Annual financial statements as at 31 December 2018 and management report

TRANSLATION – AUDITOR'S REPORT

Probiodrug AG
Halle (Saale), Germany

KPMG AG Wirtschaftsprüfungsgesellschaft

Probiodrug AG, Halle (Saale)

Balance sheet as at 31 December 2018

A s s e t s

	31 Dec. 2018		31 Dec. 2017	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible assets				
Rights, licences and software acquired for a consideration		6,657.76		11,486.90
II. Property, plant and equipment				
1. Buildings on third-party land	980.82		6,915.71	
2. Other equipment, operating and office equipment	54,453.44		47,705.75	
3. Advance payments	2,925.02	58,359.28	0.00	54,621.46
III. Financial assets				
Investments		3,450.00		3,450.00
		68,467.04		**69,558.36**
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	103,125.12		99,388.97	
2. Other assets	97,826.35	200,951.47	55,217.82	154,606.79
II. Cash and cash equivalents		3,680,017.08		10,191,254.50
		3,880,968.55		**10,345,861.29**
C. Prepaid expenses		**98,439.78**		**346,433.01**
		4,047,875.37		**10,761,852.66**

Equity and liabilities

	31 Dec. 2018	31 Dec. 2017
	EUR	EUR
A. Equity		
I. Share capital	8,208,009.00	8,208,009.00
– Contingent capital EUR 4,002,527.00 (PY: EUR 2,602,527.00) –		
II. Capital reserve	49,118,738.55	49,118,738.55
III. Revenue reserves		
Statutory reserve	227,625.00	227,625.00
IV. Accumulated deficit	-56,011,748.65	-48,308,275.37
	1,542,623.90	**9,246,097.18**
B. Provisions		
1. Provisions for pensions	1,540,634.00	848,593.00
2. Other provisions	382,605.04	415,309.13
	1,923,239.04	**1,263,902.13**
C. Liabilities		
1. Trade payables	507,353.33	208,488.26
2. Other liabilities	74,659.10	43,365.09
– thereof for taxes EUR 43,544.92 (PY: EUR 38,851.28) –		
	582,012.43	**251,853.35**
	4,047,875.37	**10,761,852.66**

Probiodrug AG, Halle (Saale)

Income statement for the period from 1 January to 31 December 2018

1. Other operating income
2. Cost of materials
   a) Cost of raw materials, supplies and purchased goods
   b) Cost of purchased services
3. Personnel expenses
   a) Wages and salaries
   b) Social security, pension
      – thereof for pensions: EUR 217,240.16 (PY: EUR 137,559.68) –
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 for the year**
11. Accumulated deficit brought forward
12. **Accumulated deficit**

2018		2017	
EUR	EUR	EUR	EUR
	56,074.20		1,125,055.94
-19,219.10		-16,434.87	
-2,105,606.47	-2,124,825.57	-5,105,980.11	-5,122,414.98
-2,042,520.00		-1,647,217.16	
-353,165.98	-2,395,685.98	-256,789.06	-1,904,006.22
	-23,284.34		-105,774.97
	-3,125,593.37		-2,837,162.75
	25,380.02		27,882.50
	-115,538.24		-14,586.95
	0.00		1,102,321.74
	-7,703,473.28		**-7,728,685.69**
	-7,703,473.28		**-7,728,685.69**
	-48,308,275.37		-40,579,589.68
	-56,011,748.65		**-48,308,275.37**

Probiodrug AG, Halle (Saale)

Statement of cash flows for the period from 1 January to 31 December 2018

	1 Jan. 2018 – 31 Dec. 2018	1 Jan. 2017 – 31 Dec. 2017
	EUR	EUR
Loss for the period	-7,703,473	-7,728,686
Amortisation, depreciation and write-downs of fixed assets	23,284	105,775
Gains/losses on the disposal of fixed assets	0	154
Interest income	-25,380	-27,883
Interest expenses	115,538	14,587
Tax income	0	-1,102,322
Interest income from the reversal of interest provisions for taxes	0	-861,933
Other non-cash income (PY: expenses)	-25,796	61,298
Increase in pension provisions	126,091	17,248
Increase (PY: decrease) in other provisions	-32,704	-409,385
Decrease in receivables and other assets	-46,345	134,414
Decrease (PY: increase) in prepaid expenses	247,993	-219,749
Increase (PY: decrease) in trade payables	293,006	-1,310,998
Increase (PY: decrease) in other liabilities	31,294	-13,793
Income tax payments	0	-775,396
Cash flows from operating activities	**-6,996,493**	**-12,116,667**
Acquisition of property, plant and equipment	-16,334	-6,997
Acquisition of intangible assets	0	-1,049
Proceeds from reinsurance policies relating to the pension provisions	475,792	466,699
Cash flows from investing activities	**459,458**	**458,652**
Proceeds from share issuance	0	127,644
Cash flows from financing activities	**0**	**127,644**
Net change in cash and cash equivalents	**-6,537,034**	**-11,530,371**
Effect of movements in exchange rates on cash held	**25,796**	**-61,298**
Cash and cash equivalents at the beginning of the period	**10,191,255**	**21,782,924**
Cash and cash equivalents at the end of the period	**3,680,017**	**10,191,255**

	31. Dec. 2018	31. Dec. 2017
	EUR	EUR
Composition of cash and cash equivalents		
Cash on hand	255	1
Cash at bank	3,679,762	10,191,254
	3,680,017	**10,191,255**

Probiodrug AG, Halle (Saale)

Statement of changes in equity as at 31 December 2018

	Subscribed capital Ordinary shares	Capital reserve	Statutory reserve	Accumulated deficit	Equity
	EUR	EUR	EUR	EUR	EUR
As at 1 Jan. 2017	**8,186,735.00**	**49,012,368.82**	**227,625.00**	**-40,579,589.68**	**16,847,139.14**
Capital increase by exercising the stock option	21,274.00	106,369.73			127,643.73
Loss for the period				-7,728,685.69	-7,728,685.69
As at 31 Dec. 2017	**8,208,009.00**	**49,118,738.55**	**227,625.00**	**-48,308,275.37**	**9,246,097.18**
As at 1 Jan. 2018	**8,208,009.00**	**49,118,738.55**	**227,625.00**	**-48,308,275.37**	**9,246,097.18**
Loss for the period				-7,703,473.28	-7,703,473.28
As at 31 Dec. 2018	**8,208,009.00**	**49,118,738.55**	**227,625.00**	**-56,011,748.65**	**1,542,623.90**

Probiodrug AG, Halle (Saale)

NOTES to the annual financial statements for the financial year from 1 January to 31 December 2018

I. General disclosures

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

Probiodrug AG has its headquarters in Halle/Saale and is registered in the commercial register of the Stendal District Court (commercial register file number 213719). The Company's shares have been listed on the Euronext/Amsterdam since October 2014. Probiodrug is therefore a publicly traded company as defined in Section 264d HGB and thereby considered a large corporation as defined by Section 267 (3) sentence 2 HGB.

There was no change in the presentation form compared to the prior year.

Going concern

In terms of assessing the Company's ability to continue as a going concern, Probiodrug – as a biopharmaceutical company that focuses on Alzheimer care – is dependent on research and development programmes. 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 a product's commercial readiness. Probiodrug continuously needs external funding for research and development activities up until this time. Probiodrug incurred a net loss of EUR 7,763k and an accumulated deficit of EUR 56,071k in financial year 2018. The Company expects further operating losses to be incurred due to operating activities in the foreseeable future. Probiodrug held an extraordinary general meeting on 7 December 2018. Pursuant to Section 92 (1) AktG, the Executive Board reported at this meeting that the Company's losses amounted to more than half of the capital stock. The favourable going concern forecast prepared by the Company is used as the valuation basis on the assumption that the Company is able to continue as a going concern.

Probiodrug AG has prepared corporate and financial planning for 2019 and 2020. According to this plan, existing liquid assets are sufficient until the beginning of Q3 2019 to satisfy the Company's financial obligations. In addition, funding of approx. EUR 6.2 million is necessary for the period until the end of 2020. The current projections do not take into account investments for clinical and preclinical studies. Various financing scenarios and options were prepared and corresponding preparatory measures initiated by the Executive Board to cover the funding gap. The first funding measure involves a capital increase with existing and new investors worth approx. EUR 2.0 to 2.5 million, depending on average capital market values, in Q2 2019 by using the authorised capital established in 2017. Furthermore, contract negotiations are being held regarding licensing and cooperation agreements to

raise additional funds, which if implemented could individually cover the necessary funding requirements until the end of 2020. Additional funding is required to continue the studies. The application for USD 15.0 million in funding submitted to the National Institute of Health (NIH) together with the Alzheimer's Disease Cooperative Study (ADCS) for the Phase 2b study of the PQ912 molecule inhibitor was approved in the US in March 2019. Given these circumstances, an appropriate capital increase is being prepared to cover current costs as well as for funding the Company's own share of costs for the required study. The Company's ability to continue as a going concern is at risk should the financing scenarios not be realised in the necessary scope and on time.

In summary, the Company is facing a difficult liquidity position as liquid funds, according to the budget, are sufficient until only the beginning of Q3 2019 to meet existing financial obligations. Accordingly, there is the need to ensure the Company's future funding through equity providers and/or financial backers, or raise cash inflow through own business activities. These events and circumstances indicate considerable uncertainty that could cast significant doubt on the Company's ability to continue its business activities and which represent a risk that could affect the Company's ability to continue as a going concern.

The Company's funding also beyond this period requires additional forms of cash inflows including equity, mezzanine and/or debt financing or license income.

Furthermore, we refer to our explanations in the opportunities and risks report included in Section 3.2 of the management report.

II. Accounting policies

Fixed assets

Property, plant and equipment and intangible assets are stated at cost less depreciation and amortisation.

Depreciation and amortisation were calculated on the straight-line basis considering the expected useful life of the underlying asset.

Movable assets acquired in financial year 2018 costing up to EUR 800.00 were expensed as incurred. A collective item was not recognised for such assets.

Long-term equity investments are stated at acquisition cost.

Current assets

Other assets were stated at their nominal value less necessary valuation adjustments in consideration of all identifiable risks. Receivables in foreign currencies are shown at the average spot exchange rate prevailing on the balance sheet date.

Cash and cash equivalents are generally stated at their nominal values.

Accounts denominated in a foreign currency are also measured using the average spot exchange rate prevailing on 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 recognised on the difference in the amounts recognised in the commercial and tax balance sheets provided these are expected to be reduced in subsequent financial years. If there is an excess of deferred tax assets as of the reporting date, the option to capitalise these assets provided under Section 274 (1) sentence 2 HGB is not exercised.

Equity

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

Provisions

Provisions are recorded at the settlement amounts deemed according to prudent business judgement. In doing so, all identifiable risks were taken into account.

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

The pension provisions are calculated using the 'projected unit credit' method (PUC method). Probiodrug applied a discount rate determined as the average market interest rate of the prior ten financial years as published by the Deutsche Bundesbank [German Central Bank] and an assumed remaining term of 15 years. The biometric assumptions as at the balance sheet date were provided by the new 2018 G mortality tables of 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 prior ten years as at 31 December 2018 and that based on the average market interest rate of the prior seven financial years as at 31 December 2018 are presented in the explanations on the balance sheet.

Liabilities

Liabilities are recognised at their respective 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 unsecured.

Income statement

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

III. Explanatory notes on the balance sheet

Fixed assets

The movement in 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 movements in fixed assets presented in the appendix to the notes to the annual financial statements. Probiodrug AG has a subsidiary, Probiodrug Inc., USA. All operating activities and assets are consolidated at Probiodrug AG; Probiodrug Inc. currently performs neither operating activities nor has any operating assets.

Receivables and other assets

All receivables and other assets have a remaining term of up to one year. Other assets primarily include receivables from tax authorities (EUR 89k; PY: EUR 45k) as well as other receivables (EUR 9k; PY: EUR 8k).

Deferred taxes

Offsetting debit and credit balances with respect to deferred taxes (consideration of overall difference) yielded a net debit balance for deferred taxes as at the balance sheet date. 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 exercise the option of recognising deferred tax assets under Section 274 (1) sentence 2 HGB. As such, deferred taxes are not presented on the balance sheet. The calculated deferred tax assets and liabilities result from accumulated losses carried forward and different values calculated for the pension provisions.

Share capital

As at 31 December 2018 and as was the case in the prior year, the subscribed capital amounted to EUR 8,208,009.00. It is broken down into 8,208,009 registered ordinary shares with no-par value (no-par value shares with a calculated nominal value per share of EUR 1.00).

Authorisation to acquire treasury shares

The Annual General Meeting held on 10 June 2015 authorised the Executive Board in accordance with Section 71 (1) no. 8 AktG to acquire treasury stock until 9 June 2020 up to a proportionate share of the share capital in the amount of EUR 676,580.00. The acquisition may be carried out through the stock exchange or by a public offering to all shareholders. The treasury shares may be used for all permitted purposes including redemption.

No shares were repurchased in financial year 2018.

Conditional capital

In a resolution dated 21 June 2018, the Annual General Meeting resolved to establish Contingent Capital 2018 and revoke the Contingent Capital 2015.

The Company's share capital will be conditionally increased by up to EUR 3,400,000.00 by issuing up to 3,400,000 new bearer shares. The conditional capital increase serves to grant no-par value bearer shares upon the exercise of option and/or conversion rights (or upon the satisfaction of corresponding conversion or option requirements) or, upon the 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 in the Company, to the holder or creditor of convertible or option bonds, which will be issued by 20 June 2023 by the Company or a group company within the meaning of Section 18 AktG on the basis of authorisation given at the Annual General Meeting dated 21 June 2018. The new shares will be issued at the option or conversion price to be determined in accordance with the aforementioned authorisation resolution.

The contingent capital increase is to be implemented only to the extent that conversion or option rights are exercised, or holders or creditors of debt securities who are obliged to exercise the option or conversion rights satisfy their option exercise or conversion requirements, or to the extent that the Company has exercised an option to grant Company no-par value shares in whole or in part instead of paying the amount due and to the extent that, in each case, no cash settlement is granted or treasury shares or shares of another publicly listed company are used to service the option. The newly issued shares will carry dividend rights from the commencement of the financial year in which the shares are issued. Insofar as legally permitted, the Executive Board can, given the Supervisory Board's approval, determine the profit participation of the new shares contrary to Section 60 (2) AktG.

The Executive Board will be authorised, subject to approval by the Supervisory Board, to define the further details of the execution of the conditional capital increase.

The total conditional capital amounted to EUR 4,002,527.00 as at 31 December 2018 (31 December 2017: EUR 2,602,527.00). Of this amount, EUR 481,748.00 (31 December 2017: EUR 481,748.00) is reserved as a result of the issuance of options.

In addition to employees of the Company and former affiliated companies, for whom no disclosure is required pursuant to Section 194 (3) AktG, the 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.

Options and/or convertible bonds (debt securities)

By resolution of the Annual General Meeting dated 21 June 2018, the Executive Board, with cancellation of the authorisation dated 10 June 2015 and the consent of the Supervisory Board, is authorised to issue once or in several transactions, in the latter case also simultaneously in several tranches, by 20 June 2023 option bonds and/or convertible bonds in bearer or registered form (together 'bonds') with a total amount (calculated starting on the date of original resolution adoption on 10 June 2015) 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 3,400,000 bearer shares of the Company with a proportionate corresponding amount of the Company's share capital of up to EUR 3,400,000.00. 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, investments in entities, business units, receivables, patents and licences 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. 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/impose option rights/obligations or conversion rights/obligations on the bearer.

The Executive Board – with the consent of the Supervisory Board – will be 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.

The subscription rights of shareholders are excluded when issuing bonds on the basis of this authorisation.

Stock options

A total of 481,748 share options were in circulation as at 31 December 2018, of which 368,666 options are held by former Executive Board members and 113,082 options by former and current staff. The term for 70,373 shares options ends in 2019.

Authorised capital 2017

Authorised capital remained unchanged as at 31 December 2018 at EUR 4,093,367.00 (31 December 2017: EUR 4,093,367.00).

The Executive Board – with the consent 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 subscription rights are prohibited. The Executive Board is authorised – with the consent of the Supervisory Board – to determine 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 notifications

Disclosures on the existence of investments as at the balance sheet date

JPMorgan Asset Management (Europe) S.à r.l. Senningerberg, Luxembourg, informed our Company pursuant to Section 33 of the German Securities Trading Act [WpHG] on 15 January 2018 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the 3% threshold of voting rights on 11 January 2018 and that its proportion of voting rights amounted to 2.87% (235,334 voting rights) on that date.

Edmond de Rothschild Investment Partners, Paris, France, informed the Company pursuant to Section 33 WpHG on 16 January 2018 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the 10% threshold of voting rights on 12 January 2018 and that its proportion of voting rights amounted to 9.65% (791,803 voting rights) on that date.

HBM Healthcare Investments AG, Zug, Switzerland, informed the Company pursuant to Section 33 WpHG on 19 January 2018 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the 5% threshold of voting rights on 15 January 2018 and that its proportion of voting rights amounted to 4.94% (405,240 voting rights) on that date. The aforementioned voting rights pursuant to Section 33 WpHG are held via the following company, whose shares of voting rights in Probiodrug AG amount to 3% or more: HBM Healthcare Investments (Cayman) Ltd.

BB Biotech AG, Schaffhausen, Switzerland, informed our Company pursuant to Section 33 WpHG on 17 May 2018 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the threshold of 10% of the voting rights on 15 May 2018 and that its voting rights proportion amounted to 9.50% (779,508 voting rights) on that date. Pursuant to Section 33 of the German Securities Trading Act [WpHG], the aforementioned voting rights are held via the following company, whose holdings of voting rights in Probiodrug AG amount to 3% or more: Biotech Growth N.V.

BB Biotech AG, Schaffhausen, Switzerland, informed our Company pursuant to Section 33 WpHG on 23 August 2018 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the thresholds of 5% and 3% of the voting rights on 21 August 2018 and that its voting rights proportion amounted to 2.02% (165,778 voting rights) on that date.

Biogen INC, Cambridge, USA, informed our Company pursuant to Section 33 WpHG on 4 December 2018 that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 fell below the threshold of 3% of the voting rights on 26 November 2018 and that its voting rights proportion amounted to 2.85% (233,961 voting rights) on that date.

Capital reserve

The capital reserve remained unchanged year-on-year at EUR 49,118,738.55 as at 31 December 2018.

Revenue reserves

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

Accumulated deficit

The accumulated deficit totalled EUR 56,011,748.65 as at 31 December 2018 and developed as follows during the financial year under review:

	EUR
Accumulated deficit as at 31 December 2017	48,308,275.37
Net loss for financial year 2018	7,703,473.28
Accumulated deficit as at 31 December 2018	56,011,748.65

Pension provisions

Pension provisions for direct pension commitments

The pension provisions were calculated using a discount rate of 3.21% (PY: 3.71%). A further parameter applied in the calculation was a pension progression rate of 1.0% (PY: 1.0%).

No personnel expenses were recognised in conjunction with the pension obligations during the financial year under review (PY: EUR 77k), whereas current interest expenses of EUR 115k (PY: EUR 15k) were reported. Interest expenses included net income on plan assets in the amount of EUR 28k.

Interest expenses for 2018 include EUR 17k from initial application of the new 2018 G HEUBECK mortality tables.

Expiration of the reinsurance policies means there were no plan assets to be offset against pension obligations pursuant to Section 246 (2) HGB as at 31 December 2018.

The settlement amount of the pension provisions equalled EUR 1,354k (PY: EUR 1,296k) as at 31 December 2018. The pension provision to be recognised as at 31 December 2018 equals EUR 1,354k (EUR 849k in the prior year due to offsetting against the plan assets that still existed at the time pursuant to Section 246 (2) HGB.

As at 31 December 2018, 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) HGB, the difference between recognised provisions on the basis of the average market interest rate of the prior ten financial years and the provisions recognised on the basis of the average market interest rate of the prior seven financial years is to be calculated every financial year and is to be presented.

There was the following difference as at 31 December 2018:

Settlement amount based on 10-year average rate (actuarial interest rate 3.21%)	1,353,634
Settlement amount based on 7-year average rate (actuarial interest rate 2.32%)	1,503,030
Difference pursuant to Section 253 (6) HGB	- 149,396

Pension provision from the pension funds by using the pension relief fund

In order to maintain the granted and vested pension rights in the context of a relief fund after exit from the Company, Probiodrug has additional obligations in the annual amount of approx. EUR 14k until 2035.

The provision was calculated using a discount rate of 3.21% as at 31 December 2018 (EUR 187k).

Pursuant to Section 253 (6) HGB, the difference as at 31 December 2018 between valuation on the basis of the average market interest rate of the prior ten financial years and the provisions recognised on the basis of the average market interest rate of the prior seven financial years is to be calculated as follows:

Settlement amount based on 10-year average rate (actuarial interest rate 3.21%)	187,000
Settlement amount based on 7-year average rate (actuarial interest rate 2.32%)	200,000
Difference pursuant to Section 253 (6) HGB	- 13,000

Other provisions

Other provisions include provisions for outstanding invoices (EUR 212k; PY: EUR 83k), other personnel-related provisions (EUR 106k; PY: EUR 215k), provisions for the preparation of the financial statements and audit (EUR 53k; PY: EUR 52k) as well as provisions for the Company's other business activities (EUR 12k; PY: EUR 65k).

Liabilities

As was the case in the prior year, the trade payables of EUR 507k (PY: EUR 208k) as well as the other liabilities of EUR 75k (PY: EUR 43k) all have a remaining term of up to one year.

IV. Explanatory notes on the income statement

Other operating income

Other operating income during the financial year included:

	2018 kEUR	2017 kEUR
Other income related to other periods	1	0
Foreign exchange gains	28	4
Income from the reversal of provisions	27	1,121

Of the income from the reversal of provisions, EUR 862k in the prior year was attributable to reversal of interest provisions in conjunction with settling corporate income tax and trade tax claims, including the accumulated interest thereon going back to 2004 (refer also to 'Tax provisions').

Cost of materials

Cost of materials includes expenses attributable to other periods of EUR 275k (PY: EUR 279k).

Other operating expenses

Other operating expenses include expenses attributable to other periods of EUR 11k (PY: EUR 7k) as well as expenses from exchange rate differences of EUR 6k (PY: EUR 78k).

Interest and similar expenses

Interest and similar expenses solely include interest expenses from unwinding the discount on pension provisions.

Income taxes

No income taxes were reported in financial year 2018. Income taxes disclosed in the prior year included amounts attributable to other periods from the reversal of tax provisions totalling EUR 1,102k.

V. Other disclosures

Proposal for the appropriation of earnings

The Executive Board proposes the following with respect to the appropriation of earnings: The accumulated deficit equals EUR 56,011,748.65. This deficit will be carried forward.

Average headcount during the financial year

The following categories of employees worked at the Company during the financial year under review:

Executive Board and employees	2018	2017
Executive Board members	2	3
Salaried employees	12	11

Other financial obligations

As at 31 December 2018, the other financial commitments amounted to EUR 269k and primarily consisted of purchased research and development services as well as service, leasing and rental obligations. EUR 202k of this amount is due within one year.

Disclosures with respect to executive bodies

Executive Board

The Company's business was managed by the members of the Executive Board during the financial year ended:

Dr Konrad Glund (Dipl. Biochemiker [degree in biochemistry]) – Chairman – until 30 April 2018
Dr Hendrik Liebers (Dipl.-Biologe [degree in biology], Dipl.-Kaufmann [degree in business]) – until 30 April 2018
Dr Inge Lues (Dipl.-Biologe [degree in biology]) – until 31 October 2018
Dr Ulrich Dauer (Dipl.-Chemiker [degree in chemistry]) – Chairman – since 1 May 2018
Dr Michael Schaeffer (Dipl.-Molekularbiologe [degree in molecular biology]) – since 1 October 2018

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 German Civil Code [BGB].

In conjunction with the departure of both Executive Board members, Dr Konrad Glund received EUR 71k in bonus payments and EUR 76k in severance payments, and Dr Hendrik Liebers received EUR 116k in bonus payments and EUR 112k in severance payments. The share options of both former members of the Executive Board also became vested. Both Executive Board members worked as advisors to the Company from 1 May to 31 August 2018 for a monthly fee of EUR 12k.

The following members of the Executive Board purchased shares in Probiodrug during the financial year under review:

Dr Ulrich Dauer – 4,800 shares on 11 July 2018
Dr Inge Lues – 4,900 shares on 13 July 2018

With respect to the remuneration of the Executive Board, we refer to the compensation report which forms a part of the management report. The Executive Board's total remuneration amounted to EUR 837k in 2018 (PY: EUR 1,002k).

Disclosure relating to total remuneration of former Executive Board members

Former members of the Executive Board received pension benefits of EUR 56k (PY: EUR 0k). In conjunction with the pension provisions, EUR 187k (PY: EUR 23k) was recorded as personnel expenses.

Supervisory Board

The following people were appointed as members of the Supervisory Board:

- Dr Erich Platzer, Physician, Basel/Switzerland – Chairperson
  - *Member of the Board of Directors, Aptose Biosciences Inc., Toronto, Canada*
  - *Owner and Managing Director of Platzer Consult Gmbh, Basel, Switzerland*
  - *Chairman of the Board of Directors, credentis AG, Windisch, Switzerland*
  - *Chairman of the Board of Directors, AOT AG, Basel, Switzerland*
  - *Member of the Board of Directors, Léman Micro Devices SA, Lausanne, Switzerland*
  - *Member of the Board, Medtech Innovation Partners 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*
  - *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*

The Supervisory Board's remuneration totalled EUR 112k during the financial year ended.

The terms of the Supervisory Board members end upon the conclusion of the Annual General Meeting, which decides on granting discharge to the Supervisory Board for financial year 2019.

Auditor's fee

The fees invoiced by the auditor during the financial year ended included the following:

	2018	2017
	kEUR	kEUR
Audit services	52	49
– thereof for the prior year –	0	0
Total	**52**	**49**

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

There were no significant events after the balance sheet date.

Compliance statement in accordance with Section 161 of the German Stock Corporation Act [AktG]

The compliance statement prescribed by Section 161 AktG regarding the German Corporate Governance Code was provided by the Executive Board and the Supervisory Board and made available to the shareholders on Probiodrug's website.

Halle (Saale), 25 March 2019

Dr Ulrich Dauer Dr Michael Schaeffer

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Probiodrug AG, Halle (Saale)

Movements in fixed assets
in the 2018 financial year

		Cost			
		1 Jan. 2018	Additions	Disposals	31 Dec. 2018
		EUR	EUR	EUR	EUR
I.	**Intangible assets**				
	Rights, licences and software acquired for a consideration	**373,199.50**	**0.00**	**0.00**	**373,199.50**
II.	**Property, plant and equipment**				
	1. Buildings on third-party land	181,002.98	0.00	0.00	181,002.98
	2. Other equipment, operating and office equipment	562,322.95	19,268.00	0.00	581,590.95
	3. Advance payments	0.00	2,925.02	0.00	2,925.02
		743,325.93	**22,193.02**	**0.00**	**765,518.95**
III.	**Financial assets**				
	Investments	**3,450.00**	**0.00**	**0.00**	**3,450.00**
		1,119,975.43	**22,193.02**	**0.00**	**1,142,168.45**

Accumulated amortisation, depreciation and write-downs				Book value	
1 Jan. 2018	Amortisation, depreciation and write-downs during the financial year	Disposals	31 Dec. 2018	31 Dec. 2018	31 Dec. 2017
EUR	EUR	EUR	EUR	EUR	EUR
361,712.60	**4,829.14**	**0.00**	**366,541.74**	**6,657.76**	**11,486.90**
174,087.27	5,934.89	0.00	180,022.16	980.82	6,915.71
514,617.20	12,520.31	0.00	527,137.51	54,453.44	47,705.75
0.00	0.00	0.00	0.00	2,925.02	0.00
688,704.47	**18,455.20**	**0.00**	**707,159.67**	**58,359.28**	**54,621.46**
0.00	**0.00**	**0.00**	**0.00**	**3,450.00**	**3,450.00**
1,050,417.07	**23,284.34**	**0.00**	**1,073,701.41**	**68,467.04**	**69,558.36**

Probiodrug AG, Halle (Saale)

MANAGEMENT REPORT for financial year 2018

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 consolidated in Probiodrug AG; Probiodrug Inc. currently does not carry out any operating activities nor have any operating assets.

Business activities

Probiodrug AG is a biopharmaceutical company dedicated to researching and developing 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 Professor Dr Hans-Ulrich Demuth and Dr Konrad Glund and, in prior years, successfully developed a new therapeutic concept for treating diabetes type 2 – the DP4 inhibitors or also gliptins. Probiodrug's goal today is to become a leading company in the development of Alzheimer's treatments and thereby provide a better quality of life for patients suffering from this disease.

Probiodrug is pursuing a therapeutic approach that addresses disease initiation as well as progression. The development approaches are targeting pyroglutamate-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 glutaminyl cyclase enzyme (QC). In this regard, the Company pursues two therapeutic mechanisms: First, Probiodrug is used to prevent the formation of pGlu Abeta by inhibiting the glutaminyl cyclase enzyme ("QC").

Second, the Company's most advanced programme is this area, the PQ912 development candidate, successfully completed a clinical trial of Phase 2a in 2017. 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 programme (PBD-C06) is in preclinical development.

Research and development

As was the case in the past, Probiodrug continued to focus its activities in 2018 on the development of PQ912, an inhibitor of the enzyme QC for treating Alzheimer's and other diseases. In addition, the specific pGlu-Abeta binding antibody, PBD-C06, was further developed. The primary work in these areas is carried out by external service providers (contract research organisations as well as contract manufacturers) and cooperation partners in the areas of pharma ancillary research, production development and production, preclinical and clinical trials as well as analytics.

Patent portfolio

Probiodrug had a strong patent portfolio in 2018 with a total of 40 patent families and patent applications as at the end of the financial year under review (PY: 42). The strategy of focusing the patent portfolio on development-relevant and commercially promising areas was continued unchanged in 2018.

Important events in the current financial year

a) Preparation of the further Phase IIb studies with PQ912

Further development steps are planned based on the promising results of the Phase 2a SAPHIR trial of PQ912 on Alzheimer patients. Among other steps, an application was prepared and submitted together with the Alzheimer's Disease Cooperative Study Group (ADCS) in San Diego for funding a clinical study in the US by the National Institute of Health (NIH), which was approved on 18 March 2019. According to current planning, the Phase 2a/b study in the US is to include 462 patients at an early stage of Alzheimer's disease and be carried out as a randomised, double blind placebo-controlled study. Phase 2a is intended to determine dosage and includes patient groups that receive 2x the daily dosage of 600mg, 300mg or 150mg PQ912, or a placebo. The primary objective of US Phase 2a is to identify the highest tolerable dosage. The dosage identified in Phase 2a will then be used directly in Phase

2b to examine the effectiveness of PQ912 over a treatment period of 72 weeks. The primary endpoint of Phase 2b is the review of efficacy by analysing the difference in the established CDR sum of boxes score between the medicated group and the placebo group over the entire treatment period. The essential efficacy endpoint is the comparison in the also established CFC2 (cognitive-functional composite) score between both groups. Furthermore, numerous other efficacy endpoints and exploratory endpoints will be examined. In order to carry out the study in the US, we continued to prepare the IND application (investigational new drug) in 2018 in order to submit this in 2019.

Besides Phase 2a/b in the US, we made further preparations for the Phase 2b study (SAPHIR 2) in Europe. Plans include, as is the case with the SAPHIR study, to conduct this in close collaboration with Professor Philip Scheltens of the Free University Amsterdam. SAPHIR 2 builds directly on the results of the SAPHIR study. SAPHIR 2 is intended to include 250 patients at an early stage of the disease (mild cognitive impairment, disease stage 3.4). After the first 12 treatment weeks with 300mg PQ912, patients are switched to the group of their respective highest tolerable dosage (300 or 600mg). The minimum treatment period is 36 weeks per patient. The primary objective is to analyse the cognitive function using parts of the NTB (neuropsychological test battery). Secondary objectives include examining the synaptic functions and connectivity by way of EEG measurements. If we can start this study in 2019, we expect the analysis of key findings to be wrapped up by late 2021.

Should both studies (EU und US) yield positive results in terms of the primary and key secondary endpoints, then the Company believes that it is possible to obtain conditional approval from the regulatory authorities for PQ912 as an Alzheimer's drug.

b) Annual General Meeting in 2018

The Company's Annual General Meeting took place on 21 June 2018. The following items were presented for resolution:

- discharge of the Executive Board members for financial year 2017
- discharge of the Supervisory Board members for financial year 2017
- election of the legally required financial statement auditor for the financial year
- election of Supervisory Board members

- authorisation to issue options and/or convertible bonds excluding subscription rights as well as establishing Conditional Capital 2018 upon revocation of the Conditional Capital 2015 along with the corresponding amendment to the Articles of Association
- reduction in the number of Supervisory Board members as well as the corresponding amendment to the Articles of Association

All of the resolution proposals by the Executive Board and Supervisory Board were approved by a large majority.

c) Extraordinary general meeting in 2018

Probiodrug held an extraordinary general meeting on 7 December 2018. Pursuant to Section 92 (1) AktG, the Executive Board reported at this meeting that the Company's losses amounted to more than half of the capital stock.

d) Changes in the Executive Board

The Chairman of the Executive Board appointed until this date and cofounder of Probiodrug, Dr Konrad Glund, went into retirement as at 30 April 2018. The Chief Financial Officer until this date, Dr Hendrik Liebers, left the Company also as at 30 April 2018. Both continued to work as advisors to the Company for an additional 4 months. Dr Inge Lues, Chief Development Officer, left the Company as at 31 October 2018 to go into retirement after completing her term of office and expiration of her service contract.

Dr Ulrich Dauer (Dipl.-Chemiker [degree in chemistry]) was appointed Chairman of the Executive Board on 1 May 2018. Mr Dauer is bringing more than 20 years of experience in the biopharmaceutical sector to Probiodrug. Furthermore, Dr Michael Schaeffer joined the Probiodrug team on 1 August. He was appointed to the Executive Board on 1 October 2018 and is Chief Business Officer. His extensive experience with neurological projects in all development stages means Dr Schaeffer has also assumed the responsibility for Probiodrug's R&D business unit.

2. Overview of business development

2.1. General conditions

Whereas developments in Alzheimer's research continue to be volatile, the global need for new therapeutic treatment methods in conjunction with an increasing aging population continue to drive the interest in and hope for this challenging indication. 2018 was once again characterised by mixed news on the research and development of new therapeutic approaches for treating Alzheimer's, an indication for which only four products have been approved to treat the symptomatic effects of the illness since 1998, while the medical demand is steadily rising due to an the aging world population.

Ups and downs

Boehringer Ingelheim AG & Co. KG cancelled studies with the phosphodiesterase inhibitor Phosphodiesterase (PDE)-9A for Alzheimer's in 2018 after not being able to achieve their efficacy endpoints in two Phase 2 studies. Similarly, Merck & Co. and Eli Lilly together with AstraZeneca terminated the Phase 3 studies for their respective Alzheimer's candidates Verubecestat and Lanabecestat, both inhibitors of the beta-secretase-cleaving enzyme (BACE). In addition, Janssen Global Services, LLC, cancelled two studies, where atabecestat (a BACE1 inhibitor) was used to treat Alzheimer's, due to dangerously high liver enzyme levels. Roche also recently withdrew its support of the Crenezumab antibody from clinical development. The antibody against Abeta did not show sufficient efficacy in the assessments. However, Roche's other Alzheimer development projects are not affected by this decision.

Despite this string of failures in the 2018 therapy approaches, there was also progress: Biogen Inc. and partner Eisai Co. Ltd. reported on positive secondary endpoints that show that the anti-Abeta-antibodies of highest dosage of BAN2401 significantly slow down Alzheimer's progression (30%) and reduces beta-amyloid after 18 months of treatment in a Phase 2 study.

Attractive environment for investments with an extremely high economic effect

The global socio-economic costs caused by Alzheimer's in 2018 are estimated as equalling USD 1 trillion – a figure that will double by 2030. (World Alzheimer Report 2018, Alzheimer's Disease International).

The high economic importance of conducting research and development on Alzheimer's disease also attracted investors in 2018. Two collaborations between Johnson & Johnson Innovation, LLC, the University of Pennsylvania and gene therapy companies Voyager Therapeutics Inc. and AbbVie Inc. were established in order to develop new gene-therapeutic approaches for treating Alzheimer's disease. Eli Lilly and AC Immune SA announced in late 2018 their collaboration to jointly develop tau inhibitors, with an upfront payment of USD 81 million to AC Immune. Besides industry partnerships, Bill Gates invested in a new fund, the Diagnostics Accelerator, in July 2018, which is managed by the Alzheimer's Drug Discovery Foundation. This investment was made one year after his initial investment of USD 50 million into dementia research in November 2017. In addition, the US Senate approved a budget of USD 2.34 billion for Alzheimer's research in August. This decision increased the total NIH budget by USD 2 billion.

Updated guidance gives research cause for hope

New hope in Alzheimer's research was provided in February 2018 by the European and American regulatory authorities in the form of updated EMA Directives and FDA Draft Guidance. The FDA adjusted its approach in line with new research findings and, thus, a better understanding of Alzheimer's in order to address the urgent need for new treatment options. The new guidance takes into account clinical-relevant endpoints and offers a fast track to obtaining approval for new Alzheimer's medicine.

2.2. Company development

Probiodrug focused on the following areas in 2018:

- Preparing Phase IIa/IIb studies with PQ912 in the US and Phase IIb studies in Europe,
- Further progress in developing the preclinical anti-pGlu-Abeta-specific antibody (PBD-C06),
- 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 with an industrial partner. Own development is conditional upon further funding.

2.3. Presentation of 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 Dec. 2018	31 Dec. 2017
	kEUR	kEUR
Assets		
Intangible assets	7	12
Property, plant and equipment	58	55
Financial assets	3	3
Fixed assets	**68**	**70**
Receivables and other assets	201	155
Cash and cash equivalents	3,680	10,191
Current assets	**3,881**	**10,346**
Prepaid expenses	99	346
Total assets	**4,048**	**10,762**
Equity and liabilities		
Equity	1,543	9,246
Provisions	1,923	1,264
Liabilities	582	252
Total Equity and Liabilities	**4,048**	**10,762**

As at 31 December 2018, the non-current assets declined by EUR 2k, due to capital expenditures of EUR 22k offset by amortisation and depreciation of fixed assets totalling EUR 23k.

Current assets decreased by EUR 6,465k from EUR 10,346k to EUR 3,881k in 2018, mainly due to the decline in cash and cash equivalents as a result of funding business activities.

Bank balances totalled EUR 3,680k as at the balance sheet date. A further EUR 103k in funds are held by Probiodrug Inc.

Probiodrug's equity totalled EUR 1,543k as at 31 December 2018 (2017: EUR 9,246k). This is reflected in the equity ratio of 38.1% (2017: 85.9%).

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

Provisions increased year-on-year by EUR 659k to EUR 1,923k as at 31 December 2018. This rise is due to the increase in pension provisions by EUR 692k, which was contrasted to a minor extent by a decrease in other provisions (EUR 33k). As at 31 December 2018, EUR 1,541k (2017: EUR 848k) of the provisions included pension provisions and EUR 383k (2017: EUR 415k) were other provisions.

The increase in pension provisions was due to no longer offsetting plan assets against the settlement amount. There are no longer any plan assets after expiration of the pension reinsurance policies and paying out the current market value of the plan assets to Probiodrug.

Liabilities rose by EUR 330k from EUR 252k as at 31 December 2017 to EUR 582k as at 31 December 2018. Of this amount, EUR 507k (2017: EUR 209k) was attributable to trade payables and EUR 75k (2017: EUR 43k) to other liabilities.

Financial position

Operating cash flows amounted to EUR -6,996k in the reporting period (2017: EUR -12,117k). The year-on-year change was largely due to tax payments and the considerable drop in trade payables in the prior year.

Cash flows from investing activities amounted to EUR 459k in 2018 (2017: EUR 459k).

There were no cash flows from financing activities in 2018 (2017: EUR 128k).

Results of operations

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

	2018	**2017**
	kEUR	kEUR
Other operating income	56	1,125
Cost of materials	-2,125	-5,122
Personnel expenses	-2,396	-1,904
Amortisation of intangible assets and depreciation of property, plant and equipment	-23	-106
Other operating expenses	-3,125	-2,837
Net finance income/costs	-90	13
Income taxes	0	1,102
Net loss for the year	**-7,703**	**-7,729**

The Company's net loss for the year amounted to EUR 7,703k (2017: EUR 7,729k). The material changes over the prior year were mainly due to:

- the decrease in cost of materials by EUR 2,997k, which was due to a reduction in the expenses for purchased services
- the increase in personnel expenses by EUR 492k, which was mainly driven by new hires as well as the increase in the Executive Board's remuneration due to payments relating to the exit of two Board members,
- the rise in other operating expenses by EUR 288k, largely the result of the increase in expenses for advisory services.

The internal and external research and development expenses totalled EUR 4,412k (2017: EUR 7,460k).

The net loss for financial year 2018 is in line with the Executive Board's expectations.

Overall assessment

At the time of preparing this management report, the Company's economic position had not changed materially in comparison with the explanations provided above. Overall, the Executive Board is satisfied with the development of business, but recognises the need for additional cash inflow to continue value-adding research and development activities as well as for general business activities.

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 awarding contracts as well as during the ongoing work addressing the aforementioned points and potentially deriving recommendations for action. Major 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 2018, Probiodrug had 14 (2017: 15) employees (including two Executive Board members), of which 50% were female. In the reporting period, there were an average of 14 employees including three Executive Board members (2017: 14). In 2018, Probiodrug incurred personnel expenses of EUR 2.40 million (2017: EUR 1.90 million).

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

Industrial property rights

A commercially attractive and, from a competitive position, stable patent portfolio is a decisive success factor for Probiodrug. The Company has very experienced patent management that strengthened the patent portfolio also in 2018. The focus hereby in the meantime is on safeguarding the granting of patents in key economic markets. Probiodrug actively manages its intellectual property rights portfolio to provide for continuous adjustment to the sustainable value drivers while also optimising costs versus benefits.

40 patent families were held as at 31 December 2018 (31 December 2017: 42).

3. Opportunities and risks report

3.1. Opportunities

Further momentum in Alzheimer's therapy

Considerable movement in Alzheimer's research and development was evident on the regulatory side in 2018. In this regard, both the EMA as well as the FDA are pursuing the clear objective of simplifying the development of therapeutics through new guidelines.

Further heavyweight investors on the investor side (Bill Gates Foundation, Dementia Discovery Fund and others) are committed to supporting Alzheimer's research in the coming years in the three-digit million range.

Furthermore, the pharmaceutical industry and investors continue to show interest in Alzheimer's disease. 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. If successful, this could provide commercially lucrative prospects for the Company and its shareholders.

First material findings with therapeutic antibodies (BAN2401) were presented by companies Eisai and Biogen at the CTAD 2018 in Barcelona. BAN2401 is based on an approach resting on a therapy hypothesis comparable to Probiodrug. The presented data have also apparently convinced the regulatory authorities so that only a pivotal Phase 3 study is being demanded (initially two or more were planned). If successful, this should considerably speed up regulatory approval and could then be viewed as validation of Probiodrug's development approaches.

Important progress in relevant projects

The financial year 2018 was heavily impacted by the development of the detailed study design for the clinical Phase 2b study (SAPHIR 2) with PQ912, an inhibitor of glutaminyl cyclase (QC). The latest FDA and EMA Draft Guidance for early Alzheimer's studies were considered for this study. The 2b Core Programme is to consist of two clinical studies, which are scheduled to be conducted in the European Union (EU) and in the US. An application for funding was submitted to the NIH in 2018 in cooperation with the Alzheimer's Disease Cooperative Study (ADCS), which, if successful, can make a substantial contribution to funding the Phase 2b study in the US. The application for funding was approved by the NIH on 18 March 2019.

Licensing income from patents

Probiodrug's very comprehensive and well-positioned product and patent portfolio could lead to licensing agreements. The Company would receive licence fees for these, thereby improving its 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 approach to obtain access to promising development programmes and interesting technologies. This is reflected in active mergers and acquisition (M&A) activities in the biotechnology and pharmaceutical sectors 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 or 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 major importance.

Sector-specific risks

Market and competition

The pharmaceutical development process in the area of Alzheimer's 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 that 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 superior efficacy and/or a safety profile and/or that they will achieve a development edge that 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 major need to replenish its 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 programmes 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 for this therapy.

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 programmes did not fail.

Overall, this risk has major importance for Probiodrug.

Product development (in general)

Probiodrug's success depends on various research and development programmes. The Company is exposed 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 a compound in the clinical development (PQ912) as well as two compounds, which are in early preclinical phases. On the basis of this product pipeline, risks, i.e. the dependency on one individual compound, can generally be reduced. However, due to the various development phases, a substantial portion of the Company's value is driven by 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 and 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 major importance for Probiodrug.

Administrative proceedings

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

Overall, this risk is of moderate importance for Probiodrug.

Risks arising from business activities

Development and licensing partnerships

Probiodrug focuses on the research and development of therapies for treating Alzheimer's and related diseases. In order to earn 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 backdrop and in view of the required significant future research and development expenses, Probiodrug will, for the time being, continue to report negative operating earnings.

To become profitable in the medium term, Probiodrug will have to conclude corresponding agreements with the pharmaceutical industry or with other biotechnology companies. Should it not be possible for Probiodrug to secure such a partner or if this is only possible at economically unfavourable terms, this could delay the development of the respective products and/or result in lower revenues, thereby reducing the value of the project and threaten the Company's ability to continue as a going concern.

Overall, this risk is of major importance for Probiodrug.

Patents and trademark protection

Probiodrug protects its own developments with a comprehensive patent strategy. Nonetheless, the Company cannot guarantee that its patent protection is sufficient for its business activities. It cannot be ruled out 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 ruled out that Probiodrug may become engaged in patent disputes with third parties, e.g. if Probiodrug

needs to defend itself against the unauthorised use of its patents by third parties. Furthermore, it cannot be ruled out that Probiodrug's patents are, in part, dependent on the patents of third parties. Every legal ruling against Probiodrug's patents or potential claims of third parties can negatively impact the further development of the relevant programmes 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 relevant programmes 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 major importance for Probiodrug.

Risks associated with product development

Collaboration with external service providers in research and development

Probiodrug conducts the required preclinical and clinical studies with contract research organisations (hereinafter referred to as 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 relevant study. Should the CRO not carry out its work with the required due care and/or not adhere to the legal requirements and quality assurance standards, the further development of the relevant 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 standards. The occurrence of these risks could lead to delays or to the discontinuation of ongoing preclinical and clinical studies or could delay or prevent the start of planned preclinical and clinical studies with corresponding consequences for the development of the product candidate.

Overall, this risk is of major importance for Probiodrug.

Patient recruitment

A further risk with respect to the development of drugs is the need to recruit a sufficient number of suitable patients for the PQ912 clinical study. Delays may be encountered 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.

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 advance 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 major importance for Probiodrug.

Capital market risks

Additional financing

The Company is facing a difficult liquidity position as liquid funds, according to the budget (excluding a long-term study on Alzheimer's patients), are sufficient until only the beginning of Q3 2019 to meet existing financial obligations. In addition, Probiodrug has capital needs of approx. EUR 6.2 million for the period ending 2020. The Company has prepared various financing scenarios and options and initiated corresponding preparatory measures designed to raise the necessary funds in order to cover the immediate capital requirements for the period ending 2020. This will require the raising of equity or third party financing or the generation of inflows as a result of the granting of licences or cooperations. Therefore, there is the need to ensure the Company's future funding through equity providers and/or financial backers, or raise cash inflow through own business activities. These events and circumstances indicate considerable uncertainty that could cast significant doubt on the Company's ability to continue its business activities and which represent a risk that could affect the Company's ability to continue as a going concern.

For more information, please see also our comments in Section 1 of the notes to the financial statements.

Overall, this risk is of major importance for Probiodrug.

Financial and balance sheet-related 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 for 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. According to the amendment of Section 8c (1) sentence 1 of the German Corporation Tax Act [KStG], loss carryforwards and accumulated losses expire fully if more than 50% of share capital or voting rights are transferred to a buyer (including the subscription of new shares) or a group of buyers with joint interests and cannot be offset against future taxable income, which would lead to an increased tax burden.

However, the constitutional compliance of this regulation continues to be questioned and corresponding proceedings are pending at the German Federal Constitutional Court [BVerfG].

Overall, this risk is of moderate importance for Probiodrug.

Administrative and other risks

Probiodrug's success is heavily dependent on management as well as on qualified personnel. The Executive Board as well as many employees have significant experience and are difficult to replace. In the biotechnology and pharmaceutical sectors, competition with respect to qualified personnel is very fierce. To date, Probiodrug has always been able to staff 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 itself.

Overall, this risk is of major importance for Probiodrug.

Legal risks

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

Overall, this risk is of major importance for Probiodrug.

Other risks

Other potential risks, for example with respect to environmental protection and the integrity of IT systems or legal and 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 for Probiodrug.

Overall assessment of the risk situation

In consideration of all aforementioned risks, especially the limited liquid funds in conjunction with capital market risks are relevant from today's perspective, which could threaten Probiodrug's ability to continue as a going concern. The Company has prepared various financing scenarios and options and initiated corresponding preparatory measures designed to raise the necessary funds in order to cover the immediate capital requirements of approx. EUR 6.2 million for the period ending 2020. The Company's ability to continue as a going concern is at risk should the financing scenarios not be realised in the necessary scope and on time.

Please see also our comments in Section I of the notes to the financial statements for more information on the Company's ability to continue as a going concern.

4. Outlook/forecast report

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

- Carrying out the phase 2b clinical study programme 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 that are not yet offset by any sales revenue, the Company also projects a net loss for financial year 2019 which, based on the current budget, is expected to be lower than that of 2018.

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 General Meeting so as to provide the Company with sufficient flexibility to seize potential opportunities.

The Company is well-positioned in the development of new therapeutic concepts for the treatment of Alzheimer's. Through successful further programme 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 substantial company value.

5. Probiodrug's risk management and internal control system

Risk management system

Probiodrug AG has 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 job descriptions as well as functional descriptions. In addition, verification documents are used. These include notes and 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 stipulates 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 the 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 budget 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 of the research and development programmes, 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 consistent presentation of

the same circumstances. This provides certainty for the accounting entries and the corresponding classifications on the sub-projects.

6. Reporting pursuant to Section 289a of the German Commercial Code [HGB]

6.1. Summarised information on capital, voting rights and stock with special rights

As at the balance sheet date of 31 December 2018, 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 General Meeting as well as dividend entitlements when distributions are adopted; there are no restrictions on voting rights. The share capital is fully paid up. 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 German Stock Corporation Act [AktG]. To the extent that Probiodrug's employees hold shares in the Company, they exercise direct control over the voting rights.

In accordance with the resolution of the Annual General 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.

Authorised Capital totalled EUR 4,093,367.00 as at 31 December 2018.

The conditional capital amounted to EUR 4,002,527.00 as at the balance sheet date 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 discharge the stock option rights which were issued to members of the Executive Board and Company employees on the basis of the Annual General 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 discharge the stock option rights which were issued to members of the Executive Board and Company employees on the basis of the Annual General 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 discharge the stock option rights that were issued to members of the Executive Board and Company employees on the basis of the authorisation granted by the Annual General 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 discharge the option rights issued to members of the Executive Board and Company employees on the basis of the authorisation granted by the Annual General Meeting on 29 September 2014, 10 June 2015 and 19 May 2016.

Conditional Capital 2015

Conditional Capital 2015 in an amount of up to EUR 2,000,000.00 by issuing up to 2,000,000 new non-par bearer shares was revoked pursuant to the resolution of the Annual General Meeting on 21 June 2018 as part of establishing Contingent Capital 2018.

Conditional Capital 2018

In a resolution dated 21 June 2018, the Annual General Meeting resolved to establish Conditional Capital 2018 and revoke the Conditional Capital 2015.

The Company's share capital was conditionally increased by up to EUR 3,400,000.00 by issuing up to 3,400,000 new bearer shares. The conditional capital increase solely serves to discharge the conversion and/or option rights which were issued on the basis of the resolution of the Annual General Meeting held on 21 June 2018, which authorised the issuance of convertible bonds.

Authorisation to acquire treasury shares

On 10 June 2015, the Annual General Meeting authorised the Executive Board, in accordance with Section 71 (1) no. 8 of the German Stock Corporation Act [AktG], to acquire treasury stock until 9 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 that the following shareholders of Probiodrug AG had shareholdings in accordance with the provisions of the German Securities Trading Act [WpHG], with voting rights exceeding 10.0%: IBG Group, Magdeburg, Germany (10.9%)

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 AktG as well as in Section 6 of the Articles of Association in the version dated 6 October 2016. Pursuant to Section 6 of the Articles of Association, the Executive Board consists of one or more 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 with board members Dr Dauer (effective from 1 May 2018) and Mr Michael Schaeffer (effective from 1 October 2018) were concluded for a period of three years.

6.4. Amendments to the Articles of Association

Changes to the Articles of Association are made in accordance with Sections 179 and 133 AktG. Pursuant to Section 20 of the Articles of Association, resolutions of the Annual General Meeting (including with respect to changes to the Articles of Assocation) 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.

7. Corporate governance statement pursuant to Section 289f HGB

The corporate governance statement in accordance with Section 289f 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 AktG

Pursuant to the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to Section 161 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 – deductible 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 deductible is stipulated. As the Supervisory Board members, for the most part, only receive minor remuneration, a deductible 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 ensure 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 General 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 Company's positioning, the members of the Supervisory Board should also have US experience. As these requirements make it difficult to find a sufficient number of qualified members for the Supervisory Board, the Supervisory Board has 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 statutory periods are sufficient for the careful preparation of the documents. Furthermore, for the time being, the Supervisory Board and Executive Board consider the statutory requirements as sufficient for timely information to the shareholders and the capital markets. However, the possibility of complying with the shorter deadlines of the Code is continuously reviewed.

Information on female representation

In accordance with the German Introductory Act to the Stock Corporation Act [EGAktG], the Supervisory Board of Probiodrug resolved on 7 December 2018 to implement a one-third and one-fifth share of women in the Executive Board and the Supervisory Board, respectively, by 30 September 2022.

The departure of Dr Inge Lues as at 31 October 2018 means target female representation in the Executive Board was not achieved as at 31 December 2018.

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 here.

Information on corporate governance

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

Management and monitoring is carried out in accordance with German law and social norms and is largely 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 Act [AktG], Probiodrug is managed 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 advancement of the programmes being pursued and thereby sustainably increase the Company's value. The Executive Board and the Supervisory Board agree 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 programmes 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 on short notice are, if required, 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, consisting of Dr Ulrich Dauer (Chairman; Chief Executive Officer/CEO) and Dr Michael Schaeffer (Chief Business Officer/CBO), independently manages the business and is, 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 work closely within Probiodrug's Executive Board. Further details as to the work within the Executive Board are determined on the basis of rules of procedure.

All Executive Board functions generally coordinate their activities on a weekly basis. Decisions are made by unanimous vote. In the case of disagreement the Chairperson of the Executive Board casts the deciding vote.

Supervisory Board

The Supervisory Board had four members as at 31 December 2018. The work of the Supervisory Board, the principles of passing resolutions as well as the work of the committees is regulated by the Supervisory Board's rules of procedure. Dr Erich Platzer is the Chairman. Vice Chairman is Dr Dinnies Johannes von der Osten. The additional members are Ms Charlotte Lohmann and Dr Jörg Neermann. The Supervisory Board convened seven times in the reporting period (12 March, 5 April, 18 July, 12 September, 27 September, 10 November, 7 December). The current Supervisory Board members are internationally active in the financial, biotechnology and pharmaceutical sectors and, therefore, are very familiar with the needs of these sectors.

In order to raise the efficiency of the Supervisory Board's work, three committees were formed in the past, of which the Nomination and Remuneration Committee was phased out as at 31 December 2017 and its functions were fully assumed by the Supervisory Board. The existing Audit Committee includes 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 2018. The primary discussion points in these meetings included the audit of the 2017 financial statements pursuant to HGB and IFRS as well as the 2018 half-year financial statements.

The Audit Committee reports on its 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 conducted 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 or ad-hoc announcements. All financial reports, announcements, presentations and communications are available on the Company's website.

8. Remuneration report

We refer to the appendix to the management report included in the financial statements for the remuneration report.

Halle (Saale), 25 March 2019
Executive Board of Probiodrug AG

Dr Ulrich Dauer Dr Michael Schaeffer

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 two components:

- compensation independent of success (fixed compensation) and
- a performance-based bonus

The Executive Board members that left the Company in 2018 also received stock options in the Company.

Fixed compensation

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

Performance-related compensation

The performance-based compensation consists of a bonus measured in terms of one year. The performance-based bonus is determined by the Supervisory Board on the basis of an annual performance assessment and professional judgement. The bonus is paid out according to how Probiodrug's business develops as well as the scope of the individual's achievement as well as the realisation of the Company's general objectives. These objectives include, among other topics, performance, business development, strategy, investor relations and general management.

At the beginning of the following calendar year, the Supervisory Board reaches a conclusion as to how far the objectives have been achieved. The bonus is payable subsequent to the Supervisory Board's resolution on achievement of the objectives. This bonus was capped at 45% of the gross annual salary in the case of previous Executive Board members Dr Konrad Glund, Dr Hendrik Liebers and Dr Inge Lues.

Dr Ulrich Dauer, Chairman of the Executive Board since 1 May 2018, can receive a maximum performance-based bonus of EUR 60k annually; Dr Michael Schaeffer, Chairman of the Executive Board since 1 October 2018, can receive a maximum performance-based bonus of EUR 40k.

Stock options

The Company uses employee stock option programmes (ESOP) as a further component of compensation with a long-term incentive; both the Executive Board members who left the Company in 2018 and the employees participate in these programmes. Within the scope of these programmes, stock options were issued in 2010 and 2014 to members of

the Executive Board who left the Company in 2018, entitling the individuals to acquire shares of Probiodrug. Detailed information as to the current option holdings is presented in the notes to the annual 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': 'Compliance statement pursuant to Section 161 of the German Stock Corporation Act [AktG]').

Executive Board compensation for 2018

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

Benefits granted	Dr Ulrich Dauer			
	CEO			
	since 1 May 2018			
	2017	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation		160,000	160,000	160,000
Fringe benefits		2,720	2,720	2,720
Total	***0***	***162,720***	***162,720***	***162,720***
Variable compensation for one year		0	0	40,000
Compensation upon joining according to the employment contract		60,000	60,000	60,000
Total	0	**222,720**	**222,720**	**262,720**
Pension expense				
Total compensation	**0**	**222,720**	**222,720**	**262,720**

Benefits granted	Dr Michael Schaeffer			
	CBO			
	since 1 Oct. 2018			
	2017	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation		55,000	55,000	55,000
Fringe benefits		1,015	1,015	1,015
Total	***0***	***56,015***	***56,015***	***56,015***
Variable compensation for one year		0	0	10,000
Total	0	**56,015**	**56,015**	**66,015**
Pension expense		1,190	1,190	1,190
Total compensation	**0**	**57,205**	**57,205**	**67,205**

Benefits granted	Dr Konrad Glund			
	CEO			
	Exited on 30 April 2018			
	2017	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	210,000	70,000	70,000	70,000
Fringe benefits	24,454	8,113	8,113	8,113
Total	***234,454***	***78,113***	***78,113***	***78,113***
Variable compensation for one year	50,400	21,000	0	31,500
Total	**284,854**	**99,113**	**78,113**	**109,613**
Pension expense	54,658			
Total compensation	**339,512**	**99,113**	**78,113**	**109,613**

In conjunction with his departure from the Company, Dr Konrad Glund received a severance payment of EUR 76k. He holds 117,600 share options as at 31 December 2018, all of which are vested. Furthermore, he worked as an advisor to the Company from 1 May to 31 August 2018 for a monthly fee of EUR 12k (total of EUR 47k).

Benefits granted	Dr Hendrik Liebers			
	CFO			
	Exited on 30 April 2018			
	2017	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	210,000	70,000	70,000	70,000
Fringe benefits	21,961	8,016	8,016	8,016
Total	***231,961***	***78,016***	***78,016***	***78,016***
Variable compensation for one year	63,000	21,000	0	21,000
Variable compensation for one year from the prior year		31,500		
Total	***326,461***	***130,516***	***78,016***	***99,016***
Pension expense	60,866	29,680	29,680	29,680
Total compensation	**387,327**	**160,196**	**107,696**	**128,696**

In conjunction with his departure from the Company, Dr Hendrik Liebers received a severance payment of EUR 112k. He holds 117,600 share options as at 31 December 2018, all of which are vested. Furthermore, he worked as an advisor to the Company from 1 May to 31 August 2018 for a monthly fee of EUR 12k (total of EUR 47k).

Benefits granted	Dr Inge Lues			
	CDO			
	Exited on 31 October 2018			
	2017	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	227,500	262,500	262,500	262,500
Fringe benefits	3,921	3,455	3,455	3,455
Total	***231,421***	***265,955***	***265,955***	***265,955***
Variable compensation for one year	63,000	0	0	78,750
Variable compensation for one year from the prior year		31,500		
Total	***325,921***	***297,455***	***265,955***	***344,705***
Pension expense				
Total compensation	**325,921**	***297,455***	**265,955**	**344,705**

Dr Inge Lues received compensation in the monthly amount of EUR 18k for a post-contractual non-competition agreement for a period of 6 months after her exit. She holds 104,834 share options as at 31 December 2018, all of which are vested.

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': 'Compliance statement in accordance with Section 161 of the German Stock Corporation Act [AktG]'.

Shareholdings of the Executive Board members

According to the information available to the Company as at 31 December 2018, the Executive Board members held less than 1% of the shares in Probiodrug AG.

Compensation of former Executive Board members

Direct retirement benefits

Former Executive Board members Dr Hans-Ulrich Demuth and Dr Konrad Glund were paid retirement benefits totalling EUR 56k in financial year 2018 (PY: EUR 0k). In addition, personnel expenses totalling EUR 71k (PY: EUR 23k) were recognised as part of the existing pension commitments.

Pension scheme through pension relief fund

For Dr Liebers, who left the Company as at 30 April 2018, contributions will continue to be paid into the benefits fund until reaching retirement age in order to maintain his retirement, surviving benefits and occupational disability claims from the company pension scheme through the benefits funds which have been contractually vested up until this date. In conjunction with recognizing pension provisions for these contributions, EUR 187k was recorded as personnel expenses.

2. Compensation of the Supervisory Board

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

Determination of Supervisory Board compensation

The compensation system for the Supervisory Board members provided for fixed compensation for 2018 for Dr Erich Platzer, Dr D. v. d. Osten and Charlotte Lohmann.

In addition, Ms Lohmann received variable compensation for her participation in Supervisory Board as well as Committee Meetings both in person and via telephone.

Overall, the Supervisory Board's compensation equalled EUR 112k for the financial year under review.

Shareholdings of the Supervisory Board members

According to Probiodrug AG's information as at 31 December 2018, the members of Probiodrug AG's Supervisory Board held a total of approximately 2.1% of the Company's shares.

Halle (Saale), 25 March 2019

Executive Board of Probiodrug AG

Dr Ulrich Dauer Dr Michael Schaeffer

Independent Auditor's Report

To Probiodrug AG, Halle (Saale)

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

Opinions

We have audited the annual financial statements of Probiodrug AG, Halle (Saale), which comprise the balance sheet as at 31 December 2018, the income statement, the statement of cash flows and the statement of shareholders' equity for the financial year from 1 January 2018 to 31 December 2018, 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 2018 to 31 December 2018. In accordance with German legal requirements, we have not audited the content of 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 requirements of German commercial law applicable to corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018, in compliance with German Legally Required Accounting Principles, 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 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 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 Annual 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)(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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Material Uncertainty about the Company's Ability to Continue as a Going Concern

Please refer to Section I in the notes to the annual financial statements as well as the information on capital market risks and the overall assessment of the risk situation in Section 3.1 of the management report, in which management states that the Company is facing a difficult liquidity position as liquid funds, according to the budget, are sufficient until only the beginning of Q3 2019 to meet existing financial obligations. Accordingly, there is the necessity to ensure the Company's future funding through equity providers and/or financial backers or raise cash inflow through own business activities. As presented in Section I in the notes to the annual financial statements and Section 3.1 of the management report, these events and circumstances indicate material uncertainty that could cast significant doubt on the Company's ability to continue its business activities and which represent a risk that could affect the Company's ability to continue as a going concern within the meaning of Section 322 (2) sentence 3 HGB. Our opinions have not been modified with respect to this matter.

Key Audit Matters in the Audit of the Annual Financial Statements

With the exception of the matter described in the section entitled "Material Uncertainty about the Company's Ability to Continue as a Going Concern", we have determined that there are no further key audit matters that must be communicated in our independent auditor's report.

Other information

Management is responsible for the other information. The other information comprises:

– the corporate governance statement and

– the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our opinions on the annual 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 Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is 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, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of a 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, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable 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 annual 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 about 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 HGB and the EU Audit Regulation 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 judgement 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 responsive to 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 controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) 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 systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in 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 assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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 internal control 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 21 June 2018. We were engaged by the Chairperson of the Supervisory Board on 22 January 2019. 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, 25 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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