ANNUAL REPORT 2016

probiodrug

DE0007921835
ISIN

8,186,735
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	2016	2015
Earnings, Financial and Net Assets Position		
Operating loss	−13,777	−13,393
Net loss for the period	−13,891	−13,505
Equity (end of the year)	16,376	16,133
Equity ratio (end of the year) (in %)	73.2%	73.8%
Balance sheet total (end of the year)	22,366	21,866
Cash flows used in operating activities (year)	−13,255	−12,147
Cash flows used in operating activities (average)	−1,105	−1,012
Cash flows used in investing activities (year)	−124	−10
Cash flows provided by financing activities (net)	13,915	12,598
Cash and cash equivalents at the end of period	21,897	21,361
Personnel		
Total number of employees (including Board of Management) (end of the year)	13	16
Average number of employees (including Board of Management)	14.5	15.8
Probiodrug-Share		
Loss per share (basic/diluted) (in EUR)	−1.82	−1.97
Number of shares issued (end of the year)	8,187	7,442

PROBIODRUG AT A GLANCE

Probiodrug AG (Euronext Amsterdam: PBD) is a biopharmaceutical company focused on the development of new therapeutic products for the treatment of Alzheimer's disease. 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.

Probiodrug's lead product candidate, PQ912, is a highly specific and potent inhibitor of Glutaminyl Cyclase (QC), which has shown therapeutic effects in Alzheimer's animal models. PQ912 is currently in a Phase 2a study, the SAPHIR trial. In a preceding Phase 1 study with healthy young and elderly volunteers, PQ912 has shown to be safe and well tolerated and revealed high QC-inhibition. PQ1565 is another small molecule QC inhibitor, PBD-C06 an anti-pGlu-Abeta-specific monoclonal antibody, both product candidates are in preclinical stage.

The Company has medical use and composition of matter patents related to the inhibition of Glutaminyl Cyclase (QC) and anti-pGlu-Abeta-specific monoclonal antibodies, providing it, in the Company's view, with a leading position in this field.

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.

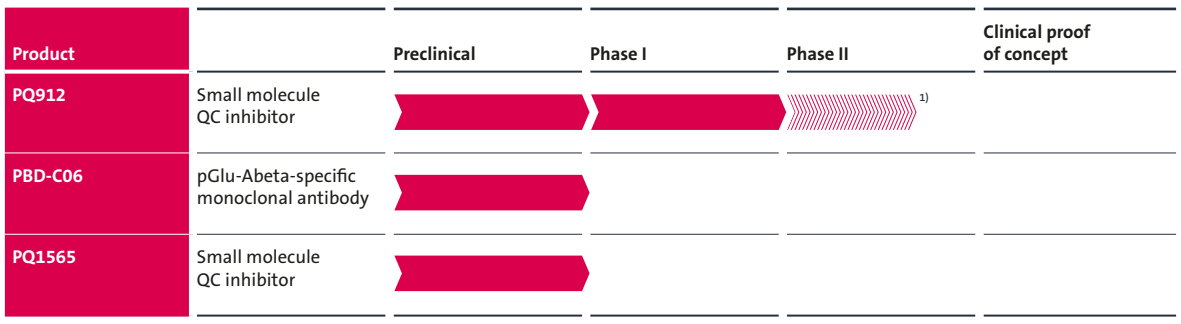
Probiodrug's current development pipeline consists of the following product candidates:

- 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 to be safe and well tolerated and revealed high QC-inhibition in a Phase 1 study. Recruitment for the Phase 2a trail has been completed in December 2016 and the full unblinded results of the SAPHIR study are expected in the second quarter of 2017.

- 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. The development of the manufacturing process of this molecule is running.

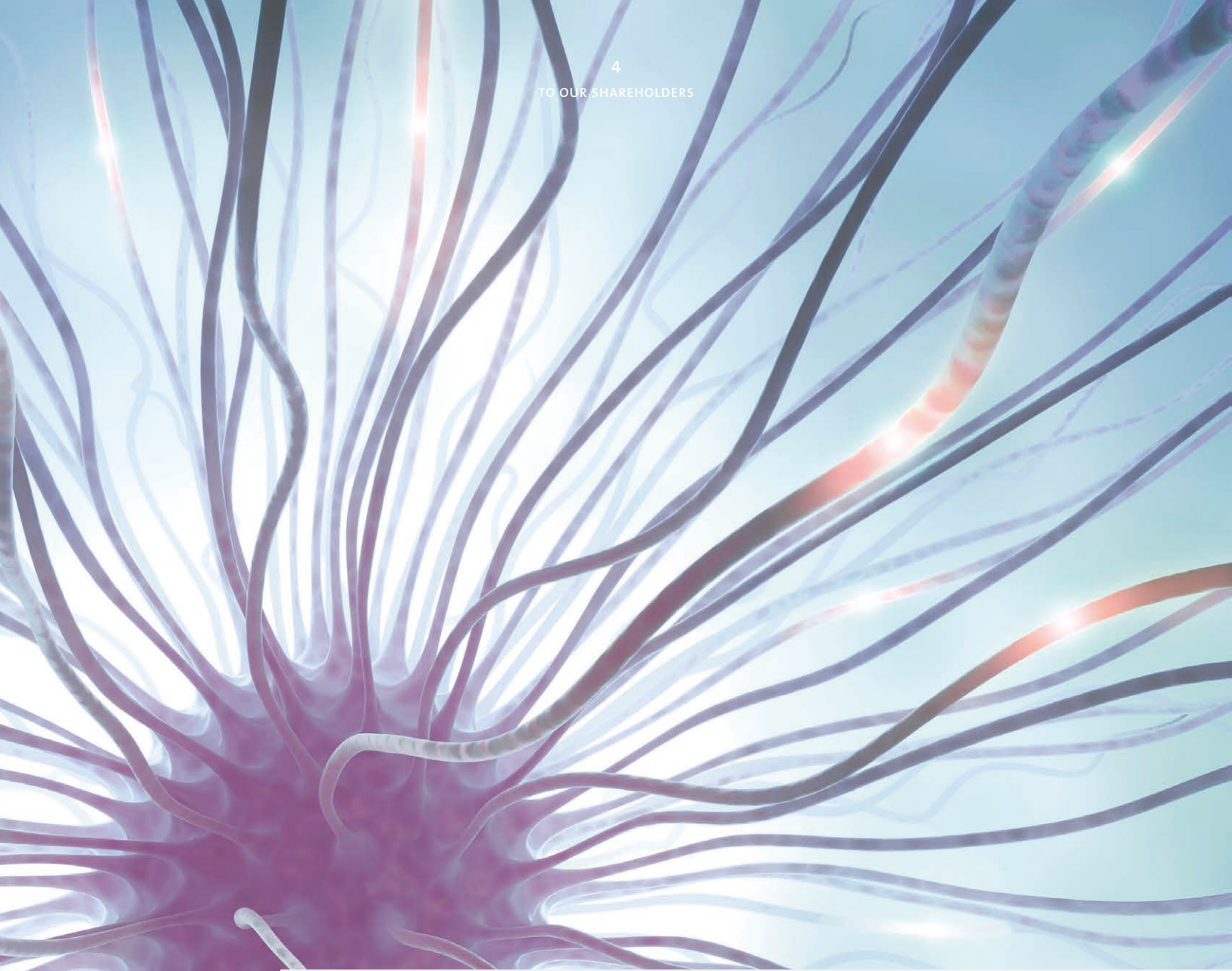
- PQ1565 is a second QC-inhibitor, currently in in preclinical stage. This product candidate has shown attractive drug-like properties in preclinical studies. The GMP process for this molecule is being implemented. The next development steps are in preparation and respective decisions would be made in connection with the readout of the SAPHIR trial.

FOCUSED ON PROPRIETARY PRODUCT PIPELINE



[1] Study ongoing

CONTENTS



TO OUR SHAREHOLDERS

OUR FIELD OF ACTIVITY — Over 47 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,

2016 has been an important year for Probiodrug. We would like to use this opportunity to review the developments and achievements of the past year as well as our plans for the future of our company.

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

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

"On behalf of the management of Probiodrug, I would like to extend our thanks to all those who supported us to achieve a great number of very decisive accomplishments this past year: to employees, consultants, Supervisory Board and shareholders. We look forward to the year of progress ahead approaching the highly important milestone of the SAPHIR results soon."

DR KONRAD GLUND
CEO

"Probiodrug looks back on a very successful year – important progress has been made with respect to programme as well as corporate development."

DR HENDRIK LIEBERS
CFO

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.

We made significant progress with our lead molecule PQ912 – we could announce favourable long-term toxicology data, exciting preclinical data on combining our two target approaches, a QC inhibitor with an anti-pGlu-Abeta antibody by showing an additive effect, and, finally, the full enrolment of the Phase 2 "SAPHIR" study. We trust that the advancement of the programme further increases the attractiveness of PQ912 and strengthens the foundation for decisions on further clinical studies. With our capital raise from October 2016, we welcomed a number of new blue-chip investors and strengthened the financial position of the company.

The recent failures of several late-stage clinical studies in Alzheimer's disease ("AD") clearly indicate that more focused and specific approaches targeting selectively the neurotoxic fraction of Abeta are needed. Innovative treatment strategies should address pathological processes such as synaptic failure and impairment of neuronal connectivity underlying clinical symptoms. Here, Probiodrug's differentiated approach of targeting specifically toxic pGlu-Abeta via QC inhibition and/or via specific anti-pGlu-Abeta antibodies offers attractive new strategies to tackle AD.

The next years will become an important time for the fight against AD – the industry looks forward to readouts from advanced clinical programmes, among them also the results of anti-pGlu-Abeta approaches. We are fully committed to making Probiodrug one of the important players targeting this disease so devastating to patients and their families.

The successes of 2016 were only possible with the high support, trust and commitment of all stakeholders and we would like to take the opportunity to say many thanks to all of you.

With the best wishes,

"2017 will be a very decisive year. All the operational measures taken to finalise the SAPHIR study keeping high quality has borne fruit, last patient was randomised in December 2016, and we expect key data for primary outcome parameter safety as well as for the three exploratory read-outs categories -cognition, EEG/fMRI and biomarkers in Q 2 this year."

DR INGEBORG LUES
CDO

DR KONRAD GLUND
CHIEF EXECUTIVE OFFICER

DR HENDRIK LIEBERS
CHIEF FINANCIAL OFFICER

DR INGEBORG LUES
CHIEF DEVELOPMENT OFFICER

REPORT OF THE SUPERVISORY BOARD

OF PROBIODRUG AG, HALLE (SAALE) FOR THE FINANCIAL YEAR 2016

DR ERICH PLATZER
CHAIRMAN OF THE SUPERVISORY BOARD

COOPERATION OF SUPERVISORY BOARD AND MANAGEMENT BOARD

Also in the past financial year 2016, 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, expedite 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 the business development, the financial situation of the company, the progress of the research and development programs 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 2016 and the status of the development programs. 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 2016, 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 2016, six meetings of the Supervisory Board took place. In those meetings, the main issues were the status of the development programs, the financing and the planning and the execution of the capital increase. Also outside of the Supervisory Board meetings, the chairman of the Supervisory Board was informed by the Management Board 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.
Dr von der Osten, C. Lohmann and Dr Neermann have been members of the Audit Committee; chairperson is Dr von der Osten. All members have the required expertise and independence. The Audit Committee convened three times in 2016. The members of the Audit Committee discussed and reviewed the audit of the financial statements 2015 according to German GAAP (HGB) and IFRS, the half year financial statements 2016 and potential financing options for the company.
Dr Platzer, C. Lohmann and K. Been have been members of the Compensation Committee; chairperson is Dr Platzer. The Compensation Committee convened two times in 2016.

The main topics were the discussion of the variable compensation for the Management Board for 2015 and as well as a cash compensation in conjunction with the Stock Option Program 2010.
Dr Platzer, Dr Neermann and K. Been have been members of the Nomination Committee; chairperson is Dr Platzer. The Nomination Committee did not convene in 2016.
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 the financial year 2016. The auditor elected by the general shareholders' meeting on 19 May 2016 for the financial year 2016, KPMG AG Wirtschaftsprüfungs-gesellschaft, 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 10 March 2017 where the annual financial statements were determined and reported on the material findings of his audit. Here the auditor also performed an audit of the risk monitoring system. The conclusion of the audit was, that the Management Board has taken all suitable measures according to Section 91 (2) of the AktG, and that the risk monitoring system is capable to recognize 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 with the result of the audit by the auditor. The Audit Committee has discussed the annual financial statements in a detailed manner and proposed, that the Supervisory Board 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 on 10 March 2017, 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 reporting year 2016, 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 AG also on behalf of the Supervisory Board.

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

During the reporting period, there has been one change on the Supervisory Board and the Management Board, respectively.
The terms of Supervisory Board members Dr. Johannes von der Osten, Dr. Erich Platzer, Dr. Jörg Neermann and Dr. Olivier Litzka expired in conjunction with the shareholders' meeting held on 19 May 2016, which resolved upon the exoneration of the members of the Supervisory Board for the year 2015. All of the forenamed Supervisory Board members again stood for election and were re-elected for a term through the general meeting of the shareholders' which resolves upon the exoneration of the Supervisory Board for the year 2016. The Supervisory Board members Charlotte Lohmann and Kees Been were elected by the 2015 general shareholders' meeting as Supervisory Board members with a term which concludes in conjunction with the shareholders' meeting which resolves upon the exoneration of the Supervisory Board for the year 2017. As such, they were not up for election.
By way of resolution of 19 May 2016, the Supervisory Board re-elected Dr. Platzer as chairperson and Dr. von der Osten as deputy chairperson.
Dr. Olivier Litzka stepped down from his position in August 2016 with effect as of 12 September 2016.
On 1 April 2016, Mark D. Booth was appointed as a member of the Executive Board. He left the Company on 15 August 2016 due to personal reasons.
The Supervisory Board thanks the Management Board, all employees, consultants, advisors and partners of Probio-drug AG for their commitment and their performance.

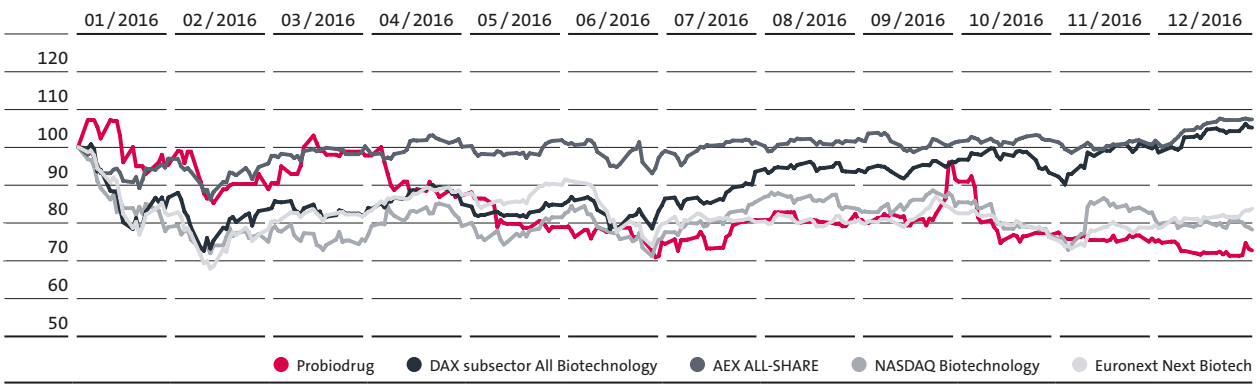
Halle (Saale), in April 2017
for the Supervisory Board:

DR ERICH PLATZER
CHAIRMAN OF THE SUPERVISORY BOARD

THE PROBIODRUG SHARE

RELATIVE PERFORMANCE OF PROBIODRUG SHARE IN 2016

T02



Source: Bloomberg

SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2016

T03

	in %	
1	BB Biotech AG	12.8%
2	IBG Group	11.9%
3	Edmond de Rothschild Investment Partners	11.8%
4	AVIVA	9.1%
5	HBM Healthcare Investments	8.1%
6	LSP	7.2%
7	TVM	6.8%
8	JP Morgan Asset Management	5.2%
9	Founder/Management	3.9 %
10	Biogen	3.3 %
11	Supervisory Board	2.3%
12	Others	17.6%
	Total	100%

EUROPEAN STOCK MARKET CHALLENGING FOR BIOTECH IN 2016

In 2016 the stock markets began with significant losses, which were (partly) compensated in the second half of the year.

The Euronext Next Biotech, representing the relevant benchmark for Probiodrug in The Netherlands, opened the year at 2,015.15, peaked at 2,021.30 (on 5 January) and closed 2016 with 1,710.98. The US NASDAQ Biotechnology Index started into 2016 at 3,459.12, peaked at 3,468.77 (on 4 January) and closed the year at 2,772.73. The DAX Biotechnology subindex, tracking the German biotech industry, showed a different trend – it started into 2016 with 279.85, reached its year high of 298.00 towards the end of 2016 (on 28 December) and ended the year at 295.08.

PROBIODRUG SHARE

The price of the Probiodrug share followed the pattern of the Euronext Next Biotech and the NASDAQ Biotechnology Index, but underperformed its benchmark. The share price was EUR 24.75 as of 4 January, reached its intrayear-high of EUR 27.73 on 11 January 2016 and closed the year 2016 at EUR 18.03. The capital increase as of 6 October was placed at EUR 20.00. Probiodrug had a market capitalisation of approx. EUR 148 million at the end of 2016. → T02

KEY FIGURES OF THE PROBIODRUG SHARE AS OF 31 DECEMBER 2016

T04

International Securities Identification Number (ISIN)	DE0007921835
German Securities Identification Number (WKN)	792183
Ticker Symbol:	PBD
Type of shares:	Bearer shares
Number of shares:	8,186,735
Stock exchange:	Euronext Amsterdam
Liquidity Provider:	Kempen & Co.
First day of trading:	27 October 2014
IPO Price (in EUR)	15.25
Annual high (Euronext) (in EUR)	27.73
Annual low (Euronext) (in EUR)	17.58
Closing price on 31 December 2016 (Euronext) (in EUR)	18.03
Market capitalisation (in EUR)	148 mio

TOP-TIER INVESTOR BASIS

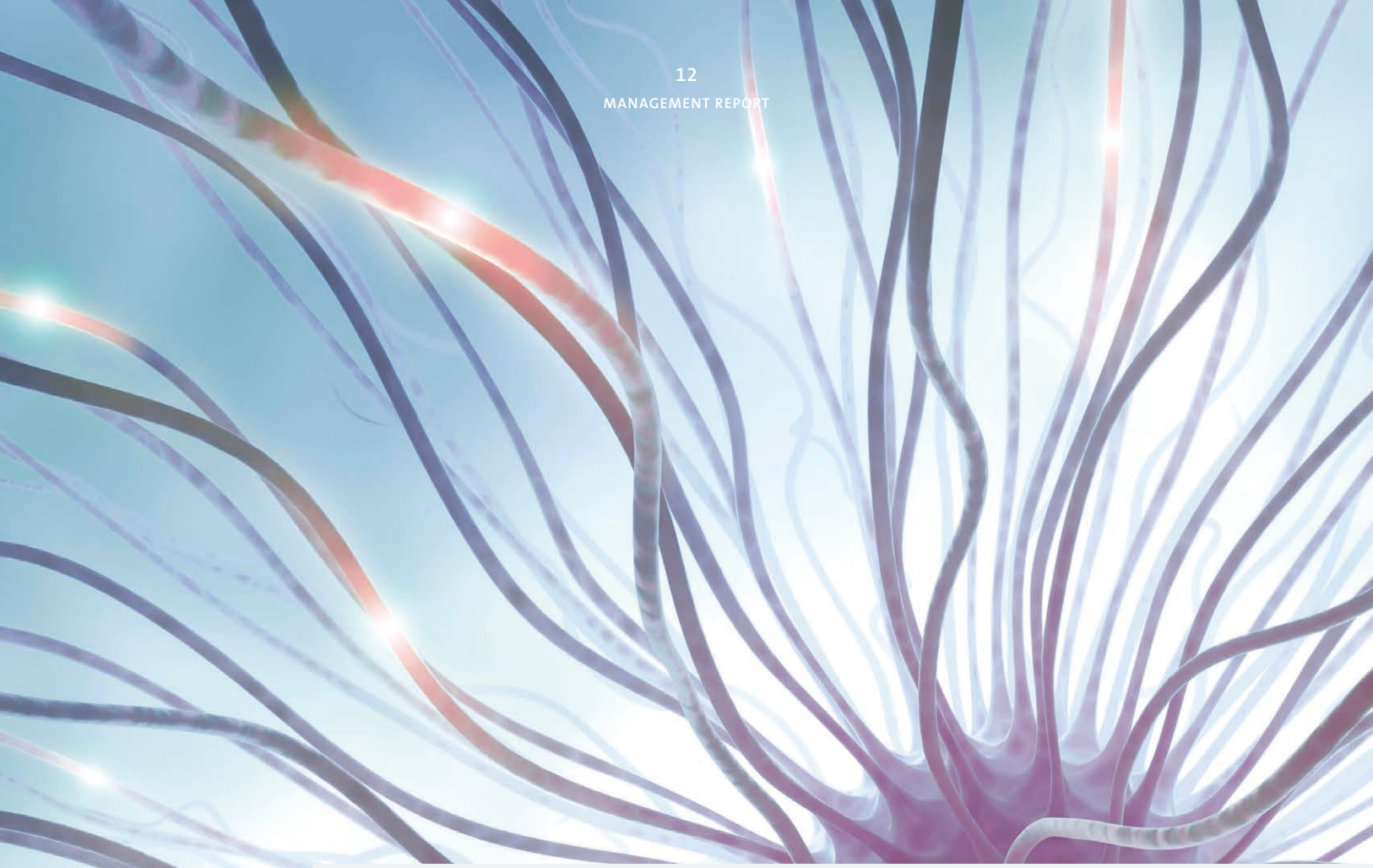
Probiodrug is backed by experienced blue-chip investors. According to notifications the Company received up to 31 December 2016, the following institutions were known to have exceeded the 3% threshold: BB Biotech AG, IBG Group, Edmond de Rothschild Investment Partners, Aviva, HBM Healthcare Investments, Life Science Partners, TVM Capital, JP Morgan Asset Management and Biogen. With the capital raise from October 2016, Probiodrug welcomed a number of new blue-chip investors, thereby further broadening its shareholder basis. → T03

DEVELOPING OUR INVESTOR RELATIONS ACTIVITIES

Probiodrug further developed its investor relations activities during the year, focusing its efforts once again on Europe and the USA. We further increased our visibility in capital markets by regular participations and presentations at relevant conferences, regular updates with existing shareholders 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 the Euronext, Probiodrug publishes relevant information on the company website (www.probiodrug.de) in the interest of prompt communication with all parties.

At the end of 2016, Probiodrug was covered by:
- Kempen & Co
- Bank Degroof Petercam
- Bank am Bellevue
- Rx Securities
- Edison Research
- goetzpartners Corporate Finance Ltd.

→ 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.

Probiodrug is pursuing a therapeutic concept theat addresses the disease initiation as well as progression. The development approaches are targeting pyroglutamate-Abeta (synonym: pGlu-Abeta, N3pG Abeta) as one therapeutic strategy to fight AD. pGlu-Abeta was described as a particularly toxic form of Abeta, which is formed from shortened version of physiological Abeta by the activity of the enzyme Glutaminyl-Cyclase (QC). The Company is pursuing two treatment approaches with respect hereto: on the one hand, Probiodrug is focusing on the inhibition of the production of pGlu-Abeta by the inhibition of the enzyme, Glutaminyl-Cyclase ("QC"). The Company's most advanced programme in this area, the development candidate PQ912, is in phase 2; another development candidate, PQ1565, is in preclinical development. The next development steps are being prepared and corresponding decisions will be made in conjunction with the analysis of the SAPHIR study. On the other hand, the Company is developing highly specific pGlu-Abeta-binding antibodies, which ultimately accelerate their decomposition. This programme is in preclinical development.

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 in 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 a subsidiary, Probiodrug Inc., USA. All operating activities and assets are concentrated in Probiodrug AG; currently, Probiodrug Inc. has neither operating activities nor assets.

(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 2016 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.

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, 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 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 in finding a sufficient number of qualified members for the Supervisory Board, the Supervisory Board did not determine any fixed diversity quota.

In terms of the number of female members of the Supervisory Board, Probiodrug's Supervisory Board resolved that the Supervisory Board's ratio of females shall be one sixth. This goal was achieved as of 31 December 2016.

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 interest 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 approximately 2.2% of all of the Company's shares and the members of the Supervisory Board approximately 2.1% of all of the Company's shares.

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

All members of the Supervisory Board are included in the D&O insurance. No retained amount is stipulated. As the Supervisory Board members, for the most part, did not receive any remuneration in 2016, a retained amount would lead to an unreasonable result in financial terms for the Supervisory Board members.

For further details on corporate governance, please refer to the management report relating to the Annual Financial Statements 2016 (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 in 2013/14successfully 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 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 a 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 that relate to the current hypothesis of the AD pathology and will be used in the ongoing study to see whether they would serve this purpose. The Company, with guidance of key AD experts has developed 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 continuously considers its business model 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. Recruitment has been completed in mid-December 2016. Full unblinded results of the SAPHIR study are expected in the second quarter of 2017.

Probiodrug is exploring a long-term treatment with PQ912 as the next step in the development of this compound.

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. For PBD-06, the development of the manufacturing process of this molecule is running.

For PQ1565, the GMP process is being implemented, the next development steps are in preparation and respective decisions would be made in connection with the readout of the SAPHIR trial.

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, is prepared to contest any infringements. The Company is hereby pursuing the strategy of focusing the patent portfolio on development-relevant and commercially promising areas.

Explore benefits of combination therapies between Probiodrug's product candidates and other products
As the mode of action of Probiodrug's product candidates is different from existing 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 efficacy of combination therapies. Therefore, Probiodrug explores the combination of its own product candidates PQ912 and PBDC06; and of PQ912 with other therapies such as BACE inhibitors. In 2016, Probiodrug announced first results of a preclinical combination trial targeting pGlu-Abeta. An additive effect on lowering pGlu-Abeta as well as total Abeta was observed with the double-pronged approach of targeting toxic pGlu-Abeta by combining PQ912 to block pGlu-Abeta formation and PBD-C06 to increase its clearance in an AD animal model.

It has been shown preclinically by Eli Lilly & Co. that a combination of a BACE inhibitor and a pGlu-Abeta-specific antibody in Alzheimer's disease-like animal models revealed a synergistic effect, on Abeta lowering, which would allow by combining two different mechanism to either increase the overall effect and/or keeping the side effects low. Probiodrug has respective studies ongoing as well.

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 is exploring the application and potential use of its product candidates in indications for which similar molecular pathways are assumed to play a pathological role, such as Down syndrome, Huntington's Disease and AMD. In April 2017, Probiodrug announced that PQ912 demonstrates beneficial effects in a preclinical Huntington's Disease model.

2.2 OVERVIEW OF THE COURSE OF BUSINESS

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

2016 was a mixed year in terms of pharmaceutical research and development in the Alzheimer's area. Eli Lilly&Co presented promising early clinical data for its anti-pGlu-Abeta antibody LY 3002813. As this antibody binds directly to pGlu-Abeta, which is also targeted by Probiodrug, these data provide first external clinical support for the approach pursued by Probiodrug. Currently amyloid-based disease modifying immunotherapies and BACE inhibitors are in late-stage clinical development with readouts expected in the next 3-5 years. As for immunotherapies, Aducanumab® from Biogen and Crenezumab® from Genentech/Roche (both binding aggregated Abeta with different specificity) are progressed in phase 3 trials, while Solanezumab® from Lilly (binds soluble Abeta) failed in the EXPEDITION3 trial which led to a termination of the development of the compound. For BACE inhibitors, Merck is progressing Verubecestat® in the APECS phase 3 trial in prodromal AD patients. The EPOCH trial in mild to moderate patients was terminated due to futility. There are a number of other BACE inhibitors from different companies in phase 2/3 trials. The failure of Idalopirdine® (selective 5HT6 receptor antagonist), a symptomatic therapy developed by Lundbeck/Otsuka in clinical trial phase 3 did not directly affect disease modifying therapies, also pursued by Probiodrug. In terms of the capital market, there is an increasing interest in the indication Alzheimer. For example, AC Immune successfully completed an initial public offering in the USA. Allergan took over the biotechnology company Chase Pharmaceuticals, focused on Alzheimer's, with a symptomatic treatment approach in phase 2. From the perspective of the pharmaceutical industry, there continues to be a consistently high level of interest in disease-modifying treatment approaches in the Alzheimer's area. However, as a consequence of failures in the past with respect to the development of Alzheimer's therapeutics, high validation- and thereby risk optimising requirements are set as a prerequisite for a (lucrative) partnership.

(b) OPERATIONAL REVIEW

PIPELINE UPDATE

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

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

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

PQ912

Probiodrug is running a Phase 2a trial, 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 randomised, double-blind multi-centre 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 seven European countries at 21 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 followed by a 4 week observation period. Additionally, a set of exploratory readouts 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. In this study, Mini-Mental State Examination (MMSE) and the Cogstate neuro-psychological tests are monitored blindly every 30 patients to ensure consistency and reliability of ratings. First blinded results at baseline show that the mean MMSE scores from the 120 randomised patients is 25.3, the mean age is 73 years and gender distribution is 64 female and 56 male. Current results indicate a low variability and therefore the high quality of the assessments being used.

Recruitment has been completed in mid-December 2016. A total of 120 patients have been randomised, surpassing the 110 patients planned in the study protocol. Full unblinded results of the SAPHIR study are expected in the second quarter of 2017.

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 humanised and also de-immunised to avoid detection by the patient's endogenous immune system. For the first time for an anti-pGlu-Abeta approach, PBD-C06 has not only shown the ability to reduce Abeta/plaques but also to significantly improve cognitive deficits in aged Alzheimer's mice. Moreover, no evidence was found of increased microhaemorrhages after treatment with PBD-C06.

The development of the manufacturing process of this molecule is running.

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.

The next development steps are in preparation and respective decisions would be made in connection with the readout of the SAPHIR trial.

PUBLICATIONS/PRESENTATIONS

In March 2016, Probiodrug presented at the 14th AAT Symposium on Advances in Alzheimer Therapy in Athens, Greece, two oral presentations entitled "The pyroglutamate modification of toxic A-beta resulted in new therapeutic approaches: Inhibitors of glutaminyl cyclase and highly specific antibodies – A status report" and "Phagocytic characterisation and therapeutic efficacy of an Anti-Pyro-Glutamate-3 A-beta IgG2a antibody in aged APP/PS1dE9 mice". The data resulted from a collaboration between Probiodrug and a research team led by Professor Hans-Ulrich Demuth from the Department of Drug Design and Target Validation at the Fraunhofer Institute for Cell Therapy and Immunology IZI, Halle (Saale), Germany, 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, USA.

In April 2016, Probiodrug announced that it has concluded the assessment of its chronic toxicology studies with its lead candidate PQ912, currently under development for AD in a clinical Phase 2 study (SAPHIR). The results showed that the toxicology profile of PQ912 in the 6-month rat and 9-month dog studies was absolutely comparable to the results of the previously available 3-month toxicology studies conducted in the same species. No new findings were observed and the minimal to slight non-adverse or questionable changes seen in both the 1-month – and the 3-month-studies were not aggravated after prolonged treatment, thus providing an excellent basis for a sound preclinical safety assessment. In conclusion, the comfortable safety margin is retained.

In May 2016, Probiodrug presented two posters at the 1st Meeting of the newly founded Society for CSF Analysis and Clinical Neurochemistry in Gothenburg, Sweden, entitled "Quantitative Analysis of truncated Aβ peptide substrates of glutaminyl cyclase in human CSF samples using LC-MS/MS" and "Determination of Aβ Oligomers using a Flow Cytometry-Förster Resonance Energy Transfer (FRET) method". Probiodrug is evaluating and establishing new concept-related molecular biomarkers to be used in their ongoing Phase 2a study (SAPHIR). The emphasis is regarded as an important and key cornerstone in the readout hierarchy in clinical studies.

In June 2016, Probiodrug announced an agreement with the Dutch biotech company Crossbeta Biosciences B.V. in order to utilise Crossbeta's proprietary technology in support of Probiodrug's biomarker development activities. The potential of Crossbeta's unique technology has significant impact to overcome the challenge of establishing and validating sensitive and specific assays for Abeta- and pGlu-Abeta-oligomers to be used in the clinical studies of Probiodrug's lead candidate, Glutaminyl Cyclase (QC) inhibitor PQ912.

In September 2016, new findings for Probiodrug's Glutaminyl Cyclase – inhibitor in an inflammation animal model were presented at the Summer Frontiers Symposium 2016 'Systems Biology of Innate Immunity', Nijmegen, The Netherlands, and the 6th European Workshop on Lipid Mediators, Frankfurt/M, Germany. The data resulted from a collaboration between Probiodrug and Ambiotis. The effect of the QC inhibitor PQ912 was investigated in a mouse model of inflammation (thioglycollate induced peritonitis) with a special focus on its effect on cell infiltration and release of pro-resolving lipid mediators. The effects seen with PQ912 on recruitment of macrophages and eosinophils, and levels of chemokines and lipid mediators, makes QC inhibition attractive for further evaluation as a potential anti-inflammatory drug and/or resolution promoting agent.

Also in September 2016, Probiodrug announced first results of a preclinical combination trial targeting pGlu-Abeta. An additive effect on lowering pGlu-Abeta (pyroglutamate-Abeta) as well as total Abeta was observed with a double-pronged approach of targeting toxic pGlu-Abeta by combining the Glutaminyl Cyclase-inhibitor PQ912 to block pGlu-Abeta formation and the mouse version of the pGlu-Abeta-specific antibody, PBD-C06, to increase its clearance in an AD animal model.

In November 2016, first results of a preclinical study in an AD mouse model with the pyroglutamate-3 Abeta (pGlu3-Abeta)-specific antibody mPBD-C06, comparing versions with and without a mutation-eliminating complement activation, were presented as a poster at the Society for Neuroscience (SfN) meeting in San Diego, CA, USA. The data were generated in collaboration with Cynthia Lemere of Brigham and Women's Hospital, Harvard Medical School, and QPS, Graz, Austria. It was demonstrated for the first time that microglial activation, analysed by TSPO microPET, can be reduced by CDC inactivation without impairing the potency of the antibody to clear amyloid deposits.

In December 2016, the Innovative Phase 2 study design of the SAPHIR study was presented at the 9th Clinical Trials on Alzheimer's disease (CTAD), San Diego, CA, USA. Based on an exploratory analysis of 86 randomised patients, a low standard deviation for the neuro-psychological test battery and functional EEG at baseline has been observed. The SAPHIR study has been designed and is conducted in collaboration with Philip Scheltens, M.D., Ph.D., the VUmc Amsterdam (NL) and the CRO Julius Clinical (NL).

PATENTS

In 2016, Probiodrug's IP position was further strengthened by important patent applications being granted. These include:

- Patents US 9,156,907 and JP 5,828,762 covering an antibody program targeting pyroglutamate Abeta (pGlu-Abeta, also N3pG Abeta) in the USA and in Japan, method as well as composition of matter claims.
- Patent JP 5,934,645 covers PQ912 and surrounding chemical space; this patent has been granted already in the USA, the EU as well as in other important markets. With a patent life expiring in 2030, plus the usual extension for pharmaceuticals, the patent provides a solid protection for PQ912 in Japan and other key markets.
- Patent JP 5,930,573 covers the general use of QC inhibitors for the treatment of Mild Cognitive Impairment (MCI), granted previously for the treatment of AD and British/Danish dementia in the USA, EU and Japan, thereby broadly protecting the general use of QC inhibition. Importantly, the granted claims of JP 5,930,573, already issued in the USA, complement and extend the use of QC inhibitors for MCI.

(c) SIGNIFICANT CORPORATE EVENTS OF THE COMPANY

Execution of a capital increase via accelerated bookbuild
On 6 October 2016, Probiodrug announced an increase in its share capital from EUR 7,442,487 to EUR 8,186,735, by issuing 744,248 new shares generating gross proceeds of EUR 14.9 million. The order book was well covered based on strong demand from European and US investors. The new shares were placed with selected qualified institutional investors at a price of EUR 20 per share. The issued shares represented approximately 10% of the Company's issued share capital at the time of the placing.

Executive Management
Mark Booth, who was appointed as Chief Business Officer in March 2016, left the company for personal reasons in August 2016 and his responsibilities have been taken over by Dr Konrad Glund, CEO.

Supervisory Board
The general shareholder meeting on 19 May 2016, re-elected Dr Erich Platzer, Dr Dinnies von der Osten, Dr Jörg Neermann and Dr Olivier Litzka as Supervisory Board members. The Supervisory Board then re-elected Dr Erich Platzer as chairman and Dr Dinnies von der Osten as vice chairman.

Dr Olivier Litzka, partner at Edmond de Rothschild Investment Partners (EdRIP) and member of the Supervisory Board since October 2009, stepped down in September 2016 as part of a natural transition.

2.3 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The financial statements of Probiodrug as at 31 December 2016 were prepared on a voluntary 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 2016 is set forth below:

STATEMENT OF COMPREHENSIVE LOSS FOR THE PERIOD 1 JANUARY 2016 TO 31 DECEMBER 2016 IFRS — T05

	1 Jan.–31 Dec.	
In EUR k	**2016**	**2015**
Research and development expenses	–10,951	–10,158
General and administrative expenses	–2,909	–3,279
Other operating income	83	44
Operating loss	**–13,777**	**–13,393**
Interest income	0	0
Interest expense	–114	–112
Finance expenses, net	**–114**	**–112**
Net loss for the period	**–13,891**	**–13,505**
Items not to be reclassified subsequently to profit or loss		
Remeasurement of the net defined benefit pension liability	–31	–105
Total other comprehensive income (loss)	**–31**	**–105**
Comprehensive loss	**–13,922**	**–13,400**
Loss per share in EUR (basic and diluted)	–1.82	–1.97

RESEARCH AND DEVELOPMENT EXPENSES

In financial year 2016, research and development expenses amounted to EUR 10,951k (2015: EUR 10,158).

GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses of EUR 2,909k (2015: EUR 3,279k) 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 83k (2015: EUR 44k).

OPERATING LOSS

The resulting operating loss amounted to EUR 13,777k (2015: EUR 13,393).

FINANCIAL LOSS

The financial loss amounted to EUR 114k (2015: EUR 112k).

NET LOSS

The corresponding net loss amounted to EUR 13,891k (2015: EUR 13,505k).

OTHER COMPREHENSIVE INCOME/LOSS

The other comprehensive loss amounted to EUR 31k (2015: income of EUR 105k), reflecting remeasurements of the net defined benefit pension liability.

COMPREHENSIVE LOSS

The resulting comprehensive loss amounted to EUR 13,922k (2015: EUR 13,400k).

(b) FINANCIAL POSITION

The statement of financial position of Probiodrug for the year 2016 is set forth below:

ASSETS

The assets amount to EUR 22,366k (2015: EUR 21,866k), consisting mainly of cash and cash equivalents of EUR 21,897k (2015: EUR 21,361k).

EQUITY

The equity amounts to EUR 16,376k (2015: EUR 16,133k), corresponding to an equity ratio of 73.2%.

NONCURRENT LIABILITIES

The noncurrent liabilities amount to EUR 850k (2015: EUR 822k), consisting completely of the net commitment (defined benefit liability) of the pension commitments (defined benefit obligations) of EUR 1,644k (2015: EUR 1,522k).

CURRENT LIABILITIES

The current liabilities amount to EUR 5,140k (2015: EUR 4,911k), consisting primarily of the tax liabilities of EUR 2,739k (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 1,056k) and trade payables. The trade payables amounted to EUR 1,893k (2015: EUR 1,629k) resulting from the ordinary conduct of business. They have a remaining term of up to one year.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

ASSETS
IFRS

T06

In EUR k	31 Dec. 2016	31 Dec. 2015
Noncurrent assets		
Intangible assets	96	56
Plant and equipment	68	81
Financial assets	3	3
Total noncurrent assets	**167**	**140**
Current assets		
Tax receivables	0	1
Other assets	302	364
Cash and cash equivalents	21,897	21,361
Total current assets	**22,199**	**21,726**
Total assets	**22,366**	**21,866**

EQUITY AND LIABILITIES
IFRS

T07

In EUR k	31 Dec. 2016	31 Dec. 2015
Equity		
Share capital	8,187	7,442
Additional paid-in capital	48,286	34,866
Accumulated other comprehensive income	−530	−499
Accumulated deficit	−39,567	−25,676
Total equity	**16,376**	**16,133**
Noncurrent liabilities		
Pension liability	850	822
Total noncurrent liabilities	**850**	**822**
A. Current liabilities		
Tax liabilities	2,739	2,641
Provisions	53	42
Trade payables	1,893	1,629
Other current liabilities	455	599

LIABILITIES AND EQUITY
IFRS

T08

In EUR k	31 Dec. 2016	31 Dec. 2015
Total current liabilities	**5,140**	**4,911**
Total liabilities	**5,990**	**5,733**
Total equity and liabilities	**22,366**	**21,866**

(c) OVERALL ASSESSMENT OF ECONOMIC POSITION

Currently, only a few factors have been identified which could, in the short-term, impair the development of Probiodrug. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2016 provide for the Company's financing beyond the upcoming twelve months. Management believes that based on positive clinical study results of PQ912, additional cash inflows can be generated at the latest in the second half of 2018. Alternatively, the focus would be set on the two other preclinical compounds.

2.4 EMPLOYEES

As at 31 December 2016, including the Management Board, Probiodrug had 13 (2015: 16) employees, of which 50% were female. In the reporting period, there were an average of 15 employees (2015: 16). In 2016, Probiodrug incurred personnel expenses of EUR 2.47 million (2015: EUR 1.98 million). The increase was primarily due to the cash settlement for stock options exercised.

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 2016. 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 2016, 40 patent families were held (31 December 2015: 41). The focusing of the patent portfolio in non-core areas was offset by new applications in the development relevant areas. As such, Probiodrug's overall patent position was further improved.

2.6 REPORT ON RISKS AND OPPORTUNITIES

(a) OPPORTUNITIES

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

(b) RISKS

On the other hand, Probiodrug is exposed to various individual risks, which are described in detail in the management report, relating to the Annual Financial Statements 2016. The occurrence of these risks can, individually or in the aggregate, with the incurrence of other risks respectively other circumstances, could have a material adverse effect on the business activities, the realisation of significant Company goals and/or Probiodrug's ability to refinance and could have substantial negative implications on the Company's net assets, financial position and results of operations. In the worst case, this could force the Company to file for insolvency. Currently, only a few factors have been identified that could, in the short-term, impair the development of Probiodrug. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2016 provide for the Company's financing beyond the upcoming twelve months. Management believes that based on positive clinical study results of PQ912, additional cash inflows can be generated at the latest in the second half of 2018. Alternatively, the focus would be set on the two other preclinical compounds.

(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 2016 (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

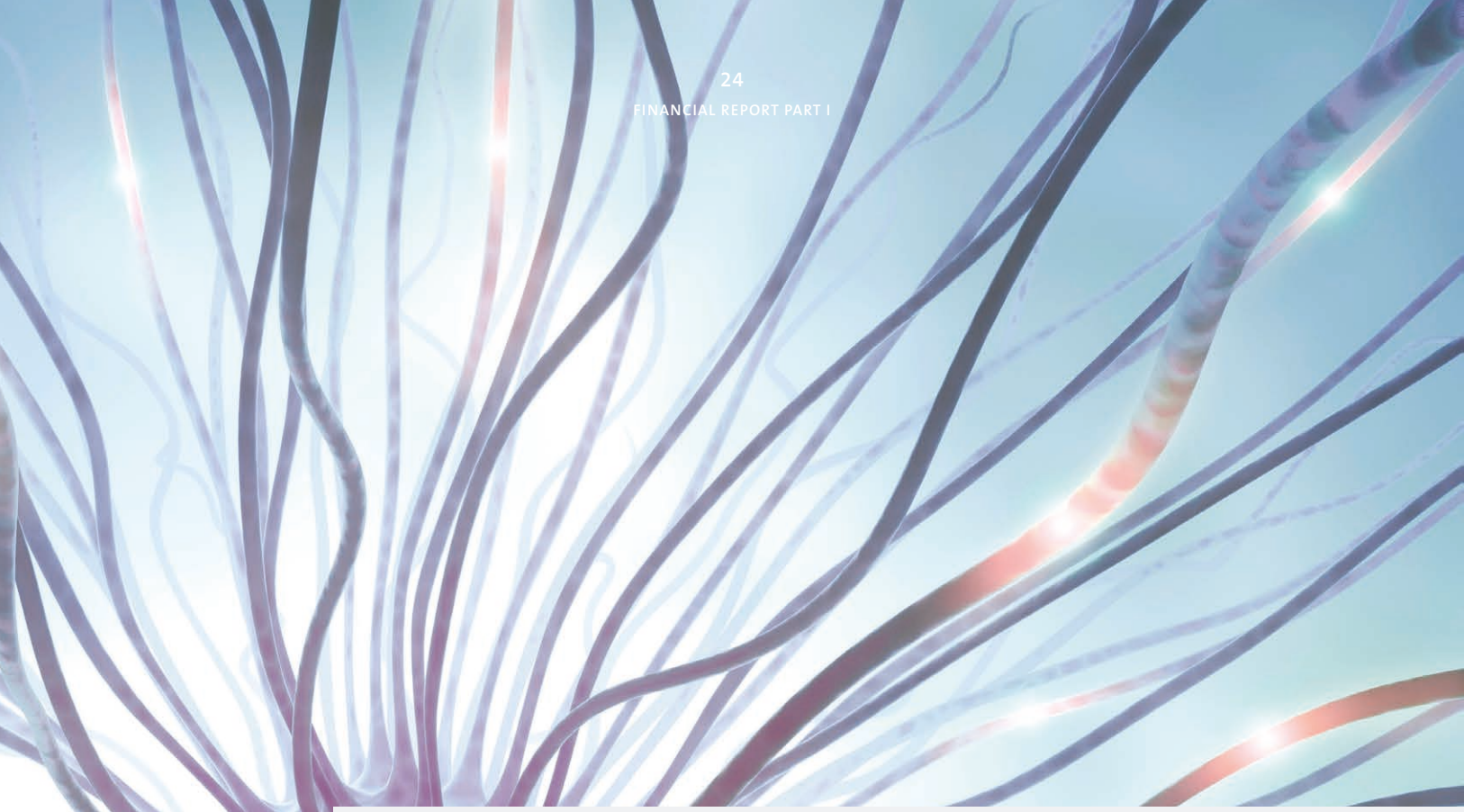
The mid-term focus of Probiodrug's business activities can be summarised as follows:

- Continuing the clinical development of PQ912, in particular generate initial patient study data in 2017 and start long-term treatment,
- Continuing the development of PBD-C06,
- Continuing the development of PQ1565,
- Further scientific analysis of potential second indications for the use of QC inhibitors,
- Further increasing visibility and acceptance as an important prerequisite for obtaining additional capital as well as for an industrial transaction,
- Further strengthening Probiodrug's financial resources.

As a result of the continuing costs being incurred for development activities, the Company projects a net loss for the financial year 2017, which may be lower than that incurred in 2016.

Due to its business model, Probiodrug is dependent upon additional capital to implement its development strategy until such time at which an industrial partnership is concluded and potentially beyond that. This can be provided in the form of equity on the basis of 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 two small molecules as well as an antibody approach selectively addressing pGlu-Abeta.

3

PART I

A. FINANCIAL STATEMENTS (IFRS)

STATEMENT OF COMPREHENSIVE LOSS FOR THE PERIOD 1 JANUARY 2016 TO 31 DECEMBER 2016

T09

		1 Jan. – 31 Dec.	
In EUR k	Notes	2016	2015
Research and development expenses	5.1	–10,951	–10,158
General and administrative expenses	5.2	–2,909	–3,279
Other operating income	5.4	83	44
Operating loss		**–13,777**	**–13,393**
Interest income		0	0
Interest expense		–114	–112
Finance expenses, net		**–114**	**–112**
Net loss for the period		**–13,891**	**–13,505**
Items not to be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension liability		–31	105
Total other comprehensive income (loss)		**–31**	**105**
Comprehensive loss		**–13,922**	**–13,400**
Loss per share in EUR (basic and diluted)	6.5.1	–1.82	–1.97

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

ASSETS

T10

In EUR k	Notes	31 Dec. 2016	31 Dec. 2015
Noncurrent assets			
Intangible assets	3.3/6.1	96	56
Plant and equipment	3.4/6.2	68	81
Financial assets	3.6	3	3
Total noncurrent assets		**167**	**140**
Current assets			
Tax receivables		0	1
Other assets	6.3	302	364
Cash and cash equivalents	3.7/6.4	21,897	21,361
Total current assets		**22,199**	**21,726**
Total assets		**22,366**	**21,866**

EQUITY AND LIABILITIES

T11

In EUR k	Notes	31 Dec. 2016	31 Dec. 2015
Equity			
Share capital	6.5	8,187	7,442
Additional paid-in capital		48,286	34,866
Accumulated other comprehensive income		−530	−499
Accumulated deficit		−39,567	−25,676
Total equity		**16,376**	**16,133**
B. Noncurrent liabilities			
Pension liability	3.10/6.6	850	822
Total noncurrent liabilities		**850**	**822**
C. Current liabilities			
Tax liabilities	6.7.1	2,739	2,641
Provisions	3.11	53	42
Trade payables		1,893	1,629
Other current liabilities	6.7.2	455	599
Total current liabilities		**5,140**	**4,911**
Total liabilities		**5,990**	**5,733**
Total equity and liabilities		**22,366**	**21,866**

STATEMENT OF CASH FLOWS

T12

		Year ended 31 December	
In EUR k	Notes	2016	2015
Net loss for the period		−13,891	−13,505
Net finance expense		114	112
Depreciation and amortisation		97	56
Release of deferred investment grants		0	−11
Share based payment expenses	6.5.2.1	650	964
Payment for cancellation of stock options	6.5.2.1	−400	0
Interest paid		0	0
Interest received		0	0
Income taxes paid		0	0
Income taxes received		1	2
Changes in other assets		62	7
Changes in pension liabilities		−19	−16
Changes in provisions		11	−753
Changes in trade payables		264	570
Changes in other liabilities		−144	427
Cash flows used in operating activities		**−13,255**	**−12,147**
Purchase of plant and equipment		−7	−6
Purchase of intangible assets		−117	−4
Cash flows used in investing activities		**−124**	**−10**
Proceeds from issuance of common shares	6.5	14,886	13,531
Transaction costs of equity transaction		−971	−933
Cash flows provided by financing activities		**13,915**	**12,598**
Net increase in cash and cash equivalents		**536**	**441**
Cash and cash equivalents at the beginning of period		**21,361**	**20,920**
Cash and cash equivalents at the end of period		**21,897**	**21,361**

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 2015	**6,766**	**21,980**	**−604**	**−12,171**	**15,971**
Income recognized 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**
Expenses recognized directly in equity	0	0	−31	0	−31
Net loss for the period	0	0	0	−13,891	−13,891
Comprehensive loss for the period	0	0	−31	−13,891	−13,922
Issuance of common shares less transaction costs	745	13,170	0	0	13,915
Share based payments	0	650	0	0	650
Cancellation of stock options	0	−400	0	0	−400
	745	13,420	−31	−13,891	243
31 December 2016	**8,187**	**48,286**	**−530**	**−39,567**	**16,376**

B. NOTES TO THE FINANCIAL STATEMENTS

1 Company information

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

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

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

2 Financial statements

2.1 Basis of preparation of the financial statements

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

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

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

The financial statements were prepared on the historical cost basis.

2.2 Foreign currency translation

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

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

2.3 Presentation of statement of comprehensive loss

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

3 Summary of significant accounting policies

3.1 Changes in accounting policies

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

With an effective date 1 January 2016 the following new and amended standards and interpretations were required to be applied for the first time:

- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investments Entities: Applying the Consolidation Exception" (1 January 2016)
- Improvements to IAS 1 "Disclosure Initiative" (1 January 2016)
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (1 January 2016)
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" (1 January 2016)
- Amendments to IAS 27 "Equity Method in Separate Financial Statements" (1 January 2016)
- Improvements to IFRS 2012 – 2014: Changes to IFRS 5, IFRS 7, IAS 19 and IAS 34 (1 January 2016)

The new standards 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 amortized cost".

The financial assets of Probiodrug comprise cash and cash equivalents and noncurrent financial assets being interests in BIO Mitteldeutschland GmbH, Halle (Saale).

The financial liabilities of Probiodrug comprise trade payables. Subsequent to their initial recognition, financial liabilities are measured at amortised cost. Financial liabilities are derecognized 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 programs

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

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

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

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 recognized as expenses when incurred. Costs incurred on development projects are recognized 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 commercialization 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 capitalized. 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 capitalization.

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 was 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.

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 2016, and have not been applied in preparing these financial statements:

Endorsed by the EU:

- IFRS 9 "Financial Instruments" (1 January 2018)
- IFRS 15 "Revenue from Contracts with Customers" (1 January 2018)

Not yet endorsed by the EU:

- IFRS 16 "Leases" (1 January 2019)
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (1 January 2018)
- Amendments to IFRS 4 "Application of IFRS 9 Financial Instruments und IFRS 4 Insurance Contracts" (1 January 2018)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (uncertain)
- Amendments to IFRS 15: Clarification to IFRS 15 (1 January 2018)
- Amendments to IAS 7: Disclosure Initiative (1 January 2017)
- Amendments to IFRS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" (1 January 2017)
- Amendments to IFRS 40 "Transfers of Investment Properties" (1 January 2017)
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (1 January 2018)
- Improvements to IFRS 2014–2016: Changes to IFRS 12 (1 January 2017)
- Improvements to IFRS 2014–2016: Changes to IFRS 1 und IAS 28 (1 January 2018)

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 financial position are trade payables (EUR 1,893k) and tax liabilities (EUR 2,739k). 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 13,891k for the financial year 2016 and as at 31 December 2016 had generated an accumulated deficit of EUR 39,567k. 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 the development of its administrative organization.

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 settlement 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 programs and meet its obligations.

In accordance with the present liquidity projections, the Company is funded until Q4 2018. Should the Company not be required to repay accrued tax provisions (see note 6.7.1), the cash reach is until the end of Q1 2019. Both projections do not include investments for the further development of the product pipeline beyond 2017. The future financing is dependent on the success of the clinical program, the Company is currently pursuing. Management expects to raise funds in the form of equity or debt and/or execute a partnership agreement for the further development of the pipeline until the second half of 2018, if the results of the PQ912 study expected for Q2 2017 are positive. Should the study results not allow for a continuation of the PQ912 program, management will focus on the development of the two preclincial product candidates resulting in lower funding requirements in the short term.

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

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

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

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

5.1 Research and development expenses

The research and development expenses of EUR 10,951k (2015: EUR 10,158k) comprise personnel costs, costs for research and development services provided by third parties in relation to the preclinical and clinical programs, patent related legal and consulting fees, costs of laboratory materials as well as amortisation and depreciation attributable to the research and development area.

5.2 General and administrative expenses

The general and administrative expenses of EUR 2,909k (2015: EUR 3,279k) comprise personnel costs and costs of office supplies as well as amortisation and depreciation attributable to the administrative area and other operating expenses.

5.3 Supplementary disclosures

The expenses during the financial year include amortisation and depreciation of plant and equipment as well as intangible assets amounting to EUR 97k (2015: EUR 56k) as well as personnel related expenses amounting to EUR 2,832k (2015: EUR 2,916k).

In addition, expenses associated with defined contribution plans include the employer's contribution to the statutory pension scheme amounting to EUR 54k (2015: EUR 56k).

5.4 Other operating income

The other operating income is broken down as follows:

In EUR k	2016	2015
Release of the investment grants	0	11
Other	83	33
Total	**83**	**44**

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 2016 and 2015.

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 2016 used to determine the deferred tax assets and liabilities amounted to 31.58% (31 December 2015: 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:

In EUR k	2016	2015
Loss before income tax	–13,891	–13,505
Income tax rate	31.58 %	31.58 %
Expected tax benefits	4,387	4,265
Tax losses not recognised	–4,368	–4,232
Non-deductible expenses/non-taxable income	–32	–26
Other differences	13	–7
Reported income tax benefit/expense	**0**	**0**

As at 31 December 2016, deferred tax assets attributable to tax loss carry forwards in the amount of EUR 36,670k (31 December 2015: EUR 32,345k) and to the pension liability in the amount of EUR 192k (31 December 2015: EUR 205k) were not recognised as their utilization is not probable.

As at 31 December 2016, Probiodrug had corporate income tax loss carry forwards of EUR 116,171k and trade tax loss carry forwards of EUR 115,909k. 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:

In EUR k	Other intangible assets
Acquisition costs as at 1 January 2016	256
Additions	117
Disposals	0
Acquisition costs as at 31 December 2016	**373**
Amortisation as at 1 January 2016	200
Additions	77
Disposals	0
Amortisation as at 31 December 2016	**277**
Carrying value as at 1 January 2016	56
Carrying value as at 31 December 2016	**96**

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**

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:

In EUR k	Leasehold improvements	Other equipment, factory and office equipment	Total
Acquisition costs as at 1 January 2016	181	492	673
Additions	0	7	7
Disposals	0	−4	−4
Acquisition costs as at 31 December 2016	**181**	**495**	**676**
Depreciation as at 1 January 2016	160	432	592
Additions	7	13	20
Disposals	0	−4	−4
Depreciation as at 31 December 2016	**167**	**441**	**608**
Carrying value as at 1 January 2016	21	60	81
Carrying value as at 31 December 2016	**14**	**54**	**68**

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**

6.3 Other current assets

Other current assets are comprised of:

In EUR k	31 Dec. 2016	31 Dec. 2015
Prepayments	126	226
Value-added tax receivables	121	79
Rent deposits	7	7
Other receivables	45	45
Other assets	3	7
Total	**302**	**364**

6.4 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand. As at 31 December 2016, cash balances denominated in other currencies than the Euro amount to USD 653k (31 December 2015: 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 2016, Probiodrug's share capital comprised 8,186,735 registered no par common shares. As at 31 December 2015, Probiodrug's share capital comprised 7,442,487 registered no par common shares. The nominal amount per share is EUR 1.00. All shares are issued and fully paid up.

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. The proceeds from issuance of common shares amount to EUR 13,531k less transaction costs of EUR 933k.

In 2016, Probiodrug's management board – with the approval of the supervisory board on 6 October 2016 – resolved to increase the share capital from EUR 7,442k by EUR 744k to EUR 8,187k through the issuance of common shares by utilising authorised capital. The proceeds from issuance of common shares amount to EUR 14,886k less transaction costs of EUR 971k.

Conditional Capital
As at 31 December 2016, the conditional capital amounted to EUR 2,624k and as at 31 December 2015 to EUR 2,556k, respectively.

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 conditional capital (Conditional Capital 2014/1) was increased by a nominal amount of EUR 32k.

By resolution of the Annual Shareholders' Meeting on 19 May 2016, the Conditional Capital 2014/1 was increased by EUR 67,650.00 to EUR 509,650. The conditional capital increase serves the fulfilment of stock option rights pursuant to Section 192 (2) number 3 of the AktG issued as part of stock option program 2014 (as resolved and amended by resolutions of the Annual Shareholders' Meetings on 29 September 2014, 10 June 2015 and 19 May 2016) or to be issued or issued as part of other stock option programs. 404,538 options are designated for current and future members of the management board and 105,112 options are designated for current and future employees. The remaining terms of the option program apply unchanged.

Authorised Capital

As at 31 December 2016, the authorised capital amounted to EUR 2,977k and as at 31 December 2015 to EUR 2,633k, respectively. The authorised capital can be utilised for capital increases for contributions in cash and/or kind. On 19 May 2016, the Annual Shareholders' Meeting resolved to increase the Authorised Capital 2014 from EUR 2,633,166.00 to EUR 3,721,243.00. The authorisations given to the management board and supervisory board with respect to the Authorised Capital 2014 were adjusted accordingly.

Further in 2016, the authorized capital decreased through the issuance of common shares in the amount of EUR 744,248 to EUR 2,976,995.

6.5.1 Loss per share

As at 31 December 2016, Probiodrug's share capital consisted of 8,186,735 common shares (31 December 2015: 7,442,487). 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 13,891k in financial year 2016 (2015: net loss of EUR 13,505k).

The loss per share was calculated as follows:

In EUR k	2016	2015
Weighted average number of common shares outstanding	7,619,398	6,871,557
Loss for the period	**–13,891k**	**–13,505k**
Loss per share in EUR (basic/diluted)	**–1.82**	**–1.97**

As at 31 December 2016 and 2015 no financial instruments had a dilutive effect.

6.5.2 Share based payments

6.5.2.1 Stock option programs (equity settled)

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

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

Grant date/employees entitled	Outstanding Options	Vesting conditions	Contractual life of options
ESOP 2007			
Granted to employees	16,208	graded vesting over four year period (50% after two years, 25% after three years and 25% after four years)	8 years; extended in 2016 to 11 years
ESOP 2010/2013			
Granted to management board	54,165	graded vesting over 31 month period (33% after seven months, 33% after 19 months and remaining after 31 months)	4 to 6 years; Extended in 2016 to 9 years
Granted to employees	21,274		
ESOP 2014			
Granted to management board	314,501	Immediate vesting on date of grant for 40%, graded vesting over 3 year period (20% each after first, second and third year) period	8 years, not exercisable before lapse of 4 years
Granted to employees	84,874		

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

The inputs used in the measurement of the fair values for 2014 to 2016 grants were:

	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.

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

	2016		2015	
	Number of options*	WAEP**	Number of options*	WAEP**
Outstanding at 1 January	538,637	EUR 16.27	447,762	EUR 16.10
Forfeited during the year	−90,305	EUR 21.20	0	–
Exercised during the year	0	–	0	–
Cash settlement	−31,734	–		
Granted during the year	74,424	EUR 19.43	90,875	EUR 20.33
Outstanding at 31 December	**491,022**	**EUR 17.13**	**538,637**	**EUR 16.27**
Exercisable at 31 December	91,647	EUR 11.10	133,261	EUR 11.64

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

The stock options outstanding at 31 December 2016 had an exercise price in the range of EUR 6.00 to EUR 42.18 (31 December 2015: EUR 6.00 to EUR 42.18) and a weighted-average contractual life of 5.3 years (31 December 2015: 5.4 years). According to the terms and conditions of the stock option programs, exercise is not possible during specified blackout periods and subject to a performance criterion concerning the average stock price of Probiodrug shares during the twenty days before exercise.

No expenses associated with the stock option programs 2007 and 2010/2013 are recognised for the years 2016 and 2015, respectively, due to the vesting in prior periods.

The total expenses associated with the stock option program 2014 recognised in 2016 amounted to EUR 650k (2015: EUR 964k). These amounts were credited to additional paid-in capital.

According to the authorization given by the general assembly from 18 May 2010 and duly taking into account the interests of the Company the supervisory board resolved to provide a cash settlement for part of the options of the members of the management board Mr Glund and Mr Liebers from the option program 2010. The settlement was accounted for as a cancellation and the settlement amount paid of EUR 400k was deducted from additional paid-in capital. No further share based payment expense was recognised as share based payments were fully recognised in prior periods and the settlement amount did not exceed the fair value of the shares as of the settlement date. The respective settlement amount was paid out after the capital increase from October 2016.

6.5.2.2 Phantom stock option programs

From the existing phantom stock program 2007, a portion of 9,880 phantom stocks forfeited in 2016. As of 31 December 2016 19,333 remaining phantom stock awards are outstanding with a fair value of EUR 0k.

6.6 Noncurrent liabilities

6.6.1 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 off-set 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:

	2016	2015
Discount rate	1.42%	2.01%

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

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

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

Interest rate – 0.5%: Δ DBO EUR 123k (31 December 2015: EUR 119k)

Interest rate + 0.5%: Δ DBO EUR –111k (31 December 2015: EUR –107k)

RECONCILIATION OF DEFINED BENEFIT OBLIGATION AND PLAN ASSETS

In EUR k	Defined benefit obligation	Plan assets	Pension provision (Net DBO)
Balance as of 1 January 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 2016	**1,522**	**–700**	**822**
Current service cost	43	–	43
Interest expense (+)/interest income (–)	31	–15	16
Remeasurement	48	–17	31
Income (–)/expenses (+) from plan assets (without amounts included in interest expense)	–	–17	–17
Actuarial gains (–)/losses (+)	48	–	48
Effects from changes in financial assumptions	49	–	49
Effects from changes based on experience	–1	–	–1
Employer's contributions	–	–62	–62
Balance as of 31 December 2016	**1,644**	**–794**	**850**

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

In EUR k	2016	2015
Current service cost	43	46
Net interest expense (+)/income(–)	16	14
Interest expense associated with DBO	31	24
Interest income on plan assets	–15	–10
Total net pension expense	**59**	**60**

In 2017, plan contributions amounting to EUR 62k are expected. The weighted average duration of the pension commitments is 14.6 years (31 December 2015: 15.4 years). The pension payments for the two beneficiaries may be due in one respectively two years.

6.7 Current liabilities

6.7.1 Tax liabilities

The tax liabilities of EUR 2,739k 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 1,443k relates to corporate income tax and EUR 1,296k 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

In EUR k	31 Dec. 2016	31 Dec. 2015
Liabilities from waived phantom stock obligation	0	215
Salaries and wages	313	189
Payroll and church taxes	37	129
Other	105	66
Total	**455**	**599**

Regarding liabilities from waived phantom stock obligations we refer to note 6.5.2.2.

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 2016.

7.2 Fair value measurement

All assets and liabilities, for which fair value is recognized in the financial statements, are organized 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 2016 and 2015 was recognised with respect to financial instruments.

Financial risks and risk management

7.3.1 Organisation

Risk management system, objectives and methods

In addition to operating business risks, Probiodrug is subject to the following risks as a result of the use of financial instruments: credit risks, liquidity risks 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 (32.0%), Moody's Rating Aa2, Deutsche Bank (32.3%) Moody's Rating Baa2, BW Bank (35.2%), Moody's Rating Aa3, and Northern Trust (0.5%), Moody`s Rating (Aa2). In general, cash balances are only held with financial institutions with prime credit ratings which are subject to the depositor's guarantee fund of German banks. Investments, if made, are in financial assets which do not have any inherent risk of loss.

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

CARRYING AMOUNT AS AN EQUIVALENT FOR THE MAXIMUM RISK OF DEFAULT

In EUR k	31 Dec. 2016	31 Dec. 2015
Noncurrent financial assets	3	3
Cash and cash equivalents	21,897	21,361
	21,900	**21,364**

As of the reporting dates 31 December 2016 and 31 December 2015, 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 2016, cash and cash equivalents amounted to EUR 21.9 million. The cash and cash equivalents as at 31 December 2016 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.

Analysis of maturities
As of 31 December 2016 and 2015, all trade payables of EUR 1,893k (31 December 2015: EUR 1,629k) 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 8.1) do not contain variable price conditions and hence do not bear price risks.

Capital management
The primary objective of Probiodrug's capital management is to ensure that it maintains its liquidity in order to finance its operating activities and meet its liabilities when due. In accordance with the present projections the cash reach of the Company is beginning of 2019. Should the Company be required to repay tax provisions (see note 6.7.1) the cash reach is until the fourth quarter 2018. Both projections do not include the investments for the further development of the pipeline beyond 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 partnership agreement.

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

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

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

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

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

As at 31 December 2016, Probiodrug's equity amounted to EUR 16,376k (31 December 2015: EUR 16,133k), which equates to an equity ratio of 73.2% (31 December 2015: 73.8%). The total liabilities amounts to EUR 5,990k (31 December 2015: EUR 5,733k).

8 Other

8.1 Contingencies and other financial commitments
The total of the other financial commitments as at 31 December 2016 was EUR 3,683k and consist of services by research and development service providers as well as of service, leasing and rental commitments. Of these commitments EUR 3,619k are due within one year.

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

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

Transactions with key management personnel
The remuneration of the management board comprised:

In EUR k	2016	2015
Short-term employee benefits	1,124	860
Post-employment benefits	122	135
Share-based payments	328	729
Cancellation of stock options	400	0
Total	**1,974**	**1,724**

Within the scope of the stock option program 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.

According to the authorization given by the general assembly from 18 May 2010 and duly taking into account the interests of the Company the supervisory board resolved to provide a cash settlement for part of the options of the members of the management board Mr Glund and Mr Liebers from the option program 2010. The respective settlement in an amount of EUR 200k each was paid out after the capital increase in October 2016.

The pension commitments described in note 6.6.1 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 of:

In EUR k	2016	2015
Short-term benefits	95	52
Total	**95**	**52**

8.3 Approval and release

On 7 March 2017, Probiodrug AG's management board approved these financial statements for release to the supervisory board.

Halle (Saale), 7 March 2017

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Ingeborg Lues**

C. RESPONSIBILITY STATEMENT

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

Halle (Saale), 7 March 2017

Management Board of Probiodrug AG

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Ingeborg Lues**

D. INDEPENDENT AUDITORS' REPORT

To the Shareholders of Probiodrug AG, Halle (Saale)

Opinion
We have audited the financial statements of Probiodrug AG ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

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

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern basis of accounting

THE RISK
We refer to the accounting policies in note 4 "Significant discretionary decisions, estimates and assumptions – Going Concern".

As a clinical stage biopharmaceutical company, Probiodrug's business model is to progress its research and development programs until a stage and value, that they can be commercialized through transactions with pharmaceutical companies. Until such a stage Probiodrug continuously seeks external finance for research and development activities. In fiscal 2016, Probiodrug incurred a net loss of EUR 13,891 thousand and generated an accumulated deficit of EUR 39,567 thousand as of 31st December 2016. The Company anticipates operating losses to continue for the foreseeable future mainly due to continuous research funding, development of compounds and the development of its administrative organization. In accordance with the present projections, the Company expects sufficient funding until the fourth quarter of 2018. These projections do not include investments for a long-term clinical trial in Alzheimer Disease patients. Should the Company not be required to pay accrued tax provisions the cash reach is secured until the end of the first quarter of 2019. The future financing is dependent on the success of the clinical program for which clinical data is expected in the second quarter 2017. Should the results be positive, the board of directors expects to raise funds until the second half of 2018. Should the results not allow for a continuation of the clinical program, the Company will focus on the development of the two preclinical product candidates resulting in lower funding requirements in the short term.

We considered the going concern basis of accounting as a key audit matter, since management's assessment of the entity's ability to continue as a going concern is based on significant judgements and a number of assumptions, e.g. cash reach, cash burn rate , the progress of the clinical study and feasibility of the alternative clinical programs.

OUR RESPONSE

We evaluated and challenged the company's future business plans and related budget and liquidity status for the years 2017 and 2018 and the process in which these were prepared, amongst other procedures, by inquiring the Chief Financial Officer and inspecting the documents used for preparation of the budget and liquidity status. We assessed the budgeting methodology and the application of the assumptions made by management. We further inspected documents shared with the supervisory board to summarize the progress of the clinical program and inquired the Chief Financial Officer and Audit Committee Head as to the alternative strategies, should the clinical program be discontinued.

Furthermore, our audit included corroborating of key assumptions used, i.e. the cost of external service providers compared to contractual terms and stage of the clinical program and ongoing operational costs like rent, depreciation and payroll based on the historical cost structure. In addition, we compared the predicted cash burn rates for the years 2017 and 2018 to the historical cash burn rates of Probiodrug. Further, we considered whether the disclosure on the going concern basis of accounting is sufficiently detailed.

OUR OBSERVATIONS

We considered management assumptions regarding the going concern basis of accounting to be overall balanced. The budgeting is arithmetically correct and the assumptions made by management have been applied in the budget. The disclosure on the going concern basis of accounting is sufficiently detailed.

Other Information in the Annual Report

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design

and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Dr Stefan Schneider.

Leipzig, 7 March 2017

KPMG AG

Wirtschaftsprüfungsgesellschaft

Dr. Schneider
Wirtschaftsprüfer
[German Public Auditor]

Kurth
Wirtschaftsprüfer
[German Public Auditor]

PART II

A. FINANCIAL STATEMENTS (HGB)

BALANCE SHEET AS AT 31 DECEMBER 2016

ASSETS T32

In EUR		31 Dec. 2016		31 Dec. 2015
A. Fixed assets				
I. Intangible assets				
Similar rights acquired for consideration, licenses and software		95,915.79		55,962.72
II. Tangible assets				
1. Buildings on third-party land	13,825.79		20,735.87	
2. Other equipment, operating and office equipment	54,249.34	68,075.13	59,831.70	80,567.57
III. Long-term financial assets				
Participations		3,450.00		3,450.00
		167,440.92		**139,980.29**
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	113,518.84		0.00	
2. Other assets	175,501.92	289,020.76	139,217.61	139,217.61
II. Cash-in-hand and bank balances		21,782,923.94		21,361,408.04
		22,071,944.70		**21,500,625.65**
C. Prepaid expenses		**126,683.74**		**225,292.11**
		22,366,069.36		**21,865,898.05**

EQUITY AND LIABILITIES

T33

In EUR	31 Dec. 2016	31 Dec. 2015
A. Equity		
I. Share capital	8,186,735.00	7,442,487.00
Contingent capital: EUR 2,623,801.00		
(in the prior year EUR 2,556,151.00)		
II. Capital reserves	49,012,368.55	34,871,656.55
III. Revenue reserves		
Legal reserves	227,625.00	227,625.00
IV. Accumulated losses brought forward	−40,579,589.68	−26,067,150.58
	16,847,138.87	**16,474,617.97**
B. Provisions		
1. Pension provision	377,942.00	468,818.00
2. Tax provision	2,739,650.75	2,641,430.75
3. Other provisions	824,693.86	615,703.91
	3,942,286.61	**3,725,952.66**
C. Liabilities		
1. Trade payables	1,519,486.23	1,312,699.31
2. Other liabilities	57,157.65	352,628.11
– of which taxes EUR 42,593.67 (in the prior year EUR 129,209.18) –		
	1,576,643.88	**1,665,327.42**
	22,366,069.36	**21,865,898.05**

INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

T34

In EUR		2016		2015
1. Other operating income		94,128.85		318,713.28
2. Cost of materials				
a) Cost of supplies and purchased merchandise	−38,433.59		−60,497.94	
b) Cost of purchased services	−7,841,926.86	−7,880,360.45	−6,673,324.46	−6,733,822.40
3. Personnel expenses				
a) Wages and salaries	−2,182,768.82		−1,657,854.69	
b) Social security and post employment costs	−285,837.21	−2,468,606.03	−325,436.28	−1,983,290.97
– of which in respect of retirement provisions EUR 152,450.30 (in the prior year EUR 185,349.65) –				
4. Amortisation of intangible assets and depreciation of tangible assets		−96,896.00		−56,185.22
5. Other operating expenses		−4,182,663.66		−4,997,084.89
6. Other interest and similar income		133,373.70		256.11
7. Interest and similar expense		−111,415.51		−134,983.39
8. Earnings after taxes		**−14,512,439.10**		**−13,586,397.48**
9. Net loss		**−14,512,439.10**		**−13,586,397.48**
10. Loss carryforward		−26,067,150.58		−12,480,753.10
11. Accumulated losses brought forward		**−40,579,589.68**		**−26,067,150.58**

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

T35

In EUR	1 Jan. 2016 to 31 Dec. 2016	1 Jan. 2015 to 31 Dec. 2015
Net loss of the period	−14,512,439	−13,586,397
Transaction costs	971,215	933,872
Amortisation/depreciation of fixed assets	96,896	56,185
Profit/loss on the disposal of fixed assets	1	245
Interest income	−133,374	−256
Interest expense	111,416	134,983
Increase in pension provisions	29,302	61,605
Increase (in prior year decrease) of other provisions	208,990	−491,339
Increase (in prior year decrease) of receivables and other assets	−150,569	154,689
Decrease (in prior year increase) of prepaid expenses	98,608	−147,430
Increase in trade payables	206,787	436,305
Decrease (in prior year increase) of other liabilities	−295,470	298,902
Cash flow from operating activities	**−13,368,638**	**−12,148,637**
Proceeds from the disposal of tangible assets	0	235
Disbursements for investments in tangible assets	−7,394	−5,844
Disbursements for investments in intangible assets	−116,963	−4,628
Interest received	766	2,447
Cash flow from investing activities	**−123,592**	**−7,790**
Proceeds from the issuance of shares	14,884,960	13,531,780
Disbursement for transaction costs	−971,215	−933,872
Cash flow from financing activities	**13,913,745**	**12,597,908**
Cash effective changes of cash and cash equivalents	**421,516**	**441,481**
Cash and cash equivalents at the beginning of the financial year	**21,361,408**	**20,919,927**
Cash and cash equivalents at the end of the period	**21,782,924**	**21,361,408**

T36

In EUR	31 Dec. 2016	31 Dec. 2015
Composition of cash and cash equivalents		
Cash-on-hand	221	103
Bank balances	21,782,703	21,361,305
	21,782,924	**21,361,408**

STATEMENT OF SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2016

T37

In EUR	Share capital Ordinary shares	Capital reserves	Legal reserve	Retained earnings	Equity
Balance as at 1 January 2015	**6,765,898**	**22,016,466**	**227,625**	**−12,480,754**	**16,529,235**
Capital increase as a result of cash contribution	676,589	12,855,191			13,531,780
Net loss of the year				−13,586,397	−13,586,397
Balance as at 31 December 2015	**7,442,487**	**34,871,657**	**227,625**	**−26,067,151**	**16,474,618**
Balance as at 1 January 2016	7,442,487	34,871,657	227,625	−26,067,151	16,474,618
Capital increase as a result of cash contribution	744,248	14,140,712			14,884,960
Net loss of the year				−14,512,439	−14,512,439
Balance as at 31 December 2016	**8,186,735**	**49,012,369**	**227,625**	**-40,579,590**	**16,847,138**

B. NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

I. GENERAL DISCLOSURES

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

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

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

II. ACCOUNTING POLICIES AND MEASUREMENT METHODS

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

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

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

Participations are recorded at their acquisition costs.

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

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

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

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

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

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

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

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

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

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

The existing liabilities are not secured.

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

III. EXPLANATIONS ON THE BALANCE SHEET

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

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

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

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

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

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

No shares were repurchased in financial year 2016 or 2015.

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

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

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

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

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

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

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

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

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

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

Other than this, the option programs continue unchanged.

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

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

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

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

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

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

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

Voting rights notification

Disclosure as to the existence of an equity interest as at the balance sheet date
JPMORGAN ASSET MANAGEMENT (UK) LTD., London, United Kingdom, informed us that, pursuant to Section 21 (1) of the WpHG [(German) Securities Trading Act; Wertpapierhandelsgesetz], on 11 March 2016 its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) exceeded the threshold of 5% of the voting rights on 07 March 2016 and that its voting rights proportion amounted to 5.15 % (383,181 voting rights).

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

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

The voting rights attributed pursuant to Section 22 of the WpHG are attributed through the following shareholder directly holding 3% or more of the voting rights in Probiodrug AG: **AVIVA LIFE & PENSIONS UK LIMITED, AVIVA INVESTORS GLOBAL SERVICES LIMITED**

The voting rights attributed pursuant to Section 22 of the WpHG are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: **AVIVA LIFE & PENSIONS UK LIMITED, AVIVA INVESTORS GLOBAL SERVICES LIMITED**

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

SACHSEN-ANHALT, LAND – MINISTRY OF FINANCE OF THE FEDERAL STATE SAXONY ANHALT, Magdeburg, Germany, informed us that, pursuant to Section 21 (1) of the WpHG, on 13 October 2016, its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany (ISIN DE0007921835) fell below the threshold of 15% of the voting rights on 07 October 2016 and that its voting rights proportion amounted to 10.91 % (893,269 voting rights). 10.91% of the voting rights (893,269 voting rights) are attributed to the Federal State Saxony Anhalt pursuant to Section 22 of the WpHG. The voting rights attributed to the Federal State Saxony Anhalt are attributed through the following controlled undertakings holding 3% or more in Probiodrug AG: IBG Risikokapitalfonds I GmbH & Co. KG, IBG Risikokapitalfonds II GmbH & Co. KG.

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

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

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

Accumulated losses

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

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

Tax provisions

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

On 5 October 2009, the Company filed an appeal against the changed assessments for 2004 corporate income taxes and the solidarity tax contribution. In 2008, the Company recorded the risk resulting from the assessments within the tax provision. In a ruling with respect to the appeal issued by the fiscal authorities in September 2013, the assessment notices with respect to corporate income tax and the solidarity surcharge for 2004 was changed and the tax obligation was reduced slightly. Other than that, the appeal was denied. In addition, in October 2013, an amended municipal tax assessment notice for the assessment period 2004 was issued. The afore mentioned risks, including the accrued interest thereon, were given consideration by increasing the tax provision by EUR 98k as at 31 December 2016 to EUR 2,740k.

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

Pension provision

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

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

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

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

This led to the following difference:

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

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

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

IV. EXPLANATIONS ON THE INCOME STATEMENT

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

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

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

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

V. EXPLANATIONS ON THE CASH FLOW STATEMENT

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

VI. OTHER DISCLOSURES

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

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

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

Average number of employees during the financial year
The subsequent employee groups were active for the Company in the financial year:

EXECUTIVE BOARD AND EMPLOYEES

	2016	2015
Executive Board and employees	3	3
Employees	11	13

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

Disclosures with respect to executive bodies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Auditor's fees

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

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

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

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

Compliance statement in accordance with Section 161 of the AktG

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

Halle (Saale), 6 March 2017

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Ingeborg Lues**

APPENDIX: SCHEDULE OF FIXED ASSETS IN FINANCIAL YEAR 2016

	Acquisition costs				
In EUR	1 Jan. 2016	Additions	Disposals	31 Dec. 2016	
I. Intangible assets					
Similar rights acquired for consideration, licenses and software	255,884.17	116,963.33	0.00	372,847.50	
II. Tangible assets					
1. Buildings on third-party land	181,002.98	0.00	0.00	181,002.98	
2. Other equipment, operating and office equipment	578,627.31	7,394.30	4,471.83	581,549.78	
	759,630.29	**7,394.30**	**4,471.83**	**762,552.76**	
III. Long-term financial assets					
1. Participations	3,450.00	0.00	0.00	3,450,00	
	1,018.964.46	**124,357.63**	**4,471.83**	**1,138,850.26**	

T42

	Accumulated amortisation/depreciation				Carrying values	
	1 Jan. 2016	Amortisation/ depreciation in the financial year	Disposals	31 Dec. 2016	31 Dec. 2016	31 Dec. 2015
	199,921.45	77,010.26	0.00	276,931.71	95,915.79	55,962.72
	160,267,11	6,910.08	0.00	167,177.19	13,825.79	20,735.87
	518,795,61	12,975.66	4,470.83	527,300.44	54,249.34	59,831.70
	679,062.72	**19,885.74**	**4,470.83**	**694,477.63**	**68,075.13**	**80,567.57**
	0.00	0.00	0.00	0.00	3,450.00	3,450.00
	878,984.17	**96,896.00**	**4,470.83**	**971,409.34**	**167,440.92**	**139,980.29**

C. MANAGEMENT REPORT FOR FINANCIAL YEAR 2016

1 COMPANY BASICS

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

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

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

Probiodrug is pursuing a therapeutic concept which addresses the disease initiation as well as progression. The development approaches are targeting pyroglutamate-Abeta (synonym: pGlu-Abeta, N3pG Abeta) as one therapeutic strategy to fight AD. pGlu-Abeta was described as a particularly toxic and variable aggregation form of Abeta, which is formed from the physiological Abeta by the activity of the enzyme Glutaminyl-Cyclase (QC). The Company is pursuing two treatment mechanisms with respect hereto: on the one hand, Probiodrug is focussing on the inhibition of the production of pGlu-Abeta by the inhibition of the enzyme, Glutaminyl-Cyclase ("QC"). The Company's most advanced program in this area, the development candidate PQ912, is in phase 2; another development candidate, PQ1565, is in preclinical development. The next development steps are being prepared and corresponding decisions will be made in conjunction with the analysis of the SAPHIR study. On the other hand, the Company is specifically developing pGlu-Abeta binding antibodies, which ultimately speed up their decomposition. This program is in preclinical development.

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

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

Important events in the current financial year

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

b) Changes in the Supervisory Board
The terms of Supervisory Board members Dr Johannes von der Osten, Dr Erich Platzer, Dr Jörg Neermann and Dr Olivier Litzka expired in conjunction with the shareholders' meeting held on 19 May 2016, which resolved upon the exoneration of the members of the Supervisory Board for the year 2015. All of the aforenamed Supervisory Board members again stood for election and were re-elected for a term through the general meeting of the shareholders' which resolves upon the exoneration of the Supervisory Board for the year 2016. Supervisory Board members Charlotte Lohmann and

Kees Been were elected by the 2015 general shareholders' meeting as Supervisory Board members with a term which concludes in conjunction with the shareholders' meeting which resolves upon the exoneration of the Supervisory Board for the year 2017. As such, they were not up for election. Supervisory Board member Dr Olivier Litzka stepped down from his position in August 2016 with effect as of 12 September 2016.

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

2 OVERVIEW OF BUSINESS DEVELOPMENT

2.1 General conditions

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

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

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

2.2 Company development

In 2016 Probiodrug focussed on the following main areas:

- Further preclinical and clinical testing of the development candidate PQ912 in the area of QC inhibition, in particular completion of the long-term toxicology study as well as the execution of the first patient study 2016,
- Securing further supporting data and intellectual property protection for the therapeutic concept of QC inhibition as a fundamental novel approach for the treatment of Alzheimer's and other diseases,
- Further progression of the therapeutic concept of the anti pGlu Abeta specific anti-bodies (PBD-C06) as well as of PQ1565, an additional QC inhibitor,
- Further increasing visibility and acceptance as a significant prerequisite for an industrial transaction.

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

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

Net assets

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

In EUR k	31 Dec. 2016	31 Dec. 2015
Assets		
Intangible assets	96	56
Tangible assets	68	81
Long-term financial assets	3	3
Fixed assets	**167**	**140**
Receivables and other assets	289	139
Cash and bank balances	21,783	21,361
Current assets	**22,072**	**21,501**
Prepaid expenses	127	225
Total assets	**22,366**	**21,866**
Equity and liabilities		
Equity	16,847	16,475
Provisions	3,942	3,726
Liabilities	1,577	1,665
Total equity and liabilities	**22,366**	**21,866**

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

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

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

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

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

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

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

Financial position

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

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

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

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

Earnings position

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

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

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

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

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

Overall statement

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

2.4 Non-financial performance indicators

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

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

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

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

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

3 OPPORTUNITIES AND RISKS REPORT

3.1 Opportunities report

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

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

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

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

3.2 Risk report

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

Sector specific risks

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

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

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

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

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

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

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

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

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

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

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

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

Risks arising from business activities

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

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

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

Patents and trademark protection
Probiodrug protects its own developments with a comprehensive patent strategy. Nonetheless, the Company cannot guarantee that its patent protection is sufficient for its business activities. It cannot be precluded that third parties may file appeals against Probiodrug's patent registrations or that they challenge the effectiveness of the patents. It can also not be precluded that Probiodrug may become engaged in a patent dispute with third parties e.g., when Probiodrug must defend against the unauthorised use of its patents by third parties. Furthermore, it cannot be precluded that Probiodrug's patents are, in part, dependent on the patents of third parties. Every legal verdict against Probiodrug's patents or potential claims of

third parties can inhibit the further development of the program affected and potentially that of the Company. Regardless of the outcome, these types of proceedings are time and cost intensive and may tie up substantial Company resources. This could, in turn, have negative implications on the programs affected and potentially the Company. As per the Company's current knowledge, no objections have been raised against the patents or patent filings.

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

Risks associated with product development

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

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

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

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

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

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

Capital market risks

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

the existing shareholders. Should the Company not be able to obtain additional funding, Probiodrug may be inhibited in the further development of its projects and/or the development of one or a number of products could be discontinued and/or the speed of development could be reduced to the extent that this could have a negative effect on the competitive position as well as on the results of operations, financial position and net assets to the extent that this could lead to the Company's insolvency.

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

Financial risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Overall assessment of risk situation
Giving consideration to all of the afore mentioned risks, currently only a few factors have been identified which could, in the short-term, impair the development of Probiodrug. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2016 provide for the Company's financing beyond the upcoming twelve months. Management believes that based on positive clinical study results of PQ912 additional cash inflows can be generated at the latest in the second half of 2018. Alternatively, the focus would be set on the two other preclinical compounds.

4 OUTLOOK

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

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

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

Due to its business model, Probiodrug is dependent upon additional capital to implement its development strategy until such time at which an industrial partnership is concluded and potentially beyond that. This can be provided in the form of

equity on the basis of capital increases or via alternative financing forms such as loans, convertible bonds, option bonds, etc. All prerequisites (e.g., providing sufficient authorised and conditional capital) have been provided for by the shareholders' meeting so as to provide the Company with sufficient flexibility to react to potential options.

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

5 PROBIODRUG'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Conditional capital 2010/I

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

Conditional capital 2014/I

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

Conditional Capital 2015

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

Authorisation to acquire treasury shares

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

6.2 Shareholding in Probiodrug AG

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

SHAREHOLDER

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

Restrictions with respect to the transfer of shares

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

6.3 Appointment and removal of members of the Executive Board

The appointment and removal of members of the Executive Board is regulated by Sections 84 and 85 of the AktG as well as in Section 6 of the Articles of Association in the version dated 06 October 2016. In accordance with Section 6 of the Articles of Association, the Executive Board consists of one or a number of members; moreover, the Supervisory Board determines the number of members of the Executive Board. The members of the Executive Board are appointed for a maximum of five years. This also applies to the renewal of an appointment of an Executive Board member.

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

6.4 Change to the Articles of Association

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

6.5 Other disclosures

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

7 CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289A OF THE HGB

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

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

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

Probiodrug AG's Executive Board and Supervisory Board declare that the recommendations of the „Government Commission on the German Corporate Governance Code" published by the German Federal Ministry of Justice on 5 May 2015 have been complied with, with the following exceptions and that the recommendations of the „Government Commission on the German Corporate Governance Code" published by the German Federal Ministry of Justice on 12 June 2015 have been complied with, with the following exceptions:

1. Section 3.8 of the Code – retained amount included in the D&O insurance for the Supervisory Board. The Company maintains D&O insurance covering all members of the Supervisory Board. No retained amount is stipulated. As the Supervisory Board members, for the most part, do not receive any remuneration, a retained amount would lead to an unreasonable result in financial terms for the Supervisory Board members.

2. Section 4.2.3 (2) sentence 6 of the Code – cap amounts for remuneration and variable remuneration components. Phantom stocks, which can be exercised in conjunction with a public offering, were granted to the Executive Board members. No cap is provided for such phantom stocks. In addition, stock options were granted to the Executive Board members. No cap is provided in case they are exercised. In any other respect, cap amounts are provided in the contracts with Executive Board members with respect to compensation and variable components of compensation.

3. Section 4.2.3 (4) of the Code – limitation of payment to two years' remuneration to an Executive Board member in case of premature termination. The current contracts with members of the Executive Board do not provide for a two year cap in payment in case of early termination. In connection with the transformation of the Company for the purpose of its listing, a primary aim was to provide for the cooperation of the Executive Board members.

4. Section 5.4.1 (2) of the Code – naming of precise objectives regarding the composition of the Supervisory Board. In terms of the future composition of the Supervisory Board, the Supervisory Board intends to have members with experience in pharmaceutical research, research with respect to Alzheimer's disease and similar illnesses as well as

experience with the public capital market. Considering the orientation of the Company, the members of the Supervisory Board should also have U.S. experience. As these requirements make it difficult to find a 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 shareholders' meeting, the remuneration was fixed in accordance with number 5.4.6 (1) sentence 2 of the Codex. As the other members of the Supervisory Board do not receive any remuneration, they cannot receive higher remuneration in the capacity as chairperson or vice chairperson of the Supervisory Board or chairperson of committees.

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

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

INFORMATION WITH RESPECT TO THE RATIO OF FEMALES

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

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

INFORMATION REGARDING CORPORATE GOVERNANCE

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

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

OPERATING PRACTICES OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

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

important events. Decisions required in the short-term are, in case of need, made during teleconferences or via circulation procedures.

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

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

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

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

To increase the Supervisory Board's efficiency, three committees were established: the audit committee, the nomination committee and the compensation committee. The audit committee comprises Dr von der Osten, Ms. Lohmann and Dr Neermann; Dr von der Osten is the Chairperson. All members have the corresponding expertise and independence. The audit committee met three times in 2016. The primary discussion points in these meetings were the audit of the 2015 financial statements pursuant to HGB and IFRS, the 2016 six month financial statements, the 2017 budget as well as the Company's potential financing options. The nomination committee includes Dr Platzer, Dr Neermann and Mr. Been; Chairperson is Dr Platzer. This committee did not meet in 2016. The compensation committee comprises Dr Platzer, Ms. Lohmann and Mr Been; Dr Platzer serves as Chairperson. This committee met twice in 2016. The primary point of discussion was the variable remuneration of the Executive Board for 2015 as well as cash compensation in conjunction with Stock Option Program 2010.

These committees report their activities to the entire Supervisory Board.

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

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

8 COMPENSATION REPORT

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

Halle (Saale) 6 March 2017
Management Board of Probiodrug AG

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Ingeborg Lues**

COMPENSATION REPORT FOR PROBIODRUG AG

Compensation for the Executive Board

Amount and structure
The annual compensation for the members of the Executive Board has three components:
— compensation independent of success (fixed compensation),
— a success based bonus and
— stock options.

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

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

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

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

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

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

Executive Board compensation for the year 2016

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

BENEFITS GRANTED

				Dr Konrad Glund CEO
Reappointment				1 Dec. 2014
In EUR	2015	2016 (actual)	2016 (minimum)	2016 (maximum)
Fixed compensation	210,000	210,000	210,000	210,000
Fringe benefits	24,673	24,403	24,403	24,403
Total	**234,673**	**234,403**	**234,403**	**234,403**
Variable compensation for one year	60,000	94,500	0	94,500
Cash settlement subsequent to the exercising of options from SOP-Program 2010[1]	0	200,000		
Perennial variable compensation				
Total	**294,673**	**528,903**	**234,403**	**328,903**
Pension expense	73,558	61,578	61,578	61,578
Total compensation	**368,231**	**590,481**	**295,981**	**390,481**

BENEFITS GRANTED

				Dr Hendrik Liebers CFO
Reappointment				1 Dec. 2014
In EUR	2015	2016 (actual)	2016 (minimum)	2016 (maximum)
Fixed compensation	210,000	210,000	210,000	210,000
Fringe benefits	21,931	21,931	21,931	21,931
Total	**231,931**	**231,931**	**231,931**	**231,931**
Variable compensation for one year	60,000	94,500	0	94,500
Cash settlement subsequent to the exercising of options from SOP-Program 2010[1]	0	200,000		
Perennial variable compensation				
Total	**291,931**	**526,431**	**231,931**	**326,431**
Pension expense	61,565	60,866	60,866	60,866
Total compensation	**353,496**	**587,297**	**292,797**	**387,297**

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

BENEFITS GRANTED

				Dr Inge Lues CDO
Reappointment				1 Nov. 2014
In EUR	2015	2016 (actual)	2016 (minimum)	2016 (maximum)
Fixed compensation	210,000	210,000	210,000	210,000
Fringe benefits	3,818	3,884	3,884	3,884
Total	**213,818**	**213,884**	**213,884**	**213,884**
Variable compensation for one year	60,000	94,500	0	94,500
Cash settlement subsequent to waiver of Phantom Stock Program	430,138			
Perennial variable compensation				
Total	**703,956**	**308,384**	**213,884**	**308,384**
Pension expense	0			
Total compensation	**1,126,544**	**703,956**	**428,887**	**738,456**

Liability insurance (D&O)

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

Shareholdings of the members of the Executive Board

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

2 Supervisory Board compensation

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

Determination of Supervisory Board compensation

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

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

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

Shareholdings of members of the Supervisory Board

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

Halle (Saale), 6 March 2017

The Executive Board of Probiodrug AG

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Ingeborg Lues**

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 and the report includes a fair view of the development and performance of the business and the position of Probiodrug AG, together with a description of the principle opportunities and risks associated with the expected development of Probiodrug AG.

Halle (Saale) 6 March 2017
Management Board of Probiodrug AG

Dr Konrad Glund **Dr Hendrik Liebers** **Dr Ingeborg Lues**

E. 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 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's 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.

Leipzig, 7 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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Annual General Meeting 2017

31 August 2017*

Interim Report, Half-Year Results 2017

30 November 2017*

Interim Management Statement Q3 2017

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

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