



LSP Advisory B.V.

Report on the first half of 2016

LSP Advisory B.V.

Financial statements
for the period January until June
2016

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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) and a separate client mandate with a different investment strategy. During the reporting period the Assets under Management have increased from € 92.7 million to € 97.9 million, a 6% 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 the first half year of 2016 LSP Advisory B.V. had revenues amounting to € 0.5 million compared to € 0.6 million in the same period prior year. Operating expenses for the period amount to € 0.7 million (2015: € 0.5 million) resulting in a net loss for the period of € 0.2 million. Net income for the same period in 2015 amounted to € 0.1 million.

Per period end the shareholders' equity amounted € 0.6 million which is well above the solvency requirement as included in the AIFMD. Current assets less current liabilities as of 30 June 2016 amounted to € 0.6 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.

Investments and financing

LSP Advisory B.V. is making 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 period January until June 2016 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 30 June 2016 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.

Outlook

For the second half of 2016, LSP Advisory B.V. expects to further 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 30 June 2016

(before proposed appropriation of result)

Assets		30 June 2016	31 December 2015
(in Euro)			
Current assets			
Receivables from group companies	1	331	14,892
Taxes and social security premiums	2	249,790	-
Other receivables	3	554,727	3,714,578
Cash and cash equivalents	4	<u>156,274</u>	<u>629,570</u>
		961,122	4,359,040
		<u>961,122</u>	<u>4,359,040</u>

Liabilities		30 June 2016	31 December 2015
(in Euro)			
Equity			
	5		
Issued capital		18,000	18,000
Share premium		82,000	82,000
General reserve		700,124	563,213
Result for the period		<u>(198,878)</u>	<u>1,766,037</u>
		601,246	2,429,250
Current liabilities			
Payable to group companies	6	47,032	47,032
Taxes and social security premiums	7	3,825	579,003
Other liabilities	8	<u>309,019</u>	<u>1,303,755</u>
		359,876	1,929,790
		<u>961,122</u>	<u>4,359,040</u>

Profit and loss account for the period January until June 2016

		01-06/2016	01-06/2015
(in Euro)			
Management fee	9	511,041	499,978
Other income			100,000
Operating income		511,041	599,978
Staff expenses	10	434,185	389,798
Other operating expenses	11	250,084	96,288
Depreciation tangible fixed assets		-	1,823
Service fee	12	25,650	21,150
Operating expenses		709,919	509,059
Operating income (loss)		(198,878)	90,919
Income before tax		(198,878)	90,919
Corporate income tax	13	-	18,184
Net income (loss) for the year		(198,878)	72,735

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.

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 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.

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 30 June 2016

Current Assets

1. Receivables from group companies

Receivables from group companies consist of a receivable from LSP Life Sciences Fund. This receivable is due within one year.

2. Taxes and social security premiums

Taxes and social security premiums consist of a receivable for corporate income tax for the year 2014/2015.

3. Other receivables

Other receivables consist of management fee from LSP Life Sciences Fund N.V. of € 97 thousand, guaranteed fee from BioCapital Investments Cayman Limited of € 19 thousand and receivables from LSP Bioventures Management B.V. and LSP Management Group B.V. All these receivables are due within one year.

4. Cash and cash equivalents

The cash at banks consists of the balance in the Euro bank account at the 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 period	Total
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
Changes during the year					
Transfer of result to reserve			1,766,037	(1,766,037)	-
Dividend			(1,629,126)		(1,629,126)
Result for the period				(198,878)	(198,878)
Balance as at 30 June 2016	18,000	82,000	700,124	(198,878)	601,246

In the first half of the year 2016 the company paid a dividend of € 1.6 million to its (sole) shareholder. The year before a dividend in the amount of € 2.5 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 second quarter of 2016.

8. Other liabilities

Other liabilities consist of various expenses made in the first half year of 2016, which will be paid before year end 2016 and a payable to LSP Operations B.V. These liabilities are all due within one year.

Income Statement for the period January until June 2016

9. Management fee

LSP Advisory B.V. has concluded an investment management agreement with LSP Life Sciences Fund N.V. pursuant to which it 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.

In addition LSP Advisory B.V. has concluded an investment management agreement with BioCapital Investments Cayman Limited pursuant to which it is entitled to a management fee equal to 1.5% per annum of the Net Asset Value excluding any idle cash of the client mandate.

10. Staff expenses

(in Euro)	01-06/2016	01-06/2015
Gross wages and salaries	348,954	317,552
Social security charges	27,485	21,433
Pension insurance	52,907	46,381
Other staff expenses	4,839	4,433
Total staff expenses	434,185	389,799

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 above table shows the staff expenses for the period 1 January 2016 to 30 June 2016.

11. Other operating expenses

(in Euro)	01-06/2016	01-06/2015
Advisory costs	105,315	33,002
Travel, meeting and representation expenses	119,873	63,203
Other costs	24,896	83
Total other operating expenses	250,084	96,288

12. Service fee

(in Euro)	01-06/2016	01-06/2015
Service fee LSP Operations B.V.	25,650	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 period January until June 2016 the total fee charged amounted to € 26 thousand. Prior to 1 July 2014 these costs were part of the cost sharing agreement.

13. Corporate income tax

From 1 July 2015 LSP Advisory B.V. is part of a fiscal unity with LSP Advisory Group B.V., who will bear the corporate income tax as being the holding company.

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 the first half year of 2016 the total amount charged is € 11 thousand. Furthermore as given account of in notes 9 and 11, LSP Operations B.V. has charged LSP Advisory B.V. under the secondment agreement and the services agreement.

Amsterdam, 2 August 2016

As Statutory Directors

Mark Wegter

Joep Muijers

Geraldine O'Keeffe

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.