

CMC Biologics A/S

Annual Report for 2016

Reg. No. 25 95 09 41

Vandtårnsvej 83B
2860 Sørborg

Date of the Annual General Meeting

31 May 2017

Chairman of the Annual General Meeting

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Company Information

The Company CMC Biologics A/S
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Reg. No.: 25 95 09 41
Established: 15 March 2001
Registered office: Copenhagen
Financial year: 1 January – 31 December

Board of Directors Hideyuki Kurata
Masahiko Fukamachi
Ikuo Matsukura
Patricio Massera
Kasper Møller

Executive Board Patricio Massera

Auditor PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup
Denmark

Financial Highlights

	2016	2015	2014	2013	2012
Income statement					
<i>(DKK million)</i>					
Revenue*	521.8	320.5	311.1		
Gross profit	116.1	62.3	45.8	37.2	27.8
Operating profit / loss	68.4	22.3	12.2	4.2	-4.0
Financial income / expenses, net	-13.8	-13.9	-9.1	-4.3	-6.1
Profit/loss before tax	54.6	8.4	3.1	0.0	-10.1
Profit / loss for the year	68.2	8.4	3.2	-0.1	1.9
Statement of financial position					
<i>(DKK million)</i>					
Total assets	581.0	404.2	346.6	311.3	298.9
Equity	216.1	147.9	139.5	136.3	136.5
Staff					
Average number of full-time employees	245	209	199	185	175
Key figures in percent**					
Return on assets	13.9	5.9	3.7	1.4	negative
Equity ratio	37.2	36.6	40.3	43.8	45.7

* No requirement before 2014

** For definitions, see page 23

Management's Review

Activities

CMC Biologics A/S ("CMC" or the "Company") is a Contract Development Manufacturing Organisation (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.

CMC group is a world leading biologics CDMO offering development of high performance manufacturing processes and the production of Active Pharmaceutical Ingredients (APIs) for drug development, and for commercialized products.

CMC group has fully integrated process development and manufacturing operations in Copenhagen, Denmark (CMC Biologics A/S) and in Seattle and Berkeley, USA (CMC ICOS Biologics Inc.). CMC Biologics A/S is conducting all its activities out of the Danish facilities.

The Company was fully controlled by CMC Biologics III S.C.S. as per 31 December 2016.

Financial review

In 2016 the Company's revenue grew to DKK 521.8m corresponding to an increase of 63% compared to 2015. Significant investments and increase in operational cost were made in anticipation of continued growing activity in 2017 and beyond, particularly aimed at strengthening the Company's platform for commercial manufacturing. The increased revenue resulted in growing operating profit to DKK 68.4m in 2016 (2015: DKK 22.3m). This improvement was achieved despite the increase in cost base undertaken to strengthen of the Company's infrastructure for manufacturing of commercial products.

After financial charges and tax the Company generated a net profit in 2016 of DKK 68.2m (2015: DKK 8.4m).

Equity is DKK 216.1m (2015: DKK 147.9m) at the end of the year, corresponding to an equity ratio of 37.2%.

The financial performance in 2016 corresponds to expectations.

2016 Business Review

2016 was a year characterized by growth and continued strong business intake.

Several late stage clinical programs started API manufacturing at CMC in 2016. CMC will supply API for final clinical registration trials and when times come most likely also supply API for long-term commercial launch.

The product for which CMC had the FDA inspection in 2015 was approved in the US and has subsequently been further approved in EU and Canada. CMC continues the commercial supply to this product.

In order to accommodate the strong business intake CMC has continued to strengthen its infrastructure and increased its staff significantly. To support increased manufacturing demands, CMC completed the expansion of large scale mammalian capacity with opening of 3x 2000-L Single Use Bioreactor facility (3-Pack), expanded the warehouse and initiated the construction of a 2x 500-L Single Use Bioreactor manufacturing line. This was finalized in April 2017.

Further in 2016, CMC continued to emphasize: safety, compliance, quality, customer satisfaction, increased market reach, timely and reliable delivery, highest quality standards and "best-in-class" technology.

Since CMC 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 CMC.

Average number of staff in 2016 were 245 employees (2015: 209).

As the number of customers and projects increases and contracts become larger, higher demands are imposed on CMC's ability to manage a complex and increasingly differentiated production portfolio. To ensure flexibility, high quality, robustness and efficient production CMC continued also in 2016 to strengthen its organization and production processes.

Research activities

In 2016, CMC continued to enhance its technologies and processes in the development laboratories and in the production lines. In particular, High Throughput Technologies has been implemented in the development laboratories. In several instances these R&D 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 CMC's customers.

Scientific resources

CMC 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, CMC 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" CMC 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 CMC 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, CMC has an important social responsibility. CMC strives to live up to this responsibility and is recognized by its stakeholders as reliable and responsible characterized by professionalism, honesty and integrity.

CMC works systematically to improve the working environment and environmental conditions in every area of the Company.

As a world leader in a knowledge intensive and high value added industry CMC is aware of its responsibility towards society. Thus, CMC does actively promote responsible corporate behaviour and to be proactive in ensuring that our employees are being trained. It is the Company's policy to employ best practices in every aspect of how CMC interphase with society including environmental matters and being a "good corporate citizen".

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

The Board of Directors and the Leadership Team in CMC are accountable to the Company's shareholders for the way the Company conducts its business. The composition of the Board of Directors and the leadership team must therefore be such that the combined competencies of the Board and leadership team enable them to inspire, guide and oversee the Company's development, and address and resolve the issues and challenges faced by the Company at any time.

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 expects to have at least one female board member within the next 2 years.

As of 31 December 2016 41 % of all managers (Leadership Team and other managers) were women.

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.

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

Events after 31st December 2016

On December 15, 2016, the owner of the company (CMC Biologics III S.C.S.) entered into a share purchase agreement for the sale of the shares in CMC Biologics A/S to Asahi Glass Co., Ltd. Closing of the transaction was 1 February 2017.

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

Outlook for 2017

The improved markets conditions experienced in 2016 appear to continue.

Today, the Company has a very strong order book for 2017 and is also beginning to see the build-up of a solid order book for 2018. It is management's ambition that the investments made in human resources and in plant and equipment in 2016 will yield increased operational leverage in 2017.

Final remarks

Since CMC was started in 2001, CMC 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 2016 of CMC Biologics 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 2016 and results of the Company's activities in the accounting period 1 January - 31 December 2016.

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, 31 May 2017

Executive Board



Patricio Massera

Board of Directors




Hideyuki Kurata
(Chairman)



Masahiko Fukamachi



Ikuo Matsukura



Patricio Massera



Kasper Møller

Independent Auditor's Report

To the Shareholders of CMC 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 2016, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of CMC Biologics A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, 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.

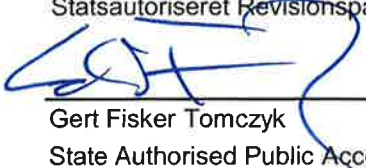
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 31 May 2016


PricewaterhouseCoopers

CVR no. 33 77 12 31

Statsautoriseret Revisionspartnerselskab



Gert Fisker Tomczyk
State Authorised Public Accountant



Lasse Fuglsang Pedersen
State Authorised Public Accountant

Income Statement for the Period 1 January – 31 December

(DKK '000)

	Note	2016	2015
Revenue	1	521,795	320,466
Production expenses	2.4	<u>405,742</u>	<u>258,129</u>
Gross profit	2.4	116,054	62,337
Sales expenses	2.4	11,503	7,827
Administrative expenses	2,3,4	<u>36,134</u>	<u>32,202</u>
Operating profit/loss		68,417	22,308
Financial income	5	1,371	3,292
Financial expenses	6	<u>15,192</u>	<u>17,228</u>
Profit/loss before tax		54,596	8,373
Tax on profit/loss for the year	7	<u>-13,625</u>	<u>0</u>
Profit/loss for the year		<u><u>68,222</u></u>	<u><u>8,373</u></u>
<i>Proposed distribution of net profit for the year:</i>			
Proposed dividends for the financial year		0	0
Transferred to retained earnings		<u>68,222</u>	<u>8,373</u>
Distribution, total		<u><u>68,222</u></u>	<u><u>8,373</u></u>

Statement of Financial Position at 31 December

(DKK '000)

	Note	2016	2015
Assets			
Finished development projects		42,063	3,070
Development projects in progress		2,326	43,622
Intangible assets	9	<u>44,389</u>	<u>46,692</u>
Plant and machinery		69,423	48,226
Other fixtures and fittings, tools and equipment		720	986
Leasehold improvements		77,004	68,127
Assets under construction		19,275	15,723
Tangible fixed assets	10	<u>166,422</u>	<u>133,063</u>
Deposits	11	<u>15,701</u>	<u>15,433</u>
Financial fixed assets		<u>15,701</u>	<u>15,433</u>
Total fixed assets		<u>226,511</u>	<u>195,188</u>
Raw materials and consumables		42,763	27,174
Inventories		<u>42,763</u>	<u>27,174</u>
Work in progress	12	86,800	45,646
Trade receivables		63,579	42,962
Deferred tax asset	8	48,200	30,700
Intercompany receivables	13	57,553	33,545
Other receivables		4,860	4,504
Prepayments	14	2,402	1,281
Receivables		<u>263,393</u>	<u>158,637</u>
Cash		<u>48,315</u>	<u>23,228</u>
Total current assets		<u>354,472</u>	<u>209,041</u>
Total assets		<u>580,983</u>	<u>404,229</u>

Statement of Financial Position at 31 December

(DKK '000)

	Note	2016	2015
Liabilities and equity			
Share capital		42,853	42,853
Reserve for development costs		594	0
Retained earnings etc.		172,669	105,042
Proposed dividend for the financial year		0	0
Total equity	15	<u>216,116</u>	<u>147,895</u>
Debt to credit institutes	16	0	138,230
Prepayments from customers	17	32,272	16,896
Long-term liabilities other than provisions		<u>32,272</u>	<u>155,126</u>
Intercompany debt		21	1,169
Prepayments from customers	17	507	8,443
Debt to credit institutes	16	144,673	1,117
Advances from customers	12	104,431	30,442
Trade payables		36,722	31,508
Income taxes		3,875	0
Other debt		42,366	28,529
Short-term liabilities other than provisions		<u>332,595</u>	<u>101,208</u>
Total liabilities		<u>364,867</u>	<u>256,334</u>
Total liabilities and equity		<u>580,983</u>	<u>404,229</u>
Contingent assets and liabilities etc.	18		
Assets charged or otherwise provided as security	19		
Related parties	20		

Statement of Changes in Equity

(DKK '000)

	Share capital	Reserve for development costs	Retained earnings etc.	Total
Equity at 1 January	42,853	0	105,042	147,895
Proposed distribution of net profit	0	0	68,222	68,222
Capitalized development costs in the year	0	594	-594	0
Equity at 31 December	<u>42,853</u>	<u>594</u>	<u>172,669</u>	<u>216,116</u>

Statement of Cash Flow

(DKK '000)

	2016	2015
Cash flow from operating activities		
Operating result	68,417	22,308
Non-cash adjustments	0	-166
Depreciation and amortisation	22,560	19,107
Self-financing	<u>90,977</u>	<u>41,249</u>
Decrease (+) / Increase (-) in raw materials and consumables	-15,589	-9,383
Decrease (+) / Increase (-) in receivables	-63,248	-37,441
Decrease (-) / Increase (+) in trade payables and other debt	93,053	34,225
Decrease (+) / Increase (-) in current assets	<u>14,216</u>	<u>-12,598</u>
Financial income and expenses	<u>-13,220</u>	<u>-10,737</u>
Cash flow in the year	<u>91,973</u>	<u>17,914</u>
Cash flow generated from investing activities		
Intercompany loan	-24,070	13,071
Investments in intangible assets	-594	-16,517
Investments in tangible fixed assets	-53,021	-21,781
Decrease (-) / Increase (+) in trade payables in connection with building project	-13	6,074
Sale of tangible fixed assets	0	407
Investments in financial fixed assets, net	-267	-928
Cash flow in the year	<u>-77,966</u>	<u>-19,674</u>
Cash flow generated from financing activities		
Customer deposits	7,439	0
Loan from credit institutes	3,640	9,513
Cash flow in the year	<u>11,079</u>	<u>9,513</u>
Cash flow in the year	<u>25,087</u>	<u>7,754</u>
Cash at 1 January	23,228	15,474
Cash flow in the year	<u>25,087</u>	<u>7,754</u>
Cash at 31 December	<u>48,315</u>	<u>23,228</u>

Notes

(DKK '000)

Note 1 - Revenue	2016	2015
Revenue, Denmark	81,902	42,118
Revenue, abroad	439,893	278,349
	<u>521,795</u>	<u>320,466</u>
Production revenue	385,989	257,940
Raw material revenue	135,806	62,526
	<u>521,795</u>	<u>320,466</u>

Note 2 – Staff costs

Total staff costs constitute:

Wages and salaries, gross	170,330	137,975
Of this capitalised on internal projects	-4,342	-15,893
Wages and salaries, net	<u>165,988</u>	<u>122,082</u>
Pension schemes	11,841	8,893
Other expenses for social security	1,196	1,163
	<u>179,025</u>	<u>132,138</u>
Remuneration to Executive Board and Board of Directors regarding board function	<u>3,330</u>	<u>2,633</u>

Average number of full time employees	<u>245</u>	<u>209</u>
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Members of Management participated in an exit bonus programme in the former parent company CMC Biologics S.à.r.l. The participants would according to the Phantom Share agreement receive cash payment from CMC Biologics S.à.r.l. equal to approximately 1 % (as of 31 December 2016) of total sales gain, based on the value of the Group upon an exit and a specified entrance price. Based upon the sale of the company to Asahi Glass Co., Ltd., Japan the participating member of Management received a cash payment from CMC Biologics S.à.r.l in February 2017.

Note 3 – Fee to auditor

Audit	335	329
Other statements	0	15
Tax consulting (including VAT and charges)	184	225
Other services	107	206
	<u>626</u>	<u>775</u>

Notes

(DKK '000)

Note 4 – Amortisation, depreciation and impairment

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

	2016	2015
Production expenses	21,766	18,303
Sales expenses	143	157
Administrative expenses	651	647
	<u>22,560</u>	<u>19,107</u>

Note 5 – Financial income

Interest income from group enterprises	1,086	3,272
Other interest income	285	20
	<u>1,371</u>	<u>3,292</u>

Note 6 – Financial expenses

Foreign exchange loss, net	294	1,966
Other interest expenses	14,898	15,262
	<u>15,192</u>	<u>17,228</u>

Note 7 – Tax on net results

Current tax	3,875	0
Deferred tax (income)	-17,500	0
Total	<u>-13,625</u>	<u>0</u>

Note 8 - Deferred tax

Deferred tax at 1 January	30,700	30,700
Changes to deferred tax in the year	17,500	0
Deferred tax at 31 December	<u>48,200</u>	<u>30,700</u>

Deferred tax consists of:

Intangible fixed assets	-9,684	-9,927
Tangible fixed assets	-3,693	-1,641
Borrowing costs	-375	-742
Loss carried forward	61,952	43,010
	<u>48,200</u>	<u>30,700</u>

Based on long term forecasts for the Company the tax asset is expected to be fully utilized within the next 3-4 years.

Notes

(DKK '000)

Note 9 – Intangible fixed assets

	Finished development projects	Ongoing development projects
Cost at 1 January	5,123	43,622
Addition in the year	323	271
Reclassification	41,568	-41,568
Disposals in the year	0	0
Cost at 31 December	<u>47,014</u>	<u>2,326</u>
Amortisation and write-down at 1 January	-2,053	0
Amortisation in the year	-2,898	0
Amortisation reversed on disposed assets	0	0
Amortisation and write-down at 31 December	<u>-4,951</u>	<u>0</u>
Carrying amount at 31 December	<u>42,063</u>	<u>2,326</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	122,098	4,672	110,212	15,723
Addition in the year	22,211	146	11,776	18,889
Reclassifications	6,940	181	8,217	-15,337
Disposals in the year	0	0	0	0
Cost at 31 December	<u>151,248</u>	<u>4,999</u>	<u>130,204</u>	<u>19,275</u>
Depreciation and write-down at 1 January	-73,872	-3,685	-42,084	0
Depreciation in the year	-7,953	-593	-11,116	0
Depreciation reversed on disposed assets	0	0	0	0
Depreciation and write-down at 31 December	<u>-81,825</u>	<u>-4,278</u>	<u>-53,200</u>	<u>0</u>
Carrying amount at 31 December	<u>69,423</u>	<u>720</u>	<u>77,004</u>	<u>19,275</u>

Note 11 – Financial fixed assets

	Deposits
Cost at 1 January	15,433
Additions in the year	267
Disposals in the year	0
Cost at 31 December	<u>15,701</u>
Carrying amount at 31 December	<u>15,701</u>

Notes

(DKK '000)

Note 12 – Work in progress	2016	2015
Sales value of the production	287,390	112,752
Payments received on account	-305,021	-97,548
Work in progress, net	<u>-17,631</u>	<u>15,204</u>

Recognised in the balance sheet as follows:

Work in progress, assets	86,800	45,646
Advances from customers, liabilities	-104,431	-30,442
	<u>-17,631</u>	<u>15,204</u>

Note 13 - Intercompany Receivables

After 5 years	0	0
Between 1 and 5 years	0	32,512
Within 1 year	57,553	1,033
Total Intercompany Receivables	<u>57,553</u>	<u>33,545</u>

Note 14 – Prepayments, current asset

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

Note 15 – 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.

Note 16 - Debt to credit institutes

Repayments, due under 1 year, is stated under short-term liabilities. Other liabilities is stated under long-term. The Company has secured new funding in 2017.

Future payments:

After 5 years	0	0
Between 1 and 5 years	0	141,603
Long-term part	0	141,603
Within 1 year	144,673	1,117
Total future payments	<u>144,673</u>	<u>142,720</u>

Notes

(DKK '000)

Note 17 – Prepayments, non-current liabilities	2016	2015
<i>Liabilities due:</i>		
After 5 years	4,227	0
Between 1 and 5 years	28,045	16,896
Within 1 year	507	8,443
	<u>32,779</u>	<u>25,340</u>

Note 18 – Contingent liabilities etc.

Tennacy agreement

The Company has two tenancy agreements. The first one is terminable with 12 months' notice from 1 May 2028. The yearly rent amounts to DKK 15,756 thousand in 2017 corresponding to a total commitment of DKK 196 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 553 thousand in 2017 corresponding to a total commitment of DKK 1,383 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.

Operating leases	2016	2015
Lease commitments falling due for payment within five years of the balance sheet date, total	<u>2,135</u>	<u>311</u>
Of this lease commitments falling due within one year	<u>543</u>	<u>180</u>

Note 19 – Assets charged or otherwise provided as security

The Company has pledged its owner's mortgage of DKK 30,000 thousand with security in plant and equipment located with a carrying amount of DKK 166,422 thousand. The Company has further issued a registered floating charge of total DKK 40,000 thousand with security in plant, equipment, inventory ect. with a carrying amount of DKK 317,152 thousand.

An account pledge agreement has been entered into by the Company as pledger concerning the bank accounts of the Company with the carrying amount of DKK 48,315 thousand.

Note 20 – Related parties

Related parties consist of the Board of Directors and Executive Board together with enterprises affiliated with the former parent company CMC Biologics III SCS, Luxembourg. The former parent company and the sister company CMC Biologics Inc. had as of December 2016 intercompany balances with the Company (net asset for CMC Biologics A/S of DKK 57,532 thousand), as well as transactions with the Company.

Accounting policies

The Annual Report for CMC Biologics A/S for 2016 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 2016 is presented in DKK.

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 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 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.

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.

Tax on results for the year

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 intellectual property rights including patents, finished development projects including software and development projects in progress and prepayment for intangible assets. 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:

Intellectual property rights	10 years
IT software	5 years
Process development	5 years

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:

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

Leases

Leases related to tangible assets of which the Company assumes all material risks and rewards of ownership (finance leases) are measured in the statement of financial position as assets. On initial recognition, the assets are valued at computed cost equal to fair value. Assets held under finance leases are depreciated as other similar tangible assets.

The capitalised remaining lease obligation is recognised in the statement of financial position as a debt and the interest on the lease obligation is charged to the income statement.

Receivables

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

Exit bonus programme costs

Costs related to Management exit bonus programme are not recognized as this is optional according to Danish Financial Statements Act. Costs are fully recognized in ultimate parent company, CMC Biologics S.à r.l.

Prepayments

Prepayments comprise incurred expenses related to the following financial year.

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

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

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

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