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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Fertin Pharma A/S for the financial year 1 January - 31 December 2019.

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 2019 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019.

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

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

Vejle, 1 April 2020
Executive Board:

Søren Birn

Board of Directors:

 Marianne Kirkegaard Keulsen Chairman	 Claus Bagger-Sørensen	 Lars Bang
 Manfred Scheske	 Rikke Kjær Nielsen	 Frank Charles Condella
 Bo Korsgaard Jensen	 Peter Jacobsen	 Gitte Lorenzen

Independent auditor's report

To the shareholders of Fertin Pharma A/S

Opinion

We have audited the financial statements of Fertin Pharma A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Independent auditor's report

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

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

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

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

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

Aarhus, 1 April 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28


Jes Lauritzen
State Authorised Public Accountant
mne10121


Tom B. Lassen
State Authorised Public Accountant
mne24820

Management's review

Company details

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

Management's review

Financial highlights

DKKkm	2019	2018	2017	2016	2015
Key figures					
Revenue	882	813	868	856	801
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	245	185	258	227	162
Operating profit/loss	138	91	167	138	93
Net financials	-25	-19	-27	-7	0
Profit for the year	81	46	106	100	64
Total assets					
Total assets	1,894	2,004	1,628	1,517	1,493
Equity	778	896	770	660	561
Cash flows					
Cash flows from operating activities	337	38	120	116	150
Net cash flows from investing activities	-188	-273	-203	-309	-221
Investment in property, plant and equipment	-70	-217	-170	-280	-187
Cash flows from financing activities	-178	280	324	142	78
Total cash flows	-29	45	241	-51	7
Financial ratios					
Current ratio	90.9%	130.0%	178.5%	61.7%	73.3%
Equity ratio	41.1%	44.7%	47.3%	43.5%	37.6%
Return on equity	9.7%	5.5%	14.8%	16.4%	12.1%
Average number of employees					
Average number of employees	569	674	661	609	572

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

Management's review

Business review

Business Activities

Fertin Pharma A/S ("Fertin Pharma" or the "Company") is a Contract Development and Manufacturing Organization that offers innovative, high-quality pharmaceutical and nutraceutical products for oral and intra-oral delivery. The Company's current main product formats are chewing gum, lozenges, powders, fast dissolvable tablets, ZapLiq® chewables and Zapliq® chewing gum. ZapLiq® is an innovative and patented technology that enables chewable tablets to transform from solid to liquid state within seconds when chewed and that provides distinct release and organoleptic properties when imbedded into 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 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 to patients and consumers. Examples include the high-quality chewing gum and lozenges systems applied within Nicotine Replacement Therapy ("NRT") or the most recent innovation: Zapliq®. The Zapliq® platform is applicable for a range of APIs within RX and OTC, as well as within nutraceutical substances.

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

Business Review and Outlook

In 2019, Fertin Pharma has continued the planned diversification of the business, growing the product and customer base across delivery systems, API's and nutraceutical ingredients as well as geographies.

Within the NRT segment, our costumers have continued to gain more and more momentum versus 2018, partly supported by increased focus on potential risks associated with the use of nicotine delivery alternatives such as e-cigarettes. In a global context, the continued increase in awareness of the tobacco-related health consequences and health care costs, contributes to support a growing interest in products for smoking cessation. There are still approximately 1.1 billion tobacco users globally with approximately 850 million living in emerging markets. Fertin Pharma is already established to service many of these markets, and hence, well positioned to contribute to the important health care task of helping tobacco smokers and chewers to a healthier lifestyle.

2019 also marked important commercial progress within application areas, such as gastrointestinal disorder (management of acid reflux) and oral care.

During 2019, the Company has continued the planned investment program, redirecting a material proportion of its earnings back into R&D and CAPEX investments supporting the diversification strategy.

Management expects the 2020 results to exceed 2019.

Management's review

Financial review

Fertin Pharma reported revenue of DKK 882 million in 2019 (2018: DKK 813 million) and EBITDA of DKK 245 million (2018: DKK 185 million).

Well supported by the continuing effort to improve efficiency and productivity, we have managed to handle both the increasing demand and diversification activities with a reduced workforce, bringing the total average number of full-time employees in the Company to 569 in 2019 (2018: 674).

The development in production, distribution and administration costs in 2019 is materially impacted by a reduction of capitalised payroll expenses in the CAPEX project, adoption of the new Danish Holiday Act and costs related to consultants.

Overall, the financial results of the year are deemed satisfactory.

Investments

Additional manufacturing capacity for pharmaceutical products and a new ERP platform have been the major drivers of investments in 2019.

Knowledge resources

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

Special risks

Currency risks

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

Interest-rate risks

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

Credit risks

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

Research and development activities

Investments in research and development activities were as expected.

Statutory CSR report

The external and internal environmental impact is considered low.

The Company's report on corporate social responsibility, including gender balance is available at <https://fertin.com/about-us/corporate-social-responsibility>

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2019	2018
3	Revenue	881,616	812,500
15.4	Production costs	-690,842	-691,143
	Gross profit	190,774	121,357
15	Distribution costs	-23,080	-16,735
15.4	Administrative expenses	-29,949	-14,106
	Operating profit	137,745	90,516
	Other operating income	250	442
	Other operating expenses	0	-521
	Profit before net financials	137,995	90,437
	Income from investments in group enterprises	-6,576	-9,871
5	Financial income	0	35
6	Financial expenses	-25,358	-18,952
	Profit before tax	106,061	61,649
7	Tax for the year	-24,760	-15,805
	Profit for the year	81,301	45,844

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	ASSETS		
	Fixed assets		
8	Intangible assets		
	Completed development projects	74,052	72,188
	Acquired intangible assets and intangible assets in progress	78,845	64,071
	Development projects in progress and prepayments for intangible assets	142,940	119,231
		<u>295,837</u>	<u>255,490</u>
9	Property, plant and equipment		
	Land and buildings	531,899	556,803
	Equipment and machinery	454,285	475,799
	Fixtures and fittings, plant and other equipment	6,696	6,512
	Leasehold improvements	556	730
	Property, plant and equipment under construction	151,762	139,556
		<u>1,145,198</u>	<u>1,179,400</u>
10	Investments		
	Investments in group enterprises	84,301	14,239
		<u>84,301</u>	<u>14,239</u>
	Total fixed assets	<u>1,525,336</u>	<u>1,449,129</u>
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	128,294	136,088
	Work in progress	14,794	18,985
	Finished goods and goods for resale	44,545	46,876
		<u>187,633</u>	<u>201,949</u>
	Receivables		
	Trade receivables	149,272	149,102
	Receivables from group enterprises	16,815	112,846
	Other receivables	360	1,141
11	Prepayments	4,834	5,311
		<u>171,281</u>	<u>268,400</u>
	Cash	9,991	84,553
	Total non-fixed assets	<u>368,905</u>	<u>554,902</u>
	TOTAL ASSETS	<u>1,894,241</u>	<u>2,004,031</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	EQUITY AND LIABILITIES		
	Equity		
12	Share capital	70,510	70,510
	Reserve for development costs	158,895	124,226
	Retained earnings	388,923	701,253
	Dividend proposed	160,000	0
	Total equity	<u>778,328</u>	<u>895,989</u>
	Provisions		
13	Deferred tax	113,539	99,777
	Total provisions	<u>113,539</u>	<u>99,777</u>
	Liabilities other than provisions		
14	Non-current liabilities other than provisions		
	Mortgage debt	584,694	580,868
	Other payables	11,506	0
		<u>596,200</u>	<u>580,868</u>
	Current liabilities other than provisions		
	Bank debt	22,495	46,485
	Other credit institutions	200,000	200,000
	Trade payables	56,688	109,684
	Payables to group enterprises	35,217	16,055
	Joint taxation contribution payable	10,998	0
	Deposits	0	104
	Other payables	80,776	55,069
		<u>406,174</u>	<u>427,397</u>
	Total liabilities other than provisions	<u>1,002,374</u>	<u>1,008,265</u>
	TOTAL EQUITY AND LIABILITIES	<u><u>1,894,241</u></u>	<u><u>2,004,031</u></u>

- 1 Accounting policies
- 2 Events after the balance sheet date
- 16 Contractual obligations and contingencies, etc.
- 17 Collateral
- 18 Related parties
- 19 Fee to the auditors appointed by the Company in general meeting

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Reserve for development costs	Retained earnings	Dividend proposed	Total
	Equity at 1 January 2018	70,500	49,029	650,938	0	770,467
	Capital increase	10	0	79,982	0	79,992
20	Transfer, see					
	"Appropriation of profit"	0	75,197	-29,353	0	45,844
	Other value adjustments of equity	0	0	-314	0	-314
	Equity at 1 January 2019	70,510	124,226	701,253	0	895,989
20	Transfer, see					
	"Appropriation of profit"	0	34,669	-113,368	160,000	81,301
	Adjustment of investments through foreign exchange adjustments	0	0	1,038	0	1,038
	Dividend, paid	0	0	-200,000	0	-200,000
	Equity at 31 December 2019	70,510	158,895	388,923	160,000	778,328

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2019	2018
	Profit for the year	81,301	45,844
21	Adjustments	163,308	138,457
	Cash generated from operations (operating activities)	244,609	184,301
22	Changes in working capital	113,416	-105,414
	Cash generated from operations (operating activities)	358,025	78,887
	Interest received, etc.	0	35
	Interest paid, etc.	-21,063	-13,321
	Income taxes paid	0	-27,427
	Cash flows from operating activities	336,962	38,174
	Additions of intangible assets	-42,585	-48,690
	Additions of property, plant and equipment	-70,225	-217,188
	Purchase of financial assets	-74,775	-6,457
	Sale of financial assets	51	-335
	Cash flows to investing activities	-187,534	-272,670
	Dividends paid	-200,000	0
	Contracting of other short-term liabilities	22,495	200,000
	Cash capital increase	0	79,992
	Cash flows from financing activities	-177,505	279,992
	Net cash flow	-28,077	45,496
	Cash and cash equivalents at 1 January	38,068	-7,428
23	Cash and cash equivalents at 31 December	9,991	38,068

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Fertin Pharma A/S for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

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

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

Reporting currency

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

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.

Derivative financial instruments

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

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Administrative expenses

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

Other operating income and operating expenses

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

Amortisation/depreciation

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

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

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

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

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

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

Profit/loss from investments in subsidiaries

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

Financial income and expenses

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

Tax

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

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

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Intangible assets

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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 subsidiaries

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 deducted from the carrying amount.

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

Impairment of fixed assets

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

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

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

Inventories

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

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

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

Indirect production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not recognised in the sales price.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Prepayments

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

Cash

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

Equity

Reserve for net revaluation according to the equity method

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

Reserve for development costs

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

Proposed dividends

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income taxes

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

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

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

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

Other liabilities are measured at net realisable value.

Cash flow statement

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

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

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

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

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

Segment information

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

Financial ratios

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Operating profit/loss	Profit/loss before financial items adjusted for other operating income and other operating expenses
Current ratio	$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$
Equity ratio	$\frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss after tax} \times 100}{\text{Average equity}}$

2 Events after the balance sheet date

No significant events have occurred after the balance sheet date.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2019	2018
3 Segment information		
Breakdown of revenue by business segment:		
Pharma products	773,728	694,810
Non-Pharma products	107,888	117,690
	<u>881,616</u>	<u>812,500</u>
Breakdown of revenue by geographical segment:		
North America	587,616	537,357
Europe	266,810	245,144
Others	27,190	29,999
	<u>881,616</u>	<u>812,500</u>
4 Amortisation/depreciation of intangible assets and property, plant and equipment		
Amortisation of intangible assets	18,623	17,749
Depreciation of property, plant and equipment	88,042	76,470
	<u>106,665</u>	<u>94,219</u>
Amortisation/depreciation of intangible assets and property, plant and equipment is recognised in the income statement under the following items:		
DKK'000	2019	2018
Production costs	100,433	89,631
Administrative expenses	6,232	4,588
	<u>106,665</u>	<u>94,219</u>
5 Financial income		
Other financial income	0	35
	<u>0</u>	<u>35</u>
6 Financial expenses		
Other financial expenses	25,358	18,952
	<u>25,358</u>	<u>18,952</u>
7 Tax for the year		
Estimated tax charge for the year	10,998	690
Deferred tax adjustments in the year	13,762	15,115
	<u>24,760</u>	<u>15,805</u>

Financial statements 1 January - 31 December

Notes to the financial statements

8 Intangible assets

DKK'000	Completed development projects	Acquired intangible assets and intangible assets in progress	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2019	185,709	131,197	119,231	436,137
Additions	0	0	42,585	42,585
Disposals	0	-41,320	0	-41,320
Transferred	18,876	16,385	-18,876	16,385
Cost at 31 December 2019	204,585	106,262	142,940	453,787
Impairment losses and amortisation at 1 January 2019	113,521	67,126	0	180,647
Amortisation for the year	17,012	1,611	0	18,623
Reversal of accumulated amortisation and impairment of assets disposed	0	-41,320	0	-41,320
Impairment losses and amortisation at 31 December 2019	130,533	27,417	0	157,950
Carrying amount at 31 December 2019	74,052	78,845	142,940	295,837

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 74,052 thousand. The impairment test shows a higher commercial value.

The carrying amount of projects in progress is DKK 142,940 thousand. The impairment test shows a higher commercial value.

9 Property, plant and equipment

DKK'000	Land and buildings	Equipment and machinery	Fixtures and fittings, plant and other equipment	Leasehold improvements	Property, plant and equipment under construction	Total
Cost at 1 January 2019	761,064	969,164	58,757	65,839	139,556	1,994,380
Additions	0	0	1,211	0	69,014	70,225
Disposals	0	-20,160	-23,312	0	0	-43,472
Transferred	4,051	34,599	1,773	0	-56,808	-16,385
Cost at 31 December 2019	765,115	983,603	38,429	65,839	151,762	2,004,748
Impairment losses and depreciation at 1 January 2019	204,261	493,365	52,245	65,109	0	814,980
Depreciation	28,955	56,113	2,800	174	0	88,042
Depreciation and impairment of disposals	0	-20,160	-23,312	0	0	-43,472
Impairment losses and depreciation at 31 December 2019	233,216	529,318	31,733	65,283	0	859,550
Carrying amount at 31 December 2019	531,899	454,285	6,696	556	151,762	1,145,198

Note 17 provides more details on security for loans, etc. as regards property, plant and equipment.

Financial statements 1 January - 31 December

Notes to the financial statements

10 Investments

DKK'000	Investments in group enterprises
Cost at 1 January 2019	36,229
Additions on corporate acquisition	66,424
Additions	8,352
Cost at 31 December 2019	111,005
Value adjustments at 1 January 2019	-21,990
Foreign exchange adjustments	1,038
Profit/loss for the year	-5,752
Value adjustments at 31 December 2019	-26,704
Carrying amount at 31 December 2019	84,301

The carrying amount of group entities comprises a share of the entities' net asset value, DKK 38,547 thousand, goodwill at a carrying amount of DKK 45,921 thousand less elimination of intra-group gains of DKK 167 thousand.

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

11 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years.

DKK'000	2019	2018
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12 Share capital

Analysis of the share capital:

70,510 shares of DKK 1,000.00 nominal value each	70,510	70,510
	<u>70,510</u>	<u>70,510</u>

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

DKK'000	2019	2018	2017	2016	2015
Opening balance	70,510	70,500	70,500	70,500	70,500
Capital increase	0	10	0	0	0
	<u>70,510</u>	<u>70,510</u>	<u>70,500</u>	<u>70,500</u>	<u>70,500</u>

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2019	2018
13 Deferred tax		
Deferred tax at 1 January	99,777	84,662
Other deferred tax	13,762	15,115
Deferred tax at 31 December	<u>113,539</u>	<u>99,777</u>

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

14 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2019	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	584,694	0	584,694	0
Other payables	11,506	0	11,506	0
	<u>596,200</u>	<u>0</u>	<u>596,200</u>	<u>0</u>

DKK'000	2019	2018
15 Staff costs		
Wages/salaries	290,383	320,718
Pensions	28,582	32,248
Other social security costs	4,997	5,197
	<u>323,962</u>	<u>358,163</u>

Staff costs are recognised as follows in the financial statements:

Production	292,096	332,316
Distribution	14,883	10,676
Administration	16,983	15,171
	<u>323,962</u>	<u>358,163</u>
Average number of full-time employees	<u>569</u>	<u>674</u>

Total remuneration of Management: DKK 5,875 thousand (2018: DKK 5,945 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.

16 Contractual obligations and contingencies, etc.

Contingent liabilities

Other contingent liabilities

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

Other financial obligations

Financial statements 1 January - 31 December

Notes to the financial statements

The Company has liabilities under operating leases and rent, totalling DKK 13,948 thousand, with remaining contract terms of 0-4 years.

17 Collateral

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

Land and buildings at a carrying amount of DKK 531,899 thousand at 31 December 2019 have been put up as collateral for debt to mortgage credit institutions, totalling DKK 584,694 thousand.

18 Related parties

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

Parties exercising control

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

Information about consolidated financial statements

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

Related party transactions

Fertin Pharma A/S was engaged in the below related party transactions:

DKK'000	2019	2018
Sale of goods to group entities	8,775	0
Purchase of goods from group entities	7,183	6,990
Purchase of services from group entities	6,500	6,454
Receivables from group entities	15,764	112,846
Payables to group entities	35,217	16,055

The Company has acquired the subsidiary, Tab Labs Inc., from a minority shareholder.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2019	2018
19 Fee to the auditors appointed by the Company in general meeting		
Statutory audit	267	260
Tax assistance	92	111
Other assistance	1,194	391
	<u>1,553</u>	<u>762</u>
20 Appropriation of profit		
Recommended appropriation of profit		
Proposed dividend recognised under equity	160,000	0
Other statutory reserves	34,669	75,197
Retained earnings/accumulated loss	-113,368	-29,353
	<u>81,301</u>	<u>45,844</u>
21 Adjustments		
Amortisation/depreciation and impairment losses	110,662	99,829
Immediate write-offs	-3,997	-5,610
Gain/loss on the sale of non-current assets	-52	334
Income from investments in group entities	6,576	9,871
Financial income	0	-35
Financial costs	25,358	18,952
Tax for the year	10,999	0
Deferred tax	13,762	15,116
	<u>163,308</u>	<u>138,457</u>
22 Changes in working capital		
Change in inventories	14,316	-50,731
Change in receivables	-170	10,430
Change in trade and other payables	99,270	-65,113
	<u>113,416</u>	<u>-105,414</u>
23 Cash and cash equivalents at year-end		
Cash according to the balance sheet	9,991	84,553
Short-term debt to banks	0	-46,485
	<u>9,991</u>	<u>38,068</u>