



TRANSLATION - AUDITOR'S REPORT

# **Financial Statements as at 31 December 2014 and Management Report**

Probiodrug AG  
Halle

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**KPMG AG Wirtschaftsprüfungsgesellschaft**

# Probiodrug AG, Halle

## Balance sheet as at 31 December 2014

### Assets

	31/12/2014		31/12/2013	
	EUR	EUR	EUR	EUR
<b>A. Fixed assets</b>				
<b>I. Intangible assets</b>				
Similar rights acquired for consideration, licenses and software		81,571.13		100,868.06
<b>II. Tangible assets</b>				
1. Buildings on third-party land	27,645.95		34,556.02	
2. Other equipment, operating and office equipment	73,507.31	101,153.26	285,987.09	320,543.11
<b>III. Long-term financial assets</b>				
1. Shares in affiliated companies	0.00		1.00	
2. Participations	3,450.00	3,450.00	3,450.00	3,451.00
		186,174.39		424,862.17
<b>B. Current assets</b>				
<b>I. Receivables and other assets</b>				
1. Receivables from affiliated companies	0.00		728,063.01	
2. Other assets	296,096.92	296,096.92	610,474.74	1,338,537.75
<b>II. Cash-in-hand and bank balances</b>		20,919,926.71		4,421,392.00
		21,216,023.63		5,759,929.75
<b>C. Prepaid expenses</b>		77,861.82		96,155.97
<b>D. Deficit not covered by equity</b>		0.00		4,077,534.09
Net accumulated loss of which deficit not covered by equity EUR 0.00 (in the prior year EUR 4,077,534.09)				
		21,480,059.84		10,358,481.98

**Equity and liabilities**

	31/12/2014	31/12/2013
	EUR	EUR
<b>A. Equity</b>		
<b>I. Share capital</b>	6,765,898.00	25,528,929.00
Contingent capital: EUR 524,169.00 (in the prior year EUR 5,714,159.00)		
<b>II. Capital reserves</b>	22,016,465.55	51,467,571.73
<b>III. Revenue reserves</b>		
Legal reserves	227,625.00	227,625.00
<b>IV. Accumulated losses brought forward (in the prior year to the extent covered by equity)</b>	-12,480,753.10	-77,224,125.73
– Total accumulated losses EUR 12,480,753.10 (in the prior year EUR 81,301,659.82) –		
– of which deficit not covered by equity EUR 0.00 (in the prior year EUR 4,077,534.09) – refer to D. Assets		
	<u>16,529,235.45</u>	<u>0.00</u>
<b>B. Provisions</b>		
1. Pension provision	370,450.00	321,037.41
2. Tax provision	2,543,210.75	2,444,990.75
3. Other provisions	1,107,042.99	1,375,691.99
	<u>4,020,703.74</u>	<u>4,141,720.15</u>
<b>C. Liabilities</b>		
1. Bonds	0.00	5,346,000.00
– of which convertible EUR 0.00 (in the prior year EUR 5,346,000.00) –		
2. Trade payables	876,394.23	837,668.04
3. Other liabilities	53,726.42	33,093.79
– of which taxes EUR 45,421.87 (in the prior year EUR 22,713.95) –		
	<u>930,120.65</u>	<u>6,216,761.83</u>
	<b><u>21,480,059.84</u></b>	<b><u>10,358,481.98</u></b>

# Probiodrug AG, Halle

## Income statement for the period from 1 January to 31 December 2014

1. Other operating income	
2. Cost of materials	
a) Costs of supplies and purchased merchandise	
b) Costs of purchased services	
3. Personnel expenses	
a) Wages and salaries	
b) Social security and post employment costs	
– of which in respect of retirement provisions EUR 78,939.01 (in the prior year EUR 64,117.56) –	
4. Amortisation of intangible fixed assets and depreciation of tangible fixed assets	
5. Other operating expenses	
6. Other interest and similar income	
– of which from affiliated companies EUR 430,000.32 (in the prior year EUR 860,000.64) –	
7. Write-downs of long-term financial assets	
8. Interest and similar expenses	
9. Results of ordinary operations	
10. Extraordinary expenses/extraordinary results	
11. Net loss	
12. Loss carry forward	
13. Income from the release of capital reserves	
14. Income from the reduction of capital	
15. Net accumulated losses	

2014		2013	
EUR	EUR	EUR	EUR
	237,407.87		703,723.60
	-55,092.00		-53,778.66
	-4,291,285.88	-4,346,377.88	-4,251,669.10
	-1,263,986.09		-1,547,782.49
	-191,017.19	-1,455,003.28	-234,454.68
			-1,782,237.17
			-93,846.03
			-313,722.16
			-4,576,095.76
			-4,545,131.19
			432,934.49
			869,278.27
			0.00
			-50,000.00
			-226,105.92
			-672,480.20
			-10,027,086.51
			-10,096,016.61
			-2,232,270.20
			0.00
			-12,259,356.71
			-10,096,016.61
			-81,301,659.82
			-71,205,643.21
			54,871,798.43
			0.00
			26,208,465.00
			0.00
			-12,480,753.10
			-81,301,659.82

# STATEMENT OF CASH FLOWS for the period from 1 January to 31 December 2014

## Probiodrug AG

	<b>01.01.2014 to 31/12/2014 EUR</b>	<b>01.01.2013 to 31/12/2013 EUR</b>
Net loss of the period without extraordinary expenses	-10,027,085	-10,096,017
Proceeds from extraordinary item	-474,513	0
Amortisation and depreciation of fixed assets	93,846	313,722
Income/expense from the disposal of fixed assets	5,599	-144,148
Increase in pension provision	49,413	39,219
Increase in tax provision	98,220	98,280
Decrease (in prior year increase) of other provisions	-268,649	196,413
Income/expenses without a cash impact	-32,445	536,817
Decrease in inventories	0	17,423
Decrease in trade receivables	0	2,957
Decrease in receivables from affiliated companies	0	2,173
Increase in other assets	-111,479	75,110
Decrease in prepaid expenses	18,294	23,367
Increase in trade payables	38,726	532,691
Increase (in prior year decrease) of other liabilities	20,633	-56,223
<b>Cash flow from operating activities</b>	<b><u>-10,589,440</u></b>	<b><u>-8,458,216</u></b>
Proceeds from the disposal of tangible assets	574,249	43,001
Proceeds from the disposal of intangible assets	2,930	0
Capital expenditures for tangible assets	-2,040	-4,678
Capital expenditures for intangible assets	-10,041	-60,743
Proceeds from loan repaid	760,508	0
<b>Cash flow from investing activities</b>	<b><u>1,325,606</u></b>	<b><u>-22,420</u></b>
Proceeds from the issuance of stock	23,244,126	0
Transaction costs	-1,757,757	0
Proceeds from the issuance of convertible bonds	4,276,000	5,346,000
<b>Cash flow from financing activities</b>	<b><u>25,762,369</u></b>	<b><u>5,346,000</u></b>
<b>Changes in cash and cash equivalents</b>	<b>16,498,535</b>	<b>-3,134,636</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>4,421,392</b>	<b>7,556,028</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>20,919,927</b>	<b>4,421,392</b>
	<b>31/12/2014 EUR</b>	<b>31/12/2013 EUR</b>
<b>Composition of cash and cash equivalents</b>		
Cash-on-hand	450	465
Bank balances	20,919,477	4,420,927
	<u>20,919,927</u>	<u>4,421,392</u>

# Statement of shareholders' equity as at 31.12.2014

Probiodrug AG

	Share Capital		Capital reserves	Legal reserve	Retained earnings	Equity
	Ordinary shares	Preferred shares				
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Balance as at 01.01.2013</b>	3,414,375	22,114,554	50,930,755	227,625	-71,205,643	5,481,666
Issuance of convertible bonds	0	0	536,817	0	0	536,817
Net loss	0	0	0	0	-10,096,017	-10,096,017
<b>Balance as at 31.12.2013</b>	3,414,375	22,114,554	51,467,572	227,625	-81,301,660	-4,077,534
Capital increase as a result of the conversion of convertible bonds		5,921,229	3,700,771	0	0	9,622,000
Conversion of preferred shares into ordinary shares	28,035,783	-28,035,783	0	0	0	0
Simplified capital reduction	-26,208,465		-54,871,798	0	81,080,263	0
Issuance of shares	1,524,205		21,719,921	0	0	23,244,126
Net loss	0		0	0	-12,259,357	-12,259,357
<b>Balance as at 31.12.2014</b>	6,765,898	0	22,016,466	227,625	-12,480,753	16,529,235

# Probiodrug AG, Halle/S.

## NOTES to the financial statements for the financial year from 1 January to 31 December 2014

### I. General information

The annual financial statements of Probiodrug AG were prepared using the accounting policies and measurement methods prescribed by the [German] Commercial Code (HGB) [Handelsgesetzbuch] applying the Accounting Law Modernisation Act [Bilanzrechtsmodernisierungsgesetzes] (BilMoG) as well as the complementary regulations of the [German] Stock Corporation Act.

As a result of the issuance of shares on the Euronext/Amsterdam in October 2014, Probiodrug is a capital market oriented company as defined in Section 264d of the HGB and is thereby considered a large capital corporation as defined by Section 267 (3) of the HGB.

There was no change in the form of presentation in comparison with the prior year.

### II. Accounting policies and measurement methods

#### Fixed assets

Tangible and intangible assets were measured at their acquisition costs reduced by scheduled depreciation and amortisation.

The scheduled depreciation and amortisation was calculated on the straight-line basis considering the expected useful life of the underlying asset within the entity on the bases of the official depreciation tables in accordance with tax regulations.

In financial year 2014, newly acquired moveable assets with acquisition costs of up to EUR 410.00 were immediately depreciated in their entirety. The cumulative items recorded in the prior years continue to be depreciated on the straight-line basis in accordance with Section 6 (2a) of the German Income Tax Act (EStG) [Einkommensteuergesetz] over a period of five years. In total, the cumulative items are of minor importance.

Participations are recorded at their acquisition costs.



## **Current assets**

Receivables and other assets were measured at their nominal value less necessary valuation adjustments giving consideration to all identifiable risks. No foreign currency receivables existed as at the balance sheet date.

The cash-in-hand and bank balances were measured at their nominal values.

The valuation of accounts denominated in a foreign currency was on the basis of the mean average exchange rate as at the balance sheet date.

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

Deferred taxes are recorded for differences between amounts recorded in the commercial financial statements and those recorded in the tax accounts, to the extent that these are expected to reverse in upcoming financial years. To the extent that the deferred taxes result in a debit balance as at the balance sheet date, no use is made of the allowed alternative treatment in accordance with Section 274 (1) sentence 2 of the HGB.

## **Equity**

The Company's equity is recorded at its nominal value.

## **Provisions**

Provisions are recorded at the settlement amounts deemed necessary when applying prudent business judgement. All identifiable risks are given consideration.

Long-term provisions with a term of more than 12 months are discounted in accordance with Section 253 (2) sentence 1 of the HGB.

The measurement of the pension provisions is based on the „projected unit credit" - method (PUC method). Probiodrug made use of the allowed alternative treatment whereby the average market interest rate of the previous seven business years as published by the Deutsche Bundesbank [German Federal Reserve], which results from an assumed remaining term of 15 years, was applied as the discount rate. The biometric calculation used was provided by the 2005 G mortality tables of Prof. Dr.

Klaus Heubeck [„Richttafeln 2005 G“ von Klaus Heubeck]. The parameters applied in the calculation are presented in the explanations on the balance sheet.

## **Liabilities**

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

The existing liabilities are not secured.

## **Income statement**

In accordance with Section 275 (2) of the HGB, the Company again elected the total cost method of presentation.

## **III. Explanations on the balance sheet**

### **Fixed assets**

The development of fixed assets as well as the amortisation and depreciation recorded in the financial year is shown for each balance sheet line item in the schedule of fixed assets presented in the appendix to the notes to the financial statements.

### **Long-term financial assets and receivables from affiliated companies**

The shares in the subsidiary, Ingenium Pharmaceuticals GmbH, Munich (“Ingenium”), were sold at their carrying value in the financial year just ended (in the prior year notional amount of EUR 1.00).

In previous financial years, Probiodrug provided financing for its subsidiary, Ingenium, in the form of shareholder loans totalling EUR 8,600k. At the prior balance sheet date they totalled EUR 10,978k including interest accrued thereon. In addition, other receivables from Ingenium amounted to EUR 3k. Due to the subsidiary’s sustained losses, a valuation adjustment of EUR 10,253k was recorded (carrying value as at 31 December 2013: EUR 728k). On the basis of an agreement dated 13 July 2014, the loans became non-interest bearing with effect from 30 June 2014. EUR 761k of the receivables from Ingenium which totalled EUR 11,410k as at 30 June 2014 were

collected and the remaining EUR 10,648k was assigned to the buyer in conjunction with the sale of the company.

## **Other assets**

Without exception, the other assets all have a remaining term of up to one year. They primarily consist of receivables from the fiscal authorities (EUR 189k; in the prior year EUR 50k) as well as other receivables (EUR 107k; in the prior year EUR 560k). In the prior year the other receivables primarily consisted of receivables from the sale of fixed assets.

## **Deferred taxes**

As at the balance sheet date, after offsetting debit and credit balances with respect to deferred taxes (consideration of overall difference) a net debit balance resulted for deferred taxes. The calculation is based on an effective tax rate of 31.58%, which is expected to be the rate in effect when the differences reverse. Probiodrug does not make use of the allowed alternative treatment whereby a debit balance may be recorded in accordance with Section 274 (1) sentence 2 of the HGB. As such, deferred taxes are not presented on the balance sheet. The debit and credit deferred tax balances calculated result from the tax loss carry forwards and different values calculated for the pension provision.

## **Share capital**

As at 31 December 2014, the subscribed capital amounted to EUR 6,765,898.00. It is broken down into 6,765,898 registered ordinary shares with no par value (bearer shares). In the prior year the subscribed capital amounted to EUR 25,528,929.00 and was divided into 3,414,375 registered ordinary shares with no par value (bearer shares), 3,095,837 registered voting preference shares of the Series A as well as 19,018,717 registered voting preference shares of the Series B.

On 21 August 2014 the convertible bonds issued in 2013 and 2014 were converted into preference shares of the Series B2 by making use of the contingent capital 2013 and 2014. The subscribed capital was increased by a total of EUR 5,921,229.00 by issuing 5,921,229 registered voting preference shares of the Series B2.

On 25 August 2014 the shareholders' meeting resolved to convert the registered preference shares with voting rights of the Series A, B and B2 into registered ordinary

bearer shares with no par value (bearer shares). All preferences of the various classes of shares were eliminated in their entirety. Thereafter, the subscribed capital amounted to EUR 31,450,158.00 and was broken down into 31,450,158 ordinary bearer shares with no par value with a notional value of EUR 1.00 per share.

On 8 September 2014, the shareholders' meeting resolved to reduce the Company's share capital from EUR 31,450,158.00 by EUR 26,208,465.00 to EUR 5,241,693.00, divided into 5,241,693 ordinary bearer shares with no par value. The capital decrease was completed pursuant to the regulations regarding simplified capital reductions (Sections 229 et. seq. of the AktG) in the ratio of 6:1, with the intention of covering incurred losses totalling EUR 26,208,465.00. The capital reduction was completed in such a manner that six ordinary bearer shares with no par value were consolidated into one ordinary bearer share with no par value.

On 9 October 2014, the shareholders' meeting resolved to increase the Company's share capital from EUR 5,241,693.00, broken down into 5,241,693 ordinary bearer shares with no par value, in exchange for a cash contribution of up to EUR 1,696,720 to a total of EUR 6,938,413 by the issuance of up to 1,696,720 new, ordinary bearer shares with no par value with profit participation rights beginning on 1 January 2014. The issue price per share to be issued amounted to EUR 1.00. The proportional amount of the share capital attributable to each new share amounted to EUR 1.00. Shareholders' subscription rights were excluded for cash capital increases. The management board was authorised, with the approval of the supervisory board, to establish the further details with respect to the increase in capital as well as the implementation and the conditions for the issuance of the shares. The resolution with respect to the increase in the share capital was required to be implemented prior to the end of 31 December 2014.

In conjunction with the initial public offering on the Euronext/Amsterdam on 27 October 2014, the equity was increased by EUR 1,475,409.00 by issuing 1,475,409 new ordinary bearer shares with no par value. The proportion of the share capital attributable to each new share is EUR 1.00.

Subsequently, the share capital totalled EUR 6,717,102.00 broken down into 6,717,102 ordinary bearer shares with no par value with a notional value of EUR 1.00.

On 12 November 2014 the management board, with the approval of the supervisory board, resolved to increase the share capital by EUR 48,796.00 to EUR 6,765,898.00 in exchange for cash. The increase was made by partially using the authorised capital 2014 by issuing 48,796 new registered ordinary shares with no par value at an issue price of EUR 1.00 per share.

Thereafter the share capital amounted to EUR 6,765,898.00 broken down into 6,765,898 ordinary bearer shares with no par value with a notional value of EUR 1.00.

### **Contingent capital 2008/I**

As at 31 December 2014, the contingent capital 2008/I amounted to EUR 11,300.00 (in the prior year EUR 67,800.00). Of this amount, EUR 10,422.00 (in the prior year EUR 67,120.00) is reserved as a result of the distribution of option rights. By resolution of the shareholders' meeting on 8 September 2014, the contingent capital 2008/I was reduced to EUR 11,300.00. The reduction was made in conjunction with the simplified reduction of capital in the ratio 6:1.

The contingent capital 2008/I serves to redeem the option rights which were distributed in conjunction with the Stock Option Program 2007. A new distribution 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 formerly affiliated companies for whom, as per Section 194 (3) of the AktG, no disclosures are required, the following members of the management board (respectively former members of the management board) are permitted to acquire the following number of shares (subsequent to reduction in conjunction with the capital decrease 6:1):

Dr. Konrad Glund, Halle, up to 912 ordinary shares,  
Dr. Hendrik Liebers, Leipzig, up to 2,128 ordinary shares,  
Prof. Dr. Hans-Ulrich Demuth, Halle, up to 912 ordinary shares

### **Contingent capital 2008/II**

As at 31 December 2014, the contingent capital 2008/II totalled EUR 16,950.00 (in the prior year EUR 101,700.00). Of this amount, EUR 15,666.00 (in the prior year EUR 100,815.00) is reserved as a result of the issuance of options.

The contingent capital 2008/II serves to redeem the option rights distributed in conjunction with the Stock Option Program 2007. 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 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 former affiliated companies for whom, as per Section 194 (3) of the AktG, no disclosures are required, the following members of the management board (respectively former members of the management board are permitted to acquire the following number of shares (subsequent to reduction in conjunction with the capital reduction of 6:1):

Dr. Konrad Glund, Halle, up to 1,368 ordinary shares (previously preference shares of the series A),

Dr. Hendrik Liebers, Leipzig, up to 3,192 ordinary shares (previously preference shares of the series A),

Prof. Dr. Hans-Ulrich Demuth, Halle, up to 1,368 ordinary shares (previously preference shares of the series A).

### **Contingent capital 2010/I**

As at 31 December 2014, the contingent capital 2010/I amounted to EUR 85,901.00 (in the prior year EUR 1,236,967.00). Of this amount, EUR 85,899.00 (in the prior year EUR 515,403.00) is reserved as a result of the issuance of options. The reduction of the contingent capital was made in conjunction with the simplified capital reduction in the ratio of 6:1.

The contingent capital 2010/I serves to redeem the option rights distributed in conjunction with the Stock Option Program 2010. 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 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. The following members of the management board (respectively former members of the management board) are permitted to acquire the following number of shares (subsequent to reduction in conjunction with the capital reduction in the ratio of 6:1):

Dr. Konrad Glund, Halle, up to 28,633 ordinary shares,

Dr. Hendrik Liebers, Leipzig, up to 28,633 ordinary shares,

Prof. Dr. Hans-Ulrich Demuth, Halle, up to 28,633 ordinary shares.

### **Contingent capital 2013/I**

By resolution of the general meeting of the shareholders on 22 July 2013, the Company's share capital was contingently increased (contingent capital 2013/I) by EUR 4,307,692.00 to redeem the conversion rights respectively conversion obligations associated with the convertible bonds which were issued on the basis of a resolution of the general meeting of the shareholders on the same day. The supervisory board's approval for the issuance of convertible bonds was granted on 22 July 2013.

By using EUR 3,289,845.00 of the contingent capital 2013/I, 3,289,845 subscription shares were issued on 21 August 2014 by converting the convertible bonds issued in 2013. After issuing these subscription shares, the contingent capital 2013/I amounted to EUR 1,017,547.00.

On the basis of a resolution dated 25 August 2014, the remaining contingent capital 2013/I was revoked.

### **Contingent capital 2014/I**

By resolution of the shareholders' meeting on 16 May 2014, the contingent capital 2014/I was established.

By resolution of the general meeting of the shareholders on 16 May 2014, the Company's share capital was contingently increased (contingent capital 2014) by EUR 3,692,300.00 to grant conversion rights respectively obligations for convertible bonds issued on the basis of a resolution of the general meeting of the shareholders on the same date. The approval of the supervisory board for the issuance of the convertible bonds was given on 30 April 2014.

By using EUR 2,631,384 of the contingent capital 2014, 2,631,384 subscription shares were issued on 21 August 2014 by converting the convertible bonds issued in 2014. After issuing these subscription shares, the contingent capital 2014 still amounted to EUR 1,060,916.00.

On the basis of a resolution dated 25 August 2014, the remaining contingent capital 2014/I was revoked.

## **Contingent capital 2014/I**

By resolution of the shareholders' meeting on 29 September 2014, the contingent capital 2014/I was established.

The Company's share capital was contingently increased by a nominal value of up to EUR 410,018.00 by the issuance of up to 410,018 ordinary bearer shares with no par value (contingent capital 2014/1). The contingent capital increase serves to redeem stock option rights in accordance with Section 192 (2) number 3 AktG issued as part of Stock Option Program 2014 (in the version of the resolutions of the shareholders' meeting on 29 September 2014). The contingent capital increase will only be carried out to the extent that the beneficiaries 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.

The following members of the management board are permitted to acquire the following number of shares:

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

## **Stock options**

1. In conjunction with the stock option program as resolved by the shareholders' meeting and the meeting of the supervisory board on 29 September 2014, the management board was authorised to issue up to 410,018 stock options by one or more issuances until 31 December 2016 to current and future employees and members of the management board. The general mechanisms regarding the distribution of the stock options requires the approval of the supervisory board. To the extent that options are granted to members of the management board, only the supervisory board is authorised to issue the shares.

The options confer the beneficiaries the right to purchase new ordinary bearer shares of the Company in accordance with the terms and conditions of the option.

2. The scope of the beneficiaries for the maximum number of 410,018 option rights is as follows:
  - a) Current and future members of the Company's management board may be granted up to 314,501 options. Unused options may be issued to the beneficiaries under b).



- b) Current and future Company employees may be issued up to 95,517 options.
- 3. The options issued as part of the Stock Option Program 2014 can only be utilised within a period of eight years subsequent to issuance.
- 4. Upon exercise of the options, ordinary bearer shares with no par value can be acquired at a ratio of 1:1 in exchange for payment of the exercise price. Subsequent to the conversion of Probiodrug AG's shares to registered shares, registered ordinary shares can be drawn.

The management board is authorised, with the approval of the supervisory board - for those options held by members of the management board, the supervisory board alone determines – to adjust the acquisition of shares in the course of capital measures or during a Company transformation. Fractions of options or shares which may result will be rounded down.

The exercise price for an option issued prior to the Company's initial public offering, is equal to the issue price during the initial public offering.

The exercise price for an option issued subsequent to the initial public offering in accordance with 5 c) (i), is equal to the simple average of the relevant stock exchange prices on all stock exchange trading days prior to the issuance of the option.

The exercise price for an option issued subsequent to the initial public offering in accordance with 5 c) (ii), is equal to the simple average of the relevant stock exchange prices on the most recent 20 stock exchange trading days prior to the issuance of the option.

The "relevant stock exchange price" is the share's closing price as per XETRA or a successor system to XETRA, or, in case of a listing on a foreign exchange, the corresponding exchange price on the foreign exchange. If Probiodrug's share is listed on a number of exchanges, the share price on the exchange with the highest trading volume with respect to Probiodrug shares during the relevant period is decisive.

The management board can determine, with the approval of the supervisory board, if the shares required to redeem the options will be provided by the contingent capital existing for this purpose, by contingent capital to be established in the future or by an existing respectively by a still to be resolved upon program by the shareholders' meeting for the acquisition of own shares. Alternatively, if so decided by the management board with the approval of the supervisory board, the beneficiaries can be granted a payment in cash. The payment in cash is determined as the difference between the exercise price and the simple average of the relevant exchange prices on the ten exchange trading days prior to the day the

options are exercised. To the extent that options of management board members are affected, the supervisory board alone makes the determination.

5. Acquisition periods

- a) Options can be made available for purchase by the beneficiaries in one tranche or in a number of tranches through 31 December 2016.
- b) Options may be issued within a period of thirty calendar days prior to a public offering by the Company.
- c) Subsequent to the Company's initial public offering, options may be granted:
  - (i) Within the first twenty exchange trading days after the initial public offering and
  - (ii) within the first twenty exchange trading days in the first quarter, the second quarter, the third quarter and the fourth quarter of a financial year.

6. The beneficiaries can exercise the options

- a) after the expiry of a waiting period of at least four years after the issue and - where applicable - the option vesting period has expired; and
- b) in case the shares are officially traded on the regulated market or unregulated market on a national or foreign stock exchange ("public offering"); and
- c) as soon as the lock up period agreed with the exchange or the underwriting banks in conjunction with the initial public offering of Probiodrug AG has expired; in case of doubt a lock-up period of twelve months shall apply; and
- d) when the simple average of the relevant stock exchange prices of the last twenty stock exchange trading days prior to the day of exercise of the option exceeds the exercise price by at least 10% (performance target as laid down in Section 193 (2) number 4 of the AktG).

7. With respect to Section 193 (2) number 4 of the AktG (exercise period) and to avoid insider violations in accordance with the Securities Trading Act, even after the expiration of the four year minimum waiting period and irrespective of consideration of the performance goal, the options may only be exercised three times in a financial year within a four week period. These exercise periods begin on the third banking day after the annual shareholders' meeting, subsequent to the publishing of the report for the second quarter and after the publishing of the report for the third quarter. If the Company does not publish any quarterly reports, the

options may only be exercised once each year within a four week period beginning on the third banking day after the annual shareholders' meeting.

Furthermore, the exercising of the options is prohibited from that day onward on which the Company announced an offer to acquire new shares or convertible bonds with conversion or subscription rights via a letter to all shareholders or by a publication in the Federal Gazette [Bundesanzeiger], until the day on which the subscription shares are first officially listed "ex rights".

8. The options are not transferable.

Subsequent to the Company's initial public offering, the management board - and, to the extent options held by the management board are impacted, the supervisory board - may decide that all options or a portion of the options are freely assignable and tradeable after expiration of the lock-up period agreed upon within the scope of the initial public offering. In this case the management board respectively the place of exercise must be informed in writing about each sale, assignment, pledge or other encumbrance of options.

9. The beneficiary is responsible for all taxes, including church taxes and the solidarity surcharge, along with social security contributions incurred as a result of the granting and exercise of the options.

In 2014, 314,501 options for ordinary bearer shares with no par value were issued to the management board within the scope of the Stock Option Program 2014 (refer to contingent capital 2014/I).

### **Authorised capital 2011/II**

By resolution of the general meeting of the shareholders on 20 September 2011, the authorised capital 2011/II was established. Probiodrug's management board is authorised, 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 preference shares of the Series (B) in one or a number of steps in consideration for cash of up to EUR 207,807.00 in the period through 31 December 2013. No capital increase was carried out with the authorised capital 2011/II.

By resolution of the shareholders' meeting on 25 August 2014 this authorised capital was revoked.

## **Authorised capital 2014/I**

The authorised capital 2014/I was established on the basis of a resolution of the shareholders' meeting on 09 October 2014.

The management board is authorised, with the consent of the supervisory board, to increase the Company's share capital on or before 30 September 2019 by one or more issuances in exchange for a cash contribution or a contribution in kind of up to EUR 2,620,846.00 by issuing a total of up to 2,620,846 new, ordinary bearer shares with no par value (authorised capital 2014/I). The management board is also authorised, with the approval of the supervisory board, to determine the further specifics with respect to the capital increase, its implementation and the conditions for the issuance of the shares from the authorised capital 2014. The management board is authorised, with the approval of the supervisory board, to exclude pre-emptive rights.

On 23 October 2014, the shareholders' meeting resolved to increase the authorised capital 2014/I from EUR 2,620,846.00 to EUR 3,358,551.00. The authorisations granted to the management board and the supervisory board with respect to the authorised capital 2014/I were, correspondingly, modified.

On 12 November 2014 the management board resolved, with the approval of the supervisory board, to use EUR 48,796.00 of the authorised capital to increase the share capital in exchange for cash of EUR 48,796.00. 48,796 ordinary bearer shares with no par value were issued with an issue price of EUR 1.00 per share.

As at 31 December 2014, the authorised capital 2014/I totalled EUR 3,309,755.00.

## **Voting rights notification**

### **Disclosure as to the existence of an equity interest as at the balance sheet date**

**CFH Beteiligungsgesellschaft mbH**, Leipzig, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 30 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 4.47% (corresponding to 234,239 voting rights) on 27 October 2014. 0.75% of the voting rights (corresponding to 39,204 voting rights) are to be attributed to CFH Beteiligungsgesellschaft mbH pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

**Süd Beteiligungen GmbH**, Stuttgart, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 30 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 4.47% (corresponding to 234,239 voting rights) on 27 October 2014. 4.47% of the voting rights (corresponding to 234,239 voting rights) are to be attributed to Süd Beteiligungen GmbH pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to Süd Beteiligungen GmbH are held via the following controlled company whose holdings of voting rights amount to 3% or more in Probiodrug: **CFH Beteiligungsgesellschaft mbH**.

**Landesbank Baden-Württemberg**, Stuttgart, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 30 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 4.47% (corresponding to 234,239 voting rights) on 27 October 2014. 4.47% of the voting rights (corresponding to 234,239 voting rights) are to be attributed to Landesbank Baden-Württemberg pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to Landesbank Baden-Württemberg are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug: **Süd Beteiligungen GmbH, CFH Beteiligungsgesellschaft mbH**.

**Coöperatief LSP IV U.A.** Johannes Vermeerplein 9, 1071 DV Amsterdam, Netherlands, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 8.45% on 27 October 2014 (corresponding to 442,806 voting rights).

**LSP IV Management B.V.**, Amsterdam, Netherlands, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 3 November 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 8.45% on 27 October 2014 (corresponding to 442,806 voting rights). 8.45% of the voting rights (corresponding to 442,806 voting rights) are to be attributed to LSP IV Management B.V. pursuant to Section 22 (2) sentence 1 no. 6 WpHG. The voting rights that are to be attributed to LSP IV Management B.V. are held via the following company it controls whose holdings of voting rights amount to 3% or more in Probiodrug: **Coöperatief LSP IV U.A.**

**LSP Management Group B.V.**, Amsterdam, Netherlands, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 4 November 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 8.45% on 27 October 2014 (corresponding to 442,806 voting rights). 8.45% of the voting rights (corresponding to 442,806 voting rights) are to be attributed to LSP Management Group B.V. pursuant to Section 22 (2) sentence 1 no. 6 and sentence 2 WpHG. The voting rights that are to be attributed to LSP Management Group B.V. are held via the following company it controls whose holdings of voting rights amount to 3% or more in Probiodrug: **Coöperatief LSP IV U.A.**

**Biotech Growth N.V.**, Curacao, the Netherlands Antilles, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 15.06% on 27 October 2014 (corresponding to 789,439 voting rights).

**BB Biotech AG**, Schaffhausen, Switzerland, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 3 November 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 15.06% on 27 October 2014 (corresponding to 789,439 voting rights). 15.06% of the voting rights (corresponding to 789,439 voting rights) are to be attributed to BB Biotech AG pursuant to Section 22 (2) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to BB Biotech AG are held via the following controlled company whose holdings of voting rights amount to 3% or more in Probiodrug: **Biotech Growth N.V.**

**HBM Healthcare Investments (Cayman) Ltd.**, George Town, Grand Cayman, Cayman Islands, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 9.44% on 27 October 2014 (corresponding to 494,825 voting rights).

**HBM Healthcare Investments AG**, Zug, Switzerland, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 9.44% on 27 October 2014 (corresponding to 494,825 voting rights). 9.44% of the voting rights (corresponding to 494,825 voting rights) are to be attributed to HBM Healthcare Investments AG pursuant to Section 22 (2) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to HBM Healthcare Investments AG are held via the following controlled company whose

holdings of voting rights amount to 3% or more in Probiodrug AG: **HBM Healthcare Investments (Cayman) Ltd.**

**Edmond de Rothschild Investment Partners**, Paris, France, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 6 November 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 15.67% on 27 October 2014 (corresponding to 821,409 voting rights). 15.67% of the voting rights (corresponding to 821,409 voting rights) are to be attributed to Edmond de Rothschild Investment Partners pursuant to Section 22 (2) sentence 1 no. 6 WpHG.

**IBG Risikokapitalfonds I GmbH & Co. KG**, Magdeburg, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 9.51% on 27 October 2014 (corresponding to 498,549 voting rights).

**IBG Risikokapitalfonds II GmbH & Co. KG**, Magdeburg, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 7.71% on 27 October 2014 (corresponding to 404,261 voting rights).

**IBG Beteiligungsverwaltung Komplementär GmbH**, Magdeburg, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 17.48% on 27 October 2014 (corresponding to 916,435 voting rights). 17.48% of the voting rights (corresponding to 916,435 voting rights) are to be attributed to IBG Beteiligungsverwaltung Komplementär GmbH pursuant to Section 22 (2) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to IBG Beteiligungsverwaltung Komplementär GmbH are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug: **IBG Risikokapitalfonds I GmbH & Co. KG**, **IBG Risikokapitalfonds II GmbH & Co. KG**.

**IBG Beteiligungsgesellschaft Sachsen-Anhalt mbH**, Magdeburg, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 18.12% on 27 October 2014 (corresponding to 949,607 voting rights). 17.48% of the voting rights (corresponding to 916,435 voting rights) are to be attributed to IBG Beteiligungsgesellschaft Sachsen-Anhalt mbH pursuant to Section 22 (2) sentence 1

no. 1 WpHG. The voting rights that are to be attributed to IBG Beteiligungsgesellschaft Sachsen-Anhalt mbH are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug: **IBG Beteiligungsverwaltung Komplementär GmbH, IBG Risikokapitalfonds I GmbH & Co. KG, IBG Risikokapitalfonds II GmbH & Co. KG.**

**Sachsen-Anhalt, Land - Ministerium der Finanzen des Landes Sachsen-Anhalt**, Magdeburg, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 18.12% on 27 October 2014 (corresponding to 949,607 voting rights). 18.12% of the voting rights (corresponding to 949,607 voting rights) are to be attributed to Sachsen-Anhalt, Land, pursuant to Section 22 (2) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to Sachsen-Anhalt, Land, are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug: **IBG Beteiligungsgesellschaft Sachsen-Anhalt mbH, IBG Beteiligungsverwaltung Komplementär GmbH, IBG Risikokapitalfonds I GmbH & Co. KG, IBG Risikokapitalfonds II GmbH & Co. KG,**

**Biogen Idec MA Inc.**, Cambridge, Massachusetts, USA, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 5 November 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 4.04% on 27 October 2014 (corresponding to 211,651 voting rights).

**Biogen Idec Inc.**, Cambridge, Massachusetts, USA, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 30 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 4.04% on 27 October 2014 (corresponding to 211,651 voting rights). 4.04% of the voting rights (corresponding to 211,651 voting rights) are to be attributed to Biogen Idec Inc. pursuant to Section 22 (2) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to Biogen Idec Inc. are held via the following controlled company whose holdings of voting rights amount to 3% or more in Probiodrug AG: **Biogen Idec MA Inc.**

**TVM V Life Science Ventures GmbH & Co. KG**, Munich, Germany, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 9.53% on 27 October 2014 (corresponding to 499,368 voting rights).



**TVM V Life Science Management GmbH & Co. KG**, Munich, Germany, informed our company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 9.53% on 27 October 2014 (corresponding to 499,368 voting rights). 9.53% of the voting rights (corresponding to 499,368 voting rights) are to be attributed to TVM V Life Science Management GmbH & Co. KG pursuant to Section 22 (2) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to TVM V Life Science Management GmbH & Co. KG are held via the following controlled company whose holdings of voting rights amount to 3% or more in Probiodrug: **TVM V Life Science Ventures GmbH & Co. KG**.

**Wellington Hedge Management, LLC**, Boston, Massachusetts, USA, informed our Company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 6 November 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 3.05% on 27 October 2014 (corresponding to 160,049 voting rights). 3.05% of the voting rights (corresponding to 160,049 voting rights) are to be attributed to Wellington Hedge Management, LLC pursuant to Section 22 (2) sentence 1 no. 1 WpHG.

**Wellington Management Company, LLP**, Boston, Massachusetts, USA, informed our company pursuant to Section 21 (1a) WpHG (German Securities Trading Act) on 6 November 2014, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, amounted to 4.06% on 27 October 2014 (corresponding to 212,771 voting rights). 4.06% of the voting rights (corresponding to 212,771 voting rights) are to be attributed to Wellington Management Company, LLP, pursuant to Section 22 (2) sentence 1 no. 1 WpHG, and also concurrently pursuant to Section 22 (2) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to Wellington Management Company, LLP are held via the following company whose holdings of voting rights amount to 3% or more in Probiodrug AG: **Wellington Hedge Management, LLC**.

**JPMorgan Asset Management (UK) Limited**, London, United Kingdom, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 31 October 2014, that its voting rights proportion exceeded the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 31 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 3.87% (corresponding to 260,000 voting rights). 3.87% (corresponding to 260,000 voting rights) are to be attributed to JPMorgan Asset Management (UK) Limited pursuant to Section 22 (1) sentence 1 no. 6 WpHG.

**HBM Healthcare Investments (Cayman) Ltd**, George Town, Grand Cayman, Cayman Islands, informed our Company pursuant to Section 21 (1) WpHG (German Securities

Trading Act) on 5 November 2014, that its voting rights proportion exceeded the threshold of 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 11.28% (corresponding to 757,482 voting rights) on that date.

**HBM Healthcare Investments AG**, Zug, Switzerland, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 5 November 2014, that its voting rights proportion exceeded the threshold of 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 11.28% (corresponding to 757,482 voting rights) on that date. 11.28% (corresponding to 757,482 voting rights) are to be attributed to HBM Healthcare Investments AG pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to HBM Healthcare Investments AG are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: **HBM Healthcare Investments (Cayman) Ltd.**

**Edmond de Rothschild Investment Partners**, Paris, France, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 6 November 2014, that its voting rights proportion fell below the threshold of 15% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 14.43% (corresponding to 969,613 voting rights) on that date. 14.43% (corresponding to 969,613 voting rights) are to be attributed to Edmond de Rothschild Investment Partners pursuant to Section 22 (1) sentence 1 no. 6 WpHG.

**IBG Beteiligungsverwaltung Komplementär GmbH**, Magdeburg, Germany, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 5 November 2014, that its voting rights proportion fell below the threshold of 15% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 13.64% (corresponding to 916,435 voting rights) on that date. 13.64% (corresponding to 916,435 voting rights) are to be attributed to IBG Beteiligungsverwaltung Komplementär GmbH pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to IBG Beteiligungsverwaltung Komplementär GmbH are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: **IBG Risikokapitalfonds I GmbH & Co. KG, IBG Risikokapitalfonds II GmbH & Co. KG.**

**IBG Beteiligungsgesellschaft Sachsen-Anhalt mbH**, Magdeburg, Germany, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 5 November 2014, that its voting rights proportion fell below the threshold of

15% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 14.14% (corresponding to 949,607 voting rights) on that date. 13.64% (corresponding to 916,435 voting rights) are to be attributed to IBG Beteiligungsgesellschaft Sachsen-Anhalt mbH pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to IBG Beteiligungsgesellschaft Sachsen-Anhalt mbH are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: **IBG Beteiligungsverwaltung Komplementär GmbH, IBG Risikokapitalfonds I GmbH & Co. KG, IBG Risikokapitalfonds II GmbH & Co. KG.**

**Sachsen-Anhalt, Land - Ministerium der Finanzen des Landes Sachsen-Anhalt**, Magdeburg, Germany, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 5 November 2014, that its voting rights proportion fell below the threshold of 15% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 14.14% (corresponding to 949,607 voting rights) on that date. 14.14% (corresponding to 949,607 voting rights) are to be attributed to Sachsen-Anhalt, Land, pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to Sachsen-Anhalt, Land, are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: **IBG Beteiligungsgesellschaft Sachsen-Anhalt mbH, IBG Beteiligungsverwaltung Komplementär GmbH, IBG Risikokapitalfonds I GmbH & Co. KG, IBG Risikokapitalfonds II GmbH & Co. KG.**

**Kempen & Co. N.V.**, Amsterdam, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 4 November 2014, that its voting rights proportion exceeded the thresholds of 3 and 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 8.46% (corresponding to 568,390 voting rights) on that date.

**F. van Lanschot Bankiers N.V.**, 52 JN, 's-Hertogenbosch, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 4 November 2014, that its voting rights proportion exceeded the thresholds of 3 and 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 8.46% (corresponding to 568,390 voting rights) on that date. 8.46% (corresponding to 568,390 voting rights) are to be attributed to F. van Lanschot Bankiers N.V. pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to F. van Lanschot Bankiers N.V. are held via

the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: **Kempen & Co. N.V.**

**Van Lanschot N.V.**, 52 JN, 's-Hertogenbosch, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 5 November 2014, that its voting rights proportion exceeded the thresholds of 3 and 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 8.46% (corresponding to 568,390 voting rights) on that date. 8.46% (corresponding to 568,390 voting rights) are to be attributed to Van Lanschot N.V. pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to Van Lanschot N.V. are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug: **F. van Lanschot Bankiers N.V.**, **Kempen & Co. N.V.**

**Kempen & Co. N.V.**, Amsterdam, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 4 November 2014, that its voting rights proportion fell below the threshold of 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 31 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 4.93% (corresponding to 330,802 voting rights) on that date.

**F. van Lanschot Bankiers N.V.**, 52 JN, 's-Hertogenbosch, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 4 November 2014, that its voting rights proportion fell below the threshold of 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 31 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 4.93% (corresponding to 330,802 voting rights) on that date. 4.93% (corresponding to 330,802 voting rights) are to be attributed to F. van Lanschot Bankiers N.V. pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to F. van Lanschot Bankiers N.V. are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: **Kempen & Co. N.V.**

**Van Lanschot N.V.**, 52 JN, 's-Hertogenbosch, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 5 November 2014, that its voting rights proportion fell below the threshold of 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 31 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 4.93% (corresponding to 330,802 voting rights) on that date. 4.93% (corresponding to 330,802 voting rights) are to be attributed to Van Lanschot N.V. pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to

be attributed to Van Lanschot N.V. are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: **F. van Lanschot Bankiers N.V., Kempen & Co. N.V.**

**Kempen & Co. N.V.**, Amsterdam, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 11 November 2014, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 3 November 2014, and that its voting rights proportion in Probiodrug AG amounted to 0.96% (corresponding to 64,245 voting rights) on that date.

**F. van Lanschot Bankiers N.V.**, 52 JN, 's-Hertogenbosch, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 11 November 2014, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 3 November 2014, and that its voting rights proportion in Probiodrug AG amounted to 0.96% (corresponding to 64,425 voting rights) on that date. 0.96% (corresponding to 64,425 voting rights) are to be attributed to F. van Lanschot Bankiers N.V. pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

**Van Lanschot N.V.**, 52 JN, 's-Hertogenbosch, the Netherlands, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 11 November 2014, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 3 November 2014, and that its voting rights proportion in Probiodrug AG amounted to 0.96% (corresponding to 64,425 voting rights) on that date. 0.96% (corresponding to 64,425 voting rights) are to be attributed to Van Lanschot N.V. pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

**Wellington Hedge Management, LLC**, Boston, Massachusetts, USA, informed our Company pursuant to Section 21 (1) WpHG (German Securities Trading Act) on 11 November 2014, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 29 October 2014, and that its voting rights proportion in Probiodrug AG amounted to 2.38% (corresponding to 160,049 voting rights) on that date. 2.38% (corresponding to 160,049 voting rights) are to be attributed to Wellington Hedge Management, LLC, pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

## Capital reserves

As at 31 December 2014 the capital reserves amounted to EUR 22,016,465.55 (in the prior year EUR 51,467,571.73).

In connection with the August 2014 conversion of the convertible bonds amounting to EUR 9,622,000.00, EUR 3,700,771.00 was recorded in the capital reserves.

On 05 September, in preparation for the simplified capital reduction in accordance with Section 229 (1) of the AktG, the management board resolved to reduce the capital reserves in accordance with Section 229 (2) of the AktG to a remaining value of EUR 296,544.30. The release of the reserves totalled EUR 54,871,798.43.

In conjunction with the capital increase on the basis of a cash contribution within the scope of the initial public offering during the financial year, payments totalling EUR 21,719,921.25 were made into the capital reserves in accordance with section 272 (2) number 4 of the HGB.

## Revenue reserves

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

## Net accumulated losses

As at 31 December 2014, the net accumulated loss totalled EUR 12,480,753.10. It developed as follows during the financial year:

	EUR	EUR
Accumulated deficit as at 31 December 2013		81,301,659.82
Net loss in financial year 2014		12,259,356.71
Changes within the scope of the simplified capital reduction		
Release of the capital reserves	-54,871,798.43	
Income from the reduction of capital	<u>-26,208,465.00</u>	<u>-81,080,263.43</u>
Net accumulated loss as at 31 December 2014		<u><u>12,480,753.10</u></u>

## **Tax provision**

As per the audit report of the tax office Halle/Saale dated 25 June 2009 on the tax audit carried out in 2008, the 2004 operating income was retroactively increased by approximately EUR 10,010k.

On 5 October 2009, the Company filed an appeal against the changed assessments for 2004 corporate income tax and the solidarity tax contribution. In 2008, in accordance with the prudence principle, the Company recorded the risk resulting from the assessments within the tax provision. In a ruling with respect to the appeal issued by the fiscal authorities in September 2013, the assessment notices with respect to corporate income tax and the solidarity surcharge for 2004 was changed and the tax obligation was reduced slightly. Other than that, the appeal was denied. In addition, in October 2013 an amended municipal tax assessment notice for the assessment period 2004 was issued. The afore mentioned risks including the accrued interest thereon were given consideration by increasing the tax provision by EUR 98k as at 31 December 2014 to EUR 2,543k.

The Company has contested the changed assessment notices. A ruling has not yet been issued. A stay of execution was granted for the assessment notices in dispute.

## **Provision for pensions**

The calculation of the pension provision was carried out using a discount rate of 4.53%. A further parameter applied in the calculation was a pension progression rate of 1.5%.

During the financial year, personnel expenses in conjunction with the pension obligations amounting to EUR 74k (in the prior year EUR 64k) and interest expense of EUR 42k (in the prior year EUR 42k) were recorded. Interest expense includes income on the assets used to fund the obligation in the amount of EUR 4k (in the prior year EUR 5k) which is presented as a net amount.

As at 31 December 2014, the cash surrender value of the covering assets corresponds with the pledged entitlement to the life insurance amounting to EUR 635k (in the prior year EUR 574k). In accordance with Section 246 (2) of the HGB, this amount was offset with the settlement amount of the pension provision which amounted to EUR 1,005k (in the prior year EUR 895k). The recorded pension provision amounted to EUR 370k (in the prior year EUR 321k).

## Other provisions

The other provisions include provisions attributable to the phantom stock options issued in 2010 and 2013 (EUR 754k; in the prior year EUR 719k), other personnel related provisions (EUR 141k; in the prior year EUR 126k), provisions for financial statements and audit (EUR 76k; in the prior year EUR 39k), provisions for outstanding invoices (EUR 83k; in the prior year EUR 438k) as well as a provisions for the Company's other business activities (EUR 53k; in the prior year EUR 53k).

The provision for phantom stock options is recorded as stock based remuneration with payment in cash at the fair value. Measurement is based on a Monte-Carlo simulation, in which the following factors were given consideration in the determination of the fair value:

- the exercise price of the option rights in accordance with the respective option terms and conditions
- the term of the option rights (until 27 October 2015)
- the current share price of EUR 20.00 of the underlying shares
- the expected volatility of the share price at 40% as well as
- the risk-free interest rate for the term of the option rights at -0.04%.

## Liabilities

As was the case in the prior year, the liabilities as at the balance sheet date all have a remaining term of up to one year.

## IV. Explanations on the income statement

### Other operating income

The other operating income during the financial year included:

	2014	2013
	EURk	EURk
Income from the release of provisions	220	88
Other income relating to other periods	0	10
Expense based research and other grants	9	453
Income from the sales of fixed assets	6	150
Income from exchange rate differences	<u>2</u>	<u>3</u>
	<u>237</u>	<u>704</u>



## **Other operating expenses**

The other operating expenses include expenses attributable to other periods amounting to EUR 77k (in the prior year EUR 79k) as well as expenses from exchange rate differences amounting to EUR 3k (in the prior year EUR 1k).

## **Extraordinary expenses**

The extraordinary expenses of EUR 2,232k (in the prior year EUR 0k) consist of expenses for the initial public offering on the Euronext/Amsterdam.

## **V. Explanations on the cash flow statement**

The cash flows from operating activities include interest paid of EUR 90k (in the prior year EUR 0k) and interest received totalling EUR 3k (in the prior year EUR 9k).

Of the total transaction costs of EUR 2,232k paid in the financial year, EUR 1,758k were attributable to the initial public offering.

The non-cash expenses in the prior year comprise interest expense in conjunction with the issuance of the convertible bonds.

## **VI. Other disclosures**

### Subsidies

Through the financial year 2014, Probiodrug AG received public subsidies for projects. In addition, the Federal Ministry for Education and Research grants further subsidies. The subsidies were, in part, granted subject to subsequent audits.

### Recommendation for appropriation of result

The management board makes the following recommendation with respect to the appropriation of the result:

The accumulated deficit amounts to EUR -12,480,753.10. This will be carried forward.

### Average number of employees during the financial year

The subsequent employee groups were active for the Company in the financial year:

<u>Employee groups</u>	<u>2014</u>	<u>2013</u>
Members of the management board	2	2
Employees	10	17

### Other financial commitments

The total of the other financial commitments as at 31 December 2014 was EUR 260k (in the prior year EUR 183k).

## **Disclosures with respect to executive bodies**

### Management board

During the financial year just ended, the Company's business was directed by the members of the management board:

Dr. Konrad Glund (Dipl. Biochemiker [degreed biochemist]) – CEO, Chairperson  
Dr. Hendrik Liebers (Dipl.-Biologe [degreed biologist], Dipl.-Kaufmann [degreed businessman]), CFO.

*Member of the supervisory board of Löser Medizintechnik GmbH, Leipzig*

Dr. Inge Lues (Dipl.-Biologe [degreed biologist]), CDO (from 1 November 2014)

All of the above have the authority to represent the Company on their own. In addition, Dr. Lues is released from the constraints of Section 181 of the BGB.

With respect to the remuneration of the management board we refer to the compensation report which forms a part of the management report.

### Disclosure as to total remuneration of former management board members

During the financial year, EUR 43k was recorded in the pension provision for previous members of the management board.

## Supervisory board

The following were appointed as members of the supervisory board:

- Dr. Erich Platzer, medical doctor, Badenweiler/Switzerland – Chairperson
  - *Member of the board of directors, Aptose Biosciences, Toronto, Canada*
  - *Owner and managing director of Platzer Consult GmbH, Basel, Switzerland*
  - *Sole shareholder and board of directors of, PlatzerInvest AG, Basel, Switzerland*
  - *Board of directors - President credentis AG, Windisch, Switzerland*
  - *Board of directors - President Advanced Osteotomy Tools AG, Basel, Switzerland*
  - *Board of directors member Viroblock SA, Plans-les-Ouates (Geneva), Switzerland*
  - *Board of directors member Léman Micro Devices SA, Lausanne, Switzerland*
- Dr. Dinnies von der Osten, Managing Director, Berlin- Vice Chairperson
  - *Managing Director, Goodvent GmbH & Co. KG, Magdeburg*
  - *Advisory board Market Logic Software AG, Berlin*
- Prof. Dr. Georg Frank, biologist, Dessau
  - *Chairperson of the supervisory board of Metropolregion Mitteldeutschland Management GmbH, Leipzig*
  - *Supervisory board member of Mitteldeutschen Flughafen AG, Leipzig*
- Dr. Olivier Litzka, Partner at Edmond de Rothschild Investment Partners Paris
  - *Member of the supervisory board of Noxxon Pharma AG, Berlin*
  - *Member of the supervisory board, SuperSonic Imagine, Aix-en-Provence, France*
  - *Member of the board of directors, JenaValve Technology Inc., Munich and Irvine/USA*
  - *Member of the board, Allecra GmbH, Weil am Rhein, - until August 2014*
  - *Member of the board, Sapiens Steering Brain Simulation BV, Eindhoven, the Netherlands, - until September 2014*
- Dr. Jörg Neermann, Managing Director, Munich
  - *Managing Director LSP Service Deutschland GmbH, Munich*
  - *Member of the supervisory board, Activaero GmbH, Gmünden/Wohra, until 18 March 2014*
  - *Member of the advisory board, Ventaleon GmbH, Gauting*
  - *Member of the supervisory board, Affimed AG, Heidelberg, until 4 December 2014*
  - *Member of the supervisory board, Eyesense AG, Basel, Switzerland*
  - *Member of the supervisory board, Curetis AG, Holzgerlingen*

- Dr. Hubert Birner, Managing Partner, Munich –since 25 August 2014
  - *Managing partner TVM Capital GmbH, Munich*
  - *Managing partner TVM Life Science Management Inc., Montreal, Canada*
  - *Managing partner TVM Life Science Management GmbH, Munich*
  - *Chairman of the board of Argos Therapeutics Inc., Durham, USA*
  - *Member of the board of Proteon Therapeutics, Inc., Boston, USA*
  - *Chairman of the board of SpePharm Holding B.V., Amsterdam, Netherlands*
- Dr. Axel Polack, medical doctor – until 7 July 2014

During the financial year the remuneration of the supervisory board totalled EUR 18k.

The term of the supervisory board ends at the conclusion of the shareholders' meeting which resolves upon the exoneration of the supervisory board for financial year 2014.

#### Auditor's fees

The fees billed by the auditor during the financial year consisted of the following:

	EURk
a) Year end audit fees	135
<i>Of which for the prior year (IFRS)</i>	<i>(83)</i>
b) Other confirmation services	50
c) Other services	<u>23</u>
	<b><u>208</u></b>

#### Compliance statement in accordance with Section 161 of the AktG

The compliance statement prescribed by Section 161 of the AktG regarding the Corporate Governance Codex was provided by the management board and the supervisory board and made available to the shareholders on the Probiodrug internet page.

Halle, 25.02.2015

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues

# Probiodrug AG, Halle

## Schedule of fixed assets in financial year 2014

Acquisition and production costs				
	1/1/2014	Additions	Disposals	31/12/2014
	EUR	EUR	EUR	EUR
<b>I. Intangible assets</b>				
Similar rights acquired for consideration, licenses and software	255,225.88	10,041.01	13,000.00	252,266.89
<b>II. Tangible assets</b>				
1. Buildings on third party land	181,002.98	0.00	0.00	181,002.98
2. Other equipment, operating and office equipment	2,216,848.84	2,039.91	1,643,690.34	575,198.41
	<u>2,397,851.82</u>	<u>2,039.91</u>	<u>1,643,690.34</u>	<u>756,201.39</u>
<b>III. Long-term financial assets</b>				
1. Shares in affiliated companies	5,380,434.48	0.00	5,380,434.48	0.00
2. Participations	3,450.00	0.00	0.00	3,450.00
	<u>5,383,884.48</u>	<u>0.00</u>	<u>5,380,434.48</u>	<u>3,450.00</u>
	<b>8,036,962.18</b>	<b>12,080.92</b>	<b>7,037,124.82</b>	<b>1,011,918.28</b>

	Accumulated amortisation/depreciation				Carrying values	
	1/1/2014	Amortisation/ depreciation in the financial year	Disposals	31/12/2014	31/12/2014	31/12/2013
	EUR	EUR	EUR	EUR	EUR	EUR
	154,357.82	26,407.47	10,069.53	170,695.76	81,571.13	100,868.06
	146,446.96	6,910.07	0.00	153,357.03	27,645.95	34,556.02
	1,930,861.75	60,528.49	1,489,699.14	501,691.10	73,507.31	285,987.09
	<u>2,077,308.71</u>	<u>67,438.56</u>	<u>1,489,699.14</u>	<u>655,048.13</u>	<u>101,153.26</u>	<u>320,543.11</u>
	5,380,433.48	0.00	5,380,433.48	0.00	0.00	1.00
	0.00	0.00	0.00	0.00	3,450.00	3,450.00
	<u>5,380,433.48</u>	<u>0.00</u>	<u>5,380,433.48</u>	<u>0.00</u>	<u>3,450.00</u>	<u>3,451.00</u>
	<b>7,612,100.01</b>	<b>93,846.03</b>	<b>6,880,202.15</b>	<b>825,743.89</b>	<b>186,174.39</b>	<b>424,862.17</b>

# **Probiodrug AG, Halle**

## **Management report for financial year 2014**

### **1. Company basics**

#### **Legal structure**

Probiodrug AG – hereinafter „Probiodrug AG“, „Probiodrug“ or the „Company“ is a German stock corporation domiciled in Halle/Saale. The Company has a subsidiary, Probiodrug Inc., USA. All operating activities and assets are concentrated in Probiodrug AG; currently Probiodrug Inc. has neither operating activities nor assets. The subsidiary, Ingenium Pharmaceuticals GmbH, was sold in 2014.

#### **Business activities**

Probiodrug AG is a biopharmaceutical company dedicated to the research and development of new therapeutic products for the treatment of Alzheimer's disease (hereinafter also „Alzheimer's“ or „AD“).

Headquartered in Halle, Germany, Probiodrug was founded in 1997 by Prof. Dr. Hans-Ulrich Demuth and Dr. Konrad Glund and successfully developed a new therapeutic concept for the treatment of diabetes – the DP4 inhibitors/Gliptins. Today, Probiodrug's aim is to become a leading company in the development of Alzheimer's treatments and thereby to provide a better life for patients'.

Probiodrug has identified a new therapeutic concept linked to disease initiation and progression. The development approaches are targeting pyroglutamate-Abeta (pGlu-Abeta), in particular by the inhibition of the enzyme Glutaminyl Cyclase („QC“), as one therapeutic strategy to fight AD.

## **Research and development**

As was the case in the past, in financial year 2014 Probiodrug focussed its resources on the lead program – the development of PQ912, an inhibitor of the enzyme QC for the treatment of Alzheimer's and other diseases. In addition, work was advanced on pGlu-Abeta binding antibodies (PBD-C06) as well as on PQ 1565, a further QC inhibitor. The primary work in these areas is carried out by external service providers (contract research organisations as well as contract manufacturers) and cooperation partners in the areas ancillary research, production development and production, preclinical and clinical trials as well as analytics.

As a result of its 2013 sale to AstraZeneca, the project CDK 9 for the treatment of inflammatory and oncological diseases no longer forms part of the pipeline.

## **Patent portfolio**

In 2014 Probiodrug further developed and consolidated its portfolio of patents and patent applications. Important patent registrations were granted in key markets. In total, at the end of 2014, 43 patent families and registrations were held (in the prior year: 42). The focussing of the patent portfolio in non-core areas was off-set by new applications in development relevant areas.

## **Important events in the financial year**

### **a) Issuance of convertible bonds**

On 16 May 2014, Probiodrug's shareholders' meeting resolved to issue a convertible bond which was subscribed to in the amount of EUR 4.3 million. The funds secured with this financial instrument were collected in their entirety. The conversion rights associated with these convertible bonds were exercised in their entirety in August 2014.



**b) Simplification of the capital structure**

With a view to future capital market compatibility, the Company's capital structure was substantially adjusted in the course of the Company's IPO preparations. In conjunction herewith, all existing convertible bonds were converted into equity, the different classes of preference shares were uniformly converted into ordinary shares and the existing investment and shareholder agreements were rescinded. Finally, the ordinary shares issued subsequent to conversion were reduced in a reverse split in the ratio of 6:1.

**c) Execution of initial public offering**

In October 2014 Probiodrug successfully completed an initial public offering. On 27 October 2014 the first listing of Probiodrug shares took place on the Euronext in Amsterdam. 1,524,205 new shares were issued as part of the initial public offering generating gross proceeds of EUR 23.2 million.

**d) Sale of the subsidiary Ingenium Pharmaceuticals GmbH**

As at 31 December 2013, Probiodrug had receivables from shareholder loans granted to Ingenium totalling EUR 8.6 million as well as accrued interest thereon of EUR 2.4 million.

As at 31 December 2012, as a consequence of the sale of the CDK 9 project which was the only asset of Ingenium, a valuation adjustment was recorded against the receivables from Ingenium on the basis of the sales price realised reducing the value of the receivables to EUR 0.7 million. In April 2014 the last instalment of the sales price for the CDK 9 project was collected and on 14 July 2014 Ingenium, along with all of the receivables still in existence at that time, was sold for EUR 1.00. There are no longer any post contractual obligations.

## **e) Changes in management board and supervisory board**

As at 1 November 2014, Dr. Ingeborg Lues was appointed as a member of the management board with responsibility for the function drug development. The contracts of the management board members Dr. Glund and Dr. Liebers, with a term through 30 November 2014, were revised and have a term through 30 November 2017. In July 2014, Dr. Polack resigned from the supervisory board. On 25 August 2014 the shareholders' meeting elected Dr. Birner as a new member of the supervisory board and re-elected all other supervisory board members. The term of all supervisory board members ends with the shareholders' meeting which resolves upon the exoneration of the supervisory board for the year 2014.

## **2. Overview of the business development**

### **2.1 General conditions**

The general environment with respect to Alzheimer's research developed positively in 2014. There were, in part, significant collaborations in the pharmaceutical industry in the Alzheimer area, implying an increasing interest in the development of research and development pipelines in this area. Noteworthy are the collaborations involving BiogenIdec and Eisai (March 2014) as well as that of Lilly and AstraZeneca (September 2014). From the perspective of the investors, this development, along with the initial positive clinical data for example from BiogenIdec, led to an increase in interest in the indication Alzheimer. In conjunction with the promising data already generated by Probiodrug as well as the general positive stock market environment for biotechnology companies, this led to the Company's successful initial public offering on the Euronext in Amsterdam in October 2014.

From the perspective of the industry, there continues to be an unchanged high level of interest in novel treatment approaches which make innovative pharmacological interventions possible for diseases such as Alzheimer's which are still insufficiently

treated thereby prospectively making attractive reimbursement possible. However, as a consequence, high validation and thereby risk optimising requirements are a prerequisite for a (lucrative) partnership.

## **2.2. Company development**

In 2014 the Company focussed on the following primary areas

- Establishing capital market viability and completing an initial public offering
- Preparation of the clinical study phase IIa for PQ912
- Completion of the clinical study phase I for PQ912
- Completion of the 3 month toxicity study for PQ912
- Development and validation of biomarker – panels for the further clinical trials of PQ912 and subsequent development compounds.

Probiodrug was able to make important progress and realise successes in all areas.

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

### Net assets

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

	<b>31.12.2014</b>	<b>31.12.2013</b>
	EUR k	EUR k
<b>Assets</b>		
Intangible assets	82	101
Tangible assets	101	320
Long-term financial assets	3	3
<b>Fixed assets</b>	<b>186</b>	<b>424</b>
Receivables and other assets	296	1,339
Cash and bank balances	20,920	4,421
<b>Current assets</b>	<b>21,216</b>	<b>5,760</b>
Prepaid expenses	78	96
Deficit not covered by equity	0	4,078
<b>Total assets</b>	<b>21,480</b>	<b>10,358</b>
<b>Equity and liabilities</b>		
Equity	16,529	0
Provisions	4,021	4,142
Liabilities	930	6,216
<b>Total equity and liabilities</b>	<b>21,480</b>	<b>10,358</b>

As at the end of 2014, the total assets of Probiodrug amounted to EUR 21,480k (2013: EUR 10,358k). As a result of the disposal of tangible assets with a carrying value of EUR 157k and scheduled amortisation and depreciation of EUR 94k, off-set by

additions of EUR 12k, the total fixed assets presented on the balance sheet declined by EUR 238k. In 2014 current assets increased from EUR 5,760k to EUR 21,216k. While receivables and other assets declined by EUR 1,043k in the reporting period, cash and cash equivalents increased by EUR 16,499k. The decline in the receivables and other assets was primarily attributable to the collection of receivables from affiliated companies as well as the decline in the other receivables attributable to the sale of fixed assets.

As a result of measures implemented to increase capital, cash receipts totalling EUR 27,520k were realised in 2014. As at the balance sheet date, bank balances amounted to EUR 20,920k.

As at 31 December 2014, Probiodrug's equity amounted to EUR 16,529k (2013: deficit not covered by equity of EUR 4,078k). As at 31 December 2014, the equity ratio amounted to 77%.

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

As at 31 December 2014, provisions only decreased marginally by EUR 121k to EUR 4,021k. EUR 370k of the provisions (2013: EUR 321k) comprise pension provisions, EUR 1,107k (2013: EUR 1,376k) are other provisions and EUR 2,543k (2013: EUR 2,445k) are tax provisions for potential tax claims from 2004.

During the reporting period, liabilities declined substantially from EUR 6,216k to EUR 930k. This was primarily attributable to the conversion of convertible bonds issued in 2013 totalling EUR 5,346k into stock in 2014.

As at 31 December 2014, trade payables amounted to EUR 876k (2013: EUR 838k).

### **Financial position**

In the reporting period, the operating cash flow amounted to EUR -10,589k (2013: EUR -8,458k).

In 2014 the cash flow from investing activities amounted to EUR 1,326k (2013: EUR -22k). Cash inflows primarily resulted from sale of fixed assets in December 2013 as well as the repayment of the loan granted to Ingenium.

In the financial year 2014 the cash flow from financing activities amounted to EUR 25,762k (2013: EUR 5,346k). This resulted from inflows in conjunction with the shares issued (EUR 23,244k) less the transaction costs associated herewith (EUR 1,758k) as well as from inflows resulting from the issuance of convertible bonds (EUR 4,276k).

Overall, in the reporting period, the Company realised an increase in cash and cash equivalents amounting to EUR 16,499k.

### **Results of operations**

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

	<b>2014</b>	<b>2013</b>
	EUR k	EUR k
Other operating income	237	704
Cost of materials	-4,346	-4,305
Personnel expenses	-1,455	-1,782
Amortisation and depreciation of intangible and tangible assets	-94	-314
Other operating expenses	-4,576	-4,545
Financing results	207	147
<b>Result from ordinary activities</b>	<b>-10,027</b>	<b>-10,096</b>
Extraordinary expenses	-2,232	0
Net loss for the financial period	-12,259	-10,096

The Company's net loss for the year amounted to EUR 12,259k (2013: EUR 10,096k). The financial year 2014 was characterised by extraordinary expenses amounting to EUR 2,232k. These comprised transaction costs in conjunction with the Company's initial public offering. In the result from ordinary activities, which was approximately equal to that of the prior year, there were the following significant changes in comparison with 2013:

- other operating income declined by EUR 467k, due primarily to a decline in subsidies received (EUR -444k);
- personnel expenses declined by EUR 327k due to a reduction in employees;
- amortisation and depreciation on intangible and tangible assets declined as a result of the sale of fixed assets in the financial year 2013.

### **Overall statement**

At the time of preparation of this management report, the Company's economic position was generally unchanged in comparison with the explanations provided above.

## **2.4. Non-financial performance indicators**

### **Studies to be completed**

Probiodrug uses a number of contract research organisations to complete the planned preclinical and clinical studies as well as in production development and production. Important performance indicators in this respect are, in addition to compliance with the budget, the quality of the work carried out as well as compliance with all applicable regulations. As a safeguard in this area, Probiodrug carries out audits prior to the awarding of contracts as well as during the ongoing work addressing the aforementioned points and potentially deriving recommendations for action. Great emphasis is placed on adherence to timetables for the work contracted and thereby the completion of ongoing studies within the original timeframe. With respect hereto, Probiodrug works closely with the mandated entity and has alternative scenarios prepared so as to potentially be able to limit or compensate delays.

## **Employees**

As at 31 December 2014, including the management board, Probiodrug had 13 (2013: 16) employees, of which 54% were female. In 2014 there was an average of 12 employees (2013: 19). In 2014 Probiodrug incurred personnel expenses (excluding non-cash expenses for the stock option programme) of EUR 1.45 million (2013: EUR 1.78 million). This was primarily due to the reduction in staff as a result of the reorganisation, which began in 2012 and was completed in 2013, to adjust the Company and personnel structure to the focused development strategy.

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

## **Intellectual property rights**

A robust patent portfolio is a decisive success factor for Probiodrug. Probiodrug has a very experienced patent management which further strengthened and strategically optimised the patent portfolio in 2014. In order to ensure focus on the sustainable value drivers as well as to optimise costs and benefits, Probiodrug continuously reviews its patent portfolio and patent applications. Furthermore, in 2014, the entire intellectual property portfolio around CDK 9 was transferred to AstraZeneca in conjunction with the sale of this program.

As at 31 December 2014, 43 patent families were held (31 December 2013: 42). The focussing of the patent portfolio in non-core areas was off-set by new applications in the development relevant areas. As such, Probiodrug's overall patent position was further improved.

### **3. Events of particular significance subsequent to the balance sheet date (subsequent events)**

There were no events of particular significance subsequent to the balance sheet date.



## **4. Opportunities and risks report**

### **4.1. Opportunities report**

#### **Increasing interest in Alzheimer's**

In 2014 (after a „break“ of a number of years) there were a number of somewhat significant collaborations in the pharmaceutical industry in the Alzheimer's area, implying an interest in the development of a research and development pipeline in this area. Prospectively this could lead to an increased frequency of transactions. In comparison, the available number of new, scientifically supported concepts with initial clinical data is limited. From both a strategic perspective as well as in terms of content, Probiodrug is well positioned in this regard. In case of success, this provides opportunities which could substantially increase the Company's value.

#### **Important progress in projects being pursued**

In 2014 Probiodrug was able to generate important clinical and preclinical data which, in the view of the Company, further provides for the viability of the therapeutic concept being pursued. Additional key patents were granted in important markets. The continuation of this development, i.e. the generation of additional positive data, should have a positive impact on the value of individual programs as well as the Company's total value.

#### **License revenues as a result of patents**

Probiodrug's very comprehensive and well positioned patent portfolio could lead to additional licensing agreements and thereby proceeds if other companies are dependent on the use of such patent rights within the scope of their own developments. If Probiodrug allows for the use of these patent rights, the Company would receive license fees thereby improving the Company's financial position, results of operations and net assets.

## **Takeover**

In addition to license agreements, complete takeovers of pharmaceutical and biotechnological companies is a preferred transaction form to obtain access to promising development programs and interesting technologies. This is reflected in generally active M&A activities in the biotechnology and pharmaceutical areas in recent years. The premiums paid in comparison with the actual market prices can be substantial.

## **4.2. Risk report**

### **Probiodrug's risks**

Probiodrug is exposed to various individual risks. The occurrence of these risks can, individually or in the aggregate, with the incurrance of other risks respectively other circumstances, have a material adverse effect on the business activities, the realisation of significant Company goals and/or Probiodrug's refinancing and could have substantial negative implications on the Company's net assets, financial position and results of operations. In the worst case this could force the Company to file for insolvency.

### **Sector specific risks**

#### **Market and competition**

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

As such, Probiodrug is exposed to the risk that other development approaches will result in a superior safety/efficacy profile and/or that they will achieve a development edge which could reduce Probiodrug's prospects with respect to the

conclusion of a lucrative industrial collaboration ultimately having a negative impact on the licensing of product candidates.

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

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

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

### **Product development (in general)**

Probiobdrug's success is dependent on different research and development programmes. The Company is subject to the risks of the development of drugs.

Typical risks include:

Individual product candidates may not be effective or sufficiently effective, may have unacceptable side effects or may not be formulated or manufactured so that they cannot be successfully further developed. Service providers and partners may become insolvent which could result in a delay in development and/or result in the relevant data becoming unusable.

The responsible authorities may not grant the required regulatory approvals, they may grant these with restrictions or after a delay.

At present, Probiodrug has a development candidate in the clinical study phase (PQ912) as well as two candidates which are in earlier phases. On the basis of this product pipeline, risks, respectively the dependence on one individual active substance can, in principle, be reduced. However, due to the different development phases, a substantial portion of the Company's value results from PQ912. Current study results suggest that PQ912 can be safely applied and that it is well tolerable. However, Probiodrug cannot exclude that, in upcoming studies, it may fail to demonstrate effectiveness when used on patients and/or that side effects will result which may be characterised as safety relevant. Such findings could lead to a delay in or the discontinuation of the development of a development candidate. This could have a negative effect on Probiodrug's net assets, financial position or results of operations as well as on the market valuation.

### **Administrative proceedings**

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

### **Risks arising from business activities**

#### **Development and licensing partnerships**

Probiodrug has focussed on the research and development of therapies for the treatment of Alzheimer's and related diseases. In order to generate profits and to become self-sufficient in terms of financing, the Company must generate sales – either as a result of advance payments, milestone payments or commissions – arising from cooperation agreements with pharmaceutical and biotechnology companies. To date, no industrial cooperation has been concluded with the consequence that no revenues have been realised. Against this background, and

in view of the required substantial future research and development expenses, Probiodrugs will, for the time being, continue to present negative operating results. To become profitable in the mid-term, Probiodrugs will have to conclude a corresponding agreement with the pharmaceutical industry or with another biotechnology company. Should it not be possible for Probiodrugs to secure such a partner or if this is only possible at economically unfavourable terms, this could delay the development of the respective products and/or result in lower revenues thereby reducing the intrinsic value of the project.

### **Patent and trademark protection**

Probiodrugs protects its own developments with a comprehensive patent strategy. Nonetheless, the Company cannot guarantee that its patent protection is sufficient for its business activities. It cannot be precluded that third parties may file appeals against Probiodrugs's patent registrations or that they challenge the effectiveness of the patents. It can also not be precluded that Probiodrugs may become engaged in a patent dispute with third parties e.g., when Probiodrugs must defend against the unauthorised use of its patents by third parties. Every legal verdict against Probiodrugs's patents can inhibit the further development of the program affected and potentially that of the Company. Regardless of the outcome, these types of proceedings are time and cost intensive and may tie up substantial Company resources. This could, in turn, have negative implications on the programs affected and potentially the Company. As per the Company's current knowledge, no objections have been raised against the patents or patent registrations.

### **Risks associated with product development**

#### **Collaboration with external service providers in the area of research and development**

Probiodrugs carries out the required preclinical and clinical studies with contract research organisations (hereinafter CROs). The Company is dependent on the quality of their work. Replacing a CRO during an ongoing study is very complex as

a result of which there may be substantial delays and it may become necessary to repeat the study involved. Should the CRO not carry out its work with the required due care and/or not adhere to the legal requirements and quality assurance norms, the further development of the affected projects may be negatively impacted.

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

### **Patient recruitment**

A further risk with respect to the development of drugs is the need to recruit a sufficient number of suitable patients for the PQ912 clinical study. Due to the complexity of the medical conditions (e.g., design of the study, attractiveness of the study from the perspective of the patient and the clinical investigators, competitive situation, patient population, locations) in the periphery of the clinical studies delays may be encountered. In addition, clinical study centres could – for example as a result of other concurrent clinical studies or due to continuing quality issues with respect to their internal organisation – have difficulty recruiting a sufficient number of patients within the period required. This could endanger the timing as well as the execution of the study and could lead to delays. In order to progress the study Probiodrug may, therefore, be required to involve other clinical centres in the ongoing study. This could lead to an increase in costs and potentially to an increase in variability.

## **Capital market risks**

### **Additional financing**

On the basis of the current cash and cash equivalents, the Company can provide for the continuity of operations for a period exceeding the next twelve months. However, Probiodrug has a need for substantial capital to achieve its mid- to long-term corporate and development goals. This will require an increase in equity or in third party financing or the generation of inflows as a result of the granting of licenses or cooperations. It is not certain that Probiodrug will be able to obtain additional capital within the required timeframe, to the extent required, at economically favourable terms or that this can be realised at all. Should the Company not be able to obtain access to additional financing, this could inhibit, or even completely endanger, the continuity of the Company and could lead to Probiodrug's liquidation or insolvency. Should the Company obtain additional capital by issuing new shares, this could lead to a dilution of the shareholding of the existing shareholders. Should the Company not be able to obtain additional funding, Probiodrug may be inhibited in the further development of its projects and/or the development of one or a number of products could be discontinued and/or the speed of development could be reduced resulting in a negative effect on the competitive position as well as on the results of operations, financial position and net assets to the extent that this could lead to the Company's insolvency.

## **Financial risks**

### **Investment of liquid funds**

The Company invests the available liquid funds in an interest bearing manner. The Company solely invests in investment grade assets with only a low level of liquidity or default risk.

Transactions with international service providers and partners with whom payment terms are denominated in a currency other than the euro, lead to a currency risk. On the basis of economic considerations, Probiodrug has not engaged in any hedging activities seeking instead to pay its own obligations in a foreign currency. As such, the risk of exchange rate fluctuations is reduced.

### **Presentation of loss in accordance with Section 92 (1) of the AktG**

Probiodrug AG is not yet profitable and incurred operating losses in the prior financial years. As a result of the distinctive market, research and development expenses over time have led to a substantial loss carry forward. This is off-set against the equity. At such time at which, despite the paid in surplus of the shares issued, a loss amounting to one half of the share capital as determined based on [German] commercial law is incurred, Section 92 (1) of the AktG requires the convening of a shareholders' meeting without delay. Such an announcement of a loss could have negative consequences for the share price as well as for Probiodrug's procurement of additional financing.

### **Potential additional tax payment**

Following a tax audit in 2008, the tax authorities retroactively increased the taxable profits for 2004 by approximately EUR 10 million, resulting in a tax claim for corporate income tax, solidarity surcharge and trade tax of EUR 1.7 million plus interest of 0.5% per month since 1 April 2006. The potential tax liability amounts to a total of approx. EUR 2.5 million (including accrued interest). Probiodrug believes that the better arguments speak against the tax authorities' view and has contested the claims of the tax authorities. The matter is now pending with the competent tax court. As a matter of precaution, Probiodrug has recognised in its financial statements a tax provision corresponding to the amount in dispute (including accrued interest). Nevertheless, should Probiodrug eventually be required to make such tax payments, this would have a corresponding material adverse effect on Probiodrug's liquidity and cash flow position and may negatively affect its business, prospects and financial condition. Such payment obligations could endanger the going concern of Probiodrug if Probiodrug does not succeed in obtaining additional funding.

### **Recognition of tax losses carried forward**

The use of Probiodrug's existing tax loss carry forwards and ongoing losses for German corporate income and trade tax purposes may be forfeited or may have



already been forfeited in case of a direct or indirect transfer of shares, including the issue of new shares from a capital increase, subject to certain limited exceptions. Such limitations apply to both corporate income and trade tax and are dependent on the percentage of share capital or voting rights transferred within a five-year period to one acquirer or person(s) closely related to the acquirer or a group of acquirers with a common interest. If more than 25% of the share capital or voting rights are transferred to such an acquirer (including subscription of new shares), tax loss carry forwards and current losses will be forfeited on a pro rata basis while a transfer of more than 50% will result in a total forfeiture. To the extent the utilisation of tax loss carry forwards is restricted, they cannot be set off against future taxable profits. This would result in an increased tax burden.

### **Administrative and other risks**

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

### **Legal risks**

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

### **Other risks**

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

### **Overall assessment of the risk situation**

Giving consideration to all of the afore mentioned risks, there currently are only a few factors which could, in the short-term, endanger the continuity of Probiodrug in the financial year 2015. Overall, the Company is well positioned. The cash and cash equivalents as at 31 December 2014 provide for the Company's financing beyond the upcoming twelve months. Management believes that additional cash inflows can be generated. If the currently planned assumptions with respect to liquidity do not prove to be viable, based on the current cash reach, there could prospectively be a risk that the financing of the Company is insufficient.

## **5. Outlook**

The mid-term focus of Probiodrug's business activities can be summarised as follows:

- Further preclinical and clinical testing of the development candidate PQ912 in the area of QC inhibition, in particular execution of the first patient study in 2015/ 2016,
- Securing further supporting data and intellectual property protection for the therapeutic concept of QC inhibition as a fundamental novel approach for the treatment of Alzheimer's and other diseases,
- Further progression of the therapeutic concept of the anti pGlu specific antibodies (PBD-CO6) as well as that of PQ1565, an additional QC inhibitor,
- Further increasing visibility and acceptance as an important prerequisite for an industrial transaction,

- Optimising external cooperations to increase the breadth and speed of the research and development processes as well as the involvement of key opinion leaders.

As a result of the additional costs being incurred for development activities which are not yet off-set by any sales, the Company also projects a net loss for the financial year 2015 by trend approximately comparable with that of 2014.

The Company is well positioned in the development of new therapeutic concepts for the treatment of Alzheimer's. The successfully completed initial public offering has further solidified this positioning. By successful further program development, Probiodrug will lay the groundwork for a mid-term option for a lucrative industrial partnership or an M&A transaction as well as the further generation of a substantial company value.

## **6. Probiodrug's risk management and internal control system**

### **Risk management system**

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

In a continuous process, management board members responsible for the different functions within the Company identify, analyse and evaluate the risks with respect to their probability of occurrence, their possible costs and their effect on liquidity, the time reference as well as the existence of possible and planned countermeasures. The

respective management board members regularly inform Probiodrug's entire management board. Based on this, the management board and, where necessary, the supervisory board determine how the Company will address the risks identified.

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

Application of these regulations is obligatory for the entire company.

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

The required signatures fix the authority to sign for purchases and invoices. Differentiation exists with respect to the amount of the purchase and whether the signature is provided by a project member, the project manager or a management board member.

All projects are analysed in detail in regular project meetings and further steps are determined. These provide for close coordination of accompanying research and pharmaceutical development as well as with the management board. Project meetings generally take place weekly and comprise the presentation and discussion of the individual projects PQ912, PQ1565, PBD-C06 biomarker as well as the accompanying research. The participants in the project meetings include the responsible management board member, the project manager as well as the employees and possibly advisors of the individual projects.

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

The internal control and risk management system with respect to the financial reporting process ensures that the financial reporting is consistent and in compliance with legal regulations and generally accepted accounting principles and the national regulations (HGB) as well as with the International Financial Reporting Standards (IFRS). This

includes adhering to the dual control principle, spot checks and emergency planning. On the basis of continuous training, the financial team, including the consultants utilised, ensures that all legal requirements are implemented by the Company.

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

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

The preparation of the HGB and the IFRS financial statements is based on uniform regulations. The comparatively small finance team provides for the consistent presentation of the same circumstances. This provides certainty for the entries and the corresponding classifications on the subprojects.

## **7. Reporting in accordance with Section 289 (4) of the HGB**

### **7.1. Summary information with respect to capital, voting rights and stock with special rights**

As at 31 December 2014, Probiodrug AG's share capital amounted to EUR 6,765,898.00. It is divided into 6,765,898 ordinary bearer shares with a notional par value of EUR 1.00 per share. Each share provides one vote at the shareholders' meeting as well as dividend entitlements when distributions are resolved upon; there are no restrictions on voting rights. The share capital has been paid in in its entirety. No own shares are held.

No shareholders have special rights which confer control. In particular, there is no right to appoint members of the supervisory board in accordance with Section 101 (2) of the AktG. To the extent that Probiodrug AG's employees or affiliated companies hold shares of the Company, they directly exercise control over the voting rights.

In accordance with the resolution of the shareholders' meeting on 23 October 2014, the management board is authorised, with the approval of the supervisory board, to increase the Company's share capital through 23 October 2019 by up to EUR 3,358,551.00 through single or multiple issues of new bearer shares in exchange for cash and/or a contribution in kind, whereby subscription rights can be excluded (authorised capital 2014/I). On 12 November 2014, in conjunction with the exercising of the Greenshoe option in connection with the initial public offering, 48,796 new shares were issued. The authorised capital 2014/I thereby still amounts to EUR 3,309,755.00.

In total, the contingent capital amounts to EUR 524,169.00. As at the balance sheet date it still amounts to EUR 524,169.00 and consists of the following:

#### Contingent capital 2008/I

The Company's share capital was contingently increased by up to EUR 11,300,00 by the issuance of up to 11,300 new shares (contingent capital 2008/I, Section 5 (4) of the Articles of Association). The contingent capital increase solely serves to redeem the stock

options issued to members of the management board as well as Company employees on the basis of the resolution of the shareholders' meeting held on 21 February 2008.

#### Contingent capital 2008/II

The Company's share capital was contingently increased by up to EUR 16,950.00 by the issuance of up to 16,950 new shares (contingent capital 2008/II, Section 5 (5) of the Articles of Association). The contingent capital increase solely serves to redeem the stock options which were issued to members of the management board and Company employees on the basis of the shareholders' meeting held on 21 February 2008.

#### Contingent capital 2010/I

The Company's share capital was contingently increased by up to EUR 85,901.00 by the issuance of up to 85,901 new shares (contingent capital 2010/I, Section 5 (6) of the Articles of Association). The contingent capital increase solely serves to redeem the stock options which were issued to members of the management board and Company employees on the basis of the shareholders' meeting held on 18 May 2010 with amendments dated 20 September 2011, 30 December 2011, 31 October 2012 and 25 August 2014.

#### Contingent capital 2014/I

The Company's share capital was contingently increased by up to EUR 410,018.00 by the issuance of up to 410,018 new shares (contingent capital 2014/I, Section 5 (7) of the Articles of Association). The contingent capital increase solely serves to redeem the options which were issued to members of the management board and Company employees on the basis of the resolution of the shareholders' meeting held on 29 September 2014.

#### Authorisation to acquire own shares

In the shareholders' meeting on 9 October 2014, the management board was authorised to repurchase shares of the Company on or before 30 September 2019 with a nominal amount of up to EUR 524,169.00 of the share capital complying with the

restrictions in Section 71 (1) number 8 of the AktG. The acquisition may be carried out on the stock exchange or by way of a public offer to all shareholders. The own shares can, among other things, be used to reduce the share capital. The management board was also authorised, with the approval of the supervisory board, to use the own shares, with the exclusion of the shareholders' subscription rights, (i) in conjunction with the listing of shares in the Company on foreign stock exchanges where they had not previously been admitted to trading (ii) in connection with the acquisition of companies, parts of companies or equity investments in companies as well as a merger and (iii) to sell the shares at a price not falling significantly below the stock exchange price of the shares in the Company.

To date the management board has not made use of this authorization.

## 7.2. Shareholders of Probiodrug AG

As at the balance sheet date the following shareholders of Probiodrug AG had shareholdings in accordance with the provision of the German Securities Trading Act (WpHG), the voting rights exceeded 10.0%.

Shareholder	Legal seat	Voting rights in %
BB Biotech AG	Schaffhausen/ Switzerland	15.7
Edmond de Rothschild Investment Partners	Paris/ France	14.4
IBG Group	Magdeburg/ Germany	14.1
HBM Healthcare Investments	Zug/Switzerland	11.4

### Restrictions with respect to the transfer of shares

In conjunction with the initial public offering, the former shareholders committed to the underwriting bank for the initial public offering, that, for a period of six months subsequent to the first day of trading of the shares, i.e., from 27 October 2014, they would not make any shares in their possession on that date available, pledge or sell



these. For a further period of six months this is only possible with the consent of the underwriting bank.

### **7.3. Appointment and removal of members of the management board**

The appointment and removal of members of the management board is regulated by Sections 84 and 85 of the AktG as well as in Section 6 of the Articles of Association in the version dated 14 November 2014. In accordance with section 6 of the Articles of Association, the management board consists of one or a number of members; moreover, the supervisory board determines the number of members of the management board. The members of the management board are appointed for a maximum period of five years. This also applies to the reappointment of the respective management board member.

As at 1 November 2014, Dr. Ingeborg Lues was appointed as a member of the management board with responsibility for the function drug development. The contracts for the board members Dr. Glund and Dr. Liebers, with a term through 30 November 2014, were amended and have a term through 30 November 2017.

### **7.4 Changes to the Articles of Association**

Changes to the Articles of Association are made pursuant to Sections 179 and 133 of the AktG. In accordance with Section 20 of the Articles of Association, the simple majority of the voting rights exercised and in terms of equity the simple majority of the share capital represented at the time of resolution is sufficient for resolutions of the shareholders' meetings (including changes to the Articles of Association) so long as the law does not specifically require something else. Other than this, the supervisory board is authorized to make changes to the Articles of Association which only relate to wording.

## **7.5. Other disclosures**

In case of a change of control of Probiodrug AG, there are agreements with the members of the management board. Should, in case of a change of control, the appointment as a member of the management board be terminated or if the responsibilities are limited in a more than insignificant manner, the members of the management board can terminate their contracts as members of the management board. In such a case they would be entitled to payment of the fixed compensation through the end of their original contract term plus a part of the variable compensation on the basis of 100% target achievement pro rata temporis if these were fixed for the year. The employees' contracts do not have any stipulations for such a situation.

## **8. Corporate governance statement in accordance with Section 289a of the HGB**

The corporate governance statement in accordance with Section 289a of the HGB includes the corporate governance statement pursuant to the German Corporate Governance Code, relevant information on corporate governance practices and a description of the procedures of the management board and the supervisory board.

### **Compliance statement of the management board and the supervisory board in accordance with Section 161 of the AktG**

Pursuant to the recommendations of the „Government Commission on the German Corporate Governance Code“ in accordance with Section 161 of the AktG:

Probiodrug AG's management board and supervisory board declare that the recommendations of the „Government Commission on the German Corporate Governance Code“ published by the German Federal Ministry of Justice on 24 June 2014 have been complied with, with the following exceptions:

1. Section 3.8 of the Code – retained amount in the D&O insurance for the supervisory board

The Company maintains D&O insurance covering all members of the supervisory board. No retained amount is stipulated. As most of the supervisory board members do not receive any remuneration, a retained amount would lead to an unreasonable result in financial terms for the supervisory board members.

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

Phantom stocks were granted to the management board members which can be exercised upon listing. No cap is provided for such phantom stocks. Apart from that, stock options were granted to the management board members for which no cap is provided in case they are exercised. In any other respect, cap amounts are provided in the agreements with the management board members.

3. Section 4.2.3 (4) of the Code – Limitation to two years' remuneration of the payment to a management board member in case of premature termination

The currently existing contracts with members of the management board do not provide for any cap. In connection with the transformation of the Company for the purpose of its listing, a primary aim was to ensure the cooperation with the management board members.

4. Section 5.1.2 of the Code – Diversity, reasonable involvement of female members

With Dr. Inge Lues who was appointed as a member of the management board with effect from 1 November 2014, one third of the management board members are female. However, the Company does not consider fixed diversity quota levels in case an insufficient number of qualified candidates can be identified.

5. Section 5.4.1 (2) of the Code – naming of precise objectives regarding the composition of the supervisory board

Regarding the composition of the supervisory board in the future, the supervisory board intends to have members with experience in the public capital market. Considering the alignment of the Company, the members of the

supervisory board should also have U.S. experience. As these requirements make it difficult to find a sufficient number of qualified members for the supervisory board, the supervisory board did not determine any fixed diversity quota, in particular no fixed female quota.

6. Section 5.4.6 (1) sentence 2 of the Code – Taking into account of the chair, the vice chair and the membership in committees for the remuneration of the supervisory board members

Until now, only Prof. Frank receives remuneration for his activities as a supervisory board member. Considering that the other supervisory board members do not receive any remuneration, no increased remuneration can be paid to the chairperson or deputy chairperson of the supervisory board or to committee chairpersons. In the future, it is planned to remunerate new members of the supervisory board. In that case an increased remuneration for the chairperson and the deputy chairperson of the supervisory board as well as for committee chairpersons is to be provided as well.

7. Section 7.1.2 sentence 4 of the Code – shortened publication deadline of the Code for financial reports

According to Section 7.1.2 sentence 4 of the Code, the financial statements of the Company should be publicly accessible within 90 days of the end of the financial year, and the interim reports should be available within 45 days of the end of the reporting period. While the Company will publish the annual financial statements in accordance with the recommendation of the Code, the Company intends to publish the interim reports within the statutory time period of two months from the end of the reporting period of the half-year financial report as of 30 June.

The supervisory board and the management board are confident that these time periods are suitable and necessary for careful preparation of the documents. Furthermore, the supervisory board and management board consider the statutory requirements as sufficient for timely information to the shareholders and the capital markets for the time being. However, the

possibility of complying with the shorter deadlines of the Code is being reviewed.

### **Information regarding corporate governance**

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

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

### **Operating principles of the management board and the supervisory board**

As required by the German Stock Corporation Law, Probiodrug is led by the management board which is, in turn, monitored by the supervisory board. Both governing bodies work closely together in a trustful and constructive manner to provide for the advancement of the programs being pursued and thereby to sustainably increase the Company's value. The management board and the supervisory board come to an agreement on the Company's strategic direction and discuss the implementation and control thereof. The management board regularly informs the supervisory board in a timely and comprehensive manner about all company relevant questions with respect to planning, the stage of development of the programs being pursued, strategy, business development, finances, risk position, risk management as well as the internal control system and compliance. With respect hereto, the management board also updates the supervisory board between meetings about important events. Decisions required in the short-term are, in case of need, made during teleconferences or via circulation procedures.

In the management board's internal rules of procedure, important transactions are subject to the approval of the supervisory board. In individual cases the supervisory board can make further management board decisions subject to the approval of the supervisory board.

## **Management board**

Probiodrug's management board comprising Dr. Konrad Glund (Chairperson; Chief Executive Officer/CEO), Dr. Hendrik Liebers (member of the board; Chief Financial Officer/CFO) and Dr. Inge Lues (member of the board; Chief Development Officer/CDO), independently manages the Company and is, within the scope of the regulations applicable to German stock companies, bound by the interests and the guiding principles of Probiodrug. The goal of the work of the management board is sustainable and value optimising corporate development. The members of the management board have complementary skills sets and experience and have, in part, already worked together within the management board over a number of years. Further details as to the work in the management board are determined on the basis of rules of procedure.

All management board functions coordinate their activities on a weekly basis. Management board decisions are made on the basis of a simple majority of the members participating in the making of a resolution. In case of a tie, the Chairperson has the deciding vote.

## **Supervisory board**

As per the Articles of Association, as at 31 December 2014, the supervisory board was comprised of six members. The work of the supervisory board, the principles of passing resolutions as well as the work of the committees is regulated by the rules of procedure of the supervisory board. Dr. Erich Platzner is the chairperson. Vice chairperson is Dr. Dinnies Johannes von der Osten. The additional members are Dr. Jörg Neermann, Dr. Hubert Birner, Dr. Olivier Litzka and Prof. Georg Frank. In the reporting period the supervisory board convened seven times, (30 January, 06 March, 30 April, 17 June, 8 September, 30 September, 25 November). The current supervisory board members are, respectively were in the past, active at the international level in the biotechnology and pharmaceutical sectors, have the corresponding networks and are, as a result of own experience, very familiar with the needs of this sector.

To increase the supervisory board's efficiency, two committees were established: the audit committee and the compensation committee. The audit committee comprises Dr. von der Osten, Dr. Birner and Dr. Neermann; Dr. von der Osten is the chairperson. All members have the corresponding expertise and independence. The compensation committee comprises Dr. Platzer, Prof. Frank and Dr. Litzka; Dr. Platzer serves as chairperson.

These committees report their activities to the entire supervisory board.

### **Transparency**

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

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

## **9. Compensation report**

### **9.1. Compensation of the management board**

#### **Amount and structure**

The annual compensation for the members of the management board has three components:

- fixed compensation,
- a success based bonus,
- stock options.

The amount of the compensation was last adjusted in conjunction with the new service contracts in 2014.

#### ***Fixed compensation***

The amount of the fixed compensation is dependent on the member's function and responsibilities as well as on what is common in the industry and in the market, which is, above all, orientated on similar listed companies in the biotechnology sector. The fixed compensation is paid out as a monthly salary.

#### ***Success based compensation***

The success based compensation consists of a bonus measured in terms of one year. The success based bonus is determined by the supervisory board on the basis of an annual performance assessment and its best judgement. The benchmark for the bonus is the development of Probiodrug's business as well as the extent of achievement of the individual as well as the general company objectives. These objectives include, among others, topics in the area of development, business development, strategy, investor relations and general management.

At the beginning of the following calendar year, the supervisory board reaches a decision as to the extent of the achievement of the objectives. The bonus is payable subsequent to the resolution of the supervisory board as to the achievement of the objectives. The maximum bonus amount is fixed.



In 2014 an additional one-time fixed bonus was agreed in case of an IPO. A maximum amount was fixed. The bonus is payable upon the conclusion of a successful IPO.

### ***Stock options***

Further components of compensation with a long-term incentive component are the employee stock option programs, in which the management board as well as the employees participate. Within the scope of these programs, stock options were issued to members of the management board in the years 2008, 2010 and 2014 entitling the individuals to acquire shares. Detailed information as to the current option holdings is presented in the notes to the financial statements.

With respect to compliance with the Code's recommendations regarding management compensation, reference is made to section 7 of the management report „Statement on corporate governance“ subsection Compliance statement in accordance with Section 161 of the AktG.

### Management board compensation in 2014

A detailed listing of the individual salaries of the members of the management board is included in the following table:

Benefits granted	Dr. Konrad Glund			
	CEO			
Reappointment	01 Dec 14			
EUR	2013	2014 (actual)	2014 (minimum)	2014 (maximum)
Fixed compensation	190,000	191,667	191,667	191,667
Fringe benefits	25,070	25,098	25,098	25,098
<b>Total</b>	<b>215,070</b>	<b>216,765</b>	<b>216,765</b>	<b>216,765</b>
Annual variable compensation	47,000	95,000	0	135,500
Release of provision prior year	0	-9,000	0	0
Perennial variable compensation				
Stock option plan 2014 (8 years)		595,457	0	595,457
<b>Total</b>	<b>262,070</b>	<b>898,222</b>	<b>216,765</b>	<b>947,722</b>
Pension expense	29,093	44,830	44,830	44,830
<b>Total compensation</b>	<b>291,163</b>	<b>943,052</b>	<b>261,595</b>	<b>992,552</b>

<b>Benefits granted</b>	Dr. Hendrik Liebers			
	CFO			
Reappointment	01 Dec 14			
<b>EUR</b>	<b>2013</b>	<b>2014 (actual)</b>	<b>2014 (minimum)</b>	<b>2014 (maximum)</b>
Fixed compensation	160,000	164,167	164,167	164,167
Fringe benefits	26,597	26,597	26,597	26,597
<b>Total</b>	<b>186,597</b>	<b>190,764</b>	<b>190,764</b>	<b>190,764</b>
Annual variable compensation	47,000	95,000	0	122,000
Release of provision prior year	0	-9,000	0	0
Perennial variable compensation				
Stock option plan 2014 (8 years)		595,451	0	595,451
<b>Total</b>	<b>233,597</b>	<b>872,215</b>	<b>190,764</b>	<b>908,215</b>
Pension expense	0	5,130	5,130	5,130
<b>Total compensation</b>	<b>233,597</b>	<b>877,345</b>	<b>195,895</b>	<b>913,346</b>

<b>Benefits granted</b>	Dr. Inge Lues			
	CDO			
Newly appointed	01 Nov 14			
<b>EUR</b>	<b>2013</b>	<b>2014 (actual)</b>	<b>2014 (minimum)</b>	<b>2014 (maximum)</b>
Fixed compensation	0	35,000	35,000	35,000
Fringe benefits	0	621	621	621
<b>Total</b>	<b>0</b>	<b>35,621</b>	<b>35,621</b>	<b>35,621</b>
Annual variable compensation	0	95,000	0	95,000
Perennial variable compensation				
Stock option plan 2014 (8 years)	0	995,923	0	995,923
<b>Total</b>	<b>0</b>	<b>1,126,544</b>	<b>35,621</b>	<b>1,126,544</b>
Pension expense		0	0	0
<b>Total compensation</b>	<b>0</b>	<b>1,126,544</b>	<b>35,621</b>	<b>1,126,544</b>

### **Liability insurance (D&O)**

From 1 July 2010 the current Company D&O insurance for the members of the management board includes the retained amount legally provided for. With respect to the adherence to the recommendations of the Code regarding D&O insurance for members of the supervisory board, reference is made to section 7 of the management report „Statement on corporate governance“ subsection Compliance statement in accordance with Section 161 of the AktG.

### **Shareholdings of the members of the management board**

Based on information available to the Company, as at 31 December 2014, Probiodrug's management board held a total of 378,376 stock options entitling them to the acquisition of 378,376 shares along with 57,020 phantom stocks. In addition, they held 179,386 shares, equating to 2.67% of all of the Company's shares.

### **9.2. Supervisory board compensation**

From the perspective of the Company, it should, in particular, be in the interest of the supervisory board to be focussed on the sustainable and long-term successful development of the Company. As such, Probiodrug believes that fixed compensation for some members of the supervisory board is constructive. Regardless of their compensation, all members of the supervisory board are entitled to reimbursement for their travel expenses and are included in the existing D&O insurance.

#### ***Determination of supervisory board compensation***

The compensation of the supervisory board is based on the resolution of the shareholders' general meeting on 30 June 2008. As per this resolution, supervisory board member Prof. Georg Frank is entitled to an annual base compensation of EUR 7k plus EUR 1k per face-to-face meeting, EUR 0.7k per committee meeting and EUR 0.5k per supervisory board or committee teleconference. Should Prof. Frank take on the role of the chairperson of the supervisory board, these amounts would increase by 50%, should Prof. Frank become chairperson of a committee, the payments for

each face-to-face meeting, committee meeting and teleconference would increase by 50%. Variable compensation is not paid.

#### **2014 supervisory board compensation**

In the financial year 2014 the total compensation for Prof. Frank amounted to EUR 18.5k.

#### **Shareholdings of members of the supervisory board**

Based on the knowledge of Probiodrug, as at 31 December 2014, the members of Probiodrug AG's supervisory board held a total of 174,674 shares and thereby held a total of 2.58% of the Company's shares.

Halle, 25 February 2015

Management Board of Probiodrug

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues

# Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement, the statement of cash flows, the statement of shareholders' equity and the notes to the financial statements, together with the bookkeeping system, and the management report of Probiodrug AG, Halle for the financial year from 1 January to 31 December 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.



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

Leipzig, 6 March 2015

KPMG AG  
Wirtschaftsprüfungsgesellschaft

[original German version signed by:]

Lauer  
Wirtschaftsprüfer  
[German Public Auditor]

Nötzel  
Wirtschaftsprüferin  
[German Public Auditor]

## **Responsibility Statement**

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the net assets, financial position and results of operations of Probiodrug AG and the management report includes a fair view of the development and performance of the business and the position of Probiodrug AG, together with a description of the principle opportunities and risks associated with the expected development of Probiodrug AG.

Halle, 25 February 2015

Management Board of Probiodrug AG

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues