Nuevolution A/S

Rønnegade 8
2100 Copenhagen Ø

CVR-nr. 26 02 97 08

Annual Report for 2018

Approved at the annual general meeting of shareholders

on 22 May 2019

Chairman: Stig Løkke Pedersen

Table of content

Company data

Company	Nuevolution A/S Rønnegade 8, 5. 2100 Copenhagen Ø	
	Telephone	+45 70 20 09 87
	Fax	+45 70 20 09 86
	WEB	www.nuevolution.com
	e-mail:	info@nuevolution.com
	CVR no.:	26 02 97 08
	Financial year	1 January - 31 December 2018
Board of Directors	Stig Løkke Pedersen, Chairman Lars Henriksson Søren Lemonius Jutta Heim Jeanette Wood	
Executive Management	Alex Haahr Gouliaev Thomas Franch Antonius Berkien Johnny Stilou	
Parent Company	Nuevolution AB (publ) Rønnegade 8, 5. 2100 Copenhagen Ø	
	Telephone	+45 70 20 09 87
	Fax	+45 70 20 09 86
	Org. No.	559026-4304
	LEI Code:	54930003B7X85HQRKN25
	Ownership	100%
Shareholders meeting	22 May 2018	
Auditor	Ernst & Young Osvald Helmuths Vej 4 2000 Frederiksberg	
Bank	Danske Bank Holbergsgade 2 1057 Copenhagen K	
	SEB Skandinavisk Enskilda Bank, Denmark Bernstorffsgade 50 0900 Copenhagen C	

Management's Review

Activities

Nuevolution A/S is a Danish biopharmaceutical company focused on developing drug treatments for human disease within oncology and chronic inflammatory diseases.

Nuevolution A/S is the inventor of Chemetics®, a patent protected drug discovery platform, which enables efficient discovery of novel small molecule (tablet based) drug candidates.

The Chemetics® platform provides access to screening of trillions of molecules and efficient optimization of drug properties in the process of identifying the drug candidate.

Our efforts are leveraged by a proven and highly efficient drug discovery engine, and backed by a skilled and dedicated team of employees, world-class academic and corporate expert advisers catalyzing our ambition to deliver new medicines to patients.

Development in activities and financial matters

On the ordinary shareholders meeting held 7 November 2017, it was decided to change the financial year to follow the calendar year. Therefore, this annual report is the first for the fiscal year 1 January to 31 December 2018. The comparative figures in the income statement and statement of cash flow are the ones presented in the last annual report covering the 6 months period 1 July to 31 December 2017.

The result for the period 1 January - 31 December 2018 shows a loss of TDKK 64,310 compared to loss of TDKK 41,696 for the period 1 July - 31 December 2017. Management considers the result to be satisfactory.

For further details of the Company, its activities and the development during the financial year 2018, please refer to the Annual Report 2018 of the Parent Company, Nuevolution AB (publ). The Annual Report 2018 for the Parent Company is available on www.nuevolution.com.

Going concern

To the extent that the current working capital and income from existing and possibly new collaborations may not be sufficient to fund the company's operations (going concern), a funding risk may arise. For further information on financial risk, see note 18.

As set out in note 24 the company has received a letter of comfort from the parent company, hence we have presented the financial statements under the going concern assumption.

Subsequent events

21 February 2019: A Nuevolution BET-BD1 selective inhibitor shows potential anticancer effect with immunotherapy in a mouse model of colorectal cancer.

28 February 2019: Almirall-Nuevolution collaboration achieves key pre-clinical milestone in partnership for Dermatology Diseases. The positive result triggered a contractual milestone payment to Nuevolution of DKK 7.5 million (EUR 1 million).

9 May 2019: Nuevolution's BET-BD1 selective inhibitor and candidate compound, NUE20798, shows positive effect on disease scoring and biomarker levels in an atopic dermatitis (eczema) mouse model.

Directors' and Management's Statement on the Annual Report

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

The Board of Directors and the Executive Management declare that the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statement Act, and give a fair view of the Company's financial position and results of operations.

Management's Review for Nuevolution A/S provides a fair view of the development of the Company's operations, cash flow, financial position, results of operations and describes material risks and uncertainties facing the Company.

We recommend the adoption of the annual report at the Annual General Meeting.

Copenhagen, 22 May 2019

EXECUTIVE MANAGEMENT

Alex Haahr Gouliaev
CEO

Thomas Franch
CSO

Antonius Berkien
CBO

Johnny Stilou
CFO

BOARD OF DIRECTORS

Stig Løkke Pedersen
Chairman of the Board

Lars Henriksson

Søren Lemonius

J. Heim

Jutta Heim

JMWood

Jeanette Wood

Independent auditors' report

To the shareholder of Nuevolution A/S

Opinion

We have audited the financial statements of Nuevolution A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes, including accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 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 Statements Act. We did not identify any material misstatement of the Management's review.

Independent auditors' report

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 International Financial Reporting Standards as adopted by the EU and additional requirements of 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 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.

As part of an audit conducted in accordance with ISAs and 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.

Copenhagen, 22 May 2019

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Christian Schwenn Johansen	Rasmus Bloch Jespersen
State Authorised	State Authorised
Public Accountant	Public Accountant
mne33234	mne35503

Income statement

DKK '000	Note	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Revenue	4	8.125	3.698
Research and development expenses	5, 7, 12	-66.172	-41.349
Sales, general and administrative expenses	6, 7, 12	-12.786	-6.732
Operating expenses		**-78.958**	**-48.081**
Other operating income	8	1.708	116
Operating result		**-69.125**	**-44.267**
Financial income	9	240	231
Financial expenses	10	-925	-410
Result before tax		**-69.810**	**-44.446**
Corporate tax	11	5.500	2.750
Result for the period		**-64.310**	**-41.696**
Distribution of the period's result			
Net loss attributable to shareholder of the Company		**-64.310**	**-41.696**
Statement of comprehensive income			
Net result for the period		-64.310	-41.696
Other comprehensive income		0	0
Total net comprehensive result for the period		**-64.310**	**-41.696**
Distribution of the period's result			
Net comprehensive loss attributable to shareholder of the Company		**-64.310**	**-41.696**

Statement of financial position

DKK '000	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Other fixtures, fittings, tool and equipment	12	2.974	3.896
Leasehold improvement	12	788	899
Income tax receivable	11	2.750	2.750
Leasehold deposits		1.305	1.284
Total non-current assets		**7.817**	**8.829**
Current assets			
Trade receivable	13	1.316	435
Income tax receivable	11	5.500	3.650
Other current receivables and prepayments	14	1.847	2.819
Cash and cash equivalents	22	61.228	59.980
Total current assets		**69.891**	**66.884**
TOTAL ASSETS		**77.708**	**75.713**
EQUITY AND LIABILITIES			
Share capital	15	16.500	16.500
Share premium		171.011	100.496
Retained earning		-122.621	-58.210
Total shareholders' equity		**64.890**	**58.786**
Lease liabilities	17	1.317	2.125
Total non-current liabilities		**1.317**	**2.125**
Current liabilities			
Current portion of long-term lease liabilities	17	903	1.040
Trade payables	16	2.340	4.602
Payables, Parent Company	16	392	475
Other current liabilities	16	6.484	4.913
Prepayments from collaboration partners	8	1.382	1.479
Deferred income	4	0	2.293
Total current liabilities		**11.501**	**14.802**
Total liabilities		**12.818**	**16.927**
TOTAL EQUITY AND LIABILITIES		**77.708**	**75.713**

Statement of cash flows

DKK '000	Note	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Operating activities			
Loss before tax		-69.810	-44.446
Adjustment for depreciation of plant and equipment	12	1.354	696
Adjustment for non-cash effect of the share-based payments	21	-101	142
Financial income		-240	-231
Financial expenses		925	410
Cash flow before change in working capital		**-67.872**	**-43.429**
Change in working capital	19	-3.073	-7.749
Cash flow from operations		**-70.945**	**-51.178**
Interest received		79	224
Interest paid		-764	-403
Corporate tax paid/received		3.650	5.500
Cash flow from operating activities		**-67.980**	**-45.857**
Investing activities			
Investments in plant, equipment, fittings and tools	19	-191	-903
Investments in financial assets		-21	0
Cash flow from investing activities		**-212**	**-903**
Financing activities			
New share issue	15	0	38.945
Capital contribution	15	70.515	0
Repayments of lease liabilities	20	-1.075	-561
Cash flow from financing activities		**69.440**	**38.384**
Net change in cash		**1.248**	**-8.376**
Cash and cash equivalents, beginning of period		59.980	68.356
Cash and cash equivalents, end of period	22	**61.228**	**59.980**

Accounting Policy

The cash flow statement is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as the cash and cash equivalents at the beginning and end of the financial period.

Cash flows from operating activities are stated as the Company's profit or loss before tax, adjusted for financial income and expenses non-cash operating items, changes in working capital, paid financial expenses and received income taxes.

Cash flows from investing activities comprise payments related to acquisitions and divestment of companies and activities as well as purchases and sales of property, plant and equipment and financial fixed assets.

Cash flows from financing activities comprise changes in the Company's share capital and related costs, as well as the raising and repayment of loans and instalments on interest-bearing debt. Also recognized are cash flows in the form of lease payments made on assets held under finance lease.

Cash and cash equivalents comprise cash and bank balances.

Statement of changes in equity

DKK '000	Share capital	Share premium	Retained Earnings	Total equity
Equity at 1 January 2018	16.500	100.496	-58.210	58.786
Result for the period	0	0	-64.310	-64.310
Total comprehensive income	0	0	-64.310	-64.310
Transactions with owner				
Capital contribution	0	70.515	0	70.515
Share based payments	0	0	-101	-101
Total transaction with owner	0	70.515	-101	70.414
Total changes in equity	0	70.515	-64.411	6.104
Equity at 31 December 2018	**16.500**	**171.011**	**-122.621**	**64.890**

DKK '000	Share capital	Share premium	Retained Earnings	Total equity
Equity at 1 July 2017	16.000	62.051	-16.656	61.395
Result for the year	0	0	-41.696	-41.696
Total comprehensive income	0	0	-41.696	-41.696
Transactions with owners				
Share issue	500	38.445	0	38.945
Share based payments	0	0	142	142
Total transaction with owners	500	38.445	142	39.087
Total changes in equity	500	38.445	-41.554	-2.609
Equity at 31 December 2017	**16.500**	**100.496**	**-58.210**	**58.786**

There are no limitations concerning distribution of share premium account.

Accounting Policy
Direct costs associated with the capital increase are accounted for as a reduction of the gross proceeds received from the capital increase and recorded through shareholders' equity.

Note 1: Company information

Nuevolution A/S (the "Company") is a limited liability company incorporated and domiciled in Denmark. The registered office is at Rønnegade 8, 2100 Copenhagen, Denmark.

Nuevolution is a biopharmaceutical company focused on developing treatments for human diseases within oncology and inflammatory diseases. Nuevolution is the sole inventor of Chemetics®, a drug discovery platform which enables efficient discovery of novel chemical small molecule leads for specific indications. Nuevolution has applied the Chemetics® platform to deliver leads for pharmaceutical partners and since late 2012 used its platform for own drug development effort, creating its own pipeline of programs. Through creation of a collection of more than 40 trillion small molecule and macrocyclic compounds ("Synthetic Biologics"), Nuevolution has established itself as a leading party in the field of small molecule lead discovery.

Note 2: Significant accounting policies

The financial statement for the year ended 31 December 2018 were authorized for approval at the Annual General Meeting to be held on 22 May 2019, with a resolution of the Board of Directors on 22 May 2019 for approval.

BASIS FOR PREPARATION

The Annual Report for the Company has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) at 31 December 2018 and additional Danish disclosure requirements for annual reports for accounting class B entities.

This note sets out the company's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one financial statement item, the policy is described in the note to which it relates.

The Annual Report is presented in DKK as the Company is registered in Denmark and has DKK as functional currency. All values are rounded to the nearest thousand DKK.

CHANGES OF ACCOUNTING POLICIES, INCLUDING PRESENTATION AND IMPLEMENTATION OF FINANCIAL REPORTING STANDARDS

On the ordinary shareholders meeting held 7 November 2017, it was decided to change the financial year to follow the calendar year. Therefore, this annual report is the first for the fiscal year 2018 contains income statement and cash flow for the period 1 January to 31 December 2018. The comparative figures in the income statement and statement of cash flow are the ones presented in the last annual report covering the 6 months period 1 July to 31 December 2017.

Previously reimbursed expenses (2018: TDKK 395, 2017: TDKK 512) and government grants (2018: TDKK 1.708, 2017: TDKK 116) have been presented as revenue. Since neither reimbursed expenses nor government grants meet the characteristics of revenue from contract with customers, reimbursement of expenses has been reclassified and set-off against related costs and income from government grants has be reclassified to other operating income. The reclassification has no impact on the net result, financial position or cash flow. The comparative figures in the income statement have been restated retrospectively.

NEW STANDARDS AND INTERPRETATIONS

The Company has for the first time applied standards and interpretations, which are effective for the financial year 2018:

- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from contract with customers.
- Amendment to IFRS 2 Classification and measurement of share based-payment transactions
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Annual improvements to IFRS Standards 2014 - 2016

Adoption of IFRS 9 Financial Instruments requires an update of the accounting policy for possible impairment of trade receivables and other financial assets. From 1 January 2018, the company has adopted the expected loss model which changes the timing of when an impairment loss will be recognized. Neither the former model for impairment of financial assets nor adoption of the new expected loss model lead to recognition of impairment losses.

The accounting policy for IFRS 9 Financial Instruments is presented in connection with the relevant notes.

The company applied IFRS 15 Revenue from contract with customers using the modified retrospective method which means that the comparative figures not are restated. Implementation of IFRS 15 has not resulted in any difference in income statement, which means that implementation is expected to have limited impact on comparability with comparative periods. For a detailed description of the Company's accounting principles for revenue from contract with customers, please see note 4.

Except of the adoption of IFRS 9 and IFRS 15 the accounting policies are consistent with those applied to the Annual Report for 2017, prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

None of the new standards and interpretations has impacted recognition and measurement for the reporting period.

NEW STANDARDS EFFECTIVE FROM 2019

IASB has issued IFRS 16 "Leases", which is effective for accounting periods beginning 1 January 2019. The Company plans to adopt the new standard on the required effective date by using the modified retrospective method, which means that comparative figures for prior periods is not restated. The Company has operational lease agreements for office premises, affected by the implementation of IFRS 16.

The standard requires that all leases be recognized in the balance sheet with a corresponding lease liability, except for short leases and minor assets. Leased assets are amortized over the lease term, and payments are allocated between instalments on the lease liabilities and interest expense, classified as financial items.

The Company has evaluated the impact on the financial statements and the most significant impact will be the recognition of new assets and liabilities for its operating lease of office facilities. In addition, the nature of the expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities.

On 1 January 2019, the Company is expected to recognize a lease liability related to the Company's premises in Copenhagen of approximately DKK 12.5 million and an asset representing the right to use the premises during the lease term (i.e. the right to use asset) of approximately DKK 12.5 million. The lease agreement is an open-ended agreement. The lease agreement can be cancelled with a notice of six months. Nuevolution do not expect to cancel the agreement within a foreseeable period. The lease liability and corresponding value of the right to uses assets has been estimated for a five-year period. Applying the modified retrospective approach, the expected accumulated effect on equity and total assets at 1 January 2019 approximates DKK 0 million and DKK 12.5 million, respectively. Following the implementation, the Company will separately recognize the interest expense in the lease liability and the depreciation on the right to use the Company's premises in Copenhagen. The implementation of IFRS will in the first year reduce the operating expenses of approximate DKK 0.1 million and increase the financial expenses of approximate DKK 0.3 million. The net result and equity will be reduced with DKK 0.2 million. The cash flow will not be affected by the implementation of IFRS 16.

Implementation of IFRS 16 will require the Company to make more extensive disclosures than under IAS 17.

FOREIGN CURRENCY TRANSLATION

On initial recognition, foreign currency transactions are translated at the exchange rate at the transaction date. Receivables, liabilities and other monetary items denominated in foreign currency that have not been settled at the balance sheet date are translated at closing rates. Foreign exchange differences between the rate of exchange at the date of the transaction and the rate of exchange at the date of payment or the balance sheet date, respectively, are recognised in the income statement under financial items.

SEGMENT REPORTING

An operating segment is a component of a company whose operating results are regularly reviewed by the Company's CEO, to make decisions about resources to be allocated to the segment and assess its performance. Nuevolution A/S is managed and operated as one business unit, which is reflected in the organizational structure and internal reporting. No separate lines of business or separate business entities have been identified with respect to any of the product candidates or geographical markets and no segment information is currently disclosed in the internal reporting. Accordingly, it has been concluded that it is not relevant to disclose any segment information in the financial statement for the company.

Note 3: Critical accounting estimates and judgements

In preparing the annual financial statements, management makes various accounting judgments and estimates and define assumptions, which form the basis of recognition, measurement and presentation of the company's assets and liabilities.

The estimates and assumptions applied are based on historical experience, the most recent information available at the reporting date, and other factors that management considers reasonable under the circumstances.

The basis for judgments and information can by nature be inaccurate or incomplete, and the company is subject to uncertainties, which can result in an actual outcome that deviates from estimates and defined assumptions. It may be necessary in the future to change previous estimates and judgments as a result of supplementary information, additional knowledge and experience or subsequent events.

In applying the company's accounting policies described in note 2, management has exercised critical accounting judgements and estimates, which significantly influence on the amounts recognized in the financial statements.

The accounting estimates or judgements which are relevant to the Management Board in the preparation of the Financial Statements are described in note 4 Revenue from contracts with customers, 5 Research and development expenses and 11 Corporate and deferred tax.

Note

4 Revenue and deferred income

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 [1] (6 months)
Recognition of upfront payments (transferred over time)	2.293	3.698
Milestone payments (at a point in time)	4.714	0
Contract work (transferred over time)	1.118	0
Total	**8.125**	**3.698**
Revenue split by Geographical Area		
Denmark	0	0
USA	8.125	3.698
Total	**8.125**	**3.698**

Revenue is based on a contract with two partners in the period 1 January - 31 December 2018 and one partner in the period 1 July - 31 December 2017:

Customer 1	86%	100%
Customer 2	14%	0%

Balance Sheet

	31 December 2018	31 December 2017 [1]
Contract liabilities (deferred revenue) from contracts with customers recognized on the balance sheet:		
Balance at beginning of period	2.293	5.991
Recognized in the income statement	-2.293	-3.698
Balance at end of period	**0**	**2.293**
Expected timing of recognition of contract liabilities in the income statement:		
Current	0	2.293
Total contract liabilities	**0**	**2.293**

[1] Comparative figures for 2017 has been prepared in accordance with IAS 18.

The future recognition in the income statement is based on the current assessment.

Contract liabilities represent the aggregated amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period. Contract liabilities presented as current relates to performance obligations, Nuevolution expects to satisfy during the coming 12 months, whereas the non-current portion of contract obligations represent performance obligations, Nuevolution expects to satisfy after the coming 12 months.

Note

Accounting Policy

Revenue

Revenue comprises the fair value of the consideration received or receivable for sales of exclusive license rights and income derived from contract research and other services. Revenue is measured net of value added tax, duties, etc. collected on behalf of a third party and discounts.

Revenue comprises the fair value of the consideration received or receivable for sales of exclusive license rights and income derived from contract research and other services. Revenue is measured net of discounts, value added tax, duties, etc. collected on behalf of a third party.

In determining the appropriate amount of revenue to be recognized as it fulfils its obligations under each of its agreements, the company performs the following five steps:
(i) identification of the promised services in the contract;
(ii) determination of whether the promised services are performance obligations including whether they are distinct in the context of the contract;
(iii) measurement of the transaction price, including the constraint on variable consideration;
(iv) allocation of the transaction price to the performance obligations; and
(v) recognition of revenue when (or as) the company satisfies each performance obligation.
As part of the accounting for these arrangements, the company must develop assumptions that require judgement to determine the stand-alone selling price for each performance obligation identified in the contract. The company uses key assumptions to determine the stand-alone selling price, which may include forecasted revenue, development timelines, and probabilities of technical and regulatory success.

Licenses of Intellectual Property:

If the license to the company's intellectual property is determined to be distinct from the other performance obligations identified in an out-licensing arrangement, the company recognizes revenue from non-refundable, up-front fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, the company utilizes judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Milestone Payments:

At the inception of each arrangement that includes development milestone payments, the company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which the company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the company re-evaluates the probability of achievement of such development milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue in the period of adjustment.

Contract work

Revenue from contract research and licenses that do not transfer the right of ownership to an intangible asset are recognized over time in line with the execution and transfer of the services. The percentage of completion is made up based on the stage of completion on each individual work in progress.

Note

Significant License and Collaboration Agreements

Amgen

In October 2016, Nuevolution entered into a research collaboration with Amgen, a multi target research collaboration in which Amgen has an exclusive option to obtain all rights to successfully developed programs.

During early discovery stage, Nuevolution covers all own cost. When Amgen decides to make a contractual opt-in, they will take over all cost including Nuevolution's cost. At contractual licensing, Amgen obtains ownership of the program and pays an upfront licensing fee of minimum USD 10 million depending on development stage at licensing. Further development and sales milestones equal up to USD 400 million per program plus tiered royalties on generated sales in case milestones are successfully reached.

In 2018 Amgen has made an opt-in to two programs under the agreement.

Following the opt-in Nuevolution is reimbursed for all cost incurred on a non-refundable basis, why revenue is recognized in full as cost are incurred and invoiced. Future potential milestone payments including potential license of programs are outside the company's control why no revenue has been recognized.

Almirall

In December 2016, Nuevolution entered into a license agreement with Spanish pharmaceutical company Almirall, for Nuevolution's RORγt inhibitor program.

In this global strategic collaboration for RORγt development and commercialization, Almirall obtained a license to develop treatments for inflammatory skin diseases, such as psoriasis, and for psoriatic arthritis, the latter an inflammatory disease that affects the spine and other skeletal parts. All other developmental therapeutic indication rights remain with Nuevolution.

Through this collaboration, Nuevolution received, before Spanish withholding tax, EUR 11.2 million as an upfront license payment. Upon successful development of this program, the company may receive up to a further EUR 442 million in development and sales milestone payments as well as tiered royalties on future net sales.

The received upfront license payment is non-refundable why revenue has been recognized in full. Future potential milestone payments are outside the company's control why no revenue has been recognized.

Janssen Biotech

In October 2015, Nuevolution entered into a multitarget collaboration with Janssen Biotech, Inc.

Within the framework of the collaboration, Nuevolution will apply its drug discovery platform Chemetics® to discover and advance drug candidates against drug targets of interest to Janssen. Under the terms of the agreement, Nuevolution will receive an upfront payment, research funding and will be eligible to milestone payments upon achievement of specified research, development and commercial milestones. In addition, Nuevolution will be entitled to receive certain royalty payments on net-sale of products that may be commercialized as a result of the collaboration.

In January 2018, Janssen exercised its option to license one of the research programs under the multi-target collaboration in the therapeutic area of anti-infectives. Nuevolution received an initial license fee of USD 0.75 million.

In connection with the licence Nuevolution have fulfilled all requirements, why the license fee and earlier payments are all non-refundable. As a result revenue has been recognized in full. Future potential milestone payments are outside the company's control why no revenue has been recognized.

Management's judgments and estimates

Nuevolution's partner agreements include several components such as up-front payments, reimbursed costs, license payments, development and sales milestones and royalty. In assessing revenue recognition Nuevolution assesses whether obligations are met, if payments are non refundable, if future events are in or outside Nuevolutions control, to assess if revenue should be recognized in full, over time or not recognized at the current point in time.

For the year ended 31 December 2018, Nuevolution has not recognized any revenues from future payments under the collaboration agreement with Almirall, Amgen or Janssen.

Note

5 Research and development expenses

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Employee benefit expenses	30.910	13.802
External expenses	34.327	27.383
Depreciation	1.330	676
Total	**66.567**	**41.861**
Reimbursed expenses from collaboration partners	-395	-512
Net research and development expenses	**66.172**	**41.349**

Accounting Policy

Research and development expenses are incurred in the Company for in-house research and development activities as well as numerous research and development collaborations and alliances with third parties.

Research and development expenses mainly comprise the costs for active ingredient discovery, clinical studies, research and development activities in the areas of application technology and engineering, field trials, patents, regulatory approvals and approval extensions. In addition research and development expenses also include wages and salaries, share-based compensation, and other employee related cost, cost of premises, lawyer, depreciation etc. related to the research and development staff.

For accounting purposes, research expenses are defined as costs incurred for current or planned investigations undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development expenses are defined as costs incurred for the application of research findings or specialist knowledge to plans or designs for the production, provision or development of new or substantially improved products, services or processes, respectively, prior to the commencement of commercial production or use.

Development expenses that are directly attributable to the development of identifiable assets controlled by the company are reported as intangible assets when the following criteria are met:

1) It is technically possible to complete the intangible asset so that it can be used or sold
2) The company's intention is to complete the asset and to use or sell it
3) There are prerequisites to use or sell the asset
4) It can be shown how the asset can generate probable future economic benefits
5) Appropriate technical, financial and other resources to complete the development and to use or sell the asset are available

6) expenses that are attributable to assets during its development can be reliably calculated

Reimbursed expenses related to project under collaboration agreements are invoiced to the partners and are set-off against research and development expenses.

All research and development expenses are recognized in the income statement in the period in which they incur.

Note

Management's judgments and estimates
Research costs cannot be capitalized.

Patent costs are normally defined as an intangible asset and must be capitalized.

The conditions for capitalization of development costs are closely defined: an intangible asset must be recognized if, and only if, there is reasonable certainty of receiving future cash flows that will cover an asset's carrying amount. Since our own development projects are often subject to regulatory approval procedures and other uncertainties, the conditions for the capitalization of costs incurred before receipt of approvals are not normally satisfied.

The recoverable value of our patents is closely connected to our development projects hence a possible capitalization of patent cost will follow the possible capitalization of our developments projects.

Management assess on a continuous basis, whether there is reasonable certainty of receiving future cash flows that will cover the development costs incurred regarding our own development projects. As the currently ongoing projects are subject to regulatory approval procedures and other uncertainties, the conditions for the capitalization of costs have not been satisfied as at 31 December 2018 and comparative periods.

6 Sales, general and administration expenses

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Employee benefit expenses	8.066	3.412
External expenses	4.696	3.300
Depreciation	24	20
Total	**12.786**	**6.732**

Accounting Policy
Sales, general and administrative expenses include wages and salaries, share-based compensation, and other personnel related expenses, office costs, cost of premises, audit, lawyer, depreciation etc. related to management, sales, human resources, information technology, and the finance departments.

7 Staff expenses

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Wages & salaries	35.809	15.260
Bonus	0	-126
Share-based payment	-101	141
Pension (Defined contribution)	1.047	385
Other social security costs	313	126
Other personnel costs	1.908	1.428
Total	**38.976**	**17.214**
Staff costs are recognized as follows:		
Research and development expenses	30.910	13.802
Sales, general and administration expenses	8.066	3.412
Total staff cost	**38.976**	**17.214**

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Management (Wages & salaries)	7.276	2.963
Management (Bonus)	0	-126
Management (Pension - Defined contribution)	317	121
Management (Other social security costs)	11	4
Total	**7.604**	**2.962**

Note

	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Employees:		
Average number of FTE	49	48
Number of FTE end of year	49	47

Members of the management have contracts of employment containing standard terms for management members of Danish companies, including the periods of notice that both parties are required to give and competition clauses. If a contract of employment of a member of the company's management is terminated by the company without misconduct on the part of such member, the member of the company's management is entitled to compensation, which, depending on the circumstances, may amount to a maximum of 6-12 months' remuneration. In the event of a change of control the compensation can amount up to 12 months' remuneration.

Accounting Policy

Staff costs
Staff expenses comprise of wages and salaries for staff engaged in research, development, sales, marketing, administration and management. The item also comprise all staff-related costs.

Short-term remuneration
Remuneration of employees in form of salaries, bonuses, share-based payments, paid vacation, paid sickness absence, etc. and pension are recognized when the relevant services are received.

Retirement benefit
Post-employment pension and other remuneration are classified as defined-contribution or defined-benefit pension plans. The company has only defined-contribution pension plans. For defined-contribution plans, the company pays fixed contribution to a separate, independent legal entry and does not have any obligation to pay additional contribution. The company's earnings are charged with expenses in line with the benefits being earned, which normally coincides with the time when the premium is paid.

Share-based payments
Share-based incentive programs, under which management and employees may choose to buy shares in the parent company (equity schemes), are measured at fair value of equity instruments at grant date and recognized in the income statement over the period of the employee's earning the right to buy the shares. The balancing item is recognized directly in shareholder equity. The fair value of the share-based payment is determined using a combination of a Black-Scholes model and a Monte-Carlo simulation model. Please refer to Note 21 for further details.

8 Other operating income

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Government grant	1.708	116
Total	1.708	116

Accounting Policy
Other operating income comprises research funding from government grant. Research funding is recognized in the period when the research activities have been performed and when there is reasonable assurance that the grants will be received. Grants for research and development costs, which are recognized directly in the income statement are recognized under other operating income as the grants are considered to be cost refunds and not as such revenue.

Prepaid grants are recognized in the balance sheet as prepayments of government grants at par value on receipt and is transferred to the income statement concurrently with the related expenses occur.

Note

9 Financial income

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Interest income	11	0
Foreign exchange gain	229	231
Total	**240**	**231**

Accounting Policy

Financial income include interest income, realized and unrealized gains on transactions in foreign currencies. Financial income are recognized in the income statement at the amounts that relate to the reporting period.

10 Financial expenses

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Interest expenses	189	39
Leasing interest	84	52
Bank fees and other financial expenses	127	66
Foreign exchange loss	525	253
Total	**925**	**410**

Accounting Policy

Financial expenses include interest expenses, interest expenses relating to finance lease payments, bank fees or alike and realized and unrealized losses on transactions in foreign currencies. Financial interest expenses are recognized in the income statement according to the effective interest method and other financial expenses are recognized in the income statement at the amounts that relate to the reporting period.

11 Corporate and deferred tax

Taxation - income statement

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Loss for the year	-69.810	-44.446
Tax rate	22,0%	22,0%
Tax on loss for the year	15.358	9.778
Tax value of non-deductible expenses	17	-2
Tax on share based payment	-21	-31
Utilization of tax credit	5.500	2.750
Adjustment of deferred tax	-8.709	2.804
Accounting estimate for utilization of tax losses	-6.645	-12.549
Total	**5.500**	**2.750**

Note

Taxation - balance sheet

DKK '000	31 December 2018	31 December 2017
Taxation - recognition of income tax receivable in the balance sheet		
Balance at beginning of period	6.400	9.150
Tax credit for the year	5.500	2.750
Received tax credit for the year	-3.650	-5.500
Balance at end of period	**8.250**	**6.400**
Recognized in the balance sheet as follows:		
Non-current income tax receivables	2.750	2.750
Current income tax receivable	5.500	3.650
Total income tax receivable	**8.250**	**6.400**

DKK '000	31 December 2018	31 December 2017
Component of the deferred tax asset are as follows:		
Tangible fixed assets	-383	-607
Net payments under finance lease	488	696
Capitalized R&D costs	-10.986	-3.426
Prepayments	640	282
Deferred income	0	-504
Share-based payments	-8.520	-8.499
Tax loss carry-forward	-98.870	-92.226
	-117.631	**-104.284**
Unrecognized deferred tax asset	117.631	104.284
	0	**0**

Corporate tax for the year includes a tax credit for research and development at the applicable tax rate under the Danish Corporate Income Tax Act.

The company has in previous years generated tax losses. As it is still uncertain whether deferred tax assets can be utilized, the assets has not been recognized in the annual report. Deferred tax assets not recognized for the period 1 January - 31 December 2018 were TDKK 117,631 (1 July 2017 - 31 December 2017: TDKK 104,284).

According to current tax legislation, tax loss carry-forward can be carried forward indefinitely.

Note

Accounting Policy

Income tax

Tax for the year, which includes current tax on the year's taxable income and the year's deferred tax adjustments, is recognized in the income statement as regards the portion that relates to the net result for the year and is taken directly to equity as regards the portion that relates to entries directly in equity or other comprehensive income, respectively.

In assessing current tax for the year, the applicable tax rates and legislation on the statement of financial position date are used. Nuevolution A/S has a corporate income tax year running from 1 July to 30 June.

The company recognizes tax credits relating to research and development costs in accordance with the Danish corporate tax act at the corporate income tax rate (22% for both 2018 and 2017) based on total research and development cost of up to DKK 25 million.

In assessing current tax for the year, the applicable tax rates and legislation on the statement of financial position date are used.

Income tax receivable

Current tax assets for the current and prior periods shall be measured at the amount expected to be recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Tax assets that is expected to be recovered within 12 months is reported as current income tax receivable and tax assets that is expected to be recovered after 12 month is reported as non-current income tax receivable.

Deferred taxes

Deferred tax is measured according to the statement of balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. The deferred tax is stated based on the planned utilization of the individual asset and the settlement of the individual liability, respectively.

Deferred tax assets, including the tax value of tax losses carry-forward, are recognized in the balance sheet at the value at which they are expected to be utilized, either through elimination against tax on future earnings or through a set-off against deferred tax liabilities.

Management's judgments and estimates

The Company recognizes deferred tax assets relating to tax losses carried forward when management assess that these tax assets can be offset against positive taxable income in the foreseeable future. The assessment is made at the reporting date and is based on relevant information, taking into account any impact from restrictions in utilization in local tax legislation.

The assessment of future taxable income is based on financial budgets approved by management as well as management's expectations regarding the operational development in the following years. Based upon this assessment no deferred tax assets relating to tax losses carried forward have been recognized as at 31 December 2018.

Note

12 Tangible fixed assets

DKK '000	Other fixtures, fittings, tool and equipment	Leasehold Improvement	Total
Cost at 1 January 2018	27.445	10.148	37.593
Additions	301	20	321
Disposals	-2.558	0	-2.558
Cost at 31 December 2018	**25.188**	**10.168**	**35.356**
Depreciation and impairment at 1 January 2018	23.549	9.249	32.798
Depreciation and impairment for the year	1.223	131	1.354
Disposals	-2.558	0	-2.558
Depreciation and impairment at 31 December 2018	**22.214**	**9.380**	**31.594**
Carrying amount at 31 December 2018	**2.974**	**788**	**3.762**
Hereof leased tools and equipment	**2.205**	**0**	**2.205**
Depreciation and impairment expenses are recognized as follows:			
Research and development expenses	1.216	114	1.330
Sales, general and administration expenses	7	17	24
Total depreciation and impairment expenses	**1.223**	**131**	**1.354**
Cost at 1 July 2017	26.767	9.607	36.374
Additions	678	541	1.219
Disposals	0	0	0
Cost at 31 December 2017	**27.445**	**10.148**	**37.593**
Depreciation and impairment at 1 July 2017	22.900	9.202	32.102
Depreciation and impairment for the period	649	47	696
Disposals	0	0	0
Depreciation and impairment at 31 December 2017	**23.549**	**9.249**	**32.798**
Carrying amount at 31 December 2017	**3.896**	**899**	**4.795**
Hereof leased tools and equipment	**3.291**	**0**	**3.291**
Depreciation and impairment expenses are recognized as follows:			
Research and development expenses	649	27	676
Sales, general and administration expenses	0	20	20
Total depreciation and impairment expenses	**649**	**47**	**696**

All assets are located in Denmark

Accounting Policy

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation and impairment losses.

Leased tangible fixed assets qualifying for assets held under finance lease contracts are measured as acquired fixed assets. The Management has assessed that the purchase option will be utilized.

Cost comprises the purchase price, costs directly allocated to the acquisition, and costs for preparation until the date when the asset is available for use.

Cost of assets held under finance lease contracts are measured as the lower of fair value and the present value of future lease payments, calculated on the internal discount rate.

Depreciation is calculated on a straight-line basis based on the following expected useful life:

	Year
Leasehold improvements	5-10
Other fixtures and fittings, tools and equipment	3-5

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Impairment of fixed assets

Fixed assets are reviewed at the statement of financial position date to determine whether there are any indications of impairment. Where there is indication of impairment, an impairment test is made for each individual asset or group of assets, respectively, generating independent cash flows. The assets are written down to the higher of the value in use and the net selling price of the asset or group of assets (recoverable amount) if it is lower than the carrying amount.

Note

13 Trade receivables

DKK '000	31 December 2018	31 December 2017
Trade receivables, gross value	1.316	435
Trade receivables, impaired	0	0
Total	**1.316**	**435**
Age analysis of trade receivables:		
- Not yet due	964	435
- Overdue by between 1 and 179 days	352	0
- Overdue by between 180 and 360 days	0	0
Total receivables with credit risk exposure	**352**	**0**

No loss on receivables has been recognized during the reporting periods.

Accounting Policy

Classification and measurement

Under IFRS 9, the Company initially measures a financial asset at its fair value. Subsequently, the Company measures its financial assets held based on the following measurement categories; Those to be measured at fair value (either through other comprehensive income or through profit or loss) and those to be measured at amortised cost. The classification is based on Nuevolution's business model for managing the assets and the contractual terms of the cash flows.

The new classification and measurement of Nuevolution's financial assets are as follows:

Receivables

Receivables from collaboration partners and other receivables are designated as receivables and are initially measured at fair value or transaction price and subsequently measured in the balance sheet at amortized cost, which generally corresponds to nominal value less expected provision for credit loss. This is consistent with prior periods classification.

Impairment

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss approach. Under IFRS 9, the Company is required to record an allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit and loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

For receivables with collaboration partners and other receivables, the Company has applied the standard's simplified approach and has calculated expected credit losses based on lifetime expected credit losses. No provision for expected credit losses have been recognized given that the Company has not recognized any of credit losses over the past financial years and do not expect to incurre such. As the contract assets relate to the partnerships, the credit risk is based on an individual assessment.

Note

14 Other current receivables and prepayments

DKK '000	31 December 2018	31 December 2017
VAT	670	1.362
Prepayments	967	1.050
Other financial assets	210	407
Total	**1.847**	**2.819**

Accounting Policy
Other current receivables and prepayments are measured at fair value, and subsequently at amortized cost using the effective interest method less impairment.

Prepayments recognized under assets comprise expenses incurred relating to subsequent financial periods. Prepayments are measured at cost.

15 Share capital

	No. of shares	Share Capital DKK '000
Balance at 1 January 2018	16.500.000	16.500
Balance at 31 December 2018	**16.500.000**	**16.500**
Balance at 1 July 2017	16.000.000	16.000
New share issue	500.000	500
Balance at 31 December 2017	**16.500.000**	**16.500**
Balance at 1 July 2016	285.725.299	285.725
Capital reduction	-270.174.674	-270.175
New share issue	449.375	449
Balance at 30 June 2017	**16.000.000**	**16.000**
Balance at 1 July 2015	285.725.298	285.725
New share issue	1	0
Balance at 30 June 2016	**285.725.299**	**285.725**
Balance at 1 July 2014	225.725.298	225.725
New share issue	60.000.000	60.000
Balance at 30 June 2015	**285.725.298**	**285.725**
Balance at 1 July 2013	225.725.298	225.725
Balance at 30 June 2014	**225.725.298**	**225.725**

The share capital consists of 16.500.000 shares of DKK 1 nominal value. The share capital is fully paid up. All shares are owned by Nuevolution AB (publ), Rønnegade 8, Copenhagen.

Note

16 Trade payables and other current liabilities

DKK '000	31 December 2018	31 December 2017
Trade payable	2.340	4.602
Payables, Parent Company	392	475
Other current liabilities	6.484	4.913
Total	**9.216**	**9.990**

Accounting Policy

Trade creditors are measured at fair value, and subsequently at amortized cost using the effective interest method. Carrying amount for Trade creditor is presumed to correspond to the fair value since it is by nature short-term.

Other liabilities are measured at amortized cost, which usually corresponds to the nominal value.

Present value adjustment is not performed since the duration is short.

17 Lease liabilities

The Company has finance leases for various items of tangible assets. Futures minimum lease payments under leases together with the present value of the net minimum lease payments are as follows:

DKK '000	31 December 2018	31 December 2017
Non-current lease liabilities	1.317	2.125
Current portion of long-term lease liabilities	903	1.040
Total	**2.220**	**3.165**

Finance lease obligations

	31 December 2018		31 December 2017	
DKK '000	Minimum payments	Present value of payments	Minimum payments	Present value of payments
0-1 year	958	903	1.121	1.040
1-2 years	942	915	912	860
2-5 years	411	402	1.299	1.265
> 5 years	0	0	0	0
Total minimum lease payments	**2.311**	**2.220**	**3.332**	**3.165**
Less amounts representing finance charges	91	0	167	0
Total	**2.220**	**2.220**	**3.165**	**3.165**

The company has entered into rent contracts, which all can be terminated at maximum of 6 months notice. Annual rent payment of TDKK 2,868 (2017: TDKK 1,409), where TDKK 2,495 (2017: TDKK 1,226) is included in research and development expenses and TDKK 373 (2017: TDKK 183) is included in sales, general and administrative expenses. The company has an operational lease agreement of minor assets with an annual payment of TDKK 43 (2017: TDKK 0), where TDKK 37 (2017: TDKK 0) is included in research and development expenses and TDKK 6 (2017: TDKK 0) is included in sales, general and administrative expenses.

Accounting Policy

Finance lease liabilities regarding assets held under financial leases are recognized in the statement of financial position as liabilities and measured, at the inception of the lease, at the lower of fair value and present value of future lease payments, calculated by reference to the interest rate implicit in each lease.

On subsequent recognition, lease liabilities are measured at amortized cost. The difference between present value and nominal value of lease payments is recognized in the statement of comprehensive income over the term of the lease as a financial expense.

Note

18 Financial risk management and financial instruments

The objective of Nuevolution A/S's financial management policy is to reduce the company's risk to fluctuations in currency exchange rates, interest rate risk and credit risk. The Board of Directors has adopted a policy for managing financial risks within the company. The Board of Directors is responsible for the company's long-term financing strategy as well as any acquisition of capital. The management of financial risks in the day-to day operations is handled by the CFO together with the CEO.

Capital management

The Board of Directors of Nuevolution A/S monitors the Company's capital structure and financial management, decides on matters relating to acquisitions, investments and financing and continuously monitors the Company's exposure to financial risks.

Nuevolution A/S defines the capital as equity reported in the balance sheet, the capital in 2018 amounting to TDKK 64,890 (58,786).

The Company monitors capital utilization using various key ratios, such as net debt, return on capital employed and equity/assets ratio.

The company is not subject to external capital requirements.

Liquidity and financing risk

It is Nuevolutions aim to have adequate capital in relation to the underlying operation and research and development projects, so that it is always possible to provide sufficient capital to support operations and the company's long-term objectives.

The current cash position will sustain the company's operations throughout 2019. However, the current cash position may not fully sustain operations for an additional 12 months, as per the date of this report, without reducing the current and planned level of operations. Nuevolution is engaged in partnering discussions which include up-front payments, and may be eligible to milestone payments under current collaboration agreements. As an alternative to these discussions, the Board of Directors and Management may also consider reducing the planned level of operations and thereby reduce cost and the Board of Directors and Management may furthermore consider evaluating the need for alternative funding beyond partner income through either equity, loans or a mix hereof. Further reference is made to note 24.

Note

Below is a term-based analysis of the company's financial position:

31 December 2018 DKK '000 Maturities	0-1 year	1-2 years	2-5 years	> 5 years	Total	Carrying amount
Measured at amortized cost						
Lease liabilities	958	411	0	0	1.369	2.220
Trade payables	2.340	0	0	0	2.340	2.340
Payables, Parent Company	392	0	0	0	392	392
Other current liabilities	6.484	0	0	0	6.484	6.484
Total financial liabilities	**10.174**	**411**	**0**	**0**	**10.585**	**11.436**
Measured at amortized cost						
Cash	61.228	0	0	0	61.228	61.228
Trade receivables	1.316	0	0	0	1.316	1.316
Leasehold deposits	0	0	0	1.305	1.305	1.305
Other current receivables	880	0	0	0	880	880
Total financial assets	**63.424**	**0**	**0**	**1.305**	**64.729**	**64.729**
Net	**-53.250**	**411**	**0**	**-1.305**	**-54.144**	**-53.293**

31 December 2017 DKK '000 Maturities	0-1 year	1-2 years	2-5 years	> 5 years	Total	Carrying amount
Measured at amortized cost						
Lease liabilities	1.121	912	1.299	0	3.332	3.165
Trade payables	4.602	0	0	0	4.602	4.602
Payables, Parent Company	475	0	0	0	475	475
Other current liabilities	4.913	0	0	0	4.913	4.913
Total financial liabilities	**11.111**	**912**	**1.299**	**0**	**13.322**	**13.155**
Measured at amortized cost						
Cash	59.980	0	0	0	59.980	59.980
Trade receivables	435	0	0	0	435	435
Leasehold deposits	0	0	0	1.284	1.284	1.284
Other current receivables	1.769	0	0	0	1.769	1.769
Total financial assets	**62.184**	**0**	**0**	**1.284**	**63.468**	**63.468**
Net	**-51.073**	**912**	**1.299**	**-1.284**	**-50.146**	**-50.313**

Currency risk

As Nuevolution have income and expenses in different currencies, the company is subject to currency risk. Increase or decrease in the exchange rate of foreign currencies can affect the company's result and cash position positively or negatively. Nuevolution receives upfront and milestone payments from its partners in USD and EUR.

Assets and Liabilities in foreign Currency

The most significant cash flows are in EUR and USD. Overall, Nuevolution hedges its currency exposure primarily by matching income and expenses in the same currency. In addition Nuevolution is not using hedging instruments such as derivatives or future contracts.

Note

Based on the amount of assets and liabilities denominated in EUR and USD as of 31 December 2018, a 10% change in both EUR to DKK exchange rate and USD to DKK exchange rate respectively will impact our net financial items, net result and equity by approximately:

DKK '000	Cash position	Receivables	Liabilities	Net currency exposure	Percentage change in exchange rate *)	Impact of change in exchange rate
31 December 2017						
EUR	5	0	-144	-139	10%	-14
USD	56	1.299	-128	1.227	10%	123
31 December 2017						
EUR	2.939	0	-154	2.785	10%	279
USD	6	417	-1.167	-744	10%	-74

*) The analysis assumes that all other variables, in particular interest rates, remain constant.

Interest Rate Risks

Nuevolution's interest rate risks are linked to leasing contracts and bank deposits. The interest rate for both interest-bearing debt and bank deposits are floating. An increase of the interest rate of 1% would impact the financial result by an amount of TDKK 506 (2017: TDKK 711) with a corresponding impact on the equity.

Credit Risk

Nuevolution is exposed to credit risk and losses on our bank deposits. The credit risk related to financial and other receivables is not significant. The company do not apply hedging or use of derivatives.

Trade receivables

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Historical Nuevolution did not recognize any losses on trade receivables consequently the expected loss rate is fixed at zero.

Other financial receivables

Other financial receivables primarily comprises receivable VAT and deposit for rent (non-current financial asset). It is the managements judgement that this type of financial assets has a limits credit risk.

Bank Deposit

To reduce credit risk on our bank deposits, Nuevolution only places its cash deposits with highly rated financial institution. Nuevolution is currently using financial institution with a short-term rating from S&P of at least A-1. The total value of bank deposits amounts to TDKK 61,228 as of 31 December 2018 compared to TDKK 59,980 as of 31 December 2017.

Note

19 Adjustment to cash flow statement

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Change in working capital:		
Trade receivables	-881	-363
Other receivables	972	-1.172
Trade payables	-2.262	-2.584
Trade payables, Parent Company	-83	233
Other current liabilities	1.571	-906
Prepayments from collaboration partners	-97	741
Deferred income	-2.293	-3.698
	-3.073	**-7.749**
Investment in plant, equipment, fittings and tools		
Acquisition of plant, equipment, fittings and tools etc (note 12)	-321	-1.219
New financial lease agreements	130	316
Net investment in plant, equipment, fittings and tools	**-191**	**-903**

20 Specification of changes in leasing liabilities

DKK '000	31 December 2017	Cash flows	Non-cash changes: Reclassifications	Non-cash changes: New leases	31 December 2018
Non-current lease liabilities	2.125		-938	130	1.317
Current lease liabilities	1.040	-1.075	938	0	903
Total liabilities from financing activities	**3.165**	**-1.075**	**0**	**130**	**2.220**

DKK '000	30 June 2017	Cash flows	Non-cash changes: Reclassifications	Non-cash changes: New leases	31 December 2017
Non-current lease liabilities	2.267		-458	316	2.125
Current lease liabilities	1.143	-561	458	0	1.040
Total liabilities from financing activities	**3.410**	**-561**	**0**	**316**	**3.165**

Note

21 Share based payments

The following share-based payments disclosures relate to the Nuevolution AB group share-based payment arrangements, in which Nuevolution A/S is employing members of the Board of Directors, Executive Management, and employees who have been granted equity-settled by the parent, Nuevolution AB, over whose shares the awards are granted.

Warrant Program 2015/2021

The program comprise of 5,039,254 warrants, hereof 2,636,930 Series 1 warrants and 2,403,324 Series 2 warrants. The program has an initial term of five years. All warrants according to this warrant program have been granted, and have vested.

The exercise price for one ordinary share subscribed for by the exercise of one warrant of Series 1 is SEK 17.50 and the exercise price for one ordinary share subscribed for by the exercise of one warrant of Series 2 shall be SEK 11.25. Thus, if all warrants are fully subscribed for, the parent company's share capital will increase with SEK 5,039,254. The warrants may be exercised for subscription of shares from 31 August 2016 up until and including 31 August 2021.

Warrant Program 2016/2021

The program comprise 493,000 warrants, hereof 480,000 Series 1 warrants and 13,000 Series 2 warrants. During the period 1 July - 31 December 2017, 70,000 warrants have been granted.

The exercise price for one ordinary share subscribed for by the exercise of one warrant of Series 1 is SEK 17.50 and the exercise price for one ordinary share subscribed for by the exercise of one warrant of Series 2 is SEK 11.25. Each warrant entitles to subscription of one ordinary share in the parent company. Thus, if all warrants are fully subscribed for, the parent company's share capital will increase with SEK 493,000. The warrants granted to the participants are vesting over a period of four years, of which one quarter of the warrants shall be deemed vested on 31 October 2017, 2018, 2019 and 2020, respectively. Warrants of series 1 are only exercisable if the trading price of the parent company's share on Nasdaq First North Premier or Nasdaq Stockholm at the time of applying for subscription of shares corresponds to at least SEK 22.975. This condition has been reflected when determining the fair value of the warrants granted of series 1.

Development in the number of outstanding warrants:

	2015/21		2016/21		
	Serie 1	Serie 2	Serie 1	Serie 2	Total
Outstanding at 1 January 2018	**2.658.579**	**2.403.279**	**70.000**	**0**	**5.131.858**
Granted	0	0	0	0	0
Exercised	0	0	0	0	0
Expired	0	0	0	0	0
Cancelled	-21.649	-955	0	0	-22.604
Transferred	0	0	0	0	0
Outstanding at 31 December 2018	**2.636.930**	**2.402.324**	**70.000**	**0**	**5.109.254**
Exercisable at 31 December 2018	**2.636.930**	**2.402.324**	**35.000**	**0**	**5.074.254**
Weighted average remaining contractual life					**2,67**
Number of warrant held by the Board of Directors	381.034	148.167	0	0	**529.201**
Number of warrant held by the Executive Management	0	1.911.113	0	0	**1.911.113**
Number of warrant held by other member of Group Management	536.912	236.978	0	0	**773.890**
Number of warrant held by employees	1.718.984	106.066	70.000	0	**1.895.050**
Total outstanding warrants	**2.636.930**	**2.402.324**	**70.000**	**0**	**5.109.254**

Note

	2015/21		2016/21		
	Serie 1	Serie 2	Serie 1	Serie 2	Total
Outstanding at 1 July 2017	**2.667.239**	**2.403.279**	**0**	**0**	**5.070.518**
Granted	0	0	70.000	0	70.000
Exercised	0	0	0	0	0
Expired	0	0	0	0	0
Cancelled	-8.660	0	0	0	-8.660
Transferred	0	0	0	0	0
Outstanding at 31 December 2017	**2.658.579**	**2.403.279**	**70.000**	**0**	**5.131.858**
Exercisable at 31 December 2017	**2.658.579**	**2.403.279**	**17.500**	**0**	**5.079.358**
Weighted average remaining contractual life					**3,67**
Number of warrant held by the Board of Directors	381.034	148.167	0	0	**529.201**
Number of warrant held by the Executive Management	0	1.911.113	0	0	**1.911.113**
Number of warrant held by other member of Group Management	536.912	236.978	0	0	**773.890**
Number of warrant held by employees	1.740.633	107.021	70.000	0	1.917.654
Total outstanding warrants	**2.658.579**	**2.403.279**	**70.000**	**0**	**5.131.858**

Warrant Program 2015/21 and 2016/2021

The fair value at the time of grant is based on the combination of a Black-Scholes model and a Monte-Carlo simulation model. The fair value is based on the following parameters:

	Warrant Program	
	2016/21	2015/21
Grant date:	18 Dec. 2017	15 Dec. 2015
* Weighted average fair value of warrants granted:	5,78	9,53
* An option life of:	3.7 years	5.72 years
* A volatility of:	46%	65%
* A dividend pay-out ratio of:	0%	0%
* A risk-free interest rate of:	0,20%	0,30%
* A weighted average share price of:	17,30	13,69

The expected volatility is based on the historical volatility of health care and biotech companies listed on Nasdaq First North Premier. The exercise of the series 1 warrants is subject to a condition that the share price excises SEK 22.975. This condition has been factored in when determining the fair value of the warrants granted.

The expected maturity is based on management estimates.
Expected dividends per share is based on historical share dividends and management's expectation about future dividends.

The risk-free interest rate is based on five years Swedish government bonds.

If Warrant Program 2015/2021 and Warrant Program 2016/21 is fully exercised, the dilution effect will correspond to 10.6 percent and 1 percent respectively with a total dilutive effect of 11.5 percent based on the current number of outstanding shares.

The company has no other outstanding incentive programs.

Note

Effect on income statement

The fair value of warrants programs effects the income statement as follows:

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Warrant program 2015/2021	-161	-62
Warrant program 2016/2021	60	203
	-101	**141**
The fair value are recognized as follows:		
Research and development expenses	-126	52
Sales, general and administration expenses	25	89
	-101	**141**

The costs are set-off against equity.

Accounting Policy

Employees (including Board of Directors and Executive Management) of the company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense as presented in either research and development expenses or sales, general and administrative expenses, together with a corresponding increase in equity over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

The fair value of the warrants is estimated at the grant date using a combination of a Black-Scholes model and a Monte-Carlo simulation model, taking into account the terms and conditions on which the warrants were granted.

Management's judgements and estimates

Estimating fair value for the company's share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the respective grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the warrants, volatility dividend pay-out ratio and risk-free interest rate and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the company uses a combination of a Black-Scholes model and a Monte-Carlo simulation model for the warrant program 2015/21 and the warrant program 2016/21.

The assumptions and models used for estimating fair value for share-based payment transactions are discussed further above in the note 21.

Note

22 Pledges and guarantees

The company has no pledges nor issued any guarantees.

23 Contingent assets and liabilities

License and Collaboration Agreements
We are entitled to potential milestone payments and royalties on successful commercialization of product developed under license and collaboration agreements with our partners. Since the size and timing of such payments are uncertain until the milestones are reached, the agreements may qualify as contingent assets. However, it is impossible to measure the value of such contingent assets, and, accordingly, no such assets have been recognized.

Disputes
The Company may, from time to time and within the framework of its operations, become involved in disputes and other legal proceedings.

Chemgene Holding ApS and Henrik Pedersen

In 2012, Nuevolution filed a law suit against Henrik Pedersen, a former employee of Nuevolution, as it believes to be the rightful owner of a patent family that was filed with his involvement and at a time when he was the CSO at Nuevolution. Furthermore, Nuevolution remains interested in continuing the prosecution of a continuation application under the patent family in accordance with an agreement that was made between the parties in 2007. The outcome of the proceedings is not expected to adversely impact Nuevolution's use of the Chemetics® platform as used in practice today.

In February 2016, Nuevolution announced that the Danish Maritime and Commercial High Court (Sø- og Handelsretten) had given a decision for one aspect of the company's suit filed against Henrik Pedersen, according to which Nuevolution cannot, during pending litigation against Henrik Pedersen and Chemgene Holding ApS, seek correction of inventorship and assignment of ownership of the patent family presently owned by Chemgene Holding ApS. Nuevolution decided to seek an appeal of the Maritime and Commercial High Court's decision to the Eastern High Court (Østre Landsret) regarding the company's right to raise the specific question about inventorship and ownership.

On 8 December 2017, The Eastern High Court decided to revoke the Maritime and Commercial High Court's (Sø- og Handelsretten's) original decision from 22 February 2016, in favor of Nuevolution's request, and to send the case back to the Maritime and Commercial High Court for renewed review thereby allowing Nuevolution to seek correction of inventorship and assignment of ownership of the patent family presently controlled by Chemgene Holding ApS.

The case is now prosecuted at the Maritime and Commercial High Court (Sø- og Handelsretten) again, and the case is expected to continue for a longer period of time.

The main financial risk is presently considered to be that Nuevolution would be ordered to pay legal costs to Henrik Pedersen and Chemgene Holding ApS. In Denmark, the possibilities to be awarded such legal costs are normally limited to 5 percent of the case value. When the dispute was initiated, the case value was limited to DKK 900,000 and applying the standard guidelines used by Danish courts, the costs that the losing party would have to reimburse the winning party for thus amount to approximately DKK 50,000.

Note

During the year, Henrik Pedersen's US patent rights were significantly reduced in scope following a successful interpartes review process that was filed by Nuevolution against Henrik Pedersen's US patents at the US patent office. The patent office found that the originally issued US patents were overly broad and invalidated one issued patent and reduced the scope of a second issued patent significantly. This outcome may be the reason for Henrik Pedersen recent election to discontinue payment of the annual fees for upholding his European patent rights, which may therefore lapse during 2019.

Based on the evidence as currently known to Nuevolution, the company expects to be successful in the Danish dispute.

Accounting Policy

Contingent assets and liabilities are assets and liabilities that arose from past events but whose existence will only be confirmed by the occurrence or non-occurrence of future events that are beyond Nuevolution's control.

Contingent assets and liabilities are not to be recognized in the financial statements, but are disclosed in the notes.

24 Related parties

Apart from the parent company, Nuevolution AB (publ) there are no other related parties with controlling influence on the Company.

Nuevolution A/S's related parties comprise the parent company, the Company's board of Directors and Management as well as relatives to these persons. Related parties also comprise companies in which the individuals mentioned above have material interests.

The company has received a letter of support from the parent company in the amount of SEK 18.5 million covering the period until 31 March 2020.

The company is included in the group annual report of Nuevolution AB (publ), Sweden. The group annual report can be obtain at www.nuevolution.com

Apart from salaries and warrants (see note 7 and 21) , there were no significant transactions with Management or Board of Directors.

Note

Related party transactions
Information on transaction with related parties is stated below:

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Group (parent) companies:		
Purchase of services	1.378	830
Cost related to the Warrant Programs	-101	141
Trade payables	392	475

Related party transactions (continued)
Information on transaction with related parties is stated below:

DKK '000	1 Jan. - 31 Dec. 2018 (12 months)	1 Jul. - 31 Dec. 2017 (6 months)
Related parties with significant influence:		
SEB (paid interest and fees)	229	71
SEB (deposit)	6.283	54.999

During the period 1 January - 31 December 2018 there has been a capital increase in the company of TDKK 100,000 (1 July 2017 - 31 December 2017: TDKK 50,000). The parent company has issued a letter of support of SEK 20 million to secure the operation of its subsidiary Nuevolution A/S.

In addition to the above, there were no transactions with other related parties and shareholders during the period 1 January - 31 December 2018 and 1 July 2017 - 31 December 2017. Please also refer to note 7, 9 and 10. All transactions were made according to market conditions.

25 Significant events after the balance sheet date

21 February 2019: A Nuevolution BET-BD1 selective inhibitor shows potential anticancer effect with immunotherapy in a mouse model of colorectal cancer.

28 February 2019: Almirall-Nuevolution collaboration achieves key pre-clinical milestone in partnership for Dermatology Diseases. The positive result triggered a contractual milestone payment to Nuevolution of DKK 7.5 million (EUR 1 million).

9 May 2019: Nuevolution's BET-BD1 selective inhibitor and candidate compound, NUE20798, shows positive effect on disease scoring and biomarker levels in an atopic dermatitis (eczema) mouse model.

Accounting Policy
If Nuevolution obtains information after the balance sheet date, but prior to the date of the Board of Director's approval of the financial statements, about conditions that existed at the balance sheet date, Nuevolution assesses if the information affects the amounts that it recognizes in the financial statements.

Nuevolution will adjust the amounts recognized in its financial statements to reflect any adjusting events after the balance sheet date and update the disclosures that relate to those conditions in the light of the new information.

For non-adjusting events after the balance sheet date, Nuevolution will not change the amounts recognized in its financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.