INDEPENDENT AUDITOR'S REPORT

Financial Statements as at 31 December 2014

Probiodrug AG
Halle

Appendices

Independent Auditor's Report

To Probiodrug AG, Halle

We have audited the accompanying financial statements of Probiodrug AG, Halle, which comprise the Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement, Statement of Changes in Equity and Notes to the IFRS financial statements for the financial year from 1 January to 31 December 2014.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Probiodrug AG, Halle, as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the IFRSs, as adopted by the EU.

Leipzig, 6 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Lauer	Nötzel
Wirtschaftsprüfer	Wirtschaftsprüferin
German Public Auditor	German Public Auditor

Appendices

STATEMENT OF FINANCIAL POSITION as of December 31, 2014

Probiodrug AG

ASSETS		NOTES	12/31/2014 EUR k	12/31/2013 EUR k
A. Noncurrent assets				
I	Intangible assets	3.3/6.1	82	101
II	Plant and equipment	3.4/6.2	101	321
III	Financial assets	3.6	3	3
Total noncurrent assets			**186**	**425**
B. Current assets				
I	Other short-term financial assets	6.3	101	1.238
II	Tax refunds	6.4	3	9
III	Other assets	6.5	270	188
IV	Cash and cash equivalents	3.9/6.6	20.920	4.421
Total current assets			**21.294**	**5.856**
Total assets			**21.480**	**6.281**
EQUITY AND LIABILITIES				
A. Equity				
I	Share capital	6.7	6.766	25.529
II	Legal reserve	6.7.1	228	228
III	Additional paid-in capital	6.7.2	21.980	52.180
IV	Other reserves for remeasurement of the pensions	6.7.3	-604	-199
V	Retained earnings	6.7.4	-12.399	-82.042
Total equity			**15.971**	**-4.304**
B. Noncurrent liabilities				
I	Investment grants	3.11/6.8.1	0	11
II	Pensions	3.12/6.8.2	929	535
III	Provisions	3.13/6.8.3	0	719
Total noncurrent liabilities			**929**	**1.265**
C. Current liabilities				
I	Investment grants	3.11	11	13
II	Tax liabilities	6.9.1	2.543	2.445
III	Provisions	3.13/6.9.2	795	41
IV	Convertible bonds	6.9.4	0	5.346
V	Trade payables	6.9.3	1.036	1.314
VI	Other current liabilities	6.9.5	195	161
Total current liabilities			**4.580**	**9.320**
Total liabilities			**5.509**	**10.585**
Total equity and liabilities			**21.480**	**6.281**

STATEMENT OF COMPREHENSIVE INCOME
for the period January 1, 2014 to December 31, 2014

Probiodrug AG

	NOTES	01/01- 31/12 2014 EUR k	 2013 EUR k
I. Profit or Loss			
Revenue	5.1	0	0
Cost of sales	5.2	0	0
Gross profit		**0**	**0**
Research and development expenses	5.3	-8.087	-8.004
General and administrative expenses	5.4	-3.430	-2.444
Other operating income	5.6	250	747
Operating loss		**-11.267**	**-9.701**
Interest income		36	9
Interest expense		-206	-115
Financial loss		**-170**	**-106**
Loss before tax		**-11.437**	**-9.807**
Income tax expense	5.7	0	0
Net loss for the period		**-11.437**	**-9.807**
II. Other comprehensive profit (loss)			
items not to be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension liability		-405	35
Total other comprehensive profit (loss)		**-405**	**35**
III. Comprehensive loss		**-11.842**	**-9.772**
Earnings per share in EUR (basic and diluted)	6.7.5	-2,35	-2,30

CASH FLOW STATEMENT

Probiodrug AG

	NOTES	Year Ended December 31, 2014 EUR k	2013 EUR k
Net loss for the period		**-11.437**	-9.807
Net interest expense	*3.16*	170	106
Non-cash losses from impairment write-downs		0	50
Depreciation and amortization		94	314
Loss (gain) on disposal of plant and equipment		6	-144
Release of deferred investment grants	*6.8.1*	-13	-43
Other non-cash expense		1.008	305
Interest paid		-90	0
Interest received		36	9
Income taxes paid		-1	-2
Income taxes received		6	11
Changes in working capital			
Changes in inventories		0	18
Changes in other assets		-130	43
Changes in pension liabilities		-29	8
Changes in provisions		35	218
Changes in trade payables		**-278**	642
Changes in other liabilities		34	-187
Cash flows from operating activities		**-10.589**	**-8.459**
Proceeds from disposal of plant and equipment		574	43
Proceeds from disposal of intangible assets		3	0
Acquisition of plant and equipment		-2	-4
Acquisition of intangible assets		-10	-61
Proceeds from loans		761	0
Cash flows from investing activities		**1.326**	**-22**
Proceeds from stock issue	*6.7*	23.244	0
Transaction costs of equity transaction		-1.758	0
Proceeds from convertible bonds issue	*3.14/6.7*	4.276	5.346
Cash flows from financing activities		**25.762**	**5.346**
Net increase in cash and cash equivalents		**16.499**	**-3.135**
Cash and cash equivalents at the beginning of period		**4.421**	**7.556**
Cash and cash equivalents at the end of period		**20.920**	**4.421**

STATEMENT OF CHANGES IN EQUITY

Probiodrug AG

	Notes	Share capital	Legal reserve	Additional paid-in capital	Other reserves for the remeasurement of pensions	Retained earnings	Total equity
		EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
January 1, 2013		25.529	228	51.875	-234	-72.235	5.163
Income and expenses recognized directly in equity	*6.8.2*	0	0	0	35	0	35
Net result for the period		0	0	0	0	-9.807	-9.807
Comprehensive result for the period		0	0	0	35	-9.807	-9.772
Stock issue		0	0	0	0	0	0
Stock option compensation		0	0	305	0	0	305
Transaction costs of equity transaction		0	0	0	0	0	0
		0	0	305	35	-9.807	-9.467
December 31, 2013		25.529	228	52.180	-199	-82.042	-4.304
Income and expenses recognized directly in equity	*6.8.2*	0	0	0	-405	0	-405
Net result for the period		0	0	0	0	-11.437	-11.437
Comprehensive result for the period		0	0	0	-405	-11.437	-11.842
Conversion of convertible bonds		5.921	0	3.701	0	0	9.622
Simplified share capital reduction		-26.208	0	-54.872	0	81.080	0
Stock issue		1.524	0	21.720	0	0	23.244
Stock option compensation		0	0	1.008	0	0	1.008
Transaction costs of equity transaction		0	0	-1.757	0	0	-1.757
		-18.763	0	-30.200	-405	69.643	20.275
December 31, 2014		6.766	228	21.980	-604	-12.399	15.971

Probiodrug AG, Halle

Notes to the IFRS financial statements for the financial year from 1 January to 31 December 2014

1. Company information

The Probiodrug Group, which, at beginning of the year, included the parent company, Probiodrug AG, Halle (hereinafter also referred to as “Probiodrug” or the “Company”), and the subsidiary, Ingenium Pharmaceuticals GmbH, Munich (hereinafter also referred to as Ingenium), has activities in the areas of research and development, preclinical and clinical trials. In July 2014 all of the shares of Ingenium were sold, so that after this date only Probiodrug AG remains as reporting entity.

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

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

2. Financial statements

2.1. Basis of preparation of the financial statements

The financial statements of Probiodrug as at 31 December 2014 were prepared on a voluntary basis in accordance with International Financial Reporting Standards (IFRS/IAS) of the International Accounting Standards Board as well as in accordance with the Interpretations of the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC), as endorsed by the European Union for mandatory application as of the balance sheet date. As all shares of Ingenium were sold, these are the first stand-alone financial statements for Probiodrug (unconsolidated) prepared in accordance with IFRS. The financial statements 2011 – 2013 were prepared and presented as consolidated financial statements in accordance with IFRS.

An explanation as to how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 12. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under HGB (German GAAP; previous GAAP) to those periods and the date of transition under IFRSs.

The financial statements are presented in thousands of Euro (EUR k).

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

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

The financial statements were prepared on the basis of amortised acquisition costs.

2.2. Foreign currency translation

The functional currency is the euro which therefore is the reporting currency for the financial statements.

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

3. Summary of significant accounting policies

3.1. Changes in accounting policies

The accounting policies applied principally corresponded to those applied in the prior years.

With an effective date of 1 January 2014 the following new and amended Standards and interpretations were required to be applied for the first time:

- IFRS 10 „Consolidated Financial Statements" (1 January 2014)
- IFRS 11 " Joint Arrangements" (1 January 2014)
- IFRS 12 "Disclosure of Interests in Other Entities" (1 January 2014)
- Amendments to IFRS 10 – 12: Transition Guidance (1 January 2014)
- Amendments to IFRS 10, 12, IAS 27: Investment Entities (1 January 2014)
- Amendments to IAS 27 "Separate Financial Statements (1 January 2014)
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (1 January 2014)
- Amendments to IAS 32 "Financial Instruments: Offsetting Financial Assets and Financial Liabilities" (1 January 2014)
- Amendments to IAS 36 "Recoverable Amount – Disclosure for Non-Financial Assets" (1 January 2014)
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (1 January 2014)

The new and amended Standards have no effect respectively are without significant consequences for Probiodrug.

3.2. Determination of fair values

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

3.3. Intangible assets

The intangible assets acquired by Probiodrug are recorded at acquisition cost less accumulated amortisation as well as any impairment losses which may have been recorded.

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

The expected useful life ranges from three to five years.

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

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

3.4. Plant and equipment

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

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

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

3.5. Impairment of noncurrent assets

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

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

3.6. Financial assets

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

3.7. Taxes

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

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

3.8. Financial assets and liabilities

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

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

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

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

Objective evidence that financial assets are impaired includes:

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

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

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

3.9. Cash and cash equivalents

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

3.10. Stock option programs and phantom stock option programs

In financial years 2008, 2010, 2013 and 2014, Probiodrug granted equity settled share based payments in the form of option rights to employees and other beneficiaries. The stock option programs allow the employees or the other beneficiaries to acquire the Company's shares. The share based payment transaction is recorded at fair value in accordance with IFRS 2. The fair value of the stock options granted is recorded as personnel expense or, if the options are granted to beneficiaries who are not considered employed persons, as other expenses with a corresponding increase in equity (additional paid-in capital). The fair value of the option rights granted is determined when the rights are granted. The resulting personnel expense is allocated over the vesting period of the underlying option rights. The personnel expenses recorded are adjusted to reflect the actual number of option rights earned. The fair value of equity-settled share-based payments to other beneficiaries is measured at the fair value of the goods or service received.

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

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

3.11. Project subsidies and investment grants

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

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

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

3.12. Pensions

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

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

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

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

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

3.13 Provisions

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

Provisions are only recorded if:

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

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

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

3.14 Convertible bonds

In 2013 and 2014 Probiodrug issued convertible bonds to a selected group of individuals/investors. In accordance with IAS 32.28, if holders of convertible bonds can elect either payment in cash or in shares it must be determined if a compound financial instrument which must be broken down into a component for the repayment of the bond and a separately recorded equity component (option right) exists. The issue terms stipulate that the convertible bonds do not have an equity component as, in all cases, conversion is mandatory and in some cases Probiodrug was required to deliver a variable number of shares while in some cases a fixed number was required.

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

In August 2014 all convertible bonds were converted into shares of the Company.

3.15 Revenue and expense realisation

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

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

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

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

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

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

3.16 Financial profit/loss

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

3.17 Income tax

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

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

3.18 Earnings per share

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

3.19 Published standards the application of which is not yet obligatory

As at the date of the publication of the financial statements, additional IFRS and IFRICs were issued which have already been partially endorsed by the EU, but are not required to be applied as at the balance sheet date. The initial required application date for the new, changed and revised Standards/Interpretations presented below is in the future. Probiodrug intends to apply these Standards when their application becomes obligatory. The initial date of application is noted below:

Endorsed by the EU

- IFRIC 21 „Levies“ (1 July 2014)
- Improvements to IFRS 2011 – 2013: Changes to IFRS 1, IFRS 3, IFRS 13 and IAS 40 (1 January 2015)
- Amendments to IAS 19 “Defined Benefits Plans: Employee Contributions” (1 February 2015)
- Improvements to IFRS 2010 – 2012: Changes to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 (1 February 2015)

Not yet endorsed by the EU

- IFRS 14 “Regulatory Deferral Accounts (1 January 2016)
- Amendments to IFRS 10, 12; IAS 28: Consolidation (1 January 2016)
- Amendments to IFRS 10 and IAS 28: Guidelines on the recognition of unrealised gains or losses from transactions with assets between an investor and an associate or joint venture (1 January 2016)
- Amendments to IFRS 11 „Accounting for Acquisitions of Interests in Joint Operations (1 January 2016)
- Amendments to IAS 1: Disclosures (1 January 2016)
- Amendments to IAS 16 and 38 „Clarification of Acceptable Methods of Depreciation and Amortization“ (1 January 2016)
- Amendments to IAS 16 and 41 „Agriculture: Bearer Plants“ (1 January 2016)
- Amendments to IAS 27: Approval of the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in the separate financial statements of an investor (1 January 2016)
- Improvements to IFRS 2012 – 2014: Changes to IFRS 5, IFRS 7, IAS 19 and IAS 34 (1 January 2016)
- IFRS 15 “Revenue from Contracts with Customers (1 January 2017)
- IFRS 9 „Financial Instruments“ (1 January 2018)

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

4 Significant discretionary decisions, estimates and assumptions

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

Estimates and assumptions

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

The value of non-financial assets is reduced if the carrying amount of an asset or the asset´s cash generating unit exceeds its recoverable value. The recoverable value of an asset or a cash generating unit is the higher of the fair value less costs of disposal and the value in use. The discounted cash flow method is used for the calculation.

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

The calculation of the fair value of the provision for phantom stock options issued gave consideration to the factors described in section 6.7.6.2 „Phantom stock option program".

With respect to the determination of the fair value of financial instruments, we refer to section 9 „Disclosures with respect to financial instruments".

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

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

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

5.1 Revenues

No revenues were realised in 2014 (2013 EUR 0k).

5.2 Cost of sales

This line item includes personnel costs, costs of materials and purchased services including personnel costs for research and development services. No research and development services were sold in financial year 2014.

5.3 Research and development expenses

In financial year 2014 research and development expenses amounted to EUR 8,087k (2013: EUR 8,004k).

5.4 General and administrative expenses

The general and administrative expenses of EUR 3,430k (2013: EUR 2,444k) comprise personnel costs and costs of materials as well as amortisation and depreciation attributable to the administrative area and other operating expenses.

5.5 Supplementary disclosures regarding the cost of sales method

The expenses during the financial year include scheduled amortisation and depreciation of plant and equipment as well as intangible assets amounting to EUR 94k (2013: EUR 314k) as well as personnel related expenses amounting to EUR 2,463k (2013: EUR 2,189k).

5.6 Other operating income

The other operating income is broken down as follows:

Other operating income	**1.1. -31.12.2014 EUR k**	**1.1. -31.12.2013 EUR k**
Income from the release of provisions	190	88
Release of the investment grants	13	44
Expenditures relating to research grants	9	453
Other	38	162
Total	**250**	**747**

5.7 Income taxes

The income tax relating to the current period includes both current and deferred taxes. Current income tax expense is based on the respective legal regulations. No income taxes were realised in 2014 and 2013.

For the determination of deferred taxes, a corporation tax rate of 15 % plus a solidarity surcharge of 5.5 % as well as the trade income tax rate of 15.75 % was used for all reporting periods. Based on this, the effective tax rate as at 31 December 2014 used to determine the deferred tax assets and liabilities amounted to 31.58 % (31 December 2013: 31.58 %).

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

EUR k	**1.1. -31.12.2014**	**1.1. -31.12.2013**
Loss before income tax	-11,437	-9,807
Income tax rate	31.58%	31.58%
Expected income tax	3,612	3,097
Change in deferred tax assets not recorded	-3,817	-3,143
Non-periodic effects	0	0
Non-deductible expenses/non-taxable income	175	-40
Other differences	30	86
Reported income tax benefit/expense	**0**	**0**

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

In EUR k	**Deferred tax assets**				**Deferred tax liabilities**				**Total**			
	31.12. 2014	31.12. 2013			31.12. 2014	31.12. 2013			31.12. 2014	31.12. 2013		
Intangible assets	0	0			0	0			0	0		
Plant and equipment	0	0			0	0			0	0		
Pension liabilities	4	4			0	0			4	4		
Other provisions	0	0			4	4			-4	-4		
Loss carry forwards	0	0			0	0			0	0		
Total	**4**	**4**			**4**	**4**			**0**	**0**		
Net amount	-4	-4			-4	-4			0	0		
Total deferred taxes	**0**	**0**	**0**		**0**	**0**			**0**	**0**		

As at 31 December 2014, deferred tax assets attributable to tax loss carry forwards and differences in measurement amounted to EUR 28,011k (31.12.2013: EUR 24,195k), of which EUR 4k (31.12.2013: EUR 4k) was offset against the deferred tax liabilities. The remaining deferred tax assets were not recorded as their use is not sufficiently probable.

As at 31 December 2014, Probiodrug had corporate income tax loss carry forwards of EUR 88,093k and trade tax loss carry forwards of EUR 87,852k. The tax losses can be carried forward for an unlimited time.

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

EUR k	1.1. 2014	Change with an impact on the profit or loss	Change without an impact on the profit or loss	31.12. 2014
Pension liabilities	4	0	0	4
Other provisions	-4	0	0	-4
Total	**0**	**0**	**0**	**0**

EUR k	1.1. 2013	Change with an impact on the profit or loss	Change without an impact on the profit or loss	31.12. 2013
Intangible assets	-197	197	0	0
Pension liabilities	114	-110	0	4
Other provisions	-4	0	0	-4
Loss carry forwards	87	-87	0	0
Total	**0**	**0**	**0**	**0**

6 Explanations on individual line items of the balance sheet

6.1 Intangible assets

The intangible assets developed as follows:

	Other intangible assets		Other intangible assets
	EUR k		EUR k
Acquisition costs as at 1 January 2014	256	Acquisition costs as at 1 January 2013	347
Additions	10	Additions	61
Disposals	-13	Disposals	-152
Acquisition costs as at 31 December 2014	**253**	**Acquisition costs as at 31 December 2013**	**256**
Amortisation as at 1 January 2014	155	Amortisation as at 1 January 2013	280
Additions	26	Additions	26
Disposals	-10	Disposals	-151
Amortisation as at 31 December 2014	**171**	**Amortisation as at 31 December 2013**	**155**
Carrying value as at 1 January 2014	101	Carrying value as at 1 January 2014	67
Carrying value as at 31 December 2014	**82**	**Carrying value as at 31 December 2013**	**101**

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

6.2 Plant and equipment

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

Plant and equipment developed as follows:

	Leasehold improvements	Other equipment, factory and office equipment	Total
	EUR k	EUR k	EUR k
Acquisition costs as at 1 January 2014	181	2,130	**2,311**
Additions	0	2	**2**
Disposals	0	-1,644	**-1,644**
Acquisition costs as at 31 December 2014	**181**	**488**	**669**
Depreciation as at 1 January 2014	145	1,845	**1,990**
Additions	8	60	**68**
Disposals	0	-1,490	**-1,490**
Depreciation as at 31 December 2014	**153**	**415**	**568**
Carrying value as at 1 January 2014	36	285	**321**
Carrying value as at 31 December 2014	**28**	**73**	**101**

	Leasehold improvements	Other equipment, factory and office equipment	Total
	EUR k	EUR k	EUR k
Acquisition costs as at 1 January 2013	280	4,032	**4,312**
Additions	0	5	**5**
Disposals	-99	-1,907	**-2,006**
Acquisition costs as at 31 December 2013	**181**	**2,130**	**2,311**
Depreciation as at 1 January 2013	236	3,150	**3,386**
Additions	8	280	**288**
Disposals	-99	-1,585	**-1,684**
Depreciation as at 31 December 2013	**145**	**1,845**	**1,990**
Carrying value as at 1 January 2013	44	882	**926**
Carrying value as at 31 December 2013	**36**	**285**	**321**

6.3 Other short-term financial assets

As at 31 December 2014 the other short-term financial assets amounted to EUR 101k (31.12.13 EUR 1.238k). The previous year figure included EUR 507k in receivables from the sale of fixed assets and EUR 728k in receivables from Ingenium.

6.4 Tax refunds

The claims to income tax refunds amounting to EUR 3k (31.12.2013: EUR 9k) comprise claims to corporate income tax refunds as well as the solidarity surcharge.

6.5 Other current assets

The other current assets are presented below:

In EUR k	**31.12.2014**	**31.12.2013**
Subsidies receivable	0	26
Receivables from		
prepayments	78	96
value added taxes	186	42
other	6	24
Total	**270**	**188**

6.6 Cash and cash equivalents

The cash and cash equivalents comprise:

In EUR k	31.12.2014	31.12.2013
Cash-on-hand and bank balances	20,920	4,421
Total	**20,920**	**4,421**

The cash and cash equivalents as presented in the statement of cash flows are equivalent to the cash and cash equivalents as recorded on the balance sheet. The cash and cash equivalents are unrestricted.

6.7 Equity

The development of Probiodrug's equity in financial years 2013 and 2014 is presented in the statement of changes in equity.

	Common shares	Preferred shares A	Preferred shares B	Preferred shares B2
In issue as at 1 January 2013	**3,414,375**	**3,095,837**	**16,183,950**	**0**
Issued for cash	-	-	2,834,767	0
In issue as at 31 December 2013	**3,414,375**	**3,095,837**	**19,018,717**	**0**
Conversion of convertible bonds	-	-		5,921,229
Conversion of preferred shares into common shares	28,035,783	-3,095,837	-19,018,717	-5,921,229
Simplified share capital reduction	-26,208,465	-	-	-
Issued for cash	1,524,205	-	-	-
In issue as at 31 December 2014	**6,765,898**	**0**	**0**	**0**

As at 31 December 2014 Probiodrug's share capital comprises 6,765,898 registered no par common shares. The computational nominal amount per share is EUR 1.00.

In August 2014, convertible bonds totalling EUR 9,622,000 were converted in "B2" shares with a total value of EUR 5,921,229. The remaining difference of EUR 3,700,771 increased the additional paid-in capital. The increase of the share capital was accomplished by issuing 3,289,845 shares from the contingent capital 2013/1 and 2,631,384 shares from the contingent capital 2014/1. The conversion increased the share capital from EUR 25,528,929 to EUR 31,450,158. By resolution of the supervisory board on 22 August 2014, section 4 (share capital) of the articles of association was changed. The corresponding entry was made in the commercial register on 28 August 2014. On 25 August 2014 the general meeting converted all preferred shares into common shares at a ratio of 1:1 and adjusted section 4 of the Articles of Association accordingly. The corresponding entry was made in the commercial register on 5 September 2014.

On 8 September 2014 an extraordinary shareholders' meeting resolved a simplified share capital reduction in a ratio of 6:1. In consequence, the share capital decreased from EUR 31,450,158 by EUR 26,208,465 to EUR 5,241,693. The entry in the commercial register was made on 17 September 2014.

By virtue of a resolution dated 23 October 2014, Probiodrug's management board – with the approval of the supervisory board on 23 October 2014 – resolved to increase the share capital from EUR 5,241,693 by EUR 1,475,409 to EUR 6,717,102 referring to the resolution of the shareholders' meeting on 9 October 2014 to increase the share capital by up to EUR

1,696,720 to a share capital of up to EUR 6,938,413 until 31 December 2014. By resolution of the shareholders' meeting on 23 October 2014, section 5 (share capital) of the articles of association was changed. The corresponding entry was made in the commercial register on 29 October 2014.

By virtue of a resolution dated 12 November 2014, Probiodrug's management board – with the approval of the supervisory board on 12 November 2014 – resolved to increase the share capital from EUR 6,717,102 by EUR 48,796 to EUR 6,765,898 by using the authorised capital 2014/1. The new shares participate in earnings beginning on 1 January 2014. The entry was made in the commercial register on 14 November 2014.

Contingent capital

Contingent capital 2008/I

As at 31 December 2014 the contingent capital 2008/I amounts to EUR 11,300 (31.12.2013 EUR 67,800). On 8 September 2014 an extraordinary shareholders' meeting resolved a reduction of the contingent capital I/2008 from EUR 67,800 to EUR 11,300 as a consequence of the simplified share capital reduction. Of this amount, EUR 10,422 (31.12.2013 EUR 67,120) is reserved as a result of the issuance of option rights.

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

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

Dr. Konrad Glund, Halle, up to 912 common shares,

Dr. Hendrik Liebers, Leipzig, up to 2,128 common shares.

Contingent capital 2008/II

As at 31 December 2014, the contingent capital 2008/II amounts to EUR 16,950. On 8 September 2014 an extraordinary shareholders' meeting resolved a reduction of the contingent capital 2008/II from EUR 101,700 to EUR 16,950 as a consequence of the simplified share capital reduction. Of this amount EUR 15,666 (31.12.2013 EUR 100,815) is reserved as a result of the distribution of option rights.

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

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

Dr. Konrad Glund, Halle, up to 1,368 preferred shares of the Series A (now common shares),

Dr. Hendrik Liebers, Leipzig, up to 3,192 preferred shares of the Series A (now common shares).

Contingent capital 2010/I

As at 31 December 2014, the contingent capital 2010/I amounted to EUR 85,901. On 8 September 2014 an extraordinary shareholders' meeting resolved a reduction of the contingent capital 2010/I from EUR 1,236,967 to EUR 85,901 as a consequence of the simplified share capital reduction. Of this amount, EUR 85,899 (31.12.2013 EUR 515,403) are reserved as a result of the issuance of options.

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

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

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

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

Contingent capital 2013/I (rescinded)

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 to secure 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.

From the contingent capital 2013/I, in August 2014 3,289,845 were shares issued as a result of the conversion of convertible bonds into shares. The remaining contingent capital 2013/I of EUR 1,017,847 was rescinded by the shareholders' meeting on 25 August 2014.

Contingent capital 2014 (rescinded)

By resolution of the general meeting of the shareholders on 16 May 2014, the Company's share capital was contingently increased (contingent capital 2014/I) by EUR 3,692,300 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 30 April 2014.

In August 2014 2,631,384 shares were issued from the contingent capital 2014/I as a result of the conversion of convertible bonds into shares. The remaining contingent capital 2014/I of EUR 1,060,916 was rescinded by the shareholders' meeting on 25 August 2014.

Contingent capital 2014/I

The contingent capital 2014/I was established by virtue of the resolution of the general meeting of the shareholders on 29 September 2014. The Company's share capital was contingently increased by a nominal value of up to EUR 410,018 by the issuance of up to 410,018 registered common shares subject to transfer restrictions. The contingent capital increase provides for the redemption of stock options in accordance with section 192 (2) No. 3 of the AktG which were issued in conjunction with Stock Option Program 2014 (in the version of the resolutions of the general meeting of the shareholders on 29 September 2014). The authorisation of the management board to issue new options is, by resolution of the general meeting of the shareholders on 29 September 2014, limited through 31 December 2016.

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

Dr. Konrad Glund, Halle, up to 104,834 common shares,

Dr. Inge Lues, Seeheim-Jugenheim, up to 104,834 common shares and

Dr. Hendrik Liebers, Leipzig, up to 104,833 common shares.

Authorised capital

Authorised capital 2011/II (rescinded)

The authorised capital 2011/II was established by resolution of the general meeting of the shareholders on 20 September 2011. Probiodrug's management board was 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 preferred shares of the Series (B) in one or a number of steps in consideration for cash of up to EUR 207,807 in the period through 31 December 2013. No increase in capital was carried out using authorised capital 2011/II.

The authorised capital 2011/II of EUR 207,807 was rescinded by the shareholders' meeting on 25 August 2014.

Authorised capital 2014/1

The authorised capital 2014 was established by resolutions of the extraordinary meetings of the shareholders on 9 October 2014 and 23 October 2014. 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 3,358,551 new registered common shares in consideration for cash or a contribution in kind of up to EUR 3,358,551 in the period through 30 September 2019.

By virtue of a resolution dated 12 November 2014, Probiodrug's management board – with the approval of the supervisory board dated 12 November 2014 – resolved to increase the share capital by EUR 48,796 by using the authorised capital 2014/1. The remaining authorised capital 2014 as at 31 December 2014 amounts to EUR 3,309,755.

6.7.1 Legal reserve

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

6.7.2 Additional paid-in-capital

As at 31 December 2014 the additional paid-in-capital amounted to EUR 21,980k (31.12.2013: EUR 52,180k).

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

In 2014 convertible bonds of EUR 9,622k were converted into common shares in the amount of 5,921k. The remaining difference of EUR 3,701k increased the additional paid-in capital.

Further in 2014, as a result of a stock issuance for cash in 2014, the additional paid-in-capital increased by EUR 21,720k as a result of cash payments made into the additional paid-in-capital. Transaction costs reduced the additional paid-in capital by EUR 1,757k.

In addition, the additional paid-in-capital increased by the allocation over the vesting period of the fair value of the equity instruments granted for the issuance of options rights in conjunction with stock option program 2014 amounting to EUR 1,008k.

By resolution of the management of Probiodrug, the additional paid-in capital was reduced by EUR 54,872k to increase the retained earnings.

6.7.3 Other reserves for the remeasurement of pensions

The line item „Other reserves for the remeasurement of pensions“ with a balance of EUR -604k (31.12.2013: EUR -199k) comprises the remeasurement of the gross defined benefit pension obligations as well as the return on the plan assets which exceeds or falls short of the interest on the plan assets which is directly recorded in other comprehensive income without an impact on the profit and loss (refer to sections 3.15 and 6.10.2).

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

6.7.4 Retained earnings

The retained earnings include the cumulative results which amount to EUR -12,399k (31.12.2013 EUR -82,042k).

6.7.5 Earnings per share

As at 31 December 2014, Probiodrug's share capital consisted of 6,765,898 shares (31.12.2013: 25,528,929). All shares are registered no par value common shares. The calculated nominal amount per share is EUR 1.00.

The net loss attributable to Probiodrug's shareholders amounted to EUR -11,437k in financial year 2014 (2013: EUR -9,807k).

The earnings per share were calculated as follows:

	2014	**2013**
Number of shares in issue as of 1.1 adjusted by the simplified share capital reduction in the ratio 6:1	4,254,822	4,254,822
Average number of shares in issue as at 31.12	4,862,215	4,254,822
Results for the period in EUR k	**-11,437**	**-9,807**
Earnings per share EUR (basic/diluted)	**-2.35**	**-2.30**

There were no dilution effects on the earnings per share. The basic earnings per share from continuing operations amounted to EUR -2.35 (2013: EUR -2.30).

6.7.6 Stock options

6.7.6.1 Stock option programs

Stock option program ESOP 2007

At the end of 2007, the ESOP 2007 was launched. Options were issued in 2008. In total, 201,420 options were issued of which 120,852 options were for preferred shares and 80,568 options were for common shares. Through 1 January 2013 37,845 options had been forfeited.

No additional options were issued in financial years 2013 and 2014. 6,900 options were forfeited in 2014. As a consequence of the simplified share capital reduction in the ratio 6:1, the stock options decreased by 130,587 options. As at 31 December 2014, 26,088 options were outstanding. In August 2014 all preferred shares were converted into common shares at a ratio of 1:1.

A stock option gives the holder the right to acquire a no-par value, registered common share respectively preferred share of the Company (option right). The exercise price for the acquisition of a new preferred share amounted to EUR 7.03 and changed to EUR 42.18 due to the simplified share capital reduction while the exercise price for a new common share amounted to EUR 3.96/share respectively EUR 23.76 after the share capital reduction. The vesting period began on the issuance dates 27 February, 1 August and 1 December 2008 and comprises two years for 50 %, three years for an additional 25 % and four years for the remaining 25 % of the option rights granted. During the vesting period, the legal minimum lock-up period of two years applies. The transfer of option rights is prohibited. The option must be exercised within eight years after issuance. If this is not the case it will be forfeited without compensation unless an extension of the exercise period is declared by Probiodrug.

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

Stock option program 2007 **Common shares (former Preferred shares)**	**31.12.2014**		**31.12.2013**	
	Weighted average exercise price per share	**Number of acquirable shares**	**Weighted average exercise price per share**	**Number of acquirable shares**
	EUR	**Shares**	**EUR**	**Shares**
Options outstanding for common shares at the beginning of the reporting period	7.03	98,145	7.03	98,145
Options issued for common shares in the reporting period	0.00	0	0.00	0
Options exercised in the reporting period	0.00	0	0.00	0
Forfeited options for common shares in the reporting period	7.03	4,140	0.00	0
Change due to simplified share capital reduction	42.18	78,339	0,00	0
Options outstanding for common shares at the end of the reporting period	42.18	15,666	7.03	98,145
Exercisable options at the end of the reporting period	0.00	0	0.00	0

Stock option program 2007 Common shares	31.12.2014		31.12.2013	
	Weighted average exercise price per share	Number of acquirable shares	Weighted average exercise price per share	Number of acquirable shares
	EUR	Shares	EUR	Shares
Options outstanding for common shares at the beginning of the reporting period	3.96	65,430	3.96	65,430
Options issued for common shares in the reporting period	0.00	0	0.00	0
Options exercised in the reporting period	0.00	0	0.00	0
Forfeited options for common shares in the reporting period	3.96	2,760	0.00	0
Change due to simplified share capital reduction	23.76	52,248	0.00	0
Options outstanding for common shares at the end of the reporting period	23.76	10,422	3.96	65,430
Exercisable options at the end of the reporting period	0.00	0	0.00	0

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

No expenses associated with the stock options are recorded for the years 2013 and 2014 due to the end of the vesting period.

Stock option program 2010/2013

In mid-2010 a stock option program was launched on the basis of which the three members of the management board were granted 515,403 shares. On the basis of this program, an additional 255,289 stock options were issued to an employee. By 31 December 2013, 127,644 options were forfeited such that, as at 31 December 2013, 643,048 options were outstanding. As a consequence of the simplified share capital reduction in the ratio 6:1, the stock options decreased by 535,875 options. As at 31 December 2014, 107,173 options were outstanding.

One stock option gives the holder the right to acquire a common share (option right). The exercise price for the acquisition of a new common share amounted to EUR 1.00 and changed to EUR 6.00 as consequence of the simplified share capital reduction. The option rights granted within the framework of the stock option plan have a term of six (2010 issuance) and four (2013 issuance) years. The lock-up period amounts to four years. The vesting period began on the date of issuance (30 June 2010 for the options issued in 2010 and 24 June 2013 for the options issued in 2013). Subsequent to the expiration of the vesting period, the option rights granted become non-forfeitable (even upon exit). 1/3 of the options become non-forfeitable after seven months, 1/3 of the options after 19 months and 1/3 of the options after 31 months. The lock-up period is not affected by this stipulation.

The subsequent overview shows the development of Probiodrug's stock options and the issue prices: Stock option program 2010 **Common shares**	**31.12.2014**		**31.12.2013**	
	Weighted average exercise price per share	**Number of acquirable shares**	**Weighted average exercise price per share**	**Number of acquirable shares**
	EUR	**Shares**	**EUR**	**Shares**
Options outstanding for common shares at the beginning of the reporting period	1.00	643,048	1.00	515,403
Options issued for common shares in the reporting period	0.00	0	1.00	255,289
Options exercised in the reporting period	0.00	0	0.00	0
Forfeited options for common shares in the reporting period	0.00	0	1.00	127,644
Change due to simplified share capital reduction	6.00	535,875	0.00	0
Options outstanding for common shares at the end of the reporting period	6.00	107,173	1.00	643,048
Exercisable options at the end of the reporting period	0.00	0	0.00	0

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

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

1. In the financial year 2010, on the grant date 30 June 2010, 515,403 options for common shares with an original exercise price of EUR 1.00 were issued while on the grant date 24 June 2013, 255,289 options for common shares with an original exercise price of EUR 1.00 were issued. The respective amounts after the simplified share capital reduction is EUR 6.00 for common shares.
2. The volatility expected on the grant date 30 June 2010 was determined to be 50% while 40% was expected for the grant date 24 June 2013.
3. The expected term of the options for those issued in 2010 as well as for those issued in 2013 amounted to 4.0 years. It was assumed that the options will be exercised immediately upon expiration of the lock-up period of four years.
4. The non-exercise of the stock options issued due to fluctuations in personnel and the return of options for other reasons was not taken into consideration in the measurement.

5. The estimated value of a Probiodrug common share at the grant date amounted to EUR 2.69 for options issued in 2010 and EUR 3.25 for the options issued in 2013.
6. The risk free interest rate for the term of the options issued in 2010 amounted to 1.19 % while that for the options granted in 2013 amounted to 0.53%.
7. The expected dividend was assumed to be EUR 0.00.

The total expenses associated with the stock options allocated to 2014 amounted to EUR 0k (2013: EUR 305k). These were added to the additional paid-in capital.

Stock option program 2014

In October 2014 a stock option program was launched on the basis of which certain employees were granted 209,667 options on 27 October 2014 and 104,834 shares on 1 November 2014. As at 31 December 2014 all options were outstanding.

One stock option gives the holder the right to acquire a common share (option right). The exercise price for the acquisition of a new common share amounts to EUR 15.25 for options granted on 27 October 2014 and EUR 23.60 for options granted on 1 November 2014. The option rights granted within the framework of the stock option plan have a term of eight years. The lock-up period amounts to four years. There is a threshold to exercise the option of an average share price within 20 days before the exercise exceeds the exercise price of minimum 10 %. The vesting period began on the date of issuance. Subsequent to the expiration of the vesting period, the option rights granted become non-forfeitable (even upon exit). 40 % of the options are immediately non-forfeitable, 20 % of the options become non-forfeitable after 12 months, 20 % of the options after 24 months and 20 % of the options after 36 months. The lock-up period is not affected by this stipulation.

The subsequent overview shows the development of Probiodrug's stock options and the issue prices: Stock option program 2014 **Common shares**	**31.12.2014**	
	Weighted average exercise price per share	**Number of acquirable shares**
	EUR	**Shares**
Options outstanding for common shares at the beginning of the reporting period	0.00	0
Options issued for common shares in the reporting period	18.03	314,501
Options exercised in the reporting period	0.00	0
Forfeited options for common shares in the reporting period	0.00	0
Options outstanding for common shares at the end of the reporting period	18.03	314,501
Exercisable options at the end of the reporting period	0.00	0

The accounting for the stock options is at fair value in accordance with IFRS 2. The fair value is determined at the measurement date and is allocated over the vesting period. The fair value is determined on the basis of the Monte-Carlo-simulation model.

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

1. In financial year 2014, on the grant date of 27 October 2014, 209,667 options for common shares with an original exercise price of EUR 15.25 were issued while on the grant date 1 November 2014, 104,834 options for common shares with an original exercise price of EUR 23.60 were issued.
2. The volatility expected on both grant dates was determined to be 45%.
3. The expected term of the options amounted to four years. It was assumed that the options will be exercised immediately upon expiration of the lock-up period of four years.
4. The non-exercise of the stock options issued due to fluctuations in personnel and the return of options for other reasons was not taken into consideration in the measurement.
5. The share price of a Probiodrug common share at the grant date amounted to EUR 15.25 for options issued on 27 October 2014 and EUR 24.80 for the options issued on 1 November 2014.
6. The risk free interest rate for the term of the options issued on 27 October 2014 amounted to 0.05 % while that for the options granted on 1 November 2014 amounted to 0.03%.
7. The expected dividend was assumed to be EUR 0.00.

The total expenses associated with the stock options allocated to 2014 amounted to EUR 1,008k (2013: EUR 0k). These were added to the additional paid-in capital.

6.7.6.2 Phantom stock option program

Phantom stock option program 2007

Simultaneously with the issuance of 201,420 Probiodrug AG stock options within the framework of the ESOP 2007, 201,420 phantom stock options for preferred shares were issued on the issue dates 27 February, 1 August and 1 December 2008. The exercise price amounted to EUR 7.03 and changed to EUR 42.18 due to the simplified share capital reduction in the ratio 6:1. In addition, on 2 July 2008, a phantom stock option program open only to members of the supervisory board was introduced with 13,500 phantom stock options for preferred shares at an exercise price of EUR 7.03 and 9,000 phantom stock options for common shares with an exercise price of EUR 3.96. Due to the simplified share capital reduction, the exercise prices changed from EUR 7.03 to EUR 42.18 for preferred shares and from EUR 3.96 to EUR 23.76 for common shares. In August 2014 all preferred shares were converted into common shares at a ratio of 1:1.

Through 1 January 2013, 41,595 phantom stock options had been forfeited. In 2014 no additional options were issued and 6,900 options were forfeited. As a consequence of the simplified share capital reduction in September 2014, the phantom stock options decreased by 146,212 options. As at 31 December 2014 29,213 options were outstanding.

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

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

Phantom stock option program 2007	**31.12.2014**		**31.12.2013**	
	Weighted average exercise price **EUR**	**Number of phantom stock options** **Shares**	**Weighted average exercise price** **EUR**	**Number of phantom stock options** **Shares**
Outstanding phantom stock options at the beginning of the reporting period	6.90	182,325	6.90	182,325
Phantom stock options issued in the reporting period	0.00	0	0.00	0
Options exercised in the reporting period	0.00	0	0.00	0
Forfeited options in the reporting period	7.03	6,900	0.00	0
Change due to simplified share capital reduction	41.40	146,212	0.00	0
Outstanding options at the end of the reporting period	41.40	29,213	6.90	182,325
Exercisable options at the end of the reporting period	0.00	0	0.00	0

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

As of the balance sheet date 31 December 2014, the newly determined fair value for former phantom stock options for common shares (former preferred shares) was EUR 0.00 (31.12.2013: EUR 0.12) and EUR 0.41 (31.12.2013: EUR 0.51) for former phantom stock options for common shares.

The following factors were considered in determining the fair value as of 31 December 2014:

1. In financial year 2008 214,920 phantom stock options were issued for preferred shares on 27 February, 2 July 2008, 1 August and 1 December 2008 at an exercise price of EUR 7.03 and 9,000 phantom stock options were issued for common shares with an exercise price of EUR 3.96. The respective amounts after the simplified share capital reduction are EUR 42.18 for a preferred share and EUR 23.76 for a common share.
2. The expected volatility amounts to 40%. For the determination of the expected volatility an average value rounded to 5 percentage points of the historic volatility of comparable businesses in the prior three years was used.
3. For the expected remaining term of the phantom stock options the exit event “IPO” on 27 October 2014 with an end of the lock-up period (12 months) was applied. The

respective remaining term of the phantom stock options amounts to 10 months. In the determination of the remaining term of the option rights it was further assumed that all options would be exercised at that time. This would be compensated with cash. The expected term of the phantom stock options was aligned to the expected term of the stock options. Payment is not only dependent on the occurrence of an exit event but also on the additional condition that, at the time of exercise of the phantom stock options, at least 50% of the stock options must have been exercised.

4. It was estimated that the value of a Probiodrug share at the measurement date 31 December 2014 amounted to EUR 20.00
5. The exercise price for a former common share amounts to EUR 23.76 while that of a former preferred share is EUR 42.18.
6. The risk free interest rate at the measurement date 31 December 2013 was -0.04%.
7. The expected dividend payment was assumed to be EUR 0.00.

The total cumulative expenses associated with the phantom stock options incurred through 31 December 2014 which were allocated on the basis of the fair value as at 31 December 2014 amounted to EUR 1k (31.12.2013: EUR 25k) and were recorded within current provisions. As such, in financial year 2014, income from the release of provisions amounting to EUR 24k resulted.

Phantom stock option program 2010/2013

In 2010, on the issue dates 9 June, 30 June and 1 September 2010, an additional 350,474 phantom stock options were issued to the then chairperson of the supervisory board, the three members of the management board and an additional individual. In 2013 255,289 additional phantom stock options were issued to a consultant at the same conditions. The exercise price amounted to EUR 1.00 and was changed to EUR 6.00 due to the simplified share capital reduction in the ratio 6:1.

Through 1 January 2014 180,391 phantom stock options were forfeited as a result of members of the supervisory board leaving their positions as well as employees leaving the Company. 77,310 phantom stock options were forfeited in 2014 as it was assumed that the “exit event threshold” was not achieved with the IPO. As a consequence of the simplified share capital reduction in September 2014, the stock options decreased by 290,052 options. As a result, as at 31 December 2014, 58,010 phantom stock options were outstanding.

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

In addition, an „exit event threshold“ of EUR 200 million was established. Within a period of 24 months subsequent to an exit event, the beneficiary is entitled to an additional 10,308 phantom stock options for each EUR 25 million in net revenues generated as a result of an exit event subsequent to the deduction of all transaction costs in excess of the exit event threshold. The maximum number of phantom stock options thereby amounts to 989,568 for the three members of the management board and 783,409 for the other two beneficiaries. For the purpose of the valuation it is assumed that the exit event threshold was not achieved with the IPO, as such, all phantom stock options tied to the exit event threshold are considered to have been forfeited.

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

Phantom stock option program 2010/2013	**31.12.2014**		**31.12.2013**	
	Exercise price	**Number of phantom stock options**	**Exercise price**	**Number of phantom stock options**
	EUR	**Shares**	**EUR**	**Shares**
Phantom stock options outstanding at the beginning of the reporting period	1.00	425,372	1.00	206,161
Phantom stock options granted during the reporting period	0.00	0	1.00	255,289
Phantom stock options exercised during the reporting period	0.00	0	0.00	0
Phantom stock options forfeited during the reporting period	1.00	77,310	1.00	36,078
Reduction of phantom stock options due to simplified share capital reduction	6.00	290,052	0.00	0
Phantom stock options outstanding at the end of the reporting period	6.00	58,010	1.00	425,372
Exercisable phantom stock options at the end of the reporting period	0.00	0	0.00	0

The following factors were considered in determining the fair value as at 31 December 2014:

1. In financial year 2010 350,474 phantom stock options were issued on the issue dates 9 June, 30 June and 1 September while in 2013 255,289 phantom stock options were issued with an exercise price of EUR 1.00. The respective amount after the simplified share capital reduction is EUR 6.00

2. The expected volatility amounts to 40 %. For the determination of the expected volatility an average value rounded to 5 percentage points of the historical volatility of comparable businesses in the prior three years was used.

3. For the expected remaining term of the phantom stock options the exit event “IPO” on 27 October 2014 with an end of the lock-up period (12 months) was applied. The respective remaining term of the phantom stock options amounts to 10 months. In the determination of the remaining term of the option rights it was further assumed that all options would be exercised at that time. This would be compensated with cash. The expected term of the phantom stock options was aligned to the expected term of the stock options. Payment is not only dependent on the occurrence of an exit event but also on the additional condition that, at the time of exercise of the phantom stock options, at least 50% of the stock options must have been exercised.
4. It was estimated that the value of a Probiodrug share at the measurement date 31 December 2014 amounted to EUR 20.00 for a Probiodrug common share.
5. The risk free interest rate at the measurement date 31 December 2013 was -0.04 %.
6. The expected dividend payment was assumed to be EUR 0.00.

The total cumulative expenses associated with the phantom stock options incurred through 31 December 2014 which were allocated on the basis of the fair value as at 31 December 2014 amounted to EUR 753k (31.12.2013: EUR 694k) and were recorded within current provisions. As such, in financial year 2014, expenses from the additions to provisions amounted to EUR 226k. These are presented within the general and administrative expenses respectively within research and development expenses. As such, in the financial year 2014, income from the release of provisions amounting to EUR 167k resulted.

6.8 Noncurrent liabilities

6.8.1 Investment grants

The deferred subsidies (government grants) for fixed assets include investment subsidies from the public sector.

As of the balance sheet date in 2014, they amounted to EUR 11k and are released to income over the average economic useful life of the underlying assets.

The development of the line item is as follows:

	2014 EUR k	2013 EUR k
Balance carried forward as at 1 January	24	67
Release during the financial year	-13	-43
Balance as at 31 December	**11**	**24**
Of which noncurrent	0	11
Of which current	11	13

6.8.2 Pension liabilities

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

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

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

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

	2014	2013
Discount rate	1.56 %	3.43 %

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

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

As of 31 December 2014, the present value of the pension commitments (defined benefit obligations) amounted to EUR 1,564k (31.12.2013: EUR 1,109k). The remeasurements included within other comprehensive income amounted to EUR -405k as at the balance sheet date (31.12.2013: EUR 35k).

In the financial year 2014, pension expense amounting to EUR 72k (2013: EUR 106k) was recorded, of which EUR 34k (2013: EUR 71k) consisted of service costs and EUR 38k (2013: EUR 34k) of interest expense. 50.0% of the service cost was recorded in general and administrative expenses and 50.0% was recorded in research and development expense.

The plan assets offset comprise the insurance pledged to the beneficiaries which may only be used to make pension payments to the beneficiaries and is, thereby, not available to other creditors of the Company. The present value of the plan assets as at 31 December 2014 amounted to EUR 635k (31.12.2013: EUR 574k); interest income earned on plan assets which is presented within the interest expense amounted to EUR 21k (2013: EUR 18k).

As such, the net commitment (defined benefit liability) as of the balance sheet date amounted to EUR 929k (31.12.2013: EUR 535k).

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

Interest rate – 0.5%: Δ DBO EUR 135k (31.12.2013: EUR 91k)

Interest rate + 0.5%: Δ DBO EUR -120k (31.12.2013: EUR -81k)

Reconciliation of defined benefit obligation and plan assets

In EUR k	Defined benefit obligation	Plan assets	Pension provision (DBL)
Balance as of 01.01.2013	**1,062**	**-517**	**545**
Current service cost	71	-	71
Interest expense (+) /interest income (-)	34	-18	16
Remeasurement	**-58**	**23**	**-35**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	23	23
Actuarial gains (-)/ losses (+)	-58	-	-58
Effects from changes in financial assumptions	-37	-	-37
Effects from changes in demographic assumptions	0	-	0
Effects from changes based on experience	-21	-	-21
Employer's contributions	-	-62	-62
Pension benefits paid	0	0	0
Balance as of 31.12.2013	**1,109**	**-574**	**535**
Current service cost	34	-	34
Interest expense (+)/ interest income (-)	38	-21	17
Remeasurement	**383**	**22**	**405**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	22	22
Actuarial gains (-)/ losses (+)	383	-	383
Effects from changes in financial assumptions	391	-	391
Effects from changes in demographic assumptions	0	-	0
Effects from changes based on experience	-8	-	-8
Employer's contributions	-	-62	-62
Pension benefits paid	0	0	0
Balance as of 31.12.2014	**1,564**	**-635**	**929**

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

in EUR k	**2014**	**2013**
Current service cost	34	71
Net interest expense (+)/ income(-)	**17**	**16**
Interest expense associated with DBO	38	34
Interest income on plan assets	-21	-18
Total net pension expense	**51**	**87**

The total expenses associated with defined contribution plans include the employer's contribution to the statutory pension scheme amounting to EUR 47k (2013: EUR 78k).

In 2015, plan contributions amounting to EUR 62k are expected. The weighted average duration of the pension commitments is 15.7 years (31.12.2013: 16.0 years). The pension payments for the two beneficiaries will probably be due in three respectively four years.

6.8.3 Noncurrent provisions

The noncurrent provisions include the cumulative total expenses recorded through the balance sheet date for commitments associated with the phantom stock options in the amount of EUR 0k (31.12.2013: EUR 719k). For further explanations please refer to section 6.9.6.2.

The development of the line item is as follows:

	2014 EUR k	2013 EUR k
Balance as at 1 January	719	501
Additions during the financial year	225	308
Release during the financial year	-190	-90
Reclassification in current provisions	-754	0
Balance as at 31 December	**0**	**719**

6.9 Current liabilities

6.9.1 Tax liabilities

The tax liabilities of EUR 2,543k comprise the Company's payment obligations as a result of the tax audit for the period 2002 through 2005 including interest for late payment. EUR 1,341k relates to corporate income tax and EUR 1,202k to trade tax.

6.9.2 Provisions

The provision includes commitments associated with the phantom stock options (see 6.8.3) and the tax audit risk associated with a disputed witholding tax deduction on license fees. As a consequence of the Company's appeal, the tax audit has not yet been finalised.

6.9.3 Trade payables

As at the balance sheet date, trade payables amounted to EUR 1,036k (31.12.2013: EUR 1,314k). They have a remaining term of up to one year.

6.9.4 Convertible bonds

In addition to the convertible bonds recorded as at 31 December 2013 totalling EUR 5,346k, new convertible bonds totalling EUR 4,276k were issued in 2014 as an extension to the convertible bonds 2013. In August 2014 all convertible bonds totalling EUR 9,622k were converted into common shares.

6.9.5 Other current liabilities

	31.12.2014 EUR k	31.12.2013 EUR k
Salaries and wages	135	113
Payroll and church taxes	45	23
Workers' compensation board	1	1
Other	14	24
Total	**195**	**161**

7 Explanations on the cash flow statement

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

The cash outflows from operating activities of EUR 10,589k (2013: EUR 8,459k) were primarily attributable to the loss of EUR 11,437k recorded in the financial year (2013 EUR 9,807k).

The positive cash flows from investing activities in the amount of EUR 1,326k (2013: EUR - 22k) were primarily attributable to cash receipts which resulted from the sale of tangible assets in the amount of EUR 465k in 2013 and the partial repayment of the loan by Ingenium in an amount of EUR 761k.

The positive cash flows from financing activities totalling EUR 25,762k (2013: EUR 5,346k) were impacted by the inflows attributable to the issuance of shares in the amount of EUR 23,244 less transaction costs of EUR 1,758k and of convertible bonds in the amount of EUR 4,276k.

8 Segment reporting

Probiodrug only has operations in one business segment and in one regional segment. Revenues were not realised in the reporting periods presented.

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

9 Disclosures with respect to financial instruments

9.1 General disclosures

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

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

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

There were no derivative financial instruments as at 31 December 2014 or in the comparative period.

The categories „measured at fair value through profit and loss", „financial instruments held-to-maturity" and „financial instruments available for sale" were not relevant with respect to the financial assets and financial liabilities recorded as at 31 December 2014.

9.2 Categories of financial assets and financial liabilities

The subsequent table shows the fair values and the carrying amounts for the classes of financial instruments established in accordance with IFRS 7. All fair values presented are classified in level 1 of the fair value hierarchy. There were no fair values of hierarchy levels 2 or 3 in the financial year 2014 or in the comparative period. In addition, in the financial years presented, there were no reclassifications between the three levels of the fair value hierarchy.

Assets

In EUR k	**At amortised cost**		**At fair value**		**Total**	
Valuation category	Loans and receivables		Held-for-trading			
EUR k	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
31.12.2014						
Trade receivables	0	0	0	0	0	0
Current and noncurrent other financial assets	101	101	0	0	101	101
Cash and cash equivalents	20,920	20,920	0	0	20,920	20,920
Total 2014	**21,021**	**21,021**	**0**	**0**	**21,021**	**21,021**
31.12.2013						
Trade receivables	0	0	0	0	0	0
Current and noncurrent other financial assets	1,238	1,238	0	0	1,238	1,238
Cash and cash equivalents	4,421	4,421	0	0	4,421	4,421
Total 2013	**5,659**	**5,659**	**0**	**0**	**5,659**	**5,659**

Liabilities

In EUR k	At amortised cost		At fair value		Total	
Valuation category	Financial liabilities recorded as amortised costs		Financial liabilities recognised at fair value through profit and loss			
EUR k	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
31.12.2014						
Trade payables	1,036	1,036	0	0	1,036	1,036
Total 2014	**1,036**	**1,036**	**0**	**0**	**1,036**	**1,036**
31.12.2013						
Trade payables	1,314	1,314	0	0	1,314	1,314
Convertible bonds	5,346	5,346	0	0	5,346	5,346
Total 2013	**6,660**	**6,660**	**0**	**0**	**6,660**	**6,660**

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

Valuation within the individual valuation categories

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

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

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

c.) The fair value of the convertible bonds was equivalent to the nominal value because the conversion could have occurred at any time.

Reconciliation to balance sheet line items

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

9.3 Other disclosures in accordance with IFRS 7

Disclosures with respect to income and expense

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

	Interest result		Subsequent measurement		
2014 In **EUR k**	Interest income	Interest expense	Valuation adjustments (Other operating expenses)	Write-offs (Other operating expenses)	**Total**
Other short-term financial assets	430			-397	33
Cash and cash equivalents	3	0	0	0	3
Total	**433**	**0**	**0**	**-397**	**36**

	Financial result		Subsequent measurement		
2013 In **EUR k**	Interest income/ other financial result	Interest expense	Valuation adjustments (Other operating expenses)	Write-offs (Other operating expenses)	**Total**
Other short-term financial assets	860		0	-860	0
Cash and cash equivalents	9	0	0	0	9
Total	**869**	**0**	**0**	**-860**	**9**

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

9.4 Financial risks and risk management

9.4.1 Organisation

Risk management system, goals and methods

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

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

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

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

Management board:

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

Risk management:

Risk management is responsible for the active monitoring and controlling of the respective risk groups. Risk is reduced through risk minimisation measures undertaken and by monitoring adherence to limits.

Supervisory board:

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

9.4.2 Risk groups

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

9.4.2.1 Credit risks

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

Probiodrug currently has no regular sales. As such, credit risks are not considered to be significant to the Company.

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

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

Maximum risk of default

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

Carrying amount as an equivalent for the maximum risk of default EUR k	31.12.2014	31.12.2013
Loans and receivables	101	1,238
of which trade receivables	0	0
of which other financial assets	101	1,238
Cash and cash equivalents	20,920	4,421
	21,021	**5,659**

As of the balance sheet dates 31 December 2014 and 31 December 2013, the financial assets were neither impaired nor overdue.

9.4.2.2 Liquidity risk

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

In order to manage the liquidity situation during the year, the Company utilises appropriate financial planning instruments. Matching maturities of the interim capital needs and availability is thereby assured. As at 31 December 2014, cash and cash equivalents amounted to EUR 20.9 million. 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.

The Company's planning is based on the assumption that no cash outflows will be required with respect to the potential additional tax claims of the fiscal authorities for the year 2004 in 2015 or 2016. Probiodrug has filed a lawsuit at the Tax Court [Finanzgericht] contesting the potential back taxes. A ruling has not yet been made. A stay of execution for the contested decisions has been granted.

This risk was provided for in the financial statements by recording an appropriate provision. Should significant payments be required in 2015 or 2016 for the back taxes being contested in the fiscal courts, the Company's ability to execute its business plan could be jeopardised.

Analysis of maturities

The table below presents an analysis of the remaining terms of all contractually agreed financial liabilities as at 31 December 2014 and 31 December 2013:

Contractual remaining terms of financial liabilities

EUR k	Carrying amount	Up to 30 days	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
31.12.2014						
Non-derivative financial liabilities						
Trade payables	1,036	1,036	0	0	0	0
Total	**1,036**	**1,036**	**0**	**0**	**0**	**0**
31.12.2013						
Non-derivative financial liabilities						
Trade payables	1,314	1,314	0	0	0	0
Convertible bonds	5,346	0	0	5,346	0	0
Total	**6,660**	**1,314**	**0**	**5,346**	**0**	**0**

9.4.2.3 Market risks

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

Exchange rate risks

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

Risk of changes in interest rates

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

Price risks

At present, no price risks have been identified.

9.4.2.4 Other risks

Probiodrug is insured against typical risks.

10 Capital management

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

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

An authorisation of the general shareholders' meeting to repurchase own shares did not exist as at the balance sheet date, 31 December 2014.

Probiodrug currently has three active stock option programs from the years 2007, 2010 and 2014.

Probiodrug is not subject to any capital requirements stemming from the Articles of Association.

As at 31 December 2014, Probiodrug's equity amounted to EUR 15,971k (31.12.2013: EUR -4,304k), which equates to an equity ratio of 74.4 % (31.12.2013: negative). The total liabilities amounts to EUR 5,509k (31.12.2013: EUR 10,585k).

11 Other

11.1 Contingencies and other financial commitments

As at the balance sheet date, there were no contingencies. The total other financial commitments relating mainly to agreements for rental and research services and license agreements amounted to EUR 260k (31.12.2013: EUR 183k).

11.2 Related party relationships

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

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

<u>Transactions with key management personnel</u>

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

In EUR k	**2014**	**2013**
Short-term employee benefits	710	513
Post-employment benefits	50	48
Share-based payments	1,008	8
Total	**1,768**	**569**

On 27 February 2008, within the scope of the 2007 option program 23,712 options for common shares, 35,568 options for preferred shares as well as 59,280 phantom stock options were issued to the members of the management board. Within the scope of the 2010 option program, 515,403 options for common shares, as well as 61,848 phantom stock options were issued. Within the scope of the 2014 option program 314,501 options were issued to the members of the management board. More detailed information is provided in item 6.7.6.

The pension commitments described in item 6.8.3 relate to Prof. Dr. Demuth (former member of management board) and Dr. Glund. The development of the pension provision is also presented there.

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

In EUR k	**2014**	**2013**
Short-term benefits	18	24
Share-based payment	0	0
Total	**18**	**24**

On 2 July 2008, 7,500 phantom stock options were issued to Prof. Frank. Further details are presented in item 6.7.6.2.

The 2014 convertible bonds were issued to the shareholders of the Company and converted into shares of the Company in August 2014. The shareholders of the Company participated in Probiodrug's IPO in October 2014.

Other related party transactions

Ingenium, a wholly owned subsidiary of Probiodrug, which was sold in July 2014

As at 31 December 2014, Probiodrug had receivables from shareholder loans granted to Ingenium totalling EUR 0k (2013: EUR 8,600k) and receivables from accrued interest thereon EUR 0k (2013: EUR 2,378k). As at 31 December 2013 valuation adjustments totalled EUR 10,253k (thereof: EUR 860k with an income impact in 2013). In 2014 further interest income totaling EUR 430k was accrued. A provision of EUR 397k was recorded against this.

In 2014 Ingenium repaid EUR 761k in conjunction with the sale of the company. The remaining outstanding receivables were assigned to the buyer of Ingenium.

Futhermore Probiodrug paid EUR 50k into the additional paid-in capital of Ingenium in 2013. This was written off in its entirety in 2013. Other than this, there were no transactions with Ingenium in 2014. There are no longer further post contractual obligations.

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

11.3 Events subsequent to the balance sheet date

There were no significant events subsequent to the balance sheet date.

11.4 Approval and release

On 28 February 2015 Probiodrug AG's management board approved these IFRS consolidated financial statements for release to the supervisory board.

12. Explanation regarding transition to IFRSs

As stated in note 2.1, these are the first Probiodrug (unconsolidated) financial statements prepared in accordance with IFRSs. The financial statements 2011 – 2013 were prepared and presented as consolidated financial statements in accordance with IFRSs.

The accounting policies set out in note 3 were applied for the financial statements as at 31 December 2013 and 1 January 2013 (date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with German GAAP (its previous GAAP). An explanation of how the transition from the previous GAAP to IFRSs has affected the financial position, financial performance and cash flows is set out in the following tables.

Reconciliation of equity

In EUR k		NOTES	Previous GAAP	Effect of transition to IFRSs	IFRSs
			1 January 2013		
ASSETS					
A. Noncurrent assets					
I	Other intangible assets	3.3/6.1	67	0	67
II	Plant and equipment	3.4/6.2	926	0	926
III	Financial assets	3.6	3	0	3
Total noncurrent assets			**996**	**0**	**996**
B. Current assets					
I	Inventories		18	0	18
II	Trade receivables		5	0	5
III	Other short-term financial assets	6.3	732	0	732
IV	Tax refunds	6.4	17	0	17
V	Other assets	6.5	360	0	360
VII	Cash and cash equivalents	3.9/6.6	7,556	0	7,556
Total current assets			**8,688**	**0**	**8,688**
Total assets			**9,684**	**0**	**9,684**

In EUR k		NOTES	Previous GAAP	Effect of transition to IFRSs	IFRSs
			1 January 2013		
EQUITY AND LIABILITIES					
A. Equity					
I	Share capital	6.7	25,529	0	25,529
II	Legal reserve	6.7.1	228	0	228
III	Additional paid-in capital	6.97.2	50,931	944	51,875
IV	Other reserves for remeasurement of the pensions	6.7.3	0	-234	-234
V	Retained earnings	6.7.4	-71,206	-1,029	-72,235
Total equity			**5,482**	**-319**	**5,163**
B. Noncurrent liabilities					
I	Investment grants	3.11/6.8.1	0	24	24
II	Pensions	3.12/6.8.2	282	263	545
III	Provisions	3.13/6.8.3	512	-11	501
IV	Other noncurrent liabilities		0	0	
Total noncurrent liabilities			**794**	**276**	**1,070**
C. Current liabilities					
I	Investment grants	3.11	0	43	43
II	Tax liabilities	6.9.1	2,347	0	2.347
III	Provisions	3.16/6.9.2	41	0	41
IV	Convertible bonds	6.9.4	0	0	0
V	Trade payables	6.9.3	704	0	704
VI	Other current liabilities	6.9.5	316	0	316
Total current liabilities			**3.408**	**43**	**3,451**
Total liabilities			**4,202**	**319**	**4,521**
Total equity and liabilities			**9,684**	**0**	**9,684**

In EUR k		NOTES	Previous GAAP	Effect of transition to IFRSs	IFRSs
				31 December 2013	
ASSETS					
A. Noncurrent assets					
I	Other intangible assets	3.3/6.1	101	0	101
II	Plant and equipment	3.4/6.2	321	0	321
III	Financial assets	3.3	3	0	3
Total noncurrent assets			**425**	**0**	**425**
B. Current assets					
I	Inventories		0	0	0
II	Trade receivables		0	0	0
III	Other short-term financial assets	6.3	1,238	0	1,238
IV	Tax refunds	6.4	9	0	9
V	Other assets	6.5	188	0	188
VII	Cash and cash equivalents	3.9/6.6	4,421	0	4,421
Total current assets			**5,856**	**0**	**5,856**
Total assets			**6,281**	**0**	**6,281**

In EUR k			Previous GAAP	Effect of transition to IFRSs	IFRSs
				31 December 2013	
EQUITY AND LIABILITIES					
A. Equity					
I	Share capital	6.7	25,529	0	25,529
II	Legal reserve	6.7.1	228	0	228
III	Additional paid-in capital	6.7.2	51,468	712	52,180
IV	Other reserves for remeasurement of the pensions	6.7.3	0	-199	-199
V	Retained earnings	6.74	-81,302	-740	-82,042
Total equity			**-4,077**	**-227**	**-4,304**
B. Noncurrent liabilities					
I	Investment grants	3.11/6.8.1	0	11	11
II	Pensions	3.15/6.8.2	321	214	535
III	Provisions	3.13/6.8.3	730	-11	719
IV	Other noncurrent liabilities		0	0	
Total noncurrent liabilities			**1,051**	**214**	**1,265**
C. Current liabilities					
I	Investment grants	3.11	0	13	13
II	Tax liabilities	6.9.1	2,445	0	2,445
III	Provisions	3.13/6.9.2	41	0	41
IV	Convertible bonds	6.9.4	5,346	0	5,346
V	Trade payables	6.9.3	1,314	0	1,314
VI	Other current liabilities	6.9.5	161	0	161
Total current liabilities			**9,307**	**13**	**9,320**
Total liabilities			**10,358**	**227**	**10,585**
Total equity and liabilities			**6,281**	**0**	**6,281**

Reconciliation of comprehensive income for the year ended 31 December 2013

In EUR k	NOTES	Previous GAAP	Effect of transition to IFRSs	IFRSs
		31 December 2013		
I. Profit or loss				
Revenue	5.1	0	0	0
Cost of sales	5.2	0	0	0
Gross profit		**0**	**0**	0
Research and development expenses	5.3	-7,698	-306	-8,004
General and administrative expenses	5.4	-3,298	854	-2,444
Other operating income	5.6	704	43	747
Operating profit/loss		**-10,292**	**591**	**-9,701**
Interest income		869	-860	9
Interest expense		-673	558	-115
Financial profit/loss		**196**	**-302**	**-106**
Loss before tax		**-10,096**	**289**	**-9,807**
Income tax expense	5.7	0	0	0
Net loss for the period		**-10,096**	**289**	**-9,807**
II. Other comprehensive income (loss)				
Items not to be reclassified subsequently to profit or loss				
Remeasurement of the net defined benefit pension liability		0	35	35
Total other comprehensive income (loss)		**0**	**35**	**35**
III. Comprehensive income (loss)		**-10,096**	**324**	**-9,772**
Earnings per share in EUR (basic and diluted)		-2,37	0,07	-2,30

Adjustments to the statement of cash flows

There are no other material differences between the statement of cash flows presented in accordance with IFRS and the statement of cash flows presented under Probiodrug's previous GAAP.

Halle, 28 February 2015

Dr. Konrad Glund Dr. Hendrik Liebers Dr. Inge Lues

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.

Halle, 28 February 2015

Management Board of Probiodrug AG

Dr. Konrad Glund Dr. Hendrik Liebers Dr. Ingeborg Lues