AJ Vaccines Holding ApS

Artillerivej 5, DK-2300 Copenhagen S

Annual Report for 1 January - 31 December 2019

CVR No 38 31 57 73

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 28 August 2020

Susanne Finnemann Juhl
Chairman of the General Meeting

Contents

Management's Statement

The Executive Board have today considered and adopted the Annual Report of AJ Vaccines Holding ApS 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 at 31 December 2019 of the Company and the Group and of the results of the Company and Group operations and cash flows for 2019.

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 August 2020

Executive Board

Dr. Tabassum Khan
CEO

Mustafa Nasir Farooki

Abdul Wahab Mohammed A Alesayi

Saddam Abdulqawi Hussein Alhumaikani

Shan-E-Abbas Ashary

Independent Auditor's Reports

To the Shareholder of AJ Vaccines Holding ApS

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2019 and of the results of the Group's and Parent Company's operations and cash flows for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of AJ Vaccines Holding ApS 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 a summary of significant accounting policies (”the Financial Statements”), for both Group and the Parent Company (“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 Group 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 Consolidated 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 Consolidated 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 Group's and 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 Group or 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 skepticism throughout the audit. We also:

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion of the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 August 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Torben Jensen
State Authorised Public Accountant
mne18651

Claus Carlsson
State Authorised Public Accountant
mne29461

Company information

The Company	AJ Vaccines Holding ApS Artillerivej 5 DK-2300 Copenhagen S Telephone: + 45 7229 7000 E-mail: info@AJVaccines.com Website: www.ajvaccines.com CVR No: 38 31 57 73 Financial period: 1 January - 31 December Municipality of reg. office: Copenhagen
Executive Board	Dr. Tabassum Khan, CEO Mustafa Nasir Farooki Abdul Wahab Mohammed A Alesayi Saddam Abdulqawi Hussein Alhumaikani Shan-E-Abbas Ashary
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

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

	01.01.2019 - 31.12.2019 TDKK	01.01.2018 - 31.12.2018 TDKK	09.01.2017 - 31.12.2017 TDKK
Key figures			
Profit/loss			
Revenue	323,471	362,192	312,613
Gross profit/loss	-224,532	-150,698	-114,639
Operating profit/loss	-357,862	-322,314	-286,430
Profit/loss before financial income and expenses	-328,623	-284,793	396,617
Net financials	-107,891	-58,936	-3,544
Net profit/loss for the year	-362,001	-276,739	443,336
Balance sheet			
Total assets	1,845,948	1,397,774	1,146,081
Equity	-331,369	166,647	443,386
Cash flows			
Cash flows from:			
operating activities	-474,707	-178,573	-230,719
investments activities	-218,874	-280,212	-63,135
- including investment in property, plant and equipment	-126,580	-281,527	-40,031
financing activities	700,143	429,612	376,849
Change in cash and cash equivalents for the year	6,562	-29,173	82,995
Number of employees	719	684	594

Management Review

Key activities

AJ Vaccines is a Biopharmaceutical Group specializing in developing and manufacturing of innovative vaccines, diagnostics and therapeutic solutions of the highest quality for the world.

Strategy

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

Management has identified significant growth opportunities through transforming AJ Vaccines into a performance and commercial 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 and solutions 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 Tetanus, Diphtheria, Pertussis (Whooping Cough), the BCG Vaccine for Tuberculosis immunization and BCG Culture for the standard treatment of for-bladder cancer.

In addition, AJ Vaccines expects to be a major supplier of vaccines for the global WHO 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 stand-alone dose sparring Inactivated Polio Vaccine (IPV)/ALUM adjuvanted IPV vaccine.

AJ Vaccines received WHO prequalification the first standalone dose sparing Inactivated Polio Vaccine (IPV) on 21st April 2020. This is a major milestone for the company supporting the overall growth ambitions. The new dose sparing polio vaccine will be marketed under the branded name Picovax®. First deliveries to UN agencies took place in June 2020.

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 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 expects to expand its skilled workforce in order to fulfill the ambitious growth plans. At the end of 2019 AJ Vaccine has 719 employees in the Danish organization.

In Q4 2019, we updated our company's Vision & Mission, thus including our expanded global strategic reach as well as other therapeutic areas and segments. Vision & Mission will be launched and anchored in 2020 and the years ahead. Our new Vision being "A world free of serious diseases across generations. Life by life" whereas our new Mission states that we "Create innovative vaccines, diagnostics and therapeutic solutions of the highest quality for the world". The revised vision is visionary, inspiring and absolute. In addition, it has been chosen to specify e.g. "serious diseases" and "across generations", to broaden our field of work to include more than vaccines as well as to broaden the subject from infants to families, elderly, pregnant etc. In this way our new Vision & Mission have a profound influence on all we do, and all initiatives are chosen to support our overall aspiration to protect and preserve lives.

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.

Market overview

The global vaccine market amounted to approximately USD 29bn globally in 2018 and is expected to grow to approximately USD 39bn by 2023, mainly driven by novel vaccines, new vaccination recommendations and increasing vaccination rates (i.e. a larger share of the population being vaccinated) (Reference: Global Preventive Vaccines Market, Mordor Intelligence, 2019).

The market is dominated by four multinational pharmaceuticals; GlaxoSmithKline, Merck & Co., Pfizer and Sanofi, who account for more than 79% of global vaccine sales.

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

Vaccine sales in high income countries ("HICs"), where it is generally sold to governments, accounts for 73% of global vaccine sales. At the same time, vaccines sales to low income countries ("LICs") and middle-income countries ("MICs") accounts for 27% of global vaccines sales. 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 hence vaccines 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, mainly due to the limited number of suppliers, limited manufacturing capacity and high price pressure, suggesting that the largest suppliers struggle with competing internal priorities and focus on other pharmaceutical products.

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

Statement of corporate social responsibility

AJ Vaccines is a biopharmaceutical company with more than a century of expertise and a strong track record committed to world free of serious diseases across generations – life by life. 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 49 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 have finalized the main projects and we expect the investment to create new jobs and thereby onboard additional employees at the coming years.

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.

Management Review

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 are 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 anchored in AJ Vaccines Holding ApS has in 2019 continued implementing the environmental management system which has been put in place for the company. AJ Vaccines are working closely with the Danish EPA. In May 2020 AJ Vaccines has received a revised common environmental permit for manufacturing facilities. 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 regarding containment requirements
- Implementing a bio-risk management system in compliance with the requirements of WHO
- 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 relevant workplace assessment risks, first aid and emergency plans.

Highly skilled and engaged employees

Having a highly skilled and engaged workforce is key 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 internal 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, 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 have conceptualized Performance and Development Dialogue (PDD) ensuring a continuous focus on our employee's well-being, personal development and performance was rolled out in 2019. The PDD naturally addresses the findings and key conclusions of the employee engagement surveys.
- We educate hence enable our leaders to drive the transformation of our company, people and culture.

2.4. Results

On the basis of our efforts in this area in 2019, 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 workplace related incidents and near-miss incidents.
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. We have continued in 2019 to have a zero-tolerance policy regarding corruption and bribery in all its forms. AJ Vaccines Holding ApS is working with the UN sustainability development goals and are via this work supporting the human rights. 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.

3.4. Results
The result of our ethical business practices in 2019 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 Executive Management – current composition and target figure
   AJ Vaccines’ Executive Management presently consists of five members of which all are men. We maintain our goal to have at least one female member of the Executive Management by 2021 as no female candidates were found in 2019.

2. Other management levels
   AJ Vaccines has an even gender distribution on the other management levels with 51% men and 49% women across our business.

Financial review

The financial review is based on Group's consolidated financial information for the period 1st January 2019 to 31st December 2019, with comparative figures for the period 1st January 2018 to 31st December 2018.

In 2019, revenues were DKK 323 million (2018: DKK 362m). Profit before interest and taxes, or EBIT were DKK -329 million (2018: DKK-285m) which was in line with expectations for the year. As of 31st December 2019, the Company had free cash and cash equivalents of DKK 47 million (2018: DKK 9m).

Income Statement

Revenue
Revenue for the period was DKK 323 million (2018: DKK 362m).
Revenue from vaccines sales was DKK 293 million (2018: DKK 302m).
Revenue from sale of license was DKK 0 million (2018: DKK 32m) and other product sales and contract work amounted to DKK 30 million (2018: DKK 29m).

Vaccine sale and other product sale decreased with DKK 4,8 million to DKK 311 million in 2019 (2018: DKK 316m), which is a decrease of 1,5%.

Cost of Sales
Cost of sales totaled DKK 548 million (2018: DKK 513m).

In 2019 a commercial approach has been applied to determine need for write down to net realizable value of inventory.

Research and development costs
The total research and development spending were DKK 29 million (2018: DKK 37m) all related to the ongoing development project "IPV Alum". The project is funded by the Bill & Melinda Gates Foundation, hence no cost was capitalized.

Administrative costs
The sale and administrative cost totaled DKK 104 million (2018: DKK 134m). The decrease in cost is primarily due to change in cost allocation of administrative costs to cost of sales.

Financial income and financial expenses
Financial income was DKK 5 million (2018: DKK 6m). Income was primarily due to FX gains on working capital.

Financial expenses amounted to DKK 113 million (2018: DKK 65m), of which DKK 85 million (2018: DKK 32m) was interest expense on loans and lease liabilities and DKK 28 million (2018: DKK 33m) due to FX loss from working capital, loans and cash in other currencies.

Other income

Other income was DKK 29 million (2018: DKK 37m). Other income is funding from the Bill & Melinda Gates Foundation of the IPV Alum development project.

Tax on income for the year

Tax on the income for the year was DKK 75 million (2018: DKK 67m) corresponding to a tax rate of 20% (2018: 21%)

Liquidity and capital resources

As of 31 December 2019, AJ Vaccines had free cash and cash equivalents of DKK 47 million (2018: DKK 9m).

Cash flows

Net cash from operating activities was DKK –475 million (2018: DKK -179m).

Net cash used in investing activities was DKK -219 million (2018: DKK -280m), of which plant and equipment investments amounted to DKK -127 million (2018: DKK -282m).

Net cash provided by financing activities totaled DKK 700 million (2018: DKK 430m).

DKK 686 million (2018: DKK 434m) is a loan from existing shareholders and DKK 16 million (2018: DKK 0m) is a decrease in lease liabilities.
The net cash flow for 2019 was DKK 7 million (2018: DKK -29m).

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.

Balance Sheet

The balance sheet total was DKK 1,846 million as of 31 December 2019 (2018: DKK 1,398m). The increase is mainly driven by the new facilities and IFRS 16 where operational leasing is now recognized in the balance sheet.

Assets

The intangible assets stood at DKK 375 million (2018: DKK 472m). The remaining of part IPV alum development project is funded by the Bill & Melinda Gates Foundation.

Tangible assets stood at DKK 826 million (2018: DKK 398 m). The addition for the year is primarily related to change in accounting policies for lease assets (IFRS 16) amount to DKK 309 million and investment in leasehold improvement DKK 161 million.

Inventories stood at DKK 452 million (2018: DKK 332 m), of which final drug product amounted to DKK 23 million (2018: DKK 27m) net of write-down.

Receivables and prepayment stood at DKK 133 million (2018: DKK 142m) of which trade receivables amounted to DKK 92 million (2018: DKK 92m).

As of 31 December 2019, cash and cash equivalents stood at DKK 61 million (2018: DKK 54m) of which DKK 14 million (2018: DKK 45m) 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 and after adjustments for group internal profit of purchase of 100% of the shares in AJ Biologics the equity stood at DKK -331 million (2018: DKK 167m).

Liabilities

Deferred tax liabilities stood at DKK 0 million (2018: DKK 69m). The decrease in deferred tax liabilities is partly due to capitalization of taxable loss for the year of DKK 210 million (2018: DKK 125m).

Deferred income stood at DKK 13 million (2018: DKK 42m). Deferred revenue is all related to the IPV Alum project with The Bill & Melinda Gates foundation.

Outlook

Due to the COVID-19 situation the management cannot give an expectation for the level of revenue expected in 2020. However, the potential growth will be mainly driven by increase in sales of core products through the launch of Picovax®.

Due to planned capex and opex investments in 2020 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, losses are still expected for 2020 and the year to come. Due to the COVID-19 situation the management cannot give an estimate of expected EBIT in 2020.

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.

The carrying amounts of plant and equipment carried at cost or amortized 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.

Subsequent events

The implications of COVID-19 with many governments across the world deciding to lock down certain activities in their societies will have great impact on the global economy.

The management is monitoring developments closely. It is, however, too early yet to give an opinion as to whether and, if so, to what extent Covid-19 will impact revenue and earnings in 2020. At this time, it is not possible to reliably calculate the Covid-19 impact.

Income Statement 1 January - 31 December 2019

	Note	Consolidated		Parent	
		2019	2018	2019	2018
		TDKK	TDKK	TDKK	TDKK
Revenue		323,471	362,192	0	0
Cost of sales	3	-548,003	-512,890	0	0
Gross profit/loss		**-224,532**	**-150,698**	**0**	**0**
Sales and distribution expenses	3	-33,729	-24,074	0	0
Development expenditure	3	-29,239	-37,472	0	0
Administrative expenses	3	-70,362	-110,070	-388	-392
Operating profit/loss		**-357,862**	**-322,314**	**-388**	**-392**
Other operating income		29,239	37,521	0	49
Profit/loss before financial income and expenses		**-328,623**	**-284,793**	**-388**	**-343**
Income from investments in subsidiaries	10	0	0	-288,603	-244,490
Financial income	4	4,617	6,170	0	0
Financial expenses	5	-112,508	-65,106	-73,020	-32,135
Profit/loss before tax		**-436,514**	**-343,729**	**-362,011**	**-276,968**
Tax on profit/loss for the year	6	74,513	66,990	10	229
Net profit/loss for the year		**-362,001**	**-276,739**	**-362,001**	**-276,739**

Balance Sheet 31 December 2019

	Note	Consolidated		Parent	
		2019	2018	2019	2018
		TDKK	TDKK	TDKK	TDKK
Technology		317,201	113,400	0	0
Software		57,129	99,241	0	0
Acquired other similar rights		0	41,691	0	0
Development projects in progress		637	217,957	0	0
Intangible assets	7	**374,967**	**472,289**	**0**	**0**
Plant and machinery		201,007	79,723	0	0
Property and land hold		10,011	0	0	0
Other fixtures and fittings, tools and equipment		320	533	0	0
Property, plant and equipment in progress		143,692	317,373	0	0
Leasehold improvements		161,022	0	0	0
Right of use assets	9	309,455	0	0	0
Property, plant and equipment	8	**825,507**	**397,629**	**0**	**0**
Investments in subsidiaries	10	0	0	1,185,744	903,163
Total fixed asset investment		**0**	**0**	**1,185,744**	**903,163**
Fixed assets		**1,200,474**	**869,918**	**1,185,744**	**903,163**
Inventories	11	**451,980**	**332,170**	**0**	**0**
Trade receivables		91,970	92,019	0	0
Receivables from group enterprises		0	0	0	3,977
Other receivables		23,403	32,113	0	0
Deferred tax asset	14	0	0	0	320
Corporation tax		5,499	5,501	328	27
Prepayments		12,052	12,231	0	0
Receivables		**132,924**	**141,864**	**328**	**4,324**
Cash at bank and in hand		**60,570**	**53,822**	**280**	**153**
Currents assets		**645,474**	**527,856**	**608**	**4,477**
Assets		**1,845,948**	**1,397,774**	**1,186,352**	**907,640**

Balance Sheet 31 December 2019

		Consolidated		Parent	
	Note	**2019**	**2018**	**2019**	**2018**
		TDKK	**TDKK**	**TDKK**	**TDKK**
Share capital		50	50	50	50
Reserve for net revaluation under the equity method		0	0	0	202,999
Retained earnings		-331,419	166,597	-331,419	-36,402
Equity	12	**-331,369**	**166,647**	**-331,369**	**166,647**
Provision for deferred tax	14	0	68,826	0	0
Lease Liabilities		299,561	0	**0**	**0**
Other Provisions		34,588	0	0	0
Total non-current liabilities		**334,149**	**68,826**	**0**	**0**
Lease liabilities		5,520	0	0	0
Trade payables		30,679	120,576	0	0
Bridge loans to group enterprises		1,689,032	867,600	1,511,827	740,226
Payables to group enterprises		0	0	5,695	0
Other payables		105,010	132,112	199	767
Deferred income		12,927	42,013	0	0
Short-term debt		**1,843,168**	**1,162,301**	**1,517,721**	**740,993**
Debt		**2,177,317**	**1,231,127**	**1,517,721**	**740,993**
Liabilities and equity		**1,845,948**	**1,397,774**	**1,186,352**	**907,640**
Letter of support	1				
Distribution of profit	13				
Contingent assets, liabilities and other financial obligations	17				
Related parties	18				
Fee to auditors appointed at the general meeting	19				
Subsequent events	20				
Accounting Policies	21				

Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Retained earrings	Total
	TDKK	TDKK	TDKK	TDKK
Consolidated				
Equity at 1 January 2019	50	0	166,597	166,647
Adjustment for group internal profit of purchase of AJ Biologics	0	0	-136,015	-136,015
Net profit/loss for the year	0	0	-362,001	-362,001
Equity at 31 December 2019	**50**	**0**	**-331,419**	**-331,369**
Parent				
Equity at 1 January 2019	50	202,999	-36,402	166,647
Adjustment for group internal profit of purchase of AJ Biologics	0	0	-136,015	-136,015
Net profit/loss for the year	0	-202,999	-159,002	-362,001
Equity at 31 December 2019	**50**	**0**	**-331,419**	**-331,369**

Cash Flow Statement 1 January - 31 December 2019

		Consolidated		Parent	
	Note	2019	2018	2019	2018
		TDKK	TDKK	TDKK	TDKK
Net profit/loss for the year		-362,001	-276,739	-362,001	-276,739
Adjustments	15	128,513	104,036	361,641	277,379
Change in working capital	16	-241,220	-5,871	-571	2,404
Cash flows from operating activities before financial income and expenses		**-474,708**	**-178,574**	**-931**	**3,044**
Financial expenses		1	1	-3	2
Cash flows from operating activities		**-474,707**	**-178,573**	**-934**	**3,046**
Purchase of intangible assets		-266	-30	0	0
Purchase of property, plant and equipment		-126,580	-281,527	0	0
Fixed asset investments made etc		0	0	-707,195	-438,723
Sale of intangible assets		0	316	0	0
Sale of property, plant and equipment		3	1,029	0	0
Investments in subsidiaries		-92,031	0	0	0
Cash flows from investing activities		**-218,874**	**-280,212**	**-707,195**	**-438,723**
Raising of loans from group enterprises		685,539	433,752	708,256	438,723
Lease liabilities		15,889	0	0	0
Cash capital increase		0	0	0	-2,893
Paid interests /With holding tax		-1,285	-4,140	0	0
Cash flows from financing activities		**700,143**	**429,612**	**708,256**	**435,830**
Change in cash and cash equivalents		6,562	-29,173	127	153
Cash and cash equivalents at 1 January		53,822	82,995	153	0
Cash from acquisition of subsidiaries		186	0	0	0
Cash and cash equivalents at 31 December		**60,570**	**53,822**	**280**	**153**
Cash and cash equivalents are specified as follows:					
Cash at bank and in hand		46,894	8,588	280	153
Restricted cash		13,676	45,234	0	0
Cash and cash equivalents at 31 December		**60,570**	**53,822**	**280**	**153**

Notes to the Financial Statements

1 Letter of support

Following the outbreak of Covid-19, the Group has not yet experienced decrease in revenue because of Covid-19. Furthermore, the Company's owners have not been immediately impacted by the outbreak of Covid-19.

The Group is still in a turnaround phase and need further liquidity to finance the turnaround and investments in accordance with business plan.

The Group has received a letter of support from the owners of the Company, in which it is guaranteed that the Group will be supported with sufficient liquidity if necessary, to support the current investment program, and to finance expected losses until 1 January 2021. Hence the annual report is prepared on going concern basis.

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	TDKK	**TDKK**	**TDKK**	**TDKK**
2 Revenue				
Geographical segments				
Denmark	56,091	84,505	0	0
The European Union	109,721	194,009	0	0
Other	157,659	83,678	0	0
	323,471	**362,192**	**0**	**0**
Business segments				
Vaccines sale	293,441	301,630	0	0
Other product sale	17,576	14,180	0	0
Contract work	12,454	14,642	0	0
Sale of license	0	31,740	0	0
	323,471	**362,192**	**0**	**0**

Notes to the Financial Statements

		Consolidated		Parent	
		2019	2018	2019	2018
		TDKK	TDKK	TDKK	TDKK
3	**Staff**				
	Wages and Salaries	360,919	331,025	0	0
	Pensions	48,322	46,504	0	0
	Other social security expenses	5,946	5,004	0	0
	Other staff expenses	17,617	21,347	0	0
		432,804	**403,880**	**0**	**0**
	Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:				
	Cost of sales	366,399	302,341	0	0
	Distribution expenses	12,603	9,014	0	0
	Development expenditure	10,959	16,257	0	0
	Administrative expenses	42,843	76,268	0	0
		432,804	**403,880**	**0**	**0**
	Executive Board	0	0	0	0
	Supervisory Board	0	0	0	0
		0	**0**	**0**	**0**
	Average number of employees	**719**	**684**	**0**	**0**

Notes to the Financial Statements

		Consolidated		Parent	
		2019	2018	2019	2018
		TDKK	TDKK	TDKK	TDKK
4	**Financial income**				
	Exchange gains	3,298	6,170	0	0
	Other financial income	1,319	0	0	0
		4,617	**6,170**	**0**	**0**
5	**Financial expenses**				
	Interest expense to group enterprises	63,667	32,081	59,460	26,448
	Interest expense - Right-of-use-assets	21,409	0	0	0
	Other financial expenses	0	1,645	0	0
	Exchange adjustments, expenses	5,678	5,687	13,560	5,687
	Exchange loss	21,754	25,693	0	0
		112,508	**65,106**	**73,020**	**32,135**
6	**Tax on profit/loss for the year**				
	Current tax for the year	-5,686	-5,242	-329	-27
	Deferred tax for the year	-69,148	-61,809	322	-202
	Adjustment of tax concerning previous years	0	-4,323	0	0
	Adjustment of deferred tax concerning previous years	322	4,384	-3	0
		-74,512	**-66,990**	**-10**	**-229**

Notes to the Financial Statements

7 Intangible assets

Consolidated

	Technology	Software	Acquired other similar rights	Development projects in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2019	126,000	183,831	83,383	217,957	611,171
Additions for the year	0	0	0	266	266
Disposals and reclassifications for the year	0	0	0	0	0
Transfers for the year	216,075	1,511	-83,383	-217,586	-83,383
Cost at 31 December 2019	**342,075**	**185,342**	**0**	**637**	**528,054**
Impairment losses and amortisation at 1 January 2019	-12,600	-84,590	-41,692	0	-138,882
Amortisation for the year	-12,274	-43,623	0	0	-55,897
Transfers for the year	0	0	41,692	0	41,692
Impairment losses and amortisation at 31 December 2019	**-24,874**	**-128,213**	**0**	**0**	**-153,087**
Carrying amount at 31 December 2019	**317,201**	**57,129**	**0**	**637**	**374,967**

	2019	2018
	TDKK	TDKK
Amortisation and impairment of intangible assets are recognised in the following items:		
Cost of sales	49,596	62,751
Administrative expenses	6,301	6,966
	55,897	**69,717**

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 be initiated in Q1 2018. Danish approval was obtained in 2019 and furthermore, subsequent to 31 December 2019 WHO pre-qualification was obtianed April 2020 first delivery took place

Impairment test for IPV-Alum has been performed. The test did not show indication on impairment. The most significant assumption are estimate of revenue (doses and price per dose).

Notes to the Financial Statements

8 Property, plant and equipment

Consolidated

	Plant and machinery	Property and land hold	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Leasehold improve-ments	Right of use assets	Total
	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2019	140,754	0	959	317,373	0	0	459,086
Change of accounting policy for leases	0	0	0	0	0	289,192	289,192
Additions for the year	29,770	0	0	71,331	45,479	0	146,580
Additions from purchase of subsidiaries	249	10,011	0	0	495	0	10,755
Disposals for the year	0	0	0	-1,726	0	0	-1,726
Transfers for the year	123,586	0	0	-243,286	119,700	83,383	83,383
Cost at 31 December 2019	**294,359**	**10,011**	**959**	**143,692**	**165,674**	**372,575**	**987,270**
Impairment losses and depreciation at 1 January 2019	-61,031	0	-426	0	0	0	-61,457
Depreciation for the year	-32,321	0	-213	0	-4,652	-21,428	-58,614
Transfers for the year	0	0	0	0	0	-41,692	-41,692
Impairment losses and depreciation at 31 December 2019	**-93,352**	**0**	**-639**	**0**	**-4,652**	**-63,120**	**-161,763**
Carrying amount at 31 December 2019	**201,007**	**10,011**	**320**	**143,692**	**161,022**	**309,455**	**825,507**

	2019	2018
	TDKK	TDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:		
Cost of sales	58,572	30,911
Administrative expenses	42	38
	58,614	**30,949**

Notes to the Financial Statements

9 Right-of-use assets

Impact of implementation of IFRS 16 in the income statment in 2019

	Consolidated		
	IFRS 16	**Before**	**Impact**
	TDKK	**TDKK**	**TDKK**
Lease expense	0	-5,520	5,520
Operating profit/loss	**0**	**-5,520**	**5,520**
Depreciation	-21,428	-20,846	-582
Interest	-21,409	0	-21,409
Income before tax	**-42,837**	**-26,366**	**-16,471**

	1 January 2019
Impact of implementation of IFRS 16 in the balance	**TDKK**
Intangible assets	-41,691
Property, pant and equipment	330,883
Lease liabilities (non current)	-288,147
Lease Liabilities (current)	-1,045
Net assets	**0**

No new rental or leasing contracts have been entered into in 2019

	Parent	
	2019	**2018**
10 Investments in subsidiaries	**TDKK**	**TDKK**
Cost at 1 January	700,164	261,443
Additions for the year	707,198	438,721
Cost at 31 December	**1,407,362**	**700,164**
Value adjustments at 1 January	202,999	447,489
Net profit/loss for the year	-288,603	-244,490
Adjustment for group internal profit of purchase of AJ Biologics	-136,014	0
Value adjustments at 31 December	**-221,618**	**202,999**
Carrying amount at 31 December	**1,185,744**	**903,163**

Investments in subsidiaries are specified as follows:

Name	**Place of registered office**	**Share capital**	**Votes and ownership**	**Equity**	**Netprofit/loss for the year**
		TDKK		**TDKK**	**TDKK**
AJ Vaccines A/S	Copenhagen	50	100%	1,185,744	-288,603

Notes to the Financial Statements

		Consolidated		Parent	
		2019	2018	2019	2018
		TDKK	TDKK	TDKK	TDKK
11	**Inventories**				
	Raw materials and consumables	47,032	33,474	0	0
	Semi finished goods	381,639	271,712	0	0
	Finished goods and goods for resale	23,309	26,984	0	0
		451,980	**332,170**	**0**	**0**

12 Equity

The share capital consists of 50 shares of a nominal value of DKK 1000. No shares carry any special rights.

		Parent	
		2019	2018
		TDKK	TDKK
13	**Distribution of profit**		
	Reserve for net revaluation under the equity method	-202,999	-244,490
	Retained earnings	-159,002	-32,249
		-362,001	**-276,739**

		Consolidated		Parent	
		2019	2018	2019	2018
		TDKK	TDKK	TDKK	TDKK
14	**Deferred tax balance**				
	Deferred tax at 1 January	-68,826	-125,197	320	0
	Amounts recognised in the income statement for the year	69,148	56,371	-322	320
	Adjustment of deferred tax concerning previous years	-322	0	2	0
	Deferred tax at 31 December	**0**	**-68,826**	**0**	**320**

Notes to the Financial Statements

		Consolidated		Parent	
		2019	2018	2019	2018
		TDKK	TDKK	TDKK	TDKK
15	**Cash flow statement - adjustments**				
	Financial expenses	81,103	59,817	73,020	32,038
	Depreciation, amortisation and impairment losses, including losses and gains on sales	116,235	100,590	0	0
	Income from investments in subsidiaries	0	0	288,603	244,488
	Tax on profit/loss for the year	-68,825	-56,371	18	853
		128,513	**104,036**	**361,641**	**277,379**
16	**Cash flow statement - change in working capital**				
	Change in inventories	-119,554	-102,764	0	0
	Change in receivables	9,922	1,515	0	2,548
	Change in trade payables, etc	-131,588	95,378	-571	-144
		-241,220	**-5,871**	**-571**	**2,404**

17 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

	Consolidated 2019 TDKK	Consolidated 2018 TDKK	Parent 2019 TDKK	Parent 2018 TDKK
Lease obligations under operating leases. Total future lease payments:				
Within 1 year	315	5,896	0	0
Between 1 and 5 years	341	128,252	0	0
After 5 years	0	170,174	0	0
	656	**304,322**	**0**	**0**

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. 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 Intech Sdn. Bhd.	Parent
AJ Pharma Ltd. II	Parent
White Crystals Limited	Parent
Pergola Holding Inc	Parent
Other related parties	
Mustafa Nasir Farooki	Executive Board
Tabassum Khan	Executive Board
Abdul Wahab Mohammed A Alesayi	Executive Board
Saddam Abdulqawi Hussein Alhumaikani	Executive Board
Shan-E-Abbas Ashary	Executive Board
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 Executive Board, 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 offices
Pergola Holding Inc	British Virgin Islands
AJ Intech Sdn. Bhd.	Malaysia

The Group Annual Report of AJ Intech Sdn. Bhd. may be obtained at the following address:

Kuala Lumpur
Wilayah Persekutuan
Malaysia

Notes to the Financial Statements

		Consolidated	
		2019	2018
		TDKK	TDKK
19	**Fee to auditors appointed at the general meeting**		
	PricewaterhouseCoopers		
	Audit fee	512	837
	Other assurance engagements	329	186
	Tax advisory services	360	701
		1,201	**1,724**

20 Subsequent events

The implications of Covid-19 with many governments across the world deciding to ”close down their countries” will have great impact on the global economy. Management considers the implications of Covid-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a nonadjusting event to the Company.

Consequently, the assessments of impairment indications made by Management at 31 December 2019 are based on the future cash flows expected by Management at 31 December 2019, which may differ from the cash flows expected by Management at the time of adoption of the Annual Report, see comments in outlook for the future in Management’s Review.'

Notes to the Financial Statements

21 Accounting Policies

The Annual Report of AJ Vaccines Holding ApS for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C including optimal use of IFRS 9, 15 and 16 with respect to recognition and measurement.

The Consolidated and Parent Company Financial Statements for 2019 are presented in TDKK.

Changes in accounting policies and disclosures

Adoption of new or amended IFRSs

Management has assessed the impact of new or amended and revised accounting standards and interpretations (IFRSs) issued by the IASB and IFRSs endorsed by the European Union.

IFRS 16 'Leases'

As of 1 January 2019 AJ Vaccines Holding ApS applied IFRS 16 'Leases' for the first time. The Group has implemented IFRS 16 'Leases' using the modified retrospective approach.

Under this method, the cumulative effect of initially applying the standard is recognised at 1 January 2019. Right-of-use assets and lease liabilities have been recognised for those leases previously classified as operating leases, except for short-term leases and leases of low value assets. The right-of-use assets have been recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities are recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The comparative information has not been restated.

Impact from IFRS 16

As as of 1 January 2019:

	TDKK
Property, plant and equipment	289,192
Borrowings (non-current)	-288,147
Borrowings (current)	-1,045
Net assets	0

On transition to IFRS 16, AJ Vaccines Holding recognised an additional TDKK 289,192 of right-of-use assets and TDKK 289,192 of lease liabilities.

The change in policy has had an insignificant impact on the income statement. In the cash flow statement the principal repayment of lease liabilities is presented in 'net cash used in financing activities', whereas the full lease payment under previous policies was presented in 'net cash generated from operating activities'. The change in policy has had no impact on free cash flow due to a change in definition, as described in non-IFRS financial measures. Refer to note 10 for the impact of implementation of new accounting policies.

The following recognition exemptions and practical expedients were applied on transition:

- Applied discount rate to a portfolio of leases with similar characteristics
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application
- Exempted short-term lease contracts with a remaining duration of 12 months or less as at 1 January 2019

Reconciliation of lease liabilities pursuant to IFRS 16 on transition:

	TDKK
Lease liability on transition, buildings (undiscounted)	520,811
Lease liability on transition, cars (undiscounted)	1,273
Total	522,084
Discounted using for housing rent	7%
Discounted using for car rent	15%
	TDKK
Discounted liability recognised on transition, hosing rent	288,147
Discounted liability recognised on transition, car rent	1,045
Total	289,192

On transition to IFRS 16, AJ Vaccines Holding ApS recognised lease liabilities in relation to leases which had previously been classified as operating leases in accordance with IAS 17. The lease liabilities were measured at the present value of the future discounted lease payments using AJ Vaccines Holding ApS's incremental borrowing rate at 1 January 2019. The weighted average incremental borrowing rate applied on transition to IFRS 16 was 7% housing rent and 15% for car rent.

Notes to the Financial Statements

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.

Basis of consolidation
The Consolidated Financial Statements comprise the Parent Company, AJ Vaccines Holding ApS, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

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 is 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 Group´s 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 third 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, regulatory 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 separately identifiable components on a reliable basis that reasonably reflects the selling prices that might be expected to be achieved in standalone transactions provided that each component has value to the partner on a standalone. The then allocated consideration is recognized as revenue in accordance with the principles described above.

Sales of goods and licenses 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 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.

Notes to the Financial Statements

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labor 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 development 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 Group, including badwill and income related to the Gates Foundation.

Financial income and expenses

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

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 recognized in the income statement, whereas the tax attributable to equity transactions is recognized 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.

Notes to the Financial Statements

Balance Sheet

Intangible assets
Intangible assets include Software, Technology (including completed development projects), 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 amortized 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 recognized in cost over the period of construction. All indirectly attributable borrowing expenses are recognized 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	5-14 years

Depreciation period and residual value are reassessed annually.

Notes to the Financial Statements

Assets costing less than DKK 125.000 are expensed in the year of acquisition.

Right of use assets

AJ Vaccines Holding ApS mainly leases office buildings, warehouses, laboratories and vehicles.

For contracts which are, or contain, a lease, the Group recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, being the initial amount of the lease liability. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. The right-of-use asset is periodically adjusted for certain remeasurements of the lease liability and reduced by any impairment losses.

The lease is the non-cancellable period of a lease.

When determining the term, Management considers multiple factors that create economic incentives to exercise an option to extend the lease or not to terminate the lease, including termination penalties, potential relocation costs and whether significant leasehold improvements have been capitalised on the lease, with a remaining useful life which exceeds the fixed minimum duration of the lease.

The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted using the incremental borrowing rate. Lease payments consist of fixed payments from commencement date.

The lease liability is measured using the effective interest method.
The lease liability is remeasured when there is a change in future lease payments, typically due to a change in index or rate (e.g. inflation) on property leases.

Residual value guarantees that are expected to be paid are included in the initial measurement of the lease liability.

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.

Notes to the Financial Statements

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.

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 recognized at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognized in provisions.

The acquisition method of accounting is used to account for business combinations. In case on group internal acquisition, differences between the net book value in the company acquired form a group company and the acquisitions price paid is recognized directly on equity under retained earnings.

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 labor 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 marketability, obsolescence and changes in the expected sales price.

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.

Notes to the Financial Statements

Equity

Dividend
Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

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

Cash Flow Statement

The cash flow statement shows the Group´s and the Parent 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 Group´s and the Parent 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.