

# Glycom Manufacturing A/S


Limfjordsvej 4, 6715 Esbjerg N

CVR no. 37 20 77 13

## Annual report 2017

Approved at the Company's annual general meeting on 19 April 2018

Chairman:

  
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METTE TRANBØHUS, ATTORNEY





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## 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 Manufacturing A/S for the financial year 1 January - 31 December 2017.

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

In our opinion, the 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.

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

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

Hørsholm, 19 April 2018  
Executive Board:



Jesper Mørk

Board of Directors:

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John Brett Theroux  
Chairman



Thomas T. Kabel



Jesper Mørk

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Odd Erik Hansen



Niels Axel Stockholm Banke

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Kjeld R. Kjeldsen



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Jesper Mork

Board of Directors:

  
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John Brett Theroux  
Chairman

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Board of Directors:

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Niels Axel Stockholm Banke

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## Independent auditor's report

To the shareholders of Glycom Manufacturing A/S

### Opinion

We have audited the financial statements of Glycom Manufacturing A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

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.

### 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 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 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 rules and requirements.

### 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 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:

- ▶ 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.

## Independent auditor's report

- ▶ 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 note 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.

### 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 19 April 2018

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Torben Bender

State Authorised Public Accountant

MNE no.: mne21332



Søren Gammelgaard

State Authorised Public Accountant

MNE no.: mne31403





## Management's review

### Company details

Name Glycom Manufacturing A/S  
Address, Postal code, City Limfjordsvej 4, 6715 Esbjerg N

CVR no. 37 20 77 13  
Established 5 November 2015  
Financial year 1 January - 31 December

Board of Directors John Brett Theroux, Chairman  
Thomas T. Kabel  
Jesper Mørk  
Odd Erik Hansen  
Niels Axel Stockholm Banke  
Kjeld R. Kjeldsen

Executive Board Jesper Mørk

Auditors Ernst & Young Godkendt Revisionspartnerselskab  
Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg,  
Denmark



## Management's review

### Business review

Glycom Manufacturing in 2017 saw the completion of the construction and the startup of production at its facility. This has been a very large and complex task, and dozens of startup challenges have been uncovered and overcome and yet the project has been executed in less than 2 years.

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

This achievement has not been seamless. The capex project was over budget and the start of production was 2-3 months later than our internal schedule, which required additional financing from Glycom A/S.

With an operational plant, we have entered into the supply phase of our Nestle relationship. Procurement and operations are the focus of the interactions and relationship. Nestle's marketing organization is rolling out their HMO formulas in multiple countries. Glycom Manufacturing has enabled the Glycom Group's relationship with Nestle to develop from being an R&D collaborator to an industrial supplier.

Beyond the supply of HMOs for the infant formula use, Glycom Manufacturing also have a pipeline opportunity to supply HMOs for adult applications within the Glycom Group.

### Environmental

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

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

### Financial review

Glycom Manufacturing incurred an operating loss of 46,9 MDKK and a net loss of 40,6 MDKK in 2017, as it completed the final year of rebuilding the plant for HMO production.

Modest revenue was realized from production with the factory becoming operational in the fourth quarter. Glycom Manufacturing A/S began to invoice its first products in November and December. With the factory now producing, the single biggest risk factor for the company has been greatly diminished.

Overall, the development in capacity costs were driven mainly by the expansion of the team over the year in anticipation of the production start. The team was expanded to 74 people at year end. Significant investments in the factory were once again made during the year.

Additional financing was received during the year from Glycom A/S to fund the capex cost towards the finalisation of the production facilities and cover the short-fall due to the delayed production start. Funding was received partly as capital increase amounting to 216.5 MDKK and short-term financing of 67.6 MDKK. The cash balance at the end of the year was 9 MDKK and equity was 355 MDKK.

With the plant operational, Glycom expects positive earnings in 2018.



## Management's review

### Events after the balance sheet date

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

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

Reference is made to note 2 for more details.



## Financial statements 1 January - 31 December

### Income statement

Note	DKK'000	2017 12 months	2015/16 14 months
	Gross margin	-19,997	-3,193
3	Staff costs	-14,211	-2,385
	Amortisation/depreciation	-12,711	-981
	Other operating expenses	0	-100
	Profit/loss before net financials	-46,919	-6,659
4	Financial income	0	21
5	Financial expenses	-5,133	-1,052
	Profit/loss before tax	-52,052	-7,690
6	Tax for the year	11,430	1,692
	Profit/loss for the year	-40,622	-5,998
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-40,622	-5,998
		-40,622	-5,998



Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2015/16
	ASSETS		
	Non-current assets		
7	Intangible assets		
	Acquired intangible assets	886	120
		886	120
8	Property, plant and equipment		
	Land and buildings	190,725	19,019
	Plant and machinery	458,812	0
	Fixtures and fittings, other plant and equipment	6,924	0
	Property, plant and equipment under construction	0	391,348
		656,461	410,367
	Financial assets		
	Deferred tax assets	7,053	481
		7,053	481
	Total non-current assets	664,400	410,968
	Current assets		
	Inventories		
	Raw materials and consumables	4,536	258
	Finished goods and goods for resale	2,336	0
		6,872	258
	Receivables		
	Receivables from group enterprises	0	3,439
	Receivables from associates	4,438	0
	Corporation tax receivable	4,857	0
	Other receivables	3,937	9,392
	Prepayments	0	533
		13,232	13,364
	Cash	8,623	11,852
	Total current assets	28,727	25,474
	TOTAL ASSETS	693,127	436,442



## Financial statements 1 January - 31 December

### Balance sheet

Note	DKK'000	2017	2015/16
	<b>EQUITY AND LIABILITIES</b>		
	Equity		
9	Share capital	111,516	74,350
	Retained earnings	243,462	104,777
	Total equity	354,978	179,127
10	Non-current liabilities		
	Mortgage debt	81,967	87,939
	Total non-current liabilities	81,967	87,939
	Current liabilities		
	Mortgage debt	6,042	5,997
	Bank debt	142,623	117,851
	Trade payables	32,110	39,097
	Payables to group enterprises	67,636	0
	Other payables	7,771	6,431
	Total current liabilities	256,182	169,376
	Total liabilities	338,149	257,315
	<b>TOTAL EQUITY AND LIABILITIES</b>	693,127	436,442

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



## Financial statements 1 January - 31 December

### Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2017	74,350	104,777	179,127
Capital increase	37,166	179,307	216,473
Transfer through appropriation of loss	0	-40,622	-40,622
Equity at 31 December 2017	<u>111,516</u>	<u>243,462</u>	<u>354,978</u>

## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies

The annual report of Glycom Manufacturing A/S for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

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

#### Reporting currency

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

### Income statement

#### Revenue

Income from the sale of goods for resale and finished goods, is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

#### Gross margin

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

#### Other operating income and operating expenses

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

#### Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, administration, premises, 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.

## Financial statements 1 January - 31 December

## Notes to the financial statements

## 1 Accounting policies (continued)

## Amortisation/depreciation

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

The cost net of the expected residual value for software is amortised over the expected useful life.

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:

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

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The entity is jointly taxed with the parent company. The total Danish income tax charge is allocated between profit/loss-making Danish entities in proportion to their taxable income (full absorption).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.



## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Balance sheet

##### Intangible assets

Other intangible assets include other acquired intangible rights, including software licences & computer systems.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

##### Property, plant and equipment

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

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

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

##### Impairment of non-current assets

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

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

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

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

##### Inventories

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

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

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

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

## Financial statements 1 January - 31 December

## Notes to the financial statements

## 1 Accounting policies (continued)

## Receivables

Receivables are measured at amortised cost.

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

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

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

## Prepayments

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

## Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

## 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.

## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 2 Events after the balance sheet date

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

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

DKK'000	2017 12 months	2015/16 14 months
<b>3 Staff costs</b>		
Wages/salaries	46,901	25,625
Other social security costs	440	220
Other staff costs	-33,130	-23,460
	<u>14,211</u>	<u>2,385</u>
 Average number of full-time employees	 <u>73</u>	 <u>47</u>
 The other staff costs represent costs capitalised as property, plant and equipment.		
<b>4 Financial income</b>		
Interest receivable, group entities	0	21
	<u>0</u>	<u>21</u>
<b>5 Financial expenses</b>		
Interest expenses, group entities	585	0
Other interest expenses	11,532	5,621
Exchange losses	529	23
Cost capitalised as property, plant and equipment	-7,513	-4,592
	<u>5,133</u>	<u>1,052</u>
<b>6 Tax for the year</b>		
Estimated tax charge for the year	-2,845	0
Deferred tax adjustments in the year	-6,573	-481
Refund in joint taxation	-2,012	-1,211
	<u>-11,430</u>	<u>-1,692</u>
<b>7 Intangible assets</b>		Acquired intangible assets
DKK'000		
Cost at 1 January 2017		120
Additions		834
Cost at 31 December 2017		<u>954</u>
Impairment losses and amortisation at 1 January 2017		0
Amortisation for the year		68
Impairment losses and amortisation at 31 December 2017		<u>68</u>
Carrying amount at 31 December 2017		<u>886</u>



## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 8 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, other plant and equipment	Property, plant and equipment under construction	Total
Cost at 1 January 2017	20,000	0	0	391,348	411,348
Additions	58,192	197,276	3,267	0	258,735
Transferred	116,996	270,243	4,109	-391,348	0
Cost at 31 December 2017	195,188	467,519	7,376	0	670,083
Revaluations at 1 January 2017	0	0	0	0	0
Revaluations at 31 December 2017	0	0	0	0	0
Impairment losses and depreciation at 1 January 2017	981	0	0	0	981
Depreciation	3,482	8,707	452	0	12,641
Impairment losses and depreciation at 31 December 2017	4,463	8,707	452	0	13,622
Carrying amount at 31 December 2017	190,725	458,812	6,924	0	656,461
Recognised interest	3,361	9,958	0	0	

#### 9 Share capital

Analysis of changes in the share capital over the past 2 years:

DKK'000	2017	2015/16
Opening balance	74,350	500
Capital increase	37,166	73,850
	111,516	74,350

#### 10 Non-current liabilities

DKK'000	Total debt at 31/12 2017	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	88,009	6,042	81,967	61,317
	88,009	6,042	81,967	61,317

#### 11 Contractual obligations and contingencies, etc.

##### Other financial obligations

The Company has liabilities under operating leases for IT equipment and trucks totalling 814 tDKK, with remaining contract terms of 0-7 years.





## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 12 Collateral

As security for the Company's mortgage debt, the Company has provided security or other collateral in fixed assets for a total amount of 88 mDKK. The total carrying amount of these assets is 191 mDKK.

The Company has secured bank debt of 143 mDKK with the pledge of 100% of its shares and a joint and several guarantee by the parent company Glycom A/S (selvskyldnerkaution).

#### 13 Related parties

##### Information about consolidated financial statements

<u>Parent</u>	<u>Domicile</u>	<u>Requisitioning of the parent company's consolidated financial statements</u>
Glycom A/S	2970 Hørsholm, Denmark	<a href="http://www.cvr.dk">www.cvr.dk</a>