Financial Statements as of 31 December 2016

AUDITOR'S REPORT

Probiodrug AG
Halle (Saale)

in accordance with International Financial Reporting Standards as adopted by the European Union

KPMG AG Wirtschaftsprüfungsgesellschaft

STATEMENT OF FINANCIAL POSITION as at 31 December 2016

Probiodrug AG, Halle (Saale)

ASSETS	NOTES	31/12/2016 EUR k	31/12/2015 EUR k
Noncurrent assets			
Intangible assets	3.3/6.1	96	56
Plant and equipment	3.4/6.2	68	81
Financial assets	3.6	3	3
Total noncurrent assets		**167**	**140**
Current assets			
Tax receivables		0	1
Other assets	6.3	302	364
Cash and cash equivalents	3.7/6.4	21,897	21,361
Total current assets		**22,199**	**21,726**
Total assets		**22,366**	**21,866**
EQUITY AND LIABILITIES			
Equity			
Share capital	6.5	8,187	7,442
Additional paid-in capital		48,286	34,866
Accumulated other comprehensive income		-530	-499
Accumulated deficit		-39,567	-25,676
Total equity		**16,376**	**16,133**
Noncurrent liabilities			
Pension liability	3.10/6.6	850	822
Total noncurrent liabilities		**850**	**822**
Current liabilities			
Tax liabilities	6.7.1	2,739	2,641
Provisions	3.11	53	42
Trade payables		1,893	1,629
Other current liabilities	6.7.2	455	599
Total current liabilities		**5,140**	**4,911**
Total liabilities		**5,990**	**5,733**
Total equity and liabilities		**22,366**	**21,866**

STATEMENT OF COMPREHENSIVE LOSS
for the period 1 January to 31 December 2016

Probiodrug AG, Halle (Saale)

	NOTES	*01/01-31/12* 2016 EUR k	2015 EUR k
Research and development expenses	5.1	-10,951	-10,158
General and administrative expenses	5.2	-2,909	-3,279
Other operating income	5.4	83	44
Operating loss		**-13,777**	**-13,393**
Interest income		0	0
Interest expense		-114	-112
Finance expenses, net		**-114**	**-112**
Net loss for the period		**-13,891**	**-13,505**
Items not to be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension liability		-31	105
Total other comprehensive income (loss)		**-31**	**105**
Comprehensive loss		**-13,922**	**-13,400**
Loss per share in EUR (basic and diluted)	6.5.1	-1.82	-1.97

STATEMENT OF CASH FLOWS
for the period 1 January to 31 December 2016

Probiodrug AG, Halle (Saale)

	NOTES	2016	2015
		EUR k	EUR k
Net loss for the period		**-13,891**	**-13,505**
Net finance expense		114	112
Depreciation and amortization		97	56
Release of deferred investment grants		0	-11
Share based payment expenses	*6.5.2.1*	650	964
Payment for cancellation of stock options	*6.5.2.1*	-400	0
Interest paid		0	0
Interest received		0	0
Income taxes paid		0	0
Income taxes received		1	2
Changes in other assets		62	7
Changes in pension liabilities		-19	-16
Changes in provisions		11	-753
Changes in trade payables		264	570
Changes in other liabilities		-144	427
Cash flows used in operating activities		**-13,255**	**-12,147**
Purchase of plant and equipment		-7	-6
Purchase of intangible assets		-117	-4
Cash flows used in investing activities		**-124**	**-10**
Proceeds from issuance of common shares	*6.5*	14,886	13,531
Transaction costs of equity transaction		-971	-933
Cash flows from financing activities		**13,915**	**12,598**
Net increase in cash and cash equivalents		**536**	**441**
Cash and cash equivalents at the beginning of period		**21,361**	**20,920**
Cash and cash equivalents at the end of period		**21,897**	**21,361**

STATEMENT OF CHANGES IN EQUITY as at 31 December 2016

Probiodrug AG, Halle (Saale)

	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 2015	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
Expenses recognized directly in equity	0	0	-31	0	-31
Net loss for the period	0	0	0	-13,891	-13,891
Comprehensive loss for the period	0	0	-31	-13,891	-13,922
Issuance of common shares less transaction costs	745	13,170	0	0	13,915
Share based payments	0	650	0	0	650
Cancellation of stock options	0	-400	0	0	-400
	745	13,420	-31	-13,891	243
31 December 2016	8,187	48,286	-530	-39,567	16,376

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 main 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 (Saale), Germany.

Effective 27 October 2014, Probiodrug AG listed bearer shares under the symbol "PBD" with ISIN DE0007921835 on the EURONEXT Amsterdam.

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 in 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.

With an effective date 1 January 2016 the following new and amended standards and interpretations were required to be applied for the first time:

- Amendments to IFRS 10, IFRS 12 and IAS 28 “Investments Entities: Applying the Consolidation Exception” (1 January 2016)
- Improvements to IAS 1 “Disclosure Initiative” (1 January 2016)
- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations” (1 January 2016)
- Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation” (1 January 2016)
- Amendments to IAS 27 “Equity Method in Separate Financial Statements” (1 January 2016)
- Improvements to IFRS 2012 – 2014: Changes to IFRS 5, IFRS 7, IAS 19 and IAS 34 (1January 2016)

The new standards 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 cash and cash equivalents and noncurrent financial assets being interests in BIO Mitteldeutschland GmbH, Halle (Saale).

The financial liabilities of Probiodrug comprise 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 has 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.

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.

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 (loss) 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 costs are recognised within the expenses by function. The net interest expense associated with defined benefit plans is presented in finance expenses.

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

3.15. New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 31 December 2016, and have not been applied in preparing these financial statements:

Endorsed by the EU:

- IFRS 9 "Financial Instruments" (1 January 2018)
- IFRS 15 "Revenue from Contracts with Customers" (1 January 2018)

Not yet endorsed by the EU:

- IFRS 16 "Leases" (1 January 2019)
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (1 January 2018)
- Amendments to IFRS 4 "Application of IFRS 9 *Financial Instruments* und IFRS 4 *Insurance Contracts*" (1 January 2018)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (uncertain)
- Amendments to IFRS 15: Clarification to IFRS 15 (1 January 2018)
- Amendments to IAS 7: Disclosure Initiative (1 January 2017)

- Amendments to IFRS 12 “Recognition of Deferred Tax Assets for Unrealised Losses” (1 January 2017)
- Amendments to IFRS 40 “Transfers of Investment Properties” (1 January 2017)
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (1 January 2018)
- Improvements to IFRS 2014-2016: Changes to IFRS 12 (1 January 2017)
- Improvements to IFRS 2014-2016: Changes to IFRS 1 und IAS 28 (1 January 2018)

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 management’s 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 1,893k) and tax liabilities (EUR 2,739k). 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 13,891k for the financial year 2016 and as at 31 December 2016 had generated an accumulated deficit of EUR 39,567k. 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 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 settlement 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 present liquidity projections, the Company is funded until Q4 2018. Should the Company not be required to repay accrued tax provisions (see note 6.7.1), the cash reach is until the end of Q1 2019. These projections do not include investments for a long-term clincial trial in Alzheimer Disease patients. The future financing is dependent on the success of the clinical program, the Company is currently pursuing. Management expects to raise funds in the form of equity or debt and/or execute a partnership agreement for the further development of the pipeline until the second half of 2018, if the results of the PQ912 study expected for Q2 2017 are positive. Should the study results not allow for a continuation of the PQ912 program, management will focus on the development of the two preclincial product candidates resulting in lower funding requirements in the short term.

Estimating accruals for research and development expenses

As part of the process of preparing the 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 10,951k (2015: EUR 10,158k) comprise personnel costs, costs for research and development 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.

5.2. General and administrative expenses

The general and administrative expenses of EUR 2,909k (2015: EUR 3,279k) comprise personnel costs and costs of office supplies as well as amortisation and depreciation attributable to the administrative area and other operating 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 97k (2015: EUR 56k) as well as personnel related expenses amounting to EUR 2,832k (2015: EUR 2,916k).

In addition, expenses associated with defined contribution plans include the employer's contribution to the statutory pension scheme amounting to EUR 54k (2015: EUR 56k).

5.4. Other operating income

The other operating income is broken down as follows:

Other operating income	2015 EUR k	2015 EUR k
Release of the investment grants	0	11
Other	83	33
Total	**83**	**44**

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 2016 and 2015.

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 2016 used to determine the deferred tax assets and liabilities amounted to 31.58% (31 December 2015: 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	2016	2015
Loss before income tax	-13,891	-13,505
Income tax rate	31.58%	31.58%
Expected tax benefits	4,387	4,265
Tax losses not recognised	-4,368	-4,232
Non-deductible expenses/non-taxable income	-32	-26
Other differences	13	-7
Reported income tax benefit/expense	**0**	**0**

As at 31 December 2016, deferred tax assets attributable to tax loss carry forwards in the amount of EUR 36,670k (31 December 2015: EUR 32,345k) and to the pension liability in the amount of EUR 192k (31 December 2015: EUR 205k) were not recognised as their utilization is not probable.

As at 31 December 2016, Probiodrug had corporate income tax loss carry forwards of EUR 116,171k and trade tax loss carry forwards of EUR 115,909k. 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		EUR k
Acquisition costs as at 31 December 2016	**373**	**Acquisition costs as at 31 December 2015**	**256**
Amortisation as at 1 January 2016	200	Amortisation as at 1 January 2015	171
Additions	77	Additions	30
Disposals	0	Disposals	-1
Amortisation as at 31 December 2015	**277**	**Amortisation as at 31 December 2015**	**200**
Carrying value as at 1 January 2016	56	Carrying value as at 1 January 2015	82
Carrying value as at 31 December 2016	**96**	**Carrying value as at 31 December 2015**	**56**

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 2016	181	492	**673**
Additions	0	7	**7**
Disposals	0	-4	**-4**
Acquisition costs as at 31 December 2016	**181**	**495**	**676**
Depreciation as at 1 January 2016	160	432	**592**
Additions	7	13	**20**
Disposals	0	-4	**-4**
Depreciation as at 31 December 2016	**167**	**441**	**608**
Carrying value as at 1 January 2016	21	60	**81**
Carrying value as at 31 December 2016	**14**	**54**	**68**

	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**

6.3. Other current assets

Other current assets are comprised of:

In EUR k	31 December 2016	31 December 2015
Prepayments	126	226
Value-added tax receivables	121	79
Rent deposits	7	7
Other receivables	45	45
Other assets	3	7
Total	**302**	**364**

6.4. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand. As at 31 December 2016, cash balances denominated in other currencies than the Euro amount to USD 653k (31 December 2015: 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 2016, Probiodrug's share capital comprised 8,186,735 registered no par common shares. As at 31 December 2015, Probiodrug's share capital comprised 7,442,487 registered no par common shares. The nominal amount per share is EUR 1.00. All shares are issued and fully paid up.

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. The proceeds from issuance of common shares amount to EUR 13,531k less transaction costs of EUR 933k.

In 2016, Probiodrug's management board – with the approval of the supervisory board on 6 October 2016 – resolved to increase the share capital from EUR 7,442k by EUR 744k to EUR 8,187k through the issuance of common shares by utilising authorised capital. The proceeds from issuance of common shares amount to EUR 14,886k less transaction costs of EUR 971k.

Conditional Capital

As at 31 December 2016, the conditional capital amounted to EUR 2,624k and as at 31 December 2015 to EUR 2,556k, 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 2014/1) was increased by a nominal amount of EUR 32k.

By resolution of the Annual Shareholders' Meeting on 19 May 2016, the Conditional Capital 2014/1 was increased by EUR 67,650.00 to EUR 509,650. The conditional capital increase serves the fulfilment of stock option rights pursuant to Section 192 (2) number 3 of the AktG issued as part of stock option program 2014 (as resolved and amended by resolutions of the Annual Shareholders' Meetings on 29 September 2014, 10 June 2015 and 19 May 2016) or to be issued or issued as part of other stock option programs. 404,538 options are designated for current and future members of the management board and 105,112 options are designated for current and future employees. The remaining terms of the option program apply unchanged.

Authorised Capital

As at 31 December 2016, the authorised capital amounted to EUR 2,977k and as at 31 December 2015 to EUR 2,633k, respectively. The authorised capital can be utilised for capital increases for contributions in cash and/or kind. On 19 May 2016, the Annual Shareholders' Meeting resolved to increase the Authorised Capital 2014 from EUR 2,633,166.00 to EUR 3,721,243.00. The authorisations given to the management board and supervisory board with respect to the Authorised Capital 2014 were adjusted accordingly.

Further in 2016, the authorized capital decreased through the issuance of common shares in the amount of EUR 744,248 to EUR 2,976,995.

6.5.1. Loss per share

As at 31 December 2016, Probiodrug's share capital consisted of 8,186,735 common shares (31 December 2015: 7,442,487). 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 13,891k in financial year 2016 (2015: net loss of EUR 13,505k).

The loss per share was calculated as follows:

	2016	2015
Weighted average number of common shares outstanding	7,619,398	6,871,557
Loss for the period	**-13,891k**	**-13,505k**
Loss per share in EUR (basic/diluted)	**-1.82**	**-1.97**

As at 31 December 2016 and 2015 no financial 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 programs are as follows; all options are to be settled by the physical delivery of shares or in cash;

Grant date/employees entitled	Outstanding Options	Vesting conditions	Contractual life of options
ESOP 2007 Granted to employees	16,208	graded vesting over four year period (50% after two years, 25% after three years and 25% after four years)	8 years; extended in 2016 to 11 years
ESOP 2010/2013 Granted to management board Granted to employees	54,165 21,274	graded vesting over 31 month period (33% after seven months, 33% after 19 months and remaining after 31 months)	4 to 6 years; Extended in 2016 to 9 years
ESOP 2014 Granted to management board Granted to employees	314,501 84,874	Immediate vesting on date of grant for 40%, graded vesting over 3 year period (20% each after first, second and third year) period	8 years, not exercisable before lapse of 4 years

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 2014 to 2016 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 programs were as follows:

	2016		2015	
	Number of options*	WAEP**	Number of options*	WAEP**
Outstanding at 1 January	538,637	EUR 16.27	447,762	EUR 16.10
Forfeited during the year	-90,305	EUR 21.20	0	--
Exercised during the year	0	--	0	--
Cash settlement	-31,734	--		
Granted during the year	74,424	EUR 19.43	90,875	EUR 20.33
Outstanding at 31 December	**491,022**	**EUR 17.13**	**538,637**	**EUR 16.27**
Exercisable at 31 December	91,647	EUR 11.10	133,261	EUR 11.64

* Adjusted for the reverse stock split

**Weighted average exercise price

The stock options outstanding at 31 December 2016 had an exercise price in the range of EUR 6.00 to EUR 42.18 (31 December 2015: EUR 6.00 to EUR 42.18) and a weighted-average contractual life of 5.3 years (31 December 2015: 5.4 years). According to the terms and conditions of the stock option programs, exercise is not possible during specified blackout periods and subject to a performance criterion concerning the average stock price of Probiodrug shares during the twenty days before exercise.

No expenses associated with the stock option programs 2007 and 2010/2013 are recognised for the years 2016 and 2015, respectively, due to the vesting in prior periods.

The total expenses associated with the stock option program 2014 recognised in 2016 amounted to EUR 650k (2015: EUR 964k). These amounts were credited to additional paid-in capital.

According to the authorization given by the general assembly from 18 May 2010 and duly taking into account the interests of the Company the supervisory board resolved to provide a cash settlement for part of the options of the members of the management board Mr Glund and Mr Liebers from the option program 2010. The settlement was accounted for as a cancellation and the settlement amount paid of EUR 400k was deducted from additional paid-in capital. No further share based payment expense was recognised as share based payments were fully recognised in prior periods and the settlement amount did not exceed the fair value of the shares as of the settlement date. The respective settlement amount was paid out after the capital increase from October 2016.

6.5.2.2. Phantom stock option programs

From the existing phantom stock program 2007, a portion of 9,880 phantom stocks forfeited in 2016. As of 31 December 2016 19,333 remaining phantom stock awards are outstanding with a fair value of EUR 0k.

6.6. Noncurrent liabilities

6.6.1. 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:

	2016	2015
Discount rate	1.42%	2.01%

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 1.0% 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 123k (31 December 2015: EUR 119k)

Interest rate + 0.5%: Δ DBO EUR -111k (31 December 2015: EUR -107k)

Reconciliation of defined benefit obligation and plan assets

In EUR k	Defined benefit obligation	Plan assets	Pension provision (Net DBL)
Balance as of 01 January 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 01 January 2016	**1,522**	**-700**	**822**
Current service cost	43	-	43
Interest expense (+)/ interest income (-)	31	-15	16
Remeasurement	**48**	**-17**	**31**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	-17	-17
Actuarial gains (-)/ losses (+)	48	-	48
Effects from changes in financial assumptions	49	-	49
Effects from changes based on experience	-1	-	-1
Employer's contributions	-	-62	-62
Balance as of 31 December 2016	**1,644**	**-794**	**850**

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

in EUR k	**2016**	**2015**
Current service cost	43	46
Net interest expense (+)/ income(-)	**16**	**14**
Interest expense associated with DBO	31	24
Interest income on plan assets	-15	-10
Total net pension expense	**59**	**60**

In 2017, plan contributions amounting to EUR 62k are expected. The weighted average duration of the pension commitments is 14.6 years (31 December 2015: 15.4 years). The pension payments for the two beneficiaries may be due in one respectively two years.

6.7. Current liabilities

6.7.1. Tax liabilities

The tax liabilities of EUR 2,739k 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 1,443k relates to corporate income tax and EUR 1,296k 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 December 2016 EUR k	31 December 2015 EUR k
Liabilities from waived phantom stock obligation	0	215
Salaries and wages	313	189
Payroll and church taxes	37	129
Other	105	66
Total	**455**	**599**

Regarding liabilities from waived phantom stock obligations we refer to note 6.5.2.2.

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 2016.

7.2. Fair value measurement

All assets and liabilities, for which fair value is recognized in the 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 2016 and 2015 was recognised with respect to financial instruments.

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 (32.0%), Moody's Rating Aa2, Deutsche Bank (32.3%) Moody's Rating Baa2, BW Bank (35.2%), Moody's Rating Aa3, and Northern Trust (0.5%), Moody`s Rating (Aa2). In general, cash balances are only held 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 December 2016	31 December 2015
Noncurrent financial assets	3	3
Cash and cash equivalents	21,897	21,361
	21,900	**21,364**

As of the reporting dates 31 December 2016 and 31 December 2015, 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 2016, cash and cash equivalents amounted to EUR 21.9 million. The cash and cash equivalents as at 31 December 2016 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.

Analysis of maturities

As of 31 December 2016 and 2015, all trade payables of EUR 1,893k (31 December 2015: EUR 1,629k) 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 8.1) do not contain variable price conditions and hence do not bear price risks.

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 present projections the cash reach of the Company is beginning of 2019. Should the Company be required to repay tax provisions (see note 6.7.1) the cash reach is until the fourth quarter 2018. Both projections do not include the investments for the further development of the pipeline beyond 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 partnership agreement.

Probiodrug's focus on the long-term increase in the value of the Company is 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 2016, Probiodrug's equity amounted to EUR 16,376k (31 December 2015: EUR 16,133k), which equates to an equity ratio of 73.2% (31 December 2015: 73.8%). The total liabilities amounts to EUR 5,990k (31 December 2015: EUR 5,733k).

8. Other

8.1. Contingencies and other financial commitments

The total of the other financial commitments as at 31 December 2016 was EUR 3,683k and consist of services by research and development service providers as well as of service, leasing and rental commitments. Of these commitments EUR 3,619k are due within one year.

8.2. 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:

In EUR k	**2016**	**2015**
Short-term employee benefits	1,124	860
Post-employment benefits	122	135
Share-based payments	328	729
Cancellation of stock options	400	0
Total	**1,974**	**1,724**

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.

According to the authorization given by the general assembly from 18 May 2010 and duly taking into account the interests of the Company the supervisory board resolved to provide a cash settlement for part of the options of the members of the management board Mr Glund and Mr Liebers from the option program 2010. The respective settlement in an amount of EUR 200k each was paid out after the capital increase in October 2016.

The pension commitments described in note 6.6.1 relate to one former and 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	2016	2015
Short-term benefits	95	52
Total	**95**	**52**

8.3. Approval and release

On 7 March 2017, Probiodrug AG's management board approved these financial statements for release to the supervisory board.

Halle (Saale), 7 March 2017

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.

Halle (Saale), 7 March 2017

Management Board of Probiodrug AG

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

Independent Auditors' Report

To the Shareholders of Probiodrug AG, Halle (Saale)

Opinion

We have audited the financial statements of Probiodrug AG ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the requirements of German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities applicable in Germany in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern basis of accounting

THE RISK

We refer to the accounting policies in note 4 "Significant discretionary decisions, estimates and assumptions – Going Concern".

As a clinical stage biopharmaceutical company, Probiodrug's business model is to progress its research and development programs until a stage and value, that they can be commercialized through transactions with pharmaceutical companies. Until such a stage Probiodrug continuously seeks external finance for research and development activities. In fiscal 2016, Probiodrug incurred a net loss of EUR 13,891 thousand and generated an accumulated deficit of EUR 39,567 thousand as of 31st December 2016. The Company anticipates operating losses to continue for the foreseeable future mainly due to continuous research funding, development of compounds and the development of its administrative organization. In accordance with the present projections, the Company expects sufficient funding until the fourth quarter of 2018. These projections do not include investments for a long-term clincial trial in Alzheimer Disease patients. Should the Company not be required to pay accrued tax provisions the cash reach is secured until the end of the first quarter of 2019. The future financing is dependent on the success of the clinical program for which clinical data is expected in the second quarter 2017. Should the results be positive, the board of directors expects to raise funds until the second half of 2018. Should the results not allow for a continuation of the clincial program, the Company will focus on the development of the two preclincial product candidates resulting in lower funding requirements in the short term.

We considered the going concern basis of accounting as a key audit matter, since management's assessment of the entity's ability to continue as a going concern is based on significant judgements and a number of assumptions, e.g. cash reach, cash burn rate , the progress of the clinical study and feasibility of the alternative clinical programs.

OUR RESPONSE

We evaluated and challenged the company's future business plans and related budget and liquidity status for the years 2017 and 2018 and the process in which these were prepared, amongst other procedures, by inquiring the Chief Financial Officer and inspecting the documents used for preparation of the budget and liquidity status. We assessed the budgeting methodology and the application of the assumptions made by management. We further inspected documents shared with the supervisory board to summarize the progress of the clinical program and inquired the Chief Financial Officer and Audit Committee Head as to the alternative strategies, should the clinical program be discontinued.

Furthermore, our audit included corroborating of key assumptions used, i.e. the cost of external service providers compared to contractual terms and stage of the clinical program and ongoing operational costs like rent, depreciation and payroll based on the historical cost structure. In addition, we compared the predicted cash burn rates for the years 2017 and 2018 to the

historical cash burn rates of Probiodrug. Further, we considered whether the disclosure on the going concern basis of accounting is sufficiently detailed.

OUR OBSERVATIONS

We considered management assumptions regarding the going concern basis of accounting to be overall balanced. The budgeting is arithmetically correct and the assumptions made by management have been applied in the budget. The disclosure on the going concern basis of accounting is sufficiently detailed.

Other Information in the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report but does not include the financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors'

report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Dr. Stefan Schneider.

Leipzig, 7 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

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