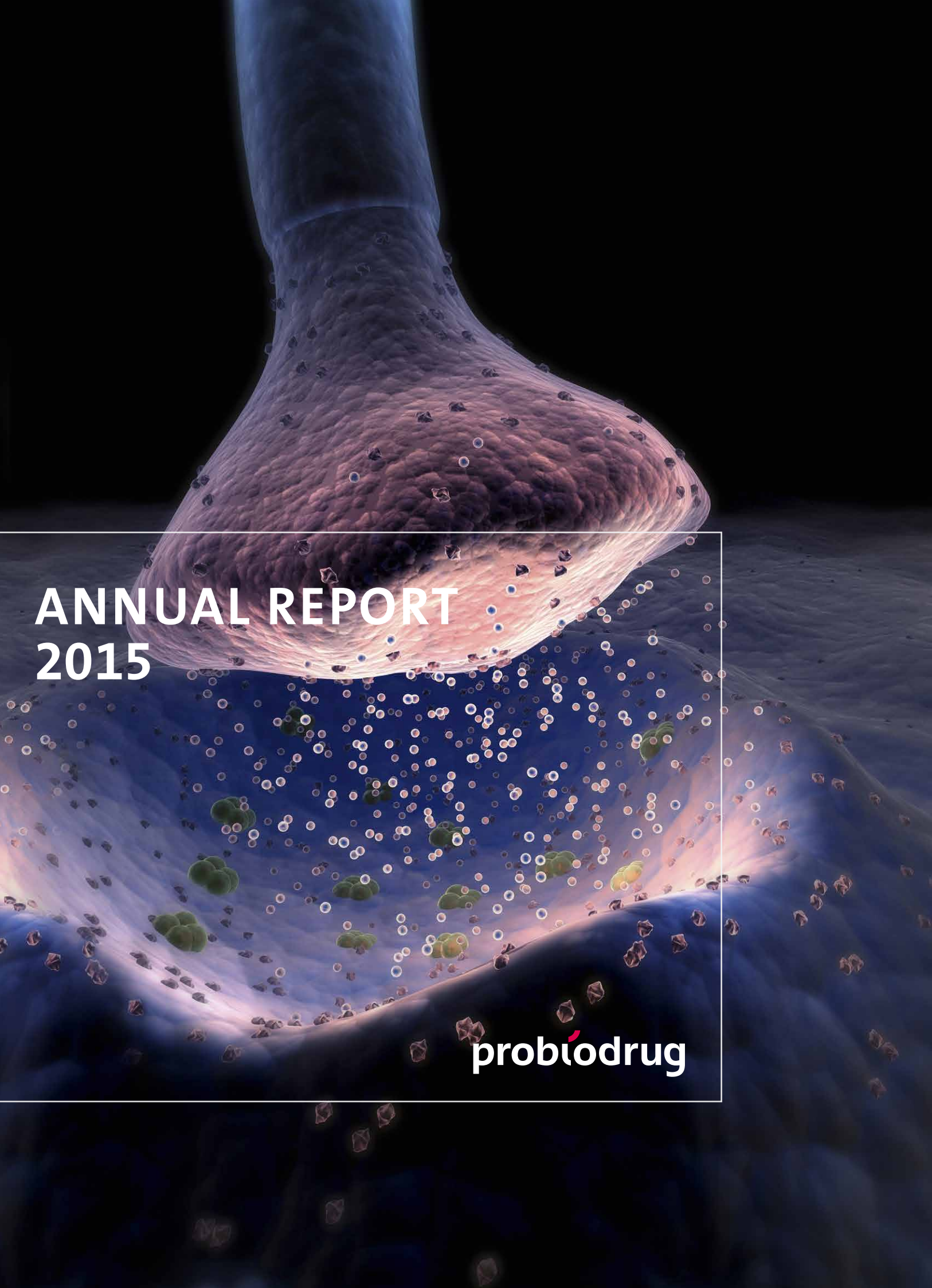


ANNUAL REPORT 2015

probiodrug

DE0007921835
ISIN

7,442,487
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

KEY FIGURES

T01

In EUR k, unless otherwise stated	2015	2014
Earnings, Financial and Net Assets Position		
Revenues	0	0
Operating loss	−13,393	−11,267
Net loss for the period	−13,505	−11,437
Equity (end of the year)	16,133	15,971
Equity ratio (end of the year) (in %)	73.8%	74.4%
Balance sheet total (end of the year)	21,866	21,480
Cash flows used in operating activities (year)	−12,147	−10,589
Cash flows used in operating activities (average)	−1,012	−882
Cash flows provided by financing activities (net)	12,598	25,762
Cash and cash equivalents at the end of period	21,361	20,920
Personnel		
Total number of employees (including Board of Management) (end of the year)	16	12
Average number of employees (including Board of Management)	15.8	12.0
Probiodrug-Share		
Loss per share (basic/diluted) (in EUR)	−1.97	−2.35
Number of shares issued (end of the year)	7,442	6,766

PROBIODRUG AT A GLANCE

Probiodrug AG is a biopharmaceutical company dedicated to the research and development of new therapeutic products for the treatment of Alzheimer's disease ("AD").

Headquartered in Halle, Germany, Probiodrug was founded in 1997 by Prof. Dr Hans-Ulrich Demuth and Dr Konrad Glund and successfully developed a novel therapeutic concept for diabetes – the DP4 inhibitors / gliptins. Today, Probiodrug's aim is to become a leading company in the development of Alzheimer's treatments and to thereby provide a better life for patients.

Probiodrug has identified a new therapeutic concept linked to disease initiation and progression. The development approaches are targeting pyroglutamate-Abeta (pGlu-Abeta) as a therapeutic strategy to fight AD.

PRODUCT PIPELINE

Probiodrug's drug candidates specifically target toxic pyroglutamate-Abeta (pGlu-Abeta) via two complementary modes of action: (i) inhibition of Glutaminyl Cyclase (QC), thus inhibiting the production of pGlu-Abeta; and (ii) clearing existing pGlu-Abeta from the brain.

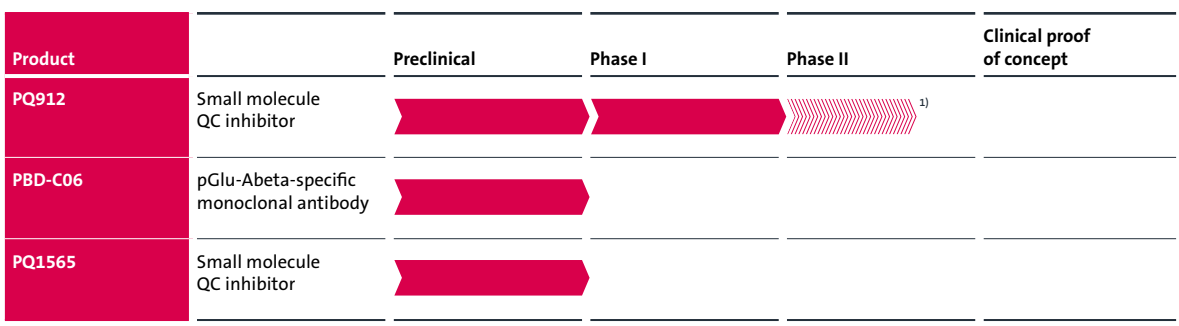
Probiodrug's current development pipeline consists of the following product candidates:

- PQ912 is Probiodrug's lead product candidate, currently in a Phase 2a study, the SAPHIR trial. PQ912 is a highly specific and potent inhibitor of Glutaminyl Cyclase, which has shown therapeutic benefit in Alzheimer's animal models.

- PBD-C06 is a monoclonal antibody, currently in preclinical development. PBD-C06 targets pGlu-Abeta, aiming to selectively clear the brain of pGlu-Abeta while leaving non-toxic forms of Abeta untouched. Development of the manufacturing process for this molecule is currently underway.

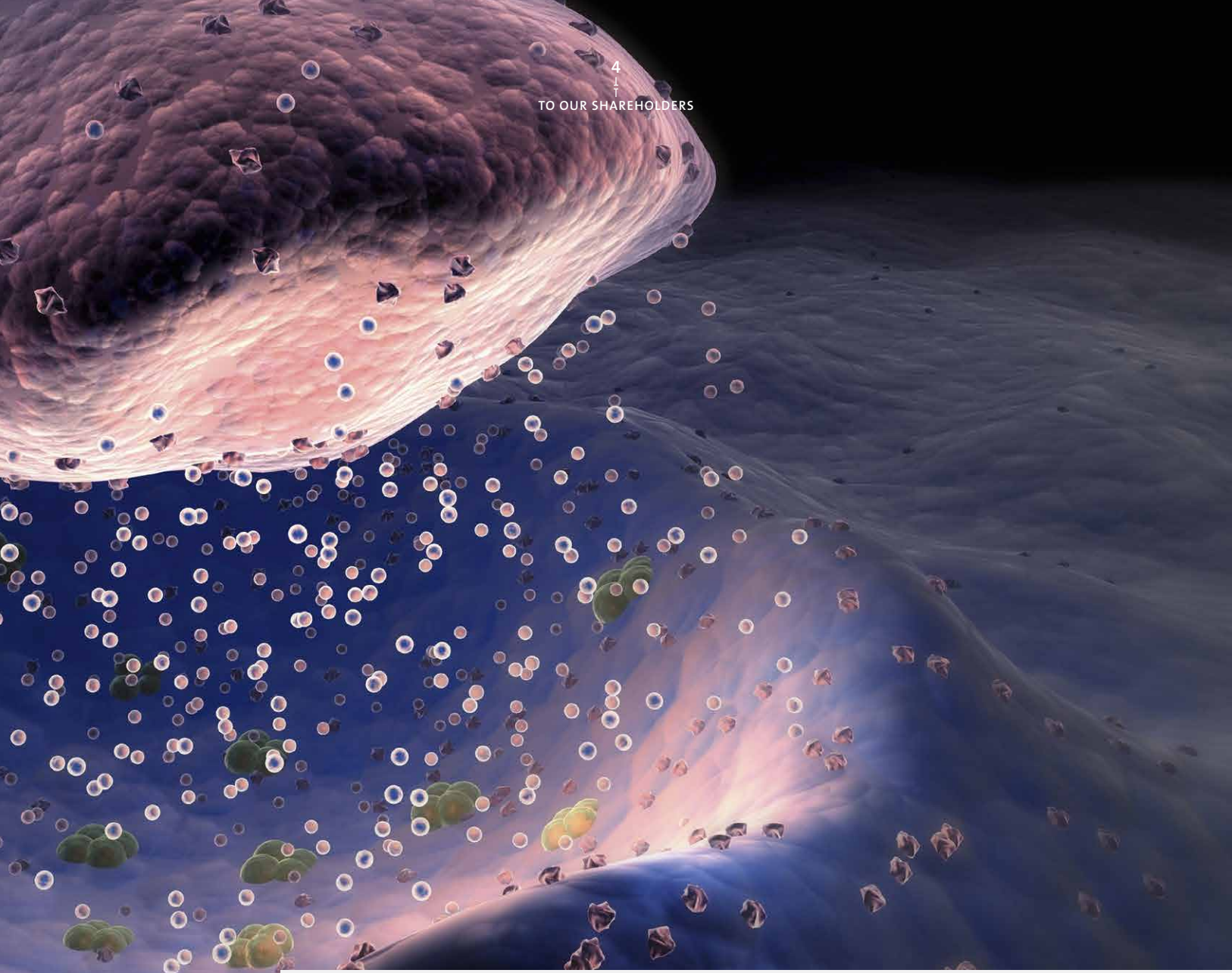
- PQ1565 is a second QC-inhibitor, currently in late preclinical research. The product candidate has shown attractive drug-like properties in preclinical studies. The GMP process for this molecule is being implemented.

FOCUSED ON PROPRIETARY PRODUCT PIPELINE



[1] Study ongoing

CONTENTS



TO OUR SHAREHOLDERS

OUR FIELD OF ACTIVITY — Over 46 million people live with dementia worldwide. This number is estimated to increase to 131.5 million by 2050.

1

LETTER TO THE SHAREHOLDERS

DEAR SHAREHOLDERS,
DEAR FRIENDS AND PARTNERS OF PROBIODRUG,

We look back to successful 2015 and would like to use this Annual Report to inform you about the achievements of the past year as well as on our plans for the future of our company.

As you know Probiodrug is developing a clearly differentiated approach to treat Alzheimer's disease by addressing the toxic Abeta version, what is known as pyro-glutamate-Abeta (pGlu Abeta, syn. N3pG Abeta). Here we pursue two strategies:

Strategy one is a "prevent formation concept" by targeting Glutaminyl Cyclase (QC), which we have shown to be essential for the production of pGlu-Abeta. PQ912, a highly specific and potent QC inhibitor, is the first molecule in its class in phase 2 clinical development for Alzheimer's disease. PQ1565, another small molecule inhibitor of QC, is in preclinical research.

Strategy two is a "capture and clear concept" by selectively targeting pGlu-Abeta directly via an antibody approach. PBD-C06, a highly specific anti-pGlu-Abeta antibody, is in preclinical development.

In 2015, we focused on executing our development plans, in particular the progression of our lead candidate PQ912 and of PBD-C06, and we realised significant steps forward. In the first quarter of 2015, we started enrolment for the phase 2 trial of PQ912, known

"In its first year as a listed company, Probiodrug successfully continued to progress its innovative p-Glu-Abeta therapeutic approach and reached important milestones."

DR KONRAD GLUND
CEO

as the SAPHIR study. This is the first clinical trial in which a QC-inhibitor is tested in patients. This trial runs in approximately eighteen centres in six European countries. In the antibody programme, we selected the final format of the development candidate, PBD-C06, and progressed it into the manufacturing development process.

In June 2015, Probiodrug was honoured to receive the 2015 European Mediscience Award for Best Technology, which was granted for our innovative and differentiated approach in treating Alzheimer's disease.

In November 2015, one year after listing at Amsterdam's Euronext stock exchange, we successfully closed our first capital increase as a public company. In the course of this capital increase, we welcomed additional blue chip investors, in particular Aviva, which now belongs to the five biggest shareholders of Probiodrug.

"In 2015, we made important progress in further positioning Probiodrug and its unique approach to address Alzheimer's disease."

DR HENDRIK LIEBERS
CFO

On the IP-side we got additional important patents granted and also filed new patent applications, thereby further solidifying our position in the field.

The year 2015 in general saw important progress in the Alzheimer's field. Biogen shared further clinical data obtained with their antibody Aducanumab®, which represents important proof for the strategy to target Abeta early in the disease. Also, Lilly shared additional preclinical data of the combination of a BACE-inhibitor with an anti-pGlu-Abeta approach (they use a different terminology for pGlu-Abeta – N3pG Abeta); the additive effects of the combination

are pointing towards the potential of combination therapies for this devastating disease. In 2015, additional scientific evidence from third parties was published further supporting a crucial role of pGlu-Abeta in the pathology of Alzheimer's disease as well as a potential role of QC in other indications, e.g. Chorea Huntington. Last but not least, we see a further rise in interest in Alzheimer's disease from the academic, industrial and institutional side.

2015 has been an important year for our company, and we look forward to an exciting future. We would like to say thank you very much for the trust and commitment you have dedicated to Probiodrug. At the same time, we would also take the opportunity to thank our employees, advisors and partners again for their dedication and commitment to Probiodrug.

This is an exciting time in Alzheimer's research, and we are committed to developing treatments for this devastating disease.

With the best wishes,

"In 2016, our dedicated development focus is further geared to carrying out our clinical study SAPHIR in a high-quality manner, which is now in full swing, and we are pleased to note a continuously high interest level from the clinical investigators."

DR INGE LUES
CDO

DR KONRAD GLUND
CHIEF EXECUTIVE OFFICER

DR HENDRIK LIEBERS
CHIEF FINANCIAL OFFICER

DR INGE LUES
CHIEF DEVELOPMENT OFFICER

REPORT OF THE SUPERVISORY BOARD

OF PROBIODRUG AG, HALLE (SAALE), FOR FINANCIAL YEAR 2015

DR ERICH PLATZER
CHAIRMAN OF THE SUPERVISORY BOARD

COOPERATION OF SUPERVISORY BOARD AND MANAGEMENT BOARD

Also in the past financial year, 2015, the Supervisory Board closely attended to the strategic development of the company and important individual measures and supervised and consulted the Management Board on a regular basis. The work of the Supervisory Board, the principles of adopting resolutions and the work of its committees were governed, inter alia, by the rules of procedure of the Supervisory Board as adopted on 30 September 2014. The Supervisory Board could always satisfy itself of the lawful, expedient and proper activities of the Management Board. Within the reporting period, the Management Board informed the Supervisory Board in detail and comprehensively in the meetings on business development, the financial situation of the company, the progress of the research and development programmes as well as the financial and investment planning. In addition, the Management Board submitted on a regular basis financial reports and reported in detail on events of particular importance, particularly on the financial situation of the company, the details of the capital increase completed in 2015 and the status of the development programmes. Moreover, the Chairman of the Supervisory Board coordinated with the Management Board on substantial facts on a regular basis. Thus, the Supervisory Board was always and in due time involved in all material and relevant topics. In 2015, the cooperation with the Management Board was again as in the past open and constructive. All relevant topics and strategic decisions, including those, where consent was needed were intensely discussed and mutually agreed.

SUPERVISORY BOARD MEETINGS

In 2015, seven meetings of the Supervisory Board took place. In those meetings, the main issues were the status of the development programmes, the financing, and the planning and the execution of the capital increase. In addition, three telephone conferences took place.
Also outside of the Supervisory Board meetings, the Chairman of the Supervisory Board was informed by the Management Board on a regular basis of the current development of the business situation, significant business events and relevant events in the strategic environment of the company.

COMMITTEES

The Supervisory Board formed three committees: the Audit Committee, the Compensation Committee and the Nomination Committee.
Since the partial new election of the Supervisory Board, Dr von der Osten, C. Lohmann and Dr Neermann have been members of the Audit Committee; the chairperson is Dr von der Osten. All members have the required expertise and independence. The Audit Committee convened two times in 2015. The members of the Audit Committee discussed and reviewed the audit of the financial statements for 2015 according to German GAAP (HGB) and IFRS, the half-year financial statements for 2015 and potential financing options for the company.

Since the partial new election of the Supervisory Board, Dr Platzer, C. Lohmann and K. Been have been members of the Compensation Committee; the chairperson is Dr Platzer. The Compensation Committee convened two times in 2015. The main topics were the discussion of the variable compensation for the Management Board for 2014 and the Phantom Stock Program of Dr Lues.
Since the partial new election of the Supervisory Board, Dr Platzer, Dr Neermann and Dr Litzka have been members of the Nomination Committee; the chairperson is Dr Platzer. The Nomination Committee convened twice in 2015. The main topic was the discussion of suitable candidates for the Supervisory Board to be proposed to the general shareholders' meeting 2015.
The committees reported their activities to the entire Supervisory Board.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The Supervisory Board reviewed the annual financial statements and the management report of the company for financial year 2015. The auditor elected by the general shareholders' meeting on 10 June 2015 for financial year 2015, KPMG AG Wirtschaftsprüfungsgesellschaft, audited the annual financial statements including the accounting as well as the management report and issued an unqualified audit opinion.
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 3 March 2016, where the annual financial statements were determined and reported on the material findings of this 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 recognised in due course developments that may impair the ability of the company to continue as a going concern. The Supervisory Board took note of, and gave its consent to, 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 to 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 shall 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 of 3 March 2016, the Supervisory Board approved the annual financial statements of Probiodrug AG prepared by the Management Board. The annual financial statements are thus determined.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

Also within the 2015 reporting year, the members of the Supervisory Board devoted themselves again to the German Corporate Governance Code. 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. In addition, in its corporate governance report, the Management Board concurrently reports on the corporate governance of Probiodrug also on behalf of the Supervisory Board.

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

During the reporting period, there were two changes on the Supervisory Board. Dr Birner and Prof. Dr Frank did not apply for another term. Therefore, they have no longer been members of the Supervisory Board of Probiodrug since 10 June 2015. The Supervisory Board thanks Prof. Dr Frank and Dr Birner for their committed and valuable work for the company.
In the general shareholders' meeting of 10 June 2015, the Supervisory Board members Dr Platzer, Dr von der Osten, Dr Neermann and Dr Litzka were re-elected for a term of office until the end of the general shareholders' meeting deciding on the discharge of the Supervisory Board for the financial year 2015. Ms C. Lohmann and Mr K. Been were newly elected to the Supervisory Board for a term of office until the end of the general shareholders' meeting deciding on the discharge of the Supervisory Board for the financial year 2017.
By way of resolution of 10 June 2015, the Supervisory Board re-elected Dr Platzer as the chairperson and Dr von der Osten as the deputy chairperson.
There were no changes in the composition of the Management Board.
The Supervisory Board thanks the Management Board, all employees, consultants, advisors and partners of Probiodrug AG for their commitment and their performance.

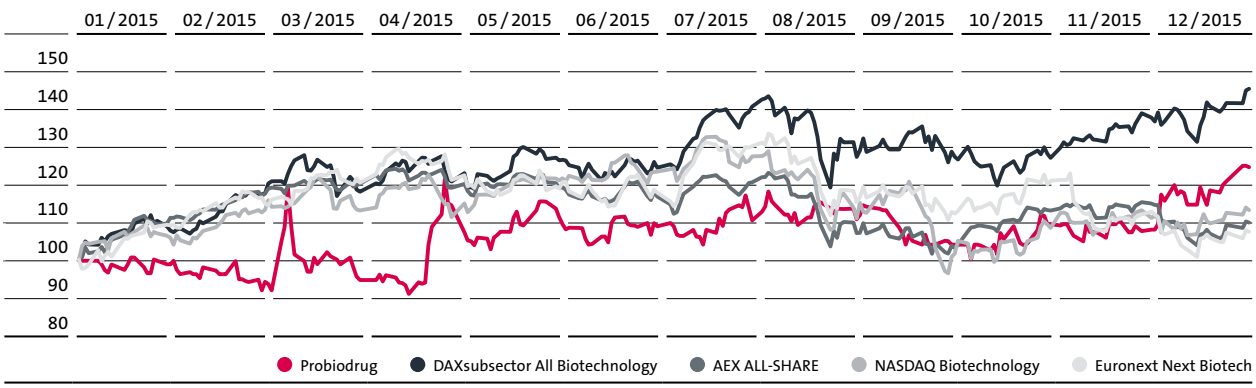
Halle (Saale), in March 2016
for the Supervisory Board:

DR ERICH PLATZER
VORSITZENDER DES AUFSICHTSRATES / CHAIRMAN OF THE SUPERVISORY BOARD

THE PROBIODRUG SHARE

RELATIVE PERFORMANCE OF PROBIODRUG SHARE IN 2015

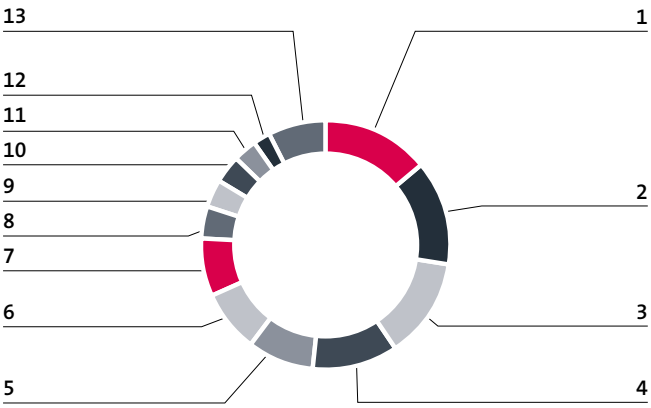
T02



Source: Bloomberg

SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2015

T03



		in %
1	BB Biotech AG	14.13
2	IBG Group	13.46
3	Edmond de Rothschild Investment Partners	13.24
4	AVIVA	10.84
5	HBM Healthcare Investments	8.86
6	LSP	7.88
7	TVM	7.50
8	Founder/Management	4.30
9	Biogen	3.66
10	JP Morgan Asset Management	3.40
11	LBBW	3.15
12	Supervisory Board	2.34
13	Others	7.24
	Total	100

EUROPEAN STOCK MARKET TURNS TOWARDS BIOTECH

2015 has been a challenging year also for biotechnology companies: While the first half of the year saw significant rises in all relevant indices, the second half was marked by a downtrend, which took away most of the gains of 2015 so far.

The Euronext Next Biotech is the most relevant benchmark for Probiodrug in The Netherlands. It started the year at 1,525.59 points, peaked on 5 August at 2,253.17 and ended on 31 December at 2,041.36. During the same period, the US NASDAQ Biotechnology Index started 2015 at 3,203.90, reached a high on 20 July at 4165.87 and closed at the end of 2015 at 3540.44. The DAX Biotechnology subindex, tracking the German biotech industry, started 2015 with 186.94, reached a year high of 266.09 at the end of December and ended the year at this level.

PROBIODRUG SHARE

The price of the Probiodrug share performed fairly well in comparison to its benchmarks. The share price was EUR 19.15 as of 2 January 2015, reached its intra-year high of EUR 24.75 on 30 December 2015 and closed 2015 at EUR 24.74. The capital increase as of 5 November 2015 was placed at EUR 20.00. Probiodrug had a market capitalisation of approx. EUR 184 million at the end of 2015. → T02

KEY FIGURES OF THE PROBIODRUG SHARE AS OF 31 DECEMBER 2015

T04

International Securities Identification Number (ISIN)	DE0007921835
German Securities Identification Number (WKN)	792183
Ticker Symbol:	PBD
Type of shares:	Bearer shares
Number of shares:	7,442,487
Stock exchange:	Euronext Amsterdam
Liquidity Provider:	Kempen & Co.
First day of trading:	27 October 2014
IPO Price (in EUR)	15.25
Annual high 2015 (Euronext) (in EUR)	24.75
Annual low 2015 (Euronext) (in EUR)	17.49
Closing price on 31 December 2015 (Euronext) (in EUR)	24.75
Market capitalisation (in EUR)	184.201 mio

EXCELLENT INVESTOR BASIS

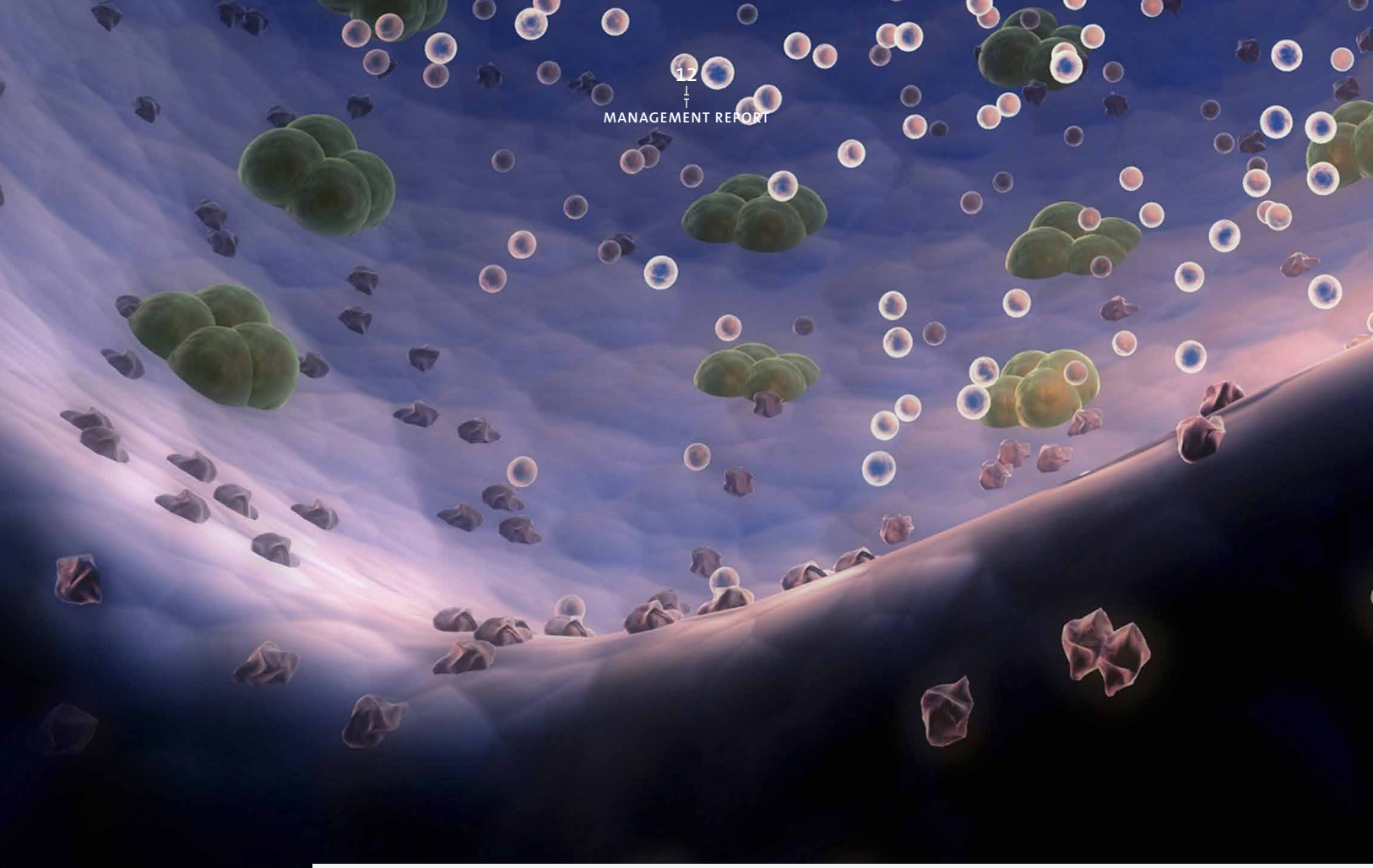
Probiodrug is backed by a number of experienced blue chip investors, e.g. BB Biotech AG, Edmond de Rothschild Investment Partners, IBG Group, Aviva, HBM Healthcare Investments, TVM Capital, Life Science Partners, JP Morgan Asset Management and Biogen. → T03

DEVELOPING OUR INVESTOR RELATIONS ACTIVITIES

In 2015, Probiodrug established regular investor relations activities in Europe and the US, focussed on increasing our visibility in capital markets by regular updates with existing shareholder as well as presenting the treatment approach and the company to new, potentially interested parties. In addition to the reporting requirements due to our listing at Euronext, Probiodrug publishes relevant information on the company website (www.probiodrug.de) in the interest of prompt communication with all parties.

Konrad Glund, our CEO, heads our investor relations activities and is supported by Hume Brophy, London, with a focus on Europe and by the Trout Group, focussing primarily on the USA. Contact details for media enquiries etc. can be found in the publishing information.

Analysts from the following banks and investment firms cover and analyse the shares of Probiodrug AG: Kempen & Co, Petercam, Bank am Bellevue, Edison Research. → 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

We are a biopharmaceutical company that focuses on the research and development and the potential future commercialisation of new therapeutic products for the treatment of Alzheimer's disease ("AD"). The Company is developing a proprietary, focused pipeline of product candidates against AD.

The Company was founded for an indefinite period of time by a memorandum of association dated 1 August 1997 in the legal form of a limited partnership with a limited liability company as general partner under German law (Gesellschaft mit beschränkter Haftung & Companies Kommanditgesellschaft, GmbH & Co. KG) with the name ProBioTec Gesellschaft für Arzneimittelforschung mbH & Co. KG. In December 1997, the general partner ProBioTec Gesellschaft für Arzneimittelforschung und Verwaltung GmbH, a limited liability company under German law (Gesellschaft mit beschränkter Haftung, GmbH), having its registered seat in Halle/Saale, acquired and continued the Company's business operations while ProBioTec Gesellschaft für Arzneimittelforschung mbH & Co. KG was dissolved. In July 1998, the legal name of the Company was changed to Probiodrug Gesellschaft für Arzneimittelforschung mbH. In 2001, the Company's legal form was changed from a limited liability company into a stock corporation under German law (Aktiengesellschaft).

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.

The management of the Company currently consists of three Board members: Dr Konrad Glund (Dipl. Biochemiker [degreed Biochemist]) – CEO and chairperson, Dr Hendrik Liebers (Dipl.-Biologe [degreed Biologist], Dipl.-Kaufmann [degreed businessman]) – CFO, and Dr Inge Lues (Dipl.-Biologe [degreed Biologist]) – CDO.

The Company has one subsidiary, Probiodrug Inc., Dover, Delaware, which is not yet operational.

(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 2015 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.de.

In the following, the Management Board and the Supervisory Board report on the Corporate Governance at Probiodrug pursuant to section 3.10 of the German Corporate Governance Code.

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 27 October 2014, the Corporate Governance Code has been applicable to Probiodrug since that date.

REASONABLE CONTROL AND RISK MANAGEMENT

For the management 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 Alzheimer's disease and similar diseases
- Knowledge of capital markets regulations
- 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.

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, no transactions have been reported to the Company. To the knowledge of the Company, the members of the Management Board hold the following interests in the Company:

Dr Konrad Glund: 144,550 shares (1.94%)
Dr Hendrik Liebers: 31,658 shares (0.43%)
Dr Inge Lues: 3,178 shares (0.04%)

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.

The Company took out also a pecuniary loss liability insurance for the members of the Supervisory Board. No retained amount was provided for in this case. As the Supervisory Board members presently do not receive any remuneration with two exceptions, a retainer for the Supervisory Board members would be unreasonable. If, in the future, the Supervisory Board members receive a remuneration for holding such office, the D&O insurance will be adjusted accordingly.

For further details on corporate governance, please refer to the management report relating to the Annual Financial Statements 2015 (see Annex "Financial Reports").

(c) RESEARCH AND DEVELOPMENT PROCESS

Whereas in the past the Company did its research mainly with in-house resources, the Company transformed its business model successfully into a development company with high levels of outsourcing resulting in flexibility and cost-efficiency. At the same time, the Company kept the access to the established formerly in-house scientific AD experts through advisory contracts. According to its needs, the Company has retained and extended the number of very committed senior industry experts for the programme 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 see 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 become a leading company in developing Alzheimer's disease treatments and to thereby provide a better life for patients with Alzheimer's disease, and possibly other indications that may be successfully treated by Probiodrug's product candidates. To commercialise a potentially successful treatment, Probiodrug continuingly 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.

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

Continue to develop PQ912 through Phase 2a clinical studies and beyond
Probiodrug is carrying out a Phase 2a study for its lead product candidate PQ912, the so called "SAPHIR" trial. In this study, Probiodrug will obtain both additional safety data as well as initial efficacy data on short-term memory effects in treatment-naive patients with mild cognitive impairment or mild dementia due to Alzheimer's disease.

Probiodrug is exploring a long-term treatment with PQ912 as the next step in the development of this compound, which may be run either as a separate trial or as an extension of the SAPHIR trial.

Advance development of PBD-C06 and PQ1565 to the clinical stage
We will also progress the development of our other two product candidates, i.e. the anti-pGlu-Abeta antibody PBD-C06 and the other small molecule QC inhibitor, PQ1565. PBD-06 is currently in preclinical development while PQ1565 is still in preclinical research.

Strengthen Probiodrug's financial position
It is part of the business model of Probiodrug to progress its assets up to a certain stage of development and then to enter into partnerships. This approach requires significant financial resources, which Probiodrug aims to raise via capital increases and the utilisation of other financial instruments, e.g. loans, convertibles etc.

Enter into partnerships with biotechnology and pharmaceutical companies
For the development of PQ912, as well as for the other product candidates, Probiodrug at some point in time intends to seek out and 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, contests any infringements.

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 Alzheimer's disease therapies and Alzheimer's disease 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, PQ1565 and PBDC06 with other therapies such as BACE inhibitors, which would be standard of care at the time of entering the market. It has been shown preclinically by Lilly & Co. that a combination of a BACE inhibitor and a pGlu-Abeta-specific antibody revealed a synergistic effect, i.e. adding the effects of two independent mechanisms while keeping the side effects low, in Alzheimer's disease-like animal models. Probiodrug is currently exploring possible synergies by applying a combination of PQ912 and PBD-C06 in an animal AD model.

Evaluate the potential of the QC-Inhibition approach for other indications, such as Down syndrome, Huntington's Disease or age-dependent macular degeneration (AMD)
Probiodrug aims to make use of investor-initiated studies to explore the application of its product candidates to these, and possibly other, indications for which a biological rationale exists, such as Down syndrome, Huntington's Disease and AMD.

2.2 OVERVIEW OF THE COURSE OF BUSINESS

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

Overall, in the year 2015, the environment with respect to pharmaceutical research and development in the Alzheimer's area was positive. The company Biogen published promising clinical data with respect to its anti-Abeta antibody Aducanumab® and announced that it will start clinical trial phase III with this molecule. Roche announced that it will also progress to clinical trial phase III with its in-licensed anti-Abeta antibody Crenezumab®. The company Lilly presented additional positive preclinical data with respect to the efficiency of the combination of a BACE inhibitor and an anti-pGlu-Abeta antibody.

In terms of the capital market, an increasing interest in the Alzheimer's indication is notable. This is, among others, reflected in the successful initial public offerings of two companies focussed on Alzheimer's in the USA (Axovant, vtv Therapeutics).

From the perspective of the pharmaceutical industry, interest in novel treatment approaches which make innovative pharmacological intervention possible for diseases such as Alzheimer's which are still insufficiently treated continues to be at a high level, thereby prospectively making attractive reimbursement possible. However, as a consequence of failures in the past with respect to the development of Alzheimer's therapeutics, high validation and thereby risk optimising requirements are a prerequisite for a (lucrative) partnership.

(b) OPERATIONAL REVIEW

PIPELINE UPDATE

Probiodrug's development 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 two small molecule inhibitors of the QC-enzyme, PQ912 and PQ1565, and a monoclonal antibody, PBD-C06, targeting pGlu-Abeta.

PQ912

In 2015, Probiodrug initiated a Phase 2a study, the "SAPHIR" study, of its lead product candidate PQ912. In a preceding Phase 1 study with healthy young and elderly volunteers, PQ912 was shown to be safe and well tolerated and revealed high QC-inhibition.

PQ912 is the first QC-inhibitor being tested in patients. The Phase 2a study is a randomized, double-blind multi-center study which plans to enrol a total of 110 patients with early stage Alzheimer's disease. The study is led by internationally renowned experts in AD in six European countries at about 18 sites, with the Alzheimer Center, VU Medical Center (VUmc), Amsterdam being the lead center. The primary endpoint of the trial is the safety and tolerability of PQ912 compared with placebo over a three-month treatment period. Additionally, a set of exploratory read-outs comprising cognitive tests, functional assessments by EEG and functional MRI and new molecular biomarkers in CSF will be used to evaluate the compound's effect on the pathology of the disease.

Patient enrolment started in March 2015.

SAPHIR is now in full swing. To respond to several challenges such as high competition in getting access to treatment naïve patients we have taken various measures, in particular adding more sites in various countries while keeping quality at high level. Additional sites are activated, all are highly motivated and enrolling. Primary endpoint data are expected to be available end of 2016, while the full picture of all exploratory results are expected to be finally evaluated about 3 to 4 months thereafter.

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. For the first time for an anti-pGlu-Abeta Antibody 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.

The manufacturing process of this molecule started in October 2015.

PQ1565

PQ1565 is a QC-inhibitor, currently in preclinical stage. The product candidate has shown attractive drug-like properties in preclinical studies. The GMP process for this molecule is being implemented.

PUBLICATIONS / PRESENTATIONS

In March 2015, additional data on Glutaminyl Cyclases (QCs) in its relation to Alzheimer's disease was published in the journal Acta Neuropathologica 2015 Apr, 129(4), Pages 565-83. The study provides further evidence of the strong correlation between QCs and AD pathology in human brain biopsies underlining QC-inhibition as a therapeutic approach.

In March 2015, Probiodrug presented the poster "Anti-pGlu-3 Abeta mab ig isotype affects plaque clearance" on its specific pGlu-Abeta mouse antibody 17/1 at the 12th International Conference on Alzheimer's and Parkinson's diseases and Related Neurological Disorders (AD/PDTM 2015) in Nice, France. The data resulted from a collaboration between Probiodrug and the research team led by Professor Cynthia Lemere from the Center for Neurologic Diseases at the Brigham and Women's Hospital and Harvard Medical School, Boston, MA. The study addressed specifically the effect of the antibody's Ig isotype on microglia-mediated Abeta plaque clearance in an in-vitro phagocytosis assay using brain tissues from 20-month-old APP dE9 mice. It was found that the mouse pGlu-Abeta IgG2a antibody was the most efficient, followed by the mutated IgG2a form while the IgG1 was the least effective in clearing Abeta plaques.

In October 2015, Probiodrug during an oral presentation entitled "Preclinical in vivo Effects of an anti-PyroGlu-3 Abeta Antibody" presented data on its specific anti pGlu-Abeta monoclonal antibody at Neuroscience 2015, the 45th annual meeting of the Society for Neuroscience (SfN) in Chicago, USA. The data presented resulted from a collaboration between Probiodrug and the research team led by Associate Professor Cynthia Lemere from the Center for Neurologic Diseases at the Brigham and Women's Hospital and Harvard Medical School, Boston, USA. This was the first report that an anti-pGlu-Abeta antibody approach not only reduced Abeta/plaques but also significantly improved cognitive deficits in aged Alzheimer's mice. Moreover no evidence was found for increased microhemorrhages after treatment.

In December 2015, the data from an extensive phase 1 study with PQ912, Probiodrug's lead QC inhibitor for the treatment of AD, was published in Alzheimer's & Dementia: Translational Research & Clinical Interventions, Volume 1, Issue 3 Pages 182–195. PQ912 is a first-in-class competitive inhibitor of Glutaminyl Cyclase, essential for the formation of pyroglutamate-Amyloid-beta (pGlu-Abeta). PGlu-Abeta seeds Abeta oligomers which, due to their hypertoxicity, are regarded as the key culprits behind AD. In the published data, over 200 young and elderly healthy volunteers were included in a single-and multiple-ascending dose design. PQ912 was found to be safe and well tolerated; the maximum tolerated dose was not reached. The study also evaluated pharmacokinetic parameters of the compound as well as the extent of QC inhibition in the cerebral spinal fluid (CSF), which is a measure for QC-inhibition in the brain. Based on the data obtained in CSF, the dose dependent target inhibition could be reliably determined and was used for dose selection in the current phase 2a trial. The study was conducted with Covance in Switzerland and the UK.

PATENTS

In 2015, Probiodrug's IP position was further strengthened by important patent applications being granted. These include:

- Patent no. US 9,156,907 and JP 5,828,762, covering method as well as composition of matter claims for Probiodrug's antibody program targeting pGlu-Abeta, were granted in the US and in Japan, respectively
- Patent nos. JP 5690463, covering the use of QC inhibitors for the treatment of Alzheimer's disease, JP 5688745, covering a chemical space of heterocyclic QC inhibitors, and Patent no. JP2007-508347A, covering the use of QC inhibitors for the treatment of Familial British Dementia and Familial Danish Dementia, were granted in Japan
- Patent no. JP 5677297, covering Glutaminyl Cyclase as a diagnostic/prognostic indicator for neurodegenerative diseases, was granted in Japan.

(c) SIGNIFICANT CORPORATE EVENTS OF THE COMPANY

In November 2015, Probiodrug successfully completed its first capital increase as a listed company. As a consequence of this capital increase, 676,589 new shares were issued, leading to gross proceeds of EUR 13.5 million.

The terms of all Supervisory Board members expired in conjunction with the annual shareholders' meeting held on 10 June 2015, which resolved upon the exoneration of the members of the Supervisory Board for the year 2014. The Supervisory Board members Prof. Georg Frank and Dr Hubert Birner did not stand for an additional term. The annual shareholders' meeting elected Charlotte Lohmann and Kees Been as new Supervisory Board members with a term which concludes in conjunction with the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for the year 2017. All other Supervisory Board members were re-elected for a term through the conclusion of the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for the year 2015.

EUROPEAN MEDISCIENCE AWARD FOR BEST TECHNOLOGY 2015

In June 2015, Probiodrug won the European Mediscience Award for Best Technology 2015. This Award is presented for an innovative technology that is well funded and capable of significant commercial success. The judges believed that Probiodrug was the clear winner in this category, with its innovative and differentiated approach to treating Alzheimer's disease and the Company's recent achievements.

2.3 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The financial statements of Probiodrug as at 31 December 2015 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 2015 is set forth below:

STATEMENT OF COMPREHENSIVE LOSS FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2015 IFRS T05

	1 Jan.–31 Dec.	
In EUR k	**2015**	**2014**
Research and development expenses	–10,158	–8,008*
General and administrative expenses	–3,279	–3,319*
Other operating income	44	60*
Operating loss	**–13,393**	**–11,267**
Interest income	0	36
Interest expense	–112	–206
Finance expenses, net	**–112**	**–170**
Net loss for the period	**–13,505**	**–11,437**
Items not to be reclassified subsequently to profit or loss		
Remeasurement of the net defined benefit pension liability	105	–405
Total other comprehensive income (loss)	**105**	**–405**
Comprehensive loss	**–13,400**	**–11,842**
Loss per share in EUR (basic and diluted)	–1,97	–2,35

*amounts restarted, see notes 5.1, 5.2, 5.4

RESEARCH AND DEVELOPMENT EXPENSES

In financial year 2015, research and development expenses amounted to EUR 10,158k (2014: EUR 8,008k).

GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses of EUR 3,279k (2014: EUR 3,319k) comprise personnel costs and costs of materials as well as amortisation and depreciation attributable to the administrative area and other operating expenses.

OTHER OPERATING INCOME

The other operating income amounted to EUR 44k (2014: EUR 60k).

OPERATING LOSS

The resulting operating loss amounts to EUR 13,393k (2014: EUR 11,267).

FINANCIAL LOSS

The financial loss amounts to EUR 112k (2014: EUR 170k).

NET LOSS

The corresponding net loss amounts to EUR 13,505k (2014: EUR 11,437k).

OTHER COMPREHENSIVE INCOME/LOSS

The other comprehensive income amounts to EUR 105k (2014: loss of EUR 405k), reflecting remeasurements of the net defined benefit pension liability.

COMPREHENSIVE LOSS

The resulting comprehensive loss amounts to EUR 13,400k (2014: EUR 11,482k).

(b) FINANCIAL POSITION

The statement of financial position of Probiodrug for the year 2015 is set forth below:

ASSETS

The assets amount to EUR 21,866k (2014: EUR 21,480k), consisting mainly of cash and cash equivalents of EUR 21,361k (2014: EUR 20,920k).

EQUITY

The equity amounts to EUR 16,133k (2014: EUR 15,971k), corresponding to an equity ratio of 73.8%.

NONCURRENT LIABILITIES

The noncurrent liabilities amounts to EUR 822k (2014: EUR 929k), consisting completely of the net commitment (defined benefit liability) of the pension commitments (defined benefit obligations) of EUR 1,522k (2014: EUR 1,564k).

CURRENT LIABILITIES

The current liabilities amount to EUR 4,911k (2014: EUR 4,580k), consisting primarily of the tax liabilities of EUR 2,641k (comprising the Company's payment obligations as a result of the tax audit for the period 2002 through 2005 including interest for late payment EUR 958k) and trade payables. The trade payables amounted to EUR 1,629k (2014: EUR 1,036k) 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 2015

ASSETS
IFRS

T06

In EUR k	31 Dec. 2015	31 Dec. 2014
Noncurrent assets		
Intangible assets	56	82
Plant and equipment	81	101
Financial assets	3	3
Total noncurrent assets	**140**	**186**
Current assets		
Tax receivables	1	3
Other assets	364	371
Cash and cash equivalents	21,361	20,920
Total current assets	**21,726**	**21,294**
Total assets	**21,866**	**21,480**

EQUITY AND LIABILITIES
IFRS

T07

In EUR k	31 Dec. 2015	31 Dec. 2014
Equity		
Share capital	7,442	6,766
Additional paid-in capital	34,866	21,980
Accumulated other comprehensive income	−499	−604
Accumulated deficit	−25,676	−12,171
Total equity	**16,133**	**15,971**
Noncurrent liabilities		
Pension liability	822	929
Total noncurrent liabilities	**822**	**929**
A. Current liabilities		
Investment grants	0	11
Tax liabilities	2,641	2,543
Provisions	42	795
Trade payables	1,629	1,036
Other current liabilities	599	195

LIABILITIES AND EQUITY
IFRS

T08

In EUR k	31 Dec. 2015	31 Dec. 2014
Total current liabilities	**4,911**	**4,580**
Total liabilities	**5,733**	**5,509**
Total equity and liabilities	**21,866**	**21,480**

(c) OVERALL ASSESSMENT OF ECONOMIC POSITION

Giving consideration to all of the aforementioned risks, there currently are only a few factors which could, in the short-term, endanger the continuity of Probiodrug in financial year 2016. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2015 provide for the Company's financing beyond the upcoming twelve months. Management believes that additional cash inflows can be generated. If the current assumptions with respect to liquidity do not prove to be viable, based on the current cash reach, there could prospectively be a risk that the financing of the Company is insufficient, which could lead to the Company's insolvency.

2.4 EMPLOYEES

As at 31 December 2015, including the Management Board, Probiodrug had 16 (2014: 13) employees, of which 56.25% were female. In the reporting period, there were an average of 16 employees (2014: 12). In 2015, Probiodrug incurred personnel expenses of EUR 1.98 million (2014: EUR 1.45 million). The increase was primarily due to the newly hired employees at the end of 2014 and the beginning of 2015.

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

2.5 INDUSTRIAL 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 2015. In order to provide for focus on the sustainable value drivers as well as to optimise costs and benefits, Probiodrug continuously reviews its patent portfolio.

As at 31 December 2015, 41 patent families were held (31 December 2014: 43). The focussing 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, 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 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 2015. The occurrence of these risks can, individually or in the aggregate, with the incurrence of other risks respectively other circumstances, have a material adverse effect on the business activities, the realisation of significant Company goals and/or Probiodrug's refinancing 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. Giving consideration to all of the risks mentioned in the management report, there are currently only a few factors which could, in the short-term, endanger the continuity of Probiodrug in financial year 2015. Overall, the Company is well positioned. The cash and cash equivalents as at 31 December 2015 provide for the Company's financing beyond the upcoming twelve months. Management believes that additional cash inflows can be generated. If the currently planned assumptions with respect to liquidity do not prove to be viable, based on the current cash reach, there could prospectively be a risk that the financing of the Company is insufficient.

(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, minimised. Probiodrug's current business risks are primarily in the research and development of novel active pharmaceutical ingredients, the protection of intellectual property, the cooperation 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.

For further details on the opportunities, the risks and the risk management please refer to the management report relating to the Annual Financial Statements 2015 (Annex "Financial Reports").

2.7 REPORT ON POST-BALANCE SHEET DATE EVENTS

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

2.8 COMPANY OUTLOOK

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

- Continue the clinical development of PQ912 in particular generate initial patient study data and start long-term treatment,
- Completion of the production development of PBD-C06 and conduction of regulatory tox as preparation for first in man study,
- Continuation of the development of PQ 1565,
- Further scientific analysis of potential additional indications for the use of QC inhibitors,
- Continuation of work to better understand the pGlu Abeta mediated pathologies,
- Further increasing visibility and acceptance as an important prerequisite for obtaining additional capital as well as for an industrial transaction,
- Further strengthening Probiodrug's financial resources.

As a result of the additional costs being incurred for development activities, the Company estimates a net loss for the financial year 2016, which may be in excess of that incurred in 2015.

As a result of its business model, to implement its development strategy until such time at which an industrial partnership is concluded, Probiodrug is dependent upon additional capital. 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 prerequisites (e.g., providing sufficient authorised and contingent capital) have been provided for 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 Alzheimer's. Via successful further programme 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 a small molecule as well as an antibody approach selectively addressing pGlu ABeta.

3

PART I

A. FINANCIAL STATEMENTS (IFRS)

STATEMENT OF COMPREHENSIVE LOSS FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2015

T09

		1 Jan.–31 Dec.	
In EUR k	Notes	2015	2014
Research and development expenses	5.1	–10,158	–8,008*
General and administrative expenses	5.2	–3,279	–3,319*
Other operating income	5.4	44	60*
Operating loss		**–13,393**	**–11,267**
Interest income		0	36
Interest expense		–112	–206
Finance expenses, net		**–112**	**–170**
Net loss for the period		**–13,505**	**–11,437**
Items not to be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension liability		105	–405
Total other comprehensive income (loss)		**105**	**–405**
Comprehensive loss		**–13,400**	**–11,842**
Loss per share in EUR (basic and diluted)	6.5.1	–1,97	–2,35

*amounts restarted, see notes 5.1, 5.2, 5.4

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2015

ASSETS

T10

In EUR k	Notes	31 Dec. 2015	31 Dec. 2014
Noncurrent assets			
Intangible assets	3.3/6.1	56	82
Plant and equipment	3.4/6.2	81	101
Financial assets	3.6	3	3
Total noncurrent assets		**140**	**186**
Current assets			
Tax receivables		1	3
Other assets	6.3	364	371
Cash and cash equivalents	3.7/6.4	21,361	20,920
Total current assets		**21,726**	**21,294**
Total assets		**21,866**	**21,480**

EQUITY ANS LIABILITIES

T11

In EUR k	Notes	31 Dec. 2015	31 Dec. 2014
Equity			
Share capital	6.5	7,442	6,766
Additional paid-in capital		34,866	21,980
Accumulated other comprehensive income		−499	−604
Accumulated deficit		−25,676	−12,171
Total equity		**16,133**	**15,971**
B. Noncurrent liabilities			
Pension liability	3.10/6.6.2	822	929
Total noncurrent liabilities		**822**	**929**
C. Current liabilities			
Investment grants	6.6.1	0	11
Tax liabilities	6.7.1	2,641	2,543
Provisions	3.11	42	795
Trade payables		1,629	1,036
Other current liabilities	6.7.2	599	195
Total current liabilities		**4,911**	**4,580**
Total liabilities		**5,733**	**5,509**
Total equity and liabilities		**21,866**	**21,480**

STATEMENT OF CASH FLOWS

T12

In EUR k	Notes	Year ended 31 December 2015	2014
Net loss for the period		−13,505	−11,437
Net finance expense		112	170
Depreciation and amortisation		56	94
Loss on disposal of plant and equipment		0	6
Release of deferred investment grants	6.6.1	−11	−13
Share based payment expense	6.5.2.1	964	1,008
Interest paid		0	−90
Interest received		0	36
Income taxes paid		0	−1
Income taxes received		2	6
Changes in other assets		7	−130
Changes in pension liabilities		−16	−29
Changes in provisions		−753	35
Changes in trade payables		570	−278
Changes in other liabilities		427	34
Cash flows used in operating activities		**−12,147**	**−10,589**
Proceeds from disposal of plant and equipment		0	574
Proceeds from disposal of intangible assets		0	3
Purchase of plant and equipment		−6	−2
Purchase of intangible assets		−4	−10
Proceeds from repayment of loans		0	761
Cash flows used in investing activities		**−10**	**1,326**
Proceeds from issuance of common shares	6.5	13,531	23,244
Transaction costs of equity transaction		−933	−1,758
Proceeds from convertible bonds issue		0	4,276
Cash flows provided by financing activities		**12,598**	**25,762**
Net increase in cash and cash equivalents		**441**	**16,499**
Cash and cash equivalents at the beginning of period		**20,920**	**4,421**
Cash and cash equivalents at the end of period		**21,361**	**20,920**

STATEMENT OF CHANGES IN EQUITY

T13

In EUR k	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total equity
1 January 2014	**25,529**	**52,180**	**−199**	**−81,814**	**−4,304**
Expenses recognised directly in equity	0	0	−405	0	−405
Net loss for the period	0	0	0	−11,437	−11,437
Comprehensive loss for the period	0	0	−405	−11,437	−11,842
Conversion of convertible bonds	5,921	3,701	0	0	9,622
Reverse share split	−26,208	−54,872	0	81,080	0
Issuance of common shares	1,524	19,963	0	0	21,487
Share based payments	0	1,008	0	0	1,008
	−18,763	−30,200	−405	69,643	20,275
31 December 2014	**6,766**	**21,980**	**−604**	**−12,171**	**15,971**
Income recognised directly in equity	0	0	105	0	105
Net loss for the period	0	0	0	−13,505	−13,505
Comprehensive loss for the period	0	0	105	−13,505	−13,400
Issuance of common shares less transaction costs	676	11,922	0	0	12,598
Share based payments	0	964	0	0	964
	676	12,886	105	−13,505	162
31 December 2015	**7,442**	**34,866**	**−499**	**−25,676**	**16,133**

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 as well as preclinical and clinical trials. The product candidate pipeline currently includes a number of research and development programmes with a focus on the primary programme, the inhibition of the enzyme Glutaminyl Cyclase 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, Germany.

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 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. The effects of reverse stock splits are applied retrospectively as required by IAS 33 for the calculation of earnings per share.

With an effective date of 1 January 2015, the following new and amended standards and interpretations were required to be applied for the first time:

— Improvements to IFRS 2011–2013 (1 January 2015)

The new standard had no effect on the financial statements of Probiodrug.

3.2 Determination of fair values

Accounting policies and disclosures for cash and cash equivalents and trade payables in the notes make it necessary to determine the fair value of financial and non-financial assets and liabilities. IFRS 13, "Fair Value Measurement", establishes a uniform definition for measurement at fair value. Fair value is defined as the price at the measurement date that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. Where appropriate, further information as to the assumptions made in the determination of the fair value is included within the specific disclosures for the respective line items of the statement of financial position as well as the statement of comprehensive loss.

3.3 Intangible assets

The intangible assets acquired by Probiodrug are recognised at acquisition cost less accumulated amortisation as well as any impairment losses which may have been recognised.

The amortisation is recognised on the straight-line basis over the expected useful life.

The expected useful life ranges from three to five years.

3.4 Plant and equipment

Plant and equipment is recognised at acquisition costs less accumulated depreciation as well as any accumulated impairment losses which may have been recognised. Depreciation is recognised on the straight-line basis over the useful life.

The useful life for operating and office equipment ranges from three to ten years; for laboratory equipment from five to 14 years.

3.5 Impairment of noncurrent assets

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

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

3.6 Financial assets and liabilities

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

All financial assets or liabilities are initially recognised at fair value.

Probiodrug allocates non-derivative financial assets in the category "loans and receivables". Non-derivative financial liabilities are classified as "financial liabilities at amortised cost".

The financial assets of Probiodrug comprise cash and cash equivalents and non-current financial assets being interests in BIO Mitteldeutschland GmbH, Halle.

The financial liabilities of Probiodrug comprise trade payables. Subsequent to their initial recognition, financial liabilities are measured at amortised cost. 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 and bank balances which are recognised at their nominal values. Cash and cash equivalents comprise cash on hand and bank balances.

3.8 Stock option and phantom stock option programmes

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 programmes 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, after a lock-up period, the holders were entitled to a cash payment amounting to the difference between the fair value of an equity instrument and the exercise price in conjunction with an initial public offering, a merger or a takeover of Probiodrug. The changes in the fair value of the phantom stock options were recognised as an expense within comprehensive loss and the outstanding awards were reflected within noncurrent provisions.

3.9 Project subsidies and investment grants

Project subsidies and investment grants are government grants accounted for in accordance with IAS 20. Subsidies which directly relate to expenses already incurred in connection with research and development activities are recognised in the statement of comprehensive loss within other operating income.

In accordance with the alternative treatment in IAS 20, asset-related subsidies (Joint Agreement for the Improvement of Regional Economic Structures subsidies [GA-subsidies], and investment subsidies InvZulG) are presented as deferred income and are amortised to income over the average useful life of the subsidised asset.

Investment subsidies are recognised when the Company receives the funds or when it is probable that the conditions associated with the subsidies were met and the subsidies will be granted.

3.10 Pensions

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

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

The defined benefit obligation and the related current service cost is based on the benefit to the period of service under the defined benefit plan's formula. Actuarial gains and losses are immediately recognised in equity in other comprehensive loss. The fair value of the plan assets (insurance amount) is deducted from the gross pension obligation (IAS 19.63). The corresponding plan assets (insurance amount) reduce the amount of the pension obligation as the proceeds resulting from the insurance policy can only be used to make payments to the beneficiaries. As a result of those policies being pledged to the beneficiaries, even in the case of insolvency, they are not available to the Company's creditors.

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

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

3.11 Provisions

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

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

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

3.12 Research and development expenses

Research expenses are recognised as expenses when incurred. Costs incurred on development projects are recognised as intangible assets as of the date as of which it can be established that it is probable that future economic benefits attributable to the asset will flow to Probiodrug considering its technological and commercial feasibility. This is not the case before regulatory approval for commercialisation is achieved and costs can be measured reliably. Given the current stage of the development of Probiodrug's projects, no development expenditures have yet been capitalised. Intellectual-property-related costs for patents are part of the expenditure for the research and development projects. Therefore, registration costs for patents are expensed when incurred as long as the research and development project concerned does not meet the criteria for 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 as of each reporting date in the financial statements based on facts and circumstances known to it at that time. Probiodrug periodically confirms the accuracy of its estimates with the service providers and makes adjustments if necessary.

3.13 Interest income and expense

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

3.14 Loss per share

Loss per share were determined in accordance with IAS 33. In the calculation of the earnings per share, the results for the period attributable to the shareholders are divided by the weighted average number of shares outstanding, retrospectively adjusted for the reverse stock split in 2014.

3.15 New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 31 December 2015 and have not been applied in preparing these consolidated financial statements:

Endorsed by the EU:

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (1 January 2016)
- Improvements to IAS 1: Disclosure Initiative (1 January 2016)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016)
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants (1 January 2016)
- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions (1 February 2015)
- Amendments to IAS 27: Equity Method in Separate Financial Statements (1 January 2016)
- Improvements to IFRS 2010–2012: Changes to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38
- Improvements to IFRS 2012–2014: Changes to IFRS 5, IFRS 7, IAS 19 and IAS 34

Not yet endorsed by the EU:

- IFRS 9: Financial Instruments (1 January 2018)
- IFRS 15: Revenue from Contracts with Customers (1 January 2018)
- IFRS 16: Leases (1 January 2019)
- Amendments to IFRS 10, 12, IAS 28: Investment Entities: Applying the Consolidation Exception
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (uncertain)

It is not expected that the initial application of the new standards or amendments will have a significant impact on the financial statements. However, there may be changes in the scope of disclosures in the notes.

4. Significant discretionary decisions, estimates and assumptions

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

Estimates and assumptions
The estimates and assumptions primarily relate to estimates and assumptions in connection with the management's assessment of the entity's ability to continue as a going concern and the determination of accruals for research and development services in progress. The amounts of the respective items in the statement of finacial position are trade payables (EUR 1,629k) and tax liabilizies (EUR 2,641k). The estimates are based on past experience as well as other information relating to the transactions recognised.

Going concern
As a clinical stage biopharmaceutical Company, Probiodrug has incurred a net loss of EUR 13,505k for financial year 2015 and as of 31 December 2015 had generated an accumulated deficit of EUR 25,676k. The Company anticipates operating losses to continue for the foreseeable future due to, among other things, costs related to research funding, development of its product candidates and its preclinical programmes and the development of its administrative organisation.

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realisation of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company's ability to continue as a going concern is dependent on its ability to raise additional funds to continue its research and development programmes and meet its obligations.

In accordance with the budget, approved by the Supervisory Board, the cash reach of the Company is the end of the second quarter 2017. Should the Company be required to repay tax provisions of EUR 2,641k, the cash reach is the beginning of the first quarter 2017. The future financing on which the going concern assumption is based considers management's expectation to raise funds in the form of equity or debt and/or conduct a licencing agreement by the beginning of the second quarter 2017, at least. Based on management's going concern assumption, the financial statements do not include any adjustments that may result from the outcome of this uncertainty.

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

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

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

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

5.1 Research and development expenses

The research and development expenses of EUR 10,158k (2014: EUR 8,008k) comprise personnel costs, costs for research services provided by third parties in relation to the preclinical and clinical programmes, patent-related legal and consulting fees, costs of laboratory materials as well as amortisation and depreciation attributable to the research and development area. Comparative financial information was restarted from EUR 8,087k to EUR 8,008k as a result of presentig releases of compensation expense-related accruals from other income to general and administrative expenses.

5.2 General and administrative expenses

The general and administrative expenses of EUR 3,279k (2014: EUR 3,319k) comprise personnel costs and costs of office supplies as well as amortisation and depreciation attributable to the administrative area and other operating expenses. Comparative financial information was restarted from EUR 3,430k to EUR 3,319k as a result of presentig releases of compensation expense-related accruals from other income to general and administrative 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 56k (2014: EUR 94k) as well as personnel related expenses amounting to EUR 2,916k (2014: EUR 2,463k).

In addition, expenses associated with defined contribution plans include the employer's contribution to the statutory pension scheme amounting to EUR 56k (2014: EUR 47k).

5.4 Other operating income

The other operating income is broken down as follows:

T14

In EUR k	2015	2014*
Release of the investment grants	11	13
Income relating to research grants	0	9
Other	33	38
Total	**44**	**60**

*Comparative financial information was restarted: releases of compensation expense-related accruals of EUR 190k were reclassified to research and development expenses (EUR 79k) and general and administrative expenses (EUR 111k)

5.5 Income taxes

The income tax relating to the current period includes both current and deferred taxes. Current income tax expense is based on the respective enacted tax laws and regulations. No current or deferred income taxes were recognised in 2015 and 2014.

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 2015 used to determine the deferred tax assets and liabilities amounted to 31.58% (31 December 2014: 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:

T15

In EUR k	2015	2014
Loss before income tax	−13,505	−11,437
Income tax rate	31.58%	31.58%
Expected tax benefits	4,265	3,612
Deferred tax assets not recognised	−4,232	−3,817
Non-deductible expenses/non-taxable income	−26	175
Other differences	−7	30
Reported income tax benefit/expense	0	0

The deductible temporary differences relating to pension liabilities were offset against taxable temporary differences of provisions of EUR 4k at 31 December 2015 and 2014.

As at 31 December 2015, deferred tax assets attributable to tax loss carry forwards in the amount of EUR 32,245k (31 December 2014: EUR 28,066k) and were not recognised as their utilisation is not probable.

As at 31 December 2015, Probiodrug had corporate income tax loss carry forwards of EUR 101,617k and trade tax loss carry forwards of EUR 101,355k. 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:

T16

In EUR k	Other intangible assets
Acquisition costs as at 1 January 2015	253
Additions	4
Disposals	−1
Acquisition costs as at 31 December 2015	**256**
Amortisation as at 1 January 2015	171
Additions	30
Disposals	−1
Amortisation as at 31 December 2015	**200**
Carrying value as at 1 January 2015	82
Carrying value as at 31 December 2015	**56**

T17

In EUR k	Other intangible assets
Acquisition costs as at 1 January 2014	256
Additions	10
Disposals	−13
Acquisition costs as at 31 December 2014	**253**
Amortisation as at 1 January 2014	155
Additions	26
Disposals	−10
Amortisation as at 31 December 2014	**171**
Carrying value as at 1 January 2014	101
Carrying value as at 31 December 2014	**82**

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:

T18

In EUR k	Leasehold improvements	Other equipment, factory and office equipment	Total
Acquisition costs as at 1 January 2015	181	488	669
Additions	0	6	6
Disposals	0	−2	−2
Acquisition costs as at 31 December 2015	**181**	**492**	**673**
Depreciation as at 1 January 2015	153	415	568
Additions	7	19	26
Disposals	0	−2	−2
Depreciation as at 31 December 2015	**160**	**432**	**592**
Carrying value as at 1 January 2015	28	73	101
Carrying value as at 31 December 2015	**21**	**60**	**81**

T19

In EUR k	Leasehold improvements	Other equipment, factory and office equipment	Total
Acquisition costs as at 1 January 2014	181	2,130	2,311
Additions	0	2	2
Disposals	0	−1,644	−1,644
Acquisition costs as at 31 December 2014	**181**	**488**	**669**
Depreciation as at 1 January 2014	145	1,845	1,990
Additions	8	60	68
Disposals	0	−1,490	−1,490
Depreciation as at 31 December 2014	**153**	**415**	**568**
Carrying value as at 1 January 2014	36	285	321
Carrying value as at 31 December 2014	**28**	**73**	**101**

6.3 Other current assets

The other current assets comprised:

T20

In EUR k	31 Dec. 2015	31 Dec. 2014
Prepayments	226	78
Value-added tax receivables	79	186
Rental deposits	7	7
Other receivables	45	94
Other assets	7	6
Total	**364**	**371**

6.4 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand. As at 31 December 2015, almost all of cash and cash equivalents are denominated in Euros. Cash balances denominated in foreign currencies amount to USD 10k (31 December 2014: USD 10k).

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

6.5 Equity

As at 31 December 2015, Probiodrug's share capital comprised 7,442,487 registered no-par common shares. As at 31 December 2014 Probiodrug's share capital comprised 6,765,898 registered no-par common shares. The nominal amount per share is EUR 1.00. All shares are issued and fully paid up.

In 2014, the Company engaged in a number of transactions with existing shareholders, including the conversion of convertible bonds amounting to EUR 9,622k, a conversion of all preferred shares into common shares and a concurrent reverse share split at a ratio of 6:1.

As a result of the initial public offering completed in October 2014, the share capital increased from EUR 5,241k by EUR 1,475k to EUR 6,717k. Subsequent to the initial public offering, further capital increases of EUR 49k were completed by utilising authorised capital.

In 2015, Probiodrug's Management Board – with the approval of the Supervisory Board on 5 November 2015 – resolved to increase the share capital from EUR 6,766k by EUR 677k to EUR 7,442k through the issuance of common shares by utilising authorised capital.

Conditional capital
As of 31 December 2015, the conditional capital amounted to EUR 2,556k and as of 31 December 2014 to EUR 524k.

In 2015, a new conditional capital (Conditional Capital 2015/I) of a nominal amount of EUR 2,000,000 was created by virtue of the resolution of the general meeting of the shareholders on 10 June 2015. The conditional capital can be utilised to issue up to 2,000,000 registered common shares subject to transfer restrictions to serve holders of stock options that make use of their exercise option.

Further, in 2015 existing conditinal capital (Conditional Capital 2014/1) was increased by nominal amount of EUR 32k.

Authorised capital
As of 31 December 2015, the authorised capital amounted to EUR 2,633k and as of 31 December 2014 to EUR 3,310k. The authorised capital can be utilised for capital increases in future financing rounds.

6.5.1 Loss per share

As at 31 December 2015, Probiodrug's share capital consisted of 7,442,487 common shares (31 December 2014: 6,765,898). All common shares are registered no-par value common shares. The calculated nominal amount per share is EUR 1.00.

The net loss attributable to Probiodrug's shareholders amounted to EUR –13,505k in financial year 2015 (2014: net loss of EUR –11,437k).

The loss per share were calculated as follows:

T21

In EUR k	2015	2014*
Weighted average number of common shares outstanding	6,871,557	4,862,215
Loss for the period	**–13,505**	**–11,437**
Loss per share in EUR	**–1.97**	**–2.35**

*adjusted for the reverse stock split

As of 31 December 2015 and 2014, no instruments had a dilutive effect.

6.5.2 Share based payments

6.5.2.1 Stock option programmes (equity settled)

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

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

T22

Grant date/employees entitled	Number of instruments granted	Vesting conditions	Contractual life of options
ESOP 2007 Granted to Management Board Granted to employees	 91,200 110,220	graded vesting over four year period (50% after two years, 25% after three years and 25% after four years)	8 years
ESOP 2010/2013 Granted to Management Board Granted to employees	 515,403 255,289	graded vesting over 31 month period (33% after seven months after 19 months and remaining after 31 months)	4 to 6 years
ESOP 2014 Granted to Management Board Granted to employees	 314,501 90,875	Immediate vesting on date grant for 40%, graded vesting over 3 year peridode (20% each after first, second and third year)	8 years, not exercisable before of 4 years

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

The inputs used in the measurement of the fair values for 2015 and 2014 grants were:

T23

	ESOP 2014
Fair value at grant date	EUR 5.68 – 10.70
Share price at grant date	EUR 15.25 – 24.80
Exercise price	EUR 15.25 – 23.60
Expected volatility	45%
Expected life (weighted average)	4 years
Expected dividends	0%
Risk-free interest rate (based on government bonds)	– 0.19% to 0.05%

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

T24

	2015		2014	
	Number of options*	WAEP**	Number of options*	WAEP**
Outstanding at 1 January	448,762	EUR 16.10	134,411	EUR 11.84
Forfeited during the year	0	–	1,150	EUR 34.81
Exercised during the year	0	–	0	
Granted during the year	90,875	EUR 20.33	315,501	EUR 17.98
Outstanding at 31 December	**539,637**	**EUR 16.27**	**448,762**	**EUR 16.10**
Exercisable at 31 December	133,261	EUR 11.64	132,261	EUR 11.64

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

The stock options outstanding at 31 December 2015 had an exercise price in the range of EUR 6.00 to EUR 42.18 (31 December 2014: EUR 6.00 to EUR 42.18) and a weighted-average contractual life of 5.4 years (31 December 2014: 5.9 years). According to the terms and conditions of the stock option programmes, exercise is not possible at during specified blackout peridos and subjected to a market condition concerning the average stock price of Probiodrug shares during twenty days before exercise.

No expenses associated with the stock option programmes 2007 and 2010/2013 are recognised for the years 2015 and 2014 respectively, due to the the vesting in prior periods.

The total expenses associated with the stock option programme 2014 recognised in 2015 amounted to EUR 964k (2014: EUR 1,008k). These amounts were credited to additional paid-in capital.

6.5.2.2 Phantom stock option programmes (cash settled)

Prior to 2014, the Company had also issued phantom stock option awards under the terms of the various share-based payment schemes to the Management Board, selected employees and consultants of the Company and recorded cumulative compensation expense of EUR 754k at 31 December 2014. In 2015, the Company cancelled two outstanding phantom stock awards in exchange for cash payments of EUR 36k and EUR 215k respectively. A further payment of EUR 215k is subject to conditions which are deemed probable.

The payments and accrued expenses were recorded as incremental compensation expense. As of 31 December 2015, after the cancellations, only 7.500 remaining phantom stock awards are outstanding with a fair value of EUR 0k.

6.6 Noncurrent liabilities

6.6.1 Investment grants

The deferred subsidies (government grants) for fixed assets include investment subsidies from the public sector [Investitionszuschüsse].

6.6.2 Pension liabilities

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

Plan assets consist solely of pension liability insurance contracts which have been concluded. The asset values of the insurance contracts represent the cash surrender values and were offset against the pension obligations as the insurance contracts are qualifying insurance policies in accordance with IAS 19.

The amount of the defined benefit obligation (actuarial present value of the accrued pension entitlements) is determined on the basis of actuarial methodologies which require the use of estimates. The calculation was based on the Heubeck 2005 G mortality tables.

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

T25

	2015	2014
Discount rate	2.01%	1.56%

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 1.5% 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 119k (31 December 2014: EUR 135k)

Interest rate + 0.5%: Δ DBO EUR –107k (31 December 2014: EUR –120k)

RECONCILIATION OF DEFINED BENEFIT OBLIGATION AND PLAN ASSETS

T26

In EUR k	Defined benefit obligation	Plan assets	Pension provision (Net DBL)
Balance as of 1 January 2014	**1,109**	**–574**	**535**
Current service cost	34	–	34
Interest expense (+)/interest income (-)	38	–21	17
Remeasurement	383	22	405
Income (-)/expenses (+) from plan assets (without amounts included in interest expense)	–	22	22
Actuarial gains (-)/losses (+)	383	–	383
Effects from changes in financial assumptions	391	–	391
Effects from changes based on experience	–8	–	–8
Employer's contributions	–	–62	–62
Balance as of 31 December 2015	**1,564**	**–635**	**929**
Current service cost	46	–	46
Interest expense (+)/interest income (-)	24	–10	14
Remeasurement	–112	7	–105
Income (-)/expenses (+) from plan assets (without amounts included in interest expense)	–	7	7
Actuarial gains (-)/losses (+)	–112	–	–112
Effects from changes in financial assumptions	–107	–	–107
Effects from changes based on experience	–5	–	–5
Employer's contributions	–	–62	–62
Balance as of 31 December 2015	**1,522**	**–700**	**822**

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

T27

In EUR k	2015	2014
Current service cost	46	34
Net interest expense (+)/income(-)	14	17
Interest expense associated with DBO	24	38
Interest income on plan assets	−10	−21
Total net pension expense	60	51

In 2016, plan contributions amounting to EUR 62k are expected. The weighted average duration of the pension commitments is 15.4 years (31 December 2014: 15.7 years). The pension payments for the two beneficiaries will probably be due in three respectively four years.

6.7 Current liabilities

6.7.1 Tax liabilities

The tax liabilities of EUR 2,641k comprise the Company's payment obligations including accrued interest as a result of the tax audit for the periods 2002 through 2005 including interest for late payment. EUR 1,392k relates to corporate income tax and EUR 1,249k to trade tax. Probiodrug has filed a lawsuit at the tax court [Finanzgericht] contesting the potential back taxes. A ruling has not yet been made. A stay of execution for the contested decisions has been granted.

6.7.2 Other current liabilities

T28

In EUR k	31 Dec. 2015	31 Dec. 2014
Liabilities from waived phantom stock obligation	215	0
Salaries and wages	189	135
Payroll and church taxes	129	45
Other	66	15
Total	**599**	**195**

Regarding liabilities from waived phantom stock obligations, we refer to note 9.2.

7. Disclosures with respect to financial instruments

7.1 General disclosures

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

On the asset side, the non-derivative financial instruments primarily include cash and cash equivalents.

The non-derivative financial liabilities consist primarily of trade payables.

The categories "measured at fair value through profit and loss", "financial instruments held to maturity" and "financial instruments available for sale" were not relevant with respect to the financial assets and financial liabilities recognised as at 31 December 2015.

7.2 Fair value measurement

All assets and liabilities for which fair value is recognised in the consolidated 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 receivables, other financial assets, cash and cash equivalents and trade and other payables is a reasonable approximation of the fair value.

7.3 Other disclosures in accordance with IFRS 7

Disclosures with respect to interest income and expense

No interest expense in 2015 and 2014 was recognised with respect to financial instruments. Interest income of EUR 33k was recognised in 2014 with respect to a reversal of an impairment of a current financial asset and EUR 3k were recognised as interest income on cash balances.

Financial risks and risk management

7.3.1 Organisation

Risk management system, objectives and methods

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

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

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

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

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

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

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

7.3.2 Risk groups

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

7.3.2.1 Credit risks

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

Probiodrug's cash balances are held by the following banks: Sparkasse (0.2%), Moody's Rating Aa2, Deutsche Bank (96.5%) Moody's Rating Baa1, and BW Bank (3.3%), Moody's Rating Aa3. In general, cash balances are only made 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 T29

In EUR k	31 Dec. 2015	31 Dec. 2014
Noncurrent financial assets	3	3
Cash and cash equivalents	21,361	20,920
	21,364	**20,923**

As of the reporting dates 31 December 2015 and 31 December 2014, the financial assets were neither impaired nor overdue.

7.3.2.2 Liquidity risk

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

In order to manage the liquidity situation during the year, the Company utilises appropriate financial planning instruments. Matching maturities of the liquidity needs and availability is thereby assured. As at 31 December 2015, cash and cash equivalents amounted to EUR 21.4 million. The cash and cash equivalents as at 31 December 2015 provide for the Company's financing beyond the upcoming twelve months. Management believes that additional cash inflows can be generated. If the currently planned assumptions with respect to liquidity do not prove to be viable, based on the current cash reach, there could prospectively be a risk that the liquidity of the Company is insufficient.

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

The Company's planning is based on the assumption that no cash outflows will be incurred with respect to the potential additional tax claims of the fiscal authorities for the year 2004 in 2016 or 2017. This risk was provided for in the financial statements (we refer to note 6.7.1). Should significant payments be required in 2016 or 2017, the Company's ability to execute its business plan would be affected.

Analysis of maturities

As of 31 December 2015 and 2014, all trade payables of EUR 1,629k (31 December 2014 EUR 1,036k) have a maturity of up to 30 days, respectively.

7.3.2.3 Market risks

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

Exchange rate risks

Currently Probiodrug is not exposed to any significant exchange rate risks. Exchange rate risks could develop if a portion of the future expenses or revenues from collaboration agreements or licencing agreements are realised in US dollars or in another foreign currency.

Risk of changes in interest rates

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

Price risks

At present, the financial commitments of the Company (see note 9.1) do not contain variable price conditions and hence do not bear price risks.

8. 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 budget approved by the Supervisory Board, the cash reach of the Company is the end of the second quarter 2017. Should the Company be required to repay tax provisions of EUR 2,641k, the cash reach is the beginning of the first quarter 2017. The future financing on which the going concern assumption is based on considers management's expectation to raise funds in the form of equity or debt and/or conduct a licencing agreement by the beginning of the second quarter 2017, at the latest.

Probiodrug's focus also on the long-term increase in the value of the Company 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 management's 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 programmes 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 2015, Probiodrug's equity amounted to EUR 16,133k (31 December 2014: EUR 15,971k), which equates to an equity ratio of 73.8% (31 December 2014: 74.4%). The total liabilities amounts to EUR 5,733k (31 December 2014: EUR 5,509k).

9. Other

9.1 Contingencies and other financial commitments

The total of the other financial commitments as at 31 December 2015 was EUR 2,072k and consits of services by research an development service providers as well as of service, leasing and rental commitments. Of these commitments EUR 2,050k are due within one year.

9.2 Related-party relationships

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

a) Members of the key management of the Company or a shareholder of the Company

b) Enterprises which can be controlled by individuals within a)

Transactions with key management personnel

The remuneration of the Management Board comprised:

T30

In EUR k	2015	2014
Short-term employee benefits	860	710
Post-employment benefits	135	50
Share-based payments	729	1,008
Total	**1,724**	**1,768**

Within the scope of the stock option programme 2014, 314,501 options were issued to date to the members of the Management Board. More detailed information is provided in note 6.5.2.1.

In November 2015, Probiodrug entered into an agreement with a member of the Management Board to cancel awards granted under the phantom stock programme for a cash payment of EUR 430k, payable in two equal tranches. The first tranche of EUR 215k was paid in 2015; the second tranche of EUR 215k is subject to certain conditions and is accrued in current other liabilities.

The pension commitments described in note 6.6.2 relate to one former and one current member of Management Board. The development of the pension provision is also presented there.

The remuneration of the Supervisory Board comprised:

T31

In EUR k	2015	2014
Short-term benefits	52	18
Total	**52**	**18**

9.3 Approval and release

On 10 March 2016, Probiodrug AG's Management Board approved these financial statements for release to the Supervisory Board.

Halle, 10 March 2016

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Inge Lues**

C. AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To Probiodrug AG, Halle

We have audited the accompanying financial statements of Probiodrug AG, Halle (Saale), which comprise the Statement of Comprehensive Loss, Statement of Financial Position Cash Flow Statement, Statement of Changes in Equity and Notes to the financial statements for the financial year ended 31 December 2015.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the finacial statement 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respect, the financial position of Probiodrug AG, Halle (Saale), as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, as adopted by the European Union.

Emphasis of Matter
Without qualifying this our opinion we refer draw attention to the explanation in the notes. In section 4 "Significant discretionary decisions, estimates and assumptions" in the financial statements which indicates that the Company incurred a net loss of EUR 13,505 thousand during the year ended 31December 2015 and, as of that date, theCompany's accumulated deficit was EUR 25,676 thousand. TheCompany expects to continue to incur losses for the foreseeable future and its ability to continue as a going concern is dependent on successfully raising financial funds or entering in to a licensing agreement by the second quarter of 2017 at the latest. These conditions, along with other matters as set forth in Note 4, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Leipzig, 10 March 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Schmidt
Wirtschaftsprüfer
German Public Auditor

Dr Schneider
Wirtschaftsprüfer
German Public Auditor

D. 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), 10 March 2016

Management Board of Probiodrug AG

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Inge Lues**

PART II

A. FINANCIAL STATEMENTS (HGB)

BALANCE SHEET AS AT 31 DECEMBER 2015

ASSETS T32

In EUR		31 Dec. 2015		31 Dec. 2014
A. Fixed assets				
I. Intangible assets				
Similar rights acquired for consideration, licenses and software		55,962.72		81,571.13
II. Tangible assets				
1. Buildings on third-party land	20,735.87		27,645.95	
2. Other equipment, operating and office equipment	59,831.70	80,567.57	73,507.31	101,153.26
III. Long-term financial assets				
Participations		3,450.00		3,450.00
		139,980.29		**186,174.39**
B. Current assets				
I. Other assets		139,217.61		296,096.92
II. Cash-in-hand and bank balances		21,361,408.04		20,919,926.71
		21,500,625.65		**21,216,023.63**
C. Prepaid expenses		**225,292.11**		**77,861.82**
		21,865,898.05		**21,480,059.84**

EQUITY AND LIABILITIES

T33

In EUR	31 Dec. 2015	31 Dec. 2014
A. Equity		
I. Share capital	7,442,487.00	6,765,898.00
Contingent capital: EUR 2,556,151.00		
(in the prior year EUR 524,169.00)		
II. Capital reserves	34,871,656.55	22,016,465.55
III. Revenue reserves		
Legal reserves	227,625.00	227,625.00
IV. Accumulated losses brought forward	−26,067,150.58	−12,480,753.10
	16,474,617.97	**16,529,235.45**
B. Provisions		
1. Pension provision	468,818.00	370,450.00
2. Tax provision	2,641,430.75	2,543,210.75
3. Other provisions	615,703.91	1,107,042.99
	3,725,952.66	**4,020,703.74**
C. Liabilities		
1. Trade payables	1,312,699.31	876,394.23
2. Other liabilities	352,628.11	53,726.42
– of which taxes EUR 129,209.18 (in the prior year EUR 45,421.87) –		
	1,665,327.42	**930,120.65**
	21,865,898.05	**21,480,059.84**

INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2015

T34

In EUR		2015		2014
1. Other operating income		318,713.28		237,407.87
2. Cost of materials				
a) Costs of supplies and purchased merchandise	−60,497.94		−55,092.00	
b) Costs of purchased services	−6,673,324.46	−6,733,822.40	−4,291,285.88	−4,346,377.88
3. Personnel expenses				
a) Wages and salaries	−1,657,854.69		−1,263,986.09	
b) Social security and post-employment costs	−325,436.28	−1,983,290.97	−191,017.19	−1,455,003.28
– of which in respect of retirement provisions EUR 185,349.65 (in the prior year EUR 78,939.01) –				
4. Amortisation of intangible assets and depreciation of tangible assets		−56,185.22		−93,846.03
5. Other operating expenses		−4,997,084.89		−4,576,095.76
6. Other interest and similar income		256.11		432,934.49
– of which from affiliated companies EUR 0.00 (in the prior year EUR 430.000,32) –				
7. Interest and similar expenses		−134,983.39		−226,105.92
8. Results of ordinary operations		**−13,586,397.48**		**−10,027,086.51**
9. Extraordinary expenses/extraordinary results		0.00		−2,232,270.20
10. Net loss		**−13,586,397.48**		**−12,259,356.71**
11. Loss carry forward		−12,480,753.10		−81,301,659.82
12. Income from the release of capital reserves		0.00		54,871,798.43
13. Income from the reduction of capital		0.00		26,208,465.00
14. Accumulated losses brought forward		**−26,067,150.58**		**−12,480,753.10**

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2015

T35

In EUR	1 Jan. 2015 to 31 Dec. 2015	1 Jan. 2014 to 31 Dec. 2014
Net loss of the period without extraordinary expenses	−13,586,397	−10,027,085
Transaction costs	933,872	0
Extraordinary expenses	0	−474,513
Amortisation/depreciation of fixed assets	56,185	93,846
Profit/loss on the disposal of fixed assets	245	5,599
Interest income	−256	−432,934
Interest expenses	134,983	226,106
Increase in pension provisions	61,605	11,527
Decrease of other provisions	−491,339	−268,649
Other expenses/income without a cash impact	0	397,555
Decrease (in prior year increase) in other assets	154,689	−114,770
Increase (in prior year decrease) of prepaid expenses	−147,430	18,294
Increase in trade payables	436,305	38,726
Increase of other liabilities	298,902	20,633
Cash flow from operating activities	**−12,148,637**	**−10,505,665**
Proceeds from the disposal of tangible assets	235	574,249
Proceeds from the disposal of intangible assets	0	2,930
Capital expenditures for tangible assets	−5,844	−2,040
Capital expenditures for intangible assets	−4,628	−10,041
Proceeds from loan repaid	0	760,508
Interest received	2,447	6,225
Cash flow from investing activities	**−7,790**	**1,331,831**
Proceeds from the issuance of shares	13,531,780	23,244,126
Disbursement for transaction costs	−933,872	−1,757,757
Proceeds from the issuance of convertible bonds	0	4,276,000
Interest paid	0	−90,000
Cash flow from financing activities	**12,597,908**	**25,672,369**
Changes in cash and cash equivalents	**441,481**	**16,498,535**
Cash and cash equivalents at the beginning of the financial year	**20,919,927**	**4,421,392**
Cash and cash equivalents at the end of the period	**21,361,408**	**20,919,927**

T36

In EUR	31 Dec. 2015	31 Dec. 2014
Composition of cash and cash equivalents		
Cash-on-hand	103	450
Bank balances	21,361,305	20,919,477
	21,361,408	**20,919,927**

STATEMENT OF SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2015

T37

	Share capital		Capital reserves	Legal reserve	Retained earnings	Equity
In EUR	Ordinary shares	Preferred shares				
Balance as at 1 January 2014	**3,414,375**	**22,114,554**	**51,467,572**	**227,625**	**−81,301,660**	**−4,077,534**
Capital increase as a result of the conversion of convertible bonds		5,921,229	3,700,771	0	0	9,622,000
Conversion of preferred shares into ordinary shares	28,035,783	−28,035,783	0	0	0	0
Simplified capital reduction	−26,208,465		−54,871,798	0	81,080,263	0
Issuance of shares	1,524,205		21,719,921	0	0	23,244,126
Net loss	0		0	0	−12,259,357	−12,259,357
Balance as at 31 December 2014	**6,765,898**	**0**	**22,016,466**	**227,625**	**−12,480,754**	**16,529,235**
Balance as at 1 January 2015	6,765,898	0	22,016,466	227,625	−12,480,754	16,529,235
Capital increase as a result of cash contribution	676,589		12,855,191			13,531,780
Net loss					−13,586,397	−13,586,397
Balance as at 31 December 2015	**7,442,487**	**0**	**34,871,657**	**227,625**	**−26,067,151**	**16,474,618**

B. NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2015

I. GENERAL INFORMATION

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

Probiodrug's shares have been listed on the Euronext/Amsterdam since October 2014. As such, Probiodrug is a capital market oriented company as defined in Section 264d of the HGB and is thereby considered a large capital corporation as defined by Section 267 (3) sentence 2 of the HGB.

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

II. ACCOUNTING POLICIES AND MEASUREMENT METHODS

Fixed assets

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

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

In financial years 2015 and 2014, newly acquired moveable assets with acquisition costs of up to EUR 410.00 were immediately depreciated in their entirety. The cumulative items recorded in the years prior 2014 continue to be depreciated in accordance with Section 6 (2a) of the German Income Tax Act (EStG) [Einkommensteuergesetz] over a period of five years. In total, the cumulative items are of minor importance.

Participations are recorded at their acquisition costs.

Current assets

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

The **cash-in-hand and bank balances** were principally measured at their nominal values.

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

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

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

Equity
The share capital is recorded at its nominal value.

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

Long-term provisions with a term of more than 12 months, excluding pension provisions, are discounted in accordance with Section 253 (2) sentence 1 of the HGB.

The measurement of the pension provisions is based on the "projected unit credit" method (PUC method). Probiodrug made use of the allowed alternative treatment whereby the average market interest rate of the previous seven business years as published by the Deutsche Bundesbank [German Federal Reserve], which results from an assumed remaining term of 15 years, was applied as the discount rate. The biometric calculation used was provided by the 2005 G mortality tables of Klaus Heubeck ["Richttafeln 2005 G"]. The parameters applied in the calculation are presented in the explanations on the balance sheet.

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

The existing liabilities are not secured.

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

III. EXPLANATIONS ON THE BALANCE SHEET

Fixed assets
The development of fixed assets as well as the amortisation and depreciation recorded in the financial year is shown for each balance sheet line item in the schedule of fixed assets presented in the appendix to the notes to the financial statements.

Other assets
Without exception, the other assets have a remaining term of up to one year. They primarily consist of receivables from the fiscal authorities (EUR 80k; in the prior year EUR 189k) as well as other receivables (EUR 59k; in the prior year EUR 107k).

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

Share Capital

As at 31 December 2015, the subscribed capital amounted to EUR 7,442,487.00 (in the prior year EUR 6,765,898.00). It is broken down into 7,442,487 (in the prior year 6,765,898) registered no-par value ordinary shares with no par value (bearer shares).

On 5 November 2015 the Management Board resolved, with the approval of the Supervisory Board, to increase the share capital by EUR 676,589.00 to EUR 7,442,487.00 in exchange for a cash contribution. The increase was made by, in part, making use of the authorised capital 2014 by issuing 676,589 new registered no-par value bearer shares at an issue price in the amount of the notional par value of EUR 1.00 per share.

Authorisation to acquire treasury shares

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

Contingent capital

As at 31 December 2015, the contingent capital amounted to EUR 2,556,151.00 (in the prior year EUR 524,169.00). Of this amount, EUR 517,363.00 (in the prior year EUR 426,488.00) is reserved as a result of the distribution of option rights.

The contingent capital increase shall serve to grant no-par value registered shares to the holders or creditors of convertible or option bonds that have been issued by the Company or a group company who exercised their option or conversion rights or fulfil their option or conversion obligations or, to the extent that the Company exercises its right to grant shares of the Company, in lieu of payment of the amount in cash due (or parts thereof).

In addition to employees of the Company and formerly affiliated companies for whom, as per Section 194 (3) of the AktG, no disclosures are required, the following members of the Management Board (respectively former members of the Management Board) are permitted to acquire the following number of shares (subsequent to reduction in conjunction with the capital decrease 6:1):

Dr Konrad Glund, Halle, up to 135,747 ordinary shares,
Dr Hendrik Liebers, Leipzig, up to 138,786 ordinary shares and
Prof. Dr Hans-Ulrich Demuth, Halle, up to 30,913 ordinary shares and
Dr Inge Lues, Seeheim-Jugenheim, up to 104,834 ordinary shares.

Stock Options

The stock option programme adopted by resolution of the annual shareholders' meeting dated 29 September 2014 is adjusted as follows: the Management Board and, as far as stock options shall be granted to members of the Management Board, the Supervisory Board is authorised to issue once or several times up to 442,000 option rights to current or future employees and members of the Management Board, whereas up to 336,888 option rights may be granted to current or future members of the Management Board and up to 105,112 option rights may be granted to current and future employees of the Company.

Within the scope of Stock Option Programme 2014, in 2014 314,501 options for no-par value bearer shares were issued to the Management Board (refer to contingent capital 2014/I).

Within the scope of Stock Option Programme 2014, in 2015 90,875 options for no-par value bearer shares were issued to employees (refer to contingent capital 2014/I).

Convertible bonds

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

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

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

Authorised capital 2014/I

The authorised capital 2014/I was established on the basis of a resolution of the shareholders' meeting on 9 October 2014.

On 5 November 2015, the Management Board, with the approval of the Supervisory Board resolved to make use of a portion of the authorised capital totalling EUR 676,589.00 to increase the share capital by EUR 676,589.00 in exchange for cash. 676,589 no-par value bearer shares were issued at an issue price of EUR 1.00 (notional par value) per share.

As at 31 December 2015, the authorised capital 2014 totalled EUR 2,633,166.00.

Voting rights notification

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

HBM HEALTHCARE INVESTMENTS (CAYMAN) LTD., George Town, Grand Cayman, Cayman Islands, informed us on 6 May 2015 that, according to Section 21 (1) of the WpHG, its voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany ISIN DE0007921835, have fallen below the 10% threshold of the voting rights on 29 April 2015 and on that day amounted to 9.75% (this corresponds to 659,525 voting rights).

HBM HEALTHCARE INVESTMENTS AG, Zug, Switzerland, informed us on 6 May 2015 that, according to Section 21 (1) of the WpHG, its voting rights in Probiodrug AG, Halle (Saale), Weinberweg 22, 06120 Halle (Saale), Germany ISIN DE0007921835, have fallen below the 10% threshold of the voting rights on 29 April 2015 and on that day amounted to 9.75% (659,525 voting rights). 9.75% of voting rights (659,525 voting rights) are attributed to HBM Healthcare Investments AG in accordance with Section 22 (1) sentence 1, no. 1 of the WpHG. Voting rights attributed to HBM Healthcare Investments AG are held by the following companies under its control, whose share of the voting rights in Probiodrug AG amounts to 3% or more: HBM Healthcare Investments (Cayman) Ltd.

BIOTECH GROWTH N.V., Willemstad, Curacao, Netherlands Antilles, informed us pursuant to Section 21 (1) WpHG on 10 November 2015 that its voting rights proportion fell below the threshold of 15% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 14.12% (1,050,784 voting rights) on that date.

BB BIOTECH AG, Schaffhausen, Switzerland informed us pursuant to Section 21 (1) WpHG on 10 November 2015 that its voting rights proportion fell below the threshold of 15% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 14.12% (1,050,784 voting rights) on that date. 14.12% (1,050,784 voting rights) are to be attributed to BB Biotech AG pursuant to Section 22 (1) sentence 1 no. 1 WpHG. The voting rights that are to be attributed to BB Biotech AG are held via the following controlled companies whose holdings of voting rights amount to 3% or more in Probiodrug AG: Biotech Growth N.V.

KEMPEN & CO. N.V., Amsterdam, the Netherlands, informed us pursuant to Section 21 (1) WpHG on 12 November 2015 that its voting rights proportion fell below the thresholds of 5% and 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug amounted to 0% (0 voting rights) on that date.

F. VAN LANSCHOT BANKIERS N.V., 's-Hertogenbosch, the Netherlands, informed us pursuant to Section 21 (1) WpHG on 12 November 2015 that its voting rights proportion fell below the thresholds of 5% and 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion amounted to 0% (0 voting rights) on that date.

VAN LANSCHOT N.V., 's-Hertogenbosch, the Netherlands, informed us pursuant to Section 21 (1) WpHG on 12 November 2015 that its voting rights proportion fell below the thresholds of 5% and 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion amounted to 0% (0 voting rights) on that date.

WELLINGTON MANAGEMENT GROUP LLP, Boston, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Management Group LLP pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG and concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG. A portion of 1.20% (89,316 voting rights) of the total of 2.86% (212,771 voting rights) is attributed to Wellington Management Group LLP concurrently pursuant to Section 22 (1) sentence 1 no. 2 in connection with sentence 2 WpHG.

WELLINGTON INVESTMENT ADVISORS HOLDINGS LLP, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Investment Advisors Holdings LLP pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG.

WELLINGTON MANAGEMENT FUNDS HOLDINGS LLP, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Management Funds Holdings LLP pursuant to Section 22 (1) sentence 1 no. 1 WpHG. A portion of 1.20% (89,316 voting rights) of the total of 2.86% (212,771 voting rights) is attributed to Wellington Management Funds Holdings LLP concurrently pursuant to Section 22 (1) sentence 1 no. 2 in connection with sentence 2 WpHG.

WELLINGTON HEDGE MANAGEMENT, LLC, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Hedge Management, LLC pursuant to Section 22 (1) sentence 1 no. 1 WpHG. A portion of 1.20% (corresponding to 89,316 voting rights) of the total of 2.86% (corresponding to 212,771 voting rights) is attributed to Wellington Hedge Management, LLC concurrently pursuant to Section 22 (1) sentence 1 no. 2 in connection with sentence 2 WpHG.

WELLINGTON MANAGEMENT COMPANY LLP, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Management Company LLP pursuant to Section 22 (1) sentence 1 no. 6 WpHG.

WELLINGTON GROUP HOLDINGS LLP, Wilmington, USA, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion fell below the threshold of 3% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 9 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 2.86% (212,771 voting rights) on that date. 2.86% (212,771 voting rights) are attributed to Wellington Group Holdings LLP pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG and concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG. A portion of 1.20% (89,316 voting rights) of the total of 2.86% (212,771 voting rights) is attributed to Wellington Group Holdings LLP concurrently pursuant to Section 22 (1) sentence 1 no. 2 in connection with sentence 2 WpHG.

AVIVA PLC, London, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion exceeded the thresholds of 3%, 5% and 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 10.84% (806,443 voting rights) on that date. 10.84% (806,443 voting rights) are attributed to Aviva plc pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. A portion of 10.20% (759,262 voting rights) of the total of 10.84% (806,443 voting rights) is attributed to Aviva plc concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG are attributed through the following shareholder directly holding 3% voting rights or more in Probiodrug AG: Aviva Life & Pensions UK Limited.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 1 WpHG are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: Aviva Life & Pensions UK Limited; Aviva Life Holdings UK Limited; Aviva Group Holdings Limited.

AVIVA INVESTORS GLOBAL SERVICES LIMITED, London, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion exceeded the thresholds of 3%, 5% and 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion amounted to 10.84% (806,443 voting rights) on that date. 10.84% (806,443 voting rights) are attributed to Aviva Investors Global Services Limited pursuant to Section 22 (1) sentence 1 no. 6 WpHG.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 6 WpHG are attributed through the following shareholders directly holding 3% voting rights or more in Probiodrug AG: Aviva Life & Pensions UK Limited.

AVIVA LIFE & PENSIONS UK LIMITED, York, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion exceeded the thresholds of 3% and 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 9.70% (722,285 voting rights) on that date.

AVIVA INVESTORS HOLDINGS LIMITED, London, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion exceeded the thresholds of 3%, 5% and 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 10.84% (806,443 voting rights) on that date. 10.84% (806,443 voting rights) are attributed to Aviva Investors Holdings Limited pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. A portion of 0.44% (32,651 voting rights) of the total of 10.84% (806,443 voting rights) is attributed to Aviva Investors Holdings Limited concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG are attributed through the following shareholders directly holding 3% voting rights or more in Probiodrug AG: Aviva Life & Pensions UK Limited.

AVIVA LIFE HOLDINGS UK LIMITED, York, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion exceeded the thresholds of 3% and 5% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 9.70% (722,285 voting rights) on that date. 9.70% (722,285 voting rights) are attributed to Aviva Life Holdings UK Limited pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 1 WpHG are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: Aviva Life & Pensions UK Limited.

AVIVA GROUP HOLDINGS LIMITED, London, United Kingdom, informed us pursuant to Section 21 (1) WpHG on 13 November 2015 that its voting rights proportion exceeded the thresholds of 3%, 5% and 10% of the voting rights in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835, on 10 November 2015, and that its voting rights proportion in Probiodrug AG amounted to 10.84% (806,443 voting rights) on that date. 10.84% (806,443 voting rights) are attributed to Aviva Group Holdings Limited pursuant to Section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. A portion of 10.20% (759,262 voting rights) of the total of 10.84% (806,443 voting rights) is attributed to Aviva Group Holdings Limited concurrently pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed pursuant to Section. 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG are attributed through the following shareholder directly holding 3% voting rights or more in Probiodrug AG: Aviva Life & Pensions UK Limited.

The voting rights attributed pursuant to Section 22 (1) sentence 1 no. 1 WpHG are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: Aviva Life & Pensions UK Limited; Aviva Life Holdings UK Limited.

Capital reserves
As at 31 December 2015, the capital reserves amounted to EUR 34,871,656.55 (in the prior year EUR 22,016,465.55).

In conjunction with the capital increase via the issuance of new shares during the financial year, cash receipts totalling EUR 12,855,191.00 were paid into the capital reserves in accordance with Section 272 (2) number 4 of the HGB.

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

Accumulated losses

As at 31 December 2015, the accumulated losses totalled EUR 26,067,150.58. It developed as follows during the financial year:

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In EUR	
Accumulated losses as at 31 December 2014	12,480,753.10
Net loss in financial year 2015	13,586,397.48
Accumulated losses as at 31 December 2015	**26,067,150.58**

Tax Provisions

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

On 5 October 2009, the Company filed an appeal against the changed assessments for 2004 corporate income tax and the solidarity tax contribution. In 2008, in accordance with the prudence principle, the Company recorded the risk resulting from the assessments within the tax provision. In a ruling with respect to the appeal issued by the fiscal authorities in September 2013, the assessment notices with respect to corporate income tax and the solidarity surcharge for 2004 was changed and the tax obligation was reduced slightly. Other than that, the appeal was denied. In addition, in October 2013, an amended municipal tax assessment notice for the assessment period 2004 was issued. The aforementioned risks including the accrued interest thereon were given consideration by increasing the tax provision by EUR 98k as at 31 December 2015 to EUR 2,641k.

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

Pension Provisions
The calculation of the pension provisions was carried out using a discount rate of 3.89% (in the prior year 4.53%). A further parameter applied in the calculation was a pension progression rate of 1.5% (in the prior year 1.5%).

During the financial year, personnel expenses in conjunction with the pension obligations amounting to EUR 124k (in the prior year EUR 74k) and interest expense of EUR 41k (in the prior year EUR 42k) were recorded. Interest expense includes income on the assets used to fund the obligation in the amount of EUR 3k (in the prior year EUR 4k) which is presented as a net amount.

As at 31 December 2015, the cash surrender value of the covering assets corresponds with the pledged entitlement to the life insurance amounting to EUR 700k (in the prior year EUR 635k). In accordance with Section 246 (2) of the HGB, this amount was offset with the settlement amount of the pension provisions which amounted to EUR 1,169k (in the prior year EUR 1,005k). The recorded pension provision amounted to EUR 469k (in the prior year EUR 370k).

Other provisions
The other provisions include provisions attributable to outstanding invoices (EUR 307k; in the prior year EUR 83k), other personnel related provisions (EUR 205k; in the prior year EUR 141k), provisions for the Company's other business activities (EUR 53k; in the prior year EUR 53k) as well as provisions for the cost of preparing the financial statements and audit (EUR 51k; in the prior year EUR 76k).

Liabilities
As was the case in the prior year, the liabilities as at the balance sheet date all have a remaining term of up to one year.

IV. EXPLANATIONS ON THE INCOME STATEMENT

Other operating income
The other operating income during the financial year included:

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In EUR k	2015
Income from the release of provisions	301
Income from exchange rate differences	6
Other income relating to other periods	7

Other operating expenses
The other operating expenses include expenses attributable to other periods amounting to EUR 89k (in the prior year EUR 77k) as well as expenses from exchange rate differences amounting to EUR 10k (in the prior year EUR 3k).

Extraordinary expenses
In the prior year, the extraordinary expenses of EUR 2,232k were attributable to the initial public offering on the Euronext/ Amsterdam.

V. EXPLANATIONS ON THE CASH FLOW STATEMENT

The transaction costs of EUR 934k recorded in the financial year were, in their entirety, due to the capital increase in 2015.

VI. OTHER DISCLOSURES

Subsidies

Through financial year 2015, Probiodrug AG received public subsidies for projects. The subsidies were, in part, granted subject to subsequent audits.

Recommendation for appropriation of result

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

The accumulated losses amount to EUR 26,067,150.58. This will be carried forward.

Average number of employees during the financial year

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

EMPLOYEE GROUPS T40

	2015	2014
Members of the Management Board	3	2
Employees	13	10

Other financial commitments

The total of the other financial commitments as at 31 December 2015 was EUR 2,072k, which consists of services by research and development service providers as well as of service, leasing and rental commitments. Of these commitments, EUR 2,050k are due within one year

Disclosures with respect to executive bodies

Management Board

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

Dr Konrad Glund (Dipl. Biochemiker [degreed biochemist]) – Chief Executive Officer
Dr Hendrik Liebers (Dipl.-Biologe [degreed biologist], Dipl.-Kaufmann [degreed businessman]) – Chief Financial Officer
Dr Inge Lues (Dipl.-Biologe [degreed biologist]) – Chief Development Officer

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

With respect to the remuneration of the Management Board we refer to the compensation report which forms a part of the management report. The total remuneration of the members of the Management Board is EUR 1,425k for financial year 2015.

Disclosure as to total remuneration of former Management Board members

During the financial year, EUR 78k was recorded in the pension provision for previous members of the Management Board. The pension provision amounts to EUR 216k.

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

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

Dr Dinnies von der Osten, Managing Director, Berlin/Germany – Vice Chairperson
- Member of the Supervisory Board of Market Logic Software AG, Berlin/Germany
- Managing Director, GoodVent Beteiligungsmanagement Verwaltungs-GmbH, Magdeburg/Germany

Dr Olivier Litzka, Investment Manager, Chambourcy/France
- Supervisory Board member, Noxxon Pharma AG, Berlin/Germany
- Supervisory Board member, SuperSonic Imagine, Les Jardins de la Duranne, Aixen Provence/France
- Member of the Board of Directors, JenaValve Technology Inc., Irvine/USA
- Member of the Advisory Board, Allecra GmbH, Weil am Rhein/Germany,
- Investment manager, Edmond de Rothschild Investment Partners, Paris/France
- Member of the Board, Autonomic Technologies Inc., California/USA

Dr Jörg Neermann, Investment Manager, Munich/Germany
- Member of the Supervisory Board, Ventaleon GmbH, Gauting/Germany
- Member of the Board of Directors, Eyesense AG, Basel/Switzerland
- Member of the Board of Directors, Kuros Bioscienes AG, Zurich/Switzerland
- Member of the Supervisory Board, Curetis AG, Holzgerlingen/Germany
- Member of the Board of Directors, ViCentra B.V., Utrecht/the Netherlands

Dr Hubert Birner, Managing Partner, Munich – until 10 June 2015

Prof. Dr Georg Frank, Biologist, Dessau – until 10 June 2015

Kees Been, Chief Executive Officer (CEO), Weston, Massachusetts/USA – since 10 June 2015
- Member of the Board of Directors, Lyosomal Therapeutics, Inc., Massachusetts/USA
- Member of the Board of Directors, Rodin Therapeutics, Inc., Massachusetts/USA

Charlotte Lohmann, Attorney, Gröbenzell – since 10 June 2015
- General Counsel Morphosys AG, Martinsried/Germany

During the financial year the remuneration of the Supervisory Board totalled EUR 52k.

The terms of the Supervisory Board members Dr Platzer, Dr von der Osten, Dr Neermann and Dr Litzka end upon the conclusion of the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for financial year 2015. The terms of the Supervisory Board members Mr Been and Ms Lohmann end upon the conclusion of the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for financial year 2017.

Auditor's fees

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

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In EUR k	
Year-end audit fees	52
Other confirmation services (comfort letter)	79
Of which for the prior financial year	(16)
	131

Compliance statement in accordance with Section 161 of the AktG

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

Halle (Saale), 3 March 2016

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Inge Lues**

APPENDIX: SCHEDULE OF FIXED ASSETS IN FINANCIAL YEAR 2015

		Acquisition and production costs			
In EUR	**1 Jan. 2015**	**Additions**	**Disposals**	**31 Dec. 2015**	
I. Intangible assets					
Similar rights acquired for consideration, licenses and software	252,266.89	4,627.92	1,010.64	255,884.17	
II. Tangible assets					
1. Buildings on third-party land	181,002.98	0.00	0.00	181,002.98	
2. Other equipment, operating and office equipment	575,198.41	5,843.88	2,414.98	578,627.31	
	756,201.39	**5,843.88**	**2,414.98**	**759,630.29**	
III. Long-term financial assets					
1. Participations	3,450.00	0.00	0.00	3,450.00	
	1,011,918.28	**10,471.80**	**3,425.62**	**1,018,964.46**	

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			Accumulated amortisation/depreciation		Carrying values	
	1 Jan. 2015	Amortisation/ depreciation in the financial year	Disposals	31 Dec. 2015	31 Dec. 2015	31 Dec. 2014
	170,695.76	29,756.15	530.46	199,921.45	55,962.72	81,571.13
	153,357.03	6,910.08	0.00	160,267.11	20,735.87	27,645.95
	501,691.10	19,518.99	2,414.48	518,795.61	59,831.70	73,507.31
	655,048.13	**26,429.07**	**2,414.48**	**679,062.72**	**80,567.57**	**101,153.26**
	0.00	0.00	0.00	0.00	3,450.00	3,450.00
	825,743.89	**56,185.22**	**2,944.94**	**878,984.17**	**139,980.29**	**186,174.39**

C. MANAGEMENT REPORT FOR FINANCIAL YEAR 2015

1. COMPANY BASICS

Legal Structure

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

Business activities

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

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

Probiodrug is pursuing a therapeutic concept linked to disease initiation as well as progression. The development approaches are targeting pyroglutamate-Abeta (pGlu-Abeta, N3pG Abeta) as one therapeutic strategy to fight AD. The Company is pursuing two mechanisms with respect hereto: On the one hand, Probiodrug is focussing on the inhibition of the production of pGlu-Abeta by the inhibition of the enzyme Glutaminyl-Cyclase ("QC"). The Company's most developed programme in this area, the development candidate PQ912, is in clinical phase 2; a further development candidate, PQ1565, is in preclinical development. On the other hand, the Company is specifically developing pGlu-Abeta-binding antibodies, which ultimately speed up their degradation. The development candidate in this area, the antibody PBD-C06, is in preclinical development.

Research and development

As was the case in the past, in financial year 2015 Probiodrug focussed its activities on the development of PQ912, an inhibitor of the enzyme QC for the treatment of Alzheimer's and other diseases. In addition, the specific pGlu-Abeta-binding antibody PBD-C06 was progressed into production development and was further supported with data sets with respect to efficacy and safety. Work on PQ1565, a further QC inhibitor, also continued. 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 ancillary pharma research, production development and production, preclinical and clinical trials as well as analytics.

Patent Portofolio

In 2015, Probiodrug further strengthened its portfolio of patents. Important patent applications were granted in key markets. In total, at the end of 2015, 41 patent families and applications were held (in the prior year: 43). The strategy of focussing the patent portfolio in development relevant areas while selectively discontinuing non-core areas was retained.

Important events in the current financial year

a) Completion of capital increase
   In November 2015, Probiodrug successfully completed its first capital increase as a listed company. As a consequence of this capital increase, 676,589 new shares were issued leading to gross proceeds of EUR 13.5 million.

b) Changes in the Supervisory Board
The terms of all Supervisory Board members expired in conjunction with the annual shareholders' meeting held on 10 June 2015, which resolved upon the exoneration of the members of the Supervisory Board for the year 2014. The Supervisory Board members Prof. Georg Frank and Dr Hubert Birner did not stand for an additional term. The annual shareholders' meeting elected Charlotte Lohmann and Kees Been as new Supervisory Board members with a term which concludes in conjunction with the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for the year 2017. All other Supervisory Board members were re-elected for a term through the conclusion of the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for the year 2015.

2. OVERVIEW OF THE BUSINESS DEVELOPMENT

2.1 General conditions

Overall, in the year 2015, the environment with respect to pharmaceutical research and development in the Alzheimer's area was positive. The company Biogen published promising clinical data with respect to its anti-Abeta antibody Aducanumab® and announced that it will start clinical trial phase III with this molecule. Roche announced that it will also progress to clinical trial phase III with its in-licensed anti-Abeta antibody Crenezumab®. The company Lilly presented additional positive preclinical data with respect to the efficacy of the combination of a BACE inhibitor and an anti-pGlu-Abeta antibody.

In terms of the capital market, an increasing interest in the Alzheimer's indication is notable. This is, among others, reflected in the successful initial public offerings of two companies focussed on Alzheimer's in the USA (Axovant, vtv Therapeutics).

From the perspective of the pharmaceutical industry, there continues to be an unchanged high level of interest in novel treatment approaches which make innovative pharmacological intervention possible for diseases such as Alzheimer's which are still insufficiently treated thereby prospectively making attractive reimbursement possible. However, as a consequence of failures in the past with respect to the development of Alzheimer's therapeutics, high validation and thereby risk optimising requirements are a prerequisite for a (lucrative) partnership.

2.2 Company development

In 2015, Probiodrug focussed on the following primary areas:

- Further preclinical and clinical testing of the development candidate PQ912 in the area of QC inhibition, in particular execution of the first patient study in 2015/2016,
- Securing further supporting data and intellectual property protection for the therapeutic concept of QC inhibition as a fundamental novel approach for the treatment of Alzheimer's and other diseases
- Further progression of the therapeutic concept of the anti-pGlu-Abeta-specific antibodies (PBD-CO6) as well as that of PQ1565, an additional QC inhibitor
- Further increasing visibility and acceptance as an important prerequisite for an industrial transaction
- Optimising external purchased service as well as research cooperation to increase the breadth and speed of the research and development processes as well as the involvement of key opinion leaders

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

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

Net assets

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

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In EUR k	31 Dec. 2015	31 Dec. 2014
Assets		
Intangible assets	56	82
Tangible assets	81	101
Long-term financial assets	3	3
Fixed assets	**140**	**186**
Other assets	139	296
Cash-in-hand and bank balances	21,361	20,920
Current assets	**21,501**	**21,216**
Prepaid expenses	225	78
Total assets	**21,866**	**21,480**
Equity and liabilities		
Equity	**16,475**	**16,529**
Provisions	3,726	4,021
Liabilities	1,665	930
Total equity and liabilities	**21,866**	**21,480**

The non-current assets declined by EUR 46k as at 31 December 2015 due to the scheduled amortisation and depreciation of fixed assets totalling EUR 56k which was offset by capital expenditures of EUR 10k.

In 2015, current assets increased slightly from EUR 21,216k to EUR 21,500k. In the reporting period, the other assets declined by EUR 157k, while cash and cash equivalents increased by EUR 441k.

As a result of the capital increase in November 2015, cash proceeds of EUR 13,532k were realised. As at the balance sheet date, the bank balances totalled EUR 21,361k.

As at 31 December 2015, Probiodrug's equity amounted to EUR 16,475k (2014: EUR 16,592k). As at 31 December 2015, the equity ratio amounted to 75%.

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

During the financial year, the provisions decreased by EUR 295k to EUR 3,726k. EUR 469k (2014: EUR 370k) of the provisions are attributable to pensions, EUR 2,641k (2014: EUR 2,543k) result from the potential tax payment in arrears while EUR 616k (2014: EUR 1,107k) comprise other provisions. The decline in the other provisions was primarily attributable to the release of the provision for phantom stocks.

During the reporting period, the liabilities increased substantially from EUR 930k to EUR 1,665k as a result of the EUR 436k increase in the trade payables attributable to higher costs for purchased services as well as an increase of EUR 299k in other liabilities.

As at 31 December 2015, the trade payables totalled EUR 1,313k (2014: EUR 876k).

Financial position

The operating cash flow totalled EUR –12,146k (2014: EUR 10,589k) in the reporting period. The change in comparison with the prior year was primarily attributable to the higher expenses for purchased services and the increase in personnel expenses.

The cash flow from investing activities amounted to EUR –10k (2014: EUR 1,326k) in financial year 2015.

In financial year 2015, the cash flow from financing activities amounted to EUR 12,598k (2014: EUR 25,762k). This was attributable to proceeds from the capital increase in November 2015 (EUR 13,532k) less the transaction costs attributable hereto (EUR –934k).

In total, in the reporting period, the Company's cash and cash equivalents increased by EUR 441k.

Results of operations

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

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In EUR k	2015	2014
Other operating income	318	237
Cost of materials	–6,734	–4,346
Personnel expenses	–1,983	–1,455
Amortisation and depreciation of intangible and tangible assets	–56	–94
Other operating expenses	–4,997	–4,576
Financing results	–135	207
Result from ordinary activities	**–13,586**	**–10,027**
Extraordinary expenses	0	–2,232
Net loss for the financial period	**–13,586**	**–12,259**

The Company's net loss amounted to EUR 13,586k (2014: EUR 12,259k). In the result from ordinary activities which, in comparison with the prior year, declined by EUR 3,559k, there were the following significant changes in comparison with 2014:

- The increase of EUR 2,388k in the costs of materials was attributable to an increase in the purchased services within the scope of the clinical study phase 2.
- The increase of EUR 528k in personnel costs was attributable to the expansion of the Management Board in November 2014 as well as to the hiring of new employees in 2015.
- The other operating expenses increased by EUR 421k as a result of the transaction costs incurred in conjunction with the increase in capital in November 2015.

Overall statement

At the time of preparation of this management report, the Company's economic position has not changed materially in comparison with the explanations provided above. The Management Board is all in all satisfied with the development of the Company and views it positively.

2.4 Non-financial performance indicators

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

Employees
As at 31 December 2015, including the Management Board, Probiodrug had 16 (2014: 13) employees, of which 56.25% were female. In the reporting period, there were an average of 16 employees (2014: 12). In 2015, Probiodrug incurred personnel expenses of EUR 1.98 million (2014: EUR 1.46 million). The increase was primarily due to the newly hired employees at the end of 2014 and the beginning of 2015.

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

Intellectual property rights
A high-quality and stable patent portfolio is a decisive success factor for Probiodrug. Probiodrug has very experienced patent management which further developed the patent portfolio in 2015. In order to provide for focus on the sustainable value drivers as well as to optimise costs and benefits, Probiodrug continuously reviews its patent portfolio.

As at 31 December 2015, 41 patent families were held (31 December 2014: 43). The focussing 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.

3. EVENTS OF PARTICULAR SIGNIFICANCE SUBSEQUENT TO THE BALANCE SHEET DATE (SUBSEQUENT EVENTS REPORT)

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

4. OPPORTUNITIES AND RISKS REPORT

4.1 Opportunities report

Increasing interest in Alzheimer's
In 2015, after years of restraint, the interest in the Alzheimer's area by the pharmaceutical industry as well as that of investors increased. Prospectively, this could lead to an increased frequency of transactions. In comparison, the available number of new concepts with a broad scientific basis and with initial clinical data is limited. From both a strategic perspective as well as in terms of content, Probiodrug is well positioned in this regard. In case of success, this provides for opportunities which could substantially increase the Company's value.

Important progress in projects being pursued
In 2015, Probiodrug was able to generate additional important preclinical data which, in the view of the Company, further provides support for the viability of the therapeutic concept being pursued. The first patient study with respect to PQ912 (SAPHIR) was initiated as scheduled. Additional key patents were granted in important markets. The continuation of this development, i.e. the generation of additional positive data, above all with respect to the ongoing patient study with PQ912, should have a positive impact on the value of individual programmes as well as the Company's total value.

License revenues as a result of patents
Probiodrug's very comprehensive and well-positioned patent portfolio could lead to licensing agreements and thereby proceeds if other companies would like to use one or more of Probiodrug's projects in their own pipeline. Probiodrug would then receive license fees for this, thereby improving the Company's financial position, results of operations and net assets.

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

4.2 Risk Report

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

Sector-specific risks

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

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

In general, the pharmaceutical industry has a substantial 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 in this indication.

This could possibly result in Probiodrug not being able to conclude an industrial partnership or 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.

Product development (in general)
Probiodrug's success is dependent on different research and development programmes. The Company is subject to the risks associated with the development of drugs.

Typical risks include:
Individual product candidates may not be effective or sufficiently effective, may have unacceptable side effects or may not be formulated or manufactured so that they can be successfully further developed. Service providers and partners may become insolvent, which could result in a delay in development and/or result in the relevant data becoming unusable.

The responsible authorities may not grant the required regulatory approvals, they may grant these with restrictions or after a delay.

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

Administrative proceedings
Probiodrug's business activities are subject to substantial 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 or the expiration or withdrawal of these approvals could result in delays in the further development of Probiodrug's research and development projects.

Risks arising from business activities

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

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

Patent and trademark protection
Probiodrug protects its own developments with a comprehensive patent strategy. Nonetheless, the Company cannot guarantee that its patent protection is sufficient for its business activities. It cannot be precluded that third parties may file appeals against Probiodrug's patent registrations or that they challenge the effectiveness of the patents. It can also not be precluded that Probiodrug may become engaged in a patent dispute with third parties, e.g. when Probiodrug must defend against the unauthorised use of its patents by third parties. It also cannot be precluded that Probiodrug's patents are, in part, dependent on the patents of third parties. Every legal verdict against Probiodrug's patents or potential claims of third parties can inhibit the further development of the programme affected and potentially that of the Company. Regardless of the outcome, these types of proceedings are time and cost intensive and may tie up substantial Company resources. This could, in turn, have negative implications on the programmes affected and potentially the Company. As per the Company's current knowledge, no objections have been raised against the patents or patent registrations.

Risks associated with product development

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

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

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

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

Capital market risks

Additional financing
On the basis of the current cash and cash equivalents as well as current Company planning, the Company can provide for the continuity of operations until the end of Q2/2017. However, Probiodrug has a need for substantial capital to achieve its mid- to long-term corporate and development goals. This will require the raising of capital or third party financing or the generation of inflows as a result of the granting of licenses or cooperations. It is not certain that Probiodrug will be able to obtain sufficient additional capital within the required timeframe, at economically favourable terms or that this can be realised at all. Should the Company not be able to obtain access to additional financing, this could inhibit, or even completely prevent, the continuity of the Company and could lead to Probiodrug's liquidation or insolvency. Should the Company obtain additional capital by issuing new shares, this could lead to a dilution of the shareholding of the existing shareholders. Should the Company not be able to obtain additional funding, Probiodrug may be inhibited in the further development of its projects and/or the development of one or a number of products could be discontinued and/or the speed of development could be reduced to the extent that this could have a negative effect on the competitive position as well as on the results of operations, financial position and net assets to the extent that this could lead to the Company's insolvency.

Financial risks

Investment of liquid funds

The Company invests the available liquid funds in an interest-bearing manner. The Company solely invests in investment grade assets with only a low level of liquidity or default risk.

Transactions with international service providers and partners with whom contractual payment terms are denominated in a currency other than the euro lead to a currency risk. On the basis of economic considerations, Probiodrug has not engaged in any hedging activities seeking instead to pay its own obligations in a foreign currency. As such, the risk of exchange rate fluctuations is reduced.

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

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

Potential additional tax payment

Following a tax audit in 2008, the tax authorities retroactively increased the taxable profits for 2004 by approximately EUR 10 million, resulting in a tax claim for corporate income tax, solidarity surcharge and trade tax of EUR 1.7 million plus interest of 0.5% per month since 1 April 2006. The potential tax liability amounts to a total of approx. EUR 2.6 million (including accrued interest). Probiodrug believes that the better arguments speak against the tax authorities' view and has contested the claims of the tax authorities. The matter is now pending with the competent tax court. As a matter of precaution, Probiodrug has recognised in its financial statements a tax provision (including accrued interest). Nevertheless, should Probiodrug eventually be required to make such tax payments, this would have a corresponding unfavourable effect on Probiodrug's liquidity and cash flow position and may negatively affect its business, prospects and financial condition. Such payment obligations could endanger Probiodrug's ability to continue as a going concern if Probiodrug does not succeed in obtaining additional funding in Q1/2017.

Recognition of tax losses carried forward

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

Administrative and other risks

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

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 Management Board makes relevant decisions after consultation with external experts, e.g. attorneys and other advisors.

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

Overall assessment of the risk situation
Giving consideration to all of the aforementioned risks, there currently are only a few factors which could, in the short-term, endanger the continuity of Probiodrug in financial year 2016. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2015 provide for the Company's financing beyond the upcoming twelve months. Management believes that additional cash inflows can be generated. For the continued operation of the Company, financing measures or an outlicensing will be necessary by the second quarter of 2017 at the latest or, to the extent that significant payments in conjunction with the fiscal court proceedings pursued by the fiscal authorities become necessary, at the beginning of the first quarter of 2017.

5. OUTLOOK

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

- Continuation of the clinical development of PQ912 in particular generate initial patient study data and start long-term treatment
- Completion of the production development as well as initiation of clinical development of PBD-C06
- Continuation of the development of PQ 1565
- Further scientific analysis of potential second indications for the use of QC inhibitors
- Continuation of work to better understand the pGlu-Abeta-mediated pathologies
- Further increasing visibility and acceptance as an important prerequisite for obtaining additional capital as well as for an industrial transaction
- Further strengthening Probiodrug's financial resources

As a result of the continuing costs being incurred for development activities which are not yet offset by any sales, the Company also projects a net loss for financial year 2016 which may be in excess of that incurred in 2015.

As a result of its business model, to implement its development strategy until such time at which an industrial partnership is concluded, Probiodrug is dependent upon additional capital. 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 prerequisites (e.g., providing sufficient authorised and contingent capital) have been provided for 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 Alzheimer's. In case of a successful further programme development, Probiodrug will lay the groundwork for a mid-term option for a lucrative industrial partnership or an M&A transaction as well as the further generation of a substantial company value.

6. PROBIODRUG'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Risk management system

Probiodrug AG has an active, systematic risk management on the basis of which risks are to be identified, monitored and, on the basis of appropriate measures, minimised. Probiodrug's current business risks are primarily in the research and development of novel active pharmaceutical ingredients, the protection of intellectual property, the cooperation 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, Management Board members responsible for the different functions within the Company identify, analyse and evaluate the risks with respect to their probability of occurrence, their possible costs and their effect on liquidity, the time reference as well as the existence of possible and planned countermeasures. The respective Management Board members regularly inform Probiodrug's entire Management Board. Based on this, the Management Board and, where necessary, the Supervisory Board determine how the Company will address the risks identified.

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

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

The required signatures fix the authority to sign for purchases and invoices. Differentiation exists with respect to the amount of the purchase and whether the signature is provided by a project member, the project manager or a Management 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 Management Board. Project meetings generally take place weekly and comprise the presentation and discussion of the individual projects PQ912, PQ1565, PBD-C06, biomarkers as well as the accompanying pharmaceutical research. The participants in the project meetings include the responsible Management Board member, the project manager as well as the employees and possibly advisors for the individual projects.

Risk management and internal control system in the financial reporting process

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

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

The Company's controlling system is supported by the three components planning, monitoring and reporting. On the basis of the strategic business plan, Probiodrug prepares annual budgets for internal monitoring and controlling purposes as well as a mid-term plan for the duration of the significant ongoing preclinical and clinical studies as well as for those to be initiated which currently comprises the calendar year subsequent to the budget year. On the basis of this planning as well as the actual figures, the Management Board receives the required monitoring and control information for each month. In addition, regular reporting takes place with respect to the development of the business, progress in 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 Management Board and controlling are in a position to adequately assess the situation and to identify, evaluate and address opportunities and risks.

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

7. REPORTING IN ACCORDANCE WITH SECTION 289 (4) OF THE HGB

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

As at 31 December 2015, Probiodrug AG's share capital amounted to EUR 7,442,487.00. It is divided into 7,442,487 ordinary bearer shares with a notional par value of EUR 1.00 per share. Each share provides one vote at the shareholders' meeting as well as dividend entitlements when distributions are resolved upon; there are no restrictions on voting rights. The share capital has been paid in in its entirety. No treasury shares are held.

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

In accordance with the resolution of the shareholders' meeting on 10 June 2015, the Management Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital by 30 September 2019 by up to EUR 2,633,116.00 through single or multiple issues of new bearer shares in exchange for cash and/or a contribution in kind, whereby subscription rights can be excluded (authorised capital 2014/I).

As at the balance sheet date, the contingent capital amounts to EUR 2,556,151.00 and consists of the following:

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

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

Contingent capital 2010/I
The Company's share capital was contingently increased by up to EUR 85,901.00 by the issuance of up to 85,901 new shares (contingent capital 2010/I, Section 5 (6) of the Articles of Association). The contingent capital increase solely serves to redeem the stock option rights which were issued to members of the Management Board and Company employees on the basis of the shareholders' meeting held on 18 May 2010 with amendments dated 20 September 2011, 30 December 2011, 31 October 2012 and 25 August 2014.

Contingent capital 2014/I

The Company's share capital was contingently increased by up to EUR 442,000.00 by the issuance of up to 442,000 new shares (contingent capital 2014/I, Section 5 (7) of the Articles of Association). The contingent capital increase solely serves to redeem the option rights which were issued to members of the Management Board and Company employees on the basis of the resolution of the shareholders' meeting held on 29 September 2014.

Contingent capital 2015

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

Authorisation to acquire treasury shares

The annual shareholders' meeting on 10 June 2015 authorised the Management Board in accordance with Section 71 (1) no. 8 of the AktG to acquire treasury stock until 9 June 2020 up to the proportionate share of the share capital in the amount of EUR 676,580.00. The acquisition may be made via the stock exchange or via a public purchase offer made to all shareholders. The treasury shares may be used for all permitted purposes including redemption.

7.2. Shareholders of Probiodrug AG

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

SHAREHOLDER T45

	Legal seat	Voting rights in %
BB Biotech AG	Schaffhausen / Switzerland	14.13
IBG Group	Magdeburg / Germany	13.46
Edmond de Rothschild Investment Partners	Paris / France	13.24
Aviva Investors	London / United Kingdom	10.84

Restrictions with respect to the transfer of shares

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

7.3 Appointment and removal of members of the Management Board

The appointment and removal of members of the Management Board is regulated by Sections 84 and 85 of the AktG as well as in Section 6 of the Articles of Association in the version dated 10 June 2015. In accordance with Section 6 of the Articles of Association, the Management Board consists of one or a number of members; moreover, the Supervisory Board determines the number of members of the Management Board. The members of the Management Board are appointed for a maximum of five years. This also applies to the renewal of an appointment of a Management Board member.

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

7.4. Changes to the Articles of Association

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

7.5. Other disclosures

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

8. CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289A OF THE HGB

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

COMPLIANCE STATEMENT OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD PURSUANT TO SECTION 161 OF THE AKTG

Pursuant to the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to Section 161 of the AktG:

Probiodrug AG's Management 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 June 2014 have been complied with, with the following exceptions and that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the German Federal Ministry of Justice on 12 June 2015 have been complied with, with the following exceptions:

1. Section 3.8 of the Code – retained amount in the D&O insurance for the Supervisory Board

   The Company maintains D&O insurance covering all members of the Supervisory Board. No retained amount is stipulated. As the Supervisory Board members, for the most part, do not receive any remuneration, a retained amount would lead to an unreasonable result in financial terms for the Supervisory Board members.

2. Section 4.2.3 (2) sentence 6 of the Code – cap amounts for remuneration and variable remuneration components

   Phantom stocks were granted to the Management Board members. They can be exercised upon listing. No cap is provided for such phantom stocks. In addition, stock options were granted to the Management Board members. No cap is provided in case they are exercised. In any other respect, cap amounts are provided in the agreements with the Management Board members.

3. Section 4.2.3 (4) of the Code – limitation of payment to two years' remuneration to a Management Board member in case of premature termination

   The currently existing contracts with members of the Management Board do not provide for a two-year cap in payment in case of early termination. In connection with the transformation of the Company for the purpose of its listing, a primary aim was to secure the cooperation with the Management Board members.

4. Section 5.4.1 (2) of the Code – naming of precise objectives regarding the composition of the Supervisory Board

   Regarding the composition of the Supervisory Board in the future, the Supervisory Board intends to have members with experience in pharmaceutical research, research with respect to Alzheimer's disease and similar illnesses as well as experience with the public capital market. Considering the alignment of the Company, 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 did not set any fixed diversity quota.

5. Section 5.4.6 (1) sentence 2 of the Code – Taking the chair, the vice chair and the membership in committees into account for the remuneration of the Supervisory Board members

   For those members of the Supervisory Board who were initially elected by the 2015 annual shareholders' meeting, the remuneration was fixed in accordance with number 5.4.6 (1) sentence 2 of the Codex. As the other members of the Supervisory Board do not receive any remuneration, they cannot receive higher remuneration in the capacity as chairperson or vice chairperson of the Supervisory Board or chairperson of committees.

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

   According to Section 7.1.2 sentence 4 of the Code, the financial statements of the Company should be publicly accessible within 90 days of the end of the financial year, and the 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 interim reports within the statutory time period of two months from the end of the reporting period of the half-year financial report as of 30 June.

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

INFORMATION REGARDING COMPANY MANAGEMENT PRACTICES

Probiodrug's management is conscious of treating each other fairly, respectfully and in conformance 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, social norms and broadly in line with the guidelines of the German Corporate Governance Code.

OPERATING PRINCIPLES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

As required by the German Stock Corporation Law, Probiodrug is led by the Management Board, which is, in turn, monitored by the Supervisory Board. Both governing bodies work closely together in a trustful and constructive manner to provide for the advancement of the programmes being pursued and thereby to sustainably increase the Company's value. The Management Board and the Supervisory Board come to an agreement on the Company's strategic direction and discuss the implementation and control thereof. The Management 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 Management Board also informs the Supervisory Board between meetings about important events. Decisions required in the short-term are, in case of need, made during teleconferences or via circulation procedures.

In the Management 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 Management Board decisions subject to the approval of the Supervisory Board.

Management Board

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

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

Supervisory Board

As per the Articles of Association, as at 31 December 2015, the Supervisory Board was comprised of six members. The work of the Supervisory Board, the principles of passing resolutions as well as the work of the committees is regulated by the rules of procedure of the Supervisory Board. Dr Erich Platzer is the Chairperson. The Vice Chairperson is Dr Dinnies Johannes von der Osten. The additional members are Charlotte Lohmann, Dr Jörg Neermann, Dr Olivier Litzka and Kees Been. In the reporting period, the Supervisory Board convened seven times, (30 January, 16 March, 22 April, 9 July, 25 September, 22 October, 9 December). The current Supervisory Board members are, or were in the past, active at the international level in the financial, biotechnology and pharmaceutical sectors, have the corresponding networks and are, as a result of own experience, very familiar with the needs of these sectors.

To increase the Supervisory Board's efficiency, three committees were established: the Audit Committee, the Nomination Committee and the Compensation Committee. The Audit Committee comprises Dr von der Osten, Charlotte Lohmann and Dr Neermann; Dr von der Osten is the Chairperson. All members have the corresponding expertise and independence. The Audit Committee convened two times in 2015. The members of the Audit Committee discussed and reviewed the audit of the financial statements for 2015 according to German GAAP (HGB) and IFRS, the half-year financial statements for 2015 and potential financing options for the Company. The Nomination Committee includes Dr Platzer, Dr Neermann and Dr Litzka; the Chairperson is Dr Platzer. This committee convened twice in 2015. The main topic was the discussion of suitable candidates for the Supervisory Board to be proposed to the general shareholders' meeting 2015.The Compensation Committee comprises Dr Platzer, Ms Lohmann and Mr Been; Dr Platzer serves as the Chairperson. The Compensation Committee convened two times in 2015. The main topics were the discussion of the variable compensation for the Management Board for 2014 and the Phantom Stock Programme of Dr Lues.

These committees report their activities to the entire Supervisory Board.

Transparency

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

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

9. COMPENSATION REPORT

9.1 Compensation of the Management Board

Amount and structure
The annual compensation for the members of the Management Board has three components:

- fixed compensation
- a success-based bonus
- stock options

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

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

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

At the beginning of the following calendar year, the Supervisory Board reaches a conclusion as to the extent of the achievement of the objectives. The bonus is payable subsequent to the resolution of the Supervisory Board as to the achievement of the objectives. The maximum bonus amount is fixed.

Stock options
Further components of compensation with a long-term incentive component are the employee stock option programmes, the so called ESOPs, in which the Management Board as well as the employees participate. Within the scope of these programmes, stock options were issued to members of the Management Board in the years 2008, 2010 and 2014 entitling the individuals to acquire shares of Probiodrug. Detailed information as to the current option holdings is presented in the notes to the financial statements.

With respect to compliance with the Code's recommendations regarding management compensation, reference is made to section 8 of the management report "Corporate governance statement" subsection Compliance statement in accordance with Section 161 of the AktG.

Management Board compensation for the year 2015

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

BENEFITS GRANTED

T46

				Dr Konrad Glund CEO
Reappointment				1 Dec. 2014
In EUR	2014	2015 (actual)	2015 (minimum)	2015 (maximum)
Fixed compensation	191,667	210,000	210,000	210,000
Fringe benefits	25,098	24,673	24,673	24,673
Total	**216,765**	**234,673**	**234,673**	**234,673**
Annual variable compensation	95,000	60,000	0	94,500
Release of provision prior year	−9,000	0	0	0
Perennial variable compensation				
Stock option plan 2014 (8 years)	595,457	0	0	0
Total	**898,222**	**294,673**	**234,673**	**329,173**
Pension expense	44,830	73,558	73,558	73,558
Total compensation	943,052	368,231	308,231	402,731

BENEFITS GRANTED

T47

				Dr Hendrik Liebers CFO
Reappointment				1 Dec. 2014
In EUR	2014	2015 (actual)	2015 (minimum)	2015 (maximum)
Fixed compensation	164,167	210,000	210,000	210,000
Fringe benefits	26,597	21,931	21,931	21,931
Total	**190,764**	**231,931**	**231,931**	**231,931**
Annual variable compensation	95,000	60,000	0	94,500
Release of provision prior year	−9,000	0	0	0
Perennial variable compensation				
Stock option plan 2014 (8 years)	595,451	0	0	0
Total	**872,215**	**291,931**	**231,931**	**326,431**
Pension expense	5,130	61,565	61,565	61,565
Total compensation	877,345	353,496	293,496	387,996

BENEFITS GRANTED

T48

				Dr Inge Lues CDO
Newly appointed				1 Nov. 2014
In EUR	2014	2015 (actual)	2015 (minimum)	2015 (maximum)
Fixed compensation	35,000	210,000	210,000	210,000
Fringe benefits	621	3,818	3,818	3,818
Total	**35,621**	**213,818**	**213,818**	**213,818**
Annual variable compensation	95,000	60,000	0	94,500
Cash compensation in lieu of waiver of phantom stock programme*	0	430,138	215,069	430,138
Perennial variable compensation				
Stock option plan 2014 (8 years)	995,923	0	0	0
Total	**1,126,544**	**703,956**	**428,887**	**738,456**
Pension expense	0	0	0	0
Total compensation	**1,126,544**	**703,956**	**428,887**	**738,456**

* In 2015, Dr Inge Lues waived all claims and rights to phantom stocks issued in 2013 as part of the Phantom Stock Programme 2010. As compensation she received a cash payment totalling EUR 430,138.00. As per the agreement the cash compensation will be paid in two tranches. The first tranche totalling EUR 215,069.00 was paid out in 2015.

Liability insurance (D&O)

From 1 July 2010 the current Company D&O insurance for the members of the Management Board includes the retained 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 8 of the management report "Corporate governance statement" subsection Compliance statement in accordance with Section 161 of the AktG.

Shareholdings of the members of the Management Board
Based on information available to the Company, as at 31 December 2015, Probiodrug's Management Board held a total of 379,367 stock options entitling them to the acquisition of 379,367 shares along with 7,600 phantom stocks. In addition, they held 179,386 shares, equating to 2.41% of all of the Company's shares.

9.2 Supervisory Board compensation

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

Determination of Supervisory Board compensation
The compensation of the Supervisory Board was newly determined as per a resolution of the annual shareholders' meeting on 10 June 2015. Through 10 June 2015 the compensation of the Supervisory Board was based on a resolution of the annual shareholders' meeting on 30 June 2008.

Prof. Frank received an annual base salary of EUR 7k plus EUR 1k for each face-to face meeting, EUR 0.7k for each committee meeting and EUR 0.5k for each Supervisory Board or committee teleconference prior to the expiration of his term on 10 June 2015.

In the annual shareholders' meeting on 10 June 2015, Kees Been and Charlotte Lohmann were elected as members of the Supervisory Board. The following compensation was agreed for Been and Lohmann: The annual base compensation totals EUR 25k plus EUR 2k for each face-to-face meeting, EUR 1.5k for each committee meeting to the extent that this is held separately from a Supervisory Board meeting, or EUR 0.75k to the extent that this is held in conjunction with a Supervisory Board meeting, EUR 1k for every Supervisory Board teleconference as well as EUR 0.75k for every committee teleconference. Should one of the aforementioned individuals take on the role of chairperson of a committee, this individual will receive 1.5 times the compensation for the respective committee meeting or committee teleconference. K. Been as well as C. Lohmann will receive the 2015 base remuneration pro rata temporis. Variable remuneration is not paid.

Shareholdings of members of the Supervisory Board
Based on the knowledge of Probiodrug AG, as at 31 December 2015, the members of Probiodrug AG's Supervisory Board held a total of 174,154 shares and thereby held a total of 2.34% of the Company's shares.

Halle (Saale), 3 March 2016

Management Board of Probiodrug AG

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Inge Lues**

D. AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement, the statement of cash flow statement, statement of changes in equity and the notes to the financial statements, together with the bookkeeping system, and the management report of Probiodrug AG, Halle (Saale), for the financial year from 1 January to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Without qualifying this opinion, we refer to the explanations of the management board in the management report. In the section "Overall assessment of the risk situation" it is detailed that, for the going concern of the Company,financing measures or entering into a licensing agreement will be necessary by the second quarter of 2017 at the latest or, to the extent that significant payments for taxes become necessary in conjunction with the fiscal court proceedings pursued by the fiscal authorities, at the beginning of the first quarter of 2017.

Leipzig, 3 March 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

Schmidt
Wirtschaftsprüfer
German Public Auditor

Dr Schneider
Wirtschaftsprüfer
German Public Auditor

E. RESPONSIBILITY STATEMENT

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

Halle (Saale), 3 March 2016

Management Board of Probiodrug AG

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Inge Lues**

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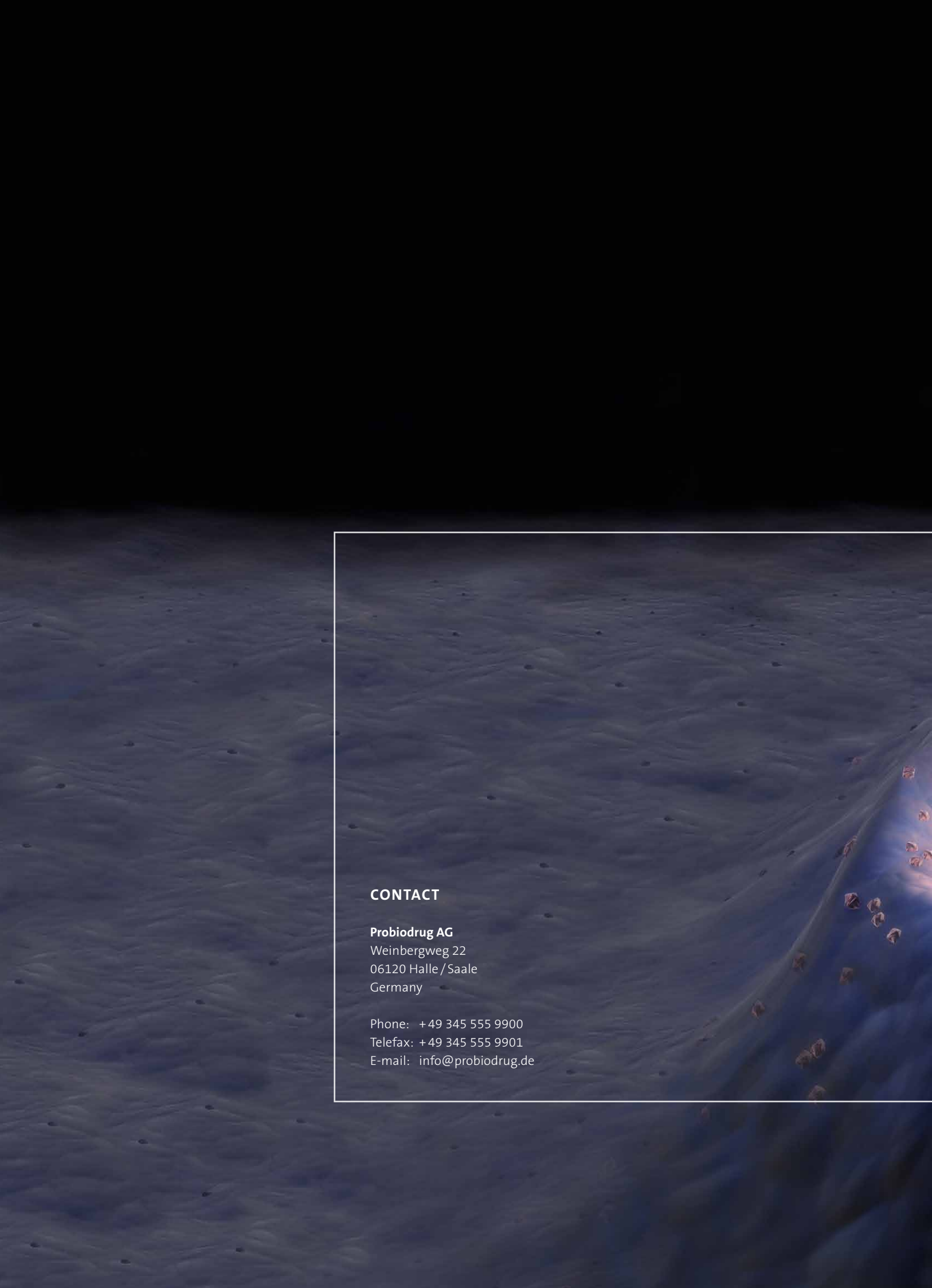
* Subject to change, for actual information please see our homepage



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