

Glycom Manufacturing A/S

Limfjordsvej 4, 6715 Esbjerg N

CVR no. 37 20 77 13

Annual Report 2019

Approved at the Company's annual general meeting on 27 APRIL 2020

Chairman of the meeting, Mette Trandbohus:



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Statement by the Board of Directors and the Executive Management

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 2019.

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 2019 and of the results of the Company's operations and of the cash flows for the financial year 1 January - 31 December 2019.

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 financial position.

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

Esbjerg, 7 February 2020
Executive Management:



Jesper Mørk

Board of Directors:



Odd Erik Hansen
Chairman



Carsten Gram Andersen



Jesper Mørk



Niels Axel Stockholm Banke



Kjeld Raunkjær Kjelsen

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 2019, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement 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 2019 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 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 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 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.

Independent auditor's report

- ▶ 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 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.

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.

Esbjerg, 7 February 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Torben Bender
State Authorized Public Accountant
mne21332



Søren Jensen
State Authorized Public Accountant
mne32733

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	Odd Erik Hansen, Chairman Carsten Gram Andersen Jesper Mørk Kjeld Raunkjær Kjeldsen Niels Axel Stockholm Banke
Executive Management	Jesper Mørk
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Dirch Passers Allé 36, Postboks 250, 2000 Frederiksberg, Denmark

Management's review

Financial highlights for the Company

DKK'000	2019	2018	2017	2016
Key figures				
Revenue	348.190	246.243	5.010	-
Gross profit/loss	230.351	126.690	(19.998)	(3.193)
Earnings before interest, tax, depreciation and amortization (EBITDA)	161.918	62.756	(59.629)	(7.640)
Profit before net financials	107.135	11.064	(47.172)	(6.659)
Net financials	(14.885)	(19.746)	(5.133)	(1.031)
Profit/loss for the year	72.741	(6.158)	(40.622)	(5.998)

Balance sheet

Non-current assets	597.491	625.326	664.400	410.968
Current assets	293.318	75.225	28.727	25.474
Total Assets	890.809	700.551	693.127	436.442
Share capital	111.516	111.516	111.516	74.350
Total equity	440.169	367.428	354.978	179.127
Non-current liabilities	292.774	176.332	81.967	87.939
Current liabilities	157.865	156.791	256.182	169.376

Financial ratios

Return on assets	12,0%	1,6%	-6,8%	-1,5%
Equity ratio	49,4%	52,4%	51,2%	41,0%

Average number of employees	91	85	73	47
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The key figures for 2016 cover the period from founding 5 November 2015 - 31 December 2016

Financial ratios are calculated in accordance with the Danish Finance Society's recommendations on the calculation of financial ratios. For terms and definitions, please see the accounting policies.

Management's review

Main activities of the company

Glycom Manufacturing A/S is part of the Glycom Group.

Glycom is dedicated to the scientific, clinical and commercial development of Human Milk Oligosaccharides (HMOs) for a broad range of health applications. Glycom is the world's leading HMO supplier and the only fully integrated HMO player with its own product development, preclinical and clinical development, regulatory team and large-scale production.

We have built a competent and multicultural organization with ~140 dedicated employees from more than 18 countries covering around 20 different professional disciplines. The strength of our team lies in deep professional expertise and the diversity of our employees.

In everything we do, we strive to do the Right Things Right. This means taking responsibility and keeping our commitments. We rigorously focus on details to ensure that we do it right. In teams. With the right people.

Our headquarter is in Hørsholm, Denmark – north of Copenhagen – and our large-scale manufacturing plant is in Esbjerg, Denmark. The production of HMOs and supply hereof to the customers of the Glycom group are the main activities of the company.

Business review

2019 was an exciting year for Glycom Manufacturing, as we progressed well on all strategic parameters, not least the maturing of our production facility in Esbjerg, reaching higher than planned output, while achieving the expected production cost reductions a maturing organization can strive for. Product quality met or exceeded all applicable quality standards, and during the external audits, no major findings were recorded by the external agencies.

All of our operational targets were achieved in 2019. Our production set new output records and at the same time 4 new HMOs were successfully scaled up at the plant. Significant productivity and cost gains were achieved representing significant breakthroughs in technology and operations combined with the ability to take advantage of scale economies at the plant. That plant in Esbjerg has quickly gained a reputation as the industry standard. Mid-year a project to double the capacity of the Esbjerg plant was started, further solidifying Glycom's leadership position. The full Glycom team across all functions has contributed to a remarkable year.

Having a strong safety culture is key for the company. This year we had two LTI's (Lost Time Incidents), which is unfortunate, and this does not live up to our ambition of delivering a safe working environment with no LTIs. The manufacturing team is committed to improve our safety awareness culture, and to improving our performance on incidents and LTI's.

During late 2019, we embarked on expanding the production facility to more than double capacity during the coming year.

Financial review

Revenues grew by 41% in 2019 to DKK 348,2 million, from DKK 246,2 million in 2018. Gross profit increased by 82% to DKK 230,4 million, up from DKK 126,7 million in 2018. Net profit was DKK 72,7 million, compared to the net loss in 2018 of DKK 6,2 million.

Revenue for the year was primarily generated from sales of products for infant formula of DKK 341,9 million.

Cash (excluding credit lines) at the end of the year were DKK 1,6 million and equity was DKK 440,2 million.

Investment in expansion of capacity continues. By mid-2020, the project to double the capacity in Esbjerg is expected to be online, allowing us to deliver HMOs to new customers in the infant formula market. Continued productivity gains and improvements are expected to contribute to the positive development in the company's financials also going forward. Scale economics are expected to continue to contribute to the financials across production overhead and other fixed costs.

Resultingly, the company expects continued positive net income development in 2020.

Knowledge resources

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

Management's review

Glycom Manufacturing's production team consists of skilled operators, technicians, engineers and other highly skilled employees, which are all key to the running and continuously optimizing the production processes with high quality output. Across the production departments, employee surveys are regularly held to ensure a high level of employee satisfaction. At the latest employee satisfaction survey, a high employee satisfaction score was observed.

Special risks

Operational risks

Glycom Manufacturing's operational risk is mainly related to the ability to deliver all HMOs in spec and on time, every time. Significant investments are made in education, equipment and testing as well as a in continuous preventive maintenance in order to pre-empt any issues. In order to resolve any potential issue strategic spare parts are kept in stock and service agreements are in place for key operations and equipment.

Financial risks

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

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

Impact on the external environment

In the second full year of operation, Glycom Manufacturing A/S has made further improvements within the environmental area. All the terms contained in the approvals related to Glycom Manufacturing A/S have been maintained during 2019. The plant's waste-sorting has improved significantly with several waste fractions for recycling. Air pollution control has been maintained with positive outcome and significant reduction in the use antisolvents pr. kg of HMO produced have been achieved during the year. Focus on improvement opportunities for the plant's water and energy consumption resulted in reduced consumption per kg of produced HMO. Projects related to recycling of water continue to have our focus.

Further details have been addressed in The Glycom Group's Sustainability Report 2019, which can be found on our website (www.glycom.com/about/sustainability/).

Research and development activities

Within the Glycom Group, research and development activities are carried out in the parent company Glycom A/S, in close collaboration with the team in Glycom Manufacturing A/S. As contract manufacturer for the parent company, the future revenue of the Company is dependent on the result of such research and development. In that context a short summary of the Groups R&D efforts is highlighted in the following.

Next generation HMO developments

Our expanded second-generation pipeline, which consist of 6 new HMOs has progressed significantly. Tech transfer from the lab to production in Esbjerg was in all material aspects completed as of December 2019 for the first 4 HMOs in our second generation. First commercial deliveries expected in 1H 2020. The next 2 HMOs in this second generation are following closely behind.

Looking ahead, the Glycom R&D team has already identified pathways to HMOs accounting for most of the HMO content in Human Milk. In the coming years we will continue to commercialize additional HMOs beyond our second-generation platform.

Non-infant HMO application development

Over the last 5 years Glycom has invested in clinical and preclinical studies to investigate the potential value of HMOs for use in ages above infants. The results of an extensive preclinical program have demonstrated that HMOs have a substantial opportunity to contribute to health in many new areas. Select application areas have been prioritized and Glycom's clinical trials in our first therapeutic area for HMOs, Irritable Bowel Syndrome, has shown substantial improvements for the patients. Towards the end of 2019, we have advanced our commercialization of Holigos® IBS Restore and Holigos® Maintain in the US from a soft launch to a fuller on-line launch, targeting both Health Care Professionals and consumers directly, through our own on-line platform at www.holigos.com and through www.amazon.com.

Financial statements 1 January - 31 December

Income statement

DKK'000	Note	2019	2018
Revenue		348.190	246.243
Cost of goods sold		(88.225)	(87.127)
Other operating income		90	183
Consumables		(2.364)	(4.306)
Other external expenses		(27.340)	(28.302)
Gross profit		230.351	126.690
Staff costs	2	(68.433)	(63.935)
Depreciation, amortization and impairment losses	3	(54.783)	(51.692)
Profit before net financials		107.135	11.064
Financial income	4	3.262	152
Financial expenses	5	(18.147)	(19.897)
Profit/loss before tax		92.250	(8.682)
Corporation tax for the year	6	(19.509)	2.524
Profit/loss for the year		72.741	(6.158)

Financial statements 1 January - 31 December

Balance sheet – Assets

DKK'000	Note	2019	2018
Acquired intangible assets		329	603
Intangible assets	7	329	603
Land and buildings		174.244	182.880
Plant and machinery		395.596	429.644
Fixtures and fittings, other plant and equipment		5.844	6.597
Property, plant and equipment under construction		21.477	2.296
Property, plant and equipment	8	597.162	621.417
Deferred tax assets		-	3.306
Financial assets		-	3.306
Total non-current assets		597.491	625.326
Raw materials and spareparts		13.050	10.582
Work in progress		30.089	9.142
Finished goods		-	2.439
Inventories	9	43.139	22.163
Trade receivables		1.106	3.856
Receivables from associates		33.637	7.066
Joint taxation contribution receivable		-	6.285
Other receivables		9.070	3.120
Receivables from group enterprises		204.820	31.988
Receivables		248.632	52.315
Cash and cash equivalents		1.547	747
Total current assets		293.318	75.225
Total assets		890.809	700.551

Financial statements 1 January - 31 December

Balance sheet – Equity and Liabilities

DKK'000	Note	2019	2018
Share capital at the end of the year	10	111.516	111.516
Retained earnings		328.654	255.912
Total equity		440.169	367.428
Mortgage debts		292.774	176.332
Total non-current liabilities	11	292.774	176.332
Mortgage debts		24.259	13.984
Bank debts		68.334	114.757
Current borrowings		92.593	128.741
Accounts payable		32.077	18.399
Corporation tax		2.386	-
Deferred tax liabilities	12	15.022	-
Other current liabilities etc.		15.787	9.651
Total current liabilities		157.865	156.791
Total liabilities		450.639	333.123
Total equity and liabilities		890.809	700.551
Accounting policies	1		
Contractual obligations and contingencies, etc.	13		
Collateral	14		
Related parties	15		
Appropriation of profit/loss	16		

Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	Note	Share capital	Retained earnings	Total
Equity at 1 January 2019		111.516	255.912	367.428
Transfer, see "Appropriation of profit/loss"	16	-	72.741	72.741
Equity at 31 December 2019		111.516	328.653	440.169

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Glycom Manufacturing A/S (the "Company") for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-sized 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.

Changes in accounting policies

The accounting policies used in the preparation of the financial statements are consistent with those of last year. However, based on new information minor adjustments to comparative figures in primary statements and notes have been implemented.

Reporting currency

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

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognized in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognized in the most recent financial statements is recognized in the income statement as financial income or financial expenses.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases. Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognized in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Income statement

Revenue

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

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognized in revenue.

Income from the sale of finished goods is recognized in revenue when the most significant rewards and risks have been transferred to the buyer, and 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 standardized terms of delivery based on Incoterms® 2010.

Other operating income

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Consumables, etc.

Consumables include expenses relating to e.g. production and laboratory consumables used in generating the year's revenue.

Cost of goods sales

Cost of goods sold includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, marketing, administration, premises, bad debts, payments under operating leases, etc., as well as loss on the sale of non-current assets.

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.

Amortization/depreciation

The item comprises amortization/depreciation of intangible assets and property, plant and equipment. The basis of amortization/depreciation, which is calculated as cost, less any residual value expected at end of life, is amortized/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	3-10 years

Land is not depreciated.

Financial income and expenses

Financial income and expenses are recognized 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 recognized in the income statement, whereas the portion that relates to transactions taken to equity is recognized 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 licenses, distribution rights and development projects.

Other intangible assets are measured at cost, including finance expenses, less accumulated amortization and impairment losses.

Gains and losses on the sale of intangible assets are recognized in the income statement under "Other operating income" or "Other operating expenses", respectively. Gains and losses are calculated as the difference between the selling price less selling expenses and the carrying amount at the time of sale.

Property, plant and equipment

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

The cost of self-constructed assets includes the cost of direct and indirect materials, wages and salaries as well as finance expenses relating to specific and general borrowing directly attributable to the construction of the individual asset.

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 is recognized 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 recognized impairment losses are reversed when the reason for recognition no longer exists.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realizable value is lower than cost, inventories are written down to this lower value. The net realizable value of inventories is calculated as the sales amount less costs of completion and expenses required to affect the sale and is determined considering 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 labor and indirect production overheads.

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Receivables are measured at amortized cost.

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

An impairment loss is recognized 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 recognized 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 realizable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

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

Income taxes

Current tax payables and receivables are recognized 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 materialize as current tax. Deferred tax assets are recognized at the expected value of their utilization; 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 recognized in the income statement.

Liabilities

Financial liabilities are recognized at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortized cost, corresponding to the capitalized value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognized in the income statement over the term of the loan.

Other liabilities are measured at net realizable value.

Financial ratios

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

$$\text{Return on assets} = \frac{\text{Profit/loss from operating activities} \times 100}{\text{Average assets}}$$

$$\text{Equity ratio} = \frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$$

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2019	2018
Wages and salaries	62.570	58.090
Other social security costs	945	731
Pensions	4.918	5.115
2 Staff costs	68.433	63.935
Average number of full-time employees	91	85

By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to Management is not disclosed.

DKK'000	2019	2018
Amortization and impairment losses	274	286
Depreciation and impairment losses	54.508	51.405
3 Total amortisation, depreciation and impairment	54.783	51.691

DKK'000	2019	2018
Interests from affiliated companies	3.146	-
Gain on foreign exchange	116	152
4 Total financial income	3.262	152

DKK'000	2019	2018
Interests arising from affiliated companies	136	1.435
Interest expense	13.320	11.669
Loss on foreign exchange	880	839
Financial fees & charge	3.811	5.954
5 Total financial expenses	18.147	19.897

DKK'000	2019	2018
Current tax for the year	2.386	(4.613)
Deferred tax for the year	17.356	3.885
Adjustments recognised for tax from prior periods	(233)	(124)
Refund in joint taxation	-	(1.672)
6 Corporation tax for the year	19.509	(2.524)

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	Acquired intangible assets
Cost at 1 January 2019	958
Additions during the year	-
Cost at 31 December 2019	958
Amortization at the beginning of the year	(354)
Amortization for the year	(275)
Amortization at 31 December 2019	(629)
7 Intangible assets at 31 December 2019	329

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 2019	196.790	480.160	8.638	2.296	687.884
Additions	1.058	8.950	1.064	21.477	32.549
Transferred	-	-	-	(2.296)	(2.296)
Cost at 31 December 2019	197.847	489.110	9.702	21.477	718.137
Depreciation at 1 January 2019	(13.910)	(50.517)	(2.041)	-	(66.468)
Depreciation for the year	(9.693)	(42.997)	(1.817)	-	(54.507)
Depreciation and impairment losses at 31 December 2019	(23.603)	(93.514)	(3.857)	-	(120.975)
8 Property, plant and equipment at 31 December 2019	174.244	395.596	5.844	21.477	597.162
Recognized interests	2.979	8.518	-	-	

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	DKK'000	2019	2018
	Raw materials	13.050	10.582
	Work in progress	30.089	9.142
	Finished goods	-	2.439
9	Inventories	43.139	22.163
		DKK'000	2019
	Share capital at the beginning of the year	111.516	111.516
	Capital increase	-	-
10	Total share capital	111.516	111.516
		DKK'000	2019
	Debt to credit institutions	95.393	71.341
	Between 1 and 5 years	95.393	71.341
	Debt to credit institutions	197.381	104.991
	More than 5 years	197.381	104.991
11	Total non-current liabilities	292.774	176.332
		DKK'000	2019
	Deferred tax at 1 January	3.306	7.053
	Deferred tax adjustment for the year	(17.356)	(3.886)
	Deferred tax adjustment prior year	(972)	139
12	Total deferred tax at 31 December	(15.022)	3.306
	<i>Deferred tax relate to:</i>		
	Intangible assets	(72)	(133)
	Property, plant and equipment	(19.814)	747
	Non-fixed assets	(1.155)	(8.036)
	Liabilities	1.677	1.579
	Tax loss carry forwards	4.342	9.149
12	Total deferred tax at 31 December	(15.022)	3.306

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13 Contractual obligations and contingencies, etc.

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 and trucks totaling DKK 489 thousand, with remaining contract terms of 0-5 years.

Pending legal proceedings

The Company is involved in a few legal proceedings, including patent disputes. In the opinion of Management, the outcome of these proceedings will neither have a material impact on the Group's financial position nor cash flows.

14 Collateral

The Company has provided security for its mortgage debt of DKK 317 million in land and buildings. The total carrying amount of these assets is DKK 174 million.

The Company has secured short-term bank debt of DKK 68 million with the pledge of 100% of its shares and a joint and several guarantee by the parent company Glycom A/S (selvskyldnerkaution).

15 Related parties

Glycom Manufacturing A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Glycom A/S	2970 Hørsholm, Denmark	100% shareholder

Information about consolidated financial statements

Related party	Domicile	Requisitioning of the parent company's consolidated financial statements
Glycom A/S	2970 Hørsholm, Denmark	www.cvr.dk

DKK'000	2019	2018
Income from associate	343.998	239.712
Income from parent	6.325	5.321
Financial expenses to associate	(190)	-
Financial income from parent	3.146	-
Financial expenses to parent	(136)	(1.435)
Fees to parent	(7.450)	(7.450)
Receivables from associates	33.637	7.066
Receivables from parent	204.820	31.988

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DKK'000	2019	2018
16 Appropriation of profit/loss		
Recommended appropriation of profit/loss:		
Retained earnings/accumulated loss	72.741	(6.158)
	<u>72.741</u>	<u>(6.158)</u>