Fertin Pharma A/S

Dandyvej 19, 7100 Vejle

CVR no. 25 83 48 44

Annual report 2018

Approved at the Company's annual general meeting on 15 May 2019

Chairman:

....

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Fertin Pharma A/S for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Vejle, 12 March 2019
Executive Board:

Søren Birn

Board of Directors:

Thomas Werner Chairman	Claus Bagger-Sørensen	Lars Bang
Manfred Scheske	Rikke Kjær Nielsen	Frank Charles Condella Jr.
Bo Korsgaard Jensen	Erik Bak Mortensen	Bente Brændshøj

Independent auditor's report

To the shareholders of Fertin Pharma A/S

Opinion

We have audited the financial statements of Fertin Pharma A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Independence

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 rules and requirements.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- 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 note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

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

Aarhus, 12 March 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jes Lauritzen
State Authorised Public Accountant
mne10121

Tom B. Lassen
State Authorised Public Accountant
mne24820

Management's review

Company details

Name	Fertin Pharma A/S
Address, Postal code, City	Dandyvej 19, 7100 Vejle
CVR no.	25 83 48 44
Established	2 January 2001
Registered office	Vejle
Financial year	1 January - 31 December
Website	www.fertin.com
Telephone	+45 72 15 13 00
Board of Directors	Thomas Werner, Chairman Claus Bagger-Sørensen Lars Bang Manfred Scheske Rikke Kjær Nielsen Frank Charles Condella Jr. Bo Korsgaard Jensen Erik Bak Mortensen Bente Brændshøj
Executive Board	Søren Birn
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark

Management's review

Financial highlights

DKKm	2018	2017	2016	2015	2014
Key figures					
Revenue	813	868	856	801	694
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	185	258	227	162	144
Operating profit/loss	91	167	138	93	68
Profit/loss for the year	**46**	**106**	**100**	**64**	**42**
Total assets	2,004	1,628	1,517	1,493	1,307
Equity	**896**	**770**	**660**	**561**	**495**
Cash flows from operating activities	38	120	116	150	79
Net cash flows from investing activities	-273	-203	-309	-221	-78
Cash flows from financing activities	280	324	142	78	-76
Total cash flows	**45**	**241**	**-51**	**7**	**-75**
Financial ratios					
Current ratio	130.0%	178.5%	61.7%	73.3%	72.5%
Equity ratio	44.7%	47.3%	43.5%	37.6%	37.9%
Return on equity	5.5%	14.8%	16.4%	12.1%	8.8%
Average number of employees	**674**	**661**	**609**	**572**	**530**

Financial ratios are calculated in accordance with the recommendations of the Danish Finance Society. For terms and definitions, please see the accounting policies.

Management's review

Business review

Business Activities

Fertin Pharma A/S ("Fertin Pharma" or the "Company") is a Contract Development and Manufacturing Organization that offers innovative, high-quality pharmaceutical and nutraceutical products for intra oral delivery. The company's current main product formats are chewing gum, lozenges and ZapLiq®. ZapLiq® is an innovative and patented chewable tablet that transforms from solid to liquid state within seconds when chewed.

Fertin Pharma is the world's largest independent developer and manufacturer of medicated chewing gum and has over the recent years expanded into other solid dosage intra oral delivery systems. The Company strives to develop innovative intra oral delivery systems that offer convenient and pleasurable delivery of active pharmaceutical ingredients ("APIs") and nutraceutical ingredients to patients and consumers. Examples include the high-quality chewing gum systems applied within Nicotine Replacement Therapy ("NRT") or the most recent innovation: Zapliq®. The Zapliq® platform is applicable for a range of APIs within RX and OTC, as well as within nutraceutical substances.

The Company's headquarter is in Vejle, Denmark, where it owns and operates US FDA and EU GMP approved R&D and manufacturing facilities. Furthermore, Fertin Pharma owns and operates R&D and manufacturing facilities in India and Canada. The ultimate owners of the Company are EQT Mid-Market Europe and the Bagger-Sørensen Family.

Business Review and Outlook

In 2018, Fertin Pharma experienced strong traction in the diversification of the business with launch of new formats and expansion into new geographies. However, fluctuations in the NRT chewing gum business resulted in a decline in sales volumes, of which some has been regained due to consumer demand for Fertin Pharma's high quality products; the latter effect is not visible in the 2018 financial development.

As the costs of smoking-related diseases continues to grow, so does the demand for NRT products, where NRT gum continues to be a popular and growing delivery format. This is further supported by increased awareness outside Europe and North America of the tobacco related health consequences and health care costs, leading to interest in products for smoking cessation. Innovation in intra oral delivery formats also increasingly attracts interest from consumer health companies for nicotine containing products as well as for other APIs outside smoking cessation.

The Company has increased the diversification of the business portfolio during 2018. An important step in 2018 was the introduction of Zapliq®. In 2018, the first product based on Zapliq® was launched by the world's largest and most broadly based healthcare company and Fertin Pharma was awarded "2018 Best Innovation of the year in Consumer Health" by the Customer. Additionally, the Company continues its efforts to enter new geographical markets and expand sales in current markets. The Company expects these efforts to drive an increase in revenue and earnings in 2019.

During 2018, the Company has completed several larger investment projects, including completion of an entirely new, state-of-the-art production facility to support the ramp-up of new delivery formats, ZapLiq® in particular. The Company expects to see a reduction in capex activities in 2019.

Management expects the NRT business to perform marginal better in 2019, along with a further positive effect from the Nutraceutical business and the initiatives focused on continuously improving competitiveness by reaping scale efficiencies and developing efficiency and productivity across the value chain. As such, management expects the 2019 result to exceed 2018.

Management's review

Financial review

Fertin Pharma reported revenue of 813 MDKK in 2018 (2017: 868 MDKK) and EBITDA of 185 MDKK (2017: 258 MDKK). Normalized EBITDA, excluding non-recurring negative effects of 31 MDKK (2017: 9 MDKK), amount to 216 MDKK (2017: 267 MDKK). The Company's profitability was negatively affected by the need to adjust production capacity.

End of 2018 inventory levels were increased to support the global launch of the first Zapliq® product.

As a consequence of development in NRT gum revenue and the continued improvements of efficiency and productivity, the number of full time employees within the NRT core business has been reduced to 551 by the end of 2018 (2017 average: 661). Due to the growth in the nutraceutical business 49 full time employees has been employed bringing the total number of full time employees in the Company to 600 by the end of 2018.

While performance of the NRT business in 2018 has been disappointing and led to overall financial results below expectations, the development in the nutraceutical business has performed above expectations.

Investments

The new manufacturing set-up for Zapliq® has been the major driver of investments in 2018.

Knowledge resources

It is essential for The Company's continued growth to attract and retain highly educated employees with expertise in the development and production of pharmaceutical and nutraceutical products. The Company offers both internal and external training programs.

Special risks

Currency risks

The Company invoices primarily in DKK and EUR and the majority of goods purchased are denominated in DKK, EUR and to a lesser extent USD. Any identified significant risks are hedged using financial instruments.

Interest-rate risks

Revolving credit facilities are based on floating interest rates. The Company's mortgage is partly hedged by financial hedging instruments.

Credit risks

In accordance with the Company's policy for assuming credit risks, all major customers and other business partners are credit rated. The Company has no significant credit risks relating to individual customers or partners.

Research and development activities

Investments in research and development activities has been as expected.

Statutory CSR report

The external and internal environmental impact is considered low.

The Company's report on social responsibility matters, including gender balance can be found at the following link: https://fertin.com/about-us/corporate-social-responsibility/

Management's review

Events after the balance sheet date

After the balance sheet date the Company signed and closed the acquisition of Tab Labs Inc. Tab Labs will serve as an important bridgehead for The Company in the large North American market for nutraceutical products delivered through innovative and convenient systems such as chewing gum, mints, lozenges and Zapliq®.

As of 7 March 2019, the Company has distributed dividends of 200 mDKK to the parent company, Claudio Bidco A/S.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2018	2017
2	**Revenue**	812,500	867,662
14,3	Production costs	-691,143	-659,204
	Gross margin	121,357	208,458
14	Distribution costs	-16,735	-12,122
14,3	Administrative expenses	-14,106	-29,150
	Operating profit	90,516	167,186
	Other operating income	442	4,157
	Other operating expenses	-521	0
	Profit before net financials	90,437	171,343
	Income from investments in group enterprises	-9,871	-6,406
4	Financial income	35	33
5	Financial expenses	-18,952	-27,109
	Profit before tax	61,649	137,861
6	Tax for the year	-15,805	-31,508
	Profit for the year	45,844	106,353

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2018	2017
	ASSETS		
	Fixed assets		
7	**Intangible assets**		
	Completed development projects	72,188	79,642
	Acquired intangible assets and intangible assets in progress	64,071	2,052
	Development projects in progress	119,231	84,328
		255,490	166,022
8	**Property, plant and equipment**		
	Land and buildings	556,803	442,303
	Equipment and machinery	475,799	292,052
	Fixtures and fittings, plant and other equipment	6,512	4,639
	Leasehold improvements	730	1,402
	Property, plant and equipment under construction	139,556	356,813
		1,179,400	1,097,209
9	**Investments**		
	Investments in group enterprises	14,239	16,660
		14,239	16,660
	Total fixed assets	1,449,129	1,279,891
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	136,088	89,766
	Work in progress	18,985	26,839
	Finished goods and goods for resale	46,876	34,613
		201,949	151,218
	Receivables		
	Trade receivables	149,102	159,532
	Receivables from group enterprises	112,846	32,920
	Other receivables	1,141	720
10	Prepayments	5,311	3,293
		268,400	196,465
	Cash	84,553	4
	Total non-fixed assets	554,902	347,687
	TOTAL ASSETS	2,004,031	1,627,578

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2018	2017
	EQUITY AND LIABILITIES		
	Equity		
11	Share capital	70,510	70,500
	Reserve for development costs	124,226	49,029
	Retained earnings	701,253	650,938
	Total equity	895,989	770,467
	Provisions		
13	Deferred tax	99,777	84,662
	Total provisions	99,777	84,662
	Liabilities other than provisions		
12	**Non-current liabilities other than provisions**		
	Mortgage debt	580,868	577,041
		580,868	577,041
	Current liabilities other than provisions		
	Bank debt	46,485	7,432
	Other credit institutions	200,000	0
	Trade payables	109,684	76,547
	Payables to group enterprises	16,055	18,165
	Joint taxation contribution payable	0	26,737
	Deposits	104	104
	Other payables	55,069	66,423
		427,397	195,408
	Total liabilities other than provisions	1,008,265	772,449
	TOTAL EQUITY AND LIABILITIES	2,004,031	1,627,578

1 Accounting policies
15 Contractual obligations and contingencies, etc.
16 Collateral
17 Related parties
18 Fee to the auditors appointed by the Company in general meeting

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
	Equity at 1 January 2017	70,500	22,950	566,154	659,604
19	Transfer, see "Appropriation of profit"	0	26,079	80,274	106,353
	Other value adjustments of equity	0	0	-1,757	-1,757
	Adjustment of hedging instruments at fair value	0	0	8,035	8,035
	Tax on items recognised directly in equity	0	0	-1,768	-1,768
	Equity at 1 January 2018	70,500	49,029	650,938	770,467
	Capital increase	10	0	79,982	79,992
19	Transfer, see "Appropriation of profit"	0	75,197	-29,353	45,844
	Other value adjustments of equity	0	0	-314	-314
	Equity at 31 December 2018	70,510	124,226	701,253	895,989

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2018	2017
	Profit for the year	45,844	106,353
20	Adjustments	138,457	146,714
	Cash generated from operations (operating activities)	184,301	253,067
21	Changes in working capital	-105,414	-88,121
	Cash generated from operations (operating activities)	78,887	164,946
	Interest received, etc.	35	33
	Interest paid, etc.	-13,321	-19,712
	Income taxes paid	-27,427	-24,898
	Cash flows from operating activities	38,174	120,369
	Additions of intangible assets	-48,690	-34,377
	Additions of property, plant and equipment	-217,188	-165,666
	Disposals of property, plant and equipment	0	578
	Purchase of financial assets	-6,457	-3,619
	Sale of financial assets	-335	0
	Cash flows to investing activities	-272,670	-203,084
	Contracting of other short-term liabilities	200,000	0
	Contracting of other long-term liabilities	0	573,215
	Repayments, long-term liabilities	0	-249,265
	Cash capital increase	79,992	0
	Cash flows from financing activities	279,992	323,950
	Net cash flow	45,496	241,235
	Cash and cash equivalents at 1 January	-7,428	-248,663
22	**Cash and cash equivalents at 31 December**	38,068	-7,428

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Fertin Pharma A/S for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

In accordance with section 112(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised at cost in the balance sheet and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in "Other receivables" and "Other payables", respectively.

Leases

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Income statement

Revenue

Income from the sale of goods for resale and finished goods, is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Production costs

Production costs comprise costs incurred in generating the revenue for the year. Such costs include direct and indirect costs of raw materials, consumables and production staff, rent and leases, as well as depreciation on production plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Also, provision for losses on construction contracts is recognised.

Distribution costs

Distribution costs comprise costs related to the distribution of goods sold in the year and to sales campaigns, etc. carried out in the year, including costs related to sales staff, advertising and exhibitions.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Administrative expenses

Administrative expenses include expenses incurred in the year for company management and administration, including expenses relating to administrative staff, Management, office premises and expenses as well as amortisation/depreciation of assets used for administrative purposes.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Completed development projects	5-15 years
Software	3-10 years

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Land and buildings	10-70 years
Equipment and machinery	5-20 years
Fixtures and fittings, plant and other equipment	3-5 years
Leasehold improvements	6-30 years

Profit from investments in subsidiaries

A proportionate share of the underlying entities' profit/loss after tax is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The Company and its Danish group entities are jointly taxed. The total Danish income tax charge is allocated between profit/loss-making Danish entities in proportion to their taxable income (full absorption).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Intangible assets

Other intangible assets include development projects and other acquired intangible rights, including software licences, distribution rights and development projects. Investment in software programs includes the cost of direct software cost and internally as externally related labour cost regarding the development process.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities. Some external customers are paying for part of the development costs. These payments are offset against the booked asset.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are identifiable and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

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

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 5 years and cannot exceed 20 years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight line basis over the remaining term of the patent, and licences are amortised over the term of the licence, but not exceeding 20 years.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

The cost of self constructed assets includes the cost of direct materials and labour, etc. directly used in the production process and a portion of the relating production overheads.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Investments in subsidiaries

Equity investments in subsidiaries and associates are measured according to the equity method.

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Dividend received is deduced from the carrying amount.

Equity investments in subsidiaries measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. 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 the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct labour and indirect production overheads.

Indirect production overheads include the indirect cost of material and labour 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 sales price.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Equity

Reserve for net revaluation according to the equity method

The net revaluation reserve according to the equity method includes net revaluations of investments in subsidiaries and associates relative to cost. The reserve can be eliminated in case of losses, realisation of investments or a change in accounting estimates. The reserve cannot be recognised at a negative amount.

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets 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. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Other liabilities are measured at net realisable value.

Cash flow statement

The cash flow statement shows the Company's net cash flows broken down according to operating, investing and financing activities, the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non cash operating items, changes in working capital and paid corporate income tax.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities and of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related expenses as well as raising of loans, repayment of interest bearing debt and payment of dividends to shareholders.

Cash and cash equivalents comprise cash and short-term marketable securities with a term to maturity of three months or less, which are subject to only minor risks of changes in value.

Segment information

The allocation of revenue to activities and geographical markets is disclosed where these activities and markets differ significantly in the organisation of sales of goods and services.

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

Current ratio $$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$$

Equity ratio $$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$$

Return on equity $$\frac{\text{Profit/loss for the year after tax x 100}}{\text{Average equity}}$$

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000		2018	2017
2	**Segment information**		
	Pharma products	694,810	840,652
	Non-Pharma products	117,690	27,010
		812,500	867,662
3	**Amortisation/depreciation of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	17,449	14,439
	Depreciation of property, plant and equipment	76,770	72,096
		94,219	86,535

Amortisation/depreciation of intangible assets and property, plant and equipment is recognised in the income statement under the following items:

DKK'000	2018	2017
Production costs	89,631	79,764
Administrative expenses	4,588	6,771
	94,219	86,535

		2018	2017
4	**Financial income**		
	Other financial income	35	33
		35	33
5	**Financial expenses**		
	Exchange adjustments	0	598
	Other financial expenses	18,952	26,511
		18,952	27,109
6	**Tax for the year**		
	Estimated tax charge for the year	690	24,694
	Deferred tax adjustments in the year	15,115	6,814
		15,805	31,508

Specified as follows:

	2018	2017
Tax for the year	15,805	31,508
Tax on items recognised directly in equity	0	1,768
	15,805	33,276

Financial statements 1 January - 31 December

Notes to the financial statements

7 Intangible assets

DKK'000	Completed development projects	Acquired intangible assets and intangible assets in progress	Development projects in progress	Total
Cost at 1 January 2018	177,873	67,019	84,328	329,220
Additions	5,198	5,951	37,541	48,690
Transferred	2,638	58,227	-2,638	58,227
Cost at 31 December 2018	185,709	131,197	119,231	436,137
Impairment losses and amortisation at 1 January 2018	98,231	64,967	0	163,198
Amortisation for the year	15,290	2,159	0	17,449
Impairment losses and amortisation at 31 December 2018	113,521	67,126	0	180,647
Carrying amount at 31 December 2018	72,188	64,071	119,231	255,490

Development of medical products is defined as products with an active pharmaceutical ingredient requiring regulatory approval for the product to be developed, manufactured and sold legally.

Development projects regarding medical products comprise salaries, wages and other costs for development and test of products for customers.

The carrying amount of completed projects is DKK 72,188 thousand. The impairment test indicates a higher commercial value.

The carrying amount of projects in progress is DKK 119,231 thousand. The impairment test indicates a higher commercial value.

8 Property, plant and equipment

DKK'000	Land and buildings	Equipment and machinery	Fixtures and fittings, plant and other equipment	Leasehold improvements	Property, plant and equipment under construction	Total
Cost at 1 January 2018	620,628	738,472	53,667	65,839	356,813	1,835,419
Additions	0	0	0	0	217,188	217,188
Transferred	140,436	230,692	5,090	0	-434,445	-58,227
Cost at 31 December 2018	761,064	969,164	58,757	65,839	139,556	1,994,380
Impairment losses and depreciation at 1 January 2018	178,325	446,420	49,028	64,437	0	738,210
Depreciation	25,936	46,945	3,217	672	0	76,770
Impairment losses and depreciation at 31 December 2018	204,261	493,365	52,245	65,109	0	814,980
Carrying amount at 31 December 2018	556,803	475,799	6,512	730	139,556	1,179,400

Note 16 provides more details on security for loans, etc. as regards property, plant and equipment.

Financial statements 1 January - 31 December

Notes to the financial statements

9 Investments

DKK'000	Investments in group enterprises
Cost at 1 January 2018	29,772
Additions	6,457
Cost at 31 December 2018	36,229
Value adjustments at 1 January 2018	-13,112
Foreign exchange adjustments	-314
Profit/loss for the year	-8,564
Value adjustments at 31 December 2018	-21,990
Carrying amount at 31 December 2018	14,239

Name	Legal form	Domicile	Interest
Subsidiaries			
Fertin Pharma R&D India Pv. Ltd.	Ltd.	India	100.00%
Fertin India Private Ltd.	Ltd.	India	100.00%

10 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years.

DKK'000	2018	2017
11 Share capital		
Analysis of the share capital:		
70,510 shares of DKK 1,000.00 nominal value each	70,510	70,500
	70,510	70,500

Analysis of changes in the share capital over the past 5 years:

DKK'000	2018	2017	2016	2015	2014
Opening balance	70,500	70,500	70,500	70,500	70,500
Capital increase	10	0	0	0	0
	70,510	70,500	70,500	70,500	70,500

12 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2018	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	580,868	0	580,868	0
	580,868	0	580,868	0

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2018	2017
13 Deferred tax		
Deferred tax at 1 January	84,662	77,848
Provision for the year	0	6,727
Other deferred tax	15,115	87
Deferred tax at 31 December	99,777	84,662

Deferred tax is primarily relating to the temporary differences between the carrying amount and the tax base of intangible and tangible assets.

DKK'000	2018	2017
14 Staff costs		
Wages/salaries	320,718	310,029
Pensions	32,248	30,039
Other social security costs	5,197	4,671
	358,163	344,739

Staff costs are recognised as follows in the financial statements:

Production	332,316	317,225
Distribution	10,676	6,323
Administration	15,171	21,191
	358,163	344,739
Average number of full-time employees	674	661

Total remuneration to Management: DKK 5,945 thousand (2017: DKK 6,167 thousand).

Part of the remuneration to the Company's Management is paid by the parent company, which is reimbursed by Fertin Pharma A/S.

15 Contractual obligations and contingencies, etc.

Contingent liabilities

Other contingent liabilities

The Company is jointly taxed with its parent, Claudio Holdco A/S, which acts as management company, and is jointly and severally liable with other jointly taxed group entities for payment of income taxes as well as withholding taxes on interest, royalties and dividends.

Other financial obligations

The Company has liabilities under operating leases and rent, totalling DKK 17,003 thousand, with remaining contract terms of 0-5 years.

16 Collateral

The Company have provided a company charge for bank loan in Danske Bank, amounting to maximally DKK 35 million.

Land and buildings at a carrying amount of DKK 556,803 thousand at 31 December 2018 have been put up as security for debt to mortgage credit institutions, totalling DKK 580,868 thousand.

Financial statements 1 January - 31 December

Notes to the financial statements

17 Related parties

Fertin Pharma A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Claudio Bidco A/S	Vejle	Participating interest
Claudio Holdco A/S	Vejle	Participating interest

Information about consolidated financial statements

Parent	Domicile
Claudio Bidco A/S	Vejle
Claudio Holdco A/S	Vejle

Related party transactions

The Company solely discloses related party transactions that have not been carried out on an arm's length basis, cf. section 98c(7) of the Danish Financial Statements Act.

All transactions have been carried out on an arm's length basis.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000		2018	2017
18	**Fee to the auditors appointed by the Company in general meeting**		
	Statutory audit	260	255
	Tax assistance	111	79
	Other assistance	391	269
		762	603
19	**Appropriation of profit**		
	Recommended appropriation of profit		
	Other statutory reserves	75,197	26,079
	Retained earnings/accumulated loss	-29,353	80,274
		45,844	106,353
20	**Adjustments**		
	Amortisation/depreciation and impairment losses	99,829	86,535
	Immediate write-offs	-5,610	-4,229
	Gain/loss on the sale of non-current assets	334	-578
	Income from investments in group entities	9,871	6,406
	Financial income	-35	-33
	Financial costs	18,952	27,109
	Tax for the year	0	24,694
	Deferred tax	15,116	6,814
	Other adjustments	0	-4
		138,457	146,714
21	**Changes in working capital**		
	Change in inventories	-50,731	-18,068
	Change in receivables	10,430	21,512
	Change in trade and other payables	-65,113	-91,565
		-105,414	-88,121
22	**Cash and cash equivalents at year-end**		
	Cash according to the balance sheet	84,553	4
	Short-term debt to banks	-46,485	-7,432
		38,068	-7,428