

xellia
PHARMACEUTICALS

Xellia Pharmaceuticals ApS

CVR no. 61 09 46 28

Dalslandsgade 11, DK-2300 Copenhagen S

Annual report for 2022

Adopted at the annual general meeting on

DocuSigned by:

Søren Hostrup

Søren Hostrup
chairman

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Statement by management on the annual report

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Xellia Pharmaceuticals ApS for the financial year January 1 – December 31, 2022.

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

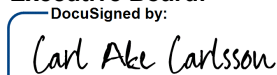
In our opinion, the financial statements give a true and fair view of the company's financial position at December 31, 2022 and of the results of the company's operations for the financial year January 1 - December 31, 2022.

In our opinion, Management's review includes the required description and information about significant changes in the year in accordance with Danish Financial Statements Act.

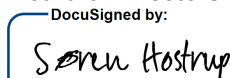
Management recommends that the Annual Report should be approved at the general meeting.

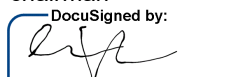
Copenhagen, 12 April 2023

Executive Board:

DocuSigned by:

Carl Ake Carlsson

Board of Directors:

DocuSigned by:

Søren Hostrup
chairman

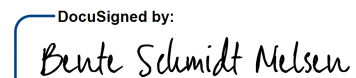
DocuSigned by:

Cecilia Rodriguez Briones

DocuSigned by:

Carl Ake Carlsson

DocuSigned by:

Lars Beck Madsen

DocuSigned by:

Bente Schmidt Nielsen

DocuSigned by:

Martin Beck

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 2022, and of the results of the Company's operations for the financial year 1 January - 31 December 2022 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 2022, which comprise income statement, balance sheet, statement of changes in equity 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on management's review

Management is responsible for Management's Review.

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

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

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

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

Management's Responsibilities for the Financial Statements

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

Independent Auditor's Report

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events 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, 12 April 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

DocuSigned by:



Torben Jensen

State Authorised Public Accountant
mne18651

DocuSigned by:



Allan Knudsen

State Authorised Public Accountant
mne29465

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: January 1 - December 31

Domicile: Copenhagen

Board of Directors:

Søren Hostrup, chairman
Carl-Åke Carlsson
Bente Schmidt Nielsen
Geelanie Rodriguez Briones
Lars Beck Madsen
Martin Bech

Executive Board:

Carl-Åke Carlsson

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Consolidated financial statements The company is included in the Group 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. TDKK 201,000
Subsidiaries	100%	Xellia Pharmaceuticals Ltd., Budapest, Hungary Nom. THUF 5,260,200
	100%	Nippon Axellia Co. Ltd., Tokyo, Japan Nom. TJPY 10,000
	100%	Xellia Pharmaceuticals Inc., Buffalo Grove, Illinois, USA Nom. TUSD 240,000
	100%	Xellia Hong Kong Limited, Hong Kong, Hong Kong Nom. THDK 10
	100%	Xellia d.o.o., Zagreb, Croatia Nom. THRK 20
	100%	Xellia Pharmaceuticals Private Ltd., Bangalore, India Nom. TINR 100
	100%	Xellia Pharmaceuticals Shanghai Co., Ltd., Shanghai, China Nom. TCNY 1,913
	Branches	100%
100%		Xellia Pharmaceuticals ApS, (Panama Branch), Panama

Financial highlights

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

	2022	2021	2020	2019	2018
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Revenue	2,245	1,622	2,043	2,346	1,890
Profit/loss before amortisation/depreciation and impairment losses (EBITDA)	-218	-465	-45	470	113
Net financials	-103	-16	18	60	29
Profit/loss for the year	-371	-503	-116	391	-75
Balance sheet					
Fixed assets	2,389	2,424	2,384	1,048	1,008
Current assets	1,071	1,310	1,707	1,603	1,419
Balance sheet total	3,460	3,734	4,091	2,652	2,426
Equity	1,751	2,083	2,621	1,391	1,007
Provisions	55	63	79	80	61
Long-term debt	560	680	699	562	543
Short-term debt	1,095	909	691	618	816
Financial ratios					
EBIT margin	-17%	-34%	-8%	16%	-8%
Gross margin	13%	-3%	18%	37%	31%
Return on assets	-11%	-14%	-5%	15%	-6%
Solvency ratio	51%	56%	64%	52%	42%
Return on equity	-19%	-21%	-6%	33%	-8%
Average number of employees	648	640	624	623	580
Investment in tangible assets	139	108	92	102	146

The financial ratios are calculated in accordance with. The definitions described under accounting policies.

Management's review

Business review

Xellia Pharmaceuticals ("Xellia") is a specialty pharmaceutical company developing, manufacturing, and commercializing anti-infective treatments against serious and often life-threatening bacterial and fungal infections.

Xellia is a global leader in providing anti-infective treatments and other critical care therapies for serious and often life-threatening conditions. Xellia has an extensive history in developing, manufacturing, and commercializing anti-infective products, including Active Pharmaceutical Ingredients (APIs) as well as Finished Dosage Forms (FDF), where the majority are injectable drug products. As an organization, Xellia is committed to providing security and consistency of supply of critical care therapies. Through a global vertically integrated supply chain, the company continuously works to improve supply security through multiple sources of in-house production of its APIs and drug products, and in conjunction through working alongside Xellia's R&D center. Supplying products to more than 70 countries worldwide and with more than 500 customers internationally, Xellia is the leading supplier of the important anti-infectives vancomycin, daptomycin, bacitracin, and colistimethate sodium (CMS).

Through innovation and with the patient in focus, Xellia is building a pipeline of value-added critical care therapies which aim to enhance patient care by providing convenience and ease of use for healthcare professionals. Headquartered in Copenhagen, Denmark, Xellia has a global footprint with manufacturing, R&D and commercial operations across Europe, Asia, the Middle East and North America. Xellia's four manufacturing facilities located in; China, Denmark, Hungary, and in the U.S. Xellia operates according to current Good Manufacturing Practice (cGMP), and Xellia's facilities have been inspected by relevant regulatory health authorities, including the U.S. Food and Drug Administration (FDA).

Xellia operates via two pillars, Global Anti-Infectives ('GAI') and US Injectables ('USI'), which are defined by sales channels. Both businesses are supported by the quality assurance, supply and distribution, and R&D teams. The Global Antiinfective unit includes B2B (business to business) sales in all geographic markets and oversight of the three plants in Copenhagen, Budapest, and Taizhou. In addition to supporting current customers, the GAI organization works to introduce the company's core product portfolio into new markets – where primary focus is in China, the Middle East and Latin America. The US Injectables business encompasses the handling of all sales in the US institutional market and the responsibility for US subsidiary production plant. The business unit is focused on the launch and commercialization of Xellia's own branded specialty injectable anti-infective medicines and generic products to the US institutional markets and also overseeing contract manufacturing operations for the US market.

Xellia is wholly owned by Novo Holdings A/S and employs a dedicated team of more than 1,800 people.

Further information about Xellia can be found at:

www.xellia.com

Recognition and measurement uncertainties

The recognition and measurement of items in the Annual Report is not subject to any material uncertainties that could significantly impact the Annual Report.

Management's review

Financial review

The company's income statement for the year ended December 31, 2022 shows a net loss of MDKK 371.5, and the balance sheet at December 31, 2022 shows equity of MDKK 1,750.7.

Investments

In 2022, Xellia invested MDKK 2.4 in intangible assets. Furthermore, Xellia invested in tangible assets of MDKK 138.5 mainly to maintain current production facilities, to expand and upgrade manufacturing facilities and in compliance investments.

Significant events occurring after the end of the financial year

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

The company's knowledge resources if of particular importance to its future earnings

Xellia is committed to providing anti-infective treatments and other critical care therapies for serious and often life-threatening conditions. Customers depend on Xellia for reliable supply and consistent quality, and to exemplify responsible manufacturing, production, and research and development that promote long-term sustainability. Xellia Pharmaceuticals' strong market position is built on more than 115 years of pharmaceutical industry experience, and with the patient in focus, Xellia is building a pipeline of value-added critical care therapies which aim to enhance patient care by providing convenience and ease of use for healthcare professionals. Xellia has a dedicated focus on leadership, where we believe in distributed empowerment and leadership to drive our success. There is a high concentration on ensuring collaboration across functions and sites, in order to foster the empowerment amongst our leaders to achieve our targets.

Development in activities and financial position

Both revenue and net result increased for the year (ended December 31, 2022) compared to 2021. The company achieved revenue of MDKK 2,245 (2021 MDKK 1,622). The company experienced the increase in revenue, profitability, and net result, as a result of increased volumes delivered during 2022 and increased USD currency exchange rates. The company's US subsidiary's production facility became commercially operational recently, however production of commercial products is still in its early phase and therefore limited income was generated.

Management's review

Outlook

Xellia expects to see further single digit percentage point growth in revenue and profitability in 2023, mainly driven by increasing sales to healthcare institutions in the US and expanding the geographical reach of the Global Anti-infective (GAI) business into emerging markets. Profitability will be negatively affected in 2023 both due to external challenges exerting pressure on supply chains and costs, as well as the continued significant investments in the US Injectables (USI) business including the US subsidiary. The USI business will remain in investment mode during 2023 but is expected to start trading profitably during 2024.

Longer term, Xellia will continue to drive its refined strategy based on the underlying strengths of its businesses, especially our expertise in anti-infectives and premix technology as well as the geographic reach of our anti-infective business. This continuation of the strategy is firmly supported by the long-term financing secured at the end of 2022, which stands the Group in good stead for 2023 and beyond.

Profit/(loss) for the year relative to the expectations most recently expressed

The 2022 financial performance was in line with expectations, with increased revenue. The net result for the year was a net loss of MDKK 371.5 (2021: MDKK 503.1).

The increase in revenue is a result of increased volumes delivered during 2022 specifically related to one customer and increased USD currency exchange rates.

Special risks apart from generally occurring risks in industry

Operating risks

The company experience price pressure in the market and competition from manufactures in Asia but also an increased demand and interest for essential medicine.

Currency risks

The company has significant activities in foreign currencies and is affected by trends in USD and HUF exchange rates. The company's currency policy is to hedge expected net cash flow risk from those currency exposures. The hedging is made by forward exchange contracts in USD and HUF for the next 12 - 24 months.

Statutory corporate social responsibility report (CSR)

With regards to the 2022 statement on CSR in accordance with section 99a of the Danish Financial Statement Act, reference is made to the 2022 Corporate Report which is part of the Management's Review of the 2022 Annual Report:

<https://www.xellia.com/-/media/xellia/Corporate Reports/Corporate Report 2022.ashx>

Management's review

Policies on the underrepresented gender

In 2022, the Xellia Group had a total of 1,854 employees: 792 females and 1,062 males (42.7% and 57.3% respectively). The percentage of females was slightly higher compared to 2021, where 42.6% of the workforce were female. Across people managers, there were 104 females and 188 males (35.6% and 64.4% respectively). This is almost the same compared with 2021, where 35.7% of leaders were female. In the coming year, measures will be established to ensure the goal of 45% of women in managerial positions by 2030 will be reached. The development from 2021 to 2022 is in line with expectations.

Xellia is committed to building a workforce that is represented by both genders across all management levels, managerial positions, talent pools and succession lists. In 2020 a Global Gender Diversity Team was formalized with representatives from across all group sites and held awareness training for leaders on unconscious bias to help overcome stereotypes and outdated beliefs. Xellia will actively embark on further strategic initiatives to continuously improve the gender diversity ratios throughout Xellia.

During 2022, Xellia focused on increasing awareness to the organization on the topics of gender equality, unconscious bias and on LGBTQI+.

Xellia does expect to see the percentage of female managers to increase further in 2023 due to the initiatives.

Xellia has obtained equal representation on the Board of Directors; thus, a target and a report are not required for underrepresented gender for the Board of Directors.

Statement of policy for data ethics

With regards to the 2022 statement on CSR in accordance with section 99d of the Danish Financial Statement Act, reference is made to the 2022 Corporate Report which is part of the Management's Review of the 2022 Annual Report:

<https://www.xellia.com/-/media/xellia/Corporate Reports/Corporate Report 2022.ashx>

Income statement January 1 - December 31

	Note	2022 TDKK	2021 TDKK
Revenue	2	2,245,303	1,621,991
Cost of Sales		-1,926,925	-1,668,980
Gross profit		318,378	-46,989
Distribution costs		-112,014	-85,859
Administrative costs		-267,904	-215,744
Research and development costs		-237,602	-195,758
Other operating income/expenses	3	-86,315	-5,466
Profit/loss before financial income and expenses		-385,457	-549,816
Income from investments in subsidiaries		14,775	16,454
Financial income	4	16,351	21,826
Realized loss on disposal of associate		-242	-649
Financial expenses	5	-133,797	-54,005
Profit/loss before tax		-488,370	-566,190
Tax on profit/loss for the year	6	116,884	63,100
Net profit/loss for the year		-371,486	-503,090
Distribution of profit	7		

Balance sheet December 31

	Note	2022	2021
		TDKK	TDKK
Assets			
Technology and development projects		13,109	16,894
Rights and licenses		85,273	93,634
Goodwill		415	1,316
Software		26,751	40,014
Intangibles under construction		8,347	11,958
Intangible assets	8	133,895	163,816
Land and buildings	9	54,284	59,983
Plant and machinery	9	227,039	251,325
Fixtures and fittings, tools and equipment	9	25,239	26,854
Property, plant and equipment under construction	9	290,517	261,764
Property, plant and equipment		597,079	599,926
Investments in subsidiaries	10	1,658,376	1,658,376
Investments in associates	11	0	1,757
Fixed asset investments		1,658,376	1,660,133
Total non-current assets		2,389,350	2,423,875
Raw materials		50,852	67,742
Work in progress		166,703	161,143
Finished goods		281,713	277,573
Inventories		499,268	506,458
Trade receivables		275,882	168,507
Receivables from group companies		158,335	534,126
Other receivables		103,660	75,259
Prepayments	12	33,429	25,428
Receivables		571,306	803,320
Cash at bank		323	46
Total current assets		1,070,897	1,309,824
Total assets		3,460,247	3,733,699

Balance sheet December 31

	Note	2022 TDKK	2021 TDKK
Equity and liabilities			
Share capital		201,000	201,000
Reserve for development expenditure		6,354	13,232
Retained earnings		1,551,518	1,916,126
Derivative		-8,197	-47,623
Equity	13	1,750,675	2,082,735
Provision for deferred tax	14	54,557	62,669
Total provisions		54,557	62,669
Mortgage loans		170,062	190,741
Lease obligations		593	1,086
Holiday allowance		41,170	40,453
Payables to group companies		324,205	305,097
Deferred income	15	9,960	142,373
Other payables		13,596	0
Total non-current liabilities	16	559,586	679,750
Short-term part of non-current liabilities	16	22,605	161,259
Trade payables		169,305	120,596
Payables to group companies		497,628	351,332
Deferred income	15	124,160	0
Corporation tax		114,011	64,749
Other liabilities	17	167,720	210,609
Total current liabilities		1,095,429	908,545
Total liabilities		1,655,015	1,588,295
Total equity and liabilities		3,460,247	3,733,699
Staff	18		
Subsequent events	19		
Contingent liabilities	20		
Financial instruments	21		
Related parties and ownership structure	22		
Fee to auditors appointed at the general meeting	23		

Statement of changes in equity

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
TDKK					
Equity at January 1, 2022	201,000	13,232	1,916,126	-47,623	2,082,735
Other equity movements	0	0	0	50,546	50,546
Net profit/loss for the year	0	-6,878	-364,608	0	-371,486
Tax on other equity movements	0	0	0	-11,120	-11,120
Equity at December 31, 2022	201,000	6,354	1,551,518	-8,197	1,750,675

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
TDKK					
Equity at January 1, 2021	201,000	14,003	2,418,445	-12,418	2,621,030
Other equity movements	0	0	0	-45,135	-45,135
Net profit/loss for the year	0	-771	-502,319	0	-503,090
Tax on other equity movements	0	0	0	9,930	9,930
Equity at December 31, 2021	201,000	13,232	1,916,126	-47,623	2,082,735

Notes

1 Accounting policies

The Annual Report of Xellia Pharmaceuticals ApS for the period January 1 - December 31, 2022 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Annual Report is presented in TDKK.

Correction of material misstatements

In 2021, revenue and cost of sales were both overstated by DKK 170.6 million. A correction of comparative figures has been made. The correction has no impact to Gross profit and Net profit/loss for the year.

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

Basis of recognition and measurement

Income is recognized in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortization, depreciation, and impairment losses, are recognized in the income statement.

Assets are recognized 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 recognized 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 amortized cost using the effective interest method. Amortized cost is calculated as the historic cost less installments and plus/less the accumulated amortization of the variance 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.

Subsidiaries

Consolidated financial statements

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

Notes

1 Accounting policies

Income statement

Segment information

Information on geographical markets and business segments are based on the company's risks, management control and internal financial reporting system. Geographical markets are regarded as the primary segments.

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

Revenue is derived from contracts with customers through the production and transfer of products across various product categories and within several geographical regions. Revenue is recognized in the income statement when the performance obligation is satisfied, and when all obligations stated in the contract are fulfilled. This is defined as the point in time when control of the products has been transferred to the buyer. The transfer of control to customers takes place according to the trade agreement terms, Incoterms, and can vary depending on the customer or the specific trade.

Sales are measured at the fair value of the consideration received or receivable. When sales are recognized, the company records estimates for a variety of sales deductions, including product returns, rebates, and discounts. Sales deductions are recognized as a reduction of gross sales to arrive at net sales, by assessing the expected value of the sales deductions (variable consideration). Where contracts contain customer acceptance criteria, the company recognizes sales when the acceptance criteria are satisfied.

The company has entered into agreements with customers where the customer undertakes sales to third parties and the profit is distributed between the customer and the company based on a predetermined formula.

Income from sales & usage-based registration rights, royalties, licenses or similar are recognized as revenue when the company has fulfilled its performance obligation.

Cost of Sales

Cost of sales comprise the cost of goods sold. Cost includes the cost of raw materials, transport costs, consumables, and goods for resale, direct labor, and indirect costs of production, including operating costs, amortization and depreciation relating to manufacturing facilities, equipment, production related technology and amortization of development projects related to the company's product portfolio. Cost of sales includes expenses in connection with quality assurance of products and any write-down to net realizable value of unsalable or slow-moving items.

Other operating income/expenses

Other operating income/expenses comprise items of a secondary nature relative to the company's activities, including impairments on tangible and intangible assets.

Notes

1 Accounting policies

Distribution costs

Distribution costs comprise costs in the form of salaries to sales and distribution staff, advertising, and marketing expenses as well as depreciation. Amortization 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. Amortization 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 subsidiaries and associated companies.

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 amortization of capitalized development projects.

Financial income and expenses

Financial income and expenses are recognized in the income statement at the amounts that relate to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realized and unrealized capital/exchange gains and losses on securities, liabilities and foreign currency transactions and amortization of financial assets and liabilities.

Income from investments in subsidiaries

Dividends from subsidiaries are recognized as income in the income statement when adopted at the General Meeting of the subsidiary.

Tax on profit/loss for the year

Tax for the year, which comprises the current income tax charge for the year and changes in the deferred income tax charge, is recognized in the income statement as regards the portion that relates to the profit/loss for the year.

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 amortization and write-downs. Amortization is made on a straight-line basis over the expected useful life, which is three to five years. Depreciation amortization begins when the asset is ready for use.

Notes

1 Accounting policies

Technology and development projects and Rights and licenses

Technology and development projects are capitalized when the technology and 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, acquired technology and development assets, including milestone and upfront payments which are deemed to enhance the company's intellectual productions and sales rights are capitalized. Technology and 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 amortized on a straight-line basis over the estimated useful life. The amortization period is usually five years.

Gains and losses on the disposal of development projects, patents and licenses 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 recognized in the income statement as other operating income or other operating expenses, respectively.

Property, plant and equipment

Property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition up until the time when the asset is ready for its intended use. In the case of assets under construction, cost comprises direct and indirect expenses for employee cost, materials, components, and contractors. Borrowing costs relating to both specific and general borrowing directly attributable to assets under construction with a lengthy construction period are recognized in cost during the construction period.

Land and construction in progress are not depreciated.

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

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

Depreciation is recognized in the income statement as of cost of sales, distribution costs and administrative costs respectively.

Notes

1 Accounting policies

Gains or 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 recognized in the income statement as other operating income or other operating expenses.

Right of use assets

Right of use assets are measured at cost less accumulated depreciation and impairment losses adjusted for any re-measurements of the lease liability where initial cost is equal to the initial amount of the related lease liability.

Depreciation is straight-line on basis of the underlying contracts which are 1-10 years.

Investments in subsidiaries and associates

Investment in subsidiaries and associates are recognized and measured in the Annual Report at purchase price.

Dividends from subsidiaries are recognized as income in the income statement when adopted at the General Meeting of the subsidiary.

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 amortization 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 realizable value is lower than the cost, inventories are recognized at this lower value.

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

Notes

1 Accounting policies

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

The net realizable value of inventories is calculated as the expected selling price less. The net realizable value is determined considering marketability, obsolescence and expected selling price movements.

Trade receivables

Trade receivables are recognized at the invoiced amount less expected losses for amounts considered irrecoverable (amortized cost). Expected losses are measured as the difference between the carrying amount and the present value of anticipated cash flow. Expected losses are assessed on major individual receivables or in groups at portfolio level based on the receivables' age and maturity profile as well as historical records of losses. The calculated expected losses are adjusted for specific significant negative developments in geographical areas.

Payment terms are typically 30 - 45 days.

Other receivables and prepayments

Other receivables and prepayments are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Equity

Dividends

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

Capitalized development cost occurred from January 1, 2016 are reflected as a reserve in equity in accordance with the Danish Financial Act section 83.

Income tax and deferred tax

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

Deferred income 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 based on the planned use of the asset and settlement of the liability, respectively.

Notes

1 Accounting policies

Deferred tax assets, including the tax value of tax loss carry forwards, are recognized at the expected value of their utilization; 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.

Changes in deferred income tax due to changes to income tax rates are recognized in the income statement.

The Danish entities in the Group are jointly taxed with the Danish companies owned by Novo Holdings A/S. The joint taxation covers withholding taxes in the form of dividend tax, royalty tax and interest tax. The Danish companies are jointly and severally 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.

Liabilities

Financial liabilities are recognized on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortized cost, corresponding to the capitalized value, using the effective interest method. Accordingly, the difference between the net proceeds and the nominal value is recognized 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 amortized cost, which is usually equivalent to nominal value.

Deferred income

Deferred income is recognized when the company receive advance payments for delivery of products or services and the performance obligation is satisfied in future.

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 recognized 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 recognized in the latest financial statements is recognized in the income statement as financial income or financial expenses.

Derivative financial instruments

Derivative financial instruments are initially recognized 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.

Notes

1 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 recognized asset or liability are recognized 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 recognized in other receivables or other payables and in equity. If the forecast transaction results in the recognition of assets or liabilities, amounts previously recognized in equity are transferred to the cost of the asset or liability, respectively. If the forecast transaction results in income or expenses, amounts previously recognized 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 recognized directly in equity.

The fair value of derivative financial instruments is 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 recognized 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 is included in the cash flow statement of the consolidated Annual Report of Novo Nordisk Foundation.

Notes

1 Accounting policies

Financial Highlights

Definitions of financial ratios.

EBIT margin	$\frac{\text{Profit/loss before financials} \times 100}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year-end}}$
Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss before financials} \times 100}{\text{Average assets}}$
Return on equity	$\frac{\text{Profit/loss from ordinary operations after tax} \times 100}{\text{Average equity}}$

Notes

	2022	2021
	TDKK	TDKK
2 Revenue		
Revenue	2,245,303	1,621,991
Total revenue	2,245,303	1,621,991

Information on geographical segments

Europe	618,220	531,837
North America	1,167,030	674,611
South America	89,139	87,755
Asia	350,618	307,383
Other	20,296	20,405
Total revenue	2,245,303	1,621,991

Active Pharmaceuticals Ingredients - API	1,051,242	749,778
Finished Dosage Forms - FDF	1,168,346	840,386
Royalty	387	3,619
License fee	6,853	28,208
Profit Share	7,626	0
Interest revenue	10,849	0
Total revenue	2,245,303	1,621,991

The geographical distribution of API revenue is based on the country in which the goods are delivered and FDF revenue is based on the market of authorization.

3 Other operating income/expenses		
Impairment losses, intangibles	1,831	302
Impairment losses, tangibles	84,281	0
Costs related to potential sale of Xellia	203	5,164
	86,315	5,466

Notes

	2022	2021
	TDKK	TDKK
4 Financial income		
Interest received from group companies	145	176
Other financial income	5,334	2,493
Foreign exchange adjustments	10,872	19,157
	16,351	21,826
5 Financial expenses		
Interest to group companies	15,517	12,086
Other financial expenses	20,619	10,675
Foreign exchange adjustments	97,661	31,244
	133,797	54,005
6 Tax on profit/loss for the year		
Current tax on profit / loss for the year	-104,157	-97,579
Change in deferred tax	-13,620	973
Adjustments of tax prior years	1,003	38,793
Adjustments of deferred tax prior years	-110	-5,287
	-116,884	-63,100
7 Distribution of profit		
Transferred to other statutory reserves	-6,878	-771
Retained earnings	-364,608	-502,319
	-371,486	-503,090

Notes

8 Intangible assets

	Technology and development projects	Rights and licenses	Goodwill	Software	Intangibles under construction	Total
Cost at 1 January 2022	256,647	371,257	21,156	107,488	331,320	1,087,868
Additions	0	0	0	0	2,410	2,410
Disposals	-23,426	0	0	-4,537	-3,649	-31,612
Transfers	0	0	0	541	-541	0
Cost at 31 December 2022	<u>233,221</u>	<u>371,257</u>	<u>21,156</u>	<u>103,492</u>	<u>329,540</u>	<u>1,058,666</u>
Amortization and impairment at 1 January 2022	239,753	277,623	19,840	67,474	319,362	924,052
Impairment	0	0	0	0	1,831	1,831
Amortization	3,785	8,361	901	13,769	0	26,816
Disposals	-23,426	0	0	-4,502	0	-27,928
Amortization and impairment at 31 December 2022	<u>220,112</u>	<u>285,984</u>	<u>20,741</u>	<u>76,741</u>	<u>321,193</u>	<u>924,771</u>
Carrying amount at 31 December 2022	<u>13,109</u>	<u>85,273</u>	<u>415</u>	<u>26,751</u>	<u>8,347</u>	<u>133,895</u>
Useful lives	<u>5-15 years</u>	<u>5-20 years</u>	<u>20 years</u>	<u>3-5 years</u>		

Impairment is presented in the income statement as other operating expenses, see note 3.

Notes

9 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 January 1, 2022	394,716	956,170	57,026	270,685	1,678,597
Additions	0	0	0	138,485	138,485
Disposals	-5,292	-22,058	-1,659	0	-29,009
Transfers	2,565	17,673	5,213	-25,451	0
Cost at December 31, 2022	<u>391,989</u>	<u>951,785</u>	<u>60,580</u>	<u>383,719</u>	<u>1,788,073</u>
Depreciation and impairment at January 1, 2022	334,733	704,845	30,172	8,921	1,078,671
Impairment	0	0	0	84,281	84,281
Depreciation	7,592	40,517	6,785	0	54,894
Disposals	-4,620	-20,616	-1,616	0	-26,852
Depreciation and impairment at December 31, 2022	<u>337,705</u>	<u>724,746</u>	<u>35,341</u>	<u>93,202</u>	<u>1,190,994</u>
Carrying amount at December 31, 2022	<u>54,284</u>	<u>227,039</u>	<u>25,239</u>	<u>290,517</u>	<u>597,079</u>
Useful lives	<u>13-40 years</u>	<u>5-13 years</u>	<u>3-13 years</u>		

The company has contractual obligations at December 31, 2022 regarding purchase of equipment's amounting to MDKK 2.0 (2021: MDKK 0.0)

Capitalization of interest related to tangible assets under construction in 2022 amounts to TDKK 5,308 (2021: TDKK 2,337). A capitalization rate of 2,85% in the period January-November 2022 and 6,88% in December 2022 (2021: 1,53%) has been applied.

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

Impairment of assets under construction relates to a specific asset, planned for demolition.

Impairment is presented in the income statement as other operating expenses, see note 3.

Notes

	2022	2021
	TDKK	TDKK
10 Investments in subsidiaries		
Purchase price at January 1	1,658,376	1,656,421
Additions	0	1,955
Purchase price at December 31	1,658,376	1,658,376
Carrying amount at December 31	1,658,376	1,658,376

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
Xellia Pharmaceuticals Ltd. (HUF)	Hungary	100%	10,301,890	-447,543
Nippon Axellia Co. Ltd. (JPY)	Japan	100%	54,363	1,394
Xellia Pharmaceuticals Inc. (USD)	USA	100%	279,275	-2,561
Xellia Hong Kong Limited (HKD)	Hong Kong	100%	99,126	-1,879
Xellia d.o.o. (HRK)	Croatia	100%	73,246	10,255
Xellia Pharmaceuticals Private Ltd. (INR)	India	100%	112,735	24,418
Xellia Pharmaceuticals Shanghai Co., Ltd. (CNY)	China	100%	1,913	-1

Equity and profit/loss for the year are in functional currency.

	2022	2021
	TDKK	TDKK
11 Investments in associates		
Purchase price at January 1	76,488	76,488
Net effect from business sale	1,514	0
Disposals	-78,002	0
Purchase price at December 31	0	76,488
Revaluations at January 1	-74,731	-74,082
Disposals	74,731	0
Impairment	0	-649
Revaluations at December 31	0	-74,731
Carrying amount at December 31	0	1,757

Notes

12 Prepayments

Prepayments comprise prepaid expenses mainly third-party services, 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

Provision for deferred tax at 1 January

Change for the year

Provision for deferred tax at 31 December

	2022	2021
	TDKK	TDKK
	62,669	79,116
	-8,112	-16,447
	54,557	62,669

Provisions for deferred tax on:

Intangible assets

Property, plant and equipment

Inventories

Other taxable temporary variances

	12,576	19,159
	2,922	19,944
	47,010	37,303
	-7,951	-13,737
	54,557	62,669

15 Deferred income

The company has entered into long-term contracts with customers, where the company has received advance payments for delivery of products and other non-distinct performance obligations. Products and other performance obligations are to be delivered in 2023 and later.

The long-term contracts include financing elements. The interest rate used is equal to the company's borrowing rate at the commencement dates. The total amount of interest in deferred income for 2022 is TDKK 14,386 (2021: TDKK 3,784).

Notes

16 Non-current liabilities

	Debt at Jan. 1, 2022	Debt at Dec. 31, 2022	Instalment next year	Debt after 5 years
Mortgage loans	190,741	170,062	21,675	80,327
Lease obligations	1,086	593	555	0
Holiday allowance	40,453	41,170	375	38,844
Payables to group companies	305,097	324,205	0	324,205
Deferred income	142,373	9,960	0	0
Other payables	0	13,596	0	0
	679,750	559,586	22,605	443,376

Xellia Pharmaceuticals ApS' land, buildings, plant and machinery and property, plant and equipment under construction are pledged in favour of the mortgage loan from Realkredit Danmark. Per December 31, 2022 total carrying amount of land and buildings including plant and machinery and property, plant and equipment under construction is MDKK 571.8.

17 Other liabilities

	2022 TDKK	2021 TDKK
VAT and other indirect taxes	2,323	0
Wages/salaries, salary taxes, social security contributions	79,984	56,954
Other accrued expenses	88,158	117,244
Derivative financial instruments liabilities	7,170	36,411
	177,635	210,609

Notes

	<u>2022</u>	<u>2021</u>
	TDKK	TDKK
18 Staff		
Wages and Salaries	449,733	391,513
Pensions	47,520	46,005
Other social security expenses	6,837	6,427
	<u>504,090</u>	<u>443,945</u>

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

Cost of Sales	395,381	358,823
Distribution costs	28,719	32,011
Administrative costs	59,339	32,837
Research and development costs	20,651	20,274
	<u>504,090</u>	<u>443,945</u>

Average number of employees	<u>648</u>	<u>640</u>
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According to section 98B (3) of the Danish Financial Statements Act, remuneration to the Executive Board has not been disclosed.

19 Subsequent events

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Notes

20 Contingent liabilities

Pending disputes, litigations and claims

The company and subsidiaries are currently involved in pending disputes, litigations and claims arising out of the normal course of business. For the cases where the Xellia Group has an uncapped, infinite 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 disputes, litigations and claims to have a material impact on the company's financial position, operating profit, or cash flows.

The company is jointly taxed with the Danish companies owned by Novo Holdings A/S. The joint taxation covers withholding taxes in the form of dividend tax, royalty tax and interest tax. The Danish companies are jointly and severally 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.

Contract condition

Xellia has commitments in contracts with some customers to pay for additional costs that the customers eventually will have in case that it is not possible for Xellia to deliver confirmed orders. The amount required to meet such commitments cannot be estimated.

Borrowings

In November 2022, the Group entered into a Senior Club Facility with Danske Bank and Nordea of 430,0 MUSD. The Senior Club Facility consist of a 230,0 MUSD committed term loan and 200,0 MUSD in committed revolving loan facility. The termination date is November 2025 with an option to extend the loan with 1+1 years subject to lender consent.

Per December 31, 2022 the Group has utilized the Senior Club Facility term loan of 230,0 MUSD and a revolving loan of 20 MUSD. The remaining available committed revolving loan amounts to 180,0 MUSD. The facility carries a floating margin based on Group performance + SOFR and CAS. Per December 31, 2022 the all-inclusive interest is 6,5 % p.a. of the drawn amount of the facility. In addition, the Group pays a commitment fee of any undrawn amount. Furthermore, the group has capitalized transaction cost and fees related to the Senior Club Facility which will be amortized over the period of the Senior Club Facility. As per end 2022, the capitalized transaction cost is 1,4 MUSD.

The Senior Club Facility with Danske Bank and Nordea of 430,0 MUSD replaces Xellia existing bilateral Senior facility agreements with Danske Bank of 165,0 MUSD and Nordea 65,0 MUSD. Both bilateral agreements have been cancelled and terminated in connection with the closing transactions of the Senior Club Facility with Danske Bank and Nordea. The proceeds from the Senior Club Facility term loan were used to repay the terminated facilities at Danske Bank of 165,0 MUSD and Nordea 65,0 MUSD.

The Senior Club Facility with Danske Bank and Nordea are subject to covenants, under which the net interest-bearing debt must not exceed equity including shareholder loans by 2 times. Furthermore, certain minimum EBITDA targets must be met on a semi-annual basis commencing from 30 June 2023. Per December 31, 2022, the Group complies with the covenants.

In 2016, Xellia Pharmaceuticals ApS entered a mortgage loan of MDKK 240.0 with Realkredit Danmark covering the buildings and equipment owned by Xellia Pharmaceuticals ApS. In 2022, Xellia Pharmaceuticals ApS has repaid MDKK 23.1, and the mortgage principal was reduced to MDKK 193.4 by the end of 2022. Furthermore, Xellia Pharmaceuticals ApS has capitalized mortgage loan cost which will be amortized over the period of the mortgage loan. As per end 2022, the capitalized mortgage loan cost is MDKK 1.6.

Notes

20 Contingent liabilities (continued)

The mortgage loan is based on a 15 year loan period. 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 pay a contribution fee of 0.725% p.a. to the mortgage institute.

The Group has one overdraft credit line by year end 2022. The Group's overdraft facility at Danske Bank is MUSD 15.0 of which a total of MUSD 0.0 is drawn.

Xellia Pharmaceuticals ApS, Xellia Pharmaceuticals USA, LLC and New Xellia Group A/S have joint and several liability for the unsecured Club Facility agreements with Danske Bank and Nordea. Xellia Pharmaceuticals USA, LLC is a subsidiary of Xellia Pharmaceuticals Inc. who is responsible for the B2I sales activity in the US as well as the manufacturing facility located in Cleveland, Ohio. In addition, the Group has a negative pledge associated with the Club Facility Agreement with Danske Bank and Nordea which limits the amount of security which the Group may offer to 3rd parties.

Xellia Pharmaceuticals ApS and New Xellia Group A/S have joint and several liability for the secured mortgage loan with Realkredit Danmark and the unsecured overdraft facility with Danske Bank as well the derivatives agreements with Danske Bank and Nordea.

Notes

21 Financial instruments

Forward exchange contracts (against USD)

The overall objective of foreign exchange risk management is to reduce the short-term negative impact of exchange rate fluctuations on EBITDA and cash flow, thereby contributing to the predictability of the financial results.

The company hedges future expected EBITDA cash flows up to a maximum of 24 months forward. Hedge accounting is applied to match the impact of the hedged item and the hedging instrument in the income statement.

The foreign exchange contracts are entered into to hedge the functional currency equivalent of the predominantly USD dominated sales.

Xellia Pharmaceuticals ApS are exposed to variability in foreign currency on highly probable USD future income as well as highly probable future payments in DKK and HUF. Xellia Pharmaceuticals ApS expenses in DKK cover salaries and purchase of raw materials and services. Xellia Pharmaceuticals ApS expenses in HUF cover purchase of API and services delivered by Xellia Pharmaceuticals Ltd. (Hungary).

During 2022, the hedging horizon varied between 24 and 30 months for DKK and HUF. The average hedged rate for the forward foreign currency hedge contracts are 6.28 USD/DKK and 308 USD/HUF in 2022, 6.8 USD/DKK and 391 USD/HUF in 2023 and 6.8 USD/DKK and 421 USD/HUF in 2024.

There is no expected ineffectiveness at December 31, 2022, primarily because hedging instruments match currencies of hedged cash flows.

Derivative financial instruments are recognized at fair value based on a valuation report prepared by an external party who values the instruments based on discounted cash flows.

The company's foreign exchange contracts at the end of December are:

	TDKK	Period	Contractual value		Gains and losses recognised in income statement	
			2022	2021	2022	2021
USD/DKK		< 1 year	669,327	576,732	7,578	-29,840
USD/HUF		< 1 year	66,933	86,608	3,613	-567
USD/DKK		> 1 year	694,427	0	0	0
USD/HUF		> 1 year	66,933	0	0	0
			1,497,620	663,340	11,191	-30,407

Notes

22 Related parties and ownership structure

Controlling interest

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

Transactions

Pursuant to section 98c(7) of the Danish Financial Statements Act, transactions with related parties have not been disclosed in the financial statements as they have been made on an arm's length basis.

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.

23 Fee to auditors appointed at the general meeting

PricewaterhouseCoopers:

	2022	2021
	TDKK	TDKK
Audit fee	1,081	992
Tax services	2,016	1,136
Other audit related fees	35	441
	3,132	2,569