NeuroSearch

Annual Report
2016

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This Annual Report is published in both a Danish and an English version. In the event of any discrepancies, the Danish version shall prevail.

To our shareholders and other stakeholders

Dear shareholder

Our activities in 2016 were primarily focused on three areas: the lawsuit regarding market manipulation, in which the Danish Supreme Court delivered a final judgment on 14 November 2016 (see company announcement of the same date), our continued activities to dispose of assets in the best possible way and, finally, the management of the Company's day-to-day operations in a cost-efficient manner.

On 14 October 2015, the Danish Eastern High Court convicted the Company of market manipulation (previously referred to as "price manipulation") and imposed a DKK 5 million fine on the Company. This prompted the Company to consult two independent legal professors for their assessment of the judgment and their advice on whether the Company should attempt to appeal against the judgment. Following a thorough review of, among others, the court transcripts from the City Court of Copenhagen and the Eastern High Court, the two advisers recommended that the Company apply for leave of appeal against the judgment of the Eastern High Court to the Supreme Court. When leave had been granted by the Appeals Permission Board, the case was brought before the Supreme Court, which regrettably chose to uphold the Eastern High Court judgment. Although we do not agree on the judgment, regrettably, we must accept the judgment. Please see announcements 09-16 and 08-15.

The Company continues to dispose of the remaining assets and liabilities, and the possibility of selling the Company, including the tax loss, is kept open. The Board of Directors will endeavour to have a final clarification of the Company's future before the end of 2017.

The Company has received a few claims from investors who believe they have suffered a loss because they acquired shares in the Company on the basis of the announcement from the Company of February 2010, which the Supreme Court, in its judgment of 14 November 2016, found amounted to market manipulation. The total amount of the claims currently raised is not material for the Company, and their justification and the calculation of any losses are currently being assessed by the Company on the basis of the specific circumstances. If further claims are raised against the Company as a result of the Supreme Court judgment, their justification will also be assessed on the basis of the specific circumstances. At present, it is impossible to assess the total amount of such potential additional claims, and the amount is subject to material uncertainty as there is doubt as to whether claims will be raised and also about the size of any claims raised. However, the total potential claims may be substantial, which may raise significant doubt with respect to the Company's ability to continue as a going concern if such additional claims are raised. In addition, such claims could make it impossible to sell the Company.

The Board of Directors has continuously been committed to limiting the costs of the Company to the extent possible, while at the same time ensuring efficient and steady day-to-day operations. A CEO and a CFO have been in charge of the day-to-day management, both on a part-time basis. The Company has further reduced its fixed costs in 2017. This includes the CFO will be leaving the Company during the spring. Substantial costs are incurred in maintaining our stock exchange listing.

(Continued on the next page)

Update on the Company's assets

In announcement 10-16 of 22 November 2016, the Company provided a status report on the handling of its remaining assets and a plan for disposal of the assets. The assets consist mainly of a tax loss carry forward, shareholdings and entitlement to potential future milestone payments and royalties. The main content of the stock exchange announcement is still valid and is therefore repeated below with a few minor adjustments for events that have subsequently occurred.

During the year, the Company has transferred the last of its remaining patents and projects, the so-called "small dopidines", ACR325 and ACR343, to Saniona AB. As a result, the Company does not own any further patents.

The value of the listed assets, including rights, cannot be specified any further and are subject to considerable uncertainty due to the absence of an established market for such assets and uncertainty as to whether and when the criteria for payment of royalties and milestones to NeuroSearch will be met.

Asset	Contents	Plan for divesting values
Value of tax loss	Tax loss carryforwards in the parent company (NeuroSearch A/S) amounts to approx. DKK 1.7 billion.	The Company is regularly scanning the market for potential buyers of NeuroSearch and the accompanying tax loss.
Potential milestone payments from TEVA regarding Huntexil®.	If Huntexil® is granted market approval, NeuroSearch will be entitled to receive three milestone payments totalling up to DKK 55 million. In 2016, Teva Pharmaceutical Industries Ltd. announced positive data from a comprehensive Phase II study. NeuroSearch has no further insight into Teva's future plans for developing Huntexil® and is therefore unable to assess the likelihood of payments to NeuroSearch being triggered or the timing of such payments.	NeuroSearch has initiated a process to identify any possibility of divesting the Company's entitlement to potential milestone payments from Teva.
Winding up of the associate NsGene A/S.	NeuroSearch owns 26.8% of NsGene.	NsGene entered into voluntary liquidation on 30 January 2017. The closing-down has almost been completed, and NeuroSearch has recognised DKK 4.5 million in its financial statements for 2016, which the Company expects to receive in the first half of 2017.
Atonomics A/S	NeuroSearch owns 3.9% of Atonomics.	NeuroSearch has initiated a process to identify possibilities of divesting the Company's shareholding.
Agreements with Saniona A/S and Saniona AB	A number of projects, rights and patents have been transferred to Saniona. Under the terms of the agreements, NeuroSearch is entitled to minor milestone payments and potential royalties related to specific project milestones. Some of these potential royalties must be shared with Boehringer Ingelheim and GlaxoSmithKline, respectively.	NeuroSearch has initiated a process to identify possibilities of divesting the Company's entitlement to potential milestone payments and potential royalties.

Board of Directors

Financial highlights

Financial highlights for the Group (DKK million)

Income statement and comprehensive income	2012	2013	2014	2015	2016
Gain from divestment of intellectual property	120.7	28.8	-	-	1.3
Development cost	457.2	21.7	-	-	-
General and administrative cost	(46.7)	16.7	13.3	6.5	7.6
Operating profit/(loss)	(289.8)	(9.6)	(13.3)	(6.5)	(6.3)
Net financials	(37.2)	5.1	2.7	(0.3)	27.9
Profit/(loss) of continuing operations before tax	(327.1)	(4.5)	(10.6)	(6.8)	21.6
Net profit/(loss) of discontinued operations	57.4	15.6	1.6	1.3	1.2
Profit/(loss) for the period	**(275.6)**	**12.4**	**(7.7)**	**(5.5)**	**22.8**
Comprehensive income**	(243.5)	6.6	(10.2)	(5.3)	(1.0)
Balance sheet					
Total assets	207.5	92.2	84.0	78.6	79.4
Cash and cash equivalents and securities	81.4	88.8	83.4	78.0	74.4
Equity	81.1	88.0	77.7	72.4	71.4
Per share ratios* (DKK)					
Earnings per share	(11.22)	0.50	(0.32)	(0.23)	0.93
Diluted earnings per share	(11.22)	0.50	(0.32)	(0.23)	0.93
Net asset value	3.30	3.58	3.17	2.95	2.91
Market price at year-end	3.74	3.10	2.59	2.51	3.01
Market price/net asset value	1.13	0.87	0.82	0.85	1.04
Average number of employees	88	18	2	2	2
Number of employees at 31 December	26	2	2	2	2

* The ratios are stated in accordance with "Recommendations and Financial Ratios" issued by The Danish Finance Society.

** Comprehensive income includes unrealised currency translation adjustment and fair value adjustment of the hedge of the net investment in NeuroSearch Sweden AB.

Assets in NeuroSearch

NeuroSearch no longer carries out any research or development of the Company's drug candidates.

Agreements

Agreements	Value and conditions
Teva Pharmaceuticals	NeuroSearch is entitled to: • Milestone payments of up to a total of DKK 55 million distributed as follows: To be received upon first registration application for Huntexil® DKK 22 million, to be received upon marketing approval inside the EU/EFTA DKK 16.5 million, and to be received upon marketing approval outside the EU/EFTA DKK 16.5 million. In April 2014, TEVA announced the first enrolment of patients to a phase II trial, and in September 2016, Teva announced positive results from this phase II trial. As it is currently not certain that TEVA will submit their first registration application regarding Huntexil® in the near future, NeuroSearch has chosen not yet to recognise milestone payments from TEVA regarding Huntexil® (announcement no. 21-12)
Saniona A/S and Saniona AB	NeuroSearch is entitled to: • Potential milestone payments or royalties from Saniona A/S (announcement no. 20-12) • Potential payments from Saniona of up to 20% of milestones and any royalties that Saniona may obtain in connection with the further development of NS2359 and NS2330 (tesofensine) as well as of any potential drugs based on NS2359 or NS2330, which Saniona took over from NeuroSearch in October 2014 (announcement no. 13-14) and the two drug candidates ACR325 and ACR343 that were transferred to Saniona in May 2016 (company announcement 6-16). With respect to NS2330 and NS2359, any milestones and royalties must be shared with Boehringer Ingelheim and GlaxoSmithKline, respectively.

Investments in other companies

	Ownership
Associated company	
NsGene A/S	NeuroSearch holds 26.8% of the shares in NsGene.The closing-down has almost been completed, and NeuroSearch has recognised DKK 4.5 million in its financial statements for 2016, which the Company expects to receive in the first half of 2017
Available-for-sale financial asset	
Atonomics A/S	NeuroSearch holds 3.9% of the shares in Atonomics

Tax

	Tax
Tax	As of 31 December 2016, the Parent Company (NeuroSearch A/S) had tax losses carried forward totalling approximately DKK 1,707 million which can be carried forward indefinitely. In addition, the Parent Company had deductible temporary differences (net) of approximately DKK 84 million, a total of approximately DKK 1,791 million. The carrying amount of the unrecognised potential deferred tax assets was approximately DKK 394 million for the Parent Company at a tax rate of 22% (2015: DKK 394 million)

Shareholder information

NeuroSearch is listed on Nasdaq Copenhagen A/S under securities identification code 1022466 (NEUR) and is included in the SmallCap segment.

Share price and market cap performance in 2016

On 30 December 2016, the closing price of the NeuroSearch share was DKK 3.01, compared with a year-end closing price of DKK 2.51 in 2015, equivalent to a 20% increase.

Turnover

In 2016, the turnover of NeuroSearch shares totalled DKK 11 million, equivalent to an average daily turnover of DKK 43 thousand. A total of approximately 4 million shares were traded (18%) during the year. I 2015, total turnover in the share was DKK 27 million corresponding to an average daily turnover of DKK 109 thousand and a total number of shares traded of approximately 9 million (37%).

Latest share price and market capitalisation

On 23 February 2017, the closing price of the NeuroSearch shares was DKK 3.77, equivalent to a market capitalisation of NeuroSearch of DKK 93 million.

Ownership structure

On 30 December 2016, NeuroSearch had 13,729 registered shareholders, who held a total of 18,352,911 shares.

This corresponds to 75% (2015: 76%) of the total outstanding share capital being registered in the Company's register of shareholders. In 2016, the number of registered NeuroSearch shareholders decreased by 1,159, but at the same time the registered part of the share capital remained almost unchanged.

The Company's shares are bearer securities, and thus no exact registration of the holders exists.

The following investors have notified NeuroSearch that they hold more than **10%** of the shares in the Company:

- **Porter Orlin LLC**, 666 5th Avenue # 3403, New York, NY 10103-3402, USA (10.11%)

The following investors have notified NeuroSearch that they hold more than **5%** of the shares in the Company:

- **Glaxo Group Limited**, Berkeley Ave., Greenford, Middlesex, UB6 0NN, United Kingdom (5.17%)
- **ATP**, Kongens Vænge 2, DK-3400 Hillerød, Denmark (9.94%)
- **Luxor Capital Group**, LP, 1114 Avenue of the Americas, 29th Floor, New York, NY 10036, USA (9.99%)

NeuroSearch will not pay dividends for 2016.

Financial calendar for 2017

The Annual General Meeting will be held on Tuesday, 21 March 2017 at 4 pm (local time) at Kromann Reumert, Sundkrogsgade 5, 2100 Copenhagen Ø, Denmark.

Financial reporting for 2017

21 March 2017

Annual General Meeting

31 August 2017

Interim report for H1 2017

In-house rules

The Board of Directors, Management and all other employees of NeuroSearch are subject to the Company's in-house stock exchange rules of ethics for trading in the Company's shares and treatment of inside information. NeuroSearch has established a procedure for monitoring in-house trading in company shares.

As a Danish public company, the Company's communications must comply with the rules and regulations set out in the Market Abuse Regulation and in the Rules for Issuers of Shares on Nasdaq Copenhagen. Thus, the Company's most important communications tools are company announcements and press releases issued via the Nasdaq Copenhagen distribution service. Following public release, all news releases are posted on the Company's website. Further, direct contact and dialogue with all investor market stakeholders are very important.

Website

The company's corporate website (www.neurosearch.com) is updated regularly so that our shareholders and other stakeholders can get an overview of the status and prospects for the Company as a whole.

News service by email

We invite all shareholders and other stakeholders to register for the Company's email service in order to automatically receive all company announcements and press releases directly by email.

You can register for the Company's email service directly at www.neurosearch.com.

Report on CSR and gender composition

NeuroSearch's Board of Directors consists of two male members and one female member, so the Company maintains an equal gender distribution at the supreme management level. There is an equal gender distribution at the other management levels, and the Company consequently does not define policies in this respect.

In view of its size and current activities, NeuroSearch no longer has:

- A policy for corporate social responsibility
- A policy for respecting human rights
- A policy for reducing the climate impact from the Company's activities

Working environment
The physical working environment has been simplified in step with the reduction of activities in NeuroSearch. The Company's office is located in an office partnership from where the remaining administration is handled.

Risk management and internal control

See note 18 to the Consolidated Financial Statements.

Financial review

The Annual Report 2016 includes the Consolidated Financial Statements of NeuroSearch A/S, comprising the parent company and the three wholly-owned subsidiaries NeuroSearch Sweden AB, Poseidon Pharmaceuticals A/S and NsExplorer A/S.

Cash and cash equivalents
As at 31 December 2016, cash and cash equivalents totalled DKK 74 million.

Income statement
In 2016, the Group posted an operating loss on continuing operations of DKK 6 million (2015: DKK 7 million). This was in line with the previously announced expectations of an operating loss in the region of DKK 4-6 million.

NeuroSearch posted an after tax income on continuing operations of DKK 22 million (2015: loss of DKK 7 million). The income for the year includes recycling of currency translation in the amount of DKK 23.5 million.

A consolidated income of DKK 23 million was posted for the year (2015: loss of DKK 6 million).

Costs
Consolidated costs totalled DKK 8 million (2015: DKK 6 million). A provision has been made in the financial statements for costs derived from the judgment delivered by the Danish Supreme Court on 14 November 2016, including for the few claims made against the Company, which are currently being reviewed by the Company together with its external lawyers. See notes 1and 15 to the Consolidated Financial Statements.

General and administrative costs totalled DKK 8 million (2015: DKK 6 million).

Net financials
Financials amounted to a net income of DKK 27.9 million (2015: net expense of DKK 324 thousand). The NeuroSearch Group's shares of results of associate – NsGene A/S – are recognised in the income statement at a total income of DKK 4.5 million (2015: DKK 0 million). Financial income amounted to DKK 23.8 million in 2016 (2015 DKK 122 thousand), and financial expenses, which amounted to DKK 389 thousand (2015: DKK 446 thousand) were interest expenses. Financial income primarily concerns recycling of currency translation in the amount of DKK 23.5 million, which was previously recognised in equity under other comprehensive income. The recycling was made as a result of the disposal of ACR325 and ACR343, which were sold to Saniona AB in May 2016.

Income taxes
As of 31 December 2016, the Parent Company (NeuroSearch A/S) had tax losses carried forward totalling approximately DKK 1,707 million which can be carried forward indefinitely. In addition, the Parent Company had deductible temporary differences (net) of approximately DKK 84 million, a total of approximately DKK 1,791 million. The carrying amount of unrecognised potential deferred tax assets was approximately DKK 394 million for the Parent Company at a tax rate of 22% (2015: DKK 394 million).

Discontinued operations
A minor profit of DKK 1 million was recognised from discontinued operations (2015: income of DKK 1 million). The income in 2016 consisted of payments regarding some of the agreements made in 2011 and

2012 regarding the wind-down of the research division NsDiscovery. A number of projects were transferred to spin-offs in the hope they would generate future income from there.

Allocation of profit/loss

It is proposed that the year's consolidated income of DKK 23 million be transferred to retained earnings.

Balance sheet

The balance sheet stood at DKK 79 million at 31 December 2016 (2015: DKK 79 million).

Cash and cash equivalents totalled DKK 74 million at 31 December 2016 (2015: DKK 78 million).

Statement of cash flows

The cash flow from operating activities amounted to a cash outflow of DKK 3 million in 2016 compared to a cash outflow in 2015 of DKK 5 million.

The cash flow from investing activities was DKK 0 million in 2016 (2015: DKK 0 million).

The cash flow from financing activities was a cash inflow of DKK 1 million in 2016 (2015: DKK 0 million).

Cash and cash equivalents thereafter amounted to DKK 74 million at 31 December 2016 (2015: DKK 78 million).

Statement of movements in equity

Equity increased by the consolidated income for the year of DKK 23 million, and was reduced by exchange rate adjustments, including recycling of currency translation, in the amount of DKK 24 million, net DKK 1 million. Equity stood at DKK 71 million at 31 December 2016 (2015: DKK 72 million).

Financial risks

For further details, please see the discussion under "Risk management and internal control" in note 18 and information on financial risks stated in note 16.

Related parties

Related parties comprise the members of the Company's Executive Management, the Board of Directors, subsidiaries and the associated company NsGene A/S. In addition, Kromann Reumert is considered a related party as Christian Lundgren, who is a member of our Board of Directors, is a partner in the law firm.

Outlook for 2017

In 2017, NeuroSearch expects an operating loss in the range of 4.5-5.5 million. The outlook primarily includes costs for the continuing efforts to dispose of the Company's assets, maintaining the Company's stock exchange listing and maintaining its day-to-day operations. The outlook does not include any income from the possible sale of Company assets or other potential income from the Company's agreements with Teva, Saniona or others.

Events after the balance sheet date

No events have occurred after the end of the financial year that may have a material impact on the financial statements.

Board of Directors

Karin Garre

Danish citizen, born 1957
Position: Executive Head, Psychiatric Centre of Copenhagen

Member of the Board of Directors since December 2013 and Chairman of the Board of Directors since December 2013. Karin Garre is considered an independent Board member in accordance with the corporate governance recommendations.

Special competencies: Karin Garre is a medical doctor and has more than 25 years of broad executive experience from the pharmaceutical industry and experience from board memberships, including from StemCare A/S and LTC A/S. Karin Garre has previously held positions as Chief Development Officer and Executive Vice President in NeuroSearch A/S.

Allan Andersen

Danish citizen, born 1945
Position: CEO, AA Consult ApS

Member of the Board of Directors since May 1989, Chairman of the Board of Directors from January 2013 until December 2013. Allan Andersen is not considered an independent Board member in accordance with the corporate governance recommendations as he has been a member of the Board of Directors for more than 12 years.

CEO of NeuroSearch A/S since 1 December 2013, Executive Director of AA Consult ApS, Executive Director of Allan Consulting EOOD, Executive Director of AA Consulting EOOD, Executive Director of Provadia Cheese OOD and Executive Director of Jeravna Development EOOD.

Special competencies: Allan Andersen holds more than 30 years of broad experience from different company boards and has extensive financial knowledge as well as shareholder experience from the biotech industry.

Christian Lundgren

Danish citizen, born 1966
Position: Attorney-at-law and Partner at the law firm of Kromann Reumert

Member of the Board of Directors since January 2013. Christian Lundgren is not considered an independent Board member in accordance with the corporate governance recommendations as Kromann Reumert are regularly engaged as the Company's lawyer.

Member of the Board of Directors of Det Nissenske Familiefond.

Special competencies: Christian Lundgren holds many years of experience within consulting, restructuring and other transactions relating to listed companies and has in-depth knowledge of the biotech industry.

Executive Management

Allan Andersen

CEO
(Born 1945, member of the Executive Management since 2013)
(see directorships under Board of Directors)

Management structure

Corporate governance

Pursuant to the rules of Nasdaq Copenhagen A/S, listed companies must state their position relative to the "Corporate Governance Recommendations 2013" as most recently updated in November 2014. This must be done applying the "comply or explain" principle. In accordance with section 107b of the Danish Financial Statements Act, NeuroSearch has prepared a statutory report on corporate governance which is available in full at the Company's website (www.neurosearch.com/Default.aspx?ID=8477).

Board of Directors

All members of the Board of Directors elected by the shareholders at the Annual General Meeting are elected for terms of one year.

Seven actual Board meetings were held during 2016. The Board performs its duties in accordance with a written set of rules of procedure. The rules of procedure include rules on the allocation of powers and duties between the Board of Directors and the Executive Management and on minute books, the register of shareholders and other records.

Remuneration

Members of the Board of Directors of NeuroSearch receive a fixed fee. The fee is fixed according to the standards in the market and reflects demands to their competencies and efforts in light of the scope of their work and the number of Board meetings.

The Chairman's fee in respect of 2016 was DKK 500,000, and fees paid to each of the ordinary members amounted to DKK 250,000, equivalent to a total of DKK 1 million.

The Board of Directors does not receive any other remuneration from NeuroSearch than the fixed remuneration, except for Allan Andersen, who is CEO and receives remuneration as such. Christian Lundgren is a partner of Kromann Reumert, which regularly receives consulting fees from the Company and therefore is considered a related party to NeuroSearch. For information on remuneration to the Board of Directors as a related party, reference is made to note 14 to the Consolidated Financial Statements.

For information regarding the number of NeuroSearch shares held by the Board of Directors, see note 2 to the Consolidated Financial Statements.

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
Denmark

Legal advisers

Kromann Reumert
Sundkrogsgade 5
DK-2100 Copenhagen Ø
Denmark

Bank

Nordea Bank Danmark A/S
Strandgade 3
P.O. Box 850
DK-0900 Copenhagen C
Denmark

Management's statement

The Board of Directors and Executive Management today considered and adopted the Annual Report of NeuroSearch A/S for the financial year 1 January - 31 December 2016.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Financial Statements are prepared in accordance with the Danish Financial Statements Act. Moreover, the Consolidated Financial Statements and the Financial Statements are prepared in accordance with additional Danish disclosure requirements for listed companies. Management's Review is also prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the assets, liabilities and financial position at 31 December 2016 of the Group and the Company and of the results of the Group and the Company operations and consolidated cash flows for the financial year 1 January - 31 December 2016.

In our opinion, Management's Review includes a true and fair account of developments in the operations and financial circumstances of the Group and the Company, of the results for the year and of the financial position of the Group and the Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Company.

We recommend that the Annual Report be approved at the Annual General Meeting.

Hellerup, 24 February 2017

Executive Management

Allan Andersen
CEO

Board of Directors

Karin Garre
Chairman

Christian Lundgren

Allan Andersen

Independent auditor's reports

To the Shareholders of NeuroSearch A/S

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January - 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2016 and of the results of the Parent Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

What we have audited
NeuroSearch A/S's Consolidated Financial Statements and Parent Company Financial Statements for the financial year 1 January - 31 December 2016 comprise accounting policies, income statement, balance sheet, statement of changes in equity and notes to the financial statements for the Group as well as for the Parent Company and statement of comprehensive income and cash flow statement for the Group. Collectively referred to as the "financial statements".

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material Uncertainty related to Going Concern

We draw attention to note 1, section "Basis of preparation", in the Consolidated Financial Statements, which states that the Company has received a few claims as a result of the Supreme Court upholding the judgment for market manipulation. As stated in note 1, at present it is impossible for the Company Management to assess the amount of potential additional claims that may be raised against the Company. The total amount of such potential additional claims are subject to material uncertainty, which may cast significant doubt on the Company's and the Group's ability to continue as a going concern. This matter has not led to modification of our conclusion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. Except for the matter described under "Material Uncertainty related to Going Concern", we have determined that there are no other key audit matters in the audit to communicate in our auditor's report.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover 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 Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company 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 Group's and the Parent 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 unless Management either intends to liquidate the Group or the Parent 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 about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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 Group's and the Parent 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 and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent 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 Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 24 February 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-no. 33 77 12 31

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NeuroSearch
Consolidated Financial Statements

Accounting policies

for the period 1 January – 31 December

The accounting policies applied in the preparation of the Consolidated Financial Statements are set out below.

The accounting policies are unchanged from previous years.

Basis of preparation
The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for the annual reports of listed companies. Additional Danish disclosure requirements for the presentation of financial statements are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act and by Nasdaq Copenhagen A/S.

The Financial Statements of the parent company, NeuroSearch A/S, are presented in accordance with the provisions of the Danish Financial Statements Act. The Financial Statements are presented on pages 40-48, and the accounting policies are described on page 41.

The Consolidated Financial Statements have been prepared under the historical cost convention, as modified by revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, and areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed in note 1.

The Consolidated Financial Statements are presented in DKK, which is also the functional currency of the parent company.

Implementation of new standards, amendments and interpretations
The Company has implemented the following amendments or new standards (IFRS) for financial year 2016:

- Annual improvements (2012-2014). The annual improvements imply a number of minor amendments to IFRS:
  - IFRS 5
  - IFRS 7
  - IAS 19
  - IAS 34
- IAS 16/IAS 38: Methods of depreciation/amortisation based on revenue can no longer be used
- IAS 1: Amendments to IAS 1 to improve IFRS disclosure requirements. The amendments concern materiality, presentation, disaggregation and subtotals in the income statement and balance sheet as well as the order of notes.

NeuroSearch has assessed the effect of the new standards, amendments and interpretations. NeuroSearch has concluded that all standards, amendments and interpretations effective for financial years beginning on or after 1 January 2016 are either not relevant to the NeuroSearch Group or have no significant effect on the Financial Statements of the NeuroSearch Group.

<u>New standards, amendments and interpretations adopted but not yet effective</u>

The following new standards, amendments and interpretations of relevance to the NeuroSearch Group have been adopted by the IASB and adopted by the EU. The standards are not yet effective and will therefore not be implemented in the Annual Reports until they take effect.

- IFRS 15 "Revenue from Contracts with Customers" New standard on revenue recognition. The standard may potentially affect revenue recognition in a number of areas depending on the industry in which the entity operates, including:
  - The timing of revenue recognition
  - Recognition of variable consideration
  - Allocation of revenue from multi-element arrangements
  - Recognition of revenue from licence rights
  - Up-front fees
  - Additional disclosure requirements

  The standard will be effective for financial years beginning on or after 1 January 2018.

- IFRS 9: "Financial Instruments" - on the measurement and classification of financial assets and liabilities. The number of classification categories for financial assets is reduced to three: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Entities taking the fair value option are required under IFRS 9 to present the share of the fair value change for the period which is attributable to changes in the entity's own credit risk in other comprehensive income. Further, the impairment model for financial assets is changed to a model based on expected credit losses under which changes to the credit risk imply changes to the provision for bad debts. The hedge accounting rules are relaxed so as to be aligned with the entity's risk management practices. The standard will be effective for financial years beginning on or after 1 January 2018.

NeuroSearch has assessed the effect of the new standards, amendments and interpretations. The Company expects - given the current activity – that they will not have any effect at the time of implementation.

The IASB has issued the following new standards, amendments and new interpretations which could be relevant to NeuroSearch, but which have not yet been adopted by the EU:

- IFRS 14: "Regulatory Deferral Accounts". New common standard on regulatory assets (surplus/deficit) for first-time adopters of IFRS. The EU has, however, positively decided that this standard should not be applicable within the EU. The standard took effect for financial years beginning on or after 1 January 2016.
- IFRS 16: "Leases". New standard on the accounting treatment of leases. Going forward, the lessee is required to recognise all leases as a lease liability and a lease asset in the balance sheet. The standard will be effective for financial years beginning on or after 1 January 2019.
- IAS 12: Amendments clarifying the requirements for recognising deferred tax assets on unrealised losses on securities adjusted to fair value through other comprehensive income. The amendment will be effective for financial years beginning on or after 1 January 2017.
- IAS 7: Additional disclosures on reconciliation of financial liabilities required. Interest-bearing debt to be reconciled from beginning to end of period. The amendment will be effective for financial years beginning on or after 1 January 2017.
- IFRS 15: Clarifications concerning the identification of performance obligations, principal versus agent

considerations and licence considerations. The amendment will be effective for financial years beginning on or after 1 January 2018.
- IFRS 2: Changes to vesting conditions for cash-settled share-based payment schemes and the accounting treatment of modifications to a cash-based scheme. The amendment will be effective for financial years beginning on or after 1 January 2018.
- IFRIC 22: "Foreign Currency Transactions and Advance Consideration". The exchange rate at the date of transaction of the advance consideration is to be applied. In case of multiple advance payments, a date of transaction is to be determined for each payment. The interpretation will be effective for financial years beginning on or after 1 January 2017.
- IAS 40: The amendments clarify the use of the provisions of IAS 40, Investment Property, on transfers to and from investment property. The amendments will be effective for financial years beginning on or after 1 January 2018.
- Annual improvements (2014-2016). The annual improvements imply a number of minor amendments to IFRS:
  - IFRS 1
  - IFRS 12
  - IAS 28

NeuroSearch expects these new standards and interpretations to be implemented when they become effective. Given the current activity, NeuroSearch does not expect that they will have any impact at the time of implementation.

Basis of consolidation
Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are continuously exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

They are deconsolidated from the date that control ceases.

The Consolidated Financial Statements are prepared by adding the audited financial statements of the parent company and the individual subsidiaries, all of which are prepared in accordance with the Group's accounting policies. On consolidation, intercompany income and expenses, shareholdings, balances, dividends and unrealised intercompany gains and losses are eliminated.

All subsidiaries are consolidated:

- NeuroSearch Sweden AB
- Poseidon Pharmaceuticals A/S
- NsExplorer A/S

NsExplorer A/S and Poseidon Pharmaceuticals A/S were closed down at 30 November 2016 and are recognised for this period. NeuroSearch Sweden AB was recognised for the full 2016, but the company is being wound up and will be closed down in June 2017.

Segment reporting
The Group is managed as a single business unit. The internal management and reporting structure comprises only one business unit, and the Group therefore has only one operating segment, for which reason no segment information is provided.

Discontinued operations
Net profit after taxation of discontinued operations divested pursuant to a comprehensive plan or closed is presented in one line after profit/(loss) from continuing operations. Write-downs related to assets of the discontinued operations are included in the item.

Foreign currency translation
For each of the reporting companies in the Group, a functional currency is determined. The functional currency is the currency used in the primary economic environment in which the individual reporting entity operates. Transactions in currencies other than the functional currency are transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the transaction date. Exchange differences arising between the exchange rate at the transaction date and the exchange rate at the date of actual payment are recognised in the income statement under financial income or financial expense.

Receivables, payables and other monetary items denominated in foreign currencies are translated into the functional currency at the exchange rates ruling at the balance sheet date. The difference between the exchange rate ruling at the balance sheet date and the exchange rate ruling at the date when the receivable or payable arose, or the exchange rate applied in the most recent annual report, is recognised in the income statement under financial income or financial expense.

On consolidation of companies with functional currencies other than DKK, the income statements are translated at the exchange rates ruling at the transaction date and the balance sheets are translated at the exchange rates ruling at the balance sheet date. The average exchange rate for each individual month is used as the transaction date, provided this does not give a much different view. Exchange differences arising on the translation of the opening equity of such companies at the exchange rates ruling at the balance sheet date and on the translation of the income statements from the exchange rates ruling at the transaction date to the exchange rates ruling at the balance sheet date are included in other comprehensive income and classified as a separate equity reserve for currency translation.

Foreign exchange adjustment of balances that are considered as part of the overall net investment in companies with functional currencies other than DKK are recognised directly in equity in the Consolidated Financial Statements in a separate reserve for currency translation. Similarly, exchange gains and losses on the part of loans and derivative financial instruments effectively hedging the net investment in such companies and which effectively hedge against corresponding exchange gains/losses on the net investment in the companies are recognised in other comprehensive income and classified in a separate reserve for currency translation.

On full or partial divestment of foreign entities or on repayment of balances that are considered to be part of the net investment, the attributable part of the accumulated exchange rate adjustments recognised in other comprehensive income is recognised in the income statement together with any gain or loss on the divestment.

Income tax and deferred tax
Tax on income for the year, consisting of the year's current tax and deferred tax, is recognised in the income statement to the extent that it relates to the income or loss for the year and in other comprehensive income or equity to the extent that it relates thereto. Current tax liabilities are recognised in the balance sheet as short-term liabilities to the extent such items have not been paid. If the tax paid during the year exceeds current tax for the year and prior years, the amount expected to be repaid is recognised in the balance sheet under receivables. Current tax includes tax payable based on the year's expected taxable income and any adjustments of prior year tax charged to the income statement.

Deferred tax is calculated on all temporary differences between accounting and tax values. Deferred taxes are measured according to current tax rules and at the tax rates expected to be in force on the elimination of the temporary differences. Deferred tax arising on tax-deductible temporary differences (tax assets) is included in the balance sheet only if there is reasonable certainty that the tax assets can be set off by NeuroSearch A/S against future taxable income. The amounts of tax-deductible temporary differences which are not capitalised are disclosed in a note to the Financial Statements.

NeuroSearch A/S is jointly taxed with its Danish Group companies. The jointly taxable income is stated as the sum of the individual results of the Group companies after deduction of loss carry-forwards, as separate losses from previous assessment years may only be deducted and carried forward in the individual company. In case of carry-forwards, the oldest losses must be set off first.

If the jointly taxable income is positive, the profit is distributed proportionately between the profit-making companies. If the jointly taxable income is negative, the loss is distributed proportionately between the loss-making companies and carried forward in the company in question for set-off in subsequent years.

INCOME STATEMENT

Revenue recognition

Revenue consists of milestone payments and other income from research and development agreements. Revenue is recognised when it is probable that future economic benefits will flow to NeuroSearch and these benefits can be measured reliably.
Up-front payments that are attributable to subsequent research and/or development activities are recognised as deferred revenue and will subsequently be recognised as revenue over the expected contract period. Non-refundable up-front payments and milestone payments that are not attributable to subsequent research and/or development activities or other delivery obligations are recognised as revenue when the contracts are signed or when the milestone criteria are met respectively.

Income related to development and license agreements, research agreements, biotech alliances, and other biotech business models are recognised as revenue.

Income from spin-offs is recognised as Income from divestment of intellectual property.

General and administrative costs

General and administrative costs include salaries, other staff costs, office costs, etc., as well as depreciation.

Financials

Financial items comprise interest, financial expenses for finance leases, realised and unrealised currency translation adjustments and fair value adjustments of securities. Interest income and expenses are recognised in the income statement at the amounts relating to the relevant financial year.

BALANCE SHEET

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Intangible assets". Goodwill on acquisitions of associates is included in "Investments in associates". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill in respect of the entity sold.

Development projects

Development projects acquired in connection with business combinations are measured at cost less accumulated depreciation and impairment.
After completion of the development work, development projects are amortised on a straight-line basis over their estimated useful economic lives from the time the asset is ready for use.
The amortisation period is expected to be 12 years. The basis of amortisation is reduced by any impairment write-downs.

Due to the very long development periods and significant uncertainty in connection with the development of new products, in-house development costs are generally not deemed to meet the requirements for capitalisation. The criteria for technical viability are not deemed to have been met until regulatory approval has been obtained. All in-house research and development costs are therefore recognised in the income statement as incurred.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not amortised but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have previously suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Investments in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method and are initially recognised at cost.

The Group's investments in associates include goodwill (net of accumulated impairment losses) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition income and costs recognised in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Financial assets

Financial assets are recognised on the trading date – the date on which the Group commits to purchase or sell the asset.

The Group and the parent company classify their financial assets in the following categories:

- at fair value through profit or loss
- loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets on initial recognition and re-evaluates this designation at every reporting date.

Financial assets measured at fair value through profit or loss
Financial assets designated as measured at fair value through profit or loss on initial recognition are those that are managed and whose performance is evaluated on a fair value basis, in accordance with a documented Group investment strategy. The investments and returns thereon are included on this fair value basis in the management reporting. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date. Marketable securities have been designated by Management as financial assets measured at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities longer than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "Other receivables" in the balance sheet.

Receivables are recognised at amortised cost less impairment losses. On initial recognition, the fair value is deemed to correspond to amortised cost. An impairment loss is recorded on receivables when there is objective evidence that NeuroSearch will not be able to collect all amounts due according to the original terms of receivables. Significant difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the income statement under research or development costs.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, short-term investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are stated as borrowings under current liabilities in the balance sheet.

Financial liabilities
Other liabilities including trade creditors, amounts owing to subsidiaries and associates and other debt are measured at amortised cost.

STATEMENT OF CASH FLOWS

The statement of cash flows is prepared according to the indirect method based on net profit. The statement shows the Group's cash flows broken down by operating, investing and financing activities and cash and cash equivalents at the end of the year. For the cash flow statement, cash flows from foreign subsidiaries are translated at average exchange rates for the year.

Cash flows from operating activities represent the net profit/(loss) adjusted for non-cash operating items and changes in working capital.

Cash flows from investing activities include cash flows from the purchase and sale of intangible assets, property, plant and equipment, long-term financial assets and marketable securities with original maturities of more than three months.

Cash flows from financing activities include cash flows from capital increases, the raising and repayment of long-term debt and financial items.

Statement of total recognised income and expenses

for the period 1 January – 31 December (DKK thousands)

Note	Income statement	2016	2015
	Revenue	-	-
	Total revenue	**0**	**0**
	Gain from divestment of intellectual property	1,327	-
	Total other income	**1,327**	**0**
2	General and administrative costs	7,627	6,488
	Total costs	**7,627**	**6,488**
	Operating profit/(loss)	**(6,300)**	**(6,488)**
9	Share of profit/(loss) of associates	4,500	-
3	Financial income	23,805	122
4	Financial expense	389	446
	Total financials	**27,916**	**(324)**
	Profit/(loss) before taxes of continuing operations	**21,616**	**(6,812)**
5	Tax on profit/(loss) for the year of continuing operations	-	-
	Net profit/(loss) of continuing operations	**21,616**	**(6,812)**
6	Profit/(loss) of discontinued operations	1,199	1,274
	Net profit/(loss)	**22,815**	**(5,538)**
	Other comprehensive income:		
	Items which are transferred to the income statement under certain conditions:		
	Recycling of currency translation	(23,469)	-
	Exchange adjustment of net investment in foreign subsidiary	(363)	224
	Total other comprehensive income	**(23,832)**	**224**
	TOTAL COMPREHENSIVE INCOME	**(1,017)**	**(5,314)**
7	Earnings per share, continuing operations, DKK	0.88	(0.28)
7	Diluted earnings per share, continuing operations, DKK	0.88	(0.28)
7	Earnings per share for the year, DKK	0.93	(0.23)
7	Diluted earnings per share for the year, DKK	0.93	(0.23)

Balance sheet at 31 December (DKK thousands)

Note	ASSETS	2016	2015
8	Development projects	-	-
8	Goodwill	-	-
9	Investments in associates	4,500	-
10	Available-for-sale financial assets	-	-
	Total non-current assets	**4,500**	**0**
11	Other receivables	474	627
12	Cash and cash equivalents	74,447	77,967
	Total current assets	**74,921**	**78,594**
	TOTAL ASSETS	**79,421**	**78,594**

Note	EQUITY AND LIABILITIES	2016	2015
	Share capital	24,554	24,554
	Reserve for currency translation	(9,868)	13,964
	Retained earnings	56,697	33,882
	Total equity	**71,383**	**72,400**
	Trade and other payables	808	769
20	Other liabilities	7,230	5,425
	Total current liabilities	**8,038**	**6,194**
	Total liabilities	**8,038**	**6,194**
	TOTAL EQUITY AND LIABILITIES	**79,421**	**78,594**

1	Accounting estimates and judgments
13	Fees to auditors appointed at the Annual General Meeting
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Statement of cash flows

for the period 1 January – 31 December (DKK thousands)

Note		2016	2015
	Net profit/(loss)	22,815	(5,538)
17	Adjustments	(28,275)	145
	Change in working capital		
	Net changes in receivables	153	6
	Net changes in current debt	1,844	278
	Cash flow from operating activities	**(3,463)**	**(5,109)**
	Cash flow from investing activities	**0**	**0**
	Financial payments received	225	122
	Financial payments made	389	446
	Cash flow from financing activities	**(53)**	**(324)**
	Net cash flows	**(3,516)**	**(5,433)**
	Net increase/(decrease) in cash and cash equivalents	**(3.516)**	**(5,433)**
	Cash and cash equivalents at 1 January	77,967	83,397
	Foreign exchange adjustment of cash and cash equivalents	(4)	3
	Cash and cash equivalents at 31 December	**74,447**	**77,967**

Statement of movements in equity (DKK thousands)

	Share capital*	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2015	**24,554**	**13,740**	**39,420**	**77,714**
Net profit/(loss)	-	-	(5,388)	(5,388)
Foreign exchange adjustment of net investment in foreign subsidiary	-	224	-	224
Other comprehensive income	0	224	0	(5,314)
Total recognised income for the year	0	224	(5,388)	(5,314)
Equity at 31 December 2015	**24,554**	**13,964**	**33,882**	**72,400**
Equity at 1 January 2016	**24,554**	**13,964**	**33,882**	**72,400**
Net profit/(loss)	-	-	22,815	22,815
Recycling of currency translation	-	(23.469)	-	(23,469)
Foreign exchange adjustment of net investment in foreign subsidiary	-	(363)	-	(363)
Other comprehensive income	0	(23,832)	0	(23,832)
Total recognised income for the year	0	(23,832)	22,815	(1,017)
Equity at 31 December 2016	**24,554**	**(9,868)**	**56,697**	**71,383**

* Under Danish corporate law, share capital may not be used for distribution of dividends.

** In accordance with the Danish Companies Act, “Share premium” has been transferred to “Retained earnings”. Accumulated “Share premium” was DKK 2,408 million at 31 December 2016 (2015: DKK 2,408 million).

No dividend has been paid during this or earlier reporting periods.

Treasury shares	Number of shares	Nominal value	Percen-tage of share capital	Market value DKK million
Treasury shares at 1 January 2016	265,946	265,946	1.08	0.7
Adjustments		-	-	0.1
Treasury shares at 31 December 2016	**265,946**	**265,946**	**1.08**	**0.8**

Notes to the financial statements

1 Significant accounting estimates and judgments

The preparation of the Consolidated Financial Statements requires NeuroSearch to make estimates and judgments that affect the reporting of assets, liabilities and expenses and the related disclosure of contingent assets and liabilities. The estimates are reviewed on an ongoing basis. The estimates are based on historical experience and on various other assumptions which NeuroSearch believes to be reasonable under the circumstances. However, the actual results may differ significantly from these estimates. NeuroSearch believes that the basis of preparation and the accounting policies relating to revenue recognition, financial assets and deferred tax involve accounting estimates by Management that could materially affect the reported financial position and results of operations.

Basis of preparation
The Annual Report is prepared on a going concern basis.

The Company is in the process of settling its remaining assets and liabilities. The Board of Directors will endeavour to have a final clarification of the Company's future before the end of 2017.

At the time of presentation of the annual report, the Company's capital is considered adequate to fund the current and known future level of activity until such clarification is available.

The Company has received a few claims from investors who believe they have suffered a loss because they acquired shares in the Company on the basis of the announcement from the Company of February 2010, which the Supreme Court, in its judgment of 14 November 2016, found amounted to market manipulation. See announcements 09-16 and 08-15. The total amount of the claims currently raised is not material for the Company, and their justification and the calculation of any losses are currently being assessed by the Company on the basis of the specific circumstances. If additional claims are raised against the Company as a result of the Supreme Court judgment, their justification will also be assessed on the basis of the specific circumstances. At present, it is impossible to assess the total amount of such potential additional claims, and the amount is subject to material uncertainty as there is doubt as to whether claims will be raised and also about the size of any claims raised. However, the total potential claims may be substantial, which may raise significant doubt with respect to the Company's ability to continue as a going concern if such additional claims are raised.

Financial assets
Under NeuroSearch's accounting policies, investments in financial assets, except for investments in subsidiaries and associates, are measured at fair value. For assets not measured at fair value in an active market, i.e. assets other than listed shares and bonds, the determination of fair values will be subject to a certain element of estimation. Subsequent trades or material contributions of fresh capital from independent third parties may be an indication of fair value. If it is not possible to reliably determine fair value, the investment is measured at cost, as Management believes there are no other reasonable methods that can be applied in the valuation of unlisted shares.

In connection with the reclassification of the interest in the former associate Atonomics A/S, Management assessed that it was not possible to reliably determine the fair value, for which reason reclassification was made at written-down value (DKK 0). Moreover, Management assesses that it has not subsequently been possible to determine a fair value, for which reason the value at 31 December 2016 was unchanged at DKK 0.

Revenue recognition
NeuroSearch receives fees from partnership and licence agreements, licence option fees and licence fees such as up-front or milestone payments. Revenue is recognised from licence agreements and milestone payments if NeuroSearch has no continuing performance obligations and NeuroSearch is certain that the Company will receive the revenue.

Revenue from spin-offs is recognised in Gain from divestment of intellectual property.

In connection with the asset transfer agreement for the Huntexil® project, NeuroSearch is entitled to potential milestone payments from Teva of up to DKK 55 million. The income from future milestone payments will be recognised when the conditions have been met or when the income is received.

In addition, NeuroSearch is also entitled to potential payments of up to 20% of milestones and any royalties that Saniona may obtain in connection with the further development of NS2359 and NS2330 (tesofensine) as well as of any potential drugs based on NS2359 or NS2330, which Saniona took over from NeuroSearch in October 2014 (announcement no. 13-14) and the two drug candidates ACR325 and ACR343 that were transferred to Saniona in May 2016 (company announcement 6-16), and other milestone payments or royalties from Saniona in connection with the projects that were transferred to Saniona in 2012. With respect to NS2330 and NS2359, any milestones and royalties must be shared with Boehringer Ingelheim and GlaxoSmithKline, respectively.

Deferred tax
Deferred tax assets are recognised when it is likely that there will be sufficient future taxable income to utilise the temporary differences and unutilised tax losses.

Notes to the financial statements
Significant accounting estimates and judgments
(continued)

Management has assessed whether the tax asset should be recognised as income in the income statement and as an asset in the balance sheet. The tax asset is currently not deemed to meet the criteria for recognition. So far, the decision is to continue to disclose the size of the asset in the notes to the financial statements. Management will regularly reconsider whether the accounting criteria for recognising the asset in the balance sheet and the income statement have been met.

As of 31 December 2016, the Parent Company (NeuroSearch A/S) had tax losses carried forward totalling approximately DKK 1,707 million which can be carried forward indefinitely. In addition, the Parent Company had deductible temporary differences (net) of approximately DKK 84 million, a total of DKK 1,791 million. The carrying amount of unrecognised deferred tax assets was approximately DKK 394 million for the Parent Company at a tax rate of 22% (2015: DKK 394 million). A tax calculation for the Group is provided in note 5 to the Consolidated Financial Statements.

Notes to the financial statements (DKK thousands)

2	Staff	2016	2015
	Break down of staff costs:		
	Salaries and wages	1,661	1,702
	Pension	105	109
	Board fee	1,000	1,000
	Social security costs	8	8
	Other staff costs	3	4
	Total	**2,777**	**2,823**
	Recognised in:		
	General and administrative costs	2,777	2,823
	Total	**2,777**	**2,823**
	Average number of employees	2	2
	Number of employees at 31 December	2	2
	Remuneration to the registered CEO and the Board of Directors:		
	Executive Management		
	Salaries	900	900
	Pension costs	-	-
	Total	**900**	**900**
	Board of Directors:		
	Fees	1,000	1,000
	Total	**1,000**	**1,000**
	Total remuneration to the CEO and Board of Directors	**1,900**	**1,900**

The Company's period of notice to the CEO is 3 months. The period of notice to be given by the CEO to the Company is 3 months. The Company and the CEO cannot terminate the service contract until in September 2017 at the earliest, with effect from 1 January 2018. For additional information on remuneration to the Executive Management and the Board of Directors, see "Management Structure" in the Management´s Review and the report on Corporate Governance on the Company's website.

Breakdown of number of NeuroSearch shares held by the members of the Board of Directors:

	Shares					
	Beginning of period	Exercise of warrants	Purchase	Sale	Adjustment	End of period
Allan Andersen	21,404	-	-	-	-	21,404
Total	**21,404**	**0**	**0**	**0**	**0**	**21,404**

Notes to the financial statements (DKK thousands)

3	Financial income	2016	2015
	Interest income	-	122
	Recycling of currency translation	23,469	-
	Net foreign exchange adjustment	336	-
	Total	**23.805**	**122**

4	Financial expense	2016	2015
	Interest expense	389	251
	Net foreign exchange adjustment	-	195
	Total	**389**	**446**

5	Tax (DKK million)	2016	2015
	Calculated tax on the year's loss	-	-
	Tax credit received	-	-
	Change in deferred tax	-	-
	Tax on the year's loss (income)	**0**	**(1)**

As of 31 December 2016, the Group had tax losses carried forward of approximately DKK 2,130 million which can be carried forward indefinitely. In addition, the Group had net deductible temporary differences of approximately DKK 84 million. The tax loss in NeuroSearch Sweden AB amounts to approx. DKK 423 million of the Group's total loss. This loss will be forfeited in connection with the closure of the Company, which has been initiated and will be finalised in June 2017.

In the financial statements, the value of the deferred tax asset has been written down to zero as a result of uncertainty as to the Group's ability to generate sufficient future taxable revenues for the tax asset to be utilised.

The statement below shows the year's movements in the potential tax assets:	2016	2015
Tax on pre-tax loss	(5)	1
Income from associate	1	-
Non-taxable income and other tax-deductible costs	4	-
Adjustment of deferred tax for prior years	-	6
Foreign exchange adjustment of deferred tax	(4)	3
Loss of unutilised tax loss on resolution of companies	(10)	-
Change in deferred tax asset (increase of potential tax asset)	**(14)**	**10**

Breakdown of unrecognised deferred tax assets:

	2016	2015
Tax losses carried forward (available indefinitely)	2,130	2,160
Research and development costs	4	38
Non-current assets	54	54
Other	26	26
Total temporary differences	**2,214**	**2,278**
Calculated potential deferred tax asset at local tax rate	487	501
Write-down of deferred tax asset	(487)	(501)
Recognised deferred tax asset	**0**	**0**

6 Discontinued operations

On 27 September 2011, the Group announced a comprehensive restructuring and controlled discontinuation of some of the Company's other operations with the exception of Huntexil® in order to release as many financial and managerial resources as possible to complete the development of Huntexil®.

	2016	2015
Revenue	1,199	1,274
Costs	-	-
Net profit/(loss) of discontinued operations	**1,199**	**1,274**
Earnings per share, DKK (discontinued operations)*	**0.05**	**0.05**
Cash flow from operation	1,199	1,274
Cash flow from investments	-	-
Cash flow from financing	-	-
Net cash flow for the period	**1,199**	**1,274**

7 Earnings per share

	2016	2015
Net profit/(loss) for continuing operations, DKK thousands	21,616	(6,812)
Net profit/(loss) for the year, DKK thousands	22,815	(5,538)
Average number of outstanding shares (in thousands)	24,554	24,554
Average number of outstanding shares including dilutive effect of warrants "in the money" (in thousands)	**24,554**	**24,554**
Earnings per share for continuing operations, DKK	0.88	(0.28)
Earnings per share for continuing operations, diluted, DKK	0.88	(0.28)
Earnings per share for the year, DKK	0.93	(0.23)
Earnings per share for the year, diluted, DKK	0.93	(0.23)

Notes to the financial statements (DKK thousands)

8	Intangible assets	Development projects	Goodwill
	Cost at 1 January 2016	44,566	46,113
	Disposals	44,566	46,113
	Cost at 31 December 2015	0	0
	Amortisation and impairment at 1 January 2016	44,566	46,113
	Amortisation	-	-
	Impairment	-	-
	Disposals	44,566	46,113
	Amortisation and impairment at 31 December 2016	0	0
	Carrying amount at 31 December 2016	**0**	**0**
	Cost at 1 January 2015	44,566	46,113
	Disposals	-	-
	Cost at 31 December 2015	44,566	46,113
	Amortisation and impairment at 1 January 2015	44,566	46,113
	Amortisation	-	-
	Impairment	-	-
	Disposals	-	-
	Amortisation and impairment at 31 December 2015	44,566	46,113
	Carrying amount at 31 December 2015	**0**	**0**

Disposal for the year of intangible assets concern ACR325 and ACR343, which were transferred to Saniona AB in May 2016 (see announcement no. 6-16).

Notes to the financial statements (DKK thousands)

9 Investments in associates 2016

Name	Registered office	Ownership interest (%)	Share capital	Equity	Assets	Revenue	Net profit/ (loss)	NeuroSearch A/S's share: Equity	NeuroSearch A/S's share: Net profit/ (loss)
NsGene A/S	Ballerup	26.8	14,357	15,397	21,884	13,517	5,636	4,126	1,510
				15,397			**5,636**	**4,126**	**1,510**
Reversal of prior-year impairment charges								-	2,205
Adjustment of prior-year income								-	411
Adjustment of ownership share pursuant to shareholders' agreement								374	374
Recognised value of investments in associates								**4,500**	**4,500**

NsGene entered into voluntary liquidation on 30 January 2017. The closing-down has almost been completed, and NeuroSearch has recognised DKK 4.5 million in its financial statements for 2016, which the Company expects to receive in the first half of 2017.

Investment in associates 2015

Name	Registered office	Ownership interest (%)	Share capital	Equity	Assets	Revenue	Net profit/ (loss)	NeuroSearch A/S's share: Equity	NeuroSearch A/S's share: Net profit/ (loss)
NsGene A/S	Ballerup	26.8	14,357	8,228	11,194	10,121	10,232	2,205	2,742
				8,228			**10,232**	**2,205**	**2,742**
Write-down of investments in associates								(2,742)	(2,742)
Recognised value of investments in associates								**0**	**0**

10 Available-for-sale financial assets

	2016	2015
Fair value at 1 January	-	-
Fair value adjustment for the year	-	-
Fair value at 31 December	**0**	**0**

Available-for-sale financial assets include the following

Unlisted shares in Atonomics A/S*	-	-
Fair value at 31 December	**0**	**0**

As at 9 September 2013, NeuroSearch's shares in Atonomics A/S were reclassified from associated companies to available-for-sale financial assets. The reclassification was made as NeuroSearch no longer has significant influence in the company as a result of ownership interest or board membership. It has not been possible to determine a reliable fair value as of the date of reclassification, for which reason reclassification was made at the written-down value of DKK 0.

* The fair value determination for Atonomics A/S is at Level 3 of the fair value hierarchy. The valuation models are primarily based on non-observable inputs.

Notes to the financial statements (DKK thousands)

11	Other receivables	2016	2015
	Prepaid costs*	123	324
	Other receivables	351	303
	Total	**474**	**627**
	Loan to Saniona A/S	**2016**	**2015**
	Loan at 1 January	0	2,500
	Disposals	-	2,500
	Loan at 31 December	**0**	**0**
	Depreciation and impairment at 1 January	-	2,500
	Disposals	-	2,500
	Depreciation and impairment at 31 December	**0**	**0**

* Prepaid costs concern insurance, subscriptions, etc.
** As the conditions for repayment of the loan had not been met by the end of 2015, the loan was cancelled in accordance with the terms of the loan agreement. The cancellation of the loan has no effect.

The carrying amount of other receivables largely corresponds to their fair values. Other receivables are not subject to material credit risk as they primarily concern receivables from large international partners, prepaid costs and VAT.

12	Cash and cash equivalents	2016	2015
	Money market accounts	74,447	77,967
	Total	**74,447**	**77,967**

NeuroSearch is subject to credit risk with respect to bank deposits. The maximum credit risk corresponds to the carrying amount.

The credit risk involved in cash is handled by only collaborating with financial institutions with satisfactory creditworthiness. No significant credit risk is considered to exist in relation to cash as the counterparty is Nordea, which has Moody's ratings of P-1 and Aa3 short-term and long-term, respectively.

13	Fees to auditors appointed at the Annual General Meeting	2016	2015
	Audit	250	250
	Tax advice	43	222
	Non-audit services	294	197
	Total	**587**	**669**

14 Related-party transactions

NeuroSearch's related parties
Related parties comprise the Company's Executive Management, Board of Directors, subsidiaries, and the associated company NsGene A/S. In addition, Kromann Reumert is considered a related party, as Christian Lundgren, who is a member of our Board of Directors, is a partner in the law firm.

Transactions with related parties
In addition to remuneration for work on the Board of Directors, DKK 1 million (2015: DKK 1 million) was paid to Kromann Reumert for work performed for NeuroSearch as the Company's lawyer.

For information on remuneration paid to the members of the Executive Management and the Board of Directors, please see note 2 "Staff".

There were no other transactions with related parties during the year.

15 Contingent assets, contingent liabilities and commitments

Contingent assets
The Group has an unrecognised potential deferred tax asset of approximately DKK 487 million (2015: DKK 501 million). See note 5 for a breakdown of the tax asset.

In addition, the Company has minor potential revenues from agreements entered into regarding some early-stage research projects classified as discontinued operations in the research division NsDiscovery back in 2011 and 2012.

Contingent liabilities
In a judgment delivered on 14 November 2016, the Danish Supreme Court found that the Company had wilfully violated the ban on market manipulation (previously referred to as "price manipulation") in connection with a company announcement released on 3 February 2010. The Company issued a corrective announcement on 28 April 2010. It cannot be ruled out that claims will be raised by investors who have suffered a documented loss because they acquired shares in the Company on the basis of the announcement from February 2010, which was the subject of the Supreme Court decision. Until now, the Company has received a few alleged claims, which are currently being reviewed by the Company together with its external lawyers. A provision has been made in the financial statements for the claims received. If additional claims are raised against the Company, their justification will also be assessed on the basis of the specific circumstances. At present, it is impossible to assess the amount of the total potential legitimate claims that may be raised against the Company. A description of uncertainties related to the calculation of the claims is provided in note 1, and in the Management's review on pages 3-4.

Information regarding takeover of control of NeuroSearch and contractual obligations
The EU Takeover Directive, which has been implemented as part of the Danish Financial Statements Act, includes certain rules requiring listed companies to provide information that may be of interest to the market and potential bidders, in particular in relation to information on change of control clauses.

For information on share capital and ownership, see "Shareholder information" in Management´s Review. There are no change-of-control clauses in the contracts with the members of the Executive Management.

16 Financial risks

Based on the financial assets and liabilities, the Group is exposed to certain financial risks, primarily interest rate risks, liquidity risks and foreign exchange risks. Group policy is to not actively conduct speculation in financial risks. Accordingly, the Group's financial management exclusively involves the management of financial risks that arise as a direct consequence of the Group's operations and financing. The general framework for the financial risk management is laid down in the annual strategic planning, which takes into account factors such as the scientific, commercial and financial risks. In this connection, reference is made to "Risk management and internal control" in the Management´s Review.

For a description of the accounting policies and method applied, including the recognition criteria and basis of measurement, see the relevant section under "Accounting policies".

Interest rate risk
The general purpose of managing interest rate risk is to limit the adverse impact of interest rate fluctuations on earnings and the balance sheet. Fluctuations in the interest rate level affect both the Company's income statement and balance sheet. NeuroSearch is primarily exposed to interest rate risks in connection with interest-bearing assets and liabilities.

Foreign exchange risk
The general objective of currency risk management is to limit the short-term adverse impact of exchange-rate fluctuations on earnings and cash flows and thus increases the predictability of the financial results. The Company's transactions denominated in foreign currency are limited and are not deemed to have any significant impact on the income statement and balance sheet. However, the Group's policy is that Management regularly evaluates the need to hedge expected exchange rate risks as a result of future transactions denominated in foreign currency.

As at 31 December 2016, the Group had not entered into forward exchange contracts.

Exchange rate risks primarily relate to project revenue and costs to and from foreign partners. It is Management's strategy to seek to offset exchange rate risks by matching revenue and costs in the same currencies.

The table below shows the effect on net profit/(loss) and equity of probable changes in the financial variables on the balance sheet date.

	2016		2015	
	Fluctuation	**Effect**	**Fluctuation**	**Effect**
EUR	+/- 2%	24	+/- 2%	7
GBP	+/- 5%	5	+/- 5%	3
SEK	+/- 5%	3	+/- 5%	69

The consolidated income statement is also marginally affected by changes in the exchange rate of SEK to DKK, because the results of the subsidiary NeuroSearch Sweden AB are translated into DKK at the end of the year using average exchange rates.

Notes to the financial statements (DKK thousands)

A breakdown of the Company's aggregate liquidity risk on financial assets and liabilities based on contractual due dates is given below:

Liquidity risk:	<12 months	1-2 years	3-5 years	> 5 years	Total*	Fair value**	Carrying amount
At amortised cost							
Trade and other creditors	808	-	-	-	808	808	808
Other liabilities	7,230	-	-	-	7,230	7,230	7,230
Total financial liabilities at 31 December 2016	**8,038**	**0**	**0**	**0**	**8,038**	**8,038**	**8,038**
Loans and receivables							
Investments at fair value	-	-	-	-	0	0	0
Other receivables	474	-	-	-	474	474	474
Cash	74,447	-	-	-	74,447	74,447	74,447
Total financial assets at 31 December 2016	**74,921**	**0**	**0**	**0**	**74,921**	**74,921**	**74,921**
Net total at 31 December 2016	**66,883**	**0**	**0**	**0**	**66,883**	**66,883**	**66,883**
At amortised cost							
Trade and other creditors	250	-	-	-	250	250	250
Other liabilities	5,944	-	-	-	5,944	5,944	5,944
Total financial liabilities at 31 December 2015	**6,194**	**0**	**0**	**0**	**6,194**	**6,194**	**6,194**
Loans and receivables							
Investments at fair value	-	-	-	-	0	0	0
Other receivables	627	-	-	-	627	627	627
Cash	77,967	-	-	-	77,967	77,967	77,967
Total financial assets at 31 December 2015	**78,594**	**0**	**0**	**0**	**78,594**	**78,594**	**78,594**
Net total at 31 December 2015	**72,400**	**0**	**0**	**0**	**72,400**	**72,400**	**72,400**

* All cash flows are non-discounted and include all liabilities under contracts entered into, including, among other things, future interest payments on loans.
** The fair value of financial liabilities is determined as the discounted cash flows based on the market rates and credit conditions on the balance sheet date.

The Company ensures sufficient capital resources through a combination of cash management, highly liquid marketable securities and non-guaranteed and guaranteed credit facilities.

See the cash flow statement for a specification of capital resources as of 31 December 2016 and 2015.

The investment in Atonomics A/S is included in available-for-sale financial assets. It is not possible at the present time to calculate or estimate the timing of any future cash flows from the shares, for which reason level 3 measurement is applied and the shares have been valued at DKK 0.

Notes to the financial statements (DKK thousands)

17	Adjustments	2016	2015
	Share of profit/(loss) of associate	(4,500)	-
	Recycling of currency translation	(23,469)	-
	Other financial income and expenses	53	324
	Currency adjustment	(359)	(179)
	Total	**28,275**	**145**

18 Risk management and internal control

NeuroSearch's risk management activities reflect the fact that the Company no longer actively conducts research in or develops pharmaceuticals. Consequently, a large number of risks that were previously relevant to the Company – namely development and commercial risks – are no longer relevant.

Financial risks

The financial risks are assessed regularly by the Company's Management and are included in reporting to the Board of Directors. Cash and treasury management are considered important.

The Board of Directors has adopted guidelines for the management of the Company's cash and cash equivalents, including securities. This treasury policy describes, among other things, in which securities investments can be made and that the investments must be handled and managed by investment departments of leading Danish banks. Furthermore, the treasury policy provides guidelines on the use of financial instruments. The Board of Directors reviews the document at least once a year to ensure that the guidelines are sound and in line with the Company's operations.

Capital resources

The Board of Directors believes that the Company's capital resources will be sufficient to meet all currently known liabilities.

Management of selected risk areas

Securing the Company's operations and assets

NeuroSearch has taken out insurance to cover any operating losses, losses due to claims in connection with clinical studies and loss of assets in connection with fire, theft or the like. All insurance is handled by an external insurance broker who reports at least once a year as to whether the Company's insurance cover is considered to be sufficient and reasonable.

Main elements of internal control and risk management systems in relation to the financial reporting process in NeuroSearch

NeuroSearch has elected to publish the main elements of its internal control and risk management systems on the Company's website (www.neurosearch.com/default.aspx?ID=8247). In addition, NeuroSearch has elected to publish its statutory report on corporate governance, cf. section 107b of the Danish Financial Statements Act, on its website (www.neurosearch.com/default.aspx?ID=8477).

Notes to the financial statements (DKK thousands)

19 Statement of movements in equity

Share capital	2012	2013	2014	2015	2016
Share capital at 1 January	491,079	24,554	24,554	24,554	24,554
Equity issues	-	-	-	-	-
Capital reduction	(466,525)	-	-	-	-
Share capital at 31 December	**24,554**	**24,554**	**24,554**	**24,554**	**24,554**

The total number of shares is 24,553,947 (2015: 24,553,947) with a nominal value of DKK 1 each (2015: DKK 1 per share). All issued shares are fully paid up. All shares carry the same rights.

20 Other liabilities

Other liabilities primarily consist of the provision for the fine of DKK 5 million (2015: DKK 5 million). A provision has been made in the financial statements for costs derived from the judgment delivered by the Danish Supreme Court on 14 November 2016, including for the alleged claims, which are currently being reviewed by the Company together with its external lawyers. See note 15 to the financial statements.

21 Events after the balance sheet date

No events have occurred after the end of the financial year that may have a material impact on the financial statements.

Financial Statements of the parent company

Accounting policies

for the period 1 January - 31 December (DKK thousands)

Basis of preparation
The financial statements of the parent company are presented in accordance with the Danish Financial Statements Act (reporting class D) and other accounting regulations applicable to companies listed on Nasdaq Copenhagen A/S.

The accounting policies of the parent company are the same as those of the Group, however, with the addition of the policies described below. The Group's accounting policies are described on pages 19-22 of the Annual Report.

Reference is also made to the description of going concern considerations in note 1 to the Consolidated Financial Statements.

Supplementary accounting policies for the parent company

Discontinued operations
In the Financial Statements of the parent company profit/(loss) from discontinued operations is recognised in the line items they relate to. Reference is made to note 13 for a breakdown of the amount by which discontinued operations are included in selected items.

Financial assets
Investments in subsidiaries and associates are recognised in the parent company financial statements under the equity method, i.e. at the proportionate share of the net asset value of these companies. Positive differences between historic cost and net asset value on the date of acquisition are recognised in the parent company's Financial Statements under financial assets as part of the investments in subsidiaries (goodwill). Goodwill is amortised on a straight-line basis over the expected life of patents, estimated to be 20 years. Goodwill arising on acquisitions is amortised over the residual life of the patents.

A proportionate share of the profit/(loss) after tax less amortisation of goodwill and unrealised intra-group gains is recognised in the income statement under the line items "Share of profit/(loss) of subsidiaries" and "Share of profit/(loss) of associates".

Net revaluation of investments in subsidiaries and associates exceeding the dividend declared by the companies is recognised in equity as reserve for net revaluation according to the equity method.

Subsidiaries and associates with a negative carrying amount are recognised at DKK 0. A provision is made if the parent company has a legal or constructive obligation to cover the company's negative balance.

Statement of cash flows
In accordance with section 86(4) of the Danish Financial Statements Act, a separate statement of cash flows has not been prepared for the parent company as it is included in the Group. See the consolidated statement of cash flows.

Income statement for the period 1 January - 31 December (DKK thousands)

Note		2016	2015
	Revenue	-	-
	Total revenue	**0**	**0**
	Gain on divestment of intellectual property	2,526	637
	Total other income	**2,526**	**637**
1	General and administrative costs	7,634	6,272
	Total costs	**7,634**	**6,272**
	Operating profit/(loss)	**(5,108)**	**(5,635)**
5	Share of profit/(loss) of subsidiaries after tax	18,289	4,719
5	Share of profit/(loss) of associates	4,500	-
2	Financial income	5,523	112
3	Financial expense	389	4,734
	Total financials	**27,923**	**(97)**
	Profit/(loss)	**22,815**	**(5,538)**
4	Tax on profit/(loss) for the year	-	-
	NET PROFIT/(LOSS)	**22,815**	**(5,538)**
	Allocation of loss		
	Reserve for net revaluation according to the equity method	0	0
	Retained earnings	22,815	(5,538)
		22,815	(5,538)

No dividend has been paid during this or earlier reporting periods

Balance sheet at 31 December (DKK thousands)

Note	ASSETS	2016	2015
5	Investments in subsidiaries	4,582	10,123
5	Investments in associates	4,500	-
6	Available-for-sale financial assets	-	-
	Total fixed assets	**9,082**	**10,123**
7	Other receivables	472	625
8	Cash	74,441	77,868
	Total current assets	**74,913**	**78,493**
	TOTAL ASSETS	**83,995**	**88,616**

Note	EQUITY AND LIABILITIES	2016	2015
	Share capital	24,554	24,554
	Reserve for currency translation	(9,868)	13,964
	Retained earnings	56,697	33,882
	Total equity	**71,383**	**72,400**
	Trade and other payables	804	692
	Payables to Group companies	4,608	10,099
	Other liabilities	7,200	5,425
	Total current liabilities	**12,612**	**16,216**
	Total liabilities	**12,612**	**16,216**
	TOTAL EQUITY AND LIABILITIES	**83,995**	**88,616**

9 Fees to auditors appointed at the Annual General Meeting
10 Related parties
11 Contingent assets, contingent liabilities and commitments
12 Financial risks
13 Discontinued operations

Statement of movements in equity (DKK thousands)

	Share capital	Reserve for currency translation	Retained earnings	2016 total	2015 total
Equity at 1 January	**24,554**	**13,964**	**33,882**	**72,400**	**77,714**
Recycling of currency translation	-	(23,469)	-	(23,469)	0
Foreign exchange adjustment of net investment in foreign subsidiary	-	(363)	-	(363)	224
Net profit/(loss)	-	-	22,815	22,815	(5,538)
Equity at 31 December	**24,554**	**(9,868)**	**56,697**	**71,383**	**72,400**

Share capital	2012	2013	2014	2015	2016
Share capital at 1 January	491,079	24,554	24,554	24,554	24,554
Capital reduction	(466,525)	-	-	-	-
Share capital at 31 December	**24,554**	**24,554**	**24,554**	**24,554**	**24,554**

The total number of shares is 24,553,947 (2015: 24,553,947) with a nominal value of DKK 1 each (2015: DKK 1 per share). All issued shares are fully paid up. All shares carry the same rights.

Notes to the financial statements (DKK thousand)

1	Staff	2016	2015
	Breakdown of staff costs:		
	Salaries and wages	1,661	1,702
	Pension	105	109
	Board fee	1,000	1,000
	Social security costs	8	8
	Other staff costs	3	4
	Total	**2,777**	**2,823**
	Recognised in:		
	General and administrative costs	2,777	2,823
	Total	**2,777**	**2,823**
	Average number of employees	2	2

For a specification of remuneration to the Board of Directors and the Executive Management, see note 2 to the Consolidated Financial Statements, as the specification for the parent company is identical to that for the Group.

2	Financial income	2016	2015
	Interest income	-	102
	Intercompany interest income	-	10
	Net foreign exchange adjustments	5,523	-
	Total	**5,523**	**112**

3	Financial expense	2016	2015
	Interest expense	389	232
	Intercompany interest expense	-	174
	Net foreign exchange adjustments	-	4,327
	Total	**389**	**4,734**

4	Tax (DKK million)	2016	2015
	Calculated tax on the year's loss	-	-
	Tax credit received	-	-
	Change in deferred tax	-	-
	Tax on the year's loss	**0**	**0**

As of 31 December 2016, the parent company had tax losses carried forward of approximately DKK 1,707 million which can be carried forward indefinitely. In addition, the parent company had temporary net deductible differences of approximately DKK 84 million.

In the financial statements, the value of the deferred tax asset has been written down to zero as a result of uncertainty as to the Company's ability to generate sufficient future taxable revenues for the tax asset to be utilised.

The statement below shows the year's movements in the potential tax asset:	2016	2015
Tax on pre-tax loss	(5)	1
Share of profit/(loss) of subsidiaries and associates	5	1
Non-taxable income and other tax-deductible costs	-	-
Change in deferred tax asset (increase of potential tax asset)	**0**	**2**

Breakdown of unrecognised deferred tax assets:	2016	2015
Tax losses carried forward (available indefinitely)	1,707	1,675
Research and development costs	4	38
Non-current assets	54	54
Other	26	26
Total temporary differences	**1,791**	**1,793**
Calculated potential deferred tax asset at local tax rate	394	394
Write-down of deferred tax asset	(394)	(394)
Recognised deferred tax asset	**0**	**0**

Notes to the financial statements (DKK thousands)

5	Investments in subsidiaries and associates	Subsidiaries		Associates	
		2016	2015	2016	2015
	Cost at 1 January	348,482	348,482	64,744	64,744
	Contribution recognised in the investment	-	-	-	-
	Disposals	(95,565)	-	-	-
	Cost at 31 December	252,917	348,482	64,744	64,744
	Amortisation and impairment at 1 January	(398,470)	(403,413)	(64,744)	(64,744)
	Net profit/(loss)	(5,180)	4,719	4,500	-
	Foreign exchange adjustment	(363)	224	-	-
	Recycling of currency translation	23,469	-	-	-
	Reversal of amortisation and impairment on disposal	132,209	-	-	-
	Amortisation and impairment at 31 December	(248,335)	(398,470)	(60,244)	(60,744)
	Offset against receivables	-	60,111	-	-
	Transfer for offset against receivables or provisions at 31 December	0	60,111	0	0
	Carrying amount at 31 December	**4,582**	**10,123**	**4,500**	**0**

Accumulated amortisation and impairment of goodwill and development projects totalled DKK 0 million at 31 December 2016 (2015: DKK 91 million).

The carrying amount of intangible assets in connection with acquisitions was DKK 0 million at 31 December 2016 (2015 DKK 0 million). For information regarding the impairment test of the carrying amount of intangible assets, see note 8 to the Consolidated Financial Statements.

Subsidiaries:

Name	Registered office	Owner-ship	Share capital	Equity	Assets	Revenue	Net profit/(los
NeuroSearch Sweden AB	Gothenburg	100	1,980**	4,582	4,615	0	(5,178)
Poseidon Pharmaceutical A/S	Hellerup	100	*	0	0	0	(1)
NsExplorer A/S	Hellerup	100	*	0	0	0	(1)

* The subsidiaries Poseidon Pharmaceutical A/S and NsExplorer were dissolved at 30 November 2016.
** The subsidiary NeuroSearch Sweden AB is being wound up and will be closed down in June 2017.

The specification of associates is identical to that of the Group, and reference is therefore made to note 10 to the Consolidated Financial Statements.

Notes to the financial statements (DKK thousands)

6 Available-for-sale financial assets

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 10 to the Consolidated Financial Statements.

7 Other receivables

	2016	2015
Prepaid costs*	123	303
Other receivables	349	322
Total	**472**	**625**

* Prepaid costs concern insurance, subscriptions, etc.

The carrying amount of other receivables largely corresponds to their fair values. Other receivables, etc. are not subject to any material credit risk as they primarily concern prepaid costs and VAT.

As of 31 December 2016, there were no indications of impairment of other receivables.

8 Cash

	2016	2015
Money market accounts	74,441	77,868
Total	**74,441**	**77,868**

NeuroSearch is subject to credit risk with respect to bank deposits. The maximum credit risk corresponds to the carrying amount.

The credit risk involved in cash is handled by only collaborating with financial institutions with satisfactory creditworthiness. No credit risk is considered to exist in relation to cash as the counterparty is Nordea, which has Moody's ratings of P-1 and Aa3 short-term and long-term, respectively.

9 Fees to auditors appointed at the Annual General Meeting

A separate statement has not been prepared for the parent company of fees to the auditors appointed at the Annual General Meeting as the fees are included in the statement for the Group pursuant to section 96(3) of the Danish Financial Statements Act. See note 13 to the Consolidated Financial Statements for the statement for the Group.

10 Related parties

In addition to the group of related parties and related-party transactions as shown in note 14 to the Consolidated Financial Statements, the parent company’s related parties include the subsidiary NeuroSearch Sweden AB, and in 2016 the two subsidiaries NsExplorer A/S and Poseidon Pharmaceuticals A/S, which have now been closed down.

The subsidiaries were being shut down in 2016, and therefore there were no transactions during the year. The volume of unsettled balances at 31 December 2016 is shown in the balance sheet.

Notes to the financial statements (DKK thousands)

11 Contingent assets, contingent liabilities and commitments

Contingent assets
The parent company has an unrecognised deferred potential tax asset of DKK 394 million (2015: DKK 394 million). See note 4 for a breakdown of the tax asset.

Contingent liabilities
The parent company has issued letters of comfort for NeuroSearch Sweden AB stating that NeuroSearch A/S will cover the capital requirements of the company within the budgeted activity limits in the period until the subsidiary is closed down. See note 15 to the Consolidated Financial Statements for additional information on contingent liabilities.

Information regarding takeover of control of NeuroSearch and contractual obligations
The EU Takeover Directive, which has been implemented as part of the Danish Financial Statements Act, includes certain rules requiring listed companies to provide information that may be of interest to the market and potential bidders, in particular in relation to information on change of control clauses.

For information on share capital and ownership, see “Shareholder information” in Management’s Review. See note 2 for information regarding “change of control” clauses in relation to the Company’s warrant programme and contracts with the Executive Management.

12 Financial risks

See information in the Consolidated Financial Statements note 16.

13 Discontinued operations

On 27 September 2011, the Group announced a comprehensive restructuring and controlled discontinuation of all the Company’s operations with the exception of Huntexil® in order to release as many financial and managerial resources as possible to complete the development of Huntexil®.

	2016	2015
Revenue	1,199	637
Profit/(loss) for the period	1,199	637
Intangible and tangible assets	0	0
Currents assets	0	0
Provisions	0	0