Fertin Pharma A/S

Dandyvej 19

7100 Vejle

CVR no 25 83 48 44

Annual report for 2016

Adopted at the annual general meeting on 28 March 2017

Thomas Werner
Chairman

Contents

Statement by Management on the annual report

The Executive and Supervisory Boards have today discussed and approved the annual report of Fertin Pharma A/S for the financial year 1 January - 31 December 2016.

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

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016.

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 its operations and financial position.

We recommend the adoption of the annual report at the annual general meeting.

Vejle, 28 March 2017

Executive Board

Søren Birn
CEO

Supervisory Board

Thomas Werner
Chairman

Claus Bagger-Sørensen

Lars Bang

Manfred Scheske

Nikhilesh Singh

Rikke Kjær Nielsen

Bente Brændshøj
Staff Representative

Bo Korsgaard Jensen
Staff Representative

Erik Bak Mortensen
Staff Representative

Independent auditor's report

To the shareholder 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 2016, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company´s financial position at 31 December 2016 and of the results of the Company's and cash flows operations for the financial year 1 January - 31 December 2016 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 are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Independent auditor's report

Auditor's Responsibilities for the Audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

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

Statement on Management's Review
Management is responsible for Management's Review.

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

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

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

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

Aarhus, 28 March 2017

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no.: 30 70 02 28

Jes Lauritzen	Tom B. Lassen
State Authorised Public Accountant	State Authorised Public Accountant

Company details

The Company	Fertin Pharma A/S Dandyvej 19 7100 Vejle	
	Tel:	+45 72 15 13 00
	Fax:	+45 72 15 13 01
	Website:	www.fertin.com
	CVR no.:	25 83 48 44
	Reporting period:	1 January - 31 December
	Incorporated:	2. January 2001
	Domicile:	Vejle
Supervisory Board	Thomas Werner, Chairman Claus Bagger-Sørensen Lars Bang Manfred Scheske Nikhilesh Singh Rikke Kjær Nielsen Bente Brændshøj, Staff Representative Bo Korsgaard Jensen, Staff Representative Erik Bak Mortensen, Staff Representative	
Executive Board	Søren Birn, CEO	
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Bruun's Galleri 8000 Aarhus C	

Financial highlights

5-year summary:

	2016	2015	2014	2013	2012
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Revenue	856	801	694	669	592
Earnings Before Interest Taxes Depreciation and Amortization	216	162	144	135	86
Profit/loss from ordinary operating activities before gains/losses from fair value adjustments	143	93	68	62	12
Profit/loss for the year	100	64	42	45	1
Balance sheet					
Balance sheet total	1.517	1.213	1.044	1.002	959
Investment in property, plant and equipment	-280	-187	-67	-84	-99
Equity	660	561	495	458	406
Cash flows from:					
- operating activities	116	150	79	132	102
- investing activities	-309	-221	-78	-114	-119
- financing activities	142	78	-76	-69	0
The year's changes in cash and cash equivalents	-51	6	-75	-51	-16
Number of employees	609	572	530	543	446
Financial ratios					
Gross margin	63,8%	58,4%	60,4%	61,0%	53,7%
EBIT margin	16,7%	11,6%	9,8%	9,3%	2,0%
Solvency ratio	43,5%	46,2%	47,4%	45,7%	42,3%
Return on equity	16,4%	12,1%	8,8%	10,4%	0,3%
ROIC	11,8%	9,4%	7,6%	7,1%	1,5%
Current ratio	61,7%	73,4%	72,5%	67,1%	83,6%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the summary of significant accounting policies.

Management's review

Business activities

The Company's main activity is manufacturer and developer of chewing gum for a variety of applications, including nicotine replacement therapy (NRT) and to pursue development and manufactoring of other NRT products than gum based, e.g. lozenges, other nicotine delivery methods as well as Nutraceuticals and MediChew.

The Company offers current and potential customers in the pharmaceutical industry unique expertise in the development and manufacturing of medical chewing gum under both EU GMP and US FDA approval as well as a range of other important regulatory regimes around the world.

The Company has also established a facility for mixing nicotine-containing liquids. The liquids may be used in e-cigarettes, nicotine sprays and inhalers.

Fertin Pharma A/S is 100% owned by Bagger-Sørensen & Co. A/S at the end of 2016.

Business review

The Company's income statement for 2016 shows a net profit of 100 MDKK, against 64 MDKK in 2015. The balance sheet total amounts to 1.517 MDKK with an equity of 660 MDKK.

The Company's cash-flow from operating activities amounts to 116 MDKK, against 150 MDKK in 2015. Compared to 2015, the 2016 cash-flow is affected by the following material factors:

- Changed order timing, resulting in an increased back-loading of revenue
- The acquisition of the building compound hosting the Company's headquarter and various parts of the manufacturing and packaging activities

Investments

Investment in 2016 is following the planned Supply Chain investment program. In addition to the planned investment program for 2016 the Company has acquired buildings in Denmark hosting the Company's headquarter and part of the production facilities from the landlord.

Management's review

Financial review

Profit before tax amounted to 131 MDKK, against 83 MDKK in 2015. Revenue for the year amounts to 856 MDKK, against 801 MDKK in 2015, equivalent to a growth of 7%.

Overall, the result of the year is regarded as satisfactory and in line with Management's expectations.

Result of the year and related activities has been affected by the following factors:

- Satisfactory growth in sales of medical chewing gum, mainly of products containing nicotine.
- Investigation in and preparation of opportunities to service customers in markets where products developed and manufactured by the Company are still not present.
- A considerable activity within R&D focused on development of nicotine products, including alternative delivery platforms (to chewing gum) as well as other medical chewing gum products containing other active pharmaceutical ingredients than nicotine.
- 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.
- Execution of the planned development program for the Company's India based activities. Following the introduction of Fertin products under Indian FDA in 2016, the aim is to obtain a WHO FDA approval in 2017 and thereby increasing the flexibility in respect of serving an increasing range of emerging markets outside India.

The result for 2017 is expected to exceed that of 2016.

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 programmes. 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 apart from generally occurring risks in industry

Currency risks

The Company invoices in DKK and EUR and the majority of goods purchased are denominated in DKK, EUR and to a lesser extent USD. The Company is therefore not exposed to high currency risks with regard to the ongoing operation. Any identified significant risks are hedged using financial instruments.

Management's review

Interest-rate risks

Ongoing credit floating interest rate. The Company's mortgage is to some extent 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 in and for reporting entity

During the year a further 29.8 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 report on corporate social responsibility

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.

According to the Danish Financial Statements Act §99b paragraph 1, the Company has not prepared a separate report on gender balance in the management of Fertin Pharma A/S. The statement is included in the consolidated financial statements of the Parent Company Bagger-Sørensen & Co. A/S.

Significant events occurring after end of reporting period

As per 19th January 2017, the majority of the Company's shares has been acquired by EQT Mid Market. The former owner Bagger-Sørensen & Co. A/S continues to hold a considerable minority position in the Company.

Apart from the change in majority ownership and thereto-related transactions, no events have occurred that could materially affect the Company's financial position as of the balance sheet date.

Accounting policies

The annual report of Fertin Pharma A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

As per 1 January 2016 the Danish Financial Statements Act number 738 of 1 June 2015 has been implemented by the Company. This result in following changes in recognition and measurement for:

1. Annual reassessment of residual values on tangible assets
2. Reserve for development expenditure

Point 1: Forward a reassessment of residual values on tangible assets is required. The Company has no significant residual values on tangible assets, other than what is related to the Company's land. The change is therefore alone conducted as a forward-acting change of accounting estimates, and has no effect on the equity.

Point 2: An amount equivalent to the capitalized development cost is presented as reserve for development expenditure under the equity. The amount is bound on a specific reserve, not for use to dividend payments or coverage of losses. In case of impairment losses on capitalized development cost, a part of the reserve must be reversed. The part of the reserve which is reversed is equivalent to the impairment losses on capitalized development cost. If prior impairment losses is reversed, the reserve must be re-established. The reserve is reduced with the depreciation of the capitalized development cost. Hereby the reserve for development expenditures will not exceed the capitalized development cost.
The changes have no effect of value on the Income statement or Balance sheet for 2016 or the comparative figures.

Apart from the above-mentioned and the new and changed presentation and disclosure requirements due to the Danish Financial Statements Act number 738 of 1 June 2015, the accounting policies applied are consistent with those of last year.

Pursuant to sections §112, of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements. The annual report for Fertin Pharma A/S and subsidiaries are included in the consolidated financial statements for Bagger-Sørensen & Co. A/S, Vejle, Denmark.

Accounting policies

Income statement

Revenue

Revenue from sales of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received. Revenue is measured net of discounts and net of VAT and other indirect taxes.

Work performed by the Company and capitalised

Work performed by the Company and capitalised include hours within the Company related to the additions of intangible and tangible assets.

Expenses for raw materials and consumables

Expenses for raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Other external costs

Other external costs are recognised in the income statement at the amounts that concern the financial year. Other external costs include expenses relating to distribution, sale, advertising, administration, premises, repair and maintenance, etc. Other external costs are measured net of grant and refunds.

Other external costs also comprise research and development costs that do not qualify for capitalisation.

Staff costs

Staff costs comprise wages and salaries as well as other employee related costs.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible and tangible assets.

Accounting policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that concern the financial year. Financial income and expenses include interest, financial expenses, exchange adjustments, amortisation of mortgage loans as well as extra payments and repayment under the on account taxation scheme.

Profit/loss from investments in subsidiaries and associates

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the Company after full elimination of intra-group profits/losses.

The proportionate share of the results after tax of the individual associates is recognised in the income statement of the Company after elimination of the proportionate share of intra-group profits/gains.

Tax on profit/loss for the year

Tax for the year include 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 statements, whereas the portion that relates to transactions taken to equity is recognised in equity.

The Company is part of jointly taxed entities. On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income.

Accounting policies

Balance sheet

Intangible assets

Development costs, patents and software

Development costs comprise salaries, wages, other costs and depreciation directly and indirectly attributable to the Company's development activities, and that qualify for capitalisation. To some extent customers are paying for part of the development costs. These payments are offset against the booked asset.

Clearly defined and identified development projects are recognised in the balance sheet if existence of a market and the availability of adequate resources can be demonstrated, as well as the intention to manufacture, market or use the asset, and they will generate probable future financial benefits to cover the reliably measured expenditure attributable to the assets during the development. Other development projects are recognised as expenses in the income statement when they are incurred.

Capitalised development costs under development are measured at purchase price, cost or recoverable amount.

Following the completion of the development work, development costs are amortized on a straight line basis over the estimated useful life. The amortization period is usually 5 years and not longer than 15 years. Development costs are amortized over more than 5 years, if the products estimated useful life and the repayment period is significantly longer than 5 years.

Goodwill and software are measured at cost less accumulated amortization and impairment losses. Goodwill and software are amortized on a straight line basis over the expected useful life. The amortization period for goodwill is usually 7 years, and for software usually 3 years, and not longer than 10 years. Goodwill are amortized over more than 5 years, if the estimated return period is significantly longer than 5 years.

Tangible assets

Items of tangible assets are measured at cost less accumulated depreciation and impairment losses. Land are measured at cost.

Cost comprise the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. In the case of assets of own construction, cost comprise direct and indirect expenses for materials, components, sub suppliers, projecting, certification and validation.

Accounting policies

Interest expenses and other loan expenses on loans obtained specifically for the purpose of financing the manufacture of tangible assets are included in cost over the manufacturing period.

Basis for depreciation is accounted with consideration of the residual value after ended useful life reduced with eventual impairment losses. The depreciation period is determined at the date of acquisition and is annual reassessed. Depreciation ends when the residual value exceeds the accounting value of the asset.

The effect for forward depreciations due to changes in the depreciation period or residual value is recognized as a change of accounting estimates.

Depreciation is provided on a straight-line basis over the expected useful life of the asset based on the following expected useful lives:

	Useful life
Buildings	10-70 years
Plant and machinery	5-20 years
Other equipment and fixtures	3-5 years
Leasehold improvements	6-30 years

Investments insubsidiaries and associates

Fair value

The items "Investments in subsidiaries" and "Investments in associates" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised internal gains or losses.

Net revaluations of investments in subsidiaries and associates are taken to the net revaluation reserve according to the equity method to the extent that the carrying amount exceeds the cost.

Acquired or established companies are recognised in the financial statements from the time of acquisition. Sold or settled companies are recognised in the financial statements until the time of sale or settlement.

Profit and losses on the disposal of subsidiaries and associates are determined as the difference between the selling price less costs to disposal and the carrying amount at the date of disposal including non depreciated goodwill. Gains and losses are recognised under financial income or costs in the income statement.

Accounting policies

Acquisitions of subsidiaries and associates are measured at acquisition method after which the new companies' assets and liabilities are measured at fair value at the acquisition date. A provision is recognized for costs related to adopted plans to restructure the acquired company in connection with the acquisition. Allowance is made for the tax effect of the restatements.

Positive differences (goodwill) between cost and fair value of acquired assets and liabilities, including provisions for restructuring, are recognized as intangible assets and amortized over the estimated useful life, not exceeding 20 years.

Goodwill from acquired enterprises can be adjusted until the end of the year following the acquisition.

Stocks

Stocks are measured at cost using theFIFO method. Where the net realisable value is lower than the cost, inventories are carried at this lower value.

The cost of raw materials and consumables comprise the purchase price plus delivery costs.

The cost of finished goods and work in progress comprise raw materials, direct labour costs and production overheads. Production overheads include the indirect costs of materials and labour as well as maintenance and depreciation of production machinery, buildings and equipment.

The net realisable value of stocks is determined as the selling price less costs of completion and costs incurred to effect the sale, taking into account marketability, obsolescence and developments in the expected selling price.

Receivables

Receivables are measured at amortised cost, usually equate to nominel value. Receivables are measured after deduction for write downs to meet losses on the basis of an individual assessment.

Accounting policies

Equity

Reserve for development expenditure

The reserve for development expenditure in the financial statement consist of development expenditure deducted for tax.

As per 1 January 2016 it is a requirement in the Danish Financial Statements Act to record a reserve for development expenditure in equity. Thus, the reserve only consists of development expenditure for the period 1. January - 31. December 2016.

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

Income tax and deffered tax

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

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities, according to use of the assets, and settlement of the liabilities.

Deferred tax assets, including tax value of legitimate tax losses carried forward, is measured on the basis of the taxation rules and taxation rates applicable at the balance sheet date when the deferred tax is expected to be released as actual tax as current tax or deduction in deferred tax liabilities within the same legal tax entity and jurisdiction.

The Company is part of jointly taxed entities with Bagger Sørensen & Co. A/S as parent company.

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Accounting policies

Other debts are measured at net realisable value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign-exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

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

Fair value adjustments of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of recognised assets and liabilities are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Fair value adjustments of derivative financial instruments designated as and qualifying for hedging of future cash flows are recognised in other receivables or other payables and in equity. If the future transaction results in recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the future transaction results in income or expenses, amounts previously recognised in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

As for derivative financial instruments that do not qualify for hedge accounting, fair value adjustments are recognised in the income statement on a current basis.

Accounting policies

Cash flow statement

The cash flow statement shows the company's cash flows for the year, broken down under cash flows from operating, investing and financing activities, the year's changes in cash and cash equivalents and the company's cash and cash equivalents at the beginning and at the end of the year.

The cash flow effect of additions and disposals of entities is shown separately under cash flows from investing activities. The cash flow statement includes cash flows from acquired entities from the time of acquisition, and cash flows from sold entities are included until the date of sale.

Cash flows from operating activities

Cash flows from operating activities are stated as the profit or loss for the year, adjusted for non cash operating items, changes in deferred tax and changes in working capital. Working capital comprises current assets less short term liabilities, not including entries part of cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise payments related to the acquisition and sale of entities and activities, intangible assets, tangible assets and investments in fixed assets.

Cash flows from financing activities

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

Cash and cash equivalents

Cash and cash equivalents comprise cash and short term securities less short term bank dept.

Accounting policies

Financial Highlights

Definitions of financial ratios.

Gross margin ratio
$$\frac{\text{Gross Profit x 100}}{\text{Revenue}}$$

EBIT margin
$$\frac{\text{Profit/loss before financials x 100}}{\text{Revenue}}$$

Solvency ratio
$$\frac{\text{Equity at year end x 100}}{\text{Total assets}}$$

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

ROIC
$$\frac{\text{EBITA x 100}}{\text{Average invested capital excluding goodwill}}$$

Current ratio
$$\frac{\text{Current assets total x 100}}{\text{Short-term liabilities}}$$

Income statement 1 January - 31 December

	Note	2016 TDKK	2015 TDKK
Revenue	1	**855.745**	**800.654**
Change in inventories of finished goods, work in progress and goods for resale		-314	-2.920
Work performed by the Company and capitalised		55.830	52.854
Other operating income		3.046	2.732
Expenses for raw materials and consumables		-232.625	-227.928
Other external costs	2	-135.208	-157.586
Gross profit		**546.474**	**467.806**
Staff costs	3	-330.730	-305.395
Earnings Before Interest Taxes Depreciation and Amortization		**215.744**	**162.411**
Depreciation, amortization and impairment of intangible assets and tangible assets		-72.726	-69.470
Profit/loss before financial income and expenses		**143.018**	**92.941**
Income from investments in subsidiaries		-4.295	-2.370
Income from investments in associates		192	2.071
Financial income	4	1.052	210
Financial costs	5	-8.534	-9.869
Profit/loss before tax		**131.433**	**82.983**
Tax on profit/loss for the year	6	-31.360	-19.030
Net profit/loss for the year		**100.073**	**63.953**
Distribution of profit	7		

Balance sheet 31 December

	Note	2016 TDKK	2015 TDKK
Assets			
Completed development projects		63.127	50.950
Goodwill		0	1.559
Development projects in progress		77.357	67.903
Software		5.600	11.065
Intangible assets	8	**146.084**	**131.477**
Land and buildings		454.319	244.619
Plant and machinery		265.573	243.693
Other equipment and fixtures		7.672	2.355
Leasehold improvements		3.726	72.536
Tangible assets in progress		268.119	215.420
	9	**999.409**	**778.623**
Investments in subsidiaries	10	20.325	20.764
Investments in associates	11	0	1.544
		20.325	**22.308**
Anlægsaktiver i alt		**1.165.818**	**932.408**
Raw materials and consumables		94.933	91.951
Work in progress		10.419	7.480
Finished goods and goods for resale		27.798	31.052
		133.150	**130.483**
Trade receivables		187.594	134.099
Receivables from affiliated		5.413	5.110
Receivables from associates		0	4.186
Other receivables		22.478	1.554
Prepayments		2.492	3.133
Receivables		**217.977**	**148.082**

Balance sheet 31 December (Fortsat)

	Note	2016	2015
		TDKK	TDKK
Assets			
Cash at bank and in hand		**56**	**1.825**
Omsætningsaktiver i alt		**351.183**	**280.390**
Aktiver i alt		**1.517.001**	**1.212.798**

Balance sheet 31 December

	Note	2016 TDKK	2015 TDKK
Liabilities and equity			
Share capital		70.500	70.500
Reserve for development expenditure		22.950	0
Retained earnings		566.155	490.374
Egenkapital	12	**659.605**	**560.874**
Provision for deferred tax	13	77.848	71.822
Hensatte forpligtelser i alt		**77.848**	**71.822**
Mortgage loans		210.374	197.929
Long-term debt	14	**210.374**	**197.929**
Short term part of long term debt	14	37.640	19.065
Banks		248.719	199.199
Trade payables		62.068	73.556
Payables to affiliated		103.076	5.437
Joint taxation contribution		24.898	15.140
Other payables		92.669	69.776
Deposits		104	0
Short-term debt		**569.174**	**382.173**
Gældsforpligtelser i alt		**779.548**	**580.102**
Passiver i alt		**1.517.001**	**1.212.798**

	Note
Rental agreements and lease commitments	15
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Equity

	Share capital	Reserve for development expenditure	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2016	70.500	0	490.373	560.873
Exchange adjustments	0	0	206	206
Fair value adjustment of hedging instruments	0	0	-1.547	-1.547
Reserve for development expenditure	0	22.950	-22.950	0
Net profit/loss for the year	0	0	100.073	100.073
Equity at 31 December 2016	**70.500**	**22.950**	**566.155**	**659.605**

Cash flow statement 1 January - 31 December

	Note	2016 TDKK	2015 TDKK
Net profit/loss for the year		100.073	63.953
Adjustments		89.395	83.410
Change in working capital		-66.483	11.992
Cash flows from operating activities before financial income and expenses		**122.985**	**159.355**
Financial income		1.052	210
Financial expenses		-8.533	-9.869
Cash flows from operating activities		**115.504**	**149.696**
Purchase of intangible assets		-28.310	-24.078
Purchase of tangible assets		-279.861	-186.930
Investment in financial assets		-921	-10.143
Cash flows from investing activities		**-309.092**	**-221.151**
Repayment of mortgage loans		-25.485	-20.064
Repayment of payables to affiliated		-16.412	-7.500
Repayment of other long term debt		0	1.704
Raising of mortgage loans		56.505	100.000
Raising of loans from affiliated		127.691	3.790
Cash flows from financing activities		**142.299**	**77.930**
Change in cash and cash equivalents		**-51.289**	**6.475**
Cash and cash equivalents		-197.374	-203.849
Cash and cash equivalents		**-248.663**	**-197.374**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		56	1.825
Overdraft facility		-248.719	-199.199
Cash and cash equivalents		**-248.663**	**-197.374**

Notes to the Annual Report

1 Information on segments

Activities - primary segment

TDKK	Medical gum	Other gum	Total
Revenue	837.100	18.645	855.745

	2016 TDKK	2015 TDKK
2 Fee to auditors appointed at the general meeting		
Ernst & Young:		
Audit fee	250	205
Other assurance engagements	180	0
Non-audit services	99	145
	529	**350**
3 Staff costs		
Wages and salaries	297.906	274.706
Pensions	28.323	26.379
Other social security costs	4.501	4.310
	330.730	**305.395**
Including remuneration to the Executive and Supervisory Boards	**5.794**	**5.320**
Average number of employees	609	572
4 Financial income		
Interest received from associates	111	210
Other financial income	2	0
Exchange adjustments income	939	0
	1.052	**210**

Notes to the Annual Report

		2016	2015
		TDKK	TDKK
5	**Financial costs**		
	Interest paid to affiliated	871	155
	Other financial costs	7.663	6.782
	Exchange adjustments costs	0	2.932
		8.534	**9.869**
6	**Tax on profit/loss for the year**		
	Deferred tax for the year	6.462	4.298
	Joint taxation contributions	24.898	14.732
		31.360	**19.030**
7	**Distribution of profit**		
	Retained earnings	100.073	63.953
		100.073	**63.953**

8 Intangible assets

	Completed development projects	Goodwill	Development projects in progress	Software
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2016	130.161	2.998	67.900	67.019
Additions for the year	0	0	29.769	0
Disposals for the year	0	-2.998	-6	0
Transfers for the year	20.306	0	-20.306	0
Cost at 31 December 2016	150.467	0	77.357	67.019

8 Intangible assets (Fortsat)

	Completed development projects	Goodwill	Development projects in progress	Software
	TDKK	TDKK	TDKK	TDKK
Impairment losses and depreciation at 1 January 2016	79.209	1.440	0	55.954
Depreciation for the year	8.131	107	0	5.465
Reversal of impairment and depreciation of sold assets	0	-1.547	0	0
Impairment losses and depreciation at 31 December 2016	87.340	0	0	61.419
Carrying amount at 31 December 2016	**63.127**	**0**	**77.357**	**5.600**

Development projects
Development of medical chewing gum is defined as chewing gum with one or more active pharmaceutical ingredients requiring regulatory approval for the product to be developed, manufactured and sold legally.

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

The carrying amount of completed projects is 63.127 TDKK. The impairmenttest indicates a higher commercial value.

The carrying amount of projects in progress is 77.357 TDKK. The impairmenttest indicates a higher commercial value.

Notes to the Annual Report

9 Tangible assets

	Land and buildings	Plant and machinery	Other equipment and fixtures	Leasehold improvements	Tangible assets in progress
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2016	376.944	613.982	30.254	156.127	215.419
Additions for the year	158.951	11.662	0	0	140.421
Disposals for the year	-22.964	0	-320	-3.762	-6.330
Transfers for the year	98.167	45.386	23.913	-86.526	-81.391
Cost at 31 December 2016	611.098	671.030	53.847	65.839	268.119
Impairment losses and depreciation at 1 January 2016	132.326	370.290	27.901	83.591	0
Transfers for the year	6.089	-452	14.743	-20.832	0
Depreciation for the year	18.364	35.619	3.738	3.116	0
Reversal of impairment and depreciation of sold assets	0	0	-207	-3.762	0
Impairment losses and depreciation at 31 December 2016	156.779	405.457	46.175	62.113	0
Carrying amount at 31 December 2016	**454.319**	**265.573**	**7.672**	**3.726**	**268.119**
Interest expenses recognised as part of cost of assets	12.773	677	0	0	0

	2016	2015
	TDKK	TDKK
10 Investments in subsidiaries		
Cost at 1 January 2016	23.452	13.308
Additions for the year	2.701	10.143
Cost at 31 December 2016	26.153	23.451
Revaluations at 1 January 2016	-2.689	-1.375
Exchange adjustment	161	690
Net profit/loss for the year	-2.832	-1.826
Change in intercompany profit	-468	-176
Revaluations at 31 December 2016	-5.828	-2.687
Carrying amount at 31 December 2016	**20.325**	**20.764**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
Fertin Pharma R&D India Pvt. Ltd	India	100%
Fertin India Private Limited	India	100%

		2016	2015
		TDKK	TDKK
11	**Investments in associates**		
	Cost at 1 January 2016	1.008	1.008
	Disposals for the year	-1.008	0
	Cost at 31 December 2016	0	1.008
	Revaluations at 1 January 2016	535	-1.008
	Disposals for the year	-772	0
	Exchange adjustment	43	-88
	Net profit/loss for the year	194	2.071
	Equity investments with negative net asset value amortized over receivables	0	-439
	Revaluations at 31 December 2016	0	536
	Carrying amount at 31 December 2016	**0**	**1.544**

12 Equity

The share capital consists of 70.500 shares of a nominal value of TDKK 1. No shares carry any special rights.

		2016	2015
13	**Provision for deferred tax**		
	Provision for deferred tax at 1 January 2016	71.822	67.524
	Provision for the year	6.462	3.916
	Transferred to equity	-436	382
	Provision for deferred tax at 31 December 2016	**77.848**	**71.822**

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

14 Long term debt

	Debt at 1 January 2016	Debt at 31 December 2016	Payment within 1 year	Debt after 5 years
	TDKK	TDKK	TDKK	TDKK
Mortgage loans	216.994	248.014	37.640	106.980
	216.994	**248.014**	**37.640**	**106.980**

15 Rental agreements and lease commitments

The company has entered into leasing and rental contracts (operationel leasing) with a total minimum payment of 17.569 TDKK (ult. 2015: 18.932 TDKK), for which is due after 31 December 2016.

16 Contingent assets, liabilities and other financial obligations

Guarentee commitments
The parent company is part of jointly taxed entities. The entities have unlimited and joint liabilities for Danish income tax, as well as tax at source of payments of dividends to shareholders, interests and royalties within the jointly taxed entities.

17 Charges and securities

Dandyvej 19, the carrying amount is 719.892 TDKK, has been pledged as security of mortages, the carrying amount is 248.014 TDKK

Notes to the Annual Report

18 Related parties and ownership

Controlling interest

Bagger-Sørensen & Co. A/S, Vejle

Transactions

All transactions are done at arms length.

Consolidated financial statements

The Company is included in the group annual report of Bagger-Sørensen & Co. A/S, Vejle