Fertin Pharma A/S

Dandyvej 19, 7100 Vejle

CVR no. 25 83 48 44

Annual report 2022

Approved at the Company's annual general meeting on 30 June 2023

Chair of the meeting:

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Michael Henrik Thomsen

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 2022.

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 2022 and of the results of the Company's operations for the financial year 1 January - 31 December 2022.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Vejle, 30 June 2023
Executive Board:

Peter Halling
Managing director

Board of Directors:

Michael Henrik Thomsen Chairman	Peter Halling	Lene Lind
Bo Korsgaard Jensen	Gitte Lorenzen	

Independent auditor's report

To the shareholder of Fertin Pharma A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2022, and of the results of the Company's operations for the financial year 1 January - 31 December 2022 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Fertin Pharma A/S for the financial year 1 January - 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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.

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.

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 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 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, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Odense, 30 June 2023
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Henrik Forthøft Lind
State Authorised Public Accountant
mne34169

Brian Petersen
State Authorised Public Accountant
mne33722

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	Michael Henrik Thomsen, Chairman Peter Halling Lene Lind Bo Korsgaard Jensen Gitte Lorenzen
Executive Board	Peter Halling, Managing director
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Munkebjergvænget 1, 3rd and 4th floor, 5230 Odense

Management's review

Financial highlights

DKKm	2022	2021	2020	2019	2018
Key figures					
Revenue	893	933	991	882	813
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	54	241	342	245	185
Operating profit/loss	-75	96	192	138	91
Net financials	-39	-41	-26	-25	-19
Profit/loss for the year	**-91**	**38**	**155**	**81**	**46**
Total assets	2,249	2,021	1,998	1,894	2,004
Investments in property, plant and equipment	-158	-123	-61	-70	-217
Equity	**596**	**681**	**770**	**778**	**896**
Financial ratios					
Current ratio	39.6%	39.0%	102.2%	90.9%	130.0%
Equity ratio	26.5%	33.7%	38.5%	41.1%	44.7%
Return on equity	-14.3%	5.2%	20.0%	9.7%	5.5%
Average number of full-time employees	**690**	**654**	**622**	**569**	**674**

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

Ordinary operating profit/loss: Profit/loss before financial items adjusted for other operating income and other operating expenses

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: $$\frac{\text{Profit/loss after tax x 100}}{\text{Average equity}}$$

The Company has been merged with NordicCan A/S during 2022, but the comparison figures has not been adjusted based on the Book-value method applied, please see the accounting policies.

Management's review

Business review

Business Activities

Fertin Pharma A/S ("Fertin Pharma" or the "Company") is a specialist Contract Development and Manufacturing Organization ("CDMO") offering innovative, high-quality pharmaceutical and nutraceutical products for oral and intra-oral delivery. The Company's current main product formats ("delivery systems") are chewing gum, lozenges, powders, fast dissolvable tablets, Zapliq® chewables, and Zapliq® chewing gum.

Fertin Pharma is the world's largest independent developer and manufacturer of medicated chewing gum and has over recent years expanded into other specialized solid dosage oral and intra-oral delivery systems. The Company strives to develop innovative oral and intra-oral delivery systems that offer convenient and pleasurable delivery of active pharmaceutical ingredients ("APIs") and nutraceutical ingredients ("AIs") to patients and consumers. In 2022, the largest category continues to be high-quality chewing gum and lozenges systems applied within Nicotine Replacement Therapy ("NRT") category. Following the current diversification strategy, Fertin Pharma is still utilizing its highly flexible delivery systems to grow business outside the NRT category, applying a wider range of APIs and AIs for OTC pharma and nutraceutical categories.

The Company is headquartered 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 commercial, R&D, and manufacturing facilities in India and Canada.

In 2022 the company has merged with its sister-company, NordicCan A/S. The new entity continuous under Fertin Pharma A/S name.

Business Review and Outlook

In 2022, following the COVID-19 pandemic and customer's related general hesitation in bringing new products to market, Fertin Pharma has realigned its focus in execution of the planned diversification of the business, aimed at growing the product and customer base across delivery platforms, API's, and nutraceutical ingredients as well as geographies.

During 2022, the business has still been challenged by delayed effects from COVID-19 and freight crisis, impacting sales of existing products across all categories as well as having resulted in customers postponing and - in some cases - cancelling their planned commercial launches of new products. Positively, we have - during 2022 - seen a material increase in customers interest in revitalising projects aimed at bringing new products to the market. The NRT category still forms the backbone of the business and has also proven to be the least affected by COVID-19 pandemic, compared to products in other categories more recently introduced to the market.

Following PMI's acquisition of Fertin Pharma, the Company has been highly engaged in supporting PMI's strategy towards a smoke-free future. These added activities have materially impacted the Company's cost structure.

Apart from the effects described in the previous sections, the 2022 financial result has been materially affected by extraordinary inflation in energy and raw material prices, compared to previous years.

Despite the negative effects from COVID-19 and extraordinary inflation, the Company has continued execute the planned investment program in R&D and CAPEX throughout 2022, supporting the diversification strategy and future growth. Moreover, initiatives have been implemented to manage the increased costs.

Management expects the 2023 result to continue to be materially impacted by additional negative development in raw materials and energy prices. However, as a consequence of the implemented initiatives and stronger customer demand, management expects the 2023 result to improve beyond 2022. Revenue expected in the range of 900 to 1,100 mDKK.

Management's review

Financial review

Fertin Pharma reported revenue of 893 MDKK in 2022 (2021: 933 MDKK) and EBITDA of 54 MDKK (2021: 241 MDKK).

As expected, this year's result (EBITDA) has been materially impacted by extraordinary inflation effects and the increased costs to support PMIs strategy, compared to previous years.

Overall, the financial result of the year is regarded in line with expectations but not satisfactory.

Investments

In 2022 investments have been focused on increased manufacturing capacity for pharmaceutical products and expanded R&D capabilities, supporting the development in demand from existing and new customers.

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 programmes.

Financial risks and use of financial instruments

Currency risks

The Company primarily invoices in DKK and EUR and most goods purchased are denominated in DKK or 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.

Credit risks

In accordance with the Company's policy for assuming credit risks, all major customers and other business partners are credit rated. The credit risk relating to individual customers or partners is considered relatively low.

Research and development activities

Investments in research and development activities have 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://www.fertin.com/sustainability/

Data ethics

Apart from coherence with the Company's Code of Conduct and general GDPR legislation, Management does not find it relevant to implement additional, independent policies on data ethical code of conduct. In forming this opinion, Management has put emphasis to the fact that the Company does not engage in comprehensive or larger scale collection, storage, or analysis of external personnel data, as a part of the Company's main activity.

Management's review

Events after the balance sheet date

As a part of PMI's overall financial strategy and structures, 1.267 mDKK of the parent companies (Claudio Holdco A/S) short-term intercompany debt has been converted to a long-term intercompany loan as per 1 March 2023. In addition the Group has been granted a 1.900 mDKK short-term intercompany facility to support the continues development of the company, incl. support to the overall PMI strategy.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2022	2021
5	**Revenue**	892,580	932,545
18,6	Production costs	-867,416	-771,161
	Gross profit	25,164	161,384
18,6	Distribution costs	-39,516	-19,854
18,6,7	Administrative expenses	-60,457	-45,182
	Operating profit/loss	-74,809	96,348
	Income from investments in group enterprises	-24,831	-13,069
8	Financial income	134	1,144
9	Financial expenses	-14,083	-29,513
	Profit/loss before tax	-113,589	54,910
10	Tax for the year	22,213	-17,268
	Profit/loss for the year	-91,376	37,642

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	ASSETS		
	Fixed assets		
11	**Intangible assets**		
	Completed development projects	149,497	138,100
	Acquired intangible assets	78,819	83,167
	Development projects in progress and prepayments for intangible assets	193,508	151,271
		421,824	372,538
12	**Property, plant and equipment**		
	Land and buildings	486,193	496,378
	Equipment and machinery	445,169	485,050
	Fixtures and fittings, plant and other equipment	4,680	6,709
	Leasehold improvements	159	286
	Property, plant and equipment under construction	240,272	136,164
		1,176,473	1,124,587
13	**Investments**		
	Investments in group enterprises	65,747	79,711
		65,747	79,711
	Total fixed assets	1,664,044	1,576,836
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	144,678	124,065
	Work in progress	30,001	13,392
	Finished goods and goods for resale	43,917	61,293
		218,596	198,750
	Receivables		
	Trade receivables	156,794	146,069
	Receivables from group enterprises	177,215	55,830
	Other receivables	355	4,284
14	Prepayments	6,072	3,291
		340,436	209,474
	Cash	26,399	36,428
	Total non-fixed assets	585,431	444,652
	TOTAL ASSETS	2,249,475	2,021,488

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	EQUITY AND LIABILITIES		
	Equity		
15	Share capital	70,511	70,510
	Reserve for development costs	267,929	234,984
	Translation reserve	9,525	3,209
	Retained earnings	248,380	372,701
	Dividend proposed	0	0
	Total equity	596,345	681,404
	Provisions		
16	Deferred tax	139,981	160,726
	Total provisions	139,981	160,726
	Liabilities other than provisions		
17	**Non-current liabilities other than provisions**		
	Other payables	36,898	37,195
		36,898	37,195
	Current liabilities other than provisions		
17	Short-term part of long-term liabilities other than provisions	439	0
	Trade payables	84,883	97,041
	Payables to group enterprises	1,237,235	950,661
	Joint taxation contribution payable	0	7,006
	Other payables	153,694	87,455
		1,476,251	1,142,163
	Total liabilities other than provisions	1,513,149	1,179,358
	TOTAL EQUITY AND LIABILITIES	2,249,475	2,021,488

1 Accounting policies
2 Capital ratio
3 Events after the balance sheet date
4 Special Items
19 Contractual obligations and contingencies, etc.
20 Collateral
21 Related parties
22 Appropriation of profit/loss

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Reserve for development costs	Translation reserve	Retained earnings	Dividend proposed	Total
	Equity at 1 January 2021	70,510	206,148	-3,613	367,081	130,000	770,126
	Additions on merger/corporate acquisition	0	0	427	0	0	427
22	Transfer, see "Appropriation of profit/loss"	0	28,836	0	8,806	0	37,642
	Adjustment of investments through forreign exchange adjustments	0	0	6,395	-3,186	0	3,209
	Dividend distributed	0	0	0	0	-130,000	-130,000
	Equity at 1 January 2022	70,510	234,984	3,209	372,701	0	681,404
	Additions on merger/corporate acquisition	1	0	112	0	0	113
22	Transfer, see "Appropriation of profit/loss"	0	32,945	0	-124,321	0	-91,376
	Adjustment of investments through forreign exchange adjustments	0	0	6,204	0	0	6,204
	Equity at 31 December 2022	70,511	267,929	9,525	248,380	0	596,345

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Fertin Pharma A/S for 2022 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(2) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

Changes in accounting policies

The Company has changed its presentation methodology of the intangible and tangible asset notes (Note 10 and 11) which has resulted in an adjustment to the Intangible asset note (note 10) of DKK 505 thousand to cost on Completed development projects, and DKK 505 thousand to amortization of Completed development costs and DKK -10 thousand to Development project in progress and prepapayments. Additionally, the change in methodology has resulted in an adjustment to the Tangible asset note (note 11) of DKK 382 thousand to costs on Land and buildings, DKK 266 thousand to depreciation of Land and Buildings, DKK -202 thousand to cost of Equipment and machinery, and DKK -96 thousand to Equipment of Machinery. The change has not had any impact on profit/loss after tax, total assets, or equity.

Apart from the above changes in presentation methodology, the accounting policies are consistent with those of last year.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are reflected in the consolidated cash flow statement for the higher-ranking parent company Phillip Morris International Inc.

Reporting currency

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

Intra-group business combinations

The book value method is applied to business combinations such as acquisition and disposal of investments, mergers, demergers, contributions of assets and share conversions, etc. in which entities controlled by the parent company are involved, provided that the combination is considered completed at the time of acquisition without any restatement of comparative figures. Differences between the agreed consideration and the carrying amount of the acquiree are recognised directly in equity.

In vertical and reverse vertical intra-group mergers, the group method is used to merge the companies. This adds the companies together at the revaluation value calculated in the consolidated financial statements or would have been calculated in the consolidated financial statements of the parent company involved in the merger. The group method is implemented as if the companies had been merged from the time when the parent company acquired shares in the companies covered by the merger, and therefore comparative figures have been adjusted.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and 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 rate 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 most recent financial statements is recognised in the income statement as financial income or financial expenses.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

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

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.

Amortisation/depreciation and impairment

The item comprises amortisation/depreciation and impairment 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	5-20 years
Software	3-10 years

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

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.

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Land is not depreciated.

Profit/loss from investments in group entities

The income statement includes the proportional share of the underlying companies' profit or loss after elimination of internal profit/loss and after tax. In group entities, the full elimination of internal profit and loss is carried out without regard to ownership shares.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses, e.g. from group entities and associates, declared dividends from other securities and investments, financial expenses relating to finance leases, realised and unrealised capital gains and losses relating to other securities and investments, exchange gains and losses and amortisation of financial assets and liabilities.

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 group entities. 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.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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, 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.

Gains and losses on the sale of intangible assets are recognised in the income statement under "Other operating income" or "Other operating expenses", respectively. Gains and losses are calculated as the difference between the selling price less selling expenses and the carrying amount at the time of sale.

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.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of 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".

Investments in group entities

Equity investments in subsidiaries 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.

Dividend received is deduced from the carrying amount.

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Gains and losses on disposal of group entities and associates are made up as the difference between the sales price and the carrying amount of net assets at the date of disposal including non-amortised goodwill and anticipated costs of disposal. Gains or losses are recognised in the income statement as financial income or financial expenses.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in group entities 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

The Company has chosen IAS 39 as interpretation for impairment write-down of financial 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 comprises of cash.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs. 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 are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Translation reserve

The translation reserve comprises the share of foreign exchange differences arising on translation of financial statements of entities that have a functional currency other than DKK, foreign exchange adjustments of assets and liabilities considered part of the Company's net investments in such entities and foreign exchange adjustments regarding hedging transactions that hedge the Company's net investments in such entities. The reserve is dissolved on the sale of foreign entities or if the conditions for effective hedging no longer exist. When equity investments in group entities and associates in the parent company financial statements are subject to the limitation requirement in the net revaluation reserve according to the equity method, foreign exchange adjustments will be included in this equity reserve instead.

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 and deferred 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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Liabilities

The Company has chosen IAS 39 as interpretation for 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.

Other liabilities are measured at net realisable 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 statements 1 January - 31 December

Notes to the financial statements

2 Capital ratio

As per 31 December 2022, the companies liquidity ratio is below 100, which could indicate uncertainties around the companies liquidity. The company's structural financing is anchored in PMI's overall financial strategy and structure and hence based on intercompany loans from the PMI-group and funded through the parent company, Claudio Holdco A/S.

As a part of this strategy, 1.267 mDKK of the parent companies (Claudio Holdco A/S) short-term intercompany debt has been converted to a long-term intercompany loan as per 1 March 2023. In addition the Group has been granted a 1.900 mDKK short-term intercompany facility to support the continues development of the company, incl. support to the overall PMI strategy.

It is Managements assessment that the provided funding is sufficient to support the companies strategic business plans for the coming year.

3 Events after the balance sheet date

As a part of PMI's overall financial strategy and structures, 1.267 mDKK of the parent companies (Claudio Holdco A/S) short-term intercompany debt has been converted to a long-term intercompany loan as per 1 March 2023. In addition the Group has been granted a 1.900 mDKK short-term intercompany facility to support the continues development of the company, incl. support to the overall PMI strategy.

4 Special Items

DKK'000	2022	2021
Expenses		
Extraordinary impairment adjustments on development project due to COVID-19	0	-23,585
Extraordinary one-off salary payment to all employees due to the sale of Fertin Pharma A/S Group	0	-24,368
	0	-47,953
Special items are recognised in the below items of the financial statements		
Production cost	0	-47,953
Net profit/loss on special items	0	-47,953

5 Segment information

Breakdown of revenue by business segment:

	2022	2021
Pharma products	762,538	859,488
Non-Pharma products	130,042	73,057
	892,580	932,545

Breakdown of revenue by geographical segment:

	2022	2021
North America	498,840	594,154
Europe	277,635	233,612
South East Asia	107,941	104,565
Other countries	8,164	214
	892,580	932,545

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK'000	2022	2021
6	**Amortisation/depreciation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	32,615	27,579
	Impairment of intangible assets	0	23,585
	Depreciation of property, plant and equipment	96,397	93,191
		129,012	144,355
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment is recognised in the income statement under the following items:		
	Production costs	114,685	131,213
	Distribution costs	456	424
	Administrative expenses	13,871	12,718
		129,012	144,355
7	**Fee to the auditors appointed in general meeting**		
	Statutory audit	638	290
	Tax assistance	70	162
	Other assistance	289	1,204
		997	1,656
8	**Financial income**		
	Interest receivable, group entities	0	5
	Other financial income	134	1,139
		134	1,144
9	**Financial expenses**		
	Interest expenses, group entities	6,159	2,216
	Other financial expenses	7,924	27,297
		14,083	29,513
10	**Tax for the year**		
	Estimated tax charge for the year	0	7,006
	Deferred tax adjustments in the year	-20,745	10,262
	Tax adjustments, prior years	-1,468	0
		-22,213	17,268

Financial statements 1 January - 31 December

Notes to the financial statements

11 Intangible assets

DKK'000	Completed development projects	Acquired intangible assets	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2022	299,174	131,281	175,563	606,018
Changes in accounting policies	-505	0	-10	-515
Adjusted cost at 1 January 2022	298,669	131,281	175,553	605,503
Additions through mergers and business combinations	0	0	11,423	11,423
Additions	0	0	60,401	60,401
Transferred	29,587	10,077	-29,587	10,077
Cost at 31 December 2022	328,256	141,358	217,790	687,404
Impairment losses and amortisation at 1 January 2022	161,074	48,114	24,282	233,470
Changes in accounting policies	-505	0	0	-505
Adjusted impairment losses and depreciation at 1 January 2022	160,569	48,114	24,282	232,965
Amortisation for the year	18,190	14,425	0	32,615
Impairment losses and amortisation at 31 December 2022	178,759	62,539	24,282	265,580
Carrying amount at 31 December 2022	149,497	78,819	193,508	421,824

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 include salaries, wages and other costs for development and test of products for customers.

The carrying amount of completed projects is DKK 149,497 thousand. The impairment test shows a higher commercial value.

The carrying amount of projects in progress is DKK 193,508 thousand. The impairment test shows a higher commercial value.

Financial statements 1 January - 31 December

Notes to the financial statements

12 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 2022	787,982	1,130,032	43,767	65,839	136,164	2,163,784
Changes in accounting policies	382	-202	0	0	0	180
Adjusted cost at 1 January 2022	788,364	1,129,830	43,767	65,839	136,164	2,163,964
Additions	0	0	0	0	158,360	158,360
Transferred	18,452	25,003	720	0	-54,252	-10,077
Cost at 31 December 2022	806,816	1,154,833	44,487	65,839	240,272	2,312,247
Impairment losses and depreciation at 1 January 2022	291,720	644,876	37,058	65,552	0	1,039,206
Changes in accounting policies	266	-96	0	1	0	171
Adjusted impairment losses and depreciation at 1 January 2022	291,986	644,780	37,058	65,553	0	1,039,377
Depreciation	28,637	64,884	2,749	127	0	96,397
Impairment losses and depreciation at 31 December 2022	320,623	709,664	39,807	65,680	0	1,135,774
Carrying amount at 31 December 2022	486,193	445,169	4,680	159	240,272	1,176,473

13 Investments

DKK'000	Investments in group enterprises
Cost at 1 January 2022	132,001
Additions	14,624
Cost at 31 December 2022	146,625
Value adjustments at 1 January 2022	-52,290
Foreign exchange adjustments	281
Profit/loss for the year	-24,831
Changes in equity	339
Revaluations for the year	-4,377
Value adjustments at 31 December 2022	-80,878
Carrying amount at 31 December 2022	65,747

Group entities

Name	Legal form	Domicile	Interest
Fertin Pharma R&D India Pvt. Ltd.	Ltd.	India	100.00%
Fertin India Private Ltd.	Ltd.	India	100.00%
Tab Labs Inc.	Ltd.	Canada	100.00%
Vectura Fertin Pharma	Private Limited	India	99.99%

14 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years, including insurance, building taxes, IT licenses and others.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2022	2021
15 Share capital		
Analysis of the share capital:		
70,511 shares of DKK 1,000.00 nominal value each	70,511	70,510
	70,511	70,510

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

DKK'000	2022	2021	2020	2019	2018
Opening balance	70,510	70,510	70,510	70,510	70,500
Capital increase	1	0	0	0	10
	70,511	70,510	70,510	70,510	70,510

16 Deferred tax	2022	2021
Deferred tax at 1 January	160,726	150,464
Other deferred tax	-20,745	10,262
Deferred tax at 31 December	139,981	160,726
Deferred tax relates to:		
Intangible assets	90,963	81,961
Property, plant and equipment	70,958	71,463
Inventories	5,194	7,917
Provisions	-11,162	-615
Tax loss	-15,972	0
	139,981	160,726

Deferred tax primarily relates to the temporary differences between the carrying amount and the tax base of intangible assets and property, plant and equipment.

17 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2022	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Other payables	37,337	439	36,898	34,903
	37,337	439	36,898	34,903

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2022	2021
18 Staff costs and incentive programmes		
Wages/salaries	409,825	361,530
Pensions	34,183	31,042
Other social security costs	7,986	5,938
	451,994	398,510

Staff costs are recognised as follows in the financial statements:

Production costs	396,483	363,029
Distribution costs	27,361	15,171
Administrative expenses	28,150	20,310
	451,994	398,510
Average number of full-time employees	690	654

By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to Management for 2022 is not disclosed.

For 2021 the remuneration of Management was DKK 7,630 thousand. Remuneration of Management is aggregated for the Board of Directors and the Executive Board since the Executive Board consists of one director.

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

Incentive programmes

The Company has no incentive programmes.

19 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with Phillip Morris ApS, which acts as management company, and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2022 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 16 September 2021.

Other financial obligations

Other rent and lease liabilities:

	2022	2021
Rent and lease liabilities	8,450	8,878

Rental and leasing obligations include rent obligations, as well as operational leases for cars, IT equipment and machines. Within 1 year, DKK 4,879 thousand (2021: DKK 4,582 thousand) is due, and in the period 1-5 years DKK 3,571 thousand (2021: 4,284 thousand) is due.

20 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2022.

Financial statements 1 January - 31 December

Notes to the financial statements

21 **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, Denmark	Ownership
Vectura Fertin Pharma Inc.	New York, USA	Ownership
Phillip Morris International Inc.	New York, USA	Ultimate ownership

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Phillip Morris International Inc.	New York, USA	The consolidated finanical statement can be requisitioned in the following link: https://www.pmi.com/investor-relations/reports-filings

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.

DKK'000	2022	2021
22 **Appropriation of profit/loss**		
Recommended appropriation of profit/loss		
Other statutory reserves	32,945	28,836
Retained earnings/accumulated loss	-124,321	8,806
	-91,376	37,642