

Fertin Pharma A/S

Dandyvej 19, 7100 Vejle

CVR no. 25 83 48 44

Annual report 2017

Approved at the Company's annual general meeting on 15 March 2018

Chairman:

A handwritten signature in blue ink is written over a horizontal dotted line. The signature is stylized and appears to be the name of the Chairman.

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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 2017.

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 2017 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2017.

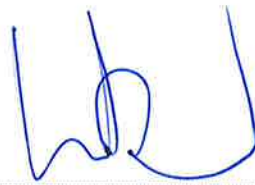
Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

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

Vejle, 15 March 2018
Executive Board:


Søren Birn

Board of Directors:


Thomas Werner
Chairman
Claus Bagger Sørensen
Lars Bang
Manfred Scheske
Nikhilesh Singh
Rikke Kjær Nielsen
Bente Brændshøj
Bo Korsgaard Jensen
Erik Bak Mortensen

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 2017, 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 2017 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2017 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, 15 March 2018

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Jes Lauritzen
State Authorised Public Accountant
MNE no.: mne10121



Tom B. Lassen
State Authorised Public Accountant
MNE no.: 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 Nikhilesh Singh Rikke Kjær Nielsen Bente Brændshøj Bo Korsgaard Jensen Erik Bak Mortensen
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	2017	2016	2015	2014	2013
Key figures					
Revenue	868	856	801	694	669
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	258	227	162	144	135
Operating profit/loss	167	138	93	68	62
Profit/loss for the year	106	100	64	42	45
Total assets	1,628	1,517	1,493	1,307	1,226
Equity	770	660	561	495	458
Cash flows from operating activities	120	116	150	79	132
Net cash flows from investing activities	-203	-309	-221	-78	-114
Cash flows from financing activities	324	142	78	-76	-69
Total cash flows	241	-51	7	-75	-51
Financial ratios					
Current ratio	178.5%	61.7%	73.3%	72.5%	67.1%
Solvency ratio	47.3%	43.5%	37.6%	37.9%	37.4%
Return on equity	14.8%	16.4%	12.1%	8.8%	10.4%
Average number of employees	661	609	572	530	543

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

Management's review

Business review

Business Activities

Fertin Pharma (the "Company") is the world's largest independent developer and manufacturer of medicated chewing gum. The Company offers innovative, high-quality pharmaceutical and nutraceutical chewing gum products. Primarily within Nicotine Replacement Therapy ("NRT"), which is a pharmaceutical product used for withdrawal management in the process of tobacco cessation. Furthermore, Fertin Pharma develops pharmaceutical chewing gum with different active pharmaceutical ingredients ("MediChew") and nutraceutical chewing gum products ("Nutraceuticals") as well as novel delivery platforms.

Fertin Pharma is headquartered in Vejle, Denmark, where local production and R&D facilities are located with both being FDA and EU GMP approved. Furthermore, Fertin Pharma has separate R&D and production facilities in India.

In January 2017, EQT Mid Market Europe became the majority shareholder in Fertin Pharma and entered into a partnership with the Bagger-Sørensen family.

Business Review

In 2017, the Company has experienced good performance in the core NRT chewing gum business, while reaching several key milestones together with its partners on new business initiatives and in the Supply Chain investment program.

Fertin Pharma has spent significant resources on investigating and preparing to serve customers in markets with a strong potential for future growth. As part of these activities, the Company has executed on the planned development programme in India, resulting in the Goa facility obtaining a WHO approval during 2017. It will increase the flexibility of the Company's operations as it will allow Fertin Pharma to serve an increasing number of markets from India.

Furthermore, the Company has seen considerable activity within R&D, focusing on the development of new products including alternative delivery platforms and new active pharmaceutical ingredients.

Throughout the year, the Company has focused on the continued execution of the planned Supply Chain investment program, with the aim of securing increased flexibility and capacity to meet future requirements, as well as a focus on continuously improving both quality and efficiency throughout the Company's production processes. Moreover, Fertin Pharma completed a successful FDA inspection in November 2017.

Fertin Pharma's Management expect to continue the positive momentum into 2018, with an expectation of a 2018 result that will exceed 2017.

Financial review

The Company reported revenue of 868 MDKK in 2017 (2016: 856 MDKK) while EBIT amounted to 171 MDKK (2016: 143 MDKK). The positive development in both revenue and EBIT was primarily a result of a strong performance in sales of NRT chewing gum.

The Company's income statement for 2017 shows a net profit of 106 MDKK (2016: 100 MDKK).

The balance sheet total amounts to 1.628 MDKK with an equity of 770 MDKK.

The Company's cash-flow from operating activities amounts to 120 MDKK (2016: 116 MDKK).

Overall, the financial result of the year is regarded as satisfactory.

Investments

Investment in 2017 follows the planned Supply Chain investment program, which primarily has consisted of investment in a new production facility.

Management's review

Knowledge resources

It is essential for Fertin Pharma A/S' continued growth to attract and retain highly educated employees with expertise in the development and production of medical products. The Company offers both internal and external training programs. It is Company policy that all employees must be trained continuously. This is to ensure that the Company continues to deliver solutions that meet the development in both customer and regulatory requirements.

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. The Company therefore is not exposed to high currency risks with regard to the ongoing operation. Any identified significant risks are hedged using financial instruments.

Interest-rate risks

Ongoing credit floating interest rate. The Company's mortgage is partly hedged by financial hedging instruments.

Credit risks

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

Research and development activities

During the year a further 34.4 MDKK was invested in intangible assets related to development activities. Sales and marketing of the developed products are planned to be initiated in the coming years.

Statutory CSR report

Fertin Pharma A/S is environmentally conscious and works to reduce the environmental impact from its operation. The external and internal environmental impact is considered to be 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/>

Events after the balance sheet date

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

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2017	2016
2	Revenue	867,662	855,745
3,4	Production costs	-659,204	-645,520
	Gross margin	208,458	210,225
3	Distribution costs	-12,122	-13,802
3,4	Administrative expenses	-29,150	-58,264
	Operating profit	167,186	138,159
	Other operating income	4,157	4,858
	Profit before net financials	171,343	143,017
	Income from investments in group enterprises	-6,406	-4,294
	Income from investments in associates	0	192
5	Financial income	33	1,052
6	Financial expenses	-27,109	-8,535
	Profit before tax	137,861	131,432
7	Tax for the year	-31,508	-31,360
	Profit for the year	106,353	100,072

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Fixed assets		
8	Intangible assets		
	Completed development projects	79,642	63,127
	Software	2,052	5,600
	Development projects in progress and prepayments for intangible assets	84,328	77,357
		<u>166,022</u>	<u>146,084</u>
9	Property, plant and equipment		
	Land and buildings	442,303	454,319
	Equipment and machinery	292,052	265,573
	Fixtures and fittings, plant and other equipment	4,639	7,672
	Leasehold improvements	1,402	3,726
	Property, plant and equipment under construction	356,813	268,119
		<u>1,097,209</u>	<u>999,409</u>
10	Investments		
	Investments in group enterprises	16,660	20,325
		<u>16,660</u>	<u>20,325</u>
	Total fixed assets	<u>1,279,891</u>	<u>1,165,818</u>
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	89,766	94,933
	Work in progress	26,839	10,419
	Finished goods and goods for resale	34,613	27,798
		<u>151,218</u>	<u>133,150</u>
	Receivables		
	Trade receivables	159,532	187,594
	Receivables from group enterprises	32,920	5,413
	Other receivables	720	22,478
	Prepayments	3,293	2,492
		<u>196,465</u>	<u>217,977</u>
	Cash	<u>4</u>	<u>56</u>
	Total non-fixed assets	<u>347,687</u>	<u>351,183</u>
	TOTAL ASSETS	<u>1,627,578</u>	<u>1,517,001</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
11	Share capital	70,500	70,500
	Reserve for development costs	49,029	22,950
	Retained earnings	650,938	566,154
	Total equity	770,467	659,604
	Provisions		
13	Deferred tax	84,662	77,848
	Total provisions	84,662	77,848
	Liabilities other than provisions		
12	Non-current liabilities other than provisions		
	Mortgage debt	577,041	210,374
		577,041	210,374
	Current liabilities other than provisions		
	Mortgage debt	0	37,640
	Bank debt	7,432	248,719
	Trade payables	76,547	62,069
	Payables to group enterprises	18,165	103,076
	Joint taxation contribution payable	26,737	24,898
	Deposits	104	104
	Other payables	66,423	92,669
		195,408	569,175
	Total liabilities other than provisions	772,449	779,549
	TOTAL EQUITY AND LIABILITIES	1,627,578	1,517,001

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

Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2016	70,500	0	490,373	560,873
18 Transfer, see "Appropriation of profit"	0	22,950	77,122	100,072
Other value adjustments of equity	0	0	206	206
Adjustment of hedging instruments at fair value	0	0	-1,983	-1,983
Tax on items recognised directly in equity	0	0	436	436
Equity at 1 January 2017	70,500	22,950	566,154	659,604
18 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 31 December 2017	70,500	49,029	650,938	770,467

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2017	2016
	Profit for the year	106,353	100,072
19	Adjustments	146,714	114,729
	Cash generated from operations (operating activities)	253,067	214,801
20	Changes in working capital	-88,121	-66,483
	Cash generated from operations (operating activities)	164,946	148,318
	Interest received, etc.	33	1,052
	Interest paid, etc.	-19,712	-8,533
	Income taxes paid	-24,898	-25,334
	Cash flows from operating activities	120,369	115,503
	Additions of intangible assets	-34,377	-28,310
	Additions of property, plant and equipment	-165,666	-279,861
	Disposals of property, plant and equipment	578	0
	Purchase of financial assets	-3,619	-921
	Cash flows to investing activities	-203,084	-309,092
	Proceeds of long-term liabilities	0	56,505
	Proceeds of debt, group enterprises	0	127,691
	Contracting of other long-term liabilities	573,215	0
	Repayments, long-term liabilities	-249,265	-25,485
	Repayments, borrowings from group enterprises	0	-16,412
	Cash flows from financing activities	323,950	142,299
	Net cash flow	241,235	-51,290
	Cash and cash equivalents at 1 January	-248,663	-197,374
21	Cash and cash equivalents at 31 December	-7,428	-248,664

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Fertin Pharma A/S for 2017 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.

Changes in accounting policies

The Company has changed its presentation format of the income statement which was classified by type of expenditure. Now the format of the income statement is based on expenditure classified by function to better reflect the company and its value creation.

The change in classification has solely implied a reclassification of the Company's costs in accordance with the format requirements in the Danish Financial Statements Act. The comparative figures have also been reclassified. The change have not had any impact on profit/loss after tax, total assets or equity.

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.

Administrative expenses

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

Other operating income 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

Income from investments in subsidiaries and associates

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 and associates are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries. Only proportionate elimination of intra-group gains/losses is made for equity investments in associates.

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 entity is jointly taxed with other subsidiaries. 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.

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; see the accounting policies regarding business combinations.

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.

Dividend received is deduced from the carrying amount.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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, short term bank loans and short term securities which are readily convertible into cash and which are subject only to insignificant 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

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios.

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

Current ratio	$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$
Equity ratio	$\frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax} \times 100}{\text{Average equity}}$

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2017	2016
2 Segment information		
Medical products	843,893	837,100
Other products	23,769	18,645
	<u>867,662</u>	<u>855,745</u>

3 Staff costs		
Wages/salaries	310,029	297,906
Pensions	30,039	28,322
Other social security costs	4,671	4,502
	<u>344,739</u>	<u>330,730</u>

Staff costs are recognised as follows in the financial statements:

DKK'000	2017	2016
Production	317,225	294,712
Distribution	6,323	8,328
Administration	21,191	27,690
	<u>344,739</u>	<u>330,730</u>
Average number of full-time employees	<u>661</u>	<u>609</u>

Total remuneration to Management: DKK'000 6,167 (2016: DKK'000 5,794)

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

4 Amortisation/depreciation of intangible assets and property, plant and equipment		
Amortisation of intangible assets	14,439	14,480
Depreciation of property, plant and equipment	72,096	69,395
	<u>86,535</u>	<u>83,875</u>

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

Production costs	79,764	77,403
Administrative expenses	6,771	6,472
	<u>86,535</u>	<u>83,875</u>

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2017	2016
5 Financial income		
Interest receivable, group entities	0	111
Exchange adjustments	0	939
Other financial income	33	2
	<u>33</u>	<u>1,052</u>
6 Financial expenses		
Interest expenses, group entities	0	871
Exchange adjustments	598	0
Other financial expenses	26,511	7,664
	<u>27,109</u>	<u>8,535</u>
7 Tax for the year		
Estimated tax charge for the year	24,694	24,898
Deferred tax adjustments in the year	6,814	6,462
	<u>31,508</u>	<u>31,360</u>
Specified as follows:		
Tax for the year	31,508	31,360
Tax on items recognised directly in equity	1,768	-436
	<u>33,276</u>	<u>30,924</u>

Financial statements 1 January - 31 December

Notes to the financial statements

8 Intangible assets

DKK'000	Completed development projects	Software	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2017	150,467	67,019	77,357	294,843
Additions	2,931	0	31,446	34,377
Transferred	24,475	0	-24,475	0
Cost at 31 December 2017	177,873	67,019	84,328	329,220
Impairment losses and amortisation at 1 January 2017	87,340	61,419	0	148,759
Amortisation for the year	10,891	3,548	0	14,439
Impairment losses and amortisation at 31 December 2017	98,231	64,967	0	163,198
Carrying amount at 31 December 2017	79,642	2,052	84,328	166,022

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 79,642 TDKK. The impairment test indicates a higher commercial value.

The carrying amount of projects in progress is 84,328 TDKK. The impairment test indicates a higher commercial value.

9 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 2017	611,098	671,030	53,847	65,839	268,119	1,669,933
Additions	0	5,278	4,230	0	160,388	169,896
Disposals	0	0	-180	0	0	-180
Transferred	9,530	62,164	0	0	-71,694	0
Cost at 31 December 2017	620,628	738,472	57,897	65,839	356,813	1,839,649
Impairment losses and depreciation at 1 January 2017	156,779	405,457	46,175	62,113	0	670,524
Depreciation	21,546	40,963	7,263	2,324	0	72,096
Reversal of accumulated depreciation and impairment of assets disposed	0	0	-180	0	0	-180
Impairment losses and depreciation at 31 December 2017	178,325	446,420	53,258	64,437	0	742,440
Carrying amount at 31 December 2017	442,303	292,052	4,639	1,402	356,813	1,097,209

Note 15 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

10 Investments

DKK'000	Investments in group enterprises
Cost at 1 January 2017	26,153
Additions	3,619
Cost at 31 December 2017	29,772
Value adjustments at 1 January 2017	-5,828
Foreign exchange adjustments	-1,916
Profit/loss for the year	-5,072
Value adjustments for the year	-296
Value adjustments at 31 December 2017	-13,112
Carrying amount at 31 December 2017	16,660

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%

DKK'000	2017	2016
11 Share capital		
Analysis of the share capital:		
70,500 shares of DKK 1,000.00 nominal value each	70,500	70,500
	70,500	70,500

The company's share capital has remained DKK 70,500 thousand in the past 5 years.

12 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2017	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	577,041	0	577,041	577,041
	577,041	0	577,041	577,041

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Notes to the financial statements

DKK'000	2017	2016
13 Deferred tax		
Deferred tax at 1 January	77,848	71,822
Provision for the year	6,727	6,462
Transferred to equity	0	-436
Other deferred tax	87	0
Deferred tax at 31 December	84,662	77,848

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

14 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 tDKK 14,595, with remaining contract terms of 0-5 years.

15 Collateral

Land and buildings at a carrying amount of TDKK 442,303 at 31 December 2017 have been put up as security for debt to mortgage credit institutions, totalling TDKK 577,041.

Financial statements 1 January - 31 December

Notes to the financial statements

16 Related parties

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

Parties exercising control

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

Information about consolidated financial statements

<u>Parent</u>	<u>Domicile</u>
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	2017	2016
17 Fee to the auditors appointed by the Company in general meeting		
Statutory audit	255	250
Assurance engagements	0	180
Tax assistance	79	0
Other assistance	269	99
	<u>603</u>	<u>529</u>
18 Appropriation of profit		
Recommended appropriation of profit		
Other statutory reserves	26,079	22,950
Retained earnings	80,274	77,122
	<u>106,353</u>	<u>100,072</u>
19 Adjustments		
Amortisation/depreciation and impairment losses	86,535	74,539
Immediate write-offs	-4,229	0
Gain/loss on the sale of non-current assets	-578	-1,813
Income from investments in group entities	6,406	3,108
Financial income	-33	-1,052
Financial costs	27,109	8,534
Tax for the year	24,694	24,898
Deferred tax	6,814	6,462
Other adjustments	-4	53
	<u>146,714</u>	<u>114,729</u>
20 Changes in working capital		
Change in inventories	-18,068	-2,667
Change in receivables	21,512	-73,778
Change in trade and other payables	-91,565	9,962
	<u>-88,121</u>	<u>-66,483</u>
21 Cash and cash equivalents at year-end		
Cash according to the balance sheet	4	56
Short-term debt to banks	-7,432	-248,719
	<u>-7,428</u>	<u>-248,663</u>