



AGC Biologics A/S

Annual Report for 2020

Reg. No. 25 95 09 41

*Vandtårnsvej 83B
2860 Søborg
Denmark*

Date of the Annual General Meeting

Chairman of the Annual General Meeting

04 June 2021 | 00:50 PDT

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Carsten Hornbecker

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Company Information

The Company AGC Biologics A/S
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2860 Søborg
Denmark

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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 Noriyuki Komuro
Tomoko Miyagawa
Hiroshi Nishimura
Kasper Møller
Patricio Ezequiel Massera

Executive Board Kasper Møller

Auditor KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 København Ø
Denmark

Financial Highlights

	2020	2019	2018	2017	2016
Income statement					
<i>(DKK million)</i>					
Revenue	1,455	996	693	644	522
Gross profit	452	257	162	157	116
Operating profit	371	204	119	103	68
Financial income/expenses, net	-13	-5	4	-7	-14
Profit before tax	357	198	124	96	55
Profit for the year	279	154	96	75	68
Statement of financial position					
<i>(DKK million)</i>					
Total assets	2,348	1,182	635	502	581
Investments in Tangible assets	152	60	103	32	53
Equity	340	215	317	291	216
Staff					
Average number of full-time employees	441	377	312	303	245
Key figures in percent*					
Return on assets	21	22	21	19	14
Equity ratio	15	18	50	58	37

* For definitions, see page 19

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 Boulder, USA (AGC Biologics Inc.), Heidelberg, Germany (AGC Biologics GmbH) and Chiba, Japan (AGC Inc.). In 2020 the AGC Biologics Group continued its growth adding its first cell & gene therapy facility in Milan Italy (AGC Biologics S.p.A.). AGC Biologics A/S is conducting all its activities out of the Danish facility.

2020 was a year characterized by continued growth and strong business intake. Several late stage clinical programs both started and continued Drug Substance manufacturing at AGC in 2020. AGC will supply Drug Substance for final clinical registration trials and also supply Drug Substance for long-term commercial launch (if needed). During 2020, AGC became supplier to several COVID-19 vaccine programs.

In order to accommodate the strong business intake AGC has continued to strengthen its infrastructure and increased its staff.

In 2020 the company initiated the construction of a new mammalian production facility next to the existing production facility. The DKK 1.2 billion investment is expected to more than double the current mammalian production capacity when completed in 2023.

Further, in 2020 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 2020 were 441 employees (2019: 377).

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 2020 to strengthen its organization and production processes.

Financial review

In 2020 the Company's revenue grew to DKK 1,455.1m corresponding to an increase of 46% compared to 2019. Investments and increase in operational cost were made in anticipation of continued growing activity in 2021 and beyond, particularly aimed at strengthening the Company's platform for commercial manufacturing. The increased revenue resulted in growing operating profit to DKK 370.5m in 2020 (2019: DKK 203.5m).

After financial charges and tax, the Company generated a net profit in 2020 of DKK 278.5m (2019: DKK 154.3m).

The financial performance in 2020 corresponds to expectations.

Research activities

In 2020, 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 Biologics has an important social responsibility. We are recognized by our stakeholders as reliable and responsible, characterized by professionalism, honesty and integrity. We strive to live up to this responsibility.

AGC Biologics delivers input to AGC group CSR report "Sustainability Data Book". The AGC group uses ISO 26000 (Social Responsibility) as a guideline for its global CSR activities.

AGC Biologics has started the CSR journey and is working on developing a framework for our CSR work for Global AGC Biologics and thereby aligning itself with the ISO 26000 Guidance.

In 2020 CPH site was awarded a Silver Ecovadis Medal based on a sustainability scorecard. Ecovadis is a platform for CSR evaluation. The medal has to be renewed every year which we intend to do in order to track our progress.

Climate and environment

AGC Biologics has established processes to identify environmental and climate aspects of our activities, products and services, including effectively addressing risks and opportunities. Our policies within environment, energy and climate are transformed into action through overall environmental and energy action plans.

Leadership teams prepare monthly KPIs to guide internal decision-making. AGC Biologics places a strong focus on continuous improvements with regards to environment and climate. We accomplish this through our ISO14001 certification and ISO 50001 management system, planned to be certified in 2021.

AGC Biologics has established objectives within the most significant Energy and environmental aspects covering; Investigating of possibilities to convert to more CO2 neutral energy sources, reducing of selected compounds in wastewater and increase the reuse of solid waste. In addition, several KPIs are established within the same areas.

In 2020, we improved concepts and tools for EHS management in both smaller and larger capital projects. We currently use our EHS management tool in planning our new mammalian facility by setting Sustainability targets e.g.

Social and staff matters

AGC Biologics 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. We have established KPIs to ensure health and safety are monitored on a monthly basis and have established objectives within the most significant health and safety aspects covering; Work life balance, Ergonomic and Physical aspects (noise etc.).

We will continue to improve our working environment by implementing an ISO 45001 management system.

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

A greater emphasis on opportunities and satisfaction has continued in 2020. Among other initiatives, managers and employees have been trained in AGC Biologics' framework for individual development supporting a frequent and ongoing conversation about expectations for development and performance.

Committees overseeing the Environment, Energy, Health & Safety work

Environment and Energy committee and Occupational Health & Safety committee are both chaired by the Site Head & GM for CPH site with management representation from different relevant functions and EHS manager.

The committees ensure that the framework is in place for maintenance, operation and further development of the management systems in accordance with ISO 14001, ISO 45001 and ISO 50001.

Amongst other activities, the committees approve the mapping of relevant aspects of our activities and approve the objectives, KPI's and action plans to ensure continuous EHS improvements, performance and compliance with legal requirements.

Training on our important aspects and objectives and relevant standard operating procedures is assigned / implemented covering all employees through classroom training or e-learning platform to ensure all employees are aware and work towards the same goal.

Anti-corruption and bribery

AGC Biologics 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 the AGC Group Code of Conduct. The AGC Group Code of Conduct includes, but not limited to fair competition, antitrust, conflict of interest, company and third-party assets and confidential information.

All employees are trained annually in the AGC Group Code of Conduct. No breaches of our Code of Conduct were identified in 2020. We are committed to continuing our training and compliance efforts in 2021.

Human rights

AGC Biologics believes that human resources are the driving force behind the business operation and strives to create equal opportunities for all employees. We respect and value diversity of people and we do not discriminate against anyone based on race, ethnicity, religion, nationality, gender, sexual orientation, age, ability or any status.

One of the key risks to our business is employee attrition. In order to promote employees' opportunities and their retention in the company, we provide various trainings with particular emphasis on developing employees' skills. Training has continued in 2020 despite COVID-19 on the company's online platforms and has included all employees. On top of this, a number of specific initiatives have been initiated to further improve employees' opportunities, retention and the employee experience.

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 will at least have 1 female board member within the next year and aims to establish a Board of Directors where 2 of the 5 board members are female within 2-3 years. 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 all employees irrespective of gender, 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, 2020 35 % of all managers (Leadership Team and other managers) were women.

Events after December 31, 2020

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

Outlook for 2021

The market conditions experienced in 2020 appear to continue.

Today, the Company has a very strong backlog signed for 2021 and is also beginning to see the build-up of a solid backlog for 2022. Management expects operationally a result for 2021 better than in 2020. The COVID-19 outbreak in 2020 effecting most parts of the world has continued into 2021. Management follows the situation closely and does not at current time expect any material effect to the Company's revenue or

For 2021 a result in the range of DKK 450m-550m is expected.

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 2020 of AGC 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, equity and cash flow, financial position at 31 December 2020 and results of the Company's activities in the accounting period 1 January - 31 December 2020.

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.

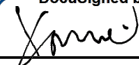
Copenhagen, June 2, 2021

Executive Board

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
Kasper Møller

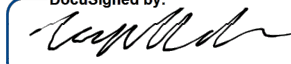
Board of Directors

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Noriyuki Kato
(Chairman)

DocuSigned by:
Tomoko Miyagawa
Tomoko Miyagawa

DocuSigned by:
Hiroshi Nishimura
Hiroshi Nishimura

DocuSigned by:

Patricio Ezequiel Massera

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Kasper Møller

Independent Auditor's Report

To the Shareholders of AGC Biologics A/S

Opinion

We have audited the financial statements of AGC Biologics A/S for the financial year 1 January – 31 December 2020 comprising income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2020 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2020 in accordance with the Danish Financial Statements Act.

Basis for Opinion

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

Management's Responsibilities for the Financial Statements

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

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

Independent Auditor's Report

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.

Independent Auditor's Report

Statement on Management's Review

Management is responsible for Management's Review.

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

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

Copenhagen, June 2, 2021

KPMG P/S

CVR no. 25 57 81 98

Statsautoriseret Revisionspartnerselskab

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Niels Vendelbo

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Niels Vendelbo

State Authorised Public Accountant

MNE-no. 34532

DocuSigned by:

Martin Pieper

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Martin Pieper

State Authorised Public Accountant

MNE-no. 44063

Income Statement for the Period 1 January – 31 December

(DKK '000)

	Note	2020	2019
Revenue	1	1,455,071	996,136
Production expenses	2,4	<u>1,003,100</u>	<u>739,027</u>
Gross profit	2,4	451,971	257,109
Sales expenses	2,4	17,362	19,616
Administrative expenses	2,3,4	<u>64,110</u>	<u>34,038</u>
Operating profit		370,499	203,455
Financial income	5	0	234
Financial expenses	6	<u>13,375</u>	<u>5,570</u>
Profit before tax		357,124	198,119
Tax on profit for the year	7	<u>78,586</u>	<u>43,791</u>
Profit for the year	8	<u><u>278,538</u></u>	<u><u>154,328</u></u>

Statement of Financial Position at 31 December 2020

(DKK '000)

	Note	2020	2019
Assets			
Finished development projects		23,953	28,991
Development projects in progress		2,389	556
Intangible assets	9	<u>26,342</u>	<u>29,547</u>
Land	10	32,000	0
Plant and machinery	10	141,810	126,662
Other fixtures and fittings, tools and equipment	10	5,004	1,641
Leasehold improvements	10	150,565	130,190
Assets under construction	10	68,360	20,358
Right-of-use asset	11	295,245	233,060
Tangible fixed assets		<u>692,984</u>	<u>511,911</u>
Investments in subsidiaries	12	100	100
Deposits	12	17,026	15,947
Financial fixed assets		<u>17,126</u>	<u>16,047</u>
Total fixed assets		<u>736,452</u>	<u>557,505</u>
Raw materials and consumables		210,790	125,279
Inventories		<u>210,790</u>	<u>125,279</u>
Work in progress	13	16,819	44,513
Trade receivables		515,950	249,797
Intercompany receivables		8,108	12,186
Other receivables		10,900	12,246
Prepayments	14	12,167	4,822
Receivables		<u>563,944</u>	<u>323,564</u>
Cash		<u>836,355</u>	<u>176,082</u>
Total current assets		<u>1,611,089</u>	<u>624,925</u>
Total assets		<u>2,347,541</u>	<u>1,182,430</u>

Statement of Financial Position at 31 December 2020

(DKK '000)

	Note	2020	2019
Liabilities and equity			
Share capital		42,853	42,853
Reserve for development costs		318	379
Retained earnings		18,506	17,907
Proposed Dividend		278,000	154,000
Total equity	15	<u>339,677</u>	<u>215,139</u>
Provisions for deferred tax	16	<u>18,840</u>	<u>9,343</u>
Provisions		<u>18,840</u>	<u>9,343</u>
Lease obligations	11	286,857	228,532
Advances from customers	13	336,582	9,908
Other debt		<u>32,725</u>	<u>10,615</u>
Long-term liabilities other than provisions		<u>656,164</u>	<u>249,055</u>
Advances from customers	13	1,028,200	478,439
Lease obligations	11	17,575	10,000
Trade payables		93,005	93,330
Intercompany payable		36,361	29,526
Income taxes		11,864	3,120
Other debt		<u>145,855</u>	<u>94,478</u>
Short-term liabilities other than provisions		<u>1,332,860</u>	<u>708,893</u>
Total liabilities		<u>2,007,864</u>	<u>967,291</u>
Total liabilities and equity		<u>2,347,541</u>	<u>1,182,430</u>
Contingent assets and liabilities etc.	17		
Related parties	18		

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	379	17,907	154,000	215,139
Paid Ordinary Dividend	0	0	0	-154,000	-154,000
Proposed distribution of net profit	0	0	538	278,000	278,538
Development costs amortized in the year	0	-61	61	0	0
Equity at 31 December	<u>42,853</u>	<u>318</u>	<u>18,506</u>	<u>278,000</u>	<u>339,677</u>

Statement of Cash Flow

(DKK '000)

	2020	2019
Cash flow from operating activities		
Operating result	370,499	203,455
Depreciation and amortisation	58,061	55,311
Self-financing	<u>428,560</u>	<u>258,766</u>
Decrease (+) / Increase (-) in raw materials and consumables	-85,511	-88,551
Decrease (+) / Increase (-) in receivables	-244,458	-125,392
Decrease (-) / Increase (+) in trade payables, advances from customers and other debt	949,219	372,213
Decrease (+) / Increase (-) in current assets	619,250	158,270
Financial income and expenses	-7,970	-310
Paid Company Taxes	-60,481	-13,934
Intercompany payable	10,913	9,704
Operating Cash flow in the year	<u>990,272</u>	<u>412,496</u>
Cash flow generated from investing activities		
Investments in intangible assets	-1,832	-2,780
Investments in tangible fixed assets	-120,226	-59,719
Purchase of Land	-32,000	0
Decrease (-) / Increase (+) in trade payables in connection with building project	1,133	13,900
Investments in financial fixed assets, net	-1,079	-697
Investing Cash flow in the year	<u>-154,004</u>	<u>-49,296</u>
Cash flow generated from financing activities		
Paid Dividend	-154,000	-256,000
Lease repayment	-21,995	-17,803
Financing Cash flow in the year	<u>-175,995</u>	<u>-273,803</u>
Cash flow in the year	<u>660,273</u>	<u>89,397</u>
Cash at 1 January	176,082	86,685
Cash flow in the year	<u>660,273</u>	<u>89,397</u>
Cash at 31 December	<u>836,355</u>	<u>176,082</u>

Accounting policies

The Annual Report for AGC Biologics A/S for 2020 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 2020 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 2020, 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

IFRS 15 is used as interpretation.

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

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:

Land	Not depreciated
Plant and machinery	10 - 20 years
Other fixtures and fittings, tools and equipment	3 years
Right of use assets	3 - 10 years
Leasehold improvements in the lease period	9 - 15 years

Leases

IFRS 16 is used as interpretation.

Leases are recognised at present value of the right of use received and liabilities for the payment obligations entered into for all leases in the balance sheet. Lease payments are discounted at the implicit interest rate underlying the lease to the extent that this can be determined. Otherwise, discounting is at the incremental borrowing rate.

Right-of-use assets are measured at cost, which comprises the following:

- lease liability;
- lease payments made at or prior to delivery, less lease incentives received;
- initial direct costs and
- restoration obligations.

Right-of-use assets are depreciated over the term of the lease using the straightline method, normally depreciation period of 3 - 10 years.

The Company has used the exemption options provided for leases of low-value assets (DKK 31,000) and short-term leases (shorter than twelve months) and expense the payments in the income statement according to the straight-line method.

Extension and termination options exist for a number of leases, particularly for real estate. Such contract terms offer the Company the greatest possible flexibility in doing business. In determining lease terms, all facts and circumstances offering economic incentives for exercising extension options or not exercising termination options are taken into account. Changes due to the exercise or non-exercise of such options are considered in determining the lease term only if they are sufficiently probable.

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

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 both initiated and not 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

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

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

Notes

(DKK '000)

Note 1 - Revenue	2020	2019
Revenue, Denmark	270,571	110,845
Revenue, abroad	1,184,500	885,291
	<u>1,455,071</u>	<u>996,136</u>
Production revenue	1,023,119	692,268
Raw material revenue	431,952	303,868
	<u>1,455,071</u>	<u>996,136</u>

Note 2 - Staff costs

Total staff costs constitute:

Wages and salaries, gross	459,607	311,765
Of this capitalised on internal projects	-7,668	-6,099
Wages and salaries, net	<u>451,939</u>	<u>305,666</u>
Pension schemes	31,976	19,719
Other expenses for social security	1,773	2,424
	<u>485,688</u>	<u>327,809</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.

Average number of full time employees	<u>441</u>	<u>377</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 2019 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. For the 2019-program 336 thousand RSU's have been granted at at share parice of 7,46 DKK. For the 2020-program 754 thousand RSU's have been granted at at share parice of 7,46 DKK Total value of the programs at 31 December 2020 is DKK 14.4 million.

Note 3 - Fee to auditor

KPMG

Audit	410	335
Other statements	0	75
Tax consulting (including VAT and charges)	0	22
Other services	8	53
	<u>418</u>	<u>484</u>

Notes*(DKK '000)***Note 4 - Amortisation, depreciation and impairment****2020****2019**

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

Production expenses	57,564	54,594
Sales expenses	158	203
Administrative expenses	339	514
	<u>58,061</u>	<u>55,311</u>

Note 5 - Financial income

Other interest income	0	2
Foreign exchange gain, net	0	232
	<u>0</u>	<u>234</u>

Note 6 - Financial expenses

Other interest expenses	7,428	5,570
Foreign exchange loss, net	5,947	0
	<u>13,375</u>	<u>5,570</u>

Note 7 - Tax on net results

Current tax	69,089	16,530
Deferred tax (income)	9,497	27,261
Total	<u>78,586</u>	<u>43,791</u>

Note 8 - Proposed distribution of net profit

Proposed dividends for the financial year	278,000	157,000
Paid Interim dividend	0	160,000
Transferred from / to retained earnings	538	-162,672
Distribution, total	<u>278,538</u>	<u>154,328</u>

Notes

(DKK '000)

Note 9 - Intangible fixed assets

	Finished development projects	Ongoing development projects
Cost at 1 January	51,816	556
Addition in the year	0	1,832
Reclassification	0	0
Disposals in the year	0	0
Cost at 31 December	51,816	2,389
Amortisation and write-down at 1 January	-22,824	0
Amortisation in the year	-5,038	0
Amortisation reversed on disposed assets	0	0
Amortisation and write-down at 31 December	-27,862	0
Carrying amount at 31 December	23,953	2,389

Note 10 - Tangible fixed assets

	Land	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Assets under construction
Cost at 1 January	0	245,372	7,180	226,257	20,358
Addition in the year	32,000	31,862	3,128	16,875	68,361
Reclassifications	0	0	791	19,567	-20,358
Disposals in the year	0	-315	0	0	0
Cost at 31 December	32,000	276,919	11,100	262,699	68,360
Depreciation and write-down at 1 January	0	-118,710	-5,539	-96,067	0
Depreciation in the year	0	-16,713	-556	-16,067	0
Depreciation reversed on disposed assets	0	315	0	0	0
Depreciation and write-down at 31 December	0	-135,109	-6,095	-112,134	0
Carrying amount at 31 December	32,000	141,810	5,004	150,565	68,360

Notes*(DKK '000)***Note 11 - Leasing (Right-of-use assets)**

	Buildings
Cost at 1 January	251,309
Addition in the year	82,490
Cost at 31 December	<u>333,798</u>

Depreciation and write-down at 1 January	-18,866
Depreciation in the year	-19,687
Depreciation and write-down at 31 December	<u>-38,553</u>

Carrying amount at 31 December	<u><u>295,245</u></u>
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Note 11 - Leasing (Lease obligations)**2020***Liabilities due:*

Under 1 year	17,575
Between 1 and 5 years	76,751
Over 5 years	<u>210,106</u>

Total non-discounted lease obligations 31. december 2019	<u>304,432</u>
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Recognized as

Current liabilities	17,575
Non-current liabilities	286,857

Note 12 - Financial fixed assets

	Investment in Subsidiary	Deposits
Cost at 1 January	100	15,947
Additions in the year	0	1,079
Cost at 31 December	<u>100</u>	<u>17,026</u>
Carrying amount at 31 December	<u><u>100</u></u>	<u><u>17,026</u></u>

Notes

(DKK '000)

Note 13 - Work in progress	2020	2019
Selling price of work performed	768,104	666,295
Progress billings	-2,116,068	-1,110,129
Work in progress, net	<u>-1,347,963</u>	<u>-443,834</u>
<i>Recognised in the balance sheet as follows:</i>		
Work in progress, assets	16,819	44,513
Advances from customers, short-term liabilities	-1,028,200	-478,439
Advances from customers, long-term liabilities	-336,582	-9,908
	<u>-1,347,963</u>	<u>-443,834</u>
<i>Liabilities due:</i>		
After 5 years	4,643	5,843
Between 1 and 5 years	331,939	4,065
Within 1 year	1,028,200	478,439
	<u>1,364,782</u>	<u>488,347</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 - Deferred tax

Deferred tax at 1 January	-9,343	17,926
Changes to deferred tax in the year	-9,497	-27,269
Deferred tax at 31 December	<u>-18,840</u>	<u>-9,343</u>

Deferred tax consists of:

Intangible fixed assets	-5,795	-6,378
Tangible fixed assets	-14,930	-9,921
Right-of-use asset	1,885	1,204
Loss carried forward	0	5,752
	<u>-18,840</u>	<u>-9,343</u>

Notes

(DKK '000)

Note 17 - Contingent liabilities etc.

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.

Operating leases, low-value leases	2020	2019
Lease commitments falling due for payment within five years of the balance sheet date, total	5,299	12,367
Of this lease commitments falling due within one year	1,930	2,502

Note 18 - 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 2020 intercompany balances with the Company (net Liability for AGC Biologics A/S of DKK 28,253 thousand), as well as transactions with the Companies.

<i>Related party transactions</i>	2020	2019
Sale of services	35,903	18,675
Purchase of services	58,251	58,362
Sales of goods	291	304
Purchase of goods	0	176