

# **Interim Financial Statements for the six-month period January 1, 2015 to June 30, 2015 of Probiodrug AG (IFRS)**

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**Interim Financial Statements for the six-month period January 1, 2015 to  
June 30, 2015 of Probiodrug AG, Halle (Saale) (IFRS) (unaudited)**

## Statement of Comprehensive Income

in EUR k	1 January to 30 June	
	2015	2014
	(unaudited)	
<b>I. Profit or loss</b>		
Revenues .....	0	0
Cost of sales .....	0	0
<b>Gross profit</b> .....	<b>0</b>	<b>0</b>
Research and development expenses .....	-4,511	-2,820
General and administrative expenses .....	-1,872	-961
Other operating income .....	206	43
<b>Operating loss</b> .....	<b>-6,177</b>	<b>-3,738</b>
Interest income.....	0	35
Interest expense .....	-56	-58
<b>Financial loss</b> .....	<b>-56</b>	<b>-23</b>
<b>Loss before tax</b> .....	<b>-6,233</b>	<b>-3,761</b>
Income tax expense .....	0	0
<b>Net loss for the period</b> .....	<b>-6,233</b>	<b>-3,761</b>
 <b>II. Other comprehensive income (loss)</b>		
Items not to be reclassified subsequently to profit or loss		
Remeasurement of the net defined benefit pension liability .....	0	0
<b>Total other comprehensive income (loss)</b> .....	<b>0</b>	<b>0</b>
 <b>III. Comprehensive income (loss)</b> .....	 <b>-6,233</b>	 <b>-3,761</b>
 Earnings per share in EUR (basic and diluted)	 -0.92	 -0.88

## Statement of Financial Position

in EUR k	<u>As of 30 June</u>	<u>As of 31 December</u>
	2015	2014
	(unaudited)	
<b>ASSETS</b>		
<b>A. Noncurrent assets</b>		
I Intangible assets .....	71	82
II Plant and equipment.....	92	101
III Financial assets.....	3	3
<b>Total noncurrent assets.....</b>	<b>166</b>	<b>186</b>
<b>B. Current asset</b>		
I Other short-term financial assets .....	48	101
II Tax refunds.....	1	3
III Other assets .....	375	270
IV Cash and cash equivalents .....	14,793	20,920
<b>Total current assets .....</b>	<b>15,217</b>	<b>21,294</b>
<b>Total assets.....</b>	<b>15,383</b>	<b>21,480</b>
<b>EQUITY AND LIABILITIES</b>		
<b>A. Equity</b>		
I Share capital .....	6,766	6,766
II Legal reserve .....	228	228
III Additional paid-in capital .....	22,402	21,980
IV Other reserves for remeasurement of the pensions .....	-604	-604
V Retained earnings .....	-18,632	-12,399
<b>Total equity.....</b>	<b>10,160</b>	<b>15,971</b>
<b>B. Noncurrent liabilities</b>		
Pensions.....	928	929
<b>Total noncurrent liabilities.....</b>	<b>928</b>	<b>929</b>
<b>C. Current liabilities</b>		
I Investment grants .....	6	11
II Tax liabilities .....	2,592	2,543
III Provisions .....	617	795
IV Trade payables .....	1,016	1,036
V Other current liabilities .....	64	195
<b>Total current liabilities.....</b>	<b>4,295</b>	<b>4,580</b>
<b>Total liabilities.....</b>	<b>5,223</b>	<b>5,509</b>
<b>Total equity and liabilities .....</b>	<b>15,383</b>	<b>21,480</b>

## Cash Flow Statement

in EUR k	1 January to 30 June	
	2015	2014
	(unaudited)	
Net loss for the period .....	-6,233	-3,761
Net interest expense.....	56	23
Depreciation and amortization .....	28	61
Loss (gain) on disposal of plant and equipment	0	-1
Release of deferred investment grants .....	-5	-6
Other non-cash expense.....	422	0
Interest received.....	0	2
Income taxes paid	0	-1
Income taxes received .....	2	6
<i>Changes in working capital</i>		
Changes in other assets.....	-52	425
Changes in pension liabilities.....	-8	-13
Changes in provisions.....	-178	92
Changes in trade payables .....	-20	-337
Changes in other liabilities .....	-131	-12
<b>Cash flows from operating activities .....</b>	<b>-6,119</b>	<b>-3,522</b>
Proceeds from disposal of plant and equipment .....	0	25
Acquisition of plant and equipment .....	-4	0
Acquisition of intangible assets.....	-4	0
<b>Cash flows from investing activities .....</b>	<b>-8</b>	<b>25</b>
Proceeds from convertible bonds issue	0	4,276
<b>Cash flows from financing activities.....</b>	<b>0</b>	<b>4,276</b>
<b>Net decrease / increase in cash and cash equivalents .....</b>	<b>-6,127</b>	<b>779</b>
<b>Cash and cash equivalents at the beginning of period .....</b>	<b>20,920</b>	<b>4,421</b>
<b>Cash and cash equivalents at the end of period .....</b>	<b>14,793</b>	<b>5,200</b>

## Statement of Changes in Equity

	Share capital	Legal reserve	Additional paid-in capital	Other reserve for remeasure- ment of pensions	Retained earnings	Total equity
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
<b>January 1, 2014</b>	25,529	228	52,180	-199	-82,042	-4,304
Net loss for the period	0	0	0	0	-3,761	-3,761
Comprehensive loss for the period	0	0	0	0	-3,761	-3,761
	0	0	0	0	-3,761	-3,761
<b>June 30, 2014</b>	25,529	228	52,180	-199	-85,803	-8,065
<b>January 1, 2015</b>	6,766	228	21,980	-604	-12,399	15,971
Net loss for the period	0	0	0	0	-6,233	-6,233
Comprehensive loss for the period	0	0	0	0	-6,233	-6,233
Stock option compensation	0	0	422	0	0	422
	0	0	422	0	-6,233	-5,811
<b>June 30, 2015</b>	6,766	228	22,402	-604	-18,632	10,160

## **1. Notes to the financial statements**

### **1.1 Condensed interim financial statements**

#### **1.1.1 Basis for preparation of the financial statements**

The interim report of Probiodrug AG as of June 30, 2015 and also the financial statements as of December 31, 2014, 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, 2014.

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 interim financial statements have been prepared under the assumption of a going concern.

When a comparison and analysis is made below with the previous year, the period January 1, 2015 to June 30, 2015 (6 M 2015) is compared with the period January 1, 2014 to June 30, 2014 (6 M 2014). The prior year comparative date for the balance sheets is December 31, 2014.

#### **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, 2014.

#### **1.1.3 Accounting and valuation methods**

Given that the interim financial reports are based on the financial statements, reference is made to the detailed description of the accounting policies contained in the notes to the financial statements as of December 31, 2014. The accounting policies applied are essentially commensurate with those applied in the previous year.

Regarding management's assessment of the entity's ability to continue as a going concern, the Company had equity amounting to EUR 10,160k and a cash position of EUR 14,793k. With this the Company has sufficient funding for the Company's ongoing development but not for the initiation of new studies at least until the end of 2016.

The aforementioned projections are based on the assumption that no cash outflows will be required in 2015 and 2016 with respect to the potential additional tax claims of the fiscal authorities for the year 2004. Probiodrug has filed a lawsuit at the Financial Court contesting the potential back taxes. A ruling has not yet been made. A stay of execution for the contested decisions has been granted. This risk was provided for in the financial statements by recording an appropriate provision. Should significant payments be required in 2015 or 2016 for the back taxes being contested in the financial courts, the Company's cash reach would be shorter, however still well beyond 12 months after the date of the interim financial statements.

The following applies in addition to the accounting and valuation methods described in the notes to the financial statements as of December 31, 2014:

Effective January 1, 2015 the following new and revised Standards and Interpretations were to be applied for the Company:

- Improvements to IFRS 2011 – 2013: Changes to IFRS 1, IFRS 3, IFRS 13 and IAS 40

The changes listed do not have a significant impact on the 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 1,872k (6 M 2014 EUR 961k) 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 206k in the 6 M period 2015, following EUR 43k in the 6 M period 2014 and contain mainly 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 attributable to shareholders of the parent company were divided by the weighted average number of shares outstanding. There is no dilutive effect.

Probiodrug AG has at June 30, 2015 6,765,898 no-par shares with a nominal value of EUR 1.00 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, 2015 relating to the shareholders of Probiodrug AG amounts to EUR -6,233k (6 M 2014 EUR -3,761k). The result per share (basic and diluted) from continuing operations amounts to EUR -0.92 (6 M 2014 EUR -0.88).

## **2. Notes to the individual line items in the balance sheet**

### **2.1 Noncurrent assets**

#### **2.1.2 Plant and equipment**

The value of plant and equipment decreased to EUR 92k (12/31/2014 EUR 101k) taking into account scheduled depreciation (EUR 13k) and investments in fixed assets of EUR 4k.

### **2.2 Current assets**

#### **2.2.1 Other current assets**

Other current assets comprise the following:

EUR k	06/30/2015	12/31/2014
Receivables from deferred items .....	252	78
Receivables from value added taxes .....	116	186
Other .....	7	6
Total .....	375	270

#### **2.2.3 Cash and cash equivalents**

Cash and cash equivalents amount to EUR 14,793k (12/31/2014 EUR 20,920k). They are not restricted to use.

### **2.3 Noncurrent liabilities**

Regarding the pensions of EUR 928k (12/31/2014 EUR 929k) reference is made to the notes to the financial statements as of December 31, 2014.

## **2.4 Current liabilities**

### **2.4.1 Tax liabilities**

The tax liabilities of EUR 2,592 k (12/31/2014 EUR 2,543 k) 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.

### **2.4.2 Other provisions**

The other current provisions comprise provisions for commitments associated with the phantom stock options in the amount of EUR 576k (12/31/2014 EUR 754k). Reference is made to the notes to the financial statements as of December 31, 2014. In March 2015 a total of 15,462 phantom stock options were finally waived and the corresponding noncurrent liabilities adjusted accordingly.

Further the other 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.

### **2.4.3 Other current liabilities**

Other current liabilities include payroll and church taxes to be paid.

## **2.5 Stock option program 2014**

In April 2015 options under the Stock option program 2014 were issued on the basis of which certain employees were granted 20,000 options on April 28, 2015. As of June 30, 2015 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 18.68. 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 2015, on the grant date of April 28, 2015, 20,000 options for common shares with an original exercise price of EUR 18.68 were issued.
2. The volatility expected was determined to be 45%.
3. The expected term of the options amounted to 4.0 years. It was assumed that the options will be exercised immediately upon expiration of the lock-up period of four 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 Probiobdrug common share on the grant date amounted to EUR 24.00.
6. The risk free interest rate for the term of the options amounted to -0.19%.
7. The expected dividend was assumed to be EUR 0.00.

The total expenses associated with the stock options allocated to the period January 1 to June 30 amounted to EUR 22k. These were added to the additional paid-in capital.

Regarding to the other stock option programs as well as to the phantom stock programs reference is made to the detailed description made in the notes to the financial statements as of December 31, 2014.

## **2.6 Contingent capital 2014/I**

By resolution of the Annual Shareholders' Meeting on June 10, 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 September 29, 2014 and June 10, 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.

## **2.7 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 June 10, 2015 until June 9, 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.

## **2.8 Option bonds and/or convertible bonds (bonds)**

By resolution of the Annual Shareholders' Meeting on June 10, 2015 the Executive Board is authorised, until June 9, 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.

## **3. Other disclosures**

### **3.1 Contingencies and other financial commitments**

As of the balance sheet date, there were no contingencies. The total other financial commitments relating mainly to agreements for rental and research services and license agreements amounted to EUR 251k (12/31/2014 EUR 260k).

### **3.2 Significant events subsequent to the end of the reporting period**

There were no significant events subsequent to the reporting period.

### **3.3 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, 2014. Significant changes have not occurred.

### **3.4 Approval and release**

On August 10, 2015 Probiodrug AG's management board approved these condensed interim financial statements.

Halle (Saale), August 10, 2015

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues