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**AGC Biologics A/S**

**Annual Report for 2018**

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**Reg. No. 25 95 09 41**

**Vandtårnsvej 83B  
2860 Søborg  
Denmark**

*29 May 2019*

**BRINKMANN** Advokat Søren Brinkmann  
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**HENRIKSEN** Advokatpartnerselskab  
CVR-nr.: 37349624  
*[Signature]*

*Date of the Annual General Meeting*

*Chairman of the Annual General Meeting*

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## Company Information

<b>The Company</b>	AGC Biologics A/S Vandtårnsvej 83B 2860 Søborg Denmark
	Telephone: +45 70 20 94 70 Homepage: <a href="http://www.agcbio.com">www.agcbio.com</a> E-mail: <a href="mailto:info@agcbio.com">info@agcbio.com</a>
	Reg. No.: 25 95 09 41 Established: 15 March 2001 Registered office: Copenhagen Financial year: 1 January – 31 December
<b>Board of Directors</b>	Noriyuki Komuro Hideaki Kan Hiroshi Nishimura Kasper Møller
<b>Executive Board</b>	Kasper Møller
<b>Auditor</b>	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 2100 København Ø Denmark

## Financial Highlights

	2018	2017	2016	2015	2014
<b>Income statement</b>					
<i>(DKK million)</i>					
Revenue	692.6	643.6	521.8	320.5	311.1
Gross profit	162.3	156.8	116.1	62.3	45.8
Operating profit	119.3	102.8	68.4	22.3	12.2
Financial income/expenses, net	4.3	-7.0	-13.8	-13.9	-9.1
Profit before tax	123.6	95.7	54.6	8.4	3.1
Profit for the year	96.2	74.5	68.2	8.4	3.2
<b>Statement of financial position</b>					
<i>(DKK million)</i>					
Total assets	634.6	501.6	581.0	404.2	346.6
Investments in Tangible assets	102.7	31.7	53.0	21.8	12.4
Equity	316.8	290.6	216.1	147.9	139.5
<b>Staff</b>					
Average number of full-time employees	312	303	245	209	199
<b>Key figures in percent*</b>					
Return on assets	21.0	19.0	13.9	5.9	3.7
Equity ratio	49.9	57.9	37.2	36.6	40.3

\* For definitions, see page 23

# Management's Review

## Activities and Business Model

AGC Biologics A/S ("AGC" or the "Company") is a Contract Development Manufacturing Organization (CDMO) that provides high value added process and analytical development, scale-up and production of biological drug substances such as antibodies to the biopharmaceutical industry.

The Company has a comprehensive service offering and is capable of taking a product from the early stage to commercial production. The service palette goes from cell line and process development over analytical testing and formulation development to both clinical and commercial manufacturing. All supported by quality services, including regulatory support.

The Company is owned by AGC Inc. and is a part of the AGC Biologics Group.

AGC Biologics Group has fully integrated process development and manufacturing operations in Copenhagen, Denmark (AGC Biologics A/S), Seattle and Berkeley, USA (AGC Biologics Inc.), Heidelberg, Germany (AGC Biologics GmbH) and Chiba, Japan (AGC Inc.). AGC Biologics A/S is conducting all its activities out of the Danish facilities.

2018 was a year characterized by continued growth and strong business intake. Several late stage clinical programs started Drug Substance manufacturing at AGC in 2018. AGC will supply Drug Substance for final clinical registration trials and when times come most likely also supply Drug Substance for long-term commercial launch.

In order to accommodate the strong business intake AGC has continued to strengthen its infrastructure and increased its staff. To support increased manufacturing demands, AGC completed the construction of a 6 x 2,000L Single Use Bioreactor manufacturing line.

Further, in 2018 AGC continued to emphasize safety, compliance, quality, customer satisfaction, increased market reach, timely and reliable delivery, highest quality standards and "best-in-class" technology.

Since AGC was started in 2001, the Company's growth is a result of significant repeat business from clients, combined with an enlarged customer base and an important increase in the average client contract size. This positive development has to a very large extent been possible due to the highly skilled and dedicated staff at AGC.

Average number of staff in 2018 were 312 employees (2017: 303).

As the number of customers and projects increases and contracts become larger, higher demands are imposed on AGC's ability to manage a complex and increasingly differentiated production portfolio. To ensure flexibility, high quality, robustness and efficient production AGC continued also in 2018 to strengthen its organization and production processes.

## Financial review

In 2018 the Company's revenue grew to DKK 692.6m corresponding to an increase of 8% compared to 2017. Investments and increase in operational cost were made in anticipation of continued growing activity in 2019 and beyond, particularly aimed at strengthening the Company's platform for commercial manufacturing. The increased revenue resulted in growing operating profit to DKK 119.3m in 2018 (2017: DKK 102.8m).

After financial charges and tax, the Company generated a net profit in 2018 of DKK 97.4m (2017: DKK 74.5m).

The financial performance in 2018 corresponds to expectations.

## Research activities

In 2018, AGC continued to enhance its technologies and processes in the development laboratories and in the production lines. In particular, High Throughput Technologies are continuously being improved in the development laboratories. In several instances these efforts lead to improved production yields, faster timelines, better-refined products and better characterization. It is the Company's strategy to continue to invest in technology with the objective to provide better value to AGC's customers.

## **Scientific resources**

AGC also enhanced its already strong scientific and practical knowledge platforms within the areas of: development, scale-up, manufacturing, process characterization and validation, and the analysis of biopharmaceuticals covering all aspects of pre-clinical, cGMP clinical trials and commercial production.

## **Increasingly high demands**

Today, AGC provides manufacturing services for several late stage clinical products, which are expected to receive final approval by the health authorities to be marketed commercially in the coming years. As a “knowledge and experience based company” AGC has the need to retain and develop its employees. The Company is well aware of these challenges and is therefore working on increasing the career opportunities within AGC as well as introducing improvements in the other aspects of working life that are important to the employees.

## **Corporate social responsibility**

As an international company in the biopharmaceutical industry, AGC has an important social responsibility. AGC strives to live up to this responsibility and is recognized by its stakeholders as reliable and responsible characterized by professionalism, honesty and integrity.

### *Climate and environment*

AGC works systematically to improve the working environment and environmental conditions in every area of the Company. AGC is committed to comply with all environment-related laws.

Some of the key risks, associated with our industry relate to having manufacturing and production systems operations, which create predominance of negative impacts on environment and climate. Through our ISO14001 certification, we put a strong focus on our environmental management systems towards mitigating these risks and comply with all applicable laws.

Monthly KPIs are prepared by the leadership teams and used for internal decision-making.

### *Human rights*

The Company is committed to the safety of all employees and visitors to the facility. One of the key risks for our business is health and safety incidents within the manufacturing processes. This is predominantly managed through ongoing continuous improvements on the health and safety environment at the workplace. KPIs to ensure health and safety are established and monitored on a monthly basis.

### *Anti-corruption and bribery*

AGC follows all applicable laws and company policies/rules and conducts business activities with integrity. Having breaches to the applicable laws and regulations by our employees and third-parties is a risk for our business, which we manage through strictly enforcing all applicable antitrust laws.

All employees are annually trained in the AGC Group Code of Conduct.

### *Social and staff matters*

The Company believes that human resources are the driving force behind the business operation and strives to create equal opportunities for all employees. AGC respects and values diversity of people and do not discriminate against anyone based on race, ethnicity, religion, nationality, gender etc.

One of the key risks to our business is employees' retention. In order to promote employees opportunities and their retention in the company, we provide various trainings with particular emphasis on developing employees' skills.

Employee satisfaction surveys and KPIs are tracked and monitored on a monthly and yearly basis.

### **Objectives regarding participation of women in the Board of Directors and Leadership team**

To ensure that discussions include multiple perspectives representing the complex global pharmaceutical environment, the Board of Directors and Leadership team aspires to be diverse in gender and nationality. We further believe that diversity allows us to better understand customer needs in different cultures, attract and retain talented people from around the world, and operate more effectively in a global business environment by always selecting the best candidate for a position.

The company's target is at least one female board member to be hired within the next 2 years. For 2018, there are 5 board members in the company and none of them are females. We realize the difficulties with achieving the target and we will strive to create an environment, where both genders have equal opportunities for leadership positions.

The Company wants to be an attractive workplace for both female and male managers where men and women consider that they have equal and fair opportunities for promotion to higher managerial positions and that their competences can be used in the best possible way irrespective of gender. Therefore, we work to encourage employees' talents and have trainings in place for both female and males employees, in order to provide them with the skills to advance and excel on such positions.

The objective with regard to the proportion of the underrepresented gender is to have approximately 40:60 split between genders.

As of December 31, 2018 35 % of all managers (Leadership Team and other managers) were women.

### **Events after December 31, 2018**

No significant subsequent events occurred after the financial year-end that would have a material impact on these annual accounts.

### **Outlook for 2019**

The improved markets conditions experienced in 2018 appear to continue.

Today, the Company has a very strong backlog for 2019 and is also beginning to see the build-up of a solid backlog for 2020. Management expects operationally a result for 2019 better than in 2018.

### **Final remarks**

Since AGC Biologics A/S was started in 2001, the Company has experienced overall strong performance and demonstrated an ability to continue a successful development despite at times, very challenging periods. We would like to thank all our customers, employees, shareholders, and other partners for making this possible.

## Statement by the Management on the Annual Report

Today the Board of Directors and the Executive Board presented the Annual Report for 2018 of AGC Biologica A/S.

The Annual Report has been presented in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements provide a true and fair view of the Company's assets, liabilities and equity, financial position at 31 December 2018 and results of the Company's activities in the accounting period 1 January - 31 December 2018.

In our opinion the Management's Review provides a fair review of the matters the review deals with.

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

Copenhagen, May 2019

### Executive Board

  
Kasper Møller

### Board of Directors

  
Nanyuki Komuro  
(Chairman)  
Fabrizio Massera  
Hideaki Kan  
Hiroshi Nishimura  
Kasper Møller



# Independent Auditor's Report

To the Shareholders of AGC Biologics A/S.

## Opinion

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

We have audited the Financial Statements of AGC Biologics A/S for the financial year 1 January - 31 December 2018, which comprise income statement, statement of financial position, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies ("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 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 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 during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under 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 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 these financial statements.

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

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

Copenhagen, 29 May 2019

### **KPMG P/S**

CVR no. 25 57 81 98

Statsautoriseret Revisionspartnerselskab

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Niels Vendelbo

State Authorised Public Accountant

MNE-nr. 34532

## Income Statement for the Period 1 January – 31 December 2018

(DKK '000)

	Note	2018	2017
Revenue	1	692,613	643,563
Production expenses	2.4	<u>530,350</u>	<u>486,777</u>
<b>Gross profit</b>	2.4	162,263	156,786
Sales expenses	2.4	14,868	7,954
Administrative expenses	2,3,4	<u>28,057</u>	<u>46,072</u>
<b>Operating profit/loss</b>		119,338	102,760
Financial income	5	4,613	865
Financial expenses	6	<u>342</u>	<u>7,903</u>
<b>Profit/loss before tax</b>		123,609	95,722
Tax on profit/loss for the year	7	<u>27,442</u>	<u>21,194</u>
<b>Profit/loss for the year</b>	8	<u><u>96,167</u></u>	<u><u>74,528</u></u>

## Statement of Financial Position at 31 December 2018

(DKK '000)

	Note	2018	2017
<b>Assets</b>			
Finished development projects		32,568	38,429
Development projects in progress		0	49
<b>Intangible assets</b>	9	<u>32,568</u>	<u>38,478</u>
Plant and machinery		81,595	81,855
Other fixtures and fittings, tools and equipment		509	832
Leasehold improvements		145,860	82,848
Assets under construction		22,429	8,274
<b>Tangible fixed assets</b>	10	<u>250,393</u>	<u>173,809</u>
Investments in subsidiaries		100	0
Deposits	11	15,250	16,557
<b>Financial fixed assets</b>		<u>15,350</u>	<u>16,557</u>
<b>Total fixed assets</b>		<u>298,311</u>	<u>228,844</u>
Raw materials and consumables		36,728	38,477
<b>Inventories</b>		<u>36,728</u>	<u>38,477</u>
Work in progress	12	29,032	64,721
Trade receivables		147,405	84,872
Deferred tax asset	13	17,926	35,007
Intercompany receivables	14	7,406	1,841
Income taxes		1,543	0
Other receivables		4,512	6,546
Prepayments	15	5,037	2,674
<b>Receivables</b>		<u>212,861</u>	<u>195,661</u>
<b>Cash</b>		<u>86,685</u>	<u>38,592</u>
<b>Total current assets</b>		<u>336,274</u>	<u>272,730</u>
<b>Total assets</b>		<u>634,585</u>	<u>501,574</u>

## Statement of Financial Position at 31 December 2018

(DKK '000)

	Note	2018	2017
<b>Liabilities and equity</b>			
Share capital		42,853	42,853
Reserve for development costs		440	501
Retained earnings		177,518	247,290
Proposed Dividend		96,000	0
<b>Total equity</b>	16	<u>316,811</u>	<u>290,644</u>
Prepayments from customers	17	<u>37,865</u>	<u>29,298</u>
<b>Long-term liabilities other than provisions</b>		<u>37,865</u>	<u>29,298</u>
Intercompany debt		15,042	10,730
Prepayments from customers	17	18,278	9,791
Advances from customers	12	150,821	68,158
Trade payables		31,292	31,326
Income taxes		0	6,984
Income taxes, Joined taxation		2,271	1,017
Other debt	18	<u>62,205</u>	<u>53,626</u>
<b>Short-term liabilities other than provisions</b>		<u>279,909</u>	<u>181,632</u>
<b>Total liabilities</b>		<u>317,774</u>	<u>210,930</u>
<b>Total liabilities and equity</b>		<u>634,585</u>	<u>501,574</u>
Contingent assets and liabilities etc.	19		
Related parties	20		

## Statement of Changes in Equity

(DKK '000)

	Share capital	Reserve for develop- ment costs	Retained earnings	Proposed Dividend	Total
Equity at 1 January	42,853	501	247,290	0	290,644
Proposed distribution of net profit	0	0	167	96,000	96,167
Paid Interim Dividend	0	0	-70,000	0	-70,000
Share of development costs amortized in the year	0	-61	61	0	0
Equity at 31 December	<u>42,853</u>	<u>440</u>	<u>177,518</u>	<u>96,000</u>	<u>316,811</u>

## Statement of Cash Flow

(DKK '000)

	2018	2017
<b>Cash flow from operating activities</b>		
Operating result	119,338	102,760
Non-cash adjustments	-35	-35
Depreciation and amortisation	32,050	30,455
Self-financing	<u>151,353</u>	<u>133,180</u>
Decrease (+) / Increase (-) in raw materials and consumables	1,749	4,286
Decrease (+) / Increase (-) in receivables	-27,173	-1,173
Decrease (-) / Increase (+) in trade payables and other debt	86,240	-26,159
Decrease (+) / Increase (-) in current assets	<u>60,816</u>	<u>-23,046</u>
Financial income and expenses	4,271	-5,460
Paid Company Taxes	-17,635	-3,875
Paid Interim Dividend	-70,000	0
<b>Cash flow in the year</b>	<u>128,805</u>	<u>100,799</u>
<b>Cash flow generated from investing activities</b>		
Intercompany loan	-1,253	66,530
Investments in intangible assets	0	-252
Investments in tangible fixed assets	-102,723	-31,680
Decrease (-) / Increase (+) in trade payables in connection with building project	4,968	-4,249
Sale of tangible fixed assets	35	35
Investments in financial fixed assets, net	1,207	-856
<b>Cash flow in the year</b>	<u>-97,766</u>	<u>29,528</u>
<b>Cash flow generated from financing activities</b>		
Customer deposits	17,054	6,310
Loan from credit institutes	0	-146,360
<b>Cash flow in the year</b>	<u>17,054</u>	<u>-140,050</u>
<b>Cash flow in the year</b>	<u>48,093</u>	<u>-9,723</u>
Cash at 1 January	38,592	48,315
Cash flow in the year	<u>48,093</u>	<u>-9,723</u>
Cash at 31 December	<u>86,685</u>	<u>38,592</u>

## Notes

(DKK '000)

<b>Note 1 - Revenue</b>	<b>2018</b>	<b>2017</b>
Revenue, Denmark	83,076	149,270
Revenue, abroad	609,537	494,293
	<u>692,613</u>	<u>643,563</u>
Production revenue	493,103	476,020
Raw material revenue	199,510	167,543
	<u>692,613</u>	<u>643,563</u>

### Note 2 - Staff costs

*Total staff costs constitute:*

Wages and salaries, gross	238,093	224,613
Of this capitalised on internal projects	-5,542	-4,125
Wages and salaries, net	<u>232,551</u>	<u>220,488</u>
Pension schemes	16,029	15,201
Other expenses for social security	2,152	1,089
	<u>250,732</u>	<u>236,778</u>

Remuneration to the Executive Board and Board of Directors has not been disclosed in accordance with section 98b (3) of the Danish Financial Statements Act.

For 2017 remuneration to the executive management and board of directors amounted to 3,441.

Average number of full time employees	<u>312</u>	<u>303</u>
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Management and a number of key employees are participating in the Company's long term incentive program. The program was established in 2018 and gives the participants the right to receive a number of Restricted stock Units ("RSU's") in the subsidiary AGC Biologics Copenhagen ApS, calculated as a certain percentage of each participants base salary at the grant date. The RSU's vest three years from the grant date. For the 2018-program 355 thousand RSU's have been granted at a share price of 7,45 DKK, total value 31 December 2018 is DKK 2.6 million.

### Note 3 - Fee to auditor

*KPMG*

Audit	298	450
Other statements	75	0
Tax consulting (including VAT and charges)	12	0
Other services	76	0
	<u>461</u>	<u>450</u>



## Notes

(DKK '000)

### Note 4 - Amortisation, depreciation and impairment

2018

2017

*Amortisation, depreciation and write-downs on intangible and tangible fixed assets for the year have been recognised in the following items:*

Production expenses	31,206	29,557
Sales expenses	167	132
Administrative expenses	677	766
	<u>32,050</u>	<u>30,455</u>

### Note 5 - Financial income

Interest income from group enterprises	0	865
Foreign exchange gain, net	4,613	0
	<u>4,613</u>	<u>865</u>

### Note 6 - Financial expenses

Interest expense from group enterprises	0	609
Foreign exchange loss, net	0	1,587
Other interest expenses	342	5,707
	<u>342</u>	<u>7,903</u>

### Note 7 - Tax on net results

Current tax	10,361	8,001
Deferred tax (income)	17,081	13,193
Total	<u>27,442</u>	<u>21,194</u>

### Note 8 - Proposed distribution of net profit

Proposed dividends for the financial year	96,000	0
Paid Interim dividend	70,000	0
Transferred from / to retained earnings	-69,833	74,528
Distribution, total	<u>96,167</u>	<u>74,528</u>

## Notes

(DKK '000)

### Note 9 - Intangible fixed assets

	Finished development projects	Ongoing development projects
Cost at 1 January	49,543	49
Addition in the year	0	0
Reclassification	49	-49
Disposals in the year	0	0
Cost at 31 December	<u>49,592</u>	<u>0</u>
Amortisation and write-down at 1 January	-11,114	0
Amortisation in the year	-5,910	0
Amortisation reversed on disposed assets	0	0
Amortisation and write-down at 31 December	<u>-17,024</u>	<u>0</u>
Carrying amount at 31 December	<u><u>32,568</u></u>	<u><u>0</u></u>

### Note 10 - Tangible fixed assets

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Assets under construction
Cost at 1 January	174,047	5,547	148,857	8,274
Addition in the year	8,375	108	18,955	75,285
Reclassifications	3,391	0	57,739	-61,130
Disposals in the year	0	0	0	0
Cost at 31 December	<u>185,813</u>	<u>5,655</u>	<u>225,551</u>	<u>22,429</u>
Depreciation and write-down at 1 January	-92,192	-4,715	-66,009	0
Depreciation in the year	-12,026	-431	-13,682	0
Write-down in the year	0	0	0	0
Depreciation reversed on disposed assets	0	0	0	0
Depreciation and write-down at 31 December	<u>-104,218</u>	<u>-5,146</u>	<u>-79,691</u>	<u>0</u>
Carrying amount at 31 December	<u><u>81,595</u></u>	<u><u>509</u></u>	<u><u>145,860</u></u>	<u><u>22,429</u></u>

### Note 11 - Financial fixed assets

	Investment in Subsidiary	Deposits
Cost at 1 January	0	16,557
Additions in the year	100	36
Disposals in the year	0	-1,343
Cost at 31 December	<u>100</u>	<u>15,250</u>
Carrying amount at 31 December	<u><u>100</u></u>	<u><u>15,250</u></u>

## Notes

(DKK '000)

<b>Note 12 - Work in progress</b>	<b>2018</b>	<b>2017</b>
Selling price of work performed	301,757	343,099
Progress billings	-423,545	-346,536
Work in progress, net	<u>-121,789</u>	<u>-3,437</u>

*Recognised in the balance sheet as follows:*

Work in progress, assets	29,032	64,721
Advances from customers, liabilities	-150,821	-68,158
	<u>-121,789</u>	<u>-3,437</u>

### **Note 13 - Deferred tax**

Deferred tax at 1 January	35,007	48,200
Changes to deferred tax in the year	-17,081	-13,193
Deferred tax at 31 December	<u>17,926</u>	<u>35,007</u>

*Deferred tax consists of:*

Intangible fixed assets	-7,138	-8,411
Tangible fixed assets	-7,507	-4,791
Borrowing costs	0	0
Loss carried forward	32,571	48,209
	<u>17,926</u>	<u>35,007</u>

Based on long term forecasts for the Company the tax asset is expected to be fully utilized within the next 1-2 years.

### **Note 14 - Intercompany Receivables**

After 5 years	0	0
Between 1 and 5 years	0	0
Within 1 year	7,406	1,841
Total Intercompany Receivables	<u>7,406</u>	<u>1,841</u>

### **Note 15 - Prepayments, current asset**

Prepayments primarily comprise prepaid expenses in relation to service contracts and insurance premium.

### **Note 16 - Share capital**

*The share capital comprises the following classes of shares:*

Class A shares, 4,176,495 shares of a nominal value of DKK 1	4,176	4,176
Class B shares, 38,676,478 shares of a nominal value of DKK 1	38,677	38,677
	<u>42,853</u>	<u>42,853</u>

The B-shares carry certain preferences regarding subscription of capital and distribution of dividend.

## Notes

(DKK '000)

<b>Note 17 - Prepayments, non-current liabilities</b>	<b>2018</b>	<b>2017</b>
<i>Liabilities due:</i>		
After 5 years	6,510	7,310
Between 1 and 5 years	31,355	21,988
Within 1 year	18,278	9,791
	<u>56,143</u>	<u>39,089</u>

### **Note 18 - Other debt**

Other debt comprises of holiday allowance, bonuses etc.

### **Note 19 - Contingent liabilities etc.**

#### **Tennacy agreement**

The Company has three tenancy agreements. The first one is terminable with 12 months' notice from 1 May 2028. The yearly rent amounts to DKK 16,236 thousand in 2019 corresponding to a total commitment of DKK 169 million (not discounted back to its present value).

The second one is also terminable with 12 months' notice but from 30 June 2019. The yearly rent amounts to DKK 692 thousand in 2019 corresponding to a total commitment of DKK 1,037 thousand (not discounted back to its present value).

The third one is also terminable with 12 months' notice. The yearly rent amounts to DKK 1,337 thousand in 2019 corresponding to a total commitment of DKK 1,337 thousand (not discounted back to its present value).

The Company has a restoration and renovation liability of the facilities towards the landlords. The amount is unknown but it is not expected to have significant impact on the Company's financial position.

The Company is administration company in relation to joint taxation with Danish companies in the AGC Inc. Group. The companies are jointly and severally liable for tax on the consolidated taxable income.

<b>Operating leases</b>	<b>2018</b>	<b>2017</b>
Lease commitments falling due for payment within five years of the balance sheet date, total	<u>1,817</u>	<u>2,041</u>
Of this lease commitments falling due within one year	<u>662</u>	<u>628</u>

### **Note 20 - Related parties**

Related parties consist of the Board of Directors and Executive Board together with enterprises affiliated with the parent company AGC Inc, Japan. The parent company and the sister companies AGC Biologics Inc., AGC Biologics GmbH, AGC Inc had as of December 2018 intercompany balances with the Company (net Liability for AGC Biologics A/S of DKK 7,636 thousand), as well as transactions with the Companies.

	<b>2018</b>
<i>Related party transactions</i>	
Sale of services	17,984
Purchase of services	37,143
Sales of goods	353
Purchase of goods	818

## Accounting policies

The Annual Report for AGC Biologics A/S for 2018 has been presented in accordance with the provisions of the Danish Financial Statements Act regarding large sized class C companies.

The accounting policies are unchanged compared to last year.

The Annual Report for 2018 is presented in DKK.

### Omission of Consolidated Financial Statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of AGC Inc and group entities are included in the consolidated financial statements of 2018, 1-5-1, Marunouchi, Chiyoda-ku, Tokyo 100-8405 JAPAN, Code number 5201; TSE 1st section.

### Recognition and measurement

Income is recognised in the income statement as earned. All expenses including depreciation/amortisation and impairment losses are recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and when the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that the future economic benefits will flow out of the Company and when the measurement of the value of the liability is reliable.

On initial recognition, assets and liabilities are recognised at cost. Subsequently, assets and liabilities are measured as described below for each item.

### Income statement

#### Revenue

Revenue comprises revenue from the contract manufacturing and development of high value added process development, scale-up and production of biopolymers such as protein material and antibodies to the biopharmaceutical industry.

The Company provides contract development services and contract manufacturing solutions that are specifically customised to each customer. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively based upon the percentage completion of project stages and completion of contract milestone activity at the reporting date.

Contract development services consist of developing and analysing customer products and related processes. Contract manufacturing solutions consist of producing the customer product. Raw materials used in relation to contract development services and contract manufacturing solutions are recognised as revenue.

Gross profit comprises revenue with deduction of production costs.

#### Production costs

Production costs include staff expenses, consumables, expenses related to Company premises, depreciation etc.

#### Sales expenses

Sales expenses include expenses for salesmen, advertising, marketing etc.

#### Administrative expenses

Administrative expenses include staff expenses, expenses related to Company premises, office costs, and costs related to operating leases etc.

#### Net financials

Financial income and financial expenses are recognised in the income statement with the amounts related to the financial year. Financial income and financial expenses include interest receivable and payable, financial expenses related to finance leases, exchange gains and losses on transactions denominated in foreign currencies, and charges related to the Danish Scheme for Payment of Tax on Account etc.

## Corporation tax and deferred tax

The Company is jointly taxed with the Danish companies in the AGC Inc. Ltd. Group. The Danish corporation tax is allocated between the jointly taxed Danish companies with the portion of taxes related to their taxable incomes (full allocation with refund regarding tax losses).

Tax on results for the year which comprises current tax and changes in deferred tax is recognised in the income statement with the portion of taxes related to the taxable income for the year whereas the portion attributable to entries on equity is recognised directly in equity.

## Statement of financial position

### Intangible assets

Intangible assets consist of finished development projects and development projects. Directly attributable costs capitalised as part of the development projects include employee costs and an appropriate portion of relevant overheads.

Development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Assets are amortised by the straight-line method over the finite expected useful lives of assets as follows:

Finished development projects	3-10 years
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Impairment losses are recognised when the carrying amount of an asset or a cash-generating unit exceeds the higher of the estimated value in use and fair value less costs of disposal.

### Fixed assets

Technical equipment and machinery, other fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation. Assets are depreciated by the straight-line method over the expected useful lives of assets as follows:

Plant and machinery	10 - 20 years
Other fixtures and fittings, tools and equipment	3 years
Leasehold improvements in the lease period	9 - 15 years

### Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, writedown is made to this lower value.

### Inventories

Inventories are measured at cost using the first-in, first-out (FIFO) formula. Where net realisable value is lower than cost, inventories are written down to the lower value.

Cost of goods for resale as well as raw materials and consumables comprises the acquisition price plus landed costs and indirect production costs.

### Work-in-progress

Work-in-progress is measured at sales value of the work carried out. The sales value is measured on the basis of the level of completion on the balance sheet date and the total expected income from the individual work-in-progress.

If the sales value cannot be calculated reliably, the sales value is measured at expenses incurred or net realisation value, if lower.

The individual work-in-progress is recognised in the statement of financial position under receivables or debt depending on the net value of the sales price with deduction of invoicing on account and prepayments.

## Receivables

Receivables are measured at amortised cost which usually equals nominal value. Provisions made for bad debts reduce the value.

## Current and deferred tax

Current tax liabilities and current tax receivables are recognised in the statement of financial position as tax calculated on the taxable income for the year adjusted for tax on previous years' taxable income and taxes paid on account.

Deferred tax is measured at temporary differences between the carrying amount and the tax base of assets and liabilities measured on the basis of the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets including the tax value of tax loss carry forwards are measured at the expected realisable value.

## Prepayments and advances from customers

Prepayments from customers are payments received for work not initiated.

Advances from customers are payments received for work initiated and included in work in progress.

## Liabilities other than provisions

Debt to credit institutes is measured at amortised cost including transaction cost.

## Foreign currency translation

Transactions denominated in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising between the rate on the date of transaction and the rate on the payment day are recognised in the income statement as financial income or expenses.

Receivables, debt and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated by applying the exchange rates at the balance sheet date. Differences arising between the rate at the balance sheet date and the rate at the date of the arising of the receivable or debt are recognised in the income statement under financial income and expenses.

Fixed assets purchased in foreign currencies are measured at the rate of the date of transaction.

## Statement of cash flow

Statement of Cash Flow shows the Company's cash flow split on operating, investing and financing activities during the year, change in cash for the year and cash balances at year beginning and year end.

Cash flow generated from operating activities is calculated as operating result adjusted for non-cash positions, changes in working capital and paid taxes.

Cash flow generated from investing activities include payment related to purchase and sale of companies and purchase and sale of immaterial, material and financial assets.

Cash flow generated from financing activities include changes in shared capital and related costs and borrowing, repayment of interest-bearing debt and payment of dividends to shareholders.

## Financial highlights

Explanation of financial ratios

$$\text{Return on assets} = \frac{\text{Operating profit} \times 100}{\text{Average assets}}$$

$$\text{Average assets} = \frac{\text{Total assets, year 0} + \text{Total assets, year 1}}{2}$$

$$\text{Equity ratio} = \frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$$