ANNUAL REPORT 2018

probiodrug

Our aim is to provide **a better life for Alzheimer's Disease patients** by acting as a leader in the development of **innovative drugs**.

T01

DE0007921835 ISIN	**8,208,009** Number of shares
792183 WKN	**EURONEXT AMSTERDAM** Stock exchange
PBD Ticker Symbol	**KEMPEN & CO.** Liquidity Provider and Listing Agent
BEARER SHARES Type of shares	**27 OCTOBER 2014** First trading day

PROBIODRUG AT A GLANCE

DEVELOPING A DISEASE MODIFYING TREATMENT FOR ALZHEIMER'S DISEASE THAT BEARS THE POTENTIAL TO MAKE A TRUE DIFFERENCE FOR PATIENTS

ESTABLISHED: 1997

HEADQUARTER: HALLE (SAALE), GERMANY

IPO OCTOBER 2014

LISTING: EURONEXT AMSTERDAM (TICKER: PBD)

Original research led to the development of a breakthrough generation of novel anti-diabetics.
Diabetes franchise was sold to OSI Pharmaceuticals; proceeds were partially returned to shareholders and partially invested in AD research.

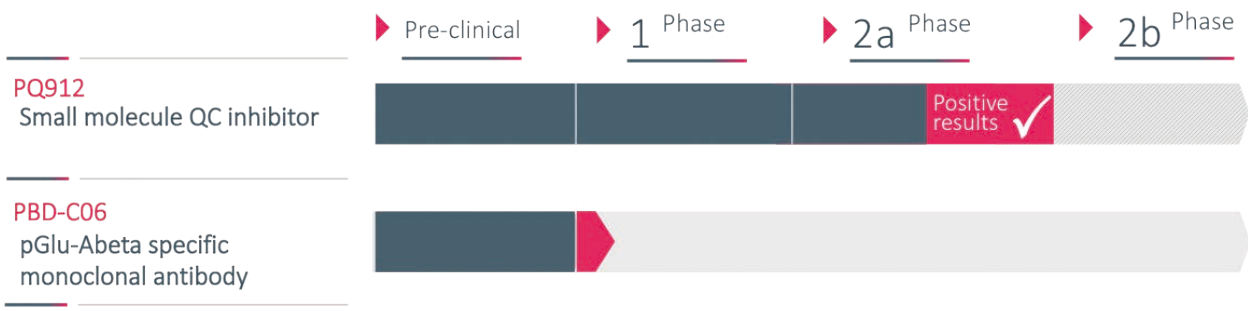
Drug candidate PQ912 delivered positive Phase 2a SAPHIR study results in patients with early AD.
Conclusive Phase 2b EU +US core program outlined (SAPHIR II).

PRODUCT PIPELINE

The protein pyroglutamate-Abeta (pGlu-Abeta) plays an instrumental role in the development of AD. The enzyme Glutaminyl Cyclase (QC) leads to the creation of pGlu-Abeta in the brain. Probiodrug's drug candidates specifically target toxic pGlu-Abeta to inhibit QC through its lead product PQ912 and to clear the brain of pGlu-Abeta through an anti pGlu Abeta-specific antibody called PBD-C06.

- PQ912 is a first-in-class, highly specific and potent inhibitor of QC, the enzyme catalyzing the formation of synaptotoxic pGlu-Abeta. In June 2017, Probiodrug announced top-line data of the Phase 2a SAPHIR trial of PQ912. Results strongly support that PQ912 effectively improved the cognition of AD patients and does not show any serious negative side effects on human beings. The study provides important guidance how to move forward with the development of PQ912 as a disease-modifying drug for AD. Probiodrug has initiated the preparation of a Phase 2b core program. If the Phase 2b study will be successful, a conditional admission of the drug may be granted in.

- PBD-C06 is a monoclonal antibody, currently in preclinical stage. PBD-C06 targets pGlu Abeta, aiming to selectively clear the brain of pGlu-Abeta while leaving non-toxic forms of Abeta untouched. For the first time for an anti-pGlu-Abeta approach, PBD-C06 has not only shown the ability to reduce Abeta/plaques but also to significantly improve cognitive deficits in aged Alzheimer's mice. Moreover, no evidence was found of increased microhemorrhages after treatment with PBD-C06.



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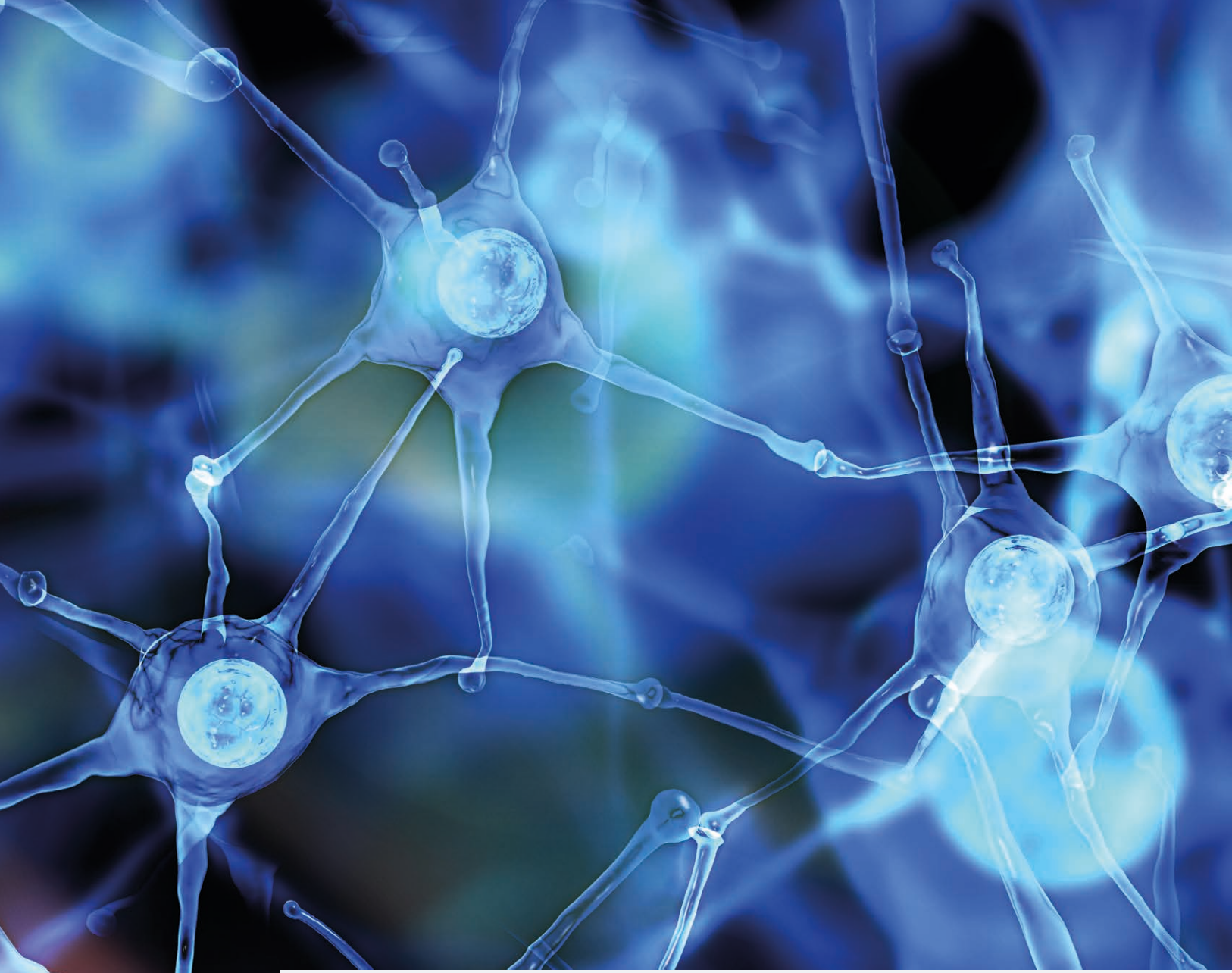


TO OUR SHAREHOLDERS

OUR FIELD OF ACTIVITY — Over 50 million people live with dementia worldwide. This number is estimated to increase to 152 million by 2050.

1

CEO INTERVIEW

INTERVIEW WITH ULRICH DAUER, PH.D. PROBIODRUG'S NEW CEO AS OF MAY 2018

DR. DAUER, YOU STARTED YOUR CAREER AS A SCIENTIST, BUT FOR MORE THAN 20 YEARS YOU´VE BEEN A HIGHLY SUCCESSFUL LIFE SCIENCES MANAGER. ONE COULD SAY THAT YOU LIVE FOR BIOTECH…
Absolutely. I have a technical background – my initial degree is in Chemistry and I worked as a research scientist at Universität Würzburg (Germany) for a couple of years. However, I could see even then that the biotech space was beginning to evolve and I knew I had to be a part of it; I wanted to become an entrepreneur – to build companies.

WHICH ROLE – SCIENTIST OR ENTREPRENEUR – IS YOUR FAVORITE?
Entrepreneur for sure – because it requires a bit of everything to succeed. You need an understanding of the science and the ability to communicate. For example, in order to raise funds or attract the type of talent required to build a successful business. I joined Probiodrug as CEO because I feel we already have an experienced team in place as well as validated, exciting science – in short, we have all the basic ingredients for success.

APART FROM YOUR OWN POSITION AS CEO, THERE HAVE BEEN MORE CHANGES WITHIN THE MANAGEMENT TEAM: HENDRIK LIEBERS, PH.D., STEPPED DOWN AS CFO MID 2018 AND INGE LUES, PH.D., RETIRED FROM HERE POSITION AS CDO AT THE LAST QUARTER 2018. MICHAEL SCHAEFFER, PH.D., WAS PROMOTED TO CBO IN OCTOBER 2018. IS THIS THE MANAGEMENT TEAM THAT WILL LEAD PROBIODRUG INTO A NEW PHASE?
Biotechnology is a fast moving space and companies need to evolve, and match resources with their stage of development. All three have been integral to the company's success to date: Konrad Glund is one of the founders of Probiodrug, Hendrik Liebers was essentially

"I would like to extend our thanks to all those who supported us this dynamic past year: to employees, consultants, supervisory board and shareholders. 2018 was a year with a complete change in the management team of our company. Together with my new management partner Michael I look forward to the year 2019, where we want to focus on leading the company into a financially stable future, especially in light of entering into the next development stage of our lead candidate PQ912."

DR ULRICH DAUER
CEO

involved in Probiodrug´s IPO in 2014 and Inge Lues was instrumental in bringing Probiodrug's assets from preclinical to clinical development stages. While it is a pity that Inge will not be with Probiodrug to see her work to fruition, with the appointment of Michael Schaeffer we are ideally positioned for our next development steps. With more than 15 years of experience across pharma and biotech, his entrepreneurial skill sets and extensive experience in strategic business development for neurology projects across all stages of drug development will be invaluable in defining Probiodrug's business strategies. Additionally, he brings significant experience in advancing innovations in R&D alliance and CRO partnership management on a global scale.

Going forward, our focus is now firmly placed on the clinical development of our first-in-class QC inhibitor PQ912 and for this next part of the journey we need – and have – a team with experience in drug development. With this in mind, as data becomes available from the pivotal studies with PQ912, I have no doubt that we will expand the current team again as new skills are needed to take Probiodrug forward and continue to build value.

THE SHARE PRICE OF PROBIODRUG HAS FALLEN SIGNIFICANTLY IN 2018. WHAT ARE THE REASONS FOR THIS DEVELOPMENT?

I see no operational events that would justify the negative price development in 2018. However, I understand that our current situation causes uncertainties amongst capital market participants, which we will only be able to fully address, once the funding for our next development steps has been secured. We will of course continue to communicate to our investors the strategy for our further journey, to highlight the opportunities of our Phase 2b strategy and to strengthen the confidence of our shareholders.

BIG NAMES IN THE PHARMACEUTICAL INDUSTRY STOPPED THEIR INVOLVEMENT IN RESEARCHING TREATMENTS FOR ALZHEIMER'S IN 2018. HOW CAN A RELATIVELY SMALL COMPANY LIKE PROBIODRUG SET THE TONE IN THIS ENVIRONMENT?

Probiodrug has already established itself in the Alzheimer's drug development environment with its innovative and unique approach to QC-inhibition. Especially in demanding indications, innovation, together with excellent clinical expertise and a top-class scientific network, is a decisive success factor. Probiodrug has always been an outstanding example of translating results from highly innovative research into clinical development success, for example, the invention and development of a breakthrough generation of novel anti-diabetics which were sold to OSI Pharmaceuticals.

WHAT ARE PROBIODRUG'S PRIORITIES FOR 2019 AND BEYOND?

We have two primary goals for 2019. Firstly, given the positive data generated in the clinical studies of our lead product candidate PQ912 in June 2017, we are preparing for the Phase 2b study named SAPHIR 2, a long-term treatment evaluation.

The SAPHIR2 Study will be carried out in the EU and the USA. With data from cognitive and functional endpoints in the EU study we will create a solid base for a Phase 3 program. The EU study will be led by Dr. Philip Scheltens from the Alzheimer Centre of the VU University Medical Center in Amsterdam.

The US-Study will be a complementary to the EU study with a longer treatment duration. This study will be executed with the support of the Alzheimer's Disease Cooperative Study (ADCS), lead by Dr. Howard Feldmann.

Secondly, as we achieve these goals, we will put startey in place to translate our advancements into the company's true value, which will be more accurately reflected in our market valuation.

Dr. Dauer, thank you very much.

"Probiodrug, its culture and our future success are very dependent on our employees – on their inspiration, their motivation, their hard work. We see the Alzheimer's Disease drug development world shaken up since too long now. Our therapeutic approach is much different from what is commonly called "the Abeta hypothesis". And for the benefit of Alzheimer's Disease patients we will work even more persistently on finding a treatment for this ever-growing medical need."

DR MICHAEL SCHAEFFER
CBO

REPORT OF THE SUPERVISORY BOARD

OF PROBIODRUG AG, HALLE (SAALE) FOR THE FINANCIAL YEAR 2018

DR ERICH PLATZER
CHAIRMAN OF THE SUPERVISORY BOARD

COOPERATION OF SUPERVISORY BOARD AND MANAGEMENT BOARD

During the 2018 financial year, the Supervisory Board comprehensively performed the duties assigned to it by law, the Articles of Association, Rules of Procedure and the recommendations of the German Corporate Governance Code (hereinafter referred to as the "Code"). We regularly advised and continually oversaw the Management Board in its management of the Company and dealt extensively with the operational and strategic development of the Group. The Management Board fulfilled its duty to inform and furnish us with periodic written and verbal reports containing timely and detailed information on all business transactions and events of significant relevance to the Company.

In our Committee meetings and plenary sessions, we had the opportunity to fully discuss the Management Board's reports and the proposed resolutions. The Management Board answered our questions on strategic topics affecting the Company with a great level of detail and submitted the relevant documents in a timely manner. Any deviations from the business plan were thoroughly explained to us, and we were directly involved at an early stage in all decisions relevant to the Company.

All relevant topics and strategic decisions, including those where consent was needed, were intensely discussed and mutually agreed.

SUPERVISORY BOARD MEETINGS AND KEY ITEMS OF DISCUSSION

In 2018, eight meetings of the Supervisory Board took place; all members of the Supervisory Board, who were members at the respective point in time, did participate. In those meetings, the main topics were the status of the research and development programs and next steps, relevant events in the industry, the budget for 2018, the financial need and the financing strategy. We also deliberated on the achievement of goals for the Management Board members for 2017, set goals for the Management Board members for 2018 and kept ourselves informed regarding the risk management and internal controls system. Also outside of the Supervisory Board meetings, the chairman of the Supervisory Board was informed by the Chief Executive Officer of the current development of the business situation, significant business events and relevant events in the strategic environment of the company.

ACTIVITIES AND MEETINGS OF SUPERVISORY BOARD COMMITTEES

To ensure that its duties are performed efficiently, the Supervisory Board has established the Audit Committee to prepare the issues that fall within the Supervisory Board's respective areas of responsibility for the Supervisory Board plenum. In each Supervisory Board meeting, the chair of the Committee report to the Supervisory Board on the Committees' work. The minutes of the Committee meetings are made available to all Supervisory Board members.

The audit committee comprises Dr. von der Osten, Charlotte Lohmann and Dr. Neermann; Dr. von der Osten is the Chairperson. All members have the corresponding expertise

and independence. The audit committee met two times in 2018 by telephone. The primary discussion points in these meetings were the audit of the 2018 financial statements pursuant to HGB and IFRS as well as the 2019 half-year financial statements.
The committees reported their activities to the general Supervisory Board.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

For the 2018 financial year, the Company commissioned KPMG AG Wirtschaftsprüfungsgesellschaft („KPMG") as its auditor. The audit contract was awarded by the Supervisory Board in accordance with the resolution of the Annual General Meeting on June 21, 2018. In accordance of the Code, the Supervisory Board obtained a declaration of independence from the auditor in advance.
The documents that had been audited and the audit reports of the auditor were delivered to each member of the Supervisory Board. The auditor attended the meeting of the Supervisory Board on March 15, 2019 where the annual financial statements were presented, and reported on the material findings of his audit. Here the auditor also performed an audit of the risk monitoring system. The conclusion of the audit was that the Management Board has taken all suitable measures according to Section 91 (2) of the AktG, and that the risk monitoring system is capable of recognizing in due course developments that may impair the ability of the company to continue as a going concern.
The Supervisory Board took note of the report of KPMG as auditor of the company. The result of the review of the annual financial statements by the Supervisory Board fully corresponds with the result of the audit by the auditor. The Audit Committee has discussed the annual financial statements in a detailed manner and proposed that the Supervisory Board approve the annual financial statements of Probiodrug AG prepared by the Management Board. The Supervisory Board does not see any reason for raising any objections against the Management Board and the submitted annual financial statements.
In the meeting on April 05, 2019, the Supervisory Board approved the annual financial statements of Probiodrug AG prepared by the Management Board. The annual financial statements are thus adopted.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

Also within the reporting year 2018, the Supervisory Board discussed with the Management Board the Company's compliance with the Code's recommendations and justified exceptions to the Code's recommendations. Based on this consultation, the Management Board and the Supervisory Board issued a declaration of conformity pursuant to section 161 AktG (Aktiengesetz - German Stock Corporation Act) which is available on the website of Probiodrug AG.
The Supervisory Board further devoted its attention to Probiodrug's corporate governance. In its corporate governance report, the Management Board concurrently reports on the corporate governance of Probiodrug also on behalf of the Supervisory Board.

CONFLICTS OF INTEREST IN THE SUPERVISORY BOARD

There were no conflicts of interest in the Supervisory Board within the reporting year 2018.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

There were no changes in the composition of the Supervisory board in the reporting period. The terms of the Supervisory Board members Charlotte Lohmann Dr. Johannes von der Osten, Dr. Erich Platzer and Dr. Jörg Neermann expired in conjunction with the shareholders' meeting held on 21 June 2018. All of the aforementioned Supervisory Board members stood for election again and were re-elected for a term through to the general meeting of shareholders, which resolves upon the approval of the actions of the Supervisory Board for the year 2020.
The following changes in the composition of the Management Board took place during the reporting period. With effect from May 1, 2018, Dr. Ulrich Dauer was newly appointed as a member of the Management Board and Chief Executive Officer. The former Chief Executive Officer, Dr. Konrad Glund, retired from his position on the Company's Management Board effective April 30, 2018. Dr. Hendrik Liebers, the former Chief Finance Officer, resigned from his position on the Company's Management Board effective April 30, 2018. Dr. Ulrich Dauer was also appointed as Chief Finance Officer as of May 1, 2018.
Dr. Inge Lues retired from her position on the Management Board and Chief Development Officer effective October 31, 2018. She is succeeded by Dr. Michael Schaeffer, who was newly appointed as a member of the Management Board and Chief Business Officer, effective October 1, 2018.

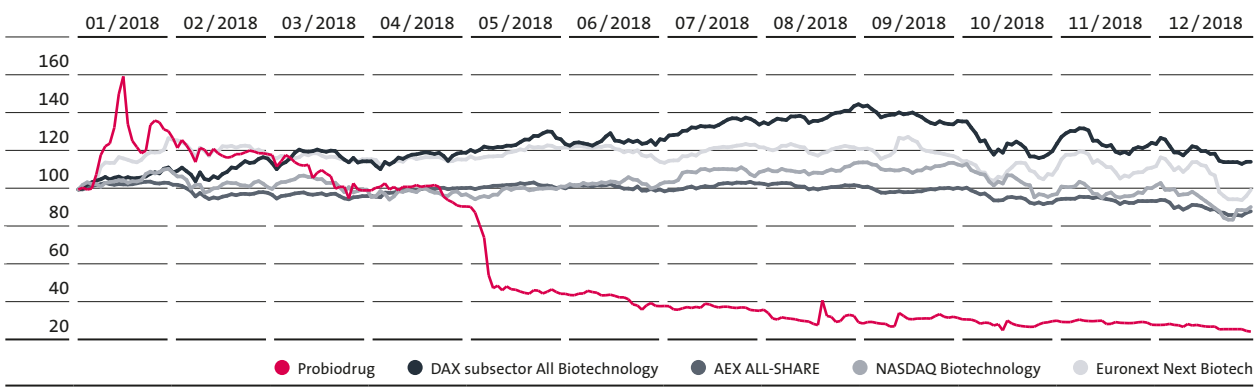
Halle (Saale), in April 2019
for the Supervisory Board:

DR ERICH PLATZER
CHAIRMAN OF THE SUPERVISORY BOARD

THE PROBIODRUG SHARE

RELATIVE PERFORMANCE OF PROBIODRUG SHARE IN 2018

T02



SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2018

T03

	in %	
1	IBG Group	10.9 %
2	AVIVA	9.9 %
3	Edmond de Rothschild Investment Partners	9.7 %
4	LSP	7.8 %
5	TVM	6.8 %
6	HBM Healthcare Investments	4.9 %
7	Founder/Management	3.5 %
8	Others	46.5 %
	Total	100 %

STOCK MARKET SUPPORTIVE FOR BIOTECH IN 2018, BUT CHALLENGING FOR AD COMPANIES

The year 2018 started with setbacks in the AD field, which took its toll on companies focused on AD. The stock market in general and for biotech in particularly was marked by slight positive developments worldwide. The Company's performance was not entirely satisfactory in 2018. Already started projects could not be completed successfully in 2018.

The Euronext Next Biotech, representing the relevant benchmark for Probiodrug in The Netherlands, opened the year at 1,870.91, peaked at 2,380.64 (on September 14) and closed 2018 with 1,855.32. The US NASDAQ Biotechnology Index started into 2018 at 3,440.67, peaked at 3,842.66 (on August 31) and closed the year at 3,043.62. The DAX Biotechnology subindex, tracking the German biotech industry, started into 2018 with 342.39, reached its year high of 495.10 (on August 30) and ended the year at 390.58.

PROBIODRUG SHARE

The price of the Probiodrug share opened the year 2018 at EUR 10.70, reached its intrayear-high of EUR 17.00 on January 15, 2018 and closed the year 2018 at EUR 2.56. Probiodrug had a market capitalization of appr. EUR 21 million at the end of 2018. The Company's performance was not entirely satisfactory in 2018. Already started projects could not be completed successfully in 2018. → T02

KEY FIGURES OF THE PROBIODRUG SHARE AS AT 31 DECEMBER 2018

T04

International Securities Identification Number (ISIN)	DE0007921835
German Securities Identification Number (WKN)	792183
Ticker Symbol:	PBD
Type of shares:	Bearer shares
Number of shares:	8,208,009
Stock exchange:	Euronext Amsterdam
Liquidity Provider:	Kempen & Co.
First day of trading:	27 October 2014
Closing price on first trading day (January 2, 2018 (Euronext) (in EUR)	10.70
Annual high (Euronext) (in EUR)	17.00
Annual low (Euronext) (in EUR)	2.56
Closing price on last trading day (December 31, 2018 (Euronext) (in EUR)	2.56
Market capitalization (in EUR)	21.0 mio

TOP-TIER INVESTOR BASIS

Probiodrug continued to enjoy the confidence of experienced blue chip investors. According to voting rights notifications received up to 31 December 2018, the following institutions were known to have exceeded the 3% threshold: IBG Group, Aviva, Edmond de Rothschild Investment Partners, TVM Capital, Life Science Partners (LSP) and HBM Healthcare Investments. → T03

DEVELOPING OUR INVESTOR RELATIONS ACTIVITIES

During the 2018 financial year, Probiodrug maintained close communication with the capital markets. Probiodrug also took part in around 20 international investor conferences.
Roadshows were held at various locations. The strongest interest in 2018 was Europe where a large number of long-term investors are located. Meanwhile, approximately 50% of Probiodrug AG shares are held by European institutional investors.
Throughout 2018, the Company hosted regular conference calls for investors and analysts to discuss the financial results and provide updates on developments within the Company.
In addition to the reporting requirements due to our listing at the Euronext, Probiodrug publishes relevant information on the company website (www.probiodrug.de) in the interest of prompt communication with all parties.

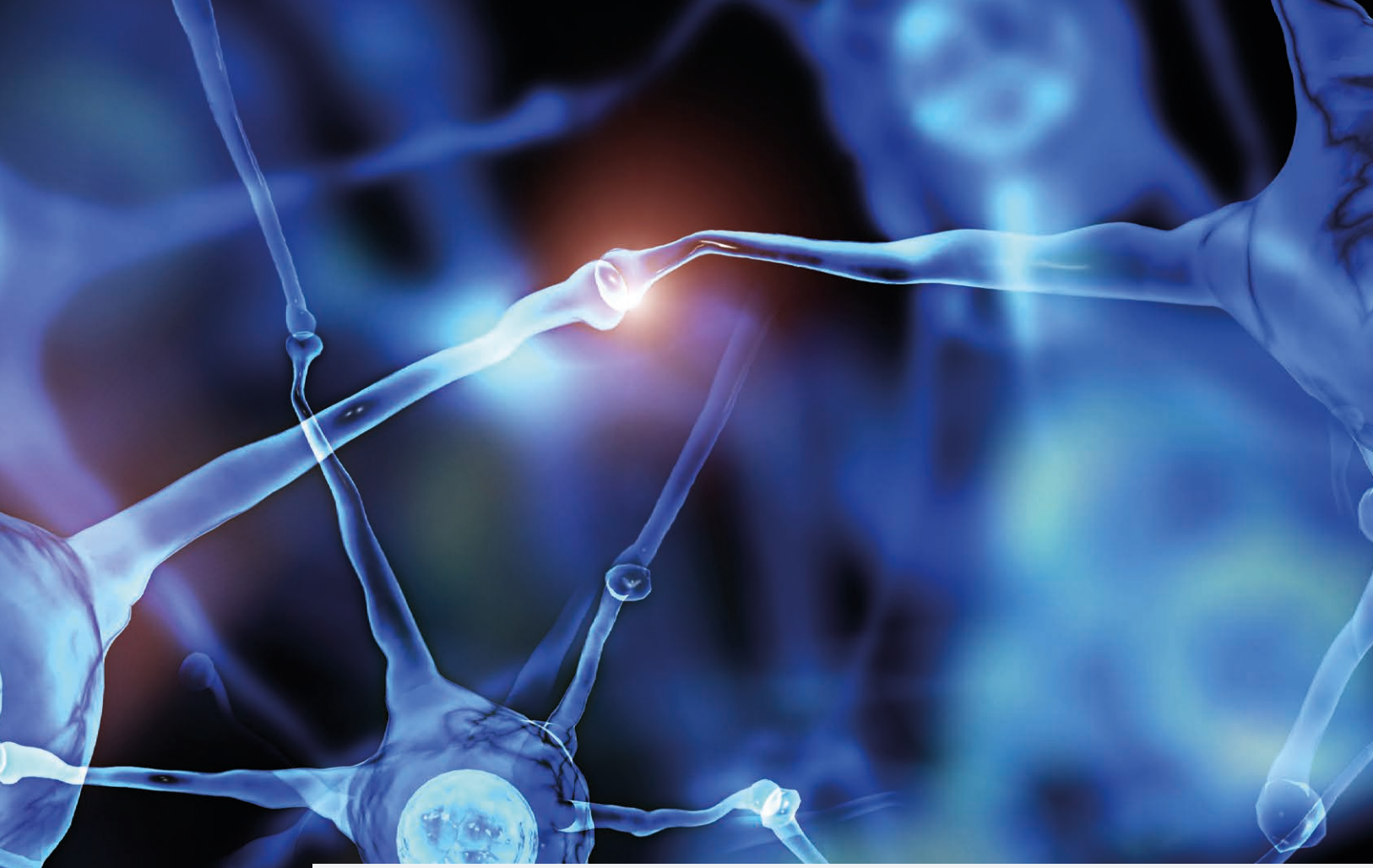
At the Company's Annual General Shareholders' Meeting in Berlin on June 21, 2018, the shareholders voted in favor of all of the Company's proposals by a large majority.

On December 07, 2018, an Extraordinary General Shareholders' Meeting was held in Halle (Saale) as required pursuant to section 92 (1) of the German Stock Corporation Act (Aktiengesetz – AktG) following the Executive Board's notice of a loss.

Probiodrug`s investor relations activities are supported by MC Services. Contact details for media enquiries etc. can be found in the publishing information.

At the end of 2018 Probiodrug was covered by analysts from the following institutions:
- Kempen & Co
- Bank Degroof Petercam
- Edison Research
- goetzpartners Corporate Finance Ltd.
- Rx Securities

Further information can be found in the investor relations section on our homepage.



MANAGEMENT REPORT

OUR AMBITION — Our aim is to become a leading company in the development of Alzheimer's treatments and to provide a better life for patients.

2

2.1 BUSINESS, GENERAL ENVIRONMENT AND CORPORATE GOVERNANCE

(a) GROUP STRUCTURE AND BUSINESS ACTIVITIES

The Probiodrug AG – hereinafter referred to as "Probiodrug" or "the Company" – comprises Probiodrug AG as its wholly owned subsidiary Probiodrug Inc., USA.
Probiodrug is a publicly traded (Euronext Amsterdam: PBD) clinical stage biopharmaceutical company focused to provide a better life for Alzheimer's Disease ("AD") patients by acting as a leader in the development of innovative drugs. The Company is developing a proprietary, focused pipeline of product candidates against AD.

Probiodrug is pursuing a therapeutic concept, which addresses the disease initiation as well as progression. Probiodrug's development programs are targeting pyroglutamate-Abeta (synonym: pGlu-Abeta, N3pG Abeta) as one therapeutic strategy to fight AD. pGlu-Abeta was described as a particularly toxic and variable aggregation-prone variant of Abeta, which is formed from the physiological Abeta by the activity of the enzyme Glutaminyl-Cyclase (QC). The Company is pursuing two treatment mechanisms with respect hereto: on the one hand, Probiodrug is focusing on the prevention of the production of pGlu-Abeta by the inhibition of the enzyme, Glutaminyl-Cyclase („QC"). The Company's most advanced program in this area, the development candidate PQ912, successfully completed a clinical Phase 2a study in 2017. The next development steps, in particular the clinical Phase 2b program are being prepared. On the other hand, the Company is developing pGlu-Abeta binding antibodies, which ultimately lead to the degradation of pGlu-Abeta and pGlu-Abeta containing oligomers. This program (PBD-C06) is in preclinical development.

LEGAL STRUCTURE OF PROBIODRUG

The Company is registered with the name Probiodrug AG with the commercial register of the local court (Amtsgericht) of Stendal under the registration number HRB 213719. Its commercial name is Probiodrug. The Company's registered office and business address is Weinbergweg 22, 06120 Halle (Saale), Germany.
Currently Probiodrug Inc. in Chicago, Illinois, USA, has neither operating activities nor assets.

The management of the Company consisted of two Board members: Dr. Ulrich Dauer (Dipl. Chemiker [degreed Chemist]) – CEO and Dr. Michael Schaeffer (Dipl. Molekularbiologe [degreed MolecularBiologist]) – CBO.

(b) CORPORATE GOVERNANCE REPORT

The Management Board and the Supervisory Board expressly support the German Corporate Governance Code and the objectives it pursues. The Company largely complies with its requirements. In accordance with section 3.10 of the German Corporate Governance Code, we report below on corporate governance as practised at Probiodrug. The declaration on corporate governance (Erklärung zur Unternehmensführung) in accordance with section 289a of the German Commercial Code (Handelsgesetzbuch – HGB) can be found in the management report relating to the Annual Financial Statements 2018 in the Annex "Financial Reports". In addition, the joint Compliance Statement (Entsprechungserklärung) acc. to section 161 German Stock Corporation Act (Aktiengesetz – AktG) of the Management Board and the Supervisory Board of Probiodrug is published on the Company's website under www.probiodrug.com.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

As a result of the initial public offering of Probiodrug with a listing on Euronext in Amsterdam on October 27, 2014, the Corporate Governance Code has been applicable to Probiodrug since that date.

REASONABLE CONTROL AND RISK MANAGEMENT

For the leadership of Probiodrug, a continuous and systematic management of the entrepreneurial chances and risks is of essential importance. For this reason Probiodrug implemented internal control and risk management. The Management Board reports to the Supervisory Board on a regular basis on the current developments in the Company. In the Audit Committee, the supervision of the effectiveness of the accounting processes as well as the supervision of the independence of the auditor are in the focus.

OBJECTIVES OF THE SUPERVISORY BOARD REGARDING ITS COMPOSITION

The Supervisory Board shall be composed in such a manner that its members – individually and collectively – have the required knowledge, skills and experience for the proper performance of their tasks. The Supervisory Board intends to take into consideration the following objectives relating to its composition:

- Experience in pharmacological research and research into the AD and similar diseases
- Experience in research into the Alzheimer's disease and similar diseases

- Experience with the public capital market
- Due to the international positioning of the Company, experience with US markets
- Avoidance of substantial and not just temporary conflicts of interests and their reasonable handling
- Fixing of an age limit of 75 years, i.e. when a member of the Supervisory Board reaches the age of 75 during the term of office, he/she is supposed to withdraw from the Supervisory Board upon the end of the general shareholders' meeting after having reached the age of 75

As these requirements provide a challenge finding a sufficient number of qualified members for the Supervisory Board, the Supervisory Board did not determine any fixed diversity quota.

WOMEN'S QUOTA FOR THE SUPERVISORY BOARD AND MANAGEMENT BOARD

On December 7, 2018 the Supervisory Board of Probiodrug decided to achieve a quota for women on the Executive Board of one-third and on the Supervisory Board of a fifth until September 30, 2022.

Due to the departure of Dr. Inge Lues the women's quota on the Executive Board was not achieved as at December 31, 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.

The Company continues to meet this target.

AVOIDANCE OF CONFLICTS OF INTEREST

Within the reporting year, there were no consultancy or other service or work agreements in place between any of the Supervisory Board members and the Company. There have not been any conflicts of interests of any members of the Management Board or the Supervisory Board that would have resulted in an immediate disclosure to the Supervisory Board.

TRANSACTIONS IN SECURITIES SUBJECT TO REPORTING REQUIREMENTS AS WELL AS SHAREHOLDINGS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Pursuant to section 15a WpHG (German Securities Trading Act), the members of the Management Board and the Supervisory Board or persons closely related to them are obligated to report transactions in shares in the Company or financial instruments relating thereto to the Company if the value of any such transactions reaches or exceeds the amount of EUR 5,000.00 within one calendar year. Since the initial public offering of the Company with the listing at Euronext, Amsterdam, following transactions has been reported to the Company:

T05

	Day of Transaction	Aggregated volume
Dr. Erich Platzer	May 18, 2018	23´937.50
Dr. Dinnies von der Osten	May 18, 2018	24´000.00
Dr. Ulrich Dauer	July 11, 2018	19´536.00
Dr. Inge Lues	July 13, 2018	20´372.00

To the knowledge of the Company, the members of the Management hold approximately 0.5% of all of the Company's shares and the member of the Supervisory Board approximately 2.4% of all of the Company's shares.

D&O insurance
The Company took out a pecuniary loss liability insurance (D&O insurance) for the members of the Management Board with a reasonable retained amount pursuant to section 93 para. 2 sentence 3 AktG.

All members of the Supervisory Board are included in the D&O insurance. No retained amount is stipulated. As the Supervisory Board members, for the most part, only receive little remuneration, a retained amount would lead to an unreasonable result in financial terms for the Supervisory Board members.

For further details on corporate governance, please refer to the management report relating to the Annual Financial Statements 2018 (see Annex "Financial Reports").

(c) RESEARCH AND DEVELOPMENT PROCESS

Probiodrug´s business is strongly focused on advancing its therapeutic programs in development to increase the Company value. The Company has retained and extended the number of very committed senior industry experts for the program who ensure that the Company has access to the expertise for all relevant functions needed for a competent and efficient clinical and non-clinical development of its product candidates. The Company's expertise also includes translational preclinical and clinical development aspects with specific emphasis on the development

and use of innovative exploratory biomarkers and effective clinical study designs. While biomarkers are available for early diagnostic purposes, no biomarker has been defined so far that is of proven value as a therapeutic marker. The Company has successfully established a set of assays for new molecular biomarkers which relate to the current hypothesis of the AD pathology and will be used in the running study to evaluate whether they would serve this purpose The Company has an excellent state-of-the-art clinical trial design in order to get reliable results with PQ912. The Company has deep and longstanding expertise in the building and managing of networks of international advisors on both the scientific and the clinical aspects of AD. The Company has created and maintained strong credibility over the years with the scientific community, with clinicians and with the many pharmaceutical companies that pursue therapies for central nervous system and degenerative diseases such as AD.

(d) CORPORATE STRATEGY AND OBJECTIVES

Probiodrug's overall objective is to provide a better life for AD patients by acting as a leader in the development of innovative drugs, and possibly other indications that may be successfully treated by Probiodrug's product candidates. To commercialize a potentially successful treatment, Probiodrug continuously considers its models of what is appropriate for a biotechnology company at this stage and size, such as entering into collaborative, partnering or licensing arrangements in respect of its product candidates.

Key elements of our strategy to achieve this goal are the following:

Executing the Phase 2b clinical study program for PQ912
Probiodrug is preparing the Phase 2b study, a long-term treatment with PQ912, for its lead product candidate PQ912.

Advance development of PBD-C06
Our pGlu-Abeta antibody PBD-C06 features have been further tuned for a clear upside- and best in class potential by applying a specific de-immunization and complement inactivating strategy. For PBD-06 the development of the manufacturing process of this molecule is running.

Strengthen Probiodrug's financial position
At Probiodrug, the primary goal of financial management is to ensure sufficient liquidity reserves at all times for progress its assets up to a certain stage of development. This approach requires significant financial resources, which Probiodrug aims to raise via capital increases and the utilization of other financial instruments, e.g. loans, convertibles etc.

Enter into partnerships with biotechnology and pharmaceutical companies
Probiodrug at some point in time intends to enter into partnerships with biotechnology and pharmaceutical companies. Such partnerships can provide significant clinical and technical expertise as well as financial support and would allow Probiodrug not only to continue to focus on the development of its product candidates but also to pursue the possibilities of developing other product candidates and/or to explore the efficacy of its product candidates in other indications.

Strengthen Probiodrug's intellectual property position
Probiodrug continuously strengthens its intellectual property position in relation to QC-inhibitors and antibodies against pGlu-Abeta by filing patent applications in major commercially relevant jurisdictions and, where deemed appropriate, is prepared to contest any infringements. The Company is hereby pursuing the strategy of focusing the patent portfolio on development relevant and commercially promising areas.

Explore benefits of combination therapies between Probiodrug's product candidates and other products
As the mode of action of Probiodrug's product candidates is different from existing AD therapies and AD therapies in development in the industry generally and the safety profile of our lead product candidate PQ912 to date has been attractive, Probiodrug is well positioned to explore synergies of combination strategies with other therapies. Therefore, Probiodrug explores the rationale to combine its own product candidates PQ912 and PBD-C06 with each other and with other therapies such as BACE inhibitors. Probiodrug showed first results of a preclinical combination trial targeting pGlu-Abeta. An additive effect on lowering pGlu-Abeta as well as total Abeta was observed with a double-pronged approach of targeting toxic pGlu-Abeta by combining PQ912 to block pGlu-Abeta formation and PBD-C06 to increase its clearance in an AD animal model.

2.2 OVERVIEW OF THE COURSE OF BUSINESS

(a) MACROECONOMIC DEVELOPMENT AND DEVELOPMENTS IN THE PHARMA AND BIOTECHNOLOGY INDUSTRY

While developments in AD research remain volatile, the global demand for therapeutic treatment options combined with an increasing aging population continue to drive interest and hope for this difficult indication. 2018 was again a muddled year for the research and development of therapeutic approaches to AD. In an indication where only 4 products since 1998 have been approved to treat symptomatic effects of the disease it is clear that the medical demand expressed by the world's ever-growing aging population is still extremely high.

Ups and downs

During 2018 Boehringer Ingelheim AG & Co. KG discontinued its inhibitor of phosphodiesterase (PDE)-9A for AD after it missed its efficacy endpoints in two Phase II trials and failed to improve cognition from baseline to week 12 versus placebo. Similarly, Merck & Co. and Eli Lilly and company together with AstraZeneca plc halted phase III trials for their respective AD candidates verubecestat and lanabecestat, both defined as inhibitors of the beta secretase cleaving enzyme (BACE). Furthermore, Janssen Global Services, LLC ceased two trails testing atabecestat (a BACE1 Inhibitor) to treat AD after evaluations showed the treatment caused dangerous elevated liver enzyme levels. However, perhaps the most disappointing announcement came in January 2019 (post period) when Roche AG announced the discontinuation of two late stage trials of crenezumab, a humanized anti-Aβ monoclonal IgG4, its drug for early AD, after an interim analysis indicated it was unlikely to hit its primary endpoints. Despite a number of drug candidate failures in 2018, there was also measured forward movement: Biogen Inc. and partner Eisai Co. Ltd. reported positive secondary endpoint data showing that the highest dose of BAN2401, their anti-Abeta antibody significantly slowed AD progression (30%) and reduced beta amyloid at 18 months in their double-blind phase II study.

Attractive field for investments with extremely high economic impact

Global societal costs of AD in 2018 was estimated at 1 trillion USD, and in the U.S. the approximate lifetime cost of care for an individual living with Alzheimer's or dementia was determined to be 341,840 USD. With an extremely high economic impact, AD research and development continued to attract scientific and economic investments in 2018. Two separate partnerships between Johnson & Johnson Innovation, LLC together with the University of Pennsylvania and Gene therapy company Voyager Therapeutics Inc. together with Abb Vie Inc. were formed to develop new gene therapy approaches to treat AD. Impressively, at the end of 2018, Eli Lilly and Company and AC Immune SA announced their partnership focused on the development of tau inhibitors resulting in Lilly paying an upfront payment of 81 million USD to AC Immune. Apart from industry partnerships, Bill Gates made an investment into a new fund, Diagnostics Accelerator, run by the Alzheimer's Drug Discovery Foundation in July 2018. The investment came one year after his initial 50 million USD investment into dementia research in November 2017. Moreover, in August the U.S. Senate approved 2.34 billion USD budget for Alzheimer's research. This decision increased the total NIH budget by 2 billion USD.

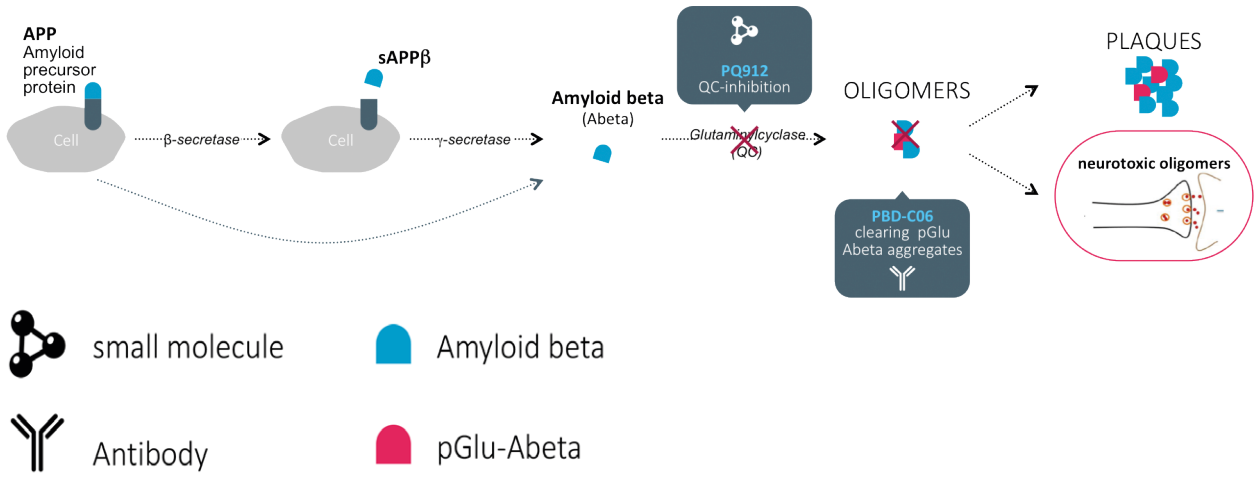
Modernized guidelines give researches hope

New hope for AD researches came in February 2018 from the European and the U.S. regulation authorities in the guise of modernized EMA guidelines and FDA draft guidelines. In order to meet the urgent need for new treatment options, the FDA updated their approach according to new research data and a better understanding of AD. The new guidelines are now related to clinically meaningful endpoints and offer an accelerated approval pathway for new AD drugs. The new industry guidelines clearly define three stages of AD and give guidance on drug development for each stage. In addition to the modernized FDA guidelines, the National Institute on Aging (NIA) released a new framework that recommended AD research define the disease based on biomarkers rather than clinical symptoms. The NIA definition consists of three biomarker-based neuropathological measurements; beta-amyloid deposition, abnormal microtubule-associated protein tau and neurodegeneration, collectively called the "ATN system". The biomarkers can be measured with imaging technology and analysis of cerebral fluid samples allowing researchers to visualize the effects of AD. Shortly after the NIA framework was released the National Institutes of Health Biomarkers Consortium launched a public-private project to identify and validate inflammatory biomarkers for neurodegenerative and Psychiatric diseases, including AD.

(b) OPERATIONAL REVIEW

PIPELINE UPDATE

Probiodrug`s therapeutic approach targets pyroglutamate-Abeta (pGlu-Abeta, also called N3pG Abeta) as a therapeutic strategy to fight Alzheimer's disease. This modified Abeta is considered to be linked with disease initiation and progression by seeding the formation of soluble neurotoxic amyloid oligomers. Probiodrug is developing proprietary product candidates to target toxic pGlu-Abeta via two modes of action: by (i) inhibiting the production of pGlu-Abeta; and (ii) clearing existing pGlu-Abeta from the brain.



Probiodrug's innovative approach is based on the development of specific inhibitors for the enzyme Glutaminyl Cyclase (QC), which is instrumental in the creation of pGlu-Abeta. In addition, the Company is developing a monoclonal antibody targeting pGlu-Abeta to enhance its clearance.

To date, Probiodrug's pipeline consists of a small molecule inhibitor of the QC-enzyme, PQ912, and a monoclonal antibody, PBD-C06, targeting pGlu-Abeta.

PQ912

PQ912 is a first-in-class inhibitor of the glutaminyl cyclase enzyme that plays a central role in the formation of synaptotoxic pyroglutamate-Abeta oligomers. Probiodrug reported in 2017 on the first clinical study with PQ912 in subjects with biomarker-proven Alzheimer's disease (AD). The aim of "SAPHIR", a Phase 2a study, was to determine the maximal tolerated dose, target occupancy and treatment-related pharmacodynamic effects. The exploratory efficacy readouts selected were tailored to the patient population with early AD. The therapeutic approach focuses on synaptic dysfunction as captured by various measures such as electroencephalography (EEG), synaptic biomarkers and sensitive cognitive tests.

PQ912 treatment resulted in a significant reduction in glutaminyl cyclase activity, which resulted in an average target occupancy of > 90%. A significant reduction of theta power in the EEG frequency analysis and a significant improvement in the One Back test of our Neuropsychological Test Battery was observed. The exploratory biomarker readouts, neurogranin for synaptic toxicity and YKL-40 as a marker of inflammation, appear to be sensitive enough to serve as efficacy markers in the next Phase 2b study.
There was no significant difference between treatments in the number of subjects with (serious) adverse events, although there were slightly more patients with a serious adverse event in the PQ912 group compared to placebo. More subjects treated with PQ912 discontinued treatment due to adverse events, mostly related to gastrointestinal and skin/subcutaneous tissue disorders.
The maximal tolerated dose of PQ912 has been identified and the results support future studies at still lower doses

reaching > 50% target occupancy, a longer up-titration phase to potentially induce adaptation and longer treatment periods to confirm the early signals of efficacy as seen in this study.

The study revealed a positive benefit to risk ratio of PQ912 and provides important guidance how to move forward in the development of PQ912 as a disease-modifying drug for AD. Altogether, the results make the program highly attractive for further development. The strategy for the Phase 2b and proof of concept program has been defined and the set-up Phase of SAPHIR 2 in Europe with Professor Philip Scheltens Amsterdam again as Chairperson has already been triggered. A second complementary trial is in planning Phase and will run by Dr. Howard Feldman, head of ADCS in San Diego.

PBD-C06

PBD-C06 is a monoclonal antibody, currently in preclinical stage. PBD-C06 targets pGlu-Abeta, aiming to selectively clear the brain of pGlu-Abeta while leaving non-toxic forms of Abeta untouched. PBD-C06 has been successfully humanized and also de-immunized to avoid detection by the patient's endogenous immune system. In addition, the antibody was modified to reduce complement activation, which is assumed to be the cause for dose-limiting side effects (micro-bleed and micro-hemorrhage). For the first time for an anti-pGlu Abeta approach PBD-C06 has not only shown the ability to reduce Abeta/plaques but also to significantly improve cognitive deficits in aged Alzheimer's mice. Moreover, no evidence was found of increased micro-hemorrhages after treatment with PBD-C06.

PUBLICATIONS/PRESENTATIONS

255th ACS National Meeting & Exposition, New Orleans, USA
In March 2018 Probiodrug presented an oral presentation entitled: "Inhibition of glutaminyl cyclase as a new concept for the treatment of Alzheimer's disease: PQ912, the first-in-class QC-inhibitor in clinical development for AD"
N-terminally pyroglutamylated forms of the Abeta peptide (pEAbeta) have been identified to seed and sustain the formation of highly neuro-/synaptotoxic oligomers. Therefore, they are assumed to be an early key pathological culprit in AD pathology. With the identification of the zinc-dependent enzyme Glutaminyl Cyclase (QC) as the responsible enzyme of pEAbeta formation, the application of QC inhibitors emerged as a new disease modifying treatment concept for AD.

Molecules
In May 2018 Probiodrug announced a co-authorship at a review paper entitled: "Passive Aβ Immunotherapy: Current Achievements and Future Perspectives" in a peer-reviewed journal (S. Schilling et al. Molecules May 3, 2018, Molecules 2018, 23, 1068; DOI:10.3390;).
The review highlights the current development status of monoclonal antibodies in advanced clinical development for the treatment of AD. A special emphasis is put on current limitations of immunotherapy of AD and recent strategies to overcome these issues by tailoring the specificity and effector function of the antibodies. Probiodrug's strategy to target pGlu-Abeta, a highly aggregating and neurotoxic form of amyloid peptide specific for AD, is comprehensively reviewed as well as the status of preclinical pGlu-Abeta antibody developments. PBD-C06 is PBD's humanized and deimmunized anti-pGlu-Abeta monoclonal antibody currently in early CMC development. The molecule was selected based on an optimal pharmacological profile.

Alzheimer's Research & Therapy
In October 2018, the publication entitled: "Safety, tolerability and efficacy of the glutaminyl-cyclase inhibitor PQ912 in Alzheimer's disease: results of a randomized, double-blind, placebo-controlled Phase 2a Study." (P. Scheltens et al.; Alzheimer's Research & Therapy October 12, 2018, Alzheimer's Research & Therapy 2018 10:107; DOI: 10.1186)
The publication summarizes and highlights the results of the SAPHIR trial (Clinicaltrials.gov, NCT 02389413) which is the first clinical trial to investigate the Glutaminylcyclase (QC) inhibitor PQ912 in patients with early AD. The aim of the Study was to determine the maximal tolerated dose, target occupancy and treatment related pharmacodynamic effects. PQ912 is Probiodrug's lead product candidate and a first-in-class QC inhibitor. The results further confirm Probiodrug's treatment approach and strongly encourage the advancement into the next development Phase.

Antibody Engineering & Therapeutics 2018, San Diego, USA
In December 2018 Probiodrug presented an oral presentation entitled: "Structural and Functional Analyses and Humanization of an Anti-pyroglutamate-3 Abeta Antibody for Immunotherapy of Alzheimer's Disease"
N-terminally truncated and post-translationally modified Abeta peptides, pGlu-Abeta, are emerging targets for therapeutic approaches against Alzheimer's Disease (AD). In contrast to common anti-Abeta therapies, these antibodies are tailored approaches to clear highly neuro/synaptotoxic forms of soluble and aggregated Abeta, which are directly implicated with cognitive decline in AD patients. Here, we present the structural and functional analyses of pGlu-Abeta antibodies. The structural basis of target binding specificity, the humanization, de-immunization and effector function modifications of the lead therapeutic antibody, PBD-C06, were presented.

PATENTS

In 2018 the Company further strengthened its patent portfolio. Important patent registrations were granted in key markets. In total, at the end of 2018, 40 patent families and registrations were held (in the prior year: 42). The strategy of focusing the patent portfolio on development relevant and commercially promising areas was continued unchanged in 2018.

(c) SIGNIFICANT CORPORATE EVENTS OF THE COMPANY 2018

Management Board

Probiodrug´s Supervisory Board appointed Dr. Ulrich Dauer as Chief Executive Officer, with effect from May 1, 2018. Dr. Dauer had a career spanning more than 20 years in the biopharmaceutical industry in both public and private companies. As one of the founders, Dr. Dauer previously worked for 14 years as CEO of 4SC AG, attracting multiple private and, upon the company's listing at the Prime Standard segment of Deutsche Börse in 2005, public investors. Under his leadership, 4SC closed multiple industry partnerships with international biopharmaceutical companies. In subsequent leadership positions in the biotech industry, he executed in 2014 the €130 M trade sale of Activaero and later took up CEO positions of two privately held biotech companies.

Dr. Michael Schaeffer, who served as Executive Vice President of Business and Strategy effective August 2018, was promoted to Chief Business Officer, effective October 1, 2018.
Dr. Schaeffer brings more than 15 years of experience across pharma and biotech in strategic business development, scientific project and alliance management to Probiodrug.
Dr. Schaeffer is a highly experienced serial entrepreneur and was prior to joining Probiodrug, – amongst others – Founder, CEO and Managing Director of biotech companies, CRELUX GmbH, Crenano GmbH and SiREEN AG. Following the acquisition of CRELUX by WuXiAppTec in 2016, Dr. Schaeffer was responsible for integrating CRELUX into the world-leading Shanghai based CRO with over 18,000 employees globally.

Supervisory Board

The general shareholder meeting on June 21, 2018, re-elected Ms. Charlotte Lohmann, Dr. Erich Platzer, Dr. Dinnies von der Osten and Dr. Jörg Neermann as Supervisory Board Members. The Supervisory Board then re-elected Dr. Erich Platzer as chairman and Dr. Dinnies von der Osten as vice chairman.

Extraordinary General Shareholders' Meeting

On December 07, 2018, an Extraordinary General Shareholders' Meeting was held as required pursuant to section 92 (1) of the German Stock Corporation Act (Aktiengesetz – AktG) following the notice of a loss on October 15, 2018. The announcement was made as soon as we assessed, at our best judgment, that we had incurred a loss greater than half of our share capital.

2.3 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The financial statements of Probiodrug as at December 31, 2018 were prepared on a voluntarily basis in accordance with the International Financial Reporting Standards (IFRS/IAS) of the International Accounting Standards Board as well as in accordance with the Interpretations of the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC), as endorsed by the European Union for mandatory application as of the balance sheet date.

(a) RESULTS OF OPERATIONS

The statement of comprehensive loss of Probiodrug for the year 2018 is set forth below:

STATEMENT OF COMPREHENSIVE LOSS FOR THE PERIOD 1 JANUARY 2018 TO 31 DECEMBER 2018 IFRS T06

	1 Jan.–31 Dec.	
In EUR k	2018	2017
Research and development expenses	–4,836	–7,454
General and administrative expenses	–2,891	–2,511
Other operating income	29	4
Operating loss	**–7,698**	**–9,961**
Finance income	2	862
Finance expense	–41	–12
Finance Income/(expenses), net	**–39**	**850**
Income tax gain	**0**	**1,102**
Net loss for the period	**–7,737**	**–8,009**
Items not to be reclassified subsequently to profit or loss		
Remeasurement of the net defined benefit pension liability	–18	143
Total other comprehensive income (loss)	**–18**	**143**
Comprehensive loss	**–7,755**	**–7,866**
Loss per share in EUR (basic and diluted)	–0.94	–0.98

* Amounts restarted, see notes 5.1, 5.2, 5.4

RESEARCH AND DEVELOPMENT EXPENSES

In financial year 2018 The research and development expenses of EUR 4,836k (2017: EUR 7,454k) comprise personnel costs, costs for internal research and development as well as services provided by third parties in relation to the preclinical and clinical programs, patent related legal and consulting fees as well as amortization and depreciation attributable to the research and development area.

GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses of EUR 2,891k (2017: EUR 2,511k) comprise personnel costs and costs of office supplies as well as amortization and depreciation attributable to the administrative area and other operating expenses.

OTHER OPERATING INCOME

The other operating income amounted to EUR 29k (2017: EUR 4k).

OPERATING LOSS

The resulting operating loss amounts to EUR 7,698k (2017: EUR 9,961k).

FINANCE INCOME AND INCOME TAX GAIN

The finance loss amounts to EUR -39k (2017 finance income: EUR 850k). The income tax gain amounts to EUR 0k (2017: EUR 1,102k).

Both positions refer to the release of tax liabilities in connection with the settlement with the tax authorities in 2017, concerning the year 2004.

NET LOSS

The corresponding net loss amounts to EUR 7,737k (2017: EUR 8,009k).

OTHER COMPREHENSIVE INCOME/LOSS

The other comprehensive income amounts to EUR 143k (2016: loss of EUR 31k), reflecting remeasurements of the net defined benefit pension liability.

COMPREHENSIVE LOSS

The resulting comprehensive loss amounts to EUR 7,755k (2017: EUR 7,866k).

(b) FINANCIAL POSITION

The statement of financial position of Probiodrug for the year 2018 is set forth below:

ASSETS

The assets amount to EUR 4,084k (2017: EUR 10,762k), consisting mainly of cash and cash equivalents of EUR 3,783k (2017: EUR 10,291k).

EQUITY

The equity amounts to EUR 1,230k (2017: EUR 8,924k), corresponding to an equity ratio of 30.3%.

NONCURRENT LIABILITIES

The noncurrent liabilities amounts to EUR 1,854k (2017: EUR 1,171k), consisting completely of the net commitment (defined benefit liability) of the pension commitments (defined benefit obligations) of EUR 1,619k (2016: EUR 1,644k).

CURRENT LIABILITIES

The current liabilities amount to EUR 964k (2017: EUR 668k), consisting primarily of trade payables and other current liabilities. The trade payables amounted to EUR 772k (2017: EUR 344k) resulting from of the ordinary conduct of business. They have a remaining term of up to one year.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

ASSETS
IFRS

T07

In EUR k	31 Dec. 2018	31 Dec. 2017
Noncurrent assets		
Intangible assets	7	11
Plant and equipment	56	55
Financial assets	3	3
Total noncurrent assets	**66**	**69**
Current assets		
Tax receivables	0	0
Other assets	199	402
Cash and cash equivalents	3,783	10,291
Total current assets	**3,982**	**10,693**
Total assets	**4,048**	**10,762**

EQUITY AND LIABILITIES
IFRS

T08

In EUR k	31 Dec. 2018	31 Dec. 2017
Equity		
Share capital	8,208	8,208
Additional paid-in capital	48,740	48,678
Accumulated other comprehensive income	−405	−387
Accumulated deficit	−55,313	−47,576
Total equity	**1,230**	**8,923**
Noncurrent liabilities		
Pension liability	1,854	1,171
Total noncurrent liabilities	**1,854**	**1,171**
A. Current liabilities		
Tax liabilities	0	0
Provisions	12	12
Trade payables	772	344
Other current liabilities	180	312

LIABILITIES AND EQUITY
IFRS

T09

In EUR k	31 Dec. 2018	31 Dec. 2017
Total current liabilities	**964**	**668**
Total liabilities	**2,818**	**1,839**
Total equity and liabilities	**4,048**	**10,762**

(c) OVERALL ASSESSMENT OF ECONOMIC POSITION

Currently only a few factors have been identified which could, in the short-term, impair the development of Probiodrug. As per the Company's current planning, the cash and cash equivalents as at December 31, 2018 provide for the Company's financing into the 3rd Quarter of 2019. The Executive Board is satisfied with the overall corporate development and considers it positive, but recognizes the need for further inflows of liquidity for the continuation of value-adding research and development activities and to ensure the going concern.

2.4 EMPLOYEES

As at December 31, 2018, including the Management Board, Probiodrug had 14 (2017: 14) employees, of which 50% were female. In the reporting period, there were an average of 14 employees (2017: 13.3). In 2018, Probiodrug incurred personnel expenses of EUR 1.90 million (2017: EUR 1.90 million).

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

2.5 INTELECTUAL PROPERTY RIGHTS

A high-quality and stable patent portfolio is a decisive success factor for Probiodrug. Probiodrug has a very experienced patent management team which further developed the patent portfolio in 2018. In order to provide for focus on the sustainable value drivers as well as to optimize costs and benefits, Probiodrug continuously reviews its patent portfolio.

As at December 31, 2018, 40 patent families were held (December 31, 2017: 42). The focusing of the patent portfolio in non-core areas was offset by new applications in the development relevant areas. As such, Probiodrug's overall patent position was further improved.

2.6 REPORT ON RISKS AND OPPORTUNITIES

(a) OPPORTUNITIES

The main opportunities for Probiodrug and its shareholders are based on an increasing interest in AD, the generation of additional positive data from Probiodrug`s proprietary programs, licensing agreements due to Probiodrug's very comprehensive and well-positioned patent portfolio as well as takeovers and M&A opportunities with Probiodrug as a potential target.

(b) RISKS

On the other hand, Probiodrug is exposed to various individual risks, which are described in detail in the management report, relating to the Annual Financial Statements 2018. The occurrence of these risks can, individually or in the aggregate, with the incurrence of other risks respectively other circumstances, could have a material adverse effect on the business activities, the realization of significant Company goals and/or Probiodrug's ability to refinance and could have substantial negative implications on the Company's net assets, financial position and results of operations. In the worst case, this could force the Company to file for insolvency. Currently only a few factors have been identified which could, in the short-term, impair the development of Probiodrug. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at December 31, 2018 provide for the Company's financing beyond the upcoming twelve months. Management believes that based on positive clinical study results of PQ912 additional cash inflows can be generated by second half of 2019. Alternatively, the focus would be set on the two other preclinical compounds.

(c) RISK MANAGEMENT

Probiodrug AG has an active, systematic risk management on the basis of which risks are to be identified, monitored and, on the basis of appropriate measures, minimized. Probiodrug's current business risks are primarily in the research and development of novel active pharmaceutical ingredients, the protection of intellectual property, the co-operation 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 optimize the Company's opportunities/ risks position.

For further details on the opportunities, the risks and the risk management please refer to the management report relating to the Annual Financial Statements 2018 (Annex "Financial Reports").

2.7 REPORT ON POST-BALANCE SHEET DATE EVENTS

In March 2019 Probiodrug announced a funding of the National Institutes of Health (NIH) of total 15 million USD over four years.
The grant was awarded by the National Institute on Aging, part of the NIH, for the project A Seamless Phase 2A-B Randomized Double-Blind Placebo-Controlled Trial to Evaluate the Efficacy and Safety of PQ912 in Patients with Early Alzheimer's Disease. The funding is under award number R01AG061146 to the University of California, San Diego. Probiodrug is the sponsor of the U.S. study led by study principal investigator Howard Feldman, MD, Director of the ADCS, a national consortium of clinical sites, based at the University of California, San Diego.

2.8 COMPANY OUTLOOK

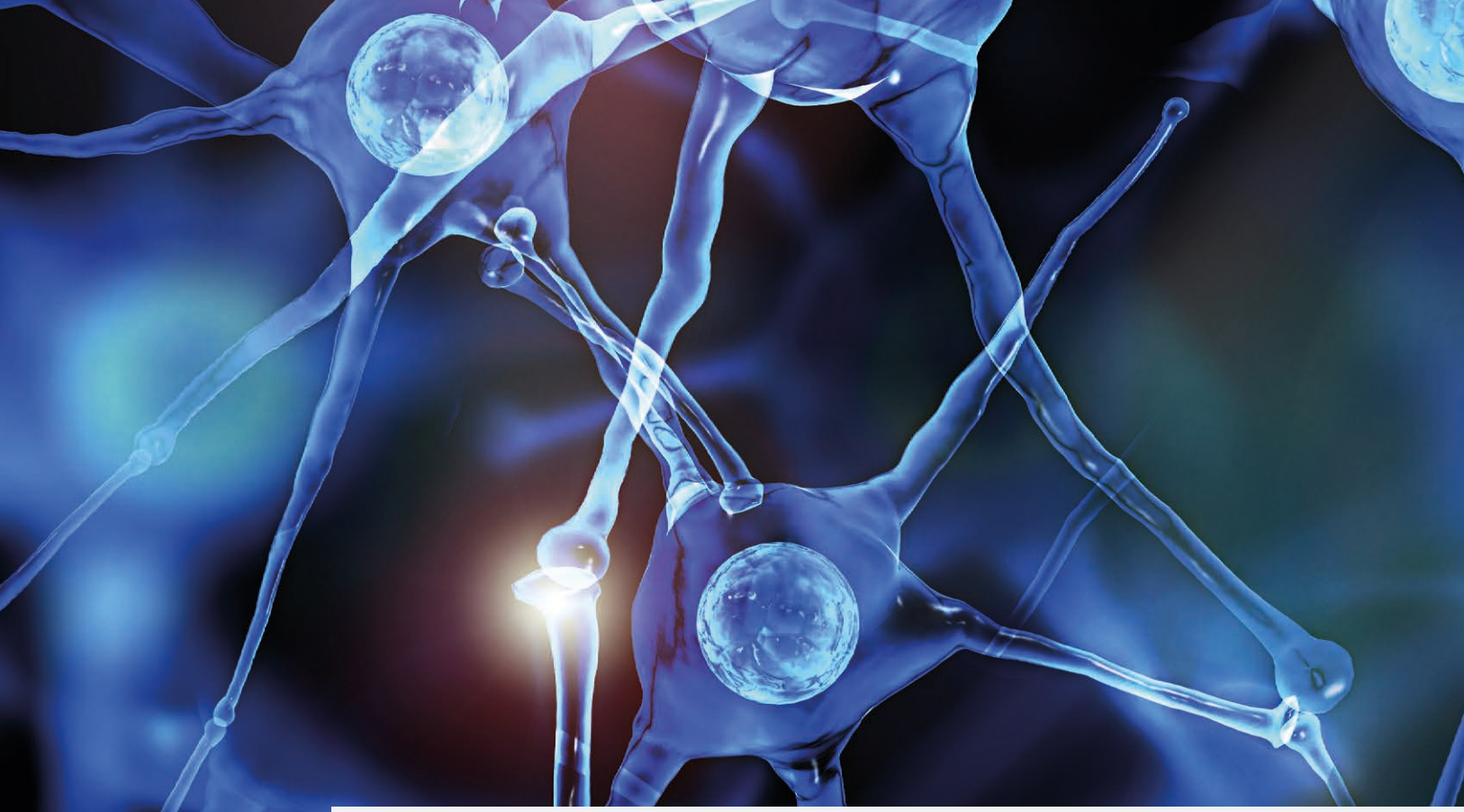
The mid-term focus of Probiodrug's business activities can be summarized as follows:

- Carrying out the Phase 2b clinical study program for PQ912,
- Continuing the development of PBD-C06,
- Conclusion of one or more industrial partnerships,
- Further scientific analysis of potential second indications for the use of QC inhibitors,
- Further strengthening Probiodrug's financial resources.

As a result of the continuing costs being incurred for development activities which are not yet off-set by any sales, the Company also projects a net loss for financial year 2018 which, based on the current budget, is expected to be lower than that of 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 a capital increase or via alternative financing forms such as loans, convertible bonds, option bonds, etc. All appropriate provisions (e.g., approving sufficient authorized and conditional capital, eliminating pre-emptive rights) have been approved by the annual shareholders' meeting so as to provide the Company with sufficient flexibility to react to potential options.

The Company is well positioned in the development of new therapeutic concepts for the treatment of AD. Via successful further program development, Probiodrug will lay the groundwork for a mid-term option for a lucrative industrial partnership or an M&A transaction as well as the further generation of substantial company value.



FINANCIAL REPORTS

OUR UNIQUE APPROACH — Probiodrug pursues a differentiated approach to treat AD by targeting toxic pGlu-Abeta. Our pipeline consists of two small molecules as well as an antibody approach selectively addressing pGlu-Abeta.

3

PART I

A. FINANCIAL STATEMENTS (IFRS)

STATEMENT OF COMPREHENSIVE LOSS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

T10

		1 Jan. – 31 Dec.	
In EUR k	Notes	2018	2017
Research and development expenses	5.1	–4,836	–7,454
General and administrative expenses	5.2	–2,891	–2,511
Other operating income		29	4
Operating loss		**–7,698**	**–9,961**
Finance income	5.4	2	862
Finance expense		–41	–12
Finance income, net		**–39**	**850**
Income tax gain	5.4	**0**	**1,102**
Net loss for the period		**–7,737**	**–8,009**
Items not to be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension liability		–18	143
Total other comprehensive income (loss)		**–18**	**143**
Comprehensive loss		**–7,755**	**–7,866**
Loss per share in EUR (basic and diluted)	6.5.1	–0.94	–0.98

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

ASSETS

T11

In EUR k	Notes	31 Dec. 2018	31 Dec. 2017
Noncurrent assets			
Intangible assets	3.3/6.1	7	11
Plant and equipment	3.4/6.2	56	55
Financial assets	3.6	3	3
Total noncurrent assets		**66**	**69**
Current assets			
Other assets	6.3	199	402
Cash and cash equivalents	3.7/6.4	3,783	10,291
Total current assets		**3,982**	**10,693**
Total assets		**4,048**	**10,762**

EQUITY AND LIABILITIES

In EUR k	Notes	31 Dec. 2018	31 Dec. 2017
Equity			
Share capital	6.5	8,208	8,208
Additional paid-in capital		48,740	48,678
Accumulated other comprehensive income		−405	−387
Accumulated deficit		−55,313	−47,576
Total equity		**1,230**	**8,923**
B. Noncurrent liabilities			
Pension liability	3.9/6.6	1,854	1,171
Total noncurrent liabilities		**1,854**	**1,171**
C. Current liabilities			
Provisions	3.10	12	12
Trade payables		772	344
Other current liabilities	6.7	180	312
Total current liabilities		**964**	**668**
Total liabilities		**2,818**	**1,839**
Total equity and liabilities		**4,048**	**10,762**

STATEMENT OF CASH FLOWS

T12

In EUR k	Notes	Year ended 31 December 2018	2017
Net loss for the period		−7,737	−8,009
Net finance income/expense	5.4.	39	−850
Depreciation and amortisation		23	106
Income taxes paid		0	−775
Gain from income taxes	5.4.	0	−1,102
Share based payments		62	286
Unrealised foreign currency gain		−26	75
Changing in working capital			
Changes in other assets		203	−100
Changes in pension liabilities		156	−15
Changes in provisions		0	−41
Changes in trade payables		418	−1,549
Changes in other liabilities		−132	−143
Cash flows used in operating activities		**−6,994**	**−12,117**
Purchase of plant and equipment		−16	−7
Purchase of intangible assets		0	−1
Proceeds from termination of pension liabilities insurance		476	467
Cash flows from investing activities		**460**	**459**
Proceeds from issuance of common shares		0	127
Cash flows provided by financing activities		**0**	**127**
Net decrease/increase in cash and cash equivalents		**−6,534**	**−11,531**
Cash and cash equivalents at the beginning of period		**10,291**	**21,897**
Effect of exchange rate fluctuation on cash held		**26**	**−75**
Cash and cash equivalents at the end of period		**3,783**	**10,291**

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

T13

In EUR k	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total equity
January 1, 2017	**8,187**	**48,286**	**−530**	**−39,567**	**16,376**
Net loss for the period/ Comprehensive loss	0	0	143	−8,009	−7,866
Issuance of common shares less transaction costs	21	106	0	0	127
Share based payments	0	286	0	0	286
	21	392	143	−8,009	−7,453
December 31, 2017	**8,208**	**48,678**	**−387**	**−47,576**	**8,923**
January 1, 2018	**8,208**	**48,678**	**−387**	**−47,576**	**8,923**
Net loss for the period/ Comprehensive loss	0	0	−18	−7,737	−7,755
Issuance of common shares less transaction costs	0	0	0	0	0
Share based payments	0	62	0	0	62
	0	62	−18	−7,737	−7,693
December 31, 2018	**8,208**	**48,740**	**−405**	**−55,313**	**1,230**

B. NOTES TO THE FINANCIAL STATEMENTS

1 Company information

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

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

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

2 Financial statements

2.1 Basis of preparation of the financial statements

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

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

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

The financial statements were prepared on the historical cost basis.

2.2 Foreign currency translation

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

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

2.3 Presentation of statement of comprehensive loss

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

3 Summary of significant accounting policies

3.1 Changes in accounting policies

The accounting policies applied principally correspond to those applied in the prior years.

With an effective date 1 January 2018, the following amended standards and interpretations were required to be applied for the first time:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenues from Contracts with Customers"
- Amendments to IFRS 15: Clarification to IFRS 15 (1 January 2018)
- Amendment to IFRS 15: "Effective Date of IFRS 15"
- Amendments to IFRS 2: Classification and Measurement of Share-based Payments Transactions
- Amendments to IFRS 4 "Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
- Amendments to IFRS 40 "Transfers of Investment Properties"
- Improvements to IFRS 2014 – 2016: Improvements to IFRS 1 and IAS 28
- IFRS 22 "Foreign Currency Transactions and Advance Consideration"

The new standards and amendments listed did not have a significant impact on the financial statements of Probiodrug. Probiodrug adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. IFRS 15, Revenue from Contracts with Customers, replaces all current standards and interpretations dealing with revenue recognition and introduces a five-step model to account for revenue. As Probiodrug is currently not generating revenues, the company may only be affected by IFRS 15 in the future when entering into collaborative arrangements or similar deals.

Probiodrug adopted IFRS 9 on 1 January 2018 retrospectively. In addition, management elected not to restate comparative information as permitted by IFRS 9. The impact of the adoption of IFRS 9 on the Company`s equity as at 1 January 2018 is nil. Accordingly, at the date of initial application, the Company did not record any difference between previous carrying amounts and those determined under IFRS 9 in opening accumulated deficit.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new classification for the Company`s financial assets is as follows. Other assets, financial assets and cash and cash equivalents, previously classified as "loans and receivables" under IAS 39 are now classified as "amortised cost" under IFRS 9. Trade payables and other current liabilities are classified "at amortised cost".

As of 31 December 2018 Probiodrug presents non-current financial assets, other assets, cash and cash equivalents and trade and other payables in its statements of financial position.

At 31 December 2017, the Company had an equity investment in an unlisted limited liability company of EUR 3 k thousand that is held for long-term strategic purposes. Under IFRS 9, the Company has designated the investment as measured at FVTPL. Consequently, all fair value gains and losses will be reported in profit or loss. However, due to the immaterial amount of historical cost and no new information is available as to whether the fair value may be different compared to the historical costs of EUR 3 k thousand, no adjustment to opening retained earnings as of 1 January 2018 was made.

3.2 Determination of fair values

IFRS 13, „Fair Value Measurement", establishes a uniform definition for measurement at fair value. Fair value is defined as the price at the measurement date that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. Where appropriate, further information as to the assumptions made in the determination of the fair value is included within the specific disclosures for the respective line items of the statement of financial position as well as the statement of comprehensive loss.

3.3 Intangible assets

The intangible assets acquired by Probiodrug are recognised at cost less accumulated amortisation as well as any impairment losses which may have been recognised. The amortisation is recognised on the straight-line basis over the expected useful life. The expected useful life ranges from three to five years.

3.4 Plant and equipment

Plant and equipment are recognised at cost less accumulated depreciation as well as any accumulated impairment losses which may have been recognised. Depreciation is recognised on the straight-line basis over the useful life. The useful life for operating and office equipment ranges from three to ten years; for laboratory equipment from five to 10 years.

3.5 Impairment of noncurrent assets

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

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

3.6 Financial assets and liabilities

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

According to IFRS 9, all financial assets or liabilities are initially recognised at fair value with the exception of trade receivables which do not contain a significant financing component.

Under IFRS 9, the basis on which assets are measured after initial recognition is the way they are classified. Under IFRS 9, the classification and measurement models are FVTPL (Fair Value with changes in fair value recognised in profit or loss as they arise), amortised cost and FVOCI (Fair Value with changes in fair value recognised through Other Comprehensive Income). The classification is based on the business model of the company and the characteristics of the cash flows of the financial asset.

FVOCI does not apply for the financial assets recorded at the company.

According to IFRS 9 financial liabilities are measured at amortised cost or FVTPL with the exception of the portion of the fair value attributable to changes in the entity`s own credit risk which is recognized in OCI. Apart from that IFRS 9 maintains the basics of classification and measurement of IAS 39.

Probiodrug allocates non-derivative financial assets in the category “amortised cost” for cash and other assets and FVTPL for the noncurrent financial assets. Non-derivative financial liabilities recorded at Probiodrug are classified as “other financial liabilities” and measured subsequent to their initial recognition at amortised cost.

The noncurrent financial assets of Probiodrug comprise equity interests in BIO Mitteldeutschland GmbH, Halle (Saale).

The financial liabilities of Probiodrug comprise trade payables.

Financial liabilities are derecognised when the contractual obligation has been met, is waived or has expired.

3.7 Cash and cash equivalents

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

3.8 Stock option and phantom stock option programs

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

In addition, prior to the periods presented, phantom stock options were issued to management, board members and consultants. In specific cases, the holders were entitled to a cash payment amounting to the difference between the fair value of an equity instrument and the exercise price in conjunction with an initial public offering, a merger or a takeover of Probiodrug.

3.9 Pensions

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

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

The defined benefit obligation and the related current service cost is based on the benefit to the period of service under the defined benefit plan's formula. Actuarial gains and losses are immediately recognised in equity in other comprehensive income. In the previous year the fair value of the plan assets (insurance amount) was deducted from the gross pension obligation. In 2017 and 2018 these insurances have expired. The insurance amount was paid to Probiodrug and therefore no longer serves as a plan asset.

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

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

3.10 Provisions

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

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

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

3.11 Research and development expenses

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

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

3.12 Finance income and expense

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

3.13 Loss per share

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

3.14 New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 31 December 2018, and have not been applied in preparing these financial statements:

Endorsed by the EU:
- IFRS 16 "Leases" (1 January 2019)
- IFRIC 23 "Uncertainty over Income Tax Treatments" (1 January 2019)
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (1 January 2019)

Not yet endorsed by the EU:
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (1 January 2019)
- Amendments to IAS 19: Employee benefits (1 January 2019)
- Improvements to IFRS 2015–2017: Changes to IFRS 3, IFRS 11, IAS 12 und IAS 23 (1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (1 January 2020)
- Amendments to IFRS 3: Definition of a Business (1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (1 January 2020)
- IFRS 17 "Insurance Contracts" (1 January 2021)

IFRS 16 Leases replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

Probiodrug has completed an initial assessment of the potential impact on its financial statements but has not yet completed a detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including Probiodrug's borrowing rate at 1 January 2019 and through 2019, the composition of Probiodrugs's lease portfolio at that date and the year 2019, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases. As at 31 December 2018, the Company's future minimum lease payments under non-cancellable operating leases amounted to EUR 20k, on an undiscounted basis (refer to Note 8.1). In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities. Except for IFRS 16, none of the other new or amended standards and interpretations is expected to have a significant effect on the financial statements of the Company.

4 Significant discretionary decisions, estimates and assumptions

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

Estimates and assumptions

The estimates and assumptions primarily relate to estimates and assumptions in connection with the management's assessment of the entity's ability to continue as a going concern and the determination of accruals for research and development services in progress. The amounts of the respective items in the statement of comprehensive loss are research and development expenses of EUR 4,836k (2017: EUR 7,454k). The estimates for accruals at year-end are based on past experience as well as other information relating to the transactions recognised.

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 KEUR 7,737 and an accumulated deficit of KEUR 55,313 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.

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

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

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

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

5.1 Research and development expenses

The research and development expenses of EUR 4,836k (2017: EUR 7,454k) comprise personnel costs, costs for research and development services provided by third parties in relation to the preclinical and clinical programs, patent related legal and consulting fees, costs of laboratory materials as well as amortisation and depreciation attributable to the research and development area.

5.2 General and administrative expenses

The general and administrative expenses of EUR 2,891k (2017: EUR 2,511k) comprise personnel costs and costs of office supplies as well as amortisation and depreciation attributable to the administrative area and other operating expenses.

5.3 Supplementary disclosures

The expenses during the financial year include amortisation and depreciation of plant and equipment as well as intangible assets amounting to EUR 23k (2017: EUR 106k) as well as personnel related expenses amounting to EUR 2,541k (2017: EUR 2,159k).

In addition, expenses for defined contribution plans include the employer's contribution to the statutory pension scheme amounting to EUR 52k (2017: EUR 48k).

5.4 Finance income and Income taxes

Current income tax income and expense is based on the respective enacted tax laws and regulations. No current or deferred income taxes were recognised in 2018 and 2017. The income tax gain of EUR 1,102k in 2017 included current taxes and related to a settlement with the fiscal authorities resulting in the release of tax liabilities recognised in prior years to income tax gain. A further EUR 862k in 2017 related to the release of accrued interest in connection with the settlement and was presented as finance income.

For the determination of deferred taxes, a corporation tax rate of 15% plus a solidarity surcharge of 5.5% as well as the trade income tax rate of 15.75% was used for all reporting periods. Based on this, the effective tax rate as at 31 December 2018 used to determine the deferred tax assets and liabilities amounted to 31.58% (31 December 2017: 31.58%).

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

T14

In EUR k	2018	2017
Loss before income tax	−7,737	−9,111
Income tax rate	31.58%	31.58%
Expected tax benefits	2,443	2,877
Tax losses not recognised	−2,411	−3,179
Prior period tax effects	0	1,102
Non-deductible expenses/non-taxable income	50	182
Other differences	−82	120
Reported income tax gain	**0**	**1,102**

As at 31 December 2018, deferred tax assets attributable to tax loss carry forwards in the amount of EUR 42,007k (31 December 2017: EUR 39,566k) and to the pension liability in the amount of EUR 199k (31 December 2017: EUR 189k) were not recognised as their utilisation is not probable.

As at 31 December 2018, Probiodrug had corporate income tax loss carry forwards of EUR 133,120k and trade tax loss carry forwards of EUR 132,960k. The tax losses can be carried forward for an unlimited time.

6 Explanations on individual statement of financial position line items

6.1 Intangible assets

The intangible assets reconcile as follows:

T15

In EUR k	Other intangible assets
Acquisition costs as at 1 January 2018	373
Additions	0
Disposals	0
Acquisition costs as at 31 December 2018	**373**
Amortisation as at 1 January 2018	362
Additions	4
Disposals	0
Amortisation as at 31 December 2018	**366**
Carrying value as at 1 January 2018	11
Carrying value as at 31 December 2018	**7**

T16

In EUR k	Other intangible assets
Acquisition costs as at 1 January 2017	373
Additions	1
Disposals	−1
Acquisition costs as at 31 December 2017	**373**
Amortisation as at 1 January 2017	277
Additions	86
Disposals	−1
Amortisation as at 31 December 2017	**362**
Carrying value as at 1 January 2017	96
Carrying value as at 31 December 2017	**11**

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

6.2 Plant and equipment

Plant and equipment reconcile as follows:

T17

In EUR k	Leasehold improvements	Other equipment, factory and office equipment	Total
Acquisition costs as at 1 January 2018	181	563	744
Additions	0	19	19
Disposals	0	0	0
Acquisition costs as at 31 December 2018	**181**	**582**	**763**
Depreciation as at 1 January 2018	174	515	689
Additions	6	13	19
Disposals	0	0	0
Depreciation as at 31 December 2018	**180**	**528**	**708**
Carrying value as at 1 January 2018	7	48	55
Carrying value as at 31 December 2018	**1**	**55**	**56**

T18

In EUR k	Leasehold improvements	Other equipment, factory and office equipment	Total
Acquisition costs as at 1 January 2017	181	582	763
Additions	0	7	7
Disposals	0	−26	−26
Acquisition costs as at 31 December 2017	**181**	**563**	**744**
Depreciation as at 1 January 2017	167	527	694
Additions	7	14	21
Disposals	0	−26	−26
Depreciation as at 31 December 2017	**174**	**515**	**689**
Carrying value as at 1 January 2017	14	55	69
Carrying value as at 31 December 2017	**7**	**48**	**55**

6.3 Other current assets

Other current assets are comprised of:

T19

In EUR k	31 December 2018	31 December 2017
Prepayments	98	346
Value-added tax receivables	86	45
Corporate tax receivables	3	45
Rent deposits	7	7
Deposit on tangible assets	3	0
Other receivables	2	1
Total	**199**	**402**

6.4 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand. As at 31 December 2018, cash balances denominated in other currencies than the Euro amount to USD 652k (31 December 2017: USD 653k).

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

6.5 Equity

As at 31 December 2018, Probiodrug's share capital comprised 8,208,009 registered no par common shares, unchanged to the previous year. The nominal amount per share is EUR 1.00. All shares are issued and fully paid up.

In 2017, share capital increased by issuing 21,274 shares from the conditional capital 2010 as a result of the exercise of outstanding stock options. The conversion increased the share capital from EUR 8,186,735 to EUR 8,208,009. By resolutions of the supervisory board on 1 and 6 December 2017, section 5 (share capital) of the articles of association was changed. The corresponding entry was made in the commercial register on 13 and 28 December 2017.

Conditional Capital

As at 31 December 2018, the conditional capital amounted to EUR 4,003k and as at 31 December 2017 to EUR 2,603k, respectively. Of this amount, EUR 482k (2017: EUR 482k) is reserved as a result of the issuance of options referring to the Conditional Capital 2008 to 2014.

By resolution of June 21, 2018, the Annual General Meeting created the Conditional Capital 2018 while cancelling of the Conditional Capital 2015. The Company's share capital is conditionally increased (Conditional Capital 2018) by a nominal value of up to 3,400,000 new no par value bearer shares. The conditional capital increase serves to grant no par value registered shares upon exercising conversion and/or option rights (or the satisfaction of corresponding conversion or option obligations) or, to the extent that the Company exercises its right to grant no par value Company shares, in lieu of payment of the amount due in cash (or parts thereof) to the holders or creditors of bonds that have been issued by the Company or a group company in accordance with the authorisation of the Annual Shareholders' Meeting of the shareholders dated June 21, 2018 until June 20, 2023 as per Section 18 AktG. The issuance of the new shares shall be effected at the conversion or option price to be determined, in each case, in accordance with the aforementioned authorization resolution.

The subscription rights of the shareholders on the occasion of the issue of bonds based on this authorization are excluded.

In 2017, the conditional capital was reduced by EUR 21k through issuing 21,274 shares from the conditional capital 2010 as a result of the exercise of outstanding stock options.

Convertible Bonds
By resolution of the Ordinary General Meeting on June 21, 2018, the management board is authorized, with the cancelling of the authorization of June 10, 2015 and with the consent of the supervisory board to issue once or in several transactions until June 20, 2023, in the latter case also simultaneously in several tranches, option bonds and/or convertible bonds in bearer and/or registered form (the "Bonds") with a total nominal amount counted as of the date of the initial adoption of the resolution on June 10, 2015 of up to EUR 60,000,000, each with or without a maturity restriction. The bonds, subject to the respective terms and conditions of the option bonds (the "Option Conditions") 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 no par value bearer shares of the Company with a total prorated amount of the Company's share capital of up to EUR 3,400,000. 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 also be issued against non-cash consideration, in particular to acquire enterprises, interests in enterprises, business units, receivables, patents and licenses or other assets, provided however, that their value is at least equivalent to the issue price of the bonds.

The bonds may also be issued by domestic or foreign companies affiliated with the Company within the meaning of sec. 15 et. seq. AktG (the "Group Company"). In the event an issue by a Group Company, the management board – subject to the consent of the supervisory board – is authorized to guarantee the bonds on behalf of the Company and to grant conversion rights to the holders of convertible bonds or grant option rights/impose option obligations to the holders of option bonds relating to the shares in the Company.

The management board – subject to the supervisory board's consent – is authorized to determine the further details of the issue and the terms of the bonds, in particular interest rate, type of interest accrual, issue price, term and division as well as option period and/or conversion period and a potential variability of the conversion ratio and, if applicable, to do so in consultation with the corporate bodies of the subsidiary issuing the option bond or the convertible bond.
The subscription right of the shareholders on the occasion of the issue of bonds based on this authorization is excluded.

Authorised Capital
As at 31 December 2018, the authorised capital amounted to EUR 4,093k unchanged to the previous year. The authorised capital can be utilised for capital increases for contributions in cash and/or kind.
In 2017, the authorised capital 2014 to the amount of EUR 2,976,995 was cancelled. A new authorised capital 2017 was established by resolution of the general meeting of the shareholders on 13 June 2017. Probiodrug`s management board was authorised, with the approval of the supervisory board, to increase the Company`s share capital by up to EUR 4,093,367. The subscription right is excluded.

6.5.1 Loss per share

As at 31 December 2018, Probiodrug's share capital consisted of 8,208,009 common shares (31 December 2017: 8,208,009). All common shares are registered no par value common shares. The calculated nominal amount per share is EUR 1.00.

The net loss attributable to Probiodrug's shareholders amounted to EUR 7,737k in financial year 2018 (2017: net loss of EUR 8,009k).

The loss per share was calculated as follows:

T20

In EUR k	2018	2017
Weighted average number of common shares outstanding	8,208,009	8,188,407
Loss for the period	**–7,737k**	**–8,009k**
Loss per share in EUR (basic/diluted)	**–0.94**	**–0.98**

As at 31 December 2018 and 2017, no items had a dilutive effect.

6.5.2 Share based payments

6.5.2.1 Stock option programs (equity settled)

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

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

T21

Grant date/employees entitled	Outstanding Options	Vesting conditions	Contractual life of options
ESOP 2007 Granted to employees	16,208	graded vesting over four year period (50% after two years, 25% after three years and 25% after four years)	8 years; extended in 2016 to 11 years
ESOP 2010/2013 Granted to management board	54,165	graded vesting over 31 month period (33% after seven months, 33% after 19 months and remaining after 31 months)	4 to 6 years; Extended in 2016 to 9 years
ESOP 2014 Granted to management board Granted to employees	314,501 96,874	Immediate vesting on date of grant for 40%, graded vesting over 3 year period (20% each after first, second and third year) period	8 years, not exercisable before lapse of 4 years

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

The inputs used in the measurement of the fair values for 2014 to 2017 grants were:

T22

	ESOP 2014
Fair value at grant date	EUR 4.84 – 10.70
Share price at grant date	EUR 11.97 – 24.80
Exercise price	EUR 12.55 – 23.60
Expected volatility	40 % to 45 %
Expected life (weighted average)	4 years
Expected dividends	0 %
Risk free interest rate (based on government bonds)	– 0.47 % to 0.05 %

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

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

T23

	2018		2017	
	Number of options*	WAEP**	Number of options*	WAEP**
Outstanding at 1 January	481,748	EUR 17.13	491,022	EUR 17.13
Forfeited during the year	0	–	0	–
Exercised during the year	0	–	– 21,274	EUR 6.00
Cash settlement	0	–	0	–
Granted during the year	0	–	12,000	EUR 12.55
Outstanding at 31 December	**481,748**	**EUR 17.51**	**481,748**	**EUR 17.51**
Exercisable at 31 December	280,040	EUR 23.43	70,373	EUR 12.64

* Adjusted for the reverse stock split
**Weighted average exercise price

The stock options outstanding at 31 December 2018 had an exercise price in the range of EUR 6.00 to EUR 42.18 (31 December 2017: EUR 6.00 to EUR 42.18) and a weighted-average contractual life of 3.5 years (31 December 2017: 4.4 years). According to the terms and conditions of the stock option programs, exercise is not possible during specified blackout periods and subject to a performance criterion concerning the average stock price of Probiodrug shares during the twenty days before exercise.

No expenses associated with the stock option programs 2007 and 2010/2013 are recognised for the years 2018 and 2017, respectively, due to the complete vesting in prior periods.

The total expenses associated with the stock option program 2014 recognised in 2018 amounted to EUR 62k (2017: EUR 286k). These amounts were credited to additional paid-in capital.

In 2017, 12,000 options from the stock option program 2014 were issued to a new employee and 21,274 options from the stock option program 2010 were exercised.

6.5.2.2 Phantom stock option programs

As of 31 December 2018, 19,333 (31 December 2017: 19,333) remaining phantom stock awards are outstanding with a fair value of EUR 0k.

6.6 Noncurrent liabilities

6.6.1 Pension liabilities – direct pension commitments

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

Plan assets consisted solely of pension liability insurance contracts. The asset values of the insurance contracts represented the cash surrender values and were offset against the pension obligations as the insurance contracts are qualifying insurance policies in accordance with IAS 19. In 2017 and 2018 these insurances have expired. The insurance amount was paid to Probiodrug and therefore no longer serves as a plan asset.

The amount of the defined benefit obligation (actuarial present value of the accrued pension entitlements) is determined on the basis of actuarial methodologies which require the use of estimates. The calculation was based on the Heubeck 2018 G mortality tables.

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

T24

	2018	2017
Discount rate	1.60%	1.86%

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

In addition, an annual salary increase of 0% and an increase in the pension of 1.0% was assumed.

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

Interest rate – 0.5%: Δ DBO EUR 110k (31 December 2017: EUR 109k)

Interest rate + 0.5%: Δ DBO EUR –100k (31 December 2017: EUR –99k)

RECONCILIATION OF DEFINED BENEFIT OBLIGATION AND PLAN ASSETS

T25

In EUR k	Defined benefit obligation	Plan assets	Pension provision (Net DBL)
Balance as of 1 January 2017	**1,644**	**−794**	**850**
Current service cost	45	–	45
Interest expense (+) /interest income (–)	23	−12	11
Benefit payments	–	468	468
Remeasurement	−93	−50	−143
Income (–)/ expenses (+) from plan assets (without amounts included in interest expense)	–	−50	−50
Actuarial gains (–)/ losses (+)	−93	–	−93
Effects from changes in financial assumptions	−95	–	−95
Effects from changes based on experience	2	–	2
Employer's contributions	–	−60	−60
Balance as of 1 January 2018	**1,619**	**−448**	**1,171**
Current service cost	0	–	0
Interest expense (+)/ interest income (–)	41	−2	39
Benefit payments	−56	478	422
Remeasurement	40	−22	18
Income (–)/ expenses (+) from plan assets (without amounts included in interest expense)	–	−22	−22
Actuarial gains (–)/ losses (+)	40	–	40
Effects from changes in financial assumptions	53	–	53
Change in demographic assumption	22	–	22
Effects from changes based on experience	−35	–	−35
Employer's contributions	–	−6	−6
Balance as of 31 December 2018	**1,644**	**0**	**1,644**

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

T26

in EUR k	2018	2017
Current service cost	0	45
Net interest expense (+)/ income(–)	39	11
Interest expense associated with DBO	41	23
Interest income on plan assets	−2	−12
Total net pension expenses	**39**	**56**

The weighted average duration of the pension commitments is 13.1 years (31 December 2017: 13.2 years). The pension payments for the two beneficiaries may be due within one year.

6.6.2 Pension liabilities – pension commitment using the provident fund

Probiodrug has further obligations for granted and vested pension commitment for a former member of the management board in the context of a provident fund in amount of EUR 14k annually until 2035.

These pension liability was calculated using a discount rate of 1.76% and amounts to EUR 210k as of December 31, 2018.

6.7 Current liabilities

Other current liabilities

T27

In EUR k	31 Dec. 2018	31 Dec. 2017
Salaries and wages	32	210
Payroll and church taxes	50	39
Post-contractual payments	83	0
Others	15	63
Total	**180**	**312**

The post-contractual payments are liabilities for a post-contractual non-competition clause.

7 Disclosures with respect to financial instruments

7.1 General disclosures

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

On the asset side, the non-derivative financial instruments primarily include cash and cash equivalents. The non-derivative financial liabilities consist of trade payables.

7.2 Fair value measurement

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

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

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

7.3 Other disclosures in accordance with IFRS 7

Disclosures with respect to interest income and expense
No interest income and expense in 2018 and 2017 was recognised with respect to financial instruments.

Financial risks and risk management

7.3.1 Organisation

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

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

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

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

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

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

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

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

7.3.2.1 Credit risks

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

Probiodrug's cash balances are held by the following banks: Sparkasse (26.1%), Moody's Rating Aa2, Deutsche Bank (54.6%) Moody's Rating A3 and BW Bank (19.3%), Moody's Rating Aa3. In general, cash balances are only held with financial institutions with prime credit ratings which are subject to the depositor's guarantee fund of German banks. Investments, if made, are in financial assets which do not have any inherent risk of loss.

Maximum risk of default

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

CARRYING AMOUNT AS AN EQUIVALENT FOR THE MAXIMUM RISK OF DEFAULT T28

In EUR k	31 Dec. 2018	31 Dec. 2016
Noncurrent financial assets	3	3
Cash and cash equivalents	3,783	10,291
	3,786	**10,294**

As of the reporting dates 31 December 2018 and 31 December 2017, the financial assets were neither impaired nor overdue.

7.3.2.2 Liquidity risk

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

In order to manage the liquidity situation during the year, the Company utilises appropriate financial planning instruments. As at 31 December 2018, cash and cash equivalents amounted to EUR 3.8 million. The cash and cash equivalents as at 31 December 2018 provide for the Company's financing until the beginning of the third quarter of 2019. A financing requirement of approximately EUR 2.7 million is needed for the 15 months period up to the end of the first quarter of 2020. To cover the funding gap, Management believes that additional cash inflows can be generated. If the currently planned assumptions regarding generated additional cash for the 15 months period is not viable, there is a risk that the liquidity of the Company is insufficient.

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

Analysis of maturities

As of 31 December 2018, the trade payables of EUR 772k (31 December 2017: EUR 344k) had a maturity of up to 30 days, respectively.

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

Exchange rate risks
Currently, Probiodrug is exposed to exchange rate risks with respect to cash and cash equivalents held in USD. A change of –5% or +5% in the foreign exchange rate of the EUR compared to the USD could impact net loss and equity by EUR 22k and EUR –25k.

Exchange rate risks could further develop if a portion of the future expenses or revenues from collaboration agreements or licencing agreements are realised in US dollars or in another foreign currency.

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

Price risks
At present, the financial commitments of the Company (see note 8.1) do not contain variable price conditions and hence do not bear price risks.

Capital management
The primary objective of Probiodrug's capital management is to ensure that it maintains its liquidity in order to finance its operating activities and meet its liabilities when due. In accordance with the present projections the cash reach of the Company is until the beginning of the third quarter 2019 on the basis of current cash and cash equivalents. The future financing on which the going concern assumption is based on considers management's expectation to raise funds in the form of equity or debt and/or conduct a partnership agreement. For detailed disclosures regarding going concern and liquidity requirements see note 4.

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

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

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

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

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

As at 31 December 2018, Probiodrug's equity amounted to EUR 1,230k (31 December 2017: EUR 8,923k), which equates to an equity ratio of 30.4% (31 December 2017: 82,9%). The total liabilities amounts to EUR 2,818k (31 December 2018: EUR 1,839k).

An extraordinary shareholder meeting took place on 7 December 2018 due to a loss in share capital amounting to 50 percent, in accordance with section 92, para. 1 AktG.

8 Others

8.1 Contingencies and other financial commitments

The total of the other financial commitments as at 31 December 2018 was EUR 269k and consist of services by research and development service providers as well as of service, leasing and rental commitments. Of these commitments EUR 202k are due within one year.

8.2 Related party relationships

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

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

Transactions with key management personnel

The remuneration of the management board comprised:

T29

In EUR k	2018	2017
Short-term employee benefits	806	887
Post-employment benefits	31	115
Share-based payments	0	121
Total	**837**	**1,123**

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

The pension commitments described in note 6.6 relate to two former members of the management board. The development of the pension provision is also presented there.

The remuneration of the supervisory board comprised of:

T30

In EUR k	2018	2017
Short-term benefits	112	137
Total	**112**	**137**

The following director dealings in shares of Probiodrug have been reported to the Company in the year 2018:

- Dr Erich Platzer (chairperson of the supervisory board) – purchase of 5,000 shares on May 18, 2018
- Dr Dinnies von der Osten (vice chairperson of the supervisory board) – purchase of 5,000 shares on May,18, 2018
- Dr Ulrich Dauer (CEO, appointed on May 1, 2018) – purchase of 4,800 shares on July 11, 2018
- Dr Inge Lues (CDO) – purchase of 4,900 shares on July 13,2018

On April 24, 2018, the CEO Dr Konrad Glund and the CFO Dr Hendrik Liebers resigned from the management board, effective April 30, 2018.

Dr Konrad Glund received payment of the variable accrued bonus resulting from 2017 of EUR 71k as well as a severance payment of EUR 76k. All stock options held were fully vested. In addition, Dr Konrad Glund continued to work as a consultant for the Company until August 31, 2018 for a monthly fixed fee of EUR 12k. Dr Hendrik Liebers received payment of the variable accrued bonus resulting from 2017 of EUR 116k as well as a severance payment of EUR 112k. All stock options held were fully vested. In addition, Dr Hendrik Liebers continued to work as a consultant for the Company until August 31, 2018 for a monthly fixed fee of EUR 12k.

On October 31, 2018, Dr Inge Lues, Chief Development Officer, resigned from the management board and left the company upon expiration of her employment contract, to retire. She receives a compensation for a post-contractual non-competition clause in amount of EUR 109k.

8.3 Approval and release

On 25 March 2019, Probiodrug AG's management board approved these financial statements for release to the supervisory board.

Halle (Saale), 25 March 2019

Dr Ulrich Dauer **Dr Michael Schaeffer**

C. RESPONSIBILITY STATEMENT

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

Halle (Saale), 25 March 2019

Management Board of Probiodrug AG

Dr Ulrich Dauer **Dr Michael Schaeffer**

D. INDEPENDENT AUDITORS' REPORT

To the Shareholders of Probiodrug AG, Halle (Saale)

Opinion
We have audited the financial statements of Probiodrug AG, Halle (Saale) ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

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

Material Uncertainty Related to Going Concern
We draw attention to Note 4 "Significant discretionary decisions, estimates and assumptions – Going Concern" in the financial statements, in which management describes that Probiodrug AG is in a strained liquidity situation, because, according to its planning, cash and cash equivalents will be adequate to meet the financial obligations until the beginning of the third quarter of 2019. So there is a necessity for the Company to ensure the future financing by equity, debt or an improvement of the cash inflows out of its own business activities. As stated in Note 4, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters
With exception of the matters described in the section "Material Uncertainty Related to Going Concern", we have determined that there are no other significant key audit matters to report in our report.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report 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]

PART II

A. FINANCIAL STATEMENTS (HGB)

BALANCE SHEET AS AT 31 DECEMBER 2018

ASSETS T31

In EUR		31 Dec. 2018		31 Dec. 2017
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 bank balances		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

T32

In EUR	31 Dec. 2018	31 Dec. 2017
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 reserves	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**

INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

T33

In EUR		2018		2017
1. Other operating income		56,074.20		1,125,055.94
2. Cost of materials				
a) Cost of raw materials, supplies and purchased goods	−19,219.10		−16,434.87	
b) Cost of purchased services	−2,105,606.47	−2,124,825.57	−5,105,980.11	−5,122,414.98
3. Personnel expenses				
a) Wages and salaries	−2,042,520.00		−1,647,217.16	
b) Social security, pension	−353,165.98	−2,395,685.98	−256,789.06	−1,904,006.22
– thereof for pensions: EUR 217,240.16 (PY: EUR 137,559.68) –				
4. Amortisation of intangible assets and depreciation of property, plant and equipment		−23,284.34		−105,774.97
5. Other operating expenses		−3,125,593.37		−2,837,162.75
6. Other interest and similar income		25,380.02		27,882.50
7. Interest and similar expense		−115,538.24		−14,586.95
8. Income taxes		0.00		1,102,321.74
9. Earnings after taxes		**−7,703,473.28**		**−7,728,685.69**
10. Net loss for the year		**−7,703,473.28**		**−7,728,685.69**
11. Accumulated deficit brought forward		−48,308,275.37		−40,579,589.68
12. Accumulated deficit		**−56,011,748.65**		**−48,308,275.37**

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

T34

In EUR	1 Jan. 2018 to 31 Dec. 2018	1 Jan. 2017 to 31 Dec. 2017
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**

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In EUR	31 Dec. 2018	31 Dec. 2017
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**

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

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In EUR	Subscribed capital Ordinary shares	Capital reserves	Statutory reserve	Accumulated loss	Equity
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**

B. 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 notification

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 reserves

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:

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

Pension provision

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:

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In EUR k	2018	2017
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 T39

	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, Doctor, Basel/Switzerland – Chairperson
- Member of the Board of Directors, Aptose Biosciences Inc., Toronto, Canada
- Owner and Managing Director of Platzer Consult Gmbh, Basel, Switzerland
- 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 fees
The fees invoiced by the auditor during the financial year ended included the following:

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In EUR k	2018	2017
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**

MOVEMENTS IN FIXED ASSETS IN THE 2018 FINANCIAL YEAR

				Cost	
In EUR	1 Jan. 2018	Additions	Disposals	31 Dec. 2018	
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					
1. Investments	3.450,00	0.00	0.00	3.450,00	
	1,119.975.43	**22,193,02**	**0.00**	**1,142.168.45**	

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	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
	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**

C. 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 positionv

Net assets

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

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In EUR k	31 Dec. 2018	31 Dec. 2017
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 bank balances	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:

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In EUR k	2018	2017
Other operating income	56	1,125
Cost of materials	–2,125	–5,122
Personnel expenses	–2,396	–1,904
Amortisation and depreciation of intangible assets and 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 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 OF THE 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 FOR PROBIODRUG AG

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

T44

				Dr Ulrich Dauer CEO
				since 1 May 2018
In EUR	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

T45

				Dr Michael Schaeffer CBO
				since 1 Oct. 2018
In EUR	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

T46

				Dr Konrad Glund CEO
				Exited on 30 April 2018
In EUR	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

T47

				Dr Hendrik Liebers CFO
				Exited on 30 April 2018
In EUR	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

T48

				Dr Inge Lues CDO
				Exited on 31 October 2018
In EUR	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**

D. MANAGEMENT'S RESPONSIBILITY STATEMENT

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

Halle (Saale), 25 March 2019

Management Board of Probiodrug AG

Dr Ulrich Dauer **Dr Michael Schaeffer**

E. 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 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:]

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Wirtschaftsprüfer
[German Public Auditor]

Sachs
Wirtschaftsprüfer
[German Public Auditor]

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16 May 2019*

Publication of first quarter interim statement 2019

29 May 2019*

2019 Annual General Meeting in Halle (Saale)

30 August 2019*

Publication of 2019 half-year report

28 November 2019*

Publication of third quarter interim statement 2019

Please find additional information on our homepage

* Subject to change, for actual information please see our homepage

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