Financial Statements as at 31 December 2016 and Management Report

AUDIT REPORT (TRANSLATION)

Probiodrug AG
Halle (Saale)

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KPMG AG Wirtschaftsprüfungsgesellschaft

Probiodrug AG, Halle (Saale)

Balance sheet as at 31 December 2016

Assets

	31.12.2016		31.12.2015	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible assets				
Similar rights acquired for consideration, licenses and software		95,915.79		55,962.72
II. Tangible assets				
1. Buildings on third-party land	13,825.79		20,735.87	
2. Other equipment, operating and office equipment	54,249.34	68,075.13	59,831.70	80,567.57
III. Long-term financial assets				
Participations		3,450.00		3,450.00
		167,440.92		**139,980.29**
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	113,518.84		0.00	
2. Other assets	175,501.92	289,020.76	139,217.61	139,217.61
II. Cash-in-hand and bank balances		21,782,923.94		21,361,408.04
		22,071,944.70		**21,500,625.65**
C. Prepaid expenses		**126,683.74**		**225,292.11**
		22,366,069.36		**21,865,898.05**

	31.12.2016	31.12.2015
	EUR	EUR
A. Equity		
I. Share capital	8,186,735.00	7,442,487.00
Contingent capital: EUR 2,623,801.00		
(in the prior year EUR 2,556,151.00)		
II. Capital reserves	49,012,368.55	34,871,656.55
III. Revenue reserves		
Legal reserves	227,625.00	227,625.00
IV. Accumulated losses brought forward	-40,579,589.68	-26,067,150.58
	16,847,138.87	**16,474,617.97**
B. Provisions		
1. Pension provisions	377,942.00	468,818.00
2. Tax provisions	2,739,650.75	2,641,430.75
3. Other provisions	824,693.86	615,703.91
	3,942,286.61	**3,725,952.66**
C. Liabilities		
1. Trade payables	1,519,486.23	1,312,699.31
2. Other liabilities	57,157.65	352,628.11
– of which taxes EUR 42,593.67		
(in the prior year EUR 129,209.18) –		
	1,576,643.88	**1,665,327.42**
	22,366,069.36	**21,865,898.05**

Probiodrug AG, Halle (Saale)

Income statement for the period from 1 January to 31 December 2016

1. Other operating income
2. Cost of materials
   a) Cost of supplies and purchased merchandise
   b) Cost of purchased services
3. Personnel expenses
   a) Wages and salaries
   b) Social security and post employment costs
      – of which in respect of retirement provisions EUR 152,450.30 (in the prior year EUR 185,349.65) –
4. Amortisation of intangible assets and depreciation of tangible assets
5. Other operating expenses
6. Other interest and similar income
7. Interest and similar expenses
8. Earnings after taxes
9. Net loss
10. Loss carryforward
11. Accumulated losses brought forward

	2016		2015	
	EUR	EUR	EUR	EUR
		94,128.85		318,713.28
	-38,433.59		-60,497.94	
	-7,841,926.86	-7,880,360.45	-6,673,324.46	-6,733,822.40
	-2,182,768.82		-1,657,854.69	
	-285,837.21	-2,468,606.03	-325,436.28	-1,983,290.97
		-96,896.00		-56,185.22
		-4,182,663.66		-4,997,084.89
		133,373.70		256.11
		-111,415.51		-134,983.39
		-14,512,439.10		**-13,586,397.48**
		-14,512,439.10		**-13,586,397.48**
		-26,067,150.58		-12,480,753.10
		-40,579,589.68		**-26,067,150.58**

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

Probiodrug AG, Halle (Saale)

	01.01.2016 to 31.12.2016 EUR'000	01.01.2015 to 31.12.2015 EUR'000
Net loss of the period	-14,512,439	-13,586,397
Transaction costs	971,215	933,872
Amortisation/depreciation of fixed assets	96,896	56,185
Profit/loss on the disposal of fixed assets	1	245
Interest income	-133,374	-256
Interest expense	111,416	134,983
Increase in pension provisions	29,302	61,605
Increase (in prior year decrease) of other provisions	208,990	-491,339
Increase (in prior year decrease) of receivables and other assets	-150,569	154,689
Decrease (in prior year increase) of prepaid expenses	98,608	-147,430
Increase in trade payables	206,787	436,305
Decrease (in prior year increase) of other liabilities	-295,470	298,902
Cash flow from operating activities	**-13,368,638**	**-12,148,637**
Proceeds from the disposal of tangible assets	0	235
Disbursements for investments in tangible assets	-7,394	-5,844
Disbursements for investments in intangible assets	-116,963	-4,628
Interest received	766	2,447
Cash flow from investing activities	**-123,592**	**-7,790**
Proceeds from the issuance of shares	14,884,960	13,531,780
Disbursement for transaction costs	-971,215	-933,872
Cash flow from financing activities	**13,913,745**	**12,597,908**
Cash effective changes of cash and cash equivalents	**421,516**	**441,481**
Cash and cash equivalents at the beginning of the financial year	**21,361,408**	**20,919,927**
Cash and cash equivalents at the end of the period	**21,782,924**	**21,361,408**

	31.12.2016 EUR	31.12.2015 EUR
Composition of cash and cash equivalents		
Cash-on-hand	221	103
Bank balances	21,782,703	21,361,305
	21,782,924	21,361,408

Statement of shareholders' equity as at 31 December 2016

Probiodrug AG, Halle (Saale)

	Share Capital	Capital reserves	Legal reserve	Retained earnings	Equity
	Ordinary shares				
	EUR	EUR	EUR	EUR	EUR
Balance as at 01.01.2015	6,765,898	22,016,466	227,625	-12,480,754	16,529,235
Capital increase as a result of cash contribution	676,589	12,855,191			13,531,780
Net loss of the year				-13,586,397	-13,586,397
Balance as at 31.12.2015	7,442,487	34,871,657	227,625	-26,067,151	16,474,618
Balance as at 01.01.2016	7,442,487	34,871,657	227,625	-26,067,151	16,474,618
Capital increase as a result of cash contribution	744,248	14,140,712			14,884,960
Net loss of the year				-14,512,439	-14,512,439
Balance as at 31.12.2016	8,186,735	49,012,369	227,625	-40,579,590	16,847,138

Probiodrug AG, Halle (Saale)

NOTES to the financial statements for the financial year from 1 January to 31 December 2016

I. General disclosures

The annual financial statements of Probiodrug AG were prepared using the accounting policies and measurement methods prescribed by the [German] Commercial Code (HGB) [Handelsgesetzbuch] in the version of the Accounting Directive Implementation Act [Bilanzrichtlinie-Umsetzungsgesetz] (BilRUG) as well as the complementary regulations of the [German] Stock Corporation Act.

Probiodrug AG has its registered place of business in Halle/Saale and is recorded in the Commercial Register of the district court Stendal (HRB 213719). The Company's shares have been listed on the Euronext/Amsterdam since October 2014. As such, Probiodrug is a capital market oriented company as defined in Section 264d of the HGB and is thereby considered a large capital corporation as defined by Section 267 (3) sentence 2 of the HGB.

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

II. Accounting policies and measurement methods

Fixed assets

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

The scheduled depreciation and amortisation was calculated on the straight-line basis considering the expected useful life of the underlying asset.

In financial year 2016 as well as in the two previous financial years, newly acquired moveable assets with acquisition costs of up to EUR 410.00 were immediately depreciated in their entirety. The cumulative items recorded prior to 2014 continue to be depreciated in accordance with Section 6 (2a) of the German Income Tax Act (EStG) [Einkommensteuergesetz] over a period of five years. In total, the cumulative items are of minor importance.

Participations are recorded at their acquisition costs.

Current assets

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

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

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

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

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

Equity

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

Provisions

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

Long-term provisions with a term of more than 12 months are discounted in accordance with Section 253 (2) sentence 1 of the HGB. Provisions with a remaining term of up to one year were not discounted.

The measurement of the pension provisions is based on the ,,projected unit credit" method (PUC method). Probiodrug applied a discount rate, consistent with the change in legislation, whereby the average market interest rate of the previous ten financial years (in the prior year seven financial years) as published by the Deutsche Bundesbank [German Federal Reserve] and an assumed remaining term of 15 years served as the basis. The biometric calculation used was provided by the 2005 G mortality tables of Prof. Dr. Klaus Heubeck [‚Richttafeln 2005 G' von Prof. Dr. Klaus Heubeck]. The parameters applied in the calculation as well as disclosure of the difference arising from the use of the average market interest rate of the previous ten years as at 31 December 2016 and that based on the average market interest rate of the previous seven financial years as at 31 December 2015 are presented in the explanations on the balance sheet.

Liabilities

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

The existing liabilities are not secured.

Income statement

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

III. Explanations on the balance sheet

Fixed assets

The development of fixed assets as well as the amortisation and depreciation recorded in the financial year is shown for each balance sheet line item in the schedule of fixed assets presented in the appendix to the notes to the financial statements. The Company has a subsidiary, Probiodrug Inc., USA. All operating activities and assets are concentrated in Probiodrug AG; currently Probiodrug Inc. has neither operating activities nor assets.

Receivables and other assets

Without exception, the other assets have a remaining term of up to one year. They primarily consist of receivables from affiliated companies (EUR 114k, in the prior year EUR 0k), receivables from the fiscal authorities (EUR 121k; in the prior year EUR 80k) as well as other receivables (EUR 55k; in the prior year EUR 59k).

Deferred taxes

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

credit deferred tax balances calculated result from tax loss carry forwards and different values calculated for the pension provision.

Share capital

As at 31 December 2016, the subscribed capital amounted to EUR 8,186,735.00 (in the prior year EUR 7,442,487.00). It is broken down into 8,186,735 (in the prior year 7,442,487) bearer ordinary shares with no par value (no-par value shares, at an issue price of EUR 1.00 per share).

On 27 September 2016, the Executive Board resolved, and the Supervisory Board approved, an increase of EUR 744,248.00 in share capital against cash to share capital totalling EUR 8,186,735.00. The increase was made by, in part, making use of the authorised capital 2014 by issuing 744,248 new no par value bearer shares at an issue price of EUR 1.00 per share.

Authorisation to acquire treasury shares

On 10 June 2015 the annual shareholders' meeting authorised the Executive Board, in accordance with Section 71 (1) number 8 of the AktG, to acquire shares of the Company until 9 June 2020 equalling the pro rata amount of the stated share capital of EUR 676,580.00. The acquisition may be made either via the stock exchange or by way of a public purchase offer directed to all of the Company's shareholders. The treasury shares may be used for all permitted purposes including redemption.

No shares were repurchased in financial year 2016 or 2015.

Conditional capital

By resolution of the shareholders meeting on 19 May 2016, the conditional capital 2014/I was increased by EUR 67,650.00 to EUR 509,650.00.

As at 31 December 2016 the total conditional capital amounted to EUR 2,623,801.00 (in the prior year EUR 2,556,151.00). Of this amount, EUR 491,022.00 (in the prior year EUR 517,363.00) is reserved as a result of the issuance of options.

The conditional capital is to redeem option or conversion rights (or for the satisfaction of corresponding conversion or option requirements) for no par value bearer shares or upon exercise of the Company's option, to partially or entirely discharge the Company's obligation to pay the monetary amount due by granting no par value shares of the Company to the holder or creditor of convertible or option bonds.

In addition to employees of the Company and former affiliated companies, for whom no disclosure is required pursuant to Section 194 (3) of the AktG, the following members of the Executive Board (respectively former members of the Executive Board) are entitled to acquire the following number of shares:

- Dr. Konrad Glund, Halle, up to 117,600 ordinary shares
- Dr. Hendrik Liebers, Leipzig, up to 117,599 ordinary shares
- Prof. Dr. Hans-Ulrich Demuth, Halle, up to 28,633 ordinary shares and
- Dr. Inge Lues, Seeheim-Jugenheim, up to 104,834 ordinary shares.

In 2016, a total of 74,424 options for no par value ordinary bearer shares were issued to Executive Board member Mark Booth within the scope of Stock Option Program 2014. Subsequent to the Mark Booth's leaving the Company as at 15 August 2016, these options expired in their entirety.

Stock options

By virtue of a resolution of the shareholders' meeting on 19 May 2016, the Stock Option Program resolved upon on 29 September 2014 was amended whereby the Executive Board – and to the extent that the issuance of stock options to members of the Executive Board are affected, the Supervisory Board – is authorised to issue on one or several occasions up to 509,650 options to current and future employees and members of the Executive Board, whereby 404,538 options are allocable to current and future members of the Executive Board and 105,112 options are allocable to current and future employees.

In addition, the shareholders' meeting resolved to extend the exercise periods for option programs 2007 and 2010.

The exercise period for Stock Option Program 2007 will be extended to eleven years for all those options which have not yet expired.

The exercise period for Stock Option Program 2010 will be extended to nine years for all those options which have not yet expired.

Other than this, the option programs continue unchanged.

On the basis of the authorisation of the shareholders' meeting on 18 May 2010 and giving consideration to the Company's best interest, the Supervisory Board resolved to make a cash settlement of a portion of the options for the Executive Board members Glund and Liebers arising from Stock Option Program 2010. This cash settlement of EUR 200,000.00 each was recognised as expense and paid subsequent to the capital increase in October 2016.

Convertible bonds

By resolution of the annual shareholders' meeting on 10 June 2015, the Executive Board with the consent of the Supervisory Board is authorised to issue once or in several transactions, in the latter case also simultaneously in several tranches, until 9 June 2020 option bonds and/or convertible bonds in bearer and/or registered form (together "bonds") with a total amount of up to EUR 60,000,000.00, each with or without a maturity restriction. The bonds, subject to the respective terms and conditions of the option bonds (hereafter „option conditions"), may grant option rights or impose option obligations. The bonds may also, subject to the respective terms and conditions of the convertible bonds (the "convertible bond conditions"), grant conversion rights or impose conversion obligations. The bonds may grant rights or impose obligations to subscribe for up to 2,000,000 bearer shares of the Company with a proportionate corresponding amount of the Company's share capital of up to EUR 2,000,000.00. The bonds may be issued in euro or - limited to the respective value in euro - in any other statutory currency of an OECD member state. The bonds may be issued for cash consideration. In addition, the bonds may be issued against non-cash consideration, in particular to acquire enterprises, participations in entities, business units, receivables, patents and licenses or other assets, provided however, that the value of such at least equals the issue price of the bonds.

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

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

Authorised capital 2014

In a resolution dated 19 May 2016, the shareholders' meeting resolved to increase the authorised capital 2014 from EUR 2,633,166.00 to EUR 3,721,243.00. The authorisations granted to the Executive Board and Supervisory Board with respect to the authorised capital 2014 were, correspondingly, adjusted.

On 27 September 2016, the Executive Board resolved, with the consent of the Supervisory Board, to make partial use of the authorised capital 2014 of EUR 744,248.00 to increase the share capital in exchange for a cash contribution of EUR 744,248.00. 744,428 no par value ordinary bearer shares were issued at an issue price of EUR 1.00 (notional value) per share.

As at 31 December 2016, the authorised capital 2014 amounted to EUR 2,976,995.00.

Voting rights notification

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

JPMorgan Asset Management (UK) Ltd., London, United Kingdom, informed us that, pursuant to Section 21 (1) of the WpHG [(German) Securities Trading Act; Wertpapierhandelsgesetz], on 11 March 2016 its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) exceeded the threshold of 5% of the voting rights on 07 March 2016 and that its voting rights proportion amounted to 5.15 % (383,181 voting rights).

Morgan Stanley, Wilmington, USA, informed us that, pursuant to Section 21 (1) of the WpHG, on 13 April 2016, its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 5% and 3% on 06 April 2016 and that its voting rights proportion amounted to 0.4 %.

Aviva plc, London, United Kingdom, informed us that, pursuant to Section 21 (1) of the WpHG, on 12 October 2016, its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 10% of the voting rights on 04 October 2016 and that its voting rights proportion amounted to 9.997% (744,069 voting rights). 9.997 % of the voting rights proportion (806,443 voting rights) are attributed to Aviva plc pursuant to Section 22 of the WpHG.

The voting rights attributed pursuant to Section 22 of the WpHG are attributed through the following shareholder directly holding 3% or more of the voting rights in Probiodrug AG: **Aviva Life & Pensions UK Limited, Aviva Investors Global Services Limited**

The voting rights attributed pursuant to Section 22 of the WpHG are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: **Aviva Life & Pensions UK Limited, Aviva Investors Global Services Limited**

Landesbank Baden-Württemberg, Stuttgart, Germany informed us that, pursuant to Section 21 (1) of the WpHG, on 13 October 2016, its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 3% of the voting rights on 07 October 2016 and that its voting rights proportion amounted to 2.86% (234,239 voting rights).

Sachsen-Anhalt, Land – Ministry of Finance of the Federal State Saxony Anhalt, Magdeburg, Germany, informed us that, pursuant to Section 21 (1) of the WpHG, on 13 October 2016, its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 15% of the voting rights on 07 October 2016 and that its voting rights proportion amounted to 10.91 % (893,269 voting rights). 10.91% of the voting rights (893,269 voting rights) are attributed to the Federal State Saxony Anhalt pursuant

to Section 22 of the WpHG. The voting rights attributed to the Federal State Saxony Anhalt are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: IBG Risikokapitalfonds I GmbH & Co. KG, IBG Risikokapitalfonds II GmbH & Co. KG.

Capital reserves

As at 31 December 2016, the capital reserves amounted to EUR 49,012,368.55 (in the prior year EUR 34,871,656.55).

In conjunction with the capital increase via the issuance of new shares during the financial year, cash receipts totalling EUR 14,140,712.00 were paid into the capital reserves in accordance with Section 272 (2) number 1 of the HGB.

Revenue reserves

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

Accumulated losses

As at 31 December 2016, the accumulated losses totalled EUR 40,693,108.52. They developed as follows during the financial year:

	EUR
Accumulated losses as at 31 December 2015	26,067,150.58
Net loss in financial year 2016	14,512,439.10
Accumulated losses as at 31 December 2016	40,579,589.68

Tax provisions

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

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

afore mentioned risks, including the accrued interest thereon, were given consideration by increasing the tax provision by EUR 98k as at 31 December 2016 to EUR 2,740k.

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

Pension provision

The calculation of the pension provision was carried out using a discount rate of 4.01 % (in the prior year 3.89 %). A further parameter applied in the calculation was a pension progression rate of 1.0 % (in the prior year 1.5 %).

During the financial year, personnel expenses in conjunction with the pension obligations amounting to EUR 92k (in the prior year EUR 124k) and interest expense of EUR 13k (in the prior year EUR 41k) were recorded. Interest expense includes income on the assets used to fund the obligation in the amount of EUR 32k (in the prior year EUR 3k) which is presented as a net amount. Interest income includes income of EUR 116k from the change in the discount rate as a result of the change from a seven year average interest rate to a ten year average interest rate as well as from the change in the average interest rate from the prior year to the current financial year of EUR 17k.

As at 31 December 2016, the cash surrender value of the covering assets corresponds with the pledged entitlement to the life insurance amounting to EUR 794k (in the prior year EUR 700k). In accordance with Section 246 (2) of the HGB, this amount was off-set with the settlement amount of the pension provisions which amounted to EUR 1,172k (in the prior year EUR 1,169k). The recorded pension provision amounted to EUR 378k (in the prior year EUR 469k).

As a result of the implementation of the Law Regarding the Implementation of the Residential Property Lines of Credit and to Change Commercial Regulations [Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften], as at 31 December 2016, the calculation of the settlement amount of the pension obligations was, for the first time, based on the average market interest rate of the previous ten financial years (in the prior year seven financial years).

This led to the following difference:

Settlement amount based on 10-year average rate (actuarial interest rate 4.01%)	1,172,413
Settlement amount based on 7-year average rate (actuarial interest rate 3.24%)	1,288,743
Difference pursuant to Section 253 (6) of the HGB	- 116,330

Other provisions

The other provisions include provisions attributable to outstanding invoices (EUR 405k; in the prior year EUR 307k), other personnel related provisions (EUR 313k; in the prior year EUR 205k), provisions for the preparation of the financial statements and audit (EUR 53k; in the prior year EUR 51k) as well as provisions for the Company's other business activities (EUR 53k; in the prior year EUR 53k).

Liabilities

As was the case in the prior year, the trade payables of EUR 1,519k (in the prior year EUR 1,313k) as well as the other liabilities of EUR 57k (in the prior year EUR 353k) have a remaining term of up to one year.

IV. Explanations on the income statement

Other operating income

The other operating income during the financial year included:

	2016 EUR k	2015 EUR k
Income attributable to other periods	44	7
Income from exchange rate differences	33	6
Income from the release of provisions	17	301

Cost of materials

The cost of materials includes expenses attributable to other periods of EUR 100k.

Other operating expenses

The other operating expenses include expenses attributable to other periods of EUR 6k (in the prior year EUR 89k) as well as expenses from exchange rate differences of EUR 6k (in the prior year EUR 10k).

V. Explanations on the cash flow statement

The transaction costs of EUR 971k recorded in the financial year consist entirely of costs resulting from the capital increase in 2016.

VI. Other disclosures

Subsidies

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

Recommendation for appropriation of result

The Executive Board makes the following recommendation with respect to the appropriation of the result:

The accumulated losses amount to EUR 40,693,108.52. They will be carried forward.

Average number of employees during the financial year

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

Executive Board and employees	2016	2015
Executive Board members	3	3
Employees	11	13

Other financial commitments

As at 31 December 2016, the other financial commitments amounted to EUR 3,683k and primarily consisted of research and development services as well as service, leasing and rental obligations. EUR 3,619k is due within one year.

Disclosures with respect to executive bodies

Executive Board

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

Dr. Konrad Glund (Dipl. Biochemiker [degreed biochemist]) - Chairperson
Dr. Hendrik Liebers (Dipl.-Biologe [degreed biologist], Dipl.-Kaufmann [degreed businessman])- Finances
Dr. Inge Lues (Dipl.-Biologe [degreed biologist])– Research and Development
Dr. Mark Booth (MBA) – Business from 1 April 2016 until 15 August 2016

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

With respect to the remuneration of the Executive Board, we refer to the compensation report which forms a part of the management report. In financial year 2016 the overall remuneration of the Executive Board amounted to EUR 1,392k (in the prior year EUR 1,425k).

Disclosure as to total remuneration of former Executive Board members

Former members of the Executive Board received compensation of EUR 44k (in the prior year EUR 78k) in the form of additions to the pension provision. The effect of the change in the interest rate due to the implementation of the Law Regarding the Implementation of the Residential Property Lines of Credit and to Change Commercial Regulations [Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften] off-set this. The pension provision amounts to EUR 167k (in the prior year EUR 216k).

Supervisory Board

The following were appointed as members of the Supervisory Board:

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

- Dr. Dinnies von der Osten, Managing Director, Berlin- Vice Chairperson
  - *Member of the Supervisory Board of Market Logic Software AG, Berlin*
  - *Member of the Supervisory Board of Alea Energy Solutions AG, Berlin*
  - *Managing Director, GoodVent Beteiligungsmanagement VerwaltungsGmbH, Magdeburg*

- Dr. Jörg Neermann, Investment manager, Munich
  - *Member of the Supervisory Board, Ventaleon GmbH, Gauting*
  - *Member of the Board of Directors, Eyesense AG, Basel, Switzerland*
  - *Member of the Board of Directors, Kuros Bioscienes AG, Zurich, Switzerland*
  - *Chairperson of the Supervisory Board, Immunic AG, Martinsried*
  - *Member of the Board of Directors, ViCentra B.V., Utrecht, NL*

- Kees Been, Chief Executive Officer (CEO), Weston, Massachusetts, USA
  -Member of the Board of Directors, Lyosomal Therapeutics, Inc., Massachusetts, USA
  -Member of the Board of Directors, Rodin Therapeutics, Inc., Massachusetts, USA

- Charlotte Lohmann, Attorney, Gröbenzell
  -General Counsel Morphosys AG, Martinsried

- Dr. Olivier Litzka, Investment manager, Chambourcy/France- until 12 September 2016

During the financial year the remuneration of the Supervisory Board totalled EUR 95k.

The terms of the Supervisory Board members Dr. Platzer, Dr. von der Osten and Dr. Neermann end upon the conclusion of the shareholders' meeting which resolves upon the exoneration of the Supervisory Board for financial year 2016. The terms of the Supervisory Board members Mr Been and Ms Lohmann end upon the conclusion of the shareholders' meeting which resolves upon the exoneration of the Supervisory Board for financial year 2017.

Auditor's fees

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

	2016	2015
	EUR k	EUR k
Fees for the financial statement audit	69	52
--of which for the prior year--	19	0
Other confirmation services	0	79
Other services	16	0
Total	**85**	**131**

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

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

Compliance statement in accordance with Section 161 of the AktG

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

Halle (Saale), 6 March 2017

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

Probiodrug AG, Halle (Saale)

Schedule of fixed assets in financial year 2016

		Acquisition costs			
		1.1.2016	Additions	Disposals	31.12.2016
		EUR	EUR	EUR	EUR
I.	**Intangible assets**				
	Simlar rights acquired for consideration, licenses and software	**255,884.17**	**116,963.33**	**0.00**	**372,847.50**
II.	**Tangible assets**				
	1. Buildings on third party land	181,002.98	0.00	0.00	181,002.98
	2. Other equipment, operating and office equipment	578,627.31	7,394.30	4,471.83	581,549.78
		759,630.29	**7,394.30**	**4,471.83**	**762,552.76**
III.	**Long-term financial assets**				
	Participations	3,450.00	0.00	0.00	3,450.00
		1,018,964.46	**124,357.63**	**4,471.83**	**1,138,850.26**

	Accumulated amortisation / depreciation				Carrying values	
1.1.2016	Amortisation/ depreciation of the financial year	Disposals	31.12.2016	31.12.2016	31.12.2015
EUR	EUR	EUR	EUR	EUR	EUR
199,921.45	**77,010.26**	**0.00**	**276,931.71**	**95,915.79**	**55,962.72**
160,267.11	6,910.08	0.00	167,177.19	13,825.79	20,735.87
518,795.61	12,975.66	4,470.83	527,300.44	54,249.34	59,831.70
679,062.72	**19,885.74**	**4,470.83**	**694,477.63**	**68,075.13**	**80,567.57**
0.00	0.00	0.00	0.00	3,450.00	3,450.00
878,984.17	**96,896.00**	**4,470.83**	**971,409.34**	**167,440.92**	**139,980.29**

Probiodrug AG, Halle (Saale)

MANAGEMENT REPORT for financial year 2016

1. Company basics

Legal structure

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

Business activities

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

Located in Halle (Saale), Germany, Probiodrug was founded in 1997 by Prof. Dr. Hans-Ulrich Demuth and Dr. Konrad Glund and successfully developed a new therapeutic concept for the treatment of diabetes type 2 – the DP4 inhibitors or gliptins. Today, Probiodrug's goal is to become a leading company in the development of Alzheimer’s treatments and thereby to provide a better quality of life for patients with this disease.

Probiodrug is pursuing a therapeutic concept which addresses the disease initiation as well as progression. The development approaches are targeting pyroglutamate-Abeta (synonym: pGlu-Abeta, N3pG Abeta) as one therapeutic strategy to fight AD. pGlu-Abeta was described as a particularly toxic and variable aggregation form of Abeta, which is formed from the physiological Abeta by the activity of the enzyme Glutaminyl-Cyclase (QC). The Company is pursuing two treatment mechanisms with respect hereto: on the one hand, Probiodrug is focussing on the inhibition of the production of pGlu-Abeta by the inhibition of the enzyme, Glutaminyl-Cyclase („QC“). The Company’s most advanced program in this area, the development candi-

date PQ912, is in phase 2; another development candidate, PQ1565, is in preclinical development. The next development steps are being prepared and corresponding decisions will be made in conjunction with the analysis of the SAPHIR study. On the other hand, the Company is specifically developing pGlu-Abeta binding antibodies, which ultimately speed up their decomposition. This program is in preclinical development.

Research and development

As was the case in the past, in the financial year 2016 Probiodrug continued to focus its activities on the development of PQ912, an inhibitor of the enzyme QC for the treatment of Alzheimer's and other diseases. In addition, the specific pGlu-Abeta binding antibody, PBD-C06, was further supported with data sets with respect to efficacy and safety. The work on PQ1565, a further QC inhibitor, was also continued. The majority of the work in these areas is carried out by external service providers (contract research organisations as well as contract manufacturers) and cooperation partners in the areas pharma ancillary research, production development and production, preclinical and clinical testing as well as analytics.

Patent portfolio

In 2016 Probiodrug further strengthened its portfolio of patents. Important patent filings were granted in key markets. In total, at the end of 2016, 40 patent families and registrations were held (in the prior year: 41). The strategy of focussing the patent portfolio on development relevant and commercially promising areas was retained.

Important events in the current financial year

a) Capital increase completed

In October 2016, Probiodrug successfully completed its second capital increase as a listed company by means of an accelerated bookbuilding. As a result of this capital increase, 744,248 new shares were issued leading to gross proceeds of EUR 14.9 million.

b) Changes in the Supervisory Board

The terms of Supervisory Board members Dr. Johannes von der Osten, Dr. Erich Platzer, Dr. Jörg Neermann and Dr. Olivier Litzka expired in conjunction with the shareholders' meeting held on 19 May 2016, which resolved upon the exoneration of the members of the Supervisory Board for the year 2015. All of the aforenamed Supervisory Board members again stood for election and were re-elected for a term through the general meeting of the shareholders' which resolves upon the exoneration of the Supervisory Board for the year 2016. Supervisory Board members Charlotte Lohmann and Kees Been were elected by the 2015 general shareholders' meeting as Supervisory Board members with a term which concludes in conjunction with the shareholders' meeting which resolves upon the exoneration of the Supervisory Board for the year 2017. As such, they were not up for election. Supervisory Board member Dr. Olivier Litzka stepped down from his position in August 2016 with effect as of 12 September 2016.

c) Changes in the Executive Board

On 1 April 2016, Mark D. Booth was appointed as a member of the Executive Board. He left the Company on 15 August 2016 due to personal reasons.

2. Overview of business development

2.1. General conditions

2016 was a mixed year in terms of pharmaceutical research and development in the Alzheimer's area. The company Lilly published promising clinical data with respect to its anti pGlu-Abeta antibody LY 3002813. As this antibody binds directly to pGlu-Abeta which is also targeted by Probiodrug, this data provides further external support for the programs pursued by Probiodrug. The failure of a symptomatic therapy developed by Lundbeck/ Ozuka (Idalopirdine®; selective 5HT6 receptor antagonist) in clinical trial phase 3 did not directly affect the field of the so-called disease modifying therapies (disease-modifying agents), also pursued by Probiodrug. While the failure of the phase 3 study of the of anti abeta antibody Solanezumab, developed by Lilly was a setback for Lilly, this did not have a sustainably negative impact on the Alzheimer field. This was due to the fact that, while there was evidence of efficacy of Solanezumab in prior studies, this was classified as very moderate. This clinical picture was again

observed in the phase 3 failed in 2016, whereby the effects identified in the past were qualitatively confirmed, however the clinical endpoint was statistically missed.

In terms of the capital market there is an increasing interest in the indication Alzheimer. For example, the company AC Immune in the USA successfully completed an initial public offering. The company Allergan took over the biotechnology company Chase Pharmaceuticals, focussed on Alzheimer`s, which has a symptomatic treatment approach in phase 2.

From the perspective of the pharmaceutical industry, there continues to be an unchanged high level of interest in disease modifying treatment approaches in the Alzheimer's area. However, as a consequence of failures in the past with respect to the development of Alzheimer's therapeutics, high validation- and thereby risk optimising requirements are set as a prerequisite for a (lucrative) partnership.

2.2. Company development

In 2016 Probiodrug focussed on the following main areas:

- Further preclinical and clinical testing of the development candidate PQ912 in the area of QC inhibition, in particular completion of the long-term toxicology study as well as the execution of the first patient study 2016,

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

- Further progression of the therapeutic concept of the anti pGlu Abeta specific antibodies (PBD-C06) as well as of PQ1565, an additional QC inhibitor,

- Further increasing visibility and acceptance as a significant prerequisite for an industrial transaction.

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

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

Net assets

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

	31.12.2016	31.12.2015
	EUR k	EUR k
Assets		
Intangible assets	96	56
Tangible assets	68	81
Long-term financial assets	3	3
Fixed assets	**167**	**140**
Receivables and other assets	289	139
Cash and bank balances	21,783	21,361
Current assets	**22,072**	**21,501**
Prepaid expenses	127	225
Total assets	**22,366**	**21,866**
Equity and liabilities		
Equity	16,847	16,475
Provisions	3,942	3,726
Liabilities	1,577	1,665
Total equity and liabilities	**22,366**	**21,866**

As at 31 December 2016, the long-term assets increased by EUR 27k, due to capital expenditures of EUR 124k which exceeded the scheduled amortisation and depreciation of fixed assets totalling EUR 97k.

In 2016, current assets increased by EUR 571k from EUR 21,501k to EUR 22,072k. In the reporting period the receivables and other assets increased by EUR 149k and the cash and cash equivalents increased by EUR 422k.

As a result of the increase in capital in October 2016, cash receipts totalling EUR 14,885k were realised. As at the balance sheet date, bank balances totalled EUR 21,783k.

As at 31 December 2016, Probiodrug's equity amounted to EUR 16,847k (2015: EUR 16,475k). As at 31 December 2016, the equity ratio amounted to 75 %.

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

In the financial year, provisions increased by EUR 216k to EUR 3,942k. Of the total provisions, EUR 378k (2015: EUR 469k) comprise pension provisions, EUR 2,740k (2015: EUR 2,641k) comprise possible tax payments in arrears while EUR 824k (2015: EUR 616k) comprise other provisions. The decline in the pension provision is primarily attributable to the initial application of the average market interest rate of the previous ten financial years (in the prior year seven financial years) in the calculation of the settlement amount of the pension obligations.

As at 31 December 2016, the liabilities decreased slightly by EUR 88k in comparison to 31 December 2015 from EUR 1,665k to EUR 1,577k. Of the total liabilities, EUR 1,520k (2015: EUR 1,312k) comprise trade payables and EUR 57k (2015: EUR 353k) comprise other liabilities.

Financial position

In the reporting period the operating cash flow amounted to EUR -13,369k (2015: EUR -12,149k). The change in comparison with the prior year was primarily attributable to the increase in expenses for purchased services as well as an increase in personnel expenses.

In 2016 the cash flow from investing activities amounted to EUR -124k (2015: EUR -8k).

The cash flow from financing activities amounted to EUR 13,914k in financial year 2016 (2015: EUR 12,598k). This was attributable to proceeds from the increase in equity in October 2016 (EUR 14,885k) less the transaction costs associated with this (EUR -971k).

Overall, in the reporting period, cash and cash equivalents increased by EUR 422k.

Earnings position

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

	2016	**2015**
	EUR k	EUR k
Other operating income	94	318
Cost of materials	-7,880	-6,734
Personnel expenses	-2,469	-1,983
Amortisation and depreciation of intangible and tangible assets	-97	-56
Other operating expenses	-4,183	-4,997
Financial results	22	-135
Net loss	**-14,512**	**-13,586**

The Company's net loss amounted to EUR 14,512k (2014: EUR 13,586k). In the results after taxes which decreased in comparison with the prior year, there were the following significant changes in comparison with 2015:

- Increase in the cost of materials of EUR 1,146k, as a result of the further increase in expenses for purchased services within the scope of clinical study phase 2;
- Increase in personnel expenses of EUR 485k, due primarily to the cash compensation for stock options exercised amounting to EUR 400k and
- Reduction in other operating expenses in the amount of EUR 814k, due primarily to a reduction in consulting expenses and a decline in patent costs.

In the prior year, the Executive Board projected a net loss for 2016 in excess of the level of the previous year's net loss. This was the case with the actual net loss of EUR 14,512k.

Overall statement

At the time of preparation of this management report, the Company's economic position has not changed materially in comparison with the explanations provided above. The Executive Board is satisfied with the overall business development and considers it positive.

2.4. Non-financial performance indicators

Studies to be completed

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

Employees

As at 31 December 2016, including the three Executive Board members, Probiodrug had 14 (2015: 16) employees, of which 50% were female. In the reporting period, including three Executive Board members, there were an average of 15 employees (2015: 16). In 2016 Probiodrug incurred personnel expenses of EUR 2.47 million (2015: EUR 1.98 million). The increase in comparison with 2015 was mainly due to the cash settlement of the options exercised.

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

Intellectual property rights

A commercially attractive and, from a competitive position, stable patent portfolio is a decisive success factor for Probiodrug. The Company has a very experienced patent management which further developed the patent portfolio in 2016. In order to optimise the sustainable value drivers as well as optimizing costs and benefits, Probiodrug continuously reviews its patent portfolio.

As at 31 December 2016, 40 patent families were held (31 December 2015: 41). Overall, Probiodrug's patent position in the development relevant and future commercially attractive areas was further strengthened; patents in non-core respectively commercially not promising areas were abandoned.

3. Opportunities and risks report

3.1. Opportunities report

Further increasing interest in Alzheimer's

In 2016, after years of restraint, the interest in the Alzheimer's area by the pharmaceutical industry as well as that of investors further increased. Prospectively, this could lead to an increased frequency of transactions. Compared with this, the available number of new, scientifically and clinically broadly supported development programs is limited. Both strategically as well as in terms of substance, Probiodrug is well positioned in this regard. In case of success, this could provide commercially lucrative perspectives for the Company and its shareholders.

Important progress in projects being pursued

In 2016, Probiodrug successfully generated additional important preclinical data which, in the view of the Company, further supports the viability and the attractive safety profile of the therapeutic concept being pursued. In 2015, the first patient study with respect to PQ912 (SAPHIR) was initiated as planned. In 2016 it was further advanced. Based on the current schedule, the respective data should be available in Q2 2017. Further key patents were granted in important markets. The continuation of this development, i.e. the generation of additional positive data, above all with respect to the ongoing patient study with PQ912, should have a positive impact on the assessment of individual programs as well as on the Company's total value.

License revenues as a result of patents

Probiodrug's very comprehensive and well positioned product and patent portfolio could lead to licensing agreements. The Company would receive license fees for this thereby improving the Company's financial position, results of operations and net assets.

Passive takeover

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

3.2. Risk report

Probiodrug's risks

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

Sector specific risks

Market and competition

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

As such, Probiodrug is exposed to the risk that other development approaches will result in a superior efficacy and/ or safety profile and/or that they will achieve a development edge which could reduce Probiodrug's prospects with respect to the conclusion of a lucrative industrial collaboration as well as ultimately having a negative impact on the licensing of product candidates.

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

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

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

On the whole, this risk is a risk of high relevance for Probiodrug.

Product development (in general)

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

Typical risks include:
Individual product candidates may not be effective or sufficiently effective, may have unacceptable side effects or may not be formulated or manufactured so that they can be successfully further developed. Service providers and partners may become insolvent which could result in a delay in development and/or result in the relevant data becoming unusable. The responsible authorities may not grant the required regulatory approvals, they may only grant these with restrictions or after a delay.

At present, Probiodrug has a candidate in the clinical study phase (PQ912) as well as two candidates which are in earlier preclinical phases. On the basis of this product pipeline, risks, respectively the dependence on one individual active substance can, in principle, be reduced. However, due to the different development phases, a substantial portion of the Company's value results from PQ912. Currently available study results suggest that PQ912 can be safely applied and that it is well tolerable. However, Probiodrug cannot exclude that in the ongoing SAPHIR study, the results of which are expected to be available in Q2.2017, or in other studies, it may fail to demonstrate sufficient efficacy when used on patients and/or that side effects may occur which may be characterised as safety relevant. Such findings could lead to a delay in or the discontinuation of the development of an active ingredient. This could have a negative effect on Probiodrug‘s net assets, financial position or results of operations which could impact the exchange valuation as well as the refinancability of Probiodrug and thereby on the ability to raise additional funding. In addition, there is a risk that an observed efficacy is not sufficiently strong to conclude an industrial partnership and/or to acquire additional financing.

On the whole, this risk is a risk of high relevance for Probiodrug.

Administrative proceedings

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

On the whole, this risk is a risk of medium relevance for Probiodrug.

Risks arising from business activities

Development and licensing partnerships

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

To become profitable in the mid-term, Probiodrug will have to conclude a corresponding agreement with the pharmaceutical industry or with other biotechnology companies. Should it not be possible for Probiodrug to secure such a partner or if this is only possible at economically unfavourable terms, this could delay the development of the respective products and/or result in lower revenues thereby reducing the intrinsic value of the project.

On the whole, this risk is a risk of high relevance for Probiodrug.

Patents and trademark protection

Probiodrug protects its own developments with a comprehensive patent strategy. Nonetheless, the Company cannot guarantee that its patent protection is sufficient for its business activities. It cannot be precluded that third parties may file appeals against Probiodrug's patent registrations or that they challenge the effectiveness of the patents. It can also not be precluded that Probiodrug may become engaged in a patent dispute with third

parties e.g., when Probiodrug must defend against the unauthorised use of its patents by third parties. Furthermore, it cannot be precluded that Probiodrug's patents are, in part, dependent on the patents of third parties. Every legal verdict against Probiodrug's patents or potential claims of third parties can inhibit the further development of the program affected and potentially that of the Company. Regardless of the outcome, these types of proceedings are time and cost intensive and may tie up substantial Company resources. This could, in turn, have negative implications on the programs affected and potentially the Company. As per the Company's current knowledge, no objections have been raised against the patents or patent filings.

On the whole, this risk is a risk of high relevance for Probiodrug.

Risks associated with product development

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

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

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

On the whole, this risk is a risk of high relevance for Probiodrug.

Patient recruitment

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

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

On the whole, this risk is a risk of high relevance for Probiodrug.

Capital market risks

Additional financing

On the basis of the current cash and cash equivalents as well as current Company planning (not including a long term treatment in Alzheimer`s patients), the Company can provide for the continuity of operations until Q4/2018; should no tax payment be required as explained in “Financial Risks”, until the end of Q1/2019. However, Probiodrug has a need for substantial capital to achieve its mid- to long-term corporate and development goals. This will require the raising of capital or third party financing or the generation of inflows as a result of the granting of licenses or cooperations. It is not certain that Probiodrug will be able to obtain sufficient additional capital within the required timeframe, at economically favourable terms or that this can be realised at all as a prerequisite for the successful raising of capital is the successful development of the product pipeline. Should the Company not be able to obtain access to additional financing, this could inhibit, or even completely prevent, the continuity of the Company and could lead to Probiodrug’s liquidation or insolvency. Should the Company obtain additional capital by issuing new shares, this would lead to a dilution of the shareholding of the existing shareholders. Should the Company not

be able to obtain additional funding, Probiodrug may be inhibited in the further development of its projects and/or the development of one or a number of products could be discontinued and/or the speed of development could be reduced to the extent that this could have a negative effect on the competitive position as well as on the results of operations, financial position and net assets to the extent that this could lead to the Company's insolvency.

On the whole, this risk is a risk of high relevance for Probiodrug.

Financial risks

Investment of liquid funds

The Company only invests in investment grade assets with only a low level of liquidity or default risk.

Transactions with international service providers with whom contractual payment terms are denominated in a currency other than the euro, lead to a currency risk. After considering the current economic environment, Probiodrug has not engaged in any hedging activities.

On the whole, this risk is a risk of medium relevance for Probiodrug.

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

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

On the whole, this risk is a risk of medium relevance for Probiodrug.

Risk of tax payment in arrears

Following a tax audit in 2008, the tax authorities retroactively increased the taxable profits for 2004 by approximately EUR 10 million, resulting in a tax claim for corporate income tax, solidarity surcharge and trade tax of EUR 1.7 million plus interest of 0.5% per month since 1 April 2006. The potential tax liability amounts to a total of approx. EUR 2.7 million (including accrued interest). Probiodrug believes that the better arguments speak against the tax authorities' view and has contested the claims of the tax authorities. The matter is now pending with the competent tax court. Probiodrug has recognised a tax liability (including accrued interest) in its financial statements. Nevertheless, should Probiodrug eventually be required to make such tax payments, this would have a corresponding unfavourable effect on Probiodrug's liquidity and cash flow position and may negatively affect its business, outlook and financial condition. Such payment obligations could endanger Probiodrug's ability to continue as a going concern if Probiodrug does not succeed in obtaining additional funding by the second half of 2018.

On the whole, this risk is a risk of medium relevance for Probiodrug.

Recognition of tax loss carry forwards

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

On the whole, this risk is a risk of medium relevance for Probiodrug.

Administrative and other risks

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

On the whole, this risk is a risk of high relevance for Probiodrug.

Legal risks

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

On the whole this risk is a risk of high relevance for Probiodrug.

Other risks

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

On the whole, this risk is a risk of low relevance for Probiodrug.

Overall assessment of risk situation

Giving consideration to all of the afore mentioned risks, currently only a few factors have been identified which could, in the short-term, impair the development of Probiodrug. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2016 provide for the Company's financing beyond the upcoming twelve months. Management believes that based on positive clinical study re-

sults of PQ912 additional cash inflows can be generated at the latest in the second half of 2018. Alternatively, the focus would be set on the two other preclinical compounds.

4. Outlook

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

- Continuing the clinical development of PQ912 in particular generate initial patient study data in 2017 and start long-term treatment,
- Continuing the development of PBD-C06,
- Continuing the development of PQ 1565,
- Further scientific analysis of potential second indications for the use of QC inhibitors,
- Further increasing visibility and acceptance as an important prerequisite for obtaining additional capital as well as for an industrial transaction,
- Further strengthening Probiodrug's financial resources.

As a result of the continuing costs being incurred for development activities which are not yet off-set by any sales, the Company also projects a net loss for financial year 2017 which may be lower than that incurred in 2016.

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

The Company is well positioned in the development of new therapeutic concepts for the treatment of Alzheimer‘s. Via successful further program development, Probiodrug will lay the

groundwork for a mid-term option for a lucrative industrial partnership or an M&A transaction as well as the further generation of a substantial company value.

5. Probiodrug's risk management and internal control system

Risk management system

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

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

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

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

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

All projects are analysed in detail in regular project meetings and further steps are determined. These provide for close coordination of accompanying research and pharmaceutical development as well as with the Executive Board. Project meetings normally take place weekly. The participants in the project meetings include the responsible Executive Board member, the project manager as well as the employees and possibly advisors for the individual projects.

Risk management and internal control system in the financial reporting process

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

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

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

monitoring instruments, the Executive Board and controlling are in a position to adequately assess the situation and to identify, evaluate and address opportunities and risks.

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

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

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

As at 31 December 2016, Probiodrug AG's share capital amounted to EUR 8,186,735.00. It is divided into 8,186,735 ordinary bearer shares with a notional par value of EUR 1.00 per share. Each share provides one vote at the shareholders' meeting as well as dividend entitlements when distributions are resolved upon; there are no restrictions on voting rights. The share capital has been paid in in its entirety. No treasury shares are held.

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

In accordance with the resolution of the shareholders' meeting on 19 May 2016, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital until 30 September 2019 by up to EUR 3,721,243.00 through single or multiple issues of new bearer shares in exchange for cash and/or a contribution in kind, whereby subscription rights can be excluded (authorised capital 2014).

On 27 September 2016, the Executive Board, with the approval of the Supervisory Board, resolved to use a portion of the authorised capital totalling EUR 744,248.00 to increase the share capital in exchange for cash of EUR 744,248.00. 744,428 no par value ordinary bearer shares were issued at an issue price of EUR 1.00 (notional amount) per share.

As at 31 December 2016, the authorised capital amounts to EUR 2,976,995.00.

As at the balance sheet date, the conditional capital amounts to EUR 2,623,801.00 and consists of the following:

Conditional capital 2008/I

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

Conditional capital 2008/II

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

Conditional capital 2010/I

The Company's share capital was conditionally increased by up to EUR 85,901.00 by the issuance of up to 85,901 new shares (conditional capital 2010/I, Section 5 (6) of the Articles of Association). The conditional capital increase solely serves to redeem the stock option rights which were issued to members of the Executive Board and Company employees on the basis of the shareholders' meeting held on 18 May 2010 with amendments dated 20 September 2011, 30 December 2011, 31 October 2012 and 25 August 2015.

Conditional capital 2014/I

The Company's share capital was conditionally increased by up to EUR 509,650.00 by the issuance of up to 509,650 new shares (conditional capital 2014/I, Section 5 (7) of the Articles of Association). The conditional capital increase solely serves to redeem the option rights which were issued to members of the Executive Board and Company employees on the basis of the resolution of the shareholders' meeting held on 29 September 2014, 10 June 2015 and 19 May 2016.

Conditional Capital 2015

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

Authorisation to acquire treasury shares

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

6.2. Shareholding in Probiodrug AG

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

Shareholder	Legal seat	Voting rights in %
BB Biotech AG	Schaffhausen/ Switzerland	12.8
IBG Group	Magdeburg/ Germany	11.9
Edmond de Rothschild Investment Partners	Paris/ France	11.8

Restrictions with respect to the transfer of shares

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

6.3. Appointment and removal of members of the Executive Board

The appointment and removal of members of the Executive Board is regulated by Sections 84 and 85 of the AktG as well as in Section 6 of the Articles of Association in the version dated 06 October 2016. In accordance with Section 6 of the Articles of Association, the Executive Board consists of one or a number of members; moreover, the Supervisory Board determines the number of members of the Executive Board. The members of the Executive Board are

appointed for a maximum of five years. This also applies to the renewal of an appointment of an Executive Board member.

The contracts concluded on 1 December 2014 for Executive Board members Dr. Glund and Dr. Liebers have a term through 30 November 2017. The contract of Executive Board member Dr. Ingeborg Lues concluded on 1 November 2014 has a term through 31 October 2017.

6.4. Change to the Articles of Association

Changes to the Articles of Association are made in accordance with Sections 179 and 133 of the AktG. In accordance with section 20 of the Articles of Association, resolutions of the shareholders' meeting (including with respect to changes to the Articles of Association) only require the simple majority of the votes cast if the law does not specifically provide for something else and, with respect to the majority of capital, the simple majority of the share capital represented upon making the resolution. Furthermore, in accordance with the Articles of Association, the Supervisory Board is authorised to resolve upon changes to the Articles of Association which only modify the wording.

6.5. Other disclosures

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

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

The corporate governance statement in accordance with Section 289a of the HGB includes the corporate governance statement pursuant to the German Corporate Governance Code, a statement regarding the ratio of females, information on corporate governance practices and a description of the procedures of the Executive Board and the Supervisory Board.

Compliance statement of the Executive Board and the Supervisory Board pursuant to Section 161 of the AktG

Pursuant to the recommendations of the „Government Commission on the German Corporate Governance Code“ pursuant to Section 161 of the AktG:
Probiodrug AG‘s Executive Board and Supervisory Board declare that the recommendations of the „Government Commission on the German Corporate Governance Code“ published by the German Federal Ministry of Justice on 5 May 2015 have been complied with, with the following exceptions and that the recommendations of the „Government Commission on the German Corporate Governance Code“ published by the German Federal Ministry of Justice on 12 June 2015 have been complied with, with the following exceptions:
1. Section 3.8 of the Code – retained amount included in the D&O insurance for the Supervisory Board. The Company maintains D&O insurance covering all members of the Supervisory Board. No retained amount is stipulated. As the Supervisory Board members, for the most part, do not receive any remuneration, a retained amount would lead to an unreasonable result in financial terms for the Supervisory Board members

2. Section 4.2.3 (2) sentence 6 of the Code – cap amounts for remuneration and variable remuneration components. Phantom stocks, which can be exercised in conjunction with a public offering, were granted to the Executive Board members. No cap is provided for such phantom stocks. In addition, stock options were granted to the Executive Board members. No cap is provided in case they are exercised. In any other respect, cap amounts are provided in the contracts with Executive Board members with respect to compensation and variable components of compensation.
3. Section 4.2.3 (4) of the Code – limitation of payment to two years’ remuneration to an Executive Board member in case of premature termination. The current contracts with members of the Executive Board do not provide for a two year cap in payment in case of early termination. In connection with the transformation of the Company for the purpose of its listing, a primary aim was to provide for the cooperation of the Executive Board members.

4. Section 5.4.1 (2) of the Code – naming of precise objectives regarding the composition of the Supervisory Board. In terms of the future composition of the Supervisory Board, the Supervisory Board intends to have members with experience in pharmaceutical research, research with respect to Alzheimer’s disease and similar illnesses as well as experience with the public capital market. Considering the orientation of the Company, the members of the Supervisory Board should also have U.S. experience. As these requirements make it difficult to find a suffi-

cient number of qualified members for the Supervisory Board, the Supervisory Board did not set any fixed diversity quota.

5. Section 5.4.6 (1) sentence 2 of the Code – Taking the chair, the vice chair and the membership in committees into account for the remuneration of the Supervisory Board members. For those members of the Supervisory Board who were initially elected by the 2015 shareholders' meeting, the remuneration was fixed in accordance with number 5.4.6 (1) sentence 2 of the Codex. As the other members of the Supervisory Board do not receive any remuneration, they cannot receive higher remuneration in the capacity as chairperson or vice chairperson of the Supervisory Board or chairperson of committees.

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

The Supervisory Board and the Executive Board are confident that the legal time periods are sufficient for the careful preparation of the documents. Furthermore, for the time being, the Supervisory Board and Executive Board consider the statutory requirements as sufficient for timely information to the shareholders and the capital markets. However, the possibility of complying with the shorter deadlines of the Code is continuously reviewed.

Information with respect to the ratio of females

In terms of the number of female members of the Executive Board and Supervisory Board, Probiodrug's Supervisory Board resolved on 25 September 2015 that the Executive Board's ratio of females shall be one third and the Supervisory Board's ratio of females shall be one sixth. Those goals were achieved for both the Executive Board and the Supervisory Board as of 31 December 2016.

For the first and second management level below the Executive Board, Probiodrug's Executive Board established no target ratio of females because no such management levels exist in Probiodrug's organisational structure.

Information regarding corporate governance

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

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

Operating practices of the Executive Board and the Supervisory Board

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

In the Executive Board's internal rules of procedure, important transactions are subject to the approval of the Supervisory Board. In individual cases the Supervisory Board can make further Executive Board decisions subject to the approval of the Supervisory Board.

Executive Board

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

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

Supervisory Board

As at 31 December 2016, the Supervisory Board was comprised of five members. The work of the Supervisory Board, the principles of passing resolutions as well as the work of the committees is regulated by the rules of procedure of the Supervisory Board. Dr. Erich Platzer is the Chairperson. Vice Chairperson is Dr. Dinnies Johannes von der Osten. The additional members are Charlotte Lohmann, Dr. Jörg Neermann and Kees Been. In the reporting period, the Supervisory Board convened six times (20 January, 19 February, 13 May, 17 June, 11 July, 02 December). The current Supervisory Board members are, respectively were in the past, internationally active in the financial, biotechnology and pharmaceutical sectors and are, therefore, very familiar with the needs of these sectors.

To increase the Supervisory Board's efficiency, three committees were established: the audit committee, the nomination committee and the compensation committee. The audit committee comprises Dr. von der Osten, Ms. Lohmann and Dr. Neermann; Dr. von der Osten is the Chairperson. All members have the corresponding expertise and independence. The audit committee met three times in 2016. The primary discussion points in these meetings were the audit of the 2015 financial statements pursuant to HGB and IFRS, the 2016 six month financial statements, the 2017 budget as well as the Company's potential financing options. The nomination committee includes Dr. Platzer, Dr. Neermann and Mr. Been; Chairperson is Dr. Platzer. This committee did not meet in 2016. The compensation committee comprises Dr. Platzer, Ms.

Lohmann and Mr Been; Dr. Platzer serves as Chairperson. This committee met twice in 2016. The primary point of discussion was the variable remuneration of the Executive Board for 2015 as well as cash compensation in conjunction with Stock Option Program 2010.

These committees report their activities to the entire Supervisory Board.

Transparency

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

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

8. Compensation report

With respect to the compensation report we refer to Appendix 1.6 of the financial statements as at 31 December 2016.

Halle (Saale), 6 March 2017
Probiodrug AG's Executive Board

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

Compensation report for Probiodrug AG

1. Compensation for the Executive Board

Amount and structure

The annual compensation for the members of the Executive Board has three components:

- compensation independent of success (fixed compensation),
- a success based bonus and
- stock options.

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

Fixed compensation

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

Success based compensation

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

At the beginning of the following calendar year, the Supervisory Board reaches a conclusion as to the extent of the achievement of the objectives. The bonus is payable subsequent to the resolution of the Supervisory Board as to the achievement of the objectives. There is a cap for the maximum bonus amount at 45% of the gross salary.

Stock options

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

With respect to compliance with the Code's recommendations regarding management compensation, reference is made to section 7 of the management report „Corporate governance statement" subsection Compliance statement pursuant to Section 161 of the AktG.

Executive Board compensation for the year 2016

A detailed listing of the individual salaries of the members of the Executive Board is presented in the following table:

Benefits granted	**Dr. Konrad Glund**			
	CEO			
Reappointment	01 Dec 14			
EUR	**2015**	**2016 (actual)**	**2016 (minimum)**	**2016 (maximum)**
Fixed compensation	210,000	210,000	210,000	210,000
Fringe benefits	24,673	24,403	24,403	24,403
Total	***234,673***	***234,403***	***234,403***	***234,403***
Variable compensation for one year	60,000	94,500	0	94,500
Cash settlement subsequent to the exercising of options from SOP-Program 2010[1]	0	200,000		
Perennial variable compensation				
Total	**294,673**	**528,903**	**234,403**	**328,903**
Pension expense	73,558	61,578	61,578	61,578
Total compensation	**368,231**	**590,481**	**295,981**	**390,481**

Benefits granted	**Dr. Hendrik Liebers**			
	CFO			
Reappointment	01 Dec 14			
EUR	**2015**	**2016 (actual)**	**2016 (minimum)**	**2016 (maximum)**
Fixed compensation	210,000	210,000	210,000	210,000
Fringe benefits	21,931	21,931	21,931	21,931
Total	**231,931**	***231,931***	***231,931***	***231,931***
Variable compensation for one year	60,000	94,500	0	94,500
Cash settlement subsequent to the exercising of options from SOP-Program 2010[1]	0	200,000		
Perennial variable compensation				
Total	**291,931**	***526,431***	***231,931***	***326,431***
Pension expense	61,565	60,866	60,866	60,866
Total compensation	**353,496**	**587,297**	**292,797**	**387,297**

[1]On the basis of the authorisation of the general shareholders' meeting on 18 May 2010 and in consideration of the Company's best interests, the Supervisory Board resolved to settle a portion of the options from Stock Option Program 2010 held by Executive Board members Glund and Liebers in cash. This cash settlement was made subsequent to the conclusion of the capital increase in October 2016.

Benefits granted	Dr. Inge Lues			
	CDO			
Reappointment	01 Nov 14			
EUR	**2015**	**2016 (actual)**	**2016 (minimum)**	**2016 (maximum)**
Fixed compensation	210,000	210,000	210,000	210,000
Fringe benefits	3,818	3,884	3,884	3,884
Total	**213,818**	***213,884***	***213,884***	***213,884***
Variable compensation for one year	60,000	94,500	0	94,500
Cash settlement subsequent to waiver of Phantom Stock Program	430,138			
Perennial variable compensation				
Total	**703,956**	***308,384***	***213,884***	***308,384***
Pension expense	0			
Total compensation	**703,956**	**308,384**	**213,884**	**308,384**

Liability insurance (D&O)

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

Shareholdings of the members of the Executive Board

Based on information available to the Company, as at 31 December 2016, Probiodrug's Executive Board held a total of 340,033 stock options entitling them to the acquisition of 340,033 shares. In addition, they held approximately 2.2% of all of the Company's shares.

2. Supervisory Board compensation

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

Determination of Supervisory Board compensation

On the basis of the shareholders' meeting on 19 May 2016, the compensation system for the Supervisory Board established on 10 June 2015 was expanded.

Pursuant thereto, beginning in 2016, Supervisory Board member Dr. Erich Platzer is entitled to annual compensation of EUR 40,000.00 for the duration of his membership and Supervisory Board member Dr. Dinnies von der Osten is entitled to annual compensation of EUR 30,000.00.

The compensation entitlements of Supervisory Board members Dr. Platzer and Dr. von der Osten only arise if the Company carries out a capital increase for cash during their term; in this case, a claim to compensation arises proportionately from the day on which the capital increase is recorded in the Commercial Register. As a result of the increase in equity in 2016, there is an entitlement to payment of EUR 17k.

Shareholdings of members of the Supervisory Board

Based on the knowledge of Probiodrug AG, as at 31 December 2016, the members of Probiodrug AG's Supervisory Board held a total of approximately 2.1% of the Company's shares.

Halle (Saale), 6 March 2017

The Executive Board of Probiodrug AG

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

Responsibility statement

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

Halle (Saale), 6 March 2016
Management Board of Probiodrug AG

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

Auditor's Report

We have issued the following unqualified auditor's report:

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement, the statement of cash flows, the statement of shareholders' equity and the notes to the financial statements, together with the bookkeeping system, and the management report of Probiodrug AG, Halle (Saale), for the financial year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of Probiodrug AG in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements1, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Leipzig, 6 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Schneider
German Public Auditor

Kurth
German Public Auditor