CMC Biologics A/S

Annual Report for 2017

Reg. No. 25 95 09 41

Vandtårnsvej 83B
2860 Søborg
Denmark

29 May 2018

Date of the Annual General Meeting

Chairman of the Annual General Meeting

BRINKMANN KRONBORG HENRIKSEN
Advokat Søren Brinkmann
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Advokatpartnerselskab
CVR-nr.: 3734 9674

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Company Information

The Company	CMC Biologics A/S Vandtårnsvej 83B 2860 Søborg Denmark	
	Telephone:	+45 70 20 94 70
	Homepage:	www.agcbio.com
	E-mail:	info@agcbio.com
	Reg. No.:	25 95 09 41
	Established:	15 March 2001
	Registered office:	Copenhagen
	Financial year:	1 January – 31 December
Board of Directors	Hideyuki Kurata Hiroshi Nishimura Yukiteru Nakashita Ikuo Matsukura Kasper Møller	
Executive Board	Kasper Møller	
Auditor	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 2100 København Ø Denmark	

Financial Highlights

	2017	2016	2015	2014	2013
Income statement					
(DKK million)					
Revenue*	643.6	521.8	320.5	311.1	
Gross profit	156.8	116.1	62.3	45.8	37.2
Operating profit/loss	102.8	68.4	22.3	12.2	4.2
Financial income/expenses, net	-7.0	-13.8	-13.9	-9.1	-4.3
Profit/loss before tax	95.7	54.6	8.4	3.1	0.0
Profit/loss for the year	74.5	68.2	8.4	3.2	-0.1
Statement of financial position					
(DKK million)					
Total assets	501.6	581.0	404.2	346.6	311.3
Equity	290.6	216.1	147.9	139.5	136.3
Staff					
Average number of full-time employees	303	245	209	199	185
Key figures in percent**					
Return on assets	19.0	13.9	5.9	3.7	1.4
Equity ratio	57.9	37.2	36.6	40.3	43.8

* 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.

On 1 February 2017 the Company was sold to Asahi Glass Co., Ltd. ("AGC") and is now a part of the AGC Biologics Group.

The AGC Biologics 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.

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

Financial review
In 2017 the Company's revenue grew to DKK 643.6m corresponding to an increase of 19% compared to 2016. Investments and increase in operational cost were made in anticipation of continued growing activity in 2018 and beyond, particularly aimed at strengthening the Company's platform for commercial manufacturing. The increased revenue resulted in growing operating profit to DKK 102.8m in 2017 (2016: DKK 68.4m). 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 2017 of DKK 74.5m (2016: DKK 68.2m).

The financial performance in 2017 corresponds to expectations.

2017 Business Review
2017 was a year characterized by growth and continued strong business intake.
Several late stage clinical programs started Drug substance manufacturing at CMC in 2017. CMC 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 CMC has continued to strengthen its infrastructure and increased its staff. To support increased manufacturing demands, CMC completed the construction of a 2x 500-L Singe Use Bioreactor manufacturing line.

Further in 2017, 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 2017 were 303 employees (2016: 245).

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 2017 to strengthen its organization and production processes.

Research activities
In 2017, 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". At the current stage, CM hasn't implemented any formal CSR policies, including impacts on human rights, environment and climate.

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's target is at least one female board member to be hired within the next 2-3 years. For 2017, there are 5 board members in the company and none of them are females. We realise the difficulties with achieving the target and we will strive to create a environment, where both genders have equal opportunities for leadership positions.

As of 31 December 2017 40 % 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. 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.

Events after 31st December 2017

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

Outlook for 2018

The improved markets conditions experienced in 2017 appear to continue.

Today, the Company has a very strong order book for 2018 and is also beginning to see the build-up of a solid order book for 2019. Further significant investment in expansion of the Manufacturing capacity will be done in 2018, resulting in increased Manufacturing capacity from 4th quarter 2018 and going forward. A shorter (1-2 months) shutdown of facility is planned in 2018 as a result of the expansion, however management expects operationally a result at the same level as 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 2017 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 2017 and results of the Company's activities in the accounting period 1 January - 31 December 2017.

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, 29 May 2018

Executive Board

Kasper Møller

Board of Directors

Hideyuki Kurata (Chairman)	Hiroshi Nishimura	Yukiteru Nakashita
Ikuo Matsukura	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 2017, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2017 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 2017, 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, 28 May 2018

KPMG P/S
CVR no. 25 57 81 98
Statsautoriseret Revisionspartnerselskab

Niels Vendelbo
State Authorised Public Accountant
MNE-nr. 34532

Income Statement for the Period 1 January – 31 December

(DKK '000)

	Note	2017	2016
Revenue	1	643,563	521,795
Production expenses	2.4	486,777	405,742
Gross profit	2.4	156,786	116,054
Sales expenses	2.4	7,954	11,503
Administrative expenses	2,3,4	46,072	36,134
Operating profit/loss		102,760	68,417
Financial income	5	865	1,371
Financial expenses	6	7,903	15,192
Profit/loss before tax		95,722	54,596
Tax on profit/loss for the year	7	21,194	-13,625
Profit/loss for the year		74,528	68,222

Proposed distribution of net profit for the year:

		2017	2016
Proposed dividends for the financial year		0	0
Transferred to retained earnings		74,528	68,222
Distribution, total		74,528	68,222

Statement of Financial Position at 31 December

(DKK '000)

	Note	2017	2016
Assets			
Finished development projects		38,429	42,063
Development projects in progress		49	2,326
Intangible assets	9	38,478	44,389
Plant and machinery		81,855	69,423
Other fixtures and fittings, tools and equipment		832	720
Leasehold improvements		82,848	77,004
Assets under construction		8,274	19,275
Tangible fixed assets	10	173,809	166,422
Deposits	11	16,557	15,701
Financial fixed assets		16,557	15,701
Total fixed assets		228,844	226,511
Raw materials and consumables		38,477	42,763
Inventories		38,477	42,763
Work in progress	12	64,721	86,800
Trade receivables		84,872	63,579
Deferred tax asset	8	35,007	48,200
Intercompany receivables	13	1,841	57,553
Other receivables		6,546	4,860
Prepayments	14	2,674	2,402
Receivables		195,661	263,393
Cash		38,592	48,315
Total current assets		272,730	354,472
Total assets		501,574	580,983

Statement of Financial Position at 31 December
(DKK '000)

	Note	2017	2016
Liabilities and equity			
Share capital		42,853	42,853
Reserve for development costs		501	594
Retained earnings etc.		247,290	172,669
Total equity	15	290,644	216,116
Prepayments from customers	17	29,298	32,272
Long-term liabilities other than provisions		29,298	32,272
Intercompany debt		10,730	21
Prepayments from customers	17	9,791	507
Debt to credit institutes	16	0	144,673
Advances from customers	12	68,158	104,431
Trade payables		31,326	36,722
Income taxes		8,001	3,875
Other debt	18	53,626	42,366
Short-term liabilities other than provisions		181,632	332,595
Total liabilities		210,930	364,867
Total liabilities and equity		501,574	580,983
Contingent assets and liabilities etc.	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	594	172,669	216,116
Proposed distribution of net profit	0	0	74,528	74,528
Capitalized development costs in the year	0	0	0	0
Share of development costs amortized in the year	0	-93	93	0
Equty at 31 December	42,853	501	247,290	290,644

Statement of Cash Flow

(DKK '000)

	2017	2016
Cash flow from operating activities		
Operating result	102,760	68,417
Non-cash adjustments	-35	0
Depreciation and amortisation	30,455	22,560
Self-financing	133,180	90,977
Decrease (+) / Increase (-) in raw materials and consumables	4,286	-15,589
Decrease (+) / Increase (-) in receivables	-1,173	-63,248
Decrease (-) / Increase (+) in trade payables and other debt	-26,159	93,053
Decrease (+) / Increase (-) in current assets	-23,046	14,216
Financial income and expenses	-5,460	-13,220
Paid Company Taxes	-3,875	0
Cash flow in the year	100,799	91,973
Cash flow generated from investing activities		
Intercompany loan	66,530	-24,070
Investments in intangible assets	-252	-594
Investments in tangible fixed assets	-31,680	-53,021
Decrease (-) / Increase (+) in trade payables in connection with building project	-4,249	-13
Sale of tangible fixed assets	35	0
Investments in financial fixed assets, net	-856	-267
Cash flow in the year	29,528	-77,966
Cash flow generated from financing activities		
Customer deposits	6,310	7,439
Loan from credit institutes	-146,360	3,640
Cash flow in the year	-140,050	11,079
Cash flow in the year	-9,723	25,087
Cash at 1 January	48,315	23,228
Cash flow in the year	-9,723	25,087
Cash at 31 December	38,592	48,315

Notes

(DKK '000)

Note 1 - Revenue

	2017	2016
Revenue, Denmark	149,270	81,902
Revenue, abroad	494,293	439,893
	643,563	521,795
Production revenue	476,020	385,989
Raw material revenue	167,543	135,806
	643,563	521,795

Note 2 – Staff costs

Total staff costs constitute:		
Wages and salaries, gross	224,613	170,330
Of this capitalised on internal projects	-4,125	-4,342
Wages and salaries, net	220,488	165,988
Pension schemes	15,201	11,841
Other expenses for social security	1,089	1,196
	236,778	179,025
Remuneration to Executive Board and Board of Directors regarding board function	3,441	3,330
Average number of full time employees	303	245

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

KPMG		
Audit	450	0
Other statements	0	0
Tax consulting (including VAT and charges)	0	0
Other services	0	0
	450	0
PricewaterhouseCoopers		
Audit	9	335
Other statements	0	0
Tax consulting (including VAT and charges)	83	184
Other services	44	107
	136	626

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:

	2017	2016
Production expenses	29,557	21,766
Sales expenses	132	143
Administrative expenses	766	651
	30,455	22,560

Note 5 – Financial income

Interest income from group enterprises	865	1,086
Other interest income	0	285
	865	1,371

Note 6 – Financial expenses

Interest expense from group enterprises	609	0
Foreign exchange loss, net	1,587	294
Other interest expenses	5,707	14,898
	7,903	15,192

Note 7 – Tax on net results

Current tax	8,001	3,875
Deferred tax (income)	13,193	-17,500
Total	21,194	-13,625

Note 8 - Deferred tax

Deferred tax at 1 January	48,200	30,700
Changes to deferred tax in the year	-13,193	17,500
Deferred tax at 31 December	35,007	48,200
Deferred tax consists of:		
Intangible fixed assets	-8,411	-9,684
Tangible fixed assets	-4,791	-3,693
Borrowing costs	0	-375
Loss carried forward	48,209	61,952
	35,007	48,200

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	47,014	2,326
Addition in the year	252	0
Reclassification	2,277	-2,277
Disposals in the year	0	0
Cost at 31 December	49,543	49
Amortisation and write-down at 1 January	-4,950	0
Amortisation in the year	-6,164	0
Amortisation reversed on disposed assets	0	0
Amortisation and write-down at 31 December	-11,114	0
Carrying amount at 31 December	38,429	49

Note 10 – Tangible fixed assets

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Assets under construction
Cost at 1 January	151,248	4,999	130,204	19,275
Addition in the year	6,536	548	1,617	22,979
Reclassifications	16,944	0	17,036	-33,980
Disposals in the year	-681	0	0	0
Cost at 31 December	174,047	5,547	148,857	8,274
Depreciation and write-down at 1 January	-81,825	-4,279	-53,200	0
Depreciation in the year	-11,046	-436	-12,809	0
Write-down in the year	-4	0	0	0
Depreciation reversed on disposed assets	683	0	0	0
Depreciation and write-down at 31 December	-92,192	-4,715	-66,009	0
Carrying amount at 31 December	81,855	832	82,848	8,274

Note 11 – Financial fixed assets

	Deposits
Cost at 1 January	15,701
Additions in the year	1,350
Disposals in the year	-494
Cost at 31 December	16,557
Carrying amount at 31 December	16,557

Notes

(DKK '000)

Note 12 – Work in progress	**2017**	**2016**
Selling price of work performed	343,099	287,390
Progress billings	-346,536	-305,021
Work in progress, net	-3,437	-17,631
Recognised in the balance sheet as follows:		
Work in progress, assets	64,721	86,800
Advances from customers, liabilities	-68,158	-104,431
	-3,437	-17,631

Note 13 - Intercompany Receivables

After 5 years	0	0
Between 1 and 5 years	0	0
Within 1 year	1,841	57,553
Total Intercompany Receivables	1,841	57,553

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
	42,853	42,853

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.

Future payments:		
After 5 years	0	0
Between 1 and 5 years	0	0
Long-term part	0	0
Within 1 year	0	144,673
Total future payments	0	144,673

Notes

(DKK '000)

Note 17 – Prepayments, non-current liabilities	2017	2016
Liabilities due:		
After 5 years	7,310	4,227
Between 1 and 5 years	21,988	28,045
Within 1 year	9,791	507
	39,089	32,779

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 16,032 thousand in 2018 corresponding to a total commitment of DKK 183 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 665 thousand in 2018 correspnding to a total commitment of DKK 1,661 thousand (not discounted back to its present value).

The third one is also terminable with 12 months' notice. The yearly rent amounts to DKK 1,196 thousand in 2018 correspnding to a total commitment of DKK 1,196 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 Asahi Glass Co. Ltd. Group. The companies are jointly and severally liable for tax on the consolidated taxable income.

Operating leases	2017	2016
Lease commitments falling due for payment within five years of the balance sheet date, total	2,041	2,135
Of this lease commitments falling due within one year	628	543

Note 20 – Related parties

Related parties consist of the Board of Directors and Executive Board together with enterprises affiliated with the parent company Asahi Glass Co., Ltd., Japan. The parent company and the sister company CMC ICOS Biologics Inc. had as of December 2017 intercompany balances with the Company (net Liability for CMC Biologics A/S of DKK 8,889 thousand), as well as transactions with the Company.

Accounting policies

The Annual Report for CMC Biologics A/S for 2017 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 2017 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 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 sued 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 Asahi Glass Co. 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

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

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 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 recieved for work initiated and inluced en 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

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

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

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