Xellia Pharmaceuticals ApS

CVR no. 61 09 46 28

Dalslandsgade 11, DK-2300 Copenhagen S

Annual report for 2018

Adopted at the annual general meeting on 28 March 2019

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 2018.

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 2018 and of the results of the the company's operations for the financial year 1. januar - 31. december 2018.

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, 28 March 2019

Executive Board:

Carl-Åke Carlsson

Board of Directors:

Mikkel Lyager Olsen chairman	Carl-Åke Carlsson	Bente Schmidt Nielsen
Niels Murmann	Jakob Christian Andersen	Lars Beck Madsen

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 2018, and of the results of the company's operations for the financial year 1 January - 31 December 2018 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 2018, which comprise income statement, balance sheet and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

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

Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish 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 the 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, 28 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Kim Füchsel
State Authorised Public Accountant
MNE no. 9291

Conrad Mattrup Lundsgaard
State Authorised Public Accountant
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 2018
	Domicile:	Copenhagen
Board of Directors:	Mikkel Lyager Olsen Carl-Åke Carlsson Bente Schmidt Nielsen Niels Murmann Jakob Christian Andersen Lars Beck Madsen	
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 11.272

Financial highlights

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

	2018	2017	2016	2015	2014
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Revenue	1.890	1.897	1.475	1.216	916
Operating profit/loss	30	55	76	-16	-113
Net financials	29	60	-27	-87	-8
Profit/loss for the year	-75	91	34	-74	-385
Balance sheet					
Fixed assets	1.008	1.160	1.108	1.084	1.028
Current assets	1.419	1.362	1.299	610	573
Balance sheet total	2.426	2.521	2.407	1.694	1.601
Equity	1.007	851	759	729	803
Provisions	61	41	68	62	40
Long-term debt	543	829	577	478	381
Short-term debt	815	801	1.003	425	378
Financial ratios					
Gross margin	31%	28%	35%	30%	20%
EBIT margin	-8%	3%	5%	-1%	-55%
Return on assets	-6%	2%	4%	-1%	-30%
Solvency ratio	42%	34%	32%	43%	50%
Return on equity	-8%	11%	5%	-10%	-39%
Average number of employees	580	493	466	479	444
Investment in tangible assets	146	74	89	78	113

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

Management's review

Business activities
Xellia Pharmaceuticals ApS (Xellia) is a specialty pharmaceutical company developing, manufacturing and commercializing anti-infective treatments against serious and often life-threatening bacterial and fungal infections. With over 100 years of experience, Xellia is a world-leading trusted supplier of several important established anti-infective drugs, comprising active pharmaceutical ingredients as well as injectable products. Continuing the company's evolution, Xellia is generating an innovative pipeline of value-added anti-infective medicines intended to enhance patient care, providing convenience and ease-of-use for healthcare professionals.

Headquartered in Copenhagen, Denmark, Xellia has a global footprint with R&D, manufacturing and commercial operations across Europe, Asia and North America and is investing significantly to expand its sales and manufacturing capabilities within the United States. Xellia is wholly owned by Novo Holdings A/S and employs a dedicated team of over 1,600 people

Further information about Xellia can be found at:
www.xellia.com

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 2018 and the results of its operations for the financial year ended 31 December 2018 are affected by impairment losses related to the company's intangible assets to ongoing development projects which, due to changes in accounting estimates were written-off at the end of 2018. Furthermore the net results was adversely impacted by an impairment on investment in associated company.

Business review
The company's income statement for the year ended 31 December shows a loss of TDKK 74.912, and the balance sheet at 31 December 2018 shows equity of TDKK 1.007.124.

Investments
In 2018, Xellia invested MDKK 15.7 in intangible assets. Furthermore Xellia capitalized investment in tangible assets of MDKK 146.2 to expansion and upgrade of the sterile manufacturing facilities that the company initiated in 2017. Xellia completed the construction of the new state-of-the-art multi-storey, building and have commenced the installation of the latest sterile manufacturing equipment and containment solutions.

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

Management's review

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 2018, the company achieved revenues of MDKK 1,890 and loss of MDKK 74.9. The result was affected by investments in pipeline activities, impairment, and expansion of production facilities and by financial charges.

Outlook
The company anticipates increase in revenue and operating profit in 2019 compared to 2018 because of completion of strategic projects undertaken over the recent years. The exchange rate of the USD and other exchange rates might, however, influence the net profit/loss for 2019.

Net profit (loss) relation to expected development assumed in previous report
The 2018 financial performance was in line with expectations. The Net Result for the year was -74.9 MDKK (2017: 91.0 MDKK). This was further adversely impacted by an impairment of certain intangible assets related to on-going development projects which, due to changes in accounting estimates were written-off at the end of 2018.

Statutory report on corporate governance
In 2018, the Board of Directors of the company held three meetings. The meetings focussed 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
With respect to the 2018 statement on CSR in accordance with section 99a of the Danish Financial Statement Act, we refer to the 2018 Corporate Report which is part of the Management Review of the 2018 financial Annual Report:

https://xellia.com/-/media/xellia/march_uploads/xellia_2018_corporate_report.ashx

Management's review

Statutory report on the underrepresented gender in accordance with section 99b of the Danish Financial Statement Act

In 2018 we adopted a new Diversity Policy that sets out the key principles for our commitment and focus in this area. Xellia is committed to building a workforce through the entire company that is represented equally by both genders across both our management team and other managerial positions (directors, managers, and team-leaders). In 2018, for all companies in the Group there was an average of 58% male and 42% female employees (2017: 59% male and 41% female). At the manager level the average was 68% male managers and 32% female managers (2017: 65% male and 35% female). Xellia Pharmaceuticals ApS has obtained equal representation on our Board of Directors; thus a target and a report is not required for underrepresented gender for the Board of Directors.

Qualified women are encouraged to apply for managerial positions within the Group and gender diversity is an area of focus in our development and succession planning initiatives. Our staff policies and HR processes are directed at retaining qualified female employees by addressing the work/life balance in order to create a desirable working environment as well as supporting personal development through performance reviews, feedback and leadership training. We will continue to work towards increasing gender diversity throughout our organization.

Income statement 1 January - 31 December

	Note	2018	2017
		TDKK	TDKK
Revenue	1	**1.890.464**	**1.897.063**
Cost of productions		-1.313.791	-1.368.769
Gross profit		**576.673**	**528.294**
Distribution costs		-117.314	-71.638
Administrative costs		-227.891	-219.835
Research and development costs		-201.784	-181.700
Operating profit/loss		**29.684**	**55.121**
Other operating expenses	2	-182.283	0
Income from investments in subsidiares		152.261	0
Impairment losses on financial assets		-67.066	0
Financial income	3	14.497	79.072
Financial expenses	4	-70.202	-18.828
Profit/loss before tax		**-123.109**	**115.365**
Tax on profit/loss for the year	5	48.197	-24.363
Net profit/loss for the year		**-74.912**	**91.002**
Proposed distribution of profit	6		
Transferred to reserve for development expenditure		-44.179	33.766
Retained earnings		-30.733	57.236
		-74.912	**91.002**

Balance sheet 31 December

	Note	2018 TDKK	2017 TDKK
Assets			
Technology and development cost		37.639	117.400
Productions and sales rights		114.004	121.994
Goodwill		4.022	4.924
Software		25.614	23.141
Intangibles under construction		30.936	145.186
Intangible assets	7	**212.215**	**412.645**
Land and buildings		64.749	67.552
Plant and machinery		236.361	207.701
Fixtures and fittings, tools and equipment		13.345	16.310
Property, plant and equipment under construction		167.769	94.125
Property, plant and equipment	8	**482.224**	**385.688**
Investments in subsidiaries	9	310.210	310.210
Investments in associates	10	3.387	51.128
Fixed asset investments		**313.597**	**361.338**
Total non-current assets		**1.008.036**	**1.159.671**
Inventories	11	**402.324**	**323.905**
Trade receivables		171.318	151.932
Receivables from group companies		691.014	602.847
Other receivables		100.741	223.201
Corporation tax		7.529	0
Prepayments	12	17.626	11.503
Receivables		**988.228**	**989.483**
Cash at bank and in hand		**27.907**	**48.296**
Total current assets		**1.418.459**	**1.361.684**
Total assets		**2.426.495**	**2.521.355**

Balance sheet 31 December

	Note	2018 TDKK	2017 TDKK
Equity and liabilities			
Share capital		201.000	201.000
Reserve for development expenditure		37.079	81.258
Retained earnings		774.102	571.745
Derivative		-5.057	-3.233
Equity	13	**1.007.124**	**850.770**
Provision for deferred tax	14	60.952	40.640
Total provisions		**60.952**	**40.640**
Mortgage loans		236.492	236.022
Payables to group companies		303.152	291.865
Other payables		3.260	6.277
Deferred income		0	295.184
Total non-current liabilities	15	**542.904**	**829.348**
Other credit institutions	15	39.346	0
Trade payables		78.808	78.895
Payables to group companies	15	411.229	438.619
Corporation tax	16	0	31.744
Other payables	17	230.476	212.094
Deferred income		55.656	39.245
Total current liabilities		**815.515**	**800.597**
Total liabilities		**1.358.419**	**1.629.945**
Total equity and liabilities		**2.426.495**	**2.521.355**
Staff	18		
Subsequent events	19		
Rent and lease liabilities	20		
Contingencies, etc.	21		
Related parties and ownership	22		

Statement of changes in equity

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
Equity at 1 January 2018	201.000	81.258	571.745	-3.233	850.770
Net effect from change of accounting policy	0	0	230.244	0	230.244
Adjusted equity at 1 January 2018	201.000	81.258	801.989	-3.233	1.081.014
Other equity movements	0	0	0	-2.339	-2.339
Net profit/loss for the year	0	-44.179	-30.733	0	-74.912
Changes in equity of tax	0	0	2.846	515	3.361
Equity at 31 December 2018	**201.000**	**37.079**	**774.102**	**-5.057**	**1.007.124**

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
Equity 1 January 2017	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 31 December 2017	**201.000**	**81.258**	**571.745**	**-3.233**	**850.770**

Notes

1 Information on segments

Geographical - secondary segment

	Europe	North America	South America	Asia	Other	Total
TDKK						
2018						
Revenue	580.430	1.062.417	59.993	177.516	10.108	1.890.464
2017						
Revenue	594.507	1.050.681	52.376	179.002	20.497	1.897.063

	2018 TDKK	2017 TDKK
2 Other operating expenses		
Impairment on intangible assets	182.283	0
	182.283	**0**
3 Financial income		
Interest received from group companies	120	346
Other financial income	2.384	3.521
Foreign exchange adjustments	11.993	75.205
	14.497	**79.072**
4 Financial expenses		
Interest to group companies	15.246	10.214
Other financial expenses	8.074	8.102
Foreign exchange adjustments	11.236	51
Exchange loss	35.646	461
	70.202	**18.828**

Notes

		2018	2017
		TDKK	TDKK
5	**Tax on profit/loss for the year**		
	Current tax on profit / loss for the year	-9.529	49.788
	Change in deferred tax	-45.543	-24.131
	Adjustments of tax prior years	-12.340	2.027
	Adjustments of deferred tax prior years	19.215	-3.321
		-48.197	**24.363**

		2018	2017
6	**Distribution of profit**		
	Transferred to reserve for development expenditure	-44.179	33.766
	Retained earnings	-30.733	57.236
		-74.912	**91.002**

Notes

7 Intangible assets

	Technology and development cost	Productions and sales rights	Goodwill	Software	Intangibles under construction	Total
Cost at 1 January 2018	256.185	367.533	21.156	48.020	314.480	1.007.374
Additions for the year	0	0	0	0	15.677	15.677
Transfers for the year	462	0	0	11.260	-11.722	0
Cost at 31 December 2018	256.647	367.533	21.156	59.280	318.435	1.023.051
Impairment losses and amortisation at 1 January 2018	138.785	245.539	16.232	24.879	169.294	594.729
Impairment losses for the year	64.078	0	0	0	118.205	182.283
Amortisation for the year	16.145	7.990	902	8.787	0	33.824
Impairment losses and amortisation at 31 December 2018	219.008	253.529	17.134	33.666	287.499	810.836
Carrying amount at 31 December 2018	**37.639**	**114.004**	**4.022**	**25.614**	**30.936**	**212.215**
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 has 6 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.

During 2018, management made the decision to change the estimation approach for valuation of on-going and future research and development projects. The company continues to be compliant with IAS 38 Intangible Assets and will also continue to capitalize development projects when IAS criteria are met. However, due to uncertain conditions inherent in the generic injectable marketplace, specifically associated with anticipated prices and competition, the company has elected to take a more risk-based apporach to the analysis of these projects which currently results in fewer project qualifying for capitalization.

Notes

8 Property, plant and equipment

	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Total
Cost at 1 January 2018	383.601	849.724	49.033	147.452	1.429.810
Additions for the year	0	0	0	146.192	146.192
Disposals for the year	-336	-10.873	-4.511	-44.406	-60.126
Transfers for the year	4.010	66.203	2.335	-72.548	0
Cost at 31 December 2018	387.275	905.054	46.857	176.690	1.515.876
Impairment losses and depreciation at 1 January 2018	316.049	642.023	32.723	53.327	1.044.122
Depreciation for the year	6.813	37.541	5.300	0	49.654
Reversal of impairment and depreciation of disposed assets	-336	-10.871	-4.511	-44.406	-60.124
Impairment losses and depreciation at 31 December 2018	322.526	668.693	33.512	8.921	1.033.652
Carrying amount at 31 December 2018	**64.749**	**236.361**	**13.345**	**167.769**	**482.224**
Depreciated over	13-40 år	5-13 år	3-13 år		

The company has contractual obligations at 31 December 2018 regarding aquirement of equipment's and buildings amounting to MDKK 10.5 (2017: MDKK 25.9)

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. Per 31 December, 2018 total carrying amount of land and buildings including Plant and machinery and PPE under construction is MDKK 468.9.

Notes

		2018	2017
		TDKK	TDKK
9	**Investments in subsidiaries**		
	Cost at 1 January 2018	310.210	310.210
	Cost at 31 December 2018	310.210	310.210
	Carrying amount at 31 December 2018	**310.210**	**310.210**

Investments in subsidiaries are specified as follows:

Name	Registered offi-ce	Share capital	Ownership interest	Equity	Profit/loss for the year
Xellia Pharmaceuticals Ltd.	Hungary	KHUF 5.260.200	100%	12.654.860	3.727.929
Nippon Axellia Co. Ltd.	Japan	KJPY 10.000	100%	51.290	3.995
Xellia Pharmaceuticals Inc.	USA	KUSD 20.000	100%	29.418	727
Xellia Hong Kong Limited	Hong Kong	KHDK 10	100%	99.256	-2.750
Xellia d.o.o.	Croatia	KHRK 20	100%	34.454	5.077
Xellia Pharmaceuticals Private Ltd.	India	KINR 100	100%	49.609	13.192

		2018	2017
		TDKK	TDKK
10	**Investments in associates**		
	Cost at 1 January 2018	51.128	44.128
	Additions for the year	19.325	7.000
	Cost at 31 December 2018	70.453	51.128
	Revaluations at 1 January 2018	0	0
	Impairment for the year, net	-67.066	0
	Revaluations at 31 December 2018	-67.066	0
	Carrying amount at 31 December 2018	**3.387**	**51.128**

Notes

Investments in associates are specified as follows:

Name	Registered office	Share capital	Ownership interest	Equity	Profit/loss for the year
Pharmaero ApS	Denmark	KDKK 11.272	50%	6.747	-132.278

	2018	2017
	TDKK	TDKK
11 Inventories		
Raw materials	65.228	51.484
Work in progress	125.762	58.246
Finished goods	211.334	214.175
	402.324	**323.905**

12 Prepayments

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

13 Equity

There have been no changes in the share capital during the last 5 years.

14 Provision for deferred tax

	2018	2017
Provision for deferred tax at 1 January 2018	40.640	67.832
Provision in year	20.312	-27.192
Provision for deferred tax at 31 December 2018	**60.952**	**40.640**
Intangible assets	31.493	90.342
Property, plant and equipment	4.789	-12.459
Inventories	30.128	26.894
Prepayments from customers	0	-64.941
Other taxable temporary differences	-5.458	804
	60.952	**40.640**

Provision for deferred tax on equity are increased by TDKK 515 to TDKK 1,426 at year end 2018.
Deferred tax in P&L for the year inclusive adjustments for previous years are TDKK 26,328.

Notes

15 Non-current liabilities

	2018	2017
	TDKK	TDKK
Mortgage loans		
After 5 years	170.786	192.263
Between 1 and 5 years	65.706	43.759
Non-current portion	236.492	236.022
Within 1 year	0	0
	236.492	**236.022**
Other credit institutions		
Non-current portion	0	0
Other short-term debt to credit institutions	39.346	0
Current portion	39.346	0
	39.346	**0**
Payables to group companies		
After 5 years	303.152	291.865
Non-current portion	303.152	291.865
Other short-term debt to subsidiaries	411.229	438.619
Current portion	411.229	438.619
	714.381	**730.484**
Other payables		
Between 1 and 5 years	3.260	6.277
Non-current portion	3.260	6.277
Other short-term other debt	230.478	212.094
Current portion	230.478	212.094
	233.738	**218.371**
Deferred income		
Between 1 and 5 years	0	295.184
Non-current portion	0	295.184
Other short-term deferred income	55.656	39.245
Current portion	55.656	39.245
	55.656	**334.429**

Notes

As security for mortgage debt, MDKK 240, is given in land and buildings. Per 31 December, 2018 total carrying amount of land and buildings including Plant and machinery and PPE under construction is MDKK 468.9.

Deferred income is arising from long-term customer contract with declining prices over the contract period. In 2018 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.

		2018	2017
		TDKK	TDKK
16	**Corporation tax**		
	Corporation tax payable	0	31.744
	Corporation tax payable	**0**	**31.744**

17	**Other payables**		
	Accrued interest	137	159
	Wages/salaries, salary taxes, social security contributions, etc.	97.218	73.616
	Other accrued expenses	126.637	134.176
	Derivative financial instruments liabilities	6.484	4.143
		230.476	**212.094**

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 2018 are MUSD 90 (2017: MUSD 71.1).

Interest for the mortgage loan is fixed by an interest swap for the remainder of the 13 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.

Notes

	2018	2017
	TDKK	TDKK
18 Staff		
Wages and Salaries	350.263	291.266
Pensions	37.404	27.931
Other social security expenses	4.654	3.741
	392.321	**322.938**
Wages and Salaries, pensions and other social security expenses are recognised in the following items:		
Cost of sales	303.215	259.316
Distribution expenses	26.720	7.334
Administrative expenses	45.407	41.562
Research and development expenses	16.979	14.726
	392.321	**322.938**
Average number of employees	580	493

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

19 Subsequent events

After the balance sheet date, no significant subsequent events have occurred that will change the company's financial position.

	2018	2017
	TDKK	TDKK
20 Rent and lease liabilities		
Operating lease liabilities. Total future lease payments:		
Within 1 year	1.211	1.687
Between 1 and 5 years	597	1.785
	1.808	**3.472**
Operating lease commitments. Total future lease payments:		
After 5 years	0	0

Notes

21 Contingencies, etc.

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 with the Danish companies in the Novo Holdings A/S. The joint taxation covers withholding taxes in the form of dividend tax, royality tax and interest tax. The Danish companies are jointly and individually liable for the joint taxation. Any subsequent adjustments to income taxes and withholding taxes may lead to a larger liability. The tax for the individual companies is allocated in full on the basis of the expected taxable income.

Xellia Pharmaceuticals ApS and New Xellia Group A/S has in November 2014 entered into a SFA with Danske Bank. Xellia Pharmaceuticals ApS is jointly liable regarding the SFA with Danske Bank. Per December 31, 2018 New Xellia Group A/S has utilized the Danske Bank SFA facility by 74.0 MUSD (482.4 MDKK) and has a remaining available amount of 90.3 MUSD (588.7 MDKK) with respect to this facility. The facility carries a floating margin based on Group performance + LIBOR. Per December 31, 2018 the interest is 3.9%/3.7%/3.6% p.a. of the drawn amount of the facility. In addition, Xellia Pharmaceuticals ApS and New Xellia Group A/S pays a commitment fee.

In May 2018, Xellia Pharmaceuticals ApS and New Xellia Group A/S entered into a SFA with Nordea. Xellia Pharmaceuticals ApS is jointly liable regarding the SFA with Nordea. The Nordea facility is a 65 MUSD (423.8 MDKK) committed revolving loan facility. The termination date is May 2023 with an option to extend the loan with 1+1 years subject to lender consent. Per December 31, 2018 New Xellia Group A/S has utilized the Nordea SFA facility by 65.0 MUSD (423.8 MDKK) and has a remaining available amount of 0 MUSD (0 MDKK) with respect to this facility. The facility carries a floating margin based on Group performance + LIBOR. Per December 31, 2018 the interest is 3.9%/3.5% p.a. of the drawn amount of the facility.

Xellia Pharmaceuticals ApS has a mortgage loan which is based on a 15 year loan period covering the buildings and equipment owned by Xellia Pharmaceuticals ApS. The initial 5 years are based on interest only followed by 10 years of annuity. The mortgage loan carries a rate which is hedged by a fixed interest rate at 1.126% p.a. for the whole loan period. In addition Xellia Pharmaceuticals ApS pay a contribution fee of 0.725% p.a. to the mortgage institute.

The SFA's with Danske Bank and Nordea are subject to covenants, which are measured at New Xellia Group A/S Group level, under which the net interest bearing debt must not exceed equity including shareholder loans by 2 times. Per December 31, 2018 the Group complies with the covenants.

The company jointly with SHL Medical AG have in a Letter of Intent agree to equally support Pharmaero ApS, so the investment in associates may continue activities for 2019 and will be able to meet those obligations in full as they become due.

Operating lease guarantees
The company has granted guarantees to third parties of total TDKK 216 (2017: TDKK 215).

Notes

22 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 structure

According to the company's register of shareholders, the following shareholder holds at least 5% of the votes or at least 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 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The annual report for 2018 is presented in TDKK.

Changes in accounting policies
Due to new law regulations as of 20 December 2018, danish entities with financial year ending at 31 December 2018 can adopt IFRS 15 when reporting in accordance with the Danish Financial Statements Act. The company have chosen to do so for the financial year 2018.

IFRS 15 was issued in May 2014 and amended in April 2016 and replaces IAS 18. IFRS 15 establish a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration which an entity expects to be entitled to, in exchange for transferring goods or services to a customer. The company applies IFRS 15 Revenue from Contracts with Customers with the start of the financial year 2018. Implementation of the standard is finalized. The company has decided to apply the modified retrospective approach under which the cumulative effect as of 1 January 2018 is recognized as an adjustment to retained earnings without restatement of comparative figures.

The company has performed a detailed analysis on IFRS 15 and current accounting procedures. With below described change in revenue recognition the analysis shows that accounting policies within the company are compliant with the new IFRS standard "Revenue from Contracts with Customers".

In preparing to adopt IFRS 15, the company took the variable considerations into account. Some contracts with customers provide trade discounts, listing fees or volume rebates. The company recognizes revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Such provisions give rise to variable consideration under IFRS 15 and will be required to be estimated at contract inception and updated thereafter.
IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The company concluded that application of the constraint has no significant effect on the revenue being deferred compared to the previous standard. The presentation and disclosure requirements in IFRS 15 are more detailed compared to the previous standard, whereby several disclosure requirements in IFRS 15 are new. The company has implemented the disclosures required according to IFRS 15.

Accounting policies

The adoption of IFRS 15 has changed the recognition for a specific multi-year customer contract under which the company is entitled to a per unit consideration which is based on the sales price obtained by the customer in the market. Under IAS 18 revenue from this contract was recognized with the expected average sales price for the contract period. This result in a deferral of part of the invoiced sales price due to an expected decrease in the retail price over the term of the contract, based on price curves for similar drugs after patent expiry. due to the fact that the company's remuneration and thereby revenue from this customer contract is based on the customers sales price in the market Management has determined that this shall be treated as variable consideration attributable to each individual sales transaction under the contract. Therefore revenue recognition under this contract has been changed to be based on the sales price to the customer for the current year and thereby reflecting the actual market price for the current year. The impact of this change is that revenue and profit before income taxes is approximately 26 MDKK higher and profit for the year approximately 20 MDKK higher for 2018. The deferred revenue accrual as of December 31, 2017 of 295 MDKK has been recorded in equity net of tax as an adjustment to the Opening Equity of January 1, 2018 of 230 MDKK.

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.

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

Accounting policies

Income statement

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.

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, as well as operation, administration and management of factories.

Other operating costs

Other operating costs comprise items of a secondary nature relative to the company's activities, including impairments on intangible assets.

Distribution costs

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

Administrative costs

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

Impairment losses on financial assets

Impairment losses comprise the year's impairment on financial assets.

Accounting policies

Research and development costs
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.

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.

Income from investments in subsidiares
Dividends from subsidiaries are recognised as income in the income statement when adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the subsidiary.

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, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets
Goodwill and Software
Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Customer relationships and technology acquired in a business combination are recognized at fair value at the acquisition date.

Software represents is measured at cost less accumulated depreciation and write-downs. Depreciation is made on a straight-line basis over the expected useful life, which is three to five years. Depreciation begins when the asset is ready for use.

Development projects, patents and licenses
Development projects are capitalized when the development costs relate to new products or processes that are clearly defined and identifiable and the company can demonstrate a future economic benefit, the technical feasibility, sufficient resources, a future market, and the intention of completing the intangible asset and ability to use or sell it as well as measure reliably the expenditure attributable to the development. Furthermore all acquired development assets, including milestone and upfront payments which are deemed to enhance the company's intellectual property rights are capitalized. Development projects that do not fulfill these requirements are expensed. Ongoing development and technology projects are until finished classified as assets under construction.

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.

Accounting policies

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.

Property, plant and equipment
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 manufacturing of items 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 of costs productions, distribution costs and administrative costs 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.

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.

Accounting policies

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.

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

Where there is evidence 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.

Inventories
Inventories are measured at cost 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.

Prepayments
Prepayments comprise costs incurred concerning subsequent financial years.

Equity
Dividends
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.

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 Holdings A/S. 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).

Accounting policies

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 payables, 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.

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.

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.

Accounting policies

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.

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.

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