Glycom Manufacturing A/S

Limfjordsvej 4, Esbjerg N

CVR no. 37 20 77 13

Annual report 2015/16

(As of the establishment of the Company 5 November 2015 - 31 December 2016)

Approved at the annual general meeting of shareholders on 27 April 2017

Chairman:

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Chairman

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 Manufacturing A/S for the financial year as of the establishment of the Company 5 November 2015 - 31 December 2016.

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 2016 and of the results of the Company's operations for the financial year as of the establishment of the Company 5 November 2015 - 31 December 2016.

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.

Horsholm, 12 April 2017
Executive Board:

Jesper Mork

Board of Directors:

John Brett Theroux Chairman	Thomas T. Kabel	Jesper Mork
Odd Erik Hansen	Niels Axel Stockholm Banke	Kjeld R. Kjeldsen

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 as of the establishment of the Company 5 November 2015 - 31 December 2016, which comprise an 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 2016 and of the results of the Company's operations for the financial year as of the establishment of the company 5 November 2015 - 31 December 2016 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 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 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.

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 conclusion is 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.

Independent auditor's report

Statement on 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 our procedures, 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, 12 April 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender
State Authorised Public Accountant

Søren Gammelgaard
State Authorised Public Accountant

Management's review

Company details

Name	Glycom Manufacturing A/S
Address, Postal code, City	Limfjordsvej 4, Esbjerg N
CVR no.	37 20 77 13
Established	5 November 2015
Financial year	5 November 2015 - 31 December 2016
Board of Directors	John Brett Theroux, Chairman Thomas T. Kabel Jesper Mork Odd Erik Hansen Niels Axel Stockholm Banke Kjeld R. Kjeldsen
Executive Board	Jesper Mork
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Management commentary

Business review

The Company's principal activity is to produce and sell Human Milk Oligosaccharides (HMO's) to the food and medical food and dietary supplement industries.

Financial review

2016 developments

In 2016, Glycom Manufacturing began the planned execution of establishing its HMO production facilities.

In January 2016, Glycom Manufacturing acquired a fermentation-based production facility in Esbjerg, Denmark and secured capital resources to adapt it to large scale HMO production. A large mobilization project to prepare the facility for production began immediately after the acquisition and has continued through the year.

During the autumn successful fermentation batches on the existing equipment were run, and at year end the material part of the building construction works were complete and the most of the large process equipment packages had been delivered to the site. With nearly all equipment now in place and plant commissioning started, production of HMOs is set to commence in the second half of 2017.

In December 2016, Nestlé and Glycom signed an amendment to the existing long-term supply agreement, increasing and bringing forward the total committed volume, ensuring utilization of the production capacity under construction.

Financial review

Financial position and capital resources

Glycom Manufacturing incurred an operating loss of MDKK 7 and net loss of MDKK 6 in 2016. The cash position at the end of 2016 was MDKK 12, with equity standing at MDKK 179.

In terms of capital resources, Glycom Manufacturing A/S received a MEUR 25 equity injection from Glycom A/S and secured mortgage facilities of MEUR 14 for the purposes of acquiring the production assets at the beginning of the year. In addition, a Loan Facility of MEUR 19 was secured of which MEUR 16 was used at year end. Going forward, capital resources from Glycom A/S will be made available to fund the additional investments and operating expenses until revenue from production is received. Capital resources at year end 2017 are expected to be limited but sufficient.

Events after the balance sheet date

End of February 2017 the parent company injected MEUR 12.5 as equity increase in order to fund the continued build-up of the production facilities at the factory in Esbjerg.

Reference is made to note 2 for more details.

Financial statements for the period 5 November 2015 - 31 December 2016

Income statement

Note	DKK'000	2015/16 14 months
	Gross margin	-3,177
3	Staff costs	-2,400
	Amortisation/depreciation	-981
	Other operating expenses	-100
	Profit/loss before net financials	-6,658
4	Financial income	301
5	Financial expenses	-1,333
	Profit/loss before tax	-7,690
6	Tax for the year	1,692
	Profit/loss for the year	-5,998

Recommended appropriation of profit/loss	
Retained earnings/accumulated loss	-5,998
	-5,998

Financial statements for the period 5 November 2015 - 31 December 2016

Balance sheet

Note	DKK 000	2015/16
	ASSETS	
	Non-current assets	
7	Property, plant and equipment	
	Land and buildings	19,019
	Property, plant and equipment under construction	391,468
		410,487
	Financial assets	
	Deferred tax assets	481
		481
	Total non-current assets	410,968
	Current assets	
	Inventories	
	Raw materials and consumables	258
		258
	Receivables	
	Receivables from group enterprises	3,439
	Other receivables	9,392
	Prepayments	533
		13,364
	Cash	11,852
	Total Current assets	25,474
	TOTAL ASSETS	436,442

Financial statements for the period 5 November 2015 - 31 December 2016

Balance sheet

Note	DKK'000	2015/16
	EQUITY AND LIABILITIES	
	Equity	
8	Share capital	74,350
	Retained earnings	104,777
	Total equity	179,127
9	Non-current liabilities	
	Mortgage debt	87,939
	Total non-current liabilities	87,939
	Current liabilities	
	Mortgage debt	5,997
	Bank debt	117,851
	Trade payables	39,097
	Other payables	6,431
	Total current liabilities	169,376
	Total liabilities	257,315
	TOTAL EQUITY AND LIABILITIES	436,442

1 Accounting policies
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Financial statements for the period 5 November 2015 - 31 December 2016

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 5 November 2015	0	0	0
Capital increase	73,850	110,775	184,625
Transfer, see "Appropriation of loss"	0	-5,998	-5,998
Cash payments concerning formation of enterprise	500	0	500
Equity at 31 December 2016	74,350	104,777	179,127

Financial statements for the period 5 November 2015 - 31 December 2016

Notes to the financial statements

1 Accounting policies

The annual report of Glycom Manufacturing A/S for 2015/16 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.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are reflected in the consolidated cash flow statement for the higher-ranking parent company Glycom A/S.

Reporting currency

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

Income statement

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.

Depreciation

The item comprises depreciation of property, plant and equipment.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Buildings	10-20 years

Land is not depreciated.

Financial statements for the period 5 November 2015 - 31 December 2016

Notes to the financial statements

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

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.

Balance sheet

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.

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.

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.

Financial statements for the period 5 November 2015 - 31 December 2016

Notes to the financial statements

1 Accounting policies (continued)

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.

2 Events after the balance sheet date

End of February 2017 the parent company injected MEUR 12.5 as equity increase in order to fund the continued build-up of the production facilities at the factory in Esbjerg.

Financial statements for the period 5 November 2015 - 31 December 2016

Notes to the financial statements

3 **Staff costs**

Wages/salaries	25,640
Other social security costs	220
Other staff costs	-23,460
	2,400
Average number of full-time employees	47

The other staff costs represent costs capitalised as property, plant and equipment under construction.

4 **Financial income**

Interest receivable, group entities	20
Exchange gain	281
	301

5 **Financial expenses**

Other interest expenses	5,621
Exchange losses	304
Other financial expenses	-4,592
	1,333

Other financial expenses represent costs capitalised as property, plant and equipment under construction.

6 **Tax for the year**

Deferred tax adjustments in the year	-481
Refund in joint taxation	-1,211
	-1,692

7 **Property, plant and equipment**

DKK 000	Land and buildings	Property, plant and equipment under construction	Total
Additions	20,000	391,668	411,668
Disposals	0	-200	-200
Cost at 31 December 2016	20,000	391,468	411,468
Value adjustments at 5 November 2015	0	0	0
Value adjustments at 31 December 2016	0	0	0
Depreciation	981	0	981
Impairment losses and depreciation at 31 December 2016	981	0	981
Carrying amount at 31 December 2016	19,019	391,468	410,487

Financial statements for the period 5 November 2015 - 31 December 2016

Notes to the financial statements

8 Share capital

Changes in the share capital in the past year:

DKK'000	2015/16
Establishment	74,350
	74,350

9 Non-current liabilities

DKK'000	Total debt at 31/12 2016	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	93,936	5,997	87,939	63,497
	93,936	5,997	87,939	63,497

10 Contractual obligations and contingencies, etc.

Contingent liabilities

Other contingent liabilities

The Company is jointly taxed with its parent, Glycom A/S, which acts as management company, and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2016 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment.

Other financial obligations

The Company has liabilities under operating leases for IT equipment, totalling 40 tDKK, with remaining contract terms of 5 years.

11 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 98 mDKK. The total carrying amount of these assets is 82 mDKK.

The Company has secured bank debt of 118 mDKK with the pledge of 100% of its shares and a joint and several guarantee by the parent company Glycom A/S (selvskyldnerkaution).

12 Related parties

Information about consolidated financial statements

Parent	Domicile
Glycom A/S	2970 Horsholm