

Nordic Biotech K/S

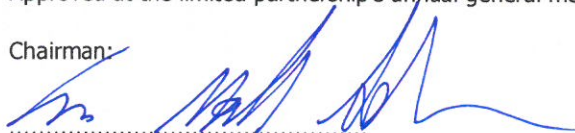
Østergade 24 A, 1. tv., 1100 Copenhagen K

CVR no. 26 29 07 24

Annual report 2017

Approved at the limited partnership's annual general meeting on 30 April 2018

Chairman:



Lars Møller Andersen





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Statement by the General Partner

The General Partner has today discussed and approved the annual report of Nordic Biotech K/S for the financial year 1 January - 31 December 2017.

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

It is our opinion that the financial statements give a true and fair view of the Limited Partnership's financial position at 31 December 2017 and of the results of the Limited Partnership's operations for the financial year 1 January - 31 December 2017.

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, 16 April 2018

On behalf of the General Partner, Nordic Biotech General Partner ApS:

Florian Schönharting

Independent auditor's report

To the limited partners and the General Partner of Nordic Biotech K/S

Opinion

We have audited the financial statements of Nordic Biotech K/S for the financial year 1 January - 31 December 2017, which comprise an 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 Limited Partnership at 31 December 2017 and of the results of the Limited Partnership's operations for the financial year 1 January - 31 December 2017 in accordance with 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 Limited Partnership 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.

Emphasis of matter in the financial statements

We draw attention to note 2 in the financial statements, which reflects that the fair value of the Limited Partnership's investment in Aditech Pharma AG (investment in subsidiary) is associated with considerable uncertainty. 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 Limited Partnership'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 Limited Partnership 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.

Independent auditor's report

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 Limited Partnership'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 Limited Partnership'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 Limited Partnership 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.



Independent auditor's report

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.

Copenhagen, 16 April 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

A handwritten signature in blue ink, appearing to read 'A. Flymer-Dindler', is written over the printed name.

Anders Flymer-Dindler
State Authorised
Public Accountant
MNE no.: mne35423



Management's review

Limited partnership details

Name	Nordic Biotech K/S
Address, zip code, city	Østergade 24 A, 1. tv., 1100 Copenhagen K
CVR no.	26 29 07 24
Registered office	Copenhagen
Financial year	1 January - 31 December
General Partner	Nordic Biotech General Partner ApS
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmutshs Vej 4, P O Box 250, 2000 Frederiksberg, Denmark
Bankers	Nordea
Lawyer	Mazanti-Andersen Korsø Jensen Amaliegade 10, 1256 Copenhagen, Denmark

Management's review

Operating review

Principal activities

The Limited Partnership is a venture capital limited partnership established in 2001 and focusing on early stage investments, restructurings and spin-offs in the biotech industry.

At 31 December 2017, the portfolio of the Limited Partnership included four investments not yet disposed of by the Limited Partnership. These are further described below.

Recognition and measurement uncertainties

The Limited Partnership measures all of its investments at fair value in accordance with the valuation guidelines recommended by Invest Europe (currently the IPEV valuation guidelines). The valuations in the annual report are subject to inherent uncertainty because they, among others, are based on assumptions that to a wide extent are judgmental.

While the fair value of the Limited Partnership's investment in Forward Pharma A/S (investment in associate) has been valued based on the stock price of publically traded ADS representing shares in Forward Pharma A/S, the fair value of the Limited Partnership's investment in Aditech Pharma AG (investment in subsidiary) has been determined as an expected attributable portion of the estimated enterprise value of Forward Pharma A/S as of 31 December 2017. This valuation technique includes certain key assumptions that are encumbered with significant uncertainty. Consequently, the valuation of the Limited Partnership's investment in Aditech Pharma AG in the annual report is subject to material uncertainty. Reference is made to note 2 for more details.

The fair value adjustment of the Limited Partnership's investment in Aditech Pharma AG amounted to DKK 723 million in 2017.

Financial review

The income statement for 2017 shows a profit of DKK 149,646 thousand against a loss of DKK 1,098,813 thousand last year, and the balance sheet at 31 December 2017 shows equity of DKK 538,148 thousand.

The activities for the year are significantly impacted by the dividend pay-out from the Limited Partnership's investments in Forward Pharma A/S and Aditech Pharma AG amounting to DKK 1,879,150 thousand and the negative fair value adjustment of the Limited Partnership's investment in Aditech Pharma AG and of the Limited Partnership's investment in Forward Pharma A/S, which in the aggregate amounted to DKK 1,728,869 thousand.

Operations

Nordic Biotech General Partner ApS participates in the Limited Partnership as a general partner and manages the Limited Partnership in this capacity. Further, the Limited Partnership has concluded an advisory agreement with Nordic Biotech Advisors ApS pursuant to which Nordic Biotech Advisors ApS attends to the daily operation of the Limited Partnership.

Investments

Rose Pharma A/S

Rose Pharma is or has been dedicated to developing certain indications for ghrelin and GLP-1. The Limited Partnership has written off its investment in Rose Pharma.

Osteologix Holdings PLC

Osteologix Holdings has been dedicated to developing drugs for treating diseases of bone and cartilage. The company and its subsidiaries are undergoing solvent liquidation.

Management's review

Operating review

Forward Pharma A/S

Forward Pharma is a Danish company founded in 2005 in Copenhagen, Denmark, with an active Nasdaq based ADS program. The company is focused on the immunomodulatory compound dimethyl fumarate for the treatment of immune diseases.

Aditech Pharma AG

Aditech Pharma AG has developed certain intellectual property rights, some of which have been transferred to Forward Pharma A/S against potential payments of royalty etc.

Events after the balance sheet date

Liquidity

The Limited Partnership has in 2018 obtained a loan from Nordic Biotech Advisors ApS in order for the Limited Partnership to be able to fulfil its financial obligations during 2018. The loan is not to be repaid within the first 12 months unless the Limited Partnership obtains the required liquidity to repay the loan.

Investments in associates

The share price of Forward Pharma has decreased in the first two months of 2018. Reference is made to note 3 for information on the fair value at 21 March 2018.

Outlook

The Limited Partnership continues to hold a portfolio of companies with up-side potential, and the Limited Partnership intends to continue its efforts to realise its remaining assets at optimal value.

Commercial and financial risks

The Limited Partnership is, among others, dependent on the continued services of Nordic Biotech General Partner ApS and Nordic Biotech Advisors ApS and the developments in the US capital market.

Financial statements for the period 1 January – 31 December

Income statement

Note	DKK'000	2017	2016
	Other external costs	-615	-144
	Dividend from subsidiary and associates	1,879,150	0
4	Fair value adjustment of investments in subsidiary and associates	-1,728,869	-1,098,668
	Operating profit/loss	149,666	-1,098,812
	Financial expenses	-20	-1
	Profit/loss for the year	149,646	-1,098,813
	Recommended appropriation of profit/loss		
	Distributions during the year	1,878,302	0
	Retained earnings	-1,728,656	-1,098,813
		149,646	-1,098,813

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Fixed assets		
4	Investments		
	Investments in subsidiary	261,147	984,140
	Investments in associates	277,247	1,283,123
		<u>538,394</u>	<u>2,267,263</u>
	Total fixed assets	<u>538,394</u>	<u>2,267,263</u>
	Non-fixed assets		
	Cash in bank	41	24
	Total non-fixed assets	<u>41</u>	<u>24</u>
	TOTAL ASSETS	<u>538,435</u>	<u>2,267,287</u>
	EQUITY AND LIABILITIES		
	Equity		
5	Limited partnership capital	381,240	381,240
	Reserve for fair value adjustments	0	0
	Retained earnings	156,908	1,885,564
	Total equity	<u>538,148</u>	<u>2,266,804</u>
	Liabilities		
	Non-current liabilities		
	Payables to related parties	0	350
		<u>0</u>	<u>350</u>
	Current liabilities		
	Other payables	287	133
		<u>287</u>	<u>133</u>
	Total liabilities	<u>287</u>	<u>483</u>
	TOTAL EQUITY AND LIABILITIES	<u>538,435</u>	<u>2,267,287</u>

- 1 Accounting policies
- 2 Material uncertainties regarding recognition and measurement
- 3 Events after the balance sheet date

Financial statements for the period 1 January – 31 December

Statement of changes in equity

DKK'000	Limited partnership capital	Reserve for fair value adjustments	Retained earnings	Total
Balance at 1 January 2016	381,240	0	2,984,377	3,365,617
Profit/loss for the year	0	0	-1,098,813	-1,098,813
Balance at 1 January 2017	381,240	0	1,885,564	2,266,804
Distributions during the year	0	0	-1,878,302	-1,878,302
Profit/loss for the year	0	0	149,646	149,646
Balance at 31 December 2017	381,240	0	156,908	538,148

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Nordic Biotech K/S for 2017 has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act.

Pursuant to Section 110 of the Danish Financial Statements Act, the Limited Partnership has not prepared consolidated financial statements.

The financial statements have been prepared in accordance with the same accounting policies as last year.

Reporting currency

The financial statements are presented in Danish kroner.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Other external costs

Other external costs include fees to the General Partner (Nordic Biotech General Partner ApS), audit fees and other costs.

Dividend from subsidiary and associates

Dividend from associates is recognised at the time when the dividends are declared.

Fair value adjustment of investments in subsidiary and associates

The item includes the year's negative fair value adjustment of investments in subsidiary and associates.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses.

Tax

As the individual limited partners include their profit or loss from the Limited Partnership in their respective income statements, the financial statements do not include taxes.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Investments in subsidiary and associates

On initial recognition, investments in subsidiary and associates are measured at cost. Investments in subsidiary and associates are subsequently measured at fair value. Negative fair value adjustments for the year are recognised in the income statement under "Fair value adjustment of investments in subsidiary and associates", positive fair value adjustments for the year are recognised on a separate reserve on equity.

The fair value is based on stock exchange quotation or principles corresponding to those recommended by Invest Europe (currently the IPEV valuation guidelines).

Cash in bank

Cash comprises bank balances.

Payables

Payables are measured at net realisable value.

2 Material uncertainties regarding recognition and measurement

The Limited Partnership measures the investment in Aditech Pharma AG (investment in subsidiary) at fair value, cf. the IPEV valuation guidelines.

The fair value of the Limited Partnership's investment in Aditech Pharma AG (investment in subsidiary) has been determined as an expected attributable portion of the estimated enterprise value of Forward Pharma A/S as of 31 December 2017. This valuation technique includes certain key assumptions that are encumbered with significant uncertainty. Consequently, the valuation of the Limited Partnership's investment in Aditech Pharma AG in the annual report is subject to material uncertainty.

3 Events after the balance sheet date

Liquidity

The Limited Partnership has in 2018 obtained a loan from Nordic Biotech Advisors ApS in order for the Limited Partnership to be able to fulfil its financial obligations during 2018. The loan is not to be repaid within the first 12 months unless the Limited Partnership obtains the required liquidity to repay the loan.

Investments in associates

The value of the investment in Forward Pharma A/S at 31 December 2017, DKK 277,247 thousand, is based on the stock price of Nasdaq traded ADS representing shares in Forward Pharma at 31 December 2017. The stock price at 31 December 2017 amounted to USD 3.68 per share and the DKK/USD rate amounted to 6.2134.

The fair value of the investment at 12 April 2018 amounted to DKK 159,823 thousand.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

4 Investments

DKK'000	Investment in subsidiary	Investments in associates	Total
Cost at 1 January 2017	1,837,270	1,528,661	3,365,931
Cost at 31 December 2017	1,837,270	1,528,661	3,365,931
Value adjustments at 1 January 2017	-853,130	-245,538	-1,098,668
Exchange rate adjustment	-35,365	-37,545	-72,910
Value adjustments for the year	-687,628	-968,331	-1,655,959
Value adjustments at 31 December 2017	-1,576,123	-1,251,414	-2,827,537
Carrying amount at 31 December 2017	261,147	277,247	538,394

Investment in subsidiary comprises the Limited Partnership's investment in Aditech Pharma AG.

DKK'000	2017	2016
5 Limited partnership capital		
The limited partnership capital consists of the following:		
380,040,000 A-limited partners' committed capital of DKK 1.00 each	380,040	380,040
1,200,000 B-limited partners' committed capital of DKK 1.00 each	1,200	1,200
	381,240	381,240