ANNUAL REPORT 2017

probiodrug

DE0007921835
ISIN

8,208,009
Number of shares

792183
WKN

EURONEXT AMSTERDAM
Stock exchange

PBD
Ticker Symbol

KEMPEN & CO.
Liquidity Provider and Listing Agent

BEARER SHARES
Type of shares

27 OCTOBER 2014
First trading day

KEY FIGURES

T01

In EUR k, unless otherwise stated	2017	2016
Earnings, Financial and Net Assets Position		
Operating loss	−9,961	−13,777
Finance income/loss	850	−114
Income tax gain	1,102	0
Net loss for the period	−8,009	−13,891
Equity (end of the year)	8,923	16,376
Equity ratio (end of the year) (in %)	82.9 %	73.2 %
Balance sheet total (end of the year)	10,762	22,366
Cash flows used in operating activities (year)	−12,117	−13,255
Cash flows used in operating activities (monthly average)	−1,010	−1,105
Cash flows used in investing activities (year)	459	−124
Cash flows provided by financing activities (net)	127	13,915
Cash and cash equivalents at the end of period	10,291	21,897
Personnel		
Total number of employees (incl. Board of management) (end of the year)	14	13
Average number of employees (incl. Board of management)	13.3	14.5
Probiodrug-Share		
Loss per share (basic and diluted) (in EUR)	−0.98	−1.82
Number of shares issued (end of the year)	8,208	8,187

PROBIODRUG AT A GLANCE

Probiodrug AG (Euronext Amsterdam: PBD) is a clinical stage biopharmaceutical company focused on the development of new therapeutic products for the treatment of Alzheimer's disease (AD). Probiodrug has identified a new therapeutic concept linked to disease initiation and progression. The development approaches are targeting a key neuro/synaptotoxic component of the pathology, pyroglutamate-Abeta (pGlu-Abeta) as a therapeutic strategy.

Probiodrug's lead product, PQ912, has successfully completed a Phase 2a study. The company is also developing PBD-C06, an anti pGlu-Abeta specific monoclonal antibody.

Probiodrug has medical use and composition of matter patents related to the inhibition of QC and anti pGlu-Abeta specific monoclonal antibodies, and has a leading position in this field of research and development.

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.

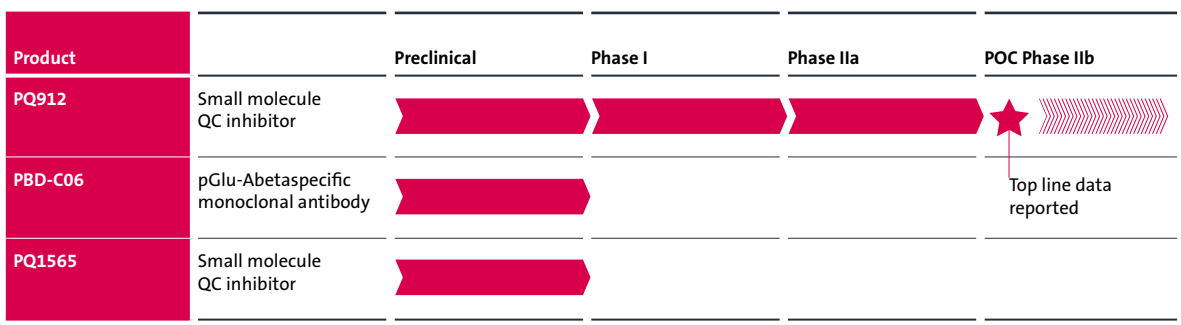
Probiodrug's current development pipeline consists of the following product candidates:

- PQ912 is Probiodrug's lead product candidate, currently in Phase 2, a highly specific and potent inhibitor of Glutaminyl Cyclase (QC), the enzyme catalyzing the formation of synaptotoxic pGlu Abeta. PQ912 has shown therapeutic effects in AD animal models. A Phase 1 study in healthy young and elderly volunteers revealed a dose dependent exposure and showed good safety and tolerability up to the highest dose with >90% target occupancy in the spinal fluid. In 2017, Probiodrug announced the top-line data of the Phase 2a SAPHIR trial of PQ912 and presented the study results at CTAD 2017. The positive effects seen on secondary exploratory efficacy markers are strongly supporting (a) the hypothesis of pGlu-Abeta being synaptotoxic and (b) the therapeutic concept pursued by Probiodrug. The study revealed a positive benefit risk ratio of PQ912 and provides important guidance how to move forward in the development of the compound as a disease-modifying drug for AD. Altogether, the results make the program highly attractive for further development; the company has initiated the preparation of a Phase 2b core program.

- 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 microhemorrhages after treatment with PBD-C06.

- PQ1565 is a second QC-inhibitor, currently in preclinical stage. The product candidate has shown attractive drug-like properties in preclinical studies. The compound is ready for regulatory toxicology studies.

FOCUSED ON PROPRIETARY PRODUCT PIPELINE



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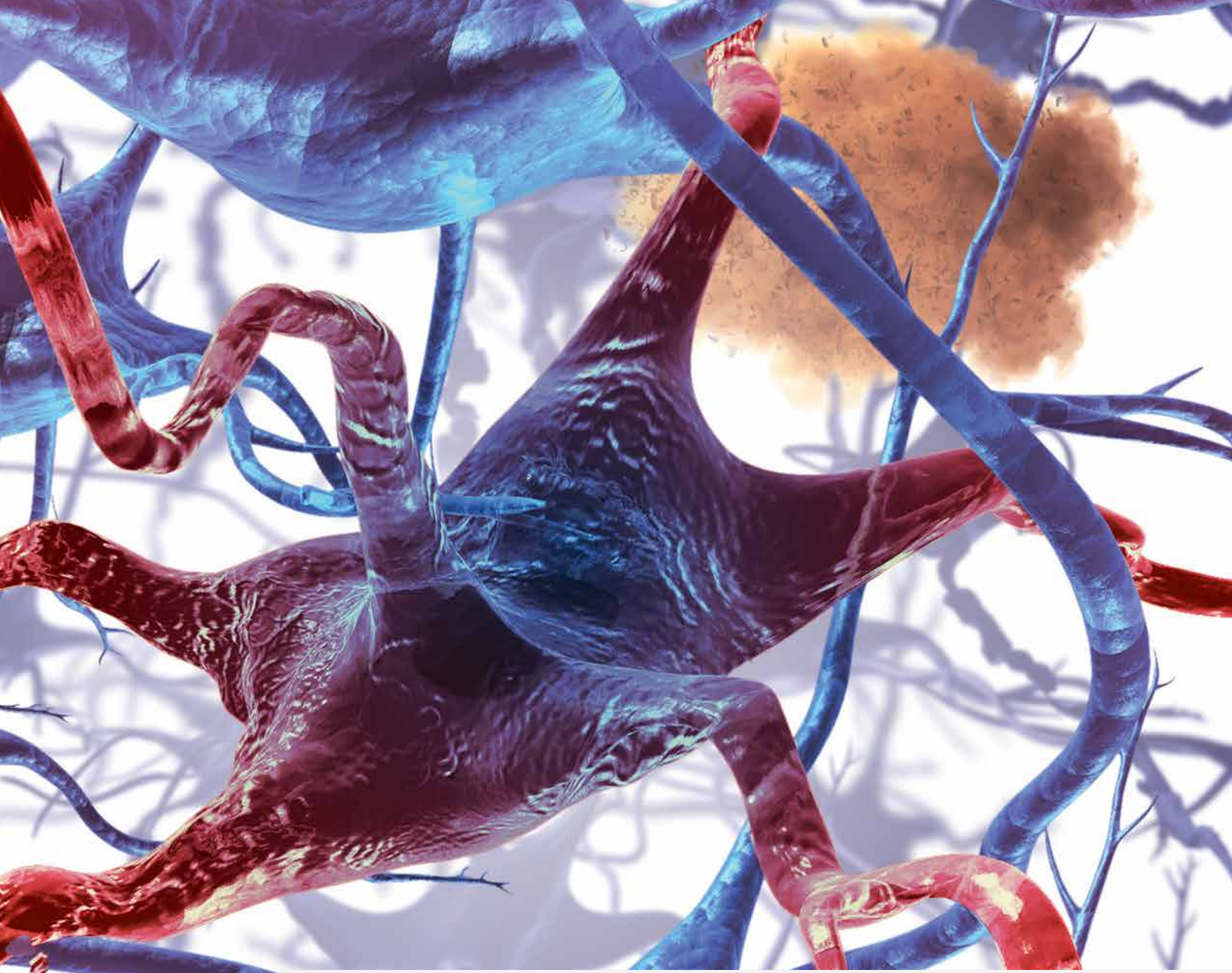

TO OUR SHAREHOLDERS

OUR FIELD OF ACTIVITY — Over 47 million people live with dementia worldwide. This number is estimated to increase to 131.5 million by 2050.

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LETTER TO THE SHAREHOLDERS

**DEAR SHAREHOLDERS,
DEAR FRIENDS AND PARTNERS OF PROBIODRUG,**

2017 has been a milestone year for Probiodrug. The positive results of the PQ912 Phase 2a SAPHIR trial have ensured a big leap forward in adding further validation and value to our program. The strong efficacy signals obtained after only three months of treatment support our concept of pGlu-Abeta being central for the synaptic impairment and over-inflammatory status within the continuum of the pathological process of AD.

We are now in a planning/ set-up phase for a robust Proof of Concept Phase 2b program for PQ912 consisting of an EU and an US trial. The studies are designed in accordance with the newest regulatory guidelines of FDA and EMA and state of the art scientific concepts. Our stepwise rational development strategy with clear objectives and hard state of the art cognition and functional endpoints will increase the likelihood of success. We are convinced that our well defined Phase 2b development strategy offers the potential for a major value inflection going forward.

Probiodrug's therapeutic approach targets specifically pGlu-Abeta as a strategy to fight Alzheimer's disease. The company is developing

"The clinical strategy for PQ912 has been defined and it follows a solid stepwise process to optimise chances of success. The results of the Phase 2a SAPHIR trial together with the earlier data from Phase 1 provided a solid basis to inform the design of a Phase 2b true POC program. It is already considering elements provided very recently in updates of regulatory guidelines from the US and Europe for early AD. The guidelines are adapted to today's knowledge of the Alzheimer's disease pathology and the learnings of the failures in the field alike. So what are we doing differently: not trying to use a short-cut by jumping from early Phase 1b/2a to Phase 3 but instead running a program to get solid Proof of Concept data, with the upside, if positive, to have the chance to get accelerated conditional approval."

DR INGEBORG LUES
CDO

proprietary product candidates via two modes of action: by (i) inhibiting the production of pGlu-Abeta; and (ii) clearing existing pGlu-Abeta from the brain. The long-term view for effectively treating AD is, like in other complex indications, the need for combination therapies. For the positioning of our therapeutic approaches, our recent finding is of great importance. By combining our two product candidates in an AD animal model it was found that the two complementary approaches indeed work in tandem, leading to an additive effect. This clearly demonstrates the potential of combining therapies for increased efficacy.

While the medical need for having drugs available to treat AD is evident and increasing, developing such drugs is challenging. During 2017 and early 2018 we saw several drug candidates with different mechanisms of action failing in late stage development. As PQ912 prevents formation of neurotoxic Abeta oligomers thereby also reducing the inflammatory response caused by such oligomers, it addresses pathological hallmarks of the disease. Thus, Probiodrug's concept is clearly differentiated in several respects by seeding synaptotoxic Abeta oligomers and, in addition, reducing over-inflammation. The first patient study, by means of an array of concept and pathology-related efficacy measures, very convincingly supported the strategy and showed early evidence of efficacy in patients. The Phase 2b studies as outlined by the company are the next steps to be taken.

As an upside, the new draft guidelines for early AD of the FDA open the way to a conditional approval with convincing positive Phase 2b data, which may provide an additional, important spin to our strategy.

Our strategy is clearly pointing into one direction – effective disease-modifying treatment strategies have to take today's understanding of the AD pathobiology into account addressing the neuro-toxic misfolded Abeta oligomers as well as the observed over-inflammation. This is where Probiodrug's differentiated approach of targeting specifically toxic pGlu-Abeta and antagonising the inflammatory stimulus is positioned.

With the positive results of the PQ912 Phase 2a SAPHIR trial and the design of the Phase 2b program in hand, Probiodrug is potentially closer to an AD drug than ever before. The implementation of the basis and securing the resources for the execution of the Phase 2b program are a key strategic goal for 2018.

We would like to say to all of you – our employees, advisors, shareholders, academic and industrial partners – thank you very much for your support, for your trust, commitment, patience and endurance also in 2017.

With the best wishes,

DR ULRICH DAUER
CHIEF EXECUTIVE OFFICER

DR INGEBORG LUES
CHIEF DEVELOPMENT OFFICER

"Following the initial success of our novel therapeutic PQ912 in a clinical trial to treat AD patients, we feel very strongly about our development plans for this asset going forward. We firmly believe that Probiodrug's disease modifying mechanism has the potential to make a true difference in the future treatment of this devastating disease."

DR ULRICH DAUER
CEO

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

The Supervisory Board closely attended the strategic development of the company and important individual measures in the financial year 2017 and supervised and consulted the Management Board on a regular basis. The work of the Supervisory Board, the principles of adopting resolutions and the work of its committees were governed, inter alia, by the rules of procedure of the Supervisory Board as adopted on 30 September 2014. The Supervisory Board could always satisfy itself of the lawful, expedient and proper activities of the Management Board. Within the reporting period, the Management Board informed the Supervisory Board in detail and comprehensively in the meetings on 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 and the status of the development programs. Moreover, the Chairman of the Supervisory Board coordinated with the Chief Executive Officer 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 2017, 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 2017, six meetings of the Supervisory Board took place; all members of the Supervisory Board, who were members at the respective point in time, participated. In those meetings, the main topics were the status of the research and development programs, relevant events in the industry, the financial need and the financing strategy. Furthermore an efficiency audit of the work of the Supervisory Board was conducted.
Also outside of the Supervisory Board meetings, the Chairman of the Supervisory Board was informed by the Chief Executive Officer of the current development of the business situation, significant business events and relevant events in the strategic environment of the company.

COMMITTEES

To increase the Supervisory Board's efficiency, three committees were established in the past: the audit committee, the nomination committee and the compensation committee. In December 2017, the Supervisory Board resolved to eliminate the nomination committee as well as the compensation committee. Their tasks were taken over by the general Supervisory Board.
The audit committee comprises Dr. von der Osten, Charlotte Lohmann and Dr. Neermann; Dr. von der Osten is the Chairperson. All members have the corresponding expertise and independence. The audit committee met twice in 2017. The primary discussion points in these meetings were the audit of the 2016 financial statements pursuant to HGB

and IFRS as well as the 2017 half-year financial statements. The nomination committee included Dr. Platzer, Dr. Neermann and until his resignation Kees Been; Chairperson was Dr. Platzer. This committee did not meet in 2017. The compensation committee comprised Dr. Platzer, Ms. Lohmann and until his resignation Mr Been; Dr. Platzer served as Chairperson. This committee met once in 2017 with all three members participating. The primary point of discussion was the variable remuneration of the Management Board for 2016. The committees reported their activities to the general 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 2017. The auditor elected by the Annual General Meeting on 13 June 2017 for the financial year 2017, KPMG AG Wirtschaftsprüfungsgesellschaft, audited the annual financial statements including the accounting as well as the management report and issued an unqualified audit opinion.
The documents that had been audited and the audit reports of the auditor were delivered to each member of the Supervisory Board. The auditor attended the meeting of the Supervisory Board on 09 February 2018 where the annual financial statements were presented, and reported on the material findings of his audit. Here the auditor also performed an audit of the risk monitoring system. The conclusion of the audit was that the Management Board has taken all suitable measures according to Section 91 (2) of the AktG, and that the risk monitoring system is capable of recognising 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 discussed the annual financial statements in a detailed manner and proposed that the Supervisory Board approve the annual financial statements of Probiodrug AG prepared by the Management Board. The Supervisory Board does not see any reason for raising any objections against the Management Board and the submitted annual financial statements.
In the meeting on 05 April 2018, 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 2017, the members of the Supervisory Board devoted themselves again to the German Corporate Governance Code. The Management Board and the Supervisory Board issued a declaration of conformity pursuant to section 161 AktG (Aktiengesetz – German Stock Corporation Act) which is available on the website of Probiodrug AG. In addition, in its corporate governance report, the Management Board concurrently reports on the corporate governance of Probiodrug also on behalf of the Supervisory Board.

CONFLICTS OF INTEREST IN THE SUPERVISORY BOARD

There were no conflicts of interest in the Supervisory Board within the reporting year 2017.

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

During the reporting period, there was one change on the Supervisory Board.
The terms of the Supervisory Board members Dr. Johannes von der Osten, Dr. Erich Platzer and Dr. Jörg Neermann expired in conjunction with the shareholders' meeting held on 13 June 2017, which resolved upon the approval of the actions of the members of the Supervisory Board for the year 2016. All of the afore mentioned Supervisory Board members stood for election again and were re-elected for a term through to the general meeting of shareholders, which resolves upon the approval of the actions of the Supervisory Board for the year 2017. The Supervisory Board members Charlotte Lohmann and Kees Been were elected by the 2015 Annual General Meeting as Supervisory Board members with a term ending upon the shareholders' meeting which resolves upon the approval of the actions of the Supervisory Board for the year 2017. As such, they were not up for election.
By way of resolution of 13 June 2017, the Supervisory Board re-elected Dr. Platzer as Chairperson und Dr. von der Osten as Vice Chairperson.
The Supervisory Board member Kees Been stepped down from his position in November 2017 for personal reasons. The contracts concluded on 1 December 2014 for the Management Board members Dr. Konrad Glund and Dr. Hendrik Liebers had a term until 30 November 2017. The contract of the Management Board member Dr. Ingeborg Lues, concluded on 1 November 2014, had a term until 31 October 2017. The contracts for all three members of the Management Board were extended by one year each. The Supervisory Board thanks the Management Board, all employees, consultants, advisors and partners of Probiodrug AG for their commitment and their performance.

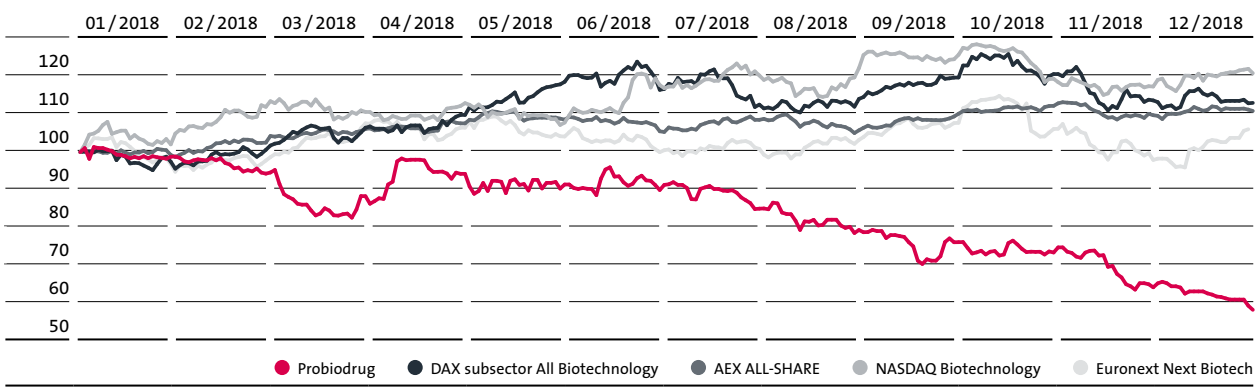
Halle (Saale), in April 2018
for the Supervisory Board:

DR ERICH PLATZER
CHAIRMAN OF THE SUPERVISORY BOARD

THE PROBIODRUG SHARE

RELATIVE PERFORMANCE OF PROBIODRUG SHARE IN 2017

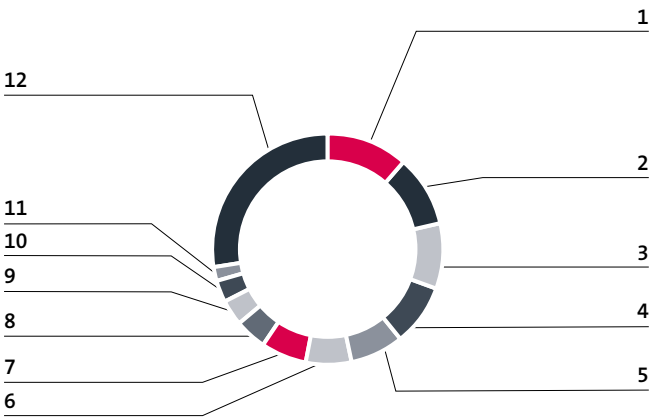
T02



Source: Bloomberg

SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2017

T03



	in %	
1	BB Biotech AG	12.8 %
2	IBG Group	10.9 %
3	AVIVA	9.9 %
4	Edmond de Rothschild Investment Partners	9.7 %
5	HBM Healthcare Investments	8.1 %
6	LSP	7.2 %
7	TVM	6.8 %
8	JP Morgan Asset Management	4.9 %
9	Founder/Management	3.9 %
10	Biogen	3.4 %
11	Supervisory Board	2.1 %
12	Others	30.2 %
	Total	100 %

STOCK MARKET SUPPORTIVE FOR BIOTECH IN 2017, BUT CHALLENGING FOR AD COMPANIES

2017 was a good year for biotech in general, with Probiodrug underperforming its relevant benchmarks. This underperformance, despite positive clinical data, is reflecting setbacks in the AD field, which took its toll on companies focused on AD.

The Euronext Next Biotech, representing the relevant benchmark for Probiodrug in The Netherlands, opened the year at 1,743.97, peaked at 2005.77 (on 10 December) and closed 2017 with 1,858.62. The US NASDAQ Biotechnology Index started into 2017 at 2,772.73, peaked at 3,570.79 (on 5 October) and closed the year at 3,356.61. The DAX Biotechnology subindex, tracking the German biotech industry, started into 2017 with 300.76, reached its year high of 379.46 (on 16 October) and ended the year at 340.28.

PROBIODRUG SHARE

The price of the Probiodrug share opened the year 2017 at EUR 18.30, reached its intrayear high of EUR 18.55 on 5 January 2017 and closed the year 2017 at EUR 10.60. Probiodrug had a market capitalization of appr. EUR 87 million at the end of 2017. → T02

KEY FIGURES OF THE PROBIODRUG SHARE AS AT 31 DECEMBER 2017

T04

International Securities Identification Number (ISIN)	DE0007921835
German Securities Identification Number (WKN)	792183
Ticker Symbol:	PBD
Type of shares:	Bearer shares
Number of shares:	8,208,009
Stock exchange:	Euronext Amsterdam
Liquidity Provider:	Kempen & Co.
First day of trading:	27 October 2014
Closing price on first trading day (January 2 2017 (Euronext) (in EUR)	18.30
Annual high (Euronext) (in EUR)	18.55
Annual low (Euronext) (in EUR)	10.60
Closing price on last trading day (December 29 2017 (Euronext) (in EUR)	10.60
Market capitalization (in EUR)	86.8 mio

TOP-TIER INVESTOR BASIS

Probiodrug continued to enjoy the confidence of experienced blue chip investors. According to voting rights notifications received up to 31 December 2017, the following institutions were known to have exceeded the 3% threshold: BB Biotech AG, Aviva, IBG Group, Edmond de Rothschild Investment Partners, HBM Healthcare Investments, Life Science Partners (LSP), TVM Capital, JP Morgan Asset Management and Biogen. → T03

DEVELOPING OUR INVESTOR RELATIONS ACTIVITIES

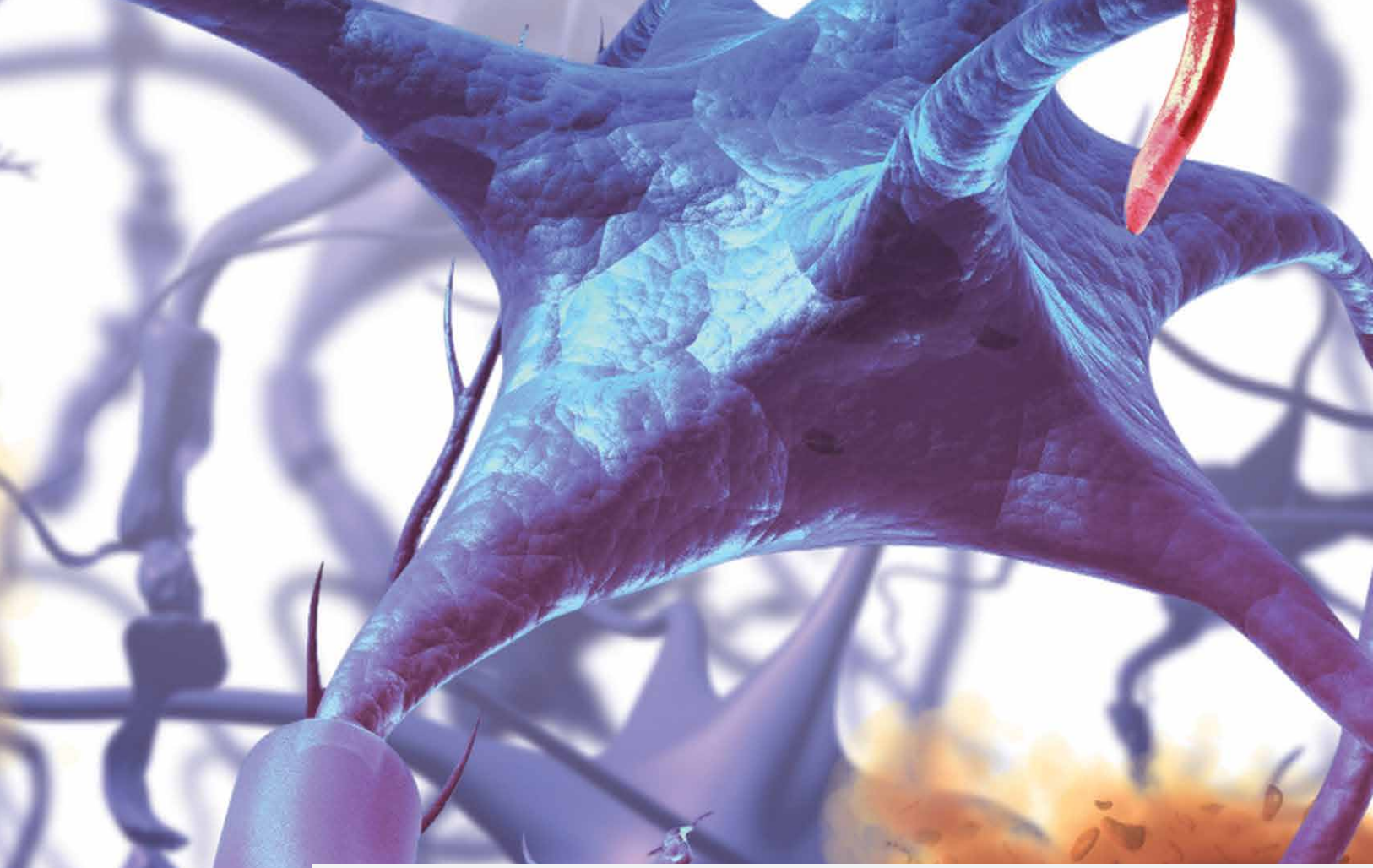
In 2017, Probiodrug further strengthened its investor relations activities in Europe and the US. We further increased our visibility in capital markets by regular participations and presentations at relevant conferences, regular updates with existing shareholders as well as presenting the treatment approach 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.

Probiodrug`s investor relations activities are supported by Optimum, London with a focus on UK, by the Trout Group, focusing primarily on the USA and MC Services with a focus on continental Europe. Contact details for media enquiries etc. can be found in the publishing information.

At the end of 2017 Probiodrug was covered by analysts from the following institutions:

- Kempen & Co
- Bank Degroof Petercam
- Edison Research
- goetzpartners Corporate Finance Ltd.
- Rx Securities

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



MANAGEMENT REPORT

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

2

2.1 BUSINESS, GENERAL ENVIRONMENT AND CORPORATE GOVERNANCE

(a) GROUP STRUCTURE AND BUSINESS ACTIVITIES

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 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-prone 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 prevention of the production of pGlu-Abeta by the inhibition of the enzyme, Glutaminyl-Cyclase ("QC"). The Company's most advanced program in this area, the development candidate PQ912, successfully completed a clinical Phase 2a study in 2017; a further development candidate, PQ1565, is in preclinical development. The next development steps, in particular the clinical Phase 2b program are being prepared. On the other hand, the Company is developing pGlu-Abeta binding antibodies, which ultimately lead to the degradation of pGlu-Abeta and pGlu-Abeta containing oligomers. This program (PBD-C06) is in preclinical development.

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

The Company is registered with the name Probiodrug AG with the commercial register of the local court (Amtsgericht) of Stendal under the registration number HRB 213719. Its commercial name is Probiodrug. The Company's registered office and business address is Weinbergweg 22, 06120 Halle/Saale, Germany.

In 2017 the management of the Company consisted 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.

As at 1 May 2018 the management of the Company consists of two Board members: Dr Ulrich Dauer (Dipl. Chemiker [degreed Chemist]) – CEO and Dr Inge Lues (Dipl.-Biologe [degreed Biologist]).

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 2017 in the Annex "Financial Reports". In addition, the joint Compliance Statement (Entsprechungserklärung) according 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, a continuous and systematic management of the entrepreneurial chances and risks is of essential importance. For this reason Probiodrug implemented internal control and risk management. The Management Board reports to the Supervisory Board on a regular basis on the current developments in the Company. In the Audit Committee, the supervision of the effectiveness of the accounting processes as well as the supervision of the independence of the auditor are in the focus.

OBJECTIVES OF THE SUPERVISORY BOARD REGARDING ITS COMPOSITION

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

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

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

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 fifth. This goal was achieved in 2017.

AVOIDANCE OF CONFLICTS OF INTEREST

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

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

Pursuant to Section 15a WpHG (German Securities Trading Act), the members of the Management Board and the Supervisory Board or persons closely related to them are obligated to report transactions in shares in the Company or financial instruments relating thereto to the Company if the value of any such transactions reaches or exceeds the amount of EUR 5,000.00 within one calendar year. Since the initial public offering of the Company with the listing at Euronext, Amsterdam, no transactions have been reported to the Company. To the knowledge of the Company, the members of the Management Board hold 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 a pecuniary loss liability insurance (D&O insurance) for the members of the Management Board with a reasonable retained amount pursuant to Section 93 para. 2 sentence 3 AktG.

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

For further details on corporate governance, please refer to the management report relating to the Annual Financial Statements 2017 (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 2013/14 successfully into a development company with high levels of outsourcing resulting in flexibility and cost-efficiency. At the same time, the Company kept the access to the established formerly in-house scientific AD experts through advisory contracts. According to its needs, the Company has retained and extended the number of very committed senior industry experts for the programme who ensure that the Company

has access to the expertise for all relevant functions needed for a competent and efficient clinical and non-clinical development of its product candidates. The Company's expertise also includes translational preclinical and clinical development aspects with specific emphasis on the development and use of innovative exploratory biomarkers and effective clinical study designs. While biomarkers are available for early diagnostic purposes, no biomarker has been defined so far that is of proven value as a therapeutic marker. The Company has successfully established a set of assays for new molecular biomarkers which relate to the current hypothesis of the AD pathology and will be used in the running study to see whether they would serve this purpose. The Company has an excellent state-of-the-art clinical trial design in order to get reliable results with PQ912 (see 2.9). 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 models of what is appropriate for a biotechnology company at this stage and size, such as entering into collaborative, partnering or licensing arrangements in respect of its product candidates.

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

Executing the Phase 2b clinical study program for PQ912
Probiodrug is preparing the Phase 2b study, a long-term treatment with PQ912, for its lead product candidate PQ912 (detailed in Section 2.9).

Advance development of PBD-C06
Our pGlu-Abeta antibody PBD-C06 features have been further tuned for a clear upside and best-in-class potential by applying a specific de-immunisation and complement inactivating strategy. 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 prepared and respective decisions would be made in connection with the overall strategic focus.

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 focussing 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 synergies of combination strategies with other therapies. Therefore, Probiodrug explores the rationale to combine its own product candidates PQ912 and PBDC06 with each other and 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 a double-pronged approach of targeting toxic pGlu-Abeta by combining PQ912 to block pGlu-Abeta formation and PBD-C06 to increase its clearance in an AD animal model.

It has been shown preclinically by Lilly & Co. that a combination of a BACE inhibitor and a pGlu-Abeta-specific antibody revealed a synergistic effect, i.e. adding the effects of two independent mechanisms while keeping the side effects low in Alzheimer's disease-like animal models. Probiodrug has respective studies ongoing as well. Lilly & Co. has started a combination trial in patients with their pGlu-Abeta specific antibody and their BACE inhibitor, announced at clinical.trial.gov in December 2017.

Evaluate the potential of the QC inhibition approach for other indications, such as Down syndrome, Huntington's disease or Parkinson's disease

Probiodrug is exploring the application of its product candidates to indications for which a biological rationale exists, such as Down syndrome, Huntington's disease and Parkinson's disease. 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

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

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

(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 SEE ALSO SEPARATE SECTION 2.9

In 2017 Probiodrug has completed the clinical study Phase 2a, the "SAPHIR" study, of its lead product candidate PQ912. A high dosage of PQ912 was used in the SAPHIR study

(which demonstrated a 90% occupancy of the QC enzyme in CSF (cerebro-spinal fluid) in a Phase 1 study), to investigate the following:
1. Early-on tolerability signs and
2. First signals on various sensitive secondary exploratory outcome measures in a relatively short time frame.

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

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

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

PBD-C06

PBD-C06 is a monoclonal antibody, currently in preclinical stage. PBD-C06 targets pGlu-Abeta, aiming to selectively clear the brain of pGlu-Abeta while leaving non-toxic forms of Abeta untouched. PBD-C06 has been successfully humanised and also de-immunised to avoid detection by the patient's endogenous immune system. In addition, the antibody was modified to reduce complement activation which is assumed to be the cause for dose-limiting side effects (micro-bleed and micro haemorrhage). 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 microhaemorrhage after treatment with PBD-C06.

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

In 2017 we achieved an important milestone by establishing a stable expression cell CHO cell-line as a starting point for the upstream development of the antibody.

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. As the frontrunner did not reveal any critical concerns, no further activities are planned for the time being for this back-up compound and PBD's investments are allocated to the frontrunner PQ912 and the complementary antibody.

The next development steps are in preparation as outlined in Section 2.

PUBLICATIONS/PRESENTATIONS

13th International Conference on Alzheimer's and Parkinson's Diseases (AD/PDTM 2017), Vienna, Austria:
In March 2017 Probiodrug presented an oral presentation entitled: "Selective targeting of pGlu-Abeta with an IgG2a in tg mice is effective in lowering plaque pathology and improving cognition, a combination of a QC-inhibitor and a pGlu-Abeta specific antibody showed superior efficacy". The data resulted from a collaboration between Probiodrug and Harvard, BWH, Boston, USA. Additonally two posters were presented:

- "In CSF from AD patients high correlation of QC activity with AD related biomarkers and inflammatory molecules were found" in cooperation with the VUmed Center Amsterdam, The Netherlands and
- "Based on PKPD analysis in animal studies, a 50% inhibition of QC activity in the brain leads to a robust effect - an important translational guidance for therapeutic dosing in clinical studies" in cooperation with Fraunhofer Institute, Halle (Saale), Germany.

Journal of Pharmacology and Experimental Therapeutics:
In May 2017 Probiodrug announced the publication of a PQ912 pharmacology paper entitled "Glutaminyl Cyclase Inhibitor PQ912 improves cognition in mouse models of Alzheimer's disease - studies on relation to effective target occupancy" in a peer-reviewed journal (T. Hofmann et al. Journal of Pharmacology and Experimental Therapeutics 26 April 26 2017, jpet.117.240614; DOI: https://doi.org/10.1124/jpet.117.240614)).

Journal of Biological Chemistry:
In August 2017 the unique binding mode of PBD-C06 to pGlu-Abeta peptides was published ("Structural and functional analyses of pyroglutamate-amyloid-β-specific antibodies as a basis for Alzheimer immunotherapy"; Piechotta et al. J. Biol. Chem. 2017 292:12713). In these studies, the binding characteristics of a murine version of Probiodrug's lead therapeutic antibody (PBD-C06) against its designated target pGlu-Abeta was analysed at the molecular level applying co-crystallisation and X-ray structure analysis. The studies revealed a unique binding mode of PBD-C06 to pGlu-Abeta peptides, which are believed to catalyse the seeding of synapto/neurotoxic Abeta oligomers, a key culprit in the pathology of AD. Furthermore, the data provide a rationale for the high target specificity of PBD-C06 and suggest low binding to off-targets, such as unmodified, less toxic Abeta peptides.

CTAD 2017, Boston, USA:
In November 2017 Prof Philip Scheltens, MD, PhD, Principal Investigator of the SAPHIR study, presented the data from this trial during the Late Breaking Oral Communications session at the CTAD 2017. The presentation was entitled "Phase 2a study results with the glutaminylcyclase inhibitor PQ912 in early Alzheimer's Disease".

PATENTS

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

(c) SIGNIFICANT CORPORATE EVENTS OF THE COMPANY

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

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

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

Supervisory Board
The general shareholder meeting on 13 June 2017, re-elected Dr Erich Platzer, Dr Dinnies von der Ostenand Dr Jörg Neermann as Supervisory Board members. The Supervisory Board then re-elected Dr Erich Platzer as Chairman and Dr Dinnies von der Osten as Vice Chairman. Supervisory Board members Ms Charlotte Lohmann and Mr Kees Been were elected by the annual shareholders' meeting in 2015 for a term through the end of the annual shareholders' meeting which resolves upon the exoneration of the Supervisory Board for 2017 and were, therefore, not up for election.

The Supervisory Board member Mr Kees Been left the Supervisory Board in November 2017 due to personal reasons.

(c) POST PERIOD SIGNIFICANT CORPORATE EVENTS OF THE COMPANY

In April 2018 Probiodrug announced that Dr. Ulrich Dauer has been appointed as Chief Executive Officer effective 1 May 2018. He teamed up with long-serving Chief Development Officer, Dr. Inge Lues, who has borne key responsibility for development of Probiodrug's pipeline. Dr. Dauer brings more than 20 years of biopharmaceutical industry experience to Probiodrug. Dr. Konrad Glund and Dr. Hendrik Liebers will continue in advisory roles.

2.3 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The financial statements of Probiodrug as at 31 December 2017 were prepared on a voluntarily basis in accordance with the International Financial Reporting Standards (IFRS/IAS) of the International Accounting Standards Board as well as in accordance with the Interpretations of the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC), as endorsed by the European Union for mandatory application as at the balance sheet date.

(a) RESULTS OF OPERATIONS

The statement of comprehensive loss of Probiodrug for the year 2017 is set forth below:

STATEMENT OF COMPREHENSIVE LOSS FOR THE PERIOD 1 JANUARY 2017 TO 31 DECEMBER 2017 IFRS — T05

	1 Jan.–31 Dec.	
In EUR k	**2017**	**2016**
Research and development expenses	−7,454	−10,951
General and administrative expenses	−2,511	−2,909
Other operating income	4	83
Operating loss	**−9,961**	**−13,777**
Finance income	862	0
Finance expense	−12	−114
Finance Income/(expenses), net	850	−114
Income tax gain	**1,102**	**0**
Net loss for the period	**−8,009**	**−13,891**
Items not to be reclassified subsequently to profit or loss		
Remeasurement of the net defined benefit pension liability	143	−31
Total other comprehensive income (loss)	**143**	**−31**
Comprehensive loss	**−7,866**	**−13, 922**
Loss per share in EUR (basic and diluted)	−0.98	−1,82

* Amounts restarted, see notes 5.1, 5.2, 5.4

RESEARCH AND DEVELOPMENT EXPENSES

In financial year 2017 the research and development expenses of EUR 7,454k (2016: EUR 10,951k) 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 as well as amortisation and depreciation attributable to the research and development area.

GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses of EUR 2,511k (2016: EUR 2,909k) comprise personnel costs and costs of office supplies 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 4k (2016: EUR 83k).

OPERATING LOSS

The resulting operating loss amounts to EUR 9,961k (2016: EUR 13,777).

FINANCE INCOME AND INCOME TAX GAIN

The finance income amounts to EUR 850k (2016 finance loss: EUR 114k). The income tax gain amounts to EUR 1,102k (2016: EUR 0k).

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

NET LOSS

The corresponding net loss amounts to EUR 8,009k (2016: EUR 13,891k).

OTHER COMPREHENSIVE INCOME/LOSS

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

COMPREHENSIVE LOSS

The resulting comprehensive loss amounts to EUR 7,866k (2016: EUR 13,922k).

(b) FINANCIAL POSITION

The statement of financial position of Probiodrug for the year 2017 is set forth below:

ASSETS

The assets amount to EUR 10,762k (2016: EUR 22,366k), consisting mainly of cash and cash equivalents of EUR 10,291k (2016: EUR 21,897k).

EQUITY

The equity amounts to EUR 8,923k (2016: EUR 16,376k), corresponding to an equity ratio of 82.9%.

NONCURRENT LIABILITIES

The noncurrent liabilities amount to EUR 1,171k (2016: EUR 850k), consisting completely of the net commitment (defined benefit liability) of the pension commitments (defined benefit obligations) of EUR 1,619k (2016: EUR 1,644k).

CURRENT LIABILITIES

The current liabilities amount to EUR 668k (2016: EUR 5,140k), consisting primarily of trade payables and other current liabilities. The trade payables amounted to EUR 344k (2016: EUR 1,893k) resulting from of the ordinary conduct of business. They have a remaining term of up to one year.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

ASSETS
IFRS

T06

In EUR k	31 Dec. 2017	31 Dec. 2016
Noncurrent assets		
Intangible assets	11	96
Plant and equipment	55	68
Financial assets	3	3
Total noncurrent assets	**69**	**167**
Current assets		
Tax receivables	0	0
Other assets	402	302
Cash and cash equivalents	10,291	21,897
Total current assets	**10,693**	**22,199**
Total assets	**10,762**	**22,366**

EQUITY AND LIABILITIES
IFRS

T07

In EUR k	31 Dec. 2017	31 Dec. 2016
Equity		
Share capital	8,208	8,187
Additional paid-in capital	48,678	48,286
Accumulated other comprehensive income	−387	−530
Accumulated deficit	−47,576	−39,567
Total equity	**8,923**	**16,376**
Noncurrent liabilities		
Pension liability	1,171	850
Total noncurrent liabilities	**1,171**	**850**
A. Current liabilities		
Tax liabilities	0	2,739
Provisions	12	53
Trade payables	344	1,893
Other current liabilities	312	455

LIABILITIES AND EQUITY
IFRS

T08

In EUR k	31 Dec. 2017	31 Dec. 2016
Total current liabilities	**668**	**5,140**
Total liabilities	**1,839**	**5,990**
Total equity and liabilities	**10,762**	**22,366**

(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 2017 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 2017, including the Management Board, Probiodrug had 14 (2016: 13) employees, of which 53% were female. In the reporting period, there were an average of 13.3 employees (2016: 14.5). In 2017, Probiodrug incurred personnel expenses of EUR 1.90 million (2016: EUR 2.47 million).

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

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 2017. 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 2017, 42 patent families were held (31 December 2016: 40). The focussing of the patent portfolio in non-core areas was offset by new applications in the development relevant areas. As such, Probiodrug's overall patent position was further improved.

2.6 REPORT ON RISKS AND OPPORTUNITIES

(a) OPPORTUNITIES

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

(b) RISKS

On the other hand, Probiodrug is exposed to various individual risks, which are described in detail in the management report, relating to the Annual Financial Statements 2017. The occurrence of these risks can, individually or in the aggregate, with the incurrence of other risks respectively other circumstances, have a material adverse effect on the business activities, the

realisation of significant Company goals and/or Probiodrug's ability to refinance and could have substantial negative implications on the Company's net assets, financial position and results of operations. In the worst case, this could force the Company to file for insolvency. Currently only a few factors have been identified which could, in the short-term, impair the development of Probiodrug. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2017 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 2017 (Annex "Financial Reports").

2.7 REPORT ON POST-BALANCE SHEET DATE EVENTS

In April 2018 Probiodrug announced that Dr. Ulrich Dauer has been appointed as Chief Executive Officer effective 1 May 2018. He teamed up with long-serving Chief Development Officer, Dr. Inge Lues, who has borne key responsibility for development of Probiodrug's pipeline. Dr. Dauer brings more than 20 years of biopharmaceutical industry experience to Probiodrug. Dr. Konrad Glund and Dr. Hendrik Liebers will continue in advisory roles.

2.8 COMPANY OUTLOOK

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

- Carrying out the Phase 2b clinical study program for PQ 912,
- Continuing the development of PBD-C06,
- Conclusion of one or more industrial partnerships,
- Further scientific analysis of potential second indications for the use of QC inhibitors,
- Further strengthening Probiodrug's financial resources.

As a result of the continuing costs being incurred for development activities which are not yet offset by any sales, the Company also projects a net loss for financial year 2018 which, based on the current budget, is expected to be lower than that of 2017.

Due to its business model, Probiodrug is dependent upon additional capital to implement its development strategy until such time at which an industrial partnership is concluded and potentially beyond that. This can be provided in the form of equity on the basis of a capital increase or via alternative financing forms such as loans, convertible bonds, option bonds, etc. All appropriate provisions (e.g. approving sufficient authorised and conditional capital, eliminating pre-emptive rights) have been approved by the annual shareholders' meeting so as to provide the Company with sufficient flexibility to react to potential options.

The Company is well positioned in the development of new therapeutic concepts for the treatment of 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.

2.9 CLINICAL DEVELOPMENT STRATEGY WITH PQ912

Introduction:
With their lead compound PQ912 Probiodrug pursues a stepwise, value-creating and risk-reducing development approach and does not shortcut or skip relevant early clinical development checkpoints. Each step provides important data to inform the design of the next development stages.

PHASE 1: COMPREHENSIVE SINGLE AND MULTIPLE DOSE STUDIES

Focus on mechanism based biomarker, PK / PD model, safety
Delivered target occupancy model, good safety margins, drug formulation strategy, drug metabolism

PHASE 2A: PILOT DOUBLE BLIND STUDY IN TARGET AD POPULATION

Focus on safety of high dose (MTD), efficacy: cognitive, qEEG CSF and imaging endpoints
Delivered dosing strategy for long-term studies, proof of principle of target engagement and positive functional AD outcomes for next study

PHASE 2B: CLINICAL PROOF OF CONCEPT STUDY PROGRAM POWERED FOR COGNITION ENDPOINT

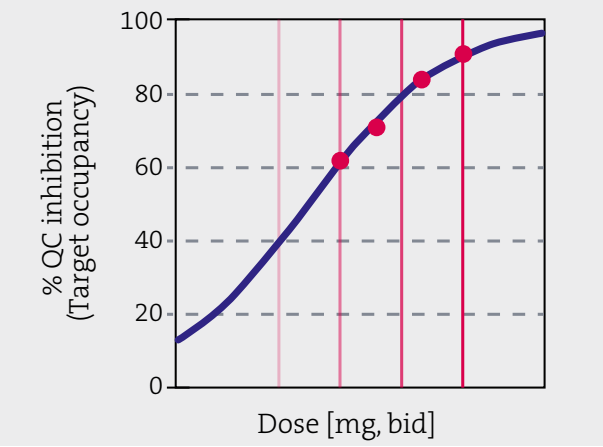
Focus on clinical efficacy in cognition
Will deliver clinical proof of concept, using sensitive cognition endpoints according to latest FDA guideline, upside for early approval

PHASE 3: CONFIRMATION OF PHASE 2B RESULTS (IF REQUIRED)

A comprehensive First in Man study in 200 young and elderly healthy volunteers delivered important information about the drug's features in humans regarding safety and tolerability, ADME/PK, brain penetration, and level of target occupancy in the spinal fluid (CSF):

- PQ912 was safe and well tolerated, maximal tolerated dose not achieved – despite high exposure levels
- Had good pharmacokinetic profile resulting in dose-dependent and effective brain concentrations
- Showed dose dependent increase in brain exposure and target engagement i.e. QC-inhibition (see figure below)
- Revealed high (average above 90%) QC-inhibition in CSF with a dose of 2x800mg, used in the SAPHIR Phase 2a patient trial
- The PK/PD correlation in CSF – PQ912 concentration versus QC-inhibition in CSF – showed an EC50 = 11.1 ng/ml = 33 nM which is similar to the biochemically determined Ki.

DOSE RESPONSE CURVE IN ELDERLY HEALTHY VOLUNTEERS

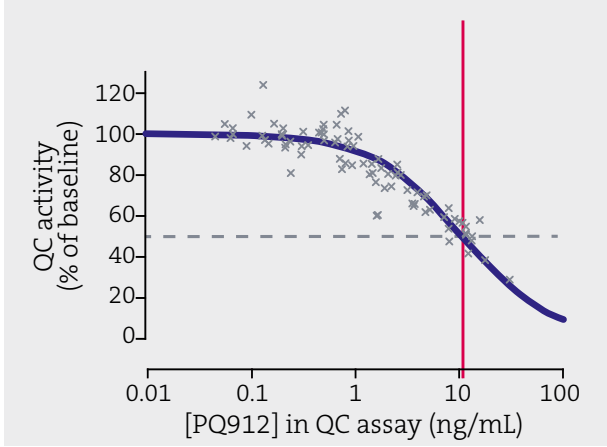


Dose-dependent QC-inhibition in **CSF** of elderly healthy volunteers

>90% QC inhibition in CSF at the dose used in Phase 2 in **Elderly**

* Lues et al, Alzheimer's & Dementia: Translational Research & Clinical Interventions (2015) 1, 182–195

PK-PD RELATION – RELATIVE QC ACTIVITY CSF



PQ912 concentration versus QC-inhibition in CSF:
EC50 = 11.1 ng/ml = 33 nM
2x300 mg: **average** 24 ng/ml (71 nM) = 70% TO in elderly HV

* Lues et al, Alzheimer's & Dementia: Translational Research & Clinical Interventions (2015) 1, 182–195

The attractive profile obtained in comprehensive Phase 1 provided a solid basis for studies in Alzheimer patients.

PHASE II DEVELOPMENT STRATEGY PQ912 IN AD

The clinical development of PQ912 in patients has been separated into

- a pilot Phase 2a study: "SAPHIR" and
- a Phase 2b program, comprising a core EU study: "SAPHIR 2" and an US-based study in collaboration with the ADCS (Alzheimer's Disease Corporative Study Group, a collaboration between NIA and UCSD, headquartered in San Diego and led by Howard Feldman).

The Phase 2a SAPHIR trial had 3 major objectives:

1. To determine the Maximum Tolerated Dose (MTD) in the target early Alzheimer disease population

2. To investigate the short-term effect of PQ912 on a neuro-psychological test battery provided by the world largest vendor with the longest track record (Cogstate) and compiled by one of the most prominent world leaders in neuro-psychology scales: John Harrison. The purpose was to apply this scale in future clinical proof of concept and Phase III studies

3. To investigate the short-term effect of PQ912 on a group of EEG, CSF and MRI-based biomarkers in order to select the most promising and responsive parameter as secondary endpoints in future clinical proof of concept and Phase III studies

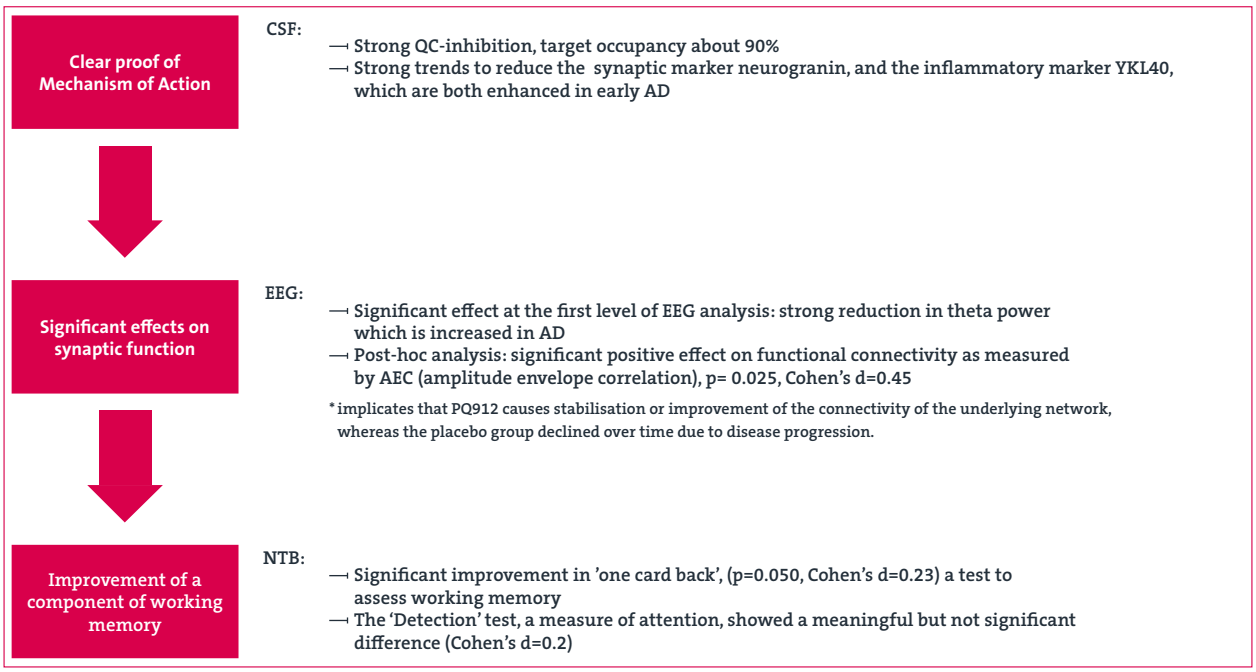
SHORT SUMMARY OF PHASE 2A SAPHIR RESULTS

The SAPHIR Phase 2a study showed that the MTD of PQ912 is 800mg bid in the target population, patients with early Alzheimer's disease. This investigation was needed because in the large Phase I study the safety and tolerance of PQ912 across the whole dose range (up to 3600mg/day single dose) was excellent and no safety signals were identified. In order to avoid expensive safety failure of treatment arms in a later long-term treatment study a 12-week trial in the target population was considered sufficient to determine MTD. At the dose of 800 mg twice a day the measured and the calculated target occupancy (inhibition of the QC enzyme in the CSF/brain fluid) is above 90% the same as was found in Phase 1 in elderly volunteers. In future Phase 2b/ proof of concept dose range finding and dose titration trials doses between 150 and 600mg bid will be studied providing a target occupancy range between 50 and 85%, which is considered fully sufficient based on pre-clinical and translational medicine experiments. The MTD was defined by a significantly higher number of patients stopped IMP intake prematurely, mainly because of mild to moderate skin effects and some GI-effect. Both adverse events were fully reversible.

Regarding efficacy several parameters were positively influenced by PQ912 treatment, all supporting our hypothesis. The NTB cognition test battery showed in the Phase 2a trial of 3 months treatment duration already a statistically significant effect of PQ912 on the 'one card back' test (a test investigating working memory) and a trend in favour of PQ912 with a relevant effect size of Cohen´s d of 0.2 in the detection test (a test investigating attention).

In the group of PQ912, for CSF-, EEG- and MRI-based biomarkers significant results or strong trends with clinically relevant effect sizes were observed such as a reduction in theta power (EEG) and a reduction of the synaptic marker Neurogranin as well as the inflammatory marker YKL 40 (CSF).

In summary the results of the SAPHIR Phase 2a study strongly support the hypothesis that the inhibition of the QC enzyme leads to lower level of synaptotoxic pGlu-Abeta (oligomers), which allows stabilisation of synaptic function and synaptic recovery in an early AD population. It proves. a strong target engagement.



THE PHASE 2B / PROOF OF CONCEPT STUDY

The overarching Phase 2 b development program will comprise two trials, one in Europe and one in the USA. The trial will be complementary having a set of key elements of the design in common (such as patient population, inclusion criteria etc.) but will include complementary differences such as treatment duration, additional endpoints and difference in futility/interim analyses.

The focus will be on clinical efficacy in cognition and functioning of daily living, will deliver clinical proof of concept using sensitive cognitive and functional end-points – both trial designs are according to the latest regulatory guidelines by the FDA and the European EMA (both February 2018).

The European study is in the setup phase whereas the US study is in advanced planning status.

KEY DESIGN ELEMENTS OF THE PHASE 2B CORE EU STUDY SAPHIR 2

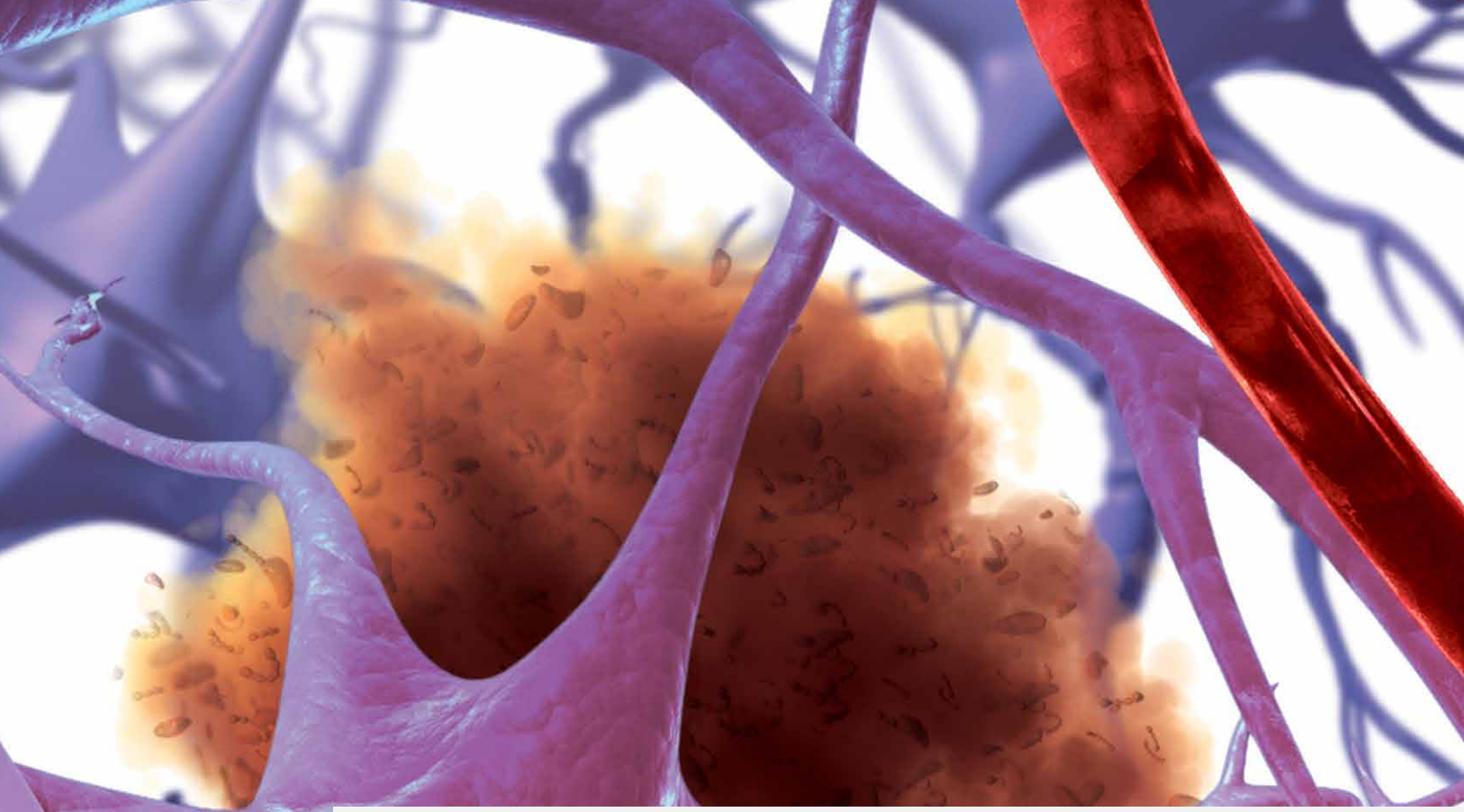
The primary objective of the EU core Phase 2b study is to provide clinical proof of concept by demonstrating that PQ912 compared to placebo improves cognitive function in an early AD population as measured by the neuro-psychological test battery.

Key design elements of the Phase 2b SAPHIR 2 EU core study are that

- The early AD population definition is nearly identical to the SAPHIR 1 study and fully in line with the regulatory guidance documents of the FDA and EMA (no post-hoc tailoring)
- The neuro-psychological test battery used is identical to the one applied in the Phase 2a study. Moreover, the results and effect size estimate of the primary cognitive endpoint has been extrapolated from the SAPHIR 1 results to the SAPHIR 2 study and been validated by external historic control groups with over 300 subjects provided by Cogstate

- The secondary endpoints are chosen from the responsive biomarker group of the Phase 2a study, the NTB of Cogstate and a sensitive functional scale for the early AD population.
- The investigator trial network and the CRO core team will be identical to the Phase 2a study.

In summary, the Phase 2b study will take over the major design elements which have already been studied and validated in the Phase 2a study. No post-hoc engineering of population or response criteria were undertaken. The primary endpoint of the proof of concept study is – very different from other early development program in early AD – based on a relevant and regulatorily accepted cognition endpoint and not on a non-validated surrogate outcome parameter like amyloid, a beta concentration in CSF or other pharmacological or mechanism based biomarker.



FINANCIAL REPORTS

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

3

PART I

A. FINANCIAL STATEMENTS (IFRS)

STATEMENT OF COMPREHENSIVE LOSS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

T09

		1 Jan.–31 Dec.	
In EUR k	Notes	2017	2016
Research and development expenses	5.1	−7,454	−10,951
General and administrative expenses	5.2	−2,511	−2,909
Other operating income		4	83
Operating loss		**−9,961**	**−13,777**
Finance income	5.4	862	0
Finance expense		−12	−114
Finance income/(expense), net		**850**	**−114**
Income tax gain	5.4	**1,102**	0
Net loss for the period		**−8,009**	**−13,891**
Items not to be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension liability		143	−31
Total other comprehensive income (loss)		**143**	**−31**
Comprehensive loss		**−7,866**	**−13,922**
Loss per share in EUR (basic and diluted)	6.5.1	−0.98	−1.82

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

ASSETS

T10

In EUR k	Notes	31 Dec. 2017	31 Dec. 2016
Noncurrent assets			
Intangible assets	3.3/6.1	11	96
Plant and equipment	3.4/6.2	55	68
Financial assets	3.6	3	3
Total noncurrent assets		**69**	**167**
Current assets			
Other assets	6.3	402	302
Cash and cash equivalents	3.7/6.4	10.291	21,897
Total current assets		**10,693**	**22,199**
Total assets		**10,762**	**22,366**

EQUITY AND LIABILITIES

T11

In EUR k	Notes	31 Dec. 2017	31 Dec. 2016
Equity			
Share capital	6.5	8,208	8,187
Additional paid-in capital		48,678	48,286
Accumulated other comprehensive income		−387	−530
Accumulated deficit		−47,576	−39,567
Total equity		**8,923**	**16,376**
B. Noncurrent liabilities			
Pension liability	3.9/6.6	1,171	850
Total noncurrent liabilities		**1,171**	**850**
C. Current liabilities			
Tax liabilities	6.7.1	0	2,739
Provisions	3.10	12	53
Trade payables		344	1,893
Other current liabilities	6.7.2	312	455
Total current liabilities		**668**	**5,140**
Total liabilities		**1,839**	**5,990**
Total equity and liabilities		**10,762**	**22,366**

STATEMENT OF CASH FLOWS

T12

In EUR k	Notes	Year ended 31 December 2017	2016
Net loss for the period		−8,009	−13,891
Finance income/expense	5.4.	−850	114
Depreciation and amortization		106	97
Share based payment expenses	6.5.2.1	286	650
Payment for cancellation of stock options		0	−400
Income taxes paid	6.7.1	−775	0
Income taxes received		0	1
Income from income taxes	5.4	−1,102	0
Unrealised foreign currency loss		75	
Changes in other assets		−100	62
Changes in pension liabilities		−15	−19
Changes in provisions		−41	11
Changes in trade payables		−1,549	264
Changes in other liabilities		−143	−144
Cash flows used in operating activities		**−12,117**	**−13,255**
Purchase of plant and equipment		−7	−7
Purchase of intangible assets		−1	−117
Proceeds from termination of pension liabilities insurance		467	0
Cash flows from investing activities		**459**	**−124**
Proceeds from issuance of common shares		127	14,886
Transaction costs of equity transaction		0	−971
Cash flows provided by financing activities		**127**	**13,915**
Net decrease/increase in cash and cash equivalents		**−11,531**	**536**
Cash and cash equivalents at the beginning of period		**21,897**	**21,361**
Effect of exchange rate fluctuation on cash held		**−75**	**0**
Cash and cash equivalents at the end of period		**10,291**	**21,897**

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

T13

In EUR k	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total equity
1 January 2016	**7,442**	**34,866**	**−499**	**−25,676**	**16,133**
Expenses recognised 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**
Income recognised directly in equity	0	0	143	0	143
Net loss for the period	0	0	0	−8,009	−8,009
Comprehensive loss for the period	0	0	143	−8,009	−7,866
Issuance of common shares less transaction costs	21	106	0	0	127
Share based payments	0	286	0	0	286
	21	392	143	−8,009	−7,453
31 December 2017	**8,208**	**48,678**	**−387**	**−47,576**	**8,923**

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 2017, the following amended standards and interpretations were required to be applied for the first time:

- Amendments to IAS 7, "Disclosure Initiative"
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"
- Improvements to IFRSs 2014 – 2016: Cycle: Amendments to IFRS 12 "Disclosure of Interests in other entities"
- Improvements to IFRSs 2014 – 2016: Cycle: Amendments to IFRS 12 "Disclosure of Interests in other entities"

3.2 Determination of fair values

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

3.3 Intangible assets

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

3.4 Plant and equipment

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

3.5 Impairment of noncurrent assets

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

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

3.6 Financial assets and liabilities

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

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

The financial assets of Probiodrug comprise cash and cash equivalents and noncurrent financial assets being equity 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 derecognised when the contractual obligation has been met, is waived or has expired.

3.7 Cash and cash equivalents

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

3.8 Stock option and phantom stock option programs

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

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

3.9 Pensions

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

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

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

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

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

3.10 Provisions

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

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

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

3.11 Research and development expenses

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

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

3.12 Finance income and expense

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

3.13 Loss per share

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

3.14 New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 31 December 2017, 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)
- Amendment to IFRS 15 "Effective Date of IFRS 15" (1 January 2018)
- IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (1 January 2018)
- IFRS 16 "Leases" (1 January 2019)

Not yet endorsed by the EU:
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (1 January 2018)
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (1 January 2018)
- Amendments to IAS 40 "Transfers of Investment Property"
- IFRIC 23 "Uncertainty over Income Tax Treatments" (1 January 2019)
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (1 January 2019)
- Amendments to IFRS 9 „Prepayment Features with Negative Compensation" (1 January 2019)
- Improvements to IFRS 2014–2016: Changes to IFRS 1 und IAS 28 (1 January 2018)
- Improvements to IFRS 2015–2017: Changes to IFRS 3, IFRS 11, IAS 12 und IAS 23 (1 January 2019)
- IFRS 17 "Insurance Contracts" (1 January 2021)

Probiodrug is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Company has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its financial statements. IFRS 15, Revenue from Contracts with Customers, replaces all current standards and interpretations dealing with revenue recognition and introduces a five-step model to account for revenue. As Probiodrug is currently not generating material revenues, it may only be affected by IFRS 15 in the future when entering into collaborative arrangements or similar deals.

Probiodrug will adopt IFRS 9 initially on 1 January 2018 in accordance with IAS 8. In addition, management has elected to not restate comparative information as permitted by IFRS 9. At the date of initial application, the Company will record any difference between previous carrying amounts and those determined under IFRS 9 in opening accumulated deficit. The impact of the adoption of IFRS 9 on Probiodrug's equity as at 1 January 2018 is estimated to be nil based on assessments undertaken to date. As of 31 December 2017 Probiodrug presents immaterial financial assets, other assets, cash and cash equivalents and trade and other payables in its statements of financial position.

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

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

So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases. As at 31 December 2017, the Company's future minimum lease payments under non cancellable operating leases amounted to EUR 31k, on an undiscounted basis (refer to Note 8.1). In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities. As a result and, except for IFRS 16, none of these new or amended standards and interpretations is expected to have a significant effect on the financial statements of the Company.

4 Significant discretionary decisions, estimates and assumptions

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

Estimates and assumptions
The estimates and assumptions primarily relate to estimates and assumptions in connection with the management's assessment of the entity's ability to continue as a going concern and the determination of accruals for research and development services in progress. The amounts of the respective items in the statement of comprehensive loss are research and development expenses of EUR 7,454k (2016: EUR 10,951k). The estimates for accruals at year-end are based on past experience as well as other information relating to the transactions recognised.

Going concern
Probiodrug's business model is to progress its research and development programs to a stage at which they can be commercialised through transactions with pharmaceutical companies. Until such a stage is achieved, Probiodrug is continuously required to obtain external financing for research and development activities. As a clinical stage biopharmaceutical Company, Probiodrug incurred a net loss of EUR 8,009k for the financial year 2017 and generated an accumulated deficit of EUR 47,576k at 31 December 2017. 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 organisation.

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realisation of assets and the 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 at least through Q1 2019. These projections do not include investments for preclinical or clinical trials, but expected preparation costs. Due to the positive results of the PQ912 study in 2017, 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 end of second half of 2018.

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 7,454k (2016: EUR 10,951k) 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 2,511k (2016: EUR 2,909k) 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 106k (2016: EUR 97k) as well as personnel related expenses amounting to EUR 2,159k (2016: EUR 2,832k).

In addition, expenses for defined contribution plans include the employer's contribution to the statutory pension scheme amounting to EUR 48k (2016: EUR 54k).

5.4 Finance income and Income taxes

Current income tax income and expense is based on the respective enacted tax laws and regulations. No current or deferred income taxes were recognised in 2017 and 2016. The income tax gain relating to the current period includes current taxes. The income tax gain of EUR 1,102k relates to a settlement with the fiscal authorities in 2017 resulting in the release of tax liabilities recognised in prior years to income tax gain. A further EUR 862k relates to the release of accrued interest in connection with the settlement and is presented as finance income.

For the determination of deferred taxes, a corporation tax rate of 15% plus a solidarity surcharge of 5.5% as well as the trade income tax rate of 15.75% was used for all reporting periods. Based on this, the effective tax rate as at 31 December 2017 used to determine the deferred tax assets and liabilities amounted to 31.58% (31 December 2016: 31.58%).

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

T14

In EUR k	2017	2016
Loss before income tax	−9,111	−13,891
Income tax rate	31.58%	31.58%
Expected tax benefits	2,877	4,387
Tax losses not recognised	−3,179	−4,368
Prior period tax effects	1,102	0
Non-deductible expenses/non-taxable income	182	−32
Other differences	120	13
Reported income tax gain	**1,102**	**0**

As at 31 December 2017, deferred tax assets attributable to tax loss carry forwards in the amount of EUR 39,643k (31 December 2016: EUR 36,619k) and to the pension liability in the amount of EUR 189k (31 December 2016: EUR 221k) were not recognised as their utilisation is not probable.

As at 31 December 2017, Probiodrug had corporate income tax loss carry forwards of EUR 125,681k and trade tax loss carry forwards of EUR 125,419k. The tax losses can be carried forward for an unlimited time.

6 Explanations on individual statement of financial position line items

6.1 Intangible assets

The intangible assets reconcile as follows:

T16

In EUR k	Other intangible assets
Acquisition costs as at 1 January 2017	373
Additions	1
Disposals	−1
Acquisition costs as at 31 December 2017	**373**
Amortisation as at 1 January 2017	277
Additions	85
Disposals	−1
Amortisation as at 31 December 2017	**361**
Carrying value as at 1 January 2017	96
Carrying value as at 31 December 2017	**11**

T16

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**

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

6.2 Plant and equipment

Plant and equipment reconcile as follows:

T17

In EUR k	Leasehold improvements	Other equipment, factory and office equipment	Total
Acquisition costs as at 1 January 2017	181	582	763
Additions	0	7	7
Disposals	0	−26	−26
Acquisition costs as at 31 December 2017	**181**	**563**	**744**
Depreciation as at 1 January 2017	167	527	694
Additions	7	14	21
Disposals	0	−26	−26
Depreciation as at 31 December 2017	**174**	**515**	**689**
Carrying value as at 1 January 2017	14	55	68
Carrying value as at 31 December 2017	**7**	**48**	**55**

T19

In EUR k	Leasehold improvements	Other equipment, factory and office equipment	Total
Acquisition costs as at 1 January 2016	181	579	760
Additions	0	7	7
Disposals	0	−4	−4
Acquisition costs as at 31 December 2016	**181**	**582**	**763**
Depreciation as at 1 January 2016	160	519	679
Additions	7	13	20
Disposals	0	−4	−4
Depreciation as at 31 December 2016	**167**	**528**	**695**
Carrying value as at 1 January 2016	21	60	81
Carrying value as at 31 December 2016	**14**	**54**	**68**

6.3 Other current assets

Other current assets are comprised of:

T20

In EUR k	31 December 2017	31 December 2016
Prepayments	346	126
Value-added tax receivables	45	121
Rent deposits	7	7
Other receivables	1	45
Other assets	3	3
Total	**402**	**302**

6.4 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand. As at 31 December 2017, cash balances denominated in other currencies than the Euro amount to USD 653k (31 December 2016: USD 653k).

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

6.5 Equity

As at 31 December 2017, Probiodrug's share capital comprised 8,208,009 registered no par common shares. As at 31 December 2016, Probiodrug's share capital comprised 8,186,735 registered no par common shares. The nominal amount per share is EUR 1.00. All shares are issued and fully paid up.

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.

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

Conditional Capital

As at 31 December 2017, the conditional capital amounted to EUR 2,603k and as at 31 December 2016 to EUR 2,624k, respectively. Of this amount, EUR 482k (2016: EUR 491k) is reserved as a result of the issuance of options.

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.

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

Authorised Capital
As at 31 December 2017, the authorised capital amounted to EUR 4,093k and as at 31 December 2016 to EUR 2,977k, respectively. The authorised capital can be utilised for capital increases for contributions in cash and/or kind.

In 2017, the authorised capital 2014 to the amount of EUR 2,976,995 was cancelled. A new authorised capital 2017 was established by resolution of the general meeting of the shareholders on 13 June 2017. Probiodrug's management board was authorised, with the approval of the supervisory board, to increase the Company's share capital by up to EUR 4,093,367. The subscription right is excluded.

6.5.1 Loss per share

As at 31 December 2017, Probiodrug's share capital consisted of 8,208,009 common shares (31 December 2016: 8,186,735). 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 8,009k in financial year 2017 (2016: net loss of EUR 13,891k).

The loss per share was calculated as follows:

T21

In EUR k	2017	2016
Weighted average number of common shares outstanding	8,188,407	7,619,398
Loss for the period	**−8,009k**	**−13,891k**
Loss per share in EUR (basic/diluted)	**−0.98**	**−1.82**

As at 31 December 2017 and 2016, no items had a dilutive effect.

6.5.2 Share based payments

6.5.2.1 Stock option programs (equity settled)

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

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

T22

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

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

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

T23

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

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

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

T24

	2017		2016	
	Number of options*	WAEP**	Number of options*	WAEP**
Outstanding at 1 January	491,022	EUR 17.13	538,637	EUR 16.27
Forfeited during the year	0	–	–90,305	EUR 21.20
Exercised during the year	–21,274	EUR 6.00	0	–
Cash settlement	0	–	–31,734	–
Granted during the year	12,000	EUR 12.55	74,424	EUR 19.43
Outstanding at 31 December	**481,748**	**EUR 17.51**	**491,022**	**EUR 17.13**
Exercisable at 31 December	70,373	EUR 12.64	91,647	EUR 11.10

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

The stock options outstanding at 31 December 2017 had an exercise price in the range of EUR 6.00 to EUR 42.18 (31 December 2016: EUR 6.00 to EUR 42.18) and a weighted-average contractual life of 4.4 years (31 December 2016: 5.3 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 2017 and 2016, respectively, due to the complete vesting in prior periods.

The total expenses associated with the stock option program 2014 recognised in 2017 amounted to EUR 286k (2016: EUR 650k). These amounts were credited to additional paid-in capital.

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

6.5.2.2 Phantom stock option programs

As of 31 December 2017, 19,333 (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 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. The asset values of the insurance contracts represent the cash surrender values and were offset against the pension obligations as the insurance contracts are qualifying insurance policies in accordance with IAS 19.

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

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

T25

	2017	2016
Discount rate	1.86%	1.42%

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 109k (31 December 2016: EUR 123k)

Interest rate + 0.5%: Δ DBO EUR –99k (31 December 2016: EUR –111k)

RECONCILIATION OF DEFINED BENEFIT OBLIGATION AND PLAN ASSETS

T26

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

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

T27

in EUR k	2017	2016
Current service cost	45	43
Net interest expense (+)/income(–)	11	16
Interest expense associated with DBO	23	31
Interest income on plan assets	–12	–15
Total net pension expense	**56**	**59**

In 2018, plan contributions of EUR 6k are expected. The weighted average duration of the pension commitments is 13.2 years (31 December 2016: 14.6 years). The pension payments for the two beneficiaries may be due within one year.

6.7 Current liabilities

6.7.1 Tax liabilities

Regarding the tax liabilities recognised at 31 December 2016 of EUR 2,739k, a settlement with the respective fiscal authorities about the corporate income and trade tax was reached in the reporting period. According to the settlement agreement the financial authorities claimed an amount of EUR 775k including additional interests, of which EUR 766k were paid until 30 June 2017 and EUR 9k were paid in July 2017. The remaining tax liability was released to income tax gain, we refer to note 5.4.

6.7.2 Other current liabilities

T28

In EUR k	31 Dec. 2017	31 Dec. 2016
Salaries and wages	210	313
Payroll and church taxes	39	37
Other	63	105
Total	**312**	**455**

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 2017.

7.2 Fair value measurement

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

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

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

7.3 Other disclosures in accordance with IFRS 7

Disclosures with respect to interest income and expense

No interest income and expense in 2017 and 2016 was recognised with respect to financial instruments.

Financial risks and risk management

7.3.1 Organisation

Risk management system, objectives and methods

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

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

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

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

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

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

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

7.3.2 Risk groups

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

7.3.2.1 Credit risks

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

Probiodrug's cash balances are held by the following banks: Sparkasse (9.7%), Moody's Rating Aa2, Deutsche Bank (43.6%) Moody's Rating Baa2, BW Bank (45.8%), Moody's Rating Aa3, and Northern Trust (0.9%), 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 T29

In EUR k	31 Dec. 2017	31 Dec. 2016
Noncurrent financial assets	3	3
Cash and cash equivalents	10,291	21,897
	10,294	**21,900**

As of the reporting dates 31 December 2017 and 31 December 2016, 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 2017, cash and cash equivalents amounted to EUR 10.3 million. The cash and cash equivalents as at 31 December 2017 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 2017, the trade payables of EUR 344k (31 December 2016: EUR 1,893k) had a maturity of up to 30 days, respectively.

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

Exchange rate risks
Currently, Probiodrug is exposed to exchange rate risks with respect to cash and cash equivalents held in USD. A change of –5% or +5% in the foreign exchange rate of the EUR compared to the USD could impact net loss and equity by EUR 29k and EUR –26k.

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

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

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

Capital management
The primary objective of Probiodrug's capital management is to ensure that it maintains its liquidity in order to finance its operating activities and meet its liabilities when due. In accordance with the present projections the cash reach of the Company is until the second quarter 2019. Both projections do not include the investments for the further development of the pipeline beyond 2018. 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 authorised to repurchase own shares with the approval of the supervisory board until 9 June 2020. The authorisation is limited to an amount of EUR 677k.

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

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

As at 31 December 2017, Probiodrug's equity amounted to EUR 8,923k (31 December 2016: EUR 16,376k), which equates to an equity ratio of 82.9% (31 December 2016: 73.2%). The total liabilities amounts to EUR 1.839k (31 December 2016: EUR 5,990k).

8 Others

8.1 Contingencies and other financial commitments
The total of the other financial commitments as at 31 December 2017 was EUR 661k and consist of services by research and development service providers as well as of service, leasing and rental commitments. Of these commitments EUR 580k are due within one year.

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

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

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

T30

In EUR k	2017	2016
Short-term employee benefits	887	1,124
Post-employment benefits	115	122
Share-based payments	121	328
Cancellation of stock options	0	400
Total	**1,123**	**1,974**

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.

The pension commitments described in note 6.6 relate to one former and one current member of the management board. The development of the pension provision is also presented there.

The remuneration of the supervisory board comprised of:

T31

In EUR k	2017	2016
Short-term benefits	137	95
Total	**137**	**95**

8.3 Approval and release

On 9 February 2018, Probiodrug AG's management board approved these financial statements for release to the supervisory board.

Halle (Saale), 9 February 2018

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), 9 February 2018

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, Halle (Saale) ("the Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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 judgement, 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.

- Disclosure on matters related to going concern

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 to a stage at which they can be commercialised through transactions with pharmaceutical companies. Until such a stage is achieved, Probiodrug is continuously required to obtain external financing for research and development activities. In 2017, Probiodrug incurred a net loss of EUR 8,009 thousand and generated an accumulated deficit of EUR 47,576 thousand as of 31 December 2017. The Company anticipates operating losses for the foreseeable future mainly due to continuous research activities, development of product candidates and the development of its administrative organisation. In accordance with the present liquidity projections, the Company expects sufficient funding until the end of the first quarter 2019. These projections do not include investments for preclinical or clinical trials, but expected preparation costs. Further funding is needed to continue the studies. This requires to raise funds in the form of equity or debt or execute a partnership agreement.

The management's assessment of the Company's ability to continue as a going concern as well as the disclosure on matters related to going concern is based on significant judgements and a number of assumptions, cash burn rate as a measure of the average monthly cash outflow, the progress of the clinical program and feasibility of alternative clinical programs.

OUR RESPONSE

We evaluated and challenged the Company's future business plans and related budget and liquidity status for the years 2018 and 2019 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 summarise the progress of the clinical program and inquired the Chief Financial Officer and Audit Committee Head as to the clinical program and alternative programs.

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 2018 and 2019 to the historical cash burn rates of Probiodrug.

Further, we considered whether the disclosure on matters related to going concern is sufficiently detailed.

OUR OBSERVATIONS

We consider management's assumptions regarding the going concern basis of accounting as well as regarding the disclosure on matters related to going concern to be overall balanced. 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 auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

Leipzig, 9 February 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

Dr. Schneider
Wirtschaftsprüfer
[German Public Auditor]

Sachs
Wirtschaftsprüfer
[German Public Auditor]

PART II

A. FINANCIAL STATEMENTS (HGB)

BALANCE SHEET AS AT 31 DECEMBER 2017

ASSETS T32

In EUR		31 Dec. 2017		31 Dec. 2016
A. Fixed assets				
I. Intangible assets				
Similar rights acquired for consideration, licenses and software		11,486.90		95,915.79
II. Property, plant and equipment				
1. Buildings on third-party land	6,915.71		13,825.79	
2. Other equipment, operating and office equipment	47,705.75	54,621.46	54,249.34	68,075.13
III. Non-current financial assets				
Investments		3,450.00		3,450.00
		69,558.36		**167,440.92**
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies	99,388.97		113,518.84	
2. Other assets	55,217.82	154,606.79	175,501.92	289,020.76
II. Cash and bank balances		10,191,254.50		21,782,923.94
		10,345,861.29		**22,071,944.70**
C. Prepaid expenses		**346,433.01**		**126,683.74**
		10,761,852.66		**22,366,069.36**

EQUITY AND LIABILITIES

T33

In EUR	31 Dec. 2017	31 Dec. 2016
A. Equity		
I. Share capital	8,208,009.00	8,186,735.00
– Conditional capital: EUR 2,602,527.00		
(in the prior year EUR 2,623,801.00)		
II. Capital reserves	49,118,738.55	49,012,368.55
III. Revenue reserves		
Legal reserves	227,625.00	227,625.00
IV. Accumulated losses brought forward	–48,308,275.37	–40,579,589.68
	9,246,097.18	**16,847,138.87**
B. Provisions		
1. Pension provisions	848,593.00	377,942.00
2. Tax provisions	0.00	2,739,650.75
3. Other provisions	415,309.13	824,693.86
	1,263,902.13	**3,942,286.61**
C. Liabilities		
1. Trade payables	208,488.26	1,519,486.23
2. Other liabilities	43,365.09	57,157.65
– of which taxes EUR 38,851.28 (in the prior year EUR 42,593.67) –		
	251,853.35	**1,576,643.88**
	10,761,852.66	**22,366,069.36**

INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

T34

In EUR		2017		2016
1. Other operating income		1,125,055.94		94,128.85
2. Cost of materials				
a) Cost of supplies and purchased merchandise	−16,434.87		−38,433.59	
b) Cost of purchased services	−5,105,980.11	−5,122,414.98	−7,841,926.86	−7,880,360.45
3. Personnel expenses				
a) Wages and salaries	−1,647,217.16		−2,182,768.82	
b) Social security and post employment costs	−256,789.06	−1,904,006.22	−285,837.21	−2,468,606.03
– of which in respect of retirement provisions EUR 137,559.68 (in the prior year EUR 152,450.30) –				
4. Amortisation of intangible assets and depreciation of property, plant and equipment		−105,774.97		−96,896.00
5. Other operating expenses		−2,837,162.75		−4,182,663.66
6. Other interest and similar income		27,882.50		133,373.70
7. Interest and similar expense		−14,586.95		−111,415.51
8. Income taxes		1,102,321.74		0.00
8. Earnings after taxes		**−7,728,685.69**		**−14,512,439.10**
9. Net loss		**−7,728,685.69**		**−14,512,439.10**
10. Loss carried forward		−40,579,589.68		−26,067,150.58
11. Accumulated losses brought forward		**−48,308,275.37**		**−40,579,589.68**

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

T35

In EUR	1 Jan. 2017 to 31 Dec. 2017	1 Jan. 2016 to 31 Dec. 2016
Net loss of the period	−7,728,686	−14,512,439
Transaction costs	0	971,215
Amortisation/depreciation of fixed assets	105,775	96,896
Profit/loss on the disposal of fixed assets	154	1
Interest income	−27,883	−133,374
Interest expense	14,587	111,416
Income tax income	−1,102,322	0
Interest income from the release of interest provision for taxes	−861,933	0
Other non-cash expenses	61,298	0
Increase in pension provisions	483,947	29,302
Decrease (in prior year increase) of other provisions	−409,385	208,990
Decrease (in prior year increase) of receivables and other assets	134,414	−150,569
Increase (in prior year decrease) of prepaid expenses	−219,749	98,608
Decrease (in prior year increase) of trade payables	−1,310,998	206,787
Decrease of other liabilities	−13,793	−295,470
Income tax payments	−775,396	0
Cash flow from operating activities	**−11,649,970**	**−13,368,638**
Disbursements for investments in property, plant and equipment	−6,997	−7,394
Disbursements for investments in intangible assets	−1,049	−116,963
Interest received	0	766
Cash flow from investing activities	**−8,046**	**−123,592**
Proceeds from the issuance of shares	127,644	14,884,960
Disbursement for transaction costs	0	−971,215
Cash flow from financing activities	**127,644**	**13,913,745**
Cash effective changes of cash and cash equivalents	**−11,530,371**	**421,516**
Effect of exchange rate fluctuation on cash held	**−61,298**	**0**
Cash and cash equivalents at the beginning of the financial year	**21,782,924**	**21,361,408**
Cash and cash equivalents at the end of the period	**10,191,255**	**21,782,924**

T36

In EUR	31 Dec. 2017	31 Dec. 2016
Composition of cash and cash equivalents		
Cash-on-hand	1	221
Bank balances	10,191,254	21,782,703
	10,191,255	**21,782,924**

STATEMENT OF SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2017

T37

In EUR	Subscribed capital Ordinary shares	Capital reserves	Legal reserves	Accumulated loss	Equity
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 a cash contribution	744,248	14,140,712			14,884,960
Net loss of the period				−14,512,439	−14,512,439
Balance as at 31 December 2016	**8,186,735**	**49,012,369**	**227,625**	**−40,579,590**	**16,847,139**
Balance as at 1 January 2017	8,186,735	49,012,369	227,625	−40,579,590	16,847,139
Capital increase as a result of the exercise of stock options	21,274	106,370			127,644
Net loss of the period				−7,728,686	−7,728,686
Balance as at 31 December 2017	**8,208,009**	**49,118,739**	**227,625**	**−48,308,275**	**9,246,097**

B. NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2017

I. GENERAL DISCLOSURES

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

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

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

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

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

II. ACCOUNTING POLICIES AND MEASUREMENT METHODS

Fixed assets
Property, plant and equipment and intangible assets were measured at their acquisition costs reduced by scheduled depreciation and amortisation.

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

In financial year 2017 as well as in the three previous financial years, newly acquired moveable assets with acquisition costs of up to EUR 410.00 were immediately depreciated in their entirety. The cumulative items recorded prior to 2014 continue to be depreciated in accordance with Section 6 (2a) of the (German) Income Tax Act [Einkommensteuergesetz] (EStG) over a period of five years. In total, the cumulative items are of minor importance.

Investments are recorded at their acquisition costs.

Current assets

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

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

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

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

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

Equity

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

Provisions

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

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

The measurement of the pension provisions is based on the "projected unit credit" method (PUC method). Probiodrug applied a discount rate determined as the average market interest rate of the previous ten business years as published by the Deutsche Bundesbank [(German Federal Reserve] and an assumed remaining term of 15 years. The biometric calculation used was provided by the 2005 G mortality tables of Prof. Dr. Klaus Heubeck ['Richttafeln 2005 G' von Prof. Dr. Klaus Heubeck]. The parameters applied in the calculation as well as disclosure of the difference arising from the use of the average market interest rate of the previous ten years as at 31 December 2017 and that based on the average market interest rate of the previous seven financial years as at 31 December 2017 are presented in the explanations on the balance sheet.

Liabilities

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

The existing liabilities are not secured.

Income statement

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

III. EXPLANATIONS ON THE BALANCE SHEET

Fixed assets

The development of fixed assets as well as disclosures with respect to the amortisation and depreciation recorded in the financial year is shown for each balance sheet line item in the schedule of fixed assets presented in the appendix to the notes to the financial statements. Probiodrug AG has a subsidiary, Probiodrug Inc., USA. All operating activities and assets are concentrated in Probiodrug AG; Probiodrug Inc. does not currently have any operating activities nor does it hold any operating assets.

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

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

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

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

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

No shares were repurchased in financial year 2017.

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

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

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

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

In 2017 the conditional capital decreased by EUR 21,274.00 as a result of stock options having been exercised by a former Probiodrug AG employee.

Stock options

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

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

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

Convertible bonds

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

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

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

Authorised capital 2017

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

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

Voting rights notification

Disclosure as to the existence of an equity interest as at the balance sheet date
JPMORGAN ASSET MANAGEMENT (EUROPE) S.À.R.L. Senningerberg, Luxembourg, informed our Company pursuant to Section 21 (1) of the WpHG old version [(German) Securities Trading Act] on 3 October 2017, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 on 29 September 2017 fell below the threshold of 5 % of the voting rights and that its voting rights proportion amounted to 4.93 % (403,264 voting rights) on that date. The afore mentioned voting rights pursuant to Section 22 of the WpHG old version, are held via the following company, whose holdings of voting rights in Probiodrug AG amount to 3 % or more: JPMorgan Funds SICAV.

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

JPMORGAN ASSET MANAGEMENT (UK) LIMITED, London, Great Britain, informed our Company pursuant to Section 21 (1) of the WpHG old version on 3 October 2017, that its voting rights proportion in Probiodrug AG, Weinbergweg 22, 06120 Halle (Saale), Germany, ISIN DE0007921835 on 29 September 2017 fell below the threshold of 5 % of the voting rights and that its voting rights proportion amounted to 4.93 % (403,264 voting rights) on that date. The afore mentioned voting rights pursuant to Section 22 of the WpHG old version, are held via the following company, whose holdings of voting rights in Probiodrug AG amount to 3 % or more: JPMorgan Funds SICAV.

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

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

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

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

In conjunction with the exercising of stock options in the financial year, cash payments totalling EUR 106,370.00 were made into the capital reserves pursuant to Section 272 (2) number 1 of the HGB.

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

Accumulated losses

As at 31 December 2017, the accumulated losses totalled EUR 48,308,275.37. They developed as follows during the financial year:

T38

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

Tax provisions

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

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

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

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

Pension provision

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

During the financial year, personnel expenses in conjunction with the pension obligations amounting to EUR 77k (in the prior year EUR 92k) and current interest expense of EUR 15k (in the prior year EUR 13k) were recorded. Interest expense includes income on the assets used to fund the obligation in the amount of EUR 28k (in the prior year EUR 32k) which is presented as a net amount.

The current fair value of the covering assets corresponds with the fair value of the pledged life insurance. Due to the expiration of pension reinsurance, the fair value declined substantially and amounted to EUR 447k (in the prior year EUR 794k) as at 31 December 2017.

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

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

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

As at 31 December 2017 the following difference resulted:

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

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

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

IV. EXPLANATIONS ON THE INCOME STATEMENT

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

T39

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

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

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

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

Taxes on income

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

V. OTHER DISCLOSURES

Subsidies

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

Recommendation for appropriation of result

The Executive Board makes the following recommendation with respect to the appropriation of the result:
The accumulated losses amount to EUR 48,308,275.37. They will be carried forward.

Average number of employees during the financial year

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

EXECUTIVE BOARD AND EMPLOYEES T40

	2017	2016
Executive Board members	3	3
Employees	11	11

Other financial commitments

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

Disclosures with respect to executive bodies

Executive Board

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

Dr Konrad Glund (Dipl. Biochemiker [degreed biochemist]) – Chairperson
Dr Hendrik Liebers (Dipl.-Biologe [degreed biologist], Dipl.-Kaufmann [degreed businessman]) – Finances
Dr Inge Lues (Dipl.-Biologe [degreed biologist]) – Research and Development

All of the above have the authority to represent the Company on their own and are released from the constraints of Section 181 of the BGB [(German) Civil Code].

With respect to the remuneration of the Executive Board, we refer to the compensation report which forms a part of the management report. In financial year 2017, the overall remuneration of the Executive Board amounted to EUR 1,002k (in the prior year EUR 1,392k).

Disclosure as to total remuneration of former Executive Board members

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

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

Dr. Erich Platzer, Doctor, Basel/Switzerland – Chairperson
- Member of the Board of Directors, Aptose Biosciences Inc., Toronto, Canada
- Owner and Managing Director of Platzer Consult Gmbh, Basel, Switzerland
- Board of Directors – President credentis AG, Windisch, Switzerland
- Board of Directors – President AOT AG, Basel, Switzerland
- Board of Directors member Léman Micro Devices SA, Lausanne, Switzerland
- Member of the Board, Medtech Innovation Partners AG, Basel, Switzerland
- Member of the Board, Peripal AG, Zurich, Switzerland
- Member of the Board, BC-Platforms AG, Basel, Switzerland
- Owner and Member of the Board, Platzer Invest AG, Basel, Switzerland

Dr. Dinnies von der Osten, Managing Director, Berlin – Deputy Chairperson
- Member of the Supervisory Board of Market Logic Software AG, Berlin
- Member of the Supervisory Board of Alea Energy Solutions AG, Berlin

Dr. Jörg Neermann, Investment manager, Munich
- Member of the Advisory Board, Ventaleon GmbH, Gmünden
- Member of the Board of Directors, Eyesense AG, Basel, Switzerland
- Member of the Board of Directors, Kuros Bioscienes AG, Zurich, Switzerland until May 2017
- Chairperson of the Supervisory Board, Immunic AG, Martinsried
- Member of the Board of Directors, ViCentra B.V., Utrecht, the Netherlands

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

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

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

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

Auditor's fees

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

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

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

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

Compliance statement in accordance with Section 161 of the AktG

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

Halle (Saale), 9 February 2018

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

APPENDIX: SCHEDULE OF FIXED ASSETS IN FINANCIAL YEAR 2017

	Acquisition costs				
In EUR	1 Jan. 2017	Additions	Disposals	31 Dec. 2017	
I. Intangible assets					
Similar rights acquired for considerations, licenses and software	372,847.50	1,049.00	697.00	373,199.50	
II. Tangible assets					
1. Buildings on third-party land	181,002.98	0.00	0.00	181,002.98	
2. Other equipment, operating and office equipment	581,549.78	6,997.29	26,224.12	562,322.95	
	762,552.76	**6,997.29**	**26,224.12**	**743,325.93**	
III. Long-term financial assets					
1. Investments	3,450.00	0.00	0.00	3,450.00	
	1,138,850.26	**8,046.29**	**26,921.12**	**1,119,975.43**	

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	Accumulated amortisation/depreciation				Carrying values	
	1 Jan. 2017	Amortisation/ depreciation of the financial year	Disposals	31 Dec. 2017	31 Dec. 2017	31 Dec. 2016
	276,931.71	85,338.51	557.62	361,712.60	11,486.90	95,915.79
	167,177.19	6,910.08	0.00	174,087.27	6,915.71	13,825.79
	527,300.44	13,526.38	26,209.62	514,617.20	47,705.75	54,249.34
	694,477.63	**20,436.46**	**26,209.62**	**688,704.47**	**54,621.46**	**68,075.13**
	0.00	0.00	0.00	0.00	3,450.00	3,450.00
	971,409.34	**105,774.97**	**26,767.24**	**1,050,417.07**	**69,558.36**	**167,440.92**

C. MANAGEMENT REPORT FOR FINANCIAL YEAR 2017

1 COMPANY BASICS

Legal structure

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

Business activities

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

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

Probiodrug is pursuing a therapeutic approach which addresses disease initiation as well as progression. The development approaches are targeting pyrogluamate-Abeta (synonym: pGlu-Abeta, N3pG Abeta, N11pG Abeta) as one therapeutic strategy to fight AD. pGlu-Abeta was described as a particularly toxic and aggregation-prone form of Abeta, which is formed from the physiological Abeta by the activity of the enzyme Glutaminylcyclase (QC). The Company is pursuing two treatment mechanisms with respect hereto: on the one hand, Probiodrug is focussing on the prevention of the production of pGlu-Abeta by the inhibition of the enzyme, Glutaminylcyclase ("QC").The Company's most advanced program in this area, the development candidate PQ912, successfully completed a clinical study in Phase 2a in 2017; a further development candidate, PQ1565, is in preclinical development. The next development steps within the scope of clinical study phase 2b are being prepared. On the other hand, the Company is specifically developing pGlu-Abeta binding antibodies, which ultimately speed up their degradation. This program (PBD-C06) is in preclinical development.

Research and development

As was the case in the past, in financial year 2017, Probiodrug continued to focus its activities on the development of PQ912, an inhibitor of the enzyme QC for the treatment of Alzheimer's and other diseases. In addition, the specific pGlu-Abeta binding antibody, PBD-C06, was further progressed. The primary work in these areas is carried out by external service providers (contract research organisations as well as contract manufacturers) and cooperation partners in the areas pharma ancillary research, production development and production, preclinical and clinical trials as well as analytics.

Patent portfolio

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

Important events in the current financial year

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

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

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

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

In the first weeks of the treatment phase, tolerance signs with respect to the skin and the gastrointestinal tract were

observed in terms of the primary endpoints safety and tolerability of PQ912. As the high dosage used almost completely inhibits the enzyme, Probiodrug is optimistic that with lower dosages, which still demonstrate a high QC inhibition, along with a slower titration scheme, the drug will be safe and well tolerated in AD patients.

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

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

b) 2017 annual shareholders' meeting

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

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

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

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

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

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

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

d) Changes in the Supervisory Board

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

2 OVERVIEW OF BUSINESS DEVELOPMENT

2.1 General conditions

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

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

2.2 Company development

In 2017 Probiodrug focussed on the following areas:

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

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

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

Net assets

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

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In EUR k	31 Dec. 2017	31 Dec. 2016
Assets		
Intangible assets	12	96
Property, plant and equipment	55	68
Non-current financial assets	3	3
Fixed assets	**70**	**167**
Receivables and other assets	155	289
Cash and bank balances	10,191	21,783
Current assets	**10,346**	**22,072**
Prepaid expenses	346	127
Total assets	**10,762**	**22,366**
Equity and liabilities		
Equity	9,246	16,847
Provisions	1,264	3,942
Liabilities	252	1,577
Total equity and liabilities	**10,762**	**22,366**

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

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

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

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

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

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

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

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

As at 31 December 2017, the liabilities were also substantially lower than as at 31 December 2016 declining by EUR 1,325k from EUR 1,577k to EUR 252k. Of this amount, EUR 209k (2016: EUR 1,520k) was attributable to trade payables and EUR 43k (2016: EUR 57k) was attributable to other liabilities.

Financial position

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

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

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

Earnings position

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

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

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

- EUR 2,758k decrease in the cost of materials due to the conclusion of clinical study phase 2 in the middle of 2017;
- EUR 565k reduction in personnel expenses due primarily to the cash settlement of stock options exercised in 2016 as well as lower bonus provisions in 2017;
- EUR 1,346k reduction of other operating expenses due primarily to the non-incurrence of transaction costs as no further increase in capital took place in 2017 along with the further decline in patent costs.

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

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

Overall statement

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

2.4 Non-financial performance indicators

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

Employees
As at 31 December 2017, Probiodrug had 15 (2016: 14) employees (including the Executive Board members), of which 50% were female. In the reporting period, there were an average of 14 employees including three Executive Board members (2016: 15). In 2017 Probiodrug incurred personnel expenses of EUR 1.90 million (2016: EUR 2.47 million).

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

Intellectual property rights
A commercially attractive and, from a competitive position, stable patent portfolio is a decisive success factor for Probiodrug. The Company has a very experienced patent management which further developed the patent portfolio in 2017. In the meantime, the focus hereby is on the safeguarding the granting of patents in key economic markets. Probiodrug actively manages its intellectual property rights portfolio to provide for the continuous adjustment to the sustainable value drivers while also optimising costs versus benefits.

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

3 OPPORTUNITIES AND RISKS REPORT

3.1 Opportunities

Further increasing interest in Alzheimer's
In 2017 the interest in the Alzheimer's area by the pharmaceutical industry as well as that of investors continued. Prospectively, this could lead to an increased frequency of transactions. Compared with this, the available number of new, scientifically and clinically widely supported development concepts is limited. Probiodrug is well positioned in this regard. In case of success, this could provide commercially lucrative perspectives for the Company and its shareholders.

Important progress in projects being pursued
In 2017 the first patient studies were successfully completed for PQ912 (SAPHIR). The study showed a positive benefit risk ratio for PQ912 and provided important information for the further development. Overall, the results are very attractive for the further development of the program. Further key patents were granted in important markets. A continuation of these developments is likely to have a positive impact on the valuation of individual programs as well as on the Company's total value.

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

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

3.2 Risk report

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

Sector specific risks

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

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

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

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

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

On the whole, this risk is of great importance for Probiodrug.

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

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

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

Overall, this risk is of great importance to Probiodrug.

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

Overall, this risk is of moderate importance to Probiodrug.

Risks arising from business activities

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

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

Overall, this risk is of great importance to Probiodrug.

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

Overall, this risk is of great importance to Probiodrug.

Risks associated with product development

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

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

Overall, this risk is of great importance to Probiodrug.

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

In addition, clinical study centres could – for example, as a result of other concurrent clinical studies or due to continuing quality issues with respect to their internal organisational processes – not be able to recruit a sufficient number of patients within the period required. This could endanger the timing as well as the execution of the study and could lead to delays. In order to progress the study, Probiodrug may, therefore, be required to involve other clinical centres in the ongoing studies. This could lead to an increase in costs and potentially to an increase in variability.

Overall, this risk is of great importance to Probiodrug.

Capital market risks

Additional financing

On the basis of the current cash and cash equivalents as well as current Company planning (without long-term studies with Alzheimer patients), the Company can provide for the continuity of operations until, at least, the end of Q1/2019. However, Probiodrug has a need for substantial capital to achieve its mid- to long-term corporate and development goals. This will require the raising of equity or third party financing or the generation of inflows as a result of the granting of licenses or cooperations. The Company's development is endangered when Probiodrug is unable to obtain sufficient additional capital within the required timeframe, at economically favourable terms or that this can be realised at all as the successful raising of capital necessitates the successful development of the product pipeline. Should the Company obtain additional capital by issuing new shares, this would lead to a dilution of the shareholding of the existing shareholders. Should the Company not be able to obtain additional funding, Probiodrug may be impaired in the further development of its projects and/or the development of one or a number of products could be discontinued and/or the speed of development could be reduced to the extent that this could have a negative effect on the competitive position as well as on the results of operations, financial position and net assets.

Overall, this risk is of great importance to Probiodrug.

Financial risks

Investment of liquid funds

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

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

Overall, this risk is of moderate importance to Probiodrug.

Notification of loss pursuant to Section 92 (1) of the AktG

Probiodrug AG is not yet profitable and has incurred operating losses in the prior financial years. As a result of the substantial research and development expenses, over time these losses have led to a substantial loss carried forward. This is off-set against the existing equity. At such time at which, despite the paid in surplus of the shares issued, a loss amounting to one half of the share capital as determined based on [German] commercial law is incurred, Section 92 (1) of the AktG requires the convening of a shareholders' meeting without delay. On the basis of the Company's current projections, this point in time falls in the second half of 2018 should no equity strengthening measures have been previously concluded. Such an announcement of a loss could have negative consequences for the share price as well as for Probiodrug's procurement of additional financing.

Overall, this risk is of moderate importance to Probiodrug.

Recognition of tax loss carry forwards

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

The Federal Constitutional Court (BVerfG) does not, however, consider the limitation in the ability to deduct losses as per Section 8c (1) sentence 1 of the (German) Corporate Income Tax Act [Körperschaftsteuergesetz] (KStG) to be compatible

with Article 3 of the Constitution and thereby considers this unconstitutional. By 31 December 2018, the legislator must newly regulate the deduction of losses pursuant to Section 8c (1) sentence 1 of the KStG. Otherwise, the limitation of the ability to deduct losses is null and void.

Overall, this risk is of moderate importance to Probiodrug.

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

Overall, this risk is of great importance to Probiodrug.

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

Overall, this risk is of great importance to Probiodrug.

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

Overall, this risk is of moderate importance to Probiodrug.

Overall assessment of risk situation
Giving consideration to all of the afore mentioned risks, currently only a few factors have been identified which could, in the short-term, endanger the continuity of Probiodrug. Overall, the Company is well positioned. As per the Company's current planning, the cash and cash equivalents as at 31 December 2017 provide for the Company's financing beyond the upcoming twelve months. The Executive Board believes that additional cash inflows can be generated in the second half of 2018 at the latest.

4 OUTLOOK

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

- Carrying out the phase 2b clinical study program for PQ 912,
- Continuing the development of PBD-C06,
- Conclusion of one or more industrial partnerships,
- Further scientific analysis of potential second indications for the use of QC inhibitors,
- Further strengthening Probiodrug's financial resources.

As a result of the continuing costs being incurred for development activities which are not yet off-set by any sales, the Company also projects a net loss for financial year 2018 which, based on the current budget, is expected to be lower than that of 2017.

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

equity on the basis of capital increases or via alternative financing forms such as loans, convertible bonds, option bonds, etc. All appropriate provisions (e.g., approving sufficient authorised and conditional capital, eliminating pre-emptive rights) have been made by the annual shareholders' meeting so as to provide the Company with sufficient flexibility to react to potential opportunities.

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

5 PROBIODRUG'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Risk management system

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

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

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

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

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

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

Risk management and internal control system in the financial reporting process

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

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

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

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

6 REPORTING IN PURSUANT TO SECTION 289 (4) OF THE HGB

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

As at the balance sheet date 31 December 2017, Probiodrug AG's share capital amounted to EUR 8,208,009.00. It is divided into 8,208,009 ordinary bearer shares with a notional par value of EUR 1.00 per share. Each share provides one vote at the annual shareholders' meeting as well as dividend entitlements when distributions are resolved upon; there are no restrictions on voting rights. The share capital has been paid in in its entirety. No treasury shares are held.

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

In accordance with the resolution of the annual shareholders' meeting on 13 June 2017, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital until 12 June 2022 by up to EUR 4,093,367.00 through single or multiple issues of new no-par value bearer shares in exchange for cash and/or a contribution in kind, whereby pre-emptive rights are excluded (Authorised Capital 2017).

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

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

As at the balance sheet date, the conditional capital amounts to EUR 2,602,527.00 and consists of the following:

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

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

Conditional Capital 2010/I
The Company's share capital was conditionally increased by up to EUR 64,627.00 by the issuance of up to 64,627 new shares (Conditional Capital 2010/I, Section 5 (6) of the Articles of Association). The conditional capital increase solely serves to redeem the stock option rights which were issued to members of the Executive Board and Company employees on the basis of the annual shareholders' meeting held on 18 May 2010 with amendments dated 20 September 2011, 30 December 2011, 31 October 2012 and 25 August 2015.

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

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

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

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

6.2 Shareholding in Probiodrug AG

As at the balance sheet date, the Company was aware of the following shareholders of Probiodrug AG having shareholdings in accordance with the provisions of the German Securities Trading Act [Wertpapierhandelsgesetz] (WpHG), with voting rights exceeding 10.0%.

SHAREHOLDER T45

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

6.3 Appointment and removal of members of the Executive Board

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

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

6.4 Change to the Articles of Association

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

6.5 Other disclosures

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

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

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

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

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

Probiodrug AG's Executive Board and Supervisory Board declare that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the German Federal Ministry of Justice on 24 April 2017 have been complied with, with the following exceptions and that they are to be complied with in the future:

1. Section 3.8 of the Code – retained amount included in the D&O insurance for the Supervisory Board
   The Company maintains D&O insurance which also covers all members of the Supervisory Board. No retained amount is stipulated. As the Supervisory Board members, for the most part, only receive little remuneration, a retained amount would lead to an unreasonable result in financial terms for the Supervisory Board members.

2. Section 4.2.3 (2) sentence 6 of the Code – cap amounts for remuneration and variable remuneration components
   Stock options were issued to members of the Executive Board for which no cap is stipulated. In addition, profit sharing was granted to the Executive Board members. No cap is provided for. In all other respects, cap amounts are provided in the contracts with Executive Board members with respect to compensation and variable components of compensation.

3. Section 4.2.3 (4) of the Code – limitation of payment to two years' remuneration to an Executive Board member in case of premature termination
   The current contracts with members of the Executive Board do not provide for a two year cap with respect to payment in case of early termination. In connection with the demands on the Company in conjunction with the analysis of the clinical studies as well as the subsequent steps, a primary aim was to provide for the cooperation of the Executive Board members.

4. Section 5.3.3 of the Code – establishment of a nomination committee within the Supervisory Board
   Due to the reduction in size, the Supervisory Board dissolved the Nomination Committee. Its function will be taken over by the entire Supervisory Board. The Supervisory Board is convinced that this will provide for an increase in efficiency in the preparation of recommendations for the annual shareholders' meeting.

5. Section 5.4.1 (2) of the Code – specifying precise goals and competency profiles for the composition of the Supervisory Board
   In terms of the future composition of the Supervisory Board, the Supervisory Board intends to have members with experience in pharmaceutical research, research with respect to Alzheimer's disease and similar illnesses as well as experience with the public capital market (goal – competence profile). Considering the orientation of the Company, the members of the Supervisory Board should also have U.S. experience. As these requirements make it difficult to find a sufficient number of qualified members for the Supervisory Board, the Supervisory Board did not set any fixed diversity quota.

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

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

DISCLOSURES WITH RESPECT TO THE PROPORTION OF WOMEN

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

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

INFORMATION REGARDING CORPORATE GOVERNANCE

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

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

OPERATING PRACTICES OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

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

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

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

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

Supervisory Board

As at 31 December 2017, the Supervisory Board comprised four members. The work of the Supervisory Board, the principles of passing resolutions as well as the work of the committees is regulated by the rules of procedure of the Supervisory Board. Dr. Erich Platzer is the Chairperson. Vice Chairperson is Dr. Dinnies Johannes von der Osten. The additional members are Charlotte Lohmann and Dr. Jörg Neermann. In the reporting period, the Supervisory Board convened six times (10 March, 21 April, 13 June, 15 September, 01 December, 15 December). The current Supervisory Board members are internationally active in the financial, biotechnology and pharmaceutical sectors and are, therefore, very familiar with the needs of these sectors.

To increase the Supervisory Board's efficiency, three committees were previously established: the audit committee, the nomination committee and the compensation committee. In December 2017 the Supervisory Board resolved to eliminate the nomination committee as well as the compensation committee. Their tasks will be taken over by the Supervisory Board as a whole. The audit committee comprises Dr. von der Osten, Charlotte Lohmann and Dr. Neermann; Dr. von der Osten is the Chairperson. All members have the corresponding expertise and independence. The audit committee met twice in 2017. The primary discussion points in these meetings were the audit of the 2016 financial statements pursuant to HGB and IFRS as well as the 2017 six month financial statements. The nomination committee included Dr. Platzer, Dr. Neermann and Kees Been; Chairperson was Dr. Platzer. This committee did not meet in 2017. The compensation committee comprised Dr. Platzer, Ms. Lohmann and Mr Been; Dr. Platzer served as Chairperson. This committee met once in 2017. The primary point of discussion was the variable remuneration of the Executive Board for 2016.

These committees reported their activities to the entire Supervisory Board.

Transparency

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

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

8 COMPENSATION REPORT

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

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

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

COMPENSATION REPORT 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 extension of the service contracts in 2017.

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

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

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

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

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

Executive Board compensation for the year 2017

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

BENEFITS GRANTED

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

BENEFITS GRANTED

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

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

Liability insurance (D&O)

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

Shareholdings of the members of the Executive Board

Based on information available to the Company, as at 31 December 2017, Probiodrug's Executive Board held a total of 340,033 stock options entitling them to the acquisition of 340,033 shares. In addition, they held approximately 2.2% of all of the Company's shares.

2 Supervisory Board compensation

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

Determination of Supervisory Board compensation

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

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

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

Shareholdings of members of the Supervisory Board

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

Halle (Saale), 9 February 2018

Probiodrug AG's Executive Board

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

D. RESPONSIBILITY STATEMENT

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

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

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

E. INDEPENDENT AUDITOR'S REPORT

To Probiodrug AG, Halle (Saale)

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

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

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

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

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

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

- Disclosures in the notes with respect to continuity of business activities

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

THE FINANCIAL STATEMENT RISK
Probiodrug, as a biopharmaceutical company in the Alzheimer's area, is dependent on research and development programs. The pharmaceutical development process is characterised by long development cycles as well as substantial investment requirements for preclinical and clinical research and development until such time as a product is ready for commercialisation. Up until this point, Probiodrug has a continuous need for external financing for research and develop-

ment activities. In financial year 2017, Probiodrug realised a net loss of EUR 7,729k and an accumulated loss of EUR 48,308k. The Company expects further operating losses in the foreseeable future due primarily to the ongoing financing for research, the development of medicinal products and the development of the organisation. As per the available Company planning, the Company expects the financing to be sufficient at least to the end of the first quarter of 2019. The current planning does not give consideration to any investments for clinical or preclinical studies however expected preparatory costs are considered. To continue the studies additional funding is necessary. This would require additional equity or third party financing or that funding be generated by proceeds from licensing agreements or cooperations.

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

OUR AUDIT APPROACH

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

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

OUR CONCLUSIONS

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

Other information

The legal representatives are responsible for the other information. The other information comprises the corporate governance statement which we obtained prior to the date of this auditor's report as well as the remaining parts of the annual report which are expected to be made available to us after this date, with the exception of the audited annual financial statements and management report as well as our auditor's report.

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

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

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

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

The legal representatives are responsible for the preparation of the annual financial statements that comply, in all material respects, with German commercial law applicable for capital corporations and that the annual financial statements, in compliance with German generally accepted accounting principles, give a true and fair view of the net assets, financial position, and results of operations of the Company. In addition, the legal representatives are responsible for such internal

control as they have determined necessary pursuant to German generally accepted accounting principles to allow for the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in compliance with the requirements of German generally accepted accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with the law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as auditor by the annual general meeting of the shareholders' on 13 June 2017. We were engaged by the Chairperson of the Supervisory Board on 28 December 2017. We have been the auditor of Probiodrug AG as a capital market orientated company without interruption since financial year 2014.

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

German Public Auditor Responsible for the Engagement

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

Leipzig, 9 February 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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[German Public Auditor]

Kurth
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15 May 2018*

Interim Management Statement Q1 2018

21 June 2018*

Annual General Meeting 2018

30 August 2018*

Interim Report, half year results 2018

29 November 2018*

Interim Management Statement Q3 2018

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

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