company saw an excess of expense over income as well as negative cash flow from operating activities and investing activities.

## 6 Corporate governance

### 6.1 Statement on Corporate Governance pursuant to Sections 289f, 315d German Commercial Code for the 2019 fiscal year

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

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

 [www.heidelberg-pharma.com](http://www.heidelberg-pharma.com)

The Statement on Corporate Governance was posted on the Company's website under "Press & Investors > Corporate Governance" on 31 January 2020. Pursuant to Section 317 (2) sentence 6 of the German Commercial Code, the content of the statement on corporate governance in accordance with Sections 289f and 315d of the German Commercial Code is not part of the audit of the financial statements. The audit of the disclosures pursuant to Section 289f (2) and (5) and Section 315d shall be limited to whether the disclosures have been made.

### 6.2 Remuneration report

The remuneration report summarizes the principles used to determine the total remuneration of the Executive Management Board of Heidelberg Pharma AG and explains the structure as well as the remuneration received by the Executive Management Board members. The principles and the amount of remuneration

received by the members of the Supervisory Board are also described. The remuneration report follows the recommendations of the GCGC and satisfies the requirements in accordance with the applicable provisions of Section 314 (1) no. 6, Section 315a (2) and Section 289a (2) German Commercial Code including the German Act on Disclosure of Management Board Remuneration (Vorstandsvergütungs-Offenlegungsgesetz).

#### Remuneration of the Executive Management Board

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

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

#### Salary and benefits

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

In addition to his fixed remuneration of €255 thousand, Dr. Schmidt-Brand receives the following non-cash benefits: Under the director's contract, Heidelberg Pharma Research GmbH makes payments into a defined-contribution, reinsured pension plan. In 2019, this payment amounted to €11 thousand (previous year: €11 thousand). As in the previous year, €3 thousand were paid into a pension fund.

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

In addition, company cars were made available to Dr. Schmidt-Brand and Professor Pahl for the entire fiscal year. The value of this non-cash benefit in 2019 was €9 thousand for Dr. Schmidt-Brand (previous year: €9 thousand) and €13 thousand (previous year: €10 thousand) for Professor Pahl.

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

#### Variable remuneration

Variable remuneration is contingent upon the achievement of personal targets and Heidelberg Pharma's performance targets. The performance-based remuneration of the members of the Company's Executive Management Board is primarily tied to the corporate goals of Heidelberg Pharma and refers to the achievement of defined milestones.

Dr. Schmidt-Brand receives a maximum annual bonus of €100 thousand (2018: €85 thousand due to the contract adjustment made during the year). In the fiscal year now ended, Dr. Schmidt-Brand was paid a bonus of €60 thousand for the 2018 fiscal year.

Professor Pahl's annual bonus is also capped at €100 thousand. In the fiscal year now ended, Professor Pahl was paid a bonus of €70 thousand for the 2018 fiscal year.

#### Remuneration component with incentive and risk features

This remuneration component is based on the 2011, 2017 and 2018 Stock Option Plans which were adopted by the respective Annual General Meetings and can be exercised after a lock-up period of four years at the earliest. No further requirements beyond the holding period need to be met.

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

As a result of a new issue in the 2019 fiscal year, the number of share options held by the two members of the Executive Management Board has increased. As of the 30 November 2019 reporting date, the active members of the Executive Management Board thus held 312,000 options under the 2011 Stock Option Plan (Dr. Schmidt Brandt 222,000 options, Professor Pahl 90,000), 201,200 options under the 2017 Stock Option Plan (each Executive Management Board member held 100,600 options) and 149,050 options under the 2018 Stock Option Plan (each Executive Management Board member held 74,525 options).

At the reporting date of 30 November 2019, three former members of the Executive Management Board held a total of 25,500 options under the 2011 Stock Option Plan.

Overall, the following fixed and variable remuneration components as well as non-cash remuneration for Executive Management Board members were recognized as an expense in the 2019 fiscal year:

Executive Management Board member	Fixed remuneration €		Variable remuneration <sup>1</sup> €		Other remuneration (non-cash benefits) €		Total remuneration <sup>1,2</sup> €	
	2019	2018	2019	2018	2019	2018	2019	2018
Dr. Jan Schmidt-Brandt <sup>2</sup>	255,000	226,682	75,000	63,750	22,672	22,672	352,672	313,103
Professor Andreas Pahl	200,000	200,000	75,000	75,000	13,452	10,578	288,452	285,578
<b>Total</b>	<b>455,000</b>	<b>426,682</b>	<b>150,000</b>	<b>138,750</b>	<b>36,124</b>	<b>33,250</b>	<b>641,124</b>	<b>598,681</b>

<sup>1</sup> The exact variable remuneration is usually determined and paid in the following fiscal year. The figures shown here for the 2019 fiscal year are based on provisions that were determined on the basis of assumptions and historical data.

<sup>2</sup> The remuneration of Dr. Schmidt-Brandt refers to his work as Chief Executive Officer and Chief Financial Officer of Heidelberg Pharma AG and as Managing Director of Heidelberg Pharma Research GmbH. A portion of €249 thousand of the total remuneration is attributable to his work as a member of the Executive Management Board of Heidelberg Pharma AG.

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

Executive Management Board member	30 Nov. 2018 Number	Additions Number	Expiry/return Number	Exercise Number	30 Nov. 2019 Number
Dr. Jan Schmidt-Brandt	322,600	74,525	0	0	397,125
Professor Andreas Pahl	190,600	74,525	0	0	265,125
<b>Total</b>	<b>513,200</b>	<b>149,050</b>	<b>0</b>	<b>0</b>	<b>662,250</b>



Executive Management Board member	Expense in the 2019 IFRS statement of comprehensive income €	Fair value of the options held on 30 Nov. 2019 <sup>1</sup> €
Dr. Jan Schmidt-Brand	144,820	620,601
Professor Andreas Pahl	114,077	375,197
<b>Total</b>	<b>258,896</b>	<b>995,798</b>

<sup>1</sup> As of the respective issue date

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

The following figures applied to the previous period:

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

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

<sup>1</sup> As of the respective issue date

### Remuneration of the Supervisory Board

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

Members of a Supervisory Board committee are paid a flat fee of € 3,000, while chairpersons of such committees are paid € 7,000 per fiscal year and committee. In each case, remuneration is limited to activities on a maximum of two committees. Over and above this individual limit, the maximum amount paid by Heidelberg Pharma AG for committee activities of all Supervisory Board members combined is capped at € 39,000 per fiscal year. If this cap is not sufficient to cover all memberships and chairmanships of Supervisory Board

committees, it is distributed proportionally among all committee members and chairpersons in line with the above provisions, unless the Supervisory Board unanimously resolves a different regulation.

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

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

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

In the 2019 fiscal year, the members of the Supervisory Board were paid remuneration of €175,500 (previous year: €171,750) plus reimbursement of travel expenses.

The table below shows the individual remuneration:

Supervisory Board member	Fixed remuneration €		Attendance allowance €		Committee fee €		Total remuneration €	
	2019	2018	2019	2018	2019	2018	2019	2018
Professor Christof Hettich	35,000	35,000	12,000	10,500	7,000	7,000	54,000	52,500
Dr. Georg F. Baur	25,000	25,000	7,500	6,750	10,000	10,000	42,500	41,750
Dr. Friedrich von Bohlen und Halbach	15,000	15,000	4,500	4,500	7,000	7,000	26,500	26,500
Dr. Birgit Kudlek	15,000	15,000	7,500	5,250	6,000	6,000	28,500	26,250
Dr. Mathias Hothum	15,000	15,000	6,000	6,750	3,000	3,000	24,000	24,750
<b>Total</b>	<b>105,000</b>	<b>105,000</b>	<b>37,500</b>	<b>33,750</b>	<b>33,000</b>	<b>33,000</b>	<b>175,500</b>	<b>171,750</b>

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

#### Summary of subscribed capital

As a result of the mandatory convertible bonds converted during the reporting period, the Company's subscribed capital increased from €28,133,308 to €28,209,611 compared with the end of the previous year.

The share capital is composed of 28,209,611 no par value bearer shares. The Company does not hold any treasury shares.

#### Restrictions on voting rights or on the transfer of shares

The rights and duties related to the shares arise, in particular, from Sections 12, 53a ff, 118 ff and 186 of the German Stock Corporation Act and the Company's Articles of Association. There are no restrictions on voting

rights or on the transfer of shares. No shareholder or shareholder group has special rights. Each share entitles the holder to one vote at the Annual General Meeting and is determinant for the proportion of the Company's profits the shareholder will receive.

No shareholder was prohibited from selling, pledging or otherwise disposing of the Company's securities (shares and options) as of 30 November 2019.

#### Equity interests exceeding 10 % of voting rights

Section 315a (1) number 3 of the German Commercial Code requires any interest in a Company's capital in excess of ten percent of the voting rights to be disclosed.

Entity with disclosure requirement	Voting interest as of the reporting date
Dietmar Hopp, parties related to him and companies controlled by them <sup>1</sup>	approx. 74.85 %

<sup>1</sup> Shares of dievini Hopp BioTech holding GmbH & Co. KG and DH-Holding Verwaltungs GmbH, Wiesloch, Germany, (based on voting rights notifications received as of November 2019)

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

#### Shares with special rights conferring powers of control

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

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

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

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

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

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

Pursuant to Section 179 (1) of the German Stock Corporation Act, any amendment to the Articles of Association requires a resolution by the Annual General Meeting be passed with a majority of at least three-quarters of the share capital represented at the adoption of the resolution. This does not apply to changes which

only affect the wording and which may be made by the Supervisory Board in accordance with the Articles of Association.

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

##### Authorized capital:

On 26 June 2018, the Annual General Meeting approved new authorized capital of €14,051,267, denominated in 14,051,267 new no par value bearer shares (Authorized Capital 2018/I). The Executive Management Board is thus authorized pursuant to Article 5 (5) of the Articles of Association to increase the Company's share capital, with the approval of the Supervisory Board, by up to €14,051,267 by issuing up to 14,051,267 new no par value bearer shares in return for cash contributions and/or contributions in kind on one or several occasions up to and including 25 June 2023 (Authorized Capital 2018/I).

##### Contingent capital:

The Company's share capital was contingently increased by a total of up to €3,040,212 (previous year: €3,116,515) as of the 30 November 2019 reporting date. The various underlying contingent capitals after stock options and convertible bonds are summarized in the following table:

Contingent capital	As of 30 Nov. 2019 €	Conversion <sup>1</sup> €	New issue €	Reduction €	As of 30 Nov. 2019 €	Purpose of use
II (from 2005)	59,994	–	0	0	59,994	2005 Stock Option Plan
2011/I	598,437	–	0	0	598,437	2011 Stock Option Plan
2017/I	661,200	–	0	0	661,200	2017 Stock Option Plan
2017/II	306,262	76,303	0	0	229,959	2017 convertible bonds
2018/I	1,490,622	–	0	0	1,490,622	2018 Stock Option Plan
<b>Total</b>	<b>3,116,515</b>	<b>76,303</b>	<b>0</b>	<b>0</b>	<b>3,040,212</b>	

<sup>1</sup> Conversion not applicable when used for stock options

By 30 November 2019, all of the 14,968,380 convertible bonds issued as part of the corporate action in November 2017 had been converted at a conversion price of €2.60. This led to the creation of 5,680,738 new no par value shares in 2018 and 76,303 new no par value shares in 2019, i.e. a total of 5,757,041 new no par shares that gradually increased the share capital of Heidelberg Pharma AG from €22,452,570 to €28,209,611 divided into 28,209,611 no par value bearer shares. Of the notes converted in the 2019 fiscal year, 50,481 were mandatorily converted.

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

#### Acquisition of own shares

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

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

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

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

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

### 6.4 Closing statement from the dependent company report

In fiscal year 2019, Heidelberg Pharma AG was a dependent company within the meaning of Section 17 (1) of the German Stock Corporation Act because a majority of its shares are held by dievini Hopp BioTech holding GmbH & Co. KG. This entity is attributable to Mr. Dietmar Hopp, parties related to him and companies controlled by him because it represents the same general interests of the investor. Pursuant to Section 312 (1) of the German Stock Corporation Act, the Executive Management Board of Heidelberg Pharma AG therefore prepared a dependent company report that includes the following closing statement:

“Pursuant to Section 312 (3) of the German Stock Corporation Act, the Executive Management Board of Heidelberg Pharma AG declares that there were no reportable events during the fiscal year.”

## 7 Risk report

### 7.1 Risk management and control

Managing and controlling risk is important to the management of Heidelberg Pharma. Potential risks with significant ramifications and a reasonable probability of occurring are recorded, assessed and closely monitored on a regular basis.

Risk management is designed to detect risks as early as possible, use suitable measures to keep operating losses at a minimum and avert going-concern risks. Heidelberg Pharma uses an IT-based risk management system to identify risks early; the system complies with the requirements of the German Stock Corporation Act. Heidelberg Pharma uses this system to identify and assess risks as well as to monitor measures aimed at minimizing risk.

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

The risk management system is described in detail in both a risk manual and a company guideline. These documents are regularly updated and made available to all employees. The risk early warning system is reviewed by the Company's auditor at least once per year in order to ensure that it meets the requirements of Section 91 (2) of the German Stock Corporation Act.

## 7.2 Internal control system for financial reporting

Pursuant to Section 91 and 93 of the German Stock Corporation Act, the Executive Management Board is responsible for ensuring compliance with an effective internal control system designed to ensure reliable financial reporting. Section 289 (4) and 315 (6) of the German Commercial Code requires the Executive Management to prepare a report on this. The Company's internal control system (ICS) is an integral part of its risk management system and serves primarily to ensure that its financial statements comply with all rules and regulations. It comprises all principles, methods and actions aimed at ensuring the effectiveness, economy and propriety of the Company's accounting system as well as ensuring compliance with material legal requirements.

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

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

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

- control environment,
- risk assessment,
- control activities,
- information and communication,
- monitoring the internal control system.

Using IT-based solutions, among others, the ICS is intended to ensure compliance with applicable accounting principles required for reliable financial reporting. The system comprises actions that are managed automatically and manually. Preventive and downstream risk controls are carried out, and care is taken to maintain both the division of responsibilities in the Finance Department and compliance with corporate guidelines (e.g. dual-control principle when approving expenditures).

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

With Heidelberg Pharma's organizational, control and monitoring structures, the ICS makes it possible to record, process and measure all transactions pertaining to the Company and to present them appropriately through the accounting of the Group companies and the Group. However, personal discretion, defective controls, criminal acts or other circumstances cannot be precluded and, as a result, may limit the effectiveness and reliability of the ICS such that even group-wide application of the systems utilized cannot guarantee

with absolute certainty complete, accurate and timely recording of transactions as part of the financial reporting process. The risk management system is adjusted, as necessary and in a timely manner, to account for changes in the risk environment.

### 7.3 General business risks

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

To date, neither Heidelberg Pharma nor a licensing partner has completed clinical development for any of the product candidates in the Heidelberg Pharma portfolio or applied for regulatory approval for them. Two projects (MESUPRON® and TLX250-CDx) have been completely transferred to a licensee for further development and marketing. The licensees are also exposed to the risks typical for the industry.

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

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

### 7.4 Going-concern risks

According to the assessment of the Executive Management Board and based on the available budget, the cash and cash equivalents available to the Company as of the 30 November 2019 reporting date were not sufficient to ensure its ability to continue as a going concern beyond at least the next 12 months.

Main shareholder dievini made a financing commitment of €15 million in January 2020. In February 2020, the Executive Management Board developed a concrete plan for implementing the financing commitment. According to the assessment of the Executive Management Board and based on the updated budget, the funding volume pledged and the cash and cash equivalents available as of the 30 November 2019 reporting date would be sufficient to finance Heidelberg Pharma's planned business activities until mid-2021, provided that no exceptional developments change the situation.

In this respect, the assumption that the financing commitment and the subsequent inflow of cash will be successfully implemented in the first half of 2020 was an essential prerequisite for preparing the IFRS consolidated financial statements and the HGB annual financial statements on a going-concern basis.

If the Executive Management Board is unable to implement the corporate strategy focused on the ATAC technology as planned and/or there is no option to obtain additional funding, this would jeopardize the ability of the Group and/or its consolidated companies to continue as a going concern. As a result, it cannot be

ruled out that the companies of the Heidelberg Pharma Group could be unable to satisfy their payment obligations from mid-2021 and/or that they could become overindebted due to impairment charges resulting from a failure to meet targets, for example. This would jeopardize the Group's and/or consolidated entities' existence as a going concern and shareholders could lose some or all of their invested capital. This means that the Company may not be able to realize its assets and settle its liabilities in the regular course of business. As a result, there is currently significant uncertainty about the Group's and/or both Group companies' ability to continue as a going concern.

The IFRS consolidated financial statements and the HGB annual financial statements are therefore prepared on a going-concern basis in accordance with IAS 1.25 and Section 252 (1) No. 2 German Commercial Code (HGB), as the Executive Management Board expects the Group's operations to continue beyond mid-2021.

## 7.5 Operational risks

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

The subsidiary Heidelberg Pharma Research GmbH is currently involved in early-stage research and preclinical development and to date has not collected any clinical data. There is a risk that the ATAC technology and the use of Amanitin for cancer therapy may not be suitable for patients due to severe side effects or is unable to demonstrate a sufficiently broad therapeutic window (ratio of efficacy to intolerable side effects) in patients in clinical trials.

Furthermore, no assurance can be given that contractual partners will not terminate technology partnerships. The possibility that the technology might be unusable or unsuitable for the market for certain antibodies cannot be ruled out.

Preclinical data collected so far show that undesirable side effects may occur with some of combinations used to date, or the efficacy is insufficient. In particular, there is no certainty that the data obtained to date in animal testing of promising ATACs will be transferable to human patients. Therefore, no assurance may be given that the ATAC technology will ultimately be feasible for therapeutic use in humans.

Should the risks described here materialize, it may be impossible to successfully implement the current business model of Heidelberg Pharma or portions thereof, thus jeopardizing the continued existence as a going concern of the Heidelberg Pharma Group and Heidelberg Pharma AG.

### Risks arising from the performance of clinical trials

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

Clinical trials are expensive and time-consuming, and can only be carried out after approval is given by regulatory authorities in the country in question. The trials themselves may be delayed or not reach completion.

Successful preclinical and early clinical trials do not offer any certainty regarding a compound's safety and efficacy in later-stage trials. Heidelberg Pharma cannot eliminate the possibility that the approval of a drug candidate might be delayed or rejected even after a successful registration trial, for instance if the execution or the results of the trial do not satisfy regulatory requirements.



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

Should the risks described here materialize, the necessary clinical studies could be more elaborate than expected and require additional funds. Furthermore, expected sales revenue could fail to materialize or be lower if no approval is obtained.

#### Risks arising from production and collaboration with service providers

Heidelberg Pharma does not hold a Good Manufacturing Practice (GMP) certificate. Antibodies, the toxin and the conjugates for the planned trials are manufactured by service providers (CDMO). Heidelberg Pharma Research has also been responsible for supplying licensees with GMP-quality Amanitin linkers since 2019. To do this, it uses third-party manufacturers (CDMO) as subcontractors. Heidelberg Pharma Research is exposed to the risk that service providers may not be able to supply the agreed products or could have quality or capacity problems for various reasons. This could also mean that trials have to be repeated or terminated. Heidelberg Pharma may be liable to its licensees for the manufacturing defects of the CDMO. Although recourse to the CDMO is contractually agreed, full coverage cannot always be guaranteed. As a sponsor, Heidelberg Pharma is also liable for damages to third parties, especially patients participating in clinical trials, for losses that could arise from faulty production by subcontractors of clinical trial materials. This could result in claims against Heidelberg Pharma. For such cases, the Company will take out the corresponding insurance for its clinical trials. Corresponding insurance has already been taken out to cover liability for previous clinical trials.

 Glossary

Should the risks described here materialize, clinical studies could become more expensive or be delayed. Liability risks could impair the available financial resources.

#### Risks from license collaborations

Heidelberg Pharma has entered into alliances and partnerships for the development, manufacture and/or commercialization of development or product candidates. Problems relating to development, production or marketing may arise in the course of the partnership.

This may include but is not limited to insufficient allocation of capacity by the contracting party, financial difficulties experienced by the contracting party, a change in business strategy resulting in termination of an agreement, a change in the ownership structure of the contracting party or the partial or entire absence of agreed payments.

Should the risks described here materialize, the commercial prospects of these partnerships could be impaired or evaporate completely.

#### License agreement for use of ATAC technology

Heidelberg Pharma Research has entered into license agreements with various licensors for the use of patents related to the ATAC technology. These license agreements are a key condition for further development of the ATAC technology. They can generally only be terminated by the licensor for good cause, and such cause is generally limited to breaches of duty for which the licensee is liable or insolvency of the licensee. Should material license agreements be terminated nonetheless, there is a risk that further development and marketing of the ATAC technology may not be possible. This would jeopardize the business model based on ATAC technology and thus the continued existence as a going concern of the Heidelberg Pharma Group and Heidelberg Pharma AG.

#### Unsuccessful marketing of product candidates

Heidelberg Pharma is subject to the usual industry and market risks relating to the marketing of approved pharmaceutical products. Even in cases where regulatory approval is obtained, no assurance can be given that patients, physicians or other decision-makers in the healthcare system will accept the product candidates to the extent required for commercial success.

Should the risks described here materialize, the commercial prospects of these product candidates could be impaired or evaporate completely.

#### Risks arising from workforce reduction or employee turnover

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

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

In the course of its business and as a service provider when developing drugs for its clients, Heidelberg Pharma Research is legally required to test drug candidates on animals before clinical testing in humans can be initiated. Germany has an animal welfare law in place with very high standards which are reviewed regularly. These standards are the basis for work at Heidelberg Pharma and its service providers. Despite the careful selection and monitoring of service providers, potential violations of relevant regulations cannot be completely ruled out. This could delay Heidelberg Pharma's research and development work or significantly increase its cost. As animal testing is also the subject of heated debate and negative reporting in the media, impediments to animal testing cannot be ruled out, which could also cause a delay in Heidelberg Pharma's research and development activities.

### 7.6 Financial risks

#### Financing risks

The Company has been successful so far in raising funds through corporate actions. Cash inflows from sales revenue or royalties are not yet sufficient to sustain the Company's operations. According to the planning, the establishment of a proprietary ATAC pipeline will result in an increase in research and development expenses in the future, the financing of which will require sufficient inflows of funds based on the successful implementation of the corporate strategy focused on ADC technology and/or the raising of additional capital probably from mid-2021 if business develops as planned.

There is a risk therefore (see section 7.4 "Going-concern risks" in the combined management report) that the cash flow to be generated at Heidelberg Pharma will not be sufficient to ensure financing of the planned business activities beyond mid-2021 or fulfill its payment obligations thereunder.

On 22 January 2020, Heidelberg Pharma secured a financing commitment from its main shareholder dievini in the amount of €15 million. Based on current planning, the volume of funds pledged, if the commitment is successfully implemented, in addition to cash and cash equivalents at the reporting date will be sufficient to finance the planned business activities of Heidelberg Pharma Research and Heidelberg Pharma AG until mid-2021.

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

Implementing corporate actions could turn out to be more difficult or less successful, as the capital market suffers from the effects of the corona crisis, resulting in falling share prices.

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

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

#### Risks arising from the impairment of assets

Assets, particularly equity investments, goodwill, not yet ready for use in process research and development (IP R&D) and trade receivables are subject to an inherent impairment risk. Such impairment risk might be triggered by a negative business development at Heidelberg Pharma AG or its subsidiary or by the insolvency of a creditor.

The equity investment in Heidelberg Pharma Research GmbH and the receivables from this entity reported in Heidelberg Pharma AG's HGB single-entity financial statements were tested for impairment as part of the annual impairment testing and were found to be fully recoverable.

The carrying amounts of the goodwill recognized in the IFRS consolidated balance sheet for the business of Heidelberg Pharma Research GmbH and the intangible asset "IP R&D" were also tested and confirmed as recognized.

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

#### Risks related to the allowance of tax losses carried forward

According to the tax calculation, tax losses carried forward as of 30 November 2019 were mainly attributable to Heidelberg Pharma AG (loss carryforward of €175.1 million for corporation tax; €172.0 million for municipal trade tax) and may be carried forward indefinitely. According to the tax calculation, Heidelberg Pharma Research GmbH shows a loss carryforward of €67.1 million for corporation tax and €66.5 million for municipal trade tax.

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

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

Effective 1 January 2008, under amended Section 8c German Corporation Tax Act (Körperschaftsteuergesetz, KStG) the acquisition by an acquirer or parties related to it of 25% to 50% of the subscribed capital of a loss corporation results in the pro-rated elimination of its tax loss carryforwards whilst the acquisition of more than 50% of the subscribed capital results in the complete elimination thereof.

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

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

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

#### Market risks

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

### 7.7 Strategic risks

#### Marketing risks

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

### Risks related to intellectual property rights

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

There is also a risk that Heidelberg Pharma or its licensing partners might infringe the intellectual property rights of third parties, including those of whom Heidelberg Pharma is unaware. This could lead to time-consuming and cost-intensive litigation or force Heidelberg Pharma to purchase licenses from third parties to develop and market the Company's products.

## 7.8 External risks

### Risks resulting from competition and technological change

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

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

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

## 7.9 Other risks

### Legal risks

Heidelberg Pharma AG or its subsidiary could become party to a legal dispute, for example in a drug safety, patent, licensing, liability or labor law case, as the plaintiff, defendant or intervener. A court case or even an arbitration case could be time-consuming and expensive. There is also a general risk that even if the case is won, the corresponding titles cannot be enforced due to a possible insolvency of the opposing party. Even if litigation was successful or settlements were reached, these could adversely affect the Group's results of operations and shorten the currently expected cash reach.

### Termination of the lease for business premises in Ladenburg

The lease for the business premises in Ladenburg can be terminated by both parties in writing with notice of 12 months. If the other party were to terminate the lease and if the Company were unable to lease new business premises during this time, the Company's business activities may be halted temporarily.

### Risks related to a possible significant influence of main shareholders

Certain shareholders of Heidelberg Pharma AG (Dietmar Hopp, persons related to him and companies controlled by them) hold a material proportion of its shares (approx. 74.85%) and could exercise a significant influence on the Company in the General Meeting. They could block decisions by the Annual General Meeting or cause their own interests to prevail.

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

#### Compliance and security risks

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

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

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

The introduction of the EU's General Data Protection Regulation (GDPR) in May 2018 harmonized data protection requirements across Europe. The implementation regulations, rights to protection and information of natural persons, control mechanisms, and sanctions have all been tightened up. Improving data protection can be expensive, and the amount of possible fines can be damaging to the financial situation of small companies in particular.

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

#### 7.10 Overall assessment of the risk situation

From the current perspective, there are no risks other than the aforementioned risks that would endanger the Company's position as a going concern. Management aims to further refine the business model to maximize the enterprise value in the long term by leveraging opportunities and minimizing risks.

On the one hand, financing risks will increase continually due to the planned utilization of funds until 2021. However, in the view of the Executive Management Board, the increasing maturity of the technology will on the other hand produce better marketing opportunities for the ATAC technology, and therefore enhance the revenue potential of Heidelberg Pharma Research GmbH. The Executive Management Board of Heidelberg Pharma AG believes that successful entry into the clinical phase by our subsidiary, positive safety and efficacy data, and progress on projects by our partners will significantly reduce the risks to which the Company is exposed.

## 8 Report on post-balance sheet date events

After the end of the fiscal year, the following significant event occurred for Heidelberg Pharma: Heidelberg Pharma AG secures a financing commitment of up to €15 million from its main shareholder dievini.

Detailed information on the event is provided in section 33 “Events after the reporting period” in the notes to the consolidated financial statements.

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## 9 Report on expected developments and on opportunities

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

### 9.1 Economic environment

In its World Economic Outlook, the IMF projects weak but generally accelerating global economic growth at 3.3% for 2020 (2019: 2.9%).<sup>31</sup> The figures for the eurozone and the US are converging, with growth expected to reach 1.4% and 1.7%, respectively, by 2021 (eurozone 2019: 1.2%; USA 2019: 2.3%).<sup>32</sup> The German economy is expected to grow by 1.1% in 2020 (2019: 0.5%).<sup>33</sup> The flagging growth can be attributed to the considerable decline in industrial production as a result of major global economic and political uncertainty.<sup>34</sup> The IMF recommends that Germany quit balancing its budget and increase its spending to counteract recession threats.<sup>35</sup> The global economy continues to be impacted by trade conflicts and protectionist policies in the US.<sup>36</sup> Despite initial signs of an economic recession, the central banks, especially the US Federal Reserve and the European Central Bank (ECB), will not significantly cut interest rates according to most experts.<sup>37</sup>

The International Monetary Fund (IMF) is reporting a global growth rate of 2.9% for 2019 (2018: 3.7%). For the eurozone, the IMF is estimating lower growth year-over-year in gross domestic product (GDP) of 1.2% in 2019 (2018: 1.8%). With expected GDP growth of 0.5% in 2019, the German economy is developing at a slower pace than the eurozone and will again clearly remain below the prior-year figure (2018: 1.5%).<sup>38</sup>

On 12 March 2020, the Kiel Institute for the World Economy (IfW) revised its economic forecast for Germany for 2020 in response to the current corona crisis and now expects GDP to shrink by 0.1% (previous assumption: growth of 1.1%).<sup>39</sup>

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31 <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020>

32 Ibid.

33 Ibid.

34 <https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2019/abschwung-flaut-nur-allmaehlich-ab-industrieschwaecher-verzoegert-die-erholung-13483/>

35 Ibid.

36 <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020>

37 <https://www.handelsblatt.com/finanzen/maerkte/anleihen/serie-anlegen-2020-teil-8-ein-ende-der-negativzinsen-ist-nicht-in-sicht/25368206.html?ticket=ST-1003394-EkFXN97oLpXBI53splc-ap2>

38 <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020>

39 <https://www.ifw-kiel.de/de/publikationen/medieninformationen/2020/ifw-konjunkturprognose-bip-duerfte-2020-schrumpfen/>

## 9.2 Market opportunities in the biotechnology industry

Given the enormous success of the healthcare industry in recent years, there is a lot of optimism about 2020, even though the performance of the US market is subject in a certain degree of uncertainty owing to the forthcoming presidential election.<sup>40</sup> Experts believe that the high pace of innovation in biotechnology will have a greater impact on the sector than macroeconomic events that could temporarily depress the sector, which is why they anticipate a large number of new therapies worldwide.<sup>41</sup> According to an industry report published by the global market research institute IQVIA, global drug spending is expected to rise to more than USD 1.5 trillion annually by 2023, representing an average annual increase of 3% to 6%.<sup>42</sup> The main growth drivers of this trend will be drugs for the treatment of cancer, autoimmune diseases and diabetes.<sup>43</sup> North America continues to be the largest pharmaceutical market, followed by China.<sup>44</sup>

Tumor diseases are amongst the most frequent causes of death worldwide, and the number of cancer diagnoses is expected to continue to rise as a result of numerous factors such as unhealthy lifestyles and changes in the environment.<sup>45</sup> According to the World Health Organization (WHO), 18 million new people were diagnosed with cancer globally in 2018<sup>46</sup>, a figure that will continue to rise in the next two decades.<sup>47</sup> Accordingly, there is an urgent medical need for cancer therapies that are both effective and well tolerated. As a result, oncology remains the main focus of interest, which is also reflected in a robust pipeline of more than 700 molecules in advanced clinical development. In 39% of clinical studies, targeted therapies in combination with biomarkers are investigated, which illustrates the increasing importance of precision medicine.<sup>48</sup>

The global cost of oncology therapeutics and drugs for supportive treatments totaled approximately USD 150 billion in 2018.<sup>49</sup> IQVIA expects oncology costs to rise by between 11% and 14% annually until 2023.<sup>50</sup>

Experts forecast that the positive trend in the fourth quarter of 2019, one of the strongest quarters in recent years in terms of follow-on financing and acquisitions, will continue into 2020. The performance of biotech indexes is expected to remain strong, and the number of M&A transactions high. The attractive valuations of larger biotechnology companies may encourage generalists to also buy into biotech stock and bolster the sector with fresh capital.<sup>51</sup> While it is generally assumed that the risk appetite has grown, the US election and the drug pricing debate might hamper the positive trends in the biotechnology sector during the year.<sup>52</sup> There are indications that many companies will try to raise capital at the start of 2020 before the US election season is in full swing.<sup>53</sup>

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40 In Vivo, December 2019: 2020 Vision for Biopharma.

41 BioCentury, 4 January 2020: Politics aside, 2020 could be a good year for bringing back generalists

42 IQVIA, The Global Use of Medicine in 2019 and Outlook to 2023, January 2019

43 Ibid.

44 Ibid.

45 <https://www.who.int/en/news-room/fact-sheets/detail/cancer> (as of 13 January 2020)

46 WHO, The Global Cancer Observatory, Fact Sheet, May 2019, <https://gco.iarc.fr/today/data/factsheets/populations/900-world-fact-sheets.pdf>

47 WHO, The Global Cancer Observatory, <https://gco.iarc.fr/tomorrow/home> (January 2020)

48 IQVIA Institute for Human Data Science "Global Oncology Trends 2019" (May 2019)

49 Ibid.

50 Ibid.

51 BioCentury, 4 January 2020: Politics aside, 2020 could be a good year for bringing back generalists.

52 Ibid.

53 Ibid.



### 9.3 Opportunities

#### ADC technology

ADC technology has gained considerable importance and momentum for the pharmaceutical and biotechnology industry. According to a report by Grand View Research, Inc., the global market for ADC is expected to reach USD 9.93 billion by 2025. A CAGR of 25.9% is expected during this forecast period, driven by rising cancer rates combined with a growing geriatric population. According to the WHO, people aged over 65 are expected to make up 16% of the global population by 2050 (2000: 7%).<sup>54</sup>

The number of clinical development candidates rose to 118 ADCs in 2019, up from 101 a year earlier. Another 54 candidates are in preclinical development (2018: 49).<sup>55</sup>

Heidelberg Pharma Research's ATACs occupy a special position due to the Amanitin toxin used and its unique mode of action. The pool of data from preclinical ATAC studies at Heidelberg Pharma has become larger and is seen as promising not only for BCMA, but also for PSMA, HER2 and different hematologic CDXX target modules. Due to the successful development of a GMP process to produce Amanitin and the experience gained from the special requirements in the conjugation and formulation of ATACs with our own development candidate HDP-101, the technology platform has been significantly enhanced and validated.

Research and options contracts signed with Takeda and Magenta in 2017 and 2018 involved testing different antibodies and approaches to treatment. Together with Magenta, two antibodies were selected for further development. There is keen interest in this innovative treatment. Preclinical data, also including from work carried out with partners and with MD Anderson on human cells, confirm its efficacy and show that they have the potential to be effective, even in the case of resistance to existing therapies or against quiescent tumor cells.

The partnership with Magenta is focused on applications of ATAC technology to reset the blood and immune system. This means that blood and immune system reset through the use of ATACs can be considered for the treatment of certain autoimmune, genetic diseases and cancer. These therapies all function on the premise that the diseased cells are first removed from the body (conditioning) before new, healthy cells are introduced to rebuild the blood and immune system.

Magenta is developing targeted disease-modifying ADCs that make it possible to quickly and accurately remove the disease-causing cells in the body and safely reset the immune and blood system without chemotherapy or radiation. Current methods for conditioning patients prior to a transplant and gene therapy are dependent on toxic, non-specific chemotherapy or radiation. These procedures are associated with side effects such as infertility, cancer, organ damage and death.

A key goal of the coming months will be to harness this potential and factor it into a future strategy.

The Executive Management Board of Heidelberg Pharma AG anticipates the conclusion of further partnership agreements whereby the granting of exclusive license rights for the testing, development and marketing of each individual Heidelberg Pharma Research ATAC is intended to secure increasingly significant and growing revenues as projects mature, in the form of customary upfront payments, co-funding of development, milestone payments and royalties. Early-stage research collaborations (material transfer agreements,

<sup>54</sup> Grand View Research, January 2019: Antibody Drug Conjugate Market Size Worth USD 9.93 Billion By 2025.

<https://www.grandviewresearch.com/press-release/global-antibody-drug-conjugates-market>

<sup>55</sup> BioCentury data base BCIC, as of 12 January 2019

MTAs) are still ongoing, as are negotiations with additional companies on continuing and expanding such collaborations under license agreements.

Heidelberg Pharma Research has made progress in building a proprietary ATAC portfolio with HDP-101 and in 2020 will continue to work towards achieving its planned milestones for preparing and starting the clinical trial. The target antigen for HDP-101, BCMA, is particularly interesting and the subject of various therapeutic approaches for treating certain forms of blood cancer. Heidelberg Pharma Research is currently one of four companies working on an ADC with this antigen.

### Partner program update

#### TLX250-CDx and TLX250

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

Telix has modernized the production process for manufacturing this antibody and introduced improved radioactive labeling using zirconium instead of the iodine previously used. In further clinical trials, the superior diagnosis of clear cell renal cell carcinoma by molecular imaging with TLX250-CDx and PET compared to standard CT will be evaluated. In January 2020, Telix received approval from the FDA to extend the Phase III study (ZIRCON) in the USA and plans to complete patient recruitment in Europe, Australia and the USA in the second quarter of 2020.<sup>56</sup> At the end of 2019, Telix reported that it planned to submit its application for the approval of TLX250-CDx in the third quarter of 2020. Assuming a positive decision by the authorities, 2021 could likely see the product launched on the market. Heidelberg Pharma AG is eligible to receive milestone payments and royalties reaching double digit percentages.

The lead candidate is also expected to be validated as a companion diagnostic for therapy review with academic partners in the USA and Europe and evaluated for a potential role in other types of cancer such as colon cancer.

In addition, Telix is also evaluating the development of therapies based on the CAIX antibody Girentuximab with both beta- and alpha-emitting radionuclides, which could serve as therapeutic candidates for a variety of malignancies. The Lutetium-177-labeled antibody Girentuximab (<sup>177</sup>Lu-TLX250) is to be evaluated for disease-stabilizing effects in patients with advanced metastatic renal cancer. Telix intends to submit proposals in the first half of 2020 for two US studies with TLX250 in combination with immunotherapy. The study STARLITE 1 (TLX250 + pembrolizumab + axitinib) will examine if progressive patients who have already received therapy can be resensitized for further treatment. STARLITE 2 (cyclical TLX250/nivolumab) will evaluate if immunotherapy with it will lead to improved response rates in patients with progressive kidney cancer. The companion diagnostic TLX250-CDx is expected to be used for patient selection and therapy review. Telix plans to launch these studies in 2020.<sup>57</sup> Heidelberg Pharma AG is eligible to receive royalties in the single-digit percentage range if these trials are successful.

#### MESUPRON®

At the beginning of fiscal year 2019, the Company's partner Link Health was issued an Investigational New Drug (IND) by the Chinese regulatory authority National Medical Products Administration (NMPA) for the out-licensed product candidate MESUPRON®. According to the new NMPA regulations, drug developers can

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<sup>56</sup> Telix Clinical Trial Program Update, November 2019

<sup>57</sup> Telix Company update, January 2019

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

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

 Glossary

#### 9.4 Strategy and forecast for ATAC technology

Heidelberg Pharma believes that Amanitin is an innovative toxin with attractive properties for the development of ATACs and will continue its strategy for the development and marketing of proprietary ATAC technology. ATACs could be developed as cancer drugs but also for conditioning patients prior to a bone marrow transplant, cell and gene therapy, or for immunomodulation, i.e. to improve the response of tumors to immunotherapy.

The strategy's core elements are the expansion of the Company's own project pipeline, the development of the pipeline projects until clinical proof of concept, the initiation of research and option agreements and their extension to include long-term license agreements, as well as the broadening of the technology base.

Since the beginning of the 2020 financial year, internal functions at Heidelberg Pharma have been reorganized. In addition to finance, the parent company Heidelberg Pharma AG will now take over the assets and the development of proprietary ATAC projects. Heidelberg Pharma Research has been commissioned with operational development of the proprietary projects and remains responsible for research on new projects, the availability of materials and marketing the technology.

##### Own pipeline

The proprietary ATAC candidate HDP-101 will be tested in patients with multiple myeloma. Preparations for conducting this clinical trial are well advanced. According to the clinical development strategy, applications for Phase I will be submitted simultaneously in the USA and Germany. The timeline for GMP has now been specified, which enables the Company to discuss details of the trial with the FDA and the Paul Ehrlich Institute during 2020. The application for approval of the planned Phase I trial is also expected to be submitted in the second half of 2020. The recruitment of patients is then expected to take place based on the activation of the clinical centers. The steps listed below must be completed before the clinical trial can begin:

- concluding the GLP toxicity study,
- completing the study protocol and submitting an application to the regulatory authorities for approval to conduct a Phase I trial,
- being issued with approval to conduct a Phase I trial by regulatory authorities,
- manufacturing HDP-101 in accordance with GMP to provide the clinical studies with trial materials,
- signing the agreements and establishing clinical trial centers, including approvals by ethics commissions.

An additional aim is to identify at least one other development candidate from Heidelberg Pharma Research's ATAC portfolio as a follow-up project. The nomination will largely conclude the research phase and a specific development candidate will be selected as the favorite from a range of prototypes. The development of the biomarker program is being advanced alongside work on the portfolio. As the feasibility study is already complete, the priority will now be to select a diagnostic partner that will take on responsibility for the demands of clinical studies and market supply.

### Partner programs

In order to further expand the therapeutic potential beyond the antibodies available at Heidelberg Pharma Research, additional research and option agreements are to be signed with pharmaceutical partners. The partnership with existing partners is expected to continue as planned, ideally culminating in one or more therapeutic candidates.

In recent months, Magenta has reported at various scientific events on the advances made in partner projects. Magenta is developing targeted ADCs that precisely remove disease-causing cells in the body without chemotherapy or radiation. The use of ATAC technology in ADCs for conditioning patients prior to stem cell transplant not only opens up new opportunities within oncology but also other potential fields of application, e.g. gene therapy or autoimmune therapy.

Magenta's most advanced licensing project with Heidelberg Pharma focuses on the target molecule CD117, with the clinical development candidate MGTA-117. Preclinical data have shown a broad therapeutic window for MGTA-117. Magenta is planning to release its first clinical patient data with MGTA-117 in 2021.

Furthermore, Magenta exercised an option with Heidelberg Pharma for the target molecule CD45, which Magenta is developing for the treatment of autoimmune diseases, such as multiple sclerosis.

Magenta intends to advance IND preparations for the CD45 project in 2020.

Takeda has brought new project ideas and strategic goals to the collaboration which are currently being evaluated in the run-up to an exclusive series of trials at Heidelberg Pharma.

The new company Emergence, founded at the end of 2019, will initially perform research on ATACs directed at a specific, confidential antigen. It will investigate the French antibody's compatibility with the ATAC technology. New target molecules and/or antibodies and alternative conjugation processes are currently being evaluated as part of further development of the ATAC technology. This work should be carried out systematically to identify additional project candidates or offer our partners further product optimization opportunities.

The Company believes that the current financing plan ensures that clinical development of HDP-101 can commence. Stable revenue from the services business and increased payments from Heidelberg Pharma Research GmbH's technology partnerships are expected to help finance in-house development work.

## 9.5 Financial forecast

### Expected results of operations

The Executive Management Board expects the Heidelberg Pharma Group to generate between €8.0 million and €10.0 million in revenue and other income (2019: €8.0 million) in the 2020 fiscal year. These will primarily comprise the sales revenue generated by Heidelberg Pharma Research GmbH and, to a lesser extent, potential milestone payments to Heidelberg Pharma AG. Sales revenue from a potential license agreement was not included in this planning.

Other income will mainly comprise government grants and the passing on of patent costs in the context of out-licensing.

Based on current planning, operating expenses are expected to be in the range of €20.0 million to €24.0 million, higher than in the reporting year (€18.1 million).

Earnings before interest and taxes (EBIT) in the 2020 fiscal year are expected to be between €–11.0 million and €–15.0 million (2019: €–10.1 million).

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

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

#### Expected financial position and net assets

If income and expenses develop as anticipated, the net change in cash and cash equivalents in the 2020 financial year is expected to be between €–11.0 million and €–15.0 million. This corresponds to an average monthly use of cash of €0.9 million to €1.3 million.

This planning takes into account additional potential cash inflows from new licensing activities at Heidelberg Pharma Research. The Group's financing is secured until mid-2021 based on current planning.

Consolidated equity (30 November 2019: €16.3 million) would decline despite any corporate actions given the anticipated loss for the 2020 fiscal year.

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

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Financial outlook	Actual 2019 € million	Plan 2020 € million
Sales revenue and other income	8.0	8.0–10.0
Operating expenses	18.1	20.0–24.0
Operating result	(10.1)	(11.0)–(15.0)
Total funding requirement	9.6	11.0–15.0 <sup>1</sup>
Funds required per month	0.8	0.9–1.3 <sup>1</sup>

<sup>1</sup> Not including any corporate actions

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

The management report of Heidelberg Pharma AG and the Group management report for the 2019 fiscal year have been combined in accordance with Section 315 (5) in conjunction with Section 298 (2) of the German Commercial Code (HGB). The annual financial statements of Heidelberg Pharma AG prepared in accordance with the German Commercial Code and the combined management report are published simultaneously in the Federal Gazette.

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

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

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

Heidelberg Pharma AG reported an operating result of €-1.6 million (previous year: €-1.8 million) in the 2019 fiscal year (1 December 2018 to 30 November 2019) according to German commercial law. Net income for the year was €0.5 million (previous year: net loss of €0.2 million).

Sales revenue and operating income (combined: €0.8 million; previous year combined: €0.5 million) rose year-over-year, as did operating expenses (2019: €2.4 million; previous year: €2.3 million).

Heidelberg Pharma was thus able to meet all of the expected target ranges for income (€0.5 million to €1.5 million), operating expenses (€2.0 million to €3.0 million) and operating result (€-1.0 million to €-2.0 million).

#### Sales revenue and other operating income

Sales revenue rose from €0.2 million in the previous year to €0.7 million in fiscal year 2019. These stem from the out-licensing of REDECTANE® and TLX250-CDx.

In contrast, other operating income of €0.1 million was lower year-over-year (€0.3 million) and mainly includes income from the passing on of patent costs under license agreements. In 2018, this item accounted for €0.2 million. There was also income of €0.1 million attributable to other periods from the reversal of unutilized provisions that were subject to limitation.

#### Operating expenses

Personnel expenses rose from €1.0 million in the previous year to €1.2 million in the fiscal year ended, due to general salary increases, larger bonuses and the hiring of a new member of staff working in business development in the fourth quarter of 2018.

Depreciation of property, plant and equipment totaled €2 thousand (previous year: €3 thousand). While the previous year's figure concerned depreciation of fixed assets, this year's depreciation charge exclusively related to low-value assets because all fixed assets had been fully depreciated as of the 2018 reporting date and in 2019.

Other operating expenses of €1.2 million (previous year: €1.3 million) included legal and consulting costs (€0.3 million in each case), among others.

This expense item contains the cost of conventional legal representation as well as consulting costs related to business development, costs related to industrial property rights and patents and costs related to the licensing partnerships.

In addition to the legal and consulting costs mentioned above, costs comprised other expenses related to the stock market listing (€0.3 million; previous year: €0.4 million), costs to prepare and audit the annual financial statements (€0.1 million; previous year: €0.1 million), Supervisory Board remuneration (€0.2 million; previous year: €0.2 million) as well as other delayed costs attributable to earlier clinical trials (€0.1 million;

previous year: €0.1 million). An additional total of €0.2 million was incurred for travel and office costs, insurance, contributions and other operating expenses (previous year combined: €0.2 million).

#### Interest

Interest and similar income exclusively consists of interest income on the loan to affiliated company Heidelberg Pharma Research GmbH (€2.1 million; previous year: €1.6 million). Conventional interest income on monetary assets is currently not achievable on the market.

As in the previous year, no interest and similar expenses were incurred.

#### Earnings

Heidelberg Pharma AG posted net income for the year of €0.5 million in the reporting year (previous year: net loss of €0.2 million).

#### Financing and liquidity

Heidelberg Pharma AG had sufficient funds throughout fiscal year 2019 to ensure the financing of its business operations.

Heidelberg Pharma AG had cash and cash equivalents of €9.8 million at the close of the fiscal year (30 November 2018: €18.9 million). Specifically, there are sufficient funds according to the Group's financial planning to ensure the financing of the companies included in the consolidated financial statements until mid-2020. After the Group's main shareholder dievini confirmed its financing commitment of €15 million in January 2020, this volume – if the commitment is successfully implemented – in addition to cash and cash equivalents secures the Heidelberg Pharma Group's cash reach until mid-2021 (see section 7.4).

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#### Capital expenditures

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

#### Net assets and financial position

Total assets rose by around 1% to €68.9 million compared to €68.3 million in the previous year.

The increase in total assets was attributable to higher receivables from affiliates, which more than offset the cash outflows. The corresponding increase in total equity and liabilities was mainly due to the net income for the fiscal year and the associated decrease in accumulated losses.

Fixed assets were mainly unchanged compared to the previous year at €13.3 million at the end of 2019, with the carrying amount of the equity investment in Heidelberg Pharma Research GmbH recognized under financial assets accounting for 100% of non-current assets as all fixed assets have now been fully depreciated.

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

Impairment testing, and therefore the calculation of the lower fair value of the equity investment, is based on a model that makes assumptions in respect of company planning and uses the present value of the cash flow calculated in this way to determine the enterprise value. This impairment testing was modified in 2019 by comparison with the previous year. This was due to the Group's restructuring applicable from the fiscal year 2020 and the cash flows/cost burden which will be shared between the parent company and the subsidiary going forward.

Planning of the ADC business is based on a detailed five-year plan for the period from 2020 to 2024 (preclinical phase and clinical phases I and II). This is followed by a second, longer-term 16-year planning phase from 2024 to 2040 (clinical Phase III, approval and market launch) that is based on model assumptions and continues the first planning phase. A terminal value for the service business is also factored into the calculation. Allowing for the risks and opportunities arising from the business activities, the weighted average cost of capital (after tax) used for the impairment test was 6.9%. Furthermore, an effective tax rate of 28.43% was used for the calculation.

Further model parameters:

- derivation of potential sales revenue based on comparison data of approved cancer drugs,
- significant license income from 2023 onwards with sustained positive cash flows in subsequent years,
- maximum exploitation period for license income extended until 2040 through patents granted and new patent applications,
- discounts for the success rates of individual clinical phases based on scientific literature.

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

The receivables from affiliates include loan and interest receivables from Heidelberg Pharma Research GmbH under an interest-bearing, uncollateralized and indefinite loan (overdraft or credit line) granted to Heidelberg Pharma Research GmbH to secure its financing. Overall, this receivable (including interest) from Heidelberg Pharma Research GmbH increased from €35.9 million to €45.7 million in the fiscal year. This loan will allow the subsidiary to finance most of its research and development expenses and will be continuously built up as the cash required is drawn down. The recoverability of the loan will depend on the progress of the research and development activities of Heidelberg Pharma Research GmbH and thus on its ability to repay the loan at a future date. Failure to meet targets would directly compromise recoverability. Based on the rise in the entity value of Heidelberg Pharma Research GmbH as research and development activities progress on schedule, Heidelberg Pharma AG firmly believes that the receivable is recoverable.

There were no trade receivables in 2019 (previous year: €49 thousand).

Other assets fell from €229 thousand in the previous year to €193 thousand as of the current reporting date. As in the previous year, the largest item is a VAT receivable from the tax authorities.

Prepaid expenses of €25 thousand (previous year: €43 thousand) mainly related to advance payments to service providers.

Cash and bank balances totaled €9.8 million at the end of the fiscal year (previous year: €18.9 million). For more information on the Company's financial position, which in the past frequently was strained, and a possible threat to its continuation as a going concern, refer to sections 7.4 "Going-concern risks" and 7.6 "Financing risks."

Equity according to commercial law increased to €67.9 million at the balance sheet date (previous year: €67.2 million). The increase is mainly attributable to net income for the year and the exercise of the convertible bonds during the year, as the bond liability decreases to the same extent from the time of conversion.



Subscribed capital rose to €28.2 million due to matter described above (30 November 2018: €28.1 million). The capital reserve also increased correspondingly from €224.5 million in the previous year to €224.6 million at the end of the fiscal year.

Accumulated losses decreased by €0.5 million from €185.5 million to €184.9 million due to the net income for the year.

Provisions increased from €0.6 million in the previous year to €0.7 million as of 30 November 2019. These mainly included provisions for the bonus program for the Executive Management Board and employees (€0.2 million, as in the previous year), for outstanding invoices and other items (€0.4 million; previous year: €0.3 million) and for costs of preparing and auditing financial statements (€0.1 million, as in the previous year).

After issuing convertible bonds as part of the capital increase completed in November 2017, Heidelberg Pharma AG in the previous year recognized a corresponding liability for convertible bonds in the amount of €0.2 million, which no longer exists because all bonds have been converted as of the reporting date.

Trade payables fell by €0.1 million, from €0.2 million in the previous year to €0.1 million as of 30 November 2019.

The Company recognizes liabilities to affiliated companies (€0.1 million) in connection with the consolidated VAT tax group that exists with the subsidiary. In the previous year, this item totaled €0.2 million.

Other liabilities increased from €32 thousand in the previous year to €88 thousand at the reporting date and concern unpaid tax.

#### Cash flow statement

Cash outflow from operating activities during the reporting period was €9.0 million (previous year: €11.5 million). The main factors affecting this item were cash operating expenses, which exceeded cash income, and the loan payment to Heidelberg Pharma Research GmbH.

As in the previous year, there was no cash outflow in 2019 for investing activities to purchase property, plant and equipment and intangible assets.

In 2019, as in 2018, there was no change in the cash flow from financing activities; the conversion of the notes did not have a cash effect. In addition, an effect from exchange rate movements of €12 thousand was recognized (previous year: exchange rate gains of €8 thousand).

Total net outflow of cash and cash equivalents was €9.1 million in 2019 (previous year: inflow of €11.5 million). This corresponded to an average outflow of cash of €0.8 million per month (previous year: €1.0 million).

At the end of the period, the Company had cash and bank balances of €9.8 million (previous year: €18.9 million).

#### 10.2 Other disclosures

In addition to the two Executive Management Board members, the Company had five salaried employees at the reporting date, four of whom worked in administration and one in business development. The Company had five salaried employees on average during the year, four of whom worked in administration and one in business development.

### 10.3 Financial outlook for the parent company, Heidelberg Pharma AG

#### Expected results of operations

At the beginning of the 2020 financial year, internal functions within the Heidelberg Pharma Group were reorganized. In addition to finance, the parent company Heidelberg Pharma AG will now take over the assets and the development of proprietary ATAC projects. Heidelberg Pharma Research GmbH has been commissioned with operational development of the proprietary projects and remains responsible for research on new projects, the availability of materials and marketing the technology. As a result, the expected results of operations of Heidelberg Pharma AG in 2020 will differ significantly from previous years.

The Executive Management Board expects the Company to generate between €0.5 million and €1.5 million in sales revenue and other operating income in the 2020 fiscal year (2019: €0.8 million). The earnings target for 2020 does not include potential sales revenue from a potential additional license agreement.

Total operating expenses in 2020 are expected to be in the range of €11.0 million to €13.5 million if business proceeds as planned, thus coming in considerably above the level seen in the 2019 reporting period (€2.4 million) due to the development of the ATAC projects.

The operating result in the 2020 financial year is expected to come in between €-10.0 million and €-12.5 million (2019: €-1.6 million).


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

#### Expected financial position and net assets

If income and expenses develop as anticipated, financing requirements in the 2020 fiscal year for Heidelberg Pharma AG's business operations are expected to increase compared to 2019 (€9.0 million). Thus, the funds used in the Company's role as the parent company of Heidelberg Pharma Research GmbH will be approximately in the range of the consolidated figure of €11.0 million to €15.0 million. This corresponds to an average monthly use of cash of €0.9 million to €1.3 million.

Equity as defined by German commercial law (30 November 2019: €67.9 million) would decrease regardless of any corporate actions given the anticipated loss for the 2020 fiscal year.

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

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Ladenburg, 16 March 2020

The Executive Management Board of Heidelberg Pharma AG

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

for the fiscal year from 1 December 2018 to 30 November 2019

	Note	2019 €	2018 €
Sales revenue	21	7,309,379	3,667,812
Other income	22	654,543	705,644
<b>Income</b>		<b>7,963,922</b>	<b>4,373,456</b>
Cost of sales	23	(3,738,731)	(2,208,118)
Research and development costs	23	(10,941,832)	(10,679,001)
Administrative costs	23	(3,144,935)	(2,966,420)
Other expenses	23	(281,553)	(191,897)
<b>Operating expenses</b>		<b>(18,107,051)</b>	<b>(16,045,436)</b>
<b>Operating result</b>		<b>(10,143,129)</b>	<b>(11,671,980)</b>
Finance income	26	0	0
Finance costs	26	0	0
<b>Financial result</b>		<b>0</b>	<b>0</b>
<b>Earnings before tax</b>		<b>(10,143,129)</b>	<b>(11,671,980)</b>
Income tax	27	(5,006)	0
<b>Net loss for the year</b>		<b>(10,148,135)</b>	<b>(11,671,980)</b>
Net currency gain/loss from consolidation		0	0
<b>Other comprehensive income</b>		<b>0</b>	<b>0</b>
<b>Comprehensive income</b>		<b>(10,148,135)</b>	<b>(11,671,980)</b>
<b>Earnings per share</b>			
Earnings per share (basic)	28	(0.36)	(0.41)
Average weighted number of shares issued		28,209,611	28,209,639

Rounding of exact figures may result in differences.

# CONSOLIDATED BALANCE SHEET (IFRS)

for the fiscal year ended 30 November 2019

Assets	Note	30 Nov. 2019 €	30 Nov. 2018 €
Property, plant and equipment	9	2,426,848	1,949,922
Intangible assets	10	2,800,732	2,800,914
Goodwill	10	6,111,166	6,111,166
Equity investments accounted for using the equity method	11	12,599	0
Other non-current assets	12	44,900	41,350
<b>Non-current assets</b>		<b>11,396,244</b>	<b>10,903,351</b>
Inventories	13	237,702	177,559
Prepayments	14	63,888	56,032
Trade receivables	15	1,230,258	365,949
Other receivables	15	178,682	248,734
Cash and cash equivalents	16	9,883,592	19,440,352
<b>Current assets</b>		<b>11,594,122</b>	<b>20,288,625</b>
<b>Total assets</b>		<b>22,990,366</b>	<b>31,191,977</b>

Equity and liabilities	Note	30 Nov. 2019 €	30 Nov. 2018 €
Subscribed capital	17	28,209,611	28,133,308
Capital reserve	17	215,268,448	214,643,257
Accumulated losses	17	(227,184,639)	(216,890,476)
<b>Equity</b>	<b>17</b>	<b>16,293,420</b>	<b>25,886,089</b>
Contract liabilities (non-current)	18	235,247	0
<b>Non-current liabilities</b>	<b>18</b>	<b>235,247</b>	<b>0</b>
Trade payables	19	1,011,708	405,498
Pension obligations	19	0	12,101
Contract liabilities (current)	19	1,938,064	1,628,826
Other current liabilities	19	3,511,926	3,259,462
<b>Current liabilities</b>	<b>19</b>	<b>6,461,699</b>	<b>5,305,887</b>
<b>Total equity and liabilities</b>		<b>22,990,366</b>	<b>31,191,977</b>

Rounding of exact figures may result in differences.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

for the fiscal year from 1 December 2018 to 30 November 2019

	Note	Shares	Subscribed capital €	Corporate actions/ premium Capital reserve €	Stock options €	Accumulated losses €	Total €
As of 1 December 2017		22,452,570	22,452,570	216,121,501 219,789,793	3,668,292	(205,218,496)	37,023,866
Measurement of stock options	24				534,203		534,203
Net loss for the year						(11,671,980)	(11,671,980)
Exercise of mandatory convertible bonds	17	5,680,738	5,680,738	(5,680,738)			0
<b>Net change in equity</b>							<b>(11,137,777)</b>
As of 30 November 2018	17	28,133,308	28,133,308	210,440,763 214,643,257	4,202,495	(216,890,476)	25,886,089
As of 1 December 2018		28,133,308	28,133,308	210,440,763 214,643,257	4,202,495	(216,890,476)	25,886,089
Effect of first-time application of IFRS 15						(146,028)	(146,028)
As of 1 December 2018 after IFRS 15 restatement		28,133,308	28,133,308	214,643,257		(217,036,504)	25,740,061
Measurement of stock options	24				701,493		701,493
Net loss for the year						(10,148,135)	(10,148,135)
Exercise of mandatory convertible bonds	17	76,303	76,303	(76,303)			0
<b>Net change in equity</b>							<b>(9,446,642)</b>
As of 30 November 2019	17	28,209,611	28,209,611	210,364,460 215,268,448	4,903,988	(227,184,639)	16,293,420

Rounding of exact figures may result in differences.

# CONSOLIDATED CASH FLOW STATEMENT (IFRS)

for the fiscal year from 1 December 2018 to 30 November 2019

	Note	2019 €	2018 €
<b>Net loss for the year</b>		<b>(10,148,135)</b>	<b>(11,671,980)</b>
<b>Adjustment for items in the statement of comprehensive income</b>			
Stock options	24	701,493	534,203
Depreciation, amortization and impairment losses	23	546,558	368,961
Exchange rate effects		24,255	(43,430)
		<b>1,272,306</b>	<b>859,735</b>
<b>Changes in balance sheet items</b>			
Inventories	13	(60,143)	473
Prepayments	14	(7,856)	98,910
Trade receivables	15	(864,309)	(133,441)
Other receivables	15	70,052	13,147
Other non-current assets	12	(3,550)	10,000
Trade payables	19	606,210	(1,095,591)
Provisions		0	(408,201)
Contract liabilities	18/19	544,486	0
Other liabilities	19	34,232	2,343,713
		<b>319,122</b>	<b>829,009</b>
<b>Cash flow from operating activities</b>		<b>(8,556,707)</b>	<b>(9,983,237)</b>
Finance costs paid	26	0	0
Finance income received	26	0	0
<b>Net cash flow from operating activities</b>		<b>(8,556,707)</b>	<b>(9,983,237)</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	9	(901,769)	(976,056)
Purchase of intangible assets	10	(61,430)	(24,846)
Acquisition of equity interests	11	(12,599)	0
<b>Net cash flow from investing activities</b>		<b>(975,797)</b>	<b>(1,000,902)</b>
<b>Net cash flow from financing activities</b>		<b>0</b>	<b>0</b>
Influence of exchange rate and other effects on cash and cash equivalents		(24,255)	43,430
<b>Net change in cash and cash equivalents</b>		<b>(9,556,760)</b>	<b>(10,940,709)</b>
<b>Cash and cash equivalents</b>			
at beginning of period	16	19,440,352	30,381,061
at end of period	16	9,883,592	19,440,352

Rounding of exact figures may result in differences.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of Heidelberg Pharma AG, Ladenburg, in accordance with IFRSs

for fiscal year 2019

from 1 December 2018 to 30 November 2019

## 1 Business and the Company

Heidelberg Pharma AG was founded in 1997 as WILEX GmbH by a team of physicians and cancer research specialists from the Technische Universität München (TUM). The Company was converted into a stock corporation (Aktiengesellschaft) under German law in 2001 and WILEX AG was recorded in the Commercial Register in the same year. In November 2006, the Company was listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange, where it has since been listed under ISIN DE000A11QVW0/securities identification number A11QVV/symbol WL6. On 29 September 2017, the Company moved its registered office to Schriesheimer Str. 101, 68526 Ladenburg, near Heidelberg. Since its entry in the Mannheim Commercial Register on 18 October 2017 under registration number HRB 728735, the former Wilex AG has been doing business as Heidelberg Pharma AG. The Company's Executive Management Board consists of Dr. Jan Schmidt-Brand and Professor Andreas Pahl.

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

The purpose of Heidelberg Pharma AG as a holding company in fiscal year 2019 was to act as the parent company of the Group and to out-license the portfolio of diagnostic and therapeutic oncology drug candidates with the related intellectual property rights. The Heidelberg Pharma AG team mainly performs functions relating to Group strategy, finance, investor relations, business development, legal affairs and contract management. Other areas covered are alliance and data management, as well as patents. In addition, strong research & development (R&D) support is being provided to the partner to develop an out-licensed clinical drug candidate. The clinical product candidates MESUPRON® (2014) and REDECTANE® (2017) have already been out-licensed.

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

### 1.1 Consolidated company

#### Heidelberg Pharma Research GmbH

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



Upon recording in the Commercial Register on 17 March 2011, the subsidiary became a wholly-owned subsidiary of what was then WILEX AG and is now Heidelberg Pharma AG. It has thus become part of the Heidelberg Pharma Group.

## 1.2 Associate

### Emergence Therapeutics AG

In November 2019, Heidelberg Pharma AG acquired an equity interest in Emergence Therapeutics AG, Duisburg, Germany, (Emergence) through its subsidiary Heidelberg Pharma Research GmbH together with French and German investors. This long-term interest is measured according to the equity method pursuant to IAS 28.10 as an interest in an associate over which significant influence may be exercised (IAS 28.5ff.).

## 2 Application of new and revised standards

### 2.1 New and revised standards and interpretations

The following International Financial Reporting Standards (IFRSs) newly issued or amended by the International Accounting Standards Board (IASB) which must be applied to the consolidated financial statements as of 30 November 2019 had the following effects on Heidelberg Pharma GmbH's financial statements:

Standard/interpretations		Effective for fiscal years beginning on or after	Adopted by the European Union	Effects on Heidelberg Pharma
IFRS 9	Financial instruments	1 Jan. 2018	Yes	No material effects
IFRS 15 and IFRS 15 (Amendments)	Revenue from Contracts with Customers	1 Jan. 2018	Yes	Yes
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 Jan. 2018	Yes	None
IFRS 2 (Amendments)	Classification and Measurement of Share-Based Payment Transactions	1 Jan. 2018	Yes	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan. 2018	Yes	None
IAS 40 (Amendments)	Transfers of Investment Property	1 Jan. 2018	Yes	None
Annual Improvements to IFRS Standards 2014–2016 Cycle	Amendments to various IFRSs, particularly IFRS 1 and IAS 28	1 Jan. 2018	Yes	None

#### New standard IFRS 9:

This standard provides comprehensive guidance on accounting for financial instruments. The new and revised classification rules for financial assets in the latest version of IFRS 9 constitute the primary changes from the predecessor standard IAS 39. These are based on the type of business model and contractual cash flows associated with the financial assets. Also, completely new are the rules regarding the recognition of credit losses, which are now based on an expected loss model. Accounting for hedges was also reformed in IFRS 9 and aims to more accurately reflect risk management activity. IFRS 9, which had to be applied for the first time in the 2019 fiscal year, had no material effects on the balance sheet.

#### New standard IFRS 15:

This standard governs the time when and amount in which revenue from contracts with customers must be recognized. IFRS 15 replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. IFRS 15 is mandatory for all IFRS adopters and applies to nearly all contracts with customers – the major exceptions are leases, financial instruments and insurance contracts.

The mandatory application of IFRS 15 “Revenue from Contracts with Customers” had a quantitative effect of €146 thousand on the consolidated financial statements in the fiscal year ended, because the revenue from one of the existing contracts is not recognized over a period of time as in IAS 18, but instead at a point in time as per IFRS 15. Heidelberg Pharma applied IFRS 15 on the basis of the modified retrospective method so that the transition effect was recognized cumulatively in the equity item “Accumulated losses” as of 1 December 2019 and the comparative period is presented in accordance with previous applicable regulations. Continued accounting pursuant to IAS 18 in the fiscal year ended would have reduced cumulative losses by €146 thousand.

In the prior-year column of the consolidated balance sheet, €1,629 thousand was reclassified from other current liabilities to the contractual liabilities (current) item.

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

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

Standard/interpretations		Effective for fiscal years beginning on or after	Adopted by the European Union	Possible effects on Heidelberg Pharma
IFRS 16	Leases	1 Jan. 2019	Yes	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	1 Jan. 2019	Yes	None
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 Jan. 2019	Yes	No material effects
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 Jan. 2019	Yes	No material effects
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 Jan. 2019	Yes	None
Annual Improvements to IFRS Standards 2015–2017 Cycle	Amendments to various IFRSs, particularly IFRS 3, IFRS 11, IAS 12, IAS 23	1 Jan. 2019	Yes	None
IFRS 3 (Amendments)	Definition of a Business	1 Jan. 2020	No	None
Conceptual Framework for Financial Reporting (Amendments)	Amendments to various IFRSs, particularly IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32	1 Jan. 2020	Yes	None
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 Jan. 2020	Yes	None
IFRS 9/IAS 39/IFRS 7 (Amendments)	Interest Rate Benchmark Reform	1 Jan. 2020	No	None
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 Jan. 2020	Yes	No material effects
IFRS 17	Insurance Contracts	1 Jan. 2021	No	None
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Delayed for an indefinite period	No	None

#### New standard IFRS 16:

For lessees, the new standard prescribes an accounting model which eliminates the distinction between finance and operating leases. In the future, the lessee will be granted an option for “short term leases” (leases with a term of not more than 12 months) and “small ticket leases” (leases for low-value assets). Any further leases must be recognized in the balance sheet. For lessors, the rules in IAS 17 “Leases” remain largely in effect. Going forward, lessors will continue to distinguish between finance and operating leases with different accounting treatments for each.

Heidelberg Pharma rents office, laboratory and archive space as well as office equipment and vehicles. To date, these have been considered operating leases. Payments made to date in connection with operating leases have been recognized in the income statement over the term of the lease. From fiscal year 2020 onwards, however, the right-of-use assets and liabilities arising from these leases must be carried as assets and liabilities on the balance sheet.

In fiscal year 2018, Heidelberg Pharma conducted an analysis of IFRS 16, which was supplemented with a detailed review in the 2019 fiscal year. As a result, the Company estimates that its total assets and liabilities will increase as of first-time application of the standard on 1 December 2019 by around €280 thousand, due to an asset resulting from a right of use on the asset side of the balance sheet. At the same time, on the liabilities side of the balance sheet lease liabilities will increase to €280 thousand. In the income statement, to date the expense from operating leases has been allocated to the administrative costs or the research and development costs. As a result of the first-time application of IFRS 16, in the next fiscal year no rental or lease expenses will be recognized for procurement transactions shown as operating leases, but instead depreciation of the right-of-use assets (expected to amount to €95 thousand) and interest expenses from the recognition of lease liabilities (expected to amount to €16 thousand). As a result, EBIT is expected to improve accordingly by € 16 thousand.

In the cash flow statement, to date payments for operating leases have been recognized in the net change in cash from operating activities. In the future, such payments will be divided up into interest paid as well as the principal payment portion of the lease liabilities. While the interest paid will continue to be allocated to the net change in cash from operating activities, the principal payment portions will be included in financing activities.

The new standard prescribes two possible transition methods for implementation: (1) retrospective application for each prior reporting period presented according to IAS 8 or (2) retrospectively modified application with recognition of the cumulative restatement amounts resulting from first-time application of the standard at the time of first-time application. The transition provisions of IFRS 16 permit certain transitional practical expedients. Heidelberg Pharma currently intends to implement IFRS 16 as of the date of its coming into force on 1 December 2019 on the basis of the retrospective modified method.

### 3 Key accounting policies

The significant accounting policies applied are explained below.

#### 3.1 Statement of conformity

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

#### 3.2 Basis for preparation of the consolidated financial statements

- The reporting period begins on 1 December 2018 and ends on 30 November 2019. It is referred to hereafter as the “2019 fiscal year” (“2018 fiscal year” for the previous period).
- Based on Group-wide financial and liquidity planning, the cash and cash equivalents available in connection with the financing commitment of the Company’s main investor (see section 33) trigger a cash reach until mid-2021 and therefore support the preparation of the IFRS consolidated financial statements on a going concern basis in accordance with IAS 1.25, at the time the financial statements were being prepared, it could be assumed that the Company would continue to operate as a going concern beyond the next 12 months.

- In accordance with Section 325 (3) German Commercial Code, Heidelberg Pharma publishes these IFRS consolidated financial statements in the Federal Gazette (Bundesanzeiger). These consolidated financial statements exempt the Company from preparing consolidated financial statements in accordance with the German Commercial Code.
- These consolidated financial statements were prepared by the Executive Management Board on 16 March 2020 and released for publication in accordance with IAS 10. The consolidated financial statements are to be approved by the Supervisory Board on 16 March 2020. The Supervisory Board can decline to approve the consolidated financial statements and Group management report released by the Executive Management Board, in which case the Annual General Meeting would have to decide on the approval of the consolidated financial statements.
- Due to commercial rounding up or down of exact figures, it is possible that individual figures in these consolidated financial statements may not add up exactly to the totals and that percentages given may not precisely reflect the absolute figures to which they relate.

### 3.3 Basis of consolidation

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

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

### 3.4 Foreign currencies

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

Transactions settled in currencies other than the respective local currency are recognized in the separate financial statements at the foreign exchange rate on the transaction date.

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

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

Heidelberg Pharma carries out business processes in US dollars (USD), Swiss francs (CHF), British pound (GBP) and, to a smaller extent, in other foreign currencies. In fiscal year 2019, a portion of both sales revenue and expenses were recognized in foreign currencies.

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

US dollar:

- Closing rate 30 November 2019: €1 = USD 1.1009 (previous year: €1 = USD 1.1391)
- Average exchange rate in fiscal year 2019: €1 = USD 1.1214 (previous year: €1 = USD 1.1837)

Swiss francs:

- Closing rate 30 November 2019: €1 = CHF 1.0995 (previous year: €1 = CHF 1.1353)
- Average exchange rate in fiscal year 2019: €1 = CHF 1.1152 (previous year: €1 = CHF 1.1577)

British pound:

- Closing rate 30 November 2019: €1 = GBP 0.8526 (previous year: €1 = GBP 0.8913)
- Average exchange rate in fiscal year 2019: €1 = GBP 0.8817 (previous year: €1 = GBP 0.8835)

Differences may result from commercial rounding of exact figures.

### 3.5 Equity investments accounted for using the equity method

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations used to determine significant influence or joint control are similar to those required to determine control of subsidiaries. The Group's investment in an associate or a joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share in the net assets of the associate or joint venture since the date of acquisition. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor subjected to a separate impairment test.

### 3.6 Property, plant and equipment

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

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

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

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

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

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

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

See note 3.21 for information on the accounting treatment of leases.

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### 3.7 Intangible assets

#### 3.7.1 Separately acquired intangible assets

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

In addition, impairment charges are recognized if assets are impaired as defined by IAS 38.111 in conjunction with IAS 36. This did not apply in 2019, however.

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

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

#### 3.7.2 Intangible assets acquired from a business combination

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

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

The following useful lives are assumed here:

- Acquired customer base 9 years

 Glossary

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

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

### 3.7.3 Research and development costs

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

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

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

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

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

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

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

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



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

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

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

### 3.9 Goodwill

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

For purposes of impairment testing, the goodwill must be allocated to the cash generating unit of the Group that is expected to derive benefit from the synergies generated by the business combination.

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

### 3.10 Other non-current assets

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

### 3.11 Inventories

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

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

### 3.12 Prepayments

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

### 3.13 Trade receivables

Trade receivables belong to the category of financial instruments measured at amortized cost (see note 3.15). They are therefore recognized at the initial invoice amount net of any adjustments for doubtful accounts. Such adjustments are based on an assessment by management of the recoverability and aging structure of specific receivables.

### 3.14 Other receivables

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

### 3.15 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or an equity instrument of another entity (IAS 32.11).

#### Financial assets

As of their initial measurement, financial assets are classified for the purpose of their subsequent measurement as measured either at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

The classification of financial assets as of their initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model of Heidelberg Pharma for management of its financial assets. With the exception of trade receivables which do not include any significant financing component, the Group measures a financial asset at its fair value and, in case of a financial asset which is not measured at fair value through profit or loss, plus the transaction costs.

In order that a financial asset can be classified as measured at amortized cost or at fair value through other comprehensive income and measured accordingly, the cash flows may solely consist of payments of principal and interest (SPPI) on the outstanding capital amount. This assessment is known as the SPPI test and is implemented at the level of the individual financial instrument.

The Group's business model for management of its financial assets reflects how a company manages its financial assets in order to generate cash flows. Depending on the nature of the business model, the cash flows will arise either through the collection of contractual cash flows, the sale of financial assets or both.

Purchases or sales of financial assets which envisage the delivery of these assets within a period of time which is determined according to rules or conventions on the market in question (normal market purchases) will be recognized on the trade date, i.e. the date on which the Group entered into the obligation to purchase or sell the asset.

For the purpose of subsequent measurement, financial assets will be classified in terms of the following four categories:

- 1) Financial assets measured at amortized cost (debt instruments)
- 2) Financial assets measured at fair value through other comprehensive income with reclassification of cumulative profit and loss (debt instruments)
- 3) Financial assets measured at fair value through other comprehensive income without reclassification of cumulative profit and loss upon derecognition (equity instruments)
- 4) Financial assets measured at fair value through profit or loss

#### 1. Financial assets measured at amortized cost (debt instruments)

This category is the most important one for the consolidated financial statements. The Group measures financial assets at amortized cost where the following two conditions are met:

- a) the financial asset is held within the scope of a business model whose purpose is to hold financial assets in order to collect the contractual cash flows and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows which solely consist of payments of principal and interest on the outstanding capital amount.

Financial assets measured at amortized cost will be measured in subsequent periods using the effective interest method and must be tested for impairment. Gains and losses will be recognized through profit or loss upon derecognition, modification or impairment of the asset.

The Group's financial assets measured at amortized cost comprise trade receivables as well as cash and cash equivalents.

#### 2. Financial assets measured at fair value through other comprehensive income (debt instruments)

The Group measures debt instruments at fair value through other comprehensive income where the following two conditions are met:

- a) The financial asset is held within the scope of a business model whose purpose is the collection of the contractual cash flows as well as the sale of financial assets and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows which solely consist of payments of principal and interest on the outstanding capital amount.

In case of debt instruments which are measured at fair value through other comprehensive income, interest income, remeasurements of currency translation gains and losses and well as impairment losses and impairment reversals are recognized in the income statement and calculated in the same way as financial assets measured at amortized cost. The remaining fair value changes are recognized through other comprehensive income. Upon derecognition, the cumulative gain or loss resulting from fair value changes which is recognized through other comprehensive income will be reclassified to the income statement.

No such assets were recognized in the period under review.

#### 3. Financial assets measured at fair value through other comprehensive income (equity instruments)

As of initial measurement, the Group may irrevocably opt to classify its equity instruments as equity instruments measured at fair value through other comprehensive income if they fulfill the definition of equity according to IAS 32 "Financial Instruments: Presentation" and are not held for trading purposes.

The classification will be made individually for each instrument. Gains and losses from these financial assets will never be reclassified to the income statement. Dividends will be recognized in the income statement as other income in case of a legal right to payment, unless a portion of the cost of the financial asset is recovered through the dividends. In this case, the gains will be recognized through other comprehensive income. Equity instruments measured at fair value through other comprehensive income are not tested for impairment.

The Group does not hold any equity instruments; this category is therefore not applicable.

#### 4. Financial assets measured at fair value through profit or loss

The group of financial assets measured at fair value through profit or loss consists of the financial assets held for trading purposes, which are classified as measured at fair value through profit or loss upon initial recognition and financial assets which must be measured at fair value. Financial assets will be classified as held for trading purposes if they are purchased in order to be sold or repurchased in the near future. Derivatives, including separately recognized embedded derivatives, will likewise be classified as held for trading purposes, with the exception of derivatives which have been designated as hedging instruments and are effective as such. Independently of the business model, financial assets with cash flows which are not solely payments of principal and interest are classified at fair value through profit or loss and measured accordingly. Irrespective of the criteria outlined above for classification of debt instruments in terms of the categories "measured at amortized cost" or "measured at fair value through other comprehensive income," upon initial recognition debt instruments may be classified as measured at fair value through profit or loss if this would eliminate or at least significantly reduce an accounting anomaly.

Financial assets measured at fair value through profit or loss are recognized at fair value in the balance sheet, while the fair value changes are recognized on a net basis in the income statement.

#### Impairment of financial assets

Heidelberg Pharma recognizes impairment for expected credit losses (ECL) on all debt instruments which are not measured at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows which are contractually payable and the total cash flows which the Group expects to receive, discounted by an approximation of the original effective interest rate. The expected cash flows include the cash flows from the sale of collateral held or other credit enhancements which are integral to the contractual terms.

In case of trade receivables and contract assets, the Company applies a simplified method for calculation of the expected credit losses. Instead of monitoring changes in the credit risk, it recognizes risk provisioning at each reporting date on the basis of the ECL for the overall term. Heidelberg Pharma has produced an analysis of its experience to date of credit losses, which it has adjusted in line with future factors which are specific to the borrowers and the economic outline conditions.

In case of a financial asset, the Company will assume a default if contractual payments are 90 days past due. Moreover, in certain cases the Group may assume a default in case of a financial asset if internal or external information indicates that it is unlikely that the Group will receive the outstanding contractual amounts in full before all of the credit enhancements which it holds have been taken into consideration. A financial asset will be written down where there is no legitimate expectation that the contractual cash flows will be realized.

#### Derecognition of financial assets

The Company derecognizes financial assets when either the payment claims arising from these instruments have expired or all of the material risks and opportunities associated with this instrument have been transferred.

#### Financial liabilities

All financial liabilities are initially measured at fair value, in case of loans and liabilities less the directly attributable transaction costs.

The subsequent measurement of financial liabilities will depend on their classification as follows:

##### Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss consist of the financial liabilities held for trading purposes as well as other financial liabilities classified as measured at fair value through profit or loss upon initial recognition.

Financial liabilities will be classified as held for trading purposes if they have been entered into in order to be repurchased in the near future. Gains or losses from financial liabilities held for trading purposes are recognized through profit or loss. Financial liabilities are classified as measured at fair value through profit or loss as of the date of their initial recognition, subject to fulfillment of the criteria stipulated in IFRS 9. The Group has not classified any financial liabilities as measured at fair value through profit or loss.

##### Financial liabilities measured at amortized cost

Financial liabilities which do not represent any contingent consideration of an acquirer within the scope of a business combination, are not held for trading purposes and have not been designated as measured at fair value through profit or loss are measured at amortized cost in accordance with the effective interest method.

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

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

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

Carrying amounts and fair values are identical in all cases due to their short maturities.

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

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

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

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

#### Derecognition

A financial liability will be derecognized if the underlying obligation has been fulfilled, has been cancelled or has expired. Where an existing financial liability is replaced by another financial liability of the same lender subject to substantially different contract terms or where the terms of an existing liability are subject to substantial change, this replacement or change will be treated as derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts will be recognized in profit or loss.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis.

### 3.16 Capital management

#### 3.16.1 Composition of equity

The Group's equity consists of the subscribed capital, which is denominated in common bearer shares with a notional value of € 1.00 each. Additional costs directly attributable to the issue of new shares and a capital measure are recognized under equity as a deduction from equity (e.g. from capital reserves). However, this was not relevant in the last two fiscal years.

The Company's capital comprises its equity including subscribed capital, capital reserves and accumulated deficits. Equity as of the end of the reporting period was € 16.3 million (30 November 2018: € 25.9 million).

As a result of the conversions during the year of the mandatory convertible bonds issued in November 2017, the total number of Heidelberg Pharma shares issued as of the reporting date increased from 28,133,308 by 76,303 to 28,209,611. The volume of conversion of the mandatory convertible bonds amounts to 100% and this has thus now been completed.

#### 3.16.2 Capital management

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

Given the losses the Company has incurred since its founding, it focuses mainly on using cash to fund the ongoing development of its technology and product pipeline and, not least, to maintain the confidence and trust of investors and business partners alike in the Company. However, in the fiscal year ended neither a capital increase was carried out nor was capital borrowed from banks.

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

	30 Nov. 2019 €'000	30 Nov. 2018 €'000
<b>Liquidity</b>	<b>9,884</b>	<b>19,440</b>
In % of total capital	43.0 %	62.3 %
In % of current liabilities (cash ratio)	153.0 %	366.4 %
<b>Equity</b>	<b>16,293</b>	<b>25,886</b>
In % of total capital	70.9 %	83.0 %
<b>Liabilities</b>	<b>6,697</b>	<b>5,306</b>
In % of total capital	29.1 %	17.0 %
<b>Total capital</b>	<b>22,990</b>	<b>31,192</b>

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

The ratio of liquidity to total capital fell from 62.3% to 43.0%. Analogously, the cash ratio, defined as cash and cash equivalents divided by current liabilities, decreased from 366.4% to 153.0%.

The equity ratio was 70.9% as of 30 November 2019. This is lower than in the previous year (83.0%) due to the loss posted for fiscal year 2019. In contrast, total liabilities increased as a percentage of total capital from 17.0% in the previous year to 29.1% as of 30 November 2019.

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

### 3.17 Liabilities and provisions

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

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

### 3.18 Income taxes

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

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

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

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

### 3.19 Earnings per share

Undiluted earnings per share are calculated as that proportion of net profit or loss for the year available to common shareholders, divided by the weighted average number of common shares outstanding during the period under review. The Treasury Stock Method is usually applied to calculate the effect of subscription rights (stock options). It is assumed that the options are converted in full in the reporting period. The number of shares issued to the option holder as consideration for the proceeds generated, assuming exercise at the exercise price, is compared with the number of shares that would have been issued as consideration for the proceeds generated assuming the average market value of the shares. The difference is equal to the dilutive effect resulting from the potential shares and corresponds to the number of shares issued to the option holder compared to another market participant receiving no consideration. The proceeds assumed from the issue of potential common shares with dilutive effect must be calculated as if they had been used to repurchase common shares at fair value. The difference between the number of common shares issued and the number of common shares which would have been issued at fair value must be treated as an issue of common shares for no consideration and is reflected in the denominator when calculating diluted earnings per share. The profit or loss is not adjusted for the effects of stock subscription rights. The conditional increase of the share capital to grant stock option rights to employees and members of the Executive Management Board (see note 3.20) could potentially dilute the diluted earnings per share in future. Because the stock options exercisable are currently not dilutive given Heidelberg Pharma AG's share price performance, the diluted and basic earnings per share are identical.



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

The weighted average number of shares to be included in this calculation is determined at initial recognition based on the assumption that the mandatory convertible bond will be fully converted. With effect from the mandatory conversion on 22 November 2019, the volume of conversion of the mandatory convertible bonds amounts to 100 % and this has thus now been completed.

Diluted earnings per share are not adjusted for finance costs if the mandatory convertible bond is a zero-coupon bond.

### 3.20 Employee and Executive Management Board member benefits

#### 3.20.1 Share-based payment

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

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

#### 3.20.2 Profit-sharing scheme

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

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

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

#### 3.20.3 Pension costs

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

No contributions to a defined benefit pension plan for a former Executive Management Board member at Heidelberg Pharma AG are due because of the nature of the commitment (a one-time payment in the amount of €47 thousand made in 2019) and a reinsurance policy funded with a one-time payment of €15 thousand in 2000 constituting the plan assets. However, due to the unfavorable performance of the capital markets, there was a coverage gap of €14 thousand between the payment and the existing plan assets.

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

#### 3.20.4 Employer's contributions to the statutory pension insurance scheme

In the 2019 fiscal year, Heidelberg Pharma paid €324 thousand in employer contributions to the statutory pension insurance scheme; this expense is allocated to staff costs (previous year: €291 thousand).

### 3.21 Leases

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

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

### 3.22 Recognition of revenue and earnings

#### 3.22.1 Sales revenue from contracts with customers

Revenue from contracts with customers will be recognized where the power of disposal over these goods or services is transferred to the customer. Revenue is recognized in line with the value of the consideration which the entity is expected to receive in exchange for these goods or services. The payment terms typically require a payment within a period of 30 to 90 days of receipt of an invoice.

Heidelberg Pharma's business activities are aimed at generating revenue from cooperation agreements and/or license agreements (depending on the design of the given contract in the form of upfront payments, milestone payments, material supplies, cost reimbursements and royalties).

Up-front payments are usually due as prepayments at the start of a given agreement.

Milestone payments are contingent upon achievement of targets previously stipulated in the cooperation or license agreement. Earlier realization under IFRS 15 entails a high risk of revenue correction. This option has therefore not been exercised.

Thanks to the technology transfer of Amanitin production to an industrial scale, the Group is now able to ensure the supply of material not only for its own projects but also to provide its license partners with the necessary GMP-quality Amanitin linker material.

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

Revenue from royalties can become payable after the successful marketing of technologies or programs, for example when licensees generate sales revenue from these. This is recognized in the period in which the sales revenue report or the payment is received. Payment may occur together with the sales revenue report or subsequently. Royalties typically involve contract components with variable consideration which, in line with the above comments, is only recognized as revenue where it is highly probable that this will be received.

### 3.22.2 Evaluation of sales revenue

In accordance with IFRS 15 "Revenue from Contracts with Customers," which is applicable for the first time, license agreements are evaluated according to the five-step framework model. Moreover, according to IFRS 15.B34 for each specific, i.e. distinct service or provision of goods that has been promised to the customer an assessment must be made of whether the entity is acting as an agent or principal. The latter applies due to the power of control over the service and material, which also suggests itself in view of the licensor or rights holder status.

#### Step 1 – Identification of contracts with customers

A contract with a customer falls within the scope of IFRS 15 if the following conditions pursuant to IFRS 15.9 are met:

- the contract has been approved by the parties to the contract,
- each party's rights in relation to the goods or services to be transferred can be identified,
- the payment terms for the goods or services to be transferred can be identified,
- the contract has commercial substance and
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

#### Step 2 – Identification of a separate performance obligation

At the start of the contract, Heidelberg Pharma is required to assess the goods or service that has been promised to the customer in accordance with IFRS 15.22 and must identify it as a performance obligation. A performance obligation is a promise to transfer distinct goods or services to the customer.

#### Step 3 – Identification of the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for the transfer of the promised goods and services.

When making this determination, pursuant to IFRS 15.47 past customary business practices must be taken into consideration. Where a contract contains elements of variable consideration, the amount of variable consideration to which Heidelberg Pharma expects to be entitled under the contract will be estimated (IFRS 15.50). Variable consideration is also present if the Group's right to consideration is contingent on the occurrence of a future event (IFRS 15.51). According to IFRS 15.B63, revenue arising from sales or usage-based royalty revenue arising from licenses of intellectual property will be recognized only when and after the underlying sales or usage occur.

#### Step 4 – Allocation of the transaction price

According to IFRS 15.73, the transaction price is to be allocated to the individual performance obligations. If a contract consists of multiple performance obligations, the transaction price is to be allocated to the performance obligations in the contract on the basis of the stand-alone selling prices (IFRS 15.74). If a stand-alone selling price is not directly observable, this must be estimated.

#### Step 5 – Revenue recognition

According to IFRS 15.31, revenue will be recognized as control is passed, i.e. the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. This may occur either over time or at a point in time.

IFRS 15.35 prescribes recognition of revenue over time if

- the customer continuously receives all of the benefits provided by the entity as the entity performs or
- an asset that the customer controls as the asset is created or enhanced or
- the entity's performance creates an asset with no alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If an entity does not satisfy its performance obligation over time, it satisfies it at a point in time. Revenue will therefore be recognized when control is passed at a certain point in time. According to IFRS 15.38, factors that may indicate the point in time at which control passes include, but are not limited to:

- the entity has a present right to payment for the asset or
- the customer has legal title to the asset or
- the entity has transferred physical possession of the asset or
- the customer has the significant risks and rewards related to the ownership of the asset or
- the customer has accepted the asset.

Heidelberg Pharma also generates sales revenue from the provision of preclinical services as part of a customer specific service business.

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

#### 3.22.3 Contract assets/contract liabilities

Once progress exceeds the prepaid amount, a contract asset will be recognized. These contracts may also include performance-related components which Heidelberg Pharma will only include in the transaction price as variable consideration if it is highly likely that these payments will be received. However, at the start of the contract and in early phases of contracts this is rarely the case, due to the nature of the performance.

Payments for performances not yet provided (e.g. as a prepayment) will be recognized as a contract liability. A contract liability corresponds to the liability of the company to transfer goods or services to a customer from whom it has received (or is yet to receive) consideration for these goods or services. If the customer pays consideration before the Group transfers goods or services to it, a contract liability will be recognized once the payment is made or falls due (whichever occurs first). Contract liabilities will be recognized as revenue once the Group meets its contractual liabilities.

#### 3.22.4 Other income

In addition to the reversal of unused liabilities and provisions from prior periods through profit or loss, other income relates to government grants, such as those from the Federal Ministry of Education and Research (BMBF). These government grants are used to support certain projects by reimbursing (portions of) research

expenses from public funds. Reimbursement is based on the project costs incurred and non-refundable. The cash amounts received in advance are recognized over the underlying service period according to the research project's stage-of-completion. There was also income from exchange rate differences and sub-leases. In addition, income was generated from costs passed on to third parties to maintain patents in the context of out-licensing.

### 3.23 Cost of sales

All costs directly related to generating sales revenue are reported as cost of sales. Cost of sales thus comprise staff costs, material costs and other costs directly attributable to manufacturing in reference to the respective goods and services sold.

### 3.24 Research and development

Research and development activities comprise all associated costs not related to the generation of sales revenue, including staff costs, consulting costs, depreciation, amortization and impairment losses, material and cost of sales, third party services, laboratory costs and fees for legal advice. They are recognized as expenses in the period in which they are incurred.

### 3.25 Administrative expenses

This expense item essentially comprises staff costs, operating costs, consumables, depreciation and amortization, and costs for external services and the stock listing.

Under IFRSs, the costs of a capital increase are closely related conceptually to the inflow of funds. Costs necessarily incurred as a result of and directly attributable to the capital increase are therefore not recognized as an expense in profit or loss, but taken to the capital reserves and offset directly against the capital received (IAS 32.37).

Administrative expenses therefore do not include expenses for capital increases.

### 3.26 Other expenses

Other expenses are incurred for business development, marketing and commercial market supply activities.

### 3.27 Interest income

Any interest income is recognized in the statement of comprehensive income at the time it is generated, taking into account the effective yield on the asset.

### 3.28 Interest expense

Any interest expense generally comprises interest expense on non-current and current liabilities, interest expense for pension provisions and any interest portion arising in connection with leases. Since the Group does not own qualifying assets, borrowing costs are recognized as an expense in the period in which they are incurred.

## 4 Segment reporting in accordance with IFRS 8

Applying IFRS 8 “Operating Segments,” Heidelberg Pharma reported on three segments in up to and including the 2014 fiscal year: Customer Specific Research (Cx), Diagnostics (Dx) and Therapeutics (Rx). As a consequence of the discontinuation of the parent company’s R&D activities, no further business activities are conducted within the Group that differ materially in their risk/reward profiles. This means that Heidelberg Pharma no longer has any reportable business segments for internal management purposes. The Executive Management Board is currently in charge of all control variables and decisions of the Group as a whole. R&D activities have since focused on the operations of the subsidiary Heidelberg Pharma Research GmbH.

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The regional distribution of sales revenue previously presented here is now shown in note 21.

## 5 Financial risk management

### 5.1 Financial risk factors

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

Responsibility for groupwide risk management rests with the full Executive Management Board. It has implemented an effective groupwide risk management system throughout the entire Heidelberg Pharma Group and monitors compliance with the risk management principles approved by the Supervisory Board with the help of the respective individuals responsible for the individual fields of risk identified as well as in cooperation with Controlling. The Executive Management Board specifies written principles for all risk management aspects. The Risk Officer identifies, assesses and communicates financial and corporate risks in close cooperation with the Executive Management Board. Moreover, all potential risks, particularly financial risks with substantial ramifications and a reasonable probability of occurring are closely monitored and discussed by the Company’s Executive Management and Supervisory Boards at every quarterly reporting date.

The groupwide risk management system serves to identify and analyze risks to which Heidelberg Pharma is exposed, making it possible to take appropriate countermeasures as necessary. The principles underlying the risk management system are reviewed and adjusted in a regular and ongoing process in order to ensure that any changes in and requirements of Heidelberg Pharma’s business environment are covered. Internal guidelines and training ensure that every employee is aware of their tasks and duties in connection with the risk management system and duly carries them out.

#### 5.1.1 Market risk

##### 5.1.1.1 Currency risk

Currency risks arise when future business transactions, or recognized financial assets or liabilities are denominated in a currency other than the Group’s functional currency. Heidelberg Pharma operates internationally and cooperates with different customers and service providers worldwide and is therefore exposed to currency risks in connection with currency positions, mainly in US dollars, Swiss francs, British pound and, to a lesser extent, in other foreign currencies. This risk includes the relative decrease or increase of the euro vis-à-vis the other currencies during the period until payment of the liability or receivable.

As the currency risk is limited overall, Heidelberg Pharma has not concluded any hedging transactions but is attempting to achieve financial hedging by matching cash inflows and outflows in the same currency.

#### 5.1.1.2 Price risk

Heidelberg Pharma is not exposed to risks from share price fluctuations related to equity securities, nor to risks from changes in the price of commodities, as these are not purchased.

#### 5.1.1.3 Interest rate risk

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

Since Heidelberg Pharma does not hold any floating-rate or fixed-rate financial instruments as of the reporting date, the Company is not exposed to any interest rate risks.

### 5.1.2 Liquidity risk

The financial instruments from which a liquidity risk can arise for Heidelberg Pharma are mainly cash, cash equivalents and receivables. Heidelberg Pharma has no obligations under long-term financial investments. The Group has a detailed cash planning system, which is updated regularly, at least once a month. It serves to ensure that Heidelberg Pharma is aware of the available cash and cash equivalents and the due dates of its liabilities at all times in order to be able to pay liabilities as they fall due. With regard to any long-term liquidity risks, please see note 6 "Going concern risks".

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### 5.1.3 Default risk

The default risk is the risk of a business partner failing to meet its obligations within the scope of a financial instrument or customer framework agreement and this resulting in a financial loss. Within the scope of its operating business, the Group is exposed to default risks (particularly in case of trade receivables) as well as risks associated with financing activities, including those resulting from deposits with banks and financial institutions, foreign exchange business and other financial instruments.

The maximum default risk in connection with trade receivables is €1,230 thousand and corresponds to the trade receivables balance sheet item. The maximum default risk from other receivables is €179 thousand, which mainly comprises receivables from the tax authorities.

The other non-current assets comprise receivables in connection with rent and lease security deposits (€40 thousand; previous year: €36 thousand) and other receivables from service providers (€5 thousand; previous year: €5 thousand).

### 5.1.4 Cash flow and fair value interest rate risk from financial instruments

Heidelberg Pharma invests liquid funds only in interest-bearing bank accounts or short-term fixed deposits. Market interest rate fluctuations may therefore affect the Company's ability to generate interest income from these financial instruments. Due to the current interest rate situation, the Company was unable to generate interest cash flow in 2019. This conservative investment approach ensures that there is no nonpayment risk (see note 3.15).

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Furthermore, Heidelberg Pharma maintains domestic credit balances only with major banks that belong to the German Deposit Insurance Fund and/or the German Savings Banks Organization's deposit assurance fund. The default risk in connection with these credit balances is therefore minimal.

## 5.2 Determination and measurement of fair value

The rules in IFRS 13 “Fair Value Measurement” must always be applied if fair value measurement is stipulated or permitted by another IAS or IFRS, or if disclosures about fair value measurement are required. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value of a liability therefore reflects the default risk (i.e. own credit risk). Measurement at fair value assumes that the asset is being sold or the liability is being transferred in the principal market or – if such is unavailable – in the most favorable market. The principal market is the market with the largest volume and the greatest activity to which the entity has access.

Fair value is determined using the same assumptions and taking into account the same characteristics of an asset or a liability on which independent market participants would base their assessment. Fair value is a market-based, not entity-specific measurement. For non-financial assets, the fair value is determined based on the best possible use of the asset by a market participant.

Heidelberg Pharma uses the following hierarchy to determine and disclose the fair value of financial instruments (see note 20):

Level 1: Quoted (unadjusted) prices in an active market for identical assets and liabilities that the entity can access. The fair value of financial instruments traded on an active market is based on the quoted market price at the reporting date.

Level 2: Inputs, other than quoted prices in Level 1, that are observable for the asset or liability either directly (such as prices) or indirectly (derived from prices). The fair value of financial instruments not traded on an active market can be determined using a valuation technique. In this case, fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. If all of the inputs required to determine fair value are observable, the instrument is classified in Level 2.

Level 3: Inputs for the asset or liability that are not observable. If important inputs are not based on observable market data, the instrument is classified in Level 3.

The carrying amounts of financial assets and liabilities such as cash and cash equivalents, marketable securities as well as trade receivables and payables are equal to their fair value on account of the short maturities.

## 6 Going concern risk

As the Group’s financing is expected to be ensured until mid-2021 based on the budget available from the executive directors, and the executive directors also expect the Group’s operations to continue as planned beyond this date, the IFRS consolidated financial statements have also been prepared on a going-concern basis. A going-concern assumption was therefore made in accordance with IAS 1.25 and Section 252 (1) No. 2 German Commercial Code.

If the executive directors are unable to implement the corporate strategy focused on the ATAC technology as planned and/or there is no option to obtain additional funding externally, this would jeopardize the ability of the Group and/or its consolidated companies to continue as a going concern. As a result, it cannot be



ruled out that the companies of the Heidelberg Pharma Group could be unable to satisfy their payment obligations from mid-2021 and/or that they could become overindebted due to impairment charges resulting from a failure to meet targets, for example. This would jeopardize the Group's and/or consolidated entities' existence as a going concern and shareholders could lose some or all of their invested capital. This means that the Company may not be able to realize its assets and settle its liabilities in the regular course of business. As a result, there is currently significant uncertainty about the Group's and/or both Group companies' ability to continue as a going concern.

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

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## 7 Critical estimates and discretionary decisions

Application of the accounting policies described under note 3 requires management to assess facts, perform estimates and make assumptions with respect to the carrying amounts of assets and liabilities that cannot be readily determined from other sources.

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Estimates and judgments are continually evaluated and are based on historical data and experience and other factors, including expectations of future events that are believed to be reasonable and realistic under the circumstances. The Company makes estimates and assumptions concerning the future. By their nature, the resulting estimates rarely reflect the exact subsequent circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

The assumptions underlying the estimates are regularly reviewed. Changes in the estimates that concern only a specific period are considered solely in that period; if the changes concerns both the current and subsequent reporting periods, then they are considered in all relevant periods.

Assumptions underlying the recognition of sales revenue (€7.3 million; previous year: €3.7 million) and other income (€0.7 million; previous year: €0.7 million) are in some cases based on estimates by the Executive Management Board.

Determining the expense in the reporting year from the measurement of stock options granted and the parameters underlying the impairment test for goodwill and IP R&D materially concern assumptions and judgments that are made by management and regularly reviewed.

One determining factor in the convertible bond's classification as an equity instrument and therefore as a mandatory convertible bond was the fact that, at the issue date, Heidelberg Pharma AG already considered it highly probable that it will be settled in equity instruments. The fact that the conversions have now been completed proves this assumption to be accurate.

It is generally possible that Heidelberg Pharma could deviate in the future from the assumptions made to date, which could necessitate a material adjustment of the carrying amounts of the assets or liabilities in question.

## 7.1 Expense from the granting of stock options

Heidelberg Pharma recognizes expenses in the amount of €701 thousand (previous year: €534 thousand) from the granting of stock options during the reporting year under staff costs (see note 24). For this purpose, future assumptions need to be made regarding the different calculation parameters, such as the expected volatility of the share price, the expected dividend payment, the risk-free interest rate during option terms and staff and Executive Management Board turnover. Should these assumptions change, Heidelberg Pharma would need to change the relevant parameters and adjust its calculations and staff costs accordingly.

## 7.2 Impairment testing pursuant to IAS 36

The impairment tests of both goodwill (see note 8) in the amount of €6,111 thousand (previous year: €6,111 thousand) and the IP R&D technology asset – which is not yet ready for use – in the amount of €2,493 thousand (previous year: €2,493 thousand) require estimating either the fair value less costs to sell or, alternatively, the recoverable amount as the value in use, determined on the basis of the cash generating unit's expected future cash flows and a reasonable discount rate.

Factors such as revenue that is lower than expected and the resulting decrease in net cash flows as well as changes in the WACC could have a material effect on the determination of the value in use and/or the fair value less costs to sell and, in the final analysis, on the impairment of the goodwill or the IP R&D technology asset acquired.

## 7.3 Revenue recognition according to IFRS 15

### 7.3.1 Identification of performance obligations, allocation of the transaction price and determination of progress in discharge of performance obligations in service agreements

Heidelberg Pharma provides research services for a large number of customers and through various sets of agreements. Where these agreements relate to separate performance obligations which are distinct in the context of the agreement, the Group will allocate the transaction price to these individual service components on the basis of the stand-alone selling prices of the separate services. However, particularly in service agreements for research services which involve the provision of a large number of individual services which are remunerated by means of a fee which is paid in advance, either in whole or in part, and whose general purpose is to produce new research findings, Heidelberg Pharma has identified agreements where the services are in some cases strongly dependent on one another in the context of the agreement and has defined these as an individual performance obligation. Where further distinct performance obligations are included in this type of agreement, Heidelberg Pharma likewise allocates the transaction price on the basis of the stand-alone selling prices of the separate services. Heidelberg Pharma typically measures progress in the discharge of performance obligations on the basis of input methods, such as the ratio of the number of hours worked on research projects to the total number of hours estimated to be necessary for provision of the service in full. Changes to the progress estimates may therefore result in a restatement of revenue in the current period or future periods.

### 7.3.2 Determination of the method for the estimation of variable consideration and assessment of a limitation

Customer agreements frequently include additional remuneration which is associated with the achievement of research findings as well as other potential payments which are dependent on future events. Since this generally involves a small number of concrete events, which are partially dependent on research services, the Group estimates the variable consideration by determining the most probable amount which will be received on account of this. Heidelberg Pharma also reviews whether this variable consideration is subject

to a limitation which would prevent recognition of revenue. Due to past experience and the inherent uncertainty associated with research activities, Heidelberg Pharma has concluded that potential remuneration as variable consideration will not be included in the determination of the transaction price at the start of the contract and that revenue can instead only be recognized upon fulfillment or when fulfillment is highly probable.

## 8 Impairment testing pursuant to IAS 36

The following is a description of impairment testing in January 2020 (previous year: January 2019) of the acquired goodwill and the intangible and not yet ready to use (and therefore not yet amortized) technology asset (IP R&D) acquired in the course of the 2011 business combination with Heidelberg Pharma Research GmbH. This impairment testing was modified in 2019 by comparison with the previous year. This was due to the Group's restructuring applicable from the fiscal year 2020 and the cash flows/cost burden which will be shared between the parent company and the subsidiary going forward.

For purposes of annual impairment testing, goodwill and the IP R&D technology asset are assigned to Heidelberg Pharma's lowest and only identifiable cash generating unit (Heidelberg Pharma Research GmbH), which is monitored by the Executive Management Board as a cash generating unit based on the management approach.

Heidelberg Pharma AG acquired Heidelberg Pharma Research GmbH in March 2011. This acquisition generated goodwill of €6,111 thousand. Furthermore, an IP R&D asset consisting of the ADC technology with a net carrying amount of €2,493 thousand was identified as a not-yet-ready-for-use technology asset in the course of the purchase price allocation performed at the time. The carrying amounts as of 30 November 2019 correspond to the value at acquisition in each case. Despite the progress made in development, management believes that the general conditions under which Heidelberg Pharma Research GmbH operates have not changed significantly since 2011.

Impairment testing, and therefore the calculation of the recoverable amount as the value in use, is based on a model in which assumptions in respect of company planning are included and in which the present value of the cash flows forecast in this way are calculated to determine the value in use. The expected future cash flows from Heidelberg Pharma Research GmbH were discounted applying a company-specific risk-adjusted interest rate.

Planning as regards the service business of Heidelberg Pharma Research GmbH is based on annual sales revenue of €0.5 million in the period from 2020 to 2023. Following planned out-licensing and the associated expansion of internal resources for this business unit, increasing sales revenue of €0.7 to €1.1 million is planned for the years 2024 to 2027. Continuous annual growth of 1.75% is assumed from 2028 to 2040. For the period after 2040, a terminal value of €1.1 million and a growth rate of 0% was taken into account for the service business.

The ADC business was analyzed as to its future partnership and out-licensing potential, and these assumptions were used for sales revenue planning during the period from 2020 to 2040.

The ADC technology platform is a cornerstone of Heidelberg Pharma Research GmbH's business model. It is expected to be used to optimize antibodies for specific customers and manufacture corresponding antibody-drug conjugates to improve cancer treatments in the future. Heidelberg Pharma Research intends to market the ADC technology to third parties and plans to generate sales revenue in the form of milestone

payments and royalties. Particularly in the final phase of an ADC agreement (product license agreement), these payments are essential to the business model. They come due as soon as the contractual partner pursues development of a drug candidate and completes the approval process. The development phase comprises the execution of several clinical trials and can therefore take several years, which necessitates a second long-term planning phase for purposes of the impairment test.

The mid-term planning for the ADC business used for the impairment test comprises detailed planning over a five-year period from 2020 to 2024 (clinical phases I and II). This is followed by a second, longer-term 16-year planning phase from 2025 to 2040 (clinical phase III, approval and market launch) that is based on model assumptions and continues the first planning phase.

Medium-term planning is based on the following assumptions in the model:

- derivation of potential sales revenue based on comparison data of approved cancer drugs;
- significant license income from 2023 onwards with sustained positive cash flows in subsequent years;
- maximum exploitation period for license income until 2040 through patents granted and new patent applications;
- discounts for the success rates of individual clinical phases based on scientific literature.

In the first phase of the five-year period from 2020 to 2024, negative cash flows (discounted) are expected for 2020 and 2021 due in particular to the final budgeted preclinical expenses and clinical phase I expenses for HDP-101. Provided all goes to plan, positive cash flows (discounted and adjusted for tax effects) are forecast as for 2022 and 2023 due to the material royalties expected. Overall, a sustained positive cash flow is expected from 2023 onwards.

In the phase from 2020 to 2024, the model projects cumulative discounted cash flows (adjusted for tax effects) of €14.8 million in total, while for the phase starting in 2025 it assumes cumulative discounted cash flows (adjusted for tax effects) of €36.5 million (including terminal value).

The carrying amount of the cash generating unit analyzed was €7.1 million as of the reporting date (previous year: €7.0 million), which corresponds to the sum total of assets of Heidelberg Pharma Research GmbH. Allowing for the risks and opportunities arising from the business activities, the discount factor used for the impairment test was 10.2% (previous year: 10.9%) before taxes and 6.9% (previous year: 7.9%) after taxes. If the discount rate were to increase by one percentage point, the value in use would decrease by €5.1 million.

The impairment test showed that there was no need to recognize impairment losses on goodwill or the IP R&D technology as of 30 November 2019.

The income tax rate underlying the cash flows in the model is 28.43%, as in the previous year.

Indications necessitating impairment testing of goodwill and of the IP R&D technology in certain situations in accordance with IAS 36.12 (g)/IAS 36.14 (b) did not arise during the past fiscal year.

The calculation of fair value is based on unobservable inputs (Level 3; see note 5.2). The cash flows included in the calculation are not influenced by internal transfer prices. There is an active market for the products and services of the cash-generating unit measured.

## 9 Property, plant and equipment

As of 30 November 2019 and 30 November 2018, property, plant and equipment comprised the following:

	Laboratory equipment (owned) €'000	Other office equipment €'000	Total €'000
<b>2018 fiscal year</b>			
Opening carrying amount	1,178	122	1,300
Additions	865	150	1,015
Disposals	(48)	0	(48)
Reclassification	20	(20)	0
Impairment	32	0	32
Depreciation	(282)	(66)	(349)
<b>Net carrying amount as of 30 Nov. 2018</b>	<b>1,764</b>	<b>186</b>	<b>1,950</b>
<b>As of 30 Nov. 2018</b>			
Cost	4,677	978	5,655
Accumulated depreciation and impairment	(2,913)	(793)	(3,705)
<b>Net carrying amount as of 30 Nov. 2018</b>	<b>1,764</b>	<b>186</b>	<b>1,950</b>
<b>2019 fiscal year</b>			
Opening carrying amount	1,764	186	1,950
Additions	690	274	964
Disposals	(26)	(1)	(26)
Impairment	24	1	24
Depreciation	(359)	(126)	(485)
<b>Net carrying amount as of 30 Nov. 2019</b>	<b>2,093</b>	<b>333</b>	<b>2,427</b>
<b>As of 30 Nov. 2019</b>			
Cost	5,365	1,252	6,617
Accumulated depreciation and impairment	(3,272)	(919)	(4,190)
<b>Net carrying amount as of 30 Nov. 2019</b>	<b>2,093</b>	<b>333</b>	<b>2,427</b>

Unless allocable to cost of sales, the full amount of depreciation totaling €485 thousand (previous year: €349 thousand) was recognized in profit or loss as R&D costs and as general and administrative expenses. No impairment losses were recognized in the reporting year and the previous year. Heidelberg Pharma has not pledged any property, plant or equipment as collateral for liabilities. There are no contractual obligations for the acquisition of property, plant and equipment.

## 10 Intangible assets

As of 30 November 2019 and 30 November 2018, intangible assets comprised the following:

	Software €'000	Licenses €'000	Patents €'000	Other intangible assets €'000	Intangible assets not yet ready for use €'000	Goodwill €'000	Total €'000
<b>2018 fiscal year</b>							
Opening carrying amount	4	1	279	41	2,493	6,111	8,930
Additions	10	0	16	0	0	0	26
Impairment	5	0	0	0	0	0	5
Amortization and impairment	(10)	(1)	(20)	(18)	0	0	(50)
<b>Net carrying amount as of 30 Nov. 2018</b>	<b>10</b>	<b>0</b>	<b>275</b>	<b>23</b>	<b>2,493</b>	<b>6,111</b>	<b>8,912</b>
<b>As of 30 Nov. 2018</b>							
Cost	720	1	1,565	320	2,493	6,111	11,210
Accumulated amortization and impairment	(710)	(1)	(1,290)	(297)	0	0	(2,298)
<b>Net carrying amount as of 30 Nov. 2018</b>	<b>10</b>	<b>0</b>	<b>275</b>	<b>23</b>	<b>2,493</b>	<b>6,111</b>	<b>8,912</b>
<b>2019 fiscal year</b>							
Opening carrying amount	10	0	275	23	2,493	6,111	8,912
Additions	34	0	27	0	0	0	62
Amortization and impairment	(15)	0	(29)	(18)	0	0	(62)
<b>Net carrying amount as of 30 Nov. 2019</b>	<b>30</b>	<b>0</b>	<b>273</b>	<b>5</b>	<b>2,493</b>	<b>6,111</b>	<b>8,912</b>
<b>As of 30 Nov. 2019</b>							
Cost	754	1	1,592	320	2,493	6,111	11,271
Accumulated amortization and impairment	(725)	(1)	(1,318)	(315)	0	0	(2,359)
<b>Net carrying amount as of 30 Nov. 2019</b>	<b>30</b>	<b>0</b>	<b>273</b>	<b>5</b>	<b>2,493</b>	<b>6,111</b>	<b>8,912</b>

All of the additions stem from separate acquisitions. Unless allocable to cost of sales, €62 thousand (previous year: €50 thousand) in amortization and impairment losses were recognized in profit or loss as research and development costs and as general and administrative expenses.

In addition, the acquired customer base identified as an intangible asset in connection with a purchase price allocation was amortized.

As a rule, software and patents and licenses as part of intangible assets have a finite useful life.

There were no currency effects from the translation of foreign currencies into the reporting currency for any group of intangible assets. Heidelberg Pharma has not pledged any intangible assets as collateral for liabilities. The Company has no contractual obligations for the acquisition of intangible assets.

### 10.1 Goodwill

The goodwill recognized arises from the 2011 business combination of Heidelberg Pharma AG with Heidelberg Pharma Research GmbH. The assets and liabilities acquired as well as the deferred tax assets and liabilities are recognized separately as of the acquisition date.

Goodwill of €6,111 thousand was identified in connection with the acquisition of Heidelberg Pharma and the subsequent purchase price allocation; it will be tested for impairment annually in accordance with IAS 36 (see note 8).

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### 10.2 Intangible assets not yet ready for use

In the purchase price allocation carried out in 2011 in connection with the acquisition of Heidelberg Pharma Research GmbH, the novel ADC technology still under development and not yet ready for use was defined as IP R&D and identified as an intangible asset. The carrying amount is €2,493 thousand.

The Company believes that the ADC technology has the potential to improve the efficacy of many antibody-based compounds, including those marketed.

This technology will not be amortized until its development has been successfully completed and the technology can thus be deemed ready for use, i.e. a [therapeutic agent](#) can be marketed. Subsequent costs are recognized through profit and loss as research and development expenses. They are not capitalized pursuant to IAS 38 in keeping with the treatment of other development costs and given Heidelberg Pharma's industry-related specificities. It is typical for the biotechnology industry that particularly the technical feasibility pursuant to IAS 38.57 (a) as well as any future economic benefits pursuant to IAS 38.57 (c) are uncertain, even in projects where the research has largely been completed. This IP R&D technology asset was tested for impairment as of 30 November 2019 during the impairment test carried out in January 2020. Heidelberg Pharma has not found any indication of impairment of this intangible asset.

 Glossary

### 10.3 Other intangible assets

Other intangible assets comprise a customer base (service business) acquired in the course of the business combination with Heidelberg Pharma Research GmbH in fiscal year 2011. As of the 30 November 2019 reporting date, the acquired customer base is carried at €5 thousand (previous year: €23 thousand). This customer base was amortized by €18 thousand in the reporting year.

#### 10.4 Patents and licenses

On account of the introduction of the restructuring program in early 2014 and the realignment of the Company, the value of the previously recognized patents licenses of the parent company Heidelberg Pharma AG was no longer recoverable. As a result, all previously capitalized patents and licenses were written down in full. There was no need to write down the patents and licenses of Heidelberg Pharma Research GmbH in the fiscal year.

#### 10.5 Software

Software includes various capitalized office and laboratory software items written down over their useful lives.

### 11 Equity investments accounted for using the equity method

In November 2019, Heidelberg Pharma AG acquired an equity interest in Emergence Therapeutics AG, Duisburg, Germany, (Emergence) through its subsidiary Heidelberg Pharma Research GmbH together with French and German investors. The original capital contribution paid in prior to the reporting date and thus the cost of acquisition was €13 thousand. As of 30 November 2019, Heidelberg Pharma Research GmbH holds a 25% interest in the share capital of Emergence. Emergence does not show earnings for the 2019 financial year.

### 12 Other non-current assets

The other non-current assets (2019: €45 thousand; previous year: €41 thousand) mainly comprise rent security in the amount of €10 thousand (previous year: €16 thousand) and security for leased equipment and property in the amount of €30 thousand (previous year: €20 thousand) – all of which is deposited in bank accounts.

As in the previous year, this item also includes other receivables from operations totaling €5 thousand. Heidelberg Pharma expects no non-current assets to be realized within the next 12 months.

### 13 Inventories

The inventories and work in progress recognized at cost (2019: €238 thousand; previous year: €178 thousand) mainly concern work in progress, which increased in the course of the supply of Amanitin to the cooperation partners (supply model). The parent company no longer recognizes inventories. The inventories recognized as an expense in the cost of sales (expenses for raw materials, consumables and supplies, and purchased goods and services) amounted to €1,086 thousand in fiscal year 2019 (previous year: €948 thousand).

No inventories were pledged as collateral for liabilities. Heidelberg Pharma projects that all inventories will be used up within the next 12 months and work in progress/unfinished goods will be completed/realized.



## 14 Prepayments

Prepayments are comprised as follows:

	30 Nov. 2019 €'000	30 Nov. 2018 €'000
Insurance	4	4
Prepayments to service providers	60	52
<b>Prepayments</b>	<b>64</b>	<b>56</b>

Prepayments to service providers include, in particular, payments to R&D business partners. All prepayments made are of a current nature (< 12 months).

## 15 Trade and other receivables

The trade receivables of €1,230 thousand (previous year: €366 thousand) mainly result from collaborations including related material supplies and services invoiced by Heidelberg Pharma Research GmbH.

	30 Nov. 2019 €'000	30 Nov. 2018 €'000
Trade receivables	1,230	366
<b>Total</b>	<b>1,230</b>	<b>366</b>

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

	30 Nov. 2019 €'000	30 Nov. 2018 €'000
0–30 days	1,230	339
30–90 days	0	27
More than 90 days	0	0
<b>Total</b>	<b>1,230</b>	<b>366</b>

As of the balance sheet date, no trade receivables were past due and remained unpaid more than 30 days after their due date.

Other receivables are comprised as follows:

	30 Nov. 2019 €'000	30 Nov. 2018 €'000
VAT claim	175	214
Other items	4	35
<b>Other receivables</b>	<b>179</b>	<b>249</b>

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

## 16 Cash and cash equivalents

	30 Nov. 2019 €'000	30 Nov. 2018 €'000
Cash and cash equivalents	9,884	19,440
<b>Total</b>	<b>9,884</b>	<b>19,440</b>

Cash and cash equivalents consist exclusively of bank balances and were down on the prior-year figure due to the cash outflows from operating activities. There were no cash equivalents as defined in IAS 7.6 as of the reporting date of 30 November 2019.

## 17 Equity

As of 30 November 2019, the share capital consisted of 28,209,611 (30 November 2018: 28,133,308) no par value bearer shares with a notional value of €1.00 per share.

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

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

Issue date	Entry in the commercial register	Number of shares	€
On 30 Nov. 2017		22,452,570	22,452,570
Continually, converted during the fiscal year	Three entries during the year, most recently on 17.01.2019	5,680,738	5,680,738
On 30 Nov. 2018		28,133,308	28,133,308
Continually, converted during the fiscal year	Two entries during the year, most recently on 14.01.2020	76,303	76,303
On 30 Nov. 2019		28,209,611	28,209,611

The arithmetical nominal amount and any premium on the issue of shares are reported under “subscribed capital” and “capital reserves” respectively. For the most part, the capital reserve includes the premiums exceeding the par value from the issue of new shares from capital increases as well as staff costs in connection with stock options granted.

Since the mandatory application of IFRS 2 in respect of the accounting for stock options, the value of the capital reserves is adjusted every quarter in line with the additional expenses resulting from the share-based model. A total of €701 thousand (previous year: €534 thousand) was recognized in this context in the period under review (see note 24).

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The capital reserve decreased by €76 thousand due to the conversion of the mandatory convertible bond, which increases the subscribed capital accordingly. As of the reporting date of 30 November 2019, the capital reserves thus amounted to €215,268 thousand (previous year: €214,643 thousand).

Taking into account the cumulative losses of €227,185 thousand accumulated from the date of the Company’s establishment through to the reporting date (previous year: €216,890 thousand), the equity of Heidelberg Pharma amounted to €16,293 thousand (previous year: €25,886 thousand).

## 18 Non-current liabilities

Non-current contract liabilities – which must be reported separately due to first-time application of IFRS 15 – total €235 thousand and consist of contract liabilities resulting from public funding schemes (€114 thousand) as well as a cooperation agreement (€121 thousand). There were no non-current liabilities in the previous year.

## 19 Current liabilities

### 19.1 Trade payables

Current trade payables increased as of the reporting date from €405 thousand in fiscal year 2018 to €1,012 thousand in the fiscal year ended as a result of the expanded business activities.

### 19.2 Pension obligations

Heidelberg Pharma had one defined benefit pension commitment during the year, but otherwise maintains only defined contribution pension plans. With the exception of the expired defined benefit pension commitment, all other benefit obligations as part of defined contribution plans are covered by matching reinsurance (in terms of their amounts and maturity). The Company had a reinsurance policy for the defined benefit commitment, which did not have matching coverage.

In 1998, Heidelberg Pharma AG granted a defined benefit pension commitment of €15 thousand as part of a deferred benefit to Professor Olaf G. Wilhelm, the Managing Director at the time and chairman of the Executive Management Board until 31 March 2014, who then left the Company. The commitment guaranteed a one-time endowment payment of €47 thousand at the end of his 60th year of life. The plan was therefore not based on the employee's final salary, although due to unfavorable capital market trends, a coverage gap occurred between the future one-time payment promised to the beneficiary and the existing plan assets.

Since the age limit was reached during the course of 2019 and an amount of €47 thousand was thus paid out, the plan assets as the present value of the actuarial reserve of the reinsurance policy amounted to €33 thousand, the same amount as at the 2018 reporting date. The defined benefit pension plan as of the payout date thus gave rise to a net liability in the amount of €14 thousand (30 November 2018: €12 thousand current pension obligation). In fiscal year 2019, the net interest expense was thus €2 thousand (previous year: €3 thousand), while no such pension obligation is applicable as of this year's reporting date.

No service cost was recognized in the reporting year or the previous fiscal year.

A total of €13 thousand was paid into Heidelberg Pharma Research GmbH's defined contribution pension plan in the reporting period (previous year: €13 thousand) and included in the staff costs for the fiscal year. There is also a pension commitment in respect of an employee who has since retired and in respect of Dr. Jan Schmidt-Brand, in relation to which reinsurance was arranged for the respective commitment amounts.

### 19.3 Contract liabilities (current)

Current contract liabilities – which also must be reported separately within the scope of first-time application of IFRS 15 and were previously recognized as other deferred income under other current liabilities – total €1,938 thousand (previous year: €1,629 thousand) and consist of contract liabilities resulting from public funding schemes (€120 thousand; previous year: €175 thousand) as well as cooperation agreements (€1,818 thousand; previous year: €1,454 thousand).

#### 19.4 Other current liabilities

Other current liabilities included the following:

	30 Nov. 2019 €'000	30 Nov. 2018 €'000
Obligation for holidays not taken	205	159
Social security and other taxes	270	175
Accrued liabilities	3,037	2,925
<b>Other current liabilities</b>	<b>3,512</b>	<b>3,259</b>

The other deferred income item which was previously included in other current liabilities was separately reported as a current contract liability due to first-time application of IFRS 15 (see note 19.3).

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The accrued liabilities are composed as follows:

	30 Nov. 2019 €'000	30 Nov. 2018 €'000
Employee bonuses and profit-sharing bonuses	196	200
Costs for preparing the financial statements	144	91
Deliveries/services	2,697	2,634
<b>Total</b>	<b>3,037</b>	<b>2,925</b>

Heidelberg Pharma recognizes accruals for goods and services where it has a present obligation arising from the supply of goods and services received. Accruals were recognized in the amount of the payment outflow required to fulfill the current obligation. Most obligations in this category relate to research and development costs of service providers for preclinical work and trials. The year-over-year increase is due to the expansion of business activities.

Employee bonuses are granted depending on the performance of the Company and of individual employees or members of the Executive Management Board, and, once determined, are due for payment. The similar figure compared to the previous year is attributable to the assumption that the Company expects to pay almost the same amount of bonuses than in the fiscal year ended.

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

## 20 Other disclosures on financial instruments

In summary, Heidelberg Pharma made the following classification into categories as a result of the first-time application of IFRS 9 as of 1 December 2018. There were no reclassifications.

Measurement category according to IAS 39	Measurement category according to IAS 39 as of 30 Nov. 2018	Carrying amount as of 30 Nov. 2018	Measurement category according to IFRS 9 as of 1 Dec. 2018	Carrying amount as of 1 Dec. 2018
Trade receivables	Loans and Receivables	366	Financial assets at amortized cost	366
Cash and cash equivalents	Loans and Receivables	19,440	Financial assets at amortized cost	19,440
Trade payables	Financial Liabilities Amortized Costs	405	Financial liabilities at amortized cost	405
Accrued liabilities	Financial Liabilities Amortized Costs	2,925	Financial liabilities at amortized cost	2,925
<b>Total</b>		<b>23,136</b>		<b>23,136</b>
<b>Aggregation by measurement criteria</b>				
	Loans and Receivables	19,806	Amortized cost	19,806
	Financial Liabilities Amortized Costs	3,330	Financial liabilities at amortized cost	3,330

## 20.1 Fair values

Carrying amounts and fair values follow from the table below. In addition, the financial instruments were broken down into categories pursuant to IAS 39/IFRS 9 (see note 3.14):

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	30 November 2019			30 November 2018		
	Measurement category according to IFRS 9 €'000	Carrying amount €'000	Fair value €'000	Measurement category according to IAS 39 €'000	Carrying amount €'000	Fair value €'000
<b>Assets</b>						
Trade receivables	Financial assets at amortized cost	1,230	1,230	Loans and Receivables	366	366
Cash and cash equivalents	Financial assets at amortized cost	9,884	9,884	Loans and Receivables	19,440	19,440
<b>Equity and liabilities</b>						
Trade payables	Financial liabilities at amortized cost	(1,012)	(1,012)	Financial Liabilities Amortized Costs	(405)	(405)
Accrued liabilities	Financial liabilities at amortized cost	(2,841)	(2,841)	Financial Liabilities Amortized Costs	(2,725)	(2,725)
<b>Unrealized gain/loss</b>	-	0	0	-	0	0

Trade receivables all have remaining maturities of less than one year. No default risks are discernible in connection with the assets.

The carrying amounts of other assets and liabilities such as cash and cash equivalents as well as trade payables correspond to their fair values on account of their current nature.

No expense or income arose from loans and receivables carried at amortized cost.

## 20.2 Fair value hierarchy levels

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

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Fair value is determined using the same assumptions and taking into account the same characteristics of an asset or a liability on which independent market participants would base their assessment. For assets that the Group holds and liabilities that the Group reports, the quoted market price in each case is the bid price.

As of the balance sheet date, the Company held no underlying financial instruments measured at fair value. In 2019 and 2018, there were no reclassifications of items between fair value hierarchy levels.

### 20.3 Risks from financial instruments:

In respect of risks from financial instruments, see for example the section on the management of financial risks (see note 5).

Financial instruments with an inherent default and liquidity risk mainly comprise cash and cash equivalents, financial assets as well as other receivables. The carrying amounts of the financial assets generally reflect the maximum default risk.

#### Liquidity risk

Most of the cash and cash equivalents (€9,884 thousand; previous year: €19,440 thousand) are denominated in euros, with a smaller amount denominated in US dollars, and have been invested essentially with banks belonging to the German Deposit Insurance Fund and/or the deposit assurance fund of the German Savings Banks Organization. But Heidelberg Pharma monitors the positions held and the respective bank's credit rating on an ongoing basis nonetheless. No such risks were identifiable at the reporting date.

Since the Company's cash and cash equivalents as of the reporting date were invested exclusively in demand deposits and current accounts, the Company believes there is no interest rate risk and cash and cash equivalents would not react sensitively to interest rate changes.

The Company is exposed to a liquidity risk given both its business model and the still insufficient cash flows from the marketing of its own products and services. Heidelberg Pharma employs a rolling, monthly cash flow planning and age analysis in order to be able to recognize liquidity risks in due time. Heidelberg Pharma was able to meet its payment obligations at all times in the fiscal year just ended.

The Group's financial liabilities have the following maturities. The disclosures are based on contractual, undiscounted payments.

	Due on demand € '000	Up to 3 months € '000	3 to 12 months € '000	1 to 5 years € '000	More than 5 years € '000	Total € '000
30 November 2019						
Trade payables	15	991	6	0	0	1,012
Other liabilities	0	2,841	0	0	0	2,841

	Due on demand € '000	Up to 3 months € '000	3 to 12 months € '000	1 to 5 years € '000	More than 5 years € '000	Total € '000
30 November 2018						
Trade payables	41	364	0	0	0	405
Other liabilities	0	2,725	0	0	0	2,725



### Default risk

The company in question controls the default risk arising from receivables due from customers in line with the Group's policies, procedures and controls for the management of the default risk for customers. However, the customer's credit quality is not checked.

The trade receivables (€1,230 thousand; previous year: 366 thousand) at the close of the fiscal year were attributable to business customers; they were mainly invoiced as of the 30 November 2019 reporting date or immediately preceding it. No trade receivables were past due as of the reporting date (see note 15). With the exception of one case in the amount of €41 thousand, no bad debt allowances are necessary in the Executive Management Board's view in fiscal year 2019 because Heidelberg Pharma does not expect any default risks to arise.

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### Market risk

Heidelberg Pharma is also exposed to a market risk, e.g. from changes in interest rates, and a currency risk from the euro's exchange rate vis-à-vis other currencies. This exchange rate risk includes the relative decrease or increase of the euro vis-à-vis the other currencies during the period until payment of the liability or receivable. Heidelberg Pharma reviews the need for foreign currency hedges on an ongoing basis during the year but does not engage in any hedging. Instead, the Company aims to pay liabilities in foreign currencies using existing bank balances in the respective currency in order to keep the risk of exchange rate fluctuations as low as possible.

As of 30 November 2019, there were foreign currency risks concerning trade payables in the amount equivalent to €7.0 thousand in CHF and €8.4 thousand in GBP. Any increase or decrease in the euro by 10% compared to the given foreign currency would have had the following effect on earnings and equity in the fiscal year ended:

	Increase €'000	Decrease €'000
Euro vs. Swiss franc (CHF)	0.6	(0.8)
Euro vs. British pound (GBP)	0.8	(0.9)

In 2019 and 2018, some of the sales revenue was affected by the respective USD/euro exchange rate (see note 21). These were one-off cash transactions that were translated at the transaction date exchange rate, and recognized as revenue or accrued. In fiscal year 2019, the equivalent of €2,005 thousand was generated in USD (previous year: €1,796 thousand). In 2018, €1,060 thousand in CHF were also recognized.

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An increase of 10% in the average USD exchange rate in fiscal year 2019 as part of a sensitivity analysis (i.e. the USD appreciates against the euro) would have lifted sales revenue by €223 thousand (previous year: €200 thousand). A decrease of 10% in the average USD exchange rate (i.e. the USD depreciates against the euro) would have depressed sales revenue by €182 thousand (previous year: €163 thousand).

An increase of 10% in the average CHF exchange rate in fiscal year 2018 as part of a sensitivity analysis (i.e. the CHF appreciates against the euro) would have lifted sales revenue by €118 thousand. A decrease of 10% in the average CHF exchange rate (i.e. the CHF depreciates against the euro) would have depressed sales revenue by €96 thousand.

Heidelberg Pharma's only cash and cash equivalents held in foreign currencies (USD only) are therefore exposed to foreign currency risks. Heidelberg Pharma monitors the USD exchange rate throughout the year in order to intervene as necessary by selling or buying foreign currencies without however hedging such transactions by means of derivative financial instruments. Cash and cash equivalents in USD as of the 30 November 2019 reporting date were equivalent to €522 thousand (30 November 2018: €359 thousand).

Non-derivative financial liabilities in the form of trade payables must be classified as current. As a rule, trade payables are due within one month.

No significant net gains or losses from financial instruments were recognized in the 2019 fiscal year or in the previous year.

## 21 Sales revenue

Sales revenue (or revenue from contracts with customers) of the Heidelberg Pharma Group in the fiscal year just ended totaled €7,309 thousand (previous year: €3,668 thousand).

	2019 €'000	2018 €'000
ADC technology sales revenue	6,093	2,567
Service business sales revenue	571	887
Out-licensing sales revenue	645	214
<b>Sales revenue</b>	<b>7,309</b>	<b>3,668</b>

Sales revenue mainly stems from the cooperation agreements for the ATAC technology of Heidelberg Pharma Research (€6.1 million; previous year: €2.6 million). In addition to its service business (€0.6 million), the parent company also contributed €0.6 million to revenue which was generated by out-licensing REDECTANE® to Telix and MESUPRON® to Link Health (previous year: €0.2 million).

The sales revenue realized from ATAC technology and from service business was all recognized over time, while the sales revenue from out-licensing was recognized at a point in time.

Sales revenue which was exclusively allocated to the current contract liabilities as of 1 December 2018 was realized in the amount of €1.3 million in fiscal year 2019. Heidelberg Pharma expects the remaining €0.3 million to be realized in fiscal year 2020.

The transaction price allocated to the (unfulfilled or partially unfulfilled) remaining performance obligations results from expected sales revenue from the ATAC technology in the amount of €2,173 thousand.

Heidelberg Pharma estimates that €2.0 million of the total transaction price of €2.2 million allocated to the contractual liabilities will be realized in the 2020 financial year. A further €0.2 million is expected to be recognized as revenue in fiscal year 2021.

### Regional distribution

The following table shows the regional distribution of 2019 sales revenue in terms of a customer's or collaboration partner's domicile:

Region	2019		2018	
	€ '000	%	€ '000	%
Germany	568	8 %	761	21 %
Europe	1,728	24 %	1,111	30 %
of which B	-	-	5	-
of which CH	1,728	-	1,060	-
of which UK	-	-	46	-
USA	4,278	58 %	1,582	43 %
Rest of the world	735	10 %	214	6 %
<b>Total</b>	<b>7,309</b>	<b>100 %</b>	<b>3,668</b>	<b>100 %</b>

All sales revenue was generated in euros (€5.3 million) and US dollar (€2.0 million).

Heidelberg Pharma generated more than 10 % of its sales revenue with three companies: one Swiss company under an MTA agreement (€1.7 million) and one US company (€4.0 million) under a research and license agreement in each case.

### Contract balances

	30 Nov. 2019 € '000	30 Nov. 2018 € '000 restated	1 Dec. 2017 € '000 restated
Trade receivables	1,230	366	233
Contract assets	0	0	0
Contract liabilities	2,173	1,629	830

Trade receivables are not interest-bearing and, as a rule, they are due within a period of between 30 and 90 days. In fiscal year 2019, impairment was recognized for expected credit losses on trade accounts receivable in the amount of €41 thousand. No impairment was recognized in 2018. This increases the closing balance of the impairment on trade receivables from €0 thousand to €41 thousand.

The contract liabilities comprise current and non-current prepayments for cooperation agreements and public funding schemes. Due to increased business activities and new funding, the balances outstanding for these accounts increased in fiscal years 2019 and 2018.

### Effect of first-time application of IFRS 15

The mandatory application of IFRS 15 Revenue from Contracts with Customers had a quantitative effect of € 146 thousand on the consolidated financial statements in the fiscal year ended, because the revenue from one of the existing contracts is not recognized over a period of time as in IAS 18, but instead at a point in time as per IFRS 15. Heidelberg Pharma applied IFRS 15 on the basis of the modified retrospective method so that the transition effect was recognized cumulatively in the equity item "Accumulated losses" as of 1 December 2019 and the comparative period is presented in accordance with previous applicable regulations (see section 2.1). Continued accounting pursuant to IAS 18 in the fiscal year ended would have reduced cumulative losses by € 146 thousand.

## 22 Other income

Other income (€ 655 thousand; previous year: € 706 thousand) comprises the following items:

Other income	2019 € '000	2018 € '000
Income from grants	186	135
Liabilities and provisions not utilized to date	248	186
Income from sublease and sales of fixed assets	11	11
Income from exchange rate gains	13	62
Income from passing on patent costs	107	154
Proceeds from non-monetary benefits	31	26
Other items	59	132
<b>Total</b>	<b>655</b>	<b>706</b>

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

## 23 Types of expenses

The statement of comprehensive income breaks down operating expenses into the following categories:

- Production
- Research and development
- Administration
- Other

Operating expenses including depreciation and amortization rose to €18.1 million in 2019 (previous year: €16.0 million).

Operating expenses	2019 € milion	2018 € milion
Cost of sales	3.7	2.2
Research and development costs	10.9	10.7
Administrative costs	3.2	2.9
Other expenses	0.3	0.2
<b>Total</b>	<b>18.1</b>	<b>16.0</b>

The cost of sales concerns the Group's costs directly related to sales revenue. These costs mainly related to expenses for customer-specific research and for the supply of Amanitin linkers to our licensing partners. They amounted to €3.7 million (previous year: € 2.2 million), representing 21% of operating expenses.

Research and development costs at €10.9 million (previous year: €10.7 million) remained stable despite the expansion of cost-intensive external good manufacturing practice (GMP) production. At 60% of operating expenses, R&D remained the largest cost item.

Administrative costs were €3.2 million, an increase on the prior year (€2.9 million), and accounted for 17% of operating expenses, as in the prior-year period.

Administrative costs include staff costs of €1.8 million (previous year: €1.6 million), of which €0.3 million concerned expenses for issuing stock options (previous year: €0.2 million). This line item also includes legal and operating consulting costs (€0.6 million; previous year: €0.5 million), rent and utilities (€0.1 million; previous year: €0.1 million), as well as expenses related to the Annual General Meeting, Supervisory Board remuneration and the stock market listing (combined: €0.5 million; previous year: €0.5 million). Other items amounted to €0.2 million.

Other expenses for business development, marketing and commercial market supply activities, which mainly comprise staff and travel costs, were €0.3 million. They were higher than in the previous year (€0.2 million) and represent 2% of operating expenses.

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

	2019 € '000	2018 € '000
Staff costs	6,123	5,296
Travel costs (incl. conference fees)	248	200
Office costs (incl. utilities and maintenance)	605	559
Other internal costs	248	224
External research and development costs/laboratory	8,176	7,313
Legal and consulting costs (incl. patent costs)	1,388	1,294
Depreciation	547	399
Stock market listing	471	523
IT/licenses	231	189
Other expenses	70	48
<b>Total</b>	<b>18,107</b>	<b>16,045</b>

The increase in staff costs in the past fiscal year is attributable to the higher number of employees (ten FTEs as of the reporting date), general salary increases and higher expenses from the granting of stock options under IFRS 2 Share-based Payments (see note 24).

Travel costs rose as a result of the higher number of employees and the expansion of the corporate development activities.

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

The expansion of business activities is also reflected in higher expenses in other internal costs, IT/licenses, and legal and consulting costs. The latter result from numerous projects related to business development, funding, strategy as well as the expansion of R&D activities including the patent portfolio. This expense item contains the cost of conventional legal representation as well as operating consulting costs.

External research, development and laboratory costs comprise the cost of purchased services. As planned, they rose year-over-year due to the expansion of research and development work at Heidelberg Pharma Research GmbH. Laboratory costs include expenses for inventories of € 37 thousand (previous year: € 21 thousand).

Depreciation, amortization and impairment losses continued to increase because of the investments made in the laboratory and buildings in the reporting periods.

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

The expenses contained in the statement of comprehensive income include €3,739 thousand in costs of sales (previous year: €2,208 thousand).

## 24 Staff costs

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

	2019	2018
Administration	17	16
Manufacturing, service and distribution	17	19
Research and development	35	27
<b>Average number of employees<sup>1</sup></b>	<b>69</b>	<b>62</b>

<sup>1</sup> Including the Executive Management Board

Staff costs for this purpose are comprised as follows:

	2019 €'000	2018 €'000
Wages and salaries	4,336	3,705
Social security costs	729	641
Bonuses	204	206
Expense from the measurement of stock options	701	534
Continued professional development	9	34
Recruitment	28	58
Occupational safety and employer's liability insurance association	32	35
Other staff costs	84	83
<b>Total staff costs</b>	<b>6,123</b>	<b>5,296</b>

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

The granting of stock options in accordance with IFRS 2 “Share-based Payments” resulted in higher staff costs of €701 thousand in 2019 (previous year: €534 thousand). This was due to the new issue of stock options as part of the 2018 Stock Option Plan.

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

#### 2005 Stock Option Plan (2005 SOP)

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

The first time the stock options can be exercised is after a lock-up period of two years from the issuing date. The stock options can only be exercised if Heidelberg Pharma AG’s share price during the ten trading days preceding the start of the relevant exercise period (“reference price”) exceeds the exercise price by at least 10% (absolute performance target).

The authorization to grant stock options from the 2005 Stock Option Plan expired in 2010. No new options can therefore be granted under this plan. Heidelberg Pharma no longer incurred any costs in 2019 and 2018 under the 2005 Stock Option Plan:

#### 2011 Stock Option Plan (2011 SOP)

The Annual General Meeting on 18 May 2011 voted to authorize Heidelberg Pharma AG to issue a total of 1,156,412 stock options as part of the 2011 Stock Option Plan to members of the Executive Management Board and employees of Heidelberg Pharma AG as well as beneficiaries of affiliates.

The first time the stock options can be exercised is after a lock-up period of four years from the respective issuing date. The stock options can only be exercised if Heidelberg Pharma AG’s share price during the ten trading days preceding the start of the relevant exercise period (“reference price”) exceeds the exercise price by at least 20% (absolute performance target). Furthermore, it must be noted that the options can only be exercised as long as the reference price exceeds the exercise price at least by the ratio by which the TecDAX on the last trading day prior to the relevant exercise period exceeds the TecDAX on the issuing date (relative performance target). The payout amount per employee for the exercised stock options continues to be limited to three times the annual gross remuneration (including all benefits subject to income tax, such as company cars, etc.) that the beneficiary received from the Company or its affiliates in the 12 months preceding the exercise date (cap agreement).

The authorization to grant stock options from the 2011 Stock Option Plan expired in 2016. No new options can therefore be granted under this plan. Heidelberg Pharma incurred staff costs of €128 thousand under the 2011 Stock Option Plan (previous year: €128 thousand).



### 2017 Stock Option Plan (2017 SOP)

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

The first time the stock options can be exercised is after a lock-up period of four years from the respective issuing date. The stock options can only be exercised if Heidelberg Pharma AG's share price during the ten trading days preceding the start of the relevant exercise period ("reference price") exceeds the exercise price by at least 20% (absolute performance target). Furthermore, it must be noted that the options can only be exercised as long as the reference price exceeds the exercise price at least by the ratio by which the TecDAX on the last trading day prior to the relevant exercise period exceeds the TecDAX on the issuing date (relative performance target). The payout amount per employee for the exercised stock options continues to be limited to three times the annual gross remuneration (including all benefits subject to income tax, such as company cars, etc.) that the beneficiary received from the Company or its affiliates in the 12 months preceding the exercise date (cap agreement).

Heidelberg Pharma incurred staff costs of €259 thousand under the 2017 Stock Option Plan in 2019 (previous year: €406 thousand).

### 2018 Stock Option Plan (2018 SOP)

The Annual General Meeting on 26 June 2018 voted to authorize Heidelberg Pharma AG to issue a total of 1,490,622 stock options as part of the 2018 Stock Option Plan to members of the Executive Management Board and employees of Heidelberg Pharma AG as well as beneficiaries of affiliates. The first time the stock options can be exercised is after a lock-up period of four years from the respective issuing date. The stock options can only be exercised if Heidelberg Pharma AG's share price during the ten trading days preceding the start of the relevant exercise period ("reference price") exceeds the exercise price by at least 20% (absolute performance target). Furthermore, it must be noted that the options can only be exercised as long as the reference price exceeds the exercise price at least by the ratio by which the TecDAX on the last trading day prior to the relevant exercise period exceeds the TecDAX on the issuing date (relative performance target). The payout amount per employee for the exercised stock options continues to be limited to three times the annual gross remuneration (including all benefits subject to income tax, such as company cars, etc.) that the beneficiary received from the Company or its affiliates in the 12 months preceding the exercise date (cap agreement).

Heidelberg Pharma for the first time incurred staff costs of €314 thousand under the 2018 Stock Option Plan as a result of issuing 654,590 options in 2019.

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

Stock option plan	2005	2011		2017	2018
Issue	Tranche 8 <sup>3</sup>	Tranche 1	Tranche 2	Tranche 1	Tranche 1
Measurement date	30 Sep. 2010	30 Mar. 2012	2 June 2016	23 Apr. 2018	19 June 2019
Measurement method	Binomial model	Monte Carlo model in each case			
Fair value per option	€ 1.96–2.33	€ 2.13	€ 1.41	€ 1.07	€ 1.12
Exercise price (uniform and therefore also average) <sup>1</sup>	€ 11.20	€ 14.12	€ 1.89	€ 3.41	€ 2.79
Price of the Heidelberg Pharma share as of the measurement date	€ 4.70	€ 3.82	€ 1.83	€ 2.82	€ 2.83
Maximum term	10 years	10 years	10 years	10 years	10 years
Expected vesting period until the measurement date	24–48 months	4.81 years	3.95 years	4.00 years	3.96 years
Expected volatility of the Heidelberg Pharma share <sup>2</sup>	61.7–72.0 %	57.83 %	89.42 %	54.96 %	48.59 %
Expected dividend yield of the Heidelberg Pharma share	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Risk-free interest rate	0.72–1.20 %	0.61 %	(0.47 %)	(0.19 %)	(0.70 %)
Remaining term as of 30 Nov. 2019	0.83 years	2.33 years	6.50 years	8.39 years	9.51 years

<sup>1</sup> For the 2005 SOP and tranche 1 of the 2011 SOP taking into account the 4:1 capital reduction in 2014

<sup>2</sup> 2005 SOP: Determined on the basis of a peer group. 2011/2017/2018 SOP: Determined on the basis of the historical volatility of Heidelberg Pharma shares

<sup>3</sup> Tranches 1-7 have already expired

The following table shows a summary of the Company's stock option plans/stock options under the 2005, 2011, 2017 and 2018 plans with respect to their issue:

Max. number of stock options to be issued acc. to plan terms	2005 plan	2011 plan	2017 plan	2018 plan	Total
<b>of which Executive Management Board</b>	<b>1,289,157</b>	<b>1,156,412</b>	<b>661,200</b>	<b>1,490,622</b>	<b>4,597,391</b>
of which employees	900,000	346,924	201,200	298,100	1,746,224
davon Mitarbeiter	389,157	809,488	460,000	1,192,522	2,851,167
<b>Stock options actually issued</b>	<b>1,161,431</b>	<b>685,726</b>	<b>653,430</b>	<b>654,590</b>	<b>3,155,177</b>
of which Executive Management Board <sup>1</sup>	894,515	364,000	201,200	149,050	1,608,765
of which employees	266,916	321,726	452,230	505,540	1,546,412
<b>Max. number of stock options still available for issue</b>	<b>0</b>	<b>0</b>	<b>7,770</b>	<b>836,032</b>	<b>843,802</b>
of which Executive Management Board	0	0	0	149,050	149,050
of which employees	0	0	7,770	686,982	694,752
<b>Return of stock options by beneficiaries leaving the Company</b>	<b>201,753</b>	<b>97,743</b>	<b>40,000</b>	<b>11,728</b>	<b>351,224</b>
of which Executive Management Board	165,180	26,500	0	0	191,680
of which employees	36,573	71,243	40,000	11,728	159,544
of which Executive Management Board in 2019	0	0	0	0	0
of which employees in 2019	0	6,330	34,820	11,728	52,878
<b>Expiry of stock options without replacement after ten-year term</b>	<b>899,684</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>899,684</b>
of which Executive Management Board	729,335	0	0	0	729,335
of which employees	170,349	0	0	0	170,349
of which Executive Management Board in 2019	0	0	0	0	0
of which employees in 2019	0	0	0	0	0
<b>Stock options outstanding</b>	<b>59,994</b>	<b>587,983</b>	<b>613,430</b>	<b>642,862</b>	<b>1,904,269</b>
of which Executive Management Board <sup>2</sup>	0	337,500	201,200	149,050	687,750
of which employees	59,994	250,483	412,230	493,812	1,216,519
<b>Vested stock options (outstanding)</b>	<b>59,994</b>	<b>539,015</b>	<b>274,743</b>	<b>81,042</b>	<b>954,794</b>
of which Executive Management Board <sup>2</sup>	0	306,000	88,025	18,631	412,656
of which employees	59,994	233,015	186,718	62,411	542,138
of which have vested in 2019 YTD	0	97,937	153,196	81,042	332,175
of which Executive Management Board	0	63,000	50,300	18,631	131,931
of which employees	0	34,937	102,896	62,411	200,244
<b>Non-vested stock options (outstanding)</b>	<b>0</b>	<b>48,968</b>	<b>338,687</b>	<b>561,820</b>	<b>949,475</b>
of which Executive Management Board	0	31,500	113,175	130,419	275,094
of which employees	0	17,468	225,512	431,401	674,381
<b>Exercisable stock options (outstanding)</b>	<b>59,994</b>	<b>183,211</b>	<b>0</b>	<b>0</b>	<b>243,205</b>
of which Executive Management Board	0	85,500	0	0	85,500
of which employees	59,994	97,711	0	0	157,705

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

<sup>2</sup> Including 25,500 options granted to former members of the Executive Management Board

## 25 Net currency gains/losses

Heidelberg Pharma posted a currency loss of €24 thousand (previous year: currency gain of €43 thousand) in the 2019 fiscal year.

## 26 Financial result

As in the previous year, no finance income was generated in the fiscal year ended due to the current lack of interest accruing on credit balances. Heidelberg Pharma exclusively used short-term deposits for investing its liquid funds (i.e. overnight money); at no time were investments made in stock or share-based financial instruments. There were also no finance costs. The financial result was therefore €0 thousand, as in the previous year.

## 27 Income taxes

Due to operating losses in the periods under review, no significant income tax was payable in the periods under review. Neither expenses nor income from deferred taxes were included in tax expenses in 2018 and 2019.

Deferred tax assets or liabilities were determined using the tax rates in effect in each case. A composite tax rate of 28.43% (previous year: 28.43%) is applied to Heidelberg Pharma AG, which is comprised of a corporation tax rate of 15% (previous year: 15%), solidarity surcharge of 5.5% (previous year: 5.5%) and trade tax of 12.60% (previous year: 12.60%).

A tax rate of 28.43% (unchanged from the previous year) was also applied to the subsidiary Heidelberg Pharma Research GmbH.

The reported current tax expense deviates from the expected tax income. The nominal tax rate of 28.43% (previous year: 28.43%) must be applied to income in accordance with IFRSs. Reconciliation of the differences is shown in the following table:

	2019 €'000	2018 €'000
Earnings before tax	(10,143)	(11,672)
Tax rate	28.43 %	28.43 %
<b>Expected tax income</b>	<b>2,884</b>	<b>3,318</b>
Deferred taxes on losses for the period not qualifying for recognition	(2,071)	(2,699)
Change in non-recognized temporary differences	(24)	1
Non-deductible operating expenses/Other	(794)	(620)
<b>Reported tax expense</b>	<b>5</b>	<b>0</b>

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

	2019 €'000	2018 €'000
<b>Deferred tax assets</b>		
Other current assets	40	51
Other non-current assets	260	259
Different carrying amount of the equity investment	94	94
Loss carryforwards taken into account	723	704
Other liabilities/provisions	1	0
	<b>1,118</b>	<b>1,109</b>
<b>Deferred tax liabilities</b>		
Intangible assets	710	715
Other liabilities/provisions	343	335
Other	65	58
	<b>1,118</b>	<b>1,109</b>
<b>Deferred income taxes, net</b>	<b>0</b>	<b>0</b>

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

Applying IAS 12.74, deferred tax assets and liabilities have been offset, since they exist vis-à-vis the same taxation authority, arise in the same periods and entail corresponding rights. Deferred tax assets on loss carryforwards are recognized only in an amount that is equal to the existing deferred tax liabilities.

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

	2019 €'000	2018 €'000
<b>Loss carryforwards</b>		
for corporation tax	242,234	231,935
for trade tax	238,547	228,710
<b>Deductible temporary differences</b>	<b>0</b>	<b>0</b>
<b>Loss carryforwards</b>	<b>2,543</b>	<b>2,477</b>

The tax loss carryforwards shown in the table above based on current tax calculations are mainly attributable to Heidelberg Pharma AG (corporation tax loss carryforward of €175,092 thousand; trade tax loss carryforward of €172,055 thousand) and may be carried forward indefinitely. Further loss carryforwards concern the subsidiary Heidelberg Pharma Research GmbH, which based on the tax notices issued by the tax office shows €67,142 thousand and €66,492 thousand in losses carried forward for corporation tax and trade tax purposes, respectively. Deferred tax assets (amounting to €723 thousand) were recognized in the fiscal year just ended for €2,498 thousand in tax loss carryforwards and offset against correspondingly high deferred tax liabilities.

Note the following in regards to the tax loss carryforwards available to Heidelberg Pharma AG and Heidelberg Pharma Research GmbH: The deduction of existing losses carried forward is excluded if the company carrying forward these losses loses its tax identity. In accordance with Section 8 (4) German Corporation Tax Act (version applicable until the end of 2007), a company is deemed to have lost its tax identity if the two following criteria are met cumulatively: (i) more than 50% of the shares in the company have been transferred and (ii) the company continues or relaunches its operations mainly with new assets. The legal limit on deductibility of operating losses applies to corporation tax and trade tax.

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

Effective 1 January 2008, under amended Section 8c German Corporation Tax Act (Körperschaftsteuergesetz, KStG) the acquisition by an acquirer or parties related to it of 25% to 50% of the subscribed capital of a loss corporation results in the pro-rated elimination of its tax loss carryforwards whilst the acquisition of more than 50% of the subscribed capital results in the complete elimination thereof.

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

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

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

In 2011, Heidelberg Pharma AG acquired 100% of the shares in Heidelberg Pharma Research GmbH, which had recognized accumulated tax loss carryforwards of €40,286 thousand up to the acquisition date. The only thing not in doubt was that the tax loss carryforwards corresponding to the undisclosed reserves transferred may be retained. The undisclosed reserves result from the difference between the transaction price under German tax law and the equity of Heidelberg Pharma Research under German tax law; they amounted to €12,808 thousand. Pursuant to tax notices issued in the meantime, a portion of the accumulated loss carryforwards of Heidelberg Pharma Research were not recognized by the tax authorities. Based on the tax notices and calculations generated, the loss carryforwards accrued by Heidelberg Pharma Research GmbH as at 30 November 2019 were set at €65.2 million (corporation tax) and €64.5 million (trade tax).

A purchase price allocation carried out in connection with this transaction resulted in the identification of intangible assets and goodwill. The deferred tax liabilities determined in connection with the valuation amounted to €800 thousand; they were offset at the time in the same amount by deferred tax assets from tax loss carryforwards taken over. As of 30 November 2019, deferred tax liabilities on these intangible assets amounted to €710 thousand (previous year: €715 thousand); the Company continues to make use of the option to offset them against deferred tax assets in accordance with IAS 12.74.

## 28 Earnings per share

### 28.1 Basic

Basic earnings per share are calculated by dividing the net profit for the year available to shareholders by the weighted average number of shares issued during the fiscal year.

In November 2017, Heidelberg Pharma AG placed a €15.0 million mandatory convertible bond. In accordance with IAS 33.23, the weighted average number of shares increases from the date the contract for the mandatory convertible bond is entered into and is already required to be included in the calculation of basic earnings per share. The weighted average number of shares to be included in this calculation in 2018 is based on the maximum of 5,757,069 new shares that would be created upon conversion of the mandatory convertible bond.

Due to the conversions which occurred during 2019, including the mandatory conversions on 22 November, the total number of Heidelberg Pharma shares issued due to the launch of the mandatory convertible bond amounted to 5,757,041 (this represents a slight discrepancy by comparison with the maximum number, due to settlement of fractions). The number of shares had thus increased to 28,209,611 at the reporting date. The volume of conversion of the mandatory convertible bonds amounts to 100% and this has thus now been completed.

As the mandatory convertible bond is a zero-coupon bond that entails no interest expense, the issue of the convertible bond has no effect on the amount of the earnings to be included in the numerator of basic earnings per share.

		2019	2018
Net loss for the year attributable to equity providers	€ '000	(10,148)	(11,672)
<b>Level of capital and corporate actions in the fiscal year<sup>1</sup></b>			
Number of issued shares at the beginning of the fiscal year	in thousand	28,210	28,210
Number of shares newly issued during the fiscal year	in thousand	0	0
Average number of shares issued during the fiscal year	in thousand	28,210	28,210
Basic earnings per share based on the weighted average number shares issued in the reporting period	in € per share	(0.36)	(0.41)

<sup>1</sup> In 2018 incl. future conversions of the mandatory convertible bond into shares in accordance with IAS 33.23

#### Basic earnings per share in 2019

In fiscal year 2019, basic earnings per share amounted to €-0.36 based on the weighted average number of shares issued in the reporting period (28,209,611 shares and earnings attributable to equity providers of €-10,148 thousand).

#### Basic earnings per share in 2018

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

### 28.2 Diluted

The Company's Annual General Meetings in 2005, 2011, 2017 and 2018 each adopted resolutions to contingently increase the share capital of the Company for the purpose of satisfying subscription rights. The associated possibility of granting stock option rights to employees and members of the Executive Management Board could potentially dilute the basic earnings per share in future.

However, the basic and diluted earnings per share of Heidelberg Pharma are calculated based on the same number of shares in accordance with IAS 33.47 because the average market price of Heidelberg Pharma shares during the entire period fell below the exercise price of the exercisable stock options.

Neither did the issue of the mandatory convertible bond cause diluted earnings per share to differ from basic earnings per share in 2018. Firstly, in accordance with IAS 33.23, the weighted average number of shares increased from the date the contract for the mandatory convertible bond was entered into and was already required to be included in the calculation of basic earnings per share.

Therefore, the new weighted average number of shares to be included in the calculation of basic earnings was also based on the assumption that the mandatory convertible bond would be fully converted into 5,757,069 new shares. Secondly, diluted earnings per share did not have to be adjusted for finance costs, as the mandatory convertible bond is a zero-coupon bond.



## 29 Leases, guarantees and obligations

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

### 29.1 Finance leases

A portion of the laboratory equipment was purchased in prior periods by means of finance leases subject to depreciation on a straight-line basis of the purchase cost in property, plant and equipment. All finance leases have now expired.

Heidelberg Pharma will therefore no longer incur any minimum obligations under finance leases in future reporting periods.

### 29.2 Operating leases, guarantees and obligations

Heidelberg Pharma has leased office equipment and vehicles under operating leases, which will expire at different times until 2022. All of the office premises used at present are rented under indefinite leases that can be terminated by giving three or 12 months notice as of the end of a month.

The cost of office and laboratory equipment as well as office and laboratory premises under the operating leases are reported as other expenses in the statement of comprehensive income, together with the obligations under lease agreements for company cars:

	2019 €'000	2018 €'000
<b>Expenses from operating leases</b>	<b>114</b>	<b>105</b>
of which from tenancy agreements	88	81
of which from other operating leases	26	24

The higher expenditure in the fiscal year ended is mainly due to a rent increase.

Heidelberg Pharma has pledged €10 thousand as deposit for the landlord. No other guarantees exist.

The future minimum annual payments under tenancy agreements and leases are comprised as follows:

Obligations as of 30 Nov. 2019	Up to 1 year € '000	1–5 years € '000	More than 5 years € '000	Total € '000
Rental obligations for laboratory and office premises <sup>1</sup>	78	0	0	78
Obligations under operating leases (laboratory and other office equipment, vehicles)	27	40	0	67
	<b>105</b>	<b>40</b>	<b>0</b>	<b>145</b>

<sup>1</sup> Due to short notice periods (three and twelve months) assuming that the leases for the offices have been terminated effective at the end of 2020 at the latest.

Below are previous year's figures:

Obligations as of 30 Nov. 2018	Up to 1 year € '000	1–5 years € '000	More than 5 years € '000	Total € '000
Rental obligations for laboratory and office premises <sup>1</sup>	81	0	0	81
Obligations under operating leases (laboratory and other office equipment, vehicles)	26	32	0	59
	<b>107</b>	<b>32</b>	<b>0</b>	<b>140</b>

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

These leases do not stipulate contingent lease payments, nor do they impose restrictions in respect of dividends, additional liabilities or other leases. No price adjustment clauses were stipulated, and there is no obligation to purchase the leased equipment once the given lease expires.

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

## 30 Corporate bodies and remuneration

### 30.1 Executive Management Board

The Executive Management Board members of Heidelberg Pharma AG in the reporting period were:

Dr. Jan Schmidt-Brand, Chief Financial Officer and Chief Executive Officer (appointed until 31 August 2021)

Professor Andreas Pahl, Chief Scientific Officer (appointed until 31 December 2020)

In parallel to his work as a member of the Executive Management Board, Dr. Jan Schmidt-Brand acts as the Managing Director of Heidelberg Pharma Research GmbH, a position he has held since 2004. In the interests of transparency, the remuneration of Dr. Schmidt-Brand is presented in full, which means that the amounts that he has earned as Managing Director of the subsidiary are also listed below.

### 30.2 Supervisory Board

The Supervisory Board members of Heidelberg Pharma AG as of 30 November 2019 were:

- Professor Christof Hettich (Chairman of the Supervisory Board of Heidelberg Pharma AG), lawyer and partner at RITTERSHAUS Rechtsanwälte Partnerschaftsgesellschaft mbB, Mannheim/Frankfurt am Main/Munich, Germany; Managing Director of dievini Verwaltungs GmbH, the general partner of dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany; and Chairman of the Management Board of SRH Holding SdbR, Heidelberg, Germany
- Dr. Georg F. Baur (Deputy Chairman of the Supervisory Board of Heidelberg Pharma AG), entrepreneur
- Dr. Friedrich von Bohlen und Halbach, Managing Director of dievini Verwaltungs GmbH, the general partner of dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany
- Dr. Birgit Kudlek, Global SVP (Ex-US) Technical Operations, Mundipharma International Limited, Cambridge, MA, USA
- Dr. Mathias Hothum, Managing Director of dievini Verwaltungs GmbH, the general partner of dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany

#### 30.2.1 Supervisory Board committees

For reasons of efficiency, a joint Compensation and Nomination Committee was established, which covers both areas separately in its meetings. The Compensation Committee deals with employment issues and with the remuneration of the members of the Executive Management Board. The tasks of the Nomination Committee include proposing suitable candidates for the Supervisory Board to the Annual General Meeting and the appointment of new members of the Executive Management Board.

A Research and Development Committee tasked with issues related to Heidelberg Pharma's oncological product candidates also exists.

The Supervisory Board also established an Audit Committee, whose tasks include the discussion and preparatory examination of the IFRS consolidated financial statements, the HGB single-entity financial statements, the consolidated half-yearly report, the consolidated interim management statements, and the pre-selection of the auditor of the financial statements.

Below is an overview of the composition of the Supervisory Board applicable until the end of the Annual General Meeting in July 2020:

Supervisory Board member	First appointed	End of term	Audit Committee	Compensation and Nomination Committee	R&D Committee
Professor Christof Hettich	2010	2020		C	
Dr. Georg F. Baur (FE)	2000	2020	C	M	
Dr. Friedrich von Bohlen und Halbach	2005	2020			C
Dr. Birgit Kudlek	2012	2020	M		M
Dr. Mathias Hothum	2015	2020	M		

FE = independent financial expert; C = Chair; M = Member

### 30.2.2 Other appointments of the Supervisory Board members

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Professor Christof Hettich is also the Chairman or a member of the following bodies:

Company	Position
• InterComponentWare AG, Walldorf, Germany	Chairman of the Supervisory Board
• LTS Lohmann Therapie-Systeme AG, Andernach, Germany	Chairman of the Supervisory Board
• Cytonet GmbH & Co. KG, Weinheim, Germany, now Weinheim 216 GmbH & Co. KG i. L.	Chairman of the Advisory Board
• immatics biotechnologies GmbH, Tübingen, Germany	Vice Chairman of the Advisory Board
• SRH Holding SdbR, Heidelberg, Germany	Chairman of the Executive Management Board
• Companies of the Vetter Group: Vetter Pharma-Fertigung GmbH & Co. KG, Vetter Pharma-Fertigung Verwaltungs-GmbH, Arzneimittelgesellschaft mbH Apotheker Vetter & Co., Vetter Injekt System GmbH & Co. KG, Vetter Injekt System Verwaltungs-GmbH, Ravensburg, Germany	Member of the Advisory Boards
• Molecular Health GmbH, Heidelberg, Germany	Chairman of the Supervisory Board

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Dr. Georg F. Baur is also the Chairman or a member of the following bodies:

Company	Position
• Franz Haniel & Cie. GmbH, Duisburg, Germany	Vice Chairman of the Supervisory Board
• J.F. Müller & Sohn AG, Hamburg, Germany	Chairman of the Supervisory Board

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Dr. Friedrich von Bohlen und Halbach is also the Chairman or a member of the following bodies:

Company	Position
• Apogenix AG, Heidelberg, Germany	Chairman of the Supervisory Board
• AC Immune SA, Lausanne, Switzerland	Member of the Board of Directors
• CureVac AG, Tübingen, Germany	Chairman of the Supervisory Board
• Cytonet GmbH & Co. KG, Weinheim, Germany, now Weinheim 216 GmbH & Co. KG i.L.	Member of the Advisory Board
• Immatix GmbH, Tübingen, Germany	Member of the Advisory Board
• Novaliq GmbH, Heidelberg, Germany	Chairman of the Advisory Board
• Wyss Translational Center, Zurich, Switzerland	Vice Chairman of the Evaluation Board

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Dr. Birgit Kudlek is also a member of the following body:

Company	Position
Bormioli Pharma S.p.A., Milan, Italy	Member of the Supervisory Board
Atnahs Pharma Limited, London, UK	Member of the Advisory Committee

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Dr. Mathias Hothum is also the Chairman or a member of the following bodies:

Company	Position
• Apogenix AG, Heidelberg, Germany	Member of the Supervisory Board
• CureVac AG, Tübingen, Germany	Member of the Supervisory Board
• Cytonet GmbH & Co. KG, Weinheim, Germany, now Weinheim 216 GmbH & Co. KG i.L.	Member of the Advisory Board
• Joimax GmbH, Karlsruhe, Germany	Chairman of the Advisory Board
• Novaliq GmbH, Heidelberg, Germany	Member of the Advisory Board
• Molecular Health GmbH, Heidelberg, Germany	Member of the Supervisory Board

The members of the Company's Supervisory Board were not active in any other control bodies at the reporting date above and beyond the activities described in the foregoing.

### 30.3 Remuneration of corporate bodies

A detailed description of the remuneration model and the information on remuneration of each Executive Management Board and Supervisory Board member are included in the remuneration report, which is part of the combined management report. These disclosures were subject to the audit of the annual financial statements and consolidated financial statements. The remuneration report is included in chapter 6, "Corporate governance", of the combined management report.

#### 30.3.1 Executive Management Board

Remuneration consists of a salary (fixed remuneration), other benefits (non-cash remuneration), a variable remuneration component and a stock option plan with a long-term incentive and risk element.

The members of the Executive Management Board received total remuneration of € 641 thousand (previous year: € 599 thousand) in fiscal year 2019, € 455 thousand (previous year: € 427 thousand) of which was fixed remuneration, € 150 thousand (previous year: € 139 thousand) was variable remuneration and € 36 thousand (previous year: € 33 thousand) was paid in the form of other benefits or non-cash remuneration.

For information on the remuneration component of the stock options described below, please refer to the capital reduction in a 4:1 ratio that was implemented in the 2014 fiscal year and is applicable to the options issued until that time. As a result, now only four options entitle the holder to acquire one share, instead of one option to acquire one share prior to the capital reduction (in accordance with the terms of exercise of the option plan). At the same time, following the 4:1 capital reduction, the exercise prices and reference prices quadrupled compared with the situation prior to the measure.

As of the reporting date, the two current members of the Executive Management Board held a total of 662,250 stock options from this stock option plan with a long-term incentive and a risk element.

The cumulative fair value of all stock options granted to the current Executive Management Board members was € 996 thousand as of the end of the reporting period (previous year: € 764 thousand). The expenses for the current members of the Executive Management Board incurred in connection with the share-based remuneration in the fiscal year just ended totaled € 259 thousand (previous year: € 224 thousand).

### 30.3.2 Supervisory Board

In accordance with the Company's Articles of Association, the members of the Supervisory Board receive a fixed remuneration for each full fiscal year of service on the Supervisory Board. Members of a Supervisory Board committee are paid a flat fee per fiscal year and committee. The Supervisory Board members do not receive variable remuneration, nor are they granted options or similar rights. Supervisory Board members are not entitled to a settlement if their membership ends.

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

In the 2019 fiscal year, the members of the Supervisory Board were paid remuneration of € 176 thousand (previous year: € 172 thousand) without taking into account reimbursement of travel expenses.

## 31 Related party transactions and disclosures on expenses for the auditors

Balances and transactions between the Company and its subsidiary which are related parties were eliminated in consolidation and are not outlined in this note. Details concerning transactions between the Group and other related parties are listed below.

### 31.1 Shares held by the Executive Management Board and the Supervisory Board

As of 30 November 2019, members of the Executive Management Board held 127,981 shares of Heidelberg Pharma AG (representing 0.45% of the Company's share capital of 28,209,611 shares).

Members of the Supervisory Board held 90,246 shares directly and 20,008,085 shares indirectly (representing 0.32% and 70.9%, respectively, of the Company's share capital).

### 31.2 Directors' Dealings

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

In fiscal year 2019, executives of Heidelberg Pharma AG did carry out any reportable transactions.

### 31.3 Other transactions

- The matter mentioned in previous years – a defined benefit pension commitment to a former chairman of the Executive Management Board, Professor Olaf G. Wilhelm – was resolved during the past year due to the beneficiary reaching the agreed age limit, with a payout of €47 thousand and net expense of €3 thousand recognized in the income statement.
- Furthermore, Heidelberg Pharma Research GmbH granted Dr. Jan Schmidt-Brand a defined contribution pension commitment in 2012 in his capacity as Managing Director of the company for which matching reinsurance was arranged.
- Under the 2011, 2017 and 2018 stock option plans, Heidelberg Pharma AG issued a total of 662,250 subscription rights to current members of the Executive Management Board, all of which are still outstanding. As of the end of the reporting period, 387,156 of these options are vested. In addition, 25,500 options for former members of the Company's Executive Management Board are outstanding and vested. No stock options have been exercised to date.
- The Rittershaus law firm invoiced legal consulting services for both Group companies in the total amount of approximately €38 thousand in the reporting period (previous year: €12 thousand). Rittershaus is a related party because the chairman of the Supervisory Board, Professor Christof Hettich, is a partner in this law firm.
- In fiscal year 2019, transactions took place between Heidelberg Pharma Research GmbH and entities controlled by dievini or its affiliated companies, namely Apogenix AG, Heidelberg, Germany, (amounting to €202 thousand) and Molecular Health GmbH, Heidelberg, Germany, (amounting to €34 thousand). All transactions took place without any influence or action on the part of dievini or its affiliated companies and strictly at arm's length.

No other relationships to related parties exist in addition to the relations and financing services listed. Furthermore, no transactions that were not at arm's length within the meaning of IAS 24.23 were entered into.

#### 31.4 Expenses for the auditors

Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte) was appointed the auditor of the Company's consolidated financial statements at its Annual General Meeting on 21 May 2019. The Supervisory Board commissioned Deloitte with the audit.

The following fees for services were recognized in the periods reviewed:

	2019 € '000	2018 € '000
Auditing services	130	123
Other assurance services	0	0
Tax advisory services	0	0
Other services	0	10
<b>Expenses for auditors</b>	<b>130</b>	<b>133</b>

The audit fees (€ 130 thousand, previous year € 123 thousand) concern the fees recognized as an expense in the fiscal year for the statutory audit of the IFRS consolidated financial statements and the audits of the annual financial statements of Heidelberg Pharma AG and Heidelberg Pharma Research GmbH pursuant to HGB. The other services (€ 10 thousand) provided in the previous year concerned an audit carried out during 2018 in accordance with section 342 (2) sentence 3 no. 3 German Commercial Code (sample audit by the German Financial Reporting Enforcement Panel).

#### 31.5 Disclosures regarding the majority shareholder

The main shareholder in Heidelberg Pharma AG is dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany, (dievini). Together with all entities attributable or affiliated to it at that time, such as DH-Holding Verwaltungs GmbH and Curacyte GmbH, and the shares in Heidelberg Pharma AG held personally by Mr. Dietmar Hopp, dievini held approximately 51.67% of the 9,305,608 Heidelberg Pharma shares as of 13 April 2015 following the capital increase at Heidelberg Pharma that became effective upon its entry in the Commercial Register on 10 April 2015. An interest of over 50% in Heidelberg Pharma was therefore attributable to dievini and its affiliated companies for the first time in the 2015 fiscal year.

Following three capital increases in fiscal year 2016, the interest held by dievini and its affiliated companies together with the shares in Heidelberg Pharma AG held personally by Mr. Dietmar Hopp increased to approximately 63.53% of the Heidelberg Pharma shares.

Following two further capital increases in fiscal year 2017, the interest held by dievini – in this context now the only entity invested in Heidelberg Pharma AG – together with the shares held personally by Mr. Dietmar Hopp increased to approximately 70.26% of the Heidelberg Pharma shares. Since then, Curacyte GmbH has been liquidated and dievini has acquired its shares in Heidelberg Pharma.



As dievini exercised convertible bonds in January 2018 that were issued by Heidelberg Pharma and subscribed to by dievini as part of the capital increase in November 2017, the equity interest held by dievini and its affiliated companies and the shares in Heidelberg Pharma AG held personally by Mr. Dietmar Hopp, parties related to him, and the companies they control increased to approximately 75.05% of the Heidelberg Pharma shares. Following the conversion of all convertible bonds, this share fell to approx. 74.85% as of 30 November 2019.

The shareholdings of Dietmar Hopp, parties related to him, and the companies they control, therefore exceed the 50% threshold. This group of persons is the majority shareholder and can exercise far-reaching control over Heidelberg Pharma AG or can exert significant influence over the Company.

### 32 Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 German Stock Corporation Act

The Declaration of Conformity to be submitted annually in accordance with Section 161 of the German Stock Corporation Act was submitted by the Executive Management Board and the Supervisory Board in January 2020. It has been made permanently available to all shareholders and interested parties on the Company's website.

@ [www.heidelberg-pharma.com](http://www.heidelberg-pharma.com)

### 33 Events after the reporting period

#### Heidelberg Pharma AG secures financing commitment from its main shareholder dievini

On 22 January 2020, the Group's main shareholder dievini Hopp BioTech holding GmbH & Co. KG, Walldorf (dievini) confirmed a financing commitment vis-à-vis Heidelberg Pharma AG. According to this commitment dievini will provide the Company up to €15 million in cash funds. In February 2020, the Executive Management Board developed a concrete plan for implementing the financing commitment.

According to the assessment of the executive directors and based on the updated budget, the funding volume pledged and the cash and cash equivalents available as of the 30 November 2019 reporting date would be sufficient to finance Heidelberg Pharma's planned business activities until mid-2021, provided that no exceptional developments change the situation.

Ladenburg, 16 March 2020

Heidelberg Pharma AG, the Executive Management Board



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



Professor Andreas Pahl  
Chief Scientific Officer

# RESPONSIBILITY STATEMENT OF THE EXECUTIVE MANAGEMENT BOARD

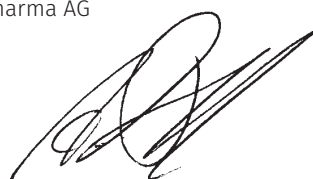
“To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Heidelberg Pharma Group, and the combined management report includes a fair review of the development and performance of the business and the position of the Heidelberg Pharma Group and of Heidelberg Pharma AG, together with a description of the material opportunities and risks associated with their expected development.”

Ladenburg, 16 March 2020

The Executive Management Board of Heidelberg Pharma AG



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



Professor Andreas Pahl  
Chief Scientific Officer

# INDEPENDENT AUDITORS' REPORT

The English translation of the auditors' report is provided for convenience only. The German original is definitive.

To Heidelberg Pharma AG, Ladenburg

## Report on the audit of the consolidated financial statements and of the combined management report

### Audit opinions

We have audited the consolidated financial statements of Heidelberg Pharma AG, Ladenburg, Germany, and its subsidiary (the Group), which comprise the balance sheet as of 30 November 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from 1 December 2018 to 30 November 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Heidelberg Pharma, Ladenburg, Germany, which is combined with the company's management report, for the fiscal year from 1 December 2018 to 30 November 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sections 289f, 315d German Commercial Code (HGB), which is referred to in section 6.1 of the combined management report.

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In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 30 November 2019, and of its financial performance for the fiscal year from 1 December 2018 to 30 November 2019, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the statement on corporate governance mentioned above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to propriety of the consolidated financial statements and of the combined management report.

### Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial law and rules of professional conduct and we have fulfilled our other

ethical responsibilities applicable in Germany in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

### Material uncertainty in connection with the Company's ability to continue as a going concern

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We refer to sections 7.4 “Going-concern risks” and 7.6 “Financial risks” of the combined management report as well as to chapter 6 “Going-concern risk” of the notes to the consolidated financial statements. In these sections, the executive directors state that based on their planning at that time the cash and cash equivalents available to the Company as of the 30 November 2019 reporting date were not sufficient to guarantee the Company's ability to continue as a going concern for at least the next 12 months. Based on the assumption that the financing commitment confirmed by the main shareholder dievini in January 2020 in the amount of €15 million will be implemented successfully in the first half of 2020, the executive directors assume that Heidelberg Pharma AG and/or its subsidiary Heidelberg Pharma Research GmbH, Ladenburg, Germany, will be unable from mid-2021 to satisfy their payment obligations if the cash inflows resulting from the implementation according to plan of the corporate strategy focused on the ADC technology are not sufficient or if there is no possibility to raise additional funds. As outlined in the above-mentioned sections and chapters of the combined management report and the notes to the consolidated financial statements, this refers to the existence of a material uncertainty that may cast significant doubt on the ability of the group to continue as a going concern and constitute a risk that jeopardizes the existence of the group as a going concern within the meaning of Section 322 (2) Sentence 3 German Commercial Code (HGB).

In our audit, we examined whether the preparation of the consolidated financial statements on a going-concern basis and the presentation of the Company's going-concern risks in the notes to the consolidated financial statements and in the combined management report are appropriate. In this context, we focused on assessing the current liquidity planning by examining the reliability of the data on which it is based and whether the underlying assumptions of the executive directors are sufficiently justified.

Our audit opinions have not been modified with respect to this matter.

### Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 December 2018 to 30 November 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In addition to the matter described in the section “Material uncertainty in connection with the Company's ability to continue as a going concern”, we present the recoverability of goodwill as the key audit matter we have determined in the course of our audit.

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

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

### Recoverability of goodwill

- a) Goodwill of €6,111 thousand (approximately 29% of total assets) is shown in the consolidated financial statements of Heidelberg Pharma AG. The goodwill results from the acquisition of Heidelberg Pharma Research GmbH in 2011. The Company therefore allocated the goodwill to the Heidelberg Pharma Research GmbH cash-generating unit. On this basis, the Company performs impairment testing once per year and whenever a triggering event occurs.

The basis for measurement is the present value of the future cash flows of the Heidelberg Pharma Research GmbH cash-generating unit to which the goodwill is allocated; this is determined using a discounted cash flow model. The expected future cash flows are derived from the current medium-term planning adopted by the executive directors and approved by the Supervisory Board, which is based on assumptions by the executive directors relating to the future development of the market and the Company. Discounting is based on the weighted average cost of capital of the cash-generating unit. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows and the discount rate used, and is therefore fraught with considerable uncertainty. In the light of this, and owing to the underlying complexity of the valuation models, this issue was of particular importance within the framework of our audit.

The disclosures made by the executive directors about goodwill can be found in sections 3.8, 7.2, 8 and 10.1 of the notes to the consolidated financial statements.

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- b) As part of our audit, we first evaluated the method used to perform the impairment test and assessed the calculation of the weighted cost of capital. In addition to our analysis of the planning, we satisfied ourselves of the appropriateness of the future cash inflows used in the measurement by comparing this data with the current projections from the medium-term planning adopted by the executive directors and approved by the Supervisory Board and through reconciliation with general and sector-specific market expectations.

In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the goodwill calculated using this method, we focused on examining the parameters used to determine the discount rate applied including the average cost of capital, and analyzed the method of calculation.

Furthermore, due to the materiality of the goodwill for the Group's net assets, we also performed our own sensitivity analyses so as to be able to estimate a possible impairment risk in the event of a potential change in a key assumption for measurement. In addition, we examined the completeness and appropriateness of the disclosures in the notes to the consolidated financial statements required under IAS 36.

## Other information

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

- the statement on corporate governance for the 2019 fiscal year pursuant to Sections 289f, 315d German Commercial Code (HGB), which is referred to in section 6.1 of the combined management report,
- the executive directors' responsibility statement regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) sentence 5 German Commercial Code (HGB) respectively, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the combined management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are

responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

### **Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates and related disclosures made by the executive directors.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we

conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



## Other legal and regulatory requirements

### Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 21 May 2019. We were engaged by the Supervisory Board on 3 September 2019 / 6 September 2019. We have been the group auditor of Heidelberg Pharma AG, Ladenburg, Germany, without interruption since fiscal year 2011/2012.

We confirm that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Jörg Wegner.

Frankfurt am Main, 16 March 2020

Deloitte GmbH  
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# GLOSSARY

**Amanitin:** toxin that is a member of the amatoxin group of natural poisons occurring in the death cap (*Amanita phalloides*), among others.

**Antibody Drug Conjugate (ADC) technology:** Antibody drug conjugates are monoclonal antibodies attached to biologically active drugs by chemical linkers. Combining the specific targeting of antibodies with cancer-killing cytotoxic drugs enables ADCs to discriminate between healthy and tumor tissue. This combination enhances the control of drug pharmacokinetics and significantly improves delivery to target tissue.

**Antibody Targeted Amanitin Conjugate (ATAC):** antibody drug conjugate using the amanitin toxic. ATACs are second-generation ADCs characterized by improved efficacy, also as regards quiescent tumor cells. Quiescent tumor cells are scarcely reached with existing standard therapies and contribute to tumor recurrence and resistance formation. These ATACs will also be used to treat therapy-resistant tumors that no longer respond to standard chemotherapy or anti-tumor antibodies.

**Antigen:** Structure onto which an antibody specifically binds.

**Antibodies:** Proteins which are produced by the immune system with the aim of identifying and destroying foreign substances that cause disease, such as viruses and bacteria.

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

**CAIX:** Antigen that binds to the antibody Girentuximab.

**CDMO:** Contract Development and Manufacturing Organization.

**Chemotherapy:** Use of cell toxins to destroy tumor cells in the body.

**Chimeric:** Genetically composed from different species.

**Combination therapy:** Therapy with two or more substances.

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

**Cytotoxic:** Poisonous to cells.

**Diagnostic agent:** A tool, gene or protein that aids in the diagnosis of an illness.

**FDA:** Food and Drug Administration – regulatory authority in the USA.

**Girentuximab:** INN (International Nonproprietary Name) for RENCAREX®. RENCAREX® is the development name for the therapeutic antibody WX-G250, which is based on the chimeric antibody cG250. The INN for the radio labelled antibody developed under the name REDECTANE® is Iodine (124I) girentuximab.

**Good Laboratory Practice (GLP):** International regulations governing the conduct of tests in laboratories.

**Good Manufacturing Practice (GMP):** International regulations governing the production of pharmaceutical products.

**HPD-101:** Development name for the proprietary ATAC candidate that is composed of a BCMA antibody, a linker and the Amanitin toxin.

**Immune checkpoint:** Immune checkpoints are receptors on the surface of T-cells. They act as modulators of T-cell response, and act as intensifiers (proinflammatory) or inhibitors (anti-inflammatory; e.g. PD-1). Checkpoint inhibitors are drugs that occupy the immune checkpoints and thus inhibit them.

**IND:** To be granted official approval for trialing drugs on humans (clinical studies), the applicant must first submit an “investigational new drug” (IND) application to the respective national authority. This application is based on preclinical data.

**Inhibitor:** Substance which reduces or inhibits specific biological activities.

**INN:** International Nonproprietary Name.

**In Process Research & Development (IP R&D):** Not yet ready for use intangible assets

**In vitro:** Refers to a procedure or reaction that takes place in a test tube

**In vivo:** Refers to a procedure or reaction that takes place in the body.

**Linker:** Bridging molecule, used e.g. to connect a toxin to an antibody.

**MESUPRON®:** Name under which the oral uPA inhibitor is being developed (formerly WX-671).

**Metastasis:** Malignant spread of a tumor in an organism.

**Metastases:** The spread of malignant tumor cells in the body and the formation of secondary tumors.

**Molecule:** A chemical structure composed of at least two particles (atoms).

**Monoclonal antibodies:** Monoclonal antibodies are produced by cells created when an antibody producing cell (such as a B lymphocyte) fuses with an immortalized cancer cell. This procedure is carried out in the laboratory and produces a hybrid cell (hybridoma) possessing the properties of both cells. Since these cells originate from the same cell, they are all identical and are therefore described as „monoclonal“. They produce large amounts of a specific anti-body, which binds to a specific antigen.

**Multiple myeloma (MM):** MM is a cancer of the hematopoietic system. Its typical characteristic is the proliferation of antibody-producing cells, the plasma cells. Multiple myeloma is the most common malign neoplasm of the bone marrow.

**Oncology:** Research field which focuses on cancer studies.

**Oral:** Administration via the mouth.

**Pharmacology:** A scientific discipline investigating the characterization, effect and application of drugs and their interaction with the organism.

**Phase I:** Clinical trial of a substance carried out on a low number of healthy subjects or patients under strict supervision that serves to investigate toxicity, pharmacokinetics, form of administration and safe dosage of a substance.

**Phase II:** Clinical trial with a low number of patients with the aim of testing the efficacy of a substance for specific indications, identifying any side effects and safety risks and determining the tolerance and optimum dosage.

**Phase III:** Clinical trial with a large number of patients (several hundred to several thousand) to ascertain the safety, tolerance and efficacy as well as optimum dosage of a substance under real therapy condition.

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

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

**Positron emission tomography (PET):** A radio nuclide imaging procedure, which can visualize biochemical and physiological processes by means of radioactive materials.

**Preclinical:** The preclinical phase comprises all *in vitro* and *in vivo* test systems for examining the features of a substance prior to the start of the clinical phases..

**PSMA:** Prostate-specific membrane antigen. PSMA is overexpressed in prostate cancer specifically and is a promising target for an ADC approach, as it shows very low expression in normal tissues.

**R&D:** Research and development.

**REDECT: Renal Masses: Pivotal Trial To Detect clear-cell RCC with pre-surgical PET/CT.** REDECT is a Phase III registration trial, which will evaluate whether imaging with REDECTANE® can improve the diagnosis in comparison to the current standard (CT).

**REDECTANE®:** Development name for the antibody Girentuximab radioactively labelled with iodine-124 (INN Iodine (124I) Girentuximab). The antibody is now developed under TLX250-CDx and radioactively labelled with zirconium-89.

**RENCAREX®:** Development name for the therapeutic antibody Girentuximab (formerly WX-G250).

**RNA polymerase II:** Enzyme complex that mainly catalyzes the synthesis of mRNA (messenger ribonucleic acids) in the transcription of DNA in eukaryotes.

**Serine protease:** A type of peptidase (i.e. enzymes which catalyze the split of proteins and peptides).

**Therapeutic agent:** Drug applied for the treatment of illnesses.

**Thrombin:** Enzyme that enables blood to coagulate.

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

**uPA:** Urokinase-type plasminogen activator.

# FINANCIAL CALENDAR 2020

Date	Type of report/event
19 March 2020	Annual Report 2019, financial press conference and analysts' meeting
23 April 2020	Interim management statement on the first three months of 2020
9 July 2020	Half-yearly Financial Report 2020
22 July 2020	Annual General Meeting 2020
8 October 2020	Interim management statement on the first nine months of 2020



Please see our website for the current list of conferences for 2020.

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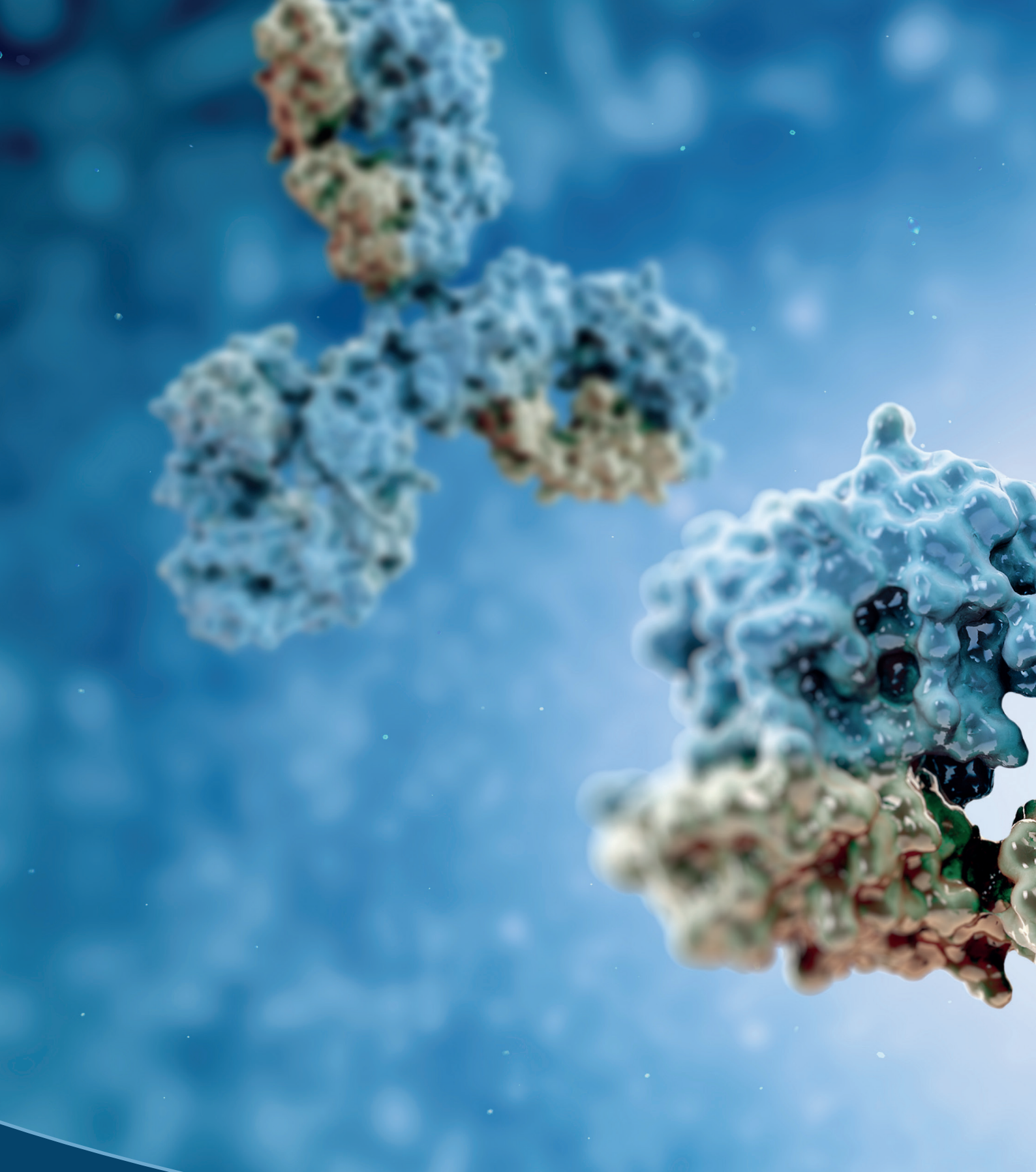
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