

Sandoz A/S

Edvard Thomsens Vej 14, 1., 2300 København S

CVR no. 27 74 45 32

Annual report 2022

Approved at the Company's annual general meeting on 10 May 2023

Chair of the meeting:

.....
Carsten Glerup

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Carsten Glerup
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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 Sandoz A/S for the financial year 1 January - 31 December 2022.

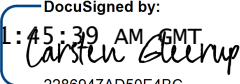
The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2022 and of the results of the Company's operations for the financial year 1 January - 31 December 2022.

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

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

Copenhagen, 10 May 2023
Executive Board:

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Carsten Glerup

Board of Directors:

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Rebecca Guntern
Chair

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Nete Brændgaard

Independent auditor's report

To the shareholder of Sandoz A/S

Opinion

We have audited the financial statements of Sandoz A/S for the financial year 1 January – 31 December 2022 comprising income statement, balance sheet, statement of changes in equity 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 Company's assets, liabilities and financial position at 31 December 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control, that 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made 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 judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the company 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.

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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 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.

Copenhagen, 10 May 2023

KPMG

Statsautoriseret Revisionspartnerselskab
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Henrik Barner

Henrik Barner Christiansen
State Authorised Public Accountant
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Management's review

Company details

Name	Sandoz A/S
Address, Postal code, City	Edvard Thomsens Vej 14, 1., 2300 København S
CVR no.	27 74 45 32
Established	17 May 2004
Registered office	København
Financial year	1 January - 31 December
Website	www.sandoz.dk
Telephone	+45 63 95 10 00
Board of Directors	Rebecca Guntern, Chair Carsten Gleerup Nete Brændgaard
Executive Board	Carsten Gleerup
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28, 2100 København Ø
Lawyer	Horten Advokatpartnerselskab Philip Heymans Allé 7, DK - 2900 Hellerup

Management's review

Financial highlights

DKK'000	2022	2021	2020	2019	2018
Key figures					
Revenue	2,163,937	2,011,917	2,130,514	1,842,299	1,533,108
Gross profit	230,610	219,994	199,433	183,886	230,962
Operating profit/loss	83,483	75,574	68,941	25,575	77,993
Net financials	-28,240	758	-1,528	-3,057	-679
Profit for the year	42,920	58,023	89,423	-120,957	60,822
Balance sheet					
Total assets	1,174,038	1,015,689	1,230,701	923,529	747,050
Investments in property, plant and equipment	0	17	147	355	1,058
Equity	461,056	418,136	360,113	270,690	391,648
Financial ratios					
Operating margin	3.9%	3.8%	3.2%	1.4 %	5.1 %
Gross margin	10.7%	10.9%	9.4%	10.0%	15.1%
Return on assets	7.6%	6.7%	6.4%	3.1%	9.7%
Equity ratio	39.3%	41.2%	29.3%	29.3%	52.4%
Employees					
Average number of full-time employees	106	104	100	108	114

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

Ordinary operating profit/loss	Profit/loss before financial items adjusted for other operating income and other operating expenses
Operating margin	$\frac{\text{Operating profit/loss (EBIT)} \times 100}{\text{Revenue}}$
Gross margin	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss from operating activities} \times 100}{\text{Average assets}}$
Equity ratio	$\frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$

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Management's review

Business review

Sandoz A/S undertakes registration of generic pharmaceutical substances and sale and distribution of these in the Danish and Nordic markets.

A major part of the product range is manufactured and delivered by companies within the Novartis Group, of which Sandoz A/S constitutes a fully owned but separate legal entity.

Financial review

The income statement for 2022 shows a profit of DKK 42,920 thousand against a profit of DKK 58,023 last year, and the balance sheet at 31 December 2022 shows equity of DKK 461,056 thousand.

The development in revenue for the year has been positively affected due to new product launches. This development met the company's expectation for 2022.

The Company's balance sheet and capital structure are subject to continuous assessment together with the majority shareholder with a view to ensuring that the Company has adequate capital and funding.

Knowledge resources

It is of great importance that the employees have a profound insight in the handling of products and equipment in connection with both packaging, distribution and marketing, including extensive knowledge about chemical processes and the effect of the Group's pharmaceuticals. This requires a high competency level in general, which is ensured through continuous development of the individual employee.

Financial risks and use of financial instruments

Foreign exchange risks

The Group's activities abroad imply that results, cash flows and equity are affected by the exchange and interest rate movements for a number of currencies.

The most significant effect is derived from exchange rate movements. The Company's sales are invoiced primarily in DKK, EUR, SEK and NOK. The net exposure relating to the above primary currencies is not hedged as the currencies are not considered highly fluctuating.

Interest rate risks

Interest risk primarily relates to interest earning net payables to group enterprises. The debt earns interest at a floating rate. Interest risks are not hedged.

Credit risks

Credit risk related to cash is handled by continuously assessing existing and new customers' default risk.

Impact on the external environment

Efforts are made continuously to reduce the impact of the operations on the environment, and the Parent Company has introduced an environmental policy which places the Group under an obligation to demonstrate environmental propriety and to continuously work for environmental improvements. The Company does not have production in the Nordics.

Research and development activities

There are no local research & development activities in the Company. All development activities are carried out by other entities within the Novartis Group.

Statutory CSR report

The policies of the Novartis Group on social responsibility apply to the Company and are developed in accordance with section 99a of the Danish Financial Statement Act. We refer to the Group's website <https://www.novartis.com/esg/index>.

Management's review

Data ethics

Sandoz A/S adhere to internal rules and principles for use of data described in corporate guidelines of the Novartis Group.

At Novartis, and as reflected in the Code of Ethics, we are committed to the responsible use of Personal Information in our business processes and the setting of the appropriate standards to achieve this purpose.

In relation to the use of Artificial intelligence (AI) which are an increasing factor to drive automation which can help to improve the speed and accuracy of diagnosis, drug development etc. and can help to improve patients' lives and optimize the healthcare ecosystem. Novartis will ensure that the use of AI systems has a clear purpose and are used in a transparent and responsible way.

By adhering to the principles and using data ethically Sandoz A/S maintain trust with stakeholders including associates, patients, health care professionals and society and this ensures continued access to data needed for innovation and operation.

Decisions regarding the use of data are taken by Novartis Group and all employees are mandatory trained in Code of Ethics where Data ethical principles are introduced, and this ensures that all employees are aware of the ethical dilemmas in regard to the use of IT.

More information can be found on Novartis global websites for Code of Ethics https://www.novartis.com/sites/novartis_com/files/code-of-ethics-english.pdf and Data Privacy Policy https://www.novartis.com/sites/novartis_com/files/novartis-data-privacy-principles.pdf.

Account of the gender composition of Management

In accordance with section 99b of the Danish financial statements Act Sandoz A/S must account for the share of the underrepresented gender in the board of directors and general management.

Target for the board of directors

In accordance with Section 99b of the Danish Financial Statement Act Sandoz A/S discloses that we strive towards an equal gender distribution in the board of directors and at the end of 2022 the board is constituted of 2 men and 2 women including the supplant. The company has a target of maintaining the current level of equal distribution between men and women in the board of directors. At Sandoz we want to build a diverse and inclusive workplace where every one of us can be our best and true selves, so that together we can discover more. More information on how we work with diversity and inclusion can be found on the Groups website: <https://www.sandoz.com/about/diversity-inclusion>.

Policy for increase of the underrepresented gender in general management

Sandoz A/S believes in diversity among employees, including equal distribution of gender will contribute to a positive work environment and enhances the Company's development and competitiveness. Sandoz A/S therefore has a policy to strive for gender equality in general management.

When relevant and to the extent possible suited candidates of the underrepresented gender will be proposed to management roles to achieve the target. As part of the Novartis Group, Sandoz A/S continuously develop talents across gender. It is expected to have an improved equal gender distribution in management over time.

By the end of 2022 the distribution was 23% men and 77% women in the management team.

At Sandoz we want to build a diverse and inclusive workplace where every one of us can be our best and true selves. More information about how we work with diversity and inclusion can be found on the below link: <https://www.sandoz.com/about/diversity-inclusion>.

Events after the balance sheet date

Novartis have globally announced that they will spin-off Sandoz division. With this considered, Sandoz A/S will during 2023 be separated from Novartis Healthcare A/S and become a standalone company.

The shares of Sandoz A/S was sold from Novartis Healthcare A/S to Sandoz AG on the 23rd of March 2023.

Except this no further events, materially affecting the assessment and the Annual Report have occurred after the balance sheet date.

Management's review

Outlook

Macroeconomics current environment showing high inflation rates which is expected to continue during 2023. Despite inflation competition is expected to stay intense in the price play erosion overall making it the most significant market characteristics.

Expectation sales for 2023 is to keep a Growth rate at double digit level in all business areas and within all Nordic Countries exploring new opportunities for growth mainly by carrying out the strategic key drivers of Pipeline & portfolio expansion.

The company also expected that the profit before tax to grow positively within the same range as 2022 with a sustainable profitability across the year by working on measures to offset the expected price pressure.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2022	2021
3	Revenue	2,163,937	2,011,917
	Cost of sales	-1,756,087	-1,632,119
4	Other external expenses	-177,240	-159,804
	Gross profit	230,610	219,994
5	Staff costs	-145,340	-142,254
6	Amortisation/depreciation of intangible assets and property, plant and equipment	-1,787	-2,166
	Profit before net financials	83,483	75,574
7	Financial income	697	7,989
8	Financial expenses	-28,937	-7,231
	Profit before tax	55,243	76,332
9	Tax for the year	-12,323	-18,309
	Profit for the year	42,920	58,023

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	ASSETS		
	Fixed assets		
10	Intangible assets		
	Rights	2,820	4,122
	Goodwill	0	0
		<u>2,820</u>	<u>4,122</u>
11	Property, plant and equipment		
	Fixtures and fittings, other plant and equipment	406	832
	Leasehold improvements	59	118
		<u>465</u>	<u>950</u>
12	Investments		
	Other receivables	1,666	1,625
		<u>1,666</u>	<u>1,625</u>
	Total fixed assets	<u>4,951</u>	<u>6,697</u>
	Non-fixed assets		
	Inventories		
	Finished goods and goods for resale	551,607	480,050
		<u>551,607</u>	<u>480,050</u>
	Receivables		
	Trade receivables	432,058	484,955
13	Receivables from group enterprises	174,282	39,649
14	Deferred tax assets	1,248	1,402
	Other receivables	5,107	1,540
15	Prepayments	4,785	1,396
		<u>617,480</u>	<u>528,942</u>
	Total non-fixed assets	<u>1,169,087</u>	<u>1,008,992</u>
	TOTAL ASSETS	<u>1,174,038</u>	<u>1,015,689</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	EQUITY AND LIABILITIES		
	Equity		
16	Share capital	12,000	12,000
	Retained earnings	449,056	406,136
	Total equity	461,056	418,136
	Provisions		
17	Other provisions	200,887	228,982
	Total provisions	200,887	228,982
	Liabilities other than provisions		
	Non-current liabilities other than provisions		
	Other payables	0	9,269
		0	9,269
	Current liabilities other than provisions		
	Trade payables	130,596	97,271
18	Payables to group enterprises	322,848	196,397
	Corporation tax payable	12,169	17,482
	Other payables	46,482	48,152
		512,095	359,302
	Total liabilities other than provisions	512,095	368,571
	TOTAL EQUITY AND LIABILITIES	1,174,038	1,015,689

- 1 Accounting policies
- 2 Events after the balance sheet date
- 19 Contractual obligations and contingencies, etc.
- 20 Collateral
- 21 Related parties
- 22 Appropriation of profit

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Total
	Equity at 1 January 2021	12,000	348,113	360,113
22	Transfer, see "Appropriation of profit"	0	58,023	58,023
	Equity at 1 January 2022	12,000	406,136	418,136
22	Transfer, see "Appropriation of profit"	0	42,920	42,920
	Equity at 31 December 2022	12,000	449,056	461,056

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Sandoz A/S for 2022 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

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 Novartis AG (https://www.novartis.com/sites/novartis_com/files/novartis-annual-report-2022.pdf).

Basis of recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Foreign currency translation

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

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Revenue

The Company has chosen IFRS 15 as interpretation for revenue recognition.

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of various reductions relating to sales.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

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

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

Rights	10 years
Goodwill	16 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:

Fixtures and fittings, other plant and equipment	3-10 years
Leasehold improvements	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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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 etc.

Tax

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

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

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

Balance sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 16 years.

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 10 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.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Other securities and investments

Fixed asset investments consist of deposit to lease.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment 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 net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling 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.

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

Given the nature of the Group's cash pool arrangement, cash pool balances are not considered cash, but are recognised under "Receivables from group entities".

Provisions

Provisions comprise anticipated expenses relating to warranty commitments, onerous contracts, restructurings, etc. Provisions are recognised when the Company has a legal or constructive obligation at the balance sheet date as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at net realisable value or at fair value if the obligation is expected to be settled far into the future.

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.

Other payables

Debts are measured at amortised cost, substantially corresponding to nominal 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.

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2 Events after the balance sheet date

Novartis have globally announced that they will spin-off Sandoz division. With this considered, Sandoz A/S will during 2023 be separated from Novartis Healthcare A/S and become a standalone company.

The shares of Sandoz A/S was sold from Novartis Healthcare A/S to Sandoz AG on the 23rd of March 2023.

Except this no further events, materially affecting the assessment and the Annual Report have occurred after the balance sheet date.

DKK'000	<u>2022</u>	<u>2021</u>
3 Segment information		
Breakdown of revenue by business segment:		
Retail	1,402,297	1,330,885
Biopharmaceuticals	761,640	692,098
Others	0	-11,066
	<u>2,163,937</u>	<u>2,011,917</u>
Breakdown of revenue by geographical segment:		
Denmark	511,550	545,097
Nordics	1,652,387	1,466,820
	<u>2,163,937</u>	<u>2,011,917</u>
4 Fee to the auditors appointed in general meeting		
Audit fees are not disclosed with reference to section 96(3) of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements for the group.		
5 Staff costs and incentive programmes		
Wages/salaries	97,679	90,106
Pensions	7,667	7,163
Other social security costs	666	901
Remuneration other group companies	39,328	44,084
	<u>145,340</u>	<u>142,254</u>
Average number of full-time employees	<u>106</u>	<u>104</u>

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

Incentive programmes

A number of the Company's employees participate in a share based incentive program of the ultimate parent company. The employees are granted a number of performance share units (PSUs) every year, based on their annual base salary and target incentive. PSUs have a vesting period of three years. The total estimated value of granted PSUs granted to all employees in the year amounts to DKK'000 4,908 (2020: DKK'000 4,047). The payout range of granted PSUs are dependent on the Group's results in terms of financial targets, innovation and total shareholders' return, compared to the Global healthcare peer group.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2022	2021	
6 Amortisation/depreciation of intangible assets and property, plant and equipment			
Amortisation of intangible assets	1,302	1,428	
Depreciation of property, plant and equipment	485	738	
	<u>1,787</u>	<u>2,166</u>	
7 Financial income			
Interest receivable, group entities	697	66	
Other financial income	0	7,923	
	<u>697</u>	<u>7,989</u>	
8 Financial expenses			
Interest expenses, group entities	1,685	1,019	
Exchange losses	27,108	6,207	
Other financial expenses	144	5	
	<u>28,937</u>	<u>7,231</u>	
9 Tax for the year			
Estimated tax charge for the year	12,169	17,482	
Deferred tax adjustments in the year	154	-474	
Tax adjustments, prior years	0	1,301	
	<u>12,323</u>	<u>18,309</u>	
10 Intangible assets			
DKK'000	Rights	Goodwill	Total
Cost at 1 January 2022	<u>26,816</u>	<u>913,610</u>	<u>940,426</u>
Cost at 31 December 2022	<u>26,816</u>	<u>913,610</u>	<u>940,426</u>
Impairment losses and amortisation at 1 January 2022	22,694	913,610	936,304
Amortisation for the year	<u>1,302</u>	<u>0</u>	<u>1,302</u>
Impairment losses and amortisation at 31 December 2022	<u>23,996</u>	<u>913,610</u>	<u>937,606</u>
Carrying amount at 31 December 2022	<u>2,820</u>	<u>0</u>	<u>2,820</u>
Amortised over	<u>10 years</u>	<u>16 years</u>	

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11 Property, plant and equipment

DKK'000	Fixtures and fittings, other plant and equipment	Leasehold improvements	Total
Cost at 1 January 2022	3,373	1,193	4,566
Disposals	-99	0	-99
Cost at 31 December 2022	3,274	1,193	4,467
Impairment losses and depreciation at 1 January 2022	2,541	1,075	3,616
Depreciation	426	59	485
Reversal of accumulated depreciation and impairment of assets disposed	-99	0	-99
Impairment losses and depreciation at 31 December 2022	2,868	1,134	4,002
Carrying amount at 31 December 2022	406	59	465
Depreciated over	3-10 years	10 years	

12 Investments

DKK'000	Other receivables
Cost at 1 January 2022	1,625
Additions	41
Cost at 31 December 2022	1,666
Carrying amount at 31 December 2022	1,666

13 Receivables from group enterprises

The Novartis group has entered into an agreement on a cash-pool arrangement with the group's bank, where Novartis Investments S.a.r.l is the account holder and Sandoz A/S is the sub-account holder together with the group's other affiliated companies. The terms and conditions of the cash-pool scheme give the bank the right to be able to settle withdrawals and deposits against each other, whereby it is only the net balance of the total cash-pool accounts that constitutes the Novartis group's balance with the bank.

Sandoz A/S' accounts in the cash-pool scheme, which are recognized under receivables from group companies, amount to 31 December 2022 a deposit of DKK'000 173,264 (per 31 December 2021: deposit of DKK'000 38,256).

Sandoz A/S' accounts in the cash-pool scheme, which are recognized under payables to group companies, amount to 31 December 2022 a debt of DKK'000 187,388 (per 31 December 2021: debt of DKK'000 226,774).

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Notes to the financial statements

DKK'000	2022	2021
14 Deferred tax		
Deferred tax at 1 January	-1,402	-12,431
Amounts recognised in the income statement for the year	154	-474
Adjustment of deferred tax concerning previous years	0	11,503
Deferred tax at 31 December	<u>-1,248</u>	<u>-1,402</u>

15 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years, including rent, insurance policies etc.

16 Share capital

Analysis of the share capital:

12,000 shares of DKK 1,000.00 nominal value each	12,000	12,000
	<u>12,000</u>	<u>12,000</u>

No shares carry any special rights.

17 Other provisions

The provisions are expected to be payable in:

0-1 year	205,795	228,982
> 1 year	-4,908	0
	<u>200,887</u>	<u>228,982</u>

Other provisions consist of provisions to chargebacks, returns, price changes and other deductions.

18 Payables to group enterprises

The Novartis group has entered into an agreement on a cash-pool arrangement with the group's bank, where Novartis Investments S.a.r.l is the account holder and Sandoz A/S is the sub-account holder together with the group's other affiliated companies. The terms and conditions of the cash-pool scheme give the bank the right to be able to settle withdrawals and deposits against each other, whereby it is only the net balance of the total cash-pool accounts that constitutes the Novartis group's balance with the bank.

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19 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with its Danish Parent Company. The Company is unlimited, jointly and severally liable together with the other companies for Danish corporation taxes and withholding taxes on dividend, interest and royalties within the group of jointly taxed companies.

Pending litigation

As a consequence of the Group doing business in generic drugs, the Group is currently party to enforcement proceedings and other lawsuits in relation to the right to produce and distribute specific drugs.

The cases to which the Group is party are expected to be pending for several years. Management considers these cases currently and whether any related obligations are to be recognised in the Financial Statements. In Management's opinion, the outcome of these cases will not have any material effect on the financial position of the Group.

Other financial obligations

Other rent liabilities:

DKK'000	2022	2021
Rent liabilities	<u>1,846</u>	<u>1,807</u>

Rent liabilities include a rent obligation with remaining contract terms of 6 months and with a yearly rent on DKK'000 3,691 (2021: 3,614).

Lease obligations

Lease obligations under operating leases. Total future lease payments:

DKK'000	2022	2021
Within 1 year	<u>405</u>	<u>653</u>
Between 1 and 5 years	<u>362</u>	<u>451</u>
	<u>767</u>	<u>1,104</u>

20 Collateral

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

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21 Related parties

Sandoz A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Novartis Healthcare A/S	Copenhagen, Denmark	Parent company
Novartis AG	Basel, Switzerland	Ultimate parent

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Novartis AG	Lichtstrasse 35, 4056 Basel, Switzerland	(https://www.novartis.com/sites/novartis_com/files/novartis-annual-report-2022.pdf)

Related party transactions

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

DKK'000	2022	2021
Revenue	2,237	475
Production costs	1,702,772	1,575,675
Other operating income	4,680	5,566
Other operating expenses	53,425	53,192
Financial income	540	12
Financial expenses	1,685	1,011
Intercompany receivables	174,282	39,648
Intercompany payables	322,848	196,395

22 Appropriation of profit

Recommended appropriation of profit

Retained earnings	42,920	58,023
	<u>42,920</u>	<u>58,023</u>