Consolidated Financial Statements as of and for the period January 1, 2013 to December 31, 2013, as of and for the period January 1, 2012 to December 31, 2012 and as of and for the period January 1, 2011 to December 31, 2011 of Probiodrug AG (IFRS) (audited)

Consolidated Statement of Comprehensive Income

in EUR k	NOTES	2013	2012	2011
		1 January to 31 December		
			(audited)	
I. Profit or Loss				
Continuing operations				
Revenues	5.1	0	6	21
Cost of sales	5.2	0	0	0
Gross profit		**0**	**6**	**21**
Research and development expenses	5.3	-8,004	-9,255	-13,229
General and administrative expenses	5.4	-2,394	-2,341	-3,084
Other operating income	5.6	747	1,032	2,023
Operating profit/loss		**-9,651**	**-10,558**	**-14,269**
Interest income		9	22	42
Interest expense		-115	-340	-71
Other financial income	10	0	4	37
Financial profit/loss		**-106**	**-314**	**8**
Loss before tax		**-9,757**	**-10,872**	**-14,261**
Income tax expense	5,7	0	-656	6
Loss from continuing operations		**-9,757**	**-11,528**	**-14,255**
Discontinued operations				
Loss after tax of the discontinued operations	5.8	-172	-7,192	-2,052
Net loss for the period		**-9,929**	**-18,720**	**-16,307**
II. Other comprehensive income (loss)				
items not to be reclassified subsequently to profit or loss				
Remeasurement of the net defined benefit pension liability		35	-203	-45
Total other comprehensive income (loss)		**35**	**-203**	**-45**
III. Comprehensive income (loss)		**-9,894**	**-18,923**	**-16,352**
Result per share in EUR (basic and diluted)	**6.9.5**	**-0,39**	**-0,77**	**-0,78**
Result per share in EUR (basic and diluted) from continuing operations	**6.9.5**	**-0,38**	**-0,47**	**-0.67**

Consolidated Statement of financial position as of December 31, 2013

in EUR k	NOTES	As of 31 December 2013	2012	2011	As of 1 January 2011
			(audited)		
ASSETS					
A. Noncurrent assets					
I. Goodwill	3.3/3.6/6.1	0	0	1,996	1,996
II. Development program	3.3/3.6/6.1	0	0	4,737	4,737
III. Other intangible assets	3.4/6.1	101	67	61	91
IV. Plant and equipment	3.5/6.2	321	926	1,264	1,549
V. Financial assets	3.7	3	3	3	3
Total noncurrent assets		**425**	**996**	**8,061**	**8,376**
B. Current assets					
I. Inventories	3.9/6.3	0	18	18	42
II. Trade receivables		0	5	1	4
III. Other short-term financial assets	6.4	872	2	9	27
IV. Tax refunds	6.5	10	18	46	84
V. Other assets	6.6	188	483	644	1,372
VI. Securities		0	0	1.019	0
VII. Cash and cash equivalents	3.11/6.7	4,879	7,726	9,295	6,061
VIII. Noncurrent assets held for sale	3.12	0	757	0	0
Total current assets		**5,949**	**9,009**	**11,032**	**7,590**
Total assets		**6,374**	**10,005**	**19,093**	**15,966**
Liabilities and equity					
A. Equity					
I. Share capital	6.9	25,529	25,529	22,694	15,718
II. Legal reserve	6.9.1	228	228	228	228
III. Additional paid-in capital	6.9.2	51,963	51,658	45,150	33,068
IV. Other reserves for remeasurement of the pensions	6.9.3	-199	-234	-31	14
V. Retained earnings	6.9.4	-81,745	-71,816	-53,096	-36,789
Total equity		**-4,224**	**5,365**	**14,945**	**12,239**
B. Noncurrent liabilities					
I. Investment grants	3.14/6.10.1	11	24	68	101
II. Pensions	3.15/6.10.2	535	545	333	285
III. Provisions	6.10.3	719	501	610	250
IV. Other noncurrent liabilities		0	0	1	1
Total noncurrent liabilities		**1,265**	**1,070**	**1,012**	**637**
C. Current liabilities					
I. Investment grants	3.14	13	43	33	53
II. Tax liabilities	6.11.1	2,445	2,347	1,364	1,305
III. Provisions	3.16/6.11.2	41	41	41	41
IV. Convertible bonds		5,346	0	0	0
V. Trade payables	6.11.3	1,327	731	1,215	938
VI. Other current liabilities	6.11.5	161	408	483	753
Total current liabilities		**9,333**	**3,570**	**3,136**	**3,090**
Total liabilities		**10,598**	**4,640**	**4,148**	**3,727**
Total equity and liabilities		**6,374**	**10,005**	**19,093**	**15,966**

Consolidated Cash Flow Statement

in EUR k	2013	2012 (audited)	2011	NOTES
	1 January to 31 December			
Net loss for the period	-9,929	-18,720	-16,307	
Income tax expense / income	0	656	-6	5.7
Net interest expense	106	318	32	3.20
Non-cash losses from impairment write-downs	25	5.983	0	
Depreciation and amortization	314	352	413	
Gain on disposal of plant and equipment	-21	-267	0	
Release of deferred investment grants	-43	-34	-54	6.10.1
Other non-cash expense	305	146	414	
Interest paid	0	0	-5	
Interest received	9	22	44	
Income taxes paid	-2	-7	-11	
Income taxes received	11	35	55	
Change in working capital				
Change in inventories	18	0	24	
Change in trade receivables	320	-4	3	
Change in other assets	-214	153	720	
Change in pension liabilities	8	-4	-10	
Change in provisions	218	-109	360	
Change in trade payables	596	-484	277	
Change in other liabilities	-247	-76	-270	
Cash flows from operating activities	**-8,526**	**-12,040**	**-14,321**	
Proceeds from investment grants	0	15	28	
Proceeds from the disposal of securities	0	1.019	0	
Proceeds from disposal of plant and equipment	36	359	0	
Proceeds from disposal of intangible assets	362	0	0	
Acquisition of plant and equipment	-5	-64	-84	
Acquisition of intangible assets	-60	-55	-14	
Investments in securities	0	0	-1,016	
Cash flows from investing activities	**333**	**1,274**	**-1,086**	
Proceeds from stock issue	0	9,213	18,765	6.8.1/6.8.6
Transaction costs of equity transaction	0	-16	-124	
Proceeds from convertible bonds issue	5,346	0	0	3.14/6.8.4
Cash flows from financing activities	**5,346**	**9,197**	**18,641**	
Net increase in cash and cash equivalents	**-2,847**	**-1,569**	**3,234**	
Cash and cash equivalents at the beginning of period	**7,726**	**9,295**	**6,061**	
Cash and cash equivalents at the end of period	**4,879**	**7,726**	**9,295**	

Consolidated Statement of Changes in Equity

	Share capital	Legal reserve	Additional paid-in capital	Other reserves for the remeasurement of pensions	Retained earnings	Total equity	Notes
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	
January 1, 2011	15,718	228	33,068	14	-36,789	12,239	
Other comprehensive income	0	0	0	-45	0	-45	*6.9.3*
Net result for the period	0	0	0	0	-16,307	-16,307	
Comprehensive result for the period	0	0	0	-45	-16,307	-16,352	
Stock issue	6,976		11,789	0	0	18,765	
Stock option compensation	0	0	417	0	0	417	
Transaction costs of equity transaction	0	0	-124	0	0	-124	
	6,976	0	12,082	-45	-16,307	2,706	
December 31, 2011	22,694	228	45,150	-31	-53,096	14,945	
Income and expenses recognized directly in equity	0	0	0	-203	0	-203	*6.9.3*
Net result for the period	0	0	0	0	-18,720	-18,720	
Comprehensive result for the period	0	0	0	-203	-18,720	-18,923	
Stock issue	2,835	0	6,378	0	0	9,213	
Stock option compensation	0	0	146	0	0	146	
Transaction costs of equity transaction	0	0	-16	0	0	-16	
	2,835	0	6,508	-203	-18,720	-9,580	
December 31, 2012	25,529	228	51,658	-234	-71,816	5,365	
Income and expenses recognized directly in equity	0	0	0	35	0	35	*6.9.3*
Net result for the period	0	0	0	0	-9,929	-9,929	
Comprehensive result for the period	0	0	0	35	-9,929	-9,894	
Stock option compensation	0	0	305	0	0	305	
	0	0	305	35	-9,929	-9,589	
December 31, 2013	25,529	228	51,963	-199	-81,745	-4,224	

Probiodrug AG, Halle

Notes to the consolidated IFRS financial statements for the financial year from January 1 to December 31, 2013

1. Company information

The Probiodrug Group, which includes the parent company, Probiodrug AG, Halle (hereinafter also referred to as Probiodrug or the Company), and the subsidiary, Ingenium Pharmaceuticals GmbH, Munich (hereinafter also Ingenium), has activities in the areas of research and development, preclinical and clinical trials.

Probiodrug AG was formed by virtue of the articles of incorporation dated July 25, 1997 and is recorded in the commercial register of the district court of Stendal under commercial registry number 213719. The Company's legal seat is Weinbergweg 22, 06120 Halle.

The product pipeline currently includes a number of research and development programs with a focus on the primary program, the inhibition of the QC enzyme for the treatment of Alzheimer's disease and other inflammatory diseases.

2. Consolidated financial statements

2.1. Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared voluntarily in accordance with the International Financial Reporting Standards (IFRS/IAS) of the International Accounting Standards Board as well as in accordance with the Interpretations of the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC), as endorsed by the European Union for mandatory application as of the balance sheet date. These are the initial consolidated financial statements prepared on the basis of IFRS. The consolidated financial statements are presented in euro (EUR).

Unless otherwise noted, all amounts are in thousands of euro (EUR k). Amounts have been rounded. As a result, rounding differences may occur.

These consolidated financial statements comprise the business activities of both group companies for the period from January 1 to December 31, 2013. The calendar year serves as the financial year for both entities included in the consolidated financial statements. The prior year comparative dates for the consolidated statements of financial position are December 31, 2012, December 31, 2011 as well as the initial IFRS balance sheet as of January 1, 2011. Comparative periods for the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity are the periods from January 1 to December 31, 2012 as well as from January 1, 2011 to December 31, 2011.

In accordance with IAS 1, the consolidated statement of comprehensive income was prepared classifying the expenses by function; the balance sheet classification was based on due date.

With the exception of the securities included within the current assets which are measured based on their fair values, the consolidated financial statements were prepared on the basis of amortized acquisition and production costs respectively at net sales prices.

2.2. Scope of consolidation

In addition to Probiodrug, the Group parent company, Ingenium, with its legal seat in Munich, is included in the consolidated financial statements (fully consolidated). Probiodrug held 100% of the equity of Ingenium as of December 31, 2013 and the three years before.

2.3. Principles of consolidation

The financial statements included in the consolidated financial statements are prepared on the basis of uniform accounting policies and procedures. Business combinations are accounted for applying the acquisition method whereby the acquisition costs associated with the investment are allocated to the fair value of the acquired assets, liabilities and contingent liabilities. Income and expenses as well as receivables and payables between consolidated entities are eliminated. To the extent that these exist, results from intercompany activities are also eliminated.

2.4. Foreign currency translation

The functional currency of all companies included in the consolidated financial statements is the euro which therefore is the reporting currency for the consolidated financial statements.

Foreign currency transactions are recorded in the financial statements of the entities included in the consolidation at the exchange rate in effect on the date of the transaction in the functional currency of that entity.

Monetary assets and liabilities in a foreign currency are initially recorded at the mean average exchange rate in effect on the date of the transaction and later at the rate in effect on the balance sheet date. Differences resulting from foreign currency translation are recorded in the statement of comprehensive income.

3. Summary of significant accounting policies

3.1. Explanations on transition to IFRS accounting principles

The transition of the recognition and measurement policies to IFRS regulations was retrospectively recorded in accordance with IFRS 1 (first-time adoption).

IFRS was applied in the preparation of the financial statements as of December 31, 2013, the prior year figures as of December 31, 2012 and 2011 as well as in preparing the opening IFRS balance sheet as of January 1, 2011 (date of transition).

3.2 Determination of fair values

A number of the Group accounting policies and disclosures in the notes make it necessary to determine the fair value of financial and non-financial assets and liabilities. IFRS 13, „Fair Value Measurement“, establishes a uniform standard definition for measurement at fair value. Fair value is defined as the price at the measurement date that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. Where appropriate, further information as to the assumptions made in the determination of the fair value are included within the specific disclosures for the respective line items of the balance sheet as well as the statement of comprehensive income.

3.3 Business combinations and goodwill

Business combinations are recorded applying the acquisition method. The acquisition costs in a business combination comprise the sum of the consideration transferred measured at the fair value at the time of acquisition. Costs incurred as a result of a business combination are recorded as an expense. Goodwill arises as a result of an excess of the consideration transferred in a business combination over the amount of the assets, liabilities and contingent liabilities acquired. If the consideration is less than the fair value of the net assets of the entity acquired, the difference is recorded in profit or loss. Subsequent to the initial recording, goodwill is recorded at acquisition costs less any cumulative impairment losses. Goodwill is allocated to cash generating units and is reassessed for impairment at least once each year or when a significant triggering event occurs.

3.4 Intangible assets

The development program includes the acquired development program CDK 9 of Ingenium.

The other intangible assets acquired by the Probiodrug Group are recorded at acquisition cost less accumulated amortization as well as any impairment costs which may have been recorded.

The amortization is recorded on the straight-line basis over the expected useful life.

The expected useful life ranges from three to five years.

Costs incurred for research are recorded as an expense in the period in which they are incurred. In accordance with IAS 38 (Intangible assets), development costs are recorded as an asset if a number of conditions are satisfied. The conditions to be satisfied for the recognition of development costs as an asset in accordance with IAS 38.57 were not satisfied as the medical products are subject to approval and this approval is subject to the results of future studies which cannot be anticipated with reasonable certainty.

Intangible assets are assessed to identify any impairment in value if any facts or changes in circumstances provide an indication that the carrying amount of the asset may not be recoverable. As soon as the carrying amount of an asset exceeds the recoverable value, impairment is recognized in the statement of comprehensive income.

3.5 Plant and equipment

Plant and equipment is recorded at acquisition costs less scheduled accumulated depreciation as well as any accumulated impairment costs which may have been recorded. Depreciation is recorded on the straight-line basis over the useful life.

The useful life for operating and office equipment ranges from three to ten years; for laboratory equipment from five to 14 years.

An assessment is made as to the need for an impairment of plant and equipment when circumstances arise or if there are changes in circumstances which indicate that the carrying amount of an asset may not be recoverable. As soon as the carrying amount of an asset exceeds the recoverable value, an impairment is recognized in profit or loss.

3.6 Impairment of noncurrent assets

Goodwill attributable to Ingenium's research and development program and the development program CDK 9 included within intangible assets was assessed for impairment once each year until such time as Ingenium was classified within discontinued operations in December 2012 (impairment test in accordance with IAS 36). The last such test was completed in June 2012. Prior to the reclassification into discontinued operations, a further impairment test was completed.

The remaining intangible assets as well as plant and equipment are assessed for impairment when there is an indication of impairment of the asset in question.

An impairment expense is recognized when the carrying amount of an asset or a cash generating unit exceeds the recoverable value as of the balance sheet date. The recoverable value is the higher of the amount representing the fair value less costs of disposal and the value in use. The value in use is the present value of the future cash flows which are expected to be derived from the value of the asset respectively from the cash generating unit. The fair value thereby reflects the best possible estimate of the amount which an independent third party would pay as of the balance sheet date for the cash generating unit. In contrast, the value in use is the (risk adjusted) present value of the future cash flows which can realistically be expected to be generated from the continued use of the cash generating unit. For the purpose of the impairment test the goodwill was allocated to the cash generating unit and consisted solely of Ingenium's research and development program.

3.7 Financial assets

The financial assets include shares of BIO Mitteldeutschland GmbH, Halle. The measurement of the shares is based on acquisition costs as there is no active market for the shares on the basis of which a price can be determined and a fair value cannot reliably be determined.

3.8 Taxes

The consolidated statement of comprehensive income presents the actual tax income and expense which is expected along with deferred tax income and expense. Actual tax refund claims and taxes payable for the current period are measured at the amount of the refund which is expected from the fiscal authorities respectively at the payment amount which is expected to be made to the fiscal authorities. The calculation of the amount is based on the tax rates and tax legislation in effect as of the balance sheet date.

Deferred taxes are accounted for on the basis of the balance sheet oriented approach. Deferred taxes are recorded for temporary differences between the IFRS carrying amounts of assets and liabilities and the tax basis of assets and liabilities. In addition, deferred tax assets are recorded for tax loss carryforwards. The measurement of deferred taxes is on the basis of tax rates expected to be in effect when the temporary differences reverse respectively when the loss carryforwards are expected to be used. Deferred tax assets which cannot be offset against deferred tax liabilities are only recorded to the extent that it is probable that future taxable income will be available to allow for the realization of the deferred tax asset. As the generation of future profits cannot be projected with reasonable certainty, deferred tax assets were only recognized to the extent that deferred tax liabilities exist. Deferred tax assets and liabilities are offset if the right to offset tax assets and liabilities exist and relate to the same entity subject to income taxes and involve the same fiscal authority.

3.9 Inventories

Inventories are measured at the lower of cost and net realizable value.

3.10 Financial assets

A financial asset or a liability is recognized when the entity becomes a party to the contractual provisions of the instrument.

All financial assets or liabilities are measured at fair value when they are recognized initially.

Within the Probiodrug Group, non-derivative financial instruments are classified in the categories „loans and receivables“ as well as „fair value through profit or loss“.

Subsequent to their initial recording, financial assets included in the category „loans and receivables“ are measured at amortized cost less any valuation adjustments which may have been recorded. Concrete information as to their uncollectibility result in the write-off of the receivables and assets affected.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Due to their short-term nature, trade receivables are non-interest bearing and are measured at their nominal value less valuation adjustments due to expected uncollectibility. As such, the amounts recorded reflect the fair values.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances which are recorded at their nominal values. Cash and cash equivalents comprise cash and bank balances with an initial term of three months or less.

3.12 Noncurrent assets held for sale and discontinued operations

Noncurrent assets are classified as held for sale if the corresponding carrying amount will principally be recovered as a result of a sale transaction rather than by continuing use. This is only the case if the sale is highly probable and if the asset is saleable in its present condition. Management must be committed to the sale and recognition as a completed sale must be expected within one year from the date of classification.

Noncurrent assets held for sale are recorded at the lower of the carrying amount and the fair value less costs of disposal. Any potential impairment loss for a disposal group is initially recorded as a reduction of goodwill and then allocated proportionately to the remaining assets and liabilities. Impairment losses recognized in conjunction with the initial recognition as held for sale and subsequent gains and losses upon revaluation are recorded in the statement of comprehensive income. No amortization or depreciation is recorded for items classified within plant and equipment and intangible assets held for sale.

In the statement of comprehensive income gains or losses from discontinued operations are shown separately from gains or losses from continuing operations and are separately presented as the result after tax of the discontinued operations.

3.13 Stock option programs and phantom stock option programs

In the financial years 2008, 2010 and 2013 the Probiodrug Group granted equity settled share based payments in the form of option rights to employees and other beneficiaries. The stock option programs allow the employees or the other beneficiaries to acquire shares in the Company. The share based payment transaction is recorded at fair value in accordance with IFRS 2. The fair value of the stock options granted is recorded as personnel expense or, if the options are granted to beneficiaries who are not considered employed persons, as other expenses with a corresponding increase in equity (additional paid-in capital). The fair value of the option rights granted is determined when the rights are granted. The resulting personnel expense is allocated over the vesting period of the underlying option rights. The personnel expense recorded is adjusted to reflect the actual number of option rights earned. The fair value of equity-settled share-based payments to other beneficiaries are measured at the fair value of the goods or service received.

In addition, in the financial year 2008, phantom stock options were issued. In specific cases, after a lock-up period, the holders are entitled to a cash payment amounting to the difference between the market value of a preferred share of the Series A attained for a preferred share in conjunction with an IPO, a merger or the takeover of Probiodrug and the exercise price of a preferred share. Further phantom stock options were issued to members of the management board and the supervisory board in 2010. These provide for a cash payment amounting to the difference between the exercise price of a common share and the price which is attained for a common share in conjunction with an IPO, a merger or the takeover of Probiodrug AG or the sale of significant assets of Probiodrug AG (exit event). Additional phantom stock options were issued to an external advisor in 2013. The conditions correspond with those of the phantom stock options issued in 2010.

The fair value of the phantom stock options was determined at the respective balance sheet date. The changes in comparison with the prior year were recorded within profit or loss and reflected within the noncurrent provisions.

3.14 Project subsidies and investment grants

Project subsidies and investment grants are government grants in accordance with IAS 20. Subsidies which directly relate to expenses already incurred in connection with research and development activities are recorded in the statement of comprehensive income within other operating income.

In accordance with the allowed alternative treatments set forth in IAS 20, asset related subsidies (Joint Agreement for the Improvement of Regional Economic Structures subsidies (GA-subsidies), and investment subsidies InvZulG) are presented as deferred income and are amortized to income over the average useful life of the subsidized asset.

Investment subsidies are recorded when the Company receives the funds or when there is sufficient probability that the conditions associated with the subsidies will be met and the subsidies are granted.

3.15 Pensions

A company pension scheme can either be in the form of defined benefit plans or defined contribution plans. With respect to defined contribution plans the company does not have any obligations other than the payment of the contribution amount. The contributions are recorded within personnel expense when they are due. These plans include the employer portion of the statutory pension scheme. In the case of defined benefit plans, the company is obliged to make payments of the benefits due to both active and former employees under the plan.

The actuarial valuation of the pension commitments (defined benefit plans) is accounted for using the projected unit credit method in accordance with IAS 19. The measurement of the pension provision is based on actuarial calculations. The discount rate used represents the market yield at the end of the reporting period for high quality fixed rate corporate bonds.

The pension expense to be recorded is determined on the basis of the relevant data at the beginning of the financial year but has a value date at the end of the year. Actuarial gains and losses are immediately recorded in equity in other comprehensive income. The fair value of the plan assets (insurance amount) is deducted from the budgeted gross pension obligation (IAS 19.63). The corresponding plan assets (insurance amount) reduce the amount of the obligation as the income resulting from the insurance policy can only be used to make payments to the beneficiaries. As a result of their being pledged to the beneficiaries, even in the case of insolvency, they are not available to the company’s creditors.

On the one hand the remeasurement comprises the actuarial gains and losses resulting from the measurement of the gross pension obligation of defined benefit plans while on the other hand it includes the difference between the realized return on plan assets and the expected return at the beginning of the period based on the discount rate of the corresponding gross defined benefit obligation. Actuarial gains and losses result from changes in actuarial assumptions respectively from deviations between previous actuarial assumptions and actual developments. All remeasurement effects are directly recorded in other comprehensive income without an impact on profit and loss.

The expense resulting from the funding of the pension provision is recorded within the costs of the functional area. The net interest expense associated with defined benefit plans is presented in the financial result.

3.16 Provisions

Provisions are recorded for present obligations which result from past events for which the timing of the future payment is uncertain.

Provisions are only recorded if:

- a legal or factual obligation to a third party exists as a result of a past event,
- it is probable that an outflow of resources will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best possible estimate of the expenditure required to settle the current obligation.

Provisions with a term in excess of one year are recorded at their discounted settlement amount giving consideration to expected cost increases. The discount rate used reflects current market interest rate and the risks specific to the liability.

3.17 Financial liabilities

When they are initially recorded, financial liabilities as defined under IAS 39 are measured at their fair value. In case of financial liabilities not classified as financial liability through profit or loss the fair value is reduced by directly attributable transaction costs. The financial liabilities of the Probiodrug Group comprise, among others, trade payables and other liabilities, lines of credit, loans and convertible bonds. Subsequent to their initial recording, the financial liabilities are measured at amortized cost. The noncurrent financial liabilities are measured at amortized costs applying the effective interest method. Financial liabilities are closed out when the contractual obligation has been met, is waived or expired.

3.18 Convertible bonds

In 2013 Probiodrug AG issued convertible bonds to a selected group of individuals/investors. In accordance with IAS 32.28, in the case of convertible bonds to the extent that the holders can elect either payment in cash or in shares it must be determined if a compound financial instrument which must be broken down into a component for the repayment of the bond and a separately recorded equity component (option right) exists. The issue terms stipulate that the convertible bonds do not have an equity component as in all cases conversion is mandatory and in some cases Probiodrug AG will be required to deliver a variable number of shares and in some cases fixed.

In accordance with IAS 32, there is a financial liability associated with contracts if, among others, the company could be required to deliver a variable number of equity instruments. Therefore, the convertible bonds are financial liabilities in accordance with IAS 32. They are classified as other liabilities and measured at amortised cost using the effctive interest rate method in accordance with IAS 39. Since the conversion into variable number of shares can occur at any time according to the contractual terms, the instrument does not accrue any interest.

It is expected that the optional conversion event will take place in the fourth quarter of 2014. At that time all convertible bonds will be converted into Company shares at the prescribed exercise price. The fair value of the convertible bonds at the time of issuance was equal the transaction price.

3.19 Revenue and expense realization

The Company recognizes revenues from the awarding of limited-term licenses as well as from the provision of other services.

Revenues from the awarding of limited-term licenses are recognized in the appropriate period based on the underlying stipultations of the contract if it is sufficiently probable that Probiodrug will collect the agreed upon consideration.

Revenues for the provision of research services for the benefit of third parties are realized in the period in which the Company provides the research services.

Other operating income from the sale of assets is recognized when the significant underlying risks and rewards are transferred and no further ownership rights exist and the collection of payment appears reasonably certain. In conjunction herewith, contractually agreed upon conditions precedent are taken into consideration.

Operating expenses are recorded in the period when the goods or services are received or when the expenses were incurred.

Interest income is recognized proportionately over time; interest expense incurred is recognized depending on the contractual obligations where relevant using the effective interest method or, where applicable, proportionally over time.

3.20 Financial profit/loss

Interest income and financing expense are recognized in the appropriate period giving consideration to the effective interest method. In addition to interest income and interest expense, the financial result may include income from securities and gains and losses from financial instruments which are recorded in profit or loss. In addition, net interest expense associated with pension provisions is included.

3.21 Income tax

The actual currently expected income tax revenue and expense relating to the annual results as well as the deferred income tax income and expense are recorded in the statement of comprehensive income.

Expected payments on taxable income are, in principle, determined on the basis of the tax rates in effect for corporation tax and trade tax.

3.22 Earnings per share

The earnings per share were determined in accordance with IAS 33. In the calculation of the earnings per share, the results for the period attributable to the shareholders of the parent company are divided by the weighted average number of shares outstanding.

3.23 Published standards the application of which is not yet obligatory

Prior to the date of publication of the consolidated financial statements, the IASB published additional IFRS and IFRIC which have not yet been fully endorsed by the EU and will only be required to be applied subsequent to the balance sheet date. The initial required application date for the new, changed and revised Standards/Interpretations presented below is in the future. Probiodrug AG intends to apply these Standards when their application becomes obligatory. The initial required date of application is financial years which begin on or after January 1, 2014 unless something to the contrary is noted.

- IAS 19 „Defined Benefits Plans: Employee Contributions" (Amendment) (July 1, 2014)
- IFRS 9 „Financial Instruments" (January 1, 2018)
- IAS 16, 38 „Clarification of Acceptable Methods of Depreciation and Amortization" (Amendments) (January 1, 2016)
- IAS 16, 41 „Agriculture: Bearer Plants" (Amendments) (January 1, 2016)
- IAS 27 „Consolidated and Separate Financial Statements" (Amendments)
- IAS 28 „Investments in Associates and Joint Ventures"
- IAS 32 "Offsetting Financial Assets and Financial Liabilities" (Amendments) -
- IAS 36 „Recoverable Amount - Disclosures for Non-Financial Assets" (Amendments) – the amendments clarify and correct the disclosure requirements for recoverable amount under IFRS 13.
- IAS 39 „Novation of Derivatives and Continuation of Hedge Accounting" (Amendments)
- IFRS 10 „Consolidated Financial Statements"
- IFRS 11 „Joint Arrangements"
- IFRS 12 „Disclosure of Interests in Other Entities"
- IFRS 14 „Regulatory Deferral Accounts" (January 1, 2016)
- Improvements to IFRS 2011-2013 (July 1, 2014)
- IFRIC 21 „Levies" (July 1, 2014)
- IFRS 10, 11, 12 Amendments: Transition Guidance
- Improvements to IFRS 2010-2012 (July 1, 2014)
- IFRS 10, 12, IAS 27 Amendments: Investment Entities
- IFRS 11 Amendment: Accounting for Acquisitions of Interests in Joint Operations (January 1, 2016)
- IFRS 15: Revenue from Contracts with Customers (January 1, 2017)

It is not expected that the initial application of the changes listed will have a significant impact on the financial statements. However, there may be changes in the scope of disclosures in the notes.

4. Significant discretionary decisions, estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRS makes it necessary for discretionary decisions to be made and estimates to be carried out which influence the measurement of assets and liabilities recognized, the disclosure of contingent liabilities and other commitments as of the balance sheet date as well as the presentation of income and expense.

Estimates and assumptions

The estimates and assumptions primarily relate to estimates and assumptions in connection with the managements assessment of the entity´s ability to continue as a going concern, the impairment test intangible assets, the determination of the economic useful lives of intangible assets and plant and equipment, allowances for doubtful receivables as well as estimates of expected uses of provisions. The estimates are based on past experience as well as other information relating to the transactions recorded.

The value of non-financial assets is reduced if the carrying amount of an asset or the asset´s cash generating unit exceeds its recoverable value. The recoverable value of an asset or a cash generating unit is the higher of the fair value less costs of disposal and the value in use. The discounted cash flow method is used for the calculation. The basic assumptions for the determination of the recoverable value for the cash generating unit are presented in section 6.1 „Goodwill and other intangible assets“.

The measurement of the pension provision is based on actuarial assumptions with respect to demographic developments, pension increases as well as the determination of the discount rate.

The calculation of the fair value of the provision for phantom stock options issued gave consideration to the factors described in section 6.9.6.2 „Phantom stock option program“.

With respect to the determination of the fair value of financial instruments, we refer to section 10 „Disclosures with respect to financial instruments“.

Furthermore, the assumptions and estimates made are dependent on the realizability of future tax relief. Deferred tax assets for deductible temporary differences and tax loss carryforwards are only recorded to the extent that there are deferred tax liabilities which can be off-set respectively for which it is probable that future taxable income will result which can be used for the realization of the deferred tax relief.

The estimates may differ from the actual amounts recorded in subsequent periods. Changes in assumptions or estimates to be made are recognized in the statement of comprehensive income at the time that they become known. The circumstances in existence at the time of preparation of the consolidated financial statements are considered as well as the future development in the industry-related environment with respect to the expected future business development of Probiodrug.

Management's Assessment of the Entity's Ability to Continue as a Going Concern

As at 31 December 2013 the Company had a deficit not covered by equity amounting to EUR 4,224k. The creditors to whom the convertible bonds with a nominal amount of EUR 5,346k were issued in the financial year 2013 each issued letters of subordination. As such, overindebtedness from a legal perspective does not exist.

As a result of the resolution to issue convertible bonds in July 2013 as well as the increase in these convertible bonds as resolved in May 2014, the Company was able to secure additional funding which provide for the Company's further development at least into the third quarter of 2014. In order to continue the ongoing research and development projects additional funding will, at the latest, be required at this point. Management is currently pursuing an additional financing round for the fall of 2014. If this is not achieved, the Company's further development will be endangered.

If extensive adjustments are made to the cost structures, the Company's projections show that, without a successful financing round, the liquidity would be sufficient through the end of 2015. The aforementioned projections are based on the assumption that no cash outflows will be required in 2014 and 2015 with respect to the potential additional tax claims of the fiscal authorities for the year 2004. Probiodrug has filed a lawsuit at the Finanzgericht contesting the potential back taxes. A ruling has not yet been made. A stay of execution for the contested decisions has been granted.

This risk was provided for in the financial statements by recording an appropriate provision. Should significant payments be required in 2014 or 2015 for the back taxes being contested in the financial courts, the Company's ability to continue as a going concern would be endangered.

5. Explanations on individual line items within the consolidated statement of comprehensive income

5.1 Revenues

No revenues were realized in 2013 (2012 EUR 6k, 2011 EUR 21k). The revenues in the prior years primarily consisted of revenues realized for services provided.

5.2 Cost of sales

This line item includes personnel costs, costs of materials and purchased services including personnel costs for research and development services. No research and development services were sold in financial years 2011 to 2013.

5.3 Research and development expenses

In the financial year 2013 research and development expenses amounted to EUR 8,004k (2012: EUR 9,255k, 2011: EUR 13,229k).

5.4 General and administrative expenses

The general and administrative expenses of EUR 2,394k (2012: EUR 2,341k, 2011: EUR 3,084k) comprise personnel costs and costs of materials as well as amortization and depreciation attributable to the administrative area and other operating expenses.

5.5 Supplementary disclosures regarding the cost of sales method

The expenses during the financial year include scheduled amortization and depreciation of plant and equipment as well as intangible assets amounting to EUR 314k (2012: EUR 351k, 2011: EUR 414k) as well as personnel related expenses amounting to EUR 2,189k (2012: EUR 4,156k, 2011: EUR 4,897k). The decrease of the personnel expenses relates to the lower headcount.

5.6 Other operating income

The other operating income is broken down as follows:

Other operating income	1/1 -12/31/2013 EUR k	1/1 -12/31/2012 EUR k	1/1 -12/31/2011 EUR k
Income from the release of provisions....................	90	199	0
Release of the investment grants	44	33	54
Expenditure related research grants........................	453	722	1,919
Other	160	78	50
Total	**747**	**1,032**	**2,023**

5.7 Income taxes

The income tax relating to the current period includes both current and deferred taxes. Current income tax expense is based on the respective legal regulations. Deferred taxes are determined as explained in the following. Income taxes comprise:

	1/1 -12/31/2013 EUR k	1/1 -12/31/2012 EUR k	1/1 -12/31/2011 EUR k
Current tax expense/income	0	-656	6
Deferred tax income/expense	0	0	0
Total	**0**	**-656**	**6**

The current tax expense for 2012 is attributable to changes in the tax provision attributable to risks resulting from tax audits of prior years.

For the determination of domestic deferred taxes, a corporation tax rate of 15 % plus a solidarity surcharge of 5.5 % as well as the trade income tax multiplier rate of 450 % applicable for the legal seat of the Company was used for all reporting periods. Based on this, the effective tax rate as of December 31, 2013 used to determine the deferred tax assets and liabilities amounted to 31.58 % (December 31, 2012: 31.58 %, December 31, 2011: 31.58 %).

The significant differences between the expected and the actual income tax expense in the reporting period and the comparative years are explained below:

EUR k	1/1 -12/31/2013	1/1 -12/31/2012	1/1 -12/31/2011
Profit/Loss before income tax ..	-9,929	-18,720	-16,307
Income tax rate	31.58%	31.58%	31.58%
Expected tax income	3,136	5,912	5,149
Change in deferred tax assets not recorded............................	-3,029	-3,029	-4,405
Non-periodic effects................	0	-656	0
Effects resulting from consolidation	-114	-1,431	- 428
Non-deductible expenses.........	-40	-32	-127
Impairment of goodwill...........	0	- 630	0
Tax effect attributable to discontinued operations...........	-70	-702	0
Other differences.....................	117	-88	-183
Reported income tax benefit/expense.......................	**0**	**-656**	**6**

The deferred tax assets and deferred tax liabilities are attributable to temporary differences between the carrying amount of the following assets and liabilities in the IFRS consolidated financial statements and the carrying amount for tax purposes:

In EUR k	Deferred tax assets				Deferred tax liabilities				Total			
	12/31/ 2013	12/31/ 2012	12/31/ 2011	1/1/ 2011	12/31/ 2013	12/31/ 2012	12/31/ 2011	1/1/ 2011	12/31/ 2013	12/31/ 2012	12/31/ 2011	1/1/ 2011
Intangible assets	0	0	0	0	0	197	1,247	1,247	0	-197	-1,247	-1,247
Plant and equipment..........	0	0	0	0	0	0	3	7	0	0	-3	-7
Pension liabilities	4	114	50	35	0	0	0	0	0	114	50	35
Other provisions................	0	0	0	0	4	4	4	4	0	-4	-4	-4
Loss carryforwards............	0	87	1,204	1,223	0	0	0	0	0	87	1,204	1,223
Total	**4**	**201**	**1,254**	**1,258**	**4**	**201**	**1,254**	**1,258**	**0**	**0**	**0**	0
Net amount........................	-4	-201	-1,254	-1,258	-4	-201	-1,254	-1,258	0	0	0	0
Total deferred taxes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0

As of December 31, 2013, deferred tax assets attributable to tax loss carryforwards and differences in measurement amounted to EUR 24,063k (12/31/2012: EUR 21,034k; 12/31/2011: EUR 18,005k), of which EUR 0k (12/31/2012: EUR 87k; 12/31/2011: EUR 1,204k) was offset against the deferred tax liabilities. The remaining deferred tax assets were not recorded as their use is not sufficiently probable.

As of December 31, 2013, Probiodrug AG had corporate income tax loss carryforwards of EUR 75,825k and trade tax loss carryforwards of EUR 75,802k. The tax losses can be carried forward for an unlimited time.

Changes in the deferred tax assets and liabilities presented in the consolidated balance sheet consist of the following:

EUR k	1/1/ 2013	Change with an impact on the profit or loss	Change without an impact on the profit or loss	12/31/ 2013
Intangible assets	-197	197	0	0
Pension liabilities	114	-110	0	4
Other provisions...	-4	0	0	-4
Loss carryforwards.......................................	87	-87	0	0
Total	**0**	**0**	**0**	**0**

EUR k	1/1/ 2012	Change with an impact on the profit or loss	Change without an impact on the profit or loss	12/31/ 2012
Intangible assets	-1,247	1,050	0	-197
Plant and equipment	-3	3	0	0
Pension liabilities	50	64	0	114
Other provisions	-4	0	0	-4
Loss carryforwards	1,204	-1,117	0	87
Total	**0**	**0**	**0**	**0**

EUR k	1/1 2011	Change with an impact on the profit or loss	Change without an impact on the profit or loss	12/31/ 2011
Intangible assets	-1,247	0	0	-1,247
Plant and equipment	-7	4	0	-3
Pension liabilities	35	15	0	50
Other provisions	-4	0	0	-4
Loss carryforwards	1,223	-19	0	1,204
Total	**0**	**0**	**0**	**0**

5.8 Discontinued operations

At the end of 2012 Probiodrug Group’s management board decided that Ingenium’s business activities would not be further pursued and that the development program CDK 9 would be sold. Prior to that point, the intention was to grant licenses for medicinal products on the basis of CDK 9.

The sale was expected to be completed within one year. As such, as of December 31, 2012, the noncurrent assets of Ingenium were classified as „held for sale“ and pooled within one group for sale.

Due to the intended discontinuation of the economic activities, Ingenium’s business activities were classified as discontinued operations in the statement of comprehensive income and the prior year figures were adjusted.

The actual sale of the development program and the noncurrent assets associated herewith was completed in 2013.

The profit or loss of the discontinued business activities of Ingenium were as follows:

EUR k	2013	2012	2011
Income	43	411	103
Expenses	-206	-1,620	-2,152
Loss as a result of measurement at fair value and Loss on sale	-9	-5,983	0
Operating loss	**-172**	**-7,192**	**-2,049**
Financial profit/loss	0	0	-3
Loss before tax	**-172**	**-7,192**	**-2,052**
Income taxes	0	0	0
After tax loss of the discontinued operations	**-172**	**-7,192**	**-2,052**

With respect to the valuation adjustments included in the results of discontinued operations, we refer to our explanations in section 6.8 „assets held for sale“.

6 Explanations on individual line items in the consolidated balance sheet

6.1 Goodwill and intangible assets

The intangible assets developed as follows:

	Goodwill EUR k	Development program EUR k	Other intangible assets EUR k	Total EUR k
Acquisition costs as of January 1, 2013................	0	0	347	347
Additions..	0	0	61	61
Disposals..	0	0	-152	-152
Acquisition costs of December 31, 2011...........	**0**	**0**	**256**	**256**
Amortization of January 1, 2011.........................	0	0	280	280
Additions..	0	0	26	26
Disposals..	0	0	-151	-151
Amortization as of December 31, 2011	**0**	**0**	**155**	**155**
Carrying values of January 1, 2011.....................	0	0	67	67
Carrying value as of December31, 2011	**0**	**0**	**101**	**101**

	Goodwill EUR k	Development program EUR k	Other intangible assets EUR k	Total EUR k
Acquisition costs as of January 1, 2012...	1,996	4,737	712	7,445
Additions...	0	0	55	55
Disposals...	0	0	-30	-30
Reclassification to assets held for sale...	-1,996	-4,737	-390	-7,123
Acquisition costs as of December 31, 2012...	**0**	**0**	**347**	**347**
Amortization and Impairments as of January 1, 2012................................	0	0	651	61
Additions...	0	0	37	37
Impairments.....................................	1,996	3,987	0	5,983
Disposals...	0	0	-19	-19
Reclassification to assets held for sale...	-1,996	-3,987	-389	-6,372
Amortization and Impairments as of December 31, 2012................	**0**	**0**	**280**	**280**
Carrying value as of January 1, 2012...	1.996	4.737	61	6.794
Carrying value as of December 31, 2012...	**0**	**0**	**67**	**67**

	Goodwill EUR k	Developmentprogram EUR k	Other intangible assets EUR k	Total EUR k
Acquisition costs as of January 1, 2011..............	1,996	4,737	722	**7,455**
Additions..	0	0	14	**14**
Disposals...	0	0	-24	**-24**
Acquisition costs of December 31, 2011...........	**1,996**	**4,737**	**712**	**7,445**
Amortization of January 1, 2011.........................	0	0	631	**631**
Additions...	0	0	44	**44**
Disposals...	0	0	-24	**-24**
Amortization as of December 31, 2011	**0**	**0**	**651**	**651**
Carrying values of January 1, 2011.....................	1,996	4,737	91	**6,824**
Carrying value as of December31, 2011	**1,996**	**4,737**	**61**	**6,794**

Amortization is included in the statement of comprehensive income within research and development expenses and general and administrative expenses.

The carrying amount of the goodwill through December 31, 2012 related solely to the research and development activities of Ingenium classified within intangible assets. Until such time as Ingenium was classified within discontinued operations in December 2012, goodwill was tested once per year to determine if there was a need to record an impairment (impairment test in accordance with IAS 36). The recoverable amount was measured on the basis of the value in use of the cash generating unit comprising Ingenium's research and development program.

To assess the carrying amount of the goodwill associated with Ingenium, an impairment test was carried out as of June 30, 2012. The smallest cash generating unit was identified to be Ingenium's research and development program. The recoverable value of the cash generating unit was determined on the basis of the calculation of the value in use applying the cash flow forecast based on a multi-year financial plan approved by the management board.

A valuation program for the research and development program developed by Stewart, Allison und Johnson (published in Nature Biotechnology, 2001) which reflects the standard for the pharmaceutical industry and is commonly used for such programs was utilized. The input variables were determined on the basis of relevant publications in professional journals and were supported/underpinned by the experience of Probiodrug's management. These were as follows:

Discount rate:	15% p.a.
Probability of market entry:	10%
Expected market share:	15% at peak
Expected growth rate in the number of patients:	3% p.a.

On the other hand, the fair value less costs of disposal of the cash generating unit was considered on the basis of reference transactions. License and acquisition transactions of companies in which the stage of development respectively the focus of the indication was comparable were given consideration. With respect to these transactions the direct payments were given consideration.

The impairment test did not lead to the need for an impairment charge against the goodwill recorded.

The determination of the recoverable value for Ingenium's development program could, simultaneously, be used for the impairment test of the development program recorded within intangible assets. This did not lead to the need to record an impairment loss.

Prior to the reclassification of Ingenium into discontinued operations, a further impairment test was completed in December 2012. As a result of the decision to sell as well as the decision to discontinued operations in the area of Ingenium's business activities the recoverable amount was now solely based on the fair value less costs of disposal. This led to the result that the goodwill was no longer recoverable and that an impairment loss had to be recorded for the full amount.

The CDK 9 development program was impaired on the basis of a sales price of EUR 750k. Selling costs were not expected.

The measurement at fair value was allocated to level 3 of the fair value hierarchy.

6.2 Plant and equipment

As a result of the restructuring of the Company in 2013 which led to downsizing of the space occupied and the discontinuation of research activities, there were more substantial disposals of plant and equipment.

Plant and equipment developed as follows:

•	• **Leasehold improvements**	• **Other equipment, factory and office**	• **Total**

•	•	equipmen t	
•	• **EUR k**	• **EUR k**	• **EUR k**
• Acquisition costs as of January 1, 2013	• 280	• 4,032	• **4,312**
• Additions	• 0	• 5	• **5**
• Disposals..	• -99	• -1,907	• **-2,006**
• **Acquisition costs as of December 31, 2013**	• **181**	• **2,130**	• **2,311**
• Depreciation as of January 1, 2013...........	• 236	• 3,150	• **3,386**
• Additions	• 8	• 280	• **288**
• Disposals..	• -99	• -1,585	• **-1,684**
• **Depreciation as of December 31, 2013....**	• **145**	• **1,845**	• **1,990**
• Carrying value as of January 1, 2013.........	• 44	• 882	• **926**
• **Carrying value as of December 31, 2013**	• **36**	• **285**	• **321**

	Leasehold improvements EUR k	Other equipment, factory and office equipment EUR k	Total EUR k
Acquisition costs as of January 1, 2012	280	7,357	**7,637**
Additions	0	64	**64**
Disposals	0	-1,753	**-1,753**
Reclassification to assets held for sale	0	-1,636	**-1,636**
Acquisition costs as of December 31, 2012	**280**	**4,032**	**4,312**
Depreciation as of January 1,2012	224	6,149	**6,373**
Additions	12	302	**314**
Disposals	0	-1,672	**-1,672**
Reclassification to assets held for sale	0	-1,629	**-1,629**
Depreciation as of January 1, 2012	**236**	**3,150**	**3,386**
Carrying value as of January 1,2012	56	1,208	**1,264**
Carrying value as of December 31, 2012	**44**	**882**	**926**

	Leasehold improvements EUR k	Other equipment, factory and office equipment EUR k	Total EUR k
Acquisition costs as of January 1, 2011	280	7,976	**8,256**
Additions	0	85	**85**
Disposals	0	-704	**-704**
Acquisition costs as of December 31, 2011	**280**	**7,357**	**7,637**
Depreciation as of January 1, 2011	209	6,498	**6,707**
Additions	15	355	**370**
Disposals	0	-704	**-704**
Depreciation as of December 31, 2011	**224**	**6,149**	**6,373**
Carrying value as of January 1, 2011	71	1,478	**1,549**
Carrying value as of December 31, 2011	**56**	**1,208**	**1,264**

6.3 Inventories

At year-end, inventories amounted to EUR 0k (12/31/2012: EUR 18k; 12/31/2011: EUR 18k; 1/1/2011: EUR 42k). In prior years, inventories consisted solely of supplies. As a result of the discontinuation of laboratory activities, these are no longer necessary. The use of the prior year inventory of EUR 18k is included within research and development expenses in 2013.

6.4 Other short-term financial assets

As of December 31, 2013 the other short-term financial assets amounted to EUR 872k and include EUR 677k in receivables from the sale of fixed assets and of the development program CDK 9. The prior year amounts were EUR 2k as of December 31, 2012, EUR 9k as of December 31, 2011 and EUR 27k as of January 1, 2011.

6.5 Tax refunds

The presented claims to income tax refunds amounting to EUR 10k (12/31/2012: EUR 18k; 12/31/2011: EUR 46k; 1/1/2011: EUR 84k) comprise claims to corporate income tax refunds as well as the solidarity surcharge.

6.6 Other current assets

The other current assets are presented in the subsequent table:

In EUR k	12/31/2013	12/31/2012	12/31/2011	1/1/2011
Subsidies receivable	26	80	295	713
Receivables from				

prepayments	96	120	195	268
value added taxes	42	200	114	281
other	24	83	40	110
Total	**188**	**483**	**644**	**1,372**

6.7 Cash and cash equivalents

The cash and cash equivalents comprise:

In EUR k	12/31/2013	12/31/2012	12/31/2011	1/1/2011
Cash-on-hand and bank balances	4,879	7,726	9,295	6,061
Total	**4,879**	**7,726**	**9,295**	**6,061**

The cash and cash equivalents as presented in the statement of cash flows are equivalent to the cash and cash equivalents as recorded on the balance sheet. The cash and cash equivalents are not restricted as to use.

6.8 Assets held for sale

In December 2012 the decision was made to sell the business activities of Ingenium (refer to section 5.8.). As such, as of December 31, 2012, the balance sheet line item „Assets held for sale“ with a total of EUR 757k consisted of the development program with a value of EUR 750k as well as plant and equipment valued at EUR 7k. The actual sale took place in 2013.

Prior to the reclassification of the assets to „assets held for sale“ a further impairment test was completed (refer to sections 3.6 and 6.1). In this process the carrying amounts were compared to the fair values less costs of disposal. The impairment expense of EUR 5,983k recorded in 2012 consisted of the following:

	EUR k
Impairment of goodwill	1,996
Impairment of development program	3,987
	5,983

The impairment expense was presented in the profit or loss of discontinued operations.

No cumulative income or expense in conjunction with the sale was included in the other comprehensive income.

6.9 Equity

The development of Probiodrug AG’s equity in the financial years from 2011 to 2013 is presented in the statement of changes in equity.

	Common shares	Preferred shares A	Preferred shares B
In issue at 1 January 2011	3,414,375	3,095,837	9,208,113
Issued for cash	-	-	6,975,837
In issue at 31 December 2011	**3,414,375**	**3,095,837**	**16,183,950**
Issued for cash	-	-	2,834,767
In issue at 31 December 2012	**3,414,375**	**3,095,837**	**19,018,717**
Issued for cash	-	-	-
In issue at 31 December 2013	**3,414,375**	**3,095,837**	**19,018,717**

As of December 31, 2013 Probiodrug AG’s share capital is broken down into 3,414,375 registered no par common shares, 3,095,837 Series A registered preferred shares with voting rights as well as 19,018,717 Series B registered preferred shares with voting rights. The capital has been fully contributed. The computational nominal amount per share is EUR 1.00.

On October 23, 2009 the annual general shareholders' meeting authorized a EUR 4,897,768 increase in share capital to EUR 20,616,093. This was implemented in 2011. By resolution of the supervisory board on January 24, 2011, section 4 (share capital) of the articles of incorporation was changed. The corresponding entry was made in the commercial register on February 24, 2011.

On September 20, 2011 the annual shareholders' meeting resolved a EUR 2,078,069 increase in share capital to EUR 22,694,162 as well as the creation of authorized capital 2011/I and 2011/II and a change to section 4 (share capital) of the articles of incorporation. The corresponding entry was made in the commercial register on November 11, 2011.

On December 30, 2011 the annual general shareholders' meeting resolved a further cash capital increase excluding subscription rights. As such, the share capital increased by 557,385 registered no par value preferred shares of the Series B. The new shares participate in earnings beginning on January 1, 2011. The entry was made in the commercial register on January 27, 2012.

By virtue of a resolution dated June 7, 2012, Probiodrug AG's management board – with the approval of the supervisory board dated June 7, 2012 – resolved to increase the share capital from EUR 23,251,547.00 by EUR 2,277,382.00 to EUR 25,528,929.00 by using the authorized capital 2011/I. 2,277,382 registered no par value preferred shares of the Series (B) were issued at an issue price of EUR 1.00 per share. The new shares participate in earnings beginning on January 1, 2012. The entry was made in the commercial register on August 22, 2012.

Contingent capital

Contingent capital I/2008

As of December 31, 2013 the contingent capital I/2008 is unchanged and amounted to EUR 67,800. Of this amount, EUR 67,120 (12/31/2012 EUR 67,120; 12/31/2011 EUR 67,120; 1/1/2011 EUR 67,800) is reserved as a result of the issuance of option rights.

The contingent capital I/2008 serves to secure the option rights which were distributed in conjunction with Stock Option Program 2007. A new issuance of options on the basis of this program is no longer possible.

The contingent capital increase will only be carried out to the extent that the beneficiaries of the stock options make use of their buying option. The new shares resulting from the exercise of the stock options will participate in earnings from the beginning of the financial year in which the rights are exercised. In addition to employees of the Company and affiliated companies for whom as per Section 194 (3) of the AktG (German Stock Corporation Act) no disclosures are required, the following members of the management board are permitted to acquire the following number of shares:

Dr. Konrad Glund, Halle, up to 5,472 common shares,

Prof. Dr. Hans-Ulrich Demuth, Halle, up to 5,472 common shares,

Dr. Hendrik Liebers, Leipzig, up to 12,768 common shares.

Contingent capital II/2008

As of December 31, 2013, the contingent capital II/2008 is unchanged and amounts to EUR 101,700. Of this amount EUR 100,815 (12/31/2012 EUR 100,815; 12/31/2011 EUR 100.815; 1/1/2011 EUR 100,815) was reserved as a result of the distribution of 100,815 option rights.

The contingent capital II/2008 serves to secure the option rights distributed in conjunction with Stock Option Program 2007. A new distribution of options as part of this program is no longer possible.

The contingent capital increase will only be carried out to the extent that the beneficiaries of these stock options make use of their buying options. The new shares resulting from the exercise of the stock options will participate in earnings from the beginning of the financial year in which the rights are exercised. In addition to employees of the Company and affiliated companies for whom, as per Section 194 (3) of the AktG no disclosures are required, the following members of the management board are permitted to acquire the following number of shares:

Dr. Konrad Glund, Halle, up to 8,208 preferred shares of the Series A,

Prof. Dr. Hans-Ulrich Demuth, Halle, up to 8,208 preferred shares of the Series A,

Dr. Hendrik Liebers, Leipzig, up to 19,152 preferred shares of the Series A.

Contingent capital 2010/I

As of December 31, 2013, the contingent capital 2010/I was unchanged at EUR 1,236,967. Of this amount, EUR 515,403 (12/31/2012 EUR 515,403; 12/31/2011 EUR 515,403; 1/1/2011 EUR 515,403) are reserved as a result of the issuance of options.

The contingent capital 2010/I was established by virtue of the resolution of the annual general meeting of the shareholders on May 18, 2010. The Company's share capital was contingently increased by a nominal value of up to EUR 1,236,967 by the issuance of up to 1,236,967 registered common shares subject to transfer restrictions. The contingent capital increase provides for the redemption of stock options in accordance with Section 192 (2) No. 3 of the AktG which were issued in conjunction with Stock Option Program 2010 (in the version of the resolutions of the annual general meeting of the shareholders on May 18, 2010). The authorization of the management board to issue new options was, by resolution of the annual general meeting of the shareholders on October 31, 2012, limited through October 31, 2013. A new issuance of options under this program is no longer possible.

The contingent capital increase will only be carried out to the extent that the beneficiaries of the stock options make use of their buying rights. The new shares resulting from the exercise of the stock options will participate in earnings from the beginning of the financial year in which the rights are exercised. In addition to employees of the Company and affiliated companies for whom, as per Section 194 (3) of the AktG no disclosures are required, the following members of the management board are permitted to acquire the following number of shares:

Dr. Konrad Glund, Halle, up to 171,801 common shares,

Prof. Dr. Hans-Ulrich Demuth, Halle, up to 171,801 common shares and

Dr. Hendrik Liebers, Leipzig, up to 171,801 common shares.

Contingent capital 2013/I

By resolution of the annual general meeting of the shareholders on July 22, 2013, the Company's share capital was contingently increased (contingent capital 2013/I) by EUR 4,307,692 to secure the conversion rights respectively conversion obligations associated with the convertible bonds which were issued on the basis of a resolution of the annual general meeting of the shareholders on the same day. In principle, the convertible bonds are due on December 31, 2014; an extension to December 31, 2015 is possible. The supervisory board's approval for the issuance of convertible bonds was granted on July 22, 2013.

Authorized capital

Authorized capital 2011/I

By resolution of the annual general meeting of the shareholders on September 20, 2011, the authorized capital 2011/II was established. Probiodrug's management board is authorized, with the approval of the supervisory board, to increase the Company's share capital by issuing up to an additional 2,078,065 new registered no-par value preferred shares of the Series (B) in one or a number of steps in consideration for cash of up to EUR 2,078,065 in the period through December 31, 2013.

By resolution of the annual general meeting of the shareholders on December 30, 2011, the authorized capital 2011/I was increased. Probiodrug's management board is authorized, with the approval of the supervisory board, to increase the Company's share capital in one or more tranches by issuing up to an additional 199,317 new registered no par value preferred shares of the series (B) in exchange for cash of EUR 199,317 until December 31, 2013.

On the basis of a resolution dated June 7, 2012, Probiodrug AG's management board – with the approval of the supervisory board on June 7, 2012 – resolved to increase the share capital from EUR 25,251,547 by EUR 25,528.929 by utilizing the authorized capital 2011/I (section 5 (6) of the articles of incorporation). This was recorded in the commercial register on August 22, 2012.

As such, the authorized capital 2011/I has been utilized in its entirety.

Authorized capital 2011/II

The authorized capital 2011/II was established by resolution of the annual general meeting of the shareholders on September 20, 2011. Probiodrug's management board is authorized, with the approval of the supervisory board, to increase the Company's share capital by issuing up to an additional 207,807 new registered no-par value preferred shares of the Series (B) in one or a number of steps in consideration for cash of up to EUR 207,807 in the period through December 31, 2013. A subscription right of the shareholders for the authorized capital 2011/II is prohibited. The management board is authorized to establish the further details with respect to the implementation of the increase in capital from the authorized capital 2011/II. No increase in capital was carried out using authorized capital 2011/II.

6.9.1 Legal reserve

The legal reserve in accordance with section 150 (1) and (2) of the AktG amounts to EUR 228k.

6.9.2 Additional paid-in-capital

As of December 31, 2013 the additional paid-in-capital amounted to EUR 51,963k (12/31/2012: EUR 51,658k; 12/31/2011: EUR 45,150k; 1/1/2011: EUR 33,068k).

As a result of a stock issuance in exchange for cash in 2011, in accordance with section 272 (2) number 4 of the HGB, the additional paid-in-capital increased by EUR 11,789k less transaction costs of EUR 124k as a result of cash payments made into the additional paid-in-capital. Furthermore, the additional paid-in-capital increased as a result of the allocation over the vesting period of the fair value of the equity instruments resulting from the option rights issued to Stock Option Program 2007 amounting to EUR 48k and those to Stock Option Program 2010 amounting to EUR 369k issued.

In 2012, in conjunction with the cash increase in capital, payments of EUR 6,378k were made into the additional paid-in-capital. Transaction costs reduced the additional paid-in-capital by EUR 16k. In addition, the additional paid-in-capital increased by the allocation over the vesting period of the fair value of the equity instruments granted for the issuance of options rights in conjunction with stock option program 2007 amounting to EUR 6k and for Stock Option Program 2010 in the amount of EUR 140k.

In 2013 the additional paid-in-capital increased by allocation over the vesting period of the fair value of the equity instruments granted for the issuance of options rights in conjunction with Stock Option Program 2007 amounting to EUR 10k and for the Stock Option Program 2010 in the amount of EUR 305k.

6.9.3 Other reserves for the remeasurement of pensions

The line item „Other reserves for the remeasurement of pensions" with a balance of EUR -199k (12/31/2012: EUR -234k; 12/31/2011: EUR -31k, 1/1/2011: EUR 14k) comprises the remeasurement of the gross defined benefit pension obligations as well as the return on the plan assets which exceeds or falls short of the interest on the plan assets which is directly recorded in other comprehensive income without an impact on the profit and loss (refer to sections 3.15 and 6.10.2).

There was no need to take account of income tax effects.

6.9.4 Retained earnings

The retained earnings include the cumulative results which amount to EUR -81,745k (12/31/2012 EUR -71,816k; 12/31/2011 EUR -53,096k; 1/1/2011 EUR -36,789k).

6.9.5 Earnings per share

As of December 31, 2013, Probiodrug AG's share capital consisted of 25,528,929 shares (12/31/2012: 25,528,929; 12/31/2011: 22,694,162) broken down into 3,414,375 registered no par value common shares, 3,095,837 registered preferred shares with voting rights of the Series A as well as 19,018,717 registered preferred shares with voting rights of the series B. The calculated nominal amount per share is EUR 1.00.

The consolidated net loss attributable to Probiodrug AG's shareholders amounted to EUR -9,929k in financial year 2013 (2012: EUR -18,720k; 2011: EUR -16,307k).

The earnings per share were calculated as follows:

	2013	**2012**	**2011**
Number of shares in circulation as of 1/1	25,528,929	22,694,162	15,718,325
Average number of shares in circulation as of 12/31	25,528,929	24,310,478	20,866,817
Results for the period in EUR k	**-9,929**	**-18,720**	**-16,307**
Earnings per share EUR (basic/diluted)	**-0.39**	**-0.77**	**-0.78**

There were no dilution effects on the earnings per share. The basic earnings per share from continuing operations amounted to EUR -0.38 (2012: EUR -0.47; 2011: EUR -0.67). The diluted earnings per share from continuing operations are equivalent to the basic earnings per share from continuing operations. The convertible bond could potentially dilute basic earnings per share in the future.

The weighted average number of common shares presented above served as the basis for the calculation of the earnings per share for the discontinued operations. The results of discontinued operations attributable to Probiodrug AG's shareholders used to calculate the earnings per share amounted to EUR -172k (2012: EUR -7,192k; 2011: EUR -2,052k). As such, the basic as well as the diluted earnings per share attributable to discontinued operations amounted to EUR -0.01 (2012: EUR -0.30; 2011: EUR -0.11).

6.9.6 Stock options

6.9.6.1 Stock option programs

<u>Stock option program ESOP 2007</u>

At the end of 2007, the ESOP 2007 was launched. Options were issued in 2008. In total, 201,420 options were issued of which 120,852 options were for preferred shares and 80,568 options were for common shares. Through January 1, 2011 34,255 options had forfeited.

No additional options were issued in financial years 2011 to 2013. 3,590 options forfeited. As of December 31, 2013, 163,575 options were outstanding.

A stock option gives the holder the right to acquire a no-par value, registered common share respectively preferred share of the Company (option right). The exercise price for the acquisition of a new preferred share amounts to EUR 7.03 while the exercise price for a new common share amounts to EUR 3.96/share. The vesting period began on the issuance dates February 27, August 1 and December 1, 2008 and comprises two years for 50 %, three years for an additional 25 % and four years for the remaining 25 % of the option rights granted. During the vesting period, the legal minimum lock-up period of two years applies. The transfer of option rights is prohibited.

The subsequent table provides an overview of the development of Probiodrug's stock options as well as the exercise prices:

Stock option program 2007 Preferred shares	**12/31/2013** Weighted average exercise price per share EUR	**12/31/2013** Number of acquirable shares Shares	**12/31/2012** Weighted average exercise price per share EUR	**12/31/2012** Number of acquirable shares Shares	**12/31/2011** Weighted average exercise price per share EUR	**12/31/2011** Number of acquirable shares Shares
Options outstanding for preferred shares at the beginning of the reporting period	7.03	98,145	7.03	100,299	7.03	100,299
Options issued for preferred shares in the reporting period	0.00	0	0.00	0	0.00	0
Options exercised in the reporting period	0.00	0	0.00	0	0.00	0
Forfeited options for preferred shares in the reporting period	0.00	0	7.03	2,154	0.00	0
Options outstanding for preferred shares at the end of the reporting period	7.03	98,145	7.03	98,145	7.03	100,299
Exercisable options at the end of the reporting period	0.00	0	0.00	0	0.00	0

Stock option program 2007 Common shares	12/31/2013 Weighted average exercise price per share EUR	Number of acquirable shares Shares	12/31/2012 Weighted average exercise price per share EUR	Number of acquirable shares Shares	12/31/2011 Weighted average exercise price per share EUR	Number of acquirable shares Shares
Options outstanding for common shares at the beginning of the reporting period	3.96	65,430	3.96	66,866	3.96	66,866
Options issued for common shares in the reporting period	0.00	0	0.00	0	0.00	0
Options exercised in the reporting period	0.00	0	0.00	0	0.00	0
Forfeited options for common shares in the reporting period	0.00	0	3.96	1,436	0.00	0
Options outstanding for common shares at the end of the reporting period	3.96	65,430	3.96	65,430	3.96	66,866
Exercisable options at the end of the reporting period	0.00	0	0.00	0	0.00	0

The accounting for the stock options is at fair value in accordance with IFRS 2. The fair value is determined at the measurement date and is allocated over the vesting period. The fair value is determined on the basis of the binomial model. The granting of the individual stock options took place at different dates and therefore led to different measurement datesfor the vesting periods so that different fair values of the options result for the options issued. The base price is fixed at the measurement date of the respective options.

The following factors were considered for the calculation of the fair value:

1. In financial year 2008, on the grant dates February 1, August 1 and December 1, 2008, 120,852 options for preferred shares and 80,568 options for common shares with an original exercise price of EUR 7.03 respectively EUR 3.96 were issued.
2. The volatility expected at the grant date was determined to be 45% for the issue dates February 27, and August 1, 2008 and 50% for the issue date December 1, 2008.
3. Irrespective of the vesting period, the expected term of the options for the option rights dated February 27, 2008 amounts to 5.33 years while for the option rights dated August 1, 2008 it amounts to 4.92 years and for the option rights from December 1, 2008 to 4.58 years.
4. The potential non-exercise of the stock options issued due to fluctuations in personnel and the return of options for other reasons was not taken into consideration in the measurement.
5. The estimated value of a Probiodrug share at the grant date amounted to EUR 7.03 for preferred shares and EUR 3.96 for common shares.
6. The risk free interest rate for the term of the options on the grant date February 27, 2008 amounted to 3.51 % while that as of August 1, 2008 amounted to 4.36 % and that as of December 1, 2008 to 2.56 %.
7. The expected dividend was assumed to be EUR 0.00.

The total expenses associated with the stock options allocated for the last time in 2012 amounted to EUR 6k (2011: EUR 48k). These were added to the additional paid-in capital.

Stock option program 2010/2013

In mid-2010 a stock option program was launched on the basis of which the three members of the management board were granted 515,403 shares. On the basis of this program, an additional 255,289 stock options were issued to an employee. By December 31, 2013, 127,644 options forfeited such that, as of December 31, 2013, 643,048 options were outstanding.

One stock option gives the holder the right to acquire a common share (option right). The exercise price for the acquisition of a new common share amounts to EUR 1.00. The option rights granted within the framework of the stock option plan have a term of six (2010 issuance) and four (2013 issuance) years. The lock-up period amounts to four years. The vesting period began on the date of issuance (June 30, 2010 for the options issued in 2010 and June 24, 2013 for the options issued in 2013). Subsequent to the expiration of the vesting period, the option rights granted become non-forfeitable (even upon exit). 1/3 of the options become non-forfeitable after seven months, 1/3 of the options after 19 months and 1/3 of the options after 31 months. The lock-up period is not affected by this stipulation.

The subsequent overview shows the development of Probiodrug's stock options and the issue prices:**Stock option program 2010 Common shares**	**12/31/2013**		**12/31/2012**		**12/31/2011**	
	Weighted average exercise price per share	**Number of acquirable shares**	**Weighted average exercise price per share**	**Number of acquirable shares**	**Weighted average exercise price per share**	**Number of acquirable shares**
	EUR	**Shares**	**EUR**	**Shares**	**EUR**	**Shares**
Options outstanding for common shares at the beginning of the reporting period	1.00	515,403	1.00	515,403	1.00	515,403
Options issued for common shares in the reporting period	1.00	255,289	0.00	0	0.00	0
Options exercised in the reporting period	0.00	0	0.00	0	0.00	0
Forfeited options for common shares in the reporting period	1.00	127,644	0.00	0	0.00	0
Options outstanding for common shares at the end of the reporting period	1.00	643,048	1.00	515,403	1.00	515,403
Exercisable options at the end of the reporting period	0.00	0	0.00	0	0.00	0

The accounting for the stock options is at fair value in accordance with IFRS 2. The fair value is determined at the measurement dateand is allocated over the vesting period. The fair value is determined on the basis of the binomial model.

The following factors were considered for the calculation of the fair value:

1. In the financial year 2010, on the grant date June 30, 2010, 515,403 options for common shares with an original exercise price of EUR 1.00 were issued while on the grant date June 24, 2013, 255,289 options for common shares with an original exercise price of EUR 1.00 were issued.
2. The volatility expected on the grant date June 30, 2010 was determined to be 50% while 40% was expected for the grant date June 24, 2013.
3. The expected term of the options for those issued in 2010 as well as for those issued in 2013 amounted to 4.0 years. It was assumed that the options will be exercised immediately upon expiration of the lock-up period of four years.
4. The non-exercise of the stock options issued due to fluctuations in personnel and the return of options for other reasons was not taken into consideration in the measurement.
5. The estimated value of a Probiodrug common share at the grant date amounted to EUR 2.69 for options issued in 2010 and EUR 3.25 for the options issued in 2013.

6. The risk free interest rate for the term of the options issued in 2010 amounted to 1.19 % while that for the options granted in 2013 amounted to 0.53%.
7. The expected dividend was assumed to be EUR 0.00.

The total expenses associated with the stock options allocated to 2013 amounted to EUR 305k (2012: EUR 140k, 2011: EUR 369k). These were added to the additional paid-in capital.

6.9.6.2 Phantom stock option program

<u>Phantom stock option program 2007</u>

Simultaneously with the issuance of 201,420 Probiodrug AG stock options within the framework of the ESOP 2007, 201,420 phantom stock options for preferred shares were issued on the issue dates February 27, August 1 and December 1, 2008. The exercise price amounts to EUR 7.03. In addition, on July 2, 2008, a phantom stock option program open only to members of the supervisory board was introduced with 13,500 phantom stock options for preferred shares at an exercise price of EUR 7.03 and 9,000 phantom stock options for common shares with an exercise price of EUR 3.96.

Through January 1, 2011, 37,145 phantom stock options forfeited. In financial years 2011 through 2013 no additional options were issued and 4,450 options forfeited. As of December 31, 2013 there were 182,325 options outstanding.

A phantom stock option entitles the holder to the payment of a cash bonus which amounts to the difference between the price of a preferred respectively common share and the price which is attained for a preferred or common share in conjunction with an IPO, a merger or the takeover of Probiodrug (exit event).

The subsequent overview shows the development of the portfolio of phantom stock options as well as the exercise prices:

Phantom Stock Option Program 2007	12/31/2013		12/31/2012		12/31/2011	
	Weighted average exercise price per share EUR	Number of acquirable shares Shares	Weighted average exercise price per share EUR	Number of acquirable shares Shares	Weighted average exercise price per share EUR	Number of acquirable shares Shares
Outstanding phantom stock options at the beginning of the reporting period						
for preferred shares	7.03	174,825	7.03	178,415	7.03	179,275
for common shares	3.96	7,500	3.96	7,500	3.96	7,500
Phantom stock options issued in the reporting period						
for preferred shares	0.00	0	0.00	0	0.00	0
for common shares	0.00	0	0.00	0	0.00	0
Options exercised in the reporting period						
for preferred shares	0.00	0	0.00	0	0.00	0
for common shares	0.00	0	0.00	0	0.00	0
Forfeited options in the reporting period						
for preferred shares	0.00	0	7.03	3,590	7.03	860
for common shares	0.00	0	0.00	0	0.00	0
Outstanding options at the end of the reporting period						
for preferred shares	7.03	174,825	7.03	174,825	7.03	178,415
for common shares	3.96	7,500	3.96	7,500	3.96	7,500
Exercisable options at the end of the reporting period	0.00	0	0.00	0	0.00	0

At the time of issuance of the phantom stock options, the fair value of the phantom stock options for preferred shares amounted to EUR 3.16 (issue date February 27, 2008), EUR 3.18 (issue date July 2, 2008), EUR 3.11 (issue date August 1, 2008) and EUR 3.08 (issue date December 1, 2008) as well as EUR 1.79 for phantom stock options for common shares.

As of the balance sheet date December 31, 2013, the newly determined fair value for phantom stock preferred shares was EUR 0.12 (12/31/2012: EUR 0.22; 12/31/2011: EUR 0.14; 1/1/2011: EUR 0.12) and EUR 0.51 (12/31/2012: EUR 0.67; 12/31/2011: EUR 0.53; 1/1/2011 EUR 0.41) for phantom stock options for common shares.

The following factors were considered in determining the fair value as of December 31, 2013:

1. In financial year 2008 214,920 phantom stock options were issued for preferred shares on February 27, July 2, 2008, August 1 and December 1, 2008 at an exercise price of EUR 7.03 and 9,000 phantom stock options were issued for common shares with an exercise price of EUR 3.96.
2. The expected volatility amounts to 40%. For the determination of the expected volatility an average value rounded to 5 percentage points of the historic volatility of comparable businesses in the prior three years was used.
3. The expected remaining term of the phantom stock options amounts to 2.25 years. In the determination of the remaining term of the option rights it was assumed that an exit event in the form of a sale of the Company would take place in the first quarter of 2016 (prior to the expiration of the first phantom stock options) and that all options would be exercised at that time. This would be compensated with cash. The expected term of the phantom stock options was aligned to the expected term of the stock options. Payment is not only dependent on the occurrence of an exit event but also on the additional condition that, at the time of exercise of the phantom stock options, at least 50% of the stock options must have been exercised.
4. It was estimated that the value of a Probiodrug share at the measurement date December 31, 2013 amounted to EUR 3.25 for a preferred share and EUR 3.25 for a common share.
5. The exercise price for a common share amounts to EUR 3.96 while that of a preferred share is EUR 7.03.
6. The risk free interest rate at the measurement date December 31, 2013 was 0.29%.
7. The expected dividend payment was assumed to be EUR 0.00.

The total cumulative expenses associated with the phantom stock options incurred through December 31, 2013 which were allocated on the basis of the fair value as of December 31, 2013 amounted to EUR 25k (12/31/2012: EUR 44k; 12/31/2011: EUR 29k; 1/1/2011: EUR 24k) and were recorded within noncurrent provisions. As such, in financial year 2013, income from the release of provisions amounting to EUR 19k resulted.

Phantom stock option program 2010/2013

In 2010, on the issue dates June 9, June 30 and September 1, 2010, an additional 350,474 phantom stock options were issued to the Chairman of the supervisory board, the three members of the management board and an additional individual. In 2013 255,289 additional phantom stock options were issued to a consultant at the same conditions. The exercise price amounts to EUR 1.00.

In 2012 144,313 phantom stock options forfeited while in 2013 an additional 36,078 phantom stock options forfeited as a result of members of the supervisory board leaving their positions as well as employees leaving the Company. As a result, as of December 31, 2013, 425,372 phantom stock options were outstanding.

A phantom stock option entitles the holder to receive a cash payment determined as the difference between the exercise price of a common share and the value of a common share attained as a result of an IPO, merger or takeover of Probiodrug AG (exit event). The cash bonus is only paid in case of an exit event. The lock-up period amounts to 3.5 years. The phantom stock options expire in stages within 31 months of issuance subsequent to an exit from the Company. The maximum term of the phantom stock options is six years.

In addition an „exit event threshold“ of EUR 200 million was established. Within a period of 24 months subsequent to an exit event, the beneficiary is entitled to an additional 10,308 phantom stock options for each EUR 25 million in net revenues generated as a result of an exit event subsequent to the deduction of all transaction costs in excess of the exit event threshold. The maximum number of phantom stock options thereby amounts to 989,568 for the three members of the management board and 783,409 for the other two beneficiaries.

The overview below shows the development of the phantom stock options and the exercise prices:

Phantom stock option program 2010/2013	12/31/2013		12/31/2012		12/31/2011	
	Exercise price	Number of phantom stock options	Exercise price	Number of phantom stock options	Exercise price	Number of phantom stock options
	EUR	Shares	EUR	Shares	EUR	Shares
Phantom stock options outstanding at the beginning of the reporting period	1.00	206,161	1.00	350,474	1.00	350,474
Phantom stock options granted during the reporting period	1.00	255,289	0.00	0	0.00	0
Phantom stock options exercised during the reporting period	0.00	0	0.00	0	0.00	0
Phantom stock options which forfeited during the reporting period	1.00	36,078	1.00	144,313	0.00	0
Phantom stock options outstanding at the end of the reporting period	1.00	425,372	1.00	206,161	1.00	350,474
Exercisable phantom stock options at the end of the reporting period	0.00	0	0.00	0	0.00	0

The following factors were considered in determining the fair value as of December 31, 2013:

1. In financial year 2010 350,474 phantom stock options were issued on the issue dates June 9, June 30 and September 1 while in 2013 255,289 phantom stock options were issued with an exercise price of EUR 1.00.
2. The expected volatility amounts to 40 %. For the determination of the expected volatility an average value rounded to 5 percentage points of the historical volatility of comparable businesses in the prior three years was used.
3. In the determination of the expected remaining term of the phantom stock options it was assumed that an exit event in the form of a sale of the Company would take place in the first quarter of 2016 (prior to the expiration of the first phantom stock options) and that all options would be exercised by the end of the first

quarter of 2016. This would be compensated with cash. The expected term of the phantom stock options was aligned to the expected term of the stock options. As such, the expected remaining term is 2.25 years. Payment is not only dependent on the occurrence of an exit event but also on the additional condition that, at the time of exercise of the phantom stock options, at least 50% of the stock options must have been exercised.

4. It was estimated that the value of a Probiodrug share at the measurement date December 31, 2013 amounted to EUR 3.25 for a Probiodrug common or a preferred share.
5. The risk free interest rate at the measurement date December 31, 2013 was 0.29 %.
6. The expected dividend payment was assumed to be EUR 0.00.

The total cumulative expenses associated with the phantom stock options incurred through December 31, 2013 which were allocated on the basis of the fair value as of December 31, 2013 amounted to EUR 694k (12/31/2012: EUR 457k; 12/31/2011: EUR 581k; 1/1/2011: EUR 226k) and were recorded within noncurrent provisions. As such, in financial year 2013, expenses from the additions to provisions amounted to EUR 237k. These are presented within the general and administrative expenses respectively within research and development expenses.

6.10 Noncurrent liabilities

6.10.1 Investment grants

The deferred subsidies (government grants) for fixed assets include investment subsidies from the public sector as well as investment grants from the Investitionsbank Sachsen-Anhalt (formerly Landesförderinstitut Sachsen-Anhalt) (Investment bank of Saxony-Anhalt).

As of the balance sheet date in 2013, they amounted to EUR 24k and are released to income over the average economic useful life of the underlying assets.

The development of the line item is as follows:

	2013 **EUR k**	**2012** **EUR k**	**2011** **EUR k**
Balance carried forward as of January 1	67	101	154
Additions during the financial year	0	0	0
Release during the financial year	-43	-34	-53
Balance as of December 31	**24**	**67**	**101**
Of which noncurrent	11	24	68
Of which current	13	43	33

6.10.2 Pension liabilities

Probiodrug has two defined benefit pension plans. The pension commitments include entitlements to disability and retirement pensions in amounts specifically determined by individual. The specified annual retirement pension is paid once the retirement age is reached. In addition, a pension commitment for a survivor’s pension in a predetermined amount per entitled individual was committed to for survivors.

Plan assets consist solely of pension liability insurance contracts which have been concluded. The asset values of the insurance contracts were off-set against the pension obligations as the insurance contracts are qualifying insurance policies in accordance with IAS 19.

The amount of the defined benefit obligation (actuarial present value of the accrued pension entitlements) is determined on the basis of actuarial methodologies which require the use of estimates. The calculation was based on the Heubeck 2005 G mortality tables.

The measurement of the pension benefits is based on the following actuarial assumptions:

	2013	**2012**	**2011**

• Discount rate	• 3.43 %	• 3.22 %	• 4.45 %

The discount rate was determined based on industrial bonds with an AA rating and a comparable term.

In addition, an annual salary increase of 0 % and an increase in the pension of 1.5 % was assumed.

As of December 31, 2013, the present value of the pension commitments (defined benefit obligations) amounted to EUR 1,109k (12/31/2012: EUR 1,062k; 12/31/2011: EUR 795k; 1/1/2011: EUR 693k). The remeasurements included within other comprehensive income amounted to EUR -199k as of the balance sheet date (12/31/2012: EUR -234k; 12/31/2011: EUR -31k, 1/1/2011: EUR 14k).

In financial year 2013 pension expense amounting to EUR 106k (2012: EUR 91k; 2011: EUR 86k) was recorded, of which EUR 71k (2012: EUR 58k; 2011: EUR 53k) consisted of service costs and EUR 34k (2012: EUR 35k; 2011: EUR 33k) of interest expense. 50.0% of the service cost was recorded in general and administrative expenses and 50.0% was recorded in research and development expense.

The plan assets offset comprise the insurance pledged to the beneficiaries which may only be used to make pension payments to the beneficiaries and is, thereby, not available to other creditors of the Company. The present value of the plan assets as of December 31, 2013 amounted to EUR 574k (12/31/2012: EUR 517k; 12/31/2011: EUR 462k; 1/1/2011: EUR 409k); interest income earned on plan assets which is presented within the interest expense amounted to EUR 18k (2012: EUR 22k; 2011: EUR 21k).

As such, the net commitment (defined benefit liability) as of the balance sheet date amounted to EUR 535k (12/31/2012: EUR 545k; 12/31/2011: EUR 333k; 1/1/2011: EUR 285k).

The subsequent sensitivity analysis shows how the present value of the defined benefit pension obligation changes if the interest rate changes holding other assumptions constant:

Interest rate – 0.5%: Δ DBO EUR 91k

Interest rate + 0.5%: Δ DBO EUR -81k

Reconciliation of defined benefit obligation and plan assets

In EUR k	Defined benefit obligation	Plan assets	Pension provision (DBL)
Balance as of 1/1/2011	**694**	**-409**	**285**
Current service cost	53	-	53
Interest expense (+)/ interest income (-)	33	-21	12
Remeasurement	**15**	**30**	**45**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	30	30
Actuarial gains (-)/ losses (+)	**15**	-	**15**
Effects from changes in financial assumptions	37	-	37
Effects from changes in demographic assumptions	0	-	0
Effects from changes based on experience	-22	-	-22
Employer's contributions	-	-62	-62
Pension benefits paid	0	0	0
Balance as of 12/31/2011	**795**	**-462**	**333**
Current service cost	58	-	58
Interest expense (+) /interest income (-)	35	-22	13
Remeasurement	**174**	**29**	**203**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	29	29
Actuarial gains (-)/ losses (+)	174	-	174
Effects from changes in financial assumptions	188	-	188
Effects from changes in demographic assumptions	0	-	0
Effects from changes based on experience	-14	-	-14
Employer's contributions	-	-62	-62
Pension benefits paid	0	0	0
Balance as of 12/31/2012	**1,062**	**-517**	**545**
Current service cost	71	-	71
Interest expense (+) /interest income (-)	34	-18	16
Remeasurement	**-58**	**23**	**-35**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	23	23
Actuarial gains (-)/ losses (+)	**-58**	-	**-58**
Effects from changes in financial assumptions	-37	-	-37
Effects from changes in demographic assumptions	0	-	0
Effects from changes based on experience	-21	-	-21
Employer's contributions	-	-62	-62
Pension benefits paid	0	0	0
Balance as of 12/31/2013	**1,109**	**-574**	**535**

In the reporting period, the following items associated with defined contribution obligations were recorded in the statement of comprehensive income:

in EUR k	2013	2012	2011
Current service cost	71	58	53
Net interest expense (+)/ income(-)	**16**	**13**	**12**
Interest expense associated with Dl	34	35	33
Interest income on plan ass	-18	-22	-21
Total net pension expense	**87**	**71**	**65**

The total expenses associated with defined contribution plans include employer's contributions to the statutory pension scheme amounting to EUR 78k (2012: EUR 208k, 2011: EUR 297k).

For 2014, plan contributions amounting to EUR 56k are expected. The weighted average duration of the pension commitments is 16 years (12/31/2012: 16.5 years, 12/31/2011: 16.8 years). The pension payments for the two beneficiaries are probably due in four respective five years.

6.10.3 Noncurrent provisions

The noncurrent provisions include the cumulative total expenses recorded through the balance sheet date for commitments associated with the phantom stock options in the amount of EUR 719k (12/31/2012: EUR 501k; 12/31/2011: EUR 610k; 1/1/2011: EUR 250k). For further explanations please refer to section 6.9.6.2.

The development of the line item is as follows:

	2013 EUR k	2012 EUR k	2011 EUR k
Balance as of January 1	501	610	250
Additions during the financial year	308	90	360
Release during the financial year	-90	-199	0
Balance as of December 31	**719**	**501**	**610**

6.11 Current liabilities

6.11.1 Tax liabilities

The tax liabilities of EUR 2,445k comprise the Company's payment obligations as a result of the tax audit for the period 2002 through 2005 including interest for late payment. EUR 1,209k relates to corporate income tax and EUR 1,155k to trade tax.

6.11.2 Provisions

The provision includes the tax audit risk associated with a disputed source tax deduction on license fees. As a consequence of the Company's appeal, the tax audit has not yet been finalized.

6.11.3 Trade payables

As of the balance sheet date, trade payables amounted to EUR 1,327k (12/31/2012: EUR 731k; 12/31/2011: EUR 1,215k; 1/1/2011: EUR 938k). They have a remaining term of up to one year.

6.11.4 Convertible bonds

At the shareholders' meeting held on July 22, 2013 it was resolved that registered convertible bonds with a total nominal value of at least EUR 5,000k and up to a maximum of EUR 7,000k with a term through December 31, 2014, at the longest until December 31, 2015, broken down into partial convertible bonds be issued to existing shareholders of Probiodrug AG or to affiliated companies of existing shareholders of Probiodrug AG. To the extent that the afore mentioned entitled parties do not make use of their subscription rights, the convertible bonds may be issued to selected employees or Company advisors.

The convertible bonds are non-interest bearing and provide conversion rights for new, registered no par value preferred shares of the Series B2 proportionally representing EUR 1.00 of the share capital. The convertible bonds were issued on August 16, 2013 with a nominal value of EUR 5,346k.

6.11.5 Other current liabilities

	12/31/2	12/31/2	12/31/2	1/1/201

	013 EUR k	012 EUR k	011 EUR k	1 EUR k
Salaries and wages	113	335	250	194
Prepaid expenses	0	0	2	0
EU grants	0	8	69	107
Payroll and church taxes	23	38	61	61
Workers' compensation board	1	4	19	21
Value added tax	0	0	0	224
Other	24	23	82	146
Total	**161**	**40**	**483**	**753**

7 Explanations on the cash flow statement

The cash and cash equivalents consist solely of the cash and cash equivalents presented on the balance sheet.

The cash outflows from operating activities of EUR 8,526k (2012: EUR 12,040k; 2011: EUR 14,321k) were primarily attributable to the loss of EUR 9,929k recorded in the financial year (2012 EUR 18,720k; 2011 EUR 16,307k).

The positive cash flows from investing activities in the amount of EUR 333k (2012: EUR 1,274k; 2011: EUR -1,086k) were primarily attributable to cash receipts which resulted from the sale of fixed assets in the amount of EUR 386k. The sale of fixed assets included EUR 314k in plant and equipment and EUR 363k with respect to the sale of the development program which was not yet paid in 2013.

The cash flows from financing activities totaling EUR 5,346k (2012: EUR 9,197k; 2011: EUR 18,641k) were impacted by the inflows attributable to the issuance of convertible bonds in the amount of EUR 5,346k.

The net cash flows attributable to discontinued operations were as follows:

	2013	**2012**	**2011**
Operating activities	-98	-655	-632
Investing activities	386	316	-10
Financing activities	0	0	0
Net cash flows attributable to discontinued operations	288	-339	-642

8 Segment reporting

The Probiodrug Group only has operations in one business segment and in one regional segment. Other than the insignificant revenues which resulted from the provision of services, revenues were not realized in the reporting periods presented.

All assets included within the noncurrent assets are located in Germany.

9 Disclosures with respect to financial instruments

9.1 General disclosures

A financial instrument is a contract which simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are broken down into non-derivative and derivative financial instruments.

On the asset side, the non-derivative financial instruments primarily include other financial assets as well as cash and cash equivalents.

On the liability and equity side, the non-derivative financial instruments primarily consist of financial liabilities, convertible bonds, trade payables as well as other current financial liabilities.

There were no derivative financial instruments as of December 31, 2013 or in the comparative periods.

The categories „measured at fair value through profit and loss“, „financial instruments held-to-maturity“ and „financial instruments available for sale“ were not relevant with respect to the financial assets and financial liabilities recorded as of December 31, 2013.

As of December 31, 2011 the Probiodrug Group held securities for trading purposes. These were classified as „ held-for-trading “.

9.2 Categories of financial assets and financial liabilities

The subsequent table shows the fair values and the carrying amounts for the classes of financial instruments established in accordance with IFRS 7. All fair values presented are classified in level 1 of the fair value hierarchy. There were no fair values of hierarchy levels 2 or 3 in the financial year 2013 or in the comparative periods. In addition, in the financial years presented, there were no reclassifications between the three levels of the fair value hierarchy.

Assets

In EUR k	**At amortized cost**		**At fair value**		**Total**	
Valuation category	Loans and receivables		Held-for-trading			
EUR k	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
12/31/2013						
Trade receivables	0	0	0	0	0	0
Current and noncurrent other financial assets	872	872	0	0	872	872
Cash and cash equivalents	4,879	4,879	0	0	4,879	4,879
Total 2013	**5,751**	**5,751**	**0**	**0**	**5,751**	**5,751**
12/31/2012						
Trade receivables	5	5	0	0	5	5
Current and noncurrent other financial assets	2	2	0	0	2	2
Cash and cash equivalents	7,726	7,726	0	0	7,726	7,726
Total 2012	**7,733**	**7,733**	**0**	**0**	**7,733**	**7,733**
12/31/2011						
Trade receivables	1	1	0	0	1	1
Current and noncurrent other financial assets	9	9	0	0	9	9
Cash and cash equivalents	9,295	9,295	0	0	9,295	9,295
Securities	0	0	1,019	1,019	1,019	1,019
Total 2011	**9,305**	**9,305**	**1,019**	**1,019**	**10,324**	**10,324**
1/1/2011						
Trade receivables	4	4	0	0	4	4
Current and noncurrent financial assets	27	27	0	0	27	27
Cash and cash equivalents	6,061	6,061	0	0	6,061	6,061
Securities	0	0	0	0	0	0
Total 1/1/2011	**6,092**	**6,092**	**0**	**0**	**6,092**	**6,092**

Liabilities and equity

In EUR k	**At amortized cost**	**At fair value**	**Total**
Valuation category	Loans and receivables	Financial liabilities recognized at fair value through	

			profit and loss			
EUR k	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
12/31/2013						
Trade payables	1,327	1,327	0	0	1,327	1,327
Convertible bonds	5,346	5,346	0	0	5,346	5,346
Current and noncurrent financial liabilities	123	123	0	0	123	123
Total 2013	**6,796**	**6,796**	**0**	**0**	**6,796**	**6,796**
12/31/2012						
Trade payables	731	731	0	0	731	731
Current and noncurrent financial liabilities	350	350	0	0	350	350
Total 2012	**1,081**	**1,081**	**0**	**0**	**1,081**	**1,081**
12/31/2011						
Trade payables	1,215	1,215	0	0	1,215	1,215
Current and noncurrent financial liabilities	302	302	0	0	302	302
Total 2011	**1,517**	**1,517**	**0**	**0**	**1,517**	**1,517**
1/1/2011						
Trade payables	938	938	0	0	938	938
Current and noncurrent financial liabilities	305	305	0	0	305	305
1/1/2011	**1,243**	**1,243**	**0**	**0**	**1,243**	**1,243**

Refer to the following supplementary explanations on the financial instruments presented in the table above:

Valuation within the individual valuation categories

a.) The fair values of the „loans and receivables“ recorded at amortized cost as well as the “financial liabilities recorded at amortized cost” are broken down as follows:

aa.) with respect to the financial assets, trade receivables and other current and noncurrent financial assets, the fair value corresponds with the nominal value less any valuation charges which were necessary; non-interest bearing loans and receivables or loans and receivables with low interest rates with a remaining term in excess of one year were not to be considered.

ab.) The fair value of all financial liabilities was the respective settlement amount; non-interest bearing liabilities or low interest bearing liabilities with a remaining term in excess of one year were not to be considered.

ac.) The fair value of the convertible bonds equals the nominal value because the conversion can occur at any time.

b.) The securities were included in the valuation category „held for trading". On the basis of this classification, they are recorded at fair value through profit and loss. The fair value was determined on the basis of the quotation on the balance sheet date.

Reconciliation to balance sheet line items

The classes of financial instruments established in accordance with IFRS 7 correspond with the line items of the consolidated balance sheet.

9.3 Other disclosures in accordance with IFRS 7

Disclosures with respect to income and expense

The subsequent overview presents the net results of financial assets and financial liabilities on the basis of valuation categories:

	Interest result		**Subsequent measurement**		
2013	Interest income	Interest expense	Valuation adjustments (Other operating expenses)	Write-offs (Other operating expenses)	**Total**
In EUR k					**In EUR**
Cash and cash equivalents	9	0	0	0	9
Total	**9**	**0**	**0**	**0**	**9**

	Financial result		**Subsequent measurement**		
2012	Interest income/other financial result	Interest expense	Valuation adjustments (Other operating expenses)	Write-offs (Other operating expenses)	**Total**
In EUR k					**In EUR**
Cash and cash equivalents	22	0	0	0	22
Financial assets measured at fair value through profit and loss: Securities	4	0	0	0	4

Total	**26**	**0**	**0**	**0**	**26**

	Financial result		**Subsequent measurement**		
2011	Interest income/other financial result	Interest expense	Valuation adjustments (Other operating expenses)	Write-offs (Other operating expenses)	**Total In EUR**
In EUR k					
Cash and cash equivalents	42	0	0	0	42
Financial assets measured at fair value through profit and loss:					
Securities	37	0	0	0	37
Liabilities measured at amortized cost:					
Other current and noncurrent liabilities	0	-5	0	0	-5
Total	**79**	**-5**	**0**	**0**	**74**

As of the balance sheet date, the Probiodrug Group only had receivables which were not overdue and for which there was no indication of an impairment.

9.4 Financial risks and risk management

9.4.1 Organization

Risk management system, goals and methods

In addition to operating business risks, the Probiodrug Group is subject to the following risks as a result of the use of financial instruments: credit risks, liquidity risks and market risks. The Company has established a clear functional organization to monitor and control risks. To make risks controllable from the perspective of risk prevention, a risk management system has been implemented and is continuously being further developed to address the different risk areas. Predefined specific individual risks are continuously monitored using early warning signals.

The goal with respect to risk management is to define different risk management processes which make a timely identification of risks relating to quantity, probability of occurrence and damage amounts possible and which provide appropriate counter measures for those who have been named responsible for the processes.

Accordingly, in connection with a risk-oriented and forward-looking management approach, Probiodrug has developed and implemented a risk management system for the Group. The implementation of a functional risk management system is considered part of the overall leadership responsibility of management.

Responsibilities are clearly assigned to the individual organizational units which are involved in the risk management process:

Management board:

The risk management process begins with the management board which, in the course of overall management, on the basis of the risk bearing potential, provides a clear definition of the strategy, the business types, as well as the acceptable and unacceptable risks as well as the total justifiable risk.

Risk management:

Risk management is responsible for the active monitoring and controlling of the respective risk groups. Risk is reduced through risk minimization measures undertaken and is monitored by the compliance with limits.

Supervisory board:

The supervisory board has a control function with respect to all measures for risk limitation and risk management in the Company.

9.4.2 Risk groups

In connection with its business operations, Probiodrug is subject not only to operating business risks but also to a multitude of financial risks including credit risks, liquidity risks and market risks as explained below:

9.4.2.1 Credit risks

Credit risks exist with respect to the deterioration of the economic conditions of the Company's customers or other contracting parties. This could lead to the partial or complete risk of default with respect to contractually agreed to payments or services as well as to impairment of financial instruments.

Probiodrug currently only has straightforward regular sales. As such, credit risks are not considered to be significant to the Company.

Default risks exist with respect to substantially all financial instruments recorded as assets. The amount of the financial assets defines the maximum default risk. To the extent that risks are identified for individual financial instruments, these are taken into account by recording valuation adjustments.

Probiodrug's capital investments are only made with financial institutions with first class credit ratings which are subject to the depositor's guarantee fund of German banks. Investments are made in financial assets which do not have any inherent risk of loss and which are subject to either no or only a low level of change in terms of value.

Maximum risk of default

The maximum default risk for financial assets without considering possible security held or other credit improvements (e.g. right to offset) is as follows:

Carrying amount as an equivalent for the maximum risk of default EUR k	**12/31/2013**	**12/31/2012**	**12/31/2011**	**1/1/2011**
Loans and receivables	872	7	10	31
of which trade receivables	0	5	1	4
of which other financial assets	872	2	9	27
Securities (held for sale)	0	0	1,019	0

Cash and cash equivalents	4,879	7,726	9,295	6,061
	5,751	**7,733**	**10,324**	**6,092**

As of the balance sheet dates December 31, 2013, December 31, 2012, December 31, 2011 and January 1, 2011, the financial assets were neither impaired nor overdue.

9.4.2.2 Liquidity risk

Liquidity risks in the narrow sense exist when the Company does not have adequate funds to settle its ongoing payment obligations. The payment obligations result primarily from the ongoing cost of business operations and investing activities against which there are only minor cash receipts.

In order to manage the liquidity situation during the year, the Company utilizes appropriate financial planning instruments. Matching maturities of the interim capital needs and availability is thereby assured. As of December 31, 2013, cash and cash equivalents amounted to EUR 4.9 million. As a result of the EUR 4.3 million increase in convertible bonds resolved and subscribed to in May 2014, financing is, based on the current financial plan, sufficient into the third quarter of 2014. In order to continue the ongoing research and development projects additional funding will, at the latest, be required at this point. Management is currently pursuing an additional financing round for the fall of 2014. If this is not achieved, the Company’s further development will be endangered.

If extensive adjustments are made to the cost structures, the Company’s projections show that, without a successful financing round, the liquidity would be sufficient through the end of 2015. The aforementioned projections are based on the assumption that no cash outflows will be required in 2014 and 2015 with respect to the potential additional tax claims of the fiscal authorities for the year 2004. Probiodrug has filed a lawsuit at the Finanzgericht contesting the potential back taxes. A ruling has not yet been made. A stay of execution for the contested decisions has been granted.

This risk was provided for in the financial statements by recording an appropriate provision. Should significant payments be required in 2014 or 2015 for the back taxes being contested in the financial courts, the Company’s ability to continue as a going concern would be endangered.

Analysis of maturities

The subsequent table presents an analysis of the remaining terms of all contractually agreed financial liabilities as of December 31, 2013, December 31, 2012, December 31, 2011 and January 1, 2011:

- **Contractual remaining terms of financial liabilities**

EUR k	**Carrying amount**	**Up to 30 days**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**
12/31/2013						
Non-derivative financial liabilities						
Trade payables	1,327	1,327	0	0	0	0
Convertible bonds	5,346	0	0	5,346	0	0
Other financial liabilities	123	123	0	0	0	0
Total	**6,796**	**1,450**	**0**	**5,346**	**0**	**0**
12/31/2012						
Non-derivative financial liabilities						
Trade payables	731	731	0	0	0	0
Other financial liabilities	350	350	0	0	0	0
Total	**1,081**	**1,081**	**0**	**0**	**0**	**0**
12/31/2011						
Non-derivative financial liabilities						

Trade payables	1,215	1,215	0	0	0	0
Other financial liabilities	303	302	0	0	1	0
Total	**1,518**	**1,517**	**0**	**0**	**1**	**0**
1/1/2011						
Non-derivative financial liabilities						
Trade payables	938	938	0	0	0	0
Other financial liabilities	306	305	0	0	1	0
Total	**1,244**	**1,243**	**0**	**0**	**1**	**0**

9.4.2.3 Market risks

Market risks develop from a possible change in risk factors which lead to a negative change in market value of the financial assets and liabilities which are subject to this risk factor. General risk factors such as currency risks, risks attributable to changes in interest rates and price risks can be of relevance to Probiodrug.

Exchange rate risks

Currently the Probiodrug Group is not exposed to any exchange rate risks. Exchange rate risks could develop if a portion of the future sales are realized in US dollars or in another foreign currency.

Risk of changes in interest rates

Probiodrug does not have any interest bearing assets or liabilities to a third party. As such, there is no risk with respect to changes in interest rates.

Price risks

At present, no other price risks have been identified.

9.4.2.4 Risks in conjunction with public subsidies granted

The Company receives subsidies from the public sector in connection with its research and development activities. The disbursement of the funds is always subject to the condition that the institutions which make these subsidies available (EU, federal government, State of Saxony-Anhalt) have funds available and that these have been included in their budgets (federal government, State of Saxony-Anhalt). As a result of this condition, there is a risk of delayed payment or non-payment of the balance outstanding.

Furthermore, the granting of these subsidies is generally subject to the adherence to specific requirements and conditions which, in some cases, extend over several years and into the future. In case of non-compliance, Probiodrug could be required to repay the subsidy received in part or in its entirety. This would have a negative effect on the economic position of the Company.

The investment subsidies were granted on the condition that the subsidized assets remain in the business of an entity in the development area for at least three years subsequent to their acquisition or construction and that not more than 10% of the asset be used privately. Depending on the date of acquisition or production, this period has expired for all assets.

9.4.2.5 Other risks

The Probiodrug Group is insured against typical risks.

10 Capital management

Probiodrug´s primary focus is the long-term increase in the Company's value in the interest of the shareholders, employees and collaboration partners.

The goal is to sustainably increase the potential increase in value of Probiodrug by continuing to generate positive data from studies, efficient processes in research and development, a forward-looking and value-oriented portfolio management as well as continuously increasing the level of awareness of Probiodrug and the approaches it applies in the pharmaceutical industry and, in the mid-term, the transfer of central assets of Probiodrug into industrial collaborations. To achieve this, the business and financial risks along with financial flexibility are in management's focus.

An authorization of the general shareholders' meeting to repurchase own shares did not exist as of the balance sheet date, December 31, 2013.

Probiodrug currently has two active stock option programs from the years 2007 and 2010.

Probiodrug is not subject to any capital requirements stemming from the articles of incorporation.

As of December 31, 2013, Probiodrug's equity amounted to EUR -4,224k (12/31/2012: EUR 5,365k, 12/31/2011: EUR 14,945k, 1/1/2011: EUR 12,239k), which equates to a negative equity ratio (12/31/2012: 53.6 %, 12/31/2011: 78.3 %, 1/1/2011: 76.7 %). The third party capital amounts to EUR 10,598k (12/31/2012: EUR 4,640k, 12/31/2011: EUR 4,148k, 1/1/2011: EUR 3,727k).

11 Other

11.1 Contingencies and other financial commitments

As of the balance sheet date, there were no contingencies. The total other financial commitments relating mainly to agreement for rental and research services and license agreements amounted to EUR 183k (12/31/2012: EUR 143k, 12/31/2011: EUR 1,326k, 1/1/2011: EUR 1,698k).

11.2 Related party relationships

The following individuals and entities were considered related parties of Probiodrug AG during the reporting period:

a) Shareholders of Probiodrug AG with a controlling or significant influence on Probiodrug AG
b) Members of the key management personnel of the Company or a parent of the Company
c) Enterprises which can be controlled by individuals within a) or b)

The remuneration of the management board was broken down as follows:

In EUR k	**2013**	**2012**	**2011**
Short-term employee benefits....................................	513	757	748

Post-employment benefits	48	86	65
Share-based payment	8	170	449
Total	**569**	**1,013**	**1,263**

On February 27, 2008, within the scope of the 2007 option program 23,712 options for common shares, 35,568 options for preferred shares as well as 59,280 phantom stock options were issued to the members of the management board. Within the scope of the 2010 option program, 515,403 options for common shares, as well as 61,848 phantom stock options were issued. More detailed information is provided in item 6.9.6.

The pension commitments described in item 6.10.2 relate to Prof. Dr. Demuth and Dr. Glund. The development of the pension provision is also presented there.

The remuneration of the supervisory board was broken down as follows:

In EUR k	2013	2012	2011
Short-term employee benefits	24	78	83
Share-based payment	0	54	137
Total	**24**	**132**	**220**

On July 2, 2008, 7,500 phantom stock options were issued to both Dr. Turner and Prof. Frank and on June 9, 2010 144,303 phantom stock options were issued to Dr. Braestrup. Further details are presented in item 6.9.9.

Furthermore the convertible bond 2013 were issued to the shareholders of the company.

Other than this, there were no transactions or business activities with related parties.

11.3 Events subsequent to the balance sheet date

On May 16, 2014 the annual general shareholders meeting resolved to increase the convertible bonds. EUR 4.3 million was subscribed to and paid in. In August 2014, all convertible Bonds were converted into shares of the company.

11.4 Approval and release

On August 29, 2014 Probiodrug AG’s management board approved these IFRS consolidated financial statements for release to the supervisory board.

Halle, August 29, 2014

Dr. Konrad Glund Dr. Hendrik Liebers