

Evolva Biotech A/S

Lersø Parkallé 42-44, 2100 Copenhagen Ø, Denmark

CVR no. 25 53 25 38



Annual report 2016

Approved at the annual general meeting of shareholders on 3 May 2017

Chairman:



.....
Jørgen Hansen

EY

Building a better
working world



Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	5
Company details	5
Management commentary	6
Financial statements for the period 1 January - 31 December	7
Income statement	7
Balance sheet	8
Statement of changes in equity	9
Notes to the financial statements	10

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Evolve Biotech A/S for the financial year 1 January - 31 December 2016.


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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.


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

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

Copenhagen, 3 May 2017
Executive Board:


.....
Jørgen Hansen

Board of Directors:


.....
Oliver Patrick Walker
Chairman
.....
Jørgen Hansen
.....
Bo Danner Henriksen

Independent auditor's report

To the shareholder of Evolva Biotech A/S

Opinion

We have audited the financial statements of Evolva Biotech A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance 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 the financial statements.

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

- u 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.
- u 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.
- u Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 3 May 2017

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Christian S. Johansen
State Authorised Public Accountant



Management's review

Company details

Name	Evolva Biotech A/S
Address, Postal code, City	Lersø Parkallé 42-44, 2100 Copenhagen Ø, Denmark
CVR no.	25 53 25 38
Registered office	Copenhagen
Financial year	1 January - 31 December
Board of Directors	Oliver Patrick Walker, Chairman Jørgen Hansen Bo Danner Henriksen
Executive Board	Jørgen Hansen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark
Bankers	Danske Bank, Holmens Kanal 2, 1090 Copenhagen, Denmark



Management's review

Management commentary

Business review

The Company's purpose is to carry on research and development, manufacturing and sales of ingredients and processes related to food, nutrition and personal care and to provide services to companies in Denmark and abroad as well as other related activities.

Financial review

The Company's income statement for the year ended 31 December 2016 shows a loss of DKK 619,532, and the balance sheet at 31 December 2016 shows equity of DKK 7,245,558.

Events after the balance sheet date

No events have occurred after the financial year-end which could significantly affect the Company's financial position.

The parent company, Evolve Holding SA, has issued a letter of comfort stating its intention to support the Company to ensure that the Company can discharge its obligations as they fall due.

Reference is made to note 2 for more details.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK	2016	2015
	Revenue	59,907,653	47,695,083
	Other operating income	0	5,001
	Other external expenses	-18,031,519	-15,416,750
	Gross margin	41,876,134	32,283,334
3	Staff costs	-35,986,410	-27,718,777
	Depreciation of property, plant and equipment	-5,707,501	-4,554,296
	Profit before net financials	182,223	10,261
4	Financial income	221,913	72,131
5	Financial expenses	-1,023,668	-1,134,101
	Profit/loss before tax	-619,532	-1,051,709
	Tax for the year	0	0
	Profit/loss for the year	-619,532	-1,051,709
	Recommended appropriation of profit/loss	-619,532	-1,051,709
	Retained earnings/accumulated loss	-619,532	-1,051,709

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK	2016	2015
	ASSETS		
	Fixed assets		
6	Property, plant and equipment		
	Fixtures and fittings, tools and equipment	12,544,352	14,630,457
	Leasehold improvements	4,762,439	6,214,648
	Property, plant and equipment in progress	883,751	133,650
		<u>18,190,542</u>	<u>20,978,755</u>
	Investments		
	Deposits	6,035,481	5,984,744
		<u>6,035,481</u>	<u>5,984,744</u>
	Total fixed assets	<u>24,226,023</u>	<u>26,963,499</u>
	Non-fixed assets		
	Receivables		
	Other receivables	1,536,079	1,491,903
	Prepayments	100,971	368,072
		<u>1,637,050</u>	<u>1,859,975</u>
	Cash	5,700,470	13,314,680
	Total non-fixed assets	<u>7,337,520</u>	<u>15,174,655</u>
	TOTAL ASSETS	<u>31,563,543</u>	<u>42,138,154</u>
	EQUITY AND LIABILITIES		
	Equity		
7	Share capital	4,311,583	4,311,583
	Retained earnings	2,933,975	3,553,507
	Total equity	<u>7,245,558</u>	<u>7,865,090</u>
	Liabilities		
	Non-current liabilities other than provisions		
	Lease liabilities	5,335,431	6,464,293
	Payables to group entities	9,731,964	18,242,920
		<u>15,067,395</u>	<u>24,707,213</u>
	Current liabilities		
	Current portion of long-term liabilities	1,836,850	1,834,221
	Other credit institutions	105,224	174,937
	Trade payables	1,688,529	3,094,376
	Other payables	5,619,987	4,456,744
	Deferred income	0	5,573
		<u>9,250,590</u>	<u>9,565,851</u>
	Total liabilities other than provisions	<u>24,317,985</u>	<u>34,273,064</u>
	TOTAL EQUITY AND LIABILITIES	<u>31,563,543</u>	<u>42,138,154</u>

- 1 Accounting policies
- 2 Events after the balance sheet date
- 8 Contractual obligations and contingencies, etc.

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 January 2016	4,311,583	3,553,507	7,865,090
Loss for the year	0	-619,532	-619,532
Equity at 31 December 2016	<u>4,311,583</u>	<u>2,933,975</u>	<u>7,245,558</u>

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Evolva Biotech A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

Changes to presentation and disclosures only

Effective 1 January 2016, the Company has implemented act no. 738 of 1 June 2015 with amendments to the Danish Financial Statements Act. As the implementation of the amendment act has no impact in terms of value on the income statement or the balance sheet in the financial year, nor on the comparative figures, the financial statements have been prepared based on the same accounting policies as last year.

The amendment act has solely implied new or changed presentation and disclosure requirements, which have been incorporated in the financial statements.

Reporting currency

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

Foreign currency translation

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

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

Public grants

Public grants to cover expenses are recognised in the income statement when it is deemed likely that all grant criteria have been met. Grants which must be repaid under certain circumstances are recognised only where they are not expected to be repaid.

Income statement

Revenue

Revenue comprises fees from collaboration partners and group entities for the performance of research and development activities. Revenue is recognised in the income statement if the general recognition criteria are met, implying that the services concerned have been provided and that the amount can be measured reliably and is expected to be received. Revenue is recognised in accordance with the terms and conditions set out in the collaboration agreements. VAT, indirect taxes and discounts are excluded from revenue.

Other operating income

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

Other external expenses

Other external expenses include expenses related to lab operations, administration and premises, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Depreciation

The item comprises depreciation of property, plant and equipment.

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

Fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	5 years

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that concern the financial year. Net financials include interest income and expenses as well as exchange rate adjustments.

Tax

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

Balance sheet

Property, plant and equipment

Property, plant and equipment comprise leased assets, leasehold improvements, plant under construction and other fixtures and fittings, tools and equipment. Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value. Provisions are made for bad debts on the basis of objective evidence that a receivable or a group of receivables is impaired. If the net realisable value is lower than the carrying amount, the carrying amount is reduced to such lower value.

Receivables with no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily composed on the basis of debtors' domicile and credit ratings in accordance with the Company's risk management policy. The objective indicators used for portfolios are determined based on historical loss experience.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

Prepayments

Prepayments recognised under 'Assets' comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Income taxes

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

Provisions for deferred tax are calculated, based on the liability method, of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income.

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

Liabilities

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

Other liabilities are measured at net realisable value.

Lease liabilities

Lease liabilities are measured at the net present value of the remaining lease payments, including a guaranteed residual value, if any, based on the interest rate implicit in the lease.

Deferred income

Deferred income recognised as a liability comprises payments received concerning income in subsequent financial reporting years.

2 Events after the balance sheet date

The parent company, Evolva Holding SA, has issued a letter of comfort stating its intention to support the Company to ensure that the Company can discharge its obligations as they fall due. The letter of comfort comprises a period of at least 12 months from the balance-sheet date.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

	DKK	2016	2015
3	Staff costs		
	Wages/salaries	32,802,334	25,451,533
	Pensions	2,123,055	1,749,377
	Other social security costs	357,150	288,994
	Other staff costs	703,871	228,873
		<u>35,986,410</u>	<u>27,718,777</u>
	Average number of full-time employees	<u>56</u>	<u>46</u>
4	Financial income		
	Other interest income	141,660	62,519
	Other financial income	80,253	9,612
		<u>221,913</u>	<u>72,131</u>
5	Financial expenses		
	Interest expenses, associates	552,142	776,454
	Other interest expenses	51,447	91,967
	Exchange losses	94,199	30,579
	Other financial expenses	325,880	235,101
		<u>1,023,668</u>	<u>1,134,101</u>

Financial statements for the period 1 January - 31 December

Notes to the financial statements

6 Property, plant and equipment

DKK	Fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress	Total
Cost at 1 January 2016	23,855,716	10,552,598	133,650	34,541,964
Additions in the year	2,071,394	97,791	750,101	2,919,286
Disposals in the year	-394,415	0	0	-394,415
Cost at 31 December 2016	25,532,695	10,650,389	883,751	37,066,835
Impairment losses and depreciation at 1 January 2016	9,225,259	4,337,950	0	13,563,209
Depreciation in the year	4,157,499	1,550,000	0	5,707,499
Reversal of depreciation and impairment of disposals	-394,415	0	0	-394,415
Impairment losses and depreciation at 31 December 2016	12,988,343	5,887,950	0	18,876,293
Carrying amount at 31 December 2016	12,544,352	4,762,439	883,751	18,190,542
Property, plant and equipment include finance leases with a carrying amount totalling	5,822,475	0	0	5,822,475

DKK	2016	2015
7 Share capital		
Analysis of the share capital:		
4,311,583 A shares of DKK 1.00 nominal value each	4,311,583	4,311,583
	4,311,583	4,311,583

The Company's share capital has remained DKK 4,311,583 over the past 5 years.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

8 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

DKK	<u>2016</u>	<u>2015</u>
Rent and lease liabilities	<u>1,331,861</u>	<u>2,440,621</u>

Rent liabilities include rent obligations of DKK 733,387 relating to cancellable rent and DKK 571,384 relating to rent agreements that are non-cancellable until 1 July 2017. Lease liabilities of DKK 27,090 relate to agreements that are non-cancellable until 1 April 2018.

DKK 4,750,000 has been provided as security to a leasing company in connection with a lease agreement. The amount is recognised under "Deposits".