Glycom A/S

Kogle Alle 4, 2970 Hørsholm

CVR no. 28 51 24 57

Annual report 2016

Approved at the annual general meeting of shareholders on 27 April 2017

Chairman:

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Chairman

Building a better
working world

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Glycom A/S for the financial year 1 January - 31 December 2016.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2016 and of the results of the Group's and the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Hørsholm, 12 April 2017
Executive Board:

John Brett Theroux

Board of Directors:

Kim Bøttkjær Chairman	Heiko Schipper	Harald Humbert
Joachim Erich Thiem	Thomas Schweizer	John Brett Theroux

Independent auditor's report

To the shareholders of Glycom A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Glycom A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for both the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016, and of the results of the Group and parent Company's operations for the financial year 1 January - 31 December 2016 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 consolidated financial statements and the parent Company financial statements" section of our report. We are independent of the Group 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 and requirements. 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 consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company 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 consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent 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 consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company 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 consolidated financial statements and parent company financial statements.

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

Independent auditor's report

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company 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 Group's and the Parent 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 consolidated financial statements and the Parent Company 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 Group's and the Parent 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 consolidated financial statements and the Parent Company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 the Management's review.

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

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

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

Based on the work we have performed, we conclude that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 12 April 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender
State Authorised Public Accountant

Søren Gammelgaard
State Authorised Public Accountant

Management's review

Company details

Name	Glycom A/S
Address, Postal code, City	Kogle Alle 4, 2970 Hørsholm
CVR no.	28 51 24 57
Established	22 March 2005
Financial year	1 January - 31 December
Board of Directors	Kim Bøttkjær, Chairman Heiko Schipper Harald Humbert Joachim Erich Thiem Thomas Schweizer John Brett Theroux
Executive Board	John Brett Theroux
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Management commentary

Business review

The Company's principal activity is to develop and sell Human Milk Oligosaccharides (HMOs) to the food and medical food and dietary supplement industries.

Financial review

2016 developments

In 2016, Glycom continued its advanced stage transition from R&D to supply revenues from its first generation of HMOs.

In January 2016, Glycom's fully-owned subsidiary Glycom Manufacturing A/S acquired a fermentation-based production facility in Esbjerg Denmark and secured capital resources to adapt it to large scale HMO production. A large mobilization project to prepare the facility for production began immediately after the acquisition. During the autumn successful fermentation batches on the existing equipment were run, and at year end the material part of the building construction works were complete and the large part of the process equipment packages had been delivered to the site. Production of Glycom's first generation HMOs is set to commence in the second half of 2017.

In December 2016, Nestlé and Glycom signed an amendment to the existing long-term supply agreement, increasing and bringing forward the total committed volume. In order to accelerate the launch of Glycom's second generation product platform, an enhanced development agreement was also executed between the parties.

Full regulatory approvals for Glycom's first generation HMOs were finalized in Europe and the US. Glycom regulatory focus subsequently shifted to other important worldwide markets. The regulatory approval process for second-generation compounds were started in 2016 and are now well underway.

Glycom advanced its activities for HMOs outside of infant nutrition applications in the year. Preclinical studies and clinical trials continued with good results. Resources have been allocated to the targeted markets to begin to execute market entry plans in late 2017.

Financial review

Financial position and capital resources

Glycom Group incurred a consolidated operating loss of MDKK 19 and net loss of MDKK 18 in 2016. The cash position at the end of 2016 was MDKK 13, with equity standing at MDKK 28.

In terms of capital resources, the drawdown of the convertible loan of MEUR 10 in Glycom A/S amounted to MEUR 7.5 by the end of the year, as planned. Glycom did not make any further draws on its subordinated loan of MEUR 50 during the year, and thus had MEUR 25 available at the start of 2017, while Glycom Manufacturing A/S made use of MEUR 16 of its MEUR 19 million Loan Facility. Going forward, the replacement of a third-party contract manufacturer will affect the capital resources available at the end of 2017, but offset in part by early than planned production contribution and R&D research income. Capital resources at year end 2017 are expected to be limited but sufficient.

Events after the balance sheet date

End of February 2017 Glycom A/S drew down a second tranche of the subordinated loan in the amount of MEUR 12.5. The amount was injected as equity increase in Glycom Manufacturing in order to fund the continued build-up of the production facilities at the factory in Esbjerg.

Reference is made to note 2 for more details.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Income statement

		Group		Parent company	
Note	DKK'000	2016	2015	2016	2015
	Gross margin	2,011	508	10,786	-1,234
3	Staff costs	-15,562	-19,090	-13,163	-17,950
4	Amortisation/depreciation	-5,782	-3,960	-4,801	-3,857
	Other operating expenses	-100	-3,481	0	-90
	Profit/loss before net financials	-19,433	-26,023	-7,178	-23,131
5	Financial income	1,093	128	812	128
6	Financial expenses	-2,626	-3,347	-22,438	-3,347
	Profit/loss before tax	-20,966	-29,242	-28,804	-26,350
7	Tax for the year	2,852	27,112	4,576	27,112
	Profit/loss for the year	-18,114	-2,130	-24,228	762
	Recommended appropriation of profit/loss				
	Other reserves			63,197	0
	Retained earnings/accumulated loss			-87,425	762
				-24,228	762

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Balance sheet

		Group		Parent company	
Note	DKK'000	2016	2015	2016	2015
	ASSETS				
	Non-current assets				
8	Intangible assets				
	Acquired intangible assets	0	6	0	6
	Acquired patents	6,748	1,946	6,748	1,946
	Development projects in progress and prepayments for intangible assets	173,462	110,265	173,462	110,265
		180,210	112,217	180,210	112,217
9	Property, plant and equipment				
	Land and buildings	19,019	0	0	0
	Fixtures and fittings, other plant and equipment	4,345	9,005	4,345	7,806
	Property, plant and equipment under construction	406,995	0	0	0
		430,359	9,005	4,345	7,806
10	Financial assets				
	Investments in group enterprises	0	0	185,131	506
	Deferred tax assets	19,871	22,519	22,806	22,519
		19,871	22,519	207,937	23,025
	Total non-current assets	630,440	143,741	392,492	143,048
	Current assets				
	Inventories				
	Raw materials and consumables	258	0	0	0
		258	0	0	0
	Receivables				
	Corporation tax receivable	5,500	5,875	5,500	5,875
	Other receivables	11,145	1,862	1,753	1,856
	Prepayments	987	345	454	345
		17,632	8,082	7,707	8,076
	Cash	13,207	11,328	1,354	10,828
	Total Current assets	31,097	19,410	9,061	18,904
	TOTAL ASSETS	661,537	163,151	401,553	161,952

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Balance sheet

		Group		Parent company	
Note	DKK'000	2016	2015	2016	2015
	EQUITY AND LIABILITIES				
	Equity				
11	Share capital	1,384	1,383	1,384	1,383
	Reserve for development costs	0	0	63,197	0
	Retained earnings	26,616	44,408	-42,694	44,409
	Total equity	28,000	45,791	21,887	45,792
12	Non-current liabilities				
	Mortgage debt	87,939	0	0	0
	Bank debt	205,123	0	205,123	0
	Deferred revenue	7,856	0	7,856	0
	Payables to associates	145,799	93,407	145,799	93,407
	Total non-current liabilities	446,717	93,407	358,778	93,407
	Current liabilities				
	Mortgage debt	5,997	0	0	0
	Bank debt	118,109	173	258	173
	Trade payables	44,669	12,914	5,573	11,714
	Payables to group enterprises	0	0	3,431	0
	Other payables	18,045	10,866	11,626	10,866
	Total current liabilities	186,820	23,953	20,888	22,753
	Total liabilities	633,537	117,360	379,666	116,160
	TOTAL EQUITY AND LIABILITIES	661,537	163,151	401,553	161,952

1 Accounting policies
2 Events after the balance sheet date
13 Contractual obligations and contingencies, etc.
14 Collateral
15 Related parties

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Statement of changes in equity

	Group		
DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2015	1,293	32,486	33,779
Capital increase	90	11,160	11,250
Transfer through appropriation of loss	0	-2,130	-2,130
Other value adjustments of equity	0	2,892	2,892
Equity at 1 January 2016	1,383	44,408	45,791
Capital increase	1	322	323
Transfer through appropriation of loss	0	-18,114	-18,114
Equity at 31 December 2016	1,384	26,616	28,000

	Parent company			
DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2015	1,293	0	29,595	30,888
Capital increase	90	0	11,160	11,250
Transfer through appropriation of profit	0	0	762	762
Other value adjustments of equity	0	0	2,892	2,892
Equity at 1 January 2016	1,383	0	44,409	45,792
Capital increase	1	0	322	323
Transfer through appropriation of loss	0	63,197	-87,425	-24,228
Equity at 31 December 2016	1,384	63,197	-42,694	21,887

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Glycom A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

Changes in accounting policies

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies the following changes in the recognition and measurement:

1. In future, residual values of property, plant and equipment will be subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land. Consequently, the change is made with future effect only as a change in accounting estimates with no impact on equity.

Apart from the above changes in accounting policy and new and changed presentation and disclosure requirements, which follow from act. no. 738 of 1 June 2015, the accounting policies are consistent with those of last year. Except for the below:

In the parent financial statements investments in group enterprises was previously recognised applying the Equity method. From 2016 investments in group enterprises has been recognised at cost.

The change has for 2016 resulted in Profit/loss, Investment in group entities and Equity for the parent company being 5,998 tDKK higher. The comparative figures have been restated, resulting in Profit/loss for 2015 for the parent company being 2,892 tDKK higher while Investment in group entities and Equity is unchanged.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement is prepared for the parent company, as its cash flows are reflected in the consolidated cash flow statement.

Reporting currency

The financial statements are presented in thousand Danish kroner (DKK'000).

Consolidation

The consolidated financial statements comprise the parent company, Glycom A/S, and subsidiaries in which Glycom A/S directly or indirectly holds more than 50% of the voting rights or otherwise has a controlling interest.

The existence and impact of potential voting rights that are actually exercisable or convertible are taken into account when assessing whether control exists.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements, which are prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains in so far as they do not reflect impairment.

Entities acquired or formed are recognised in the consolidated financial statements from the date of acquisition or formation. Entities sold or otherwise disposed of are recognised in the consolidated income statement until the date of disposal. Comparative figures are not restated for acquisitions or disposals.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Corporate acquisitions are accounted for using the purchase method, according to which the acquired entity's identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Restructuring costs recognised in the acquired entity before the date of acquisition and not agreed as part of the acquisition are part of the acquisition balance sheet and, hence, the calculation of goodwill. Restructuring costs decided by the acquiring entity must be recognised in the income statement. Allowance is made for the tax effect of revaluations made. Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill) is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset. Negative differences (negative goodwill) are recognised as income in the income statement at the time of acquisition when the general revenue recognition criteria are met. Goodwill and negative goodwill from acquired entities can be adjusted until 12 months after the year of acquisition.

Entities over which the Group has significant influence are considered associates. The Group is considered to have significant influence when it directly or indirectly holds between 20% and 50% of the voting rights or otherwise has or actually exercises significant influence. Associates are recognised in the consolidated financial statements at their net asset value.

Income statement

Revenue

Revenue from the sale of patents and licences is recognised in the income statement provided that transfer of risk to the buyer has taken place before year end. Revenue is measured excluding VAT and taxes charged on behalf of third parties. all discounts granted are recognised in revenue.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross margin

The items revenue, change in inventories of finished goods and work in progress, work performed for own account and capitalised, other operating income and external expenses have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of non-current assets.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The item comprises amortisation/
depreciation.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Completed development projects	10 years
Acquired patents	10 years
Software	3-5 years
Land and buildings	10-20 years
Fixtures and fittings, other plant and equipment	3-5 years

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

The parent company is covered by the Danish rules on mandatory joint taxation of the Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date at which they are included in the consolidated financial statements and up to the date when they are no longer consolidated.

The parent company acts as management company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

Tax for the year, which comprises the current income tax charge, joint taxation contributions and deferred tax adjustments, including adjustments arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Other intangible assets include development projects and other acquired intangible rights, including software licences, distribution rights and development projects.

Other intangible assets are measured at cost, including finance expenses, less accumulated amortisation and impairment losses.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Gains and losses on the sale of intangible assets are recognised in the income statement under "Other operating income" or "Other operating expenses", respectively. Gains and losses are calculated as the difference between the selling price less selling expenses and the carrying amount at the time of sale.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

The cost of self constructed assets includes the cost of direct materials, finance expenses and labour, etc. directly used in the production process and a portion of the relating production overheads.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Investments in subsidiaries

Investments in subsidiaries and associates are measured at cost. Dividends received that exceed the accumulated earnings in the subsidiary or the associate during the period of ownership are treated as a reduction in the cost of acquisition.

Gains or losses on disposal of subsidiaries and associates are made up as the difference between the sales price and the carrying amount of net assets at the date of disposal including non-amortised goodwill and anticipated costs of disposal. Gains or losses are recognised in the income statement as financial income or financial expenses.

Impairment of non-current assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Equity

Reserve for development costs

The reserve for development costs comprise Glycom A/S's development costs corresponding to the capitalized development cost in the balance sheet. The reserve is non distributable and cannot be used to cover deficit. The reserve is dissolved upon disposal of the development cost either by sale or if the development cost is no longer part of the entity's operation. The reserve will then be transferred to the distributable reserves. The reserve will be reduced and the distributable reserves increased concurrently with either depreciations or write-downs.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

2 Events after the balance sheet date

End of February 2017 Glycom A/S drew down a second tranche of the subordinated loan in the amount of MEUR 12.5. The amount was injected as equity increase in Glycom Manufacturing in order to fund the continued build-up of the production facilities at the factory in Esbjerg.

		Group		Parent company	
	DKK'000	2016	2015	2016	2015
3	Staff costs				
	Wages/salaries	67,300	36,421	41,661	36,421
	Other social security costs	566	183	346	183
	Other staff costs	-52,304	-17,514	-28,844	-18,654
		15,562	19,090	13,163	17,950
	Average number of full-time employees	90	40	43	40

Group

Ther other staff costs in the group represent both cost capitalised as development costs and property, plant and equipment under construction.

Parent company

The other staff cost at parent level represent costs capialised as development costs.

		Group		Parent company	
	DKK'000	2016	2015	2016	2015
4	Amortisation/ depreciation				
	Amortisation of intangible assets	6	272	6	169
	Depreciation of property, plant and equipment	5,776	3,688	4,795	3,688
		5,782	3,960	4,801	3,857
5	Financial income				
	Other financial income	1,093	128	812	128
		1,093	128	812	128

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

6 Financial expenses

Interest expenses, group entities	0	0	20	0
Other interest expenses	27,743	0	22,122	0
Exchange losses	599	0	296	0
Other financial expenses	-25,716	3,347	0	3,347
	2,626	3,347	22,438	3,347

Group

Other financial expenses represent costs capitalised as property, plant and equipment under construction.

7 Tax for the year

Estimated tax charge for the year	-5,500	-6,387	-5,500	-6,387
Deferred tax adjustments in the year	2,648	-20,725	-287	-20,725
Refund in joint taxation	0	0	1,211	0
	-2,852	-27,112	-4,576	-27,112

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

8 Intangible assets

	Group			
DKK 000	Acquired intangible assets	Acquired patents	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2016	1,043	1,998	110,265	113,306
Additions	0	4,802	63,197	67,999
Transferred	-32	0	0	-32
Cost at 31 December 2016	1,011	6,800	173,462	181,273
Impairment losses and amortisation at 1 January 2016	1,037	52	0	1,089
Amortisation for the year	6	0	0	6
Transferred	-32	0	0	-32
Impairment losses and amortisation at 31 December 2016	1,011	52	0	1,063
Carrying amount at 31 December 2016	0	6,748	173,462	180,210

	Parent company			
DKK'000	Acquired intangible assets	Acquired patents	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2016	1,043	1,998	110,265	113,306
Additions	0	4,802	63,197	67,999
Transferred	-32	0	0	-32
Cost at 31 December 2016	1,011	6,800	173,462	181,273
Impairment losses and amortisation at 1 January 2016	1,037	52	0	1,089
Amortisation for the year	6	0	0	6
Transferred	-32	0	0	-32
Impairment losses and amortisation at 31 December 2016	1,011	52	0	1,063
Carrying amount at 31 December 2016	0	6,748	173,462	180,210

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

9 Property, plant and equipment

	Group			
DKK'000	Land and buildings	Fixtures and fittings, other plant and equipment	Property, plant and equipment under construction	Total
Cost at 1 January 2016	0	19,981	0	19,981
Additions	20,000	1,334	407,195	428,529
Disposals	0	-1,259	-200	-1,459
Cost at 31 December 2016	20,000	20,056	406,995	447,051
Value adjustments at 1 January 2016	0	0	0	0
Value adjustments at 31 December 2016	0	0	0	0
Impairment losses and depreciation at 1 January 2016	0	10,976	0	10,976
Depreciation	981	4,795	0	5,776
Reversal of accumulated depreciation and impairment of assets disposed	0	-60	0	-60
Impairment losses and depreciation at 31 December 2016	981	15,711	0	16,692
Carrying amount at 31 December 2016	19,019	4,345	406,995	430,359

	Parent company
DKK'000	Fixtures and fittings, other plant and equipment
Cost at 1 January 2016	18,722
Additions	1,334
Cost at 31 December 2016	20,056
Value adjustments at 1 January 2016	0
Value adjustments at 31 December 2016	0
Impairment losses and depreciation at 1 January 2016	10,916
Depreciation	4,795
Impairment losses and depreciation at 31 December 2016	15,711
Carrying amount at 31 December 2016	4,345

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

10 Investments

DKK'000	Parent company Investments in group enterprises
Cost at 1 January 2016	506
Additions	184,625
Cost at 31 December 2016	185,131
Carrying amount at 31 December 2016	185,131

Parent company

Subsidiaries

Glycom Manufacturing A/S	6700, Esbjerg	100.00 %

DKK'000	Parent company 2016	2015
11 Share capital		
Analysis of the share capital:		
360,435 A shares of DKK 1.00 nominal value each	360	359
123,192 B shares of DKK 1.00 nominal value each	123	123
406,460 C shares of DKK 1.00 nominal value each	407	407
493,568 D shares of DKK 1.00 nominal value each	494	494
	1,384	1,383

Analysis of changes in the share capital over the past 5 years:

DKK 000	2016	2015	2014	2013	2012
Opening balance	1,383	1,293	1,278	1,278	745
Capital increase	1	90	15	0	533
	1,384	1,383	1,293	1,278	1,278

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

12 Non-current liabilities

	Group			
DKK'000	Total debt at 31/12 2016	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	93,936	5,997	87,939	63,497
Bank debt	205,123	0	205,123	0
Deferred revenue	7,856	0	7,856	0
Payables to associates	145,799	0	145,799	0
	452,714	5,997	446,717	63,497

	Parent company			
DKK'000	Total debt at 31/12 2016	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Bank debt	205,123	0	205,123	0
Deferred revenue	7,856	0	7,856	0
Payables to associates	145,799	0	145,799	0
	358,778	0	358,778	0

The long-term loan from Nestlé of 146 mDKK has a 10-year term and according to the terms, the loan will be repaid based on actual future sales volumes of HMO to Nestlé. The Company would therefore expect to have repaid the long-term loan within 5 years. The loan stipulates the possibility to convert to equity at a market price.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

13 Contractual obligations and contingencies, etc.

Other contingent liabilities

Parent company

As management company, the Company is jointly taxed with other Danish group entities. The Company is jointly and severally with other jointly taxed group entities for payment of income taxes the income year 2016 and withholding taxes falling due for payment.

The parent company has entered into operating leases as follows:

Lease of premises with annual lease payments of 4 mDKK The lease cannot be terminated for 3 years, and with a termination period of one year, i.e. total obligation of 17 mDKK,

Membership with an annual fee of DKK 1,546 per full-time employee starting from 1 January 2017. The membership is non-terminable until 1 January 2020 with a subsequent notice period of 12 months.

The Company has liabilities under operating leases for IT equipment, totalling 40 tDKK, with remaining contract terms of 5 years.

The Group has chosen to undertake a negative pledge in favor of the loan lender.

In the course of the groups operations, the parent and the subsidiary has entered into ceratin purchase commitments mainly relating to the construction of the production facilities in Esbjerg.

14 Collateral

Group

The group has secured short-term bank debt of 118 mDKK, long-term bank debt of 210 mDKK and Payables to associates of 145mDKK with the pledge of 100% of the shares in Glycom Manufacturing A/S and a joint and several guarantee by the parent company Glycom A/S (selvskyldnerkaution).

The group has provided security for its mortgage debt of 97mDKK, or other collateral in fixed assets. The total carrying amount of these assets is 82 mDKK.

Parent company

As security for the Company's long-term bank debt of 210mDKK, Payable to associates of 145mDKK and the subsidiaries short-term bank debt of 118mDKK, the Company has provided security or other collateral, in its shares in subsidiaries and a joint and several guarantee (selvskyldnerkaution). The carrying amount of these assets is DKK 185mDKK.

15 Related parties

Group

Information about consolidated financial statements

Parent	Domicile
Glycom A/S	Hørsholm

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Glycom A/S for the financial year 1 January - 31 December 2016.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2016 and of the results of the Group's and the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Hørsholm, 12 April 2017
Executive Board:

John Brett Theroux

Board of Directors:

Kim Bøttkjær Chairman	Heiko Schipper	Harald Humbert
Joachim Erich Thiem	Thomas Schweizer	John Brett Theroux