TRANSLATION - AUDITOR'S REPORT

Financial Statements as at 31 December 2015 and Management Report

Probiodrug AG
Halle

The English language text below is a translation provided for information purposes only. The original German text shall prevail in the event of any discrepancies between the English translation and the German original. We do not accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may arise from the translation.

KPMG AG Wirtschaftsprüfungsgesellschaft

Probiodrug AG, Halle

Balance sheet as at 31 December 2015

Assets

		31/12/2015		31/12/2014	
		EUR	EUR	EUR	EUR
A.	**Fixed assets**				
	I. **Intangible assets**				
	Similar rights acquired for consideration, licenses and software		55,962.72		81,571.13
	II. **Tangible assets**				
	1. Buildings on third-party land	20,735.87		27,645.95	
	2. Other equipment, operating and office equipment	59,831.70	80,567.57	73,507.31	101,153.26
	III. **Long-term financial assets**				
	Participations		3,450.00		3,450.00
			139,980.29		186,174.39
B.	**Current assets**				
	I. **Other assets**		139,217.61		296,096.92
	II. **Cash-in-hand and bank balances**		21,361,408.04		20,919,926.71
			21,500,625.65		21,216,023.63
C.	**Prepaid expenses**		225,292.11		77,861.82
			21,865,898.05		**21,480,059.84**

Equity and liabilities

			31/12/2015		31/12/2014
			EUR		EUR
A.	**Equity**				
	I.	**Share capital** Contingent capital: EUR 2,556,151.00 (in the prior year EUR 524,169.00)	7,442,487.00		6,765,898.00
	II.	**Capital reserves**	34,871,656.55		22,016,465.55
	III.	**Revenue reserves**			
		Legal reserves	227,625.00		227,625.00
	IV.	**Accumulated losses brought forward**	-26,067,150.58		-12,480,753.10
			16,474,617.97		16,529,235.45
B.	**Provisions**				
	1.	Pension provisions	468,818.00		370,450.00
	2.	Tax provisions	2,641,430.75		2,543,210.75
	3.	Other provisions	615,703.91		1,107,042.99
			3,725,952.66		4,020,703.74
C.	**Liabilities**				
	1.	Trade payables	1,312,699.31		876,394.23
	2.	Other liabilities	352,628.11		53,726.42
		– of which taxes EUR 129,209.18 (in the prior year EUR 45,421.87) –			
			1,665,327.42		930,120.65
			21,865,898.05		**21,480,059.84**

Probiodrug AG, Halle

Income statement for the period from 1 January to 31 December 2015

		31/12/2015		31/12/2014	
		EUR	EUR	EUR	EUR
1.	Other operating income		318,713.28		237,407.87
2.	Cost of materials				
	a) Costs of supplies and purchased merchandise	-60,497.94		-55,092.00	
	b) Costs of purchased services	-6,673,324.46	-6,733,822.40	-4,291,285.88	-4,346,377.88
3.	Personnel expenses				
	a) Wages and salaries	-1,657,854.69		-1,263,986.09	
	b) Social security and post employment costs	-325,436.28	-1,983,290.97	-191,017.19	-1,455,003.28
	– of which in respect of retirement provisions EUR 185,349.65 (in the prior year EUR 78,939.01) –				
4.	Amortisation of intangible assets and depreciation of tangible assets		-56,185.22		-93,846.03
5.	Other operating expenses		-4,997,084.89		-4,576,095.76
6.	Other interest and similar income		256.11		432,934.49
	– of which from affiliated companies EUR 0.00 (in the prior year EUR 430,000.32) –				
7.	Interest and similar expenses		-134,983.39		-226,105.92
8.	Results of ordinary operations		-13,586,397.48		-10,027,086.51
9.	Extraordinary expenses/extraordinary results		0.00		-2,232,270.20
10.	Net loss		-13,586,397.48		-12,259,356.71
11.	Loss carry forward		-12,480,753.10		-81,301,659.82
12.	Income from the release of capital reserves		0.00		54,871,798.43
13.	Income from the reduction of capital		0.00		26,208,465.00
14.	**Accumulated losses brought forward**		**-26,067,150.58**		**-12,480,753.10**

STATEMENT OF CASHFLOWS for the period from 1 January to 31 December 2015

Probiodrug AG, Halle

	01.01.2015 to 12/31/2015	01.01.2014 to 12/31/2014
	EUR	EUR
Net loss of the period without extraordinary expenses	-13,586,397	-10,027,085
Transaction costs	933,872	0
Extraordinary expenses	0	-474,513
Amortisation/depreciation of fixed assets	56,185	93,846
Profit/loss on the disposal of fixed assets	245	5,599
Interest income	-256	-432,934
Interest expenses	134,983	226,106
Increase in pension provisions	61,605	11,527
Decrease of other provisions	-491,339	-268,649
Other expenses/income without a cash impact	0	397,555
Decrease (in prior year increase) in other assets	154,689	-114,770
Increase (in prior year decrease) of prepaid expenses	-147,430	18,294
Increase in trade payables	436,305	38,726
Increase of other liabilities	298,902	20,633
Cashflow from operating activities	**-12,148,637**	**-10,505,665**
Proceeds from the disposal of tangible assets	235	574,249
Proceeds from the disposal of intangible assets	0	2,930
Capital expenditures for tangible assets	-5,844	-2,040
Capital expenditures for intangible assets	-4,628	-10,041
Proceeds from loan repaid	0	760,508
Interest received	2,447	6,225
Cashflow from investing activities	**-7,790**	**1,331,831**
Proceeds from the issuance of shares	13,531,780	23,244,126
Disbursement for transaction costs	-933,872	-1,757,757
Proceeds from the issuance of convertible bonds	0	4,276,000
Interest paid	0	-90,000
Cashflow from financing activities	**12,597,908**	**25,672,369**
Changes in cash and cash equivalents	**441,481**	**16,498,535**
Cash and cash equivalents at the beginning of the financial year	**20,919,927**	**4,421,392**
Cash and cash equivalents at the end of the period	**21,361,408**	**20,919,927**

	12/31/2015	12/31/2014
	EUR	EUR
Composition of cash and cash equivalents		
Cash-on-hand	103	450
Bank balances	21,361,305	20,919,477
	21,361,408	20,919,927

Statement of shareholders' equity as at 31 December 2015

Probiodrug AG, Halle

	Share Capital		Capital reserves	Legal reserve	Retained earnings	Equity
	Ordinary shares	Preferred shares				
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 01.01.2014	3,414,375	22,114,554	51,467,572	227,625	-81,301,660	-4,077,534
Capital increase as a result of the conversion of convertible bonds		5,921,229	3,700,771	0	0	9,622,000
Conversion of preferred shares into ordinary shares	28,035,783	-28,035,783	0	0	0	0
Simplified capital reduction	-26,208,465		-54,871,798	0	81,080,263	0
Issuance of shares	1,524,205		21,719,921	0	0	23,244,126
Net loss	0		0	0	-12,259,357	-12,259,357
Balance as at 31.12.2014	6,765,898	0	22,016,466	227,625	-12,480,753	16,529,235
Balance as at 01.01.2015	6,765,898	0	22,016,466	227,625	-12,480,753	16,529,235
Capital increase as a result of cash contribution	676,589		12,855,191			13,531,780
Net loss					-13,586,397	-13,586,397
Balance as at 31.12.2015	7,442,487	0	34,871,657	227,625	-26,067,151	16,474,618

Probiodrug AG, Halle (Saale)

NOTES to the financial statements for the financial year from 1 January to 31 December 2015

I. General information

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

Probiodrug's shares have been listed on the Euronext/Amsterdam since October 2014. As such, Probiodrug is a capital market oriented company as defined in Section 264d of the HGB and is thereby considered a large capital corporation as defined by Section 267 (3) sentence 2 of the HGB.

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

II. Accounting policies and measurement methods

Fixed assets

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

The scheduled depreciation and amortisation was calculated on the straight-line basis considering the expected useful life of the underlying asset.
In financial year 2015 and 2014, newly acquired moveable assets with acquisition costs of up to EUR 410.00 were immediately depreciated in their entirety. The cumulative items recorded in the years prior 2014 continue to be depreciated in accordance with Section 6 (2a) of the German Income Tax Act (EStG) [Einkommensteuergesetz] over a period of five years. In total, the cumulative items are of minor importance.

Participations are recorded at their acquisition costs.

Current assets

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

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

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

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

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

Equity

The share capital is recorded at its nominal value.

Provisions

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

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

The measurement of the pension provisions is based on the ,,projected unit credit" method (PUC method). Probiodrug made use of the allowed alternative treatment whereby the average market interest rate of the previous seven business years as published by the Deutsche Bundesbank [German Federal Reserve], which results from an assumed remaining term of 15 years, was applied as the discount rate. The biometric calculation used was provided by the 2005 G mortality tables of Klaus Heubeck [‚Richttafeln 2005 G' von Klaus Heubeck]. The parameters applied in the calculation are presented in the explanations on the balance sheet.

Liabilities

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

The existing liabilities are not secured.

Income statement

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

III. Explanations on the balance sheet

Fixed assets

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

Other assets

Without exception the other assets have a remaining term of up to one year. They primarily consist of receivables from the fiscal authorities (EUR 80k; in the prior year EUR 189k) as well as other receivables (EUR 59k; in the prior year EUR 107k).

Deferred taxes

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

Share capital

As at 31 December 2015, the subscribed capital amounted to EUR 7,442,487.00 (in the prior year EUR 6,765,898.00). It is broken down into 7,442,487 (in the prior year 6,765,898) registered no-par value ordinary shares with no par value (bearer shares).

On 05 November 2015 the management board resolved, with the approval of the supervisory board, to increase the share capital by EUR 676,589.00 to EUR 7,442,487.00 in exchange for a cash contribution. The increase was made by, in part, making use of the authorised capital 2014 by issuing 676,589 new registered no par value bearer shares at an issue price in the amount of the notional par value of EUR 1.00 per share.

Authorisation to acquire treasury shares

On 10 June 2015 the annual shareholders' meeting authorised the management board, in accordance with Section 71 (1) number 8 of the AktG, to acquire shares of the Company until 09 June 2020 equalling the amount of the stated share capital of EUR 676,580.00. The acquisition may be made either via the stock exchange or by way of a public purchase offer directed to all shareholders of the Company. The treasury shares may be used for all permitted purposes including redemption.

Contingent capital

As at 31 December 2015, the contingent capital amounted to EUR 2,556,151.00 (in the prior year EUR 524,169.00). Of this amount, EUR 517,363.00 (in the prior year EUR 426,488.00) is reserved as a result of the distribution of option rights.

The contingent capital increase shall serve to grant no-par value registered shares to the holders or creditors of convertible or option bonds that have been issued by the Company or a group company. who exercised their option or conversion rights or fulfil their option or conversion obligations or, to the extent that the Company exercises its right to grant shares of the Company, in lieu of payment of the amount in cash due (or parts thereof).

In addition to employees of the Company and formerly affiliated companies for whom, as per Section 194 (3) of the AktG, no disclosures are required, the following members of the management board (respectively former members of the management board) are permitted to acquire the following number of shares (subsequent to reduction in conjunction with the capital decrease 6:1):

Dr. Konrad Glund, Halle, up to 135,747 ordinary shares,
Dr. Hendrik Liebers, Leipzig, up to 138,786 ordinary shares,
Prof. Dr. Hans-Ulrich Demuth, Halle, up to 30,913 ordinary shares and
Dr. Inge Lues, Seeheim-Jugenheim, up to 104,834 ordinary shares.

Stock options

The stock option program adopted by resolution of the annual shareholders‘ meeting dated 29 September 2014 is adjusted as follows: the management board and, as far as stock options shall be granted to members of the management board, the supervisory board is authorised to issue once or several times up to 442,000 option rights to current or future employees and members of the management board, whereas up to 336,888 option rights may be granted to current or future members of the management board and up to 105,112 option rights may be granted to current and future employees of the Company.

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

Within the scope of Stock Option program 2014, in 2015 90,875 options for no-par value bearer shares were issued to employees (refer to contingent capital 2014/I).

Convertible bonds

By resolution of the annual shareholders’ meeting on 10 June 2015, the management board with the consent of the supervisory board is authorised to issue once or in several transactions, in the latter case also simultaneously in several tranches, until 09 June 2020 option bonds and/or convertible bonds in bearer and/or registered form (together “bonds”) with a total amount of up to EUR 60,000,000.00, each with or without a maturity restriction. The bonds, subject to the respective terms and conditions of the option bonds (hereafter „option conditions“), may grant option rights or impose option obligations. The bonds may also, subject to the respective terms and conditions of the convertible bonds (the “convertible bond conditions”) grant conversion rights or impose conversion obligations. The bonds may grant rights or impose obligations to subscribe for up to 2,000,000 bearer shares of the Company with a proportionate corresponding amount of the Company’s share capital of up to EUR 2,000,000.00. The bonds may be issued in euro or - limited to the respective value in euro - in any other statutory currency of an OECD member state. The bonds may be issued against non-cash consideration, in particular to acquire enterprises, participations in entities, business units, receivables, patents and licenses or other assets, provided however, that the value of such at least equals the issue price of the bonds.

The bonds may also be issued by domestic or foreign affiliated companies within the meaning of Sections 15 et. seq. of the AktG (hereafter a “group company”). In the event the bonds are issued by a group company the management board, with the supervisory board’s consent is entitled to guarantee the bonds on behalf of the Company and to grant or to impose option rights/obligations or conversion rights/obligations.

Furthermore, the management board with supervisory board's consent is authorised to determine the further details of the issue and the terms of the bonds, in particular interest rate, form of interest, issue price, term, denominations, exercise and conversion period, a potential variability of the conversion rate and, if applicable, to do so in consultation with the corporate bodies of subsidiaries issuing bonds.

Authorised capital 2014/I

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

On 05 November 2015 the management board, with the approval of the supervisory board resolved to make use of a portion of the authorised capital totalling EUR 676,589.00 to increase the share capital by EUR 676,589.00 in exchange for cash. 676,589 no-par value bearer shares were issued at an issue price of EUR 1.00 (notional par value) per share.

As at 31 December 2015, the authorised capital 2014 totalled EUR 2,633,166.00.

Voting rights notification

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

HBM Healthcare Investments (Cayman) Ltd., George Town, Grand Cayman, Cayman Islands, informed us on 6 May 2015 that, according to Section 21 (1) of the WpHG, its voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany ISIN DE0007921835, have fallen below the 10% threshold of the voting rights on 29 April 2015 and on that day amounted to 9.75% (this corresponds to 659,525 voting rights).

HBM Healthcare Investments AG, Zug, Switzerland, informed us on 6 May 2015 that, according to Section 21 (1) of the WpHG, its voting rights in Probiodrug AG, Halle/Saale,Weinberweg 22, 06120 Halle /Saale), Germany ISIN DE0007921835, have fallen below the 10% threshold of the voting rights on 29 April 2015 and on that day amounted to 9.75% (659,525 voting rights). 9.75% of voting rights (659,525 voting rights) are attributed to HBM Healthcare Investments AG in accordance with Section 22 (1) sentence 1, no. 1 of the WpHG. Voting rights attributed to HBM Healthcare Investments AG are held by the following companies under its control, whose share of the voting rights in Probiodrug AG amounts to 3 % or more: **HBM Healthcare Investments (Cayman) Ltd**.

Biotech Growth N.V., Willemstad, Curacao, Netherlands Antilles, informed us pursuant to Section 21 (1) WpHG on 10 November 2015, that its voting rights proportion fell below the threshold of 15% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 14.12% (1,050,784 voting rights) on that date.

BB Biotech AG, Schaffhausen, Switzerland informed us pursuant to Section 21 (1) WpHG on 10 November 2015, that its voting rights proportion fell below the threshold of 15% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 14.12% (1,050,784 voting rights) on that date. 14.12% (1,050,784 voting rights) are to be attributed to BB Biotech AG pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to BB Biotech AG are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: **Biotech Growth N.V.**

Kempen & Co. N.V., Amsterdam, the Netherlands, informed us pursuant to Section 21 (1) WpHG on 12 November 2015, that its voting rights proportion fell below the thresholds of 5% and 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug amounted to 0% (0 voting rights) on that date.

F. van Lanschot Bankiers N.V., ´s-Hertogenbosch, the Netherlands, informed us pursuant to Section 21 (1) WpHG on 12 November 2015, that its voting rights proportion fell below the thresholds of 5% and 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion amounted to 0% (0 voting rights) on that date.

Van Lanschot N.V., ´s-Hertogenbosch, the Netherlands, informed us pursuant to Section 21 (1) WpHG on 12 November 2015, that its voting rights proportion fell below the thresholds of 5% and 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion amounted to 0% (0 voting rights) on that date.

Wellington Management Group LLP, Boston, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Management Group LLP pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG and concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG. A portion of 1.20%

(89,316 voting rights) of the total of 2.86% (212,771 voting rights) is attributed to Wellington Management Group LLP concurrently pursuant to Section 22 (1) sentence 1 no. 2 in connection with sentence 2 WpHG.

Wellington Investment Advisors Holdings LLP, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Investment Advisors Holdings LLP pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG.

Wellington Management Funds Holdings LLP, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Management Funds Holdings LLP pursuant to Section 22 (1) sentence 1 no. 1 WpHG. A portion of 1.20% (89,316 voting rights) of the total of 2.86% (212,771 voting rights) is attributed to Wellington Management Funds Holdings LLP concurrently pursuant to Section 22 (1) sentence 1 no. 2 in connection with sentence 2 WpHG.

Wellington Hedge Management, LLC, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Hedge Management, LLC pursuant to Section 22 (1) sentence 1 no. 1 WpHG. A portion of 1.20% (corresponding to 89,316 voting rights) of the total of 2.86% (corresponding to 212,771 voting rights) is attributed to Wellington Hedge Management, LLC concurrently pursuant to Section 22 (1) sentence 1 no. 2 in connection with sentence 2 WpHG.

Wellington Management Company LLP, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Management Company LLP pursuant to Section 22 (1) sentence 1 no. 6 WpHG.

Wellington Group Holdings LLP, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion fell below the

threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Group Holdings LLP pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG and concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG. A portion of 1.20% (89,316 voting rights) of the total of 2.86% (212,771 voting rights) is attributed to Wellington Group Holdings LLP concurrently pursuant to Section 22 (1) sentence 1 no. 2 in connection with sentence 2 WpHG.

Aviva plc, London, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion exceeded the thresholds of 3%, 5% and 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 10.84% (806,443 voting rights) on that date. 10.84% (806,443 voting rights) are attributed to Aviva plc pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. A portion of 10.20% (759,262 voting rights) of the total of 10.84% (806,443 voting rights) is attributed to Aviva plc concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG are attributed through the following shareholder directly holding 3% voting rights or more in Probiodrug AG: **Aviva Life & Pensions UK Limited.**

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 1 WpHG are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: **Aviva Life & Pensions UK Limited; Aviva Life Holdings UK Limited; Aviva Group Holdings Limited.**

Aviva Investors Global Services Limited, London, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion exceeded the thresholds of 3%, 5% and 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion amounted to 10.84% (806,443 voting rights) on that date. 10.84% (806,443 voting rights) are attributed to Aviva Investors Global Services Limited pursuant to Section 22 (1) sentence 1 no. 6 WpHG.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 6 WpHG are attributed through the following shareholders directly holding 3% voting rights or more in Probiodrug AG: **Aviva Life & Pensions UK Limited**.

Aviva Life & Pensions UK Limited, York, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion exceeded the thresholds of 3% and 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that

its voting rights proportion in Probiodrug AG amounted to 9.70% (722,285 voting rights) on that date.

Aviva Investors Holdings Limited, London, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion exceeded the thresholds of 3%, 5% and 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 10.84% (806,443 voting rights) on that date. 10.84% (806,443 voting rights) are attributed to Aviva Investors Holdings Limited pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. A portion of 0.44% (32,651 voting rights) of the total of 10.84% (806,443 voting rights) is attributed to Aviva Investors Holdings Limited concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG are attributed through the following shareholders directly holding 3% voting rights or more in Probiodrug AG: **Aviva Life & Pensions UK Limited**.

Aviva Life Holdings UK Limited, York, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion exceeded the thresholds of 3% and 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 9.70% (722,285 voting rights) on that date. 9.70% (722,285 voting rights) are attributed to Aviva Life Holdings UK Limited pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 1 WpHG are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: **Aviva Life & Pensions UK Limited**.

Aviva Group Holdings Limited, London, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015, that its voting rights proportion exceeded the thresholds of 3%, 5% and 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 10.84% (806,443 voting rights) on that date. 10.84% (806,443 voting rights) are attributed to Aviva Group Holdings Limited pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. A portion of 10.20% (759,262 voting rights) of the total of 10.84% (806,443 voting rights) is attributed to Aviva Group Holdings Limited concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed pursuant to Section. 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG are attributed through the following shareholder directly holding 3% voting rights or more in Probiodrug AG: **Aviva Life & Pensions UK Limited.**

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 1 WpHG are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: **Aviva Life & Pensions UK Limited; Aviva Life Holdings UK Limited**.

Capital reserves

As at 31 December 2015 the capital reserves amounted to EUR 34,871,656.55 (in the prior year EUR 22,016,465.55).

In conjunction with the capital increase via the issuance of new shares during the financial year, cash receipts totalling EUR 12,855,191.00 were paid into the capital reserves in accordance with Section 272 (2) number 4 of the HGB.

Revenue reserves

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

Accumulated losses

As at 31 December 2015, the accumulated losses totalled EUR 26,067,150.58. It developed as follows during the financial year:

	EUR
Accumulated losses as at 31 December 2014	12,480,753.10
Net loss in financial year 2015	13,586,397.48
Accumulated losses as at 31 December 2015	26,067,150.58

Tax provisions

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

On 5 October 2009, the Company filed an appeal against the changed assessments for 2004 corporate income tax and the solidarity tax contribution. In 2008, in accordance with the prudence principle, the Company recorded the risk resulting from the assessments within the tax provision. In a ruling with respect to the appeal issued by the fiscal authorities in September 2013, the assessment notices with respect to corporate income tax and the solidarity surcharge for 2004 was changed and the tax obligation was reduced slightly. Other than that, the appeal was denied. In addition, in October 2013,

an amended municipal tax assessment notice for the assessment period 2004 was issued. The afore mentioned risks including the accrued interest thereon were given consideration by increasing the tax provision by EUR 98k as at 31 December 2015 to EUR 2,641k.

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

Pension provisions

The calculation of the pension provisions was carried out using a discount rate of 3.89 % (in the prior year 4.53 %). A further parameter applied in the calculation was a pension progression rate of 1.5 % (in the prior year 1.5 %).

During the financial year, personnel expenses in conjunction with the pension obligations amounting to EUR 124k (in the prior year EUR 74k) and interest expense of EUR 41k (in the prior year EUR 42k) were recorded. Interest expense includes income on the assets used to fund the obligation in the amount of EUR 3k (in the prior year EUR 4k) which is presented as a net amount.

As at 31 December 2015, the cash surrender value of the covering assets corresponds with the pledged entitlement to the life insurance amounting to EUR 700k (in the prior year EUR 635k). In accordance with Section 246 (2) of the HGB, this amount was offset with the settlement amount of the pension provisions which amounted to EUR 1,169k (in the prior year EUR 1,005k). The recorded pension provision amounted to EUR 469k (in the prior year EUR 370k).

Other provisions

The other provisions include provisions attributable to outstanding invoices (EUR 307k; in the prior year EUR 83k), other personnel related provisions (EUR 205k; in the prior year EUR 141k), provisions for the Company's other business activities (EUR 53k; in the prior year EUR 53k) as well as provisions for the cost of preparing the financial statements and audit (EUR 51k; in the prior year EUR 76k).

Liabilities

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

IV. Explanations on the income statement

Other operating income

The other operating income during the financial year included:

	EUR k
Income from the release of provisions	301
Income from exchange rate differences	6
Other income relating to other periods	7

Other operating expenses

The other operating expenses include expenses attributable to other periods amounting to EUR 89k (in the prior year EUR 77k) as well as expenses from exchange rate differences amounting to EUR 10k (in the prior year EUR 3k).

Extraordinary expenses

In the prior year the extraordinary expenses of EUR 2,232k were attributable to the initial public offering on the Euronext/Amsterdam.

V. Explanations on the cash flow statement

The transaction costs of EUR 934k recorded in the financial year were, in their entirety, due to the capital increase in 2015.

VI. Other disclosures

Subsidies

Through financial year 2014, Probiodrug AG received public subsidies for projects. The subsidies were, in part, granted subject to subsequent audits.

Recommendation for appropriation of result

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

The accumulated losses amount to EUR 26,067,150.58. This will be carried forward.

Average number of employees during the financial year

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

Employee groups	2015	2014
Members of the management board	3	2
Employees	13	10

Other financial commitments

The total of the other financial commitments as at 31 December 2015 was EUR 2.072k and consist of services by research and development service providers as well as of service, leasing and rental commitments. Of these commitments EUR 2.050k are due within one year

Disclosures with respect to executive bodies

Management board

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

Dr. Konrad Glund (Dipl. Biochemiker [degreed biochemist]) – Chief Executive Officer
Dr. Hendrik Liebers (Dipl.-Biologe [degreed biologist], Dipl.-Kaufmann [degreed businessman]) - Chief Financial Officer
Dr. Inge Lues (Dipl.-Biologe [degreed biologist]) - Chief Development Officer

All of the above have the authority to represent the Company on their own and are released from the constraints of Section 181 of the BGB.

With respect to the remuneration of the management board we refer to the compensation report which forms a part of the management report. The total remuneration of the members of the management board is EUR 1.425k for the financial year 2015.

Disclosure as to total remuneration of former management board members

During the financial year, EUR 78k was recorded in the pension provision for previous members of the management board. The pension provision amounts to EUR 216k.

Supervisory board

The following were appointed as members of the supervisory board:

- Dr. Erich Platzer, medical doctor, Basel/ Switzerland – Chairperson
  - *Member of the board of directors, Aptose Biosciences Inc., Toronto, Canada*
  - *Owner and managing director of Platzer Consult GmbH, Basel, Switzerland*
  - *Board of directors - President credentis AG, Windisch, Switzerland*
  - *Board of directors - President AOT AG, Basel, Switzerland*
  - *Board of directors member Viroblock SA, Plans-les-Ouates (Geneva), Switzerland*
  - *Board of directors member Léman Micro Devices SA, Lausanne, Switzerland*
  - *Member of the board, Medtech Innovation Partners AG, Basel, Switzerland*

- Dr. Dinnies von der Osten, Managing Director, Berlin- Vice Chairperson
  - *Member of the supervisory board of Market Logic Software AG, Berlin*
  - *Managing Director, GoodVent Beteiligungsmanagement Verwaltungs-GmbH, Magdeburg*

- Dr. Olivier Litzka, Investment manager, Chambourcy/France
  - *Supervisory board member, Noxxon Pharma AG, Berlin*
  - *Supervisory board member, SuperSonic Imagine, Les Jardins de la Duranne, Aixen Provence, France*
  - *Member of the board of directors, JenaValve Technology Inc., Irvine/ USA*
  - *Member of the advisory board, Allecra GmbH, Weil am Rhein,*
  - *Investment manager, Edmond de Rothschild Investment Partners, Paris, France*
  - *Member of the board, Autonomic Technologies Inc., California, USA*

- Dr. Jörg Neermann, Investment manager, Munich
  - *Member of the supervisory board, Ventaleon GmbH, Gauting*
  - *Member of the board of directors, Eyesense AG, Basel, Switzerland*
  - *Member of the board of directors, Kuros Bioscienes AG, Zurich, Switzerland*
  - *Member of the supervisory board, Curetis AG, Holzgerlingen*
  - *Member of the board of directors, ViCentra B.V., Utrecht, the Netherlands*

- Dr. Hubert Birner, Managing Partner, Munich – until 10 June 2015

- Prof. Dr. Georg Frank, biologist, Dessau – until 10 June 2015

- Kees Been, Chief Executive Officer (CEO), Weston, Massachusetts, USA - since 10 June 2015
  -Member of the board of directors, Lyosomal Therapeutics, Inc., Massachusetts, USA
  -Member of the board of directors, Rodin Therapeutics, Inc., Massachusetts, USA

- Charlotte Lohmann, Attorney, Gröbenzell - since 10 June 2015
  - *-General Counsel Morphosys AG, Martinsried*

During the financial year the remuneration of the supervisory board totalled EUR 52k.

The terms of the supervisory board members Dr. Platzer, Dr. von der Osten, Dr. Neermann and Dr. Litzka end upon the conclusion of the annual shareholders' meeting which resolves upon the exoneration of the supervisory board for financial year 2015. The terms of the supervisory board members Mr Been and Ms Lohmann end upon the conclusion of the annual shareholders' meeting which resolves upon the exoneration of the supervisory board for financial year 2017.

Auditor's fees

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

	EUR k
a) Year-end audit fees	52
b) Other confirmation services (comfort letter)	79
Of which for the prior financial year	*(16)*
	131

Compliance statement in accordance with Section 161 of the AktG

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

Halle (Saale), 03 March 2016

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

Probiodrug AG, Halle

Schedule of fixed assets
in financial year 2015

		Acquisition and production costs				Accumulated amortisation / depreciation				Carrying values	
		1/1/2015	Additions	Disposals	31/12/2015	1/1/2015	Amortisation/ depreciation of the financial year	Disposals	31/12/2015	31/12/2015	31/12/2014
		EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I.	**Intangible assets**										
	Simlar rights acquired for consideration, licenses and software	252,266.89	4,627.92	1,010.64	255,884.17	170,695.76	29,756.15	530.46	199,921.45	55,962.72	81,571.13
II.	**Tangible assets**										
	1. Buildings on third party land	181,002.98	0.00	0.00	181,002.98	153,357.03	6,910.08	0.00	160,267.11	20,735.87	27,645.95
	2. Other equipment, operating and office equipment	575,198.41	5,843.88	2,414.98	578,627.31	501,691.10	19,518.99	2,414.48	518,795.61	59,831.70	73,507.31
		756,201.39	5,843.88	2,414.98	759,630.29	655,048.13	26,429.07	2,414.48	679,062.72	80,567.57	101,153.26
III.	**Long-term financial assets**										
	1. Participations	3,450.00	0.00	0.00	3,450.00	0.00	0.00	0.00	0.00	3,450.00	3,450.00
		1,011,918.28	**10,471.80**	**3,425.62**	**1,018,964.46**	**825,743.89**	**56,185.22**	**2,944.94**	**878,984.17**	**139,980.29**	**186,174.39**

Probiodrug AG, Halle (Saale)

Management report for financial year 2015

1. Company basics

Legal structure

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

Business activities

Probiodrug AG is a biopharmaceutical company dedicated to the research and development of new therapeutic products for the treatment of Alzheimer’s disease (hereinafter also „Alzheimer’s“ or „AD“).
Located in Halle, Germany, Probiodrug was founded in 1997 by Prof. Dr. Hans-Ulrich Demuth and Dr. Konrad Glund and successfully developed a new therapeutic concept for the treatment of diabetes type 2 – the DP4 inhibitors or Gliptins. Today, Probiodrug's goal is to become a leading company in the development of Alzheimer’s treatments and thereby to provide a better quality of life for patients with this disease.
Probiodrug is pursuing a therapeutic concept linked to disease initiation as well as progression. The development approaches are targeting pyroglutamate-Abeta (pGlu-Abeta, N3pG Abeta) as one therapeutic strategy to fight AD. The Company is pursuing two mechanisms with respect hereto: on the one hand Probiodrug is focussing on the inhibition of the production of pGlu-Abeta by the inhibition of the enzyme Glutaminyl-Cyclase („QC“). The Company’s most developed program in this area, the development candidate PQ912, is in clinical phase 2; a further development candidate, PQ1565, is in preclinical development. On the other hand the Company is specifically developing pGlu-Abeta binding antibodies, which ultimately speed up their degrada-

tion. The development candidate in this area, the antibody PBD-C06, is in preclinical development.

Research and development

As was the case in the past, in financial year 2015 Probiodrug focussed its activities on the development of PQ912, an inhibitor of the enzyme QC for the treatment of Alzheimer's and other diseases. In addition, the specific pGlu-Abeta binding antibody PBD-C06 was progressed into production development and was further supported with data sets with respect to efficacy and safety. Work on PQ1565, a further QC inhibitor, also continued. The primary work in these areas is carried out by external service providers (contract research organisations as well as contract manufacturers) and cooperation partners in the areas of ancillary pharma research, production development and production, preclinical and clinical trials as well as analytics.

Patent-portfolio

In 2015 Probiodrug further strengthened its portfolio of patents. Important patent applications were granted in key markets. In total, at the end of 2015, 41 patent families and registrations were held (in the prior year: 43). The strategy of focussing the patent portfolio in development relevant areas while selectively discontinuing non-core areas was retained.

Important events in the current financial year

a) Completion of capital increase

In November 2015 Probiodrug successfully completed its first capital increase as a listed company. As a consequence of this capital increase, 676,589 new shares were issued leading to gross proceeds of EUR 13.5 million.

b) Changes in the supervisory board

The terms of all supervisory board members expired in conjunction with the annual shareholders' meeting held on 10 June 2015 which resolved upon the exoneration of the members of the supervisory board for the year 2014. The supervisory board members Prof. Georg Frank and Dr. Hubert Birner did not stand for an additional term. The annual shareholders' meeting elected Charlotte Lohmann and Kees Been as new supervisory board members with a term which concludes in conjunction with the annual shareholders' meeting which resolves upon the exoneration of the supervisory board for the year 2017. All other supervisory board members were re-elected for a term through the conclusion of the annual shareholders' meeting which resolves upon the exoneration of the supervisory board for the year 2015.

2. Overview of the business development

2.1 General conditions

Overall, in the year 2015, the environment with respect to pharmaceutical research and development in the Alzheimer area was positive. The company Biogen published promising clinical data with respect to its anti Abeta antibody Aducanumab® and announced that it will start clinical trial phase III with this molecule. Roche announced that it will also progress to clinical trial phase III with its in-licensed anti Abeta antibody Crenezumab®. The company Lilly presented additional positive preclinical data with respect to the efficacy of the combination of a BACE inhibitor and an anti-pGlu-Abeta-antibody.
In terms of the capital market an increasing interest in the Alzheimer's indication is notable. This is, among others, reflected in the successful initial public offerings of two companies focussed on Alzheimer's in the USA (Axovant, vtv Therapeutics).

From the perspective of the pharmaceutical industry, there continues to be an unchanged high level of interest in novel treatment approaches which make innovative pharmacological intervention possible for diseases such as Alzheimer's which are still insufficiently treated thereby prospectively making attractive reimbursement possible. However, as a consequence of failures in the past with respect to the development of

Alzheimer's therapeutics, high validation and thereby risk optimising requirements are a prerequisite for a (lucrative) partnership.

2.2. Company development

In 2015 Probiodrug focussed on the following primary areas

- Further preclinical and clinical testing of the development candidate PQ912 in the area of QC inhibition, in particular execution of the first patient study in 2015/ 2016,

- Securing further supporting data and intellectual property protection for the therapeutic concept of QC inhibition as a fundamental novel approach for the treatment of Alzheimer's and other diseases,

- Further progression of the therapeutic concept of the anti pGlu Abeta specific antibodies (PBD-CO6) as well as that of PQ1565, an additional QC inhibitor,

- Further increasing visibility and acceptance as an important prerequisite for an industrial transaction,

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

Probiodrug was able to achieve its corporate objectives in all of these areas.

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

Net assets

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

	31.12.2015	31.12.2014
	EUR k	EUR k
Assets		
Intangible assets	56	82
Tangible assets	81	101
Long-term financial assets	3	3
Fixed assets	**140**	**186**
Other assets	139	296
Cash-in-hand and bank balances	21,361	20,920
Current assets	**21,501**	**21,216**
Prepaid expenses	225	78
Total assets	**21,866**	**21,480**
Equity and liabilities		
Equity	16,475	16,529
Provisions	3,726	4,021
Liabilities	1,665	930
Total equity and liabilities	**21,866**	**21,480**

The non-current assets declined by EUR 46k as at 31 December 2015 due to the scheduled amortisation and depreciation of fixed assets totalling EUR 56k which was off-set by capital expenditures of EUR 10k.

In 2015 current assets increased slightly from EUR 21,216k to EUR 21,500k. In the reporting period the other assets declined by EUR 157k while cash and cash equivalents increased by EUR 441k.

As a result of the capital increase in November 2015, cash proceeds of EUR 13,532k were realised. As at the balance sheet date, the bank balances totalled EUR 21,361k.

As at 31 December 2015 Probiodrug's equity amounted to EUR 16,475k (2014: EUR 16,592k). As at 31 December 2015, the equity ratio amounted to 75 %.

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

During the financial year the provisions decreased by EUR 295k to EUR 3,726k. EUR 469k (2014: EUR 370k) of the provisions are attributable to pensions,

EUR 2,641k (2014: EUR 2,543k) result from the potential tax payment in arrears while EUR 616k (2014: EUR 1,107k) comprise other provisions. The decline in the other provisions was primarily attributable to the release of the provision for phantom stocks.

During the reporting period the liabilities increased substantially from EUR 930k to EUR 1,665k as a result of the EUR 436k increase in the trade payables attributable to higher costs for purchased services as well as an increase of EUR 299k in other liabilities.
As at 31 December 2015 the trade payables totalled EUR 1,313k (2014: EUR 876k).

Financial position

The operating cash flow totalled EUR -12,146k (2014: EUR -10,589k) in the reporting period. The change in comparison with the prior year was primarily attributable to the higher expenses for purchased services and the increase in personnel expenses.

The cash flow from investing activities amounted to EUR -10k (2014: EUR 1,326k) in financial year 2015.

In financial year 2015 the cash flow from financing activities amounted to EUR 12,598k (2014: EUR 25,762k). This was attributable to proceeds from the capital increase in November 2015 (EUR 13,532k) less the transaction costs attributable hereto (EUR -934k).

In total, in the reporting period, the Company's cash and cash equivalents increased by EUR 441k.

Results of operations

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

	2015	2014
	EUR k	EUR k
Other operating income	318	237
Costs of materials	-6,734	-4,346
Personnel expenses	-1,983	-1,455
Amortisation and depreciation of intangible and tangible assets	-56	-94
Other operating expenses	-4,997	-4,576
Financing results	-135	207
Results from ordinary activities	**-13,586**	**-10,027**
Extraordinary expenses	0	-2,232
Net loss in the financial year	**-13,586**	**-12,259**

The Company's net loss amounted to EUR 13,586k (2014: EUR 12,259k). In the result from ordinary activities which, in comparison with the prior year, declined by EUR 3,559k there were the following significant changes in comparison with 2014:

- the increase of EUR 2,388k in the costs of materials was attributable to an increase in the purchased services within the scope of the clinical study phase 2;
- the increase of EUR 528k in personnel costs was attributable to the expansion of the management board in November 2014 as well as to the hiring of new employees in 2015;
- the other operating expenses increased by EUR 421k as a result of the transaction costs incurred in conjunction with the increase in capital in November 2015.

Overall statement

At the time of preparation of this management report, the Company's economic position has not changed materially in comparison with the explanations provided above. The management board is all in all satisfied with the development of the Company and views it positively.

2.4. Non-financial performance indicators

Studies to be completed

Probiodrug uses a number of contract research organisations to complete the planned preclinical and clinical studies as well as in production development and production.

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

Employees

As at 31 December 2015, including the management board, Probiodrug had 16 (2014: 13) employees, of which 56.25% were female. In the reporting period there were an average of 16 employees (2014: 12). In 2015 Probiodrug incurred personnel expenses of EUR 1.98 million (2014: EUR 1.46 million). The increase was primarily due to the newly hired employees at the end of 2014 and the beginning of 2015.

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

Intellectual property rights

A high quality and stable patent portfolio is a decisive success factor for Probiodrug. Probiodrug has a very experienced patent management which further developed the patent portfolio in 2015. In order to provide for focus on the sustainable value drivers as well as to optimise costs and benefits, Probiodrug continuously reviews its patent portfolio.

As at 31 December 2015, 41 patent families were held (31 December 2014: 43). The focussing of the patent portfolio in non-core areas was off-set by new applications in the development relevant areas. As such, Probiodrug's overall patent position was further improved.

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

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

4. Opportunities and risks report

4.1. Opportunities report

Increasing interest in Alzheimer's

In 2015, after years of restraint, the interest in the Alzheimer's area by the pharmaceutical industry as well as that of investors increased. Prospectively this could lead to an increased frequency of transactions. In comparison, the available number of new concepts with a broad scientific basis and with initial clinical data is limited. From both a strategic perspective as well as in terms of content, Probiodrug is well positioned in this regard. In case of success, this provides for opportunities which could substantially increase the Company's value.

Important progress in projects being pursued

In 2015 Probiodrug was able to generate additional important preclinical data which, in the view of the Company, further provides support for the viability of the therapeutic concept being pursued. The first patient study with respect to PQ912 (SAPHIR) was initiated as scheduled. Additional key patents were granted in important markets. The continuation of this development, i.e. the generation of additional positive data, above all with respect to the ongoing patient study with PQ912, should have a positive impact on the value of individual programs as well as the Company's total value.

License revenues as a result of patents

Probiodrug's very comprehensive and well positioned patent portfolio could lead to licensing agreements and thereby proceeds if other companies would like to

use one or more of Probiodrug's projects in their own pipeline. Probiodrug would then receive license fees for this thereby improving the Company's financial position, results of operations and net assets.

Takeover

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

4.2. Risk report

Probiodrug's risks

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

Sector specific risks

Market and competition

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

As such, Probiodrug is exposed to the risk that other development approaches will result in a superior safety/efficacy profile and/or that they will achieve a devel-

opment edge which could reduce Probiodrug's prospects with respect to the conclusion of a lucrative industrial collaboration ultimately having a negative impact on the licensing of product candidates.

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

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

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

Product development (in general)

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

Typical risks include:

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

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

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

Administrative proceedings

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

Risks arising from business activities

Development and licensing partnerships

Probiodrug has focussed on the research and development of therapies for the treatment of Alzheimer's and related diseases. In order to generate profits and to become self-sufficient in terms of financing, the Company must generate sales – either as a result of advance payments, milestone payments or commissions -

arising from cooperation agreements with pharmaceutical and biotechnology companies. To date, no industrial cooperation has been concluded with the consequence that no revenues have been realised. Against this background, and in view of the required substantial future research and development expenses, Probiodrug will, for the time being, continue to present negative operating results.
To become profitable in the mid-term, Probiodrug will have to conclude a corresponding agreement with the pharmaceutical industry or with another biotechnology company. Should it not be possible for Probiodrug to secure such a partner or if this is only possible at economically unfavourable terms, this could delay the development of the respective products and/or result in lower revenues thereby reducing the intrinsic value of the project.

Patent and trademark protection

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

Risks associated with product development

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

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

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

Patient recruitment

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

In addition, clinical study centres could – for example as a result of other concurrent clinical studies or due to continuing quality issues with respect to their internal organisation – have difficulty recruiting a sufficient number of patients within the period required. This could endanger the timing as well as the execution of the study and could lead to delays. In order to progress the study Probiodrug may, therefore, be required to involve other clinical centres in the ongoing study. This could lead to an increase in costs and potentially to an increase in variability.

Capital market risks

Additional financing

On the basis of the current cash and cash equivalents as well as current Company planning, the Company can provide for the continuity of operations until the end of Q2/2017. However, Probiodrug has a need for substantial capital to achieve its mid- to long-term corporate and development goals. This will require the raising of capital or third party financing or the generation of inflows as a result of the granting of licenses or cooperations. It is not certain that Probiodrug will be able to obtain sufficient additional capital within the required timeframe, at economically favourable terms or that this can be realised at all. Should the Company not be able to obtain access to additional financing, this could inhibit, or even completely prevent, the continuity of the Company and could lead to Probiodrug's liquidation or insolvency. Should the Company obtain additional capital by issuing new shares, this could lead to a dilution of the shareholding of the existing shareholders. Should the Company not be able to obtain additional funding, Probiodrug may be inhibited in the further development of its projects and/or the development of one or a number of products could be discontinued and/or the speed of development could be reduced to the extent that this could have a negative effect on the competitive position as well as on the results of operations, financial position and net assets to the extent that this could lead to the Company's insolvency.

Financial risks

Investment of liquid funds

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

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

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

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

Potential additional tax payment

Following a tax audit in 2008, the tax authorities retroactively increased the taxable profits for 2004 by approximately EUR 10 million, resulting in a tax claim for corporate income tax, solidarity surcharge and trade tax of EUR 1.7 million plus interest of 0.5% per month since 1 April 2006. The potential tax liability amounts to a total of approx. EUR 2.6 million (including accrued interest). Probiodrug believes that the better arguments speak against the tax authorities' view and has contested the claims of the tax authorities. The matter is now pending with the competent tax court. As a matter of precaution, Probiodrug has recognised in its financial statements a tax provision (including accrued interest). Nevertheless,

should Probiodrug eventually be required to make such tax payments, this would have a corresponding unfavourable effect on Probiodrug's liquidity and cash flow position and may negatively affect its business, prospects and financial condition. Such payment obligations could endanger Probiodrug's ability to continue as a going concern if Probiodrug does not succeed in obtaining additional funding in Q1/2017

Recognition of tax losses carried forward

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

Administrative and other risks

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

Legal risks

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

Other risks

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

Overall assessment of the risk situation

Giving consideration to all of the afore mentioned risks, there currently are only a few factors which could, in the short-term, endanger the continuity of Probiodrug in financial year 2016. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2015 provide for the Company's financing beyond the upcoming twelve months. Management believes that additional cash inflows can be generated. For the continued operation of the Company, financing measures or an outlicensing will be necessary by the second quarter of 2017 at the latest or, to the extent that significant payments in conjunction with the fiscal court proceedings pursued by the fiscal authorities become necessary, at the beginning of the first quarter of 2017.

5. Outlook

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

- Continue the clinical development of PQ912 in particular generate initial patient study data and start long-term treatment,
- Completion of the production development as well as initiation of clinical development of PBD-C06,
- Continuation of the development of PQ 1565,
- Further scientific analysis of potential second indications for the use of QC inhibitors,
- Continuation of work to better understand the pGlu Abeta mediated pathologies,
- Further increasing visibility and acceptance as an important prerequisite for obtaining additional capital as well as for an industrial transaction,
- Further strengthening Probiodrug's financial resources.

As a result of the continuing costs being incurred for development activities which are not yet off-set by any sales, the Company also projects a net loss for financial year 2016 which may be in excess of that incurred in 2015.

As a result of its business model, to implement its development strategy until such time at which an industrial partnership is concluded, Probiodrug is dependent upon additional capital. This can be provided in the form of equity on the basis of a capital increase or via alternative financing forms such as loans, convertible bonds, option bonds, etc. All prerequisites (e.g., providing sufficient authorised and contingent capital) have been provided for by the annual shareholders' meeting so as to provide the Company with sufficient flexibility to react to potential options.

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

6. Probiodrug’s risk management and internal control system

Risk management system

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

In a continuous process, management board members responsible for the different functions within the Company identify, analyse and evaluate the risks with respect to their probability of occurrence, their possible costs and their effect on liquidity, the time reference as well as the existence of possible and planned countermeasures. The respective management board members regularly inform Probiodrug’s entire management board. Based on this, the management board and, where necessary, the supervisory board determine how the Company will address the risks identified.

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

Within the scope of quality management, use is made of specification documents. These include position descriptions as well as functional descriptions. In addition, verification documents are used. These include notes respectively documents which doc-

ument the results attained or provide objective evidence of activities carried out, e.g., in the form of an audit report.

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

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

Risk management and internal control system in the financial reporting process

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

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

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

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

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

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

As at 31 December 2015, Probiodrug AG's share capital amounted to EUR 7,442,487.00. It is divided into 7,442,487 ordinary bearer shares with a notional par value of EUR 1.00 per share. Each share provides one vote at the shareholders' meeting as well as dividend entitlements when distributions are resolved upon; there are no restrictions on voting rights. The share capital has been paid in in its entirety. No treasury shares are held.

No shareholders have special rights which confer control. In particular, there is no right to appoint members of the supervisory board in accordance with Section 101 (2)

of the AktG. To the extent that Probiodrug's employees or affiliated companies hold shares of the Company, they exercise direct control over the voting rights.

In accordance with the resolution of the shareholders' meeting on 10 June 2015, the management board is authorised, with the approval of the supervisory board, to increase the Company's share capital until 30 September 2019 by up to EUR 2,633,116.00 through single or multiple issues of new bearer shares in exchange for cash and/or a contribution in kind, whereby subscription rights can be excluded (authorised capital 2014/I).

As at the balance sheet date, the contingent capital amounts to EUR 2,556,151.00 and consists of the following:

Contingent capital 2008/I

The Company's share capital was contingently increased by up to EUR 11,300.00 by the issuance of up to 11,300 new shares (contingent capital 2008/I, Section 5 (4) of the Articles of Association). The contingent capital increase solely serves to redeem the stock option rights issued to members of the management board as well as Company employees on the basis of the resolution of the shareholders' meeting held on 21 February 2008.

Contingent capital 2008/II

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

Contingent capital 2010/I

The Company's share capital was contingently increased by up to EUR 85,901.00 by the issuance of up to 85,901 new shares (contingent capital 2010/I, Section 5 (6) of the Articles of Association). The contingent capital increase solely serves to redeem the stock option rights which were issued to members of the management board and Company

employees on the basis of the shareholders' meeting held on 18 May 2010 with amendments dated 20 September 2011, 30 December 2011, 31 October 2012 and 25 August 2014.

Contingent capital 2014/I

The Company's share capital was contingently increased by up to EUR 442,000.00 by the issuance of up to 442,000 new shares (contingent capital 2014/I, Section 5 (7) of the Articles of Association). The contingent capital increase solely serves to redeem the option rights which were issued to members of the management board and Company employees on the basis of the resolution of the shareholders' meeting held on 29 September 2014.

Contingent capital 2015

The Company's share capital was contingently increased by up to EUR 2,000,000.00 by the issuance of up to 2,000,000 new bearer shares (contingent capital 2015). The contingent capital increase solely serves to redeem the conversion and/or option rights which were issued on the basis of the resolution of the shareholders' meeting held on 10 June 2015 which authorised the issuance of convertible bonds.

Authorisation to acquire treasury shares

The annual shareholders' meeting on 10 June 2015 authorised the management board in accordance with Section 71 (1) no. 8 of the AktG to acquire treasury stock until 09 June 2020 up to the proportionate share of the share capital in the amount of EUR 676,580.00. The acquisition may be made via the stock exchange or via a public purchase offer made to all shareholders. The treasury shares may be used for all permitted purposes including redemption.

7.2. Shareholders of Probiodrug AG

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

Shareholder	Legal seat	Voting rights in %
BB Biotech AG	Schaffhausen/ Switzerland	14.13
IBG Group	Magdeburg/ Germany	13.46
Edmond de Rothschild Investment Partners	Paris/ France	13.24
Aviva Investors	London/ United Kingdom	10.84

Restrictions with respect to the transfer of shares

All shareholder lock-up stipulations agreed to within the scope of the initial public offering expired on 27 October 2015. Hence, as at the balance sheet date, there were no longer any restrictions with respect hereto.

7.3. Appointment and removal of members of the management board

The appointment and removal of members of the management board is regulated by Sections 84 and 85 of the AktG as well as in Section 6 of the Articles of Association in the version dated 10 June 2015. In accordance with Section 6 of the Articles of Association, the management board consists of one or a number of members; moreover, the supervisory board determines the number of members of the management board. The members of the management board are appointed for a maximum of five years. This also applies to the renewal of an appointment of a management board member.

The contracts concluded on 30 November 2014 for the management board members Dr. Glund and Dr. Liebers have a term through 30 November 2017. The contract of management board member Dr. Ingeborg Lues concluded on 1 November 2014 has a term through 1 November 2017.

7.4. Changes to the Articles of Association

The change to the Articles of Association was made in accordance with Sections 179 and 133 of the AktG. In accordance with section 20 of the Articles of Association resolutions of the annual shareholders' meeting (including with respect to changes in the Articles of Association) only require the simple majority of the votes cast if the law

does not specifically provide for something else and with respect to the majority of capital, the simple majority of the share capital represented upon making the resolution. Furthermore, in accordance with the Articles of Association the supervisory board is authorised to resolve upon changes to the Articles of Association which only related to the version.

7.5. Other disclosures

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

8. Corporate governance statement pursuant to Section 289a of the HGB

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

Compliance statement of the management board and the supervisory board pursuant to Section 161 of the AktG

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

Probiodrug AG‘s management board and supervisory board declare that the recommendations of the „Government Commission on the German Corporate Governance Code“ published by the German Federal Ministry of Justice on 24 June 2014 have been complied with, with the following exceptions and that the recommendations of the „Government Commission on the German Corporate Governance Code“ published by the German Federal Ministry of Justice on 12 June 2015 have been complied with, with the following exceptions:

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

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

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

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

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

The currently existing contracts with members of the management board do not provide for a two year cap in payment in case of early termination. In connection with the transformation of the Company for the purpose of its listing, a primary aim was to secure the cooperation with the management board members.

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

Regarding the composition of the supervisory board in the future, the supervisory board intends to have members with experience in pharmaceutical research, research with respect to Alzheimer's disease and similar illnesses as well as experience with the public capital market. Considering the alignment of the Company, the members of the supervisory board should also have U.S. experience. As these requirements make it difficult to find a sufficient number of qualified members for the supervisory board, the supervisory board did not set any fixed diversity quota.

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

For those members of the supervisory board who were initially elected by the 2015 annual shareholders' meeting, the remuneration was fixed in accordance with number 5.4.6 (1) sentence 2 of the Codex. As the other members of the supervisory board do not receive any remuneration, they cannot receive higher remuneration in the capacity as chairperson or vice chairperson of the supervisory board or chairperson of committees.

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

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

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

markets for the time being. However, the possibility of complying with the shorter deadlines of the Code is continuously reviewed.

Information regarding company management practices

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

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

Operating principles of the management board and the supervisory board

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

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

board can make further management board decisions subject to the approval of the supervisory board.

Management board

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

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

Supervisory board

As per the Articles of Association, as at 31 December 2015, the supervisory board was comprised of six members. The work of the supervisory board, the principles of passing resolutions as well as the work of the committees is regulated by the rules of procedure of the supervisory board. Dr. Erich Platzer is the Chairperson. Vice Chairperson is Dr. Dinnies Johannes von der Osten. The additional members are Charlotte Lohmann, Dr. Jörg Neermann, Dr. Olivier Litzka and Kees Been. In the reporting period the supervisory board convened seven times, (30 January, 16 March, 22 April, 09 July, 25 September, 22 October, 09 December). The current supervisory board members are, respectively were in the past, active at the international level in the financial, biotechnology and pharmaceutical sectors, have the corresponding networks and are, as a result of own experience, very familiar with the needs of these sectors.

To increase the supervisory board's efficiency, three committees were established: the Audit Committee, the Nomination Committee and the Compensation Committee. The Audit Committee comprises Dr. von der Osten, Charlotte Lohmann and Dr. Neermann; Dr. von der Osten is the Chairperson. All members have the corresponding expertise and independence. The Audit Committee convened two times in 2015. The members of the Audit Committee discussed and reviewed the audit of the financial statements 2015 according to German GAAP (HGB) and IFRS, the half year financial statements 2015 and potential financing options for the Company.The Nomination Committee includes Dr. Platzer, Dr. Neermann and Dr. Litzka; Chairperson is Dr. Platzer. This committee convened twice in 2015. The main topic was the discussion of suitable candidates for the Supervisory Board to be proposed to the general shareholders' meeting 2015.The Compensation Committee comprises Dr. Platzer, Ms. Lohmann and Mr. Been; Dr. Platzer serves as Chairperson. The Compensation Committee convened two times in 2015. The main topics were the discussion of the variable compensation for the Management Board for 2014 and the Phantom Stock Program of Dr. Lues.

These committees report their activities to the entire supervisory board.

Transparency

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

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

9. Compensation report

Refer to the separate document.

Halle (Saale), 03 March 2016

Probiodrug AG Management Board

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

Compensation report for Probiodrug AG

1. Compensation of the management board

Amount and structure

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

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

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

Fixed compensation

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

Success based compensation

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

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

Stock options

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

With respect to compliance with the Code's recommendations regarding management compensation, reference is made to section 8 of the management report „Corporate governance statement" subsection Compliance statement in accordance with Section 161 of the AktG.

M**anagement board compensation for the year 2015**

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

Benefits granted	**Dr. Konrad Glund**			
	CEO			
Reappointment	01 Dec 14			
EUR	**2014**	**2015 (actual)**	**2015 (minimum)**	**2015 (maximum)**
Fixed compensation	191,667	210,000	210,000	210,000
Fringe benefits	25,098	24,673	24,673	24,673
Total	***216,765***	***234,673***	***234,673***	***234,673***
Annual variable compensation	95,000	60,000	0	94,500
Release of prior year provision	-9,000	0	0	0
Perennial variable compensation				
Stock Option Plan 2014 (8 years)	595,457	0	0	0
Total	**898,222**	**294,673**	**234,673**	**329,173**
Pension expense	44,830	73,558	73,558	73,558
Total compensation	**943,052**	**368,231**	**308,231**	**402,731**

Benefits granted	Dr. Hendrik Liebers			
	CFO			
Reappointment	01 Dec 14			
EUR	**2014**	**2015 (actual)**	**2015 (minimum)**	**2015 (maximum)**
Fixed compensation	164,167	210,000	210,000	210,000
Fringe benefits	26,597	21,931	21,931	21,931
Total	**190,764**	**231,931**	**231,931**	**231,931**
Annual variable compensation	95,000	60,000	0	94,500
Release of prior year provision	-9,000	0	0	0
Perennial variable compensation				
Stock Option Plan 2014 (8 years)	595,451	0	0	0
Total	**872,215**	**291,931**	**231,931**	**326,431**
Pension expense	5,130	61,565	61,565	61,565
Total compensation	**877,345**	**353,496**	**293,496**	**387,996**

Benefits granted	Dr. Inge Lues			
	CDO			
Newly appointed	01 Nov 14			
EUR	**2014**	**2015 (actual)**	**2015 (minimum)**	**2015 (maximum)**
Fixed compensation	35,000	210,000	210,000	210,000
Fringe benefits	621	3,818	3,818	3,818
Total	**35,621**	**213,818**	**213,818**	**213,818**
Annual variable compensation	95,000	60,000	0	94,500
Cash compensation in lieu of waiver of phantom stock program*	0	430,138	215,069	430,138
Perennial variable compensation				
Stock Option Plan 2014 (8 years)	995,923	0	0	0
Total	**1,126,544**	**703,956**	**428,887**	**738,456**
Pension expense	0	0	0	0
Total compensation	**1,126,544**	**703,956**	**428,887**	**738,456**

*In 2015 Dr. Inge Lues waived all claims and rights to phantom stocks issued in 2013 as part of the Phantom Stock Program 2010. As compensation she received a cash payment totalling EUR 430,138.00. As per the agreement the cash compensation will be paid in two tranches. The first tranche totalling EUR 215,069.00 was paid out in 2015.

Liability insurance (D&O)

From 1 July 2010 the current Company D&O insurance for the members of the management board includes the retained amount legally provided for. With respect to the adherence to the recommendations of the Code regarding D&O insurance for members of the supervisory board, reference is made to section 8 of the management report „Corporate governance statement“ subsection Compliance statement in accordance with Section 161 of the AktG.

Shareholdings of the members of the management board

Based on information available to the Company, as at 31 December 2015, Probiodrug's management board held a total of 379,367 stock options entitling them to the acquisition of 379,367 shares along with 7,600 phantom stocks. In addition, they held 179,386 shares, equating to 2.41% of all of the Company's shares.

2. Supervisory board compensation

From the perspective of the Company, it should, in particular, be in the interest of the supervisory board to be focussed on the sustainable and long-term successful development of the Company. As such, Probiodrug believes that fixed compensation for some members of the supervisory board is constructive. Regardless of their compensation, all members of

the supervisory board are entitled to reimbursement for their travel expenses and are included in the existing D&O insurance.

Determination of supervisory board compensation

The compensation of the supervisory board was newly determined as per a resolution of the annual shareholders' meeting on 10 June 2015. Through 10 June 2015 the compensation of the supervisory board was based on a resolution of the annual shareholders' meeting on 30 June 2008.

Prof. Frank received an annual base salary of EUR 7k plus EUR 1k for each face-to face meeting, EUR 0.7k for each committee meeting and EUR 0.5k for each supervisory board or committee teleconference prior to the expiration of his term on 10 June 2015.

In the annual shareholders' meeting on 10 June 2015, Kees Been and Charlotte Lohmann were elected as members of the supervisory board. The following compensation was agreed for Been and Lohmann: the annual base compensation totals EUR 25k plus EUR 2k for each face-to-face meeting, EUR 1.5k for each committee meeting to the extent that this is held separately from a supervisory board meeting, respectively EUR 0.75k to the extent that this is held in conjunction with a supervisory board meeting, EUR 1k for every supervisory board teleconference as well as EUR 0.75k for every committee teleconference. Should one of the aforementioned individuals take on the role of chairperson of a committee, this individual will receive 1.5 times the compensation for the respective committee meeting respectively committee teleconference. K. Been as well as C. Lohmann will receive the 2015 base remuneration *pro rata temporis*. Variable remuneration is not paid.

Shareholdings of members of the supervisory board

Based on the knowledge of Probiodrug AG, as at 31 December 2015, the members of Probiodrug AG's supervisory board held a total of 174,154 shares and thereby held a total of 2.34% of the Company's shares.

Halle (Saale), 03 March 2016

Management Board of Probiodrug AG

Dr. Konrad Glund Dr. Hendrik Liebers Dr. Ingeborg 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 and the report includes a fair view of the development and performance of the business and the position of Probiodrug AG, together with a description of the principle opportunities and risks associated with the expected development of Probiodrug AG.

Halle (Saale), 03 March 2016
Management Board of Probiodrug AG

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

Auditor's Report

We have issued the following unqualified auditor's report:

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement, cash flow statement, statement of changes in equity and the notes to the financial statements, together with the bookkeeping system, and the management report of Probiodrug AG, Halle (Saale), for the financial year from 1 January to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Without qualifying this opinion, we refer to the explanations of the management board in the management report. In the section “Overall assessment of the risk situation” it is detailed that, for the going concern of the Company, financing measures or entering into a licensing agreement will be necessary by the second quarter of 2017 at the latest or, to the extent that significant payments for taxes become necessary in conjunction with the fiscal court proceedings pursued by the fiscal authorities, at the beginning of the first quarter of 2017.

“

Leipzig, 3 March 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Schmidt
German Public Auditor [Wirtschaftsprüfer]

Dr. Schneider
German Public Auditor [Wirtschaftsprüfer]

[Translator's notes are in square brackets]

General Engagement Terms

for

Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

[German Public Auditors and Public Audit Firms]

as of January 1, 2002

This is an English translation of the German text, which is the sole authoritative version

1. Scope

(1) These engagement terms are applicable to contracts between Wirtschaftsprüfer [German Public Auditors] or Wirtschaftsprüfungsgesellschaften [German Public Audit Firms] (hereinafter collectively referred to as the "Wirtschaftsprüfer") and their clients for audits, consulting and other engagements to the extent that something else has not been expressly agreed to in writing or is not compulsory due to legal requirements.

(2) If, in an individual case, as an exception contractual relations have also been established between the Wirtschaftsprüfer and persons other than the client, the provisions of No. 9 below also apply to such third parties.

2. Scope and performance of the engagement

(1) Subject of the Wirtschaftsprüfer's engagement is the performance of agreed services – not a particular economic result. The engagement is performed in accordance with the Grundsätze ordnungsmäßiger Berufsausübung [Standards of Proper Professional Conduct]. The Wirtschaftsprüfer is entitled to use qualified persons to conduct the engagement.

(2) The application of foreign law requires – except for financial attestation engagements – an express written agreement.

(3) The engagement does not extend – to the extent it is not directed thereto – to an examination of the issue of whether the requirements of tax law or special regulations, such as, for example, laws on price controls, laws limiting competition and Bewirtschaftungsrecht [laws controlling certain aspects of specific business operations] were observed; the same applies to the determination as to whether subsidies, allowances or other benefits may be claimed. The performance of an engagement encompasses auditing procedures aimed at the detection of the defalcation of books and records and other irregularities only if during the conduct of audits grounds therefor arise or if this has been expressly agreed to in writing.

(4) If the legal position changes subsequent to the issuance of the final professional statement, the Wirtschaftsprüfer is not obliged to inform the client of changes or any consequences resulting therefrom.

3. The client's duty to inform

(1) The client must ensure that the Wirtschaftsprüfer – even without his special request – is provided, on a timely basis, with all supporting documents and records required for and is informed of all events and circumstances which may be significant to the performance of the engagement. This also applies to those supporting documents and records, events and circumstances which first become known during the Wirtschaftsprüfer's work.

(2) Upon the Wirtschaftsprüfer's request, the client must confirm in a written statement drafted by the Wirtschaftsprüfer that the supporting documents and records and the information and explanations provided are complete.

4. Ensuring independence

The client guarantees to refrain from everything which may endanger the independence of the Wirtschaftsprüfer's staff. This particularly applies to offers of employment and offers to undertake engagements on one's own account.

5. Reporting and verbal information

If the Wirtschaftsprüfer is required to present the results of his work in writing, only that written presentation is authoritative. For audit engagements the long-form report should be submitted in writing to the extent that nothing else has been agreed to. Verbal statements and information provided by the Wirtschaftsprüfer's staff beyond the engagement agreed to are never binding.

6. Protection of the Wirtschaftsprüfer's intellectual property

The client guarantees that expert opinions, organizational charts, drafts, sketches, schedules and calculations – expecially quantity and cost computations – prepared by the Wirtschaftsprüfer within the scope of the engagement will be used only for his own purposes.

7. Transmission of the Wirtschaftsprüfer's professional statement

(1) The transmission of a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) to a third party requires the Wirtschaftsprüfer's written consent to the extent that the permission to transmit to a certain third party does not result from the engagement terms.

The Wirtschaftsprüfer is liable (within the limits of No. 9) towards third parties only if the prerequisites of the first sentence are given.

(2) The use of the Wirtschaftsprüfer's professional statements for promotional purposes is not permitted; an infringement entitles the Wirtschaftsprüfer to immediately cancel all engagements not yet conducted for the client.

8. Correction of deficiencies

(1) Where there are deficiencies, the client is entitled to subsequent fulfillment [of the contract]. The client may demand a reduction in fees or the cancellation of the contract only for the failure to subsequently fulfill [the contract]; if the engagement was awarded by a person carrying on a commercial business as part of that commercial business, a government-owned legal person under public law or a special government-owned fund under public law, the client may demand the cancellation of the contract only if the services rendered are of no interest to him due to the failure to subsequently fulfill [the contract]. No. 9 applies to the extent that claims for damages exist beyond this.

(2) The client must assert his claim for the correction of deficiencies in writing without delay. Claims pursuant to the first paragraph not arising from an intentional tort cease to be enforceable one year after the commencement of the statutory time limit for enforcement.

(3) Obvious deficiencies, such as typing and arithmetical errors and formelle Mängel [deficiencies associated with technicalities] contained in a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) may be corrected – and also be applicable versus third parties – by the Wirtschaftsprüfer at any time. Errors which may call into question the conclusions contained in the Wirtschaftsprüfer's professional statements entitle the Wirtschaftsprüfer to withdraw – also versus third parties – such statements. In the cases noted the Wirtschaftsprüfer should first hear the client, if possible.

9. Liability

(1) The liability limitation of § ["Article"] 323 (2)["paragraph 2"] HGB ["Handelsgesetzbuch": German Commercial Code] applies to statutory audits required by law.

(2) Liability for negligence; An individual case of damages

If neither No. 1 is applicable nor a regulation exists in an individual case, pursuant to § 54a (1) no. 2 WPO ["Wirtschaftsprüferordnung": Law regulating the Profession of Wirtschaftsprüfer] the liability of the Wirtschaftsprüfer for claims of compensatory damages of any kind – except for damages resulting from injury to life, body or health – for an individual case of damages resulting from negligence is limited to € 4 million; this also applies if liability to a person other than the client should be established. An individual case of damages also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty without taking into account whether the damages occurred in one year or in a number of successive years. In this case multiple acts or omissions of acts based on a similar source of error or on a source of error of an equivalent nature are deemed to be a uniform breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the Wirtschaftsprüfer is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(3) Preclusive deadlines

A compensatory damages claim may only be lodged within a preclusive deadline of one year of the rightful claimant having become aware of the damage and of the event giving rise to the claim – at the very latest, however, within 5 years subsequent to the event giving rise to the claim. The claim expires if legal action is not taken within a six month deadline subsequent to the written refusal of acceptance of the indemnity and the client was informed of this consequence.

The right to assert the bar of the preclusive deadline remains unaffected. Sentences 1 to 3 also apply to legally required audits with statutory liability limits.

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10. Supplementary provisions for audit engagements

(1) A subsequent amendment or abridgernent of the financial statements or management report audited by a Wirtschaftsprüfer and accompanied by an auditor's report requires the written consent of the Wirtschaftsprüfer even if these documents are not published. If the Wirtschaftsprüfer has not issued an auditor's report, a reference to the audit conducted by the Wirtschaftsprüfer in the management report or elsewhere specified for the general public is permitted only with the Wirtschaftsprüfer's written consent and using the wording authorized by him.

(2) If the Wirtschaftsprüfer revokes the auditor's report, it may no longer be used. If the client has already made use of the auditor's report, he must announce its revocation upon the Wirtschaftsprüfer's request.

(3) The client has a right to 5 copies of the long-form report. Additional copies will be charged for separately.

11. Supplementary provisions for assistance with tax matters

(1) When advising on an individual tax issue as well as when furnishing continuous tax advice, the Wirtschaftsprüfer is entitled to assume that the facts provided by the client – especially numerical disclosures – are correct and complete; this also applies to bookkeeping engagements. Nevertheless, he is obliged to inform the client of any errors he has discovered.

(2) The tax consulting engagement does not encompass procedures required to meet deadlines, unless the Wirtschaftsprüfer has explicitly accepted the engagement for this. In this event the client must provide the Wirtschaftsprüfer, on a timely basis, all supporting documents and records – especially tax assessments – material to meeting the deadlines, so that the Wirtschaftsprüfer has an appropriate time period available to work therewith.

(3) In the absence of other written agreements, continuous tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporation tax and business tax, as well as net worth tax returns on the basis of the annual financial statements and other schedules and evidence required for tax purposes to be submitted by the client

b) examination of tax assessments in relation to the taxes mentioned in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) participation in tax audits and evaluation of the results of tax audits with respect to the taxes mentioned in (a)

e) participation in Einspruchs- und Beschwerdeverfahren [appeals and complaint procedures] with respect to the taxes mentioned in (a).

In the afore-mentioned work the Wirtschaftsprüfer takes material published legal decisions and administrative interpretations into account.

(4) If the Wirtschaftsprüfer receives a fixed fee for continuous tax advice, in the absence of other written agreements the work mentioned under paragraph 3 (d) and (e) will be charged separately.

(5) Services with respect to special individual issues for income tax, corporate tax, business tax, valuation procedures for property and net worth taxation, and net worth tax as well as all issues in relation to sales tax, wages tax, other taxes and dues require a special engagement. This also applies to:

a) the treatment of nonrecurring tax matters, e. g. in the field of estate tax, capital transactions tax, real estate acquisition tax

b) participation and representation in proceedings before tax and administrative courts and in criminal proceedings with respect to taxes, and

c) the granting of advice and work with respect to expert opinions in connection with conversions of legal form, mergers, capital increases and reductions, financial reorganizations, admission and retirement of partners or shareholders, sale of a business, liquidations and the like.

(6) To the extent that the annual sales tax return is accepted as additional work, this does not include the review of any special accounting prerequisities nor of the issue as to whether all potential legal sales tax reductions have been claimed. No guarantee is assumed for the completeness of the supporting documents and records to validate the deduction of the input tax credit.

12. Confidentiality towards third parties and data security

(1) Pursuant to the law the Wirtschaftsprüfer is obliged to treat all facts that he comes to know in connection with his work as confidential, irrespective of whether these concern the client himself or his business associations, unless the client releases him from this obligation.

(2) The Wirtschaftsprüfer may only release long-form reports, expert opinions and other written statements on the results of his work to third parties with the consent of his client.

(3) The Wirtschaftsprüfer is entitled – within the purposes stipulated by the client – to process personal data entrusted to him or allow them to be processed by third parties.

13. Default of acceptance and lack of cooperation on the part of the client

If the client defaults in accepting the services offered by the Wirtschaftsprüfer or if the client does not provide the assistance incumbent on him pursuant to No. 3 or otherwise, the Wirtschaftsprüfer is entitled to cancel the contract immediately. The Wirtschaftsprüfer's right to compensation for additional expenses as well as for damages caused by the default or the lack of assistance is not affected, even if the Wirtschaftsprüfer does not exercise his right to cancel.

14. Remuneration

(1) In addition to his claims for fees or remuneration, the Wirtschaftsprüfer is entitled to reimbursement of his outlays: sales tax will be billed separately. He may claim appropriate advances for remuneration and reimbursement of outlays and make the rendering of his services dependent upon the complete satisfaction of his claims. Multiple clients awarding engagements are jointly and severally liable.

(2) Any set off against the Wirtschaftsprüfer's claims for remuneration and reimbursement of outlays is permitted only for undisputed claims or claims determined to be legally valid.

15. Retention and return of supporting documentation and records

(1) The Wirtschaftsprüfer retains, for ten years, the supporting documents and records in connection with the completion of the engagement – that had been provided to him and that he has prepared himself – as well as the correspondence with respect to the engagement.

(2) After the settlement of his claims arising from the engagement, the Wirtschaftsprüfer, upon the request of the client, must return all supporting documents and records obtained from him or for him by reason of his work on the engagement. This does not, however, apply to correspondence exchanged between the Wirtschaftsprüfer and his client and to any documents of which the client already has the original or a copy. The Wirtschaftsprüfer may prepare and retain copies or photocopies of supporting documents and records which he returns to the client.

16. Applicable law

Only German law applies to the engagement, its conduct and any claims arising therefrom.