Xellia Pharmaceuticals ApS

CVR no. 61 09 46 28

Dalslandsgade 11, DK-2300 Copenhagen S

Annual report for 2019

Adopted at the annual general meeting on 24 March 2020
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, 2019 - 31 December, 2019.

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, 2019 and of the results of the the company's operations for the financial year 1 Januar, 2019 - 31 December, 2019.

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, 24 March 2020

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 2019, and of the results of the company's operations for the financial year 1 January - 31 December 2019 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 2019, 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, 24 March 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

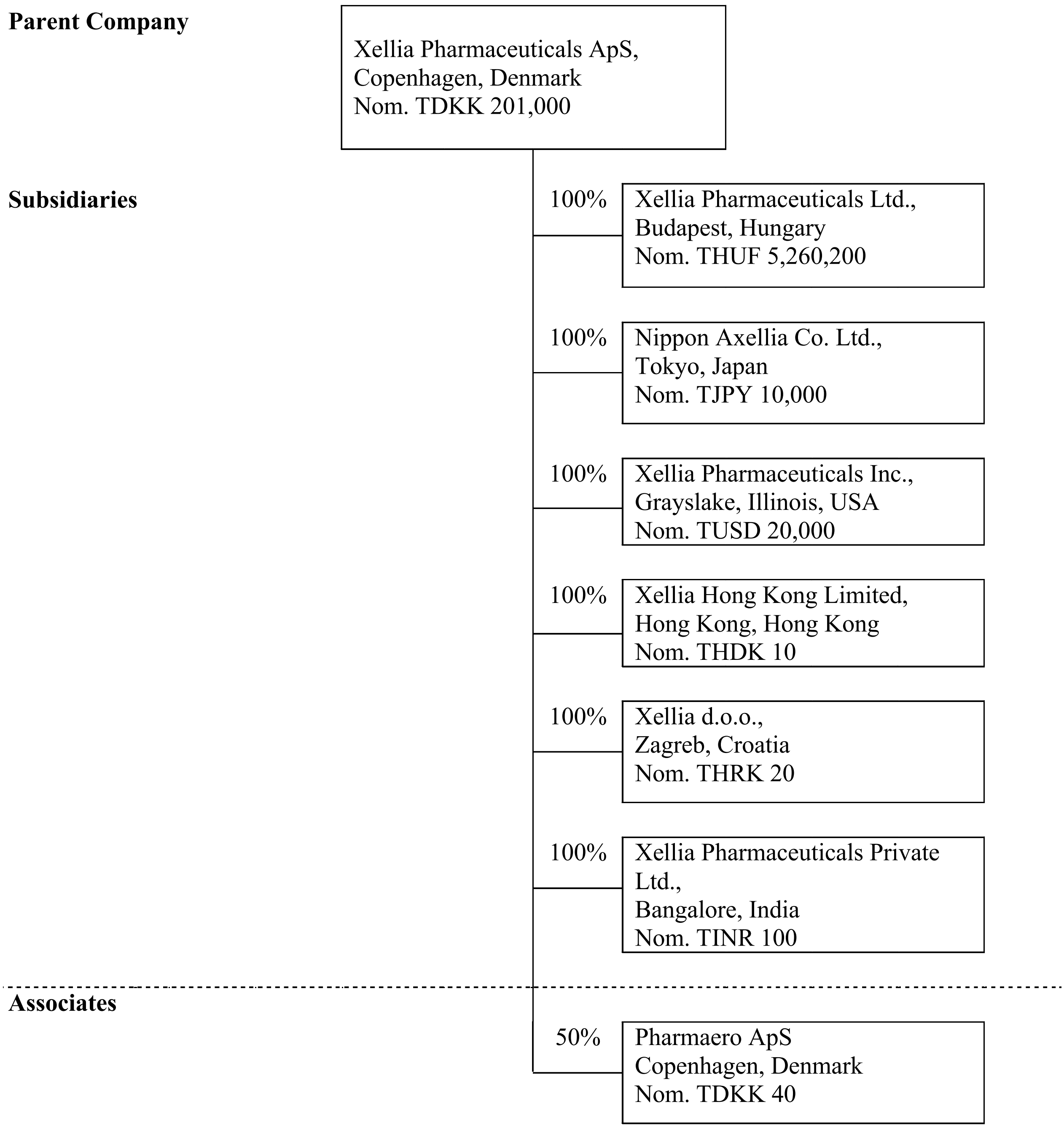
Kim Füchsel
State Authorised Public Accountant
MNE no. 9291

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
	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. 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., Grayslake, Illinois, USA Nom. TUSD 20,000
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
Associates
50%
Pharmaero ApS Copenhagen, Denmark Nom. TDKK 40

Financial highlights

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

	2019	2018	2017	2016	2015
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Revenue	2,346	1,890	1,897	1,475	1,216
Profit/loss before amortisation/depreciation and impairment losses	394	30	55	76	-16
Net financials	60	29	60	-27	-87
Profit/loss for the year	391	-75	91	34	-74
Balance sheet					
Fixed assets	1,048	1,008	1,160	1,108	1,084
Current assets	1,603	1,419	1,362	1,299	610
Balance sheet total	2,652	2,426	2,521	2,407	1,694
Equity	1,391	1,007	851	759	729
Provisions	80	61	41	68	62
Long-term debt	562	543	829	577	478
Short-term debt	618	816	801	1,003	425
Financial ratios					
Gross margin	37%	31%	28%	35%	30%
EBIT margin	16%	-8%	3%	5%	-1%
Return on assets	15%	-6%	2%	4%	-1%
Solvency ratio	52%	42%	34%	32%	43%
Return on equity	33%	-8%	11%	5%	-10%
Average number of employees	623	580	493	466	479
Investment in tangible assets	102	146	74	89	78

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, focused on providing important anti-infective treatments against serious and often life-threatening infections. Xellia’s anti-infective treatments are generics that combat serious bacterial and antibiotic resistant infections as well as certain fungal diseases.
Xellia is the world-leading provider of Vancomycin and Colistimethate Sodium and a leading provider of other important critical care anti-infectives, including Bacitracin, Daptomycin and Polymyxin B.

The majority of Finished Dosage Forms (FDF) in Xellia’s portfolio are injectable. However, Xellia also develops other formulations of its key products, aiming to improve customer value and meet patient needs.

Xellia has five state-of-the-art manufacturing facilities located in; Denmark, Hungary, China and in the U.S. Xellia’s FDF facilities are located in Denmark and the U.S.

Xellia has over 100 years’ experience in the development, manufacture and supply of generic fermented and semi-synthetic Active Pharmaceutical Ingredients (APIs) and FDFs.

Xellia operates according to current Good Manufacturing Practice (cGMP) and Xellia’s facilities have received regulatory approval from all relevant authorities, including the U.S. Food and Drug Administration (FDA).

Xellia’s generic anti-infective business is built to meet the immediate and long-term requirements of the customers comprising branded, specialty and generic pharmaceutical companies in more than 70 countries around the world.

Xellia has several own- label products launched in the US institutional market and a strong performance in the global B2B market.

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.

Business review
The company's income statement for the year ended 31 December 2019 shows a profit of TDKK 390,722, and the balance sheet at 31 December 2019 shows equity of TDKK 1,391,325.

Investments
In 2019, Xellia invested MDKK 22.6 in intangible assets. Furthermore Xellia capitalized investment in tangible assets of MDKK 101.5 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.

Management's review

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.

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 2019, the company achieved revenues of MDKK 2,346 and a net profit of MDKK 390.7. 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 in 2020 compared to 2019 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 2020.

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

The 2019 financial performance was in line with expectations. The Net Result for the year was MDKK 390.7 (2018: MDKK -74.9).

Statutory corporate governance report

In 2019, the Board of Directors of the company held two 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 corporate social responsibility report

With respect to the 2019 statement on CSR in accordance with section 99a of the Danish Financial Statement Act, we refer to the 2019 Corporate Report which is part of the Management Review of the 2019 financial Annual Report:

https://www.xellia.com/-/media/xellia/corporate-report-2019-updated.ashx

Management's review

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

Xellia is committed to building a workforce throughout the entire organization that is represented equally by both genders across all management levels and managerial positions. In 2018, we adopted a new Diversity Policy that sets out the key principles for our commitment and focus in this area. In 2019, for all companies in the Group, there was an average of 57% male and 43% female employees (versus 58% male and 42% female in 2018). At manager level, there was a male average of 67% and female average of 33% (versus 68% male and 32% female in 2018).

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.

In accordance with the diversity policy, qualified women are encouraged to apply and pursue leadership and managerial positions in the company and gender diversity is an area of increased focus in our development and succession planning initiatives. Our staff policies and People and Organization processes are directed at retaining qualified female employees by addressing the work/life balance to create a desirable working environment, as well as supporting personal development through continuous learning conversations, feedback and leadership training. For example, unconscious bias training delivered to the organization will help overcome stereotypes and outdated beliefs, giving women more opportunities to grow and advance at Xellia. Xellia will actively embark on key strategic initiatives to improve the gender diversity ratios that currently exist throughout our organization.

Significant events occurring after the end of the financial year

The company’s outlook for the future might be negatively affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak. However, as long as the company is able to supply anti-infective to its customers, the company will more likely than not see an increase in revenue and profit relative to expectations due to the increasing demand from health systems as hospital admittance rates increase.

Company Management has tried to estimate the effect of COVID-19 on the expected revenue and net profit of the company. It is, however, too early yet to give an opinion as to the extent of the negative implications.

Income statement 1 January - 31 December

	Note	2019	2018
		TDKK	TDKK
Revenue	2	**2,346,296**	**1,890,464**
Cost of productions		-1,472,778	-1,313,791
Gross profit		**873,518**	**576,673**
Distribution costs		-89,718	-117,314
Administrative costs		-196,920	-227,891
Research and development costs		-192,940	-201,784
Operating profit/loss		**393,940**	**29,684**
Other operating expenses	3	-6,665	-182,283
Income from investments in subsidiares		116,336	152,261
Impairment losses on financial assets		-6,129	-67,066
Financial income	4	34,905	14,497
Financial expenses	5	-85,138	-70,202
Profit/loss before tax		**447,249**	**-123,109**
Tax on profit/loss for the year	6	-56,527	48,197
Net profit/loss for the year		**390,722**	**-74,912**

	Note	2019	2018
Proposed distribution of profit	7		
Transferred to reserve for development expenditure		767	-44,179
Retained earnings		389,955	-30,733
		390,722	**-74,912**

Balance sheet 31 December

	Note	2019	2018
		TDKK	TDKK
Assets			
Technology and development cost		26,367	37,639
Productions and sales rights		106,014	114,004
Goodwill		3,120	4,022
Software		22,897	25,614
Intangibles under construction		46,217	30,936
Intangible assets	8	**204,615**	**212,215**
Land and buildings		63,736	64,749
Plant and machinery		224,925	236,361
Fixtures and fittings, tools and equipment		13,184	13,345
Property, plant and equipment under construction		228,241	167,769
Property, plant and equipment	9	**530,086**	**482,224**
Investments in subsidiaries	10	310,210	310,210
Investments in associates	11	3,293	3,387
Fixed asset investments		**313,503**	**313,597**
Total non-current assets		**1,048,204**	**1,008,036**
Raw materials		56,521	65,228
Work in progress		172,448	125,762
Finished goods		196,840	211,334
Inventories	12	**425,809**	**402,324**
Trade receivables		195,708	171,318
Receivables from group companies		848,669	691,014
Other receivables		108,518	100,741
Corporation tax		0	7,529
Prepayments	13	22,313	17,626
Receivables		**1,175,208**	**988,228**
Cash at bank and in hand		**2,347**	**27,907**
Total current assets		**1,603,364**	**1,418,459**
Total assets		**2,651,568**	**2,426,495**

Balance sheet 31 December

	Note	2019	2018
		TDKK	TDKK
Equity and liabilities			
Share capital		201,000	201,000
Reserve for development expenditure		37,846	37,079
Retained earnings		1,164,057	774,102
Derivative		-11,578	-5,057
Equity	14	**1,391,325**	**1,007,124**
Provision for deferred tax	15	80,315	60,952
Total provisions		**80,315**	**60,952**
Mortgage loans		236,961	236,492
Lease obligations		2,578	0
Payables to group companies		310,103	303,152
Other payables		11,971	3,260
Total non-current liabilities	16	**561,613**	**542,904**
Other credit institutions		0	39,346
Trade payables		148,257	78,808
Payables to group companies		241,860	411,229
Corporation tax	17	34,048	0
Other payables	18	194,150	230,476
Deferred income		0	55,656
Total current liabilities		**618,315**	**815,515**
Total liabilities		**1,179,928**	**1,358,419**
Total equity and liabilities		**2,651,568**	**2,426,495**
Staff	19		
Subsequent events	20		
Rent and lease liabilities	21		
Contingent liabilities	22		
Related parties and ownership structure	23		

Statement of changes in equity

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
Equity at 1 January 2019	201,000	37,079	774,102	-5,057	1,007,124
Other equity movements	0	0	0	-8,361	-8,361
Net profit/loss for the year	0	767	389,955	0	390,722
Changes in equity of tax	0	0	0	1,840	1,840
Equity at 31 December 2019	**201,000**	**37,846**	**1,164,057**	**-11,578**	**1,391,325**

	Share capital	Reserve for development expenditure	Retained earnings	Derivative	Total
Equity 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 1. januar 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 31 December 2018	**201,000**	**37,079**	**774,102**	**-5,057**	**1,007,124**

Notes

1 Accounting policies

The annual report of Xellia Pharmaceuticals ApS for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The annual report for 2019 is presented in TDKK.

Changes in accounting policies

Application of IFRS 16 "Right of use assets"

This standard replaces IAS 17 and sets out the principles for recognition, measurement, presentation and disclosure of leases. IFRS 16 uses a single lessee accounting model and requires recognition of assets and liabilities for almost all leases which results in an increase of fixed assets and total financial debt. The company decided to implement IFRS 16 in 2019 applying the "modified retrospective" approach, which means that as of 1 January 2019 "Right of use assets" is recognized equal to the lease liability. Therefore there will be no change to the comparative figures. The company will make use of the relief from restating comparative figures and will not apply IFRS 16 to short-term leases and low value leases.

The impact on 2019 figures is a decrease in Cost of sales, sales and marketing costs, research and development cost and administration costs of 2,451 TDKK, an increase in depreciation cost of 2,338 TDKK in note 9 and an increase in financial expenses of 113 TDKK. In the balance sheet at 31 December 2019 Right of use assets have been recognized with 2,580 TDKK and Lease liabilities with 2,578 TDKK. The Lease liability is determined as present value of the remaining payments using the incremental borrowing rate of the entities. The right of use assets are recognized with an amount equal to the initial amount of the lease liability less depreciation.

Application of IFRS 9 "Financial instruments"

As of January 2019 the company had adopted the following new accounting standard and interpretation (IFRS):

- IFRS 9 Financial instruments:

The implementation of IFRS 9 has had an insignificant impact on the financial statements. The basis for calculating the allowance for doubtful receivables has been changed from incurred losses to expected losses. However, this has had only an insignificant impact on the allowances and thereby the financial statements.

The standard has been implemented prospectively using January 1, 2019 as the date of initial application. The company has made use of the relief from restating comparative figures.

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

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.

Notes

1 Accounting policies

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 installments 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.

Subsidiaries

Consolidated financial statements

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

Income statement

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.

Notes

1 Accounting policies

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.

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.

Notes

1 Accounting policies

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.

Technology and development projects and Productions and sales rights

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 all 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 amortised on a straight-line basis over the estimated useful life. The amortisation period is usually five years.

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

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.

Notes

1 Accounting policies

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.

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
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.

Notes

1 Accounting policies

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.

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, except for sales to wholesalers in the US that have up to 65 days.

Notes

1 Accounting policies

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 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).

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.

Notes

1 Accounting policies

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.

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.

Notes

1 Accounting policies

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

2 Information on segments

Geographical - secondary segment

	Europe	North America	South America	Asia	Other	Total
TDKK						
2019						
Revenue	673,528	1,360,755	56,535	237,801	17,677	2,346,296
2018						
Revenue	580,430	1,062,417	59,993	177,516	10,108	1,890,464

	2019	2018
	TDKK	TDKK
3 Other operating expenses		
Impairment on intangible assets	6,665	182,283
	6,665	**182,283**

Notes

		2019	2018
		TDKK	TDKK
4	**Financial income**		
	Interest received from group companies	142	120
	Other financial income	4,930	2,384
	Foreign exchange adjustments	29,833	11,993
		34,905	**14,497**

5	**Financial expenses**		
	Interest to group companies	16,384	15,246
	Other financial expenses	7,617	8,074
	Foreign exchange adjustments	6,951	11,236
	Exchange loss	54,186	35,646
		85,138	**70,202**

6	**Tax on profit/loss for the year**		
	Current tax on profit / loss for the year	42,984	-9,529
	Change in deferred tax	20,108	-45,543
	Adjustments of tax prior years	-5,822	-12,340
	Adjustments of deferred tax prior years	-743	19,215
		56,527	**-48,197**

7	**Distribution of profit**		
	Transferred to reserve for development expenditure	767	-44,179
	Retained earnings	389,955	-30,733
		390,722	**-74,912**

Notes

8 Intangible assets

	Technology and development cost	Productions and sales rights	Goodwill	Software	Intangibles under construction	Total
Cost at 1 January 2019	256,647	367,533	21,156	59,280	318,435	1,023,051
Additions for the year	0	0	0	0	22,609	22,609
Disposals for the year	0	0	0	-1,039	0	-1,039
Transfers for the year	0	0	0	7,328	-7,328	0
Cost at 31 December 2019	256,647	367,533	21,156	65,569	333,716	1,044,621
Impairment losses and amortisation at 1 January 2019	219,008	253,529	17,134	33,666	287,499	810,836
Impairment losses for the year	6,665	0	0	0	0	6,665
Depreciation for the year	4,607	7,990	902	9,006	0	22,505
Impairment losses and amortisation at 31 December 2019	230,280	261,519	18,036	42,672	287,499	840,006
Carrying amount at 31 December 2019	**26,367**	**106,014**	**3,120**	**22,897**	**46,217**	**204,615**
Depreciated period	5-15 years	5-20 years	20 years	3-5 years		

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

Xellia'sdevelopment projects are related to the development of existing and new versions of generic pharmaceutical products. Xellia capitalizes development projects when the recognition criteria in IAS 38 are fulfilled. Development costs are capitalized when a development project has been approved at Xellia Portfolio Review Meeting and the risk-adjusted business case for the project shows a positive net present value. Xellia has one ongoing development project, which is expected to be completed in 2021. The project is progressing as planned using the resources allocated by management. The product is expected to be sold on the current market, to the company's existing customers.

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

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 1 January 2019	387,275	905,054	46,857	176,690	1,515,876
Additions for the year	0	0	0	101,510	101,510
Disposals for the year	-5,137	-66,181	-7,515	0	-78,833
Transfers for the year	6,390	28,426	6,222	-41,038	0
Cost at 31 December 2019	388,528	867,299	45,564	237,162	1,538,553
Impairment losses and depreciation at 1 January 2019	322,526	668,693	33,512	8,921	1,033,652
Depreciation for the year	7,403	39,621	6,383	0	53,407
Reversal of impairment and depreciation of disposed assets	-5,137	-65,940	-7,515	0	-78,592
Impairment losses and depreciation at 31 December 2019	324,792	642,374	32,380	8,921	1,008,467
Carrying amount at 31 December 2019	**63,736**	**224,925**	**13,184**	**228,241**	**530,086**
Depreciated period	13-40 years	5-13 years	3-13 years		

The company has contractual obligations at 31 December 2019 regarding aquirement of equipment’s and buildings amounting to MDKK 4.2 (2018: MDKK 10.5)

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

Notes

		2019	2018
		TDKK	TDKK
10	**Investments in subsidiaries**		
	Cost at 1 January 2019	310,210	310,210
	Cost at 31 December 2019	310,210	310,210
	Carrying amount at 31 December 2019	**310,210**	**310,210**

Investments in subsidiaries are specified as follows:

Name	Registered offi-ce	Ownership interest	Equity	Profit/loss for the year
Xellia Pharmaceuticals Ltd.	Hungary	100%	11,080,310	2,309,376
Nippon Axellia Co. Ltd.	Japan	100%	51,678	387
Xellia Pharmaceuticals Inc.	USA	100%	24,066	-5,352
Xellia Hong Kong Limited	Hong Kong	100%	99,114	-3,695
Xellia d.o.o.	Croatia	100%	40,848	6,395
Xellia Pharmaceuticals Private Ltd.	India	100%	60,567	10,959

		2019	2018
		TDKK	TDKK
11	**Investments in associates**		
	Cost at 1 January 2019	70,453	51,128
	Additions for the year	6,035	19,325
	Cost at 31 December 2019	76,488	70,453
	Revaluations at 1 January 2019	-67,066	0
	Impairment for the year	-6,129	-67,066
	Revaluations at 31 December 2019	-73,195	-67,066
	Carrying amount at 31 December 2019	**3,293**	**3,387**

Notes

Investments in associates are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
Pharmaero ApS	Denmark	50%	6,586	-12,231

	2019	2018
	TDKK	TDKK
12 Inventories		
Raw materials	56,521	65,228
Work in progress	172,448	125,762
Finished goods	196,840	211,334
	425,809	**402,324**

13 Prepayments

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

14 Equity

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

	2019	2018
	TDKK	TDKK
15 Provision for deferred tax		
Provision for deferred tax at 1 January 2019	60,952	40,640
Provision in year	19,363	20,312
Provision for deferred tax at 31 December 2019	**80,315**	**60,952**
Intangible assets	28,472	31,493
Property, plant and equipment	11,817	4,789
Inventories	39,132	30,128
Other taxable temporary differences	894	-5,458
	80,315	**60,952**

Notes

16 Non-current liabilities

	Debt at 1 January 2019	Debt at 31 December 2019	Instalment next year	Debt outstanding after 5 years
Mortgage loans	236,492	236,961	0	145,314
Lease obligations	0	2,578	0	0
Payables to group companies	303,152	310,103	0	310,103
Other payables	3,260	11,971	0	11,024
	542,904	**561,613**	**0**	**466,441**

As security for mortgage debt, MDKK 240, is given in land and buildings. Per 31 December, 2019 total carrying amount of land and buildings including Plant and machinery and PPE under construction is MDKK 516.6.

	2019	2018
	TDKK	TDKK
17 Corporation tax		
Calculated tax payable	34,048	0
Corporation tax payable	**34,048**	**0**
18 Other payables		
Accrued interest	86	137
Wages/salaries, salary taxes, social security contributions, etc.	83,586	97,218
Other accrued expenses	95,633	126,637
Derivative financial instruments liabilities	14,845	6,484
	194,150	**230,476**

Notes

		2019	2018
		TDKK	TDKK
19	**Staff**		
	Wages and Salaries	362,906	350,263
	Pensions	39,465	37,404
	Other social security expenses	5,978	4,654
		408,349	**392,321**
	Wages and Salaries, pensions and other social security expenses are recognised in the following items:		
	Cost of sales	340,412	303,215
	Distribution expenses	27,996	26,720
	Administrative expenses	22,259	45,407
	Research and development expenses	17,682	16,979
		408,349	**392,321**
	Average number of employees	623	580

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

20 Subsequent events

The company's outlook for the future might be negatively affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak. However, as long as the company is able to supply anti-infective to its customers, the company will more likely than not see an increase in revenue and profit relative to expectations due to the increasing demand from health systems as hospital admittance rates increase.

Company Management has tried to estimate the effect of COVID-19 on the expected revenue and net profit of the company. It is, however, too early yet to give an opinion as to the extent of the negative implications. Therefore, Management finds itself unable to disclose reliably its outlook for the future in accordance with section 12 of the Danish Financial Statements Act.

Notes

		2019	2018
		TDKK	TDKK
21	**Rent and lease liabilities**		
	Operating lease liabilities. Total future lease payments:		
	Within 1 year	0	1,211
	Between 1 and 5 years	0	597
	After 5 years	0	0
		0	**1,808**

22 Contingent liabilities

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

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

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, 2019 New Xellia Group A/S has utilized the Danske Bank SFA facility by 99.0 MUSD (600.2 MDKK) and has a remaining available amount of 65.3 MUSD (435.5 MDKK) with respect to this facility. The facility carries a floating margin based on Group performance + LIBOR. Per December 31, 2019 the interest is 2.9%/3.0% 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 65.0 MUSD (433.5 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, 2019 New Xellia Group A/S has utilized the Nordea SFA facility by 65.0 MUSD (433.5 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, 2019 the interest is 2.9%/3.0% 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, 2019 the Group complies with the covenants.

Notes

22 Contingent liabilities (Fortsat)

Operating lease guarantees
The company has granted guarantees to third parties of total TDKK 216 (2018: TDKK 216).

23 Related parties and ownership structure

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