

NEUROSEARCH

Annual Report

2018

NeuroSearch A/S
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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

2018 was the year in which NeuroSearch on the one hand managed to settle its last potential asset except for cash holdings and the potential value of the tax asset and the stock exchange listing, and on the other hand was given hopes for new activity in the Company in a new line of business wholly unrelated to biotech or pharma.

At the beginning of the year, the Board had to accept the fact that, despite its strong endeavours, it had failed to identify an investor willing to take over the Company and possibly offer the shareholders a premium relative to the Company's net asset value. When the Board convened the annual general meeting to be held on 30 April, the notice thus included a proposal to let the shareholders resolve to leave the Company in the hands of a liquidator, who would then distribute the Company's cash holdings to the shareholders.

Shortly before the general meeting, the Company received notice from Gefion Group Investment A/S ("Gefion"), which might be interested in taking over the Company. On 27 April, the Company announced that Gefion had announced its intention to launch a conditional voluntary takeover offer. Consequently, the Board withdrew its proposal to liquidate the Company, and the Board members let themselves be re-elected to attempt to carry out a takeover, which would be to the financial benefit of the Company's shareholders. On 25 May, the Company announced Gefion's offer document.

Shortly thereafter, the Company was approached by a new interested investor, Nordic Transport Group Holding A/S ("NTG"), and on 31 May the Company announced that NTG intended to launch a voluntary takeover offer. NTG's offer document was made public on 20 June, and unlike Gefion's offer, the NTG offer was unconditional.

On 2 July, the Board announced its overall decision regarding the two takeover offers received, and even though Gefion offered a price of DKK 4.50 per share

against NTG's offer of DKK 4.45 per share, the Board recommended NTG's offer because, unlike Gefion's offer, it was unconditional.

On 9 August, Gefion announced that the company had resolved to withdraw its takeover offer because Gefion did not expect that its terms and conditions would be met. On the same date, NTG announced the preliminary result of its takeover offer, and on 13 August NTG announced the final result, which was acceptance of NTG's take-over offer from 17.83% of the shareholders (excl. NeuroSearch's holding of treasury shares).

Compared with the expected return for the shareholders from a liquidation of the Company, the takeover offer from NTG represents an estimated additional value of about 60%.

The Board subsequently convened an extraordinary general meeting to be held on 14 September, partly to elect two new board members to replace Karin Garre and Christian Lundgren, who did not seek re-election, partly for the chairman of NTG, Morten Mathiesen, to give a presentation of NTG's intention of purchasing shares in NeuroSearch. At the extraordinary general meeting, Mikkel Primdal Kæregaard was elected as chairman and Morten Mathiesen as vice chairman. Allan Andersen continued as CEO and member of the Board.

Shortly before this general meeting, NeuroSearch had announced that the previously announced conditional agreement with, among others, Teva Pharmaceuticals International GmbH was now definite, and that NeuroSearch would receive a cash payment of USD 450,000. The amount was received in September.

Board of Directors

Financial highlights

Financial highlights (DKK million)

Income statement and statement of comprehensive income	2014*	2015*	2016*	2017	2018
Gain from divestment of intellectual property rights	-	-	1.3	2.2	2.9
Development cost	-	-	-	-	-
Administrative expenses	13.3	6.5	7.6	3.2	5.3
Operating profit/(loss)	(13.3)	(6.5)	(6.3)	(1.0)	(2.4)
Net financials	2.7	(0.3)	27.9	(9.8)	(0.4)
Profit/(loss) of continuing operations before tax	(10.6)	(6.8)	21.6	(10.8)	(2.8)
Net profit/(loss) of discontinued operations	1.6	1.3	1.2	3.0	-
Net profit/(loss) for the year	(7.7)	(5.5)	22.8	(7.9)	(2.8)
Comprehensive income***	(10.2)	(5.3)	(1.0)	2.0	(2.8)
Balance sheet					
Total assets	84.0	78.6	79.4	74.5	71.5
Cash and cash equivalents and securities	83.4	78.0	74.4	74.1	71.2
Equity	77.7	72.4	71.4	73.4	70.5
Ratios** (DKK)					
Earnings per share	(0.32)	(0.23)	0.93	(0.32)	(0.12)
Diluted earnings per share	(0.32)	(0.23)	0.93	(0.32)	(0.12)
Net asset value	3.17	2.95	2.91	2.99	2.87
Market price at year end	2.59	2.51	3.01	4.21	4.30
Market price/net asset value	0.82	0.85	1.04	1.41	1.50
Average number of employees	2	2	2	1	1
Number of employees at 31 December	2	2	2	1	1

* The comparative figures for 2014 to 2016 cover the Consolidated Financial Statements of NeuroSearch A/S and its wholly owned subsidiaries NeuroSearch Sweden AB, Poseidon Pharmaceuticals A/S and NsExplorer A/S, all of which have now been wound up.

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

*** Comprehensive income includes unrealised exchange adjustment of net investment and fair value adjustment of the hedge of the net investment in NeuroSearch Sweden AB in the years from 2014 to 2017.

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 capitalisation performance in 2018

On 28 December 2018, the closing price of the NeuroSearch share was DKK 4.30, which is an increase of 2% compared with a year-end closing price of DKK 4.21 in 2017.

Turnover

In 2018, the turnover of NeuroSearch shares totalled DKK 102 million, equivalent to an average daily turnover of DKK 413 thousand. A total of approximately 24 million shares were traded (96%) during the year. In 2017, total turnover in the share was DKK 60 million corresponding to an average daily turnover of DKK 239 thousand and a total number of shares traded of approximately 16 million (66%).

Latest share price and market capitalisation

On 22 February 2018, the closing price of the NeuroSearch share was DKK 4.48, equivalent to a market capitalisation of NeuroSearch of DKK 110 million.

Ownership structure

On 28 December 2018, NeuroSearch had 11,387 registered shareholders, who held a total of 21,729,789 shares.

This corresponds to 88% (2017: 82%) of the total outstanding share capital being registered in the Company's register of shareholders. In 2018, the number of registered NeuroSearch shareholders decreased by 1,323, but there was an increase in the proportion of registered shareholders.

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 20% of the shares in the Company:

- ☀ **Nordic Transport Group Holding A/S**
Hammerholmen 47, 2650 Hvidovre, Danmark (22,95%)

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

- ☀ **Luxor Capital Group LP**
1114 Avenue of the Americas, 29th Floor, New York, NY 10036, USA (7.43%)

NeuroSearch will not pay dividends for 2018.

Financial calendar for 2019

The Annual General Meeting will be held on Monday, 29 April 2019 at 10 am (local time) at Kromann Reumert, Sundkrogsgade 5, 2100 Copenhagen Ø, Denmark.

Financial reporting for 2019

29 April 2019

Annual General Meeting 2019

30 August 2019

Interim report for H1 2019

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 listed Danish 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

Report on Management's gender composition, cf. section 99b of the Danish Financial Statements Act

Target for supreme management body

NeuroSearch's Board of Directors consists of three members, all of whom are men. Whereas the Company had achieved gender equality at the presentation of the most recent financial statements, the outcome of general meeting in autumn 2018 meant that NeuroSearch again has an under-representation of women. As a result, NeuroSearch has defined a target of having 1 female board member by 2022 at the latest.

Policy of increasing the share of the under-represented gender at other management levels

NeuroSearch currently has one employee only, and as the Company is therefore under the threshold of 50 employees, management has resolved not to define a policy in accordance with the exemption provisions of the guidelines from the Danish Business Authority.

Report on corporate social responsibility, cf. section 99a of the Danish Financial Statements Act

Business model

In 2018, the Company continued its efforts to find an investor willing to take over the Company. In 2018, Nordic Transport Group Holding A/S (NTG) acquired shares in NeuroSearch with a view to carrying out a merger or similar between the two companies. A transaction is expected to be effected during 2019.

Risk assessment

There are currently no activities or employees in the Company other than the above-mentioned effort to find an investor willing to take over the Company. We therefore believe that there are no risks to the Company's surroundings with respect to corporate social responsibility.

CSR policies

NeuroSearch has not had any CSR policies during the reporting period. Given the Company's activities and the fact that no significant risks in relation to corporate social responsibility are deemed to exist, the Company has resolved not to define any policies. The decision will be re-assessed after the expected transaction between NTG and NeuroSearch during 2019, and depending on the business model, the activities pursued and the derived risks that such activities may give rise to.

Working environment

The physical working environment has been simplified in step with the reduction of activities in NeuroSearch.

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.

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).

Financial risks

More information on financial risks is provided in note 12 to the Financial Statements.

Financial review

The Annual Report for 2018 comprises NeuroSearch A/S.

Cash and cash equivalents

At 31 December 2018, cash and cash equivalents totalled DKK 71.2 million.

Income statement

In 2018, NeuroSearch realised an operating loss on continuing operations of DKK 2.4 million (2017: DKK 1.0 million). This was in line with the previously announced expectations of an operating loss in the region of DKK 2-3 million.

NeuroSearch realised an after tax loss on continuing operations of DKK 2.8 million (2017: loss of DKK 10.8 million).

The Company realised a loss for the year of DKK 2.8 million (2017: loss of DKK 7.9 million).

Income

On 16 May 2018, NeuroSearch entered into an agreement with, among others, Teva Pharmaceutical International GmbH (Teva), to release Teva from all outstanding obligations pursuant to the agreement from 2012 concerning the transfer of NeuroSearch's rights in and to Pridopidine. On 8 September, NeuroSearch received notice that Teva has completed a definitive agreement relating to the sale and transfer of Teva's right in and to Pridopidine. Pursuant to the agreement, NeuroSearch received DKK 2.9 million (USD 450,000).

Costs

Costs totalled DKK 5.3 million (2017: DKK 3.2 million).

Administrative expenses totalled DKK 5.3 million (2017: DKK 3.2 million).

Net financials

Financials amounted to a net expense of DKK 0.4 million (2017: DKK 9.8 million). The share of profit/loss from investments in subsidiaries represents a loss of DKK 0 million (2017: DKK 9.9 million). The share of income from associate has been recognised in the income statement at a total income of DKK 0 million (2017: DKK 0.4 million). Financial expenses, which amounted to DKK 0.4 million (2017: DKK 0.4 million), constituted interest expenses.

Tax

At 31 December 2018, the Company had tax loss carry-forwards totalling approximately DKK 1,738 million, which can be carried forward indefinitely. In addition, the Company had deductible temporary differences (net) of approximately DKK 51 million, a total of approximately DKK 1,789 million. The calculated carrying amount of unrecognised potential deferred tax assets is approximately DKK 394 million for the Company at a tax rate of 22% (2017: DKK 394 million). A tax calculation is provided in note 4 to the Financial Statements.

Discontinued operations

In 2018, a profit of DKK 0 million was recognised from discontinued operations (2017: DKK 3.0 million).

Distribution of profit/loss

It is proposed that the loss for year of DKK 2.8 million be transferred to retained earnings.

Balance sheet

At the end of 2018, the balance sheet total amounted to DKK 71.5 million (2017: DKK 74.5 million).

Cash and cash equivalents totalled DKK 71.2 million at 31 December 2018 (2017: DKK 74.1 million).

Statement of cash flows

The cash flows from operating activities amounted to a cash outflow of DKK 2.4 million in 2018 compared to a cash outflow in 2017 of DKK 4.9 million.

The cash flows from investing activities was DKK 0 million in 2018 (2017: DKK 4.9 million).

The cash flows from financing activities was a cash outflow of DKK 0.4 million in 2018 (2017: DKK 0.4 million).

Cash and cash equivalents thereafter amounted to DKK 71.2 million at 31 December 2018 (2017: DKK 74.1 million).

Statement of movements in equity

Equity amounted to DKK 70.5 million at 31 December 2018 (2017: DKK 73.4 million).

Financial risks

For further details, please see "Risk management and internal control" on page 6 and information on financial risks provided in note 12.

Related parties

Related parties comprise the Company's Executive Management and the Board of Directors. See note 10.

Financial outlook for 2019

For 2019, NeuroSearch expects an operating loss of approximately DKK 4-6 million. The expectations do not include expenses in connection with the preparations for a potential merger or the like with Nordic Transport Group Holding A/S.

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

Mikkel Primdal Kæregaard

Danish citizen, born 1974
Position: Attorney and partner, Horten
advokatpartnerselskab.

Chairman of the Board of Directors since 14 September 2018.
Chairman of the Board of Directors of Advokataktieselskabet Horten (and 2 subsidiaries), Dragsholm Slot P/S (and 2 subsidiaries), Restaurationselskabet af 15. april 2011 K/S, Restaurationskomplementarselskabet af 15. april 2011 ApS, Komplementarselskabet af 11. maj 2011 ApS, Restaurationselskabet af 26. januar 2012 K/S, Restaurationskomplementarselskabet af 26. januar 2012 ApS, Administrationselskabet af 15. juni 2012 K/S, Administrationskomplementarselskabet af 15. juni 2012 ApS, Restaurationselskabet af 20. maj 2016 K/S, Restaurationskomplementarselskabet af 20. maj 2016 ApS, Restaurationselskabet af 1. november 2016 K/S, Restaurationskomplementarselskabet af 1. november 2016 ApS. Member of the Board of Directors of Geranium ApS and H-Biler A/S.

Special competencies: Mikkel Primdal Kæregaard is an attorney and partner at Horten, specialising in company law and mergers & acquisitions. Over the years, Mikkel Primdal Kæregaard has advised a long list of companies in connection with entry into strategic partnerships and completion of transactions of different kinds.

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 and Executive Director of Jeravna Development EOOD. Chairman of the board of the commercial foundation Fabrikken for Kunst og Design.

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

Morten Mathiesen

Danish citizen, born 1975.
Position: Professional investor and Board member

Vice Chairman of the Board of Directors since 14 September 2018.
Chairman of the Board of Directors of Nordic Transport Group Holding A/S, Blue Company Holding A/S and Blue City A/S. Member of the Board of Directors of Employment Care ApS, BWC ApS and Nebbegård Invest A/S (and 4 subsidiaries).
Executive Director of MM Invest af 30.10.2006 ApS, Myremalm ApS, MM af 28. april ApS, SKM Capital Holding ApS and AKM Capital Holding ApS.

Special competencies: Morten Mathiesen is a professional investor and Board member. Morten Mathiesen has solid experience from the transport and shipping industry and since 2012 has played a central role in the development of NTG (Nordic Transport Group). Morten Mathiesen was for a number of years employed in A.P. Møller-Mærsk and is trained as an officer of the Danish Royal Life Guards. Further, he has through the years invested in, developed and sold a number of companies within different industries.

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 2017” as most recently updated in November 2017. 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.

Nine Board meetings were held during 2018. 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. The tasks of the audit committee are handled by the combined members of the Board of Directors.

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 requirements to their competencies and efforts in light of the scope of their work and the number of Board meetings.

For 2018, the chairman of the Board for the period 1 January to 14 September 2018 received DKK 265,000, and ordinary board members each received DKK 132,000, for a total of DKK 529,000. In the period 14

September to 31 December 2018, the chairman of the Board of Directors received DKK 89,000 and the vice chairman and ordinary board member each received DKK 59,000, for a total of DKK 207,000. For 2018, a total amount of DKK 736,000 was paid.

The Board of Directors does not receive any other remuneration from NeuroSearch than the fixed remuneration, except for Allan Andersen, who is CEO. For information on remuneration to the Board of Directors as a related party, reference is made to note 10 to the Financial Statements.

For information regarding the number of NeuroSearch shares held by the Board of Directors, see note 2 to the 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 2018.

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

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

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

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

Hvidovre, 25 February 2019

Executive Management



Allan Andersen
CEO

Board of Directors



Mikkel Primdal Kæregaard
Chairman



Morten Mathiesen
Vice Chairman



Allan Andersen

Independent auditor's reports

To the Shareholders of NeuroSearch A/S

Our opinion

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2018 and of the results of the operations and cash flows for the financial year 1 January - 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Board of Directors.

What we have audited

NeuroSearch A/S's Financial Statements for the financial year 1 January - 31 December 2018 comprise accounting policies, income statement and comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes (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 Company in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

Following the admission of the shares of NeuroSearch A/S for listing on Nasdaq Copenhagen, we were first appointed auditors of NeuroSearch A/S on 23 April 1997. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 22 years including the financial year 2018.

Key Audit Matters

We have determined that there are no key audit matters 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 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 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 such control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance 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 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and 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.

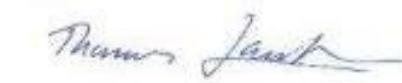
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, 25 February 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-no. 33 77 12 31


Søren Ørjan Jensen
State Authorised
Public Accountant
mne33226


Thomas Lauritsen
State Authorised
Public Accountant
mne34342

NeuroSearch

Financial Statements

Accounting policies

for the period 1 January – 31 December

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

Basis of preparation

The Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act. The Company has applied the standards and interpretations that are mandatory for financial years beginning on 1 January 2018.

The Financial Statements have been prepared under the historical cost convention.

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 Company'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 Financial Statements are presented in DKK, which is also the functional currency of the Company.

Implementation of new standards, amendments and interpretations

The Company has implemented the standards and amendments taking effect for the financial year. The implementation did not result in changes to accounting policies.

New standards, amendments and interpretations adopted but not yet effective

The IASB has adopted a number of standards and interpretations that will come into effect later, and will not be implemented in the Annual Report until they take effect.

Given the Company's current activity, only a few of these are expected to be of relevance for the Company. These are discussed below:

Adopted by the EU

- ☉ 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.

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.

Segment reporting

The Company is managed as a single business unit. The internal management and reporting structure comprises only one business unit, and the Company 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

The functional currency is the currency used in the primary economic environment. 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 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 adjustment 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.

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.

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

Administrative expenses

Administrative expenses include salaries, other staff costs, office costs, etc., as well as depreciation.

Financials

Financial items comprise interest, 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**Financial assets**

Financial assets are recognised on the trading date, which is the date the Company commits to purchase or sell the asset. The Company's financial assets consist of cash and receivables and belong to the category financial assets at amortised cost.

Receivables

Receivables are recognised at amortised cost less impairment losses. On initial recognition, the fair value is deemed to correspond to amortised cost. Receivables are written down to reflect expected losses.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

Financial liabilities

Other liabilities including trade creditors 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 Company's cash flows broken down by operating, investing and financing activities and cash and cash equivalents at the end of 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.

Income statement and statement of comprehensive income

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

Note	Income statement	2018	2017
	Revenue	-	-
	Total revenue	0	0
	Gain from divestment of intellectual property rights	2,864	2,190
	Other operating income	2,864	2,190
2	Administrative expenses	5,299	3,202
	Total costs	5,299	3,202
	Operating profit/(loss)	(2,435)	(1,012)
	Share of profit/(loss) of subsidiaries after tax	-	(9,840)
	Share of profit/(loss) of associates	-	400
	Financial income	-	-
3	Financial expense	401	397
	Total financials	(401)	(9,837)
	Profit/(loss) before tax of continuing operations	(2,836)	(10,849)
4	Tax on profit/(loss) for the year of continuing operations	-	-
	Net profit/(loss) of continuing operations	(2,836)	(10,849)
5	Profit/(loss) of discontinued operations	-	2,950
	Net profit/(loss)	(2,836)	(7,899)
	Other comprehensive income:		
	Items which are transferred to the income statement under certain conditions:		
	Recycling of currency translation	-	9,868
	Total other comprehensive income	0	9,868
	TOTAL COMPREHENSIVE INCOME	(2,836)	1,969
6	Earnings per share, continuing operations, DKK	(0.12)	(0.44)
6	Diluted earnings per share, continuing operations, DKK	(0.12)	(0.44)
6	Earnings per share for the year, DKK	(0.12)	(0.32)
6	Diluted earnings per share for the year, DKK	(0.12)	(0.32)

Balance sheet at 31 December (DKK thousands)

Note	ASSETS	2018	2017
7	Other receivables	217	455
8	Cash and cash equivalents	71,241	74,075
	Total current assets	71,458	74,530
	TOTAL ASSETS	71,458	74,530

Note	EQUITY AND LIABILITIES	2018	2017
	Share capital	24,554	24,554
	Retained earnings	45,962	48,798
	Total equity	70,516	73,352
	Trade and other payables	886	1,018
	Other liabilities	56	160
	Total current liabilities	942	1,178
	Total liabilities	942	1,178
	TOTAL EQUITY AND LIABILITIES	71,458	74,530

- 1 Accounting estimates and judgments
- 9 Fees to auditors appointed at the Annual General Meeting
- 10 Related-party transactions
- 11 Contingent assets, contingent liabilities and commitments
- 12 Financial risks
- 14 Statement of movements in equity
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Statement of cash flows

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

Note		2018	2017
	Net profit/(loss)	(2,836)	(7,899)
13	Adjustments	401	9,837
	Change in working capital:		
	Net changes in receivables	238	17
	Net changes in current debt	(236)	(6,826)
	Cash flow from operating activities	(2,433)	(4,871)
	Proceeds from liquidation of subsidiaries	-	2
	Proceeds from liquidation of associates	-	4,900
	Cash flow from investing activities	0	4,902
	Financial payments received	-	-
	Financial payments made	(401)	397
	Cash flow from financing activities	(401)	(397)
	Net cash flows	(2,834)	(366)
	Net increase/(decrease) in cash and cash equivalents	(2,834)	(366)
	Cash and cash equivalents at 1 January	74,075	74,441
	Cash and cash equivalents at 31 December	71,241	74,075

Statement of movements in equity (DKK thousands)

	Share capital*	Reserve for currency translation	Retained earnings**	Total
Equity at 1 January 2017	24,554	(9,868)	56,697	71,383
Net profit/(loss)	-	-	(7,899)	(7,899)
Recycling of currency translation	-	9,868	-	9,868
Other comprehensive income	0	9,868	0	9,868
Comprehensive income for the year	0	9,868	(7,899)	1,969
Equity at 31 December 2017	24,554	0	48,798	73,352
Equity at 1 January 2018	24,554	0	48,798	73,352
Net profit/(loss)	-	-	(2,836)	(2,836)
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	0	(2,836)	(2,836)
Equity at 31 December 2018	24,554	0	45,962	70,516

* 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 2018 (2017: 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 2018	265,946	265,946	1.08	1.1
Adjustments	-	-	-	-
Treasury shares at 31 December 2018	265,946	265,946	1.08	1.1

Notes to the Financial Statements

1 Significant accounting estimates and judgments

The preparation of the 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 deferred tax involve accounting estimates by Management that could materially affect the reported financial position and results of operations.

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.

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.

At 31 December 2018, the Company had tax loss carry-forwards totalling approximately DKK 1,738 million, which can be carried forward indefinitely. In addition, the Company had deductible temporary differences (net) of approximately DKK 51 million, a total of DKK 1,789 million. The carrying amount of unrecognised deferred tax assets was approximately DKK 394 million for the Company at a tax rate of 22% (2017: DKK 394 million). A tax calculation for the Company is provided in note 4 to the Financial Statements.

Notes to the financial Financial Statements (DKK thousands)

2 Staff	2018	2017
Break down of staff costs:		
Salaries and wages	800	735
Pension	-	15
Board remuneration	736	625
Social security costs	2	2
Other staff costs	1	6
Total	1,539	1,383
Recognised in:		
Administrative expenses	1,539	1,383
Total	1,539	1,383
Average number of employees	1	1
Number of employees at 31 December	1	1
Remuneration to the registered CEO and the Board of Directors:		
Executive Management		
Salaries	800	650
Total	800	650
Board of Directors:		
Fees	736	625
Total	736	625
Total remuneration to the CEO and Board of Directors	1,536	1,275

The Company's period of notice to the CEO is 1 month. The period of notice to be given by the CEO to the Company is 1 month. 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 (no.)			
	Beginning of period	Purchase	Sale	End of period
Allan Andersen	0	2,179	0	2,179
Total	0	2,179	0	2,179

Notes to the financial statements (DKK thousands)

3	Financial expense	2018	2017
	Interest expense	401	397
	Total	401	397

4	Tax (DKK million)	2018	2017
	Calculated tax on the year's loss	-	-
	Change in deferred tax	-	-
	Tax on the year's loss (income)	0	0

At 31 December 2018, the Company had tax loss carry-forwards of approximately DKK 1,738 million which can be carried forward indefinitely. In addition, the Company had net deductible temporary differences of approximately DKK 51 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 assets:	2018	2017
Tax on pre-tax loss	1	2
Profit in subsidiaries and associates	-	(2)
Change in deferred tax asset (increase of potential tax asset)	0	0

Breakdown of unrecognised deferred tax assets:

	2018	2017
Tax losses carried forward (available indefinitely)	1,738	1,714
Non-current assets	51	51
Other	-	26
Total temporary differences	1,789	1,791

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 Discontinued operations	2018	2017
<p>On 27 September 2011, the Company 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®. Income from discontinued operations in 2017 relates to the agreement concluded in July 2017 between Saniona and NeuroSearch (announcement no. 5-17).</p>		
Revenue	-	2,950
Costs	-	-
Net profit/(loss) of discontinued operations	0	2,950
Earnings per share, DKK (discontinued operations)	0	0.12
Cash flow from operation	-	2,950
Cash flow from investments	-	-
Cash flow from financing	-	-
Net cash flow for the period	0	2,950

6 Earnings per share	2018	2017
Net profit/(loss) for continuing operations, DKK thousands	(2,836)	(10,849)
Net profit/(loss) for the year, DKK thousands	(2,836)	(7,899)
Average number of outstanding shares (in thousands)	24,554	24,554
Earnings per share for continuing operations, DKK	(0.12)	(0.44)
Earnings per share for continuing operations, diluted, DKK	(0.12)	(0.44)
Earnings per share for the year, DKK	(0.12)	(0.32)
Earnings per share for the year, diluted, DKK	(0.12)	(0.32)

Notes to the Financial Statements (DKK thousands)

7	Other receivables	2018	2017
	Prepaid costs*	151	378
	Other receivables	66	77
	Total	217	455

* 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.

At 31 December 2018, there were no indications of impairment of other receivables.

8	Cash and cash equivalents	2018	2017
	Money market accounts	71,241	74,075
	Total	71,241	74,075

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.

9	Fees to auditors appointed at the Annual General Meeting	2018	2017
	Audit	225	205
	Tax advice	199	100
	Non-audit services	66	155
	Total	490	460

Fees for non-audit services provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab to the Company amount to DKK 265 thousand (2017: DKK 255 thousand.) and consists of tax advice regarding the tax return and general accounting and tax advice provided, among other things in connection with an application for a binding commitment from the tax authorities.

10 Related-party transactions

NeuroSearch's related parties

Related parties comprise the Company's Executive Management and Board of Directors. Morten Mathiesen is considered a related party from 14 September 2018, when he took up the position as vice chairman of the Board. Morten Mathiesen is chairman of the board of Nordic Transport Group Holding A/S, which is a major shareholder of NeuroSearch A/S.

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

11 **Contingent assets, contingent liabilities and commitments**

Contingent assets

The Company has an unrecognised potential deferred tax asset of approximately DKK 394 million (2017: DKK 394 million). See note 4 for a breakdown of the tax asset.

Contingent liabilities

No contingent liabilities are incumbent on the Company.

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.

12 **Financial risks**

Based on the financial assets and liabilities, the Company is exposed to certain financial risks, primarily credit risks. Company policy is to not actively conduct speculation in financial risks. Accordingly, the Company’s financial management exclusively involves the management of financial risks that arise as a direct consequence of the Company’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”.

The financial risks are assessed regularly by the Company’s management and are included in reporting to the Board of Directors. The reporting is focused on cash and treasury management.

Credit risk

The Board of Directors has adopted guidelines for the management of the Company’s cash and cash equivalents, including securities. The 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.

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

Notes to the Financial Statements (DKK thousands)
Financial risks (continued)

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

Credit risk:	<12 months	1-2 years	3-5 years	> 5 years	Total*	Fair value**	Carrying amount
Debt at amortised cost							
Trade and other creditors	886	-	-	-	886	886	886
Other liabilities	56	-	-	-	56	56	56
Total financial liabilities at 31 December 2018	942	0	0	0	942	942	942
Receivables at amortised cost							
Other receivables	217	-	-	-	217	217	217
Cash	71,241	-	-	-	71,241	71,241	71,241
Total financial assets at 31 December 2018	71,458	0	0	0	71,458	71,458	71,458
Net total at 31 December 2018	70,516	0	0	0	70,516	70,516	70,516
Debt at amortised cost							
Trade and other creditors	1,018	-	-	-	1,018	1,018	1,018
Other liabilities	160	-	-	-	160	160	160
Total financial liabilities at 31 December 2017	1,178	0	0	0	1,178	1,178	1,178
Receivables at amortised cost							
Other receivables	455	-	-	-	455	455	455
Cash	74,075	-	-	-	74,075	74,075	74,075
Total financial assets at 31 December 2017	74,550	0	0	0	74,550	74,550	74,550
Net total at 31 December 2017	73,372	0	0	0	73,372	73,372	73,372

* 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 at 31 December 2018 and 2017.

Notes to the Financial Statements (DKK thousands)

13	Adjustments	2018	2017
	Income from investments in subsidiaries	-	9,840
	Income from investments in associates	-	(400)
	Other financial income and expenses	401	397
	Total	401	9,837

14 Share capital

Share capital	2014	2015	2016	2017	2018
Share capital at 1 January	24,554	24,554	24,554	24,554	24,554
Equity issues	-	-	-	-	-
Capital reduction	-	-	-	-	-
Share capital at 31 December	24,554	24,554	24,554	24,554	24,554

The total number of shares is 24,553,947 (2017: 24,553,947) with a nominal value of DKK 1 each (2017: DKK 1 per share). All issued shares are fully paid up. All shares carry the same rights.

15 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.