AUDITOR'S REPORT

Financial Statements as of 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the European Union

Probiodrug AG
Halle (Saale)

KPMG AG Wirtschaftsprüfungsgesellschaft

Independent auditor´s report on financial statements for the year ended 31 December 2015

To Probiodrug AG, Halle (Saale)

Report on the Financial Statements

We have audited the accompanying financial statements of Probiodrug AG, Halle (Saale), which comprise the Statement of Comprehensive Loss, Statement of Financial Position, Cash Flow Statement, Statement of Changes in Equity and Notes to the financial statements for the financial year ended 31 December 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Probiodrug AG, Halle (Saale), as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, as adopted by the European Union.

Emphasis of Matter

Without qualifying this our opinion we refer draw attention to the explanation in the notes. In section 4 “Significant discretionary decisions, estimates and assumptions” in the financial statements which indicates that the Company incurred a net loss of EUR 13,505 thousand during the year ended 31 December 2015 and, as of that date, the Company's accumulated deficit was EUR 25,676 thousand. The Company expects to continue to incur losses for the foreseeable future and its ability to continue as a going concern is dependent on successfully raising financial funds or entering into a licensing agreement by the second quarter of 2017 at the latest. These conditions, along with other matters as set forth in Note 4, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Leipzig, 10 March 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Schmidt	Dr. Schneider
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Appendices

Financial Statements for the year ended 31 December 2015 of Probiodrug AG (IFRS)

STATEMENT OF COMPREHENSIVE LOSS

Probiodrug AG

	NOTES	2015 EUR k	2014 EUR k
Research and development expenses	5.1	-10,158	-8,008 *
General and administrative expenses	5.2	-3,279	-3,319 *
Other operating income	5.4	44	60 *
Operating loss		**-13,393**	**-11,267**
Interest income		0	36
Interest expense		-112	-206
Finance expenses, net		**-112**	**-170**
Net loss for the period		**-13,505**	**-11,437**
Items not to be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension liability		105	-405
Total other comprehensive income (loss)		**105**	**-405**
Comprehensive loss		**-13,400**	**-11,842**
Loss per share in EUR (basic and diluted)	6.5.1	-1,97	-2,35

*amounts restated, see notes 5.1, 5.2, 5.4

STATEMENT OF FINANCIAL POSITION as of December 31

Probiodrug AG **Probiodrug AG**

	NOTES	31.12.2015 EUR k	31.12.2014 EUR k
ASSETS			
Noncurrent assets			
Intangible assets	3.3/6.1	56	82
Plant and equipment	3.4/6.2	81	101
Financial assets	3.6	3	3
Total noncurrent assets		**140**	**186**
Current assets			
Tax receivables		1	3
Other assets	6.3	364	371
Cash and cash equivalents	3.7/6.4	21,361	20,920
Total current assets		**21,726**	**21,294**
Total assets		**21,866**	**21,480**
Equity and liabilities			
Equity			
Share capital	6.5.	7,442	6,766
Additional paid-in capital		34,866	21,980
Accumulated other comprehensive income		-499	-604
Accumulated deficit		-25,676	-12,171
Total equity		**16,133**	**15,971**
Noncurrent liabilities			
Pension liability	3.10/6.6.2	822	929
Total noncurrent liabilities		**822**	**929**
Current liabilities			
Investment grants	6.6.1	0	11
Tax liabilities	6.7.1	2,641	2,543
Provisions	3.11	42	795
Trade payables		1,629	1,036
Other current liabilities	6.7.2	599	195
Total current liabilities		**4,911**	**4,580**
Total liabilities		**5,733**	**5,509**
Total equity and liabilities		**21,866**	**21,480**

STATEMENT OF CASH FLOWS

Probiodrug AG

	NOTES	2015 EUR k	2014 EUR k
Net loss for the period		**-13,505**	-11,437
Net finance expense		112	170
Depreciation and amortisation		56	94
Loss on disposal of plant and equipment		0	6
Release of deferred investment grants	*6.6.1*	-11	-13
Share based payment expense	*6.5.2.1*	964	1,008
Interest paid		0	-90
Interest received		0	36
Income taxes paid		0	-1
Income taxes received		2	6
Changes in other assets		**7**	-130
Changes in pension liabilities		**-16**	-29
Changes in provisions		**-753**	35
Changes in trade payables		**570**	-278
Changes in other liabilities		**427**	34
Cash flows used in operating activities		**-12,147**	**-10,589**
Proceeds from disposal of plant and equipment		**0**	574
Proceeds from disposal of intangible assets		**0**	3
Purchase of plant and equipment		**-6**	-2
Purchase of intangible assets		**-4**	-10
Proceeds from repayment of loans		**0**	761
Cash flows used in investing activities		**-10**	**1,326**
Proceeds from issuance of common shares	*6.5*	**13,531**	23,244
Transaction costs of equity transaction		**-933**	-1,758
Proceeds from convertible bonds issue		**0**	4,276
Cash flows provided by financing activities		**12,598**	**25,762**
Net increase in cash and cash equivalents		**441**	**16,499**
Cash and cash equivalents at the beginning of period		**20,920**	**4,421**
Cash and cash equivalents at the end of period		**21,361**	**20,920**

STATEMENT OF CHANGES IN EQUITY

Probiodrug AG

	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total equity
	EUR k	EUR k	EUR k	EUR k	EUR k
1 January 2014	25,529	52,180	-199	-81,814	-4,304
Expenses recognized directly in equity	0	0	-405	0	-405
Net loss for the period	0	0	0	-11,437	-11,437
Comprehensive loss for the period	0	0	-405	-11,437	-11,842
Conversion of convertible bonds	5,921	3,701	0	0	9,622
Reverse share split	-26,208	-54,872	0	81,080	0
Issuance of common shares	1,524	19,963	0	0	21,487
Share based payments	0	1,008	0	0	1,008
	-18,763	-30,200	-405	69,643	20,275
31 December 2014	6,766	21,980	-604	-12,171	15,971
Income recognized directly in equity	0	0	105	0	105
Net loss for the period	0	0	0	-13,505	-13,505
Comprehensive loss for the period	0	0	105	-13,505	-13,400
Issuance of common shares less transaction costs	676	11,922	0	0	12,598
Share based payments	0	964	0	0	964
	676	12,886	105	-13,505	162
31 December 2015	7,442	34,866	-499	-25,676	16,133

Probiodrug AG

Notes to the financial statements

1. Company information

Probiodrug AG, Halle (Saale), (hereinafter also referred to as “Probiodrug” or the “Company”), has activities in the areas of research and development, preclinical and clinical trials. The product candidate pipeline currently includes a number of research and development programs with a focus on the primary program, the inhibition of the enzyme Glutaminylcyclase or QC for the treatment of Alzheimer’s disease and other diseases.

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

2. Financial statements

2.1. Basis of preparation of the financial statements

The financial statements of Probiodrug were prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board and the Interpretations of the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC), as endorsed by the European Union.

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

In accordance with IAS 1, the statement of comprehensive loss was prepared classifying the expenses by function; the classification of the statement of financial position was based on current and noncurrent distinction. Probiodrug classifies all amounts expected to be recovered or settled within twelve months after the reporting period as current and all other amounts as noncurrent.

The financial statements were prepared on the historical cost basis.

2.2. Foreign currency translation

The functional currency is the Euro which is the reporting currency of Probiodrug.

Monetary assets and liabilities in a foreign currency are recognised at the exchange rate in effect on the date of the transaction and later at the rate in effect on the reporting date. Differences resulting from foreign currency translation are recognised research and development and general and administrative expenses in the statement of comprehensive loss.

2.3. Presentation of statement of comprehensive loss

The line items include research and development expenses and general and administrative expenses. All expenses with respect to research and development as well as expenses incurred for supplied research services are presented in research and development expenses.

3. Summary of significant accounting policies

3.1. Changes in accounting policies

The accounting policies applied principally correspond to those applied in the prior years. The effects of reverse stock splits are applied retrospectively as required by IAS 33 for the calculation of earnings per share.

With an effective date 1 January 2015 the following new and amended standards and interpretations were required to be applied for the first time:

- Improvements to IFRS 2011- 2013 (1 January 2015)

The new standard had no effect on the financial statements of Probiodrug.

3.2. Determination of fair values

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

3.3. Intangible assets

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

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

The expected useful life ranges from three to five years.

3.4. Plant and equipment

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

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

3.5. Impairment of noncurrent assets

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

An impairment expense is recognised when the carrying amount of an asset or a cash generating unit exceeds the recoverable value as of the reporting date. The Company determined that it has one cash generating unit. The recoverable value is the higher of the amount representing the fair value less costs of disposal and the value in use. The fair value reflects the estimate of the amount which an independent third party would pay as of the measurement date for the asset or cash generating unit. In contrast, the value in use is the (risk adjusted) present value of the future cash flows which can realistically be expected to be generated from the continued use of the cash generating unit.

3.6. Financial assets and liabilities

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

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

Probiodrug allocates non-derivative financial assets in the category „loans and receivables“. Non-derivative financial liabilities are classified as “financial liabilities at amortized cost”.

The financial assets of Probiodrug comprise of cash and cash equivalents and non current financial assets being interests in BIO Mitteldeutschland GmbH, Halle.

The financial liabilities of Probiodrug comprise of trade payables. Subsequent to their initial recognition, financial liabilities are measured at amortised cost. Financial liabilities are derecognized when the contractual obligation has been met, is waived or expired.

3.7. Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances which are recognised at their nominal values. Cash and cash equivalents comprise cash on hand and bank balances.

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3.8. Stock option and phantom stock option programs

Probiodrug grants equity-settled share based payments in the form of option rights to employees and other beneficiaries (consultants of the Company). The stock option programs allow the grantees to acquire the Company’s shares. The accounting for the stock options is at fair value in accordance with IFRS 2. The fair value is determined at the grant date and is allocated over the vesting period. The fair value is determined on the basis of the Monte-Carlo-simulation model. The fair value of the stock options granted is recognised as research and development or general administrative expenses with a corresponding increase in equity (additional paid-in capital). The expenses recognised are adjusted to reflect the number of option rights that are forfeited.

In addition, prior to the periods presented, phantom stock options were issued to management, board members and consultants. In specific cases, the holders were entitled to a cash payment amounting to the difference between the fair value of an equity instrument and the exercise price in conjunction with an initial public offering, a merger or a takeover of Probiodrug. The changes in the fair value of the phantom stock options were recognised as an expense within comprehensive loss and the outstanding awards were reflected within noncurrent provisions.

3.9. Project subsidies and investment grants

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

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

Investment subsidies are recognised when the Company receives the funds or when it is probable that the conditions associated with the subsidies were met and the subsidies will be granted.

3.10. Pensions

Probiodrug has defined benefit pension commitments to two individuals. The pension commitments include entitlements to disability, retirement and survivor benefits in amounts specifically determined for these two individuals.

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

The defined benefit obligation and the related current service cost is based on the benefit to the period of service under the defined benefit plan's formula. Actuarial gains and losses are immediately recognised in equity in other comprehensive loss. The fair value of the plan assets (insurance amount) is deducted from the gross pension obligation (IAS 19.63). The corresponding plan assets (insurance amount) reduce the amount of the pension obligation as the proceeds resulting from the insurance policy can only be used to make payments to the beneficiaries. As a result of those policies being pledged to the beneficiaries, even in the case of insolvency, they are not available to the company's creditors.

The remeasurement amount recognized in other comprehensive income comprises the actuarial gains and losses resulting from the measurement of the gross pension obligation of defined benefit plans and the difference between the realised return on plan assets and the expected return at the beginning of the period based on the discount rate of the corresponding gross defined benefit obligation. Actuarial gains and losses result from changes in actuarial assumptions respectively from deviations between previous actuarial assumptions and actual developments.

Service cost are recognised within the expenses by function. The net interest expense associated with defined benefit plans is presented in finance expenses, net.

3.11. Provisions

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

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

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

3.12. Research and development expenses

Research expenses are recognized as expenses when incurred. Costs incurred on development projects are recognized as intangible assets as of the date as of which it can be established that it is probable that future economic benefits attributable to the asset will flow to Probiodrug considering its technological and commercial feasibility. This is not the case before regulatory approval for commercialization is achieved and costs can be measured reliably. Given the current stage of the development of Probiodrug's projects, no development expenditures have yet been capitalized. Intellectual property-related costs for patents are part of the expenditure for the research and development projects. Therefore, registration costs for patents are expensed when incurred as long as the research and development project concerned does not meet the criteria for capitalization.

The majority of Probiodrug's service providers invoice monthly in arrears for services performed or when contractual milestones are met. Probiodrug makes estimates of its accrued expenses as of each reporting date in the financial statements based on facts and circumstances known to it at that time. Probiodrug periodically confirms the accuracy of its estimates with the service providers and makes adjustments if necessary.

3.13. Interest income and expense

Interest income and expense are recognised in the appropriate period applying the effective interest rate method. In addition to interest income and expense, the financial result may include income from cash and cash equivalents and gains and losses from financial instruments which are recognised in comprehensive loss. In addition, net interest expense associated with pension provisions is included.

3.14. Loss per share

Loss per share were determined in accordance with IAS 33. In the calculation of the earnings per share, the results for the period attributable to the shareholders are divided by the weighted average number of shares outstanding, retrospectively adjusted for the reverse stock split in 2014.

3.15. New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 31 December 2015, and have not been applied in preparing these consolidated financial statements:

Endorsed by the EU:

- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (1 January 2016)
- Improvements to IAS 1: Disclosure Initiative" (1 January 2016)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016)
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants (1 January 2016)
- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions (1 February 2015)
- Amendments to IAS 27: Equity Method in Separate Financial Statements (1 January 2016)
- Improvements to IFRS 2010 – 2012: Changes to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38
- Improvements to IFRS 2012 – 2014: Changes to IFRS 5, IFRS 7, IAS 19 and IAS 34

Not yet endorsed by the EU:

- IFRS 9 “Financial Instruments” (1 January 2018)
- IFRS 15 “Revenue from Contracts with Customers” (1 January 2018)
- IFRS 16 “Leases” (1 January 2019)
- Amendments to IFRS 10, 12, IAS 28: Investment Entities: Applying the Consolidation Exception
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (uncertain)

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

4. Significant discretionary decisions, estimates and assumptions

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

Estimates and assumptions

The estimates and assumptions primarily relate to estimates and assumptions in connection with the managements’ assessment of the entity´s ability to continue as a going concern and the determination of accruals for research and development services in progress. The amounts of the respective items in the statement of financial position are trade payables (EUR 1,629k) and tax liabilities (EUR 2,641k). The estimates are based on past experience as well as other information relating to the transactions recognised.

Going concern

As a clinical stage biopharmaceutical Company, Probiodrug has incurred a net loss of EUR 13,505k for the financial year 2015 and as of 31 December 2015 had generated an accumulated deficit of EUR 25,676k. The Company anticipates operating losses to continue for the foreseeable future due to, among other things, costs related to research funding, development of its product candidates and its preclinical programs and the development of its administrative organization.

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realisation of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company’s ability to continue as a going concern is dependent on its ability to raise additional funds to continue its research and development programs and meet its obligations.

In accordance with the budget, approved by the supervisory board, the cash reach of the Company is the end of the second quarter 2017. Should the Company be required to repay tax provisions of EUR 2,641k, the cash reach is the beginning of the first quarter 2017. The future financing on which the going concern assumption is based on considers management’s expectation to raise funds in the form of equity or debt and/or conduct a licencing agreement by the beginning of the second quarter 2017, at the latest. Based on management’s going concern assumption, the financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Estimating accruals for research and development expenses

As part of the process of preparing the consolidated financial statements Probiodrug is required to estimate its accrued expenses. This process involves reviewing quotations and contracts, identifying services that have been performed on its behalf, estimating the level of service performed and the associated cost incurred for the service when Probiodrug has not yet been invoiced or otherwise notified of the actual cost.

Measurement of pension obligation

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

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

5. Explanations of individual line items in the statement of comprehensive loss

5.1. Research and development expenses

The research and development expenses of EUR 10,158k (2014: EUR 8,008k) comprise personnel costs, costs for research services provided by third parties in relation to the preclinical and clinical programs, patent related legal and consulting fees, costs of laboratory materials as well as amortisation and depreciation attributable to the research and development area. Comparative financial information was restated from EUR 8,087k to EUR 8,008k as a result of presenting releases of compensation expense-related accruals from other income to general and administrative expenses.

5.2. General and administrative expenses

The general and administrative expenses of EUR 3,279k (2014: EUR 3,319k) comprise personnel costs and costs of office supplies as well as amortisation and depreciation attributable to the administrative area and other operating expenses. Comparative financial information was restated from EUR 3,430k to EUR 3,319k as a result of presenting releases of compensation expense related accruals from other income to general and administrative expenses.

5.3. Supplementary disclosures

The expenses during the financial year include amortisation and depreciation of plant and equipment as well as intangible assets amounting to EUR 56k (2014: EUR 94k) as well as personnel related expenses amounting to EUR 2,916k (2014: EUR 2,463k).

In addition, expenses associated with defined contribution plans include the employer's contribution to the statutory pension scheme amounting to EUR 56k (2014: EUR 47k).

5.4. Other operating income

The other operating income is broken down as follows:

Other operating income	2015 EUR k	2014* EUR k
Release of the investment grants	11	13
Income relating to research grants	0	9
Other	33	38
Total	**44**	**60**

*Comparative information restated: release of compensation expense related accruals of EUR 190k were reclassified to research and development expenses (EUR 79k) and general and administrative expenses (EUR 111k).

5.5. Income taxes

The income tax relating to the current period includes both current and deferred taxes. Current income tax expense is based on the respective enacted tax laws and regulations. No current or deferred income taxes were recognised in 2015 and 2014.

For the determination of deferred taxes, a corporation tax rate of 15 % plus a solidarity surcharge of 5.5 % as well as the trade income tax rate of 15.75 % was used for all reporting periods. Based on this, the effective tax rate as at 31 December 2015 used to determine the deferred tax assets and liabilities amounted to 31.58 % (31 December 2014: 31.58 %).

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

EUR k	2015	2014
Loss before income tax	-13,505	-11,437
Income tax rate	31.58%	31.58%
Expected tax benefits	4,265	3,612
Deferred tax assets not recognised	-4,232	-3,817
Non-deductible expenses/non-taxable income	-26	175
Other differences	-7	30
Reported income tax benefit/expense	**0**	**0**

The deductible temporary differences relating to pension liabilities were offset against taxable temporary differences of provisions of EUR 4k at 31 December 2015 and 2014.

As at 31 December 2015, deferred tax assets attributable to tax loss carry forwards in the amount of EUR 32,245k (31.12.2014: EUR 28,066k) were not recognised as their utilization is not probable.

As at 31 December 2015, Probiodrug had corporate income tax loss carry forwards of EUR 101,617k and trade tax loss carry forwards of EUR 101,355k. The tax losses can be carried forward for an unlimited time.

6. Explanations on individual statement of financial position line items

6.1. Intangible assets

The intangible assets reconcile as follows:

	EUR k
Acquisition costs as at 1 January 2015	253
Additions	4
Disposals	-1
Acquisition costs as at 31 December 2015	**256**
Amortisation as at 1 January 2015	171
Additions	30
Disposals	-1
Amortisation as at 31 December 2015	**200**
Carrying value as at 1 January 2015	82
Carrying value as at 31 December 2015	**56**

	EUR k
Acquisition costs as at 1 January 2014	256
Additions	10
Disposals	-13
Acquisition costs as at 31 December 2014	**253**
Amortisation as at 1 January 2014	155
Additions	26
Disposals	-10
Amortisation as at 31 December 2014	**171**
Carrying value as at 1 January 2014	101
Carrying value as at 31 December 2014	**82**

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

6.2. Plant and equipment

Plant and equipment reconcile as follows:

	Leasehold improvements	Other equipment, factory and office equipment	Total
	EUR k	EUR k	EUR k
Acquisition costs as at 1 January 2015	181	488	**669**
Additions	0	6	**6**
Disposals	0	-2	**-2**
Acquisition costs as at 31 December 2015	**181**	**492**	**673**
Depreciation as at 1 January 2015	153	415	**568**
Additions	7	19	**26**
Disposals	0	-2	**-2**
Depreciation as at 31 December 2015	**160**	**432**	**592**
Carrying value as at 1 January 2015	28	73	**101**
Carrying value as at 31 December 2015	**21**	**60**	**81**

	Leasehold improvements	Other equipment, factory and office equipment	Total
	EUR k	EUR k	EUR k
Acquisition costs as at 1 January 2014	181	2.130	**2.311**
Additions	0	2	**2**
Disposals	0	-1.644	**-1.644**
Acquisition costs as at 31 December 2014	**181**	**488**	**669**
Depreciation as at 1 January 2014	145	1.845	**1.990**
Additions	8	60	**68**
Disposals	0	-1.490	**-1.490**
Depreciation as at 31 December 2014	**153**	**415**	**568**
Carrying value as at 1 January 2014	36	285	**321**
Carrying value as at 31 December 2014	**28**	**73**	**101**

6.3. Other current assets

The other current assets comprised of:

In EUR k	31.12.2015	31.12.2014
Prepayments	226	78
Value-added tax receivables	79	186
Rent deposits	7	7
Other receivables	45	94
Other assets	7	6
Total	**364**	**371**

6.4. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand. As at 31 December 2015, almost all of cash and cash equivalents are denominated in euros. Cash balances denominated in foreign currencies amount to USD 10k (31.12.2014: USD 10k).

The net book value represents the maximum amount that is at risk. Bank balances are unrestricted.

6.5. Equity

As at 31 December 2015, Probiodrug's share capital comprised 7,442,487 registered no par common shares. As at 31 December 2014, Probiodrug's share capital comprised 6,765,898 registered no par common shares. The nominal amount per share is EUR 1.00. All shares are issued and fully paid up.

In 2014, the Company engaged in a number of transactions with existing shareholders, including the conversion of convertible bonds amounting to EUR 9,622k, a conversion of all preferred shares into common shares, and a concurrent reverse share split at a ratio of 6:1.

As a result of the initial public offering completed in October 2014, the share capital increased from EUR 5,241k by EUR 1,475k to EUR 6,717k. Subsequent to the initial public offering, further capital increases of EUR 49k were completed by utilising authorised capital.

In 2015, Probiodrug's management board – with the approval of the supervisory board on 5 November 2015 – resolved to increase the share capital from EUR 6,766k by EUR 677k to EUR 7,442k through the issuance of common shares by utilising authorised capital.

Conditional capital

As of 31 December 2015, the conditional capital amounted to EUR 2,556k and as of 31 December 2014 to EUR 524k, respectively.

In 2015, a new conditional capital (Conditional Capital 2015/I) of a nominal amount of EUR 2,000,000 was created by virtue of the resolution of the general meeting of the shareholders on 10 June 2015. The conditional capital can be utilised to issue up to 2,000,000 registered common shares subject to transfer restrictions to serve holders of stock options that make use of their exercise option. Further, in 2015 existing conditional capital (Conditional Capital 2014/I) was increased by a nominal amount of EUR 32k.

Authorised capital

As of 31 December 2015, the authorised capital amounted to EUR 2,633k and as of 31 December 2014 to EUR 3,310k, respectively. The authorised capital can be utilised for capital increases in future financing rounds.

6.5.1. Loss per share

As at 31 December 2015, Probiodrug's share capital consisted of 7,442,487 common shares (31.12.2014: 6,765,898). All common shares are registered no par value common shares. The calculated nominal amount per share is EUR 1.00.

The net loss attributable to Probiodrug's shareholders amounted to EUR 13,505k in financial year 2015 (2014: net loss of EUR 11,437k).

The loss per share were calculated as follows:

	2015	**2014**[1]
Weighted average number of common shares outstanding	6,871,557	4,862,215
Loss for the period	**-13,505**	**-11,437**
Loss per share in EUR (basic/diluted)	**-1.97**	**-2.35**

As of December 31, 2015 and 2014 no instruments had a dilutive effect.

6.5.2. Share based payments

6.5.2.1. Stock option programs (equity settled)

Since 2007, Probiodrug granted equity settled stock options under various stock option programs.

The key terms and conditions related to the grants under these programmes are as follows; all options are to be settled by the physical delivery of shares;

Grant date/employees entitled	Number of instruments granted	Vesting conditions	Contractual life of options
ESOP 2007		graded vesting over four year period (50% after two years, 25% after three years and 25% after four years)	8 years
Granted to management board	91,200		
Granted to employees	110,220		
ESOP 2010/2013		graded vesting over 31 month period (33% after seven months, 33% after 19 months and remaining after 31 months)	4 to 6 years
Granted to management board	515,403		
Granted to employees	255,289		
ESOP 2014		Immediate vesting on date of grant for 40%, graded vesting over 3 year period (20% each after first, second and third	8 years, not exercisable before lapse of 4 years
Granted to management board	314,501		
Granted to employees	90,875		

[1] adjusted for the reverse stock split

		year)period	

The fair value of the options granted has been measured using Monte Carlo-simulation. Service and non-market performance conditions attached to the option programs are not taken into account in measuring fair value.

The inputs used in the measurement of the fair values for 2015 and 2014 grants were:.

	ESOP 2014
Fair value at grant date	EUR 5.68 – 10.70
Share price at grant date	EUR 15.25 – 24.80
Exercise price	EUR 15.25 – 23.60
Expected volatility	45%
Expected life (weighted average)	4 years
Expected dividends	0%
Risk free interest rate (based on government bonds)	-0.19% to 0.05%

Expected volatility has been based on the arithmetic average of historical volatilities of a peer group of four companies.

The number and weighted-average exercise prices of stock options under the stock option programmes were as follows:

	2015		**2014**	
	Number of options*	WAEP**	Number of options*	WAEP**
Outstanding at 1 January	448,762	EUR 16.10	134,411	EUR 11.84
Forfeited during the year	0	--	1,150	EUR 34.81
Exercised during the year	0	--	0	
Granted during the year	90,875	EUR 20.33	315,501	EUR 17.98
Outstanding at 31 December	**539,637**	**EUR 16.27**	**448,762**	**EUR 16.10**
Exercisable at 31 December	133,261	EUR 11.64	132,261	EUR 11.64

* Adjusted for the reverse stock split

**Weighted average exercise price

The stock options outstanding at 31 December 2015 had an exercise price in the range of EUR 6.00 to EUR 42.18 (31.12.2014: EUR 6.00 to EUR 42.18) and a weighted-average contractual life of 5.4 years (31.12.2014: 5.9 years). According to the terms and conditions of the stock option programs, exercise is not possible at during specified blackout periods and subject to a market condition concerning the average stock price of Probiodrug shares during twenty days before exercise.

No expenses associated with the stock option programs 2007 and 2010/2013 are recognised for the years 2015 and 2014, respectively, due to the vesting in prior periods.

The total expenses associated with the stock option program 2014 recognised in 2015 amounted to EUR 964k (2014: EUR 1,008k). These amounts were credited to additional paid-in capital.

6.5.2.2. Phantom stock option programs (cash settled)

Prior to 2014, the Company had also issued phantom stock option awards under the terms of the various share-based payment schemes to management board, selected employees and consultants of the Company and recorded cumulative compensation expense of EUR 754k at 31 December 2014. In 2015, the Company cancelled two outstanding phantom stock awards in exchange for cash payments of EUR 36k and EUR 215k, respectively. A further payment of EUR 215k is subject to conditions which are deemed probable.

The payments and accrued expenses were recorded as incremental compensation expense. As of 31 December 2015, after the cancellations, only 7.500 remaining phantom stock awards are outstanding with a fair value of EUR 0k.

6.6. Noncurrent liabilities

6.6.1. Investment grants

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

6.6.2. Pension liabilities

Probiodrug has a defined benefit pension plan commitments to two individuals. The pension commitments include entitlements to disability, retirement and survivor benefits in amounts specifically determined by individual.

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

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

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

	2014	2014
Discount rate	2.01 %	1.56 %

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

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

The following sensitivity analysis shows how the present value of the defined benefit pension obligation would change if the interest rate changed holding other assumptions constant:

Interest rate – 0.5%: Δ DBO EUR 119k (31.12.2014: EUR 135k)

Interest rate + 0.5%: Δ DBO EUR -107k (31.12.2014: EUR -120k)

Reconciliation of defined benefit obligation and plan assets

In EUR k	**Defined benefit obligation**	**Plan assets**	**Pension provision (Net DBL)**
Balance as of 01.01.2014	**1,109**	**-574**	**535**
Current service cost	34	-	34
Interest expense (+) /interest income (-)	38	-21	17
Remeasurement	**383**	**22**	**405**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	22	22
Actuarial gains (-)/ losses (+)	383	-	383
Effects from changes in financial assumptions	391	-	391
Effects from changes based on experience	-8	-	-8
Employer's contributions	-	-62	-62
Balance as of 01.01.2015	**1,564**	**-635**	**929**
Current service cost	46	-	46
Interest expense (+)/ interest income (-)	24	-10	14
Remeasurement	**-112**	**7**	**-105**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	7	7
Actuarial gains (-)/ losses (+)	-112	-	-112
Effects from changes in financial assumptions	-107	-	-107
Effects from changes based on experience	-5	-	-5
Employer's contributions	-	-62	-62
Balance as of 31.12.2015	**1,522**	**-700**	**822**

In the reporting period, the following items associated with defined benefit obligations were recognised in the statement of comprehensive loss:

in EUR k	**2015**	**2014**
Current service cost	46	34
Net interest expense (+)/ income(-)	**14**	**17**
Interest expense associated with DBO	24	38
Interest income on plan assets	-10	-21
Total net pension expense	**60**	**51**

In 2016, plan contributions amounting to EUR 62k are expected. The weighted average duration of the pension commitments is 15.4 years (31.12.2014: 15.7 years). The pension payments for the two beneficiaries will probably be due in three respectively four years.

6.7. Current liabilities

6.7.1. Tax liabilities

The tax liabilities of EUR 2,641k comprise the Company's payment obligations including accrued interest as a result of the tax audit for the periods 2002 through 2005 including interest for late payment. EUR 1,392k relates to corporate income tax and EUR 1,249k to trade tax. Probiodrug has filed a lawsuit at the Tax Court [Finanzgericht] contesting the potential back taxes. A ruling has not yet been made. A stay of execution for the contested decisions has been granted.

6.7.2. Other current liabilities

	31.12.2015 EUR k	31.12.2014 EUR k
Liabilities from waived phantom stock obligation	215	0
Salaries and wages	189	135
Payroll and church taxes	129	45
Other	66	15
Total	**599**	**195**

Regarding liabilities from waived phantom stock obligations we refer to note 9.2.

7. Disclosures with respect to financial instruments

7.1. General disclosures

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

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

The non-derivative financial liabilities consist primarily of trade payables.

The categories „measured at fair value through profit and loss", „financial instruments held-to-maturity" and „financial instruments available for sale" were not relevant with respect to the financial assets and financial liabilities recognised as at 31 December 2015.

7.2. Fair value measurement

All assets and liabilities, for which fair value is recognized in the consolidated financial statements, are organized in accordance with the following fair value hierarchy, based on the lowest level input parameter that is significant on the whole for fair value measurement:

- Level 1 – Prices for identical assets or liabilities quoted in active markets (non-adjusted)
- Level 2 – Measurement procedures, in which the lowest level input parameter significant on the whole for fair value measurement is directly or indirectly observable for on the market
- Level 3 – Measurement procedures, in which the lowest level input parameter significant on the whole for fair value measurement is not directly or indirectly observable for on the market

The carrying amount of receivables, other financial assets, cash and cash equivalents and trade and other payables is a reasonable approximation of the fair value.

7.3. Other disclosures in accordance with IFRS 7

Disclosures with respect to interest income and expense

No interest expense in 2015 and 2014 was recognised with respect to financial instruments. Interest income of EUR 33k was recognised in 2014 with respect to a reversal of an impairment of a current financial asset and EUR 3k were recognised as interest income on cash balances.

Financial risks and risk management

7.3.1. Organisation

Risk management system, objectives and methods

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

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

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

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

Management board:

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

Risk management:

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

Supervisory board:

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

7.3.2. Risk groups

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

7.3.2.1. Credit risks

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

Probiodrug's cash balances are held by the following banks: Sparkasse (0.2%), Moody's Rating Aa2, Deutsche Bank (96.5%) Moody's Rating Baa1, and BW Bank (3.3%), Moody's Rating Aa3. In general, cash balances are only made with financial institutions with prime credit ratings which are subject to the depositor's guarantee fund of German banks. Investments, if made, are in financial assets which do not have any inherent risk of loss.

Maximum risk of default

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

Carrying amount as an equivalent for the maximum risk of default EUR k	31.12.2015	31.12.2014
Noncurrent financial assets	3	3
Cash and cash equivalents	21,361	20,920
	21,364	**20,923**

As of the reporting dates 31 December 2015 and 31 December 2014, the financial assets were neither impaired nor overdue.

7.3.2.2. Liquidity risk

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

In order to manage the liquidity situation during the year, the Company utilises appropriate financial planning instruments. Matching maturities of the liquidity needs and availability is thereby assured. As at 31 December 2015, cash and cash equivalents amounted to EUR 21.4 million. 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. If the currently planned assumptions with respect to liquidity do not prove to be viable, based on the current cash reach, there could prospectively be a risk that the liquidity of the Company is insufficient.

For detailed disclosures regarding going concern and liquidity requirements see note 4.

The Company's planning is based on the assumption that no cash outflows will be incurred with respect to the potential additional tax claims of the fiscal authorities for the year 2004 in 2016 or 2017. This risk was provided for in the financial statements (we refer to note 6.7.1).

Should significant payments be required in 2016 or 2017, the Company's ability to execute its business plan would be affected.

Analysis of maturities

As of 31 December 2015 and 2014, all trade payables of EUR 1,629k (31.12.2014 EUR 1,036k) have a maturity of up to 30 days, respectively.

7.3.2.3. Market risks

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

Exchange rate risks

Currently, Probiodrug is not exposed to any significant exchange rate risks. Exchange rate risks could develop if a portion of the future expenses or revenues from collaboration agreements or licencing agreements are realised in US dollars or in another foreign currency.

Risk of changes in interest rates

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

Price risks

At present, the financial commitments of the Company (see note 9.1) do not contain variable price conditions and hence do not bear price risks.

8. Capital management

The primary objective of Probiodrug's capital management is to ensure that it maintains its liquidity in order to finance its operating activities and meet its liabilities when due. In accordance with the budget, approved by the supervisory board, the cash reach of the Company is the end of the second quarter 2017. Should the Company be required to repay tax provisions of EUR 2,641k the cash reach is the beginning of the first quarter 2017. The future financing on which the going concern assumption is based on considers management's expectation to raise funds in the form of equity or debt and/or conduct a licencing agreement by the beginning of the second quarter 2017, at the latest.

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

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

By resolution of the general meeting of the shareholders on 10 June 2015, the management board is authorized to repurchase own shares with the approval of the supervisory board until 9 June 2020. The authorization is limited to an amount of EUR 677k.

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

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

As at 31 December 2015, Probiodrug's equity amounted to EUR 16,133k (31.12.2014: EUR 15,971k), which equates to an equity ratio of 73.8 % (31.12.2014: 74.4). The total liabilities amounts to EUR 5,733k (31.12.2014: EUR 5,509k).

9. Other

9.1. Contingencies and 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.

9.2. Related party relationships

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

a) Members of the key management of the Company or a shareholder of the Company
b) Enterprises which can be controlled by individuals within a)

Transactions with key management personnel

The remuneration of the management board comprised of:

In EUR k	2015	2014
Short-term employee benefits	860	710
Post-employment benefits	135	50
Share-based payments	729	1,008
Total	**1,724**	**1,768**

Within the scope of the stock option program 2014, 314,501 options were issued to date to the members of the management board. More detailed information is provided in note 6.5.2.1.

In November 2015, Probiodrug entered into an agreement with a member of the management board to cancel awards granted under the phantom stock program for a cash payment of EUR 430k, payable in two equal tranches. The first tranche of EUR 215k was paid in 2015, the second tranche of EUR 215k is subject to certain conditions and is accrued in current other liabilities.

The pension commitments described in note 6.6.2 relate to one formerand one current member of management board. The development of the pension provision is also presented there.

The remuneration of the supervisory board comprised of:

In EUR k	2015	2014
Short-term benefits	52	18
Total	**52**	**18**

9.3. Approval and release

On 10 March 2016 Probiodrug AG's management board approved these financial statements for release to the supervisory board.

Halle, 10 March 2016

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

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the net assets, financial position and results of operations of Probiodrug AG.

Halle (Saale), 10 March 2016

Management Board of Probiodrug AG

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

Appendix 2

General Engagement Terms

[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.

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.