Xellia Group ApS

CVR no. 31 08 95 06

Dalslandsgade 11, 2300 Copenhagen S

Annual report for 2018

Adopted at the annual general meeting on 28 March 2019
Mikkel Lyager Olsen chairman

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Statement by management on the annual report

The executive board has today discussed and approved the annual report of Xellia Group ApS 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 financial statements give a true and fair view of the company's financial position at 31 December 2018 and of the results of the company's operations 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 company's operations and financial matters and the results of the company's operations and its financial position.

We recommend the adoption of the annual report at the annual general meeting.

Copenhagen, 28 March 2019

Executive board

Carl-Åke Carlsson	Mikkel Lyager Olsen	Bente Schmidt Nielsen

Independent auditor's report

To the shareholder of Xellia Group ApS

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018, and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Xellia Group ApS for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

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

Statement on management's review

Management is responsible for management's review.

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

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

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

Based on the work we have performed, we conclude that 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 management's review.

Management's responsibilities for the financial statements

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

Independent auditor's report

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

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.

Copenhagen, 28 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Kim Füchsel
State Authorised Public Accountant
MNE no. 9291

Conrad Mattrup Lundsgaard
State Authorised Public Accountant
MNE no. 34529

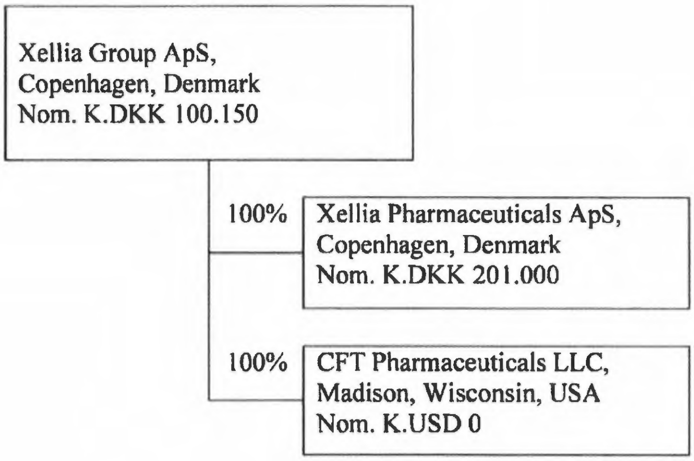
Company details

The company	Xellia Group ApS Dalslandsgade 11 2300 Copenhagen S	
	Telephone:	+45 32 64 55 00
	CVR no.:	31 08 95 06
	Reporting period:	1 January - 31 December 2018
	Domicile:	Copenhagen
Executive board	Carl-Åke Carlsson Mikkel Lyager Olsen Bente Schmidt Nielsen	
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup	
Consolidated financial statements	The company is included in the group annual report of Novo Nordisk Foundation. The group annual report of Novo Nordisk Foundation may be obtained at the following address: Novo Nordisk Foundation, Tuborg Havnevej 19, DK-2900 Hellerup.	
Parent company	The company's parent company is Xellia Group AS, Norway.	

Group chart

Parent Company

Subsidiaries



Financial highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

	2018	2017	2016	2015	2014
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Revenue	0	98	113	90	79
Operating profit/loss	0	-1	-6	-5	-1
Net financials	-87	120	-110	-122	-124
Profit/loss for the year	-68	91	-88	-99	-91
Balance sheet					
Fixed assets	1.980	1.980	1.980	1.980	1.980
Current assets	57	132	104	26	42
Balance sheet total	2.037	2.112	2.084	2.006	2.022
Equity	342	410	319	407	506
Long-term debt	1.641	1.329	1.611	1.443	1.395
Short-term debt	51	360	154	156	113
Financial ratios					
Gross margin	0%	7%	5%	2%	-6%
EBIT margin	0%	-1%	-5%	-6%	-1%
Solvency ratio	17%	19%	15%	20%	25%
Return on equity	-18%	25%	-24%	-22%	-17%
Average number of full-time employees	0	70	78	74	60

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the summary of significant accounting policies.

Management's review

Business activities

The activities of Xellia Group ApS are to hold shares in the 100% owned subsidiary Xellia Pharmaceuticals ApS.

Recognition and measurement uncertainties

The recognition and measurement of items in the financial statements is not subject to any uncertainty.

Unusual matters

The company's financial position at 31 December 2018 and the results of its operations for the financial year ended 31 December 2018 are not affected by any unusual matters.

Development in activities and financial position

The company's income statement for the year ended 31 December shows a loss of TDKK 67,790, and the balance sheet at 31 December 2018 shows equity of TDKK 341,740.

Loan from Group companies has increased from 1,328.7 MDKK at 31 December 2017 to 1,641.1 MDKK at 31 December 2018. Short-term part of loan from Group companies amount to 16.5 MDKK at 31 December 2018 compared to 123.8 MDKK at 31 December 2017.

Special risks apart from generally occurring risks in industry

Currency risks

As a significant part of the company's debts are in foreign exchange, the company's result depends on the development in the USD and NOK exchange rate.

Outlook

The exchange rate of the USD and NOK exchange rates has significant impact on the company's result for 2019.

Statutory report on corporate governance

In 2018, the Xellia Group ApS Executive Board held one meeting, on which the main focus was on the company's financial situation. The meetings have all been held with representative from the company's finance department.

Xellia Group complies with the Companies Act, Accounting Act and other laws in all countries the Group operates. The Xellia Group has ethical guidelines in order to act responsibly beyond the law.

Income statement 1 January - 31 December

	Note	2018	2017
		TDKK	TDKK
Revenue		**0**	**98.456**
Cost of sales		0	-91.821
Gross profit		**0**	**6.635**
Administrative costs		-112	-8.066
Operating profit/loss		**-112**	**-1.431**
Financial income	1	16.101	174.568
Financial costs	2	-102.902	-54.803
Profit/loss before tax		**-86.913**	**118.334**
Tax on profit/loss for the year	3	19.123	-27.663
Net profit/loss for the year		**-67.790**	**90.671**

Proposed distribution of profit

Retained earnings	-67.790	90.671
	-67.790	**90.671**

Balance sheet 31 December

	Note	2018	2017
		TDKK	TDKK
Assets			
Investments in subsidiaries	4	1.980.032	1.980.032
Fixed asset investments		**1.980.032**	**1.980.032**
Total non-current assets		**1.980.032**	**1.980.032**
Receivables from group companies		47.465	123.075
Other receivables		0	36
Corporation tax		9.667	8.739
Receivables		**57.132**	**131.850**
Total current assets		**57.132**	**131.850**
Total assets		**2.037.164**	**2.111.882**

Balance sheet 31 December

	Note	2018	2017
		TDKK	TDKK
Equity and liabilities			
Share capital		100.150	100.150
Retained earnings		241.590	309.380
Equity	5	**341.740**	**409.530**
Provision for deferred tax	6	3.851	13.307
Total provisions		**3.851**	**13.307**
Payables to group companies		1.641.074	1.328.685
Total non-current liabilities	7	**1.641.074**	**1.328.685**
Short-term part of long-term debt	7	16.527	123.780
Trade payables		0	633
Payables to group companies		33.869	187.600
Other payables		103	48.347
Total current liabilities		**50.499**	**360.360**
Total liabilities		**1.691.573**	**1.689.045**
Total equity and liabilities		**2.037.164**	**2.111.882**
Staff	8		
Subsequent events	9		
Contingencies	10		
Related parties and ownership structure	11		

Statement of changes in equity

	Share capital	Retained earnings	Total
Equity at 1 January 2018	100.150	309.380	409.530
Net profit/loss for the year	0	-67.790	-67.790
Equity at 31 December 2018	**100.150**	**241.590**	**341.740**

	Share capital	Retained earnings	Total
Equity 1 January 2017	100.150	218.709	318.859
Net profit/loss for the year	0	90.671	90.671
Equity 31 December 2017	**100.150**	**309.380**	**409.530**

Notes

		2018	2017
		TDKK	TDKK
1	**Financial income**		
	Other financial income	51	4
	Foreign exchange adjustments	16.050	174.564
		16.101	**174.568**

		2018	2017
2	**Financial costs**		
	Interest to group companies	54.018	50.001
	Foreign exchange adjustments	48.884	4.802
		102.902	**54.803**

		2018	2017
3	**Tax on profit/loss for the year**		
	Current tax on profit / loss	-9.667	-8.739
	Change in deferred tax	-9.456	34.779
	Adjustments prior years	0	1.623
		-19.123	**27.663**

Notes

		2018	2017
		TDKK	TDKK
4	**Investments in subsidiaries**		
	Cost at 1 January 2018	1.980.032	1.980.032
	Additions for the year	0	0
	Cost at 31 December 2018	1.980.032	1.980.032
	Carrying amount at 31 December 2018	**1.980.032**	**1.980.032**

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
Xellia Pharmaceuticals ApS	Denmark	100%	1.004.265	-230.032
CFT Pharmaceuticals LLC,	USA	100%	106	-10

5 Equity

There have been no changes in the share capital during the last 5 years.

		2018	2017
6	**Provision for deferred tax**		
	Provision for deferred tax at 1 January 2018	13.307	-21.472
	Provision in year	-9.456	34.779
	Provision for deferred tax at 31 December 2018	**3.851**	**13.307**
	Currency exchange losses	3.851	13.664
	Provisions	0	-357
		3.851	**13.307**

Notes

7 Non-current liabilities

	Debt at 1 January 2018	Debt at 31 December 2018	Instalment next year	Debt outstanding after 5 years
Payables to group companies	1.328.685	1.641.074	16.527	1.478.171
	1.328.685	**1.641.074**	**16.527**	**1.478.171**

	2018	2017
	TDKK	TDKK
8 Staff		
Wages and Salaries	0	62.833
Pensions	0	7.925
Other social security expenses	0	455
	0	**71.213**

Wages and Salaries, pensions and other social security expenses are recognised in the following items:		
Cost of sales	0	71.213
	0	**71.213**
Average number of employees	0	70

According to the Danish Financial Statement Act section 98B (3), remuneration to Executive Board has not been disclosed.

9 Subsequent events

There has been no significant subsequent events after the balance sheet date.

10 Contingencies

The Company is jointly taxed with the Danish companies in the Novo Holdings A/S. The joint taxation also covers withholding taxes in the form of dividend tax, royality tax and interest tax. The Danish companies are jointly and individually liable for the joint taxation. Any subsequent adjustments to income taxes and withholding taxes may lead to a larger liability. The tax for the individual companies is allocated in full on the basis of the expected taxable income.

Notes

11 Related parties and ownership structure

Controlling interest

Xellia Group AS, Norway holds the majority of the share capital in the Company.
Otnortopco AS holds the majority of the share capital in Xellia Group AS, Norway.
New Xellia Group A/S holds the majority of the share capital in Otnortopco AS, Norway.
Xellia Holdco A/S holds the majority of the share capital in New Xellia Group A/S.
Novo Holdings A/S holds the majority of the share capital in Xellia Holdco A/S.
Novo Nordisk Foundation holds the majority of the share capital in Novo Holdings A/S.

Ownership structure

According to the company's register of shareholders, the following shareholder holds at least 5% of the votes or at least 5% of the share capital:

Xellia Group AS
Silurveien 2, N-0380 Oslo,
Norway

Accounting policies

The annual report of Xellia Group ApS for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied are consistent with those of last year.

The annual report for 2018 is presented in TDKK.

Basis of recognition and measurement
Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

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

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Revenue
Income from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Cost of sales
Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc., during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising, exhibitions and depreciation are recognised as distribution costs.

Accounting policies

Administrative costs
Administrative costs comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

Financial income and expenses
Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year
Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, 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

Investments
Investments in subsidiaries are recognised and measured in the Annual Report of the Parent Company at purchase price.

Declared dividend is included in the income statement.

The carrying amounts are reviewed on an annual basis to determine whether there is any indication of impairment. If so, the asset is written down to its lower recoverable amount. The recoverable amount of the asset is calculated as the higher of net selling price and value in use.

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 is impaired, an impairment loss for that individual asset is recognised.

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, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

Equity
Dividends
Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability when declared by the annual general meeting of shareholders.

Accounting policies

Income tax and deferred tax
Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

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

Other liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Foreign currency translation
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency transactions are considered cash flow hedges, the value adjustments are taken directly to equity.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates 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 latest financial statements is recognised in the income statement as financial income or financial expenses.

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

Fair value adjustments of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of recognised assets and liabilities are recognised in the income statement xx together with fair value adjustments of the hedged asset or liability.

Accounting policies

Fair value adjustments of derivative financial instruments designated as and qualifying for hedging of future cash flows are recognised in other receivables or other payables and in equity. If the future transaction results in recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or the liability, respectively. If the future transaction results in income or expenses, amounts previously recognised in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

As for derivative financial instruments that do not qualify for hedge accounting, fair value adjustments are recognised in the income statement on a current basis.

Cash flow statement

Pursuant to section 86 (4) of the Danish Financial Statements Act, the company has not prepared a cash flow statement. The financial statements of Xellia Group ApS are included in the cash flow statement of a higher group company.

Financial highlights

Definitions of financial ratios.

Gross margin ratio $$\frac{\text{Gross profit x 100}}{\text{Revenue}}$$

EBIT margin $$\frac{\text{Profit/loss before financials x 100}}{\text{Revenue}}$$

Solvency ratio $$\frac{\text{Equity at year-end x 100}}{\text{Total assets at year-end}}$$

Return on equity $$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$