

Fertin Pharma A/S


Dandyvej 19, 7100 Vejle

CVR no. 25 83 48 44

Annual report 2023

Approved at the Company's annual general meeting on 27 May 2024

Chair of the meeting:



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Michael Henrik Thomsen

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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 2023.

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 2023 and of the results of the Company's operations for the financial year 1 January - 31 December 2023.

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

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

Vejle, 27 May 2024
Executive Board:



Michael Henrik Thomsen
Managing director

Board of Directors:



Christopher Beck Lambert
Chairman



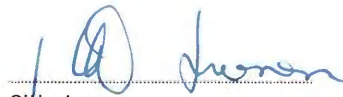
Michael Henrik Thomsen



Lene Lind



Bo Korsgaard Jensen



Gitte Lorenzen

Independent auditor's report

To the shareholder of Fertin Pharma A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2023, and of the results of the Company's operations for the financial year 1 January - 31 December 2023 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Fertin Pharma A/S for the financial year 1 January - 31 December 2023, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for opinion

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

Statement on the Management's review

Management is responsible for Management's Review.

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

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

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

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

Management's Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Odense, 27 May 2024
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Henrik Forthoft Lind
State Authorised Public Accountant
mne34169

Brian Petersen
State Authorised Public Accountant
mne33722

Management's review

Company details

Name	Fertin Pharma A/S
Address, Postal code, City	Dandyvej 19, 7100 Vejle
CVR no.	25 83 48 44
Established	2 January 2001
Registered office	Vejle
Financial year	1 January - 31 December
Website	www.fertin.com
Telephone	+45 72 15 13 00
Board of Directors	Christopher Beck Lambert, Chairman Michael Henrik Thomsen Lene Lind Bo Korsgaard Jensen Gitte Lorenzen
Executive Board	Michael Henrik Thomsen, Managing director
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Munkebjergvænget 1, 3rd and 4th floor, 5230 Odense

Management's review

Financial highlights

DKKm	2023	2022	2021	2020	2019
Key figures					
Revenue	1,013	893	933	991	882
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	45	54	241	342	245
Operating profit/loss	-76	-75	96	192	138
Net financials	-87	-39	-41	-26	-25
Profit/loss for the year	-137	-91	38	155	81
Total assets					
Investments in property, plant and equipment	123	158	123	61	70
Equity	458	596	681	770	778
Financial ratios					
Current ratio	242.3%	39.6%	38.9%	102.2%	90.9%
Equity ratio	18.3%	26.5%	33.7%	38.5%	41.1%
Return on equity	-26.0%	-14.3%	5.2%	20.0%	9.7%
Average number of full-time employees					
	798	690	654	622	569

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

Operating profit/loss	$\frac{\text{Profit/loss before net financials +/- Other operating income and other operating expenses}}{\text{Average equity}} \times 100$
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	$\frac{\text{Profit/loss after tax} \times 100}{\text{Average equity}}$

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

Management's review

Business review

Business Activities

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

Fertin Pharma is the world's largest independent developer and manufacturer of medicated chewing gum and has over recent years expanded into other specialized solid dosage oral and intra oral delivery systems. The Company strives to develop innovative oral and intra oral delivery systems that offer convenient and pleasurable delivery of active pharmaceutical ingredients ("APIs") and nutraceutical ingredients ("AIs") to patients and consumers. In 2023, the largest category continues to be high quality chewing gum and lozenges systems applied within Nicotine Replacement Therapy ("NRT") category. Following the current diversification strategy, Fertin Pharma is still utilizing its highly flexible delivery systems to grow business outside the NRT category, applying a wider range of APIs and AIs for OTC pharma and nutraceutical categories.

The Company is headquartered in Vejle, Denmark, where it owns and operates US FDA and EU GMP approved R&D and manufacturing facilities. Furthermore, Fertin Pharma owns and operates commercial, R&D, and manufacturing facilities in India and Canada.

Business Review and Outlook

In 2023 Fertin Pharma has realigned its focus in execution of the planned diversification of the business, aimed at growing the product and customer base across delivery platforms, API's, and nutraceutical ingredients as well as geographies.

During 2023, the business has returned to growth after being challenged in 2022 by delayed effects from COVID 19. Sales have increased across all categories. The NRT category still forms the backbone of the business and has also proven to be the least affected by COVID 19 pandemic, compared to products in other categories more recently introduced to the market.

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

During 2023 financial results are positively impacted by prices on especially energy normalizing compared to previous years.

The Company has continued executing in R&D and CAPEX throughout 2023, supporting the diversification strategy and future growth.

Management expects the 2024 growth and profitability to grow and compared to 2023 and the raw materials and energy prices will stabilize on 2023 level with only moderate inflation. As a result, management expects the 2024 result to improve compared to 2023. Revenue expected in the range of DKK 1,200 million to DKK 1,400 million.

Financial review

Fertin Pharma A/S realized a revenue of DKK 1,012.6 million in 2023 which is in line with the expected revenue (2022: DKK 893 Million. The realized loss before tax is DKK 136,7 million (2022: DKK -91 million). It was expected to improve net result beyond 2022. The result is impacted by higher interest rates, continued high inflation and energy prices but is below expectations.

Overall, the financial result of the year is regarded in line with expectations.

Investments

In 2023 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.

Management's review

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 can be found at the following link:
<https://www.fertin.com/sustainability/>

Report on the gender composition of Management

Fertin strives to attract highly skilled employees to support a high-performance organization and promotes gender equality among managers and at all levels in the organization. We ensure this through both recruitment and succession planning. In 2023, the distribution of genders was as shown.

Overview

	2023
<i>Supreme governing body</i>	
Total number of members	5
Underrepresented gender in %	40
Target figure in %	40
Year in which the target figure is expected to be met	2023
<i>Other levels of management</i>	
Total number of members	6
Underrepresented gender in %	33
Target figure in %	33
Year in which the target figure is expected to be met	2024

Supreme governing body

As of the reporting date Fertin Pharma A/S has fulfilled the definition of gender equality for the supreme governing body of the Company. Thus no new policies has been established, nor any new goals for gender equality for Fertin Parhma A/S has been set.

Management's review

Other levels of management

As of the reporting date Fertin Pharma A/S has fulfilled the definition of gender equality for the other levels of management of the Company. Thus no new policies has been established, nor any new goals for gender equality for Fertin Parhma A/S has been set.

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.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2023	2022
4	Revenue	1,012,566	892,580
5,6	Production costs	-978,422	-867,416
	Gross profit	34,144	25,164
5,6	Distribution costs	-43,450	-39,516
5,6,7	Administrative expenses	-66,597	-60,457
	Operating profit/loss	-75,903	-74,809
	Income from investments in group enterprises	-37,072	-24,831
8	Financial income	3,998	134
9	Financial expenses	-53,997	-14,083
	Profit/loss before tax	-162,974	-113,589
10	Tax for the year	26,273	22,213
	Profit/loss for the year	-136,701	-91,376

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2023	2022
	ASSETS		
	Fixed assets		
12	Intangible assets		
	Completed development projects	166,428	149,496
	Software	73,894	78,819
	Development projects in progress and prepayments for intangible assets	240,927	193,508
		<u>481,249</u>	<u>421,823</u>
13	Property, plant and equipment		
	Land and buildings	456,633	486,193
	Equipment and machinery	418,644	445,169
	Fixtures and fittings, plant and other equipment	4,438	4,680
	Leasehold improvements	32	159
	Property, plant and equipment under construction	313,499	240,272
		<u>1,193,246</u>	<u>1,176,473</u>
14	Investments		
	Investments in group enterprises	67,663	65,747
		<u>67,663</u>	<u>65,747</u>
	Total fixed assets	<u>1,742,158</u>	<u>1,664,043</u>
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	145,576	144,678
	Work in progress	31,358	30,001
	Finished goods and goods for resale	96,315	43,917
		<u>273,249</u>	<u>218,596</u>
	Receivables		
	Trade receivables	149,426	156,794
	Construction contracts	590	0
	Receivables from group enterprises	315,001	177,215
	Other receivables	1,755	355
15	Prepayments	10,198	6,072
		<u>476,970</u>	<u>340,436</u>
	Cash	<u>5,822</u>	<u>26,399</u>
	Total non-fixed assets	<u>756,041</u>	<u>585,431</u>
	TOTAL ASSETS	<u>2,498,199</u>	<u>2,249,474</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2023	2022
	EQUITY AND LIABILITIES		
	Equity		
16	Share capital	70,511	70,511
	Reserve for development costs	318,198	267,929
	Translation reserve	8,289	9,525
	Retained earnings	61,410	248,380
	Total equity	458,408	596,345
	Provisions		
17	Deferred tax	125,775	139,981
	Total provisions	125,775	139,981
	Liabilities other than provisions		
18	Non-current liabilities other than provisions		
	Payables to group entities	1,564,541	0
	Other payables	37,688	36,898
		1,602,229	36,898
	Current liabilities other than provisions		
18	Short-term part of long-term liabilities other than provisions	698	439
	Trade payables	101,687	84,882
	Payables to group enterprises	36,248	1,237,235
	Other payables	173,154	153,694
		311,787	1,476,250
	Total liabilities other than provisions	1,914,016	1,513,148
	TOTAL EQUITY AND LIABILITIES	2,498,199	2,249,474

- 1 Accounting policies
- 2 Capital ratio
- 3 Events after the balance sheet date
- 11 Appropriation of profit/loss
- 19 Contractual obligations and contingencies, etc.
- 20 Security and collateral
- 21 Related parties

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Reserve for development costs	Translation reserve	Retained earnings	Total
		70,510	234,984	3,209	372,701	681,404
		1	0	112	0	113
11	Transfer, see "Appropriation of profit/loss"	0	32,945	0	-124,321	-91,376
	Adjustment of investments through foreign exchange adjustments	0	0	6,204	0	6,204
	Equity at 1 January 2023	70,511	267,929	9,525	248,380	596,345
11	Transfer, see "Appropriation of profit/loss"	0	50,269	0	-186,970	-136,701
	Adjustment of investments through foreign exchange adjustments	0	0	-1,236	0	-1,236
	Equity at 31 December 2023	70,511	318,198	8,289	61,410	458,408

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Fertin Pharma A/S for 2023 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

Pursuant to section 112(2) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements. The financial statements of Fertin Pharma A/S are included in the consolidated financial statements of Philip Morris International Inc., 120 Park Avenue, New York, , NY 10017-5579, USA, (reg. no. 06 70 28 15)

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

Omission of a cash flow statement

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

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.

Income statement

Revenue

The Company has chosen 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.

Amortisation/depreciation and impairment

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

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

Completed development projects	5-20 years
Software	3-10 years

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

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

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

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

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

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

Land is not depreciated.

Profit/loss from investments in group enterprises

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

Financial income and expenses

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Tax

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

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

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

Balance sheet

Intangible assets

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

Leases

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

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Investments in group enterprises

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

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

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

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

Impairment of fixed assets

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Inventories

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

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

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

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

Receivables

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

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Construction contracts

Service supplies and contract work in progress for third parties are measured at the market value of the work performed less progress billings. The market value is calculated based on the stage of completion at the balance sheet date and the total expected income from the relevant contract. The stage of completion is calculated based on the expenses incurred relative to the expected total expenses relating to the relevant contract.

Where the outcome of contract work in progress cannot be estimated reliably, the market value is measured at the expenses incurred in so far as they are expected to be paid by the purchaser.

Where the total expenses relating to the work in progress are expected to exceed the total market value, the expected loss is recognised as a loss-making agreement under "Provisions" and is expensed in the income statement.

The value of work in progress less progress billings is classified as assets when the selling price exceeds progress billings and as liabilities when progress billings exceed the market value.

Prepayments

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 development costs

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

Translation reserve

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

Income taxes and deferred taxes

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

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

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

Liabilities

The Company has chosen IAS 39 as interpretation for liabilities.

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

Other liabilities are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Segment information

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

Financial statements 1 January - 31 December

Notes to the financial statements

2 Capital ratio

As per 31 December 2023, the companies liquidity ratio is below 100, which could indicate uncertainties around the companies liquidity. The company's structural financing is anchored in PMI's overall financial strategy and structure and hence based on intercompany loans from the PMI-group and funded through the parent company, Claudio Holdco A/S.

As a part of this strategy, DKK 1,274 million of the parent companies (Claudio Holdco A/S) short-term intercompany debt has been converted to a long-term intercompany loan as per 1 March 2023. In addition the Group has been granted a DKK 1,900 million short-term intercompany facility to support the continues development of the company, incl. support to the overall PMI strategy.

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

3 Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

DKK'000	2023	2022
4 Segment information		
Breakdown of revenue by business segment:		
Pharma products	859,494	762,538
Non-Pharma products	153,072	130,042
	1,012,566	892,580
Breakdown of revenue by geographical segment:		
North America	537,370	498,840
Europe	385,685	277,635
South East Asia	83,495	107,941
South America	5,347	0
Other countries	669	8,164
	1,012,566	892,580

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2023	2022
5 Staff costs and incentive programmes		
Wages/salaries	493,899	409,825
Pensions	45,391	34,183
Other social security costs	8,152	7,986
	<u>547,442</u>	<u>451,994</u>

Staff costs are recognised as follows in the financial statements:

Production costs	475,978	396,483
Distribution costs	31,733	27,361
Administrative expenses	39,731	28,150
	<u>547,442</u>	<u>451,994</u>

The Company has capitalized DKK 48,085 thousand on intangible assets and DKK 40,346 thousand on tangible assets.

Average number of full-time employees	<u>798</u>	<u>690</u>
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By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to Management for 2022 is not disclosed.

For 2023 the remuneration of Management was DKK 8,092 thousand, where DKK 349 thousand was pension. Remuneration of Management is aggregated for the Board of Directors and the Executive board, since the Executive board consists of one director.

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

Incentive programmes

The Company has no incentive programmes.

6 Amortisation/depreciation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	41,399	32,615
Impairment of intangible assets	-15,175	0
Depreciation of property, plant and equipment	94,718	96,397
	<u>120,942</u>	<u>129,012</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	104,366	114,685
Distribution costs	705	456
Administrative expenses	15,871	13,871
	<u>120,942</u>	<u>129,012</u>

7 Fee to the auditors appointed in general meeting		
Statutory audit	605	638
Tax assistance	0	70
Other assistance	0	289
	<u>605</u>	<u>997</u>

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2023	2022		
8 Financial Income				
Interest receivable, group entities	3,004	0		
Other financial income	994	134		
	<u>3,998</u>	<u>134</u>		
9 Financial expenses				
Interest expenses, group entities	47,664	6,159		
Other financial expenses	6,333	7,924		
	<u>53,997</u>	<u>14,083</u>		
10 Tax for the year				
Deferred tax adjustments in the year	-26,273	-20,745		
Tax adjustments, prior years	0	-1,468		
	<u>-26,273</u>	<u>-22,213</u>		
11 Appropriation of profit/loss				
Recommended appropriation of profit/loss				
Other statutory reserves	50,269	32,945		
Retained earnings/accumulated loss	-186,970	-124,321		
	<u>-136,701</u>	<u>-91,376</u>		
12 Intangible assets				
	Completed development projects	Software	Development projects in progress and prepayments for intangible assets	Total
DKK'000				
Cost at 1 January 2023	328,255	141,358	217,790	687,403
Additions	0	0	91,161	91,161
Disposals	0	0	-17,391	-17,391
Transferred	41,526	11,880	-41,526	11,880
Cost at 31 December 2023	<u>369,781</u>	<u>153,238</u>	<u>250,034</u>	<u>773,053</u>
Impairment losses and amortisation at 1 January 2023	178,759	62,539	24,282	265,580
Impairment losses for the year	0	0	-15,175	-15,175
Amortisation for the year	24,594	16,805	0	41,399
Impairment losses and amortisation at 31 December 2023	<u>203,353</u>	<u>79,344</u>	<u>9,107</u>	<u>291,804</u>
Carrying amount at 31 December 2023	<u>166,428</u>	<u>73,894</u>	<u>240,927</u>	<u>481,249</u>

Financial statements 1 January - 31 December

Notes to the financial statements

12 Intangible assets (continued)

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 166,429 thousand. The impairment test shows a higher commercial value.

The carrying amount of projects in progress is DKK 240,924 thousand. The impairment test shows a higher commercial value.

Development projects is regarding pharmaceutical oral products and dietary supplements. Products with pharmaceutical ingredients requires a regulatory approval, to be developed, manufactured and sold and expects to be launch within 1-5 years. Dietary supplements can be launch within 0-2 years. The projects are proceeding as planned by using resources allocated by management for the development including salaries, wages and materials cost as well as stability testing for the customer

13 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 2023	806,816	1,154,833	44,487	65,839	240,272	2,312,247
Additions	0	0	0	0	123,371	123,371
Transferred	0	36,187	2,077	0	-50,144	-11,880
Cost at 31 December 2023	806,816	1,191,020	46,564	65,839	313,499	2,423,738
Impairment losses and depreciation at 1 January 2023	320,623	709,664	39,807	65,680	0	1,135,774
Depreciation	29,560	62,712	2,319	127	0	94,718
Impairment losses and depreciation at 31 December 2023	350,183	772,376	42,126	65,807	0	1,230,492
Carrying amount at 31 December 2023	456,633	418,644	4,438	32	313,499	1,193,246

Financial statements 1 January - 31 December

Notes to the financial statements

14 Investments

DKK'000	Investments in group enterprises
Cost at 1 January 2023	146,625
Additions	44,248
Cost at 31 December 2023	190,873
Value adjustments at 1 January 2023	-80,878
Foreign exchange adjustments	-1,236
Profit/loss for the year	-37,072
Value adjustments for the year	-4,378
Transfer to receivables from group enterprises	354
Value adjustments at 31 December 2023	-123,210
Carrying amount at 31 December 2023	67,663

Group entities

Name	Legal form	Domicile	Interest	Equity DKK'000	Profit/loss DKK'000
Fertin India Private Ltd.	Ltd.	India	100.00%	42,116	-23,371
Tab Lab Inc.	Inc.	Canada	100.00%	6,239	-11,355
Cogent International Manufacturing Inc.	Inc.	Canada	100.00%	-18,925	-6,065
Vectura Fertin Pharma	Private Limited	India	99.99%	2,192	47
Vectura Fertin Pharma Malaysia SDN. BHD.	Private Limited	Malaysia	100.00%	-354	-1,038

15 Prepayments

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

DKK'000	2023	2022
16 Share capital		
Analysis of the share capital:		
70,511 shares of DKK 1,000.00 nominal value each	70,511	70,511
	70,511	70,511

There is no difference in voting rights.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2023	2022
17 Deferred tax		
Deferred tax at 1 January	139,981	160,726
Provision for the year	-26,273	-20,745
Adjustments to deferred tax in previous years	12,068	0
Deferred tax at 31 December	125,776	139,981
Deferred tax relates to:		
Intangible assets	104,473	90,963
Property, plant and equipment	69,049	70,958
Inventories	8,241	5,194
Provisions	-9,621	-11,162
Liabilities	-5,262	0
Tax loss	-41,104	-15,972
	125,776	139,981

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

Of DKK 125,776 thousand deferred tax, DKK 0 is recognised under equity.

18 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2023	Short-term portion	Long-term portion	Outstanding debt after 5 years
Payables to group entities	1,564,541	0	1,564,541	0
Other payables	38,386	698	37,688	32,918
	1,602,927	698	1,602,229	32,918

19 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with Philip Morris ApS, which acts as management company, and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2023 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 16 September 2021.

Other financial obligations

Other rent and lease liabilities:

Rent and lease liabilities	26,931	8,450
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Rental and leasing obligations include rent obligations, as well as operational leases for cars, IT equipment and machines. Within 1 year, DKK 9,585 thousand (2022: DKK 4,879 thousand) is due, and in the period 1-5 years DKK 17,346 thousand (2022: 3,571 thousand) is due.

20 Security and collateral

The Company has not provided any security or other collateral in assets at 31 December 2023.

Financial statements 1 January - 31 December

Notes to the financial statements

21 Related parties

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

Parties exercising control

<u>Related party</u>	<u>Domicile</u>	<u>Basis for control</u>
Claudio HoldCo A/S	Vejle, Denmark	Ownership
Vectura Fertin Pharma Inc.	Stamford, Connecticut, USA	Ownership
Philip Morris International Inc.	Stamford, Connecticut, USA	Ultimate ownership

Information about consolidated financial statements

<u>Parent</u>	<u>Domicile</u>	<u>Requisitioning of the parent company's consolidated financial statements</u>
Philip Morris International Inc.	677 Washington blvd., Suite 1100, Stamford, Connecticut, USA	The consolidated financial statement can be requisitioned in the following link: https://www.pmi.com/invest-or-relations/reports-filings

Related party transactions

The Company solely discloses related party transactions that have not been carried out on an arm's length basis, cf. section 98c(7) of the Danish Financial Statements Act.

All transactions have been carried out on an arm's length basis.