

# Interim Financial Statements as at 30 June 2017 and Interim management report of Probiodrug AG (HGB)

- 1.1 Balance sheet
- 1.2 Income statement
- 1.3 Cash flow statement
- 1.4 Statement of changes in equity
- 1.5 Condensed notes to the interim  
Financial statements
- 1.6 Interim management report

# Probiodrug AG, Halle (Saale)

## Balance sheet as at 30 June 2017 (HGB)

### Assets

	30 June 2017		31 December 2016	
	EUR	EUR	EUR	EUR
<b>A. Fixed assets</b>				
<b>I. Intangible assets</b>				
Similar rights acquired for consideration, licenses and software		34,932.40		95,915.79
<b>II. Tangible assets</b>				
1. Buildings on third-party land	10,370.75		13,825.79	
2. Other equipment, operating and office equipment	50,959.24	61,329.99	54,249.34	68,075.13
<b>III. Long-term financial assets</b>				
Participations		3,450.00		3,450.00
		<u>99,712.39</u>		<u>167,440.92</u>
<b>B. Current assets</b>				
<b>I. Receivables and other assets</b>				
1. Receivables from affiliated companies	104,449.05		113,518.84	
2. other assets	162,362.93	266,811.98	175,501.92	289,020.76
<b>II. Cash-in-hand and bank balance</b>		14,280,466.15		21,782,923.94
		<u>14,547,278.13</u>		<u>22,071,944.70</u>
<b>C. Prepaid expenses</b>		324,067.38		126,683.74
		<u>14,971,057.90</u>		<u>22,366,069.36</u>

**Equity and liabilities**

	30 June 2017	31 December 2016
	EUR	EUR
<b>A. Equity</b>		
<b>I. Share capital</b>	8,186,735.00	8,186,735.00
Contingent capital: EUR 2,623,801.00 (31.12.2016: EUR 2,623,801.00)		
<b>II. Capital reserves</b>	49,012,368.55	49,012,368.55
<b>III. Revenue reserves</b>		
Legal reserves	227,625.00	227,625.00
<b>IV. Accumulated losses brought forward</b>	-44,776,232.88	-40,579,589.68
	<b>12,650,495.67</b>	<b>16,847,138.87</b>
<b>B. Provisions</b>		
1. Pension provisions	407,718.14	377,942.00
2. Tax provisions	9,262.50	2,739,650.75
3. Other provisions	618,480.41	824,693.86
	<b>1,035,461.05</b>	<b>3,942,286.61</b>
<b>C. Liabilities</b>		
1. Trade payables	1,229,983.91	1,519,486.23
2. Other liabilities	55,117.27	57,157.65
– of which taxes EUR 41,708.33 (31.12.2016: EUR 42,493.67) –		
	<b>1,285,101.18</b>	<b>1,576,643.88</b>
	<b>14,971,057.90</b>	<b>22,366,069.36</b>

## Probiodrug AG, Halle (Saale)

### Income statement for the period from 1 January to 30 June 2017 (HGB)

	1.1. - 30.6.2017		1.1. - 30.6.2016	
	EUR	EUR	EUR	EUR
1. Other operating income		93,825.41		80,573.58
2. Cost of materials				
a) Costs of raw materials	-11,250.00		-24,707.21	
b) Costs of purchased services	-3,736,209.02	3,747,459.02	-2,957,425.84	-2,982,133.05
3. Personnel expenses				
a) Wages and salaries	-816,161.70		-861,570.66	
b) Social security and post employment costs	-136,075.03	-952,236.73	-167,370.76	-1,028,941.42
– of which in respect of retirement provisions EUR 78,215.10 (in the prior year EUR 96,476.76) –				
4. Amortisation of intangible assets and depreciation of tangible assets		-71,521.89		-25,916.59
5. Other operating expenses		-1,466,274.23		-1,687,969.45
6. Other interest and similar income		0.00		0.11
7. Interest and similar expenses		-15,000.00		-68,310.00
8. Taxes on income		1,962,023.26		0.00
9. Net loss for the period		<b>-4,196,643.20</b>		<b>-5,712,696.82</b>
10. Accumulated losses brought forward		-40,579,589.68		-26,067,150.58
11. Total accumulated losses		<b>-44,776,232.88</b>		<b>-31,779,847.40</b>

## Probiodrug AG, Halle (Saale)

### Statement of Cash Flows for the period from 1 January to 30 June 2017(HGB)

	1.1.2017– 30.6.2017	1.1.2016– 30.6.2016
	EUR	EUR
Net loss of the period	-4,196,643	-5,712,697
Amortisation and depreciation of fixed assets	71,522	25,917
Income/expense from the disposal of fixed assets	1	0
Interest expenses	15,000	68,310
Increase in Inventories	0	-839,510
Increase in pension provisions	14,776	36,000
Decrease of other provisions	-206,213	-20,868
Decrease (in prior year increase) in other assets	22,209	-66,608
Increase (in prior year decrease) of prepaid expenses	-197,384	5,098
Decrease in trade payables	-289,502	-404,415
Decrease (in prior year increase) in other liabilities	-2,040	-92,780
Income taxes paid	-766,133	0
<b>Cash flow from operating activities</b>	<b>-7,498,662</b>	<b>-7,001,553</b>
Capital expenditures for tangible assets	-3,796	-1,934
Capital expenditures for intangible assets	0	-113,850
Interest received	0	766
<b>Cash flow from investing activities</b>	<b>-3,796</b>	<b>-115,019</b>
<b>Cash flow from financing activities</b>	<b>0</b>	<b>0</b>
<b>Changes in cash and cash equivalents</b>	<b>-7,502,458</b>	<b>-7,116,572</b>
Cash and cash equivalents at the beginning of the financial year	21,782,924	21,361,408
<b>Cash and cash equivalents at the end of the period</b>	<b>14,280,466</b>	<b>14,244,836</b>

	30.6.2017	30.6.2016
	EUR	EUR
<b>Composition of cash and cash equivalents</b>		
Cash-on-hand	136	374
Bank balances	14,280,330	14,244,462
	<b>14,280,466</b>	<b>14,244,836</b>

## Probiodrug AG, Halle (Saale)

### Statement of shareholders' equity as at 30 June 2017 (HGB)

	Share capital Common shares	Capital reserves	Legal reserves	Retained earnings	Equity
	EUR	EUR	EUR	EUR	EUR
Balance as at 1.1.2016	7,442,487	34,871,657	227,625	-26,067,151	16,474,618
Net loss				-5,712,697	-5,712,697
<b>Balance as at 30.6.2016</b>	<b>7,442,487</b>	<b>34,871,657</b>	<b>227,625</b>	<b>-31,779,848</b>	<b>10,761,921</b>
Balance as at 1.1.2017	8,186,735	49,012,369	227,625	-40,579,590	16,847,139
Net loss				-4,196,643	-4,196,643
<b>Balance as at 30.6.2017</b>	<b>8,186,735</b>	<b>49,012,369</b>	<b>227,625</b>	<b>-44,776,233</b>	<b>12,650,496</b>

# Probiodrug AG, Halle (Saale)

## Condensed NOTES to the interim financial statements for the period from 1 January to 30 June 2017 (HGB)

### **I. General information**

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

With effect from October 2014 Probiodrug became a listed company on the Euronext/Amsterdam and is thereby considered a capital market oriented corporation as defined by Section 264d of the HGB, which is thereby considered a large capital corporation pursuant to Section 267 (3) sentence 2 of the HGB.

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

### **II. Accounting policies and measurement methods**

The accounting policies and measurement methods in these interim financial statements correspond with those already applied by Probiodrug in the 2016 annual financial statements.

In the Management Board's opinion, these interim financial statements reflect all transactions which are necessary to present the net assets, financial position and results of operations for the periods ended 30 June 2017 and 2016.

These interim financial statements do not include all information and disclosures required for the presentation of annual financial statements. As such, the interim financial statements should be read in conjunction with the 2016 annual financial statements.

### **III. Explanations on the balance sheet**

#### **Share capital**

As at 30 June 2017, the share capital was unchanged and amounted to EUR 8,186,735.00. It is divided into 8,186,735 registered ordinary shares with no par value (bearer shares).

## **Authorisation to acquire treasury shares**

By resolution of the Annual Shareholders' Meeting on 10 June 2015 the Management Board is, pursuant to Section 71 (1) number 8 of the AktG [German Stock Corporation Act], authorised to acquire treasury shares until 9 June 2020 equalling EUR 676,580.00 of the share capital. The acquisition may take place via the stock exchange or via a public offer to purchase directed at all shareholders. The treasury shares may be utilised for all permissible purposes including the redemption of shares.

## **Conditional Capital**

As at 30 June 2017 the Conditional Capital totalled EUR 2,623,801.00 (31 December 2016 EUR 2,623,801.00). Of this amount, EUR 491,022.00 (31. December 2016 EUR 491,022.00) is reserved for the issuance of options.

The Conditional Capital serves the fulfilment of stock option rights for ordinary bearer shares upon exercise of conversion and/or option rights (or the satisfaction of corresponding conversion respectively option obligations) or, to the extent that the Company exercises its right to grant shares of the Company, in lieu of payment of the amount in cash due (or parts thereof), to the holders or creditors of convertible or option bonds.

In addition to Company employees and employees of formerly affiliated companies, for whom no disclosure is required pursuant to Section 194 (3) of the AktG, the following members of the Management Board (respectively former Management Board members) 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
- Dr. Inge Lues, Seeheim-Jugenheim, up to 104,834 ordinary shares

## **Authorised Capital**

On 13 June 2017 the Ordinary General Meeting resolved the creation of the Authorised Capital 2017 concurrently cancelling the Authorised Capital 2014.

The management board has the authorization to increase the company's share capital subject to the consent of the supervisory board until June 12, 2022 in one or several steps for cash contributions or contributions in kind by up to Euro 4,093,367.00 by issuing a total of 4,093,367 new no-par value common bearer shares (Authorized Capital 2017). The subscription right is excluded. Moreover, the management board has the authorization subject to the consent of the supervisory board to define the further details of the capital increase, its implementation and the terms and conditions for the issue of the shares out of the Authorized Capital 2017.



## **Pension provisions**

The pension obligations were rolled forward based on the valuation basis determined as at 31 December 2016.

In the period from 1 January to 30 June 2017 personnel expenses totalling EUR 48k (in the prior year EUR 66k) and ongoing interest expense of EUR 15k (in the prior year EUR 19k) were recorded with respect to the pension obligations.

As at 30 June 2017 the pension provision recorded amounted to EUR 408k (31 December 2016 EUR 378k).

## **Tax provisions**

Following a tax audit in 2008, the tax authorities retroactively increased the taxable profits for the financial year 2004 by approximately EUR 10 million.

The Company had contested the changed assessment notices. A stay of execution was granted for the assessment notices in dispute.

The risk of a potential tax payment was accounted for by a provision including accrued interest of approx. EUR 2.7 million by the end of 2016.

In the reporting period the company could reach a settlement with the relevant authorities of Saxony-Anhalt about the corporate income and trade tax claim.

According to this settlement the tax claims including additional payment interest totaled EUR 775k, of which EUR 766k were paid until June 30, 2017 and EUR 9k in July 2017.

## **Other provisions**

As at 30 June 2017, the other provisions recorded amounted to EUR 618k (31 December 2016 EUR 825k) and primarily consist of bonus for the management board and outstanding invoices.

## **IV. Other disclosures**

### **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.

## **Corporate Governance Codex**

The compliance statement prescribed by Section 161 of the AktG regarding the German Corporate Governance Codex was issued by the Management Board and the Supervisory Board and made available to the shareholders on the Probiodrug internet page (<http://www.probiodrug.de>) on a permanent basis.

## **Disclosures with respect to executive bodies**

### **Management Board**

In the first half of 2017 the Company's business activities were directed by the members of the Management Board

- Dr. Konrad Glund (Dipl. Biochemiker [diploma in biochemistry]) – Chairperson
- Dr. Hendrik Liebers (Dipl.-Biologe [diploma in biology], Dipl.-Kaufmann [diploma in economics])
- Dr. Inge Lues (Dipl.-Biologe [diploma in biology]).

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

### **Supervisory Board**

The following were appointed as members of the Supervisory Board during the reporting period:

- Dr. Erich Platzer - Chairperson
- Dr. Dinnies von der Osten – Vice Chairperson
- Charlotte Lohmann
- Kees Been
- Dr. Jörg Neermann

Halle (Saale), 4 August 2017

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues

# Probiodrug AG, Halle (Saale)

## Interim management report for the first half year of 2017(HGB)

### 1. Company basics

#### Legal structure

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

#### Business activities

Probiodrug AG is a biopharmaceutical company, which focuses on the research and development of new therapeutic products for the treatment of Alzheimer's Disease (hereinafter also „Alzheimer's“ or „AD“). The Company's aim is to become a leading company in the development of Alzheimer's treatments and thereby to provide a better life for patients.

Probiodrug has identified a new therapeutic concept which addresses disease initiation as well as progression. The development approaches target pyroglutamate-Abeta (pGlu-Abeta), in particular by the inhibition of the enzyme Glutaminyl Cyclase („QC“), as one therapeutic strategy to fight AD. The Company's most advanced program in this area is the development candidate PQ912, which completed a phase 2a study in June 2017; a further development candidate, PQ1565, is in preclinical development.

In addition, the Company is developing pGlu-Abeta binding antibodies. The development candidate in this area, PBD-C06, is in preclinical development.

Headquartered in Halle, Germany, Probiodrug was founded in 1997 by Prof. Dr. Hans-Ulrich Demuth and Dr. Konrad Glund and successfully developed a novel therapeutic concept for the treatment of diabetes type 2 – the DP4 inhibitors or gliptins.

#### Research and development

In the reporting period Probiodrug focussed its resources primarily on the development of its lead program PQ912. In addition, work was advanced on PBD-C06.

## **Important events in the reporting period**

### **a) Results of the clinical trial phase 2 with PQ912 (“SAPHIR”)**

On 11 June 2017 the Company announced the results of clinical trial phase 2 with PQ912 (the “SAPHIR” trial). The SAPHIR trial used a high dose of PQ912 (which showed 90% QC-enzyme inhibition in CSF [Cerebral spinal fluid] in Phase 1) in order to find both

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

With respect to the primary endpoints PQ912 showed safety signals in the skin and the gastrointestinal tract in the first weeks of the treatment period. With respect of the high dose applied Probiodrug is confident that with lower doses showing still quite high levels QC-inhibition and a slower titration scheme the drug will be safe and well tolerated in AD patients

With respect to the secondary exploratory endpoints PQ912 showed 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 in the right direction 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 a synaptotoxic Abeta variant and with this (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. Altogether the results make the program highly attractive for further development.

### **b) Annual Shareholders' Meeting 2017**

- On 13 June 2017 the Company's Annual Shareholders' Meeting took place. The following resolutions were subject to vote:
- Adoption of a resolution on the approval of the actions of the management board members for the financial year 2016
- Adoption of a resolution on the approval of the actions of the supervisory board members for the financial year 2016
- Appointment of the statutory financial statements auditor for the financial year 2017
- Elections to the supervisory board
- Resolution on the creation of the Authorized Capital 2017 concurrently cancelling the Authorized Capital 2014 as well as the corresponding amendments to the Articles of Association

- Resolution on the specification of the number of the Supervisory Board members as well as the corresponding amendment to the Articles of Association

All items presented for resolution by the management board and the supervisory board were approved with a large majority.

### **c) Settlement of the potential tax liability resulting from the financial year 2004**

In the reporting period the company could reach an agreement with the relevant authorities of Saxony-Anhalt about the corporate income and trade tax claim 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, resulting in a potential tax liability including accrued interest payment of a total of approx. EUR 2.7 million and accrued as of the end of 2016.

Probiodrug believed that the better arguments spoke against the tax authorities' view and had contested the claims of the tax authorities. The matter was pending with the competent tax court. While still being convinced, that the better arguments were on its side, Probiodrug was seeking a settlement with the relevant tax authorities of Saxony-Anhalt, which ultimately was reached in the first half of 2017. According to this settlement, Probiodrug paid in total (taxes including accrued interest) in an amount of EUR 775k, thereof EUR 9k paid in July 2017 and could release the remaining provision of EUR 1,964k to profit and loss.

## **2. Overview of business development**

### **2.1 General conditions**

The general environment with respect to Alzheimer's Disease research and development was unchanged in the first half of 2017.

### **2.2. Company development**

In the reporting period, the Company focussed primarily on the following activities:

- Completion of the clinical study phase 2a for PQ912 („SAPHIR“),
- Further progression of PBD-C06,
- Generation of additional data to support and protect the intellectual property of the therapeutic concept of QC inhibition as a fundamental novel approach for the treatment of Alzheimer's and other diseases.

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

### Net assets

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

	30.6.2017	31.12.2016
	EUR k	EUR k
<b>Assets</b>		
Intangible assets	35	96
Tangible assets	62	68
Long-term financial assets	3	3
<b>Fixed assets</b>	<b>100</b>	<b>167</b>
Receivables and other assets	267	289
Cash and bank balances	14,280	21,783
<b>Current assets</b>	<b>14,547</b>	<b>22,072</b>
Prepaid expenses	324	127
<b>Total assets</b>	<b>14,971</b>	<b>22,366</b>
<b>Equity and liabilities</b>		
Equity	12,651	16,847
Provisions	1,035	3,942
Liabilities	1,285	1,577
<b>Total equity and liabilities</b>	<b>14,971</b>	<b>22,366</b>

As at 30 June 2017 Probiodrug's total assets amounted to EUR 14,971k (31 December 2016: EUR 22,366k). As a result of scheduled amortisation and depreciation of EUR 72k off-set by additions of EUR 4k, the total fixed assets presented on the balance sheet decreased by EUR 67k. In the first half of 2017 current assets declined from EUR 22,072k to EUR 14,547k. During the reporting period receivables and other assets decreased by EUR 22k, while cash and cash equivalents declined by EUR 7,503k as a consequence of ongoing operating activities.

As at the balance sheet date, the bank balances totalled EUR 14,280k.

As at 30 June 2017 Probiodrug's equity amounted to EUR 12,651k (31 December 2016: EUR 16,847k). As at 30 June 2017 the equity ratio amounted to 84.5%.

In the first half of 2017 the provisions declined by EUR 2,907k from EUR 3,942k as at 31 December 2016 to EUR 1,035k as at 30 June 2017, mainly driven by the utilization of EUR 766k and release of the remaining tax provisions of EUR 1,964k as a result of the settlement reached.

Of the total provisions as at 30 June 2017, EUR 408k (31 December 2016: EUR 378k) comprise of pension provisions, EUR 618k (31 December 2016: EUR 825k) comprise of other provisions and EUR 9k comprise of tax provision, paid in July 2017.

In the first half of 2017 the liabilities decreased from EUR 1,577k to EUR 1,285k, whereby the trade accounts payable decreased by EUR 290k. As at 30 June 2017 they amounted to EUR 1,230k (31 December 2016: EUR 1,520k). The other liabilities declined by EUR 2k to EUR 55k (31 December 2016: EUR 57k).

## Financial position

In the reporting period the operating cash flow amounted to EUR -7,499k (2016: EUR -7,001k) due primarily to the negative results in the period.

In the reporting period the cash flows from investing activities totalled EUR -4k (2016: EUR -116k).

There were no cash flows attributable to financing activities in the reporting period.

## Results of operations

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

	30.6.2017	30.6.2016
	EUR k	EUR k
Other operating income	94	81
Cost of materials	-3,747	-2,982
Personnel expenses	-952	-1,029
Amortisation and depreciation of intangible and tangible fixed assets	-72	-26
Other operating expenses	-1,466	-1,688
Financing results	-15	-68
Taxes on income	1,962	0
<b>Net loss</b>	<b>-4,197</b>	<b>-5,713</b>

The Company's net loss in the reporting period in amount of EUR 4,197k decreased in comparison to the first half year 2016 (EUR 5,713k) by EUR 1,516k. There were the following significant changes in comparison with 2016:

- Increase in the cost of materials of EUR 765k, as a result of the further increase in expenses for purchased services within the scope of clinical study phase 2a;
- Reduction in personnel expenses of EUR 77k,
- Reduction in other operating expenses in the amount of EUR 222k, due primarily to a reduction in consulting expenses and a decline in patent costs.
- Increase of tax income of EUR 1,962k, resulting to the release of the tax provision after the settlement with the relevant authorities of Saxony-Anhalt about the corporate income and trade tax claim for the assessment period 2004.

## Overall statement

At the time of preparation of this management report, the Company's economic position was, in principle, unchanged in comparison with the explanations provided above. Overall, the management board is satisfied with the Company's development and considers this to be positive.

## 3. Opportunities and risks report

There were no significant changes with respect to the opportunities and risks report included in the management report for the 2016 financial statements

The accompanying interim financial statements as at 30 June 2017 were prepared on the basis that the Company will continue as a going concern. This contemplates the realisation of assets and the settlement of liabilities 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 all of its obligations. As at 30 June 2017 the Company had equity amounting to EUR 12,651k (31 December 2016 EUR 16,847k) and a cash position of EUR 14,280k (31 December 2016 EUR 21,783k). No changes on the spending side assumed, there is sufficient funding for the Company's further development until the end of Q1 2019. The future financing on which the going concern assumption is based, considers management's expectation to raise funds in the form of equity or debt and/or concluding a licensing agreement until the second half of 2018.

## 4. Outlook

The focus of Probiodrug's business activities has not changed over the mid-term in comparison to the outlook included in the management report to the financial statements for 2016. The statements with respect to the expected net loss hold true without any changes.

Halle (Saale), 4 August 2017

Probiodrug AG's management board

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues