Affitech A/S

c/o COBIS
Ole Maaløes Vej 3, 2200 København N, Denmark

CVR no. 14 53 83 72

Annual report 2018

Approved at the Company's annual general meeting on 3 July 2019

Chairman:

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Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Affitech A/S for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 3 July 2019
Executive Board:

Michael Braunagel

Stig Jarle Pettersen

Board of Directors:

Aleksander Shuster
Chairman

Daniil Talyanskiy

Alexander Andryushechkin

Independent auditor's report

To the shareholders of Affitech A/S

Opinion

We have audited the financial statements of Affitech A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Emphasis of matter in the financial statements

We draw attention to note 2 to the financial statements, which describes that the Company’s operations are financed via a non-current loan with the Company’s former shareholder and current payables to the wholly-owned subsidiary. The Company's future operations can be financed through loans or share redemption and receipt of dividend from wholly-owned subsidiaries.

We have not modified our opinion in respect of this matter.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 3 July 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Christian Schwenn Johansen
State Authorised Public Accountant
mne33234

Rasmus Bloch Jespersen
State Authorised Public Accountant
mne35503

Management's review

Company details

Name	Affitech A/S
Address, Postal code, City	c/o COBIS Ole Maaløes Vej 3, 2200 København N, Denmark
CVR no.	14 53 83 72
Registered office	Copenhagen
Financial year	1 January - 31 December
Website	www.affitech.com
Board of Directors	Aleksander Shuster, Chairman Daniil Talyanskiy Alexander Andryushechkin
Executive Board	Michael Braunagel Stig Jarle Pettersen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark
Bankers	Danske Bank

Management's review

Business review

Affitech A/S is a biopharmaceutical company dedicated to the discovery and development of fully human antibody therapeutics against cancer and other serious diseases.

Unusual matters having affected the financial statements

Going concern

Previous year's accumulated losses as well as the current operations of the Company are financed through a non-current loan with former shareholder, Trans Nova Investment Limited, and current payables to the wholly-owned subsidiary, Affitech Research AS.

The Company's operations for 2019 and the settlement of the non-current loan, which fall due for payment in January 2020, are expected to be financed through loan, share redemption and receipt of dividend from the wholly-owned subsidiary and via funds under a letter of financial support issued by the Company's parent company, N35 Financial Limited.

Although additional financial resources have not been transferred to the Company at the balance sheet date, the Board of Directors believes that adequate funding will be provided to the Company through loan, share redemption and dividend from the wholly-owned subsidiary and via funds under a letter of financial support issued by the Company's parent company, N35 Financial Limited, and that, consequently, the Company will have sufficient liquidity to fund its activities for at least the next 12 months from the balance sheet date and to settle the non-current loan in January 2020.

On this basis, the Board of Directors presents the financial statements for 2018 on a going concern assumption.

Financial review

The income statement for 2018 shows a profit of DKK 12,646,473 against a profit of DKK 24,013,220 last year, and the balance sheet at 31 December 2018 shows equity of DKK 3,591,236.

Events after the balance sheet date

No significant events have occurred after the balance sheet date.

Financial statements 1 January - 31 December

Income statement

Note	DKK	2018	2017
	Administrative expenses	-321,896	-691,275
	Operating profit/loss	-321,896	-691,275
	Other operating income	0	25,175,138
	Research costs	-20,039	-45,349
	Profit/loss before net financials	-341,935	24,438,514
7	Income from investments in group entities	13,328,000	0
5	Financial income	71,431	75,931
6	Financial expenses	-411,023	-501,225
	Profit before tax	12,646,473	24,013,220
	Tax for the year	0	0
	Profit for the year	12,646,473	24,013,220
	Recommended appropriation of profit		
	Retained earnings	12,646,473	24,013,220
		12,646,473	24,013,220

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2018	2017
	ASSETS		
	Fixed assets		
7	Investments		
	Investments in group entities	20,678,000	7,350,000
	Deposits	40,577	40,577
		20,718,577	7,390,577
	Total fixed assets	20,718,577	7,390,577
	Non-fixed assets		
	Receivables		
	Prepayments	0	58,037
		0	58,037
	Cash	92,578	72,723
	Total non-fixed assets	92,578	130,760
	TOTAL ASSETS	20,811,155	7,521,337

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2018	2017
	EQUITY AND LIABILITIES		
	Equity		
8	Share capital	4,877,215	4,877,215
	Other reserves	82,912,662	82,912,662
	Retained earnings	-84,198,641	-96,845,114
	Total equity	3,591,236	-9,055,237
	Liabilities other than provisions		
9	Non-current liabilities other than provisions		
	Payables to group entities	0	12,858,073
2	Other payables	13,096,097	0
		13,096,097	12,858,073
	Current liabilities other than provisions		
	Trade payables	166,680	54,337
2	Payables to group entities	3,865,692	3,566,977
	Other payables	91,450	97,187
		4,123,822	3,718,501
	Total liabilities other than provisions	17,219,919	16,576,574
	TOTAL EQUITY AND LIABILITIES	20,811,155	7,521,337

1 Accounting policies
2 Financing and going concern assumption
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11 Contingent assets
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Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Other reserves	Retained earnings	Total
Equity at 1 January 2018	4,877,215	82,912,662	-96,845,114	-9,055,237
Transfer through appropriation of profit	0	0	12,646,473	12,646,473
Equity at 31 December 2018	4,877,215	82,912,662	-84,198,641	3,591,236

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Affitech A/S for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

In accordance with section 110 of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

Reporting currency

The financial statements are presented in Danish kroner (DKK).

Income statement

Administrative expenses

Administrative expenses include expenses incurred during the year in relation to the management and administration of the Company, including expenses related to salaries and premises as well as other expenses such as external services, IT expenses and depreciation relating to administration.

Research costs

Research costs include salaries, expenses related to patents and premises as well as other expenses such as external services, IT expenses and depreciation and amortisation attributable to the Company's research activities. The Company expenses all research costs in the year as they are incurred.

Other operating income

Other operating income comprises items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Amortisation/depreciation and impairment

The item comprises amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Acquired intangible assets	5-10 years

Profit from investments in subsidiaries

The item includes dividend received from subsidiaries in so far as the dividend does not exceed the accumulated earnings in the subsidiary in the period of ownership.

Impairment of investments in group entities and associates is accounted for as income from investments in group entities and associates.

Reversal of prior year's impairment of investments in group entities and associates is accounted for as imcome from investments in group enterprises and associates.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the reporting period. Net financials include interest income and expenses, financial expenses related to realised and unrealised capital and exchange gains and losses on foreign currency transactions, and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Investments in subsidiaries

Investments in subsidiaries and associates are measured at cost.

Impairment of fixed assets

Investments in subsidiaries are subject to an assessment for indications of impairment other than the decrease in value reflected by depreciation or amortisation. Impairment tests are conducted in respect of individual assets or groups of assets generating separate cash flows when there is indications of impairment. The assets are written down to the higher of the value in use and net realisable value (recoverable amount) of the asset or group of assets if this is lower than the carrying amount.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses on investments in subsidaries are reversed when the reason for recognition no longer exists.

An assessment is made annually to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indications exist, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the assets does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciations, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received.

Prepayments

Prepayments recorded as assets comprise expenses relating to subsequent reporting years such as prepaid expenses regarding rent, licenses, insurance premiums, subscription fees and interest.

Cash

Cash comprises cash in banks.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

As management company for all the entities in the joint taxation arrangement, the parent company is liable for payment of the subsidiaries' income taxes vis à vis the tax authorities as the subsidiaries pay their joint taxation contributions. Joint taxation contributions payable or receivable are recognised in the balance sheet as income tax receivables or payables.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other payables are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

2 Financing and going concern assumption

Previous year's accumulated losses as well as the current operations of the Company are financed through a non-current loan with former shareholder, Trans Nova Investment Limited, and current payables to the wholly-owned subsidiary, Affitech Research AS.

The Company's operations for 2019 and the settlement of the non-current loan, which fall due for payment in January 2020, are expected to be financed through loan, share redemption and receipt of dividend from the wholly-owned subsidiary and via funds under a letter of financial support issued by the Company's parent company, N35 Financial Limited.

Although additional financial resources have not been transferred to the Company at the balance sheet date, the Board of Directors believes that adequate funding will be provided to the Company through loan, share redemption and dividend from the wholly-owned subsidiary and via funds under a letter of financial support issued by the Company's parent company, N35 Financial Limited, and that, consequently, the Company will have sufficient liquidity to fund its activities for at least the next 12 months from the balance sheet date and to settle the non-current loan in January 2020.

On this basis, the Board of Directors presents the financial statements for 2018 on a going concern assumption.

3 Events after the balance sheet date

No significant events have occurred after the balance sheet date.

4 Special items

DKK	2018	2017
Income		
Reversal of Peregrine accrual	0	25,175,138
Reversal of prior year's impairment of investments in Affitech Research AS	13,328,000	0
	13,328,000	25,175,138
Special items are recognised in the below items of the financial statements		
Income from investments in group entities	13,328,000	0
Other operating income	0	25,175,138
Net profit on special items	13,328,000	25,175,138

Current year's special items relate to the reversal of prior years' impairment of the investment in Affitech Research AS. Reference is made to note 7, showing that company has generated positive results from its operations in 2018.

Prior years' special items relate to the Company's historic provision for accumulated royalties to the licence partner. In 2016, a royalty provision of DKK 25,175,138 was recognised in the balance sheet item other provisions. In 2017, the Company was released from its contractual obligations to pay the accumulated royalty provision. Consequently, the release of the provision was accounted for as other operating income in the income statement in 2017.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK		2018	2017
5	Financial income		
	Other financial income	71,431	75,931
		71,431	75,931
6	Financial expenses		
	Interest expenses, group entities	301,181	391,271
	Other financial expenses	109,842	109,954
		411,023	501,225

7 Investments

DKK	Investments in group entities	Deposits	Total
Cost at 1 January 2018	147,000,000	40,577	147,040,577
Cost at 31 December 2018	147,000,000	40,577	147,040,577
Value adjustments at 1 January 2018	-139,650,000	0	-139,650,000
Reversal of prior years' impairment losses	13,328,000	0	13,328,000
Value adjustments at 31 December 2018	-126,322,000	0	-126,322,000
Carrying amount at 31 December 2018	20,678,000	40,577	20,718,577

Name	Domicile	Interest
Subsidiaries		
Affitech Research AS	Oslo, Norge	100.00%
Actigen Limited	UK	100.00%

DKK		2018	2017
8	Share capital		
	Analysis of the share capital:		
	487,721,539 A- shares of DKK 0.01 nominal value each	4,877,215	4,877,215
		4,877,215	4,877,215

The Company's share capital has remained DKK 4,877,215 in the past year.

9 Non-current liabilities other than provisions

Of the long-term liabilities, DKK 0 (2017: DKK 0) falls due for payment after more than 5 years after the balance sheet date.

Financial statements 1 January - 31 December

Notes to the financial statements

10 Contractual obligations and contingencies, etc.

Contingent liabilities

Other contingent liabilities

DKK	2018	2017
Other contingent liabilities	4,300	4,300
	4,300	4,300

11 Contingent assets

The Company has a deferred tax asset amounting to DKK 220 million (2017: DKK 220 million) at a tax rate of 22% (2017: 22%), primarily regarding tax loss carry-forwards, which is not recognised in the balance sheet as Management believes that the deferred tax asset does not meet the recognition criteria.

12 Related parties

Affitech A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
N35 Financial Limited	Limassol, Cyprus	Shareholder

Related party transactions

Affitech A/S was engaged in the below related party transactions:

DKK	2018	2017
Management fee expense, Affitech Research AS (subsidiary)	-155,895	-193,703
Payment of licence costs via Affitech Research AS (subsidiary)	-99,487	-99,768
Interest expense, Trans Nova Investment Limited (former parent company)	-109,842	-91,079
Interest expense, Affitech Research (subsidiaries)	-300,000	-300,192
Adjustment of provision for bad debt, group entities (subsidiary)	59,319	81,656
Payables to Trans Nova Investment Limited (Former parent company)	13,096,097	12,858,072
Payables to Affitech Research AS (subsidiary)	3,865,692	3,566,977

Affitech A/S has entered into a loan agreement with former shareholder, Trans Nova Investment Limited. In total, the loan amounts to EUR 1.5 million, the rate of interest is three month's EURIBOR plus 2%. The loan falls due for payment in January 2020.