

Fertin Pharma A/S

Dandyvej 19, 7100 Vejle

CVR no. 25 83 48 44

Annual report 2021

Approved at the Company's annual general meeting on 27 May 2022

Chair of the meeting:



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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 2021.

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 2021 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2021.

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, 27 May 2022

Executive Board:



Peter Halling

Board of Directors:



Michael Thomsen
Chair



Peter Halling



Lene Lind



Bo Korsgaard Jensen



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 2021, 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 2021 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2021 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' 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.

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, 27 May 2022
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Tor B. Lassen
State Authorised Public Accountant
mne24820



Tobias Jøppermann
State Authorised Public Accountant
mne46362

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 Thomsen, Chair Peter Halling Lene Lind Bo Korsgaard Jensen Gitte Lorenzen
Executive Board	Peter Halling
Auditors	EY Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark

Management's review

Financial highlights

DKKm	2021	2020	2019	2018	2017
Key figures					
Revenue	933	991	882	813	868
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	241	342	245	185	258
Operating profit/loss	96	192	138	91	167
Net financials	-28	-26	-25	-19	-27
Profit for the year	38	155	81	46	106
Balance sheet					
Total assets	2,021	1,998	1,894	2,004	1,628
Equity	681	770	778	896	770
Cash flows					
Cash flows from operating activities	175	367	337	38	120
Net cash flows from investing activities	-201	-132	-188	-273	-203
Amount relating to investments in property, plant and equipment	-123	-61	-70	0	-170
Cash flows from financing activities	-1	-182	-178	280	324
Total cash flows	-27	53	-29	45	241
Financial ratios					
Current ratio	39.0%	102.2%	90.9%	130.0%	178.5%
Equity ratio	33.7%	38.5%	41.1%	44.7%	47.3%
Return on equity	5.2%	20.0%	9.7%	5.5%	14.8%
Employees					
Average number of full-time employees	654	622	569	674	661

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 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 ("Als") to patients and consumers. In 2021, 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 Als for OTC pharma and nutraceutical categories. During 2021, execution of the strategy has been materially impacted by the COVID-19 pandemic, which has caused delays in customer's plans to bring new products to market.

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.

The ultimate ownership of the Company has changed as of 15 September 2021, as Philip Morris International acquired full ownership from the previous owners EQT Mid-Market Europe and the Bagger-Sørensen family.

Business Review and Outlook

In 2021, Fertin Pharma continued 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 2021, while overall positive, the business has been challenged by continuing effects from COVID-19, impacting sales across all categories. The NRT category still forms the backbone of the business and has also proven to be more resilient to impact from the COVID-19 pandemic, compared to products in other categories more recently introduced to the market.

Materially reduced foot-traffic in stores, combined with general uncertainty surrounding the development in and related effects from the pandemic, has resulted in customers postponing and - in some cases - cancelling their planned commercial launches of new products.

Even though the current pipeline remains strong, uncertainty around the future impact from the COVID-19 pandemic continues to slow down processes leading to development and introduction of new products in the market.

During 2021, the Company continued the planned investment programme, redirecting a material proportion of its earnings back into R&D and CAPEX investments, supporting the diversification strategy and future growth.

Management expects the 2022 result to continue to be materially impacted by effects from COVID-19, incl. an increasing impact from a negative development in raw materials, logistics and energy prices, in the range of an estimated 40-50 mDKK. As a result, Management expects the 2022 result to drop by 20-40 mDKK compared to 2021. Revenue is expected in the range of 950 to 1,150 mDKK.

Management's review

Financial review

Fertin Pharma reported revenue of 933 MDKK in 2021 (2020: 991 MDKK) and EBITDA of 241 MDKK (2020: 342 MDKK).

This year's result (EBITDA) has been impacted by 23 mDKK in extraordinary salary costs. The costs are related to a one-off payment to all employees from the company's new owners.

In addition, depreciations have been impacted by 23 mDKK related to impairment adjustments across the R&D pipeline. The value is higher than normal, which is primarily driven by the impact from COVID-19 as described above.

Overall, the financial result of the year is regarded to be satisfactory.

Investments

In 2021 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://fertin.azurewebsites.net/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.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2021	2020
4	Revenue	932,545	991,107
16.5	Production costs	-771,161	-744,713
	Gross profit	161,384	246,394
16.5	Distribution costs	-19,854	-21,724
16.5	Administrative expenses	-45,182	-32,852
	Operating profit	96,348	191,818
	Other operating income	0	40,200
	Profit before net financials	96,348	232,018
	Income from investments in group enterprises	-13,069	-7,646
6	Financial income	1,144	758
7	Financial expenses	-29,513	-26,667
	Profit before tax	54,910	198,463
8	Tax for the year	-17,268	-43,052
	Profit for the year	37,642	155,411

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2021	2020
	ASSETS		
	Fixed assets		
9	Intangible assets		
	Completed development projects	138,100	74,169
	Acquired intangible assets and intangible assets in progress	83,167	91,110
	Development projects in progress and prepayments for intangible assets	151,281	189,002
		<u>372,548</u>	<u>354,281</u>
10	Property, plant and equipment		
	Land and buildings	496,262	522,537
	Equipment and machinery	485,156	497,943
	Fixtures and fittings, plant and other equipment	6,709	8,782
	Leasehold improvements	287	414
	Property, plant and equipment under construction	136,164	69,146
		<u>1,124,578</u>	<u>1,098,822</u>
11	Investments		
	Investments in group enterprises	79,711	81,818
		<u>79,711</u>	<u>81,818</u>
	Total fixed assets	<u>1,576,837</u>	<u>1,534,921</u>
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	124,065	77,256
	Work in progress	13,392	26,809
	Finished goods and goods for resale	61,293	56,575
		<u>198,750</u>	<u>160,640</u>
	Receivables		
	Trade receivables	146,069	208,029
	Receivables from group enterprises	55,830	18,432
	Other receivables	4,284	10,351
12	Prepayments	3,291	3,034
		<u>209,474</u>	<u>239,846</u>
	Cash	36,428	62,977
	Total non-fixed assets	<u>444,652</u>	<u>463,463</u>
	TOTAL ASSETS	<u>2,021,489</u>	<u>1,998,384</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2021	2020
	EQUITY AND LIABILITIES		
	Equity		
13	Share capital	70,510	70,510
	Reserve for development costs	234,984	206,148
	Translation reserve	3,209	-3,613
	Retained earnings	372,701	367,081
	Dividend proposed	0	130,000
	Total equity	681,404	770,126
	Provisions		
14	Deferred tax	160,726	150,464
	Total provisions	160,726	150,464
	Liabilities other than provisions		
15	Non-current liabilities other than provisions		
	Mortgage debt	0	588,521
	Other payables	37,195	36,135
		37,195	624,656
	Current liabilities other than provisions		
	Other credit institutions	0	200,000
	Trade payables	97,042	61,653
	Payables to group enterprises	950,661	84,224
	Joint taxation contribution payable	7,006	6,127
	Other payables	87,455	101,134
		1,142,164	453,138
	Total liabilities other than provisions	1,179,359	1,077,794
	TOTAL EQUITY AND LIABILITIES	2,021,489	1,998,384

- 1 Accounting policies
- 2 Events after the balance sheet date
- 3 Special Items
- 17 Contractual obligations and contingencies, etc.
- 18 Collateral
- 19 Related parties
- 20 Fee to the auditors appointed by the Company in general meeting
- 21 Appropriation of profit

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
		70,510	158,895	0	388,923	160,000	778,328
21		0	47,253	0	-21,842	130,000	155,411
		0	0	-3,613	0	0	-3,613
		0	0	0	0	-160,000	-160,000
		70,510	206,148	-3,613	367,081	130,000	770,126
		0	0	427	0	0	427
21		0	28,836	0	8,806	0	37,642
		0	0	6,395	-3,186	0	3,209
		0	0	0	0	-130,000	-130,000
		70,510	234,984	3,209	372,701	0	681,404

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2021	2020
	Profit for the year	37,642	155,411
22	Adjustments	203,061	186,731
	Cash generated from operations (operating activities)	240,703	342,142
23	Changes in working capital	-47,724	47,256
	Cash generated from operations (operating activities)	192,979	389,398
	Interest received, etc.	1,144	758
	Interest paid, etc.	-18,882	-22,711
	Cash flows from operating activities	175,241	367,445
	Additions of intangible assets	-64,979	-62,481
	Additions of property, plant and equipment	-123,433	-61,131
	Purchase of financial assets	-12,644	-8,352
	Cash flows to investing activities	-201,056	-131,964
	Dividends paid	-130,000	-160,000
	Proceeds of debt, group enterprises	929,266	0
	Contracting of other short-term liabilities	0	-22,495
	Repayments, long-term liabilities	-800,000	0
	Cash flows from financing activities	-734	-182,495
	Net cash flow	-26,549	52,986
	Cash and cash equivalents at 1 January	62,977	9,991
24	Cash and cash equivalents at 31 December	36,428	62,977

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Fertin Pharma A/S for 2021 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 110(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 presented as separate items in the balance sheet.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Other operating income

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

Amortisation/depreciation 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

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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 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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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 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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 subsidiaries 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

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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:

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.

3 Special Items

DKK'000	2021	2020
Income		
Compensation	0	40,200
Expenses		
Extraordinary impairment adjustments on development project due to COVID-19	-23,585	0
Extraordinary one-off salary payment to all employees due to the sale of Fertin Pharma A/S Group	-24,368	0
	-47,953	0
Special items are recognised in the below items of the financial statements		
Other operating income	0	40,200
Production cost	-47,953	0
Net profit/loss on special items	-47,953	40,200

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2021	2020
4 Segment information		
Breakdown of revenue by business segment:		
Pharma products	859,488	942,110
Non-Pharma products	73,057	48,997
	<u>932,545</u>	<u>991,107</u>
Breakdown of revenue by geographical segment:		
North America	594,154	629,491
Europe	233,612	248,641
Others	104,779	112,975
	<u>932,545</u>	<u>991,107</u>
5 Amortisation/depreciation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	27,579	23,659
Impairment of intangible assets	23,585	0
Depreciation of property, plant and equipment	93,191	86,465
	<u>144,355</u>	<u>110,124</u>
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment is recognised in the income statement under the following items:		
Production costs	131,213	99,994
Distribution costs	424	299
Administrative expenses	12,718	9,831
	<u>144,355</u>	<u>110,124</u>
6 Financial income		
Interest receivable, group entities	5	432
Other financial income	1,139	326
	<u>1,144</u>	<u>758</u>

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2021		2020	
7	Financial expenses			
		2,216		2,112
	Interest expenses, group entities			
	Other financial expenses	27,297		24,555
		<u>29,513</u>		<u>26,667</u>
8	Tax for the year			
	Estimated tax charge for the year	7,006		6,127
	Deferred tax adjustments in the year	10,262		36,925
		<u>17,268</u>		<u>43,052</u>
9	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 2021	220,307	126,581	189,699	536,587
Additions	0	242	64,737	64,979
Transferred	78,867	4,458	-78,873	4,452
Cost at 31 December 2021	<u>299,174</u>	<u>131,281</u>	<u>175,563</u>	<u>606,018</u>
Impairment losses and amortisation at 1 January 2021	146,138	35,471	697	182,306
Impairment losses for the year	0	0	23,585	23,585
Amortisation for the year	14,936	12,643	0	27,579
Impairment losses and amortisation at 31 December 2021	<u>161,074</u>	<u>48,114</u>	<u>24,282</u>	<u>233,470</u>
Carrying amount at 31 December 2021	<u>138,100</u>	<u>83,167</u>	<u>151,281</u>	<u>372,548</u>

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 138,100 thousand. The impairment test shows a higher commercial value.

The carrying amount of projects in progress is DKK 151,281 thousand. The impairment test shows a higher commercial value.

Financial statements 1 January - 31 December

Notes to the financial statements

10 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 2021	783,983	1,083,051	42,818	65,839	69,146	2,044,837
Additions	0	0	198	0	123,235	123,433
Disposals	0	0	0	0	-30	-30
Transferred	3,999	46,981	751	0	-56,187	-4,456
Cost at 31 December 2021	787,982	1,130,032	43,767	65,839	136,164	2,163,784
Impairment losses and depreciation at 1 January 2021	261,446	585,108	34,036	65,425	0	946,015
Depreciation	30,274	59,768	3,022	127	0	93,191
Impairment losses and depreciation at 31 December 2021	291,720	644,876	37,058	65,552	0	1,039,206
Carrying amount at 31 December 2021	496,262	485,156	6,709	287	136,164	1,124,578

Note 18 provides more details on security for loans, etc. as regards property, plant and equipment.

11 Investments

DKK'000	Investments in group enterprises
Cost at 1 January 2021	119,357
Additions	12,644
Cost at 31 December 2021	132,001
Value adjustments at 1 January 2021	-37,539
Foreign exchange adjustments	3,209
Profit/loss for the year	-8,208
Changes in equity	-4,891
Depreciation of goodwill	-4,861
Value adjustments at 31 December 2021	-52,290
Carrying amount at 31 December 2021	79,711

The carrying amount of group entities comprises a share of the entities' net asset value, DKK 49,604 thousand, goodwill at a carrying amount of DKK 30,640 thousand less elimination of intra-group gains of DKK 533 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%

12 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2021	2020
13 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	2021	2020	2019	2018	2017
Opening balance	70,510	70,510	70,510	70,500	70,500
Capital increase	0	0	0	10	0
	<u>70,510</u>	<u>70,510</u>	<u>70,510</u>	<u>70,510</u>	<u>70,500</u>

14 Deferred tax		
Deferred tax at 1 January	150,464	113,539
Other deferred tax	10,262	36,925
Deferred tax at 31 December	<u>160,726</u>	<u>150,464</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.

DKK'000	Total debt at 31/12 2021	Repayment, next year	Long-term portion	Outstanding debt after 5 years
15 Non-current liabilities other than provisions				
Other payables	37,195	0	37,195	0
	<u>37,195</u>	<u>0</u>	<u>37,195</u>	<u>0</u>

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2021	2020
16 Staff costs		
Wages/salaries	361,530	323,278
Pensions	31,042	29,406
Other social security costs	5,938	6,204
	<u>398,510</u>	<u>358,888</u>

Staff costs are recognised as follows in the financial statements:

Production	363,029	327,835
Distribution	15,171	15,568
Administration	20,310	15,485
	<u>398,510</u>	<u>358,888</u>

Average number of full-time employees	<u>654</u>	<u>622</u>
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Total remuneration of Management: DKK 7,630 thousand (2020: DKK 5,907 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.

17 Contractual obligations and contingencies, etc.

Other contingent liabilities

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

Other financial obligations

The Company has liabilities under operating leases and rent, totalling DKK 8,878 thousand, with remaining contract terms of 0-5 years.

18 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2021.

Financial statements 1 January - 31 December

Notes to the financial statements

19 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	2021	2020
Sale of goods to group entities	0	18,489
Purchase of goods from group entities	0	7,440
Purchase of services from group entities	0	8,633
Interest, netto	0	-1,680
Receivables from group entities	0	18,432
Payables to group entities	0	84,224
DKK'000	2021	2020
20 Fee to the auditors appointed by the Company in general meeting		
Statutory audit	290	275
Tax assistance	162	380
Other assistance	1,204	187
	1,656	842

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2021	2020
21 Appropriation of profit		
Recommended appropriation of profit		
Proposed dividend recognised under equity	0	130,000
Other statutory reserves	28,836	47,253
Retained earnings/accumulated loss	8,806	-21,842
	<u>37,642</u>	<u>155,411</u>
22 Adjustments		
Amortisation/depreciation and impairment losses	149,349	114,199
Immediate write-offs	-4,994	-4,075
Income from investments in group entities	13,069	7,646
Financial income	-1,144	-758
Financial costs	29,513	26,667
Tax for the year	7,006	6,127
Deferred tax	10,262	36,925
	<u>203,061</u>	<u>186,731</u>
23 Changes in working capital		
Change in inventories	-38,110	26,993
Change in receivables	61,960	-58,757
Change in trade and other payables	-71,574	79,020
	<u>-47,724</u>	<u>47,256</u>
24 Cash and cash equivalents at year-end		
Cash according to the balance sheet	36,428	62,977
	<u>36,428</u>	<u>62,977</u>