Annual Report 2017

January 1 - December 31, 2017

xellia
PHARMACEUTICALS

New Xellia Group A/S

Reg. no. 35 23 52 99
Dalslandsgade 11, 2300 Copenhagen S

The Annual Report has been presented and adopted at the Annual General Meeting of the Company on 22/ 3 2018

Chairman Jakob Hans Johansen

Contents

Management's review

General information and principal activities of the Company
New Xellia Group A/S (the Company) was incorporated on May 2, 2013 and on July 17, 2013 New Xellia Group A/S purchased the shares in Otnortopco AS, Norway (together, the Group). The Group is a leading specialty pharmaceutical company, focusing on the anti-infective market, operating under the name Xellia Pharmaceuticals. The main activity of the Group is to develop, manufacture and market life-saving pharmaceutical drugs. The Group specializes in difficult to make fermented antibiotics and injectable finished products.

The activities of New Xellia Group A/S are to hold shares in the 100% owned subsidiary Ortnortopco AS and to provide management services to the group companies.

New Xellia Group A/S is a limited liability company domiciled in Denmark. The address of its registered office is Dalslandsgade 11, 2300 Copenhagen S.

Development in activities and financial position
For the year ended 31 December 2017, New Xellia Group A/S achieved a profit of 0.6 MUSD.

The (long-term) loans to group companies have increased from 305.3 MUSD at December 31, 2016 to 383.6 MUSD at December 31, 2017. The reason for this increase is primarily related to the financing of investments in the US subsidiary. New Xellia Group A/S's financing of this has been done through an increase payables to other group companies of 81.2 MUSD.

Treasury shares
The number of treasury shares is unchanged in 2017 771,832 with a value at 2.8 MUSD. The treasury shares make up 0.8% (2016: 0.8%) of the total share capital per December 31, 2017.

Post balance sheet events
No events have occurred after the balance sheet date which may materially affect the Company's financial position.

Income Statement

	Note	2017	2016
		TUSD	TUSD
Gross profit (loss)	2	356	211
Administrative costs		(1 086)	(874)
Operating profit (loss) / EBIT		(730)	(663)
Financial income	3	12 630	9 531
Financial expenses	4	(10 822)	(6 765)
Profit (loss) before income taxes		1 078	2 103
Income taxes	5	(504)	(650)
Profit (loss) for the year		**574**	**1 453**
Attributable to:			
Retained earnings		574	1 453
		574	1 453

Balance sheet

	Note	2017	2016
		TUSD	TUSD
ASSETS			
Investment in subsidiary		237 706	237 706
Loans to group companies	7	383 585	305 321
Total non-current assets		**621 291**	**543 027**
Receivables from group companies		30 779	18 508
Other receivables and prepayments		-	148
Receivables		30 779	18 656
Cash at bank		5 334	2
Total current assets		**36 113**	**18 658**
Total assets		**657 404**	**561 685**
EQUITY AND LIABILITES			
Share capital	6	17 903	17 884
Retained earnings		248 799	245 377
Total equity		**266 702**	**263 261**
Deferred taxes		590	1 827
Total provisions		**590**	**1 827**
Loans from group companies	7	185 200	185 200
Loans		83 000	75 000
Total non-current liabilities		268 200	260 200
Payables to group companies		115 570	34 328
Bank debt		-	61
Other liabilities		4 709	2 148
Income tax payable		1 633	(140)
Total current liabilities		121 912	36 397
Total liabilities		**390 112**	**296 597**
Total equity and liabilities		**657 404**	**561 685**
Contingent liabilities	8		

Notes

1 Accounting policies

Basis of preparation
The Financial statements of New Xellia Group A/S for the period January 1, 2017 – December 31 2017, have been prepared in accordance with Danish Financial Statements Act applying to small companies in reporting class B and presented in TUSD.

The accounting policies are unchanged from last year.

In general
The Financial statements have been prepared under the historical cost method. All expenses incurred to achieve the earnings for the year are recognized in the Income Statement.

Assets are recognized in the Balance Sheet when it is probable that the company will receive future economic advantages and the assets value can be measured reliably.

Liabilities are recognized in the Balance Sheet when it is probable that future economical disadvantages will accrue to the company and the value of the liability can be measured reliably.

Consolidation
In accordance with the Danish Financial Statements Act § 112, 1, no. 2 New Xellia Group A/S has not prepared consolidated financial statements. Reference is made to the consolidated financial statements of Novo Nordisk Foundation, registered office: Tuborg Havnevej 19, 2900 Hellerup, Denmark.

Xellia Holdco A/S owns 98% of the shares in New Xellia Group A/S and Xellia Holdco A/S is 100% owned by Novo Holdings A/S, which is controlled by the Novo Nordisk Foundation.

Foreign currency translation
Financial items for the company are measured in the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of company is US dollar (USD).

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the transaction date. Exchange differences arising between the exchange rate at the transaction date and the exchange rate at the date of actual payment are recognized in the income statement under financial income or financial expenses.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates at the balance sheet date. The following cross rate has been applied USD/DKK, 0.159 (2016: 0.141). The difference between the exchange rate prevailing at the balance sheet date and the exchange rate prevailing at the date when the receivable or payable arose or the exchange rate applied in the most recent financial statements is recognized in the income statement under financial income or financial expenses.

Gross profit (Revenue and Cost of sales)
In accordance with the Danish Financial Statements Act § 32, Revenue and Cost of sales are presented net in the income statement line item named "Gross profit (loss)". Revenue covers sales of management services for the year. Sales are recognized when the service has been rendered, provided that the revenue can be measured on a reliable basis and is expected to be received. Cost of sales comprises the cost of services sold. Cost includes direct labor and operating costs.

Administrative costs
Administrative costs comprise expenses incurred for the management and administration of the company. This includes costs relating to the company's management and related professional fees.

Share-based payment
Equity settled share based payments schemes are recognized at the fair value of the employee services received in exchange for the grant of warrants computed by using the value of the granted warrants. The fair value of the granted warrants is calculated using a valuation model. The fair value of warrants on the grant date is recognized as an employee cost over the period in which the warrants are vested to the extent that the employee does not pay the full fair value of the granted warrants. In measuring the fair value, account is taken of the number of employees expected to gain entitlement to the warrants as well as the number of warrants the employees are expected to gain. This estimate is adjusted at the end of each period such that only the number of warrants to which employees are entitled, or expected to be entitled, is recognized. The value of the scheme is offset against equity attributable to shareholders of the company. Adjustments related to prior years are included in the Income statement in the year of adjustment.

Warrants that are subscribed to employees at fair value and paid in full are recognized in equity. When the warrants are exercised the Group will issue new shares in the company.

Dividends from subsidiaries
Dividends from subsidiaries are recognized as income in the Income Statement of the company in the year in which the dividend is declared.

Financial income and expenses
Financial income and expenses comprise interest income and expense, gains and losses on payables and transactions denominated in foreign currencies.

Financial assets and liabilities
Financial assets and liabilities are non-derivatives with fixed or determinable payments that are not listed on an active market.

1 Accounting policies (continued)

Taxes
Corporation taxes, comprising the current taxes liability, change in deferred taxes for the year, and possible adjustments relating to previous years.

The current income taxes charge is calculated on the basis of the tax laws at the balance sheet date in Denmark. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes are measured using the balance sheet liability method and comprises all temporary differences between the accounting and tax values of assets and liabilities. The tax value of tax-loss carry-forwards is included in the calculation of deferred taxes to the extent that the tax losses can be expected to be utilized in the future. Deferred taxes is measured according to current tax rules and at the tax rate expected to be in force on elimination of the temporary differences. Changes in deferred taxes due to tax rate changes are recognized in the income statement.

Investment in subsidiary
Investment in subsidiary is measured at cost. If the cost exceeds the recoverable amount, it is written down. The carrying amount of the investment is annually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Loans to group companies
Loans to group companies are recorded in the balance sheet at the lower of amortized cost and net realizable value, which normally corresponds to nominal value.

Loans from group companies
Loans from group companies are recognized initially at fair value. Loans are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Loans from group companies are classified as current liability unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Income tax receivables/payables
Income tax receivables and payables are measured at amortized cost.

Other liabilities
Other liabilities are measured at amortized cost.

2 Employee benefit expenses

	2017	2016
Number of employees	**20**	**13**

3 Financial income

	2017	2016
	TUSD	TUSD
Interest income from group companies	12 568	8 593
Foreign currency gains	-	938
Other interest income	62	-
Total financial income	**12 630**	**9 531**

4 Financial expenses

	2017	2016
	TUSD	TUSD
Interest expenses to group companies	(5 633)	(5 649)
Foreign currency losses	(3 195)	-
Other interest expenses	(1 973)	(945)
Other financial expenses	(21)	(171)
Total financial expenses	**(10 822)**	**(6 765)**

5 Income taxes

	2017	2016
	TUSD	TUSD
Current tax on profit for the year	(1 633)	140
Change in deferred tax	1 237	(736)
Exchange rate impact on change in deferred tax	241	-
Adjustments prior years	(349)	(54)
Total income taxes	**(504)**	**(650)**

6 Development in share capital

	2017	2016	2015	2014	2013
Number of shares in the beginning of the year	102 418 946	102 166 292	101 795 214	101 556 875	0
Establishment	-	-	-	-	500 000
Additions	123 076	252 654	371 078	238 339	101 056 875
Number of shares in the end of the year	**102 542 022**	**102 418 946**	**102 166 292**	**101 795 214**	**101 556 875**

7 Loans

Maturities	2017 TUSD 0 - 1 year	1 < 5 years	> 5 years	Carrying total
Loans to group companies	0	383 585	0	383 585
Financial asset	**0**	**383 585**	**0**	**383 585**
Loans from group companies	0	185 200	0	185 200
Loans	0	83 000	0	83 000
Financial liability	**0**	**268 200**	**0**	**268 200**

Maturities	2016 TUSD 0 - 1 year	1 < 5 years	> 5 years	Carrying total
Loans to group companies	0	305 321	0	305 321
Financial asset	**0**	**305 321**	**0**	**305 321**
Loans from group companies	0	185 200	0	185 200
Loans	0	75 000	0	75 000
Financial liability	**0**	**260 200**	**0**	**260 200**

8 Contingent liabilities

The company is jointly taxed, together with other Danish entities controlled by Novo Holdings A/S.
Under the Danish tax regime all Danish entities are jointly and severally liable to the Danish tax Group's tax payments.

Management's statement

The Executive Management and Board of Directors have today considered and adopted the Annual Report of New Xellia Group A/S for the financial year January 1, 2017 – December 31, 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements of the company give a true and fair view of the financial position at December 31, 2017 of the company and of the results of company operations in the period January 1, 2017 – December 31, 2017.

In our opinion, Management's Review includes the required description and information about significant changes in the year in accordance with Danish Financial Statements Act.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, February 23, 2018

Executive Management

Carl-Åke Carlsson
President and CEO

Board of Directors

Steen Riisgaard Chairman	Benny D. Loft	Julie McHugh
Andreas Rummelt	Per Valstorp	Henrik Kjær Hansen

Independent Auditor's Report

To the Shareholders of New Xellia Group A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017, and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of New Xellia Group A/S for the financial year 1 January - 31 December 2017, 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, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

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

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

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

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

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

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

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

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

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

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

Copenhagen, February 23, 2018
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Kim Füchsel
State Authorised Public Accountant
mne9291

Conrad Mattrup Lundsgaard
State Authorised Public Accountant
mne34529