Annual Financial Statements as at 31 December 2017 and Management Report

TRANSLATION – AUDITOR'S REPORT

Probiodrug AG
Halle (Saale)

KPMG AG Wirtschaftsprüfungsgesellschaft

Probiodrug AG, Halle (Saale)

Balance sheet as at 31 December 2017

Assets

	31.12.2017		31.12.2016	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible assets				
Similar rights acquired for consideration, licenses and software		11,486.90		95,915.79
II. Property, plant and equipment				
1. Buildings on third-party land	6,915.71		13,825.79	
2. Other equipment, operating and office equipment	47,705.75	54,621.46	54,249.34	68,075.13
III. Non-current financial assets				
Investments		3,450.00		3,450.00
		69,558.36		**167,440.92**
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	99,388.97		113,518.84	
2. Other assets	55,217.82	154,606.79	175,501.92	289,020.76
II. Cash and bank balances		10,191,254.50		21,782,923.94
		10,345,861.29		**22,071,944.70**
C. Prepaid expenses		**346,433.01**		**126,683.74**
		10,761,852.66		**22,366,069.36**

Equity and liabilities

		31.12.2017	31.12.2016
		EUR	EUR
A.	**Equity**		
	I. Share capital	8,208,009.00	8,186,735.00
	– Conditional capital: EUR 2,602,527.00 (in the prior year EUR 2,623,801.00) –		
	II. Capital reserves	49,118,738.55	49,012,368.55
	III. Revenue reserves		
	Legal reserves	227,625.00	227,625.00
	IV. Accumulated losses brought forward	-48,308,275.37	-40,579,589.68
		9,246,097.18	**16,847,138.87**
B.	**Provisions**		
	1. Pension provisions	848,593.00	377,942.00
	2. Tax provisions	0.00	2,739,650.75
	3. Other provisions	415,309.13	824,693.86
		1,263,902.13	**3,942,286.61**
C.	**Liabilities**		
	1. Trade payables	208,488.26	1,519,486.23
	2. Other liabilities	43,365.09	57,157.65
	– of which taxes EUR 38,851.28 (in the prior year EUR 42,593.67) –		
		251,853.35	**1,576,643.88**
		10,761,852.66	**22,366,069.36**

Probiodrug AG, Halle (Saale)

Income statement for the period from 1 January to 31 December 2017

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 137,559.68 (in the prior year EUR 152,450.30) –
4. Amortisation of intangible assets and depreciation of property, plant and equipment
5. Other operating expenses
6. Other interest and similar income
7. Interest and similar expenses
8. Income taxes
9. **Earnings after taxes**
10. **Net loss**
11. Loss carried forward
12. **Accumulated losses brought forward**

	2017		2016	
	EUR	EUR	EUR	EUR
		1,125,055.94		94,128.85
	-16,434.87		-38,433.59	
	-5,105,980.11	-5,122,414.98	-7,841,926.86	-7,880,360.45
	-1,647,217.16		-2,182,768.82	
	-256,789.06	-1,904,006.22	-285,837.21	-2,468,606.03
		-105,774.97		-96,896.00
		-2,837,162.75		-4,182,663.66
		27,882.50		133,373.70
		-14,586.95		-111,415.51
		1,102,321.74		0.00
		-7,728,685.69		**-14,512,439.10**
		-7,728,685.69		**-14,512,439.10**
		-40,579,589.68		-26,067,150.58
		-48,308,275.37		**-40,579,589.68**

Probiodrug AG, Halle (Saale)

Statement of cash flows for the period from 1 January to 31 December 2017

	1.1.2017 - 31.12.2017	1.1.2016 - 31.12.2016
	EUR	EUR
Net loss of the period	-7,728,686	-14,512,439
Transaction costs	0	971,215
Amortisation/depreciation of fixed assets	105,775	96,896
Profit/loss on the disposal of fixed assets	154	1
Interest income	-27,883	-133,374
Interest expense	14,587	111,416
Income tax income	-1,102,322	0
Interest income from the release of interest provision for taxes	-861,933	0
Other non-cash expenses	61,298	0
Increase in pension provisions	483,947	29,302
Decrease (in prior year increase) of other provisions	-409,385	208,990
Decrease (in prior year increase) of receivables and other assets	134,414	-150,569
Increase (in prior year decrease) of prepaid expenses	-219,749	98,608
Decrease (in prior year increase) of trade payables	-1,310,998	206,787
Decrease of other liabilities	-13,793	-295,470
Income tax payments	-775,396	0
Cash flow from operating activities	**-11,649,970**	**-13,368,638**
Disbursements for investments in property, plant and equipment	-6,997	-7,394
Disbursements for investments in intangible assets	-1,049	-116,963
Interest received	0	766
Cash flow from investing activities	**-8,046**	**-123,592**
Proceeds from the issuance of shares	127,644	14,884,960
Disbursements for transaction costs	0	-971,215
Cash flow from financing activities	**127,644**	**13,913,745**
Cash effective changes of cash and cash equivalents	**-11,530,371**	**421,516**
Effect of exchange rate fluctuation on cash held	**-61,298**	**0**
Cash and cash equivalents at the beginning of the financial year	**21,782,924**	**21,361,408**
Cash and cash equivalents at the end of the period	**10,191,255**	**21,782,924**

	EUR	EUR
Composition of cash and cash equivalents		
Cash-on-hand	1	221
Bank balances	10,191,254	21,782,703
	10,191,255	**21,782,924**

Probiodrug AG, Halle (Saale)

Statement of shareholders' equity as at 31 December 2017

	Subscribed capital Ordinary shares	Capital reserves	Legal reserves	Accumulated loss	Equity
	EUR	EUR	EUR	EUR	EUR
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 a cash contribution	744,248	14,140,712			14,884,960
Net loss of the period				-14,512,439	-14,512,439
Balance as at 31.12.2016	**8,186,735**	**49,012,369**	**227,625**	**-40,579,590**	**16,847,139**
Balance as at 01.01.2017	**8,186,735**	**49,012,369**	**227,625**	**-40,579,590**	**16,847,139**
Capital increase as a result of the exercise of stock options	21,274	106,370			127,644
Net loss of the period				-7,728,686	-7,728,686
Balance as at 31.12.2017	**8,208,009**	**49,118,739**	**227,625**	**-48,308,275**	**9,246,097**

Probiodrug AG, Halle (Saale)

NOTES to the annual financial statements for the financial year from 1 January to 31 December 2017

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.

With respect to the assessment regarding continuity as a going concern Probiodrug, as a biopharmaceutical company in the Alzheimer area, is dependent on research and development programs. The pharmaceutical development process is characterised by long development cycles as well as high investment requirements for preclinical and clinical research and development up to the time of commercial readiness of a product. Until this time, Probiodrug continuously needs external funding for research and development activities. In financial year 2017 incurred a net loss of EUR 7,729k and accumulated losses brought forward totalling EUR 48,308k. The Company expects further operating losses to be incurred in the foreseeable future due, above all, to the ongoing research activities, the development of pharmaceutical products and the development of the organisation. As per the Company planning the Company expects the financing to be sufficient at least until the end of the first quarter of 2019. The current projections do not give consideration to investments for clinical and preclinical studies however expected preparatory costs are considered. Additional funding is required to continue the studies. Additional equity or external financing or the generation of proceeds from licenses or cooperations will be required for this purpose.
Furthermore, we refer to our explanations in the opportunities and risks report included in the management report in section 3.2.

II. Accounting policies and measurement methods

Fixed assets

Property, plant and equipment 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 2017 as well as in the three 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 [Einkommensteuergesetz] (EStG) over a period of five years. In total, the cumulative items are of minor importance.

Investments 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 are, in principle, measured at their nominal values.

The valuation of accounts denominated in a foreign currency is 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 were 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 determined as the average market interest rate of the previous ten business years as published by the Deutsche Bundesbank [(German) Federal Reserve] and an assumed remaining term of 15 years. 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 2017 and that based on the average market interest rate of the previous seven financial years as at 31 December 2017 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

The Company again elected the total cost method of presentation pursuant to Section 275 (2) of the HGB.

III. Explanations on the balance sheet

Fixed assets

The development of fixed assets as well as disclosures with respect to 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. Probiodrug AG has a subsidiary, Probiodrug Inc., USA. All operating activities and assets are concentrated in Probiodrug AG; Probiodrug Inc. does not currently have any operating activities nor does it hold any operating assets.

Receivables and other assets

Without exception, the receivables and other assets have a remaining term of up to one year. The other assets primarily consist of receivables from the fiscal authorities (EUR 45k; in the prior year EUR 121k) as well as other receivables (EUR 8k; in the prior year EUR 55k).

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 results 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 in accordance with Section 274 (1) sentence 2 of the HGB whereby a debit balance may be recorded. As such, deferred taxes are not presented on the balance sheet. The debit and credit deferred tax balances calculated result from tax losses carried forward and different values calculated for the pension provision.

Share capital

As at 31 December 2017, the subscribed capital amounted to EUR 8,208,009.00 (in the prior year EUR 8,186,735.00). It is broken down into 8,208,009 (in the prior year 8,186,735) registered ordinary shares with no par value (no-par value shares with a calculated nominal value per share of EUR 1.00).

The subscribed capital increased by EUR 21,274.00 as a result of 21,274 stock options having been exercised in 2017.

Authorisation to acquire treasury shares

On 10 June 2015, the annual shareholders' meeting authorised the Executive Board, pursuant to 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 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 2017.

Conditional capital

As at 31 December 2017, the total conditional capital amounted to EUR 2,602,527.00 (in the prior year EUR 2,623,801.00). Of this amount, EUR 481,748.00 (in the prior year EUR 491,022.00) is reserved as a result of the issuance of options.

The conditional capital is to redeem option and/or conversion rights (or for the satisfaction of corresponding conversion or option requirements) of 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 2017 the conditional capital decreased by EUR 21,274.00 as a result of stock options having been exercised by a former Probiodrug AG employee.

Stock options

By virtue of a resolution of the annual 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 annual shareholders' meeting resolved to extend the exercise periods for option programs 2007 and 2010. The exercise period for Stock Option Program 2007 was extended to eleven years for those options which have not yet expired. The exercise period for Stock Option Program 2010 was extended to nine years for those options which have not yet expired. Other than this, the option programs continue unchanged.

In 2017, 12,000 options from Stock Option Program 2014 were issued to a new employee and 21,274 options from Stock Option Program 2010 were exercised.

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 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. Alternatively, 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 as defined by 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 authorised to guarantee the bonds on behalf of the Company and to grant or to impose option rights/obligations or conversion rights/obligations on the bearer.

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 respectively 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 2017

In a resolution dated 13 June 2017, the annual shareholders' meeting resolved to establish the authorised capital 2017 and to revoke the Authorised Capital 2014.

The Executive Board, with the approval of the Supervisory Board, is authorised to increase the Company's share capital in the period through 12 June 2022 on one or more occasions in consideration for cash or a contribution in kind by up to EUR 4,093,367.00 by issuing a total of up to 4,093,367 new, no par value bearer shares (Authorised Capital 2017). Pre-emptive rights are prohibited. The Executive Board is authorised, with the consent of the Supervisory Board to determine the other specific details of the increase in capital, its implementation and the conditions for the issuance of shares from the Authorised Capital 2017.

Voting rights notification

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

JPMorgan Asset Management (Europe) S.à.r.l. Senningerberg, Luxembourg, informed our Company pursuant to Section 21 (1) of the WpHG old version [(German) Securities Trading Act] on 3 October 2017, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 on 29 September 2017 fell below the threshold of 5 % of the voting rights and that its voting rights proportion amounted to 4.93 % (403,264 voting rights) on that date. The afore mentioned voting rights pursuant to Section 22 of the WpHG old version, are held via the following company, whose holdings of voting rights in Probiodrug AG amount to 3 % or more: JPMorgan Funds SICAV.

JPMorgan Funds SICAV, Senningerberg, Luxembourg, informed our Company pursuant to Section 21 (1) of the WpHG old version on 3 October 2017, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 on 29 September 2017 fell below the threshold of 5 % of the voting rights and that its voting rights proportion amounted to 4.93 % (403,264 voting rights) on that date.

JPMorgan Asset Management (UK) Limited, London, Great Britain, informed our Company pursuant to Section 21 (1) of the WpHG old version on 3 October 2017, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 on 29 September 2017 fell below the threshold of 5 % of the voting rights and

that its voting rights proportion amounted to 4.93 % (403,264 voting rights) on that date. The afore mentioned voting rights pursuant to Section 22 of the WpHG old version, are held via the following company, whose holdings of voting rights in Probiodrug AG amount to 3 % or more: JPMorgan Funds SICAV.

JPMorgan Asset Management (Europe) S.à.r.l. Senningerberg, Luxembourg, informed our Company pursuant to Section 21 (1) of the WpHG old version on 3 February 2017 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 on 7 March 2016 exceeded the threshold of 5 % of the voting rights and that its voting rights proportion amounted to 5.15 % (383,181 voting rights) on that date. The afore mentioned voting rights pursuant to Section 22 of the WpHG old version, are held via the following company, whose holdings of voting rights in Probiodrug AG amount to 3 % or more: JPMorgan Funds SICAV.

JPMorgan Funds SICAV, Senningerberg, Luxembourg, informed our Company pursuant to Section 21 (1) of the WpHG old version on 3 February 2017 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 on 7 March 2016 exceeded the threshold of 5 % of the voting rights and that its voting rights proportion amounted to 5.15 % (383,181 voting rights) on that date.

JPMorgan Asset Management (UK) Limited, London, Great Britain, informed our Company pursuant to Section 21 (1) of the WpHG old version on 3 February 2017 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 on 7 March 2016 exceeded the threshold of 5 % of the voting rights and that its voting rights proportion amounted to 5.15 % (383,181 voting rights) on that date. The afore mentioned voting rights pursuant to Section 22 of the WpHG old version, are held via the following company, whose holdings of voting rights in Probiodrug AG amount to 3 % or more: JPMorgan Funds SICAV.

Capital reserves

As at 31 December 2017, the capital reserves amounted to EUR 49,118,738.55 (in the prior year EUR 49,012,368.55).

In conjunction with the exercising of stock options in the financial year, cash payments totalling EUR 106,370.00 were made into the capital reserves pursuant to 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 2017, the accumulated losses totalled EUR 48,308,275.37. They developed as follows during the financial year:

	EUR
Accumulated losses as at 31 December 2016	40,579,589.68
Net loss in financial year 2017	7,728,685.69
Accumulated losses as at 31 December 2017	48,308,275.37

Tax provisions

Subsequent to a tax audit in 2008, the fiscal authorities retroactively increased taxable earnings for the year 2004 by approximately EUR 10 million.

The risk of a potential tax payment in arrears along with accumulated interest thereon totalling EUR 2.7 million was provided for through the end of 2016.

In the reporting period, the Company reached a settlement with the responsible authorities in Saxony Anhalt with respect to corporate and trade tax claims including the accrued interest thereon.

On the basis of this settlement, tax claims including accrued interest thereon totalling EUR 775k existed and were paid in their entirety in financial year 2017. The tax provision not utilised including the interest of EUR 1,964k was released to profit and loss within the line income taxes(EUR 1,102k) as well as in other operating income (EUR 862k).

Pension provisions

The calculation of the pension provision was carried out using a discount rate of 3.71% (in the prior year 4.01%). A further parameter applied in the calculation was a pension progression rate of 1.0% (in the prior year 1.0%).

During the financial year, personnel expenses in conjunction with the pension obligations amounting to EUR 77k (in the prior year EUR 92k) and current interest expense of EUR 15k (in the prior year EUR 13k) were recorded. Interest expense includes income on the assets used to fund the obligation in the amount of EUR 28k (in the prior year EUR 32k) which is presented as a net amount.
The current fair value of the covering assets corresponds with the fair value of the pledged life insurance. Due to the expiration of pension reinsurance, the fair value declined substantially and amounted to EUR 447k (in the prior year EUR 794k) as at 31 December 2017.

Pursuant to Section 246 (2) of the HGB, this was netted with the settlement amount of the pension provision totalling EUR 1,296k (in the prior year EUR 1,172k). The pension provision recorded amounts to EUR 849k (in the prior year EUR 378k).

As at 31 December 2017, as was the case in the prior year, the settlement amount of the pension obligations was determined on the basis of the average market interest rates of the prior ten financial years.

Pursuant to Section 253 (6) of the HGB, the difference between recognised provisions on the basis of the average market interest rates of the previous ten financial years and the provisions recognised on the basis of the average market interest rates of the previous seven financial years is to be calculated every financial year and is to be presented.

As at 31 December 2017 the following difference resulted:

Settlement amount based on 10-year average rate (actuarial interest rate 3.71 %)	1,295,934
Settlement amount based on 7-year average rate (actuarial interest rate 2.84 %)	1,433,693
Difference pursuant to Section 253 (6) of the HGB	- 137,759

Other provisions

The other provisions include provisions for outstanding invoices (EUR 83k; in the prior year EUR 405k), other personnel related provisions (EUR 215k; in the prior year EUR 313k), provisions for the preparation of the financial statements and audit (EUR 52k; in the prior year EUR 53k) as well as provisions for the Company's other business activities (EUR 65k; in the prior year EUR 53k).

Liabilities

As was the case in the prior year, the trade payables of EUR 208k (in the prior year EUR 1,519k) as well as the other liabilities of EUR 43k (in the prior year EUR 57k) all have a remaining term of up to one year.

IV. Explanations on the income statement

Other operating income

The other operating income during the financial year included:

	2017 EUR k	2016 EUR k
Income attributable to other periods	0	44
Income from exchange rate differences	4	33
Income from the release of provisions	1,121	17

Of the income from the release of provisions EUR 862k (in the prior year EUR 0k) resulted from the release of interest provisions in conjunction with the settlement with respect to corporate income tax and municipal trade tax including accumulated interest thereon going back to the year 2004 (refer also to „Tax provisions“).

Cost of materials

The cost of materials includes expenses attributable to other periods of EUR 279k (in the prior year EUR 100k).

Other operating expenses

The other operating expenses include expenses attributable to other periods of EUR 7k (in the prior year EUR 6k) as well as expenses from exchange rate differences of EUR 78k (in the prior year EUR 6k).

Taxes on income

The taxes on income include amounts attributable to other periods from the release of tax provisions totalling EUR 1,102k (in the prior period EUR 0k).

V. 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 48,308,275.37. 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	2017	2016
Executive Board members	3	3
Employees	11	11

Other financial commitments

As at 31 December 2017, the other financial commitments amounted to EUR 661k and primarily consisted of purchased research and development services as well as service, leasing and rental obligations. EUR 580k 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

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 [(German) Civil Code].

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 2017, the overall remuneration of the Executive Board amounted to EUR 1,002k (in the prior year EUR 1,392k).

Disclosure as to total remuneration of former Executive Board members

Former members of the Executive Board received compensation of EUR 23k (in the prior year EUR 44k) in the form of additions to the pension provision. The pension provision amounts to EUR 146k (in the prior year EUR 167k).

Supervisory Board

The following were appointed as members of the Supervisory Board:

- Dr. Erich Platzer, 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 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*
  - *Owner and Member of the Board, Platzer Invest AG, Basel, Switzerland*

- Dr. Dinnies von der Osten, Managing Director, Berlin- Deputy Chairperson
  - *Member of the Supervisory Board of Market Logic Software AG, Berlin*
  - *Member of the Supervisory Board of Alea Energy Solutions AG, Berlin*
- Dr. Jörg Neermann, Investment manager, Munich
  - *Member of the Advisory Board, Ventaleon GmbH, Gmünden*
  - *Member of the Board of Directors, Eyesense AG, Basel, Switzerland*
  - *Member of the Board of Directors, Kuros Bioscienes AG, Zurich, Switzerland until May 2017*
  - *Chairperson of the Supervisory Board, Immunic AG, Martinsried*
  - *Member of the Board of Directors, ViCentra B.V., Utrecht, the Netherlands*

- Charlotte Lohmann, Attorney, Munich
  -General Counsel Morphosys AG, Planegg

- Kees Been, Chief Executive Officer (CEO), Weston, Massachusetts, USA
  until 20 November 2017

During the financial year, the remuneration of the Supervisory Board totalled EUR 137k.

The terms of the Supervisory Board members end upon the conclusion of the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for financial year 2017.

Auditor's fees

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

	2017	2016
	EUR k	EUR k
Fees for the financial statement audit	49	69
--thereof for the prior year--	0	19
Other services	0	16
Total	**49**	**85**

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 site.

Halle (Saale), 9 February 2018

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

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Probiodrug AG, Halle (Saale)

Schedule of fixed assets
in financial year 2017

	Acquisition costs			
	1.1.2017	Additions	Disposals	31.12.2017
	EUR	EUR	EUR	EUR
I. Intangible assets				
Simlar rights acquired for considerations, licenses and software	**372,847.50**	**1,049.00**	**697.00**	**373,199.50**
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	581,549.78	6,997.29	26,224.12	562,322.95
	762,552.76	**6,997.29**	**26,224.12**	**743,325.93**
III. Long-term financial assets				
Invenstments	**3,450.00**	**0.00**	**0.00**	**3,450.00**
	1,138,850.26	**8,046.29**	**26,921.12**	**1,119,975.43**

	Accumulated amortisation / depreciation				Carrying values	
	1.1.2017	Amortisation/ depreciation of the financial year	Disposals	31.12.2017	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR	EUR	EUR
	276,931.71	**85,338.51**	**557.62**	**361,712.60**	**11,486.90**	**95,915.79**
	167,177.19	6,910.08	0.00	174,087.27	6,915.71	13,825.79
	527,300.44	13,526.38	26,209.62	514,617.20	47,705.75	54,249.34
	694,477.63	**20,436.46**	**26,209.62**	**688,704.47**	**54,621.46**	**68,075.13**
	0.00	**0.00**	**0.00**	**0.00**	**3,450.00**	**3,450.00**
	971,409.34	**105,774.97**	**26,767.24**	**1,050,417.07**	**69,558.36**	**167,440.92**

Probiodrug AG, Halle (Saale)

MANAGEMENT REPORT for financial year 2017

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 operating 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, in prior years, 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 approach which addresses disease initiation as well as progression. The development approaches are targeting pyrogluamate-Abeta (synonym: pGlu-Abeta, N3pG Abeta, N11pG Abeta) as one therapeutic strategy to fight AD. pGlu-Abeta was described as a particularly toxic and variable aggregation-prone form of Abeta, which is formed from the physiological Abeta by the activity of the enzyme Glutaminylcyclase (QC). The Company is pursuing two treatment mechanisms with respect hereto: on the one hand, Probiodrug is focussing on the prevention of the production of pGlu-Abeta by the inhibition of the enzyme, Glutaminylcyclase („QC“).The Company’s most advanced program in this area,

the development candidate PQ912, successfully completed a clinical study in Phase 2a in 2017; a further development candidate, PQ1565, is in preclinical development. The next development steps within the scope of clinical study phase 2b are being prepared. On the other hand, the Company is specifically developing pGlu-Abeta binding antibodies, which ultimately speed up their degradation. This program (PBD-C06) is in preclinical development.

Research and development

As was the case in the past, in financial year 2017, 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 progressed. The primary work in these areas is carried out by external service providers (contract research organisations as well as contract manufacturers) and cooperation partners in the areas pharma ancillary research, production development and production, preclinical and clinical trials as well as analytics.

Patent portfolio

In 2017 Probiodrug further strengthened its patent portfolio. Important patent registrations were granted in key markets. In total, at the end of 2017, 42 patent families and registrations were held (in the prior year: 40). The strategy of focussing the patent portfolio on development relevant and commercially promising areas was continued unchanged in 2017.

Important events in the current financial year

a) Completion of clinical study 2a, the so called SAPHIR - study

In June 2017 Probiodrug released the top line results of the Phase 2a SAPHIR Study of PQ912 available. In November 2017 the results were presented at the World Congress for clinical studies in Alzheimer's, the CTAD 2017 (Clinical Trials on Alzheimer's Disease).

A high dosage of PQ912 was used in the SAPHIR study (which demonstrated a 90% occupancy of the QC enzyme in CSF (cerebro-spinal fluid) in a phase 1 study), to investigate the following:

1. Early-on tolerability signs and
2. first signals on various sensitive secondary exploratory outcome measures in a relatively short time frame.

In the first weeks of the treatment phase, tolerance signs with respect to the skin and the gastrointestinal tract were observed in terms of the primary endpoints safety and tolerability of PQ912. As the high dosage used almost completely inhibits the enzyme, Probiodrug is optimistic that with lower dosages, which still demonstrate a high QC inhibition, along with a slower titration scheme, the drug will be safe and well tolerated in AD patients.

In terms of the secondary exploratory endpoints, PQ912 demonstrated a very strong target engagement (QC inhibition), confirming the finding in Phase-1 in elderly healthy volunteers of more than 90%, significant improvements of one test of working memory (one back test) and a clear trend in detection test (attention domain). At the functional level a very significant positive effect was found on the EEG theta power. Regarding exploratory biomarkers in the spinal fluid, encouraging results on synaptic and inflammatory CSF markers were obtained. In summary, the positive effects on secondary exploratory efficacy markers are strongly supporting (a) the hypothesis of pGlu-Abeta being synaptotoxic and (b) the therapeutic concept pursued by Probiodrug.

The study revealed a positive benefit-risk balance of PQ912 and provides important guidance how to move forward in the development pf PQ912 as a disease-modifying drug for AD. Altogether, the results make the program highly attractive for further development.

b) 2017 annual shareholders' meeting

The Company's annual shareholders' meeting took place on 13 June 2017. The following items were presented for resolution:

- exoneration of the Executive Board members for financial year 2016
- exoneration of the Supervisory Board members for financial year 2016
- election of the legally required financial statement auditor for financial year 2017
- election of Supervisory Board
- creation of the Authorised Capital 2017 while cancelling the Authorised Capital 2014 as well as the corresponding amendments to the Articles of Association
- specification of the number of Supervisory Board members as well as the corresponding amendment to the Articles of Association.

All of the resolutions proposed by the Executive Board and Supervisory Board were approved by a large majority.

c) Settlement of the potential tax liability from the year 2004

In the reporting period, the Company was able to reach a settlement with the responsible authorities in Saxony Anhalt with respect to corporate and trade tax claims in arrears for the assessment period 2004.

Following a tax audit in 2008, the tax authorities retroactively increased the taxable profits for 2004 by approximately EUR 10 million, leading to a liability for taxes potentially due in arrears including interest thereon of EUR 2.7 million at the end of 2016.

Probiodrug contested the claims of the tax authorities. The matter was pending with the competent tax court. At the same time, Probiodrug sought a resolution with the responsible tax authorities in Saxony Anhalt. This was finally achieved in the first half of 2017. Pursuant to this settlement, Probiodrug paid a total (taxes including interest accumulated thereon) of EUR 775k. The tax provision not required totalling EUR 1,964k was released to earnings.

d) Changes in the Supervisory Board

The terms of the Supervisory Board members Dr. Johannes von der Osten, Dr. Erich Platzer and Dr. Jörg Neermann ended in conjunction with the conclusion of the annual shareholders' meeting on 13 June 2017, which resolved upon the exoneration of the Supervisory Board for the year 2016. All of the afore mentioned Supervisory Board members again stood as candidates and were re-elected for a term through the end of the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for the year 2017. Supervisory Board members Ms Charlotte Lohmann and Mr Kees Been were elected by the annual shareholders' meeting in 2015 for a term through the end of the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for 2017 and were, therefore, not up for election. The Supervisory Board member Mr Kees Been left the Supervisory Board in November 2017 due to personal reasons.

2. Overview of business development

2.1. General conditions

As was the case in 2016, 2017 was a mixed year in terms of pharmaceutical research and development in the Alzheimer's area making the challenges in this difficult area of therapy clear. At the beginning of the year, the american company Merck disclosed that its BACE-Inhibitor Verubecestat® proved to be ineffective in a clinical phase 3 study. Similarly, at the beginning of 2018, the company Pfizer disclosed that it would discontinue its research and development activities with respect to the Alzheimer's indication. In contrast, Biogen presented further positive clinical data with respect to its anti-Abeta antibody Aducanumab®. As this antibody, among others, binds the abeta oligomers targeted also by Probiodrug, these data provides an important external validation of the approach pursued by Probiodrug. The data from the SAPHIR study with PQ912 presented by Probiodrug clearly supports the therapeutic principle pursued targeting oligomere by reducing pGlu-Abeta. This has, however, not yet translated into a general impulse for the specific therapy approach being pursued and/ or for the Alzheimer's field in general. Even though the failure of the symptomatic therapy (Intepirdine®; selective 5HT6 receptor antagonist) developed by the company Axovant in phase 3 clinical study did not directly touch on the area of the so called disease modifying therapies (disease-modifying agents) pursued by Probiodrug, it had a negative impact on the general sentiment in the Alzheimer's area. At the end of 2017 Eisai disclosed that the anti-abeta antibody BAN2401 did not meet the success criteria after a 12 month treatment period and that the ongoing phase 2 study will continue through the conclusion of an 18 month treatment period. This antibody is part of the Alzheimer's collaboration between Biogen and Eisai and was originally in-licensed by the company Bioarctic.

In terms of the capital market, there continues to be interest in the indication Alzheimer's. As such, the company Bioarctic in Sweden successfully completed an initial public offering. Bioarctic's main asset is the previously mentioned antibody BAN 2401. From the perspective of the pharmaceutical industry, there continues to be a high level of interest in disease affecting treatment approaches in the Alzheimer's area. As a consequence of numerous failures in the past with respect to the development of Alzheimer's therapeutics, high validation and thereby risk optimising requirements are a prerequisite for a (lucrative) partnership. Correspondingly, investors are also more prominently requiring the conclusion of development partnerships as a validation and risk diversification instrument.

2.2. Company development

In 2017 Probiodrug focussed on the following areas:

- conclusion of the initial patient study with PQ912, the so called SAPHIR study,
- preparation of the next development steps with PQ912,
- Further progression of the therapeutic concept of the anti pGlu Abeta specific antibodies (PBD-CO6),
- Further increasing visibility and acceptance as a significant prerequisite for an industrial transaction.

Probiodrug is satisfied with the results in these areas and considers them to be viable for a successful future development.

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:

	31.12.2017	**31.12.2016**
	EUR k	EUR k R
Assets		
Intangible assets	12	96
Property, plant and equipment	55	68
Non-current financial assets	3	3
Fixed assets	**70**	**167**
Receivables and other assets	155	289
Cash and bank balances	10,191	21,783
Current assets	**10,346**	**22,072**
Prepaid expenses	346	127
Total assets	**10,762**	**22,366**
Equity and liabilities		
Equity	9,246	16,847
Provisions	1,264	3,942
Liabilities	252	1,577
Total equity and liabilities	**10,762**	**22,366**

As at 31 December 2017, the non-current assets declined by EUR 97k, due to capital expenditures of EUR 8k off-set by scheduled amortisation and depreciation of fixed assets totalling EUR 106k.

In 2017, current assets declined by EUR 11,726k from EUR 22,072k to EUR 10,346k. In the reporting period the receivables and other assets hereby declined by EUR 134k while cash and cash equivalents declined by EUR 11,592k.

As at the balance sheet date, the bank balances totalled EUR 10,191k. A further EUR 99k are held by Probiodrug Inc.

As at 31 December 2017, Probiodrug's equity totalled EUR 9,246k (2016: EUR 16,847k). The equity ratio as at 31 December 2017 was 85.9 %.

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

In the financial year, provisions declined by EUR 2,678k to EUR 1,264k. This decrease was primarily attributable to the use (EUR 775k) and release (EUR 1,964k) of tax provisions as well as a EUR 409k reduction in other provisions and an increase of EUR 471k in pension provisions. As at 31 December 2017, EUR 849k (2016: EUR 378k) of the provisions comprise pension provisions and EUR 415k (2016: EUR 824k) are other provisions.

The increase in the pension provisions results from the net presentation in the past (netting of the fair value of the covering assets of the reinsurance with the settlement amount of the pension entitlements as per the actuarial report). Subsequent to the contractual end of the reinsurance in November 2017 and the payment of the fair value of the covering assets to Probiodrug, the netting for these beneficiaries is no longer possible and a gross presentation is made (both the amount disbursed (included in cash) as well as the settlement amount).

The decline in the other provisions is primarily attributable to the lower provision for outstanding invoices as at 31 December 2017.

As at 31 December 2017, the liabilities were also substantially lower than as at 31 December 2016 declining by EUR 1,325k from EUR 1,577k to EUR 252k. Of this amount, EUR 209k

(2016: EUR 1,520k) was attributable to trade payables and EUR 43k (2016: EUR 57k) was attributable to other liabilities.

Financial position

In the reporting period the operating cash flow amounted to EUR -11,650k (2016: EUR -13,369k). The change in comparison with the prior year was primarily attributable to the decrease in expenses for purchased services, personnel expenses and patent costs. This was off-set by the tax payments as well as the substantial reduction in the trade payables.

In 2017 the cash flow from investing activities amounted to EUR -8k (2016: EUR -124k).

The cash flow from financing activities amounted to EUR 128k in financial year 2017 (2016: EUR 13,914k). This was attributable to proceeds in conjunction with the exercising of option rights.

Earnings position

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

	2017	**2016**
	EUR k	EUR k
Other operating income	1,125	94
Cost of materials	-5,122	-7,880
Personnel expenses	-1,904	-2,469
Amortisation and depreciation of intangible assets and property, plant and equipment	-106	-97
Other operating expenses	-2,837	-4,183
Financial results	13	22
Taxes on income	1,102	0
Net loss	**-7,729**	**-14,512**

The Company's net loss for the year amounted to EUR 7,729k (2016: EUR 14,512k). In the results after taxes, which were lower than in the prior year, there were the following substantial changes in comparison with 2016:

- EUR 2,758k decrease in the cost of materials due to the conclusion of clinical study phase 2 in the middle of 2017;

- EUR 565k reduction in personnel expenses due primarily to the cash settlement of stock options exercised in 2016 as well as lower bonus provisions in 2017;
- ÉUR 1,346k reduction of other operating expenses due primarily to the non-incurrence of transaction costs as no further increase in capital took place in 2017 along with the further decline in patent costs.

The internal and external research and development expenses totalled EUR 7,460k (2016: EUR 10,633k)

Without the income from the release of the tax provision (EUR 1,964k) subsequent to the settlement of the legal proceedings with the fiscal authorities, the net loss was in the range of the amount budgeted by the Executive Board in the prior year.

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 corporate 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 adherence to 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 outsourced 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 2017, Probiodrug had 15 (2016: 14) employees (including the Executive Board members), of which 50% were female. In the reporting period, there were an average of 14 employees including three Executive Board members (2016: 15). In 2017 Probiodrug incurred personnel expenses of EUR 1.90 million (2016: EUR 2.47 million).

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

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 2017. In the meantime, the focus hereby is on the safeguarding the granting of patents in key economic markets. Probiodrug actively manages its intellectual property rights portfolio to provide for the continuous adjustment to the sustainable value drivers while also optimising costs versus benefits.

As at 31 December 2017, 42 patent families were held (31 December 2016: 40).

3. Opportunities and risks report

3.1. Opportunities

Further increasing interest in Alzheimer's

In 2017 the interest in the Alzheimer's area by the pharmaceutical industry as well as that of investors continued. Prospectively, this could lead to an increased frequency of transactions. Compared with this, the available number of new, scientifically and clinically widely supported development concepts is limited. 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 2017 the first patient studies were successfully completed for PQ912 (SAPHIR). The study showed a positive benefit risk ratio for PQ912 and provided important information for the further development. Overall, the results are very attractive for the further development of the program. Further key patents were granted in important markets. A continuation of these developments is likely to have a positive impact on the valuation 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 of pharmaceutical and biotechnological companies are a common transaction form in order to obtain access to promising development programs and interesting technologies. This is reflected in active mergers and acquisitions (M&A) activities 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, have a material adverse effect on the business activities, the realisation of significant Company goals and/or Probiodrug's ability to refinance and could also 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. The Executive Board qualitatively classifies risks to be of minor, moderate or of great importance.

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 registration 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 of great importance 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 approval or they may only grant this with restrictions or after a delay.

At present, Probiodrug has an compound in the clinical development (PQ912) as well as two compounds which are in earlier preclinical phases. On the basis of this product pipeline, risks, respectively the dependency on one individual compound can, in principle, be reduced. However, due to the different development phases, a substantial portion of the Company's value results from PQ912. However, Probiodrug cannot exclude that, in future clinical studies, it may fail to demonstrate sufficient effectiveness when used on patients and/or that the side effects profile may be limiting to prohibitive with respect to further clinical development. Such findings could lead to a delay in or the discontinuation of the development of this compound. This could have a negative effect on Probiodrug's results of operations, financial position or net assets, the exchange valuation as well as the ability for Probiodrug to refinance and thereby on the ability to raise additional funding. In addition, there is the risk that an observed efficacy is not sufficiently strong to conclude an industrial partnership and/or to acquire additional financing.

Overall, this risk is of great importance to 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.

Overall, this risk is of moderate importance to Probiodrug.
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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 revenues – either as a result of advance payments, milestone payments or royalties 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 corresponding agreements with the pharmaceutical industry or with another 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 value of the project.

Overall, this risk is of great importance to 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 excluded 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 excluded that Probiodrug may become engaged in patent disputes with third parties e.g., when Probiodrug must defend against the unauthorised use of its patents by third parties. Furthermore, it cannot be excluded 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 negatively impact the further development of the programs 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 alone could, in turn, have negative implications on the programs affected and potentially the Company. As per the Company's current knowledge, no objections have been raised against the patents or patent registrations.

Overall, this risk is of great importance to Probiodrug.

Risks associated with product development

Collaboration with external service providers in the research and development area

Probiodrug conducts the required preclinical and clinical studies with contract research organisations (hereinafter CROs). The Company is dependent on the quality of their work. Replacing a CRO during an ongoing study is very complex as a result of which there may be substantial delays and it may become necessary to repeat the study 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 ingredients 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.

Overall, this risk is of great importance to 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 conditions (e.g., design of the study, attractiveness of the study from the perspective of the patient and the clinical investigators, competitive situation, patient population, locations) in the environment of the clinical studies, delays may be encountered.

In addition, clinical study centres could – for example, as a result of other concurrent clinical studies or due to continuing quality issues with respect to their internal organisational processes – not be able to recruit 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 studies. This could lead to an increase in costs and potentially to an increase in variability.

Overall, this risk is of great importance to Probiodrug.

Capital market risks

Additional financing

On the basis of the current cash and cash equivalents as well as current Company planning (without long-term studies with Alzheimer patients), the Company can provide for the continuity of operations until, at least, 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 equity or third party financing or the generation of inflows as a result of the granting of licenses or cooperations. The Company's development is endangered when Probiodrug is unable to obtain sufficient additional capital within the required timeframe, at economically favourable terms or that this can be realised at all as the successful raising of capital necessitates the successful development of the product pipeline. 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 impaired 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.

Overall, this risk is of great importance to 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.

Overall, this risk is of moderate importance to Probiodrug.

Notification of loss pursuant to 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 carried 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. On the basis of the Company's current projections, this point in time falls in the second half of 2018 should no equity strengthening measures have been previously concluded. Such an announcement of a loss could have negative consequences for the share price as well as for Probiodrug's procurement of additional financing.

Overall, this risk is of moderate importance to Probiodrug.

Recognition of tax loss carried forward

The use of Probiodrug's existing tax losses carried forward and ongoing losses for German corporate income tax 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 losses carried forward 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 losses carried forward is restricted, they cannot be set off against future taxable profits. This would result in an increased tax burden.

The Federal Constitutional Court (BVerfG) does not, however, consider the limitation in the ability to deduct losses as per Section 8c (1) sentence 1 of the (German) Corporate Income Tax Act [Körperschaftsteuergesetz] (KStG) to be compatible with Article 3 of the Constitution and thereby considers this unconstitutional. By 31 December 2018, the legislator must newly regulate the deduction of losses pursuant to Section 8c (1) sentence 1 of the KStG. Otherwise, the limitation of the ability to deduct losses is null and void.

Overall, this risk is of moderate importance to 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. In the biotechnology and pharmaceutical sectors, competition with respect to qualified personnel is very intense. 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.

Overall, this risk is of great importance to 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.

Overall, this risk is of great importance to 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.

Overall, this risk is of moderate importance to 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, endanger the continuity of Probiodrug. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2017 provide for the Company's financing beyond the upcoming twelve months. The Executive Board believes that additional cash inflows can be generated in the second half of 2018 at the latest.

4. Outlook

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

- Carrying out the phase 2b clinical study program for PQ 912,
- Continuing the development of PBD-C06,
- Conclusion of one or more industrial partnerships,
- Further scientific analysis of potential second indications for the use of QC inhibitors,
- 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 2018 which, based on the current budget, is expected to be lower than that of 2017.

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 appropriate provisions (e.g., approving sufficient authorised and conditional capital, eliminating pre-emptive rights) have been made by the annual shareholders' meeting so as to provide the Company with sufficient flexibility to react to potential opportunities.

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 and/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 substances, 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 qualitatively 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 which are considered to be of moderate to great importance.

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 signatures guideline fixes 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 based on 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 accounting entries and the corresponding classifications on the subprojects.

6. Reporting pursuant to Section 289a of the HGB

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

As at the balance sheet date 31 December 2017, Probiodrug AG's share capital amounted to EUR 8,208,009.00. It is divided into 8,208,009 ordinary bearer shares with a notional par value of EUR 1.00 per share. Each share provides one vote at the annual 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 pursuant to 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 annual shareholders' meeting on 13 June 2017, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital until 12 June 2022 by up to EUR 4,093,367.00 through single or multiple issues of new no-par value bearer shares in exchange for cash and/or a contribution in kind, whereby pre-emptive rights are excluded (Authorised Capital 2017).

Simultaneously, the elimination of the Authorised Capital 2014 was resolved.

As at 31 December 2017, the Authorised Capital totals EUR 4,093,367.00.

As at the balance sheet date, the conditional capital amounts to EUR 2,602,527.00 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 annual 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 annual shareholders' meeting held on 21 February 2008.

Conditional Capital 2010/I

The Company's share capital was conditionally increased by up to EUR 64,627.00 by the issuance of up to 64,627 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 annual shareholders' meeting held on 18 May 2010 with amendments dated 20 September 2011, 30 December 2011, 31 October 2012 and 25 August 2015.

In 2017 the Conditional Capital 2010/I was utilised in conjunction with the exercising of 21,274 option rights.

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 resolutions of the annual shareholders' meetings 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 annual shareholders' meeting held on 10 June 2015 which authorised the issuance of convertible bonds.

Authorisation to acquire treasury shares

On 10 June 2015, the annual 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 a 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 Company was aware of the following shareholders of Probiodrug AG having shareholdings in accordance with the provisions of the German Securities Trading Act [Wertpapierhandelsgesetz] (WpHG), with voting rights exceeding 10.0 %.

Shareholder	Legal seat	Voting rights in %
BB Biotech AG	Schaffhausen/Switzerland	12.8
IBG Group	Magdeburg/Germany	10.9
Edmond de Rothschild Investment Partners	Paris/France	12.0

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. Pursuant to 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 had a term through 30 November 2017. The contract of Executive Board member Dr. Ingeborg Lues, concluded on 1 November 2014, had a term through 31 October 2017. The contracts for all three members of the Executive Board were extended by one year each.

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. Pursuant to Section 20 of the Articles of Association, resolutions of the annual 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 289f of the HGB

The corporate governance statement in accordance with Section 289f of the HGB includes the corporate governance statement pursuant to the German Corporate Governance Code, addressing the proportion of women, 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 24 April 2017 have been complied with, with the following exceptions and that they are to be complied with in the future:

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 which also covers all members of the Supervisory Board. No retained amount is stipulated. As the Supervisory Board members, for the most part, only receive little 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

Stock options were issued to members of the Executive Board for which no cap is stipulated. In addition, profit sharing was granted to the Executive Board members. No cap is provided for. In all other respects, 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 with respect to payment in case of early termination. In connection with the demands on the Company in conjunction with the analysis of the clinical studies as well as the subsequent steps, a primary aim was to provide for the cooperation of the Executive Board members.

4. Section 5.3.3 of the Code – establishment of a nomination committee within the Supervisory Board

Due to the reduction in size, the Supervisory Board dissolved the Nomination Committee. Its function will be taken over by the entire Supervisory Board. The Supervisory Board is convinced that this will provide for an increase in efficiency in the preparation of recommendations for the annual shareholders' meeting.

5. Section 5.4.1 (2) of the Code – specifying precise goals and competency profiles for 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 (goal – competence profile). 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 sufficient number of qualified members for the Supervisory Board, the Supervisory Board did not set any fixed diversity quota.

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

Pursuant to Section 7.1.2 sentence 4 of the Code, the Company's financial statements 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 two 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.

Disclosures with respect to the proportion of women

With respect to the targets and deadlines for the Executive Board and the Supervisory Board, on 15 September 2017 Probiodrug's Supervisory Board resolved that the proportion of women in the Executive Board should be one third while that in the Supervisory Board should be one fifth. These targets for the Executive Board as well as the Supervisory Board were adhered to as at 31 December 2017.

Probiodrug's Executive Board did not establish any targets in terms of the proportion of women for the first and second management level below the Executive Board as, due to the organisational structure and number of employees below the Executive Board, there is no management level.

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 and 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 regular 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 guiding principles of Probiodrug. The goal of the work of the Executive Board is sustainable and value optimising corporate development. The members of the Executive Board have complementary skill 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 2017, the Supervisory Board comprised four 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 and Dr. Jörg Neermann. In the reporting period, the Supervisory Board convened six times (10 March, 21 April, 13 June, 15 September, 01 December, 15 December). The current Supervisory Board members are 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 previously established: the audit committee, the nomination committee and the compensation committee. In December 2017 the Supervisory Board resolved to eliminate the nomination committee as well as the compensation committee. Their tasks will be taken over by the Supervisory Board as a whole. The audit committee comprises Dr. von der Osten, Charlotte Lohmann and Dr. Neermann; Dr. von der Osten is the Chairperson. All members have the corresponding expertise and independence. The audit committee met twice in 2017. The primary discussion points in these meetings were the audit of the 2016 financial statements pursuant to HGB and IFRS as well as the 2017 six month financial statements. The nomination committee included Dr. Platzer, Dr. Neermann and Kees Been; Chairperson was Dr. Platzer. This committee did not meet in 2017. The compensation committee comprised Dr. Platzer, Ms. Lohmann and Mr Been; Dr. Platzer served as Chairperson. This committee met once in 2017. The primary point of discussion was the variable remuneration of the Executive Board for 2016.

These committees reported 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

We refer to the appendix to the Management Report included in the financial statements for the compensation report.

Halle (Saale), 9 February 2018
Executive Board of Probiodrug AG

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

Compensation report of 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 extension of the service contracts in 2017.

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

A further component of compensation with a long-term incentive component is the employee stock option program, the so called ESOP, 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 2017

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

Benefits granted	Dr. Konrad Glund			
	CEO			
Reappointment	01 Dec 17			
EUR	**2016**	**2017 (actual)**	**2017 (minimum)**	**2017 (maximum)**
Fixed compensation	210,000	210,000	210,000	210,000
Fringe benefits	24,403	24,454	24,454	24,454
Total	***234,403***	***234,454***	***234,454***	***234,454***
Variable compensation for one year	84,000	63,000	0	94,500
Cash settlement subsequent to the exercising of options from SOP-Program 2010[1]	200,000			
Total	**518,403**	**297,454**	**234,454**	**328,954**
Pension expense	61,578	54,658	54,658	54,658
Total compensation	**579,981**	**352,112**	**289,112**	**383,612**

Benefits granted	Dr. Hendrik Liebers			
	CFO			
Reappointment	01 Dec 17			
EUR	**2016**	**2017 (actual)**	**2017 (minimum)**	**2017 (maximum)**
Fixed compensation	210,000	210,000	210,000	210,000
Fringe benefits	21,931	21,961	21,961	21,961
Total	***231,931***	***231,961***	***231,961***	***231,961***
Variable compensation for one year	84,000	63,000	0	94,500
Cash settlement subsequent to the exercising of options from SOP-Program 2010[1]	200,000			
Total	***515,931***	***294,961***	***231,961***	***326,461***
Pension expense	60,866	60,399	60,399	60,399
Total compensation	**576,797**	**355,360**	**292,360**	**386,860**

[1]On the basis of the authorisation of the annual 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 17			
EUR	**2016**	**2017 (actual)**	**2017 (minimum)**	**2017 (maximum)**
Fixed compensation	210,000	227,500	227,500	227,500
Fringe benefits	3,884	3,921	3,921	3,921
Total	***213,884***	***231,421***	***231,421***	***231,421***
Variable compensation for one year	84,000	63,000	0	94,500
Total	***297,884***	***294,421***	***231,421***	***325,921***
Pension expense				
Total compensation	**297,884**	**294,421**	**231,421**	**325,921**

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 2017, 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

The remuneration system for members of the Supervisory Board called for fixed remuneration for 2017 for Dr. Erich Platzer, Dr. D. v. d. Osten, Charlotte Lohmann and Kees Been.

In addition, Ms. Lohmann and Mr. Been received variable remuneration for their personal participation as well as their participation via telephone meetings of the Supervisory Board as well as Committee Meetings.

Overall, the remuneration of the Supervisory Board for financial year 2017 totalled EUR 136,780.00.

Shareholdings of members of the Supervisory Board

Based on the knowledge of Probiodrug AG, as at 31 December 2017, the members of Probiodrug AG's Supervisory Board held a total of approximately 2.1% of the Company's shares.

Halle (Saale), 9 February 2018

Probiodrug AG's Executive Board

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

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements provide a true and fair view of the net assets, financial position and results of operations of Probiodrug AG and in the management report, the business development including the performance and position of Probiodrug AG is presented in a manner to provide a true and fair view together with a description of the principal opportunities and risks associated with the expected development of Probiodrug AG.

Halle (Saale), 9 February 2018
The Executive Board of Probiodrug AG

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

Independent Auditor's Report

To Probiodrug AG, Halle (Saale)

Report on the Audit of the Annual Financial Statements and Management Report

Opinions

We have audited the annual financial statements, which comprise the balance sheet as at 31 December 2017, the income statement, the statement of cash flows and the statement of changes in shareholders' equity from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition we have audited the management report of Probiodrug AG, Halle (Saale) for the financial year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the corporate governance statement which is included in Section 7 of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the German commercial law applicable for capital corporations and, in compliance with German generally accepted accounting principles, give a true and fair view of the net assets and financial position of the Company as at 31 December 2017, and of its results of operations for the financial year from 1 January 2017 to 31 December 2017, and
- the accompanying management report, as a whole, provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 of the HGB, we declare that our audit has not led to any reservations as to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 of the HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) letter (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate opinion on these matters.

Disclosures in the notes with respect to continuity of business activities

We refer to Section I of the notes to the financial statements.

THE FINANCIAL STATEMENT RISK

Probiodrug, as a biopharmaceutical company in the Alzheimer's area, is dependent on research and development programs. The pharmaceutical development process 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. Up until this point, Probiodrug has a continuous need for external financing for research and development activities. In financial year 2017, Probiodrug realised a net loss of EUR 7,729k and an accumulated loss of EUR 48,308k. The Company expects further operating losses in the foreseeable future due primarily to the ongoing financing for research, the development of medicinal products and the development of the organisation. As per the available Company planning, the Company expects the financing to be sufficient at least to the end of the first quarter of 2019. The current planning does not give consideration to any investments for clinical or preclinical studies however expected preparatory costs are considered. To continue the

studies additional funding is necessary. This would require additional equity or third party financing or that funding be generated by proceeds from licensing agreements or cooperations.

Managements' assessment with respect to the continuity of business activities and to disclosures in the notes on matters in conjunction with the continuity of business operations is dependent on a number of significant assumptions such as, for example, the cash burn-rate as a key figure with respect to the average monthly outflow of funds, progress of the clinical program and the viability of alternative programs.

OUR AUDIT APPROACH

We have audited the Company planning and the associated liquidity planning for the years 2018 and 2019 as well as the process for the preparation of the planning. This was carried out by, among other things, inspecting the relevant documents as well as inquiry of the Chief Financial Officer. We audited the approach to the budgeting process and the appropriateness of management's significant assumptions. Furthermore, the documents provided to the Supervisory Board with respect to the progress of the clinical program were inspected and inquiries were made of the Chief Financial Officer and the Chairperson of the Audit Committee regarding the clinical program as well as alternative strategies.

In addition, our audit included a reconciliation of the most important underlying assumptions such as, for example, a reconciliation of the costs of external service providers to the contractual agreements and the phase of the clinical program as well as the recurring operating costs including rent, amortisation and depreciation and salaries on the basis of historical cost structures. In addition, we compared the budgeted cash burn rates for the years 2018 and 2019 with the historic cash burn rates. Furthermore, we assessed whether the disclosures in the notes on matters in conjunction with the continuity of the business activities are sufficiently detailed.

OUR CONCLUSIONS

On the whole, the Executive Board's assumptions with respect to the continuity of the business are appropriate. The Company and liquidity planning was appropriately prepared, completely reflecting the assumptions made by management. The related disclosures in the notes on matters with respect to the continuity of business activities were appropriately made.

Other information

The legal representatives are responsible for the other information. The other information comprises the corporate governance statement which we obtained prior to the date of this auditor's report as well as the remaining parts of the annual report which are expected to be

made available to us after this date, with the exception of the audited annual financial statements and management report as well as our auditor's report.

Our opinions on the financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Legal Representatives and the Supervisory Board for the Annual Financial Statements and the Management Report

The legal representatives are responsible for the preparation of the annual financial statements that comply, in all material respects, with German commercial law applicable for capital corporations and that the annual financial statements, in compliance with German generally accepted accounting principles, give a true and fair view of the net assets, financial position, and results of operations of the Company. In addition, the legal representatives are responsible for such internal control as they have determined necessary pursuant to German generally accepted accounting principles to allow for the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there are actual or legal circumstances which prevent this.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they consider necessary to allow for the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the financial statements and of the management report

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 of the HGB and the EU-APrVO and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in compliance with the requirements of German generally accepted accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with the law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting of the shareholders' on 13 June 2017. We were engaged by the Chairperson of the Supervisory Board on 28 December 2017. We have been the auditor of Probiodrug AG as a capital market orientated company without interruption since financial year 2014.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dr. Stefan Schneider.

Leipzig, 9 February 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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