



## ***AGC Biologics A/S***

### **Annual Report for 2019**

*Reg. No. 25 95 09 41*

*Vandlåsvej 83B*

*2860 Søborg*

*Denmark*

*Date of the Annual General Meeting*

*26.05.2020*

*Chairman of the Annual General Meeting*

*Carsten Hornecker*

**CARSTEN HORNECKER**

Advokat

Attorney at Law LL(M)

## Contents

	<b>Page</b>
<b>Management's Review</b>	
Company Information	3
Financial Highlights	4
Management's Review	5
<b>Statement by the Management and Auditor's report</b>	
Statement by the Management on the Annual Report	8
Independent Auditor's Report	9
<b>Financial Statements for 1 January – 31 December</b>	
Income Statement	11
Statement of Financial Position	12
Statement of Changes in Equity	14
Statement of Cash Flow	15
Notes	16
Accounting Policies	21

## Company Information

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

## Financial Highlights

	2019	2018	2017	2016	2015
<b>Income statement</b>					
<i>(DKK million)</i>					
Revenue	996.1	692.6	643.6	521.8	320.5
Gross profit	257.1	162.3	156.8	116.1	62.3
Operating profit	203.5	119.3	102.8	68.4	22.3
Financial income/expenses, net	-5.3	4.3	-7.0	-13.8	-13.9
Profit before tax	198.1	123.6	95.7	54.6	8.4
Profit for the year	154.3	96.2	74.5	68.2	8.4
<b>Statement of financial position</b>					
<i>(DKK million)</i>					
Total assets	1182.4	634.6	501.6	581.0	404.2
Investments in Tangible assets	59.7	102.7	31.7	53.0	21.8
Equity	215.1	316.8	290.6	216.1	147.9
<b>Staff</b>					
Average number of full-time employees	377	312	303	245	209
<b>Key figures in percent*</b>					
Return on assets	22.4	21.0	19.0	13.9	5.9
Equity ratio	18.2	49.9	57.9	37.2	36.6

\* For definitions, see page 23

## Management's Review

### Activities and Business Model

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

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

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

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

2019 was a year characterized by continued growth and strong business intake. Several late stage clinical programs started Drug Substance manufacturing at AGC in 2019. AGC will supply Drug Substance for final clinical registration trials and when times come most likely also supply Drug Substance for long-term commercial launch.

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

Further, in 2019 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 2019 were 377 employees (2018: 312).

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 2019 to strengthen its organization and production processes.

### Financial review

In 2019 the Company's revenue grew to DKK 996.1m corresponding to an increase of 44% compared to 2018. Investments and increase in operational cost were made in anticipation of continued growing activity in 2020 and beyond, particularly aimed at strengthening the Company's platform for commercial manufacturing. The increased revenue resulted in growing operating profit to DKK 203.5m in 2019 (2018: DKK 119.3m).

After financial charges and tax, the Company generated a net profit in 2019 of DKK 157.3m (2018: DKK 96.2m).

The financial performance in 2019 corresponds to expectations.

### Research activities

In 2019, AGC continued to enhance its technologies and processes in the development laboratories and in the production lines. In particular, High Throughput Technologies are continuously being improved in the development laboratories. In several instances these efforts lead to improved production yields, faster timelines, better-refined products and better characterization. It is the Company's strategy to continue to invest in technology with the objective to provide better value to AGC's customers.

### **Scientific resources**

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

### **Increasingly high demands**

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

### **Corporate social responsibility**

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

### **Climate and environment**

AGC has established processes to identify environmental and climate aspects of our activities, products and services, including addressing the risks and opportunities. AGC has policies within environment and energy, and transform these into action through overall environmental and energy action plans.

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

AGC puts a strong focus on continuous improvements with environment and climate. This is accomplished through our ISO14001 certification including energy management.

Design of concept and tools for EHS management in projects and changes, and plan for removal of specific hazardous substances from wastewater emission has been made in 2019. These actions will be implemented in 2020.

### **Human rights**

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

Mandatory, annual training have been established regarding health and safety, as well as increased safety measurements and processes have been implemented in 2019. Continuous improvement are expected in 2020 to reduce level of risk of incidents and increase the level of safety.

### **Anti-corruption and bribery**

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

All employees are annually trained in the AGC Group Code of Conduct. No breaches of our Code of Conduct have been identified during 2019. We are committed to continue our training and compliance efforts in 2020.

### **Social and staff matters**

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

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

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

More emphasis on opportunities and satisfaction have been established in 2019. In 2020, a new initiative for individual development will be initiated.

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

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

The company's target is at least one female board member to be hired within the next 2 years. For 2019, there are 5 board members in the company and none of them are females. We realize the difficulties with achieving the target and we will strive to create an environment, where both genders have equal opportunities for leadership positions.

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

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

As of December 31, 2019 35 % of all managers (Leadership Team and other managers) were women.

**Events after December 31, 2019**

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

**Outlook for 2020**

The improved markets conditions experienced in 2019 appear to continue.

Today, the Company has a very strong backlog for 2020 and is also beginning to see the build-up of a solid backlog for 2021. Management expects operationally a result for 2020 better than in 2019. In the beginning of 2020, an outbreak of COVID-19 has effected most parts of the world. Management follows the situation closely and does not at current time expect any material effect to the Company's revenue or profitability.

**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 2019 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 and equity, financial position at 31 December 2019 and results of the Company's activities in the accounting period 1 January - 31 December 2019.

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.

<sup>26</sup>  
Copenhagen, May 2020

### Executive Board

\_\_\_\_\_  
Kasper Møller

### Board of Directors

DocuSigned by:  
**Noriyuki Komuro**  
\_\_\_\_\_  
Noriyuki Komuro  
(Chairman)

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Hideaki Kan

DocuSigned by:  
**Hiroshi Nishimura**  
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Hiroshi Nishimura

DocuSigned by:  
**Patricio Massera**  
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Copenhagen, May 2020

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Kasper Møller

### Board of Directors

\_\_\_\_\_  
Noriyuki Komuro  
(Chairman)

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Hideaki Kan

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Copenhagen, May 2020

### Executive Board

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Kasper Møller

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Noriyuki Komuro  
(Chairman)

DocuSigned by:  
  
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Hiroshi Nishimura

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Patricio Massera

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Kasper Møller

## **Independent Auditor's Report**

To the Shareholders of AGC Biologics A/S.

### **Opinion**

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2019, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of AGC Biologics A/S for the financial year 1 January - 31 December 2019, which comprise income statement, statement of financial position, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies ("financial statements").

### **Basis for Opinion**

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

### **Statement on Management's Review**

Management is responsible for Management's Review.

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

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

### **Management's Responsibilities for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

26  
Copenhagen, May 2020

**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 2019

(DKK '000)

	Note	2019	2018
Revenue	1	996,136	692,613
Production expenses	2.4	<u>739,027</u>	<u>530,350</u>
<b>Gross profit</b>	2.4	257,109	162,263
Sales expenses	2.4	19,616	14,868
Administrative expenses	2,3,4	<u>34,038</u>	<u>28,057</u>
<b>Operating profit</b>		203,455	119,338
Financial income	5	234	4,613
Financial expenses	6	<u>5,570</u>	<u>342</u>
<b>Profit before tax</b>		198,119	123,609
Tax on profit for the year	7	<u>43,791</u>	<u>27,442</u>
<b>Profit for the year</b>	8	<u><u>154,328</u></u>	<u><u>96,167</u></u>

## Statement of Financial Position at 31 December 2019

(DKK '000)

	Note	2019	2018
<b>Assets</b>			
Finished development projects		28,991	32,568
Development projects in progress		556	0
<b>Intangible assets</b>	9	<u>29,547</u>	<u>32,568</u>
Plant and machinery	10	126,662	81,595
Other fixtures and fittings, tools and equipment	10	1,641	509
Leasehold improvements	10	130,190	145,860
Assets under construction	10	20,358	22,429
Right-of-use asset	11	233,060	0
<b>Tangible fixed assets</b>		<u>511,911</u>	<u>250,393</u>
Investments in subsidiaries	12	100	100
Deposits	12	15,947	15,250
<b>Financial fixed assets</b>		<u>16,047</u>	<u>15,350</u>
<b>Total fixed assets</b>		<u>557,505</u>	<u>298,311</u>
Raw materials and consumables		125,279	36,728
<b>Inventories</b>		<u>125,279</u>	<u>36,728</u>
Work in progress	13	44,513	29,032
Trade receivables		249,797	147,405
Deferred tax asset	14	0	17,926
Intercompany receivables	15	12,186	7,406
Income taxes		0	1,543
Other receivables		12,246	4,512
Prepayments	16	4,822	5,037
<b>Receivables</b>		<u>323,564</u>	<u>212,861</u>
<b>Cash</b>		<u>176,082</u>	<u>86,685</u>
<b>Total current assets</b>		<u>624,925</u>	<u>336,274</u>
<b>Total assets</b>		<u>1,182,430</u>	<u>634,585</u>

## Statement of Financial Position at 31 December 2019

(DKK '000)

	Note	2019	2018
<b>Liabilities and equity</b>			
Share capital		42,853	42,853
Reserve for development costs		379	440
Retained earnings		17,907	177,518
Proposed Dividend		154,000	96,000
<b>Total equity</b>	17	<u>215,139</u>	<u>316,811</u>
Provisions for deferred tax	14	9,343	0
<b>Provisions</b>		<u>9,343</u>	<u>0</u>
Lease obligations		228,532	0
Prepayments from customers	18	9,908	37,865
Other debt		10,615	0
<b>Long-term liabilities other than provisions</b>		<u>249,055</u>	<u>37,865</u>
Intercompany payable		29,526	15,042
Prepayments from customers	18	27,975	18,278
Advances from customers	13	450,464	150,821
Lease obligations		10,000	0
Trade payables		93,330	31,292
Income taxes		1,866	0
Income taxes, joined taxation		1,254	2,271
Other debt		94,478	62,205
<b>Short-term liabilities other than provisions</b>		<u>708,893</u>	<u>279,909</u>
<b>Total liabilities</b>		<u>967,291</u>	<u>317,774</u>
<b>Total liabilities and equity</b>		<u>1,182,430</u>	<u>634,585</u>
Contingent assets and liabilities etc.	20		
Related parties	21		

## 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	440	177,518	96,000	316,811
Paid Ordinary Dividend	0	0	0	-96,000	-96,000
Paid Interim Dividend	0	0	-160,000	0	-160,000
Proposed distribution of net profit	0	0	328	154,000	154,328
Development costs amortized in the year	0	-61	61	0	0
Equity at 31 December	42,853	379	17,907	154,000	215,139



## Statement of Cash Flow

(DKK '000)

	2019	2018
<b>Cash flow from operating activities</b>		
Operating result	203,455	119,338
Non-cash adjustments	0	-35
Depreciation and amortisation	55,311	32,050
Self-financing	<u>258,766</u>	<u>151,353</u>
Decrease (+) / Increase (-) in raw materials and consumables	-88,551	1,749
Decrease (+) / Increase (-) in receivables	-125,392	-27,173
Decrease (-) / Increase (+) in trade payables, advances from customers and other debt	390,473	86,240
Decrease (+) / Increase (-) in current assets	176,530	60,816
Financial income and expenses	-310	4,271
Paid Company Taxes	-13,934	-17,635
Intercompany payable	9,704	-1,253
<b>Operating Cash flow in the year</b>	<u>430,756</u>	<u>197,552</u>
<b>Cash flow generated from investing activities</b>		
Investments in intangible assets	-2,780	0
Investments in tangible fixed assets	-59,719	-102,723
Decrease (-) / Increase (+) in trade payables in connection with building project	13,900	4,968
Sale of tangible fixed assets	0	35
Investments in financial fixed assets, net	-697	1,207
<b>Investing Cash flow in the year</b>	<u>-49,296</u>	<u>-96,513</u>
<b>Cash flow generated from financing activities</b>		
Paid Dividend	-256,000	-70,000
Lease financing	-17,803	0
Customer deposits	-18,260	17,054
<b>Financing Cash flow in the year</b>	<u>-292,063</u>	<u>-52,946</u>
<b>Cash flow in the year</b>	<u>89,397</u>	<u>48,093</u>
Cash at 1 January	86,685	38,592
Cash flow in the year	89,397	48,093
Cash at 31 December	<u>176,082</u>	<u>86,685</u>

## Accounting policies

The Annual Report for AGC Biologics A/S for 2019 has been presented in accordance with the provisions of the Danish Financial Statements Act regarding large sized class C companies.

### Changes in Accounting Policies

Within the framework of the Danish Financial Statements Act, the Company has as of 1 January 2019 changed accounting policies in respect of applying the accounting methods of IFRS 16 regarding leasing

The principles from the standard have all been applied in accordance with the modified retrospective approach and the effect is recognised at 1 January 2019.

The changes of accounting policy are made due to changes in Group accounting policies and a wish to apply the same policies for Group reporting and local Financial Statements.

The prior-period amounts have not been adjusted due to the below mentioned changes to accounting.

### Effects of IFRS 16, Leases

In the context of the transition to IFRS 16, right-of-use assets and lease liabilities of DKK 251,309k were recognized as of 1 January 2019

The income statement for 2019 has been adjusted with Other external expenses reduced with DKK 17,802k, depreciations of property, plant and equipment has been increased with DKK 18,248 Financial expenses has been increased with DKK 5,026k. Net effect on profit for 2019 amounts to expense of DKK 5,472k.

The Company applied the principles of IFRS 16 in accordance with the modified retrospective approach. The prior-year figures were not adjusted. In addition, AGC Biologics A/S uses the exemption for low value leases defined as assets with a value below JPY 25,000 and short-term leases defined as leases shorter than 12 months

In connection with the transition, management has applied judgement and formed assumptions in relations to assessing the incremental borrowing rate.

Besides the changes mentioned above the accounting policies are consistent with prior year.

The Annual Report for 2019 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 2019, 1-5-1, Marunouchi, Chiyoda-ku, Tokyo 100-8405 JAPAN, Code number 5201; TSE 1st section.

### Recognition and measurement

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

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

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

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

## **Income statement**

### **Revenue**

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

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

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

Gross profit comprises revenue with deduction of production costs.

### **Production costs**

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

### **Sales expenses**

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

### **Administrative expenses**

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

### **Net financials**

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

### **Corporation tax and deferred tax**

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

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

## Statement of financial position

### Intangible assets

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

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

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

### Fixed assets

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

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

### Leases

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 (JPY 25,000) 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 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 included in work in progress.

### **Liabilities other than provisions**

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

### **Foreign currency translation**

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

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

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

### Statement of cash flow

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

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

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

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

### Financial highlights

#### Explanation of financial ratios

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

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

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

## Notes

(DKK '000)

Note 1 - Revenue	2019	2018
Revenue, Denmark	110,845	83,076
Revenue, abroad	885,291	609,537
	<u>996,136</u>	<u>692,613</u>
Production revenue	692,268	493,103
Raw material revenue	303,868	199,510
	<u>996,136</u>	<u>692,613</u>

### Note 2 - Staff costs

*Total staff costs constitute:*

Wages and salaries, gross	311,765	238,093
Of this capitalised on internal projects	-6,099	-5,542
Wages and salaries, net	305,666	232,551
Pension schemes	19,719	16,029
Other expenses for social security	2,424	2,152
	<u>327,809</u>	<u>250,732</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>377</u>	<u>312</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. Total value of the programs at 31 December 2019 is DKK 6.3 million.

### Note 3 - Fee to auditor

*KPMG*

Audit	335	298
Other statements	75	75
Tax consulting (including VAT and charges)	22	12
Other services	53	76
	<u>484</u>	<u>461</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:*

	2019	2018
Production expenses	54,594	31,206
Sales expenses	203	167
Administrative expenses	514	677
	<u>55,311</u>	<u>32,050</u>

### Note 5 - Financial income

Other interest income	2	0
Foreign exchange gain, net	232	4,613
	<u>234</u>	<u>4,613</u>

### Note 6 - Financial expenses

Other interest expenses	5,570	342
	<u>5,570</u>	<u>342</u>

### Note 7 - Tax on net results

Current tax	16,530	10,361
Deferred tax (income)	27,261	17,081
Total	<u>43,791</u>	<u>27,442</u>

### Note 8 - Proposed distribution of net profit

Proposed dividends for the financial year	157,000	96,000
Paid Interim dividend	160,000	70,000
Transferred from / to retained earnings	-162,672	-69,833
Distribution, total	<u>154,328</u>	<u>96,167</u>



## Notes

(DKK '000)

### Note 9 - Intangible fixed assets

	Finished development projects	Ongoing development projects
Cost at 1 January	49,592	0
Addition in the year	2,224	556
Reclassification	0	0
Disposals in the year	0	0
Cost at 31 December	<u>51,816</u>	<u>556</u>
Amortisation and write-down at 1 January	-17,024	0
Amortisation in the year	-5,800	0
Amortisation reversed on disposed assets	0	0
Amortisation and write-down at 31 December	<u>-22,824</u>	<u>0</u>
Carrying amount at 31 December	<u>28,991</u>	<u>556</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	185,813	5,655	225,551	22,429
Addition in the year	37,130	1,525	706	20,358
Reclassifications	22,429	0	0	-22,429
Disposals in the year	0	0	0	0
Cost at 31 December	<u>245,372</u>	<u>7,180</u>	<u>226,257</u>	<u>20,358</u>
Depreciation and write-down at 1 January	-104,218	-5,146	-79,691	0
Depreciation in the year	-14,492	-393	-16,376	0
Write-down in the year	0	0	0	0
Depreciation reversed on disposed assets	0	0	0	0
Depreciation and write-down at 31 December	<u>-118,710</u>	<u>-5,539</u>	<u>-96,067</u>	<u>0</u>
Carrying amount at 31 December	<u>126,662</u>	<u>1,641</u>	<u>130,190</u>	<u>20,358</u>

## Notes

(DKK '000)

### Note 11 - Leasing (Right-of-use assets)

	Land and buildings
Cost at 1 January	0
Addition in the year	251,309
Cost at 31 December	<u>251,309</u>
Depreciation and write-down at 1 January	0
Depreciation in the year	-18,248
Depreciation and write-down at 31 December	<u>-18,248</u>
Carrying amount at 31 December	<u>233,060</u>

### Note 11 - Leasing (Lease obligations)

	2019
<i>Liabilities due:</i>	
Under 1 year	10,000
Between 1 and 5 years	63,542
Over 5 years	<u>164,990</u>
Total non-discounted lease obligations 31. december 2019	<u>238,532</u>
<i>Recognized as</i>	
Current liabilities	10,000
Non-current liabilities	228,532

### Note 12 - Financial fixed assets

	Investment in Subsidiary	Deposits
Cost at 1 January	100	15,250
Additions in the year	0	1,409
Disposals in the year	0	-712
Cost at 31 December	<u>100</u>	<u>15,947</u>
Carrying amount at 31 December	<u>100</u>	<u>15,947</u>

**Notes***(DKK '000)*

<b>Note 13 - Work in progress</b>	<b>2019</b>	<b>2018</b>
Selling price of work performed	666,295	301,757
Progress billings	-1,072,246	-423,545
Work in progress, net	<u>-405,951</u>	<u>-121,789</u>

*Recognised in the balance sheet as follows:*

Work in progress, assets	44,513	29,032
Advances from customers, liabilities	-450,464	-150,821
	<u>-405,951</u>	<u>-121,789</u>

**Note 14 - Deferred tax**

Deferred tax at 1 January	17,926	35,007
Changes to deferred tax in the year	-27,269	-17,081
Deferred tax at 31 December	<u>-9,343</u>	<u>17,926</u>

*Deferred tax consists of:*

Intangible fixed assets	-6,378	-7,138
Tangible fixed assets	-9,921	-7,507
Right-of-use asset	1,204	0
Loss carried forward	5,752	32,571
	<u>-9,343</u>	<u>17,926</u>

**Note 15 - Intercompany Receivables**

Within 1 year	12,186	7,406
Total Intercompany Receivables	<u>12,186</u>	<u>7,406</u>

**Note 16 - Prepayments, current asset**

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

**Note 17 - Share capital***The share capital comprises the following classes of shares:*

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

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

**Notes***(DKK '000)*

<b>Note 18 - Prepayments, non-current liabilities</b>	<b>2019</b>	<b>2018</b>
<i>Liabilities due:</i>		
After 5 years	5,843	6,510
Between 1 and 5 years	4,065	31,355
Within 1 year	27,975	18,278
	<u>37,883</u>	<u>56,143</u>

**Note 19 - 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.

<b>Operating leases, low-value leases</b>	<b>2019</b>	<b>2018</b>
Lease commitments falling due for payment within five years of the balance sheet date, total	<u>12,367</u>	<u>1,817</u>
Of this lease commitments falling due within one year	<u>2,502</u>	<u>662</u>

**Note 20 - Related parties**

Related parties consist of the Board of Directors and Executive Board together with enterprises affiliated with the parent company AGC Inc, Japan. The parent company and the sister companies AGC Biologics Inc., AGC Biologics GmbH, AGC Inc had as of December 2019 intercompany balances with the Company (net Liability for AGC Biologics A/S of DKK 17,340 thousand), as well as transactions with the Companies.

	<b>2019</b>	<b>2018</b>
<i>Related party transactions</i>		
Sale of services	18,675	17,984
Purchase of services	58,362	37,143
Sales of goods	304	353
Purchase of goods	176	818