Annual financial statements as of December 31, 2019 and management report

TRANSLATION – AUDITOR'S REPORT

Vivoryon Therapeutics AG
Halle (Saale), Germany

(until June 11, 2019: Probiodrug AG)

KPMG AG Wirtschaftsprüfungsgesellschaft

Vivoryon Therapeutics AG, Halle (Saale)
(until June 11, 2019: Probiodrug AG)

Balance sheet as of December 31, 2019

A s s e t s

	Dec 31, 2019		Dec 31, 2018	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible assets				
Rights, licences and software acquired for consideration		15,798.99		6,657.76
II. Property, plant and equipment				
1. Buildings on third-party land	162.74		980.82	
2. Other equipment, operating and office equipment	61,332.74		54,453.44	
3. Advance payments	0.00	61,495.48	2,925.02	58,359.28
III. Financial assets				
Investments		3,450.00		3,450.00
		80,744.47		**68,467.04**
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	104,470.58		103,125.12	
2. Other assets	623,045.15		97,826.35	
3. Advance payments	233,280.42	960,796.15	0,00	200,951.47
II. Cash and cash equivalents		41,419,504.08		3,680,017.08
		42,380,300.23		**3,880,968.55**
C. Prepaid expenses		**2,996,200.92**		**98,439.78**
		45,457,245.62		**4,047,875.37**

Equity and liabilities

	Dec 31, 2019	Dec 31, 2018
	EUR	EUR
A. Equity		
I. Share capital	19,975,482.00	8,208,009.00
– Contingent capital EUR 3,808,975.00 (PY: EUR 4,002,527.00) –		
II. Capital reserve	88,589,734.21	49,118,738.55
III. Revenue reserves		
Statutory reserve	227,625.00	227,625.00
IV. Accumulated deficit	-65,757,218.10	-56,011,748.65
	43,035,623.11	**1,542,623.90**
B. Provisions		
1. Pension provisions	1,582,929.16	1,540,634.00
2. Other provisions	312,929.76	382,605.04
	1,895,858.92	**1,923,239.04**
C. Liabilities		
1. Trade payables	387,741.42	507,353.33
2. Other liabilities	138,022.17	74,659.10
– thereof for taxes EUR 126,422.98 (PY: EUR 43,544.92) –		
	525,763.59	**582,012.43**
	45,457,245.62	**4,047,875.37**

Vivoryon Therapeutics AG, Halle (Saale)
(until June 11, 2019: Probiodrug AG)

Income statement for the period
from January 1 to December 31, 2019

1.	Other operating income
2.	Cost of materials
	a) Cost of supplies and purchased goods
	b) Cost of purchased services
3.	Personnel expenses
	a) Wages and salaries
	b) Social security, pensions
	– thereof for pensions: EUR 100,624.20 (PY: EUR 217,240.16) –
4.	Amortization of intangible assets and depreciation of property, plant and equipment
5.	Other operating expenses
6.	Other interest and similar income
7.	Interest and similar expenses
8.	**Earnings after taxes**
9.	**Net loss for the year**
10.	Accumulated deficit brought forward
11.	**Accumulated deficit**

	Jan 1 – Dec 31, 2019		Jan 1 – Dec 31, 2018	
	EUR	EUR	EUR	EUR
		91,581.18		56,074.20
	-6,207.68		-19,219.10	
	-2,739,932.87	-2,746,140.55	-2,105,606.47	-2,124,825.57
	-1,787,815.86		-2,042,520.00	
	-181,428.35	-1,969,244.21	-353,165.98	-2,395,685.98
		-34,862.84		-23,284.34
		-4,972,618.03		-3,125,593.37
		0.00		25,380.02
		-114,185.00		-115,538.24
		-9,745,469.45		**-7,703,473.28**
		-9,745,469.45		**-7,703,473.28**
		-56,011,748.65		-48,308,275.37
		-65,757,218.10		**-56,011,748.65**

Vivoryon Therapeutics AG, Halle (Saale)
(until June 11, 2019: Probiodrug AG)

Statement of cash flows for the period from January 1 to December 31, 2019

	Jan 1 – Dec 31, 2019	Jan 1 – Dec 31, 2018
	EUR	EUR
Loss for the period	-9,745,469.45	-7,703,473.28
Transaction costs	1,827,853.52	0.00
Amortization, depreciation and write-downs of fixed assets	34,862.84	23,284.34
Interest income	0.00	-25,380.02
Interest expense	114,185.00	115,538.24
Other non-cash income	-41,051.38	-25,796.44
Increase of pension provisions	-71,889.84	126,090.60
Decrease in other provisions	-69,675.28	-32,704.09
Increase of receivables and other assets	-759,844.68	-46,344.68
Increase (PY: decrease) of prepaid expenses	-2,897,761.14	247,993.23
Decrease (PY: increase) of trade payables	-119,611.91	293,005.75
Increase of other liabilities	63,363.07	31,294.01
Cash flows from operating activities	**-11,665,040**	**-6,996,492**
Acquisition of property, plant and equipment	-47,140.27	-16,333.70
Proceeds from reinsurance policies relating to the pension provisions	0.00	475,792.18
Cash flows from investing activities	**-47,140**	**459,458.48**
Proceeds from share issuance	51,238,468.66	0.00
Disbursements for transaction costs	-1,827,853.52	0.00
Cash flows from financing activities	**49,410,615.14**	**0.00**
Cash effective changes of cash and cash equivalents	**37,698,435.62**	**-6,537,033.86**
Effect of changes in exchange rates on cash and cash equivalents	**41,051.38**	**25,796.44**
Cash and cash equivalents at the beginning of the financial year	**3,680,017.08**	**10,191,254.50**
Cash and cash equivalents at the end of the period	**41,419,504.08**	**3,680,017.08**

	Dec 31, 2019	Dec 31, 2018
	EUR	EUR
Composition of cash and cash equivalents		
Cash on hand	107.18	255.05
Cash at bank	41,419,396.90	3,679,762.03
	41,419,504.08	**3,680,017.08**

Vivoryon Therapeutics AG, Halle (Saale)
(until June 11, 2019: Probiodrug AG)

Statement of changes in equity as of December 31, 2019

	Subscribed capital Common shares	Capital reserve	Statutory reserve	Accumulated deficit	Equity
	EUR	EUR	EUR	EUR	EUR
as of January 1, 2018	**8,208,009.00**	**49,118,738.55**	**227,625.00**	**-48,308,275.37**	**9,246,097.18**
Loss for the period				-7,703,473.28	-7,703,473.28
as of December 31, 2018	**8,208,009.00**	**49,118,738.55**	**227,625.00**	**-56,011,748.65**	**1,542,623.90**
as of January 1, 2019	**8,208,009.00**	**49,118,738.55**	**227,625.00**	**-56,011,748.65**	**1,542,623.90**
Capital increase via cash contribution	11,767,473.00	39,470,995.66			51,238,469.66
Loss for the period				-9,745,469.45	-9,745,469.45
as of December 31, 2019	**19,975,482.00**	**88,589,734.21**	**227,625.00**	**-65,757,217.10**	**43,035,623.11**

Vivoryon Therapeutics AG, Halle (Saale)

(until June 11, 2019 Probiodrug AG)

NOTES to the annual financial statements for the financial year from January 1 to December 31, 2019

I. General disclosures

The annual financial statements of Vivoryon Therapeutics AG (Vivoryon) for the period from January 1 to December 31, 2019 were prepared using the accounting policies and measurement methods prescribed by the German Commercial Code [HGB] as well as the complementary regulations of the German Stock Corporation Act [AktG].

Vivoryon Therapeutics AG, which traded under Probiodrug AG until June 11, 2019, has its headquarters in Halle (Saale) and is registered in the commercial register of the Stendal District Court (commercial register file number 213719). The Company's shares have been listed on the Euronext/Amsterdam since October 2014. Vivoryon is therefore a publicly traded company as defined in Section 264d HGB and is thereby considered a large corporation as defined by Section 267 (3) sentence 2 HGB.

The Company was officially renamed Vivoryon Therapeutics AG with effect from June 11, 2019, when this was entered in the commercial register Stendal. The name change was resolved in the Company's Annual General Meeting on May 29, 2019. The new name stands for the enhanced corporate strategy under the claim "Healthy Aging - Pioneering Innovation".

There was no change in the presentation form compared to the prior year.

Going concern

In terms of assessing the Company's ability to continue as a going concern, Vivoryon – as a biopharmaceutical company that focuses on Alzheimer care – is dependent on research and development programs. The pharmaceutical development process is characterized by long development cycles as well as high investment requirements for preclinical and clinical research and

development up to the time of a product's commercial readiness. Vivoryon continuously needs external funding for research and development activities up until this time. In 2019, the Company was able to raise funds totaling EUR 51,238k through two capital increases in April and October. This provides for the continuation of Vivoryon's business activities until 2023 as per the current budget planning.

II. Accounting policies

Fixed assets

Property, plant and equipment and intangible assets are stated at cost less scheduled depreciation and amortization.

Scheduled depreciation and amortization were calculated on the straight-line basis considering the expected useful life of the underlying asset.

Movable assets acquired in financial year 2019 costing up to EUR 800.00 were expensed as incurred. A collective item was not recognized for such assets.

Long-term equity investments are stated at acquisition cost.

Current assets

Other assets were stated at their nominal value less necessary valuation adjustments in consideration of all identifiable risks. Receivables in foreign currencies are shown at the average spot exchange rate prevailing on the balance sheet date.

Cash and cash equivalents are generally stated at their nominal values.

Accounts denominated in a foreign currency are also measured using the average spot exchange rate prevailing on the balance sheet date.

Prepaid expenses comprise payments made prior to the balance sheet date, which represent expenses for a specific period after the balance sheet date.

Deferred taxes are recognized on the difference in the amounts recognized in the commercial and tax balance sheets provided these are expected to be reduced in subsequent financial years. If there is an excess of deferred tax assets as of the reporting date, the option to capitalize these assets provided under Section 274 (1) sentence 2 HGB is not exercised.

Equity

The Company's share capital is recorded at its nominal value.

Provisions

Provisions are recorded at the settlement amounts deemed necessary according to prudent business judgement. In doing so, all identifiable risks were considered.

Long-term provisions with a term of more than 12 months are discounted in accordance with Section 253 (2) sentence 1 HGB. Provisions with a remaining term of up to one year were not discounted.

The pension provisions are calculated using the 'projected unit credit' method (PUC method). Vivoryon applied a discount rate determined as the average market interest rate of the prior ten financial years as published by the Deutsche Bundesbank [German Central Bank] and an assumed remaining term of 15 years. The biometric assumptions as of the balance sheet date were provided by the 2018 G mortality tables of Prof Dr Klaus Heubeck. The parameters applied in the valuation as well as disclosure of the difference arising from the use of the average market interest rate of the prior ten years as of December 31, 2019 and that based on the average market interest rate of the prior seven financial years as of December 31, 2019 are presented in the explanations on the balance sheet.

Liabilities

Liabilities are recognized at their respective settlement amounts. Liabilities in a foreign currency are recorded at the mean average exchange rate in effect as of the balance sheet date.

The existing liabilities are unsecured.

Income statement

The Company again elected the total cost method of presentation (nature of expense) pursuant to Section 275 (2) HGB.

III. Explanatory notes on the balance sheet

Fixed assets

The movements in fixed assets as well as disclosures with respect to the amortization and depreciation recorded in the financial year is shown for each balance sheet line item in the movements in fixed assets presented in the appendix to the notes to the annual financial statements. Vivoryon Therapeutics AG has a subsidiary, Vivoryon Therapeutics Inc., USA. All operating activities and assets are consolidated at Vivoryon Therapeutics AG; Vivoryon Therapeutics Inc. currently performs neither operating activities nor does it have operating assets.

Receivables and other assets

All receivables and other assets have a remaining term of up to one year. Other assets primarily include receivables from tax authorities (EUR 292k; PY: EUR 89k) as well as other receivables (EUR 331k; PY: EUR 9k).

Prepaid expenses

As of December 31, 2019, prepaid expenses include a reservation fee of EUR 496k (PY: EUR 0k) for the GMP production of the clinical PQ912 material and advance payments made upon signing the contract with Nordic Bioscience for the conduct of the clinical 2b study in the amount of EUR 2,421k (PY: EUR 0k).

Deferred taxes

Offsetting debit and credit balances with respect to deferred taxes (consideration of overall difference) yielded a net debit balance for deferred taxes as of the balance sheet date. The calculation is based on an effective tax rate of 31.58%, which is expected to be the rate in effect when the differences reverse. Vivoryon does not exercise the option of recognizing deferred tax assets under Section 274 (1) sentence 2 HGB. As such, deferred taxes are not presented on the balance sheet. The calculated deferred tax assets and liabilities result from accumulated losses carried forward and different values calculated for the pension provisions.

Share capital

As of December 31, 2019, the share capital amounted to EUR 19,975,482.00 (December 31, 2018: EUR 8,208,009.00). It is broken down into 19,975,482 (December 31, 2018: 8,208,009) registered common shares with no-par value.

On April 9, 2019, Vivoryon's Management Board – with the approval of the Supervisory Board – resolved to increase the share capital by EUR 4,093,367.00 to EUR 12,301,376.00. Upon full utilization of the Authorized Capital 2017, the increase was made by the issuance of 4,093,367 new no par value common bearer shares at an issue price equivalent to the calculated nominal value of EUR 1.00 per share.

The Company issued the new shares to selected investors at a subscription price of EUR 2.00 per new share.

3.1 million new shares were sold to a consortium of investors led by Mr Claus Christiansen founder and chairman of the board of directors of Nordic Bioscience, Denmark. Additionally, 993,367 new shares were sold to other investors as well as to members of the Management Board and Supervisory Board.

Out of a total of 4,093,367 new shares, 1,641,601 (20% of the share capital) were admitted to trading on Euronext Amsterdam under exemption from the prospectus obligation and were delivered to the investors. The remaining 2,451,766 new shares not admitted were delivered to the Investor Consortium, led by Mr Christiansen, which was also willing to accept new shares which were not admitted, underlining its intended long-term engagement.

On August 8, 2019, these shares were admitted to trading on Euronext based on a prospectus.

On October 8, 2019, the Management Board - with the approval of the Supervisory Board - resolved to offer new shares from the cash capital increase resolved by the Annual General Meeting on May 29, 2019 to the shareholders of the Company in a ratio of 1:3 in accordance with the resolution of the Annual General Meeting on May 29, 2019 by way of an indirect subscription right in accordance with Section 186 (5) AktG. The subscription price for the issuance of a no-par value bearer share was set at EUR 5.61.

On October 24, 2019, the Management Board - with the approval of the Supervisory Board - resolved to set the number of new shares to be placed, including the new shares, to be issued based on subscription rights exercised by the Company's shareholders, at 7,674,106. The capital increase was to be made in this amount. The subscription price for the private placement for the issuance of a no-par value bearer share was set at EUR 5.61.

The rights offering was completed with a total of 4,445,323 new shares subscribed to by existing shareholders, of which Mr. Claus Christiansen, Den Danske Forskningsfond and T&W Holding A/S subscribed to a total of 2,673,798 new shares. [As such, the transaction was oversubscribed.] The new shares which were not subscribed by existing shareholders (the "Rump Shares") were offered via a private placement to selected qualified investors in Europe who purchased 3,228,783 Rump Shares at the suscription price, including MorphoSys AG, which purchased Rump Shares for an aggregate investment amount of EUR 15 million. In total, the offering led to the issuance of a total of 7,674,106 new shares, raising EUR 43,051,734.66 for Vivoryon. The Company's outstanding share capital after completion of the capital increase amounted to EUR 19,975,482.00 broken down into 19,975,482 no par value registered shares. The new shares have full dividend rights from January 1, 2019.

The capital increase was entered in the commercial register on October 25, 2019 and the new shares were admitted to trading on Euronext on October 29, 2019.

Authorization to acquire treasury shares

The Annual General Meeting held on June 10, 2015, authorized the Management Board in accordance with Section 71 (1) no. 8 AktG to acquire treasury stock until June 9, 2020 up to a proportionate share of the share capital in the amount of EUR 676,580.00. The acquisition may be carried out via the stock exchange or by a public offering to all shareholders. The treasury shares may be used for all permitted purposes including redemption.

No shares were repurchased in financial year 2019.

Conditional capital

As of December 31, 2019, the conditional capital totaled EUR 3,808,975.00 (December 31, 2018: EUR 4,002,527.00). Of this amount, EUR 408,975.00 (December 31, 2018: EUR 481,748.00) is reserved for the issuance of options.

In addition to Company employees, for whom no disclosure is required pursuant to Section 194 (3) AktG, the following former members of the Management Board are entitled to acquire the following number of shares:

- Dr. Konrad Glund, Halle, up to 104,834 common shares
- Dr. Hendrik Liebers, Leipzig, up to 104,833 common shares
- Dr. Inge Lues, Seeheim-Jugenheim, up to 104,834 common shares

Options and/or convertible bonds (debt securities)

By resolution of the Annual General Meeting dated June 21, 2018, the Management Board, by virtue of cancellation of the authorization dated June 10, 2015 and the consent of the Supervisory Board, is authorized to issue once or in several transactions, in the latter case also simultaneously in several tranches, until June 20, 2023, option bonds and/or convertible bonds in bearer or registered form (together 'Bonds') for a total amount, calculated starting on the date of original resolution adoption on June 10, 2015, of up to EUR 60,000,000.00, each with or without a maturity restriction. The Bonds, subject to the respective terms and conditions of the option bonds, may grant option rights or impose option obligations. The bonds may also, subject to the respective terms and conditions of the convertible bonds (the 'Convertible Bond Conditions'), grant conversion rights or impose conversion obligations. The Bonds may grant rights or impose obligations to subscribe to up to 3,400,000 bearer shares of the Company with a proportionate corresponding amount of the Company's share capital of up to EUR 3,400,000.00. The Bonds may be issued in euro or – limited to the respective value in euro – in any other statutory currency of an OECD member state. The Bonds may be issued for cash consideration. Alternatively, the Bonds may be issued against non-cash consideration, in particular to acquire enterprises, investments in entities, business units, receivables, patents and licenses or other assets, provided, however, that the value of such at least equals the issue price of the Bonds.

The Bonds may also be issued by domestic or foreign affiliated companies as defined by Sections 15 et. seq. AktG (hereafter a 'Group Company'). In the event the Bonds are issued by a Group Company, the Management Board – with the Supervisory Board's consent – is authorized to guarantee the Bonds on behalf of the Company and to grant/impose option rights/obligations or conversion rights/obligations on the bearer.

The Management Board – with the approval of the Supervisory Board – is authorized to determine the further details of the issue and the terms of the Bonds, in particular interest rate, form of interest, issue price, term, denominations, exercise respectively conversion period, a potential variability of the conversion rate and, if applicable, to do so in consultation with the corporate bodies of the subsidiary issuing the Bonds.

The subscription rights of shareholders are excluded when issuing Bonds on the basis of this authorization.

Stock options

A total of 408,975 stock options were outstanding as of December 31, 2019 (December 31, 2018: 481,748), of which 314,501 options are held by former Management Board members and 94,474

stock options are held by former and current staff. The exercise period ended for 70,373 stock options in 2019.

On September 13, 2019, the Management Board resolved the creation of Stock Option Program 2020 under the condition precedent of the passing of the resolution of the General Meeting of Vivoryon Therapeutics AG with respect to the approval of the creation of the Stock Option Program 2020 and the creation of a corresponding conditional capital. The Management Board is authorized to issue up to 615,000 options to current and future employees and members of the Management Board in one or several steps until December 31, 2023, whereby the general distribution mechanism requires Supervisory Board approval. To the extent that subscription rights are issued to members of the Management Board, only the Supervisory Board is authorized to issue.

1. The options shall entitle the beneficiary, as per the option terms to acquire new common shares in the Company.

2. With a total volume of the maximum available 615,000 options, the group of persons entitled to subscribe is as follows:

   a) Up to 473,550 options are allocable to current and future members of the Company's Management Board. Options not exercised can be issued to the beneficiaries as set forth in clause b).

   b) Up to 141,450 options are allocable to current and future Company employees.

3. The options issued under Stock Option Program 2020 can only be exercised within eight years of issuance.

4. By exercising the options, common no-par value bearer shares can be obtained at a 1:1 ratio for payment of the strike price. After conversion of the Vivoryon shares into registered shares, common registered shares can be subscribed.

   The Management Board is authorized, with the approval of the Supervisory Board – to the extent that Management Board member options are affected, only the Supervisory Board decides – to modify the share purchase within the scope of corporate actions or a transformation of the Company. Accruing fractions of options or shares, if any, shall be rounded down.

The strike price for one option is equivalent to the simple average of the relevant stock exchange prices of the last twenty stock exchange trading days prior to the issuance of the option.

The "relevant stock exchange price" is the closing quotation of the share determined on XETRA or a comparable succeeding system to XETRA or - if Vivoryon's share is listed abroad - the corresponding stock exchange price on such foreign stock exchange. If Vivoryon's share is listed on more than one stock exchange, the prices on the stock exchange with the highest trading volume in Vivoryon's share during the relevant period shall be decisive.

Subject to the approval of the Supervisory Board- if the Management Board is affected, the decision is the sole responsibility of the Supervisory Board- the Management Board may opt to either make the shares required to fulfil the exercised options available from conditional capital still to be created by the shareholders' meeting for this purpose or from additional conditional capital to be created by the shareholders' meeting in the future or from a program still to be resolved by a future shareholders' meeting for the acquisition of treasury shares. Alternatively, at the option of the Management Board and subject to the approval of the Supervisory Board the beneficiary may be granted compensation in cash. The cash compensation is calculated as the difference between the strike price and the simple average of the relevant stock exchange prices on the last ten stock exchange trading days prior to the day the option is exercised.

5. Acquisition Periods

   a) Options may be offered to beneficiaries in one or several tranches until December 31, 2023.

   b) Options may be issued within the first twenty stock exchange trading days of the first quarter, the second quarter, the third quarter and the fourth quarter of a financial year

6. The beneficiaries may exercise the options:

   a) after at least four years have lapsed since their issuance and - if relevant - the options have vested; and

   b) if the simple average of the relevant stock exchange quotations of the last twenty stock exchange trading days prior to exercising the option is not less than 20% above the strike price (success target as defined in Section 193 (2) No. 4 AktG (German Stock Corporations Act)).

7. In respect of Section 193 (2) No. 4 AktG (exercise periods) and to avoid insider violations pursuant to the Securities Trading Act also after the expiration of the four-year minimum vesting period and irrespective of the success target, the options may only be exercised three times per

financial year within a four-week period. These exercise periods start on the third banking day after the Annual General Meeting of shareholders, subsequent to publication of the report for the second and third quarter. If the Company does not publish any quarterly reports, the options may only be exercised once a year within a four-week period starting on the third banking day after the Annual General Meeting.

Moreover, the exercise of the options is not allowed from the date on which the Company submits an offer to its shareholders for the subscription of new shares or debentures with conversion or subscription rights by way of letter to all shareholders or by publication in the Bundesanzeiger ("German Federal Gazette") until the date when the shares eligible for subscription are quoted "ex subscription right" for the first time.

8. The options are not transferrable.

9. The beneficiary shall bear all taxes possibly accruing in connection with the granting and exercising of the options, including church tax and solidarity surcharge, as well as social security insurance contributions.

In 2019, the Annual General Meeting has not yet approved Stock Option Program 2020.

Authorized Capital 2019

As of December 31, 2019, the authorized capital totaled EUR 6,150,688.00 (December 31, 2018: EUR 4,093,367.00).

The Management Board – with the approval of the Supervisory Board – is authorized to increase the Company's share capital until May 28, 2024 in one or several step(s) in consideration for contributions in cash or in kind by up to EUR 6,150,688.00 by issuing a total of up to 6,150,688 new, no-par value bearer shares (Authorized Capital 2019). The subscription right is excluded. The Management Board is authorized – with the approval of the Supervisory Board – to determine other specific details of the capital increase, its implementation and the terms and conditions for the issuance of shares from the Authorized Capital 2019.

Authorized Capital 2017

The Authorized Capital 2017 of EUR 4,093,367.00 was fully utilized in the capital increase carried out on April 9, 2019.

Voting rights notifications

Disclosures on the existence of investments as of the balance sheet date

HBM Healthcare Investments AG, Zug, Switzerland, informed the Company pursuant to Section 33 WpHG on February 21, 2019 that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the 3% threshold of voting rights on February 14, 2019.

Aviva plc, London, Great Britain, informed the Company pursuant to Section 33 WpHG on April 5, 2019 that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the 3% threshold of voting rights on April 5, 2019.

Andera Partners (formerly Edmond de Rothschild Investment Partners), Paris, France, informed our Company pursuant to Section 33 WpHG on April 17, 2019 that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the threshold of 5% of the voting rights on April 10, 2019 and that its voting rights proportion amounted to 3.34 % (410,699 voting rights) on that date. 3.34% of the voting rights (401,946 voting rights) are attributable to Andera Partners pursuant to Section 34 WpHG.

Claus Henrik Christiansen, Morcote, Switzerland, informed our Company pursuant to Section 33 WpHG on April 16, 2019, that his voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 exceeded the threshold of 5 % of the voting rights on April 15, 2019 and that his voting rights proportion amounted to 8.13 % (1,000,000 voting rights) on that date.

Den Danske Forskningsfond, Herlev, Denmark, informed our Company pursuant to Section 33 WpHG on April 16, 2019, that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 exceeded the threshold of 5 % of the voting rights on April 16, 2019 and that its voting rights proportion amounted to 8.13 % (1,000,000 voting rights) on that date.

The Federal State Saxony Anhalt, Magdeburg, Germany, informed us that, pursuant to Section 33 WpHG, on April 18, 2019, its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 10% of the voting rights on April 10, 2019 and that its voting rights proportion amounted to 7.26 % (893,269 voting rights). 7.26% of the voting rights (893,269 voting rights) are attributed to the Federal State Saxony Anhalt pursuant to Section 34 of the WpHG. The voting rights attributed to the Federal State Saxony

Anhalt are attributed through the following controlled undertakings holding 3% or more in Vivoryon: IBG Risikokapitalfonds I GmbH & Co. KG, IBG Risikokapitalfonds II GmbH & Co. KG.

T&W Holding A/S, Lynge, Denmark, informed our Company pursuant to Section 33 WpHG on April 18, 2019, that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 exceeded the threshold of 5 % of the voting rights on April 18, 2019 and that its voting rights proportion amounted to 8.13 % (1,000,000 voting rights) on that date.

TVM V Life Science Management GmbH & Co., Munich, Germany informed our Company pursuant to Section 33 WpHG on April 18, 2019, that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the threshold of 5 % of the voting rights on April 10, 2019 and that its voting rights proportion amounted to 4.54 % (558,384 voting rights) on that date.

TVM V Life Science Management GmbH & Co., Munich, Germany informed our Company pursuant to Section 33 WpHG on May 20, 2019, that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the threshold of 3 % of the voting rights on May 14, 2019 and that from this point on it does not hold any shares in Vivoryon.

Lupus alpha Investment S.A., Sennigerberg, Luxemburg, informed our Company pursuant to Section 33 WpHG on May 16, 2019, that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 exceeded the threshold of 5 % of the voting rights on May 14, 2019 and that its voting rights proportion amounted to 6.14 % (755,000 voting rights) on that date.

Morphosys AG, Planegg, Germany, informed our Company pursuant to Section 33 WpHG on October 28, 2019, that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 exceeded the threshold of 10 % of the voting rights on October 25, 2019 and that its voting rights proportion amounted to 13.385 % (2,673,796 voting rights) on that date.

The Federal State Saxony Anhalt, Magdeburg, Germany, informed us that, pursuant to Section 33 WpHG, on November 6, 2019, its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 5% of the voting rights on October 25, 2019 and that its voting rights proportion amounted to 4.47 %

(893,269 voting rights). 4.47% of the voting rights (893,269 voting rights) are attributed to the Federal State Saxony Anhalt pursuant to Section 34 of the WpHG.

LSP Management Group B.V., Amsterdam, the Netherlands, informed us that, pursuant to Section 33 WpHG, on October 31, 2019, its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 5% of the voting rights on October 25, 2019 and that its voting rights proportion amounted to 3.19 % (636,289 voting rights). 3.19% of the voting rights (636,289 voting rights) are attributed to the LSP Management Group B.V. pursuant to Section 34 of the WpHG. The voting rights attributed to the LSP Management Group B.V. are attributed through the following controlled undertakings holding 3% or more of Vivoryon: Coöperatief LSP IV U.A.

Coöperatief LSP IV U.A., Amsterdam, the Netherlands, informed us that, pursuant to Section 33 WpHG, on October 31, 2019, its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 5% of the voting rights on October 25, 2019 and that its voting rights proportion amounted to 3.19 % (636,289 voting rights).

Andera Partners (formerly Edmond de Rothschild Investment Partners), Paris, France, informed our Company pursuant to Section 33 WpHG on November 4, 2019 that its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the thresholds of 3% of the voting rights on October 25, 2019.

Mackenzie Financial Corporation, Toronto, Canada, informed us that, pursuant to Section 33 WpHG, on December 18, 2019, its voting rights proportion in Vivoryon Therapeutics AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) exceeded the threshold of 3% of the voting rights on May 27, 2019 and that its voting rights proportion amounted to 3.27 % (401,946 voting rights). 3.27% of the voting rights (401,946 voting rights) are attributed to the Mackenzie Financial Corporation pursuant to Section 34 of the WpHG.

Capital reserve

As of December 31, 2019, the capital reserve totaled EUR 88,589,734.21 (December 31, 2018: EUR 49,118,738.55).

Revenue reserves

The legal reserves are unchanged at EUR 227,625.00 in accordance with Section 150 (2) AktG.

Accumulated deficit

The accumulated deficit totaled EUR 65,757,218.10 as of December 31, 2019 and developed as follows during the financial year under review:

	EUR
Accumulated deficit as of December 31, 2018	56,011,748.65
Net loss for financial year 2019	9,745,469.45
Accumulated deficit as of December 31, 2018	**65,757,218.10**

Pension provisions

Pension provisions for direct pension commitments

The pension provisions were calculated using a discount rate of 2.71% (PY: 3.21%). A further parameter applied in the calculation was a pension progression rate of 1.0% (PY: 1.0%).

In the financial year, personnel expenses of EUR 15k (PY: EUR 0k) were recognized in conjunction with the pension obligations, as was current interest expense of EUR 114k (PY: EUR 115k).

The settlement amount of the pension provisions equaled EUR 1,407k (PY: EUR 1,354k) as of December 31, 2019.

As of December 31, 2019, as was the case in the prior year, the settlement amount of the pension obligations was determined on the basis of the average market interest rates of the prior ten financial years.

Pursuant to Section 253 (6) HGB, the difference between recognized provisions on the basis of the average market interest rate of the prior ten financial years and the provisions recognized on the basis of the average market interest rate of the prior seven financial years is to be calculated every financial year and is to be presented.

There was the following difference as of December 31, 2019:

Settlement amount based on 10-year average rate (actuarial interest rate 2.71%)	1,406,570
Settlement amount based on 7-year average rate (actuarial interest rate 1.97%)	1,534,289
Difference pursuant to Section 253 (6) HGB	- 127,719

Pension provision from the pension funds using the provident fund

To maintain granted and vested pension rights in the context of a provident fund after leaving the Company, Vivoryon has additional obligations in the annual amount of approx. EUR 14k until 2035.

The provision was calculated using a discount rate of 2.71% and amounted to EUR 176k as of December 31, 2019 .

Pursuant to Section 253 (6) HGB, the difference as of December 31, 2019 between valuation on the basis of the average market interest rate of the prior ten financial years and the provisions recognized on the basis of the average market interest rate of the prior seven financial years was calculated as follows:

Settlement amount based on 10-year average rate (actuarial interest rate 2.71%)	176,359
Settlement amount based on 7-year average rate (actuarial interest rate 1.97%)	186,249
Difference pursuant to Section 253 (6) HGB	- 9,890

Other provisions

Other accrued expenses include accruals for outstanding invoices (EUR 68k; PY: EUR 212k), other personnel-related accruals (EUR 110k; PY: EUR 106k), accruals for the preparation of the financial statements and audit (EUR 57k; PY: EUR 53k), accruals for custodian fees (EUR 26k; PY: EUR 0k) as well as accruals for the Company's other business activities (EUR 52k; PY: EUR 12k).

Liabilities

As was the case in the prior year, the trade payables of EUR 388k (PY: EUR 507k) as well as the other liabilities of EUR 138k (PY: EUR 75k) all have a remaining term of up to one year.

IV. Explanatory notes on the income statement

Other operating income

Other operating income during the financial year included:

	2019 kEUR	2018 kEUR
Other income related to other periods	3	1
Foreign exchange gains	45	28
Income from the reversal of provisions	33	27

Cost of materials

In the financial year, the costs of materials did not include expenses attributable to other periods (PY: EUR 275k).

Other operating expenses

Other operating expenses include expenses attributable to other periods of EUR 1k (PY: EUR 11k) as well as expenses from exchange rate differences of EUR 6k (PY: EUR 6k).

Interest and similar expenses

Interest and similar expenses solely include interest expenses from unwinding the discount on pension provisions (EUR 114k; PY: EUR115k).

V. Other disclosures

Proposal for the appropriation of earnings

The Management Board proposes the following with respect to the appropriation of earnings: the accumulated deficit equals EUR 65,750,552.10. This deficit will be carried forward.

Average headcount during the financial year

The following categories of employees worked at the Company during the financial year under review:

Management Board and employees	2019	2018
Management Board members	2	3
Salaried employees	14	12

Other financial obligations

As of December 31, 2019, the other financial commitments amounted to EUR 1,485k and primarily consisted of purchased research and development services as well as service, leasing and rental obligations. EUR 1,195k of this amount is due within one year.

Disclosures with respect to executive bodies

Management Board

The Company's business was managed by the members of the Management Board during the financial year:

Dr Ulrich Dauer (Dipl.-Chemiker [degree in chemistry]) – Chairman
Dr Michael Schaeffer (Dipl.-Molekularbiologe [degree in molecular biology])

They have the authority to represent the Company on their own and are released from the constraints of Section 181 of the German Civil Code [BGB].

The following members of the Management Board purchased Vivoryon shares during the financial year under review:

Dr Ulrich Dauer – 25,000 shares on April 15, 2019
Dr Ulrich Dauer – 4,002 shares on October 25, 2019
Dr Michael Schaeffer – 3,567 shares on October 25, 2019

With respect to the remuneration of the Management Board, we refer to the compensation report which forms a part of the management report. The Management Board's total remuneration amounted to EUR 877k in 2019 (PY: EUR 837k).

Disclosure relating to total remuneration of former Management Board members

Former members of the Management Board received pension benefits of EUR 76k (PY: EUR 56k). In conjunction with the pension provisions, EUR 18k (PY: EUR 187k) was recorded as personnel expenses.

Supervisory Board

The following people were appointed as members of the Supervisory Board:

- Dr Erich Platzer, Physician, Basel/Switzerland – Chairperson
  - *Member of the Board of Directors, Aptose Biosciences Inc., Toronto, Canada*
  - *Owner and Managing Director of Platzer Consult GmbH, Basel, Switzerland*
  - *Chairman of the Board of Directors, credentis AG, Windisch, Switzerland*
  - *Chairman of the Board of Directors, AOT AG, Basel, Switzerland*
  - *Chairman of the Board of Directors, Léman Micro Devices SA, Lausanne, Switzerland*
  - *Member of the Board, Medtech Innovation Partners AG, Basel, Switzerland*
  - *Member of the Board, Peripal AG, Zürich, Switzerland*
  - *Member of the Board, Viroblock AG, Plan les Ouates, Switzerland*
  - *Chairman of the Board of Directors, Platzer Invest AG, Basel, Switzerland*

- Dr Dinnies von der Osten, Managing Director, Berlin – Deputy Chairperson
  - *Member of the Supervisory Board, Market Logic Software AG, Berlin*
  - *Chairman of the Board of Directors Trust Versicherungsmakler AG, Berlin*

- Dr Jörg Neermann, Investment Manager, Munich
  - *Member of the Advisory Board, Ventaleon GmbH, Gmünden*
  - *Member of the Board of Directors, Eyesense AG, Basel, Switzerland*
  - *Chairman of the Supervisory Board, Immunic AG, Martinsried*
  - *Member of the Board of Directors, Immunic Inc, New York, USA*
  - *Member of the Board of Directors, ViCentra B.V., Utrecht, the Netherlands*
  - *Member of the Board of Directors, Imcyse S.A., Liege, Belgium*

- Charlotte Lohmann, Attorney, Munich
  - *General Counsel Morphosys AG, Planegg*

The Supervisory Board's remuneration totaled EUR 105k (PY: EUR 112k) during the financial year.

The terms of the Supervisory Board members end upon the conclusion of the Annual General Meeting, which decides on granting discharge to the Supervisory Board for financial year 2020.

Auditor's fee

The fees invoiced by the auditor during the financial year included the following:

	2019	2018
	kEUR	kEUR
Audit services	55	52
– thereof for the prior year –	3	0
Other confirmation services	120	0
Total	**175**	**52**

Subsequent events report in accordance with Section 285 No. 33 German Commercial Code [HGB]

There were no significant events after the balance sheet date.

Compliance statement in accordance with Section 161 of the German Stock Corporation Act [AktG]

The compliance statement prescribed by Section 161 AktG regarding the German Corporate Governance Code was provided by the Management Board and the Supervisory Board and made available to the shareholders on Vivoryon's website.

Halle (Saale), March 12, 2020

Dr Ulrich Dauer Dr Michael Schaeffer

Vivoryon Therapeutics AG, Halle (Saale)
(until June 11, 2019: Probiodrug AG)

Movements in fixed assets in the 2019 financial year

	Acquisition costs			
	Jan 1, 2019	Additions	Disposals	Reclassification
	EUR	EUR	EUR	
I. Intangible assets				
Rights, licences and software acquired for consideration	**373,199.50**	**11,434.03**	**0.00**	**0.00**
II. Property, plant and equipment				
1. Buildings on third-party land	181,002.98	0.00	0.00	0.00
2. Other equipment, operating and office equipment	581,590.95	35,706.24	0.00	2,925.02
3. Advance payments	2,925.02	0.00	0.00	-2,925.02
	765,518.95	**35,706.24**	**0.00**	**0.00**
III. Financial assets				
Investments	**3,450.00**	**0.00**	**0.00**	**0.00**
	1,142,168.45	**47,140.27**	**0.00**	**0.00**

	Accumulated amortisation, depreciation and write-downs				Book value	
Dec 31, 2019	Jan 1, 2019	Amortization, depreciation and write-downs during the financial year	Disposals	Dec 31, 2019	Dec 31, 2019	Dec 31, 2018
EUR	EUR	EUR	EUR	EUR	EUR	EUR
384,633.53	**365,541.74**	**2,292.80**	**0.00**	**368,834.54**	**15,798.99**	**6,657.76**
181,002.98	180,022.16	818.08	0.00	180,840.24	162.74	980.82
620,222.21	527,137.51	31,751.96	0.00	558,889.47	61,332.74	54,453.44
0.00	0.00	0.00	0.00	0.00	0.00	2,925.02
801,225.19	**707,159.67**	**32,570.04**	**0.00**	**739,729.71**	**61,495.48**	**58,359.28**
3,450.00	**0.00**	**0.00**	**0.00**	**0.00**	**3,450.00**	**3,450.00**
1,189,308.72	**1,073,701.41**	**34,862.84**	**0.00**	**1,108,564.25**	**80,744.47**	**68,467.04**

Vivoryon Therapeutics AG, Halle (Saale)
(until June 11, 2019 Probiodrug AG)

MANAGEMENT REPORT for financial year 2019

1. Company basics

Legal structure

Vivoryon Therapeutics AG (until June 11, 2019 registered as Vivoryon Therapeutics AG) – hereinafter „Vivoryon AG“, „Vivoryon“ or the „Company“ - is a German stock corporation domiciled in Halle (Saale). The Company has a subsidiary, Vivoryon Therapeutics Inc. (until August 9, 2019 Probiodrug Inc.), USA. All operating activities and assets are concentrated in Vivoryon Therapeutics AG; currently Vivoryon Therapeutics Inc. has neither operating activities nor assets.

Business activities

Vivoryon Therapeutics AG is a biopharmaceutical company dedicated to researching and developing new therapeutic products for the treatment of Alzheimer’s Disease (hereinafter also "Alzheimer’s" or “AD“).

Vivoryon is pursuing a therapeutic approach that addresses disease initiation as well as progression. The development approaches are targeting pyroglutamate-Abeta (synonym: pGlu-Abeta) as one therapeutic strategy to fight AD. PGlu-Abeta was described as a particularly toxic and aggregation-prone form of Abeta, which is formed from the physiological Abeta by the activity of the glutaminyl cyclase enzyme (QC). In this regard, Vivoryon is seeking to prevent the formation of pGlu Abeta by inhibiting the glutaminyl cyclase enzyme ("QC"). The Company’s most advanced program in this area, the PQ912 development candidate, successfully completed a Phase 2a clinical trial in 2017. Based on the findings, Vivoryon is currently initiating a Phase 2b study in Europe for the treatment of early-stage Alzheimer's Disease. A second Phase 2b study is planned in the USA and will be supported by a substantial grant from the NIH.

The Company also granted a license option to MorphoSys AG to develop its drug portfolio in immuno-oncology. Vivoryon's drug molecules block the Glutaminyl Peptide Cyclotransferase-like protein (QPCTL), a post-translationally modifying enzyme that is responsible for pyroglutamate formation on important signaling proteins in oncological immune responses. QPCTL has recently been identified as a potential oncological target. Inhibitors of QPCTL, such as PQ912 and other low molecular compounds that are protected under the Vivoryon patents, have demonstrated that they disable the checkpoint signal from the CD47-SIRP-alpha axis between cancer cells and innate immune system cells, and can thus provide a novel strategy to enhance the effectiveness of various antibody therapies in cancer. Together with MorphoSys, Vivoryon is currently selecting development partnerships to transfer PQ912 to a clinical Phase 1 combination study together with a therapeutic antibody against cancer.

Research and development

As was the case in the past, in 2019 Vivoryon continued to focus its activities on the development of PQ912, an inhibitor of the enzyme QC for treating Alzheimer’s and other diseases. The primary work in these areas is carried out by external service providers (contract research organizations as well as contract manufacturers) and cooperation partners in the areas of pharma ancillary research, production development and production, preclinical and clinical trials as well as analytics.

Patent portfolio

Vivoryon had a strong patent portfolio in 2019 with a total of 40 patent families and patent applications as of the end of the financial year under review (PY: 40). The strategy of focusing the patent portfolio on development-relevant and commercially promising areas was continued unchanged in 2019.

Important events in the current financial year

a) Approval of funding for a clinical trial in the USA by the National Institute of Health (NIH)

Based on the promising results from the Phase 2a SAPHIR trial of PQ912 in Alzheimer's patients, further development steps have been planned. Among other things, an application for a grant from the National Institute of Health (NIH) for a clinical trial in the USA was prepared and filed together with the Alzheimer's Disease Cooperative Study Group (ADCS) of San Diego, USA. The grant was approved on March 18, 2019.

b) Capital increase on the basis of cash contribution in April 2019

In early April 2019, Vivoryon raised capital of EUR 8.2 million from investors through a successful private placement of new shares. Upon full utilization of the authorized capital, the Company's share capital was increased from EUR 8,208,009 to EUR 12,301,376 by successfully issuing 4,093,367 new shares with a nominal value of EUR 1.00 per share. The Company sold the new shares to selected investors at a purchase price of EUR 2.00 per new share.

3.1 million new shares were sold to a consortium of investors led by Mr Claus Christiansen, founder and chairman of the board of directors of Nordic Bioscience, Denmark. An additional 993,367 new shares were sold to other investors as well as to members of the Management Board and Supervisory Board. Out of a total of 4,093,367 new shares, 1,641,601 (20% of the share capital) were admitted to trading on Euronext Amsterdam under exemption from the prospectus obligation and were delivered to the investors. The remaining 2,451,766 new shares not admitted were delivered to the Investor Consortium led by Mr Claus Christiansen which was also willing to accept new shares not admitted, underlining its intended long-term engagement. On August 8, 2019, these shares were admitted to trading on the Euronext on the basis of a security prospectus.

The Company will use the proceeds from the private placement to prepare and conduct the European Phase 2b clinical trial, which will evaluate the safety and efficacy of the optimal dosage range of the major Vivoryon product, PQ912, in early stage Alzheimer's Disease patients .

c) 2019 Ordinary General Meeting of the Shareholders

On May 29, 2019, the Company's Ordinary General Meeting of the shareholders took place. The following resolutions were subject to vote:

- approval of the actions of the Management Board members and of the Supervisory Board members for financial year 2018
- appointment of KPMG AG Wirtschaftsprüfungsgesellschaft as financial statement auditor for financial year 2019
- change in the Company name to "Vivoryon Therapeutics AG" and the corresponding amendment to the articles of association
- increase of the Company's share capital on the basis of cash contributions
- creation of the Authorized Capital 2019 and the corresponding amendment to the articles of association

All items presented for resolution by the Management Board and the Supervisory Board were approved with the majority required.

d) Change of the company name

The Company was officially renamed Vivoryon Therapeutics AG effective June 11, 2019, with the respective entry in the commercial register Stendal. The name change was resolved in the Company's Annual General Meeting on May 29, 2019. The new name stands for the enhanced corporate strategy with the claim "Healthy Aging - Pioneering Innovation". Vivoryon, composed of 'Vivid Memory On', expresses our strong commitment to develop a transformational therapeutic option for patients with Alzheimer's Disease (AD) against the backdrop of multiple late stage industry disappointments in Phase 3 clinical development projects.

e) Research collaboration with the University Medical Center Schleswig-Holstein, Campus Kiel

On June 27, 2019 Vivoryon entered into a research collaboration with University Medical Center Schleswig-Holstein, Campus Kiel, to discover and develop first-in-class therapeutics in cancer immunotherapy. Professor Thomas Valerius and his group will qualify Vivoryon's broad portfolio of small molecule QPCTL inhibitors for their use as modulators of the CD47-SIRP-alpha myeloid

immune checkpoint. These inhibitors, some of which have already been clinically tested, originated from the Company's Alzheimer's Disease drug development program which remains to be a core focus for Vivoryon Therapeutics. Besides, these inhibitors also offer interesting therapeutic options in immuno-oncology. Recently published and internal research has shown that the Glutaminyl-peptide cyclotransferase-like (QPCTL) enzyme is a powerful therapeutic target to silence the "do not eat me" signal provided by the interaction of CD47 (expressed on cancer cells), with the protein SIRP-alpha (expressed on macrophages and other myeloid cells). Tumor immunotherapy that targets this interaction is a current focus of innovation in cancer drug development. Combining a therapeutic tumor-targeted antibody of choice with the inhibition of the CD47-SIRP-alpha interaction is expected to lead to significant therapeutic improvements. By possessing the broadest portfolio of small molecule QPCTL inhibitors and the clinically most advanced compounds in that field, Vivoryon Therapeutics is uniquely positioned. QPCTL inhibitors are expected to have considerable therapeutic advantages compared to antibody approaches that are currently explored in clinical studies to silence the CD47-SIRP-alpha interactions.

f) Capital increase on the basis of cash contribution in October 2019

In October 2019, the Company successfully raised capital of around EUR 43 million through a subscription right offering to existing shareholders and a private placement for selected qualified investors in Europe. 7,674,106 new bearer shares with a nominal value of EUR 1.00 each and full dividend entitlement from January 1, 2019 were issued at an offer price of EUR 5.61 per new share.

The rights offering was subscribed with a total of 4,445,323 new shares, through subscription and oversubscription by existing shareholders, of which Mr. Claus Christiansen, Den Danske Forskningsfond and T&W Holding A/S subscribed to a total of 2,673,798 new shares. The new shares which were not subscribed by existing shareholders (the "Rump Shares") were offered via a private placement to selected qualified investors in Europe who purchased 3,228,783 Rump Shares at the offer price, including MorphoSys AG, which purchased Rump Shares in an aggregate investment amount of EUR 15 million.

The proceeds from the capital increase will be used to fully finance the European Phase 2b clinical study for the Company's lead product PQ912 for Alzheimer's Disease, in particular for manufacturing the molecule PQ912 and testing it in approximately 250 patients. The remaining proceeds will be used to prepare and initiate the Phase 2b clinical trial with PQ912 in the USA and to investigate other potential therapeutic areas for QPCT / QPCTL inhibitors.

g) Collaboration with Nordic Bioscience

Vivoryon Therapeutics and Nordic Bioscience (Denmark), agreed to collaborate on the clinical development of PQ912 for Alzheimer's Disease (AD). In addition to taking on the role as CRO (Clinical Research Organization) for Vivoryon Therapeutics' Phase 2b trial, Nordic Bioscience and Vivoryon will collaborate to benefit from Nordic Bioscience's world leading expertise in the development of blood-based biomarkers for the identification of specific patients who may benefit most from treatment with PQ912.

Current methods used to diagnose AD remain invasive, relatively complex and cost intensive. Therefore, there is a need to develop and establish reliable, less invasive and efficient biomarkers and technologies in clinical practice. To address this, Nordic Bioscience has been pioneering the development of blood-based biomarkers for decades and is therefore the ideal partner for identifying molecular fingerprints in patients' blood. This supplements Vivoryon's therapeutic approach of targeting neurotoxic pGlu-Abeta by inhibiting its producing enzyme Glutaminyl Cyclase.

For the biomarker activities, patients' blood samples will be collected and analyzed in the European Phase 2b trial by a joint team of scientists from Nordic Bioscience and Vivoryon Therapeutics with the goal of identifying correlations with clinical responses.

2. Overview of business development

2.1. General conditions

The global economy grew at a much slower pace in 2019 than expected. This was due to a variety of geopolitical and trade-related conflicts, such as the trade dispute between the USA and China and the ongoing uncertainty surrounding Brexit. The International Monetary Fund (IMF) believes that global GDP will have increased by 3.0% in 2019 as a whole, which marks a significant decline in growth compared to the previous year (3.6%). The IMF[1] estimates that the economy in the USA recorded growth of 2.4% (2018: 2.9%). The Eurozone economy is expected to have expanded by 1.2% (2018: 1.9%), whereas the German economy only achieved growth of 0.5% (2018: 1.5%) according to IMF estimates.

[1] IWF, World Economic Outlook Update, October 2019

The healthcare sector is one of the most important elements of the global economy. A key growth factor in the sector is the increasingly ageing society which generates a growing demand for medical treatment. In this context, the demand for innovative products and therapies for a wide range of age-related diseases is also growing.

The pharmaceutical industry is an essential component of the German healthcare system. With around 130,900 employees, it generated revenues of over EUR 40.1 billion[2] in 2018 (2018 BPI Pharma-Daten report). Germany is one of the world's leading research sites for internationally operating pharmaceutical companies. At present, the following disease indications are of particular interest: cancer, inflammatory diseases, cardiovascular diseases, metabolic diseases (such as type 2 diabetes), Alzheimer's Disease as well as dosage forms and drug delivery devices.[3]

Progress in Alzheimer's research remains inconsistent, with only four products approved to treat the symptoms of the disease since 1998. However, global demand for new treatment methods for this complex indication remains high, particularly as a result of the increasingly ageing global population. Once again, there was both good news and bad news in researching and developing new therapeutic approaches to treating Alzheimer's in 2019.

2019 in Review - Alzheimer's drug development

Overall, 2019 was dotted with the failure of a number of Alzheimer's Disease drug candidates however the year ended with cautious optimism. The year started with Roche's announcement that they discontinued two Phase 3 clinical trials which were testing the anti-beta-amyloid molecule, crenezumab, as it was unlikely that they would reach their primary endpoint of slowing cognitive decline. On a similar note, the pharmaceutical company, Biogen, announced the discontinuation of two Phase 3 clinical trials testing the test substance, aducanumab, as interim assessments indicated that this drug candidate was unlikely to perform better than placebo. As the year progressed, other pharmaceutical companies announced similar news, such as the discontinuation of two pivotal Phase 2/3 studies investigating the BACE1 inhibitor CNP520 (umibecestat) from the combined development efforts of Amgen, Novartis and Banner Alzheimer's Institute. However, the year ended on a more positive note when in October, Biogen announced that by increasing the doses of aducanumab, the full data painted a different picture than that at the start of the year, highlighting the positive effect aducanumab had on reducing cognitive decline in Alzheimer's patients. In addition, the Chinese experimental seaweed-based drug, GV-971, was approved and

[2] https://www.pharma-fakten.de/die-branche/
[3] https://www.vfa.de/de/arzneimittel-forschung/so-funktioniert-pharmaforschung/amf-standortfaktoren.html

entered the market on December 30, 2019 on the basis of the drug slowing cognitive decline as observed in a Phase 3 trial. However, an international trial is being planned to further evaluate the drug with standard trial parameters.

In summary, 2019's advancements and setbacks with respect to Alzheimer's drug developments emphasize the importance of cultivating, promoting and advancing novel treatment approaches to this highly complex and difficult to treat neurodegenerative disease.

2019 in review - Funding and opportunities for Alzheimer's innovation

As per statistics drawn from the Alzheimer's Association, in 2019 alone, Alzheimer's as well as other forms of dementia led to socioeconomic costs in the United States of approx. $ 290 billion. These costs are expected to grow considerably, reaching an estimated $ 1.1 trillion in the year 2050.

These numbers highlight the economic burden this disease creates and underline the importance of funding the development of innovative therapeutic approaches. For example, the Dementia Discovery Fund is a $ 350 million venture capital fund dedicated to allocating its capital to finding breakthrough drugs for Alzheimer's and other dementias. It is the world's largest investment fund focused on a medical research area. Its supporters, who have invested £ 290 million, include Bill Gates, the government of the United Kingdom and seven leading pharmaceutical firms, such as GSK and Pfizer. Moreover, Bill Gates is participating in the Alzheimer's Association ´Part the Cloud´ global research grant program which awards $ 10 million to companies in the Alzheimer's field. The recipients of such monetary awards are often smaller companies, such as AstronauTx Ltd, which received an investment of £ 6.5 million from the Dementia Discovery Fund in 2019.

Overall, despite 2019 being a difficult year for the clinical trials of larger pharmaceutical companies, Merck & Co. enhanced its early-stage pipeline by acquiring Calporta Therapeutics, a company also involved in developing treatments for Alzheimer's, for $ 576 million. Moreover, Biogen and C4 Therapeutics entered into a strategic collaboration to develop novel therapeutics for neurological disorders such as Alzheimer's. This continued trend in funding and business opportunities point to the consistent interest in financing research and development to fight this disease.

2.2. Company development

Vivoryon focused on the following areas in 2019:

- Preparing Phase 2a/2b studies with PQ912 in the USA and Phase 2b studies in Europe,
- Further increasing visibility and acceptance as a significant prerequisite for an industrial transaction.
- Identifying new targets to expand the preclinical project pipeline
- Preclinical testing of the effectiveness of QPCTL inhibition in immuno-oncological models

Vivoryon is satisfied with the results in these areas and considers them to be viable for a successful future development of the Company.

2.3. Presentation of net assets, results of operations and financial position

Net assets

The subsequent condensed balance sheet provides an overview of the development of Vivoryon's net assets and financial position:

	Dec. 31, 2019	**Dec. 31, 2018**
	kEUR	kEUR
Assets		
Intangible assets	16	7
Property, plant and equipment	62	58
Financial assets	3	3
Fixed assets	**81**	**68**
Receivables and other assets	961	201
Cash and cash equivalents	41,419	3,680
Current assets	**42,380**	**3,881**
Prepaid expenses	2,996	99
Total assets	**45,457**	**4,048**
Equity and liabilities		
Equity	43,035	1,543
Provisions	1,896	1,923
Liabilities	526	582
Total equity and liabilities	**45,457**	**4,048**

As of December 31, 2019, the non-current assets increased by EUR 13k, due to capital expenditures of EUR 47k offset by amortization and depreciation of fixed assets totaling EUR 34k.

Current assets increased significantly by EUR 38,499k from EUR 3,881k to EUR 42,380k in 2019, mainly as a result of the increase in cash and cash equivalents due to the capital increases in April and October 2019.

Bank balances totaled EUR 41,419k as of the balance sheet date.

The prepaid expenses increased significantly compared to the previous year by EUR 2,897k to EUR 2,996k, mainly driven by a reservation fee of EUR 496k for the GMP production of the clinical PQ912 material and advance payments in the amount of EUR 2,421k upon signing the contract with Nordic Bioscience for the conduct of the clinical 2b study.

Vivoryon's equity totaled EUR 43,035k as of December 31, 2019 (2018: EUR 1,543k). This is reflected in the equity ratio of 94.7% (2018: 38.1%).

The detailed development of equity is presented in the statement of shareholders' equity in the financial statements.

Provisions are almost unchanged from the previous year totaling EUR 1,896k (2018: EUR 1,923k) as of December 31, 2019. As of December 31, 2019, EUR 1,583k (2018: EUR 1.541k) of the provisions included pension provisions and EUR 313k (2018: EUR 383k) were other provisions.

Liabilities decreased slightly by EUR 56k from EUR 582k as of December 31, 2018 to EUR 526k as of December 31, 2019. Of this amount, EUR 388k (2018: EUR 507k) was attributable to trade payables and EUR 138k (2018: EUR 75k) to other liabilities.

Financial position

Operating cash flows amounted to EUR -11,665k in the reporting period (2018: EUR -6,996k). The year-on-year change was largely due to additional expenses in connection with the intensive preparation of the clinical Phase 2b study.

Cash flows from investing activities amounted to EUR 47k in 2019 (2018: EUR 459k).

Cash flows from financing activities amounted to EUR 49,411 in 2019 (2018: EUR 0k). Two capital increases through cash contributions in April and October 2019 led to income from the issuance of share of EUR 51,239k, offset by the required transaction costs of EUR 1,828k.

Results of operations

A condensed overview of the Company's income statement is presented below:

	2019	2018
	kEUR	kEUR
Other operating income	92	56
Cost of materials	-2,746	-2,125
Personnel expenses	-1,969	-2,396
Amortization of intangible assets and depreciation of property, plant and equipment	-35	-23
Other operating expenses	-4,973	-3,125
Net finance income/costs	-114	-90
Net loss for the year	**-9,745**	**-7,703**

The Company's net loss for the year amounted to EUR 9,745k (2018: EUR 7,703k). The material changes as compared with the prior year were mainly due to:

- the increase in the cost of materials by EUR 621k, which was due to additional expenses for purchased services in connection with the intensive preparation of the clinical Phase 2b study.
- the EUR 427k decrease in personnel expenses. The higher personnel expenses in 2018 were mainly driven by expenses relating to the exit of three members of the Management Board.
- the EUR 1,847k increase of other operating expenses, was driven by the transaction costs for the capital increases in April and October 2019 in the amount of EUR 1,828k.

Contrary to expectations in the 2018 management report of the previous year, the net loss for financial year 2019 increased as a result of the transaction costs and the costs associated with the intensive preparation of the clinical Phase 2b study.

Overall assessment

At the time of preparing this management report, the Company's economic position had not changed materially in comparison with the explanations provided above. Overall, the Management Board is satisfied with the development of business.

2.4. Non-financial performance indicators

Studies to be completed

Vivoryon uses a number of contract research organizations to carry out the planned preclinical and clinical studies as well as in production development and production. Important performance

indicators in this respect are – in addition to adherence to the budget – the quality of the work carried out as well as compliance with all applicable regulations. As a safeguard in this area, Vivoryon carries out vendor qualifications/audits prior to awarding contracts as well as during the ongoing work addressing the aforementioned points and potentially deriving recommendations for action. Major emphasis continues to be placed on adherence to timetables for the work outsourced and thereby the completion of ongoing studies within the original timeframe. With respect hereto, Vivoryon works closely with the mandated entity and has alternative scenarios prepared so as to potentially be able to limit or compensate delays.

Employees

As of December 31, 2019, Vivoryon had 17 (2018: 14) employees (including two Management Board members), of whom 50% were female. In the reporting period, there were an average of 15 employees including two Management Board members (2018: 14). In 2019, Vivoryon incurred personnel expenses of EUR 1,969k (2018: EUR 2,396k).

The Company has a balanced personnel policy whereby positions are staffed with the most qualified individual.

Industrial property rights

A commercially attractive and, from a competitive position, stable patent portfolio is a decisive success factor for Vivoryon. The Company has very experienced patent management which also strengthened the patent portfolio in 2019. In the meantime, the focus is on safeguarding the granting of patents in key economic markets. Vivoryon actively manages its intellectual property rights portfolio to provide for continuous adjustment to the sustainable value drivers while also optimizing costs versus benefits.

40 patent families were held as of December 31, 2019 (December 31, 2018: 40).

3. Opportunities and risks report

3.1. Opportunities

Further momentum in Alzheimer's therapy

The pharmaceutical industry and investors continue to show interest in Alzheimer's Disease. Prospectively, this could lead to an increased frequency of transactions. Compared with this, the available number of new, scientifically and clinically widely supported development concepts is limited. Vivoryon is well positioned in this regard. If successful, this could provide commercially lucrative prospects for the Company and its shareholders.

Important progress in relevant projects

Financial year 2019 also was, for the most part, impacted by the development of the detailed study design for the clinical Phase 2b study with PQ912, an inhibitor of glutaminyl cyclase (QC). The most recent FDA and EMA Draft Guidance for early Alzheimer's studies were given consideration in this study. The 2b Core Program is to consist of two clinical studies, which are scheduled to be conducted in the European Union (EU) and in the USA. The application for funding to the NIH in cooperation with the Alzheimer's Disease Cooperative Study (ADCS), to fund the Phase 2b study in the United States, was approved on March 18, 2019.

Licensing income from patents

Vivoryon's very comprehensive and well-positioned product and patent portfolio could lead to licensing agreements particularly in the area of Alzheimer Disease. The Company would receive license fees for these, thereby improving its financial position, results of operations and net assets.

The comprehensive patent portfolio of inhibitors of QPCT and QPCTL is also relevant in indications outside of Alzheimer's. The option agreement with MorphoSys shows the potential in oncology. A therapeutic relevance of these patented inhibitors also includes other neurological indications (such as Huntington's Disease) and inflammatory or autoimmune diseases.

Passive takeover

In addition to license agreements, complete takeovers of pharmaceutical and biotechnological companies are a common approach to obtain access to promising development programs and

interesting technologies. This is reflected in active mergers and acquisition (M&A) activities in the biotechnology and pharmaceutical sectors in recent years. The premiums paid in comparison with the actual market prices can be substantial.

3.2. Risk report

Vivoryon's risks

Vivoryon is exposed to various individual risks. The occurrence of these risks can, individually or in the aggregate, with the incurrence of other risks or other circumstances, have a material adverse effect on the business activities, the realization of significant Company goals and/or Vivoryon's ability to refinance and could also have substantial negative implications on the Company's net assets, financial position and results of operations. In the worst case, this could force the Company to file for insolvency. The Management Board qualitatively classifies risks to be of minor, moderate or of major importance.

Sector-specific risks

Market and competition

The pharmaceutical development process in the area of Alzheimer's as well as with respect to related indications is characterized by long development cycles as well as substantial investment requirements for preclinical and clinical research and development until such time as a product is ready for commercialization. Vivoryon is in competition with other entities that are also seeking to develop new approaches for the treatment of Alzheimer's.

As such, Vivoryon is exposed to the risk that other development approaches will result in superior efficacy and/or a safety profile and/or that they will achieve a development edge that could reduce Vivoryon's prospects with respect to the conclusion of a lucrative industrial collaboration as well as ultimately having a negative impact on the registration of Vivoryon's product candidates.

In general, the pharmaceutical industry has a major need to replenish its own research and development pipelines by in-licensing or acquiring innovative projects from biotechnology companies in the area of Alzheimer's and related indications. However, for the conclusion of lucrative partnerships, there are substantial prerequisite requirements with respect to validation and risk optimization.

Furthermore, it cannot be ruled out that the failure of other development programs in the Alzheimer's area, including those of competitors, could result in a general reduction in the willingness of the pharmaceutical industry to make significant investments for this therapy.

This could possibly result in Vivoryon not being able to conclude an industrial partnership or could lead to it not being possible for a cooperation or licensing partner to further develop or commercialize these, even if the Company's own development programs did not fail.

Overall, this risk has major importance for Vivoryon.

Product development (in general)

Vivoryon's success depends on various research and development programs. The Company is exposed to the risks associated with the development of drugs.

Typical risks include:
Individual product candidates may not be effective or sufficiently effective, may have unacceptable side effects or may not be formulated or manufactured so that they can be successfully further developed. Service providers and partners may become insolvent, which could result in a delay in development and/or result in the relevant data becoming unusable. The responsible authorities may not grant the required regulatory approval or they may only grant this with restrictions or after a delay.

At present, Vivoryon has a compound in clinical development (PQ912) as well as compounds, which are in early preclinical phases. On the basis of this product pipeline, risks, i.e. the dependency on one individual compound, can generally be reduced. However, due to the various development phases, a substantial portion of the Company's value is driven by PQ912. However, Vivoryon cannot exclude that, in future clinical studies, it may fail to demonstrate sufficient effectiveness when used on patients and/or that the side effects profile may be limiting to prohibitive with respect to further clinical development. Such findings could lead to a delay in or the discontinuation of the development of this compound. This could have a negative effect on Vivoryon's results of operations, financial position and net assets, the exchange valuation as well as the ability for Vivoryon to refinance and thereby on the ability to raise additional funding. In addition, there is the risk that an observed efficacy is not sufficiently strong to conclude an industrial partnership and/or to acquire additional financing.

Overall, this risk is of major importance for Vivoryon.

Administrative proceedings

Vivoryon's business activities are subject to comprehensive legal regulations and controls in various jurisdictions on which the Company de facto does not have any influence. Vivoryon is, for example, dependent on regulatory approvals to carry out clinical studies. Delays in issuance, the requesting of further documentation and data prior to issuance or extension, the expiration or withdrawal of these approvals could result in delays in the further development of Vivoryon's research and development projects.

Overall, this risk is of moderate importance for Vivoryon.

Risks arising from business activities

Development and licensing partnerships

Vivoryon focuses on the research and development of therapies for treating Alzheimer's and related diseases. In order to earn profits and to become self-sufficient in terms of financing, the Company must generate revenues – either as a result of advance payments, milestone payments or royalties from cooperation agreements with pharmaceutical and biotechnology companies. To date, no industrial cooperation has been concluded with the consequence that no revenues have been realized. Against this backdrop and in view of the required significant future research and development expenses, Vivoryon will, for the time being, continue to report negative operating earnings.

To become profitable in the medium term, Vivoryon will have to conclude corresponding agreements with the pharmaceutical industry or with other biotechnology companies. Should it not be possible for Vivoryon to secure such a partner or if this is only possible at economically unfavourable terms, this could delay the development of the respective products and/or result in lower revenues, thereby reducing the value of the project and threatening the Company's ability to continue as a going concern.

Overall, this risk is of major importance for Vivoryon.

Patents and trademark protection

Vivoryon protects its own developments with a comprehensive patent strategy. Nonetheless, the Company cannot guarantee that its patent protection is sufficient for its business activities. It cannot be ruled out that third parties may file appeals against Vivoryon's patent registrations or that they challenge the effectiveness of the patents. It can also not be ruled out that Vivoryon may

become engaged in patent disputes with third parties, e.g. if Vivoryon needs to defend itself against the unauthorized use of its patents by third parties. Furthermore, it cannot be ruled out that Vivoryon's patents are, in part, dependent on the patents of third parties. Every legal ruling against Vivoryon's patents or potential claims of third parties can negatively impact the further development of the relevant programs and potentially that of the Company. Regardless of the outcome, these types of proceedings are time and cost intensive and may tie up substantial Company resources. This alone could, in turn, have negative implications on the relevant programs and potentially the Company. As per the Company's current knowledge, no objections have been raised against the patents or patent registrations.

Overall, this risk is of major importance for Vivoryon.

Risks associated with product development

Collaboration with external service providers in research and development

Vivoryon conducts the required preclinical and clinical studies with contract research organizations (hereinafter referred to as CROs). The Company is dependent on the quality of their work. Replacing a CRO during an ongoing study is very complex, as a result of which there may be substantial delays and it may become necessary to repeat the relevant study. Should the CRO not carry out its work with the required due care and/or not adhere to the legal requirements and quality assurance standards, the further development of the relevant projects may be negatively impacted.

As Vivoryon does not own and operate its own production facilities for the production of pharmaceutical products, Vivoryon is dependent on contract manufacturing organizations (CMOs). These deliver the pharmaceutical active ingredients for Vivoryon's products, manufacture the quantities required and formulate, optimize and produce the medicinal preparations. This dependence on external suppliers and manufacturers leads to risks for Vivoryon. In particular, these comprise the on-time delivery in sufficient quantity and quality as well as adherence to legal regulations and quality standards. The occurrence of these risks could lead to delays or to the discontinuation of ongoing preclinical and clinical studies or could delay or prevent the start of planned preclinical and clinical studies with corresponding consequences for the development of the product candidate.

Overall, this risk is of major importance for Vivoryon.

Patient recruitment

A further risk with respect to the development of drugs is the need to recruit a sufficient number of suitable patients for the PQ912 clinical study. Delays may be encountered due to the complexity of the medical conditions (e.g. design of the study, attractiveness of the study from the perspective of the patient and the clinical investigators, competitive situation, patient population, locations) in the environment of the clinical studies.

In addition, clinical study centers could – for example, as a result of other concurrent clinical studies or due to continuing quality issues with respect to their internal organizational processes – not be able to recruit a sufficient number of patients within the period required. This could endanger the timing as well as the execution of the study and could lead to delays. In order to advance the study, Vivoryon may, therefore, be required to involve other clinical centers in the ongoing studies. This could lead to an increase in costs and potentially to an increase in variability.

Overall, this risk is of major importance for Vivoryon.

Capital market risks

Additional financing

Due to successful share placements in 2019, the Company is in a balanced liquidity situation. According to the current budget, cash and cash equivalents are sufficient to extend beyond 2022, which will provide for business activities in the coming years. In the long term, Vivoryon still needs additional capital to achieve its corporate and development goals. There is therefore a need to provide for the future financing of the Company through equity and / or outside capital providers or to generate cash inflow from our own business activities.

Overall, this risk is of major importance for Vivoryon.

Financial and balance sheet-related risks

Investment of liquid funds

The Company only invests in investment grade assets with only a low level of liquidity or default risk.

Transactions with international service providers with whom contractual payment terms are denominated in a currency other than the euro lead to a currency risk. After considering the current economic environment, Vivoryon has not engaged in any hedging activities.

Overall, this risk is of moderate importance for Vivoryon.

Recognition of tax loss carried forward

The use of Vivoryon's existing tax losses carried forward and ongoing losses for German corporate income tax and trade tax purposes may be forfeited or may have already been forfeited in case of a direct or indirect transfer of shares, including the issuance of new shares from a capital increase, subject to certain limitations. Such limitations apply to both corporate income and trade tax and are dependent on the percentage of share capital or voting rights transferred within a five-year period to one acquirer or person(s) closely related to the acquirer or a group of acquirers with a common interest. According to the amendment of Section 8c (1) sentence 1 of the German Corporation Tax Act [KStG], losses carried forward and accumulated losses expire in their entirety if more than 50% of share capital or voting rights are transferred to a buyer (including the subscription of new shares) or a group of buyers with joint interests and cannot be offset against future taxable income. This would lead to an increased tax burden.

Overall, this risk is of moderate importance for Vivoryon.

Administrative and other risks

Vivoryon's success is heavily dependent on management as well as on qualified personnel. The Management Board as well as many employees have extensive experience and are difficult to replace. In the biotechnology and pharmaceutical sectors, competition with respect to qualified personnel is very fierce. To date, Vivoryon has always been able to staff the most important positions with suitable employees at appropriate terms. Should the Company not be able to retain management or qualified personnel and not be able to adequately replace these or only be able to replace these with a substantial delay, this could have a negative effect on its ability to further develop the projects pursued as well as on the Company itself.

Overall, this risk is of major importance for Vivoryon.

Legal risks

The Company is exposed to potential risks in various areas including corporate law, employment law, tax law, patent law, etc. To reduce these to a minimum and to prevent legally incorrect decisions, Vivoryon's Management Board makes relevant decisions after consulting with external experts, e.g. attorneys and other advisors.

Overall, this risk is of major importance for Vivoryon.

Other risks

Other potential risks, for example with respect to environmental protection and the integrity of IT systems or legal and compliance violations by employees, are currently not assessed as significant. Vivoryon has implemented precautionary organizational measures to address potential risks.

Overall, this risk is of moderate importance for Vivoryon.

Overall assessment of the risk situation

From today's perspective, in consideration of all aforementioned risks, few factors have been identified which could endanger the short-term survival of the Company in financial year 2020. Overall, the Company is well positioned. Vivoryon is convinced that, despite the risks identified, the opportunities of successfully continuing to do business outweigh the risks. The cash and cash equivalents as of December 31, 2019 provide for the further financing of the Company beyond the next 3 years.

Please also refer to our comments in Section I of the notes to the financial statements for more information on the Company's ability to continue as a going concern.

4. Outlook/forecast report

The mid-term focus of Vivoryon's business activities can be summarized as follows:

- Carrying out the Phase 2b clinical study program for PQ 912 in Europe,
- Conclusion of one or more industrial partnerships,
- Further scientific analysis of potential second indications for the use of QC inhibitors,
- Further strengthening Vivoryon's financial resources.

As a result of the continuing costs being incurred for development activities which are not yet offset by any sales revenue, the Company also projects a substantial net loss for financial year 2020

which, based on the carrying out of the clinical Phase 2b study and the current budget, is expected to be higher than that of 2019.

Due to its business model, Vivoryon is dependent upon additional capital to implement its development strategy until such time at which an industrial partnership is concluded and potentially beyond that. This can be provided in the form of equity on the basis of capital increases or via alternative financing forms such as loans, convertible bonds, option bonds, etc. All appropriate provisions (e.g. approving sufficient authorized and conditional capital, eliminating pre-emptive rights) have been made by the Annual General Meeting so as to provide the Company with sufficient flexibility to seize potential opportunities.

The Company is well-positioned in the development of new therapeutic concepts for the treatment of Alzheimer's. Through successful further program development, Vivoryon will lay the groundwork for a mid-term option for a lucrative industrial partnership and/or an M&A transaction as well as the further generation of substantial company value.

5. Vivoryon's risk management and internal control system

Risk management system

Vivoryon Therapeutics AG has an active, systematic risk management on the basis of which risks are to be identified, monitored and, using appropriate measures, minimized. Vivoryon's current business risks are primarily in the research and development of novel pharmaceutical substances, the protection of intellectual property, cooperation with a network of service providers and partners, maintaining equity as well as in the Company's mid- to long-term financing. These risks are continuously assessed so as to optimize the Company's opportunities/risks position.

In a continuous process, Management Board members responsible for the different functions within the Company identify, analyze and qualitatively evaluate the risks with respect to their probability of occurrence, their possible costs and their effect on liquidity, the time reference as well as the existence of possible and planned countermeasures. The respective Management Board members regularly inform Vivoryon's entire Management Board. Based on this, the Management Board and, where necessary, the Supervisory Board determine how the Company will address the risks identified, which are considered to be of moderate to great importance.

In addition, the Company has set up an internal control system consisting of various rules and regulations such as signatory rules, standard operating procedures (SOP), the dual-control principle, spot checks, self-checks, employee training and emergency planning. Application of these regulations is obligatory for the entire Company.

Within the scope of quality management, use is made of specification documents. These include job descriptions as well as functional descriptions. In addition, verification documents are used. These include notes and documents which document the results attained or provide objective evidence of activities carried out, e.g. in the form of an audit report.

The signatures guideline stipulates the authority to sign for purchases and invoices. Differentiation exists with respect to the amount of the purchase and whether the signature is provided by a project member, the project manager or a Management Board member.

All projects are analyzed in detail in regular project meetings and further steps are determined. These provide for close coordination of accompanying research and pharmaceutical development as well as with the Management Board. Project meetings normally take place bi-weekly. The participants in the project meetings include the responsible Management Board member, the project manager as well as the employees and possibly advisors for the individual projects.

Risk management and the internal control system in the financial reporting process

The internal control and risk management system with respect to the financial reporting process ensures that the financial reporting is consistent and in compliance with legal regulations and generally accepted accounting principles and the national regulations (HGB) as well as with the International Financial Reporting Standards (IFRS). This includes adhering to the dual control principle, spot checks and emergency planning. On the basis of continuous training, the financial team, including the consultants utilized, ensure that all legal requirements are adhered to by the Company.

Controls to provide for compliance and reliability of financial reporting are carried out on the basis of various measures including plausibility checks of the figures and system access controls on the basis of an authorization concept as well as on the basis of manual checks such as variance and trend analysis and comparisons with budget figures. Meetings and analysis of the significant key financial figures take place regularly for the individual projects.

The Company's controlling system is based on the three components: planning, monitoring and reporting. On the basis of the strategic business plan, Vivoryon prepares annual budgets for internal monitoring and controlling purposes as well as a mid-term plan for the duration of the significant ongoing preclinical and clinical studies as well as for those to be initiated. The period covered currently comprises the calendar year subsequent to the budget year. On the basis of this planning as well as the actual figures, the Management Board receives the required monitoring and control information for each month. In addition, there is regular reporting covering the development of the business, progress of the research and development programs, activities with respect to personnel, public relations and investor relations as well as with respect to the patent situation (as a non-financial performance indicator). With the support of these monitoring instruments, the Management Board and Controlling are in a position to adequately assess the situation and to identify, evaluate and address opportunities and risks.

The preparation of the HGB and IFRS financial statements is based on uniform regulations. The manageable size of the finance team provides for consistent presentation of the same circumstances. This provides certainty for accounting entries and the corresponding classifications on the sub-projects.

6. Reporting pursuant to Section 289a of the German Commercial Code [HGB]

6.1. Summarized information on capital, voting rights and stock with special rights

As of the balance sheet date December 31, 2019, Vivoryon Therapeutics AG's share capital amounted to EUR 19,975,482.00. It is divided into 19,975,482 common bearer shares with a notional par value of EUR 1.00 per share. Each share provides one vote at the Annual General Meeting as well as dividend entitlements when distributions are adopted; there are no restrictions on voting rights. The share capital is fully paid up. No treasury shares are held.

No shareholders have special rights which confer control. In particular, there is no right to appoint members of the Supervisory Board pursuant to Section 101 (2) of the German Stock Corporation Act [AktG]. To the extent that Vivoryon's employees hold shares in the Company, they exercise direct control over the voting rights.

In accordance with the resolution of the Annual General Meeting on May 29, 2019, the Management Board is authorized – with the approval of the Supervisory Board – to increase the Company's share capital until May 28, 2024 by up to EUR 6,150,688.00 through single or multiple issues of new no-par value bearer shares in exchange for cash and/or a contribution in kind, whereby pre-emptive rights are excluded (Authorized Capital 2019).

The Authorized Capital 2017 in the amount of EUR 4,093,367.00 was fully utilized in the capital increase carried out on April 9, 2019.

As of December 31, 2019 the Authorized Capital totaled EUR 6,150,688.00.

The Conditional Capital amounted to EUR 3,808,975.00 as of the balance sheet date and consists of the following:

Conditional Capital 2014/I

The Company's share capital was conditionally increased by up to EUR 408,975.00 by the issuance of up to 408,975 new shares (Conditional Capital 2014/I, Section 5 (7) of the Articles of Association). The conditional capital increase solely serves to discharge the option rights issued to members of the Management Board and Company employees on the basis of the authorization granted by the Annual General Meetings on September 29, 2014, June 10, 2015 and May 19, 2016.

Conditional Capital 2018

The Company's share capital was conditionally increased by up to EUR 3,400,000.00 by issuing up to 3,400,000 new bearer shares. The conditional capital increase solely serves to discharge the conversion and/or option rights which were issued on the basis of the resolution of the Annual General Meeting held on June 21, 2018, which authorized the issuance of convertible bonds.

Authorization to acquire treasury shares

On June 10, 2015, the Annual General Meeting authorized the Management Board, in accordance with Section 71 (1) No. 8 of the German Stock Corporation Act [AktG], to acquire treasury stock until June 9, 2020 up to a proportionate share of the share capital in the amount of EUR 676,580.00. The acquisition may be made via the stock exchange or via a public purchase offer made to all shareholders. The treasury shares may be used for all permitted purposes including redemption.

6.2. Shareholding in Vivoryon Therapeutics AG

As of the balance sheet date, the Company was aware that the following shareholders of Vivoryon Therapeutics AG had shareholdings in accordance with the provisions of the German Securities Trading Act [WpHG], with voting rights exceeding 10.0%: Morphosys AG, Martinsried, Germany (13.4 %)

6.3. Appointment and removal of members of the Management Board

The appointment and removal of members of the Management Board is regulated by Sections 84 and 85 AktG as well as in Section 6 of the Articles of Association in the version dated October 6, 2016. Pursuant to Section 6 of the Articles of Association, the Management Board consists of one or more members; moreover, the Supervisory Board determines the number of members of the Management Board. The members of the Management Board are appointed for a maximum of five years. This also applies to the renewal of an appointment of a Management Board member.

The contracts with board members Dr. Dauer (effective from May 1, 2018) and Dr. Michael Schaeffer (effective from October 1, 2018) were concluded for a period of three years.

6.4. Amendments to the Articles of Association

Changes to the Articles of Association are made in accordance with Sections 179 and 133 AktG. Pursuant to Section 20 of the Articles of Association, resolutions of the Annual General Meeting (including with respect to changes to the Articles of Association) only require the simple majority of the votes cast if the law does not specifically provide for something else and, with respect to the majority of capital, the simple majority of the share capital represented upon making the resolution. Furthermore, in accordance with the Articles of Association, the Supervisory Board is authorized to resolve upon changes to the Articles of Association which only modify the wording.

7. Corporate governance statement pursuant to Section 289f HGB

The corporate governance statement in accordance with Section 289f HGB includes the corporate governance statement pursuant to the German Corporate Governance Code, addressing the proportion of women, information on corporate governance practices and a description of the procedures of the Management Board and the Supervisory Board.

Compliance statement of the Management Board and the Supervisory Board pursuant to Section 161 AktG

Concerning the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to Section 161 of the German Stock Corporation Act (AktG):

The management board and the supervisory board of Vivoryon Therapeutics AG declare that the recommendations of the “Government Commission on the German Corporate Governance Code” of the German Federal Ministry of Justice published on April 24, 2017 are met and shall be met in the future with the following exceptions:

1. Section 3.8 of the Code – Retained amount of the D&O insurance for the Supervisory Board:

The company maintains D&O insurance where all the supervisory board members are included, too. No retained amount is agreed in this respect. As the supervisory board members receive only small remuneration, a retained amount would lead to an inadequate result in financial terms for the supervisory board members.

2. Section 4.2.3 para. 2 sentence 6 of the Code – Cap amounts for the remuneration and the variable remuneration components:

Stock options were granted to the management board members for which no cap is provided in case they are exercised. Apart from that a success participation scheme was granted to the management board members for which, in case it becomes due, no cap is provided either. In any other respect cap amounts are provided in the agreements with the management board members relating to the remuneration and the variable remuneration components.

3. Section 4.2.3 para. 4of the Code – Limitation to two years’ remuneration of the payment to a Management Board member in case of premature termination.

The currently existing contracts with management board members do not provide for any limitation of the payment to a management board member to two years’ remuneration in case of premature

termination. In connection with the company requirements in relation to the analysis of the clinical study and the subsequent steps a primary aim was to ensure the cooperation with the management board members.

4. Section 5.3.3 of the Code – Establishment of a Nomination Committee

The supervisory board has with respect to its reduced size decided to dissolve the existent Nomination Committee as well as the existent Remuneration Committee. Their functions have been taken over by the whole supervisory board. The supervisory board is convinced, that with this step an increased efficiency is secured with respect to the generation of proposals to the general assembly.

5. Section 5.4.1 para. 2 of the Code – Naming of precise objectives and of a competence profile regarding the composition of the Supervisory Board

Regarding the composition of the supervisory board in the future, the supervisory board intends to have members with experience in the areas of pharmacological research and research into the Alzheimer's disease and similar diseases as well as with experience in the public capital market (target competence profile). Considering the alignment of the company, the members of the supervisory board should also have U.S. experience. As these requirements make it difficult to find a sufficient number of qualified members for the supervisory board, the supervisory board did not determine any fixed diversity targets.

6. Section 7.1.2 sentence 3 of the Code – Shortened publication deadline of the Code for financial reports

According to section 7.1.2 sentence 3 of the Code, the financial statements of the company should be publicly accessible within 90 days from the end of the financial year, and mandatory interim information should be available within 45 days from the end of the reporting period. While the company will publish the annual financial statements in accordance with the recommendation of the Code, the company intends to publish the half-year financial report within a time period of two months and thus within the statutory time period of three months from the end of the reporting period of the half-year financial report.

The Supervisory Board and Management Board are confident that these time period is suitable and necessary for careful preparation of the documents. Furthermore, the Supervisory Board and Management Board consider the statutory requirements as sufficient for timely information to the shareholders and the capital markets for the time being. However, the possibility of complying with the shorter deadlines of the Code is being reviewed.

Information on female representation

In accordance with the German Introductory Act to the Stock Corporation Act [EGAktG], Vivoryon's Supervisory Board resolved on December 7, 2019 to implement a one-third and one-fifth share of women in the Management Board and the Supervisory Board, respectively, by September 30, 2022.

Vivoryon's Management Board did not establish any targets in terms of the proportion of women for the first and second management level below the Management Board as, due to the organizational structure and number of employees below the Management Board, there is no management level here.

Information on corporate governance

Vivoryon's management is conscious of treating each other fairly, respectfully and in compliance with the law. In view of the comparatively small size of the Company, which leads to personal contact with all employees and partners, along with the flat hierarchy, these measures are sufficient to provide for responsible teamwork. As such, additional regulations with respect to corporate governance are not necessary.

Management and monitoring is carried out in accordance with German law and social norms and is largely in line with the guidelines of the German Corporate Governance Code.

Operating practices of the Management Board and the Supervisory Board

As required by the German Stock Corporation Act [AktG], Vivoryon is managed by the Management Board which is, in turn, monitored by the Supervisory Board. Both governing bodies work closely together in a trustful and constructive manner to provide for advancement of the programs being pursued and thereby sustainably increasing the Company's value. The Management Board and the Supervisory Board agree on the Company's strategic direction and discuss the implementation and control thereof. The Management Board regularly informs the Supervisory Board in a timely and comprehensive manner about all company-relevant questions with respect to planning, the stage of development of the programs being pursued, strategy, business development, finances, risk position, risk management as well as the internal control system and compliance. With respect hereto, the Management Board also informs the Supervisory Board between regular meetings about important events. Decisions required at short notice are, if required, made during teleconferences or via circulation procedures.

In the Management Board's internal rules of procedure, important transactions are subject to the approval of the Supervisory Board. In individual cases, the Supervisory Board can make further Management Board decisions subject to the approval of the Supervisory Board.

Management Board

Vivoryon's Management Board, consisting of Dr. Ulrich Dauer (Chairman; Chief Executive Officer/CEO) and Dr. Michael Schaeffer (Chief Business Officer/CBO), independently manages the business and is, within the scope of the regulations applicable to German stock companies, bound by the interests and guiding principles of Vivoryon. The goal of the work of the Management Board is sustainable and value-optimizing business development. The members of the Management Board have complementary skill sets and experience and work closely within Vivoryon's Management Board. Further details as to the work within the Management Board are determined on the basis of rules of procedure.

All Management Board functions generally coordinate their activities on a weekly basis. Decisions are made by unanimous vote. In the case of disagreement, the Chairperson of the Management Board casts the deciding vote.

Supervisory Board

The Supervisory Board had four members as of December 31, 2019. The work of the Supervisory Board as well as the principles of passing resolutions are regulated by the Supervisory Board's rules of procedure. Dr. Erich Platzer is the Chairman. Vice Chairman is Dr. Dinnies Johannes von der Osten. The additional members are Ms Charlotte Lohmann and Dr. Jörg Neermann. The Supervisory Board convened six times in the reporting period (January 30, February 14, March 15, May 28, September 13, November 26). The current Supervisory Board members are internationally active in the financial, biotechnology and pharmaceutical sectors and, therefore, are very familiar with the needs of these sectors.

The existing Audit Committee includes Dr. von der Osten, Charlotte Lohmann and Dr. Neermann; Dr. von der Osten is the Chairperson. The primary discussion points in these meetings included the audit of the 2018 financial statements pursuant to HGB and IFRS as well as the 2019 half-year financial statements. All members have the corresponding expertise and independence. The Audit Committee met twice in 2019.

The Audit Committee reports on its activities to the entire Supervisory Board.

Transparency

Vivoryon comprehensively informs the capital market, in a timely manner, as to its business position as well as special events. The financial reporting is conducted in accordance with German and Dutch legal regulations by publishing the annual report, the half-year financial report and the interim Management Board announcements. In addition to the Company's obligatory reporting in accordance with HGB, Vivoryon voluntarily publishes financial reports in accordance with IFRS, in particular for the international investors.

Further information is made available to the public in the form of press releases or ad-hoc announcements. All financial reports, announcements, presentations and communications are available on the Company's website.

8. Remuneration report

We refer to the appendix to the management report included in the annual financial statements for the remuneration report.

9. Subsequent events report

There were no significant events after the balance sheet date.

Halle (Saale), March 12, 2020
Management Board of Vivoryon Therapeutics AG

Dr. Ulrich Dauer Dr. Michael Schaeffer

Compensation report of Vivoryon Therapeutics AG

1. Compensation for the Management Board

Amount and structure

The annual compensation for the members of the Management Board has two components:

- compensation independent of success (fixed compensation) and
- a performance-based compensation

Fixed compensation

The amount of the fixed compensation depends on the member's function and responsibilities as well as on what is common in the industry and in the market, especially in comparison with similar listed companies in the biotechnology sector. The fixed compensation is paid out as a monthly salary.

Performance-based compensation

1. The performance-based compensation consists of a bonus measured in terms of one year. The performance-based bonus is determined by the Supervisory Board on the basis of an annual performance assessment and professional judgement. The bonus is paid out according to how Vivoryon Therapeutics AG's business develops as well as the scope of the individual's achievement as well as the realization of the Company's general objectives. These objectives include, among other topics, performance, business development, strategy, investor relations and general management.

   At the beginning of the following calendar year, the Supervisory Board reaches a conclusion as to how far the objectives have been achieved. The bonus is payable subsequent to the Supervisory Board's resolution on achievement of the objectives. Dr. Ulrich Dauer, Chairman of the Management Board, can receive a maximum annual bonus payment of EUR 60k and Dr. Michael Schaeffer of EUR 40k.

2. Furthermore, the Management Board members receive a carve-out incentive in the event that they initiate financing for the Company through a cash capital increase. Dr. Dauer receives 0.4% and Dr. Michael Schaeffer 0.1% of the net cash flow that flowed into the Company (equity raised minus other financial transaction costs).

With respect to compliance with the Code's recommendations regarding management compensation, reference is made to Section 6 of the management report ('Corporate governance statement' subsection Compliance statement pursuant to Section 161 of the German Stock Corporation Act [AktG]).

Management Board compensation for 2019

A detailed listing of the individual salaries of the members of the Management Board is presented in the following tables:

Benefits granted	Dr Ulrich Dauer			
	CEO			
	since May 1, 2018			
	2018	**2019**	**2019 (Min)**	**2019 (Max)**
Fixed compensation	160,000	240,000	240,000	240,000
Fringe benefits	2,720	4,504	4,504	4,504
Total	***162,720***	***244,504***	***244,504***	***244,504***
Variable compensation for one year	0	55,200	0	60,000
Variable compensation for the previous year	0	35,000	0	60,000
Carve-out incentive after capital increase	0	195,392	195,392	195,392
Total	**162,720**	**530,097**	**439,897**	**559,897**
Pension expense				
Total compensation	**162,720**	**530,097**	**439,897**	**559,897**

Benefits granted	Dr Michael Schaeffer			
	CBO			
	since Oct. 1, 2018			
	2018	**2019**	**2019 (Min)**	**2019 (Max)**
Fixed compensation	55,000	220,000	220,000	220,000
Fringe benefits	1,015	4,403	4,403	4,403
Total	***56,015***	***224,403***	***224,403***	***224,403***
Variable compensation for one year	0	36,800	0	40,000
Variable compensation for the previous year	0	32,000	0	40,000
Carve-out incentive after capital increase	0	48,848	48,848	48,848
Total	**56,015**	**342,051**	**273,251**	**353,251**
Pension expense	1,190	4,762	4,762	4,762
Total compensation	**57,205**	**346,813**	**278,013**	**358,013**

Liability insurance (D&O)

From July 1, 2010, the current Company D&O insurance for the members of the Management Board includes the deductible amount legally provided for. With respect to the adherence to the recommendations of the Code regarding D&O insurance for members of the Supervisory Board, reference is made to Section 6 of the management report ('Corporate governance statement', subsection Compliance statement in accordance with Section 161 of the German Stock Corporation Act [AktG].

Shareholdings of the Management Board members

According to the information available to the Company as of December 31, 2019, the Management Board members held less than 1% of the shares of Vivoryon Therapeutics AG.

Compensation of former Management Board members

Direct retirement benefits
Former Management Board members Dr Hans-Ulrich Demuth and Dr Konrad Glund were paid retirement benefits totaling EUR 76k in financial year 2019 (PY: EUR 56k). In addition, personnel expenses totaling EUR 15k (PY: income of EUR 2k) were recognized as part of the existing pension commitments.

Pension scheme through pension relief fund
In 2019 EUR 14k were paid to the provident fund to maintain the contractually vested pensions claims, surviving dependents and occupational disability claims as per the Company pension scheme of the former Management Board member, Dr. Liebers.

Stock Option
As of December 31, 2019, former members of the Management Board held a total of 314,501 stock options, all of which are vested.

2. Compensation of the Supervisory Board

From the Company's perspective, it should especially be in the Supervisory Board's interest to focus on the Company's sustainable and long-term successful development. As such, Vivoryon Therapeutics AG believes that fixed compensation for some members of the Supervisory Board is effective. Regardless of their compensation, all members of the Supervisory Board are entitled to reimbursement for their travel expenses and they are included in the existing D&O insurance.

Determination of Supervisory Board compensation

The compensation system for the Supervisory Board members provided for fixed compensation for 2019 for Dr Erich Platzer, Dr D. v. d. Osten and Charlotte Lohmann.

In addition, Ms. Lohmann received variable compensation for her participation in Supervisory Board meetings in person and via telephone.

Overall, the Supervisory Board's compensation equaled EUR 105k for the financial year under review.

Shareholdings of the Supervisory Board members

According to Vivoryon Therapeutics AG's information as of December 31, 2018, the members of Vivoryon Therapeutics AG's Supervisory Board held a total of approximately 1,9% of the Company's shares.

Halle (Saale), March 12, 2020

Management Board of Vivoryon Therapeutics AG

Dr Ulrich Dauer Dr Michael Schaeffer

Appendix 2
Management's Responsibility Statement

Management's Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements provide a true and fair view of the assets, liabilities, financial position and results of operations of Vivoryon Therapeutics AG and in the management report, the business development including the performance and position of Vivoryon Therapeutics AG is presented in a manner to provide a true and fair view together with a description of the principal opportunities and risks associated with the expected development of Vivoryon Therapeutics AG.

Halle (Saale), March 12, 2020
Management Board of Vivoryon Therapeutics AG

Dr Ulrich Dauer Dr Michael Schaeffer

Independent Auditor's Report

To Vivoryon Therapeutics AG, Halle (Saale)

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of Vivoryon Therapeutics AG, Halle (Saale), which comprise the balance sheet as of December 31, 2019, the income statement, the statement of cash flows and the statement of shareholders' equity for the financial year from January 1, 2019 to December 31, 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Vivoryon Therapeutics AG, Halle (Saale), for the financial year from January 1 to December 31, 2019. In accordance with German legal requirements, we have not audited the content those components of the management report specified in the "Other information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019, in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of those components of the management report specified in the "Other information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 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 [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities 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 any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

We have determined that there are no further key audit matters that must be communicated in our independent auditor's report.

Other information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following components of the management report, whose content was not audited:

– the corporate governance statement included in section 7 of the management report.

The other information also includes the remaining parts of the annual report.

The other information does not include the annual financial statements, the management report information audited for content and our auditor's report thereon.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an 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 annual financial statements, with the management report information audited for content or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company'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, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of a management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a 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 management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual 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 opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 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. Mis-

statements 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 annual financial statements and this management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the 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 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 controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's 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 Company'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 annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective 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 Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

– Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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 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 annual 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 of the shareholders' on May 29, 2019. We were engaged by the Chairperson of the Supervisory Board on May 30, 2019. We have been the auditor of Vivoryon Therapeutics AG as a capital market orientated company without interruption since financial year 2014.

We declare that the 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 Dr Stefan Schneider.

Leipzig,March 13, 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Dr Schneider
Wirtschaftsprüfer
[German Public Auditor]

Sachs
Wirtschaftsprüfer
[German Public Auditor]