Half Year Report 2014

formycon®

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Formycon AG
82152 Planegg, Fraunhoferstr. 15

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(Translation - the German text is authoritative)

Consolidated interim Financial Statements as of June 30, 2014 and Group Management Report for Fiscal Year then ended

Independent auditor‘s review report on interim financial information
(Translation - the German text is authoritative)

This short-form audit report shall only serve the intended use under Section 325 et seq. HGB.

I. Interim Management Report 2014

1. Business and Environment

1.1 Framework

1.1.1 General economic situation and outlook

As a result of the poor weather conditions in the USA, turbulences on the financial markets and the political conflict in the Ukraine, the development of the world economy slowed down at the beginning of 2014. Consequently, the World Bank reduced its prognosis for global economic growth for 2014 from 3.2% in January to 2.8% in June 2014. Since the industrialised countries are expected to continue their recovery, the World Bank anticipates a more dynamic growth over the further course of the year and confirmed its prognosis for global economic growth of 3.4% and 3.5%, respectively for the coming two years. In June, the International Monetary Fund ("IMF") reduced its growth prognosis for the USA and now expects growth of 2.0% in 2014 (prognosis in April: 2.8%). However, the IMF kept to its prognosis of 3.0% for 2015 and thus signalled that the recovery in the USA is on target. According to the IMF, growth in the Eurozone is expected to be 1.1% in 2014 and high-income countries will gather momentum.

1.1.2 Development in the healthcare sector and outlook

In the first six months of 2014, the pharmaceuticals and biotechnology sector was the most active sector, since more agreements were reached than in other sectors and the number of fusions and takeovers increased considerably in the first half of 2014 compared to last year. According to data from Burrill & Company, the transaction volume of fusions and takeovers increased by 194.0% from the first half of 2013 to the first half of 2014, particularly as a result of several transactions in the billions. These include transactions such as the multi-billion dollar exchange of assets between GlaxoSmithKline and Novartis at the end of April.

During the first half of 2014, 68 life science companies were floated on the stock market and raised $ 4.7 billion in the process; this already exceeds the number of stock market flotations in 2013 (66). Despite a slight decline in interest shown by investors in stock market flotations in the life science sector in the second quarter of 2014, interest in innovative ideas from the pharmaceuticals and biotechnology sector in the USA remained unbroken. Prognoses suggest that the markets will remain robust if the economic indicators continue their upward trend.

The pharmaceuticals sector has shown declining efficiency in product launches over the past decade. Consequently, the pharmaceuticals sector has been increasingly cooperating with innovative external biotechnology companies that specialise in active substance research, in order to generate high-quality lead structures and development candidates. At the same time, the pharmaceutical value-added chain is undergoing a process of work division and the industrialisation of biotechnology companies. This approach can significantly accelerate the development process of new life science products.

Companies such as Formycon can secure a valuable share of the respective value-added chain and profit from its attractive business model. Alliances, cooperations, licensing and service contracts as well as partnership agreements concerning active substance candidates, highlight the company‘s role both as a strategic partner and as a development and service provider in this sector.

1.2 Business development in 2013

By managing to carry out the first development project much faster than expected in December 2013, Formycon AG is in a very good position for continuing and successful operations within the next years.

Formycon AG was able to carry out one of these projects for the Santo Holding GmbH well ahead of schedule in December 2013 to the Santo Holding GmbH. On behalf of Santo Holding GmbH – owned by the Strüngmann family who are founder and former owners of HEXAL – Formycon AG now continues to bring this first development project on the market.

In case of a successful development and subsequent successful introduction to the market, Formycon AG can expect contractual payments in the mid three-digit million range for the coming years. It is planned to invest these funds in other currently running projects, which will enable them to be realized ahead of schedule.

Due to the mentioned contract and the stable investor-structure, Formycon AG is one of the few independent companies in the growing biosimilar market. The unique expertise of Formycon AG’s scientists and management and the integrated development processes makes Formycon a preferred partner for large pharmaceutical companies.

2. Results of operation

The turnover of Formycon AG for the first half of 2014 increased to € 7.4 million (2013: € 0.2 million). This increase is attributable in particular to high turnovers from the licensing agreement with Santo Holding GmbH and the resulting development alliance. The affects EBITDA amounted to € 3.2 million in the first half of 2014 (first half of 2013: € -3.0 million). In total, the company expects to achieve a positive EBITDA for the financial year 2014. The portfolio of liquid assets, comprising cash holdings and credit balances at banks as well as securities , stocks and bonds, amounted to € 11.2 million at the end of June 2014.

3. Financial position

The financial position of the company is strong. Liquidity and cash equivalent assets add up to a sum of € 11.2 million.

4. Net assets

The company's equity as of June 30, 2014 amounts to € 16,345. Accordingly, the company's equity ratio, based on total assets, reaches almost 81%. The main assets are cash and cash equivalents.

5. Supplementary Report

Significant events that occurred after the end of the financial year were not recorded.

6. Opportunities and Risk Report

6.1 Risks

By building up suitable provisions and applying necessary depreciations and amortizations, the Formycon AG has accounted for accounting risks. All other elemental risks are insured.

The biggest risks for continued successful operations are (major) setbacks in our product development in terms of time and project progress.

Since the biosimilar products and the idea behind them is relatively new, it cannot be concluded with absolute certainty, whether or not the products will reach actual marketability, despite the high market attention.

6.2 Opportunities

For the future, we see our main opportunity in the further development of marketable biosimilar products. Other than that, there are good chances that the above mentioned carried-out project is going to lead to economic success.

We have also noticed a very high potential in terms of sales of our products during several company presentations, which confirms our market perception.

7. Forecast

Our subsidiary "Formycon Services GmbH" will continue to offer development services for pharmaceutical and biotechnology companies. We anticipate that this business model will be able to operate profitably.

According to this, as of 2014, both Formycon AG and the group should be able to realize profits after tax, which it is anticipated will largely come from the license agreement with the Santo Holding.

The Board presented forecasts for both the Formycon AG and Formycon Services GmbH.

Planegg, August 29, 2014

Formycon AG

Dr. Brockmeyer   Dr. Combé

II. Interim Financial Statements

Balance Sheet as of June 30, 2014 and December 31, 2013

ASSETS		**2014**	**2013**
	€	**€**	**€**
A. Long-term capital			
I. Intangible assets			
1. Purchased concessions, industrial property rights and assets as well as licenses for such rights and assets	148,305.51		177,318.53
2. Goodwill	1,300,365.00	1,448,670.51	1,379,175.00
II. Property, plant and equipment			
1. Tenant installations	265,367.72		290,640.86
2. Other equipment, factory and office equipment	2,294,617.40	2,559,985.12	2,696,209.53
III. Financial assets			
1. Shares in affiliated companies	50,000.00		25,000.00
2. Loans to affiliated companies	1,547,349.12	1,597,349.12	1,667,965.88
B. Short-term capital			
I. Inventories			
1. Raw materials, consumables and supplies	190,002.18		273,442.75
2. Advance payments	42,810.00	232,812.18	0.00
II. Receivables and other assets			
1. Trade receivables	666.40		380.80
2. Receivables from associated companies	1,605,799.89		0.00
3. Other assets	87,692.92	1,694,159.21	222,035.70
III. Securities			
1. Other securities		10,750,000.00	9,500,000.00
IV. Cash and cash equivalents		462,640.34	881,199.22
C. Deferred expenses			
1. Other deferred expenses		36,586.79	6,399.47
		18,782,203.27	**17,119,767.74**

LIABILITIES

		2014	2013
	€	€	€
A. Equity			
I. Subscribed capital	8,626,683.00		8,626,683.00
II. Capital reserve	18,247,524.34		18,247,524.34
III. Loss carry-forward	-12,946,286.43		-5,178,884.49
IV. Annual net profit/loss	2,417,097.72	16,345,018.63	-7,767,401.94
B. Provisions			
1. Provisions for taxes	200,600.00		0.00
2. Other Provisions	462,352.48	662,952.48	493,440.00
C. Liabilities			
1. Trade accounts payable	1,614,753.35		2,493,123.69
2. Other liabilities	159,478.81	1,774,232.16	205,283.14
		18,782,203.27	**17,119,767.74**

Profit and Loss Account for the First half of 2014

		30.06.2014	30.06.2013
	€	€	€
1. Revenue		7,413,404.67	222,083.13
2. Other operating Income		28,105.45	73,280.93
3. Cost of materials			
a) Cost of raw materials and supplies	-349,810.83		
b) Cost for purchased services	-1,604,893.89	-1,954,704.72	-306,798.64
Gross profit or loss		5,486,805.40	-11,434.58
4. Personal expenses			
a) Wages and salaries	-1,278,860.58		-1,348,526.98
b) Social costs	-196,635.14	-1,475,495.72	-222,238.22
5. Depreciation and amortization			
of fixed intangible and tangible assets		-545,022.24	-554,778.53
6. Other operating expenses		-845,472.66	-1,372,186.32
Operating Income		2,620,814.78	-3,509,164.63
7. Other interest and similar income		24.70	5,670.14
8. Interest expense and similar expenses		-2,871.76	-1,674.25
Financial results		-2,847.06	3,995.89
9. Profit before tax		2,617,967.72	-3,505,168.74
10. Income taxes		-200,600.00	0.00
11. Other taxes		-270.00	- 443.00
12. Annual net profit/loss		**2,417,097.72**	**-3,505,611.74**

Notes to the Financial Statements (German Commercial Code (HGB)

Notes to the interim Financial Statements (German Commercial Code (HGB)) for the period from January 1, to June 30, 2014

I. Basic Rules

A. General rules

(1) The interim Financial Statements for the period from January 1, 2014 to June 30, 2014 is prepared according to the regulations of the German Commercial Code.

B. German law

(1) The financial statements also comply with German corporation law.

C. Formal presentation

(1) The valuation of the financial statements as of December 31, 2013 were not changed.

(2) The structure of the interim financial statements follows the form of §§ 266ff. HGB.

(3) The profit and loss account has been prepared according to § 275 HGB in the total expenditure format.

II Principles of capitalization and valuation

A. General principles

(1) The Financial Statements have been prepared according to the same rules as in the previous year. The profit and loss account has been prepared according to § 275 HGB in the total expenditure format.

(2) The balance sheet contains all assets, all liabilities and all prepaid and deferred items.

(3) The long-term capital includes only those assets intended for long-term use.

(4) Provisions were built according to § 249 HGB, deffered items according to § 250 HGB.

(5) The valuation followed the principle of going-concern valuation and single-asset valuation.

(6) The valuation of the assets and liabilities follows the accounting principle of prudence.

B. Long-term capital

(1) Intangible and tangible assets are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs to bring the asset to its working condition.

Depreciation is computed on a straight-line basis over the estimated useful lives following the tax depreciation tables.

Financial assets are stated at historical cost or the lower market value according to the lower-of-cost-or-market principle.

The depriciation period for the Goodwill is 15 years. This is because of the estimated time for research and development.

C. Short-term capital

(1) Inventories, including raw materials and supplies, are valued at the lower of cost or market value.

(2) The receivables and other assets are entered with the original invoice amount with a minus valuation adjustment for uncollectible receivables. Receivables are written off if they cannot be collected.

D. Provisions

(1) Other provisions were formed when a liability to third parties exists, its take-up appears probable and the anticipated size of the provision can be reliably estimated.

E. Liabilities

(2) Liabilities are valued at the amount that is required to meet liabilities.

They are structured as follows:

Table of Liabilites June 30, 2014

		amounts falling due				
Liabilities	30,06,2014	within one year	within one to five years	after more than 5 years	hereof secured	secured by
1. Trade accounts payable	1,614,753.35	1,614,753.35	0.00	0.00		
2. Other Liabilities	159,478.81	159,478.81	0.00	0.00		
	1,774,232.16	**1,774,232.16**	**0.00**	**0.00**	**0.00**	

III. Comments on the balance sheet

(1) The development of the group fixed assets is shown in the enclosed fixed-asset movement schedule.

Fixed-asset movement schedule of June 30, 2014

	Historical costs €	Additions €	Repostings €
I. Intangible assets			
1. Purchased concessions, industrial property and assets as well as license for such rights and assets	261,614.42	1,166.20	0.00
2. Goodwill	1,536,795.00	0.00	0.00
II. Property, plant and equipment			
1. Tenant installations	353,823.64	0.00	0.00
2. Other equipment and factory	3,795,974.37	15,521.73	0.00
III. Financial assets			
1. Shares in affiliated companies	25,000.00	25,000.00	0.00
2. Loans to affiliated companies	1,667,965.88	0.00	0.00
	7,641,173.31	**41,687.93**	**0.00**

Disposals at historical cost €	Accumulated depreciations €	Book value 06-30-2014 €	Book value 12-31-2013 €	Depreciations business year €	Disposals at book value €
0.00	114,475.11	148,305.51	177,318.53	30,179.22	0.00
0.00	236,430.00	1,300,365.00	1,379,175.00	157,620.00	0.00
0.00	88,455.92	265,672.72	290,640.86	25,273.14	0.00
6,353.98	1,510,524.72	2,294,617.40	2,696,209.53	410,759.88	6,353.98
0.00	0.00	50,000.00	25,000.00	0.00	0.00
120,616.76	0.00	1,547,349.12	1,667,965.80	0.00	0.00
126,616.76	**1,949,885.75**	**5,606,004.75**	**6,236,309.80**	**545,022.25**	**6,353.98**

A. Long-term capital

(2) Liabilities are valued at the amount that is required to meet liabilities. The structure of the liabilities is shown in “table of liabilities”

B. Provisions

(1) Other provisions consists of:

Vacation and extra hours	215,400.00 €
Bonuses	175,590.00 €
Legal costs	5,000.00 €
‘Preserving books’	8,300.00 €
Occupational cooperative	11,062.48 €
Other	30,000.00 €
Outstanding invoices	12,000.00 €
Financial statement	5,000.00 €
	462,352.48 €

(2) The other provisions are mainly composed of benefits payable, legal costs and the duty to preserve books of account and other records for a specified period.

III. Comments on the profit and loss accounts

(1) No comments required

IV. Other Information

A. Bodies of the company

(1) Members of the Executive Board:

Chairmen:
- **Dr. Carsten Brockmeyer**, Göttingen
- **Dr. Nicolas Combé**, Marburg

Supervisory Board:
- **Dr. Olaf Stiller**, Weimar (Chairman)
- **Hermann Vogt**, Dieburg (Deputy Chairman)
- **Peter Wendeln**, Oldenburg

(2) The overall remuneration of the Supervisory Board amounted to € 5,625.00 (previous year € 22,500.00) (§ 314 Nr. 6 HGB).

(3) Pursuant to § 314 (2) HGB, the information according to § 314 (1) No. 6 is not given

(4) There are no debts to members of the supervisory board.

B. Employees

(1) There were 40 employees employed in the group.

The staff was structured as follows:

- 2 Board
- 5 Administration
- 33 Research and development

The counting followed § 267 (5) HGB

C. Equity

(1) On the cutoff date, subscribed capital totaled € 8.626.683,00.

The subsidiaries report as follows:

- Formycon Services GmbH 100 %,
- Interim Profit 2014: 1,709.00 €
- Interim Equity 2014: -1,650,467.14 €

- Formycon project 201 GmbH 100 %
- Interim Profit 2014: 82,950.73 €
- Interim Equity 2014: 107,950.73 €

D. Contingencies and remunerations

There were other financial liabilities according to § 314 (2a) HGB at the cutoff date of € 85,354.00. It is because of a guaranty (security for rent).

The overall amount according to § 314 No. 9 HGB is € 11,350.00. The amount is caused by auditing.

III. Independent auditor‘s review report

on interim financial information of Formycon AG

We have reviewed the accompanying interim financial statements of Formycon AG, comprising the balance sheet, the profit and loss accounts for the interim period from January 1, 2014 to June 30, 2014, the notes to the financial statements and the interim management report for the period from January 1, 2014 to June 30, 2014.

The preparation of the financial statements and the management report in accordance with the requirements of German commercial law and the Company`s statutes ("German Commercial Code HGB") are the responsibility of the Company`s management.

Our responsibility is to express a conclusion on these interim financial statements based on our review. We conducted our review in accordance with the IDW (Institut der Wirtschaftsprüfer) Standard on Review Enagements (IDW PS 900), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". This standard requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with this standard consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our conclusion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information of Formycon AG for the six months ended 30 June 2014 are not prepared, in all material respects, in accordance with German principles of proper accounting and give a true and fair view of net assets, financial position and results of operations. Also nothing has come to our attention that causes us to believe that the management report ist not consistent with the financial statements and, as a whole, does not provide a suitable view of the Company‘s position and does not suitably present the opportunities and risks of the future developments.

signed: Dr. Rudolf Schmitz

(PanTaxAudit GmbH)

The translated auditor`s report is not signed since the German text is authorative

I. Group Management Report 2014

1. Business and Environment

1.1 Framework

1.1.1 General economic situation and outlook

As a result of the poor weather conditions in the USA, turbulences on the financial markets and the political conflict in the Ukraine, the development of the world economy slowed down at the beginning of 2014. Consequently, the World Bank reduced its prognosis for global economic growth for 2014 from 3.2% in January to 2.8% in June 2014. Since the industrialised countries are expected to continue their recovery, the World Bank anticipates a more dynamic growth over the further course of the year and confirmed its prognosis for global economic growth of 3.4% and 3.5%, respectively for the coming two years. In June, the International Monetary Fund ("IMF") reduced its growth prognosis for the USA and now expects growth of 2.0% in 2014 (prognosis in April: 2.8%). However, the IMF kept to its prognosis of 3.0% for 2015 and thus signalled that the recovery in the USA is on target. According to the IMF, growth in the Eurozone is expected to be 1.1% in 2014 and high-income countries will gather momentum.

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In case of a successful development and subsequent successful introduction to the market, Formycon AG can expect contractual payments in the mid three-digit million range for the coming years. It is planned to invest these funds in other currently running projects, which will enable them to be realized ahead of schedule.

Due to the mentioned contract and the stable investor-structure, Formycon AG is one of the few independent companies in the growing biosimilar market. The unique expertise of Formycon AG’s scientists and management and the integrated development processes makes Formycon a preferred partner for large pharmaceutical companies.

2. Results of operation

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3. Financial position

The financial position of the company is strong. Liquidity and cash equivalent assets add up to a sum of € 11.2 million.

4. Net assets

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5. Supplementary Report

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6. Opportunities and Risk Report

6.1 Risks

By building up suitable provisions and applying necessary depreciations and amortizations, the Formycon AG has accounted for accounting risks. All other elemental risks are insured.

The biggest risks for continued successful operations are (major) setbacks in our product development in terms of time and project progress. Since the biosimilar products and the idea behind them is relatively new, it cannot be concluded with absolute certainty, whether or not the products will reach actual marketability, despite the high market attention.

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For the future, we see our main opportunity in the further development of marketable biosimilar products. Other than that, there are good chances that the above mentioned carried-out project is going to lead to economic success.

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According to this, as of 2014, both Formycon AG and the group should be able to realize profits after tax, which it is anticipated will largely come from the license agreement with the Santo Holding.

The Board presented forecasts for both the Formycon AG and Formycon Services GmbH.

Planegg, August 29, 2014

Formycon AG

Dr. Brockmeyer Dr. Combé

II. Consolidated Interim Financial Statements

Consolidated Balance Sheet as of June 30, 2014 and 2013

ASSETS		2014	2013
	€	€	€
A. Long-term capital			
I. Intangible assets			
1. Purchased concessions, industrial property rights and assets as well as licences for such rights and assets	148,305.51		177,318.53
2. Goodwill	1,300,365.00	1,448,670.51	1,379,175.00
II. Property, plant and equipment			
1. Tenant installations	265,367.72		290,640.86
2. Other equipment, factory and office equipment	2,294,617.40	2,559,985.12	2,696,209.53
B. Short-term capital			
I. Inventories			
1. Raw materials, consumables and supplies	190,002.18		273,442.75
2. Work-in-progress inventory	6,948,845.72		0.00
3. Advance payments	42,810.00	7,181,657.90	0.00
II. Receivables and other assets			
1. Trade receivables	666.40		380.80
2. Other assets	87,692.92	88,359.32	222,035.70
III. Securities			
1. Other securities		10,750,000.00	9,500,000.00
IV. Cash and cash equivalents		552,522.38	899,311.60
C. Deferred expenses			
1. Other deferred expenses		36,586.79	6,399.47
		22,617,782.02	**15,444,914.24**

LIABILITIES	€	2014 €	2013 €
A. Equity			
I. Subscribed capital	8,626,683.00		8,626,683.00
II. Capital reserve	18,247,524.34		18,247,524.34
III. Loss carry-forward	-14,623,462.57		-6,882,813.85
IV. Annual net profit/loss	2,501,757.45	14,752,502.22	-7,740,648.72
B. Provisions			
1. Provisions for taxes	237,800.00		0.00
2. Other Provisions	467,675.12	705,475.12	495,762.64
C. Liabilities			
1. Advance payments from customers	6,948,845.72		0.00
2. Trade accounts payable	51,480.15		2,493,123.69
3. Other liabilities	159,478.81	7,159,804.68	205,283.14
		22,617,782.02	**15,444,914.24**

Consolidated Profit and Loss Account for the First half of 2014

			31.12.2013
	€	€	€
1. Revenue		622,835.95	276,173.13
2. Increase / decrease in finished and unfinished benefits		6,948,845.72	0.00
3. Other operating income		28,105.45	136,522.80
4. Cost of materials			
a) Cost of raw materials and supplies	-349,810.83		-239,378.28
b) Cost for purchased services	-1,637,328.60	-1,987,139.43	-1,251,659.20
Gross profit or loss		5,612,647.69	-1,078,341.55
5. Personal expenses			
a) Wages and salaries	-1,278,860.58		-2,545,791.69
b) Social costs	-196,635.14	-1,475,495.72	-362,880.11
6. Depreciation and amortization			
of fixed intangible and tangible assets		-545,022.24	-1,103,126.30
7. Other operating expenses		-849,534.22	-2,654,250.97
Operating Income		2,742,595.51	-7,744,390.62
8. Other interest and similar income		24.70	7,396.77
9. Interest expense and similar expenses		-2,871.76	-2,040.87
Financial results		-2,847.06	5,355.90
10. Profit before tax		2,739,748.45	-7,739,034.72
11. Income taxes		-237,800.00	0.00
12. Other taxes		-191.00	-1,614.00
13. Annual net profit/loss		**2,501,757.45**	**-7,740,648.72**

Notes to the Consolidated Financial Statements (German Commercial Code (HGB))

Notes to the Consolidated Financial Statements (German Commercial Code (HGB)) for the period from Januay 1, 2014 to June 30, 2014

I. Basic Rules

(1) The consolidated Financial Statements for the interim financial year 2014 is prepared according to the regulations of the German Commercial Code.

(2) These are the first interim financial statements of the Formycon Group. The figures of the previous year reprensent the entire last year, thus they are not fully comparable with this year's figures.

A. Consolidated entity

(1) In addition to Formycon AG as the parent company, the consolidated financial statements include all subsidiaries for which Formycon AG directly or indirectly holds the majority of shares.

List of subsidiaries consolidated

Formycon AG

- **Formycon Services GmbH (100 %)**
- **Formycon project 201 GmbH (100 %)**

(2) The subsidiaries have been full consolidated.

B. Fiscal year and period of consolidation

(1) The balance sheet date of the Consolidated Interim Financial Statements is June 30, 2014. The balance sheet date is equal for all group companies. All of the included companies use the calendar year as their financial year. Thus the interim financial statements for the first half of 2014 formed the basis for consolidation.

C. Consolidation principles

(1) The Consolidated Financial Statements are based on the annual financial statements as reviewed by independent auditors. The reviewed interim financial statements follow the same principles.

(2) The Consolidated interim Financial Statements are prepared according to §§ 290 ff. HGB (German Commercial Code).

(3) All subsidiaries were full consolidated.

(4) The group of consolidated entities was added by Formycon project 201 GmbH in 2014.

(5) Receivables and payables between the consolidated companies are eliminated as part of the debt consolidation.

(6) The consolidated profit and loss account has been prepared as a fully consolidated profit and loss account according to the total expenditure format, in which all earnings and expenses between the companies have been offset against each other. Elimination of intercompany profits was not required.

(7) Options to capitalize (§ 300 (2) HGB) and valuation options (§ 308 (1) HGB) has been left unchanged in the Consolidated Financial Statements.

D. Foreign Currency translation

(1) The Consolidated Financial Statements and the Financial Statements of the consolidated companies are both prepared in EURO unless stated otherwise. A Foreign Currency translation was not required.

E. Principles of capitalization and valuation

(1) The Consolidated Financial Statements are prepared according to German Commercial Code for large corporations in addition to the regulations of the German Stock Corporation Act (AktG).

(2) The Financial Statements of all consolidated companies, including the parent company, have been prepared along the same rules as in the previous year. The Profit and loss account has been prepared according to § 275 HGB in the total expenditure format.

(3) The balance sheet contains all assets, all liabilities and all prepaid and deferred items.

(4) The valuation followed the principle of single-asset valuation.

(5) The valuation of the assets and liabilities follows the accounting principle of prudence.

(6) Intangible and tangible assets are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs to bring the asset to its working condition.

Depreciation is computed on a straight-line basis over the estimated useful life following the tax depreciation tables.

Financial assets are stated at historical cost or the lower market value, according to the lower-of-cost-or-market principle.

The depriciation period for the Goodwill is 15 years. This is because of the estimated time for research and development.

(7) Inventories, including raw materials and supplies, are valued at the lower of cost or market value.

(8) The receivables and other assets are entered with the original invoice amount a minus a valuation adjustment for uncollectible receivables. Receivables are written off if they cannot be collected.

(9) The balance sheet follows the form given by § 266 (2 and 3) HGB modified for group purposes.

(10) Other provisions were formed when a liability to third parties exists, its take-up appears probable and the anticipated size of the provision can be reliably estimated.

(11) Liabilities are valued at the amount that is required to meet liabilities.

Group fixed-asset movement schedule of June 30, 2014

	Historical costs €	Additions €	Repostings €
I. Intangible assets			
1. Purchased concessions, industrial property and assets as well as licence for such rights and assets	261,614.42	1,166.20	0.00
2. Goodwill	1,536,795.00	0.00	0.00
II. Property, plant and equipment			
1. Tenant installations	353,823.64	0.00	0.00
2. Other equipment and factory	3,795,974.37	15,521.73	0.00
	5,948,207.43	**16,687.93**	**0.00**

Disposals at historical cost €	Accumulated depreciations €	Book value 06-30-2014 €	Book value 12-31-2013 €	Depreciations business year €	Disposals at book value €
0.00	114,475.11	148,305.51	177,318.53	30,179.22	0.00
0.00	236,430.00	1,300,365.00	1,379,175.00	78,810.00	0,00
0.00	88,455.92	265,367.72	290,640.86	25,273.14	0.00
6,353.98	1,510,524.72	2,294,617.40	2,696,209.53	410,759.88	6,353.98
6,353.98	**1,949,885.75**	**4,008,655.63**	**4,543,343.92**	**545.022,24**	**6,353.98**

II. Comments on the balance sheet

(1) The development of the group fixed assets is shown in the enclosed fixed-asset movement schedule.

(2) Liabilities are valued at the amount that is required to meet liabilities. The structure of the liabilities is shown in the enclosed „table of liabilities“:

Table of Liabilites June 30, 2014

		amounts falling due				
Liabilities	12.31.2013	within one year	within one to five years	after more than 5 years	hereof secured	secured by
1. Advance payments from customers	6,948,845.72	0.00	0.00	6,948,845.72		
2. Trade accounts payable	51,480.15	51,480.15	0.00	0.00		
3. Other Liabilities	159,478.81	159,478.81	0.00	0.00		
Total	**7,159,804.68**	**210,958.96**	**0.00**	**6,948,845.72**	**0.00**	

(3) The other provisions are mainly composed of benefits payable, legal costs and the duty to preserve books of account and other records for a specified period.

III. Comments on the profit and loss accounts

(1) Sales were only done by the parent company. Licence fees have been not realized yet.

(2) Earnings and expenses follow the matching principle.

IV. Other Information

A. Bodies of the company

(1) Members of the Executive Board:

Chairmen:
- **Dr. Carsten Brockmeyer**, Göttingen
- **Dr. Nicolas Combé**, Marburg

Supervisory Board:
- **Dr. Olaf Stiller**, Weimar (Chairman)
- **Hermann Vogt**, Dieburg (Deputy Chairman)
- **Peter Wendeln**, Oldenburg

(2) The overall remuneration of the Supervisory Board amounted to 5,625.00 € (previous year 22,500.00 €) (§ 314 No. 6 HGB) .

(3) According to § 314 (2) HGB the information according to § 314 No. 6 is not given.

(4) There are no debts to members of the supervisory board.

B. Employees

(1) There were 40 employees employed in the group.

The staff was structured as follows:

- 2 Board
- 5 Administration
- 33 Research and development

The counting followed § 267 (5) HGB.

C. Equity

(1) On the cutoff date subscribed capital totaled € 8.626.683,00.

The subsidiaries report as follows:

- Formycon Services GmbH 100 %,
- interim Profit 2014: € 1,709.00
- interim Equity 2014: € -1,650,467.14

- Formycon project 201 GmbH 100 %,
- interim Profit 2014: € 82,950.73
- interim Equity 2014: € 107,950.73

D. Contingencies and renumerations

There were other financial liabilities according to § 314 (2a) HGB at the cutoff date of € 85,354.00. It is because of a guaranty (security for rent).

The overall amount according to § 314 No. 9 HGB is € 11,350.00. The amount is caused by auditing.

Consolidated Interim Cash Flow Statements for Fiscal Year 2013

		Year reported
	Result of the year	2,501,757.45 €
+/-	Depreciation and amortization of intangible assets and plant, equipment and other fixed assets	545,022.24 €
+/-	Increase/decrease of short-term provisions	- 28,087.52 €
-/+	Increase / decrease in trade receivables and other assets that cannot be allocated in investing or financing activities.	-8,054,345.29 €
+/-	Increase / decrease in trade accounts payable and other liabilities that cannot be allocated to investing or financing activities.	4,461,397.85 €
+/-	Profit/loss from disposal of long term capital	6,353.98 €
+/-	Interest expense/earnings	2,847.06 €
+/-	Income tax expense/earnings	237,800.00 €
-/+	Income tax paid	0.00 €
=	**Cash Flow from operating activities**	**-327,254.23 €**
	Cash paid for investment in intangible assets	-1,166.20 €
	Cash paid for investments in property, plant and equipment	-15,521.73 €
	Interest earnings	24.70 €
=	**Cash Flow from invest activities**	**-16,663.23 €**
	Interest expense	-2,871.76 €
=	**Cash Flow from financing activities**	**-2,871.76 €**
+/-	Cash relevant changes in cash and cash equivalents	-346,789.22 €
+/-	Change in currency translation adjustment	
+	Cash and cash equivalents at beginning of fiscal year	899,311.60 €
=	**Cash and cash equivalents at end of fiscal year**	**552,522.38 €**

Interim Development of Group Equity for the Year 2014

	Parent company		
EURO	Subscribed capital	Capital reserves	Consolidated loss carried forward
January 1, 2013	**8,627**	**18,248**	**-6,883**
Receipt of increase of capital			
Other changes			
Loss			**-7,741**
December 31, 2013	**8,627**	**18,248**	**-14,624**

Parent company		Minority Share holders		
	Equity			Total Equity
-7,741	12,251			12,251
7,741				
2,502	2,502			2,502
2,502	14,753			14,753

III. Independent auditor‘s review report

on interim financial group information of Formycon AG

We have reviewed the accompanying interim financial group statements of Formycon AG, comprising the balance sheet, the profit and loss accounts for the interim period from January 1, 2014 to June 30, 2014, the notes to the financial statements, the Cash Flow Statements and the Development of Group Equity and the interim management report for the period from January 1, 2014 to June 30, 2014.

The preparation of the financial statements and the management report in accordance with the requirements of German commercial law and the Company`s statutes (“German Commercial Code HGB”) are the responsibility of the Company`s management.

Our responsibility is to express conclusion on these interim financial statements based on our review. We conducted our review in accordance with the IDW (Institut der Wirtschaftsprüfer) Standard on Review Enagements (IDW PS 900), “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. This standard requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with this standard consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our conclusion.

Based an our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information of Formycon AG for the six months ended 30 June 2014 are not prepared, in all material respects, in accordance with German principles of proper accounting and give a true and fair view of net assets, financial position and results of operations. Also nothing has come to our attention that causes us to believe that the management report ist not consistent with the financial statements and, as a whole, does not provide a suitable view of the Company‘s position and does not suitably present the opportunities and risks of the future developments.

signed: Dr. Rudolf Schmitz

(PanTaxAudit GmbH)

The translated auditor`s report is not signed since the German text is authorative

Dr. Nicolas Combé, CFO

Dr. Carsten Brockmeyer, CEO