



LSP Advisory B.V.

Annual Report 2015

LSP
Life Sciences Partners

LSP Advisory B.V.

Financial statements for the year 2015

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Directors' report

General

LSP Advisory B.V. was incorporated on 3 March 2008 as asset manager focussing on investments in publicly listed life sciences companies. It currently manages the Euronext listed LSP Life Sciences Fund N.V. (the Fund). During the reporting period the Assets under Management of this fund have increased from € 70.2 million to € 95.0 million, a 35% increase.

LSP Advisory B.V. has its statutory seat at Johannes Vermeerplein 9, Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 34296447.

Governance

LSP Advisory B.V. is a wholly owned subsidiary of LSP Advisory Group B.V. It 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. 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 LSP Advisory B.V. currently comprises of one member. The principal duties and responsibilities of the Supervisory Board include (i) the supervision of the management of LSP Advisory B.V. as well as to supervise the general course of affairs of LSP Advisory B.V., and (ii) resolving any conflict of interest situation LSP Advisory B.V. is involved in.

Key Financial Data

In 2015 LSP Advisory B.V. had revenues amounting to € 4.3 million compared to € 5.6 million in the prior year. This revenue consists of € 1.1 million management fee (2014: 0.8 million), € 3.1 million performance fee (2014: 4.8 million) and other income of € 0.1 million (2014: nil). Operating expenses for the year amount to € 2.0 million (2014: 2.1 million) and the corporate income tax charge totals € 0.6 million (2014: 0.9 million), resulting in a net income for the period of € 1.8 million (2014: 2.6 million). Per year end 2015 the shareholders' equity amounted € 2.4 million (2014: 3.2 million) which is well above the solvency requirement as included in the AIFMD. Current assets less current liabilities as of 31 December 2015 amounted to € 2.4 million (2014: 3.2 million).

Risk management

LSP Advisory has established and maintains a permanent risk management function that implements effective risk management policies and procedures in order to identify, measure, manage and monitor on an ongoing basis all relevant risks.

The risk management function is functionally and hierarchically separated from the investment management function. The risk manager has a dotted line to the Supervisory Board and participates in the Supervisory Board meetings. The risk management function is also subject to the independent review of the Supervisory Board to ensure that decisions are being arrived at independently. The risks of LSP Advisory B.V. itself are mainly related to:

- Market risks
- Credit risk
- Operational risks, including regulatory compliance risk

LSP Advisory B.V. is exposed to market risk as the management fee is linked to the Assets under Management (AuM). In turn this AuM fluctuates with market movements. Also the performance fee is influenced by market movements as well as investment performance. Credit risk mainly relates to the solvency and liquidity of the investment fund(s) from which LSP Advisory B.V. receives its fees. Operational risks relate mainly to people, e.g. skill and retention of key investment personnel, IT systems and regulatory compliance risk.

Personnel

In the fourth quarter of the year, LSP Advisory B.V. has hired a senior trader to facilitate the anticipated growth of of the Assets under Management.

Investments and financing

Next to investments in human capital, the LSP Advisory B.V. will invest make additional investments in its IT infrastructure in order to further improve the trade execution capabilities, risk management and data analytics. The company is completely financed with equity and it is expected to remain that way for the next couple of years. Aforementioned investments will be financed out of retained earnings.

Administrative organization and internal controls

LSP Advisory B.V. has 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 LSP Advisory B.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 Directors of LSP Advisory B.V. confirm to the best of their knowledge that:

- the financial statements for the year 2015 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 Advisory B.V. as at 31 December 2015 and of its result for the period then ended;
- the report includes a fair review of the key developments of the company 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.

Recent developments

Since the beginning of 2016 up until the date of these annual accounts, the Assets under Management have decreased to € 81.0 million (minus 15%), mainly as a result of adverse stock market movement.

Outlook

For the year 2016, LSP Advisory B.V. expects to grow its Assets under Management, in line with the ambition to become a sizable player in its market. It is expected that this growth comes from a combination of investment performance as well as through subscription by new investors.

LSP Advisory B.V.

Mark Wegter

Joep Muijers

Geraldine O'Keeffe

Balance sheet as at 31 December 2015

(before proposed appropriation of result)

Assets		31 December 2015	31 December 2014
(in Euro)			
Fixed Assets			
Tangible fixed assets	1	-	1,823
		-	1,823
Current assets			
Receivables from group companies	2	14,892	-
Taxes and social security premiums		-	1,084
Other receivables	3	3,714,578	5,052,882
Cash and cash equivalents	4	629,570	318,590
		4,359,040	5,372,556
		<u>4,359,040</u>	<u>5,374,379</u>
Liabilities			
(in Euro)			
Equity			
Issued capital	5	18,000	18,000
Share premium		82,000	82,000
General reserve		563,213	446,836
Result for the year		1,766,037	2,629,102
		2,429,250	3,175,938
Current liabilities			
Payable to group companies	6	47,032	-
Taxes and social security premiums	7	579,003	863,033
Other liabilities	8	1,303,755	1,335,408
		1,929,790	2,198,441
		<u>4,359,040</u>	<u>5,374,379</u>

Income statement for the year 2015

		2015	2014
(in Euro)			
Management fee	9	1,127,877	800,853
Performance fee	10	3,103,097	4,786,143
Other income	11	100,000	-
Operating income		4,330,974	5,586,996
Staff expenses	12	1,505,640	1,482,954
Other operating expenses	13	439,079	502,210
Depreciation tangible fixed assets	1	1,823	6,250
Cost sharing		-	82,582
Service fee	14	43,050	21,150
Operating expenses		1,989,592	2,095,146
Operating income (loss)		2,341,382	3,491,850
Interest income and similar proceeds		-	285
Financial result		-	285
Income before tax		2,341,382	3,492,135
Corporate income tax	15	575,345	863,033
Net income (loss) for the year		1,766,037	2,629,102

Notes

General

LSP Advisory B.V. is a private limited liability company established under the laws of the Netherlands on 3 March 2008. LSP Advisory B.V. has its statutory seat at Johannes Vermeerplein 9, Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 34296447. Its primary activities consist of managing investment funds and mandates in the healthcare sector.

Principles of accounting

Basis of preparation

The accompanying financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil code and the Generally Accepted Accounting Principles in the Netherlands. In view of the size of the company, the exemption provided for in article 396, Title 9, Book 2 of the Netherlands Civil code (small company) has been applied.

Going concern

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

General

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability.

Income and expenses are allocated to the financial year to which they relate.

All amounts are in Euro (€), the company's functional currency, unless otherwise stated.

Using estimates and judgments

The preparation of the financial statements requires that management make judgements and use estimates and assumptions that affect the application of the accounting principles and the reported value of the assets and liabilities and the income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are continually reviewed. Revised estimates are incorporated in the period in which the estimate is revised and in future periods for which the revision has consequences.

Foreign exchange translation

Transactions denominated in foreign currency are translated into the relevant functional currency of the company at the exchange rate applying on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date into to the functional currency at the exchange rate applying on that date. Translation gains and losses are taken to the profit and loss account as expenditure.

Non-monetary assets and liabilities in foreign currency that are stated at historical cost are translated into euros at the applicable exchange rates applying on the transaction date. Non-monetary assets and liabilities in foreign currency that are stated at present value are translated into euros at the applicable exchange rates at the moment the present value is determined. Translation gains and losses are taken directly to equity as part of the revaluation reserve.

Fixed assets

The fixed assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of fixed assets is charged to the income statement on a straight-line basis over estimated useful life of 5 years (20% per annum), taking into account tax facilities for accelerated depreciation.

Financial instruments

Financial instruments include investments in shares and bonds, trade and other receivables, cash items, loans and other financing commitments, derivative financial instruments, trade payables and other amounts payable. These financial statements contain the following financial instruments: receivables and financial liabilities.

Financial instruments are initially stated at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognised in the profit and loss account at the initial recognition.

After initial recognition, financial instruments are valued in the manner described below.

Other receivables

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

Shareholders' equity

Financial instruments taking the legal form of shareholders' equity instruments are presented under shareholders' equity. Distributions to the holders of these instruments are deducted from shareholders' equity.

Current liabilities

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

Taxes

Taxes are calculated on the result, taking into account existing tax facilities.

Balance sheet as at 31 December 2015

1. Tangible fixed assets - Cars

(in Euro)	2015	2014
Purchase price as per beginning of period	206,302	206,302
Accumulated depreciation as per beginning of period	<u>(204,479)</u>	<u>(198,229)</u>
Book value as per beginning of period	1,823	8,073
Investments	-	-
Disposal – purchase price	(206,302)	-
Depreciation	(1,823)	(6,250)
Disposal – accumulated depreciation	<u>206,302</u>	<u>-</u>
Changes in book value	(1,823)	(6,250)
Purchase price as per end of period	-	206,302
Accumulated depreciation as per end of period	<u>-</u>	<u>(204,479)</u>
Book value as per end of period	-	1,823

Current Assets

2. Receivables from group companies

The receivables from group companies consist of a receivable from LSP Life Sciences Fund N.V. of € 3 thousand and a receivable from BioCapital Investments Cayman Limited of € 12 thousand. Both receivables are due within one year.

3. Other receivables

Other receivables consist of management fee of € 125 thousand regarding December 2015 and performance fee of € 3.1 million over 2015 from LSP Life Sciences Fund N.V. as well as a receivable from LSP Management Group B.V. of € 189 thousand, a receivable from LSP Bioventures Management B.V. of € 250 thousand and a receivable from LSP Services Deutschland GmbH of € 48 thousand. All these receivables are due within one year.

4. Cash and cash equivalents

Cash and cash equivalents consist of cash at banks with ING Bank in Amsterdam. All cash and cash equivalents are available on demand.

5. Equity

(in Euro)	Issued capital	Share premium	General reserve	Result for the year	Total
Balance as at 31 December 2013	18,000	82,000	23,860	1,171,965	1,295,825
Changes during the year					
Transfer of result to reserve			1,171,965	(1,171,965)	-
Dividend			(748,989)		(748,989)
Result for the year				2,629,102	2,629,102
Balance as at 31 December 2014	18,000	82,000	446,836	2,629,102	3,175,938
Changes during the year					
Transfer of result to reserve			2,629,102	(2,629,102)	-
Dividend			(2,512,725)		(2,512,725)
Result for the year				1,766,037	1,766,037
Balance as at 31 December 2015	18,000	82,000	563,213	1,766,037	2,429,250

In the year 2015 the company paid a dividend of € 2.5 million to its (sole) shareholder. The year before a dividend in the amount of € 0.7 million was paid to its shareholder.

Issued capital

The authorised capital of the company amounts to € 90,000, divided in 90,000 common shares, with a par value of € 1.00, of which 18,000 shares have been issued and fully paid.

Current liabilities**6. Payables to group companies**

The payables to group companies consist of a payable to LSP Advisory Group B.V. of € 47 thousand which is due within one year.

7. Taxes and social security premiums

Taxes and social security premiums consist of VAT payable for the fourth quarter of 2015 of € 3 thousand and corporate income tax for the year 2015 of € 0.6 million. These liabilities are all due within one year.

8. Other liabilities

Other liabilities consist of various expenses made in 2015, which will be paid in 2016 for an amount of € 0.2 million as well as a payable to LSP Operations B.V. of € 1.1 million. All these liabilities are due within one year.

Income Statement for the year 2015

9. Management fee

LSP Advisory B.V. has concluded an investment management agreement with LSP Life Sciences Fund N.V. pursuant to which LSP Advisory B.V. is entitled to receive a management fee 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 2015 amounts to € 1.1 million (2014: 0.8 million).

10. Performance fee

LSP Advisory BV has concluded an investment management agreement with LSP Life Sciences Fund N.V. pursuant to which LSP Advisory B.V. 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, being the initial issuance price of the Fund (€ 100) plus eight percent (8%) per annum cumulative and compounded since inception of the Fund. 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 performance fee for the year 2015 amounts to € 3.1 million (2014: 4.8 million).

11. Other income

The other income consists of the profit on the sale of the two company cars in May 2015, which the company originally bought in 2012 and were fully depreciated.

12. Staff expenses

(in Euro)	2015	2014
Gross wages and salaries	642,186	308,661
Social security charges	44,092	21,341
Pension insurance	93,613	42,920
Performance based remuneration	716,816	1,105,599
Other staff expenses	8,933	4,433
Total staff expenses	1,505,640	1,482,954
FTE at year end	3.7	2.7

As part of the AIFMD implementation, the Investment Managers and the Risk Manager have been seconded to LSP Advisory B.V. as of 1 July 2014. As part of this secondment agreement LSP Operations B.V. charges the fully loaded personnel expenses to LSP Advisory B.V. As such the 2014 figures in the table above show the staff expenses for the period 1 July 2014 to 31 December 2014.

LSP Advisory B.V. 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 company 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. For 2015, LSP Advisory B.V. paid € 1.5 million to its staff members. Of this amount € 0.8 million was fixed remuneration and € 0.7 million was variable. A new employee was hired per 1 December 2015.

(in Euro)	Beneficiaries	Fixed remuneration	Variable remuneration
Directors	3	756,635	713,713
Identified staff	1	22,960	3,103
Other employees	1	9,229	
Total	5	788,824	716,816

13. Other operating expenses

(in Euro)	2015	2014
Advisory costs	83,126	79,877
Supervisory board remuneration	14,200	10,000
Travel, meeting and representation expenses	85,811	45,457
Performance based compensation	214,114	330,244
Other costs	41,828	36,632
Total other operating expenses	439,079	502,210

Performance based compensation relates to a discretionary pay out to certain key employees of LSP in recognition for their expertise and research into the various life sciences domains. Staff members who are seconded to LSP Advisory B.V. are not considered for this performance based compensation; instead their variable remuneration is included in the staff expenses as described in note 12.

14. Service fee

(in Euro)	2015	2014
Service fee LSP Operations B.V.	43,050	21,150

From 1 July 2014 onwards LSP Operations B.V. charges a service fee at arm's length conditions to LSP Advisory B.V. for financial and legal services, office automation, service provider management and housing costs. For the year 2015 the total fee charged amounted to € 43 thousand.

15. Corporate income tax

As part of the AIFMD implementation, LSP Advisory B.V. has been separated from LSP Management Group B.V. with an effective date of 24 December 2014. As a consequence it is no longer part of the fiscal unity of the LSP Group and from the separation date onwards it bears its own corporate income taxes.

Related party transactions

LSP Operations B.V. on charges third party expenses to LSP Advisory B.V. for travel costs, office expenses and marketing costs paid. For 2015 the total amount charged is € 92 thousand. Furthermore as given account of in notes 12 and 14, LSP Operations B.V. has charged LSP Advisory B.V. under the secondment agreement and the services agreement.

Amsterdam, 28 April 2016

As Statutory Directors

Mark Wegter

Joep Muijers

Geraldine O'Keeffe

As Supervisory Board member

Maarten Scholten

Other information

Statutory regulations as to appropriation of profit

According to Article 21 of the Articles of Association, profit as evidenced by the adopted financial statements shall be at the disposal of the General Meeting of Shareholders.

The company may only make payments from the distributable profit to the shareholders and other parties having a profit entitlement in so far as its shareholders' equity exceeds the value of the paid-in portion of the capital augmented by such reserves as required to be maintained, either by law or, in so far as applicable, pursuant to these Articles of Association.

Appropriation of profit

The management proposes to add the net profit for the year 2015 to the general reserve. This proposal has not been included in the financial statements.

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

The independent auditor's report is included on the next page.



Independent auditor's report

To: the General Meeting of Shareholders of LSP Advisory

Report on the financial statements

We have audited the accompanying financial statements 2015 of LSP Advisory B.V., Amsterdam, which comprise the balance sheet as at 31 December 2015, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these 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, management is responsible for such internal control as they determine 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 management, 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 Advisory B.V. as at 31 December 2015 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 whether 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, 28 April 2016

KPMG Accountants N.V.

W.L.L. Paulissen RA