

LSP Life Sciences Fund N.V.

Annual Report 2017



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LSP LIFE SCIENCES FUND N.V.

Annual Report

2017

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PROFILE

General information

LSP Life Sciences Fund N.V. (the Fund) is a public company with the status of an investment company with variable capital organised and established under the laws of the Netherlands on 18 April 2011. The Fund has its statutory seat in Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 52545474. The Fund is an open-end investment fund listed on Euronext Amsterdam. The Fund qualifies as a tax-exempt investment fund within the meaning of article 6a of the Dutch corporate income tax act. Accordingly, the Fund is not subject to Dutch corporate income tax.

Investment strategy

The Fund's primary investment objective is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical, specialist pharmaceutical, medical device, drug delivery, vaccine and diagnostic companies). The majority of the Fund's portfolio will consist of European companies listed on one of the (main) European stock exchanges, with a market capitalization of below Euro 2.5 billion at the time of investment. The Fund Manager believes that in particular this sub-segment of companies – generally referred to as the small- and midcap segment – offers great potential for value growth. Typically, these companies will have developed a suite of innovative technologies that offer benefit over existing technologies and approaches. In addition, these companies have frequently established a product development pipeline that consists of therapeutics that have the potential to offer clinical benefit to a large and/or underserved market. The Fund intends to specifically target those companies that are projected to realize important clinical, regulatory or commercial milestones, value-enhancing partnerships and/or offer M&A potential. By doing so, the Fund expects to benefit from the value increases that frequently accompany the announcement of such milestones, partnerships or M&A transactions.

Sustainable and responsible investing (SRI)

Sustainable and responsible investing means giving due consideration to environmental, social and governance (ESG) investment risks and opportunities – the pillars of the Sustainability model. The Fund uses these Sustainability measures, combined with more traditional methods of financial and company evaluation methods, to identify the very best investment opportunities.

The due diligence process of the Fund is structured and well-validated in the selection of companies with the 'best-in-class' approach within sub-sectors of our target market. On a macro level, an assessment is performed of the key need for the products which are the core assets of the company, the competitive environment in which the companies operate as well as of potential future developments which may impact the sustainability of the company's approach. On a company specific level, the key medical benefits of each of the products within the portfolio and their potential social and environmental impact are analysed. Furthermore the quality of management and their approach to corporate governance issues which may impact the company's reputation and investor confidence are reviewed as part of the due diligence process.

By focusing on sustainable investments in life sciences companies, the Fund believes that its investments help to support the development of all manner of medical innovation which could promote a better quality of life and increase life expectancy. In developing drugs, vaccines and other solutions for unmet medical needs or expanding the availability of medications, companies within the life sciences sector help to keep people healthier for longer, thereby improving productivity through reduced sick leave and reducing the burden on the healthcare system and society.

Fund Governance

The Fund is managed by LSP Advisory B.V. as sole managing director of the Fund. LSP Advisory B.V. is a wholly owned subsidiary of LSP Advisory Group B.V.

The Fund Manager is responsible for the entire management of the Fund in accordance with the provisions of the Fund's organizational documents and applicable laws. The investment team of the Fund Manager consists of three individuals - Mark Wegter, Joep Muijers and Geraldine O' Keefe – who have complementary investment skills and backgrounds relevant to the Fund's business.

The investment team receives full support from the in-depth industry knowledge of the entire cross-Atlantic and pan-European LSP organization. The Fund Manager is further supported by LSP's established, global network of advisors and experts who bring specific expertise essential for performing in-depth due diligence on potential and existing investee companies.

The Fund Manager has been granted a license pursuant to Article 2:65 of the Dutch Act on Financial Markets Supervision Act (Wft) by the Netherlands Authority for the Financial Markets (AFM) on 12 April 2011. With the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014, this license has been converted into an AIFM license by legislative decree.

The Supervisory Board of the Fund comprises Pauline Bieringa and Onno Paymans, both having relevant expertise on the Fund's business. The principal duties and responsibilities of the Supervisory Board include (i) the supervision of the management of the Fund as performed by the Fund Manager as well as to supervise the general course of affairs of the Fund, and (ii) resolving any conflict of interest situation the Fund is involved in.

DIRECTOR'S REPORT

Investment Performance

As per the end of December 2017, the Fund has been operational for over six and one-half years and has shown strong performance over that period. The year has shown to be very good for the Fund, driven by a number of strong investment cases that came to fruition during these past 12 months. Such in spite of the continued political and market turmoil which impacted the healthcare sector, although fortunately a lot less extreme than in 2016. Our commitment to our long held strategy to focus on the companies with the potential to deliver true innovation and significant benefit to patients was again proven to be the winning strategy in 2017.

In January, portfolio company Colucid Pharma was acquired by Eli Lilly for \$ 960 million in an all cash deal for its novel migraine treatment. Interestingly, the compound was originally developed at Eli Lilly and acquired by Colucid management some 12 years ago. Following the announcement of positive Phase III clinical trial results – Lilly was willing to pay a significant premium to regain the asset. Another of the fund's investments, Danish company Forward Pharma, was the subject of a \$ 1.25 billion deal with Biogen whereby Biogen needed access to patents held by Forward Pharma to protect its multiple sclerosis franchise. The acquisition of portfolio company Neuroderm by Mitsubishi Tanabe Pharma Corp for \$ 1.1 billion in cash, solidified the strong performance of the fund in July. Prior to the acquisition, Neuroderm reported excellent clinical data for its next-generation wearable device, which is capable of delivering continuous levels of Parkinson's disease medication to the most severely-affected patients. But the stellar performance of the fund was not solely dependent on mergers and acquisitions. The results of clinical trials are a key valuation trigger for biotechnology companies. In the past year, the fund invested in 8 Phase III clinical trials – in other words, based on our due diligence we concluded that the risk/reward for these trials presented interesting investment opportunities. We are very pleased to report that 7 of the 8 trials announced positive results. The one significant miss was the Versartis run Phase III trial for Somavaratan, human growth hormone. The company was attempting to replace the current use of daily injections with a new formulation which would allow children to be treated with once monthly injections. Unfortunately, the study barely missed reaching statistical significance. The wins included Ablynx drug Caplacizumab (for a rare bleeding disorder), Aerie drugs Roclatan and Rhopressa (glaucoma), Tetraphase drug Eravacycline (anti-infective), Paratek with Omadacycline (anti-infective). Last but not least was Kite Pharmaceuticals, with one of the most important new treatments for cancer. Kite was subsequently acquired by Gilead in a \$ 12 billion deal – arguably one of the most exciting deals of the year. The Kite technology is a personalised treatment whereby the patient's own cells are armed to detect and fight the cancer. The results have stunned the medical community.

There were several other companies in the portfolio during the year, which were not dependent on binary events. German companies Evotec and Morphosys delivered very strong performances in 2017 through a series of deals and clinical data which caused the market to revalue the shares. Belgian companies Ablynx, argenx and French Erytech all benefited from NASDAQ IPOs to complement their European listings and encourage US investor interest. argenx is worthy of an extra comment having appreciated some 220% in the year following a well-timed NASDAQ IPO and positive clinical trials results from two Phase II clinical programs.

As a result, the Net Asset Value per share moved from Euro 169.37 as at 31 December 2016 to Euro 235.07 (plus 38.8%) as at 31 December 2017. Due to the strong investment performance, the Fund recorded a profit for the period of Euro 21.6 million compared to a loss of Euro 18.3 million in the prior year. As outlined in the prospectus,

the Fund aims to provide absolute return for its investors. The Fund Manager is of the opinion that there is no proper benchmark available, which can be used to evaluate the Fund's performance. Therefore, no comparative benchmark data is presented in this report. Importantly, we focus to a lesser extent on short term investment opportunities and remain true to our strategy of building a balanced portfolio with investments that offer upside in the mid- to long term (on average 1 to 2 years). Our portfolio primarily holds investments in companies that have a market cap below Euro 1 billion. As at 31 December 2017 the value of the portfolio amounted to Euro 74.0 million holding 19 names (2016: Euro 42.7 million and 17 names).

The portfolio consists exclusively of equity (-derived) positions in listed life sciences companies that jointly provide a balanced - yet concentrated - exposure to the sector. Investments have been spread across clinical stage of development, disease area, geography, field of technology and business model. The majority of the investments in the period were in the area of drug development, combined with investments in innovative diagnostics, medical devices and specialty pharma companies. Equity stakes were predominantly below 5% of the portfolio company's outstanding capital, the exact size depending on company specific factors such as liquidity, market capitalization, timing of expected news flow and long term outlook. Holding periods consequently varied. The monthly reports of the Fund that are published on the Fund's website include the current portfolio composition and also list the top-5 best performing stocks of the respective month.

Alternative Investment Fund Managers Directive

The Fund Manager has implemented the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014. Furthermore it has appointed KAS Trust & Depositary Services B.V. as Depositary for the Fund in accordance with the directive. The Depositary is responsible for the (i) the safekeeping of the Fund's assets, and (ii) the oversight and supervision of the Fund and the management of the Fund by the Fund Manager. The Depositary has delegated its day-to-day custody tasks to KAS BANK N.V. The depositary remains liable towards the Fund for loss of assets of which the custody has been delegated to KAS BANK N.V. or another third party. The Depositary can only discharge itself from such liability if all the requirements of article 21(13) or 21(14) of the AIFMD are met.

Fund's risk management

The Fund has exposure to market risks, liquidity risk, credit risk, counterparty risk and operational risks, including preservation and legal and tax compliance risks. The Fund Manager applies a comprehensive process based on qualitative and quantitative risk measures to assess the risks of the Fund entailing a standard monitoring process which consists of pre-defined monitoring items and cycles. The overall exposure of the Fund is calculated by means of the Value-at-Risk (VaR) methodology. A detailed description of the Fund's risk management is provided on pages 29-31 of this report.

Fund policy regarding voting rights and voting conduct

The Fund Manager will actively exercise, or deliberately refrain from exercising, voting rights attached to the Fund's shares in its portfolio companies. The Fund Manager will determine the manner in which voting rights are being exercised on a case-by-case basis, but at all times in the best interests of the Fund and the investors of the Fund. During 2017 the Fund Manager has not exercised its voting rights.

Human resources

The Fund does not employ any personnel. The management of the Fund is entrusted to the Fund Manager. . A detailed description of the remuneration of the Fund Manager is provided on pages 27-28 of this report.

Administrative organization and internal controls

The Fund Manager and the Fund have documented the administrative organization and internal controls in accordance with the Dutch Financial Markets Supervision Act (Wft) and the Decree on Market Conduct Supervision of Financial Business (BGfo). During the reporting period we have reviewed the various aspects of our operations. Our review did not find anything that would lead us to conclude that the administrative organization and the system of internal controls as referenced in article 121 of the BGfo does not satisfy the requirements as laid down in the BGfo and related regulations. Furthermore, we did not find that the administrative organization and internal controls are ineffective or that they do not operate in accordance with their description.

Based on the above, we declare as Fund Manager of the LSP Life Sciences Fund N.V. that we are in possession of a description of the administrative organization and internal controls in accordance with Article 121 of the BGfo, which fulfils the requirements of the BGfo. We also state with a reasonable degree of certainty that the administrative organization and the system of internal controls were effective and operated in accordance with its description during the reporting period.

The director of LSP Life Sciences Fund N.V. confirms to the best of its knowledge that:

- the financial statements for the year 2017 have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code as well as the Dutch Act on Financial Supervision and give a true and fair view of the assets, liabilities and financial position of LSP Life Sciences Fund N.V. as at 31 December 2017 and of its result for the period then ended;
- the report includes a fair review of the key developments of the Fund during the period and the effects thereof on the annual report, together with the principal risks and uncertainties of upcoming six months;
- the report provides adequate disclosure of the principal transactions with related parties.

Outlook

The past year has been described as a breakthrough year for biotechnology. We are inclined to agree. Whereas 2016 and the first half of 2017 was dominated by the US elections, talk of drug pricing and repeal and replace of Obamacare – it now looks more likely that changes will be gradual and less dramatic and sudden than previously feared. The new chief at the FDA is regarded by most as a great success – a forward thinker who is keen to expedite the approval of new breakthrough treatment and his ‘solution’ to drug pricing is not to hamper research and innovation but to facilitate in the approval of generics for older drugs thereby increasing competition.

Changes at the FDA are very real – consider the truly breakthrough treatments approved and launched this year. Spark Therapeutics launched Luxturna, the first gene therapy approved in the United States that targets a disease caused by a specific gene mutation. Luxturna can literally restore sight to the blind! In a single injection it can correct a very specific gene mutation – truly astounding. Researchers are finally making strides against cancer as evidenced by two new treatment launched this year by Novartis and Kite Pharmaceuticals (Gilead). Trials of these treatments produced nearly miraculous results for patients who had failed to respond to other treatments. The therapy re-engineers a patient’s white blood cells and the so called CAR-T cells are given back to the patients. The

modified cells have the ability to detect and alert the immune system to the cancer cells. And there are several more examples to demonstrate the renewed vigour and enthusiasm at the FDA and indeed at the European equivalent the EMA.

Optimism for faster drug approval combined with favourable tax reform in the US should free up more cash for research and encourage investors back to the sector. This will ultimately lead to accelerated development of innovations to improve and save lives. Taken together these factors make us optimistic for the years ahead. No matter what the year will bring, we will adhere to our fundamental and long term stock picking strategy of selecting a concentrated basket of 15 to 20 companies that we believe present outstanding investment opportunities.

The director

LSP Advisory B.V.

Mark Wegter

Joep Muijers

Geraldine O’Keeffe

SUPERVISORY BOARD REPORT

In accordance with the Fund documents, the Supervisory Board of the Fund meets at least quarterly and at such times as the Supervisory Board or the directors of the Fund Manager deem necessary. The Supervisory Board declares that all of its members were independent of one another as well as in respect of the Fund and the Fund Manager.

During the year 2017, the Supervisory Board held four regular in-person meetings together with the Directors of the Fund Manager. During these meetings the Supervisory Board discussed a wide range of subjects relevant to the Fund, its management and its investors, including the Fund's investment strategy and performance, the Fund's operations and the interactions with third party service providers (e.g. depository, custodian, fund agent, fund administrator and brokers), the principles of fund governance, compliance related matters as well as the monitoring and adherence to the investment restrictions and the Socially Responsible Investment Practices and Procedures of the Fund.

During the year and in line with the fund's regulations, the Fund Manager requested the Supervisory Board for approval of one proposed investment involving a potential conflict of interest. The Supervisory Board reviewed the case at hand together with the Directors, was able to establish that all relevant procedures were adhered to and granted its approval for the investment. In addition, the Supervisory Board has permitted the Fund Manager in one occasion to deviate from the Investment Restrictions.

Also, the Supervisory Board was consulted with respect to a proposed amendment of the prospectus, pertaining to the market capitalization of target investment companies as laid down in one investment restriction. This proposal was approved during the Annual Meeting in May and entered into force in August 2017. During the year, the Supervisory Board has monitored the financial reporting process, the effectiveness of the internal controls and the risk management of the Fund.

Finally, the Supervisory Board was informed of the fact that the Manager has added two Managed Account Mandates during the year, thus increasing the total assets being managed by the Manager significantly. Although the Supervisory Board has no formal role with respect to the governance of these two accounts, it was pleased to see that the Manager was able to attract two large and highly professional investors to its investment strategy. It was noted that the two accounts are being managed by replicating the portfolio of the Fund, following the Fund's investment strategy and focus.

Pauline Bieringa (chair)

Onno Paymans

KEY FIGURES

(in thousands of Euro's, except per share data)

	2017	2016	2015	2014
Net Asset Value	75,028	59,783	94,948	70,175
Number of shares outstanding	319,169	352,971	448,036	380,941
Net Asset Value per share	235.07	169.37	211.92	184.21
Share price performance	38.8%	-20.1%	15.0%	37.5%
Net Result	21,646	-18,267	10,315	21,252
Ongoing charges figure (OCF) ¹	2.01%	1.92%	1.92%	2.03%
Performance fee figure ²	2.77%	0.00%	3.57%	7.43%
Turnover Ratio	360%	237%	166%	164%

¹) The Total Expense Ratio (TER) has been replaced by the Ongoing Charges Figure (OCF).

²) The performance related fees expressed as a percentage of the Fund's average Net Asset Value (NAV)

BALANCE SHEET on 31 December 2017

(in thousands of Euro's, before appropriation of the result)

	Note	31 December 2017	31 December 2016
Assets			
Investments			
Investments in securities	1	74,011	42,653
Receivables			
Amounts receivable		5	300
Other assets			
Cash accounts	2	3,099	17,041
Total Assets		77,115	59,994
Liabilities and shareholders' equity			
Shareholders' equity			
Issued share capital	3	319	353
Share premium		25,380	31,747
Other reserves		27,683	45,950
Unappropriated result		21,646	-18,267
		75,028	59,783
Current liabilities			
Creditors and accrued expenses	4	2,087	211
Total Liabilities and shareholders' equity		77,115	59,994
Net Asset Value per share		235.07	169.37

PROFIT AND LOSS ACCOUNT for the year 2017

(in thousands of Euro's)

	Note	31 December 2017	31 December 2016
Income from investments			
Dividends on securities		31	15
Realized movements in investments and other assets			
Realized movements on securities	5	11,335	-17,495
Unrealized movements in investments and other assets			
Unrealized movements on securities		10,172	1,060
Unrealized movements on derivatives		-	-1
Currency results on cash accounts		3,913	93
		14,085	1,152
Expenses			
Management costs	6	2,856	1,111
Depositary costs	7	69	45
Fund operational costs	8	262	264
Interest expenses on cash accounts		618	519
		3,805	1,939
Result for the period		21,646	-18,267

CASH FLOW STATEMENT for the year 2017

(in thousands of Euro's)

	31 December 2017	31 December 2016
Cash flows from investment activities		
Net result	21,646	-18,267
Realized movements in investments and other assets	-11,335	17,495
Unrealized movements in investments and other assets	-14,085	-1,152
Purchase of investments and other assets	-136,642	-90,288
Sale of investments and other assets	126,791	116,391
Change in amounts receivable	295	-177
Change in current liabilities	1,876	-3,954
	<u>-11,454</u>	<u>20,048</u>
Cash flows from financial activities		
Issue of shares	8,659	7,319
Redemption of shares	-15,060	-24,217
Total cash flows from financial activities	<u>-6,401</u>	<u>-16,898</u>
Currency results on cash accounts	3,913	93
Net increase for the period	-13,942	3,242
Opening balance	17,041	13,799
Closing balance	<u>3,099</u>	<u>17,041</u>
	-13,942	3,242

SELECTED NOTES TO THE ANNUAL REPORT

General

LSP Life Sciences Fund N.V. (the Fund) is a public limited liability company with the status of an investment company with variable capital organised and established under the laws of the Netherlands on 18 April 2011. The Fund has its statutory seat in Amsterdam, the Netherlands. The Fund is an open-end investment fund listed on Euronext Amsterdam. The Fund is managed by LSP Advisory B.V. as sole managing director of the Fund.

The purpose of the Fund is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical, specialist pharmaceutical, medical device, drug delivery, vaccine and diagnostic companies).

The Fund qualifies as a tax-exempt investment fund within the meaning of Article 6a of the Dutch Corporate Income Tax Act. Accordingly, the Fund is not subject to Dutch corporate income tax.

Accounting principles

General

The financial year of the Fund corresponds to the calendar year. This report has been prepared in accordance with generally accepted accounting principles in the Netherlands, and in compliance with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code as well as the Dutch Act on Financial Supervision.

The functional currency of the Fund is Euro and the financial statements are presented in thousands of Euro's except per share data.

Unless specifically specified otherwise the Fund applies the historical cost convention less any value adjustments deemed necessary. Furthermore, the accrual method of accounting has been applied which means that income and expenses are recognised in the period to which they relate rather than the period in which they have been paid or received.

Going concern

These financial statements have been prepared on the basis of the going concern assumption.

Foreign currency translation

Unless otherwise stated, assets and liabilities denominated in foreign currencies are translated into the Fund's reporting currency at the exchange rates at closing date. Revenues and expenses denominated in foreign currencies are translated into Euro's at rate prevailing at the transaction date. Resulting currency exchange differences are taken into the Profit and Loss account under currency results.

The exchange rates at 31 December 2017, in Euro	
Danish Crown	0.13431
British Pound	1.12657
United States Dollar	0.83278
Swiss Franc	0.85459

Asset and Liabilities

Assets and liabilities are measured at nominal value, unless otherwise measured in the further principles.

An asset is recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the asset has a cost price or value of which the amount can be measured reliably. Assets that are not recognised in the balance sheet are considered as off-balance sheet assets.

A liability is recognised in the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably. Provisions are included in the liabilities of the Company. Liabilities that are not recognised in the balance sheet are considered as off-balance sheet liabilities.

Investments

Securities

Investments are recorded at their fair value. The Fund only has investments in listed securities for which fair value is determined at their closing price on the valuation date on the relevant exchanges. Transaction costs in respect of purchase and sale of investments are included in unrealized and realized movements in investments.

Receivables and other assets

Other receivables are carried at amortised cost on the basis of the effective interest method, less impairment losses.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. If cash and cash equivalents are not readily available, this fact is taken into account in the measurement.

Share premium account

This reserve originates from the issue and redemption of shares over and above their nominal value.

Current liabilities

Current liabilities and other financial commitments are stated after their initial recognition at amortised cost on the basis of the effective interest rate method.

Profit and Loss account

Income and expenses are accounted for in the period to which they relate.

Realized movements in investments and other assets

Realized movements in investments and other assets consist of gains or losses on securities and derivate positions that have been sold during the reporting period.

Unrealized movements in investments and other assets

Unrealized movements in investments and other assets consist of gains or losses on securities and derivate positions that are (still) in the portfolio at the end of the reporting period.

Income

Dividends are recognised on an ex-dividend date basis. Dividend income is recognised net of dividend withholding tax as the fund cannot reclaim dividend tax paid from the tax authorities. If the Fund elects to receive a stock dividend in lieu of a cash dividend, an amount equal to dividends not received is included in income. When the Fund receives a stock dividend when there is no cash alternative, an amount equal to the nominal value of the shares issued is included in income to the extent that such stock dividend is regarded as revenue for Dutch tax purposes.

Expenses

Expenses are dealt with on an accrual basis. All expenses are charged to the Profit and Loss account.

Cash Flow statement

The Cash Flow statement is prepared by using the indirect method.

Notes to balance sheet

1. Investments

31 December 2017

31 December 2016

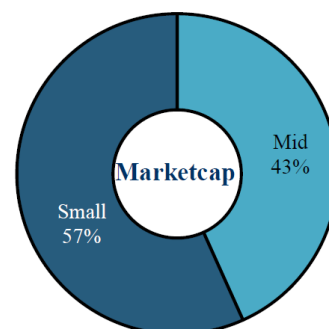
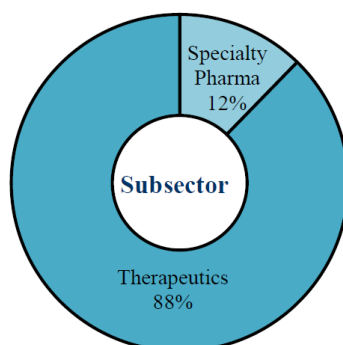
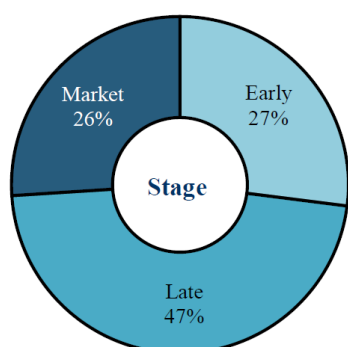
Securities

Market value beginning of period	42,653	85,190
Purchases	136,642	90,288
Sales	-126,791	-116,391
Unrealized price movements	12,468	2,184
Unrealized currency movements	-2,296	-1,123
Realized price movements	12,590	-17,806
Realized currency movements	-1,255	311
Market value at end of period	74,011	42,653

Derivatives

Market value beginning of period	-	1
Purchases	-	-
Sales	-	-
Unrealized price movements	-	-1
Unrealized currency movements	-	-
Realized price movements	-	-
Realized currency movements	-	-
Market value at end of period	-	-

The Fund's investments are classified according to stage, subsector and market capitalization. The breakdown of the Fund's portfolio per 31 December 2017 is shown below.



Stage at year end	2017	2016
Early Stage	27%	49%
Late Stage	47%	24%
Market	26%	27%

Subsector at year end	2017	2016
Therapeutics	88%	92%
Medical Device	-	3%
Specialty Pharma	12%	5%

Marketcap at year end	2017	2016
Microcap	-	3%
Smallcap	57%	59%
Midcap	43%	38%

Portfolio breakdown

The below table shows the portfolio breakdown of the Fund grouped per company as a percentage of the total Fund's Net Asset Value.

Company	Stage	Subsector	Marketcap	%
argenx	Early	Therapeutics	Small	12.4%
Clinigen Group	Market	Specialty Pharma	Small	8.7%
Ablynx	Late	Therapeutics	Small	7.8%
CytomX Therapeutics	Early	Therapeutics	Small	7.7%
Aerie Pharmaceuticals	Late	Therapeutics	Mid	6.9%
Tetraphase Pharmaceuticals	Late	Therapeutics	Small	6.9%
Morphosys	Late	Therapeutics	Mid	6.5%
Zogenix	Late	Therapeutics	Small	5.4%
Genmab	Market	Therapeutics	Mid	4.5%
Erytech Pharma	Late	Therapeutics	Small	4.5%
Evotec	Early	Therapeutics	Mid	3.9%
TherapeuticsMD	Market	Specialty Pharma	Mid	3.4%
Zealand Pharma	Market	Therapeutics	Mid	3.3%
Clovis Oncology	Late	Therapeutics	Mid	3.1%
Galapagos	Market	Therapeutics	Mid	2.9%
GW Pharmaceuticals	Market	Therapeutics	Mid	2.8%
Tesaro	Late	Therapeutics	Mid	2.7%
Juno Therapeutics	Early	Therapeutics	Mid	2.6%
Aduro Biotech	Late	Therapeutics	Small	2.5%
				98.6%

2. Other assets

Cash accounts

The cash at banks are held with KAS BANK N.V. and are available on demand. The net cash of the Fund at year end consists of a credit balance on the Euro account and a debit balance on the Danish Crown , Swiss Franc, British Pound and United States Dollar currency accounts as shown in below table.

Cash account	at 31 December 2017		at 31 December 2016	
	in Local Currency	in Euro	in Local Currency	in Euro
Euro	47,449	47,449	49,738	49,738
Danish Crown	-43,544	-5,848	-21,783	-2,930
British Pound	-5,586	-6,293	-2,918	-3,418
United States Dollar	-38,673	-32,206	-27,787	-26,345
Swiss Franc	-4	-3	-4	-4
Total		3,099		17,041

The cash accounts are an integral part of the Fund's currency hedging as further detailed in note 5. Furthermore all accounts are covered by the same contractual agreements. The individual account balances are managed jointly and are presented in the annual accounts as a single netted amount.

3. Shareholders' equity

The authorized share capital of the Fund is Euro 1,000,000 and is divided in 1,000,000 shares with a par value of Euro 1.00 each. The number of issued shares at 31 December 2017 amounts to 319,169.

	31 December 2017	31 December 2016
Issued share capital		
Balance at beginning of period	353	448
Issued	40	43
Redemption	-74	-138
Balance at end of the period	319	353
Share premium account		
Balance at beginning of period	31,747	48,550
Issue of shares	8,619	7,276
Redemption of shares	-14,986	-24,079
Balance at end of the period	25,380	31,747
Other reserves		
Balance at beginning of period	45,950	35,635
Result appropriation for previous year	-18,267	10,315
Balance at end of the period	27,683	45,950
Number of issued shares		
Balance at beginning of period	352,971	448,036
Issued	40,277	43,706
Redemption	-74,079	-138,771
Balance at end of the period	319,169	352,971
Number of shares	319,169	352,971
Net Asset Value	75,028	59,783
Net Asset Value per share	235.07	169.37

Note: the key figures on page 11 provide a 5-year period of the number of shares, NAV and NAV per share.

Unappropriated result

Balance at beginning of period	-18,267	10,315
Result previous year added to other reserves	18,267	-10,315
Result for the period	21,646	-18,267
Balance at end of the period	21,646	-18,267

Distributions policy

As the investment objective of the Fund is to achieve capital appreciation, frequent and regular distribution of profits or other net proceeds by the Fund are not intended nor anticipated. All net proceeds will in principle be reinvested and the Fund Manager will exercise its right to add profits of the Fund to the Fund's reserves.

4. Current liabilities

31 December 2017

31 December 2016

Creditors and accrued expenses

Interest	49	35
Share redemptions payable to shareholders	6	-
Fund operational costs	90	98
Management fee	95	78
Performance fee (see note 6)	1,847	-
	<hr/>	<hr/>
	2,087	211

The creditors and accrued expenses are payable within one year.

Fund operational costs

Fund administration fee	30	19
Remuneration of the Supervisory Board	-	30
Governance costs	2	2
Auditor's remuneration	39	33
Advisory costs	10	10
Other Costs	9	4
	<hr/>	<hr/>
	90	98

Post-balance sheet events

There were no post-balance sheet events which have a bearing on the understanding of the financial statements.

Notes to the Profit and Loss account

5. Realized and unrealized movements in investments and other assets

	31 December 2017	31 December 2016
Realized movements on securities		
Realized gains / losses on securities	12,590	-17,806
Currency results on securities	-1,255	311
	11,335	-17,495
Unrealized movements on securities		
Change in unrealized gains / losses on securities	12,468	2,183
Currency results on securities	-2,296	-1,123
	10,172	1,060
Unrealized movements on derivatives		
Change in unrealized gains / losses on derivatives	-	-1
Currency results on derivatives	-	-
	-	-1

The realized and unrealized movements are a combination of gains as well as losses. In accordance with the generally accepted accounting principles in the Netherlands these gains and losses have to be reported separately. The below table provides this decomposition.

Realized movements 31 December 2017			
	Gains	Losses	Total
Securities	28,747	-17,412	11,335
Unrealized movements 31 December 2017			
	Gains	Losses	Total
Securities	18,196	-8,024	10,172
Realized movements 31 December 2016			
	Gains	Losses	Total
Securities	14,513	-32,008	-17,495
Derivatives	-	-	-
Unrealized movements 31 December 2016			
	Gains	Losses	Total
Securities	26,643	-25,583	1,060
Derivatives	-	-1	-1

Currency results on cash accounts

The Fund makes use of foreign currency cash accounts to (partially) hedge the currency exposure of its investments. During the reporting period the currency results on these cash accounts amounted to a profit of Euro 3,913 thousand (2016: 93 thousand), whilst the realized and unrealized currency result of the investments amounted to a loss of Euro 3,551 thousand (2016: -812 thousand). The net currency result of the Fund thus amounted to a profit of Euro 362 thousand (2016: -719 thousand).

6. Management costs

Management Fee

The Fund Manager is entitled to an annual management fee due by the Fund to the Fund Manager equal to 1.5% per annum of the Net Asset Value excluding (i.e. before deduction of) the accrued management fee and performance fee. The management fee accrues on a daily basis by reference to the latest Net Asset Value and is payable by the Fund in arrears as per the last business day of each month. The management fee for the year amounts to Euro 1,009 thousand (2016: 1,111 thousand).

Performance Fee

The Fund Manager is entitled to receive a performance fee of twenty per cent (20%) of the increase (if any) in the Net Asset Value per share accrued during the year for each share outstanding at the end of the relevant year, but only to the extent such increase exceeds the hurdle of 8%. The performance fee is furthermore subject to a perpetual high watermark which means that performance fee shall only be payable if, and to the extent that, the Net Asset Value per share at the end of a year is greater than the highest value of this variable which has been determined at the end of all of the preceding years. The performance fee is calculated and accrues on a daily basis. The performance fee, if any, is payable as per the last valuation day of each calendar year.

The initial issue price of Euro 100.00 per share, plus the 8% hurdle since inception amounted to Euro 167.34 at 31 December 2017. The high watermark is set to the highest Net Asset Value per share at the end of all preceding years, i.e. Euro 211.92. As the High Watermark exceeds the hurdle, the performance fee is calculated with reference to this High Watermark. The Net Asset Value per share – before performance fee – as of period-end was Euro 240.86, and thus above the High Watermark. The performance fee amounts to 20% of this excess performance, multiplied by the number of shares outstanding at year end. This results in a performance fee for the period in the amount of Euro 1,847 thousand (2016: nil).

(in Euro per share)	31 December 2017	31 December 2016
Net Asset Value (before performance fee)	240.86	169.37
Hurdle	167.34	154.94
High Watermark	211.92	211.92
Excess performance	28.94	0.00
Performance fee (20% of excess performance)	5.79	0.00
Number of shares outstanding	319,169	352,971

7. Depositary costs

In connection with the Alternative Investment Fund Manager Directive (AIFMD) that came in force on 22 July 2014, the Fund has appointed KAS Trust & Depositary Services B.V. as depositary. The depositary acts in the interest of the investors and is responsible for the safekeeping of the fund's assets and the oversight and supervision of the Fund and the management of the Fund by the Fund Manager. The depositary costs consist of the fees contractually due to the depositary for the provision of its services.

8. Fund operational costs	31 December 2017	31 December 2016
Fund administration fee and bank fees	134	150
Remuneration of the Supervisory Board	30	30
Governance costs	-	2
Auditor's remuneration	48	38
Advisory costs	8	13
Other costs	42	31
	<hr/>	<hr/>
	262	264

Fund operational costs include all costs of legal, tax, regulatory, administrative, custody, auditing, reporting and similar services and advices provided to the Fund, the cost of the Fund Agent and Administrator, the costs of supervision of the Fund, all costs incurred in relation to the Fund's Supervisory Board and all costs of communications with and meetings of the investors.

Auditor's remuneration

The following fees were charged by KPMG Accountants N.V. to the company, its subsidiaries and other consolidated companies, as referred to in Section 2:382a (1) and (2) of the Netherlands Civil Code.

	31 December 2017		
	KPMG Accountants N.V.	Other KPMG network	Total KPMG
Audit of the financial statements	42	-	42
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	6	6
	<hr/>	<hr/>	<hr/>
	42	6	48

The other non-audit services of Euro 6 thousand are fees paid to KPMG LLP (UK) for assistance with the UK fund reporting.

31 December 2016

	KPMG Accountants N.V.	Other KPMG network	Total KPMG
Audit of the financial statements	33	-	33
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	5	5
	<hr/> 33	<hr/> 5	<hr/> 38

Comparison total expenses with expenses mentioned in the prospectus

	Actual costs	Prospectus
Management fee	1,009	1,009
Performance fee	1,847	1,847
Depositary costs	69	300
Fund operational costs	262	
	<hr/> 3,187	<hr/> 3,156

The expenses in the Prospectus are based on an average Fund size of Euro 75 million and have been adjusted proportionally to the actual average Fund size in this comparison. In the Prospectus the depositary costs are not mentioned separately but are included in the Fund operational costs.

Portfolio Turnover Ratio

The portfolio turnover ratio refers to the measure of trading activity in the Fund's portfolio. The portfolio turnover rate is a percentage of the portfolio that is bought and sold in exchange for other stocks. The portfolio turnover ratio is calculated by taking the amount of new securities purchased and the amount of securities sold minus the amount for redemption and issue of shares over the financial year. The result is expressed as a percentage of the average Net Asset Value (NAV). The average Net Asset Value is calculated, in accordance with the generally accepted accounting principles in the Netherlands, as the average of all calculated and published NAV's during the year. Previously this average calculation was based on five measurement points during the year. The portfolio turnover ratio for 2017 amounts to 360% (2016: 237%). As the portfolio turnover measure includes both the purchases as well as the sales of securities, it effectively corresponds to an average holding period of about 0.6 years, consistent with the Fund's investment strategy.

Ongoing Charges Figure

According to the generally accepted accounting principles in the Netherlands the total expense ratio (TER) has been replaced by the ongoing charges figure (OCF). Like the TER, the ongoing charges figure is the total amount of costs the Fund incurred in a year, expressed as a percentage of the Fund's average Net Asset Value (NAV) for the period concerned. The changes consist of a change in calculation method and a change in the cost components that should be included in the calculation. The average Net Asset Value is calculated as the average of all calculated and published NAV's during the year, whereas for the TER this average calculation was based on five measurement points during the year. The performance related fees are excluded from the ongoing charges figure and are expressed separately as a percentage of the Fund's average Net Asset Value (NAV) for the period concerned. The resulting OCF for 2017 is 2.01% (2016: 1.92%). The resulting percentage of the performance fee for 2017 is 2.77% (2016: nil).

Remuneration policy

The Fund itself has no employees. The management of the Fund is entrusted to the Fund Manager being LSP Advisory B.V. As such the remuneration policy is determined at the level of the Fund Manager. The Fund Manager has implemented the AIFMD regulations regarding remuneration and has established a compliant remuneration policy. The objective of this remuneration policy is to motivate and retain the investment managers and other employees. The remuneration policy of the Fund Manager is designed such that it is consistent with and promotes sound and effective risk management and does not encourage risk-taking in a manner inconsistent with the risk policy of the Fund. The remuneration policy is reviewed on annual basis and will be amended from time to time to remain compliant with applicable regulations and to abide by social norms. The remuneration consists of a fixed and a variable component. The variable remuneration is linked to the performance of the Fund as well as to the individual targets of the staff members.

Remuneration of the Fund Manager's staff

During the year 2017 the Fund Manager paid Euro 1.4 million (2016: 0.9 million) to its staff members. Of this amount Euro 0.9 million (2016: 0.9 million) was fixed remuneration and Euro 0.5 million (2016: 8 thousand) was variable.

Of the total remuneration referenced above an amount of Euro 1.2 million (2016: 0.7 million) related to the directors of the Fund Manager. This consists of a fixed remuneration of Euro 0.8 million (2016: 0.7 million) and Euro 0.5 million of variable compensation for the period (2016: nil).

In total 5 staff members work in part or fully for the Fund. The total remuneration of these staff members that is attributed to managing the Fund for the period amounts to Euro 1.3 million (2016: 0.9 million), such amount being allocated on the basis of the average Assets under Management of the various activities of LSP Advisory B.V. The tables on the next page show the breakdown of the remuneration of the staff members attributed to the management of the Fund for the current and prior period. For the year 2017 the allocation to the Fund amounts to 90.1% (2016: 96.5%) of the total remuneration.

2017	Beneficiaries	Fixed remuneration	Variable remuneration	Total Remuneration
Directors	3	694,402	416,423	1,110,825
Identified staff	1	21,173	17,543	38,716
Other employees	1	98,231	18,014	116,245
Total	5	813,806	451,980	1,265,786

2016	Beneficiaries	Fixed remuneration	Variable remuneration	Total Remuneration
Directors	3	741,535	-	741,535
Identified staff	1	22,290	-	22,290
Other employees	1	104,803	8,202	113,005
Total	5	868,628	8,202	876,830

Remuneration of the Supervisory Board

The total of remuneration for the members of the Supervisory Board for the period amounts to Euro 30 thousand (2016: 30 thousand).

Supervisory Board member	31 December 2017	31 December 2016
Pauline Bieringa	18	18
Onno Paymans	12	12
	30	30

Risk factors and risk management

An investment in the Fund involves certain risks and uncertainties relating to the Fund's structure and investment strategy. The Fund has exposure to the following risks from financial instruments:

- Market risks
- Liquidity risk
- Counterparty risk, including settlement risk
- Operational risks, including preservation and legal and tax compliance risks

The Fund Manager applies a comprehensive process based on qualitative and quantitative risk measures to assess the risks of the Fund entailing a standard monitoring process which consists of pre-defined monitoring items and cycles. The overall exposure of the Fund is calculated by means of the Value-at-Risk (VaR) methodology. The Value-at-Risk methodology provides a measure of the potential loss that could arise over a given time interval under normal market conditions, and at a given confidence level. During the year of 2017 no risk limits of the Fund have been exceeded nor were they likely to be exceeded.

The Fund Manager has been given a discretionary authority to manage the assets in accordance with the Fund's investment objectives. Compliance with the investment restrictions and the composition of the portfolio is monitored by the Fund Manager on a daily basis.

Market Risk

The prices of financial instruments on the financial markets in general and more specifically the prices of financial instruments in the portfolio can increase or decrease as a result of a multitude of factors like expectations of economic growth, inflation and price movements of goods and foreign currencies. In addition the value of the portfolio can vary due to, for example, political and monetary developments. Market risks are increased as a result of limiting the geographic scope of the Fund to Europe (and in part to the United States) as well as the Fund's concentrated sector portfolio. The Fund manager distinguishes the following market risks: (i) price volatility, (ii) concentration risk, (iii) foreign currency risk and (iv) interest rate risk, which are discussed in further detail below.

(i) Price volatility

The stock prices of companies involved in the life sciences industry have been and will likely continue to be volatile. Stock prices and their related financial instruments (e.g. warrants) could be subject to wide fluctuations in response to a variety of factors, including the following:

- General market fluctuations (including the parameters used for valuation of warrants);
- Actual or anticipated variations in companies' operating results;
- Announcements of technological innovations by competitors;
- Changes in financial estimates by securities analysts;
- Changes in the market valuations of life sciences companies;
- Legal or regulatory developments affecting companies in the life sciences industry;
- Announcement by life sciences companies or their competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments; or
- Additions or departures of key personnel.

Many life sciences companies do not or in the future might not have earnings. As a result, the trading prices of life sciences companies may decline substantially and valuations may not be sustained. Any negative change in the public's perception of the prospects of life sciences companies, generally could depress the stock prices of a particular company regardless of its results. Other broad market and industry factors may decrease the stock price of life sciences stocks, regardless of their operating results.

Market fluctuations, as well as general political and economic conditions such as recession or interest rate or currency rate fluctuations, also may decrease the market price of life sciences stocks. Given the investment objective of the Fund and its inherent sector focus, the price volatility risk is in principle not managed by the Fund Manager.

(ii) Concentration risk

The Fund endeavours to create a concentrated portfolio of life sciences investments that are diversified by sub-sector (indication area or technology), geographic location, type of investment (IPOs, rights offerings, follow-on offerings, PIPEs, direct equity offerings, open market transactions, etc.), business model, area of focus, stage of development, etc. in order to achieve a high level of risk diversification. However, subject to the investment restrictions, investments may be weighted to certain indication and/or technologies and in certain geographic markets within Europe. Events that impact a specific investment, a specific sub-sector or a region may have an impact on the Fund's performance. The investment restrictions put an upper limit to the maximum allocation to a single portfolio company. Furthermore the Fund Manager monitors the concentration levels on a daily basis and will rebalance the portfolio if so required. As at 31 December 2017 the 5 single largest holdings account for 44% of the Net Asset Value of the Fund (year-end 2016: 39%).

(iii) Foreign currency risk

The Fund invests in life sciences companies in various countries. The investments may be dominated in currencies other than Euro and the value of these currencies may fluctuate. Thus, investors in principle will be subject to fluctuations in currency exchange rates. These fluctuations may have a positive or a negative effect on the Net Asset Value. The Fund Manager can make use of a range of financial instruments to (partially) hedge the various currency exposures that result from the portfolio investments. During the reporting period the currency risk of the British Pound, Danish Crown, Norwegian Krone and United States Dollar was partially hedged by contrary positions on the respective foreign currency cash accounts.

Net currency exposure	at 31 December 2017		at 31 December 2016	
	in Local Currency	in Euro	in Local Currency	in Euro
Danish Crown	142	19	650	87
British Pound	208	234	-63	-73
United States Dollar	977	814	-596	-565
Swiss Franc	-4	-3	-4	-4

(iv) Interest rate risk

The Fund has no significant exposure to interest rate risk, since all cash accounts have floating interest rates and the Fund does not hold any fixed income securities.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities – including redemptions of shares – that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund. The Fund Manager actively monitors the maximum possible share redemptions in relation to the Fund’s cash position and the level of liquidity of securities in the portfolio and will take corrective action if so required.

Counterparty risk

The Fund can be subject to the risk of the inability or refusal of dealers, brokers, clearing and payment institutions, custodians, principals or other service providers, issuing entities or other counterparties to its transactions to duly and timely perform under such services or transactions. Any such shortcoming, failure or refusal, whether due to insolvency, bankruptcy or other causes, could subject the Fund to substantial losses. The Fund Manager mitigates these risks by reviewing the creditworthiness and reliability of all service providers and counterparties and only enters into transactions with those parties that the Fund believes to be creditworthy and reliable. All cash balances, amounting to Euro 3,099 thousand as at 31 December 2017 (2016: 17,041 thousand), are held with the KAS BANK N.V. Fitch ratings has affirmed KAS BANK N.V.’s (per 29 November 2017) long- and Short-Term Issuer Default Ratings (IDRs) at ‘A-’ and ‘F2’, respectively. The outlook on the Long-Term IDR is Stable.

Settlement risk

The Fund can be subject to the risk that settlement through a payment system is unable to take place as expected because payment or delivery of the financial instruments is not on time or does not happen at all. The Fund mitigates this risk by conducting most of its settlements through a broker and ensuring that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Operational risks

Operational risk concerns the risk that the Fund will incur financial losses due to amongst others operational errors, negligence and/or fraud. In general the Fund manages this risk through an adequate administrative organization including segregation of duties and internal controls, which cover these risks.

Preservation risk

To safeguard the assets of the Fund, the Fund uses an independent custodian. Preservation risk is the risk that the assets of the Fund are lost as a result of, among other things, negligence, insolvency or fraudulent actions of the custodian. To monitor and mitigate this risk, the Fund Manager will periodically review the ISAE 3402 Type II report as received from the custodian to assess whether the relevant administrative organization and internal controls are adequate.

Legal and tax compliance risks

Changes in tax legislation in any of the countries in which the Fund has investments, or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Fund to its investors. In the event that the Fund no longer complies with the requirements of a tax-exempt investment fund, the Fund might be subject to Dutch corporate income tax. The Fund Manager, in consultation with its tax and legal advisors, monitors compliance with the relevant rules and regulations.

Transactions with related parties

The Fund Manager, LSP Advisory B.V. qualifies as a related party. In the reporting period the Fund Manager received a management fee of Euro 1,009 thousand (2016: 1,111 thousand) and a performance fee of Euro 1,847 thousand is due (2016: nil). Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price.

Soft dollar arrangements

The Fund will not enter into arrangements with any party regarding kickback payments. Third parties may in relation to the execution of orders by them on behalf of the Fund provide products and services to the Fund manager. During the reporting period the Fund's transactions were conducted under execution-only arrangements with its brokers and the Fund manager has assessed that it received no soft dollar arrangement during 2017 (2016: none).

Interests of the Supervisory Board and Management

The members of the Supervisory Board and Management had no interests in securities held by the Fund's portfolio as at 31 December 2017 (2016: no interests).

The members of the Supervisory Board had no shares in the Fund as at 31 December 2017 (2016: nil shares).

Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price. These persons own in aggregate 13,645 (2016: 14,575) shares in the Fund. The lock-up period as described in the prospectus of the Fund has expired.

Amsterdam, 30 March 2018

The director

LSP Advisory B.V.

OTHER INFORMATION

Statutory income allocation

According to article 22 of the Articles of Association, the Fund Manager will determine which part of the profit will be retained; the remainder of the profit will be at the disposal of the general meeting of shareholders.

INDEPENDENT AUDITOR’S REPORT



Independent auditor's report

To: the General Meeting and the Supervisory Board of LSP Life Sciences Fund N.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of LSP Life Sciences Fund N.V. as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2017 of LSP Life Sciences Fund N.V. (the Fund) based in Amsterdam.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2017;
- 2 the profit and loss account for 2017;
- 3 the cash flow statement for 2017; and
- 4 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of LSP Life Sciences Fund N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant

independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

MATERIALITY

- Materiality of EUR 750,000
- 1% of Shareholders' equity
- Misstatement threshold of EUR 38,000

KEY AUDIT MATTER

- Existence and valuation of investments

UNQUALIFIED OPINION

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 750,000 (2016: EUR 600,000). The materiality is determined with reference to total shareholders' equity (1%). We consider total shareholders' equity as the most appropriate benchmark because we consider the invested amount by shareholders (equity) most relevant for an investment fund. Due to the dependency on the value changes both the total revenues and the profit before tax are inherently volatile and therefore less suited as benchmark for determining materiality. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 38,000 which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Outsourcing of internal processes to service providers

The Fund has no employees and its portfolio management, risk management, and registration of subscriptions and redemptions are therefore performed by LSP Advisory B.V. The financial administration, and the investment and shareholders administration are outsourced to Kas Bank N.V. Kas Trust & Depositary Services B.V., as depositary of the Fund, is responsible for monitoring these processes. Consequently, the Fund is dependent on LSP Advisory B.V., KAS Bank N.V., and Kas Trust & Depositary Services B.V. for generating financial information and drafting the financial statements. Taking into account our responsibilities for the audit of the financial statements, we are responsible for assessing the nature and significance of the services provided by LSP Advisory B.V., KAS Bank N.V., and Kas Trust & Depositary Services B.V. and their effect on the internal controls relevant to the audit. Based on this assessment we identify the risks of material misstatement and design audit procedures to address these risks.

As part of our audit procedures we rely on the procedures performed by the external auditor of KAS Bank N.V. and Kas Trust & Depositary Services B.V. on their relevant administrative organisation and internal controls. The outcome of these procedures is included in the ISAE 3402 type II report of KAS Bank N.V. and Kas Trust & Depositary Services B.V. respectively. Our audit procedures consisted of determining the minimum expected controls at KAS Bank N.V. and Kas Trust & Depositary Services B.V., and evaluating the controls which are included in their respective ISAE 3402 type II reports, the procedures performed in order to test the effectiveness of those controls and the outcome of these procedures.

Based on the above procedures performed over the outsourced internal processes and additional work performed by us, we have collected sufficient appropriate audit evidence in relation to the Fund's investments and investment income.

Our key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Existence and valuation of investments

Description

The investments of the Fund comprise 96% of the balance sheet total. These investment are valued at fair value based on market information. Therefore, the valuation of the investments has a significant impact on the financial results of the Fund. The determination of the fair value is disclosed on page 16. We assess the risk of a material misstatement in the valuation of the investments as low due to the fact that the portfolio consists of liquid, listed investments which are traded on an active market. Due to the amount of the investments in relation to the financial statements as a whole we identify the existence and valuation of investments as a key audit matter.

Our response

Our audit procedures consisted of the following:

- determining the existence of the investments by obtaining an external confirmation from the custodian.
- determining that the used price is based on the method which is defined for the relevant investment category. We performed this procedure by comparing the used valuations of the investments with our independent valuation which is based on observable market prices. In performing these procedures we have used our valuation specialists.

Furthermore we assessed whether the disclosures in the financial statements on page 18 and 19 is in accordance with Dutch GAAP.

Our observation

The outcome of our procedures on the existence of the investments is satisfactory and we observed that the Director's valuation of the investments resulted in an acceptable valuation of the investments in the financial statements. The disclosures on page 18 and 19 of the financial statements are in accordance with Dutch GAAP.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the Director's report;
- the Supervisory Board report
- the key figures; and
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Director is responsible for the preparation of the other information, including the Director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by General Meeting as auditor of LSP Life Sciences Fund N.V. as of the audit for the year 2011 and have operated as statutory auditor ever since that financial year. On 16 May 2017 we have been reappointed by the General Meeting to audit the financial statements 2017.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Director and the Supervisory Board for the financial statements

The Director is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Director is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Director is responsible for assessing the Fund's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Director should prepare the financial statements using the going concern basis of accounting unless the Director either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. The Director should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Fund's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

Amstelveen, 30 March 2018

KPMG Accountants N.V.

W.L.L. Paulissen RA

STATEMENT OF THE DEPOSITARY

Considering that

- KAS Trust & Depositary Services B.V. (“the depositary”) is appointed to act as depositary of **LSP Life Sciences Fund N.V.** (“the fund”) in accordance with section 21(1) of the Alternative Investment Fund Managers Directive (2011/61/EU) (the “AIFM Directive”);
- Such appointment and the mutual rights and obligations of the fund manager and the depositary of the fund have been agreed upon in the depositary agreement dated 22 July 2014 between such parties, including the schedules to that agreement (the “depositary agreement”);
- The depositary issues this statement exclusively to the fund manager in relation to the activities of the fund manager and relates to the period 1 January up to and including 31 December 2017, (“the reporting period”).

Responsibilities of the depositary

The depositary acts as a depositary within the meaning of the AIFM Directive and provide its services in accordance with the AIFM Directive, the EU implementing regulation, applicable Dutch laws and regulations and the policy rules issued by the European Securities and Markets Authority and the Netherlands Authority for the Financial Markets (the “regulations”). The responsibilities of the depositary have been described in the depositary agreement and include, in addition to the safekeeping, recordkeeping and ownership verification tasks (as defined in article 21(8) AIFM Directive), several monitoring and oversight tasks (as defined in article 21(7) and 21(9) AIFM Directive):

- Monitoring of the fund’s cash flows, including identification of significant and inconsistent cash flows and reconciliation of the cash flows with the fund’s administration;
- Ensuring that the sale, issue, re-purchase, redemption, cancellation and valuation of units or shares of the fund are carried out in accordance with the applicable national law and the fund documentation;
- Ensuring that in transactions involving the fund’s assets any consideration is remitted to the fund within the usual time limits;
- Ensuring that the fund’s income is applied in accordance with the applicable national law and the fund documents;
- Monitoring whether the fund is managed in compliance with the investment restrictions and leverage limits as defined in the fund documentation.

Statement of the Depositary

The depositary has carried out such activities during the reporting period as considered necessary to fulfil its responsibilities as depositary of the fund. The depositary is of the opinion that, based on the information made available to it and the explanations provided by the fund manager, in all material respects, the fund manager has carried out its activities which are in scope of the monitoring and oversight duties of the depositary, in accordance with the regulations and the fund documentation.

Miscellaneous

This statement does not create, and is not intended to create, any right for a person or an entity that is not a party to the depositary agreement.

Amsterdam, 30 March 2018

KAS Trust & Depositary Services B.V.