



Xellia Pharmaceuticals ApS

CVR no 61 09 46 28

Dalslandsgade 11, DK-2300 Copenhagen S

Annual report for 2016

Adopted at the annual general meeting on
30 May 2017

A handwritten signature in blue ink, appearing to be "MLO", written in a cursive style.

Mikkel Lyager Olsen
Chairman

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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 2016.

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 2016 and of the results of the the Company's operations for the financial year 1. januar - 31. december 2016.

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, 30 May 2017

Executive Board:



Carl-Ake Carlsson

Board of Directors:



Mikkel Lyager Olsen
Chairman



Mads Bodenhoff



Carl-Ake Carlsson



Bente Schmidt Nielsen

Jan Høgh Bergmann



Thomas Schou Hunderup

Independent auditor's report

To the shareholder of Xellia Pharmaceuticals ApS

Opinion

We have audited the financial statements of Xellia Pharmaceuticals ApS for the financial year 1. januar - 31. december 2016, which comprise an income statement, balance sheet, statement of changes in equity, notes and summary of significant accounting policies, including a summary of significant accounting policies. The financial statements are prepared under 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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for Opinion

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

Management's Responsibilities for the financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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.

Independent auditor's report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 Statement Act. We did not identify any material misstatement of Management's Review.

Copenhagen, 30 May 2017

PricewaterhouseCoopers
Selskab af revisorer
CVR-nr. 33 77 12 31



Kim Fuchsel
State Authorised Public Accountant

Company details

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

Financial year:

1. January - 31. December

Domicile:

Copenhagen S

Board of Directors:

Mikkel Lyager Olsen, Chairman

Mads Bodenhoff

Carl-Åke Carlsson

Bente Schmidt Nielsen

Jan Høgh Bergmann

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

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 7.060

Financial highlights

5-year summary:

	2016	2015	2014	2013	2012
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Revenue	1.475	1.216	916	884	918
Operating profit/loss	76	-16	-113	65	147
Net financials	-27	-87	-8	61	50
Profit/loss for the year	34	-74	-385	114	163
Balance sheet					
Fixed assets	1.108	1.084	1.028	1.267	1.221
Current assets	1.299	610	573	474	396
Balance sheet total	2.407	1.694	1.601	1.741	1.617
Equity	759	729	803	1.188	689
Provisions	68	62	40	116	104
Long-term debt	577	478	381	106	382
Short-term debt	1.003	425	378	331	442
Financial ratios					
Gross margin	35%	30%	20%	36%	40%
EBIT margin	5%	-1%	-55%	7%	16%
Return on assets	4%	-1%	-30%	4%	10%
Solvency ratio	32%	43%	50%	68%	43%
Return on equity	5%	-10%	-39%	12%	27%
Average number of full-time employees	466	479	444	391	361
Investment in tangible assets	86	78	113	73	29

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.

As a global business our customers include branded, speciality and generic pharmaceutical companies in more than 70 countries around the world. Over recent years we have increased our focus on expanding in the US market and in 2016 more than 53% of our revenue where generated in the US.

Recognition and measurement uncertainties

The recognition and measurement of items in the financial statements is not subject to any uncertainty.

Unusual matters

The Company's financial position at 31. december 2016 and the results of its operations for the financial year ended 31. december 2016 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 33.769, and the balance sheet at 31. december 2016 shows equity of TDKK 758.845.

Investments

In 2016, Xellia invested MDKK 76,0 in intangible assets. Xellia also capitalized investment in tangible assets of MDKK 88,6 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, in particular from manufacturers operating in Asia, 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.

Management's review

Research and development activities in and for reporting entity

As a result of a good operational performance combined with new launches we have met our financial targets for the year.

For the year ended 31 December 2016, the Company achieved revenues of MDKK 1.475 and gain of MDKK 34. The result was affected by significant investment programs in R&D and production and by financial charges.

Outlook

The expectations for 2017 are increased revenue and improvement of operating profit compared to 2016.

The exchange rate of the USD and other exchange rates might, however, influence the profit/loss for 2017. 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 2016, the Board of Directors of the Company held two 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

A Corporate Social Responsibility Report has been published and is available at

<http://www.xellia.com/#!/CorporateReports>.

This meets the requirements of section 99a and section 99b of the Danish Financial Statements Acts.

Statutory report on the underrepresented gender

According to the requirements of section 99b of the Danish Financial Statements Acts Xellia aim to ensure that in 2017 each gender make up at least 40% of the members of the Board of Directors chosen by the shareholders. As for the next level of leaders Xellia has adopted a policy which is aimed at accomplishing a more equal composition between the genders at management level, such that female managers represent at least 40% before the end of 2017.

Income statement 1 January - 31 December

	Note	2016 TDKK	2015 TDKK
Revenue		1.475.168	1.215.677
Cost of productions		-953.338	-851.484
Gross profit		521.830	364.193
Distribution costs		-64.719	-61.861
Administrative costs		-183.752	-185.925
Research and development costs		-197.603	-131.971
Operating profit/loss		75.756	-15.564
Financial income	2	9.136	1.666
Financial costs	3	-35.844	-89.046
Profit/loss before tax		49.048	-102.944
Tax on profit/loss for the year	4	-15.279	28.937
Net profit/loss for the year		33.769	-74.007
Proposed distribution of profit			
Transferred to reserve for development expenditure		47.492	0
Retained earnings		-13.723	-74.007
		33.769	-74.007

Balance sheet at 31 December

	Note	2016 TDKK	2015 TDKK
Assets			
Technology and development cost		89.676	83.375
Productions and sales rights		119.249	177.714
Goodwill		5.825	6.728
Software		26.156	26.806
Intangibles under construction		148.449	124.559
Intangible assets	6	389.355	419.182
Land and buildings		64.862	68.479
Plant and machinery		236.936	175.615
Fixtures and fittings, tools and equipment		16.256	12.105
Property, plant and equipment under construction		46.035	65.807
Tangible assets	7	364.089	322.006
Investments in subsidiaries	8	310.210	310.210
Investments in associates	9	44.128	32.578
Fixed asset investments		354.338	342.788
Fixed assets total		1.107.782	1.083.976
Inventories	10	329.995	272.525
Trade receivables	11	262.608	173.322
Receivables from group companies	11	414.212	134.621
Other receivables		56.266	1.574
Corporation tax		0	19.462
Prepayments	12	37.765	7.381
Receivables		770.851	336.360
Cash at bank and in hand		198.316	665
Current assets total		1.299.162	609.550
Assets total		2.406.944	1.693.526

Balance sheet at 31 December

	Note	2016 TDKK	2015 TDKK
Liabilities and equity			
Share capital		201.000	201.000
Reserve for development expenditure		47.492	0
Retained earnings		514.510	528.233
Derivative		-4.157	0
Equity	13	758.845	729.233
Provision for deferred tax	14	67.832	61.994
Provisions total		67.832	61.994
Mortgage loans		235.552	0
Bank loans		0	145.000
Payables to group companies		330.490	317.539
Other payables		10.661	15.150
Long-term debt	15	576.703	477.689
Other credit institutions	15	198.550	88.442
Trade payables		77.882	72.990
Payables to group companies		397.606	79.180
Corporation tax	16	11.811	0
Other payables	17	208.552	175.033
Deferred income	18	109.163	8.965
Short-term debt		1.003.564	424.610
Debt total		1.580.267	902.299
Liabilities and equity total		2.406.944	1.693.526
Staff	19		
Subsequent events	20		
Rental agreements and lease commitments	21		
Contingent liabilities and other financial obligations	22		
Related parties and ownership	23		

Equity

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 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 at 31 December 2016	201.000	47.492	514.510	-4.157	758.845

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January 2015	201.000	602.240	803.240
Net profit/loss for the year	0	-74.007	-74.007
Equity at 31 December 2015	201.000	528.233	729.233

Notes

1 Information on segments

Geographical segment

	Europe	North America	South America	Asia	Other	Total
TDKK 2016						
Revenue	547.007	783.867	63.776	75.277	5.230	1.475.157
2015						
Revenue	540.725	518.704	65.155	86.198	4.882	1.215.664

	2016	2015
	TDKK	TDKK
2 Financial income		
Interest received from group companies	1.541	1.313
Other financial income	593	353
Foreign exchange adjustments	7.002	0
	<u>9.136</u>	<u>1.666</u>

3 Financial costs

Interest paid to group companies	9.682	9.228
Other financial costs	20.372	12.874
Foreign exchange adjustments	5.790	66.944
	<u>35.844</u>	<u>89.046</u>

4 Tax on profit/loss for the year

Current tax for the year	11.811	-54.269
Deferred tax for the year	4.657	25.817
Adjustment of tax concerning previous years	-1.189	-485
	<u>15.279</u>	<u>-28.937</u>

Notes

	2016	2015
	TDKK	TDKK
5 Distribution of profit		
Transferred to reserve for development expenditure	47.492	0
Retained earnings	-13.723	-74.007
	33.769	-74.007

6 Intangible assets

	Technology and development cost	Productions and sales rights	Goodwill	Software	Intangibles under construction	Total
Cost at 1 January 2016	190.574	393.251	21.156	37.030	263.910	905.921
Additions for the year	0	0	0	0	76.046	76.046
Disposals for the year	0	-36.453	0	0	0	-36.453
Transfers for the year	25.307	0	0	6.005	-31.312	0
Cost at 31 December 2016	215.881	356.798	21.156	43.035	308.644	945.514
Impairment losses and amortisation at 1 January 2016	107.199	215.537	14.429	10.224	139.349	486.738
Impairment losses for the year	7.454	26.553	0	0	20.848	54.855
Depreciation for the year	11.552	13.685	902	6.655	-2	32.792
Reversal of impairment losses	0	-18.226	0	0	0	-18.226
Impairment losses and amortisation at 31 December 2016	126.205	237.549	15.331	16.879	160.195	556.159
Carrying amount at 31 December 2016	89.676	119.249	5.825	26.156	148.449	389.355
Amortized over	5-15 years	5-20 years	15 years	3-5 years		

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

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. It is expected that the products will be sold at the current market for the company's existing customers.

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 2016	368.637	744.113	35.882	99.914	1.248.546
Additions for the year	0	0	0	88.565	88.565
Disposals for the year	0	0	0	-13.401	-13.401
Transfers for the year	5.723	61.295	8.698	-75.716	0
Cost at 31 December 2016	<u>374.360</u>	<u>805.408</u>	<u>44.580</u>	<u>99.362</u>	<u>1.323.710</u>
Impairment losses and depreciation at 1 January 2016	300.158	535.875	23.777	66.728	926.538
Depreciation for the year	9.340	32.597	4.547	0	46.484
Reversal for the year of previous years' impairment losses	0	0	0	-13.401	-13.401
Impairment losses and depreciation at 31 December 2016	<u>309.498</u>	<u>568.472</u>	<u>28.324</u>	<u>53.327</u>	<u>959.621</u>
Carrying amount at 31 December 2016	<u><u>64.862</u></u>	<u><u>236.936</u></u>	<u><u>16.256</u></u>	<u><u>46.035</u></u>	<u><u>364.089</u></u>
Depreciated over	<u>13-40 years</u>	<u>5-13 years</u>	<u>3-13 years</u>		

The Company has contractual obligations at 31 December 2016 regarding acquirement of equipment's and buildings amounting to MDKK 0.0 (2015: MDKK 51.9)

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 346.

8 Investments in subsidiaries

	2016	2015
	TDKK	TDKK
Cost at 1 January 2016	310.210	305.361
Additions for the year	0	4.849
Cost at 31 December 2016	<u>310.210</u>	<u>310.210</u>
Carrying amount at 31 December 2016	<u><u>310.210</u></u>	<u><u>310.210</u></u>

Notes

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Xellia Pharmaceuticals Ltd.	Hungary	KHUF 5.260.200	100%	6.474.030	-159.629
Nippon Axellia Co. Ltd.	Japan	KJPY 10.000	100%	50.229	-1.122
Xellia Pharmaceuticals Inc.	USA	KUSD 20.000	100%	25.782	489
Xellia Hong Kong Limited	Hong Kong	KHDK 10	100%	70.339	-3.857
Xellia d.o.o.	Croatia	KHRK 20	100%	24.553	3.836
Xellia Pharmaceuticals Private Ltd.	India	KINR 100	100%	15.384	4.938

9 Investments in associates

	2016	2015
	TDKK	TDKK
Cost at 1 January 2016	32.578	27.590
Additions for the year	11.550	4.988
Cost at 31 December 2016	44.128	32.578
Carrying amount at 31 December 2016	44.128	32.578

Investments in associates are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Pharmaero ApS	Denmark	KDKK 7.060	50%	87.825	-660

Notes

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
10 Inventories		
Raw materials and consumables	39.031	28.553
Work in progress	84.998	37.716
Finished goods and goods for resale	<u>205.966</u>	<u>206.256</u>
	<u>329.995</u>	<u>272.525</u>

11 Receivables

The following receivables from subsidiaries fall due for payment more than 1 year after year end

<u>26.475</u>	<u>34.144</u>
---------------	---------------

12 Prepayments

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

13 Equity

The share capital has developed as follows:

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
Share capital at 1 January	201.000	201.000	201.000	101.000	101.000
Additions for the year	<u>0</u>	<u>0</u>	<u>0</u>	<u>100.000</u>	<u>0</u>
Share capital	<u>201.000</u>	<u>201.000</u>	<u>201.000</u>	<u>201.000</u>	<u>101.000</u>

Notes

	2016	2015
	TDKK	TDKK
14 Provision for deferred tax		
Provision for deferred tax at 1 January 2016	37.253	44.832
Provision in year	30.579	17.162
Provision for deferred tax at 31 December 2016	67.832	61.994
Intangible assets	85.206	75.643
Property, plant and equipment	-17.494	-21.292
Inventories	35.696	22.523
Prepayments from customers	-22.314	0
Other taxable temporary differences	-13.262	-14.880
	67.832	61.994
Provision for deferred tax on equity are reduced by T.DKK 6.504 to T.DKK 1.172 at year end 2016. Deferred tax in P&L for the year inclusive adjustments for previous years are T.DKK 25.782		
15 Long term debt		
Mortgage loans		
Between 1 and 5 years	235.552	0
Non-current portion	235.552	0
Within 1 year	0	0
	235.552	0
Bank loans		
Between 1 and 5 years	0	145.000
Non-current portion	0	145.000
Other short-term debt to credit institutions	198.550	88.442
	198.550	88.442
	198.550	233.442
Payables to group companies		
After 5 years	330.490	317.539
Non-current portion	330.490	317.539
Other short-term debt to group companies	397.606	79.180
	397.606	79.180
	728.096	396.719

Notes

15 Long term debt (continued)

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
Other payables		
Between 1 and 5 years	10.661	15.150
Non-current portion	10.661	15.150
Other short-term other debt	208.552	175.033
Other short-term debt to credit institutions	208.552	175.033
	<u>219.213</u>	<u>190.183</u>

As security for mortgage debt, MDKK 240, is given in land and buildings, as per 31. December 2016 is valued to MDKK 346.

16 Corporation tax

Corporation tax payable at 1 January 2016	11.811	0
Corporation tax payable at 31 December 2016	<u>11.811</u>	<u>0</u>

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
17 Other payables		
Accrued interest	10	216
VAT and other indirect taxes	0	8.465
Wages/salaries, salary taxes, social security contributions, etc.	70.175	63.324
Other accrued expenses	104.885	84.588
Derivative financial instruments liabilities	33.482	18.440
	<u>208.552</u>	<u>175.033</u>

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 Company's foreign exchange contracts at the end of December are MUS\$ 107,7.

Interest for the mortgage loan is fixed by an interest swap for the remainder of the 15 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 consists of payments received in respect of income relating to subsequent years.

Notes

19 Staff

Wages and Salaries	265.528	280.934
Pensions	31.349	28.480
Other social security expenses	4.197	4.272
	<u>301.074</u>	<u>313.686</u>

Wages and Salaries, pensions and other social security expenses are recognised in the following items:

Cost of sales	243.303	249.434
Distribution expenses	7.470	7.599
Administrative expenses	34.841	36.940
Research and development expenses	15.460	19.713
	<u>301.074</u>	<u>313.686</u>

Average number of employees	<u>466</u>	<u>479</u>
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According to section 98 B(3) of the Danish Financial Statements Act, remuneration to the Executive Board has not been disclosed.

20 Subsequent events

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

21 Rental agreements and lease commitments

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
Rental and lease commitments		
Operating lease commitments.		
Total future lease payments:		
Within 1 year	1.577	1.707
Between 1 and 5 years	838	780
After 5 years	0	0
	<u>2.415</u>	<u>2.487</u>

Operating lease commitments.
Total future lease payments:

After 5 years	<u>0</u>	<u>0</u>
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Notes

22 Contingent liabilities and other financial obligations

Contingent liabilities

In 2010 the Danish tax authorities have forwarded a proposed decision to impose withholding tax of 267 MDKK plus interest, on dividend from Xellia Pharmaceuticals ApS to Xellia Pharmaceuticals AS, Norway, declared in 2006. Xellia Pharmaceuticals ApS dispute the proposal from the Danish tax authorities and consequently no provision has been made. In case of eventual tax payment in the case above, the Xellia Group has a contracted right of full, uncapped, and infinitive indemnification from the owner of the Company at that time.

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 Company's financial position, operating profit or cash flows.

The Company is jointly taxed, together with the Danish companies in the Novo A/S group.

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 third parties of total DKK 231 thousand (2015: DKK 315 thousand).

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 in 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 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 A/S.

Transactions

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

Notes

23 Related parties and ownership (continued)

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 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

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

The annual report for 2016 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's 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's 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 are 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 hierarchy.

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

Intangible assets

Goodwill

Goodwill is amortised over the expected economic life of the asset, measured by reference to management's experience in the individual business segments. Goodwill is amortised on a straight-line basis over the amortisation period, which is 20 years. The amortisation period is based on the assessment that the entities in question are strategically acquired entities with a strong market positions and a long-term earnings profile.

Development projects, patents and licences

Development costs comprise costs directly and indirectly attributable to the company's development activities.

Accounting policies

Development 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 development costs. Other development costs are recognised in the income statement when incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

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 not to exceed 15 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

Accounting policies

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

Assets with a purchase value below kDKK 35 are recognised in the year of purchase.

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 are recognised in the income statement as other operating income or other operating costs, respectively.

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.

Accounting policies

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.

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 occurred from January 1, 2016 are reflected as an reserve in equity in accordance 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.

Accounting policies

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.

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	$\frac{\text{Gross Profit} \times 100}{\text{Revenue}}$
EBIT margin	$\frac{\text{Profit/loss before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$