



LSP Life Sciences Fund N.V.

Annual Report 2012

LSP
Life Sciences Partners

LSP LIFE SCIENCES FUND N.V.

Annual Report

2012

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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 1 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 Management 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 Muijrs and Geraldine O' Keeffe – 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 Financial Markets Supervision Act (Wft) by the Authority for the Financial Markets on 12 April 2011.

The Supervisory Board of the Fund comprises of three members, all 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.

DIRECTORS' REPORT

Investment Performance

As per the end of 2012, the Fund has been operational for 20 months, during which period we have seen extreme volatility resulting from the Eurozone turmoil and a general flight to quality in the second half of 2011 (in particular in the months of August and November), followed by a general improvement in market sentiment in the past year 2012. Since the Fund takes a long term view and bottom-up approach to its investments, it takes longer than six months for its investment cases to come to fruition. As we anticipated, this is exactly what we have seen this past year. A number of our investment cases have achieved major value increasing milestones. As a result, the Net Asset Value per share moved from Euro 83.99 as at 31 December 2011 to Euro 104.08 (plus 23.9%) as at 31 December 2012. The Fund recorded a profit for the period of Euro 7.87 million. 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, as stipulated in our last Director's report as well, we are less interested in short term investment opportunities and have stuck to our strategy and conviction of building a balanced portfolio with investments that offer upside in the mid- to long term (on average 1 to 2 years). Typically, our portfolio holds primarily investments in companies that have a market cap below Euro 1 billion, a space that only few investors tend to focus on. As at 31 December 2012 the portfolio amounted to Euro 34.77 million, holding 14 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, vaccines, drug delivery technologies, contract research organizations 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 vast majority of the investments were in European companies, although 2012 did bring a number of US opportunities that offered very attractive terms and structures. In 2012, the Fund has participated in three such opportunities. The monthly reports of the Fund that are published on the Fund's website provide the current portfolio composition and list as well the top-5 best performing stocks of the respective month.

Outlook

As we described in our last Director's report, we expected an improvement in the general market conditions in 2012. This improvement did occur and it did therefor have a positive impact on the Fund, making up for (some of) the losses incurred in the second half of 2011. The Fund Manager believes there is substantial upward potential in the LSP Life Sciences Fund, with significant milestones and news flow expected from its current portfolio companies in the coming year. The Fund will continue to selectively add and dispose of companies in line with its investment strategy going forward.

Fund's risk management

The Fund has established a risk management function that monitors the risks, among other things, on the basis of periodic reports from the fund administrator and the other service providers. Reference is made to pages 23 - 25 of the financial statements for a more detailed description.

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 way 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 the year 2012 the Fund Manager has not exercised its voting rights.

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 work 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 was 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 2012 have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code 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 2012 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.

The director

LSP Advisory B.V.

Mark Wegter

Joep Muijers

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. During the year 2012, the Supervisory Board held 4 meetings together with the directors of the Fund Manager. All meetings had full attendance of the individual members.

During these meetings the Supervisory Board has discussed a wide range of subjects including the investment strategy and investment performance, the Fund's operations and the interaction with third party service providers (e.g. 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.

Furthermore the Supervisory Board has monitored the financial reporting process, the effectiveness of the internal controls and the risk management of the Fund.

Following the appointment of Mr. Onno Paymans at the Annual Shareholders meeting of 10 May 2012, the Supervisory Board has been strengthened further and now consists of three members.

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.

Pauline Bieringa (chair)

Tom van Wijngaarden

Onno Paymans

KEY FIGURES

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

	2012	2011
Net Asset Value	41,278	32,856
Number of shares outstanding	396,581	391,168
Net Asset Value per share	104.08	83.99
Share price performance	+23.9%	-16.0%*
Net Result	7,870	-6,262*
Total Expense Ratio (TER)	2.1%	1.5%
Turnover Ratio	140%	29%

* Comparative period runs from inception of the Fund at 18 April 2011 to 31 December 2011

BALANCE SHEET on 31 December 2012

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

	Note	31 December 2012	31 December 2011
Assets			
Investments	1		
Investments in securities		31,577	29,736
Investments in derivatives		3,195	-
		34,772	29,736
Receivables			
Issued capital receivable from shareholders		4	-
Other assets			
Other assets	2		
Intangible assets		117	156
Cash accounts		6,549	3,135
		6,666	3,291
Total Assets			
		41,442	33,027
Liabilities and shareholders' equity			
Shareholders' equity	3		
Issued share capital		397	391
Share premium		39,273	38,727
Legal and statutory reserve		117	156
Other reserves		-6,379	-156
Unappropriated result		7,870	-6,262
		41,278	32,856
Current liabilities			
Current liabilities	4		
Creditors and accrued expenses		164	171
Total Liabilities and shareholders' equity			
		41,442	33,027
Net Asset Value per share		104.08	83.99

PROFIT AND LOSS ACCOUNT for the year 2012

(in thousands of Euro's)

	Note	2012	2011*
Income from investments			
Dividends on securities		-	28
Realized movements in investments and other assets			
Realized movements on securities	5	522	365
Unrealized movements in investments and other assets			
Unrealized movements on securities		5,195	-5,091
Unrealized movements on derivatives		2,850	-
Currency results on cash accounts		296	-957
		8,341	-6,048
Expenses			
Administration expenses	6	737	518
Other operating expenses	7	39	39
Interest expenses on cash accounts		217	50
		993	607
Result for the period		7,870	-6,262

* Comparative period runs from inception of the Fund at 18 April 2011 to 31 December 2011

CASH FLOW STATEMENT for the year 2012

(in thousands of Euro's)

	2012	2011*
Cash flows from investment activities		
Net result	7,870	-6,262
Realized movements in investments and other assets	-522	-365
Unrealized movements in investments and other assets	-8,341	6,048
Purchase of investments and other assets	-26,180	-42,351
Sale of investments and other assets	29,711	7,889
Change in amounts receivable	-4	-
Change in intangible assets	39	-156
Change in current liabilities	-7	171
	2,566	-35,026
Cash flows from financial activities		
Issue of shares	1,694	39,497
Redemption of shares	-1,142	-379
Total cash flows from financial activities	552	39,118
Currency results on cash accounts	296	-957
Net increase for the period	3,414	3,135
Opening balance	3,135	-
Closing balance	6,549	3,135
	3,414	3,135

* Comparative period runs from inception of the Fund at 18 April 2011 to 31 December 2011

SELECTED NOTES TO THE ANNUAL REPORT OF 2012

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.

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

To facilitate comparison, the presentation of the comparative figures has been amended where deemed necessary.

The comparative period used in the Profit and Loss account as well as in the Cash Flow statement runs from inception of the Fund at 18 April 2011 to 31 December 2011.

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.

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 2012, in Euro	
Danish crown	0.13403
British pound	1.23289
Swedish krona	0.11659
United States dollar	0.75850
Swiss Franc	0.82864

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.

Derivatives

Derivatives (warrants) are measured at fair value on initial recognition. After initial recognition, these derivative financial instruments are carried at fair value, with gains and losses recognized in unrealized and realized movements in investments in the Profit and Loss account.

In the absence of a quotation, the fair value of the warrants is calculated using the Black-Scholes Discrete model, taking into account the exercise price of the warrant, the remaining life of the warrant, the vesting period of the warrant, the share price of the underlying security at valuation date, the risk-free interest rate, the expected volatility and the expected dividend yield.

Intangible assets

Establishment expenses are capitalized at the level of the Fund and are amortized over a period of 5 years.

Share premium account

This reserve originates from the issue and from the redemption of shares.

Other assets and liabilities

Cash accounts and liabilities are shown at their nominal value.

Profit and Loss account

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

Income

Dividends are recognised on an ex-dividend date basis. 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

Administrative 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

	31 December 2012	31 December 2011
1. Investments		
The changes in securities are shown below:		
Securities		
Market value beginning of period	29,736	-
Purchases	25,835	42,351
Sales	-29,711	-7,889
Unrealized price movements	5,712	-5,737
Unrealized currency movements	-517	646
Realized price movements	192	276
Realized currency movements	330	89
Market value at end of period	31,577	29,736

All the securities are listed.

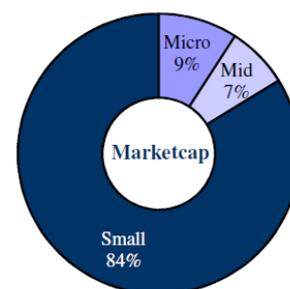
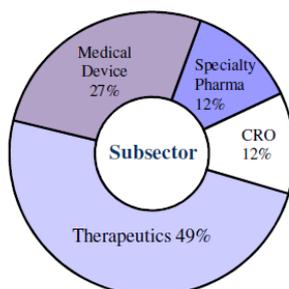
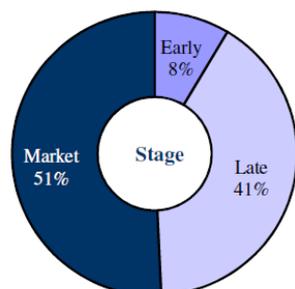
The changes in derivatives are shown below:

Derivatives		
Market value at beginning of period	-	-
Purchases	345	-
Unrealized price movements	2,838	-
Unrealized currency movements	12	-
Market value at end of period	3,195	-

The parameters used for the valuation of the non-listed warrants are:

Parameter	Warrant A	Warrant B
Expiration date	May 2017	June 2013
Remaining life	4.42 years	0.50 years
Price of underlying share at value date	USD 4.26	GBP 1.75
Exercise price	USD 3.40	GBP 1.40
Vesting period	-	-
Expected dividend yield	0.00%	0.00%
Expected volatility	70.50%	37.76%
Rate of yield curve	0.73%	0.67%

The Fund's investments are classified according to stage, subsector and market capitalization. The breakdown of the Fund's portfolio per 31 December 2012 is shown below.



Stage at year end	2012	2011
Early Stage	8%	23%
Late Stage	41%	36%
Market	51%	41%

Subsector at year end	2012	2011
Therapeutics	49%	67%
Medical Device	27%	0%
Specialty Pharma	12%	12%
CRO	12%	11%
Diagnostics	0%	10%

Marketcap at year end	2012	2011
Microcap	9%	9%
Smallcap	84%	77%
Midcap	7%	14%

2. Other assets

Intangible assets

	31 December 2012	31 December 2011
Establishment expenses	195	195
Depreciation	-78	-39
Value at end of period	117	156

The intangible assets consists of the establishment expenses of the Fund that are capitalized at the level of the Fund and are amortized over a period of 5 years. Included in the establishment expenses are legal, accounting and tax advisory costs, incorporation expenses and travel costs.

Cash accounts

The cash at banks are held with KAS BANK N.V. and are available on demand.

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 2012 amounts to 396,581.

	31 December 2012	31 December 2011
Issued share capital		
Balance at beginning of period	391	-
Issued	18	395
Redemption	-12	-4
Balance at end of period	397	391
Share premium account		
Balance at beginning of period	38,727	-
Issue of shares	1,676	39,102
Redemption of shares	-1,130	-375
Balance at end of period	39,273	38,727
Number of issued capital		
Balance at beginning of period	391,168	-
Issued	17,706	395,348
Redemption	-12,293	-4,180
Balance at end of period	396,581	391,168
Net Asset Value	41,278	32,856
Number of shares	396,581	391,168
Net Asset Value per share	104.08	83.99
Legal and statutory reserve		
Balance at beginning of period	156	-
Intangible assets (establishment expenses)	-39	156
Balance at end of period	117	156
Other reserves		
Balance at beginning of period	-156	-
Result appropriation for previous year	-6,262	-
Intangible assets (establishment expenses)	39	-156
Balance at end of period	-6,379	-156

31 December 2012 31 December 2011

4. Current liabilities

Creditors and accrued expenses

Interest	16	23
Capital redemption payable to shareholders	10	-
Fund operational costs	87	95
Management fee	51	41
Establishment expenses	-	12
	164	171

The creditors and accrued expenses are payable within one year.

Fund operational costs

Fund administration, custody and bank fees	9	36
Remuneration of the Supervisory Board	37	20
Auditor's remuneration	20	17
Governance costs	5	5
Advisory costs	12	5
Other costs	4	12
	87	95

Notes to the Profit and Loss account

5. Realized and unrealized movements in investments and other assets

	2012	2011
Realized movements on securities		
Realized gains on securities	192	276
Currency results on securities	330	89
	522	365
Unrealized movements on securities		
Change in unrealized gains on securities	5,712	-5,737
Currency results on securities	-517	646
	5,195	-5,091
Unrealized movements on derivatives		
Change in unrealized gains on derivatives	2,838	-
Currency results on derivatives	12	-
	2,850	-

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 296 thousand (2011: -957 thousand), whilst the realized and unrealized currency result of the investments amounted to a loss of Euro 175 thousand (2011: +735 thousand). The net currency result of the Fund thus amounted to a profit of Euro 121 thousand (2011: -222 thousand).

	2012	2011
6. Administration expenses		
Fund operational costs	184	152
Management fee	553	366
	737	518
Fund operational costs		
Fund administration, custody and bank fees	88	93
Remuneration of the Supervisory Board	39	20
Auditor's remuneration	22	17
Governance costs	12	5
Advisory costs	17	5
Other costs	6	12
	184	152

Invoices relating to custody services amounting Euro 8 thousand (2011: 6 thousand) are included in the line item Fund administration, custody and bank fees.

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. The auditor's remuneration amounts to Euro 22 thousand in respect of the audit of the financial statements and Euro 6 thousand for the assurance procedures performed on the prospectus. The auditor has performed no other services for the Fund.

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.

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 accrued during each year, adjusted for the direct effect on the Net Asset Value of subscriptions and redemptions of shares and distributions effected during the year concerned, 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 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 113.88 at 31 December 2012. As the Net Asset Value per share per period-end was below this threshold amount, there is no performance fee payable for the period.

	2012	2011
7. Other operating expenses		
Amortisation of establishment expenses	39	39
	39	39

The establishment expenses are capitalized at the level of the Fund and are amortized over a period of 5.

Comparison total expenses with expenses mentioned in the prospectus.

	Actual costs	Prospectus
Fund operational costs	184	203
Management fee	553	553
Establishment expenses	39	39
	776	795

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 as follows ($\frac{1}{2} \times \text{NAV 31 December 2011} + 1 \times \text{NAV 31 March 2012} + 1 \times \text{NAV 30 June 2012} + 1 \times \text{NAV 30 September 2012} + \frac{1}{2} \times \text{NAV 31 December 2012}$) divided by 4. The portfolio turnover ratio for 2012 amounts to 140% (2011: 29%). 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 1.4 years, consistent with the Fund's investment strategy.

Total Expense Ratio

The total expense ratio (TER) 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 average Net Asset Value is calculated as follows ($\frac{1}{2} \times \text{NAV 31 December 2011} + 1 \times \text{NAV 31 March 2012} + 1 \times \text{NAV 30 June 2012} + 1 \times \text{NAV 30 September 2012} + \frac{1}{2} \times \text{NAV 31 December 2012}$) divided by 4. The resulting TER for 2012 is 2.1% (2011: 1.5%).

Remuneration of the Supervisory Board

The total of remuneration for the members of the Supervisory Board for the period amounts to Euro 39 thousand (2011: 20 thousand). Below table shows the remuneration for each individual Supervisory Board member.

Supervisory Board member	Remuneration
Pauline Bieringa	15
Tom van Wijngaarden *	14
Onno Paymans	10

Personnel

The Fund did not employ any personnel.

* Remuneration of Tom van Wijngaarden amounts to Euro 10 thousand plus Value Added Tax (VAT) of Euro 2 thousand in respect for 2012 as well as VAT due of Euro 2 thousand in respect of 2011.

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

The Fund Manager monitors the risks, among other things, on the basis of periodic reports from the fund administrator and the other service providers.

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 2012 the 5 single largest holdings account for 48% of the Net Asset Value of the Fund (year-end 2011: 44%).

(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, Swedish krona and United States dollar was partially hedged by contrary positions on the respective foreign currency cash accounts.

Net currency exposure	at 31 December 2012		at 31 December 2011	
	in Local Currency	in Euro	in Local Currency	in Euro
Danish crown	-	-	-4,445	-599
Swiss franc	2	2	-	-
British pound	166	204	-78	-94
Swedish krona	2,529	295	-19,531	-2,195
United States dollar	1,011	767	-2,352	-1,812

(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.

Credit 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. In addition all securities transactions are settled as either receipt or delivery versus payment which further reduces the credit risk. All cash balances, amounting to Euro 6,549 thousand as at 31 December 2012 (year-end 2011: 3,135 thousand), are held with the KAS BANK N.V. which is rated by Standard & Poor's as long term A- and short term A-2.

Settlement risk

The Fund can be subject to the risk of 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. For all of its transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

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.

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 553 thousand (2011: 366 thousand). 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 2012 (2011: 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 2012 (year-end 2011: no interests).

One member of the Supervisory Board holds a total of 100 shares in the Fund as at 31 December 2012 (year-end 2011: no shares).

Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price. These persons own in aggregate 14,495 (year-end 2011:14,545) shares in the Fund and are subject to a lock-up period as described in the prospectus of the Fund.

Amsterdam, 4 April 2013

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.

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.

Post-balance sheet events

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

INDEPENDENT AUDITOR'S REPORT

To: The general meeting of shareholders of LSP Life Sciences Fund N.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of LSP Life Sciences Fund N.V., Amsterdam, which comprise the balance sheet as at 31 December 2012, the profit and loss account for year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

The Directors are responsible for the preparation and fair presentation of the financial statements and for the preparation of the Directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the Financial Supervision Act (Wet op het financieel toezicht). Furthermore, the Directors are responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of LSP Life Sciences Fund N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the Financial Supervision Act.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 4 April 2013

KPMG Accountants N.V.

L.H.A. Kreuze RA