Glycom A/S

Kogle Alle 4, 2970 Hørsholm

CVR no. 28 51 24 57

Annual report 2018

Approved at the Company's annual general meeting on 26 April 2019

Chairman:

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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 2018.

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 2018 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 2018.

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, 11 April 2019
Executive Board:

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 2018, 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 2018, 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 2018 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, 11 April 2019
Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender	Søren Gammelgaard
State Authorised Public Accountant	State Authorised Public Accountant
mne21332	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	2018	2017	2016
Key figures			
Revenue	381,797	43,125	21,800
Gross margin	235,000	-3,322	1,997
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	134,814	-37,206	-13,651
Operating profit/loss	66,949	-55,540	-19,433
Net financials	-85,122	-19,949	-1,533
Profit/loss for the year	**-26,251**	**-63,124**	**-18,114**
Non-current assets	940,143	970,981	630,441
Current assets	47,113	52,734	31,097
Total assets	**987,256**	**1,023,715**	**661,538**
Share capital	1,509	1,482	1,384
Equity	**1,171**	**13,775**	**28,000**
Non-current liabilities	717,112	652,911	446,717
Current liabilities	268,973	357,029	186,821
Financial ratios			
Return on assets	6.7%	-6.6%	-4.7%
Equity ratio	0.1%	1.3%	4.2%
Average number of employees	**135**	**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.

The consolidated group was founded in 2016 in connection with the purchase of the factory in Esbjerg. Management has elected not to include amounts for the parent company relating to 2014 and 2015, as the activies during those years only related to R&D.

Management's review

Business review

2018 marked the end of the most important transition period in the companies' history and the first year of a new Glycom. We finalised the move from HMO research and development to HMO industrial supply, with our Esbjerg facility in its first full year of operation reaching expected production. The HMO project fully moved from R&D to commercial operations, with an extremely successful rollout in more than 35 countries so far. We moved from investigation of the benefits of HMOs in adults and older children to confidence that our products will make a major contribution in the wider world. Our first non-infant HMO products for the US market have been formulated: Holigos™ IBS and Holigos™ Digestive Health. Taken together, these developments represent the realisation of long held aspirations of the Glycom community.

Industrial HMO supply

The Esbjerg production team made remarkable strides in mobilising production in its first full year of operation. They solved hundreds of start-up challenges in the new facility and ramped up production to achieve expected output for the year, with a significantly higher run rate by the year end. Product quality met or exceeded stringent standards. The plant operated safely, with no accidents requiring lost work days. The Esbjerg team implemented a number of new production methods aimed at increasing capacity and improving cost. Achieving these milestones after an extremely fast facility construction and commissioning schedule has been a truly impressive job by the manufacturing team led by Jesper Mørk and Kjeld Kjeldsen.

Nestle rollout success

The Nestle HMO rollout has exceeded all expectations. Nestlé's own public comments in its latest (2018) annual review give some indication of its outstanding success, which is the result of an extremely close Nestle/Glycom collaboration spanning more than 10 years:

"The rollout of our ground-breaking Human Milk Oligosaccharide (HMO) products accelerated in 2018 and now extends to 36 countries across multiple brands. The NAN with HMO launch is one of the most successful in Nestlé's 150-year history. It is an example of Nestlé's commitment to long-term fundamental research."

Financial review

The Glycom Group consolidated revenues in 2018 were 381,8 mDKK, EBITDA 134,8 mDKK and a net loss of 26,3 mDKK. In line with expectations, production output has been increased significantly and positive earnings before net financials generated in the first full year of production

Revenue for the year was mainly generated from infant product sales (371 mDKK) but also from some R&D revenue for development of the second generation of HMOs (11 mDKK).

A share issue of 62,4 mDKK was completed in January 2018, hereof 48,8 mDKK have being recognized as of 31 December 2017 and 13,6 mDKK recognized in January 2018 in order to buffer the equity position and liquidity resources. In February 2018, Glycom expanded its mortgage facilities in the Esbjerg plant. Cash and cash equivalents (including credit lines) at the end of the year were 28,6 mDKK and equity is 1,171 kDKK.

In 2019, Glycom will continue to increase its production output and deliver to its main customer in the infant market, as well as products for the non-infant market. Resultingly, Glycom expects positive net income for the year.

Glycom will continue to be generating revenues mainly from the production of HMOs, while contract R&D income will constitute a minor and declining share. As in the previous year with production orders secured, the main focus for Glycom in the coming year is to secure continued successful operation and ramp-up of its production plant in Esbjerg.

To address the Group and company's leveraged capital structure, Management expect to complete a capital raise of around 20 mEUR from existing shareholders and refinancing of part of the debt facilities within the first half year.

Management's review

Knowledge resources

Glycom employs several highly skilled team members across the group, which are critical to both the development of new HMOs and to the continued improvement of production strains and processes. Retention of key employees and employee satisfaction are therefore important to Glycom, and so is being able to attract new highly skilled employees.

Within the Research and Innovation situated in Hørsholm, more than 35 highly trained team members are employed, most of which have been employed with the company for several years. Generally, employee turnover has historically been low and with several new opportunities arising from the company development in 2018 and going forward with new markets and customers, Glycom expects to be able to remain an attractive workplace and invest in its employees.

Within Glycom's production, the company relies on several technicians, engineers and other highly skilled employees, which are key to the running and continuous optimization of the production processes, and for the quality of our product. Across the production departments, employee surveys are regularly held to ensure a high level of employee satisfaction. At the latest employee satisfaction survey, a high employee satisfaction score was observed. Generally, a very low employee turnover rate has been maintained in Glycom Manufacturing.

Special risks

Operational risks

Glycom's operational risk is mainly connected to its production facility in orderto meet supply orders. To this end, it will be important to ensure that any process issues areefficiently resolved, and that there is minimum unplanned downtime in the factory. In terms of equipment failure risk, the vast majority of the equipment remain 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.

Financial risks

Given Glycom's activities abroad, the company's earnings, cash-flows and equity is influenced by the development in other currencies. The vast majority of the currency exposure is towards the euro, which is pegged to the Danish krone. For this reason, Glycom does not hedge against currency fluctuation as these are immaterial at current.

Furthermore, Glycom has significant exposure to the general interest rate as the majority of the Group's loans have variable interest rates. As such, an increase in the general interest level would negatively affect the Group.

Impact on the external environment

Glycom's production takes place at its facility in Esbjerg, which is part of Glycom Manufacturing A/S. In the first full year of operation, Glycom Manufacturing A/S made several improvements within the environmental area. All the terms contained in the approvals related to Glycom Manufacturing A/S has been implemented and documented in 2018. Noise measurements have been completed with positive results and the company's waste-sorting has improved significantly with several waste factions for recycling. Air pollution control has been completed with positive outcome.

The company's water and energy consumption were mapped for the entire production by process in order to get focus on improvement opportunities. Projects related to recycling of water from the largest consumption areas has intense focus and an energy project related to one of our biggest energy-consuming processes has been started.Glycom continues to have a very positive and constructive dialog with the all the relevant departments of The Danish Environmental Protection Agency about possible continuous improvements.

Management's review

Research and development activities

Second generation HMO developments

Our second-generation pipeline of HMOs represents 50% of the HMO fraction in normal human milk, and the program to prepare them for commercialisation is progressing rapidly. Low cost production technology has been developed, one ton of clinical trial material has been produced, toxicology studies have been completed, the first regulatory applications have been filed, and additional filings are imminent. Nestlé has initiated an infant clinical trial with the new HMOs and is eager to commercialise the blend in order to further differentiate itself in the marketplace.

Looking further down the road, the Glycom R&D team has already identified pathways to 85% of the HMO fraction, and in the coming years we will continue to commercialise additional HMOs beyond our second-generation platform.

Non-infant HMO application development

Over the last 4 years Glycom has invested in clinical and preclinical studies to investigate the potential value of HMOs for use in ages above infants. The results of an extensive preclinical program, 4 clinical trials, and a 1,500 person HMO trial program have demonstrated that HMOs have a substantial opportunity to contribute to health in many fields in people of all ages. Several initial application areas appear particularly promising, and the first HMO target - IBS - has shown substantial improvements in Glycom clinical studies. As a result of these positive indications, our first non-infant HMO products for the US market have been formulated: Holigos™ IBS and Holigos™ Digestive Health.Supply chain arrangements have been implemented for distribution of these products and marketing plans outlined. We look forward to beginning the development of substantial commercial operations for these non-infant HMO products in 2019 and beyond.

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

Income statement

		Group		Parent company	
Note	DKK'000	2018	2017	2018	2017
	Revenue	381,797	43,125	134,598	38,116
	Cost of sales	-88,020	-13,581	0	0
	Other operating income	183	290	0	36
	Raw materials and consumables	-2,377	-644	0	0
	Other external expenses	-56,583	-32,512	-21,759	-14,208
	Gross margin	235,000	-3,322	112,839	23,944
2	Staff costs	-100,186	-33,884	-36,251	-19,673
3	Amortisation/depreciation of intangible assets and property, plant and equipment	-67,682	-18,044	-13,441	-4,801
	Profit/loss before net financials	67,132	-55,250	63,147	-530
4	Financial income	2	4	1,577	700
5	Financial expenses	-85,124	-19,953	-66,838	-46,358
	Profit/loss before tax	-17,990	-75,199	-2,114	-46,188
6	Tax for the year	-8,261	12,075	-12,042	6,343
	Profit/loss for the year	-26,251	-63,124	-14,156	-39,845

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

Balance sheet

Note	DKK'000	Group 2018	Group 2017	Parent company 2018	Parent company 2017
	ASSETS				
	Non-current assets				
7	**Intangible assets**				
	Completed development projects	157,747	169,183	157,747	169,183
	Acquired intangible assets	604	886	0	0
	Acquired Patents	11,709	10,774	11,709	10,774
	Development projects in progress and prepayments for intangible assets	93,763	63,303	93,763	63,303
		263,823	244,146	263,219	243,260
8	**Property, plant and equipment**				
	Land and buildings	192,438	200,957	0	0
	Plant and machinery	458,960	489,359	0	0
	Fixtures and fittings, other plant and equipment	9,941	9,425	3,344	2,500
	Property, plant and equipment under construction	2,296	645	0	0
		663,635	700,386	3,344	2,500
9	**Financial assets**				
	Investments in group enterprises	0	0	422,056	403,261
	Deferred tax assets	12,685	26,449	17,235	28,506
		12,685	26,449	439,291	431,767
	Total non-current assets	940,143	970,981	705,854	677,527
	Current assets				
	Inventories				
	Raw materials and consumables	10,582	4,536	0	0
	Work in progress	9,142	0	0	0
	Finished goods and goods for resale	4,173	2,336	1,734	0
		23,897	6,872	1,734	0
	Receivables				
	Trade receivables	3,856	0	0	0
	Receivables from group enterprises	0	0	7,232	70,366
	Receivables from associates	7,066	7,415	0	2,977
	Corporation tax receivable	5,500	5,500	5,500	2,655
	Other receivables	5,015	5,884	1,798	1,947
10	Prepayments	26	50	26	50
		21,463	18,849	14,556	77,995
	Cash	1,753	27,013	766	18,363
	Total current assets	47,113	52,734	17,056	96,358
	TOTAL ASSETS	987,256	1,023,715	722,910	773,885

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

Balance sheet

Note	DKK'000	Group 2018	Group 2017	Parent company 2018	Parent company 2017
	EQUITY AND LIABILITIES				
	Equity				
11	Share capital	1,509	1,482	1,509	1,482
	Reserve for development costs	0	0	150,840	123,721
	Retained earnings	-338	12,293	-121,916	-94,261
	Total equity	1,171	13,775	30,433	30,942
12	**Non-current liabilities**				
	Mortgage debt	176,332	81,967	0	0
	Other credit institutions	339,709	434,262	339,709	434,262
	Deferred revenue	28,178	26,254	28,178	26,254
	Payables to associates	172,893	110,428	172,893	110,428
	Total non-current liabilities	717,112	652,911	540,780	570,944
	Current liabilities				
	Mortgage debt	13,984	6,042	0	0
	Bank debt	114,757	142,755	0	132
	Other credit institutions	15,723	0	15,723	0
	Prepayments received from customers	50,546	77,410	50,546	77,410
	Trade payables	28,477	44,306	9,530	12,089
	Payables to group enterprises	0	0	33,717	1,682
	Payables to associates	24,929	66,773	24,929	66,773
	Joint taxation contribution payable	0	0	6,285	2,012
	Other payables	20,557	19,743	10,967	11,901
	Total current liabilities	268,973	357,029	151,697	171,999
	Total liabilities	986,085	1,009,940	692,477	742,943
	TOTAL EQUITY AND LIABILITIES	987,256	1,023,715	722,910	773,885

1 Accounting policies
13 Contractual obligations and contingencies, etc.
14 Collateral
15 Related parties

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

Statement of changes in equity

		Group		
Note	DKK'000	Share capital	Retained earnings	Total
	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 1 January 2018	1,482	12,293	13,775
	Capital increase	27	13,620	13,647
	Transfer through appropriation of loss	0	-26,251	-26,251
	Equity at 31 December 2018	1,509	-338	1,171

		Parent company			
Note	DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
	Equity at 1 January 2017	1,384	63,197	-42,694	21,887
	Capital increase	98	0	48,801	48,899
16	Transfer, see "Appropriation of profit/loss"	0	60,524	-100,368	-39,844
	Equity at 1 January 2018	1,482	123,721	-94,261	30,942
	Capital increase	27	0	13,620	13,647
16	Transfer, see "Appropriation of profit/loss"	0	27,119	-41,275	-14,156
	Equity at 31 December 2018	1,509	150,840	-121,916	30,433

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

Cash flow statement

Note	DKK'000	Group 2018	Group 2017
	Profit/loss for the year	-26,251	-63,124
17	Adjustments	161,066	25,881
	Cash generated from operations (operating activities)	134,815	-37,243
18	Changes in working capital	-67,636	80,370
	Cash generated from operations (operating activities)	67,179	43,127
	Interest received, etc.	5	5
	Income taxes received (skattekreditordning)	5,500	5,500
	Cash flows from operating activities	72,684	48,632
	Additions of intangible assets	-26,347	-62,517
	Additions of property, plant and equipment	-66,363	-249,901
	Cash flows to investing activities	-92,710	-312,418
	Loans	112,397	211,955
	Repayments, long-term liabilities	-29,681	-5,997
	Interest paid, etc.	-73,599	-1,911
	Cash capital increase	13,647	48,899
	Cash flows from financing activities	22,764	252,946
	Net cash flow	2,738	-10,840
	Cash and cash equivalents at 1 January	-115,742	-104,902
19	**Cash and cash equivalents at 31 December**	-113,004	-115,742

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 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-sized reporting class C entities.

Changes in accounting policies

The accounting policies used in the preparation of the financial statements are except for the below consistent with those of last year:

Cash inflow from loans as well as payment of interests recognised through the income statement have been classified as Cash flows from financing activities, whereas they were classifed as Cash flows from investing activities respectively Cash flows from operating activities in the 2017 financial statements.

The change has for 2018 increased Cash-flows from operating activities by DKK 73,599 thousand, reduced Cash flow from investing activities by DKK 112,397 thousand and increased Cash flows from financing activities by DKK 38,798k.

For the comparative figures the change has increased Cash-flows from operating activities by DKK 11,024 thousand, reduced Cash flow from investing activities by DKK 221,062 thousand and increased Cash flows from financing activities by DKK 210,038k.

It is Management's position that the cash-flow statement with the above changes better reflects the composition of the cash in- and outflows in the various categories in the cash flow statement.

The change has no impact on the income statement, balance sheet or equity.

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.

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

Notes to the financial statements

1 Accounting policies (continued)

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

The Company has chosen IAS 17 as interpretation for classification and recognition of 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".

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

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.

Other operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains 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.

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

Notes to the financial statements

1 **Accounting policies (continued)**

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	15 years
Acquired patents	10 years
Software	3-5 years
Buildings	10-20 years
Plant and machinery	10-15 years
Fixtures and fittings, other plant and equipment	3-10 years

Land is not depreciated.

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.

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

Notes to the financial statements

1 Accounting policies (continued)

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 regarding loans 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.

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.

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

Notes to the financial statements

1 Accounting policies (continued)

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 cost price.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

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.

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

Notes to the financial statements

1 **Accounting policies (continued)**

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.

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 Group'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, interests received and paid corporate income tax.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of intangible assets, property, plant and equipment including payment of interests capitalized herein.

Cash flows from financing activities comprise changes in the size or composition of the Group's share capital and related expenses as well as raising of loans, repayment of interest bearing debt, interests paid 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

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

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

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

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

Notes to the financial statements

		Group		Parent company	
	DKK'000	2018	2017	2018	2017
2	**Staff costs and incentive programmes**				
	Wages/salaries	108,053	89,358	44,849	42,457
	Other social security costs	976	617	245	177
	Other staff costs	-8,843	-56,091	-8,843	-22,961
		100,186	33,884	36,251	19,673

Group

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

	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Average number of full-time employees	135	117	50	44

Group

Total remuneration to Management and the board of directors : DKK 2.860 thousand (2017: DKK 4.702 thousand)

Incentive programmes

Certain members of the Board of directors holds 5,000 warrants (2017: 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 2018 0 warrants (2017: 500 warrants) was exercised and 0 warrants (2017: 500 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.

		Group		Parent company	
	DKK'000	2018	2017	2018	2017
3	**Amortisation/depreciation of intangible assets and property, plant and equipment**				
	Amortisation of intangible assets	13,727	2,465	13,441	2,396
	Depreciation of property, plant and equipment	53,955	15,579	0	2,405
		67,682	18,044	13,441	4,801

The difference from the fixed asset notes to P&L amount is due to depreciations capitalized as indirect production costs in inventory (1,238 t.kr.)

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

Notes to the financial statements

4 Financial income				
Interest receivable, group entities	0	0	1,577	627
Other interest income	2	4	0	6
Exchange gain	0	0	0	67
	2	4	1,577	700

	Group		Parent company	
DKK'000	2018	2017	2018	2017
5 Financial expenses				
Interest expenses, group entities	0	0	48	24
Interest expenses, associates	29,924	572	29,924	572
Other interest expenses	62,959	30,198	45,313	49,520
Exchange losses	1,014	461	326	0
Interests capitalized as property, plant and equipment.	-8,773	-11,278	-8,773	-3,758
	85,124	19,953	66,838	46,358

	Group		Parent company	
DKK'000	2018	2017	2018	2017
6 Tax for the year				
Estimated tax charge for the year	-5,500	-5,500	-887	-2,655
Deferred tax adjustments in the year	13,688	-5,838	11,060	-4,963
Tax adjustments, prior years	73	-737	197	-737
Refund in joint taxation	0	0	1,672	2,012
	8,261	-12,075	12,042	-6,343

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

Notes to the financial statements

7 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 2018	171,534	1,965	10,871	63,303	247,673
Additions	0	4	1,408	30,460	31,872
Cost at 31 December 2018	171,534	1,969	12,279	93,763	279,545
Impairment losses and amortisation at 1 January 2018	2,351	1,079	97	0	3,527
Amortisation for the year	11,436	286	473	0	12,195
Impairment losses and amortisation at 31 December 2018	13,787	1,365	570	0	15,722
Carrying amount at 31 December 2018	157,747	604	11,709	93,763	263,823
Recognised interest	2,989	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 2018	171,534	1,011	10,871	63,303	246,719
Additions	0	0	1,408	30,460	31,868
Cost at 31 December 2018	171,534	1,011	12,279	93,763	278,587
Impairment losses and amortisation at 1 January 2018	2,351	1,011	97	0	3,459
Amortisation for the year	11,436	0	473	0	11,909
Impairment losses and amortisation at 31 December 2018	13,787	1,011	570	0	15,368
Carrying amount at 31 December 2018	157,747	0	11,709	93,763	263,219
Recognised interest	2,989	0	0		

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

Notes to the financial statements

8 **Property, plant and equipment**

	Group				
DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, other plant and equipment	Property, plant and equipment under construction	Total
Cost at 1 January 2018	205,560	498,457	27,263	645	731,925
Additions	1,602	12,440	3,638	2,296	19,976
Transferred	0	645	0	-645	0
Cost at 31 December 2018	207,162	511,542	30,901	2,296	751,901
Revaluations at 1 January 2018	0	0	0	0	0
Revaluations at 31 December 2018	0	0	0	0	0
Impairment losses and depreciation at 1 January 2018	4,603	9,098	17,838	0	31,539
Depreciation	10,121	43,484	3,122	0	56,727
Impairment losses and depreciation at 31 December 2018	14,724	52,582	20,960	0	88,266
Carrying amount at 31 December 2018	192,438	458,960	9,941	2,296	663,635
Recognised interest	14,976	45,475	0	0	

	Parent company
DKK'000	Fixtures and fittings, other plant and equipment
Cost at 1 January 2018	19,887
Additions	2,376
Cost at 31 December 2018	22,263
Revaluations at 1 January 2018	0
Revaluations at 31 December 2018	0
Impairment losses and depreciation at 1 January 2018	17,387
Depreciation	1,532
Impairment losses and depreciation at 31 December 2018	18,919
Carrying amount at 31 December 2018	3,344

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

Notes to the financial statements

9 Investments

DKK'000	Parent company Investments in group enterprises
Cost at 1 January 2018	403,261
Additions	18,795
Cost at 31 December 2018	422,056
Carrying amount at 31 December 2018	422,056

Parent company

Name	Domicile	Interest
Subsidiaries		
Glycom Manufacturing A/S	6700, Esbjerg	100.00%
Glycom Inc.	Madisonville LA 70447, USA	100.00%
Glycom GmbH	Ericusspitze 4, 20457 Hamburg, Germany	100.00%

10 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.

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

Notes to the financial statements

DKK'000	Parent company 2018	Parent company 2017
11 Share capital		
Analysis of the share capital:		
384,495 A shares of DKK 1.00 nominal value each	384	369
136,542 B shares of DKK 1.00 nominal value each	137	133
440,832 C shares of DKK 1.00 nominal value each	441	433
547,056 D shares of DKK 1.00 nominal value each	547	547
	1,509	1,482

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

DKK'000	2018	2017	2016	2015	2014
Opening balance	1,482	1,384	1,278	1,278	745
Capital increase	27	98	1,278	1,278	745
Capital reduction	0	0	1,278	1,278	745
	1,509	1,482	3,834	3,834	2,235

12 Non-current liabilities

DKK'000	Group			
	Total debt at 31/12 2018	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	190,316	13,984	176,332	104,991
Other credit institutions	355,432	15,723	339,709	0
Deferred revenue	28,178	0	28,178	0
Payables to associates	197,822	24,929	172,893	0
	771,748	54,636	717,112	104,991

DKK'000	Parent company			
	Total debt at 31/12 2018	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Other credit institutions	355,432	15,723	339,709	0
Deferred revenue	28,178	0	28,178	0
Payables to associates	197,822	24,929	172,893	0
	581,432	40,652	540,780	0

The long-term loan from Nestlé of 197 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 expect to have repaid the long-term loan within 5 years.

The long term bank debt of 355 mDKK has a 5-year term.

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

Notes to the financial statements

13 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

	Group		Parent company	
DKK'000	2018	2017	2018	2017
Rent and lease liabilities	9,959	13,730	9,393	12,916

Group

Rent and lease agreements are interminable in 0-6 years

Parent

Rent and lease agreements are interminable in 0-3 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.

14 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 355 mDKK, Payable to associates of 197mDKK and the subsidiaries short-term bank debt of 115mDKK, 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 367mDKK.

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

Notes to the financial statements

15 **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
Glycom GmbH	Ericusspitze 4, 20457 Hamburg, Germany	Subsidiary

Related party transactions

DKK'000	2018	2017
Group		
Revenue from associates	364,523	42,864
Financial expenses to associates	-29,924	-7,098
Receivables from associates	1,286	8,781
Deferred revenue from associates	-28,073	-26,254
Long term loan from associates	-172,893	-177,201
Prepayments from associates	-50,546	-77,410
Parent Company		
Revenue from associates	131,661	37,855
Financial expenses to associates	-29,924	-7,098
Revenue from subsidiaries	4,462	0
Fees from subsidiaries	7,450	7,450
Financial revenue from subsidiaries	1,577	0
Financial expenses to subsidiaries	-48	0
Prepayment from associates	-50,546	-77,410
Receivables from associates	0	2,977
Receivables from subsidiaries	7,232	70,366
Deferred revenue from associates	-28,073	-26,254
Long term loan from associates	-172,893	-177,201
Payables to subsidiaries	-40,002	-1,682

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

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 2,071t DKK (2017: 2,702t 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 1,604t DKK (2017: 1,989t 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
Glycom GmbH	Ericusspitze 4, 20457 Hamburg, Germany	Subsidiary

		Parent company	
	DKK'000	2018	2017
16	**Appropriation of profit/loss**		
	Recommended appropriation of profit/loss		
	Other reserves	27,119	60,523
	Retained earnings/accumulated loss	-41,275	-100,368
		-14,156	-39,845

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Notes to the financial statements

	DKK'000	Group 2018	Group 2017
17	**Adjustments**		
	Amortisation/depreciation and impairment losses	67,683	18,043
	Gain/loss on the sale of non-current assets	0	-36
	Financial income	-2	-6
	Financial expenses	85,124	19,955
	Tax for the year	-5,500	-5,500
	Deferred tax	13,761	-6,575
		161,066	25,881
18	**Changes in working capital**		
	Change in inventories	-17,026	-6,613
	Change in receivables	-2,614	-1,217
	Change in trade and other payables	-49,920	69,802
	Deferred revenue	1,924	18,398
		-67,636	80,370
19	**Cash and cash equivalents at year-end**		
	Cash according to the balance sheet	1,753	27,013
	Short-term debt to banks	-114,757	-142,755
		-113,004	-115,742