Glycom A/S

Kogle Alle 4, 2970 Hørsholm

CVR no. 28 51 24 57

Annual report 2017

Approved at the Company's annual general meeting on 26 April 2018

Chairman:

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METTE TRANEBERG, ATTORNEY

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 2017.

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 2017 and of the results of the Group's and the Company's operations and of the consolidated cash flows for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Company's operations and financial matters and the results of the Group's and the Company's operations and financial position.

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

Hørsholm, 19 April 2018
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John Brett Theroux

Board of Directors:

Kim Bøttkjær Chairman	John Brett Theroux	Harold Vincent Christophe Humbert
Thomas F. Schweizer	Peter Michael Rotschild	Thierry Marie Philardeau

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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 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated cash flow statement. 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 2017, and of the results of the Group's and Parent Company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2017 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" (herinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Management's responsibilities for the 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 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 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 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 financial statements

Our objectives are to obtain reasonable assurance as to 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 the 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 scepticism throughout the audit. We also:

Independent auditor's report

- 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 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 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 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 Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the 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 the Management's review

Management is responsible for the Management's review.

Our opinion on the 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 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 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 financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 19 April 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender State Authorised Public Accountant MNE no.: mne21332	Søren Gammelgaard State Authorised Public Accountant MNE no.: mne31403

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 John Brett Theroux Harold Vincent Christophe Humbert Thomas F. Schweizer Peter Michael Rotschild Thierry Marie Philardeau
Executive Board	John Brett Theroux
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Financial highlights for the Group

DKK'000	2017	2016
Key figures		
Gross margin	-3,322	1,997
Operating profit/loss	-55,250	-19,433
Net financials	-19,949	-1,533
Profit/loss for the year	-63,124	-18,114
Non-current assets	970,980	630,441
Current assets	52,734	31,097
Total assets	1,023,714	661,538
Share capital	1,482	1,384
Equity	13,775	28,000
Non-current liabilities	652,911	446,717
Current liabilities	357,028	186,821
Financial ratios		
Return on assets	-6.6%	-4.7%
Solvency ratio	1.3%	4.2%
Average number of employees	117	90

Financial ratios are calculated in accordance with the Danish Finance Society's recommendations on the calculation of financial ratios. For terms and definitions, please see the accounting policies.

Management's review

Business review

Glycom in 2017 saw the long-anticipated turning point from being an R&D company focused on one major project to being an industrial HMO company with a solid foundation in supplying the infant nutrition market and with major commercial opportunities emerging outside of it.

The year was dominated by the completion of the construction and the startup of production in our facility in Esbjerg. This has been the largest and most challenging project in the history of the Group. Dozens of startup challenges have been uncovered and overcome and yet the project has been executed in less than 2 years from the acquisition of Vitalys to the start of production.

As a result of these efforts we now have an operating large-scale HMO plant that is a major strategic asset that none of our emerging competitors will be able to match for some time. It has been a tremendous effort by many people, and everybody in the Glycom community should be proud of what has been accomplished.

This achievement has not been seamless. The capex project was over budget and the start of production was 2-3 months later than our internal schedule. In order to ensure sufficient liquidity to cover the short-fall at year end, an equity subscription was carried out with the current shareholders. The subscription was partially completed before year-end and the remaining in January 2018.

The Nestle relationship is also entering a new phase. Our long R&D collaboration will only be a very small part of our revenue going forward. Procurement and operations are the focus of the interactions and relationship. Nestle's marketing organization is rolling out their HMO formulas in multiple countries. Glycom's relationship with Nestle has gone from being an R&D collaborator to an industrial supplier.

The Esbjerg mobilization and start up was not the only important development during the year. The seeds that have been planted for development of our non infant applications have begun to sprout. Between our pipeline of products and our pipeline of applications we believe that there will be enormous opportunities to develop the company in coming years. With the results of our trials and studies, we have gained confidence that our HMOs have the potential to make a major contribution to human health in a range of applications beyond infant nutrition and to provide Glycom with commensurate commercial opportunities going forward.

Our second generation pipeline of HMOs represents over 50% of the HMO fraction in normal human milk. Our program to make them available to the world is progressing rapidly.

All in all, 2017 was a year of substantial achievement towards our goal of becoming a substantial Danish company making a major contribution to human health through the introduction of the first human natural oligosaccharides available to the world.

Environmental

Glycom Manufacturing A/S has obtained all necessary approvals from relevant authorities prior to the start of the HMO production. The Danish Environmental Protection Agency has granted the approval in relation to the external environment and permission for the use of modified organisms in our production, and Esbjerg municipality has granted permission to discharge wastewater.

All approvals contain terms that ensure continuous control of the company's impact on the external environment. In addition, Glycom will going forward look for improvement opportunities. Initially, we are focusing on water optimization and energy consumption in 2018.

Financial review

Glycom Group incurred a consolidated operating loss of 55,3 MDKK and a net loss of 63,1 MDKK in 2017, as it completed the final year of rebuilding the Esbjerg plant for HMO production.

Revenue for the year was generated from mainly contract R&D, which doubled compared to 2016, as development of the second generation of HMOs was accelerated. Modest revenue was also realized from production with the factory becoming operational in the fourth quarter. Glycom began to invoice its first deliveries in November and December. With the factory now producing, the single biggest risk factor for the company has been greatly diminished.

Management's review

Overall, the development in capacity costs were driven mainly by the expansion of the Esbjerg team in anticipation of the production start. The team grew to 74 people at year end. Significant investments in the factory were once again made, and the manufacturing mobilization project was successfully completed. At the Hørsholm site, R&D and regulatory activities increased to accelerate development of second generation HMOs.

Additional share capital was raised at the end of the year to fund the higher capex cost and cover the short-fall due to the delayed production start. A share issue was completed in December 2017 and January 2018 in order to bolster the equity position and liquidity resources. The cash balance at the end of the year was 27 MDKK and equity was 14 MDKK after the first round of the equity raise. In February 2018 Glycom expanded its mortgage facilities in the Esbjerg plant in order to provide additional liquidity.

Knowledge resources

Glycom employs several highly skilled team members across the group. Within the R&D functions and IP, Regulatory and Business Development departments 34 highly trained team members are employed, as well as several key technicians and engineers in production departments. Historically, Glycom has successfully kept a low turnover rate and expects to do so going forward.

Special risks

For 2018, Glycom's operational risk is mainly connected to the ramp-up of the Esbjerg facility in order to meet supply orders. To this end, it will be important to ensure that any process issues are efficiently resolved, and that there is minimum downtime in the factory. In terms of equipment failure risk, the vast majority of the equipment is newly acquired or renovated during the reconfiguration of the plant.

Strategic spare parts are also kept in stock should a failure occur. Appropriate service agreements and insurances are also maintained.

In terms of financial risks, Glycom has exposure to the general interest rate as some of the Group's loans have variable interest rates. As such, an increase in the general interest level would negatively affect the Group.

Research and development activities

Glycom continues the development of its second generation of HMOs, and is also exploring new applications for HMOs. An extensive biology program to open up these new applications has made good progress. A clinical trial has recently been completed and the data is currently being analysed, while another trial is near completion. Full results should be available in the next months. Our preclinical program has shown that HMOs powerfully improve the intestinal microbiota and metabolites key for health. Further, HMOs improve the barrier which protects the intestines and reduce inflammation and colitis. This gives us confidence that HMOs have applications in many chronic illnesses.

Events after the balance sheet date

After the end of the financial year 2017, the following events have occurred:

- Glycom finalized the capital raise initiated in December 2017. The total equity raise amounted to 62m DKK, hereof 49m DKK was recognized at year-end 2017.

- Glycom extended its mortgage loan facilities with Nykredit, totaling 115m DKK additional long-term loan.

- Glycom A/S Board member Heiko Schipper left his position on December 31, 2017, and was replaced by Thierry Marie Philardeau

Reference is made to note 2 for more details.

Management's review

Outlook

In 2018, Glycom expects positive earnings. In the year, Glycom will mainly be generating revenues from the production of HMOs, while contract R&D income will constitute a minor share. Purchase orders for the full year have been received from Nestlé. With production orders secured, the main focus for Glycom in the coming year is therefore related to the continued successful operation and ramp-up of the Esbjerg plant. Management is fully attentive towards this, and are satisfied to report that we have now completed the first quarter with total production volume on budget. In terms of capital structure, Glycom remains highly leveraged and has started a process to address this. This will be priority in order to bring the financing costs down and ensure adequate liquidity is available to pursue the many business opportunities ahead.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Income statement

		Group		Parent company	
Note	DKK'000	2017	2016	2017	2016
	Gross margin	-3,322	1,997	23,944	10,786
3	Staff costs	-33,884	-15,548	-19,673	-13,163
4	Amortisation/depreciation	-18,044	-5,782	-4,801	-4,801
	Other operating expenses	0	-100	0	0
	Profit/loss before net financials	-55,250	-19,433	-530	-7,178
5	Financial income	6	493	700	516
6	Financial expenses	-19,955	-2,026	-46,358	-22,142
	Profit/loss before tax	-75,199	-20,966	-46,188	-28,804
7	Tax for the year	12,075	2,852	6,343	4,576
	Profit/loss for the year	-63,124	-18,114	-39,845	-24,228

Consolidated financial statements and parent company financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	Group 2017	Group 2016	Parent company 2017	Parent company 2016
	ASSETS				
	Non-current assets				
8	Intangible assets				
	Completed development projects	169,183	25,604	169,183	25,604
	Acquired intangible assets	885	120	0	0
	Acquired patents	10,774	6,748	10,774	6,748
	Development projects in progress and prepayments for intangible assets	63,303	147,858	63,303	147,858
		244,145	180,330	243,260	180,210
9	Property, plant and equipment				
	Land and buildings	200,957	19,019	0	0
	Plant and machinery	490,005	0	0	0
	Fixtures and fittings, other plant and equipment	9,424	4,345	2,500	4,345
	Property, plant and equipment under construction	0	406,876	0	0
		700,386	430,240	2,500	4,345
10	Financial assets				
	Investments in group enterprises	0	0	403,261	185,131
	Deferred tax assets	26,449	19,871	28,506	22,806
		26,449	19,871	431,767	207,937
	Total non-current assets	970,980	630,441	677,527	392,492
	Current assets				
	Inventories				
	Raw materials and consumables	4,536	258	0	0
	Finished goods and goods for resale	2,336	0	0	0
		6,872	258	0	0
	Receivables				
	Trade receivables	2,977	0	2,977	0
	Receivables from group enterprises	0	0	70,366	0
	Receivables from associates	4,438	0	0	0
	Corporation tax receivable	5,500	5,500	2,655	5,500
	Other receivables	5,884	11,145	1,947	1,753
11	Prepayments	50	987	50	454
		18,849	17,632	77,995	7,707
	Cash	27,013	13,207	18,363	1,354
	Total current assets	52,734	31,097	96,358	9,061
	TOTAL ASSETS	1,023,714	661,538	773,885	401,553

Consolidated financial statements and parent company financial statements 1 January - 31 December

Balance sheet

		Group		Parent company	
Note	DKK'000	2017	2016	2017	2016
	EQUITY AND LIABILITIES				
	Equity				
12	Share capital	1,482	1,384	1,482	1,384
	Reserve for development costs	0	0	123,721	63,197
	Retained earnings	12,293	26,616	-94,261	-42,694
	Total equity	13,775	28,000	30,942	21,887
13	Non-current liabilities				
	Mortgage debt	81,967	87,939	0	0
	Bank debt	434,262	205,123	434,262	205,123
	Deferred revenue	26,254	7,856	26,254	7,856
	Payables to associates	110,428	145,799	110,428	145,799
	Total non-current liabilities	652,911	446,717	570,944	358,778
	Current liabilities				
	Mortgage debt	6,042	5,997	0	0
	Bank debt	142,755	118,109	132	258
	Prepayments received from customers	77,410	0	77,410	0
	Trade payables	44,305	44,670	12,089	5,573
	Payables to group enterprises	0	0	1,682	3,431
	Payables to associates	66,773	0	66,773	0
	Joint taxation contribution payable	0	0	2,012	0
	Other payables	19,743	18,045	11,901	11,626
	Total current liabilities	357,028	186,821	171,999	20,888
	Total liabilities	1,009,939	633,538	742,943	379,666
	TOTAL EQUITY AND LIABILITIES	1,023,714	661,538	773,885	401,553

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

Consolidated financial statements and parent company financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Group: Share capital	Group: Retained earnings	Group: Total
	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 1 January 2017	1,384	26,616	28,000
	Capital increase	98	48,801	48,899
	Transfer through appropriation of loss	0	-63,124	-63,124
	Equity at 31 December 2017	1,482	12,293	13,775

Note	DKK'000	Parent company: Share capital	Parent company: Reserve for development costs	Parent company: Retained earnings	Parent company: Total
	Equity at 1 January 2016	1,383	0	44,409	45,792
	Capital increase	1	0	322	323
17	Transfer, see "Appropriation of profit/loss"	0	63,197	-87,425	-24,228
	Equity at 1 January 2017	1,384	63,197	-42,694	21,887
	Capital increase	98	0	48,801	48,899
17	Transfer, see "Appropriation of profit/loss"	0	60,524	-100,368	-39,844
	Equity at 31 December 2017	1,482	123,721	-94,261	30,942

Consolidated financial statements and parent company financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	Group 2017	Group 2016
	Profit/loss for the year	-63,124	-18,114
18	Adjustments	25,881	4,240
	Cash generated from operations (operating activities)	-37,243	-13,874
19	Changes in working capital	89,306	39,122
	Cash generated from operations (operating activities)	52,063	25,248
	Interest received, etc.	5	0
	Interest paid, etc.	-19,955	-2,626
	Income taxes received (skattekreditordning)	5,500	5,875
	Cash flows from operating activities	37,613	28,497
	Additions of intangible assets	-66,280	-67,999
	Additions of property, plant and equipment	-285,686	-428,529
	Disposals of property, plant and equipment	0	200
	Loans	260,611	351,451
	Cash flows to investing activities	-91,355	-144,877
	Repayments, long-term liabilities	-5,997	0
	Cash capital increase	48,899	323
	Cash flows from financing activities	42,902	323
	Net cash flow	-10,840	-116,057
	Cash and cash equivalents at 1 January	-104,902	11,155
20	Cash and cash equivalents at 31 December	-115,742	-104,902

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Glycom A/S for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-sized reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

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

Consolidated financial statements

Control

The consolidated financial statements comprise the Parent Company and subsidiaries controlled by the Parent Company.

Control means a parent company's power to direct a subsidiary's financial and operating policy decisions. Besides the above power, the parent company should also be able to yield a return from its investment.

In assessing if the parent company controls an entity, de facto control is taken into consideration as well.

The existence of potential voting rights which may currently be exercised or converted into additional voting rights is considered when assessing if an entity can become empowered to direct another entity's financial and operating decisions.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised at cost in the balance sheet and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in "Other receivables" and "Other payables", respectively.

Leases

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Raw materials and consumables, etc.

Raw materials and consumables include expenses relating to raw materials and consumables used in generating the year's revenue.

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.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated 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
Plant and machinery	10-15 years
Fixtures and fittings, other plant and equipment	3-10 years

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct labour and indirect production overheads.

Indirect production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not recognised in the sales price.

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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.

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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.

Cash flow statement

The cash flow statement shows the Company's net cash flows broken down according to operating, investing and financing activities, the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non cash operating items, changes in working capital and paid corporate income tax.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities and of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related expenses as well as raising of loans, repayment of interest bearing debt and payment of dividends to shareholders.

Cash and cash equivalents comprise cash, short term bank loans and short term securities which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios.

The financial ratios stated under "Financial highlights" have been calculated as follows:

Return on assets $\dfrac{\text{Profit/loss from operating activites} \times 100}{\text{Average assets}}$

Equity ratio $\dfrac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

2 Events after the balance sheet date

After the end of the financial year 2017, the following events have occurred:

- Glycom finalized the capital raise initiated in December 2017. The total equity raise amounted to 62m DKK, hereof 49m DKK was recognized at year-end 2017.

- Glycom extended its mortgage loan facilities with Nykredit, totaling 115m DKK additional long-term loan.

- Glycom A/S Board member Heiko Schipper left his position on December 31. 2017, and was replaced by Thierry Marie Philardeau

		Group		Parent company	
	DKK'000	2017	2016	2017	2016
3	Staff costs and incentive programmes				
	Wages/salaries	89,381	67,286	42,479	41,661
	Other social security costs	594	566	155	346
	Other staff costs	-56,091	-52,304	-22,961	-28,844
		33,884	15,548	19,673	13,163

Group

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

Average number of full-time employees	117	90	44	43

Group

Total remuneration to Management and the board of directors : DKK 4.702 thousand (2016: DKK 4.535 thousand)

Incentive programmes

Certain members of the Board of directors holds 5,000 warrants (2016: 5,000) warrants as part of an incentive programme in Glycom A/S. The warrants grants the right 5,000 class A shares with an exercise price of DKK 323,30 per share. During 2017 500 warrants (2016: 1,000 warrants) was exercised and 500 warrants (2016: 0 warrant's) was granted to the board members.

Parent company

See group section.

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

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Notes to the financial statements

	DKK'000	Group 2017	Group 2016	Parent company 2017	Parent company 2016
4	Amortisation/depreciation of intangible assets and property, plant and equipment				
	Amortisation of intangible assets	2,465	6	2,396	6
	Depreciation of property, plant and equipment	15,579	5,776	2,405	4,795
		18,044	5,782	4,801	4,801
5	Financial income				
	Interest receivable, group entities	0	0	627	0
	Other interest income	6	1	6	1
	Exchange gain	0	492	67	515
		6	493	700	516

	DKK'000	Group 2017	Group 2016	Parent company 2017	Parent company 2016
6	Financial expenses				
	Interest expenses, group entities	0	0	24	20
	Interest expenses, associates	572	0	572	0
	Other interest expenses	30,198	27,742	49,520	22,122
	Exchange losses	461	0	0	0
	Interests capitalized as property, plant and equipment.	-11,276	-25,716	-3,758	0
		19,955	2,026	46,358	22,142

	DKK'000	Group 2017	Group 2016	Parent company 2017	Parent company 2016
7	Tax for the year				
	Estimated tax charge for the year	-5,500	-5,500	-2,655	-5,500
	Deferred tax adjustments in the year	-5,838	2,648	-4,963	-287
	Tax adjustments, prior years	-737	0	-737	0
	Refund in joint taxation	0	0	2,012	1,211
		-12,075	-2,852	-6,343	-4,576

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Notes to the financial statements

8 Intangible assets

	Group				
DKK'000	Completed development projects	Acquired intangible assets	Acquired patents	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2017	25,604	1,131	6,800	147,858	181,393
Additions	0	834	4,071	61,375	66,280
Transferred	145,930	0	0	-145,930	0
Cost at 31 December 2017	171,534	1,965	10,871	63,303	247,673
Impairment losses and amortisation at 1 January 2017	0	1,011	52	0	1,063
Amortisation for the year	2,351	69	45	0	2,465
Impairment losses and amortisation at 31 December 2017	2,351	1,080	97	0	3,528
Carrying amount at 31 December 2017	169,183	885	10,774	63,303	244,145
Recognised interest	3,206	0	0		

	Parent company				
DKK'000	Completed development projects	Acquired intangible assets	Acquired patents	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2017	25,604	1,011	6,800	147,858	181,273
Additions	0	0	4,071	61,375	65,446
Transferred	145,930	0	0	-145,930	0
Cost at 31 December 2017	171,534	1,011	10,871	63,303	246,719
Impairment losses and amortisation at 1 January 2017	0	1,011	52	0	1,063
Amortisation for the year	2,351	0	45	0	2,396
Impairment losses and amortisation at 31 December 2017	2,351	1,011	97	0	3,459
Carrying amount at 31 December 2017	169,183	0	10,774	63,303	243,260
Recognised interest	3,206	0	0		

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

9 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, other plant and equipment	Property, plant and equipment under construction	Total
	Group				
Cost at 1 January 2017	20,000	0	20,056	406,876	446,932
Additions	64,725	217,171	3,790	0	285,686
Disposals	0	0	-692	0	-692
Transferred	120,835	281,932	4,109	-406,876	0
Cost at 31 December 2017	205,560	499,103	27,263	0	731,926
Revaluations at 1 January 2017	0	0	0	0	0
Revaluations at 31 December 2017	0	0	0	0	0
Impairment losses and depreciation at 1 January 2017	981	0	15,711	0	16,692
Depreciation	3,622	9,098	2,759	0	15,479
Reversal of accumulated depreciation and impairment of assets disposed	0	0	-631	0	-631
Impairment losses and depreciation at 31 December 2017	4,603	9,098	17,839	0	31,540
Carrying amount at 31 December 2017	200,957	490,005	9,424	0	700,386
Carrying amount at 31 December 2017, if no revaluation had been made	16,038	48,607	0	0	

DKK 000	Parent company Fixtures and fittings, other plant and equipment
Cost at 1 January 2017	20,056
Additions	523
Disposals	-692
Cost at 31 December 2017	19,887
Value adjustments at 1 January 2017	0
Value adjustments at 31 December 2017	0
Impairment losses and depreciation at 1 January 2017	15,711
Depreciation	2,307
Depreciation and impairment of disposals	-631
Impairment losses and depreciation at 31 December 2017	17,387
Carrying amount at 31 December 2017	2,500

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

10 Investments

DKK'000	Parent company Investments in group enterprises
Cost at 1 January 2017	185,131
Additions	218,130
Cost at 31 December 2017	403,261
Carrying amount at 31 December 2017	403,261

Parent company

Name	Domicile	Interest
Subsidiaries		
Glycom Manufacturing A/S	6700, Esbjerg	100.00%
Glycom Inc.	Madisonville LA 70447, USA	100.00%

11 Prepayments

Group

Prepayments include accrual of expenses relating to subsequent financial years, including rent.

Parent company

Prepayments include accrual of expenses relating to subsequent financial years, including rent.

DKK'000	Parent company 2017	2016
12 Share capital		
Analysis of the share capital:		
368,908 A shares of DKK 1.00 nominal value each	369	360
132,908 B shares of DKK 1.00 nominal value each	133	123
432,758 C shares of DKK 1.00 nominal value each	433	407
547,056 D shares of DKK 1.00 nominal value each	547	494
	1,482	1,384

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

DKK'000	2017	2016	2015	2014	2013
Opening balance	1,384	1,383	1,278	1,278	745
Capital increase	98	1	1,278	1,278	745
Capital reduction	0	0	0	0	533
	1,482	1,384	2,556	2,556	2,023

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Notes to the financial statements

13 Non-current liabilities

	Group			
DKK'000	Total debt at 31/12 2017	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	88,009	6,042	81,967	61,317
Bank debt	434,262	0	434,262	0
Deferred revenue	26,254	0	26,254	0
Payables to associates	177,201	66,773	110,428	0
	725,726	72,815	652,911	61,317

	Parent company			
DKK'000	Total debt at 31/12 2017	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Bank debt	434,262	0	434,262	0
Deferred revenue	26,254	0	26,254	0
Payables to associates	177,201	66,773	110,428	0
	637,717	66,773	570,944	0

The long-term loan from Nestlé of 177 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.

The long term bank debt from Danica of 434 mDKK has a 5-year term. The loan stipulates the possibility to convert to equity.

14 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

	Group		Parent company	
DKK'000	2017	2016	2017	2016
Rent and lease liabilities	13,730	17,251	12,916	17,211

Group

Rent and lease agreements are interminable in 0-8 years

Parent

Rent and lease agreements are interminable in 0-4 years

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 for the income years 2016 and onwards and withholding taxes falling due for payment in the group of jointly taxed entities.

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Notes to the financial statements

15 Collateral

Group

The group has secured short-term bank debt of 143 mDKK, long-term bank debt of 434 mDKK and Payables to associates of 177mDKK 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 88 mDKK, or other collateral in fixed assets. The total carrying amount of these assets is 191 mDKK.

Parent company

As security for the Company's long-term bank debt of 434 mDKK, Payable to associates of 177mDKK and the subsidiaries short-term bank debt of 143mDKK, 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 332mDKK.

16 Related parties

Group

Glycom A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Glycom A/S	2970, Hørsholm	Parent company
Glycom Manufacturing A/S	6715, Esbjerg N	Subsidiary
Glycom Inc.	Madisonville LA 70447, USA	Subsidiary

Related party transactions

DKK'000	2017	2016
Group		
Income from associates	42,864	21,183
Financial expenses to associates	-7,098	-3,952
Receivables from associates	8,781	0
Deferred revenue from associates	-26,254	-7,856
Long term loan from associates	-177,201	-145,799
Prepayments from associates	-77,410	0
Parent Company		
Income from associates	37,855	21,183
Financial expenses to associates	-7,098	-3,952
Fees from subsidiaries	7,450	-7,462
Receivables from associates	2,977	0
Receivables from subsidiaries	68,684	93
Deferred revenue from associates	-26,254	-7,856
Long term loan from associates	-177,201	-145,799
Prepayments from associates	-77,410	0

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Notes to the financial statements

Group

Besides remuneration to Management and the board mebers as set out in note 3 there has been no transactions with Management and the board members except for consultancy expenses of total 2,702t DKK (2016: 2,271t DKK)

Parent

Besides remuneration to Management and the board mebers as set out in note 3 there has been no transactions with Management and the board members except for consultancy expenses of total 1,989t DKK (2016: 2,271t DKK)

Parent company

Parties exercising control

Related party	Domicile	Basis for control
Glycom A/S	2970, Hørsholm	Parent
Glycom Manufacturing A/S	6715, Esbjerg N	Subsidiary
Glycom Inc.	Madisonville LA 70447, USA	Subsidiary

DKK'000	Parent company 2017	Parent company 2016
17 Appropriation of profit/loss		
Recommended appropriation of profit/loss		
Other reserves	60,523	63,197
Retained earnings/accumulated loss	-100,368	-87,425
	-39,845	-24,228

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Notes to the financial statements

	DKK'000	Group 2017	Group 2016
18	**Adjustments**		
	Amortisation/depreciation and impairment losses	18,043	5,782
	Gain/loss on the sale of non-current assets	-36	-223
	Financial income	-6	-1,093
	Financial expenses	19,955	2,626
	Tax for the year	-5,500	-5,500
	Deferred tax	-6,575	2,648
		25,881	4,240
19	**Changes in working capital**		
	Change in inventories	-6,613	-258
	Change in receivables	-1,217	-9,925
	Change in trade and other payables	78,738	41,449
	Deferred revenue	18,398	7,856
		89,306	39,122
20	**Cash and cash equivalents at year-end**		
	Cash according to the balance sheet	27,013	13,207
	Short-term debt to banks	-142,755	-118,109
		-115,742	-104,902