

Interim Financial
Statements for the
six-month period
January 1, 2016 to
June 30, 2016 of
Probiodrug AG (IFRS)

- 1.1 Statement of Comprehensive Income
- 1.2 Statement of Financial Position
- 1.3 Cash Flow Statement
- 1.4 Statement of Changes in Equity
- 1.5 Notes to the Financial Statements

Probiodrug AG, Halle (Saale)

Statement of Comprehensive Income for the Period from January 1, 2016 to June 30, 2016

	Notes	1/1 - 6/30/2016	1/1 - 6/30/2015
		EUR k	EUR k
Research and development expenses		-4,711	-4,511
General and administrative expenses	1.2.1.1	-1,325	-1,872
Other operating income	1.2.1.2	48	206
Operating loss		-5,987	-6,177
Interest expense		-57	-56
Finance expenses, net		-57	-56
Net loss for the period/Comprehensive loss		-6,044	-6,233
Loss per share in EUR (basic and diluted)	1.2.2	-0.81	-0.92

Probiodrug AG, Halle (Saale)

Statement of Financial Position as of June 30, 2016

ASSETS

	Notes	6/30/2016 EUR k	12/31/2015 EUR k
A. Noncurrent assets			
I. Intangible assets		154	56
II. Plant and equipment	2.1.1	72	81
III. Financial assets		3	3
		229	140
B. Current assets			
I. Inventories		422	0
II. Tax receivables		0	1
III. Other assets	2.2.1	843	364
IV. Cash and cash equivalents	2.2.2	14,245	21,361
		15,510	21,726
		15,740	21,866

EQUITY AND LIABILITIES

	Notes	6/30/2016	12/31/2015
		EUR k	EUR k
A. Equity			
I. Share capital	2.6	7,442	7,442
II. Additional paid-in capital		35,242	34,866
III. Accumulated other comprehensive loss		-499	-499
IV. Accumulated deficit		-31,720	-25,676
		10,465	16,133
B. Liabilities			
I. Noncurrent liabilities			
Pension liability		820	822
II. Current liabilities			
1. Tax liabilities	2.3.1	2,691	2,641
2. Provisions	2.3.2	53	42
3. Trade payables		1,386	1,629
4. Other current liabilities	2.3.3	324	599
		5,274	5,733
		15,740	21,866

Probiodrug AG, Halle (Saale)

Cash Flow Statement

	1/1 – 6/30/2016	1/1 – 6/30/2015
	EUR k	EUR k
Net loss for the period	-6,044	-6,233
Net finance expense	57	56
Depreciation and amortisation	26	28
Release of deferred investment grants	0	-5
Income taxes received	1	2
Share based payments	377	422
Changing in working capital		
Changes in inventories	-422	0
Changes in other assets	-479	-52
Changes in pension liabilities	-9	-8
Changes in provisions	11	-178
Changes in trade payables	-243	-20
Changes in other liabilities	-275	-131
Cash flows used in operating activities	-7,000	-6,119
Proceeds from disposal of plant and equipment	0	0
Proceeds from disposal of intangible assets	0	0
Purchase of plant and equipment	-2	-4
Purchase of intangible assets	-114	-4
Proceeds from repayment of loans	0	0
Cash flows used in investing activities	-116	-8
Cash flows provided by financing activities	0	0
Net decrease in cash and cash equivalents	-7,116	-6,127
Cash and cash equivalents at the beginning of period	21,361	20,920
Cash and cash equivalents at the end of period	14,245	14,793

Probiodrug AG, Halle (Saale)

Statement of Changes in Equity

	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total equity
	EUR k	EUR k	EUR k	EUR k	EUR k
January 1, 2015	6,766	21,980	-604	-12,171	15,971
Net loss for the period/					
Comprehensive loss	0	0	0	-6,233	-6,233
Share based payments	0	422	0	0	422
	0	422	0	-6,233	-5,811
June 30, 2015	6,766	22,402	-604	-18,404	10,160
January 1, 2016	7,442	34,866	-499	-25,676	16,133
Net loss for the period/					
Comprehensive loss	0	0	0	-6,044	-6,044
Share-based payments	0	376	0	0	376
	0	376	0	-6,044	-5,668
June 30, 2016	7,442	35,242	-499	-31,720	10,465

Notes to the condensed interim Financial Statements

1 Notes to the condensed interim financial statements

1.1 Condensed interim financial statements

1.1.1 Basis for preparation of the financial statements

The interim financial statements of Probiodrug AG as of June 30, 2016 and for the six months then ended, were prepared in accordance with the requirements of the International Accounting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and adopted by the EU. The rules contained in IAS 34 "Interim Financial Reporting" were applied accordingly.

These condensed interim financial statements do not include all information relevant for the financial statements and are therefore to be read in conjunction with the financial statements as of December 31, 2015.

The condensed interim financial statements are presented in Euro (EUR). To the extent not otherwise stated, all amounts are given in thousands of Euro (EUR k). Discrepancies may occur in the presentation of the figures as of result of rounding.

The condensed interim financial statements have been prepared under the assumption of a going concern. We refer to section 1.1.3.

When a comparison and analysis is made below with the previous year, the period January 1, 2016 to June 30, 2016 (6 M 2016) is compared with the period January 1, 2015 to June 30, 2015 (6 M 2015). The prior year comparative date for the balance sheets is December 31, 2015.

1.1.2 Foreign currency translation

The principles for foreign currency translation remain unchanged to those applied for the financial statements as of December 31, 2015.

1.1.3 Accounting and valuation methods

Given that the interim financial reports are based on the financial statements as of December 31, 2015, reference is made to the detailed description of the accounting policies contained in the notes to the financial statements as of December 31, 2015. The accounting policies applied are essentially commensurate with those applied in the previous year.

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization 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. Regarding this the Company had equity amounting to EUR 10,465k and a cash position of EUR 14,245k at June 30, 2016. No changes on the spending side assumed, the Company has sufficient funding for the Company's further development until the third quarter of 2017. The future financing on which the going concern assumption is based on considers management's expectation to raise funds in the form of equity or debt and/or conduct a licencing agreement until the beginning of the third quarter 2017 at the latest. A further strengthening of the Company's financial resources is part of the present business planning.

The aforementioned projections are based on the assumption that no cash outflows will be required in 2016 and 2017 with respect to the additional tax claims of the fiscal authorities for the year 2004. Probiodrug has filed a lawsuit at the tax court contesting the potential back taxes. A ruling has not yet been made. A stay of execution for the contested claims has been granted. This risk was provided for in the financial statements by recording an appropriate provision. Should significant payments be required in 2016 or 2017 for the back taxes being contested in the tax courts, the Company's cash reach would be shorter.

The following applies in addition to the accounting and valuation methods described in the notes to the financial statements as of December 31, 2015:

Effective January 1, 2016 the following new and revised Standards and Interpretations were to be applied for the Company:

- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"
- Improvements to IAS 1: "Disclosure Initiative"
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Improvements to IFRS 2012-2014: Changes to IFRS 5, IFRS 7, IAS 19 and IAS 34

The changes listed did not have a significant impact on the condensed interim financial statements of Probiodrug.

1.2 Notes to individual line items of the statement of comprehensive income

1.2.1 Operating result

1.2.1.1 General and administrative expenses

General and administrative expenses of EUR 1,325k (6 M 2015 EUR 1,872k) include the administrative expenses of Probiodrug AG. They relate mainly to management costs, consulting expenses, external services and general administrative expenses.

1.2.1.2 Other operating income

Other operating income amounted to EUR 48k in the 6 M period 2016, following EUR 206k in the 6 M period 2015 and contain mainly income for other accounting periods and income from the release of provisions.

1.2.2 Earnings per share

Earnings per share were calculated in accordance with IAS 33. For the calculation per share the earnings for the period were divided by the weighted average number of shares outstanding. There is no dilutive effect.

Probiodrug AG has at June 30, 2016 7,442,487 no-par shares outstanding, which have in average been in circulation during the reporting period. The calculated nominal amount per share is EUR 1.00. The net loss for the period January 1 to June 30, 2016 amounted to EUR -6,044k (6 M 2015 EUR -6,233k). The result per share (basic and diluted) from continuing operations amounted to EUR -0.81 (6 M 2015 EUR -0.92).

2 Notes to the individual line items in the balance sheet

2.1 Noncurrent assets

2.1.1 Plant and equipment

The value of plant and equipment increased to EUR 229k (12/31/2015 EUR 140k) taking into account depreciation (EUR 26k) and investments in intangible assets of EUR 114k and in fixed assets of EUR 2k.

2.2 Current assets

2.2.1 Other current assets

Other current assets comprise the following:

	June 30, 2016	Dec. 12, 2015
	EUR k	EUR k
Prepayments for inventories	418	0
Receivables from deferred items	220	225
Receivables from value added taxes	119	79
Other	86	60
Total	843	364

The prepayments for inventories in the amount of EUR 418k are related to the production of the next GMP batches of PQ912.

2.2.2 Cash and cash equivalents

Cash and cash equivalents amounts to EUR 14,245k at June 30, 2016 (12/31/2015 EUR 21.361k). They are not restricted to use.

2.3 Current liabilities

2.3.1 Tax liabilities

The tax liabilities of EUR 2,691 k (12/31/2015 EUR 2,641k) comprise the Company's potential payment obligations for corporation and trade tax as a result of the tax audit for the period 2002 through 2005 including interest for late payment.

2.3.2 Provisions

The current provisions include the tax audit risk associated with a disputed source tax deduction on license fees to the amount of EUR 41k. As a consequence of the Company's appeal, the tax audit has not yet been finalized.

2.3.3 Other current liabilities

Other current liabilities include liabilities from waived phantom stock obligations in the amount of EUR 215k, payroll and church taxes to be paid in the amount of EUR 43k and others (EUR 66k).

2.4 Stock option

On April 1, 2016 and June 15, 2016, a member of the management board received a total of 74,424 options under the Stock option program 2014. As of June 30, 2016, all options were outstanding. One stock option gives the holder the right to acquire a common share (option right). The exercise price for the acquisition of a new common share amounts to EUR 23.97 (for the options issued on April 1, 2016) and to EUR 19.43 (for the options issued on June 15, 2016). The option rights granted within the framework of the stock option plan have a term of maximum eight years. The lock-up period amounts to four years. There is a threshold to exercise the option of an average share price within 20 days before the exercise exceeds the exercise price of minimum 10 %. The vesting period began on the date of issuance. Subsequent to the expiration of the vesting period, the option rights granted become non-forfeitable (even upon exit). 1/3 of the options become non-forfeitable within the first year, 1/3 within the first two years and 1/3 within the first three years.

The accounting for the stock options is at fair value in accordance with IFRS 2. The fair value is determined at the measurement date and is allocated over the vesting period. The fair value is determined on the basis of the Monte-Carlo-simulation model.

The following factors were considered for the calculation of the fair value:

1. In financial year 2016, on the grant date of April 1, 2016, 22,380 options for common shares with an original exercise price of EUR 23.97 were issued. On the grant date of June 15, 2016, 52,044 options for common shares with an original exercise price of EUR 19.43 were issued.
2. The volatility expected for both was determined to be 50 %.
3. The term of the options amounted to maximum eight years.
4. The non-exercise of the stock options issued due to fluctuations in personnel and the return of options for other reasons was not taken into consideration in the measurement.
5. The share price of a Probiodrug common share on the grant date of April 1, 2016 amounted to EUR 24.20 and on the grant date of June 15, 2016 amounted to EUR 19.55.

6. The risk free interest rate for the term of the options amounted to -0.42 % on the granted date of April 1, 2016 and -0.54 % on the granted date of June 15, 2016.
7. The expected dividend was assumed to be EUR 0.00.

The total expenses associated with the stock options granted in 2016 allocated to the period January 1 to June 30 amounted to EUR 33k. These were added to the additional paid-in capital.

The Annual Shareholders' Meeting on May 19, 2016 approved the extension of the exercise term for the stock option programs 2007 and 2010. The exercise term for the stock option program 2007 shall be renewed for those options, which have not yet expired, on eleven years. The exercise term for the stock option program 2010 shall be renewed for those options, which have not yet expired, on nine years.

The total expenses associated with the stock options allocated to the period January 1 to June 30 2016 amounted to EUR 376k and were added to the additional paid-in capital.

Regarding the other stock option programs and disclosures with respect to financial instruments, reference is made to the detailed description made in the notes to the financial statements as of December 31, 2015.

2.5 Authorised Capital 2014

On 19 May 2016 the Ordinary General Meeting resolved to increase the Authorised Capital 2014 from EUR 2,633,166.00 to EUR 3,721,243.00. The authorisations given to the Management Board and Supervisory Board with respect to the Authorised Capital 2014 were modified accordingly.

2.6 Contingent capital 2014

By resolution of the Annual Shareholders' Meeting on May 19, 2016, the contingent capital 2014 was increased by EUR 67,650.00 to EUR 509,650.00. The contingent 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' Meeting on September 29, 2014, June 10, 2015 and May 19, 2016) or to be issued as part of another stock option program. 404,538 options are designated for current and future members of the Executive Board and 105,112 options are designated for current and future Company employees. The remaining terms of the option program apply unchanged.

In 2016, a total of 74,424 options for ordinary bearer shares with no par value were issued within the framework of the Stock Option Program 2014 to the Executive Board.

3 Other disclosures

3.1 Appointment of the Management Board Member

Mr. Mark Booth is appointed as additional member of the management board of Probiodrug for the time period from April 1, 2016 until March 31, 2018. He represents the company solely being exempted from the restrictions in sec. 181 alt. 2 BGB (German Civil Code) and is therefore entitled to enter into legal transaction on behalf of the company with himself as a third-party representative.

3.2 Contingencies and other financial commitments

The total of the other financial commitments as at 30 June 2016 was EUR 1,557k (12/31/2015 EUR 2,072k) and consist of services by research and development service providers as well as of service, leasing and rental commitments. Of these commitments EUR 1,480k are due in 2016.

3.3 Significant events subsequent to the end of the reporting period

There were no significant events subsequent to the reporting period.

3.4 Related party disclosures

For further information reference is made to the explanations of related party disclosures in the notes to the financial statements as of December 31, 2015. Significant changes have not occurred.

3.5 Approval and release

On August 9, 2016, Probiodrug AG's management board approved these condensed interim financial statements.

Halle (Saale), August 9, 2016

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues

Mark Booth