AJ Vaccines A/S

Artillerivej 5, DK-2300 Copenhagen S

Annual Report for 1 January - 31 December 2018

CVR No 37 91 11 43

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 31/5 2019

Tina Øster Larsen
Chairman of the General Meeting

Contents

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of AJ Vaccines A/S for the financial year 1 January - 31 December 2018.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations and cash flows for 2018.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Copenhagen, 28 May 2019

Executive Board

Jesper Helmuth Larsen
CEO

Board of Directors

Tabassum Khan Chairman	Mustafa Nasir Farooki	Jesper Helmuth Larsen
Saddam Abdulqawi Hussein Alhumaikani		

Independent Auditor’s Report

To the Shareholder of AJ Vaccines A/S

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

We have audited the Financial Statements of AJ Vaccines A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies (”the Financial Statements”).

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

Statement on Management’s Review
Management is responsible for Management’s Review.

Our opinion on the Financial Statements does not cover Management’s Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management’s Review and, in doing so, consider whether Management’s Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management’s Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management’s Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management’s Review.

Management’s responsibilities for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstate-

ment, 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 these 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.

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

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

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events

Independent Auditor’s Report

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.

Hellerup, 28 May 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Torben Jensen statsautoriseret revisor mne18651	Claus Carlsson statsautoriseret revisor mne29461

Company Information

The Company	AJ Vaccines A/S Artillerivej 5 DK-2300 Copenhagen S Telephone: + 45 7229 7000 E-mail: info@AJVaccines.com Website: www.ajvaccines.com CVR No: 37 91 11 43 Financial period: 1 January - 31 December Municipality of reg. office: Copenhagen
Board of Directors	Tabassum Khan, Chairman Mustafa Nasir Farooki Jesper Helmuth Larsen Saddam Abdulqawi Hussein Alhumaikani
Executive Board	Jesper Helmuth Larsen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

The development of the Company is described by the following financial highlights:

	01.01.2018 - 31.12.2018	01.09.2016 - 31.12.2017	08.08.2016 - 31.08.2016
	TDKK	TDKK	TDKK
Key figures			
Profit/loss			
Revenue	362,192	312,613	0
Gross profit/loss	-150,698	-114,639	0
Operating profit/loss	-321,585	-285,516	0
Profit/loss before financial income and expenses	-284,113	396,665	0
Net financials	-27,138	867	0
Net profit/loss for the year	-244,490	446,623	0
Balance sheet			
Balance sheet total	1,397,594	1,140,148	550
Equity	903,163	708,932	550
Cash flows			
Cash flows from:			
- operating activities	-181,300	-224,241	-550
- investing activities	-280,597	-49,613	0
including investment in property, plant and equipment	-281,527	-40,031	0
- financing activities	432,517	356,849	550
Change in cash and cash equivalents for the year	-29,380	82,995	0
Number of employees	684	594	0

Management's Review

Key activities

AJ Vaccines is a Biopharmaceutical Company specializing in manufacturing of Vaccines and Therapeutic products.

Strategy

AJ Vaccines commenced activities in January 2017 through the acquisition of the vaccine manufacturing activities from Staten's Serum Institute in Denmark.

The acquired activities comprise a fully operational manufacturing setup in Copenhagen, Denmark, including more than 550 highly skilled employees and more than 100 years of know-how within vaccines and biologicals.

Management has identified significant growth opportunities through transforming AJ Vaccines into a performance focused business, with a reliable and profitable manufacturing output.

Products include stand-alone and combination vaccines and other biologicals, and are sold globally, through local and regional marketing authorizations and WHO pre-qualifications which enables selected products to be sold through pooled procurement programs such as UNICEF and Pan American Health Organization.

Few suppliers and high demand, generally characterize the markets for AJ Vaccines' products. Especially the markets for combination vaccines containing accelluar pertussis (Whooping Cough) immunization, the BCG Vaccine for Tuberculosis immunization and BCG Culture for Bladder Cancer treatment.

In addition, AJ Vaccines expects to be a major supplier of vaccines for the global Polio eradication program, which is currently in significant undersupply.

In 2012 a development project funded by Bill & Melinda Gates Foundation was initiated to develop a low-dose/low-cost ALUM adjuvant IPV vaccine. The vaccine uses ALUM formulation technology that allows for a smaller dose of API compared to a stand-alone IPV vaccine, and thus significantly decreases production cost. The project is far progressed, with two Phases III trials completed in the beginning of 2018. The product approval process, including WHO pre-qualification, has been initiated in Q2 2018, with expected approval in 2019 and initial sales in 2020.

In 2017 an upgrade of our IPV manufacturing facility was initiated. The IPV Facility upgrade has two main objective, to ensure compliance with new containment requirements (GAPIII) and to expand production capacity to meet expected demand.

AJ Vaccines has initiated a strategy to upgrade and transform the business into a profitable commercial operation. This process includes a full realignment of the existing manufacturing setup and a comprehensive investment program to refurbish, upgrade and maintain existing manufacturing facilities. This will ensure the steep change in output capacity that is required to meet the high demand in most markets.

Management's Review

The transformation strategy includes several initiatives, within six major areas:

1. Organizational change:
New cross-functional management team to ensure organizational alignment, Operations to optimize production process, and general upgrade of departments.

2. Cultural change:
Program has been initiated to create a performance based culture, focused on output and deliverables.

3. Operational Excellence:
Program focused on optimizing processes, stabilize manufacturing processes, reduce scrap rates, increased output per batch and increased yield in biological manufacturing processes

4. Sales initiatives:
Re-establish trust and relationship with previous customers, evaluate new tender opportunities based on concrete business case analysis and prioritize our sales efforts based on achievable sales margins

5. Extensive investment:
Program to ensure a reliable manufacturing output as well as increased capacity to support expected sales growth. The investment program includes, significant upgrade of our IPV manufacturing facility

6. Business development initiatives:
Various initiatives including opportunistic sale of production licenses, strategic partnerships on development in relation to new products and entry into new markets

In addition, AJ Vaccines will continue to add more talent to the organization, through extensive recruitment of new employees. In 2018, AJ Vaccine created nearly 100 new positions within the Danish organization.

These initiatives support the ambition of AJ Vaccines to become a notable player on the international vaccine markets and to exhibit exceptional growth in terms of both manufacturing output and revenue.

In order to strengthen the strategy execution, the Board of Directors decided to promote Mr. Jesper Helmuth Larsen as new CEO in December 2018. Jesper Helmuth Larsen, previously held a position as CFO at AJ Vaccines.

Management's Review

Market overview

The global vaccine market amounted to approximately USD 28bn globally in 2017 and is expected to grow to approximately USD 45bn by 2024, mainly driven by novel vaccines, new vaccination recommendations and increasing vaccination rates (i.e. a larger share of the population being vaccinated) (Reference: Evaluate Pharma, 2018).

The market is dominated by four multinational pharmaceuticals; GlaxoSmithKline, Merck & Co., Pfizer and Sanofi, who account for more than 80% of global vaccine sales.

However, a historical undersupply, high barriers of entry and competitors focusing on other pharmaceutical product categories, leaves room for companies such as AJ Vaccines, who solely focuses on the vaccine market and related products.

Vaccine sales in high income countries ("HICs"), which are generally sold to governments, account for 82% of global vaccine sales but only 20% of global volume. At the same time, vaccines sales to low income countries ("LICs") and middle income countries ("MICs") account for 18% of global vaccine sales and 80% of global volume. Sales to MICs are sold through a mix of procurement agencies (e.g. PAHO for Latin America), government, distributers and private insurers. Vaccines to LICs are often sold through pooled international procurement agencies such as UNICEF and PAHO.

Vaccine manufacturing typically involves a process including a biological agent which is highly dependent on manufacturing know-how.

In addition, biological manufacturing activities are strictly regulated and requires extensive investments to comply with necessary standards, and only a few manufacturers (including AJ Vaccines) meet the international standards established by e.g. the EU. The strict regulation also provides high barriers of entry for new producers on the market, as the establishment of new compliant manufacturing facilities require extensive investment and have an expected lead-time of 5+ years.

In addition to long lead-time of manufacturing facilities due to regulations, an extensive R&D process also poses a barrier of entry for competing products. The development of new vaccines normally stretches over 7-15 years and requires large investment with significant risk of failure, yielding clear visibility of the competitor landscape over the medium term.

Over the past decades the vaccine market has been characterized by undersupply (with the exception of influenza vaccines), mainly due to the limited number of suppliers and limited manufacturing capacity, suggesting that the largest suppliers struggle with competing internal priorities and focus on other pharmaceutical products.

The undersupply characterizing the vaccine market poses a significant opportunity for AJ Vaccines who hold a product portfolio of almost exclusively undersupplied vaccine products.

Management's Review

Statement of corporate social responsibility

AJ Vaccines is a biopharmaceutical company with more than a century of expertise and a strong track record, striving to improve global health by manufacturing vaccines for some of the world's most challenging diseases. AJ Vaccines has a high quality product portfolio consisting of stand-alone and combination vaccines as well as products for tuberculosis control and treatment against superficial bladder cancer. AJ Vaccines is engaged in the entire manufacturing process from sourcing of supplies to filling and packaging of end products, which are sold across 39 countries.

Our vaccine manufacturing takes place from our manufacturing facilities in Copenhagen, Denmark. In 2018 we have initiated a reconstruction and expansion of our existing Polio vaccines manufacturing facilities. This expansion will increase manufacturing capacity substantially while simultaneously ensure compliance with the future demands for containment of poliovirus in accordance with WHO´s Global Action Plan to eradicate polio (GAPIII). AJ Vaccines collaborates with The Bill & Melinda Gates Foundation, on the development of a reduced dose Polio Vaccine, aimed at providing affordable polio vaccines to the GAVI countries. We expect the investment to create new jobs and thereby onboard additional employees when we reopen our polio facility in 2019.

In 2015 the United Nations called for broad-based support of the Sustainable Development Goals (SDGs), including active involvement by the private sector. As a global healthcare company we are positively impacting several of the SDGs directly, particularly SDG 3 "Good Health and Well-Being" as it is at the core of our business to improve and save human lives across the world.

1. RESPONSIBLE MANUFACTURING

1.1 Policy
We endeavor to protect the environment and reduce our carbon footprint by monitoring and reducing the environmental impact of our business activities. The immediate impact in relation to protecting the environment and climate is related to our manufacturing of vaccines. We comply with all regulatory requirements in this area. Furthermore, we strive to reduce the environmental impact of all our business activities.

1.2 Risks
AJ Vaccines acknowledges that there is an inherent risk of negatively impacting the environment and climate through our manufacturing. We have identified the main risk factors to be release of infectious substances, energy consumption and noise emissions. How we handle these risks is described below.

1.3 Actions
The environmental work is headed by our department for Environment, Health and Safety, where the implementation and monitoring of our environmental permits and our environmental management system are anchored. Examples of our work in this area are:

•Implementing environmental management system into daily activities;
•Handling waste in a responsible and compliant manner;
•Ensuring a systematic approach to monitoring environmental permits;
•Ensuring compliance in regards to containment requirements;

•Implementing a biorisk management system in compliance with WHO requirements;
•Working on yields improvements and reducing energy consumption and emissions per produced unit.
•In addition, we are continuously upgrading our manufacturing facilities in accordance with the eco-design directive in consideration of reducing the building's energy consumption and climate footprint.

1.4 Result
We believe that the result of our efforts is that we have succeeded in complying with regulatory requirements regarding environment and climate, and acted with due environmental care.

2. RESPONSIBLE EMPLOYER

2.1 Policy
Health and Safety at work
We are committed to ensure that our employees have a safe working environment. Thus, relevant training and protective equipment are provided to all employees. Furthermore, we monitor safety risks, have a system for handling identified risks and all new employees receive information about workplace risks evaluation plan, first aid and emergency plans.

Highly motivated and engaged employees
Having a highly motivated and engaged workforce is critical to the success of our company and we believe that one of the most relevant factors in this regard is a combined focus on the physical and psychological working conditions for – and wellbeing of – our employees.

That is why we have implemented regularly surveys to monitor employee satisfaction and engagement. The responses provide us with an indication as to how engaged our employees are in their working environment, as well as how well-managed AJ Vaccines is as a company. The results also assist us in identifying action areas in our drive for continuous improvements towards an attractive workplace.

In addition to the above we strongly support the "Universal Declaration of Human Rights" and the "ILO Declaration of Fundamental Principles and Rights at Work" and do not tolerate offensive behavior in any form.

2.2. Risks
Despite the above-mentioned efforts we acknowledge that there are risks within our activities that potentially can result in injuries and have a negative impact on the physical and psychological working conditions for our employees. In addition, we are also aware that we are still in a process towards fully transforming our culture and corporate processes from a state-owned entity to private owned company. This process naturally impacts the wellbeing of our employees – some positively and some negatively.

2.3. Actions
In order to ensure that we adhere to our policies and commitments to protects human and labor rights as well as to act on identified risks, we have taken the following measures, among others:

•We follow-up on all accidents and near-miss incidents to have a proactive approach to accident prevention.
•We have conducted an employee engagement survey in 2018 which had a response rate of 91.2%.

Following the survey, we have conducted 75 workshops to follow up the results of the survey.
•We have established concrete action plans in order to i) enable our employees to react on safety hazards and other health-related issues and ii) provide our employees with the right support in such cases.
•We have conceptualized Performance and Development Dialogue (PDD) ensuring a continuous focus on our employees well-being, personal development and performance to be rolled out in 2019. The PDD naturally addresses the findings and key conclusions of the employee engagement surveys.
•We have, as a part of our compliance efforts, implemented policies and processes in order to ensure adherence to the EU General Data Protection Regulation and thereby protection of personal data and the right to privacy.
•We educate hence enable our managers to drive the transformation of our company, people and culture.

2.4. Results
On the basis of our efforts in this area in 2018, it is our belief that we have succeeded in showing that AJ Vaccines is a responsible employer as we have seen a reduction with regard to work place related injuries, and we have increased our focus on the wellbeing of our employees hence increased their motivation for working in AJ Vaccines.

3. RESPONSIBLE BUSINESS

3.1 Policy
Business ethics and integrity are core values at AJ Vaccines, and we are committed to maintain high professional standards across all areas of our activities. At AJ Vaccines we have a zero-tolerance policy with regard to corruption and bribery in all its forms. We take pride in complying with the regulations concerning "Good Manufacturing Practices", "Good Pharmacovigilance Practices" and "Good Distribution Practices" that apply to our products. We are also highly aware of our ability to contribute positively to the surrounding society with our specific skills and products, and we are proud to do so.

3.2 Risks
We assess our risk of exposure to corruption in connection with our business to be low. However, we take corruption and bribery in all its forms very seriously. We have implemented policies and procedures to prevent our employees from being exposed to and engage in such activities. The handling of these risks is described in the sections below.

3.3. Actions
We have implemented high standards for ethics and integrity through a number of instruments. Some examples are:

•Our "Company Rules of Procedures" provides employees with guidance on our strict practice on gifts and the risk of conflict of interest.
•We have clear procedures and controls in place regarding signing and approving contracts and invoices on behalf of AJ Vaccines.
•We comply with regulations on human trials and animal trials and we are reducing our use of animal tests.

Management's Review

3.4. Results
The result of our ethical business practices in 2018 is that no incidents have been reported, and we continue to have a strong reputation and legacy as being an ethical and trustworthy business partner.

4. Outlook for the future

We plan to continue our efforts in this area in the coming years. Especially we look into

•Further formalizing our CSR-policies and strengthening the transparency by e.g. setting-up goals and KPIs for material topics,
•Joining the UN Global Compact as a member.

Statement on gender composition

AJ Vaccines is proud to have a diverse workforce in relation to nationality, gender age, education etc. We fully support gender equality at all levels of the organization and continuously strive to find the most competent individual for the job – regardless of gender. AJ Vaccines currently employs app. 35% men and 65% women.

1.The Board of Directors and Executive Board – current composition and target figure
AJ Vaccines' Board of Directors presently consists of four members of which all are men. We maintain our goal to have at least one female member of the Board of Directors by 2021 as no female candidates were found in 2018.

2.Other management levels
AJ Vaccines has an even gender distribution on the other management levels with 45% men and 55% women across our business.

Financial review

The financial review is based on the Company's financial information for the period 1st January 2018 to 31st December, 2018, with comparative figures for the period 1'th January 2017 to 31st December 2017.

In 2018, revenues were DKK 362 million (313m). Earnings before interest and taxes, or EBIT were DKK -284 million (397m) which was in line with expectations for the year. The deviation compared to last year, is primarily due to recognition of badwill in 2017 arising from the business combination. As of 31st December 2018 the Company had free cash and cash equivalents of DKK 9 million (40m).

Income Statement

Revenue
Revenue for the period was DKK 362 million (313m).
Revenue from vaccines sales was DKK 301 million (190m).
Revenue from sale of license was DKK 32 million (101m) and other product sales and contract work amounted to DKK 29 million (21m).

Management's Review

Vaccine sale and other product sale increased from DKK 204 million in 2017 to DKK 316 million in 2018, an increase of 55%.

Cost of Sales
Cost of sales totaled DKK 513 million (427m).

Cost of goods sold amounted to DKK 202 million (143m).

Other production costs
Other production costs totaled DKK 311 million (284m). Write downs amounted to DKK 25 million (76m), of which 6 DKK million (38m) is write-downs to net realizable value and DKK 19 million (32m) is write-downs due to technical obsolesce. Other production costs of DKK 286 million (207m) is cost not directly variable with production volume such as training and excess capacity.

In 2018 a commercial approach has been applied to determine need for write down to net realizable value.

Research and development costs
The total research and development spending was DKK 37 million (52m) all related to the ongoing development project "IPV Alum". The project is funded by the Bill & Melinda Gates Foundation, hence no cost was capitalized.

Sales and administrative costs
The sale and administrative cost totaled DKK 134 million (119m). The increase in cost is primarily due to increase in staff expenses as a result of increased activity.

Financial income and financial expenses
Financial income was DKK 6 million (8m). Income was primarily due to FX gains on working capital.

Financial expenses amounted to DKK 33 million (7m), of which DKK 6 million (3m) was interest expense on loans and DKK 26 million due to FX loss from working capital, loans and cash in other currencies.

Other income
Other income was DKK 37 million (682m). Other income is funding from the Bill & Melinda Gates Foundation of the IPV Alum development project (2017 also included recognized badwill arising from the business combination).

Tax on income for the year
Tax on the income for the year was DKK 67 million (49m) corresponding to a tax rate of 21% (-12%)

Liquidity and capital resources
As of 31 December, 2018, AJ Vaccines had free cash and cash equivalents of DKK 9 million (40m).

Cash flows
Net cash from operating activities was DKK -182 million (-224m).

Management's Review

Net cash used in investing activities was DKK 280 million (50m), of which plant and equipment investments amounted to DKK 282 million (40m).

Net cash provided by financing activities totaled DKK 433 million (357m). DKK 13 million (250m) is loan provided by related parties and DKK 421 million (107m) is a capital increase from existing shareholders. The net cash flow for 2018 was DKK -29 million (+83m).

Currency risk
Currency risk include the risk arising from sales contracts being denominated in currencies other than Danish kroner. Contracts are primarily in DKK, USD and EUR, meaning that other currencies do not represent significant currency risks.

The exposure from fluctuations in USD is increased because a significant part of the exposures relates to three USD denominated loans. These loans are not hedged.

Liquidity risk
Liquidity can be influenced by changes in the USD/DKK exchange rate. As long as the DKK is linked to the EUR the Company's revenue and costs in EUR are not hedged.

Balance Sheet
The balance sheet total was DKK 1,398 million as of 31 December, 2018 (1,140m).

Assets
The intangible assets stood at DKK 472 million (543m). The ongoing IPV alum development project is funded by the Bill & Melinda Gates Foundation and no cost was capitalized in 2018.

Tangible assets stood at DKK 398 million (147 m). The addition for the year is primarily related to the upgrade of our IPV manufacturing facility. The IPV Facility upgrade has two main objective, to ensure compliance with new containment requirements (GAPIII) and to expand production capacity.

Inventories stood at DKK 332 million (229 m), of which final drug product amounted to DKK 27 million (17m) net of write-down.

Receivables and prepayment stood at DKK 142 million (137m) of which trade receivables amounted to DKK 92 million (73m).

As of 31 December 2018, cash and cash equivalents stood at DKK 54 million (83 m) of which DKK 45 million (43m) is restricted cash related to fonds received from The Bill and Melinda Gates Foundation.

Equity
After the transfer of the loss for the year and the capital contribution for the year equity stood at DKK 903 million (709m).

Management's Review

Liabilities
Deferred tax liabilities stood at DKK 69 million (126m). The decrease in deferred tax liabilities is mainly due to capitalization of taxable loss for the year of DKK 43 million (4m), see further description in note 14.

Deferred revenue stood at DKK 42 million (70m). Deferred revenue is all related to the IPV Alum project with The Bill & Melinda Gates foundation.

Outlook

Management expects to cross the threshold level of 400 DKK million in revenue in 2019. Mainly driven by growth in core products through increased sales of combination vaccines, tuberculosis and cancer products.

Due to the extensive capex and opex investments that are planned in 2019 and the years to come, to complete a full transformation of the business to a commercially orientated business with focus on increased output and profit maximization, management expects a negative EBIT in 2019 at the same level as realised in 2018.

Certain statements in the Financial Statement – Management commentary - are forward-looking. These forward-looking statements are based on certain assumptions and reflect our current expectations.

As a result, forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations.

Uncertainty relating to recognition and measurement

In the preparation of the financial statements, Management makes a number of accounting estimates which form the basis for the presentation, recognition and measurement of the company's assets and liabilities.

The recognition and measurement of assets and liabilities often depends on future events that are somewhat uncertain. In that connection, it is necessary to assume a course of events that reflects Management's assessment of the most probable course of events.
In connection with the preparation of the financial statements, Management has made a number of estimates and assumptions concerning carrying amounts. Management has made the following accounting judgments which significantly affect the amounts recognized in the financial statements.

• Revenue recognition
• Impairment of assets
• Inventories, including impairment and production overheads
• Deferred tax asset.

Management's Review

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December 2018

	Note	2018	2017
		TDKK	TDKK
Revenue	2	**362,192**	**312,613**
Cost of sales	3	-512,890	-427,252
Gross profit/loss		**-150,698**	**-114,639**
Distribution expenses	3	-24,074	-35,847
Development expenditure	3	-37,472	-51,844
Administrative expenses	3	-109,341	-83,186
Operating profit/loss		**-321,585**	**-285,516**
Other operating income		37,472	682,181
Profit before financial income and expenses		**-284,113**	**396,665**
Income from investments in subsidiaries	4	-337	0
Financial income	5	6,170	7,803
Financial expenses	6	-32,971	-6,936
Profit/loss before tax		**-311,251**	**397,532**
Tax on profit/loss for the year	7	66,761	49,091
Net profit/loss for the year		**-244,490**	**446,623**

Balance Sheet 31 December 2018

Assets

	Note	31.12.2018	31.12.2017
		TDKK	TDKK
Technology		113,400	119,700
Software		99,242	139,062
Acquired other similar rights		41,691	62,537
Development projects in progress		217,957	221,844
Intangible assets	8	**472,290**	**543,143**
Plant and machinery		79,723	105,052
Other fixtures and fittings, tools and equipment		533	746
Property, plant and equipment in progress		317,373	41,352
Property, plant and equipment	9	**397,629**	**147,150**
Investments in subsidiaries	10	47	0
Fixed asset investments		**47**	**0**
Fixed assets		**869,966**	**690,293**
Inventories	11	**332,170**	**229,406**
Trade receivables		92,019	72,647
Receivables from group enterprises		0	592
Other receivables		32,065	38,407
Corporation tax receivable from group enterprises		5,474	0
Prepayments		12,286	25,808
Receivables		**141,844**	**137,454**
Cash at bank and in hand		**53,614**	**82,995**
Currents assets		**527,628**	**449,855**
Assets		**1,397,594**	**1,140,148**

Balance Sheet 31 December 2018

Liabilities and equity

	Note	31.12.2018 TDKK	31.12.2017 TDKK
Share capital		28,600	26,000
Share premium account		672,431	236,309
Retained earnings		202,132	446,623
Equity	12	**903,163**	**708,932**
Provision for deferred tax	14	69,146	126,369
Provisions		**69,146**	**126,369**
Trade payables		120,576	40,690
Payables to group enterprises		131,351	105,897
Other payables		131,345	88,509
Deferred income		42,013	69,751
Short-term debt		**425,285**	**304,847**
Debt		**425,285**	**304,847**
Liabilities and equity		**1,397,594**	**1,140,148**

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Statement of Changes in Equity

	Share capital	Share premium account	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2018	26,000	236,309	446,622	708,931
Capital increase	2,600	436,122	0	438,722
Net profit/loss for the year	0	0	-244,490	-244,490
Equity at 31 December 2018	**28,600**	**672,431**	**202,132**	**903,163**

Cash Flow Statement 1 January - 31 December 2018

	Note	2018	2017
		TDKK	TDKK
Net profit/loss for the year		(244,490)	446,623
Adjustments	15	71,386	(582,708)
Change in working capital	16	(8,196)	(88,156)
Cash flows from operating activities before financial income and expenses		**(181,300)**	**(224,241)**
Cash flows from operating activities		**(181,300)**	**(224,241)**
Purchase of intangible assets		(30)	(9,582)
Purchase of property, plant and equipment		(281,527)	(40,031)
Fixed asset investments made etc		(384)	0
Sale of intangible assets		315	0
Sale of property, plant and equipment		1,029	0
Cash flows from investing activities		**(280,597)**	**(49,613)**
Raising of loans from group enterprises		13,137	249,849
Cash capital increase		420,558	107,000
Withholding tax		(1,178)	0
Cash flows from financing activities		**432,517**	**356,849**
Change in cash and cash equivalents		**(29,380)**	**82,995**
Cash and cash equivalents at 1 January 2018		82,995	0
Cash and cash equivalents at 31 December 2018		**53,615**	**82,995**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		8,588	39,704
Restricted cash		45,027	43,291
Cash and cash equivalents at 31 December 2018		**53,615**	**82,995**

Notes to the Financial Statements

1 Letter of support

The company has received a letter of intent from the owners of the company, in which it is guaranteed that the company will be supported with sufficient liquidity if necessary to support the current investment program, and to finance expected losses until 1 January 2020. Hence the annual report is prepared on a going concern basis.

2 Revenue

	2018 TDKK	2017 TDKK
Geographical segments		
Denmark	84,505	103,380
The European Union	194,009	61,647
Other	83,678	147,586
	362,192	**312,613**
Business segments		
Vaccines sale	301,630	190,145
Other product sale	14,180	13,708
Contract work	14,642	7,300
Sale of license	31,740	101,460
	362,192	**312,613**

3 Staff

	2018 TDKK	2017 TDKK
Wages and Salaries	331,025	259,942
Pensions	46,504	39,409
Other social security expenses	5,004	3,757
Other staff expenses	21,347	18,567
	403,880	**321,675**
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
Cost of sales	302,341	263,979
Distribution expenses	9,014	4,973
Development expenditure	16,257	15,452
Administrative expenses	76,268	37,271
	403,880	**321,675**
Executive Board	9,277	5,851
Supervisory Board	0	0
Average number of employees	**684**	**594**

Notes to the Financial Statements

4 Income from investments in subsidiaries

Share of profits of subsidiaries	(337)	0
	(337)	**0**

5 Financial income

Exchange gains	6,170	7,803
	6,170	**7,803**

6 Financial expenses

Interest expense to group enterprises	5,633	3,368
Other financial expenses	1,645	99
Exchange loss	25,693	3,469
	32,971	**6,936**

7 Tax on profit/loss for the year

Current tax for the year	(5,215)	0
Deferred tax for the year	(61,607)	(49,091)
Adjustment of tax concerning previous years	(4,323)	0
Adjustment of deferred tax concerning previous years	4,384	0
	(66,761)	**(49,091)**

8 Intangible assets

	Technology	Software	Acquired other similar rights	Development projects in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2018	126,000	181,080	83,383	221,844	612,307
Additions for the year	0	0	0	3,806	3,806
Disposals and reclassifications for the year	0	0	0	(4,942)	(4,942)
Transfers for the year	0	2,751	0	(2,751)	0
Cost at 31 December 2018	126,000	183,831	83,383	217,957	611,171

Notes to the Financial Statements

8 **Intangible assets** (continued)

	Technology	Software	Acquired other similar rights	Development projects in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Impairment losses and amortisation at 1 January 2018	6,300	42,018	20,846	0	69,164
Amortisation for the year	6,300	42,571	20,846	0	69,717
Impairment losses and amortisation at 31 December 2018	12,600	84,589	41,692	0	138,881
Carrying amount at 31 December 2018	**113,400**	**99,242**	**41,691**	**217,957**	**472,290**

	2018	2017
	TDKK	TDKK
Amortisation and impairment of intangible assets are recognised in the following items:		
Cost of sales	62,751	62,249
Administrative expenses	6,966	6,915
	69,717	**69,164**

9 **Property, plant and equipment**

	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2018	135,426	959	41,352	177,737
Additions for the year	0	0	281,527	281,527
Disposals for the year	(178)	0	0	(178)
Transfers for the year	5,506	0	(5,506)	0
Cost at 31 December 2018	140,754	959	317,373	459,086

Notes to the Financial Statements

9 Property, plant and equipment (continued)

	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	I alt
	TDKK	TDKK	TDKK	TDKK
Impairment losses and depreciation at 1 January 2018	30,374	213	0	30,587
Depreciation for the year	30,736	213	0	30,949
Impairment and depreciation of sold assets for the year	(79)	0	0	(79)
Impairment losses and depreciation at 31 December 2018	61,031	426	0	61,457
Carrying amount at 31 December 2018	**79,723**	**533**	**317,373**	**397,629**

	2018	2017
	TDKK	TDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:		
Cost of sales	30,911	30,587
Administrative expenses	38	0
	30,949	**30,587**

10 Investments in subsidiaries

Cost at 1 January 2018	0	0
Additions for the year	386	0
Cost at 31 December 2018	386	0
Value adjustments at 1 January 2018	-2	0
Net profit/loss for the year	-337	0
Value adjustments at 31 December 2018	-339	0
Carrying amount at 31 December 2018	**47**	**0**

Notes to the Financial Statements

10 Investments in subsidiaries (continued)

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
AJ VACCINES SDN. BHD.	Kuala Lumpur, Malaysia	20.000	100 %	0	0

11 Inventories

	31.12.2018 TDKK	31.12.2017 TDKK
Raw materials and consumables	33,474	27,525
Semi finished goods	271,712	184,931
Finished goods and goods for resale	26,984	16,950
	332,170	**229,406**

12 Equity

The share capital consists of 28,600 shares of a nominal value of TDKK 1. No shares carry any special rights.

13 Distribution of profit

	2018 TDKK	2017 TDKK
Retained earnings	(244,490)	446,623
	(244,490)	**446,623**

14 Provision for deferred tax

	2018 TDKK	2017 TDKK
Provision for deferred tax at 1 January 2018	126,369	0
Amounts recognised in the income statement for the year	(57,223)	(49,091)
Acquisition	0	175,460
Provision for deferred tax at 31 December 2018	**69,146**	**126,369**

Notes to the Financial Statements

15 Cash flow statement - adjustments

	2018 TDKK	2017 TDKK
Financial income	22,049	(6,251)
Financial expenses	5,633	3,220
Depreciation, amortisation and impairment losses, including losses and gains on sales	100,590	99,751
Income from investments in subsidiaries	337	0
Tax on profit/loss for the year	(57,223)	(49,091)
Other adjustments	0	(630,337)
	71,386	**(582,708)**

16 Cash flow statement - change in working capital

	2018 TDKK	2017 TDKK
Change in inventories	(102,764)	(93,163)
Change in receivables	(4,423)	(27,236)
Change in trade payables, etc	98,991	32,243
	(8,196)	**(88,156)**

17 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

	2018 TDKK	2017 TDKK
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	5,896	5,226
Between 1 and 5 years	128,252	84,136
After 5 years	170,174	229,113
	304,322	**318,475**

Other contingent liabilities

The AJ Vaccines Holding group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of AJ Vaccines Holding ApS, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company’s liability.

Notes to the Financial Statements

18 Related parties

	Basis
Controlling interest	
AJ Vaccines Holding ApS	Parent
AJ Intech Sdn. Bhd.	Parent
AJ Pharma Ltd. II	Parent
White Crystal Limited	Parent
Pergola Holding Inc	Parent
Other related parties	
Mustafa Nasir Farooki	Board of Directors
Tabassum Khan	Board of Directors
Jesper Helmuth Larsen	Board of Directors
Saddam Abdulqawi Hussein Alhumaikani	Board of Directors
Golden Edge Ltd, Cayman Islands	Affiliate
StratGurus Consulting, Dubai	Affiliate

Transactions

All transactions with related parties have been carried out at arm’s length principle.

There have been no transactions with the Supervisory Board, the Board of Directors, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

Name	Place of registered office
Pergola Holding Inc	British Virgin Islands
AJ Vaccines Holding ApS	Denmark

Notes to the Financial Statements

18 Related parties (continued)

The Group Annual Report of AJ Vaccines Holding ApS can be obtained at the following address:

Artillerivej 5
2300 Copenhagen
Denmark

19 Fee to auditors appointed at the general meeting

	2018	2017
	TDKK	TDKK
PricewaterhouseCoopers		
Audit fee	519	500
Other assurance engagements	152	627
Tax advisory services	691	370
	1,362	**1,497**

Notes to the Financial Statements

20 Accounting Policies

The Annual Report of AJ Vaccines A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2018 are presented in TDKK.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

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

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

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements

20 Accounting Policies (continued)

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Business segments and geographical segments

Information on business segments and geographical segments based on the Companys risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income Statement

Revenue

Revenue comprises the fair value of the consideration received or receivable for sales of goods. Revenue is measured net of value added tax, duties, etc collected on behalf of a thrid party and discounts. The revenue is recognized when it is probable that future economic benefits will flow to the company and these benefits can be measured reliably and when any significant risks and rewards of ownership of the goods or right to the services are transferred and the company no longer retains managerial responsibility for, or control of, the goods or services sold.

Agreements with commercial partners generally include non-refundable upfront license and collaboration fees, milestone payments, the receipt of which is dependent upon the achievement of certain clinical, regulartory or commercial milestones, as well as royalties on product sales of licensed products, if and when such product sales occur, and revenue from the supply of products. For these agreements that include multiple elements, total contract consideration is attributed to separtely identifiable components on a reliable basis that reasonably reflects the selling prices that might be expected to be achieved in stand alone transactions provided that each component has value to the partner on a stand alone. The allocated consideration is recognized as revenue in accordance with the principles described above.

Sales of goods and licences that transfer the rights associated with ownership of an intangible asset are recognized at a point in time when control is transferred. Revenue from development services and licenses that do not transfer the right of ownership to an intangible asset are recognized over time in line

Notes to the Financial Statements

20 Accounting Policies (continued)

with the execution and delivery of the work. If multiple components are not separable, they are combined into a single component and recognized over the period where the company is actively involved in development and deliver significant services to the collaboration partner.

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Cost of sales also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised technology costs.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses.

Development expenditure

Development expenditure indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including badwill and income related to the Bill & Melinda Gates Foundation.

Income from investments in subsidiaries

The item “Income from investments in subsidiaries” in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Notes to the Financial Statements

20 Accounting Policies (continued)

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with the parent company. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Intangible assets include Software, Technology, development projects in progress and lease agreement. Intangible assets are measured at historic cost less accumulated amortization and impairment losses.

Software	3-7	years
Technology	20	years
Acquired other similar rights	4	years

The carrying amounts of plant and equipment carried at cost or amotrized costs are tested annually to determine whether there are indications of any impairment in excess of that expressed in normal depreciation. If that is the case, the asset is written down to the recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses on property, plant and equipment are recognized under the same line items as depreciation of the assets.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Plant and machinery	3-15	years
Other fixtures and fittings, tools and equipment	3-10	years
Leasehold improvements	5	years

Notes to the Financial Statements

20 Accounting Policies (continued)

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 125,000 are expensed in the year of acquisition.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item"Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Inventories

Inventories except for raw materials are measured at the standard cost method less write-downs for obsolescence and net realisable value. Raw materials are measured at moving average.

For raw materials, cost is determined as direct acquisition costs incurred. The cost of finished goods produced in-house and work in progress includes raw materials, consumables, filling cost, QC testing and direct payroll costs plus indirect costs of production.

Indirect cost of production include indirect materials and labour as well as maintenance of and depreciation on the machinery used in production processes, rent for factory buildings and equipment used and cost of production administration and management. The net realisable value is the estimated sales price in the ordinary course of business less relevant sales costs determined on the basis of makretability, obsolescence and changes in the expected sales price.

Notes to the Financial Statements

20 Accounting Policies (continued)

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Notes to the Financial Statements

20 Accounting Policies (continued)

Cash Flow Statement

The cash flow statement shows the Company´s cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Company´s cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise ”Cash at bank and in hand”.

The cash flow statement cannot be immediately derived from the published financial records.