



## ABLYNX HALF-YEAR REPORT 2012

### 1. REPORT OF THE BOARD OF DIRECTORS

The Company had €76.5 million in cash, cash equivalents, restricted cash and short-term investments at 30 June 2012 and revenues were €16.6 million.

During the past six months, Ablynx continued to make progress in developing its product pipeline with both its proprietary and collaborative programmes.

Ablynx received a €5 million milestone payment from Boehringer Ingelheim arising from the parties' Strategic Collaboration. The milestone was triggered as a result of Boehringer Ingelheim selecting a development candidate for pre-clinical development. In addition, Boehringer Ingelheim selected two other development candidates for pre-clinical development (no money milestone attached), which brings the total number of pre-clinical candidates to four, some of which are bispecific Nanobodies demonstrating the ease and speed at which Nanobodies can be generated to block multiple pathways that are important in complex diseases. Furthermore, this Strategic Alliance with Boehringer Ingelheim was extended for two years, which will result in a total of €6.6 million in payments to Ablynx. To date, Ablynx has already received over €64 million in cash under the Strategic Alliance since it was signed in 2007. In addition, as part of the collaboration in Alzheimer's disease, Boehringer Ingelheim submitted a Clinical Trials Application (CTA) to the European regulatory authorities, which triggered a €1 million milestone payment to Ablynx.

The collaboration with Novartis also made progress as Novartis had published a scientific abstract with results from pre-clinical studies of the novel tetrameric agonistic Nanobody (TAS266) targeting Death Receptor 5 (DR5). TAS266 was shown to elicit sustained tumour regressions in multiple tumour xenograft models, including a patient-derived primary pancreatic tumour model that is insensitive to a conventional DR5 agonistic antibody. Furthermore, Novartis had received an IND approval from the regulatory agencies to start clinical trials in oncology patients.

The most advanced wholly-owned Nanobody, ozoralizumab (anti-TNF $\alpha$ ), reported new compelling Phase II data in patients with RA. These new data demonstrated that the Nanobody could have a differentiated profile compared with currently available TNF $\alpha$  blockers and enables Ablynx to re-initiate licensing discussions with potential pharma partners.

In May, Andreas Menrad joined as CSO. The Company was granted an extended GMP certificate for its new GMP unit in January.

At 30 June 2012, Ablynx had approximately 25 programmes in its R&D pipeline, including partnered programmes, and there were seven Nanobodies at the clinical development stage.

## **ANALYSIS OF RESULTS OF OPERATIONS**

Revenues increased by 30% to €16.6 million during the first six months of 2012 (2011: €12.8 million) primarily driven by milestones, the two-year extension of FTE payments within the Strategic Alliance with Boehringer Ingelheim and recognised income from the upfront fee as part of the third co-discovery and co-development deal signed with Merck Serono in November 2011.

During the first half of 2012, research and development expenses decreased by 10% to €25.9 million (2011: €28.9 million). This decrease was mainly attributable to lower external development costs as a result of the re-focusing of resources within the internal product pipeline.

General and administrative expenses were slightly lower at €4.7 million (2011: €4.9 million).

Other operating expenses were €0.4 million (2011: €0 million) and were mainly related to charges arising from the closing of the Portuguese site.

As a result of the foregoing, the loss from continuing operations, before tax and net finance income, decreased to €14.4 million during the first half of 2012 (2011: €21.0 million).

Net finance income primarily comprises interest from deposits and was €0.8 million (2011: €0.8 million).

The net loss before taxes decreased to €13.6 million during the first six months ending June 30<sup>th</sup> 2012 (2011: €20.2 million).

As the Company incurred losses in the period, the Company had no taxable income.

## **BALANCE SHEET ANALYSIS**

The Company's intangible assets include a portfolio of acquired patents which are being amortised over approximately 12 years, and technology licenses that are being amortised over 5 and 18 years. The Company has not capitalised any other patents and it expenses all its research and development activities. The intangible assets also include software licenses.

The Company's non-current tangible assets include the Company's laboratory and office equipment, the investments in its facilities, tax receivables and €2.7 million restricted cash, which is related to a cash pledge that the Company has provided. The Company does not own any real estate and continues to invest in equipment for its research activities.

The Company's current assets consist mainly of trade receivables, other short-term investments, and cash and cash equivalents. The €7.4 million decrease during the first six months of 2012 is primarily related to the decrease in cash and cash equivalents and other short-term investments.

The Company's equity decreased from €58.6 million to €46.0 million mainly as a result of the incorporation of the loss for the period.

The Company's non-current liabilities relate to the financing of additional investments in its building and the leasing of equipment.

The Company's current liabilities primarily relate to deferred income from collaborative agreements and trade payables.

### **CASH FLOW ANALYSIS**

Cash flow from operating activities represented a net outflow of €6.3 million during the first six months ending June 30<sup>th</sup> 2012, as compared to a net outflow of €21.7 million during the first six months ending June 30<sup>th</sup> 2011.

Cash flow from investing activities represented a net inflow of €6.4 million as compared to a net inflow of €0.4 million during the first six months ending June 30<sup>th</sup> 2011. The variance relates to net movements in the sale of short-term investments.

Cash flow from financing activities represented a net outflow of €0.4 million compared to a net outflow of €0.007 million during the first six months of 2011.

At 30 June 2012, the Company had €76.5 million in cash, cash equivalents, restricted cash and short-term investments.

### **RISKS AND PROSPECTS FOR THE REMAINING SIX MONTHS**

During the third quarter, Phase I data are expected for the first inhaled Nanobody, ALX-0171, a potential first-in-class therapeutic to treat RSV infections.

12-week proof-of-concept data for the anti-IL-6R Nanobody (ALX-0061) are expected during the fourth quarter. These interim results in week 12 will include efficacy measures, such as ACR scores and DAS28 responses and safety data.

The Company is involved in multiple discussions regarding research collaborations and the licensing of product programmes but it is not possible to precisely predict if and when contracts will be finalised.

For the full year, Ablynx maintains its guidance of net cash burn in the range €20-25 million.

### **IMPORTANT TRANSACTIONS WITH RELATED PARTIES**

There were no important transactions with related parties.

## **2. RESPONSIBILITY STATEMENT**

We hereby certify that, to the best of our knowledge, the condensed consolidated financial statements for the six-month period ended 30 June 2012, which have been prepared in accordance with IAS 34 “Interim Financial reporting” as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and loss of the Company and the undertakings included in the consolidation as a whole, and that the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year and of the major transactions with the related parties, and their impact on the condensed consolidated financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

On behalf of the Board of Directors

Edwin Moses  
Chairman & CEO

Wim Ottevaere, on behalf of NV Woconsult  
CFO

### 3. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 JUNE 2012

#### 3.1 CONDENSED CONSOLIDATED BALANCE SHEET

(€'000)	As at 30 June 2012	As at 31 December 2011
<b>Non-current assets</b>	<b>11,905</b>	<b>11,979</b>
Intangible fixed assets	896	1,018
Property, plant & equipment	4,369	4,984
Restricted cash	2,660	3,000
Tax receivables	3,980	2,977
<b>Current assets</b>	<b>79,129</b>	<b>86,550</b>
Trade receivables	1,526	2,233
Other current assets	1,177	1,301
Tax receivables	435	489
Accrued income and deferred charges	2,130	1,705
Other short-term investments	70,776	77,500
Cash and cash equivalents	3,085	3,322
<b>Total assets</b>	<b>91,034</b>	<b>98,529</b>
<b>Equity attributable to equity holders</b>	<b>45,993</b>	<b>58,630</b>
Share capital	73,425	73,304
Share premium account	126,459	126,457
Share-based payments	7,470	6,648
Retained earnings	(161,361)	(147,779)
<b>Non-current liabilities</b>	<b>1,341</b>	<b>1,752</b>
Borrowings	1,341	1,752
<b>Current liabilities</b>	<b>43,700</b>	<b>38,147</b>
Borrowings	815	805
Trade payables	8,993	9,867
Other current liabilities	3,927	3,868
Deferred income	29,965	23,607
<b>Total liabilities</b>	<b>45,041</b>	<b>39,899</b>
<b>Total equity and liabilities</b>	<b>91,034</b>	<b>98,529</b>

### 3.2 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ '000)	Period ended 30 June	
	2012	2011
Revenue:		
Research and development	15,634	11,995
Grants	956	849
<b>Total revenue</b>	<b>16,590</b>	<b>12,844</b>
Research & development expense	(25,947)	(28,878)
General & administrative expense	(4,675)	(4,932)
<b>Total operating expenses</b>	<b>(30,622)</b>	<b>(33,810)</b>
Other operating income/(expense)	(334)	7
<b>Operating result</b>	<b>(14,366)</b>	<b>(20,959)</b>
<b>Finance income (net)</b>	<b>784</b>	<b>781</b>
Finance income	864	822
Finance cost	(80)	(41)
<b>Loss before taxes</b>	<b>(13,582)</b>	<b>(20,178)</b>
<b>Loss for the period</b>	<b>(13,582)</b>	<b>(20,178)</b>
<b>Total comprehensive income for the period</b>	<b>(13,582)</b>	<b>(20,178)</b>
Loss attributable to equity holders	(13,582)	(20,178)
Total comprehensive loss attributable to equity holders	(13,582)	(20,178)
Basic and diluted loss per share	(0.31)	(0.46)

### 3.3 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(€'000)	Share capital	Share premium	Share-based payments	Retained loss	Fair Value Reserve	Total Equity
<b>Balance at 30 June 2011</b>	<b>73,290</b>	<b>126,454</b>	<b>5,812</b>	<b>(124,062)</b>	<b>0</b>	<b>81,493</b>
<b>Loss of the period</b>				<b>(23,717)</b>		
Other comprehensive income						
Available-for-sale financial assets						
<b>Total comprehensive income</b>				<b>(23,717)</b>		
<b>Warrant plans</b>						
Share-based payments			842			
<b>Transactions with owners</b>						
Capital increase						
Issuance costs						
Exercise of warrants	14	3	(6)			
<b>Balance at 31 December 2011</b>	<b>73,304</b>	<b>126,457</b>	<b>6,648</b>	<b>(147,779)</b>	<b>0</b>	<b>58,630</b>
<b>Loss of the period</b>				<b>(13,582)</b>		
Other comprehensive income						
Available-for-sale financial assets						
<b>Total comprehensive income</b>				<b>(13,582)</b>		
<b>Warrant plans</b>						
Share-based payments			908			
<b>Transactions with owners</b>						
Capital increase						
Issuance costs						
Exercise of warrants	121	2	(86)			
<b>Balance at 30 June 2012</b>	<b>73,425</b>	<b>126,459</b>	<b>7,470</b>	<b>(161,361)</b>	<b>0</b>	<b>45,993</b>

### 3.4 CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(€'000)	Period ended 30 June	
	2012	2011
<b>Cash flows from operating activities</b>		
Loss before income tax	(13,582)	(20,178)
Adjustments for:		
Amortisation	362	297
Depreciation	1,013	1,198
Share-based payment expense	908	727
Finance income - net	(817)	(789)
Net movement in trade and other receivables	(39)	(1,642)
Net movement in trade and other payables	5,037	(2,101)
<b>Cash used in operations</b>	<b>(7,118)</b>	<b>(22,488)</b>
Interest paid	(28)	(10)
Interest received	845	799
<b>Net cash used in operating activities</b>	<b>(6,301)</b>	<b>(21,699)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(397)	(1,420)
Purchases of intangible assets	(240)	(158)
Sale of short-term investments	7,064	2,000
<b>Net cash used in investing activities</b>	<b>6,427</b>	<b>422</b>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of warrants	37	154
Repayments of borrowings	(400)	(161)
<b>Net cash generated from financing activities</b>	<b>(363)</b>	<b>(7)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(237)</b>	<b>(21,284)</b>
Cash and cash equivalents at beginning of the period	3,322	27,342
<b>Cash and cash equivalents at end of the period</b>	<b>3,085</b>	<b>6,058</b>



### **3.5 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### **3.5.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. They do not include all the information required for annual financial statements and should therefore be read in conjunction with the financial statements for the year ended 31 December 2011. The condensed consolidated financial statements are presented in thousands of Euro (unless stated otherwise). The condensed consolidated financial statements were approved for issue by the Board of Directors on 22 August 2012.

The condensed consolidated interim financial information has been reviewed, not audited, by the statutory auditor.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those applied in the preparation of the financial statements for the year ended 31 December 2011.

New standards or interpretations applicable from 1 January 2012 do not have any impact on the condensed interim financial statements.

### 3.5.2 SHARE-BASED PAYMENTS

<b>Warrants</b>	<b>2011</b>		<b>2012</b>			
Number of warrants granted	209,950	177,100	395,750	350,000	12,500	150,000
Number of warrants not vested at 30/06/2012	143,225	123,958	395,750	350,000	12,500	150,000
Exercise price (in Euro)	8.68	8.68	3.21	3.21	3.23	3.23
Expected dividend yield	0	0	0	0	0	0
Expected stock price volatility	50%	50%	55%	55%	55%	55%
Risk-free interest rate	3.89%	3.65%	2.84%	2.35%	2.83%	2.28%
Expected duration	7.00	5.00	7.00	5.00	7.00	5.00
Fair value (in Euro) at grant date	4.48	3.78	1.64	1.38	1.74	1.47

<b>Warrants</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>Total number</b>	<b>Average Exercise price (in Euro)</b>
<b>At 31 December 2011</b>																				
Outstanding	85,500	1,650,000	21,500	330,814	10,713	343,119	95,000	116,875	90,994	160,000	274,414	85,500	209,950	177,100	0	0	0	0	3,651,479	3.11
Non-vested						53,334	25,729	36,615	39,134	73,333	157,558	64,125	209,950	177,100					836,878	5.65
Exercisable	85,500	1,650,000	21,500	330,814	10,713	289,785	69,271	80,260	51,860	86,667	116,856	21,375	0	0	0	0	0	0	2,814,601	2.35
Granted															398,750	350,000	12,500	150,000	911,250	3.21
Forfeited						695	4,687		3,160		4,097	5,000	6,252	2,100	3,000				28,991	-
Exercised		30,000																	30,000	1.00
Expired						23,119													23,119	-
<b>At 30 June 2012</b>																				
Outstanding	85,500	1,620,000	21,500	330,814	10,713	319,305	90,313	116,875	87,834	160,000	270,317	80,500	203,698	175,000	395,750	350,000	12,500	150,000	4,480,619	3.52
Non-vested	0	0	0	0	0	12,743	10,208	25,052	25,188	53,333	119,969	48,750	143,225	123,958	395,750	350,000	12,500	150,000	1,470,676	5.04
Exercisable	85,500	1,620,000	21,500	330,814	10,713	306,562	80,105	91,823	62,646	106,667	150,348	31,750	60,473	51,042	0	0	0	0	3,009,943	2.77

## **Warrants issued in April 2012 for employees and members of the Executive Committee**

During the Board of Directors meeting of 1 February 2012, the issue of up to 860,000 warrants was approved and 748,750 warrants have subsequently been issued.

Each warrant gives the beneficiary the right to subscribe to one share of the Company (equity-settled). The warrants are granted for free and have an exercise price equal to the average closing rate of the share over a period of 30 days before the date of the grant (€3.21 per warrant). The warrants vest ratably over 4 years: 25% of the warrants vest after one year; after that date the remaining 75% become vested on a monthly basis (2.083% per month).

The warrants can only be exercised when vested and as from the beginning of the fourth calendar year following the year in which the warrants were granted (thus starting as from the 1st of January 2016 until February 2017). In the case of a normal termination of the employee contract or the consulting agreement, all the vested warrants need to be exercised during the current or next exercise period. Vested warrants which have not been exercised in the foreseen period cannot be transferred to future exercise periods and become lapsed. All non-vested warrants become lapsed at the moment of termination of the agreement. The duration of the warrants is 5 years for consultants and 7 years for employees as of the issue date of the warrants. Warrants that have not been exercised within 5 or 7 years of their creation become null and void.

During the General Shareholders Meeting of 26 April 2012, the issue of up to 180,000 warrants was approved and 162,500 warrants have subsequently been issued.

Each warrant gives the beneficiary the right to subscribe to one share of the Company (equity-settled). The warrants are granted for free and have an exercise price equal to the average closing rate of the shares over a period of 30 days before the date of the grant (€3.23 per warrant). The warrants vest over 4 years: 25% of the warrants vest after one year; after that date the remaining 75% become vested on a monthly basis (2.083% per month).

The warrants can only be exercised when vested and as from the beginning of the fourth calendar year following the year in which the warrants were granted (thus starting as from the 1st of January 2016 until April 2017). In the case of a normal termination of the employee contract or the consulting agreement, all the vested warrants need to be exercised during the current or next exercise period. Vested warrants which have not been exercised in the foreseen period cannot be transferred to future exercise periods and become lapsed. All non-vested warrants become lapsed at the moment of termination of the agreement. The duration of the warrants is 5 years for consultants and 7 years for employees as of the issue date of the warrants. Warrants that have not been exercised within 5 or 7 years of their creation become null and void.

### 3.5.3 RESEARCH AND DEVELOPMENT EXPENSES

(€'000)	Period ended 30 June	
	2012	2011
Consumables	1,541	2,444
Outsourcing	11,934	14,665
Patent costs	752	931
Personnel costs	9,507	8,766
Share-based payments	305	230
Other operating expenses	3,180	2,557
Retribution	(2,352)	(1,919)
<b>Subtotal</b>	<b>24,867</b>	<b>27,674</b>
Depreciation and amortisation	1,080	1,204
<b>Total research and development expenses</b>	<b>25,947</b>	<b>28,878</b>

### 3.5.4 GENERAL ADMINISTRATIVE EXPENSES

(€'000)	Period ended 30 June	
	2012	2011
Personnel costs	1,703	1,558
Share-based payments	603	497
Executive Committee compensation	887	1,094
Consultancy	501	817
Other operating expenses	804	815
Retribution	(123)	(139)
<b>Subtotal</b>	<b>4,375</b>	<b>4,642</b>
Depreciation and amortisation	300	290
<b>Total general and administrative expenses</b>	<b>4,675</b>	<b>4,932</b>

### 3.5.5 RELATED-PARTY TRANSACTIONS

#### a. Remuneration of key management personnel

	Period ended 30 June	
	2012	2011
Number of management members	5	4
<b>(€'000)</b>		
Short-term employee benefits (salaries, social security bonuses, lunch vouchers)	653	620
Post-employee benefits (group insurance)	56	51
Share-based compensation	603	349
Other employee costs	(13)	186
Management fees	146	176
Retribution	(49)	(42)
<b>Total</b>	<b>1,396</b>	<b>1,340</b>
Number of warrants granted (in units)	500,000	175,000
Cumulative outstanding warrants (in units)	3,336,250	2,836,250
Exercised warrants (in units)		
Outstanding payables	0	0
Shares owned (in units)	35,805	11,805

Key management consists of the members of the Executive Committee and the entities controlled by any of them.

## b. Transactions with non-executive directors

(€'000)	Period ended 30 June	
	2012	2011
Share-based compensation	0	0
Management fees	45	60
<b>Total benefits</b>	<b>45</b>	<b>60</b>
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Number of warrants offered (in units)		
Cumulative outstanding warrants (in units)	10,713	10,713
Non-vested warrants		
Shares owned (in units)	6,761,487	6,761,487

### 3.5.6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

At each reporting date, the Company makes assumptions and estimates with respect to the impact of past events on the future, resulting in a number of accounting estimates, which at present have a very limited impact.

The Company has not identified at the reporting date any sources of estimation uncertainty, which involve a significant risk of material adjustment to the financial statements in the following year.

### 3.5.7 EFFECTS OF ECONOMIC TURBULENCE AND MARKET CONDITIONS

Although global market conditions (the 'debt crisis') have affected market confidence, Ablynx maintains sufficient working capital to service its operating activities.

### 3.5.8 COMMITMENTS

Not applicable.

### 3.5.9 EVENTS AFTER BALANCE SHEET DATE

Ablynx's partner Novartis had initiated a Phase I study with TAS266 (a novel agonistic tetrameric Nanobody targeting DR5) in patients with advanced solid tumours. The Phase I study is a dose-escalated, open-label trial that will investigate dose limiting toxicities, safety, pharmacokinetics, immunogenicity, and tumour response. TAS266 will initially be administered weekly through an intravenous injection. The study is expected to recruit 36 patients with advanced solid tumours and results are anticipated during the first half of 2014.

#### 4. LIMITED REVIEW REPORT

##### LIMITED REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012

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To the board of directors

We have performed a limited review of the accompanying consolidated condensed balance sheet, condensed income statement, condensed statement of comprehensive income, condensed cash flow statement, condensed statement of changes in equity and selective notes (jointly the “interim financial information”) of Ablynx NV (“the company”) and its subsidiaries (jointly “the group”) for the six-month period ended 30 June 2012.

The board of directors of the company is responsible for the preparation and fair presentation of this interim financial information. Our responsibility is to express a conclusion on this interim financial information based on our review.

The interim financial information has been prepared in accordance with international financial reporting standard IAS 34 – Interim Financial Reporting as adopted by the European Union.

Our limited review of the interim financial information was conducted in accordance with international standard ISRE 2410 – Review of interim financial information performed by the independent auditor of the entity. A limited review consists of making inquiries of group management and applying analytical and other review procedures to the interim financial information and underlying financial data. A limited review is substantially less in scope than an audit performed in accordance with the International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion on the interim financial information.

Based on our limited review, nothing has come to our attention that causes us to believe that the interim financial information for the six-month period ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34 – Interim Financial Reporting as adopted by the European Union.

Diegem, 22 August 2012

**The statutory auditor**

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**DELOITTE Bedrijfsrevisoren / Reviseursd’Entreprises**

BV o.v.v.e. CVBA / SC s.f.d. SCRL

Represented by Gert Vanhees