xellia
PHARMACEUTICALS

Corporate Report **2016**

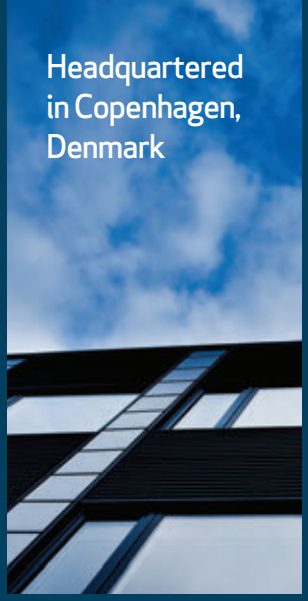
Contents

Forward-looking statement

This report contains certain projections and other forward-looking statements with respect to the financial condition, results of operations, businesses and prospects of New Xellia Group A/S ("Xellia"). These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future.

Xellia at a glance

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

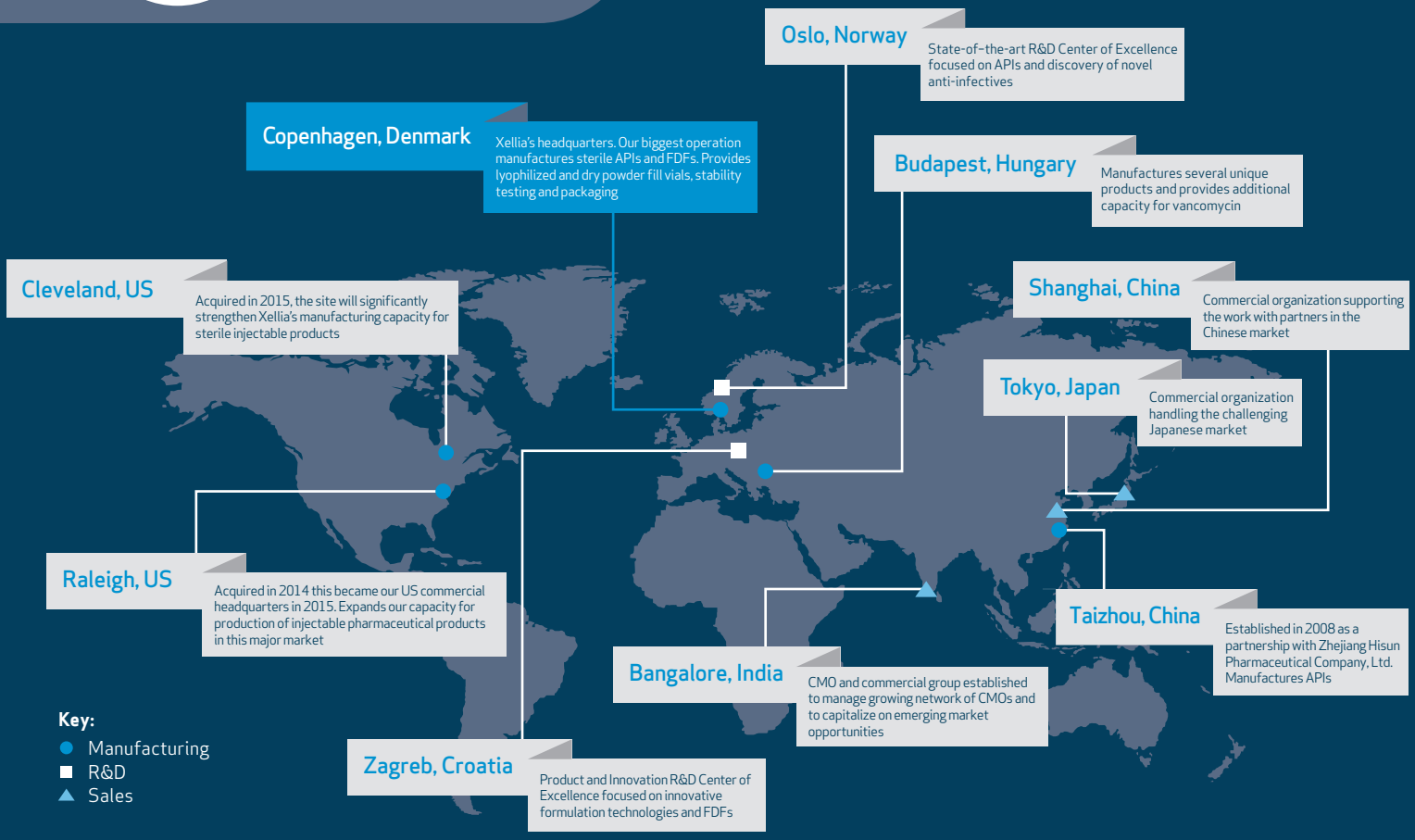


Headquartered in Copenhagen, Denmark

Owned by Novo A/S

novo

Xellia is developing novel antibiotics effective against resistant species in partnership with **SINTEF Materials and Chemistry** and the **Statens Serum Institut** supported by a grant from the **Research Council of Norway**



Xellia is the **leading supplier** of important anti-infectives vancomycin and colistimethate sodium (CMS)

1,350

Xellia has over **1,350** employees in 8 countries around the world

500

We supply our anti-infective products to more than **500** pharmaceutical companies in over **70** countries

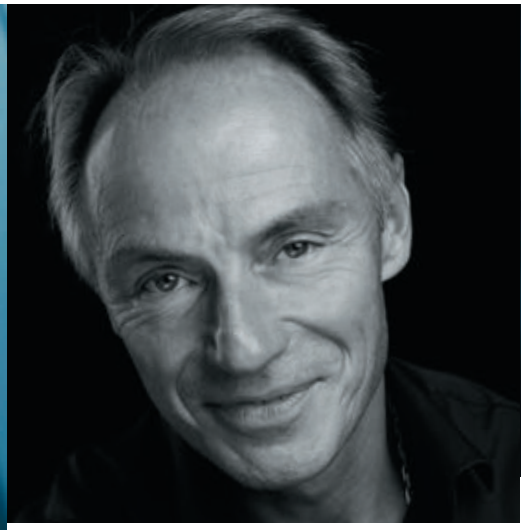
100

Over **100** years' experience in the development, manufacture and supply of fermented and semi-synthetic APIs and FDFs

2016 highlights

2016 was another year of continuing investment as we further develop Xellia's world class manufacturing and R&D capabilities for important anti-infective treatments against serious and often life-threatening infections.

We made good progress in meeting our strategic goals; we improved our financial performance while continuing to focus on innovation and on increasing manufacturing productivity and capacity for our injectable anti-infective products.



"2016 WAS A SUCCESSFUL YEAR FOR XELLIA, WE TOOK KEY STEPS IN MEETING OUR STRATEGIC GOALS IN FINANCIAL PERFORMANCE, INNOVATION, PRODUCTIVITY AND INCREASING MANUFACTURING CAPACITY FOR IMPORTANT INJECTABLE ANTI-INFECTIVE TREATMENTS."

Carl-Åke Carlsson
Chief Executive Officer
Xellia Pharmaceuticals

Operations

A key priority in 2016 was preparing for the start-up of the aseptic injectable facility in Cleveland, Ohio that we acquired in November 2015. At the time of the acquisition the site was non-operational. In 2016 we invested significantly in facility upgrades and new equipment, as well as hiring an experienced team of 100 employees. In April, we entered into a Modified Consent Decree with the US Food and Drug Administration (FDA), which set out the process that Xellia must comply with in relation to manufacturing start-up.

In November, following a successful cGMP inspection, we received notice from the FDA to allow labelling, secondary packaging and distribution of drug products at the site. This is an impressive achievement in the timeframe since the acquisition. We are continuing to work closely with the FDA to enable commercial production of sterile anti-infective injectable products during 2018.

In May 2016, we began construction of the 3,000m2 Centralized Laboratory Services building in Budapest, Hungary. Upon completion in 2017 the new facility, which is located next to our active pharmaceutical ingredient (API) manufacturing plant, will house state-of-the-art microbiology and chemical analytical laboratories as well as administrative offices. The facility will play an important part in Xellia's global operational strategy, strengthening our product release and stability testing services for finished dosage forms (FDFs) and APIs produced across many of our other sites. We are currently extending our existing team in Budapest of 200 employees with up to 80 highly skilled new roles in manufacturing, product testing and quality assurance.

To remain a leading business in the global generic anti-infectives market, Xellia is committed to ongoing improvement of our cost competiveness, delivering excellence in the execution of our manufacturing and innovation processes and maintaining our compliance track record with the various regulators in the pharmaceutical industry. In 2016, we continued the focus on increasing plant efficiency and improving delivery performance across our manufacturing network for both APIs and FDFs. We were able to meet most of our key performance indicators for the year and successfully passed a total of seven inspections by different regulatory authorities across our five global manufacturing sites.

2016 highlights continued

Products and markets

Xellia's products are speciality anti-infectives and anti-fungals that play a key role in treating serious infectious diseases, often proving a 'last resort' when all other therapies have failed. In 2016 we experienced a continued, strong demand for these products from new and existing customers.

2016 has also been a year in which awareness of the threat of antimicrobial resistance (AMR) has continued to grow internationally as the world attempts to address this growing crisis. As a leading supplier of anti-infectives that can be the last line of defence against resistant microbes, such as vancomycin and colistimethate sodium (CMS), we are conscious of the role we play in ensuring responsible production and stable and reliable supply.

Given the increasing challenge of AMR globally, we are more acutely aware than ever before of our responsibility in the in this area.

Our business is built to meet both immediate and long term requirements of our customers. During 2016 we have focused strongly on customer service levels and have worked in close collaboration with our customers to meet and exceed their expectations. In 2016 we supported our customers with the launch of new generic anti-infectives in different geographical markets which contributed positively to the growth in revenue for the year. We also experienced increasing competition in certain markets, in particular from manufacturers operating in Asia, which highlights the importance of our continued emphasis on delivery performance and cost competitiveness.

Our vertical integration strategy enables us to supply our customers with multiple product forms, improve supply security leveraging multiple manufacturing sites and provide a 'one-stop-shop', offering both the API and the FDF. The ratio of API and FDF products sold in 2016 was 53% to 47% respectively, continuing to move towards our long-term strategic aim of having a balanced portfolio with 50% of revenue originating from APIs and FDFs respectively. The transition to the supply of FDFs enables us to help simplify and streamline the supply chain for our customers by providing the final product.

As a global business our customers include branded, specialty and generic pharmaceutical companies in more than 70 countries around the world. Over recent years we have increased our focus on expanding in the US market and, in 2016, more than 50% of our total sales were generated in the US.

Financial

As a result of the good operational performance combined with the new launches, we were able to meet our financial targets for the year. Revenue for the year grew by 17% to 257.4 MUSD and EBITDA increased by 56% to 63.6 MUSD. EBIT was 29.5 MUSD (2015: 9.5 MUSD) and the Net Result was 18.7 MUSD up from a negative 3.6 MUSD in 2015. Profitability continues to be affected by the significant investment programs. We continue to prioritize innovation and in 2016 12.3% of our revenue was invested in R&D.

Innovation

While the backbone of Xellia's business is the manufacture of generic anti-infectives, we continued on our ambitious journey, which we set out on in 2014, to develop a balanced portfolio including more innovative and proprietary anti-infective products.

> "IN 2016 WE SUPPORTED OUR CUSTOMERS WITH THE LAUNCH OF NEW GENERIC ANTI-INFECTIVES IN DIFFERENT GEOGRAPHICAL MARKETS WHICH CONTRIBUTED POSITIVELY TO THE GROWTH IN REVENUE FOR THE YEAR."

2016 highlights continued

We have advanced our work in improving the efficacy, safety profile and reducing the side effects of our existing anti-infectives, and in developing new drugs to help tackle the global crisis of AMR. Our pipeline now reflects the development of a number of unique and proprietary anti-infective products, starting with line extensions based on improved formulations and drug-device combinations, and including early-stage novel drug products and compounds.

To enable us to meet our innovation goals, we announced further investment in our Zagreb R&D Centre of Excellence in September. This investment increased headcount by 25% to 80 specialist scientists and added approx. 1,000 m^2 of new lab space. The Zagreb R&D group focuses on the development of new generic, as well as innovative anti-infective products and formulation technologies, to combat serious bacterial and fungal infections, including antibiotic-resistant varieties.

We have continued to make steady progress during the final year of our four year research project in collaboration with prestigious groups at SINTEF Materials and Chemistry, based in Trondheim, Norway, and the Statens Serum Institut in Copenhagen. This project aims to identify and develop new antibiotics effective against the increasing problem of multi-drug resistant, Gram-negative bacteria. As part of this project, Xellia aims to extend the use of and improving compounds in the polymyxin family by reducing their toxicity and side effects. The project is supported by a 3 MUSD grant from the Research Council of Norway and incorporates contributions from other laboratories across Europe.

Xellia is developing novel, inhaled antibiotic products based on a proprietary aqueous droplet inhaler (ADI) device platform through Pharmaero, a 50:50 joint-venture with Scandinavian Health Ltd that we formed in 2010. Compared to currently marketed devices, the platform enables the desired lung exposure to be achieved with lower doses of the drug administered, due to the ADI's highly efficient targeted lung delivery. During 2016, two ADI antibiotic products intended for the management of Pseudomonas aeruginosa lung infection, primarily in cystic fibrosis patients, continue to be tested in clinical and pre-clinical studies.

Outlook for 2017

As we look to the future we will continue, with the strong backing of Novo A/S our main shareholder, to build on our excellent platform for growth. We will carry on investing significantly in manufacturing and innovations including completion of the upgrade to our new Cleveland facilities, where we aim to commence commercial production during 2018.

As we continue to grow, we recognize more than ever that our employees make Xellia the success it is, and that their hard work and dedication is central to our shared success. We are committed to continuing to make Xellia an enjoyable, challenging and rewarding place to work, wherever our employees are based.

I would like to end the year by thanking all of our customers for their support, the Board of Directors and Scientific Advisory Board for their counsel, and every member of the Xellia team for their energy and passion which have made 2016 such an important year for us.

Carl-Åke Carlsson,
Chief Excutive Officer

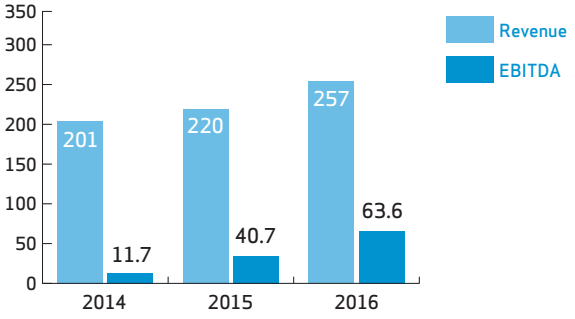
Financial highlights

Key figures

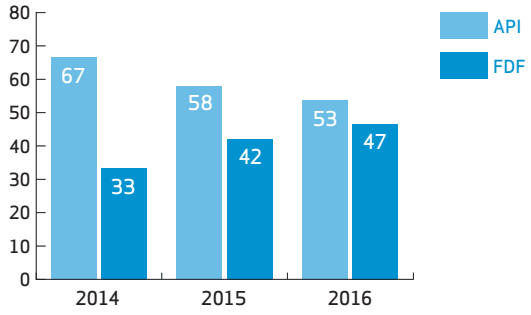
MUSD	2016	2015
Revenue	257.4	220.2
EBITDA	63.6	40.7
Operating profit (loss) / EBIT	29.5	9.5
Net profit (loss)	18.7	(3.6)
Total assets	645.2	562.0
Equity attributable to shareholders of the parent company	216.5	195.6
Free cash flow before acquisition	(56.5)	(32.5)
Total number of employees	1,352	1,176

Key ratios

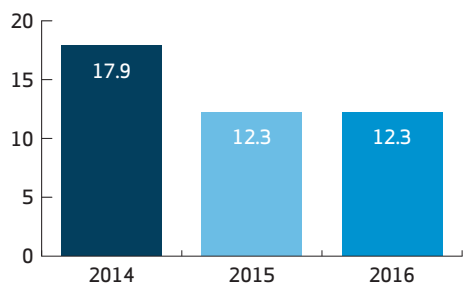
Percentage (%)	2016	2015
EBITDA margin	25	18
EBIT margin	11	4
Equity ratio	34	38



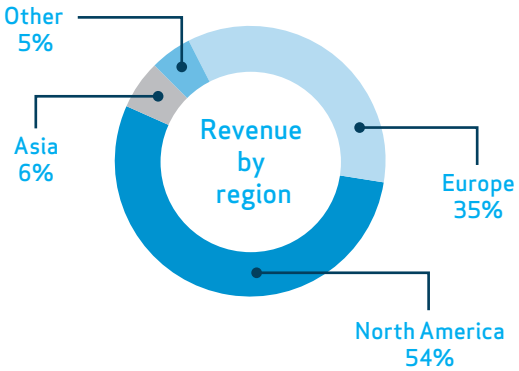
Revenue and EBITDA



API: FDF ratio
as % of total sales



Investment in R&D
as % of revenue



Spotlight on Xellia Cleveland

A closer look at developments during 2016

Spotlight on Xellia Cleveland

A transformational year with commercial production on the horizon

Increasing our manufacturing capabilities in the US, our biggest market

Over recent years we have focused on expanding our activities in the US, allowing us to address increasing demand for our sterile injectable products locally. Xellia is investing significantly in equipment upgrades and the facility design and has a recruited a strong team to drive operations and ensure cGMP compliance at the site.

When fully operational in 2018, our new Cleveland facility will function alongside Xellia's existing sterile injectable manufacturing sites in Raleigh, NC and in Copenhagen, Denmark. The site has great potential for future expansion, offers opportunities for contract manufacturing services, and supports the expansion of Xellia's product pipeline.

Our road map to commercial production

Nov 2015

Xellia acquired the non-operational site from Hikma Pharmaceuticals, which was subject to a Consent Decree entered into by the FDA and the previous owner, Ben Venue Labs, in 2013.

Primary centre for all sterile injectable anti-infective products distributed to customers in the US

April 2016

Modifications to Consent Decree were agreed with the FDA. This milestone document sets out the process with which Xellia must comply in order to commence manufacturing activities at the site.

- 50 employees

Nov 2016

Following a successful cGMP inspection by the FDA. Xellia received a notice allowing packaging, labelling and distribution of sterile injectables manufactured at other sites, to commence.

100 employees

"People are so excited to get things up and running. Right now, this is a really fun place to be. There is a lot of enthusiasm. People are engaged. You get to see progress every single day - from the demolition of the old areas to creating new packaging and manufacturing areas. We have made a ton of progress in just a year."

Cheryl May, who is in charge of environmental health safety and security

2017 onwards

Completion of site upgrade for commercial production

Planned expansion of headcount to 170 employees.

Pending FDA approval, commercial manufacturing to commence.

Full capabilities will include manufacture, packaging, labelling and distribution of sterile injectables.

Business overview

Customer focus

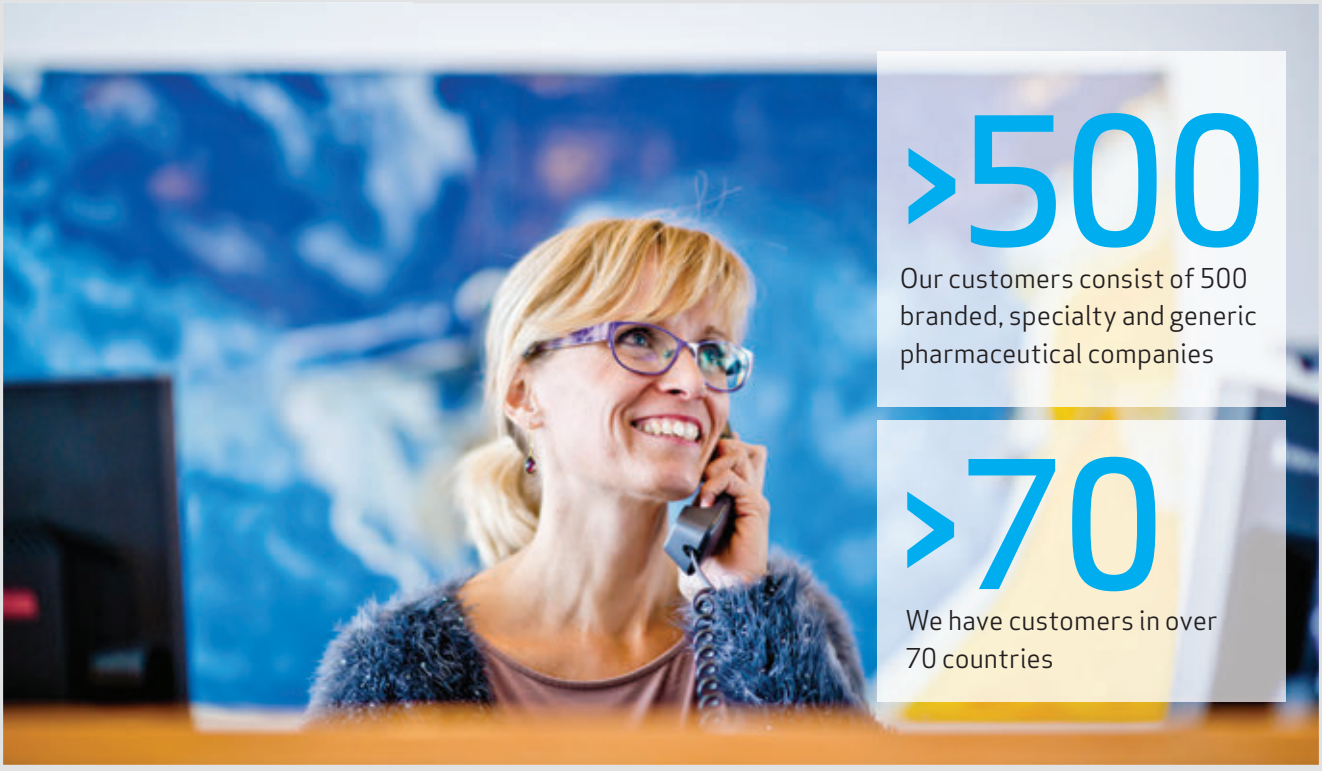
Xellia specializes in difficult-to-manufacture and develop anti-infectives and is the world-leading supplier of vancomycin and colistimethate sodium (CMS).

We aim to be the preferred partner for the global supply of fermented and semi-synthetic anti-infectives for critical care to the pharmaceutical industry and we continue to focus strongly on our customers. Through our dedicated global customer service and technical support teams we build strong and lasting relationships with our broad customer base through our commitment to providing first-pass products, excellent quality and service.

Our customers consist of over 500 branded, specialty and generic pharmaceutical companies in more than 70 countries who rely on us to ensure continued supply thereby protecting their reputation and patients. The success of our business is based on customer satisfaction and loyalty, demonstrated by longstanding and often multi-product repeat orders.

We ensure that our industry-leading supply capability for our core anti-infective products, as well as our outstanding technical services evolve to meet the challenges our customers face in the ever-changing healthcare landscape.

We work closely with customers to help them in developing their products for market entry and launches and resolving technical challenges to support business continuity and growth.



Core capabilities

Our core capabilities support the discovery, development, manufacture and continuity of supply of anti-infective treatments for serious and life-threatening bacterial and fungal diseases.

Each function contains international experts in their relevant fields to optimize our production process and better serve our customers.

R&D
Our R&D teams are constantly evaluating and developing technologies that enhance our processes and products, and optimize manufacturing.

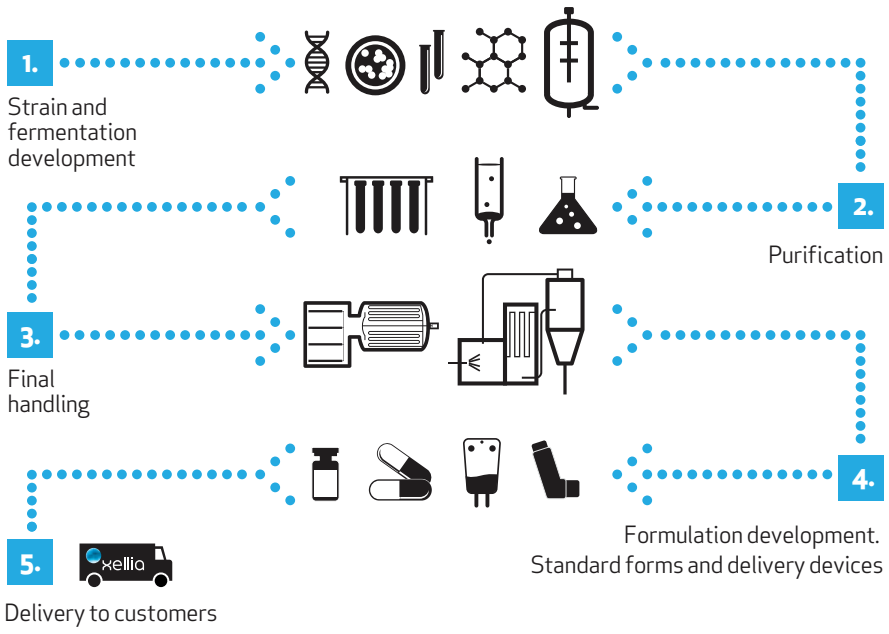
Manufacturing
Our manufacturing teams are located across four cGMP FDA compliant production sites in Denmark, Hungary, China and the US. In addition, we offer a range of antibiotic contract manufacturing services from custom synthesis of clinical trial material to large-scale manufacturing of marketed products.

Regulatory
Our global Regulatory Affairs team are specialists in developing and obtaining approvals for:

- European CEPs (Certificate of Suitability) and DMFs (Drug Master Files) in major markets including EU, US, Canada, Japan, Brazil, Australia, China and India
- Complete generic dossiers and ANDAs (Abbreviated New Drug Applications) in the EU and the US
- Submissions in other key markets such as India, China, Japan and Brazil

BUSINESS OVERVIEW

Xellia's production process - built on core capabilities



Generic anti-infectives:
Our core product offering

Anti-infectives are a cornerstone of modern medicine. Xellia's anti-infective treatments are generics that combat serious bacterial and antibiotic-resistant infections and certain fungal diseases. As "tried and tested" medicines, generics are typically available at significantly lower costs than their brand equivalents. As a result of the need to control rapidly rising healthcare costs in developed countries, and the inability of patients in developing countries to afford live-saving medicines, Xellia's anti-infective products are becoming increasingly important for global health.

While the origins of our business started with the supply of quality fermented, difficult-to-manufacture APIs, we are now strongly focused on adding value for our customers by providing the final dosage form.

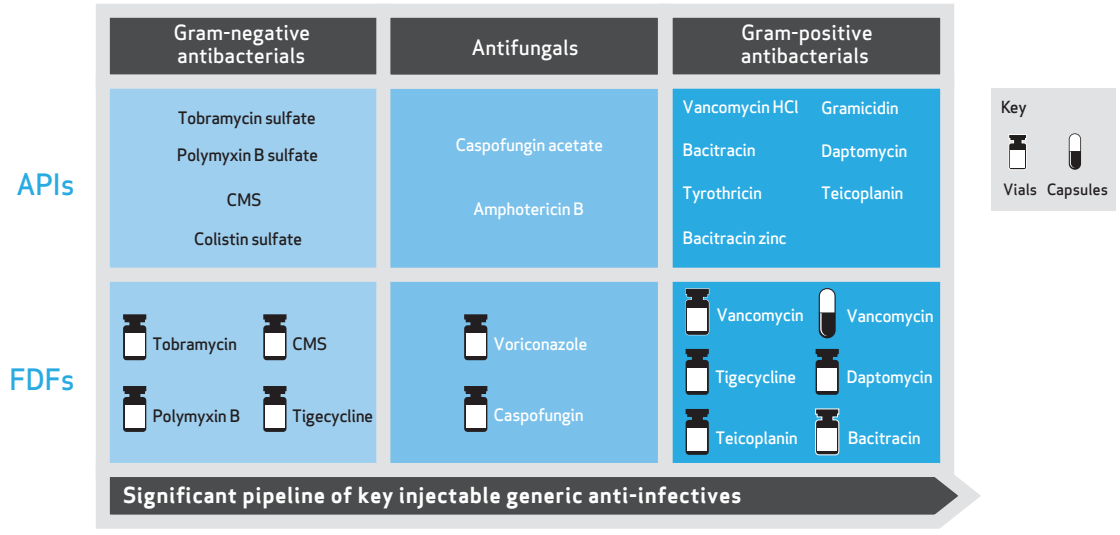
This approach is now central to our business as it provides major benefits to our customers through convenience and streamlining of the supply chain, reducing logistical costs, while enabling them to meet their market needs.

The majority of FDFs in Xellia's portfolio are injectables; however we also develop other forms when they are important for our key products. Other delivery forms include creams, ointments and inhalation devices.

We are continually expanding our core portfolio of generic FDF injectable products.

Vancomycin: A drug of last resort

An example of the relevance of an "old" drug which is still providing a meaningful solution is vancomycin, of which we are the leading global industry supplier. This drug is still considered the gold standard treatment for certain Gram-positive bacteria, including methicillin-resistant strains of *Staphylococcus aureus* (MRSA), *Streptococci spp.* and *Clostridium difficile.* Despite the availability of newer compounds, vancomycin remains the "last resort" antibiotic in the treatment of severe staphylococcal infections where other antibiotics cannot be used due to patient intolerance or drug resistance.



Products protected by valid patents are not offered for sale in countries where the sale of such products constitutes a patent infringement.

Innovation in anti-infectives

In 2014 we stepped up our investment significantly in R&D to focus our strategy and build a platform to enable the development of more innovative anti-infective products. This investment has continued throughout 2016.

Our initial focus is on improving already marketed drug products through line extensions and reformulation. We are also making steady progress on identifying new or improved compounds through externally funded programs (see pipeline below).

We have screened multiple anti-infective drug development opportunities have been screened, resulting in the initiation of several projects relating to:

- Improved product formulations compared to existing standard forms
- Development and implementation of drug delivery devices for existing and new formulations
- Investigation of new drug combinations to overcome limitations in current therapies
- Optimization of existing molecules from our portfolio to increase efficacy and reduce harmful side effects such as those caused by toxicity

Even at this comparatively early stage, we are already starting to see steady progress in the form of an early stage pipeline of novel drug products and compounds. Our most advanced programs include XEL 1000 and XEL 1004, which consist of improved formulation and drug-device combinations for lung infections.

Xellia's anti-infective pipeline:
Line extensions, reformulations and novel chemical entities

Program	Indication	Discovery	Formulation development	Pre-clinical	Clinical
XEL 1000	Inhaled antibiotic for lung infection				
XEL 1004	Inhaled antibiotic for lung infection				
XEL 1005	New formulation of Gram-positive antibiotic				
XEL 1007	New formulation of Gram-negative antibiotic				
XEL 1011	New formulation of Gram-positive antibiotic				
XEL 1012	New formulation of anti-fungal				
XEL 1001	Novel Gram-negative antibiotic program				
XEL 1003	Novel Gram-negative antibiotic program				

Innovation in anti-infectives
continued

Together, our R&D Centers of Excellence in Zagreb and Oslo drive improvements in anti-infective manufacturing and products, guided by our Scientific Advisory Board. We also have a number of external development partnerships to further support new product innovation.

Developing improved drugs and discovering novel anti-infectives

Xellia's innovative R&D team has been working in partnership with scientists at SINTEF Materials and Chemistry, Norway and Statens Serum Institut, Denmark and labs across Europe since 2013, funded by a 3 MUSD grant from the Research Council of Norway. The research projects are focused on anti-infectives effective against Gram-negative bacteria and include:

Extending the use of polymyxin B and colistimethate sodium (CMS), a derivative of colistin (polymyxin E).
This class of polymyxin drug has been used for over 60 years without developing significant microbial resistance. However, polymyxins are often a last-line treatment due to elevated nephrotoxicity which affects kidney function which is not ideal for the systemic treatment of multi-drug resistant infections. We are working to reduce the toxicity and side effects, thereby making these drugs safer and more suitable for intravenous use.

Identifying and discovering new antibiotics effective against multi-drug resistant, Gram-negative bacteria.
Over the past 30 years, no major new class of antibiotic has been discovered, with very few antibiotics from existing classes being approved by the regulatory agencies; this is our first drug discovery project and, whilst still at an early stage, a valuable project both for Xellia and for the continuing fight to address the threat of antimicrobial resistance.

Through in-house programs and partnerships we are also developing unique and innovative Drug Delivery Systems with proprietary drug-device combinations. As an example, we founded Pharmaero in 2010 to address unmet medical needs in the treatment of respiratory infections. Pharmaero is a 50:50 joint venture with Scandinavian Health Ltd to develop novel aqueous droplet inhalation (ADI) devices to provide anti-infective treatments localized to the lung and respiratory tract.

> "THE RISE OF ANTIMICROBIAL RESISTANCE IS A GLOBAL CRISIS, RECOGNIZED AS ONE OF THE GREATEST THREATS TO HEALTH TODAY. WE ARE LOSING OUR FIRST-LINE ANTIBIOTICS. THIS MAKES A BROAD RANGE OF COMMON INFECTIONS MUCH MORE DIFFICULT TO TREAT."
>
> Dr Margaret Chan, Director General, World Health Organization, 2016.

The fight against antimicrobial resistance

While anti-infectives have saved millions of lives worldwide, some of these drugs are losing their effectiveness due to antimicrobial resistance, caused by a microbe's natural ability to evolve genetically and thereby counter the effects of these drugs. Antimicrobial resistance is now recognized as one of the world's most serious threats to human health. Infections from resistant bacteria are becoming increasingly common, and some pathogens also known as "superbugs" have even become resistant to multiple types or classes of antibiotics. This means there are fewer, or sometimes no effective treatments available for infections caused by these multi-drug resistant microbes. The loss of effective antibiotics will reduce our ability to fight infectious diseases and manage the complications or secondary infections common in vulnerable patients such as immunosuppressed patients or ageing populations.

Scientific Advisory Board

The Scientific Advisory Board, which was established in 2014, is playing an important role in directing our new focus in innovative anti-infectives that include improvements to existing drugs as well as new drugs that are designed to combat serious bacterial and fungal infections. The Board brings together leading international experts in infectious diseases, clinical microbiology, respiratory medicines and pharmaceutical research and development. The Board's insight and guidance combined with Xellia's specialist expertise are being harnessed to overcome the challenges associated with anti-infective discovery and development activities.

Professor George E Griffin
Chairman of the Scientific Advisory Board
Emeritus Professor of Infectious Disease and Medicine at St George's, University of London, UK

Dr Andreas Rummelt
Member of Xellia Board of Directors supporting R&D. Also CEO and Partner at InterPharmaLink AG, Basel, Switzerland

Professor Gerhard Winter
Department of Pharmacy, Ludwig Maximilian University of Munich, Munich, Germany

Professor Christoph Tang
The Sir William Dunn School of Pathology, University of Oxford, Oxford, UK

Dr Tania Pressler
Chief Attending Physician, Rigshospitalet, Copenhagen, Denmark

Professor Keith S Kaye
Professor of Internal Medicine, Director of Clinical Research, Division of Infectious Diseases, University of Michigan Medical School, Ann Arbor, Michigan, US

Professor Anne O'Donnell
Professor and Chief, Division of Pulmonary, Critical Care, and Sleep Medicine, Georgetown University Hospital, Washington, DC, US

Professor Arjana Tambić Andrašević
Head of the Department of Clinical Microbiology at the University Hospital for Infectious Diseases, Zagreb, Croatia

We were pleased to welcome two further members to our Scientific Advisory Board at the end of 2016.

Professor Matthew Falagas
Director, Department of Internal Medicine and Infectious Diseases, Iaso General Hospital, Iaso Group, Athens, Greece

Professor Radan Spaventi
Founding Partner, Triadelta Partners Ltd, Zagreb, Croatia

Corporate responsibility

Xellia and corporate responsibility

At Xellia we value integrity and openness, and are committed to a high level of compliance in all aspects of our work. As a global business with international customers it is vital that we have a uniform set of standards that can be applied to our business regardless of the country in which we operate.

Over the following pages we have provided an overview of our corporate responsibility activities and performance, focusing on economic, environmental and social areas. We are actively working to expand our corporate responsibility policies across the entire business and to update or introduce systems and platforms that will progress our corporate responsibility practices further. We also continue to work on alignment of the content in this report with the relevant standards on sustainability reporting produced by the Global Reporting Initiative (GRI).

We have established a Corporate Social Responsibility (CSR) steering group headed by our CEO with the participation of senior management representatives from functions including Operations, Human Resources, EHS (Environment, Health and Safety), Finance, Communication and Legal. The role of the group is to monitor and drive the progress of corporate responsibility initiatives across different areas of our business.

The following part of this report meets the requirements in Section 99a of Danish Financial Statements Act (Årsregnskabsloven) with respect to CSR reporting and constitutes part of the annual report of New Xellia Group A/S and Xellia Pharmaceuticals ApS (our Danish operating subsidiary).

Economic sustainability

Continuing sustainable growth and development, and the protection of our employees is paramount to our future success. Many internal and external stakeholders rely on us to maintain a consistent supply of high quality products and to invest and borrow wisely to create a strong and stable business.

Continuity of production

The sustainable production of anti-infectives for critical care forms the foundation of Xellia. We ensure consistent and continuous manufacture and supply of the products that our customers rely on from our global production sites through:

- Rigorous monitoring of quality and manufacturing systems
- Investment in new capacity and equipment
- Improvement of existing products and processes

In the full year of 2016, we invested 29.8 MUSD in tangible assets to increase and improve our production capacity (up from 18.7 MUSD in 2015). In addition, we invested significantly in the additional manufacturing facilities in Cleveland, Ohio which we acquired in November 2015.

We will continue to invest considerably in these facilities during 2017 as we prepare to start-up commercial production. When the site becomes operational it will significantly increase our production capacity for sterile injectable anti-infective products.

Financial stability

We believe that a stable and sustainable business benefits us all and we work hard to ensure financial sustainability. At the end of 2016 our external bank debt including mortgages amounted to 108.1 MUSD (51.2 MUSD in 2015) with substantial additional loan facilities available with our banks. This enables us to invest in future growth plans to create long-term value.

THE SUSTAINABLE PRODUCTION OF ANTI-INFECTIVES FOR CRITICAL CARE FORMS THE FOUNDATION OF XELLIA.

High level of health protection and occupational safety

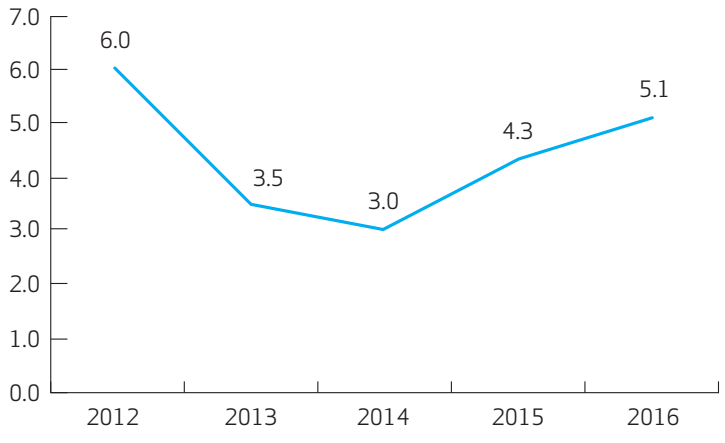
At Xellia, we constantly strive to create a healthy, safe and secure working environment for our more than 1,300 employees and are committed to maintaining high standards of occupational health and safety across all of our locations. We have adopted an Environment, Health and Safety (EHS) policy which sets out our key principles for EHS management and detailed EHS standards that we apply across our manufacturing sites.

As a pharmaceutical manufacturing company producing anti-infectives, our operations involve certain inherent risks. We promote a culture where these risks are clearly recognized and mitigated, and employees take personal responsibility for their safety.

We apply the internationally recognized OHSAS 18001 standard which provides an occupational health and safety framework from which to implement effective management and control associated risks. In 2016, our three production sites in Europe and China all remained certified under OHSAS 18001. Our US facilities are not OHSAS 18001 certified but are included under our health and safety management and reporting systems.

We are responsive in accident reporting and in ensuring that we take action to prevent reoccurrence. We use the OHSAS standard to measure the frequency of occupational accidents. Over recent years we experienced an increase in work related accidents. We are committed to reducing this in 2017 and will continue to work within the identified focus areas including improving training, behaviors, and risk assessments across our manufacturing sites. We believe these initiatives will enable us to reduce the frequency of occupational accidents going forward, and ensure that we can continue to avoid serious incidents. Our long-term target is to reduce the maximum frequency of work-related accidents to 3.0 per 1,000,000 working hours in 2020.

Lost Time Injury Rate (LTIR)
(accident frequency rate per 1,000,000 working hours)



Environmental responsibility

We understand the importance of preserving our environment and natural resources today and in the future. We accept that the responsibility lies with us to minimize the impact we have on the environment. We comply with all relevant laws, regulations and our own EHS policy and standards. In addition, we are constantly looking for ways to improve our operations, products and services as well as using chemicals and natural resources responsibly. With careful management we can grow our business, increase production volumes, but still reduce our environment impact.

Management systems

In addition to our overall EHS policy, we have developed and applied detailed EHS standards and standard operating procedures to ensure the quality of the EHS management system across our production and R&D facilities. Our three production sites in Europe and China are certified under the internationally recognized ISO14001 environment management system. Our US facilities are not ISO14001 certified, however, the sites are included under our environmental management and reporting systems.

Environmental compliance

Environmental compliance is a central pillar of our business and we strive for complete adherence to all environmental laws and regulations. Over the past three years we have received one fine that related to environmental non-compliance concerning minor breach of a regulatory limit.

Stakeholders

We know that the impact of our business can stretch beyond the boundaries of our production and R&D sites around the world and encourage open, reliable communication on environmental matters with all stakeholders both internally and externally. Most of our sites are located in urban areas and we work to minimize any negative impact on the people living in close proximity to us. We receive very few complaints regarding odor and noise from our local community; in 2016 we received a total of one complaint across all sites. We take complaints very seriously and have implemented measures to ensure that we remain good neighbors to the communities in which we are based. We constantly monitor noise levels from machinery and take steps to limit noise and odor wherever possible.

Identifying environmental risks to minimize incidents

The manufacture, quality control and development of anti-infectives involve the use of certain hazardous materials and processes from which there is an inherent risk to the environment. By understanding and identifying these risks we have implemented standards and policies to protect the environment by preventing incidents before they can take place.

We are committed to the identification and prevention of potential environmental accidents. As in previous years, in 2016 it was a corporate KPI to avoid all major environmental incidents across our global production sites which we achieved. We did, however, experience three minor environmental incidents at our production sites. There was no impact to the environment due to these incidents. It is our ambition to prevent any environmental incidents and we have performed a thorough analysis of the causes of the incidents that occurred in 2016 and have implemented action plans to prevent reoccurrence.

We are building a risk-aware culture amongst our employees and encourage a sense of personal responsibility towards preventing incidents. All sites incorporate emergency response and crisis management programs into management plans. These programs ensure that if incidents do occur they are effectively managed and that any impact on the environment, the local community and our business is minimized.

Carbon footprint and sustainability

We take a collective approach to sustainability and encourage our employees to take an active interest in minimizing the impact of our operation on the environment. In 2016, we continued the sustainability program that we commenced in 2013 which includes publishing regular "Xellia Green Info" newsletters. This updates the team on what is being done to meet our environmental targets and how employees can help. We welcome input, feedback and suggestions from all staff as to how we can further improve our commitment to the environment.

We have set short and long term targets for improving the carbon footprint of both our API and FDF production over the coming years. In 2016 the carbon dioxide (CO_2) emmissions from our manufacturing sites increased by 11% which was mainly due to increased activities and output at certain sites. Our long term target is to reduce our carbon footprint by 20% by 2020 compared to the baseline which we established in 2014.

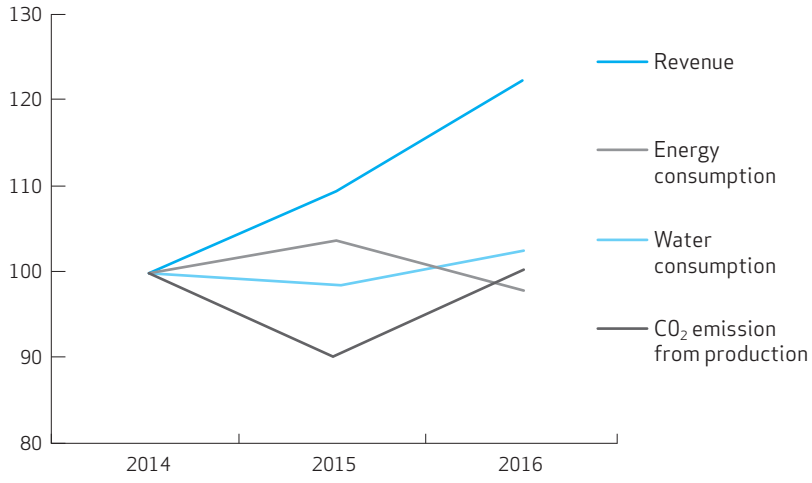
Energy and water efficiency

We understand the importance of managing the use of energy and water sustainably and take our responsibility to protect this precious resource very seriously. We have established short and long term targets for improving our efficiency with respect to energy and water consumption.

All our sites employ a specialist team focusing solely on energy use and how to improve energy consumption efficiencies. Our energy consumption strategy is defined in close collaboration with each site's EHS teams, purchasing departments and engineering departments (energy management specialists). The total energy consumption at our manufacturing sites decreased by 5% in 2016 compared to 2015. Our long term target is to make a 20% improvement to our energy efficiency by 2020, compared to a baseline established in 2014.

Our sustainable water management process is focused both on creating efficiencies in the use of water at our manufacturing sites and on improving our discharge treatment systems and implementing systematic quality controls for effluents to help preserve the availability of drinking water and to prevent any risk of contamination.

Development in environmental impact and revenue



Consumption at manufacturing sites (not including Cleveland site acquired in 2015).

Social responsibility

Our people make us what we are. We aim to attract the most talented, productive employees in our industry and to earn their loyalty and commitment. We support and protect our employees through comprehensive human resources processes ensuring that every employee is treated fairly and has a voice which is listened to and valued.

Improving human resource processes

Code of Conduct

In November 2016 we adopted the new Xellia Code of Conduct replacing the Business Conduct Guidelines from 2008. The Code of Conduct contains our values and standards for ethical business conduct and reflects our commitment to meeting the expectations of our stakeholders. The code sets out the principles that must be adhered to by all employees within key areas that are essential to our business including compliance and fair dealings in relevant areas. A copy is presented to each employee when joining Xellia. In addition, all employees at manager level and above are required to certify annually that they have acted in compliance with the guidelines. Any alleged or suspected cases where the guidelines may have been violated are investigated by selected members of our corporate functions. In 2016 there was no reported cases of alleged or suspected violation which was investigated and handled in accordance with the guidelines.

Conflict of Interest

It is imperative to the maintenance of our good reputation that business decisions are made independently from conflicts of interest and on an objective basis. These decisions must not be influenced by any personal interests which employees may have, wherever in the world they work, and at whatever level of seniority they operate. We have established procedures including the pre-approval of any 'related party' transactions by the Board of Directors as well as an annual certification of compliance by all senior employees.

Anti-bribery program

We adopted an improved anti-bribery program in 2012 which aimed to reduce the risk of non-compliance. The anti-bribery program includes annual risk assessments, due diligence procedures for agents and other business partners and adoption of corporate guidelines for gifts, hospitality and entertainment. We believe that a successful anti-bribery program is spearheaded by informed, aware employees and we ensure that all relevant parts of the organization receive regular training in the program.

Change, diversity and employee turnover

Managing change

Our business exists in a highly competitive, dynamic environment. Our commitment to open communication and engagement remains strong as we support employees through the internal and external changes that influence us.

Employee relations

We operate across diverse social backgrounds and locations where continued and constructive dialogue with our employees is important. Without this interchange, labor disputes can occur which are disruptive to our business, and affect a wide range of stakeholders beyond the working site.

WE OPERATE ACROSS DIVERSE SOCIAL BACKGROUNDS AND LOCATIONS WHERE CONTINUED AND CONSTRUCTIVE DIALOGUE WITH OUR EMPLOYEES IS IMPORTANT.

Xellia and corporate responsibility
continued

We aim to foster a culture based on trust, mutual respect and communication. Our employee relations strategy encourages open dialogue with employees and external stakeholders. We support collective dialogue and negotiations with unions and other representative associations within the local legal framework. We have maintained good relationships with the unions and in 2016 there was one minor incident or industrial actions resulting in 102.5 hours lost working time.

Employee surveys

We ask all employees to participate in surveys at regular intervals, usually on a biannual basis. These surveys address a number of areas such as motivation, satisfaction and communication. The survey is followed up both at a senior management level and in each function and department. The most recent survey was performed in 2015 and showed an improvement in the overall index of employees responding positively about their experience at Xellia to 72%, compared to 67% in 2014. We plan to perform the next survey in 2017. We have established a long term target to further improve the overall index to 75% employees responding positively by 2020.

Diversity

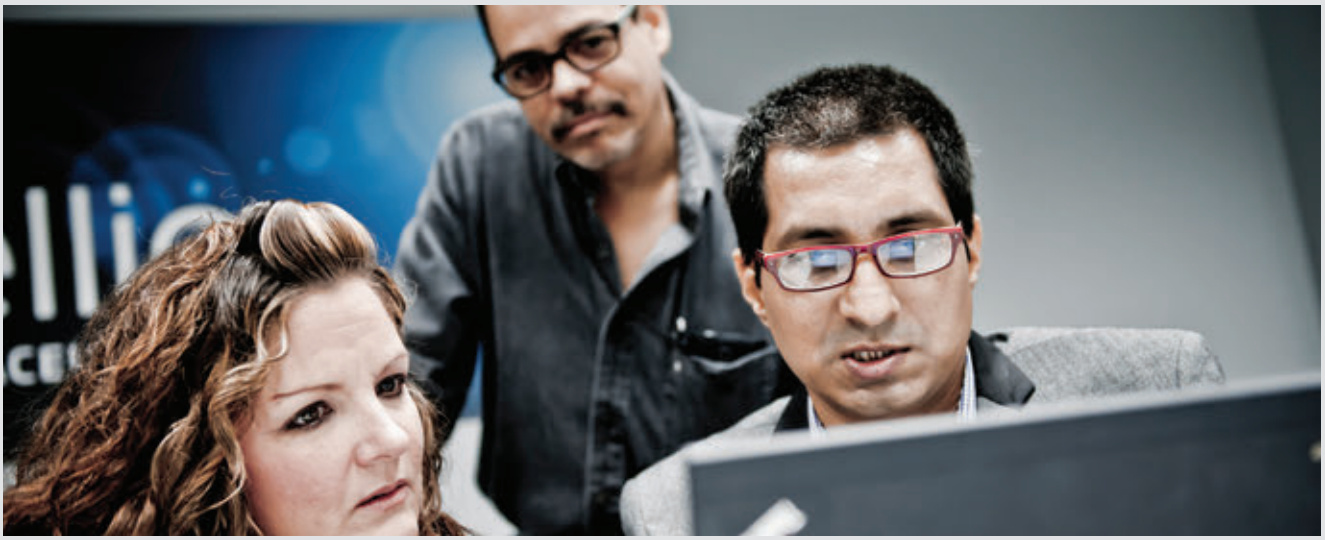
As a truly international company, we benefit from a diverse, multicultural workforce. Across our sites in eight countries we employ more than 25 nationalities. Although located around the world we have an integrated, open and transparent culture built on mutual respect, trust and accountability. We aim to recruit competent and motivated people who respect our values, and we in turn provide equal opportunities for their development, and protect their privacy. We do not tolerate any form of harassment or discrimination for any reason and strive to maintain a culture that provides equal opportunities for all.

Gender diversity

Xellia is committed to building a workforce through the entire company that is represented equally by both genders across both our management team and other management positions (directors, managers, and team-leaders). In 2016, for all companies in the Group there was an average of 59% male and 41% female employees (2015: 58% male and 42% female). At manager level the average was 66% male managers and 34% female managers (2015: 70% male and 30% female).

Information pursuant to Danish legislation on gender diversity

Pursuant to Danish regulations, Xellia has adopted a policy which is aimed at accomplishing a more equal composition between the genders at management level, such that female managers represent at least 40% before the end of 2017. The policy includes external initiatives, such as encouraging qualified women to apply for managerial positions within the Group, as well as internal development and succession planning initiatives, such as retention of qualified female employees, focus on work/life balance in order to create an attractive working environment, and personal development of female employees through performance reviews, feedback and leadership training. In 2016, the Danish companies in the Group had an average of 54% male and 46% female employees (2015: 53% male and 47% female). At manager level the average was 71% male managers and 29% female managers (2015: 63% male and 37% female).



Employee turnover

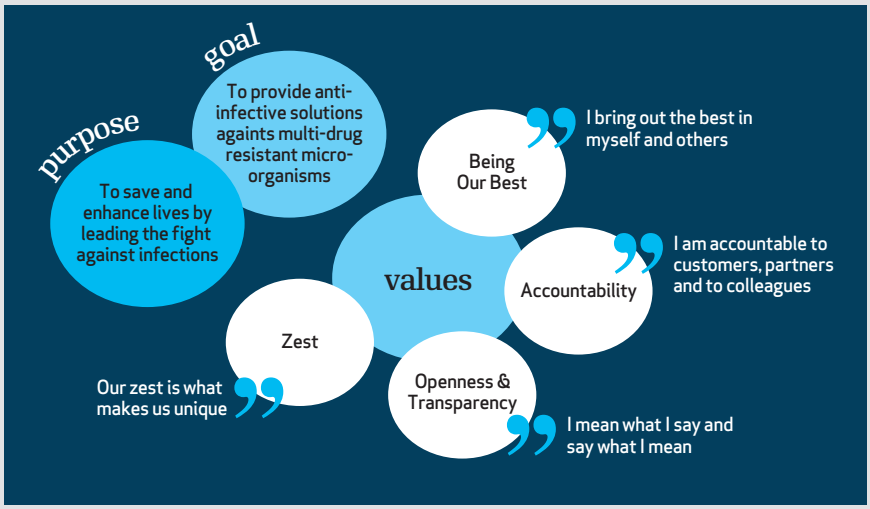
In 2016, the number of full time employees in Xellia increased by 176 to 1,352. The main reasons for the increase were the hire of an experienced team of over 90 employees to support the start-up of our new production facility in Cleveland, Ohio, and the continued expansion of our Zagreb R&D Center of Excellence. The voluntary employee turnover in 2016 was 6.8%, down from 8.2% in 2015 and within the target for 2016 of 7.0%. This figure covers the rate of voluntary resignations and, therefore, does not include the employees affected by redundancies. The employee turnover rates vary between countries.

Training and development

To remain competitive, we need to ensure that our employees have the opportunity to continually advance and extend their skills and knowledge; we achieve this by providing a comprehensive range of training and development programs.

Values and leadership program

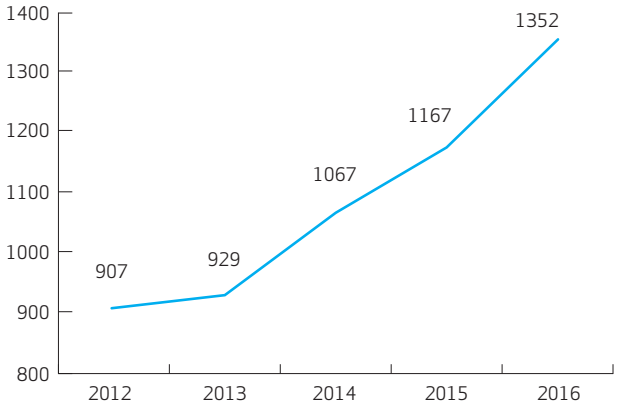
We value great leaders who live our values and support and motivate their teams. In 2016 we implemented new values and leadership principles to guide our leaders in their daily work and conducted a wide range of workshops to support their application.



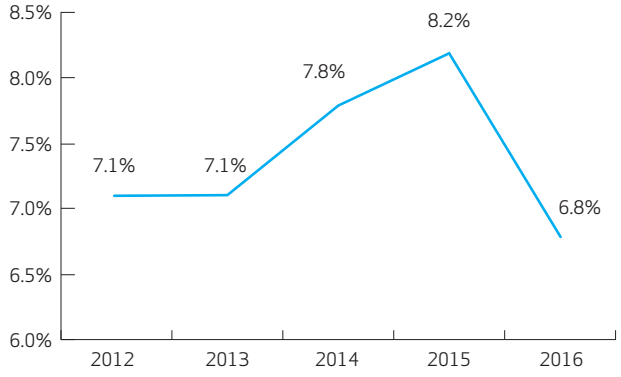
We continued our focus on leadership development, delivering a variety of activities in particular in Copenhagen. Our focus on building high performance teams was intensified throughout the year and we ensured that all key leadership teams, including the executive leadership team, were appropriately supported as they developed and outlined their objectives and ways of working. We also helped around 30 different teams across the company with the intention of them increasing their overall performance.

We are also highly committed to project management and in 2013 initiated an ongoing project management development program. In 2016 we continued to build project management skills and networks through several dedicated workshops. We plan to continue this program in 2017.

Total number of employees



Employee turnover rate
(voluntary resignations)



Making a Healthy Difference
Supporting SOS Children's Villages

SOS CHILDREN'S VILLAGES

In 1949 SOS Children's Villages was founded in Austria to help children in the aftermath of World War II. Today, the independent social development organization promotes the rights of children in over 130 counties and territories around the word, providing over 2 million children and their families with a safe place to live, learn and grow up.

Xellia has named SOS Children's Villages as its nominated charity since 2005, becoming a long term partner to the non-political, non-religious and not-for-profit organization.

SOS Medical Center Eldoret, Kenya

The Medical Center was founded in 2011 and is now visited by over 6,000 patients each year who are treated by the 10 full-time staff for ailments including malaria, HIV, diabetes,and respiratory tract infections. Screening for cancer, HIV and diagnostic tests for pregnant women are also available.
In 2015 Xellia committed to a three year partnership to sponsor operations at the Center which is enabling patients in desperate need of care, to access these critical healthcare services. The medical teams also work within the local community, to provide education and advice about health and illness prevention.

Photo: Mette Schmidt

Expanding the Center's services and training

During 2016 the Medical Center introduced gynaecological, dental and optical services and expanded its cervical cancer treatment programs. As of October, a total of 24 outreach programs dedicated to raising awareness of cervical cancer screening and treatments were implemented.

Another important area of medical need is chronic diseases like diabetes, heart disease and auto-immune disorders which are a leading cause of morbidity and mortality globally. With this in mind, Xellia has supported the training of a nurse in the management of treatment for Diabetes Mellitus.

Also, in 2016, the laboratory staff received training in the latest HIV testing services and guidelines in order to better combat HIV/AIDS.

Future commitments

In the Spring of 2016, representatives from Xellia and SOS Children's Villages Denmark paid a one week visit to the Medical Center. Following the visit, Xellia has committed further funding to enable the addition of a maternity and new-born monitoring wing. This expansion will help to significantly reduce deaths that arise due to complications with home births and early in a new born baby's life.

The maternal services will also tackle the issue of mother-to-child transmission of HIV/AIDS for women living in poverty in Kenya. The expansion work will start in 2017.

Creating value together

Xellia's support goes well beyond the corporate level, with our employees and their families from many of our global offices independently volunteering to raise additional funds to help local SOS Children's Villages projects.

Corporate governance

Corporate governance

New Xellia Group A/S has adopted a governance and management structure that allows the Group to manage its business successfully and mitigate risk on an on-going basis.

In accordance with Danish company law, Xellia has a two-tier management system comprising the Board of Directors and a Managing Director (CEO). As outlined in the Group's Articles of Association, the Board of Directors should consist of between three and six independent directors. Currently, the Board has six members; a Chairman and five independent directors. Directors are appointed for one year at a time, and can be re-elected at the annual shareholders meeting. The CEO is not a member of the Board of Directors.

The Board of Directors has adopted the Rules of Procedure for the Board of Directors which sets out the responsibilities of the Board of Directors in a number of areas. These include determining Xellia's overall strategy and actively contributing to developing the Group as a focused, sustainable, global speciality pharmaceutical company and supervising Executive Management in its decisions and operations.

The Board of Directors has also adopted an annual meeting framework consisting of six meetings annually comprising of four regular Board meetings, one end-of-year meeting to review the annual operating plan and budget for the following year and one meeting focused on the long-term strategy of the Group. In 2016 a total of six meetings were held.

The Board has established a Finance and Audit Committee, consisting of members of the Board of Directors and management, which assists the Board in areas relating to accounting, audit, internal control and financial reporting. Chaired by Benny Loft, a member of the Board, the Finance and Audit Committee held six meetings during 2016.

Compensation for the Chairman of the Board of Directors, other members of the Board and the CEO is based on market terms and conditions. Members of the Board of Directors do not own shares in the Company and their compensation is not dependent on Xellia's performance or results. In 2016 management and other employees

received, in addition to basic salary, variable compensation dependent on the achievement of operational and strategic targets in addition to financial targets.

Our Long Term Incentive Program (LTIP) qualifies management and senior employees at director level and above to receive annual grants of restricted share awards as part of their variable compensation package. In 2016 Xellia granted a total of 271,000 restricted share awards. Each restricted share award entitles the recipient to receive one B-Share three years after the grant, subject to certain vesting conditions. In 2016 we adoped an additional Executive Management Share Program under which 16,406 restricted share awards were granted to the CEO each giving the right to receive one B-share in January 2018.

Share capital

Share capital of New Xellia Group A/S is divided into A and B shares. These two share classes have identical rights, with the exception that A-Shares hold 10 votes per share and B-Shares hold 1 vote per share.

The A-Shares, which total 100,500,000, are held by Xellia Holdco A/S, which is owned by Novo A/S.

The B-Shares are owned by members of management and other senior employees of the Group. In connection with the acquisition of Xellia in July 2013 a Management Investment Program was established. At the end of 2016 a total of 1,147,114 B-shares were subscribed to by 42 managers and senior employees. In addition to the B-shares, managers and senior employees have subscribed warrants in the Company with a right to subscribe by up to 6,007,835 additional B-Shares.

Board of Directors

Steen Riisgaard

Chairman of the Board

Born: 1951

Steen is the former President and CEO of Denmark-based biotech company Novozymes A/S. He has also held senior level positions at Novo Nordisk A/S and Novo Industri A/S.

Other Board positions: Chairman of the Boards of ALK-Abelló A/S, COWI Holding A/S, Egmont International Holding A/S and the World Wildlife Fund (WWF), Denmark. Vice Chairman of the Boards of the Novo Nordisk Foundation and the Villum Foundation. Member of the Boards of Novo A/S, Corbion, the University of Aarhus, Denmark and VKR Holding A/S.

Education: MSc in Microbiology, University of Copenhagen, Denmark.

Andreas Rummelt

Board Member

Born: 1956

Andreas is a Partner and CEO of InterPharmaLink AG, Basle, Switzerland. His international career spans over twenty years in executive management positions at Novartis.

Other Board positions: Partner and CEO of InterPharmaLink AG. Member of the Boards of Alexion Pharmaceuticals, Inc., Alvogen, Habasit Holding AG, Leukocare AG and Selcia Ltd.

Education: MSc and Ph.D. in Pharmaceutical Sciences, University of Erlangen-Nuremberg, Germany.

Benny D. Loft

Board Member

Born: 1965

Benny is EVP and CFO at Novozymes A/S. Since Novozymes' launch in 2000, he has also worked on acquisitions and negotiations and played an active role in steering groups for numerous corporate functions including ethics, sustainability and business development.

Other Board positions: Member of the Board of Directors of DONG Energy A/S, Chairman of the Audit and Risk Committee, DONG Energy A/S.

Education: MSc in Accounting, Tax and Auditing, Copenhagen Business School, Denmark and State Authorized Public Accountant.

Board of Directors continued

Per Valstorp
Board Member

Born: 1949
Per Valstorp has a long track record attained from senior executive positions held at Novo Nordisk A/S within Pharma Operation Management, Quality, Regulatory Affairs and Medical Devices.

Other Board positions: Member of the Boards of ALK-Abelló A/S, DBI Plastics A/S, European Freeze Dry ApS, Orana A/S and Scarbur A/S.

Education: MSc in Operational Research & Planning, Technical University of Denmark.

Julie McHugh
Board Member

Born: 1964
Julie McHugh has a track record that spans 27 years in the biopharmaceutical industry. Most recently, she was the COO at Endo Health Solutions, Inc., with responsibilities for both the specialty and generic pharmaceuticals businesses.

Other Board positions: Vice Chairman of the Board of Visitors for the Smeal College of Business, Pennsylvania State University. Member of the Board of Directors of Aerie Pharmaceuticals, Inc., Ironwood Pharmaceuticals, Inc. and Trevena Pharmaceuticals, Inc.

Education: BSc in Finance, Pennsylvania State University, USA and an MBA Administration in International Management, St. Joseph's University, USA.

Aleks Engel
Board Member

Born: 1970
Aleks Engel is a biotechnology and medical products business leader with highly-developed talents in business development and strategic value capture. Aleks is currently the Large Investment Asset Director at Novo A/S and has previously worked in VP positions for Baxter International.

Other Board positions: Member of the Board of Seri Q Sign. Observer of the Boards of ERT, Inc . and Veloxis Pharmaceuticals A/S.

Education: MSc in Chemical Engineering and a Ph.D. in Biochemical Engineering, Massachusetts Institute of Technology (MIT).

Executive Management

Carl-Åke Carlsson

Chief Executive Officer and President

Carl-Åke has held various positions within the Company, where he started in the finance function in 1988. In 1995 he was appointed Vice President Finance, Business Development and IT, and in January 2000 he took on the role as President Alpharma Human Pharmaceuticals Division. From 2003 to December 2004 he was President of the US Branded Pharmaceuticals Division and he was appointed President of the Alpharma API Division in 2005. Today Carl-Åke is Chief Executive Officer and President of Xellia.

Mads Bodenhoff

Chief Financial Officer and Vice President

Mads joined Xellia as CFO and Vice President Finance in September 2014. Mads comes from Novozymes where he was Vice President for Corporate Finance. During his 14 years with Novozymes he has held various financial management positions. Prior to this, Mads worked at Novo Nordisk and Arthur Andersen. He has broad experience with finance and accounting, IT, legal, international business, sustainability, and mergers and acquisitions.

Aleksandar Danilovski

Chief Scientific Officer and Vice President Global R&D and Regulatory Affairs

Aleksandar joined Xellia in 2009 following an extensive career at PLIVA/Barr Group since 1994 where he held managerial positions within the Research and Development function. Most recently he was a member of the Management Board of PLIVA Croatia Ltd. with responsibility for leading the Global API R&D and managing all R&D in Croatia.

Mikkel Lyager Olsen

Chief Legal Officer and Vice President

Mikkel joined the Company in 2005 as Commercial Counsel and was appointed Division Counsel for the API Division later that year. Today Mikkel is General Counsel and Vice President of Xellia. Prior to this, Mikkel worked as an attorney with one of Scandinavia's largest commercial law firms.

Gaël Bernard

Vice President Sales and Marketing

Gaël joined Xellia in 2008 from Actavis where he was Vice President New Product Launches. Prior to this, Gaël was at Alpharma where he held managerial roles including Director Strategy and Marketing Development and Managing Director of Alpharma France.

Executive Management continued

James Bond

Vice President Strategic Marketing and Business Development

James joined Xellia in 2015 as Vice President Strategic Marketing and Business Development. Prior to Xellia, James was with Novartis Pharma, where he was Brand Director and Project Lead for Multiple Sclerosis Spasticity and Oncological Pain. During 21 years at Novartis he held a number of positions, including; hospital sales, UK marketing role in the specialty sector, Global marketing for specialty products, as well as lead for the specialty launch preparation and roll outs.

Daniel Schwartzlose

Vice President Strategic Planning and Corporate Development

Daniel joined Xellia in 2014, first as Senior Diector of Supply Chain before moving into his current role in 2016. Prior to joining Xellia, Daniel worked at LEO Pharma with supply chain and operations strategy and before that as a management consultant with Qvartz and PwC.

Nora Elisabeth Håberg

Vice President IT and Contract Manufacturing Development

Nora joined Xellia in 2003 and has worked in various roles ranging from process development and technology transfer, portfolio management, logistics and sales and marketing. Nora was appointed Vice President Strategic Projects in September 2011 and took over responsabilty for IT in 2013. In 2016 she handed over the responsibility of Strategic Projects to Daniel Schwartzlose. Prior to Xellia, she was a consultant with McKinsey & Company.

Geelanie Briones

Vice President Quality

Geelanie joined Xellia in May 2014. She was previously Head of Quality Compliance for the Oncology Injectable business unit at Sandoz. Prior to joining Sandoz Geelanie spent 12 years at Novo Nordisk in various senior quality control and compliance managerial positions. She has considerable experience in leading operational and global matrix organisations and extensive knowledge of Quality Management Systems.

Bjørn Thonvold

Vice President Human Resources

Bjørn joined Xellia in January 2007 as HR Manager Norway. In September 2008 he also took on the position as Director HR Development. Before joining Xellia he has held various international positions within organizational leadership and employee development at Hewlett Packard, working in Vienna, Geneva and Oslo Norway over a 12 year period.

Kristin Lund Myrdahl

Branding and Communications Management

Kristin joined Xellia in 1996 in the International Pharmaceuticals Division of Alpharma. Since 2000 she has been responsible for overseeing projects and activities initiated by the leadership team as well as driving communications. Prior to Xellia, Kristin worked for Gemini Consulting.

Contact

Xellia Pharmaceuticals
Dalslandsgade 11
2300 Copenhagen S
Denmark

Tel +45 32 64 55 00 Fax +45 32 64 55 01
info.dk@xellia.com www.xellia.com