

Interim Financial Statements as at 30 June 2015 and Interim Management Report (HGB)

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Probiodrug AG, Halle (Saale)

Balance sheet as at 30 June 2015 (HGB)

Assets

	30.6.2015		31.12.2014	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible assets				
Similar rights acquired for consideration, licenses and software		71.398,10		81.571,13
II. Tangible assets				
1. Buildings on third-party land	24.190,91		27.645,95	
2. Other equipment, operating and office equipment	67.307,32	91.498,23	73.507,31	101.153,26
III. Long-term financial assets				
Participations		3.450,00		3.450,00
		166.346,33		186.174,39
B. Current assets				
I. Receivables and other assets				
Other assets		172.165,95		296.096,92
II. Cash-in-hand and bank balance		14.792.718,53		20.919.926,71
		14.964.884,48		21.216.023,63
C. Prepaid expenses		251.989,86		77.861,82
		15.383.220,67		21.480.059,84

Equity and liabilities

	30.6.2015	31.12.2014
	EUR	EUR
A. Equity		
I. Share capital	6.765.898,00	6.765.898,00
Contingent capital: EUR 2,536,151.00 (31.12.2014: EUR 524,169.00)		
II. Capital reserves	22.016.465,55	22.016.465,55
III. Revenue reserves		
Legal reserves	227.625,00	227.625,00
IV. Accumulated losses brought forward	-18.326.118,09	-12.480.753,10
	<u>10.683.870,46</u>	<u>16.529.235,45</u>
B. Provisions		
1. Pension provisions	398.650,00	370.450,00
2. Tax provisions	2.592.320,75	2.543.210,75
3. Other provisions	880.042,99	1.107.042,99
	<u>3.871.013,74</u>	<u>4.020.703,74</u>
C. Liabilities		
1. Trade payables	770.347,89	876.394,23
2. Other liabilities	57.988,58	53.726,42
– of which taxes EUR 41,545.42 (31.12.2014: EUR 45,421.87) –		
	<u>828.336,47</u>	<u>930.120,65</u>
	<u>15.383.220,67</u>	<u>21.480.059,84</u>

Probiodrug AG, Halle (Saale)

Income statement for the period from 1 January to 30 June 2015 (HGB)

1.	Other operating income
2.	Cost of materials
a)	Costs of supplies and purchased merchandise
b)	Costs of purchased services
3.	Personnel expenses
a)	Wages and salaries
b)	Social security and post employment costs
	– of which in respect of retirement provisions EUR 66,782.52 (in the prior year EUR 48,000.00) –
4.	Amortisation of intangible assets and depreciation of tangible assets
5.	Other operating expenses
6.	Other interest and similar income
	– of which from affiliated companies EUR 0.00 (in the prior year EUR 430,000.32) –
7.	Interest and similar expenses
8.	Results from ordinary operations
9.	Income taxes
10.	Net loss
11.	Accumulated losses brought forward
12.	Total accumulated losses

1.1. - 30.6.2015		1.1. - 30.6.2014	
EUR	EUR	EUR	EUR
	230.051,39		36.391,15
-17.662,92		-21.121,16	
-2.801.486,24	-2.819.149,16	-1.390.339,85	-1.411.461,01
-730.459,70		-464.041,28	
-133.498,80	-863.958,50	-103.683,79	-567.725,07
	-28.502,05		-60.677,02
	-2.295.713,85		-2.172.914,41
	217,18		432.426,23
	-68.310,00		-49.110,00
	-5.845.364,99		-3.793.070,13
	0,00		-633,42
	-5.845.364,99		-3.793.703,55
	-12.480.753,10		-81.301.659,82
	-18.326.118,09		-85.095.363,37

Probiodrug AG, Halle (Saale)

Statement of Cash Flows for the period from 1 January to 30 June 2015 (HGB)

	1.1.2015– 30.6.2015	1.1.2014– 30.6.2014
	EUR	EUR
Net loss of the period	-5.845.365	-3.793.704
Amortisation and depreciation of fixed assets	28.502	60.677
Income/expense from the disposal of fixed assets	0	-814
Increase in pension provisions	28.200	21.000
Increase in tax provisions	49.110	49.110
Decrease of other provisions	-227.000	-32.250
Nicht zahlungswirksame Aufwendungen/Erträge	0	0
Abnahme der Vorräte	0	0
Abnahme der Forderungen aus Lieferungen und Leistungen	0	0
Decrease in receivables from affiliated companies	0	-32.445
Increase in other assets	123.931	422.728
Increase (in prior year decrease) of prepaid expenses	-174.128	7.537
Decrease in trade payables	-106.046	-232.221
Increase in other liabilities	4.262	8.227
Cash flow from operating activities	-6.118.534	-3.522.155
Proceeds from the disposal of tangible assets	0	25.000
Einzahlungen aus dem Abgang von immateriellen Anlagevermögenswerten	0	0
Capital expenditures for tangible assets	-4.046	0
Capital expenditures for intangible assets	-4.628	0
Einzahlungen aus Tilgung Darlehen	0	0
Cash flow from investing activities	-8.674	25.000
Einnahmen aus Aktienemission	0	0
Auszahlungen für Transaktionskosten	0	0
Proceeds from the issuance of convertible bonds	0	4.276.000
Cash flow from financing activities	0	4.276.000
Changes in cash and cash equivalents	-6.127.208	778.845
Cash and cash equivalents at the beginning of the financial year	20.919.927	4.421.392
Cash and cash equivalents at the end of the period	14.792.719	5.200.237

	30.6.2015	30.6.2014
	EUR	EUR
Composition of cash and cash equivalents		
Cash-on-hand	138	19
Bank balances	14.792.581	5.200.218
	14.792.719	5.200.237

Probiodrug AG, Halle (Saale)

Statement of shareholders' equity as at 30 June 2015 (HGB)

	Share capital		Capital reserves	Legal reserves	Retained earnings	Equity
	Common shares	Preferred shares				
	EUR	EUR				
Balance as at 1.1.2014	3.414.375	22.114.554	51.467.572	227.625	-81.301.660	-4.077.534
Net loss	0	0	0	0	-3.793.704	-3.793.704
Balance as at 30.6.2014	3.414.375	22.114.554	51.467.572	227.625	-85.095.364	-7.871.238
Balance as at 1.1.2015	6.765.898	0	22.016.466	227.625	-12.480.753	16.529.236
Net loss	0	0	0	0	-5.845.365	-5.845.365
Balance as at 30.6.2015	6.765.898	0	22.016.466	227.625	-18.326.118	10.683.871

Probiodrug AG, Halle (Saale)

Condensed NOTES to the interim financial statements for the period from 1 January to 30 June 2015 (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 (HGB) [Handelsgesetzbuch] applying the Accounting Law Modernisation Act [Bilanzrechtsmodernisierungsgesetzes] (BilMoG) as well as the complementary regulations of the [German] Stock Corporation Act.

With effect from October 2014 Probiodrug became a listed company (Euronext/Amsterdam, WKN 792183, code PBD) and is thereby considered a large capital corporation as defined by Section 267 (3) 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 applied by Probiodrug in the 2014 annual financial statements.

In the Executive 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 2015 and 2014.

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 together with the 2014 financial statements. These interim Probiodrug AG financial statements were released for publication by the Executive Board on 10 August 2015.

III. Explanations on the balance sheet

Share capital

As at 30 June 2015, the subscribed capital was unchanged and amounted to EUR 6,765,898.00. It is broken down into 6,765,898 registered ordinary shares with no par value (bearer shares).

Acquisition of treasury shares

By resolution of the Annual Shareholders' Meeting on 10 June 2015 the Executive Board is authorised, with the consent of the Supervisory Board, to acquire treasury shares until 9 June 2020. The Executive Board is not bound by a specific acquisition purpose.

The authorisation is limited to the acquisition of shares equalling EUR 676,580.00 of the share capital, ca. 10 % of the current share capital of EUR 6,765,898.00. The authorisation can be exercised directly by the Company or by third parties instructed by the Company in whole or in part (in a number of tranches) within the limits specified above.

Contingent capital 2014/I

By resolution of the Annual Shareholders' Meeting on 10 June 2015, the contingent capital 2014/I was increased by EUR 31,982.00 to EUR 442,000.00. 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 29 September 2014 and 10 June 2015) or to be issued as part of another stock option program. 336,888 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 2015 a total of 334,501 options for ordinary bearer shares with no par value were issued within the framework of the Stock Option Program 2014 to the Executive Board and to employees.

Contingent capital 2015

The Company's share capital is conditionally increased (Contingent Capital 2015) by a nominal value of up to 2,000,000.00 new no-par value bearer shares. The contingent capital increase serves to grant no par value registered shares upon exercising conversion and/or option rights (or the satisfaction of corresponding conversion or option obligations) or, to the extent that the Company exercises its right to grant no-par value Company shares, in lieu of payment of the amount due in cash (or parts thereof) to the holders or creditors of bonds that have been issued by the Company or a group company in accordance with the authorisation of the Annual Shareholders' Meeting of the shareholders dated 10 June 2015 until 9 June 2020 as per Section 18 AktG. The issuance of the new shares shall be effected at the conversion or option price to be determined, in each case, in accordance with the aforementioned authorisation resolution.

Option bonds and/or convertible bonds (bonds)

By resolution of the Annual Shareholders' Meeting on 10 June 2015 the Executive Board is authorised, until 9 June 2020, with the consent of the Supervisory Board, to issue once or in several transactions, in the latter case also simultaneously in several tranches, option bonds and/or convertible bonds (together the "Bonds") with a total nominal amount of up to EUR 60,000,000.00, each with or without a maturity restriction, subject to the respective terms and conditions of the option bonds (the „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 Bonds Conditions"), grant conversion rights or impose conversion obligations to subscribe for up to 2,000,000 no-par value bearer shares of the Company with a total corresponding amount of the Company's share capital of up to EUR 2,000,000.00. The Bonds may be issued in Euro or - limited to the respective value in Euro - in any other statutory currency of an OECD member state. The Bonds may be issued against cash or against non-cash consideration, in particular to acquire companies, shares in companies, parts of companies, receivables, patents and licenses or other assets, provided however, that the value of such at least equals the issue price of the Bonds.

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

Pension provisions

The pension obligations were rolled forward based on the valuation basis determined as at 31 December 2014.

In the period from 01 January to 30 June 2015 pension expense totalling EUR 36k (in the prior year EUR 48k) and ongoing interest expense of EUR 19k (in the prior year EUR 0k) were recorded with respect to the pension provision.

As at 30 June 2015 the pension provision amounted to EUR 399k (in the prior year EUR 370k).

Other provisions

As at 30 June 2015, the other provisions amounted to EUR 880k (in the prior year EUR 1,107k) and primarily consist of obligations associated with the phantom stock options as well as outstanding invoices.

IV. Other disclosures

Corporate Governance Codex

The compliance statement prescribed by Section 161 of the AktG regarding the German Corporate Governance Codex was issued by the Executive 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

Executive Board

In the first half of 2015 the Company's business activities were directed by the Executive Board which was unchanged.

Dr. Konrad Glund (Dipl. Biochemiker [degreed biochemist]) – Chairperson

Dr. Hendrik Liebers (Dipl.-Biologe [degreed biologist], Dipl.-Kaufmann [degreed businessman])

Dr. Inge Lues (Dipl.-Biologe [degreed biologist]).

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 Platzler, Chairperson
- Dr. Dinnies von der Osten, Vice Chairperson
- Charlotte Lohmann, from 10 June 2015
- Kees Been, from 10 June 2015
- Dr. Olivier Litzka
- Dr. Jörg Neermann
- Prof. Dr. Georg Frank, until 9 June 2015
- Dr. Hubert Birmer, until 9 June 2015

Halle (Saale), 10 August 2015

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues

Probiodrug AG, Halle (Saale)

Interim management report for the first half of 2015 (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“).

Headquartered in Halle, Germany, Probiodrug was founded in 1997 by Prof. Dr. Hans-Ulrich Demuth and Dr. Konrad Glund and successfully developed a new therapeutic concept for the treatment of diabetes type 2– the DP4 inhibitors or gliptins. Today, Probiodrug's 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 linked to disease initiation and progression. The development approaches are targeting pyroglutamate-Abeta (pGlu-Abeta), in particular by the inhibition of the enzyme Glutaminyi Cyclase („QC“), as one therapeutic strategy to fight AD.

Research and development

As was the case in the past, in the reporting period Probiodrug focussed its resources on the development of PQ912, an inhibitor of the enzyme QC for the treatment of Alzheimer's and other diseases. In addition, work was advanced on PBD-C06, antibodies which specifically bind on pGlu-Abeta as well as on PQ 1565, a further QC inhibitor.

Important events in the reporting period

a) Annual Shareholders' Meeting 2015

The Annual Shareholders' Meeting took place on 10 June 2015. The following items were, among others, presented for decision making:

- Supervisory Board member remuneration
- Authorisation to acquire treasury shares
- Authorisation to issue options and/or convertible bonds
- Resolution to amend the Stock Option Program 2014

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

b) Changes in the Supervisory Board

Charlotte Lohmann, Corporate Counsel of Morphosys AG, and Kees Been, CEO of Lysosomal Therapeutics Inc., were elected as new members of the Supervisory Board. Their terms in office expire upon conclusion of the Annual Shareholders' Meeting in which a resolution is passed with respect to the exoneration of the Supervisory Board for financial year 2017. Dr. Erich Platzer, Dr. Dinnies von der Osten, Dr. Jörg Neermann and Dr. Olivier Litzka were re-elected as members of the Supervisory Board. Their terms in office expire upon the conclusion of the Annual Shareholders' Meeting in which a resolution is passed with respect to the exoneration of the Supervisory Board for financial year 2015.

2. Overview of business development

2.1 General conditions

The general environment with respect to Alzheimer's research and development continued to develop positively in the first half of 2015. In this context, Axovant, a company entirely dedicated to Alzheimer's, realised one of the biggest IPOs with respect to biotechnology companies in the USA in June 2015.

2.2. Company development

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

- Initiation of the clinical study phase IIa for PQ912 („SAPHIR“),
- Further progression of PC-06 and PQ1565,
- Addressing the back-office requirements in conjunction with the IPO completed on the Euronext in Amsterdam in 2014,
- Increasing institutional investors' awareness of the Company as well as the therapeutic approaches it is addressing.

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:

	30.06.2015	31.12.2014
	EUR k	EUR k
Assets		
Intangible assets	71	82
Tangible assets	91	101
Long-term financial assets	3	3
Fixed assets	166	186
Receivables and other assets	172	296
Cash and bank balances	14,792	20,920
Current assets	14,965	21,216
Prepaid expenses	252	78
Total assets	15,383	21,480
Equity and liabilities		
Equity	10,684	16,529
Provisions	3,871	4,021
Liabilities	828	930
Total equity and liabilities	15,383	21,480

As at 30 June 2015 Probiodrug's total assets amounted to EUR 15,383k (2014: EUR 21,480k). As a result of scheduled amortisation and depreciation of EUR 28k, off-set by additions of EUR 9k the total fixed assets presented on the balance sheet declined by EUR 20k. In the first half of 2015 current assets declined from EUR 21,216k to EUR 14,965k. During the reporting period receivables and other assets declined by EUR 124k, while cash and cash equivalents declined by EUR 6,128k.

As at the balance sheet date the bank balances totalled EUR 14,792k.

As at 30 June 2015 Probiodrug's equity amounted to EUR 10,684k (31.12.2014: EUR 16,529k). As at 30 June 2015 the equity ratio amounted to 69.5%.

Due in particular to the release of provision, the provisions as at 30.06.2015 declined by EUR 150k to EUR 3,871k. The provisions comprise pension provisions of EUR 399k (2014: EUR 370k), other provisions of EUR 880k (2014: EUR 1,107k) as

well as a provision for possible additional taxes for 2004 of EUR 2,592k (2014: EUR 2,543k).

In the first half of 2015 the liabilities declined from EUR 930k to EUR 828k. As at 30 June 2015 trade payables amounted to EUR 770k (2014: EUR 876k).

Financial position

In the reporting period the operating cash flow amounted to EUR –6,119k (2014: EUR – 3,522k) and was primarily attributable to the negative results in the period.

The cash flows from investing activities in the reporting period totalled EUR -9k (2014: EUR 25k).

In the reporting period the cash flows from financing activities amounted to EUR 0k (2014: EUR 4,276k). In the comparable period in the prior year proceeds from the issuance of convertible bonds were recorded.

Results of operations

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

	30.06.2015	30.06.2014
	EUR k	EUR k
Other operating income	230	36
Cost of materials	-2,819	-1,411
Personnel expenses	-864	-568
Amortisation and depreciation of intangible and tangible assets	-28	-61
Other operating expenses	-2,296	-2,172
Financing results	-68	383
Result from ordinary activities	-5,845	-3,793
Taxes on income	0	-1
Net loss for the financial period	-5,845	-3,794

In the reporting period the Company's net loss amounted to EUR 5,845k (2014: EUR 3,794k), due primarily to the ongoing external studies, in particular the clinical study for PQ912, the costs to address the back-office requirements as well as the increase in the personnel costs due in particular to the expansion of the Executive Board in November 2014.

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.

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

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

4. Opportunities and risks report

There were no significant changes with respect to the opportunities and risks report included in the management report for the 2014 financial statements.

5. Outlook

The areas of emphasis of the Probiodrug's activities over the mid-term have not changed subsequent to the outlook presented in the management report included in the 2014 financial statements. Additional activities include activities to prepare and carry out a long-term treatment of patients to be started in 2016. The statements with respect to the anticipated net loss apply unchanged.

Halle (Saale), 10 August 2015

Probiodrug AG Executive Board

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues