Xellia Pharmaceuticals ApS

CVR no. 61 09 46 28

Dalslandsgade 11, DK-2300 Copenhagen S

Annual report for 2017

Adopted at the annual general meeting on 22 March 2018
Mikkel Lyager Olsen chairman

Contents

Statement by management on the annual report

The Executive Board and Board of Directors have today discussed and approved the annual report of Xellia Pharmaceuticals ApS for the financial year 1. januar - 31. december 2017.

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

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31. december 2017 and of the results of the the Company's operations for the financial year 1. januar - 31. december 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and its financial position.

We recommend the adoption of the annual report at the annual general meeting.

Copenhagen, 22 March 2018

Executive Board:

Carl-Åke Carlsson

Board of Directors:

Mikkel Lyager Olsen chairman	Carl-Åke Carlsson	Bente Schmidt Nielsen
Niels Murmann	L. B. Fredmark Lennart Bo Fredmark	Thomas Schou Hunderup

Independent auditor's report

To the shareholder of Xellia Pharmaceuticals ApS

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company at 31 December 2017, and of the results of the company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the financial statements of Xellia Pharmaceuticals ApS for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements"). The financial statements are prepared under the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these 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 Financial Statements Act.

Based on the work we have performed, we conclude that 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 of 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 misstatement, whether due to fraud or error.

Independent auditor's report

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 judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- 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 in a manner that gives a true and fair view.

Independent auditor's report

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.

Copenhagen, 22 March 2018

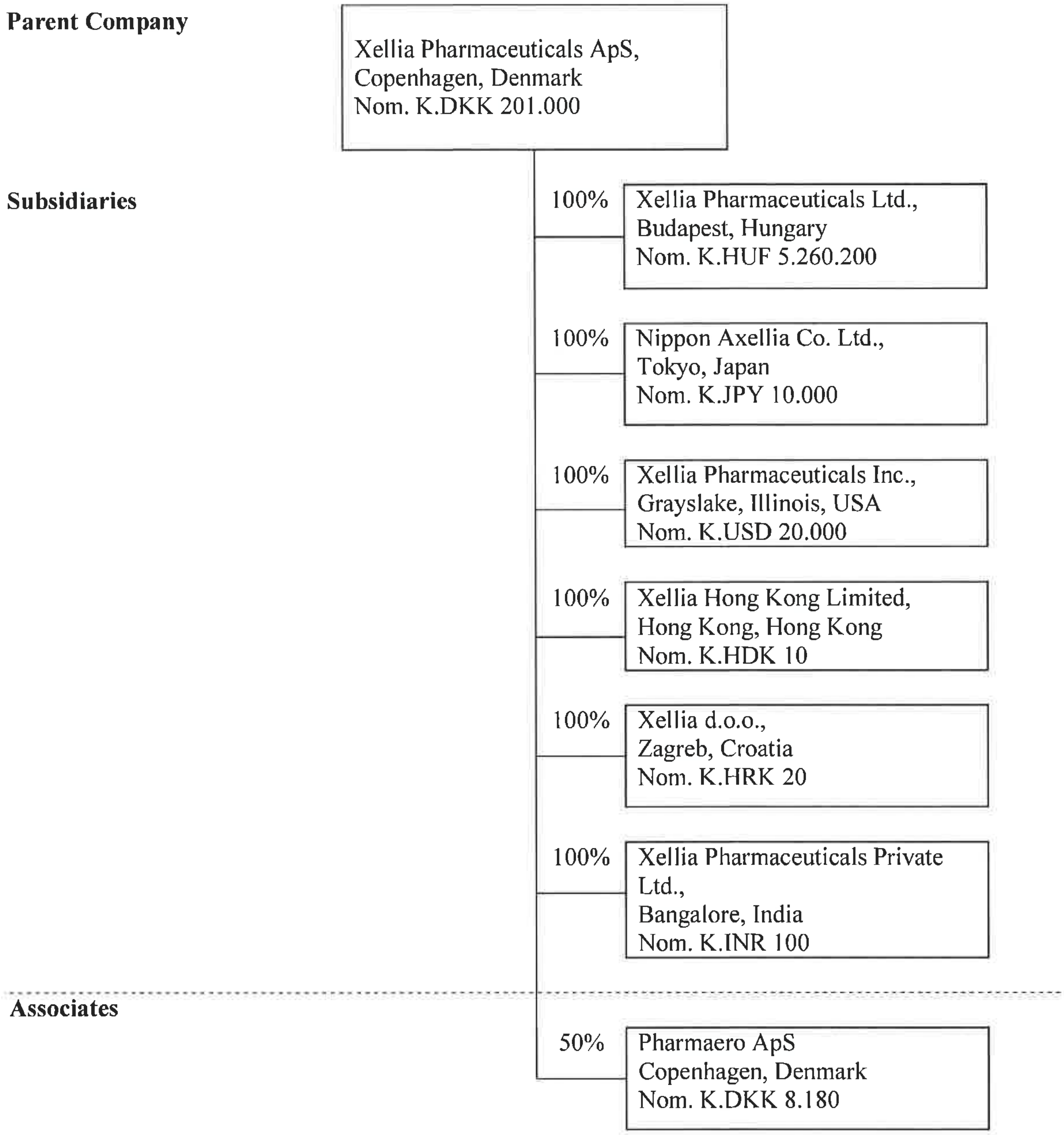
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Kim Füchsel	Conrad Mattrup Lundsgaard
State Authorised Public Accountant	State Authorised Public Accountant
MNE no. 9291	MNE no. 34529

Company details

The company	Xellia Pharmaceuticals ApS Dalslandsgade 11 DK-2300 Copenhagen S
	Telephone: +45 32 64 55 00
	Website: www.xellia.com
	CVR no.: 61 09 46 28
	Reporting period: 1 January - 31 December 2017
	Domicile: Copenhagen
Board of Directors:	Mikkel Lyager Olsen, chairman Carl-Åke Carlsson Bente Schmidt Nielsen Niels Murmann Lennart Bo Fredmark Thomas Schou Hunderup
Executive Board:	Carl-Åke Carlsson
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup
Group annual report	The company is included in the group annual report of Novo Nordisk Foundation. The group annual report of Novo Nordisk Foundation may be obtained at the following address: Novo Nordisk Foundation, Tuborg Havnevej 19, DK-2900 Hellerup
Parent Company	The Company's parent company is Xellia Group ApS, Denmark. The ultimate owner of Xellia Group ApS is Novo Nordisk Foundation.

Group chart


Parent Company
Xellia Pharmaceuticals ApS, Copenhagen, Denmark Nom. K.DKK 201.000
Subsidiaries
100%
Xellia Pharmaceuticals Ltd., Budapest, Hungary Nom. K.HUF 5.260.200
100%
Nippon Axellia Co. Ltd., Tokyo, Japan Nom. K.JPY 10.000
100%
Xellia Pharmaceuticals Inc., Grayslake, Illinois, USA Nom. K.USD 20.000
100%
Xellia Hong Kong Limited, Hong Kong, Hong Kong Nom. K.HDK 10
100%
Xellia d.o.o., Zagreb, Croatia Nom. K.HRK 20
100%
Xellia Pharmaceuticals Private Ltd., Bangalore, India Nom. K.INR 100
Associates
50%
Pharmaero ApS Copenhagen, Denmark Nom. K.DKK 8.180

Financial highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

	2017	2016	2015	2014	2013
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Revenue	1.897	1.475	1.216	916	884
Operating profit/loss	55	76	-16	-113	65
Net financials	60	-27	-87	-8	61
Profit/loss for the year	91	34	-74	-385	114
Balance sheet					
Fixed assets	1.160	1.108	1.084	1.028	1.267
Current assets	1.362	1.299	610	573	474
Balance sheet total	2.521	2.407	1.694	1.601	1.741
Equity	851	759	729	803	1.188
Provisions	41	68	62	40	116
Long-term debt	829	577	478	381	106
Short-term debt	801	1.003	425	378	331
Financial ratios					
Gross margin	28%	35%	30%	20%	36%
EBIT margin	3%	5%	-1%	-55%	7%
Return on assets	2%	4%	-1%	-30%	4%
Solvency ratio	34%	32%	43%	50%	68%
Return on equity	11%	5%	-10%	-39%	12%
Average number of full-time employees	493	466	479	444	391
Investment in tangible assets	106	86	78	113	73

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the summary of accounting policies.

Management's review

Business activities
Xellia is the Danish operating company in the Xellia Group. The company operates a manufacturing plant located in Copenhagen, Denmark.

Xellia is a specialty pharmaceutical company, focusing on providing important anti-infective treatments against serious and often life-threatening infections.

Our vertical integration strategy enables us to supply our customers with multiple product forms, improve supply security leveraging multiple manufacturing sites and provide a "one-stop- shop" offering both the API (Active Pharmaceutical Ingredients) and the FDF (Finished Dosage Forms).

Our business is built to meet both immediate and long term requirements of our customers.

Recognition and measurement uncertainties
The recognition and measurement of items in the financial statements is not subject to any material uncertainty that could significantly impact the financial statement.

Unusual matters
The Company's financial position at 31 December 2017 and the results of its operations for the financial year ended 31 December 2017 are not affected by any unusual matters.

Business review
The Company's income statement for the year ended 31 December shows a profit of TDKK 91.001, and the balance sheet at 31. December 2017 shows equity of TDKK 850.770.

Investments
In 2017, Xellia invested MDKK 61.9 in intangible assets. Xellia also capitalized investment in tangible assets of MDKK 106.1 to increase and improve its production capacity.

Special risks apart from generally occurring risks in industry
Operating risks
The company experience increasing competition in certain markets, which highlights the importance of our continued emphasis on delivery performance and cost competitiveness.

Currency risks
As the Company has significant activities in foreign countries, the Company is affected by trends in exchange rates of a number of currencies. The Company's currency policy is to hedge expected net cash flow risk from currency exposures. The hedging is made primarily by forward exchange contracts for the next 12 -24 months.

Development in activities and financial position
For the year ended 31 December 2017, the Company achieved revenues of MDKK 1.897 and gain of MDKK 91. The result was affected by investments in pipeline activities, expansion of production facilities and by financial charges.

Management's review

Outlook

The expectations for 2018 are lower revenue and lower operating profit compared to 2017 mainly due to planned impact from changes in markets and products.

The exchange rate of the USD and other exchange rates might, however, influence the profit/loss for 2018. Any changes in authorizations by public authorities may also influence the result of the Company considerably.

Net profit (loss) relation to expected development assumed in previous report

Exceeding previously expressed expectation, the revenue and profit for the year are considered satisfactory.

Statutory report on corporate governance

In 2017, the Board of Directors of the Company held three meetings. The meetings focus on the Company's financial performance and situation as well as environment, health and safety (EHS) aspects of the business. The meetings are all held with representatives from the Company's finance and EHS departments.

Xellia complies with the Danish Companies Act, Danish Accounting Act and applicable laws in the countries where the Company operates.

Statutory report on corporate social responsibility

Statutory statement in accordance with section 99a of the Danish Financial Statement Act reg. CSR

With respect to our 2017 statement on CSR in accordance with section 99a, please, refer to

http://xellia.com/#!CorporateReports

Statutory report on the underrepresented gender

Target for the supreme management body:

Xellia Pharmaceuticals ApS has obtained equal representation on our Board of Directors; thus, we do not need to set nor report on a target for a underrepresented gender.

Policy to increase the number of the underrepresented gender on other management levels:

For our policy, activities and results in 2017, we refer to the Management Review of the 2017 Novo Holdings A/S consolidated annual report.

Income statement 1 January 2017 - 31 December 2017

	Note	2017	2016
		TDKK	TDKK
Revenue	1	**1.897.063**	**1.475.168**
Cost of productions		-1.368.769	-953.338
Gross profit		**528.294**	**521.830**
Distribution costs		-71.638	-64.719
Administrative costs		-219.835	-183.752
Research and development cost		-181.700	-197.603
Operating profit/loss		**55.121**	**75.756**
Financial income	2	79.072	9.136
Financial costs	3	-18.828	-35.844
Profit/loss before tax		**115.365**	**49.048**
Tax on profit/loss for the year	4	-24.363	-15.279
Net profit/loss for the year		**91.002**	**33.769**
Proposed distribution of profit	5		
Transferred to reserve for development expenditure		33.766	47.492
Retained earnings		57.236	-13.723
		91.002	**33.769**

Balance sheet at 31 December 2017

	Note	2017	2016
		TDKK	TDKK
Assets			
Technology and development cost		117.400	89.676
Productions and sales rights		121.994	119.249
Goodwill		4.924	5.825
Software		23.141	26.156
Intangibles under construction		145.186	148.449
Intangible assets	6	**412.645**	**389.355**
Land and buildings		67.552	64.862
Plant and machinery		207.701	236.936
Fixtures and fittings, tools and equipment		16.310	16.256
Property, plant and equipment under construction		94.125	46.035
Tangible assets	7	**385.688**	**364.089**
Investments in subsidiaries	8	310.210	310.210
Investments in associates	9	51.128	44.128
Fixed asset investments		**361.338**	**354.338**
Fixed assets total		**1.159.671**	**1.107.782**
Inventories	10	**323.905**	**329.995**
Trade receivables	11	151.932	262.608
Receivables from group companies		602.847	414.212
Other receivables		223.201	56.266
Prepayments	12	11.503	37.765
Receivables		**989.483**	**770.851**
Cash at bank and in hand		**48.296**	**198.316**
Current assets total		**1.361.684**	**1.299.162**
Assets total		**2.521.355**	**2.406.944**

Balance sheet at 31 December 2017

	Note	2017	2016
		TDKK	TDKK
Liabilities and equity			
Share capital		201.000	201.000
Reserve for development expenditure		81.258	47.492
Retained earnings		571.745	514.510
Derivative		-3.233	-4.157
Equity	13	**850.770**	**758.845**
Provision for deferred tax	14	40.640	67.832
Provisions total		**40.640**	**67.832**
Mortgage loans		236.022	235.552
Payables to group companies		291.865	330.490
Other payables		6.277	10.661
Deferred income		295.184	0
Long-term debt	15	**829.348**	**576.703**
Other credit institutions	15	0	198.550
Trade payables		78.895	77.882
Payables to group companies	15	438.619	397.606
Corporation tax	16	31.744	11.811
Other payables	17	212.094	208.552
Deferred income	18	39.245	109.163
Short-term debt		**800.597**	**1.003.564**
Debt total		**1.629.945**	**1.580.267**
Liabilities and equity total		**2.521.355**	**2.406.944**
Staff	19		
Subsequent events	20		
Rental agreements and lease commitments	21		
Contingent assets, liabilities and other financial obligations	22		
Related parties and ownership	23		

Statement of changes in equity

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
Equity at 1 January	201.000	47.492	514.509	-4.157	758.844
Other equity movements	0	0	0	1.185	1.185
Net profit/loss for the year	0	33.766	57.236	0	91.002
Changes in equity of tax	0	0	0	-261	-261
Equity at 31 December	**201.000**	**81.258**	**571.745**	**-3.233**	**850.770**

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
Equity 1. januar 2016	201.000	0	528.233	0	729.233
Other equity movements	0	0	0	-5.329	-5.329
Net profit/loss for the year	0	47.492	-13.723	0	33.769
Changes in equity of tax	0	0	0	1.172	1.172
Equity 31. december 2016	**201.000**	**47.492**	**514.510**	**-4.157**	**758.845**

Notes

1 Information on segments

Geographical - secondary segment

	Europe	North America	South America	Asia	Other	Total
TDKK						
2017						
Revenue	594.507	1.050.681	52.376	179.002	20.497	1.897.063
2016						
Revenue	547.007	783.867	63.776	75.277	5.230	1.475.157

	2017	2016
	TDKK	TDKK
2 Financial income		
Interest received from group companies	346	1.541
Other financial income	3.521	593
Exchange adjustments	75.205	7.002
	79.072	**9.136**

	2017	2016
3 Financial costs		
Interest paid to group companies	10.655	9.682
Other financial costs	7.661	20.372
Foreign exchange adjustments	51	0
Exchange loss	461	5.790
	18.828	**35.844**

	2017	2016
4 Tax on profit/loss for the year		
Current tax for the year	49.788	11.811
Deferred tax for the year	-24.131	4.657
Adjustment of tax concerning previous years	2.027	-1.189
Adjustment of deferred tax concerning previous years	-3.321	0
	24.363	**15.279**

Notes

		2017	2016
		TDKK	TDKK
5	**Distribution of profit**		
	Transferred to reserve for development expenditure	33.766	47.492
	Retained earnings	57.236	-13.723
		91.002	**33.769**

6 Intangible assets

	Technology and development cost	Productions and sales rights	Goodwill	Software	Intangibles under construction	Total
Cost at 1 January	215.881	356.799	21.156	43.035	308.643	945.514
Additions for the year	0	10.734	0	0	51.126	61.860
Transfers for the year	40.304	0	0	4.985	-45.289	0
Cost at 31 December	256.185	367.533	21.156	48.020	314.480	1.007.374
Impairment losses and amortisation at 1 January	126.207	237.549	15.330	16.879	160.195	556.160
Impairment losses for the year	0	0	0	0	9.099	9.099
Amortisation for the year	12.578	7.990	902	8.000	0	29.470
Impairment losses and amortisation at 31 December	138.785	245.539	16.232	24.879	169.294	594.729
Carrying amount at 31 December	**117.400**	**121.994**	**4.924**	**23.141**	**145.186**	**412.645**
Depreciated over	5-15 år	5-20 år	20 år	3-5 år		

The residual value of the company's intangible assets are reviewed annually.

Xellia currently has 8 ongoing development projects. The development projects are related to development of existing and new versions of existing pharmaceutical products. Xellia capitalizes development costs when the Xellia Portfolio Review Committee for development projects has approved the project, and if the project shows a positive net cash flow. The projects are progressing as planned using the resources management have allocated to development projects. The expected completion of the ongoing development projects is within the years 2018-2020. It is expected that the products will be sold at the current market for the company's existing customers.

The expected income from capitalized development projects and technology exceeds the cost after impairment.

Notes

7 Tangible assets

	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Total
Cost at 1 January	374.359	805.408	44.580	131.984	1.356.331
Additions for the year	0	0	0	73.479	73.479
Transfers for the year	9.242	44.316	4.453	-58.011	0
Cost at 31 December	383.601	849.724	49.033	147.452	1.429.810
Impairment losses and depreciation at 1 January	309.500	601.094	28.324	53.327	992.245
Depreciation for the year	6.549	40.198	5.130	0	51.877
Transfers for the year	0	731	-731	0	0
Impairment losses and depreciation at 31 December	316.049	642.023	32.723	53.327	1.044.122
Carrying amount at 31 December	**67.552**	**207.701**	**16.310**	**94.125**	**385.688**
Depreciated over	13-40 år	5-13 år	3-13 år		

The Company has contractual obligations at 31 December 2017 regarding aquirement of equipment's and buildings amounting to MDKK 25.9 (2016: MDKK 0.0)

The residual value of the company's tangible assets are reviewed annually.

As security for mortgage debt, MDKK 240, is given in land and buildings, as per 31. December 2016 is valued to MDKK 369.

	2017	2016
	TDKK	TDKK
8 Investments in subsidiaries		
Cost at 1 January	310.210	310.210
Cost at 31 December	310.210	310.210
Carrying amount at 31 December	**310.210**	**310.210**

Notes

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Ownership	Equity	Net profit/loss for the year
Xellia Pharmaceuticals Ltd.	Hungary	KHUF 5.260.200	100%	14.818.423	8.344.393
Nippon Axellia Co. Ltd.	Japan	KJPY 10.000	100%	47.295	-2.934
Xellia Pharmaceuticals Inc.	USA	KUSD 20.000	100%	28.691	2.909
Xellia Hong Kong Limited	Hong Kong	KHDK 10	100%	95.652	-3.357
Xellia d.o.o.	Croatia	KHRK 20	100%	29.378	4.825
Xellia Pharmaceuticals Private Ltd.	India	KINR 100	100%	36.407	21.023

		2017	2016
		TDKK	TDKK
9	**Investments in associates**		
	Cost at 1 January	44.128	32.578
	Additions for the year	7.000	11.550
	Cost at 31 December	51.128	44.128
	Carrying amount at 31 December	**51.128**	**44.128**

Investments in associates are specified as follows:

Name	Place of registered office	Ownership	Equity	Net profit/loss for the year
Pharmaero ApS	Denmark	50%	100.375	-1.983

Notes

		2017	2016
		TDKK	TDKK
10	**Inventories**		
	Raw materials and consumables	51.484	39.031
	Work in progress	58.246	84.998
	Finished goods and goods for resale	214.175	205.966
		323.905	**329.995**

11 Receivables

	2017	2016
The following receivables from subsidiaries fall due for payment more than 1 year after year end	0	26.475

12 Prepayments

Prepayments comprise prepaid expenses such as third party production, rent and insurance premiums.

13 Equity

The share capital has developed as follows:

	2017	2016	2015	2014	2013
	TDKK	TDKK	TDKK	TDKK	TDKK
Share capital at 1 January	201.000	201.000	201.000	201.000	101.000
Additions for the year	0	0	0	0	100.000
Share capital	**201.000**	**201.000**	**201.000**	**201.000**	**201.000**

Notes

	2017	2016
	TDKK	TDKK
14 Provision for deferred tax		
Provision for deferred tax at 1 January	67.832	37.253
Provision in year	-27.192	30.579
Provision for deferred tax at 31 December	**40.640**	**67.832**
Intangible assets	90.342	85.206
Property, plant and equipment	-12.459	-17.494
Inventories	26.894	35.696
Prepayments from customers	-64.941	-22.314
Other taxable temporary differences	804	-13.262
	40.640	**67.832**

Provision for deferred tax on equity are reduced by TDKK 261 to TDKK 911 at year end 2017. Deferred tax in P&L for the year inclusive adjustments for previous years are TDKK 27.451.

	2017	2016
15 Long term debt		
Mortgage loans		
After 5 years	192.263	0
Between 1 and 5 years	43.759	235.552
Non-current portion	236.022	235.552
Within 1 year	0	0
	236.022	**235.552**
Other credit institutions		
Non-current portion	0	0
Other short-term debt to credit institutions	0	198.550
Other short-term debt to credit institutions	0	198.550
	0	**198.550**
Payables to group companies		
After 5 years	291.865	330.490
Non-current portion	291.865	330.490
Other short-term debt to subsidiaries	438.619	397.606
Other short-term debt to credit institutions	438.619	397.606
	730.484	**728.096**

Notes

15 Long term debt (continued)

	2017	2016
	TDKK	TDKK
Other payables		
Between 1 and 5 years	6.277	10.661
Non-current portion	6.277	10.661
Other short-term other debt	212.095	208.552
Other short-term debt to credit institutions	212.095	208.552
	218.372	**219.213**
Deferred income		
Between 1 and 5 years	295.184	0
Non-current portion	295.184	0
Other short-term deferred income	39.245	109.163
Other short-term debt to credit institutions	39.245	109.163
	334.429	**109.163**

As security for mortgage debt, MDKK 240, is given in land and buildings, as per 31. December valued to MDKK 369.

16 Corporation tax

Corporation tax payable	31.744	11.811
Corporation tax payable	**31.744**	**11.811**

Notes

		2017	2016
		TDKK	TDKK
17	**Other payables**		
	Accrued interest	159	10
	Wages/salaries, salary taxes, social security contributions, etc.	73.616	70.175
	Other accrued expenses	134.176	104.885
	Derivative financial instruments liabilities	4.143	33.482
		212.094	**208.552**

The Company is exposed to changes in exchange rates in the functional currencies. The Company has therefore entered into forward currency agreements to secure future cash flows. The foreign exchange contracts are entered into in order to hedge the functional currency equivalent of the predominantly USD dominated sales. The Companys foreign exchange contracts at the end of December 2017 are MUSD 71.1 (2016: MUSD 107.7).

Interest for the mortgage loan is fixed by an interest swap for the remainder of the 14 years loan period. Both in regarding to retrospective and prospective effectiveness test, the interest swap is expected to be highly effective in swapping the underlying CIBOR 6M instrument with the fixed interest rate.

18 Deferred income

Deferred income is arising from long-term customer contract with declining prices over the contract period. In 2017 the invoiced sales prices are higher than the expected average sales prices for the whole contract period. The difference is consequently deferred and will be taken to income when the invoiced sales prices becomes lower than the average sales prices.

Notes

	2017	2016
	TDKK	TDKK
19 Staff		
Wages and Salaries	291.266	265.528
Pensions	27.931	31.349
Other social security expenses	3.741	4.197
	322.938	**301.074**
Wages and Salaries, pensions and other social security expenses are recognised in the following items:		
Cost of sales	259.316	243.303
Distribution expenses	7.334	7.470
Administrative expenses	41.562	34.841
Research and development expenses	14.726	15.460
	322.938	**301.074**
Average number of employees	493	466

According to section 98B (3) of the Danish Financial Statements Act, remuneration to the Executive Board has not been disclosed.

20 Subsequent events

No events have ossured after the balance sheet date which may materially affect the Company's financial position.

21 Rental agreements and lease commitments

	2017	2016
Operating lease commitments. Total future lease payments:		
Within 1 year	1.687	1.577
Between 1 and 5 years	1.785	838
	3.472	**2.415**
Operating lease commitments. Total future lease payments:		
After 5 years	0	0

Notes

22 Contingent assets, liabilities and other financial obligations

Contingent liabilities
The Company and subsidiaries are currently involved in pending litigations, claims and investigations arising out of the normal course of business. For the cases where the Xellia Group has an uncapped, infinitive indemnification right from the former owners of the Group, management has taken this into consideration in determining the appropriate provision. Management does not expect any pending claims or investigations to have a material impact on the Companys financial position, operating profit or cash flows.

The Company is jointly taxed, together with other Danish entities controlled by Novo Holdings A/S.

Under the Danish tax regime all Danish companies are jointly and severally liable to the Danish tax Group's tax payments.

Operating lease guarantees

The company has granted guarantees to thrird parties of total TDKK 215 (2016: TDKK 231)

23 Related parties and ownership

Controlling interest

Xellia Group ApS holds the majority of the share capital in the Company.
Xellia Group AS holds the majority of the share capital in Xellia Group ApS.
Otnortopco AS holds the majority of the share capital i Xellia Group AS.
New Xellia Group A/S holds the majority of the share capital in Otnortopco AS.
Xellia Holdco A/S holds the majority of the share capital in New Xellia Group A/S.
Novo Holdings A/S holds the majority of the share capital in Xellia Holdco A/S.
Novo Nordisk Foundation holds the majority of the share capital in Novo Holdings A/S.

Transactions

This year's transactions with related parties are done at market conditions.

Ownership

According to the Company's register of shareholders, the following shareholders hold a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

Xellia Group ApS, Dalslandsgade 11, DK-2300 Copenhagen S
The company is included in the group annual report of Novo Nordisk Foundation.

The group annual report of Novo Nordisk Foundation may be obtained at the following address:
Novo Nordisk Foundation, Tuborg Havnevej 19, DK-2900 Hellerup

Accounting policies

The annual report of Xellia Pharmaceuticals ApS for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act concerning large reporting class C entities.

The accounting policies applied are consistent with those of last year.

The annual report for 2017 is presented in TDKK

Basis of recognition and measurement
Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits 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 from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

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

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

Derivative financial instruments
Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Accounting policies

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets and liabilities are recognised in other receivables or other payables and in equity. If the forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the forecast transaction results in income or expenses, amounts previously recognised in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

Changes in the fair value of financial instruments concerning loans that are designated and qualify as hedges of net investments in independent foreign subsidiaries are recognised directly in equity.

The fair value of derivative financial instruments are calculated using inputs, other than quoted priced observable marked data for the asset or liability, either directly or indirectly. This is level II of the fair value hierachy.

As for derivative financial instruments that do not qualify for hedge accounting, fair value adjustments are recognised in the income statement on a current basis.

Consolidated financial statements
With reference to the Danish Financial Statements Act section 112, pgh. 1, no. 2 group financial statements have not been prepared.

Income statement

Revenue
Income from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Income from sales of registrations rights, licenses, royalty or similar are recognized as revenue on agreed milestone payments given that the milestones represent the fair value of the service delivered.

Cost of productions
Cost of productions 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.

Accounting policies

Research and development cost
Research and development costs comprise costs relating to development projects that do not qualify for recognition in the balance sheet and amortisation of recognised development projects.

Distribution costs
Distribution costs comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to distribution activities.

Administrative costs
Administrative costs comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

Financial income and expenses
Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year
Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

Balance sheet

Goodwill
Development costs and costs relating to rights developed by the company are recognised in the income statement as costs in the year of acquisition.

Development projects, patents and licenses
Development costs comprise costs directly and indirectly attributable to the company's development activities.

Developments projects recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities in the company are evidenced, and where the company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and developmet costs. Other development costs are recognised in the income statement when incurred.

Accounting policies

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually five years.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Tangible assets
Items of land and buildings,plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Interest expenses on loans obtained specifically for the purpose of financing the manufacture of property, plant and equipment are included in cost over the manufacturing period. All indirect, attributable borrowing costs are recognised in the income statement.

Where individual parts of an item of property, plant and equipment have different useful lives, the cost is divided into separate parts, which are depreciated separately.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

Buildings	13-40	years
Plant and machinery	5-13	years
Fixtures and fittings, tools and equipment	3-13	years

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses respectively.

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

Accounting policies

Impairment of fixed assets
The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is reviewed for impairment, other than what is reflected through normal amortisation and depreciation, on an annual basis.

Where there are indications of impairment, an impairment test is performed for each individual asset or group of assets, respectively. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

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

Investments in subsidiaries and associates
Investments in subsidiaries and associates are recognised and measured in the Annual Report at purchase price.

Declared dividend is included in the income statement.

The carrying amounts are reviewed on an annual basis to determine whether there is any indication of impairment. If so, the asset is written down to its lower recoverable amount. The recoverable amount of the asset is calculated as the higher of net selling price and value in use.

Inventories
Inventories are measured using the FIFO method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The cost of goods for resale, raw materials and consumables comprises the purchase price plus delivery costs.

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

Production overheads include the indirect cost of materials, wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not recognised in the cost.

The net realisable value of inventories is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Accounting policies

Receivables
Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

Leases
Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed in contingencies, etc.

Prepayments
Prepayments comprise costs incurred concerning subsequent financial years.

Equity
Dividend
Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the annual general meeting.

Capitalised development cost occured from January 1, 2016 are reflected as an reseve in equity in accodance with the Danish Financial Act section 83.

Income tax and deferred tax
Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Accounting policies

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The Company is jointly taxed with the companies within the Novo A/S group. The tax effect of the joint taxation is allocated to both profit and loss making companies in proportion to their taxable income (full allocation with reimbursement as regards tax losses).

Liabilities
Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities, which include financial liabilities, trade receivables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Deferred income
Deferred income comprises payments received concerning income in subsequent reporting years.

Cash flow statement

Pursuant to section 86 (4) of the Danish Financial Statements Act, the company has not prepared a cash flow statement. The financial statement of Xellia Pharmaceuticals ApS are included in the cash flow statement of a higher group company.

Segment information
Information is provided on geographical markets. The segment information is provided in consideration of the company's accounting policies, risks and management control.

Segment assets comprise assets that are used directly in the segment's revenue-producing activities.

Segment liabilities comprise liabilities resulting from the segment's operations, including trade payables and other payables.

Accounting policies

Financial Highlights

Definitions of financial ratios.

Gross margin ratio
$$\frac{\text{Gross Profit x 100}}{\text{Revenue}}$$

EBIT margin
$$\frac{\text{Profit/loss before financials x 100}}{\text{Revenue}}$$

Return on assets
$$\frac{\text{Profit/loss before financials x 100}}{\text{Total assets}}$$

Solvency ratio
$$\frac{\text{Equity at year end x 100}}{\text{Total assets}}$$

Return on equity
$$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$