Claudio HoldCo A/S

Dandyvej 19, 7100 Vejle

CVR no. 38 20 44 24

Annual report 2018

Approved at the Company's annual general meeting on 15 May 2019

Chairman:

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Contents

Statement by Management on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Claudio HoldCo A/S for the financial year 1 January - 31 December 2018.

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

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 1 January - 31 December 2018.

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

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

Vejle, 12 March 2019
Executive Board:

Søren Birn

Board of Directors:

Thomas Werner
Chairman

Claus Bagger-Sørensen

Lars Bang

Manfred Scheske

Rikke Kjær Nielsen

Independent auditor's report

To the shareholders of Claudio HoldCo A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Claudio HoldCo A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for both the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company 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 Group's and the Parent 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 Group or the Parent 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 additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Independent auditor's report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent 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 Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Independent auditor's report

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 Statements Act. We did not identify any material misstatement of the Management's review.

Aarhus, 12 March 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jes Lauritzen State Authorised Public Accountant mne10121	Tom B. Lassen State Authorised Public Accountant mne24820

Management's review

Financial highlights for the Group

In DKK millions	2018	2017
Key figures		
Revenue	816	859
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	180	239
Profit/loss from net financials	-69	-60
Profit/loss for the year	-101	-35
Fixed assets	2,925	2,881
Non-fixed assets	453	330
Total assets	3,378	3,211
Portion relating to investments in items of property, plant and equipment	-218	-166
Equity	1,220	1,239
Cash flows from operating activities	78	160
Cash flow from investing activities	-266	-2,921
Cash flows from financing activities	237	2,753
Total cash flows	41	-8
Financial ratios		
Current ratio	97,4%	140,0%
Equity ratio	36,1%	38,6%
Return on equity	-16,6%	-2,8%
Average number of full-time employees	738	717

Financial ratios are calculated in accordance with the recommendations of the Danish Finance Society.

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

Current ratio $$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$$

Equity ratio $$\frac{\text{Equity excl. non-controlling interests, year-end x 100}}{\text{Total equity and liabilities, year-end}}$$

Return on equity $$\frac{\text{Profit/loss for the year excl. non-controlling interests x 100}}{\text{Average equity excl. non-controlling interests}}$$

Management's review

Business Activities

Claudio Holdco A/S ("the Group") was founded in 2017 with the purpose of investing in the fully owned subsidiary Claudio Bidco A/S, parent company for Fertin Pharma A/S.

Fertin Pharma A/S ("the Company") is a Contract Development and Manufacturing Organization that offers innovative, high-quality pharmaceutical and nutraceutical products for intra oral delivery. The company's current main product formats are chewing gum, lozenges and ZapLiq®. ZapLiq® is an innovative and patented chewable tablet that transforms from solid to liquid state within seconds when chewed.

The Company is the world's largest independent developer and manufacturer of medicated chewing gum and has over the recent years expanded into other solid dosage intra oral delivery systems. The Company strives to develop innovative intra oral delivery systems that offer convenient and pleasurable delivery of active pharmaceutical ingredients ("**APIs**") and nutraceutical ingredients to patients and consumers. Examples include the high-quality chewing gum systems applied within Nicotine Replacement Therapy ("**NRT**") or the most recent innovation: Zapliq®. The Zapliq® platform is applicable for a range of APIs within RX and OTC, as well as within nutraceutical substances.

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

Business Review

In 2018, The Company experienced strong traction in the diversification of the business with launch of new formats and expansion into new geographies. However, fluctuations in the NRT chewing gum business resulted in a decline in sales volumes, of which some has been regained due to consumer demand for t Company's high quality products; the latter effect is not visible in the 2018 financial development.

As the costs of smoking-related diseases continues to grow, so does the demand for NRT products, where NRT gum continues to be a popular and growing delivery format. This is further supported by increased awareness outside Europe and North America of the tobacco related health consequences and health care costs, leading to interest in products for smoking cessation. Innovation in intra oral delivery formats also increasingly attracts interest from consumer health companies for nicotine containing products as well as for other APIs outside smoking cessation.

The Company has increased the diversification of the business portfolio during 2018. An important step in 2018 was the introduction of Zapliq®. In 2018, the first product based on Zapliq® was launched by the world's largest and most broadly based healthcare company and the Company was awarded "2018 Best Innovation of the year in Consumer Health" by the Customer. Additionally, the Company continues its efforts to enter new geographical markets and expand sales in current markets. The Company expects these efforts to drive an increase in revenue and earnings in 2019.

During 2018, the Company has completed several larger investment projects, including completion of an entirely new, state-of-the-art production facility to support the ramp-up of new delivery formats, ZapLiq® in particular. The Company expects to see a reduction in capex activities in 2019.

Management expects the NRT business to perform marginal better in 2019, along with a further positive effect from the Nutraceutical business and the initiatives focused on continuously improving competitiveness by reaping scale efficiencies and developing efficiency and productivity across the value chain. As such, management expects the 2019 result to exceed 2018.

Management's review

Financial Review

The Group reported revenue of 816 MDKK in 2018 (2017: 859 MDKK) and EBITDA of 180 MDKK (2017: 239 MDKK). Normalized EBITDA, excluding non-recurring negative effects of 31 MDKK (2017: 9 MDKK), amount to 211 MDKK (2017: 248 MDKK). The Group's profitability was negatively affected by the need to adjust production capacity.

End of 2018 inventory levels were increased to support the global launch of the first Zapliq® product.

As a consequence of development in NRT gum revenue and the continued improvements of efficiency and productivity, the number of full time employees within the NRT core business has been reduced to 615 by the end of 2018 (2017 average in NRT: 717). Due to the growth in the nutraceutical business 49 full time employees has been employed bringing the total number of full time employees in the Group to 664 by the end of 2018.

While performance of the NRT business in 2018 has been disappointing and led to overall financial results below expectations, the development in the nutraceutical business has performed above expectations.

Investments

The new manufacturing set-up for Zapliq® has been the major driver of investments in 2018.

Knowledge resources

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

Special risks apart from generally occurring risks in industry

Currency risks

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

Interest-rate risks

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

Credit risks

In accordance with the Group's policy for assuming credit risks, all major customers and other business partners are credit rated. The Group has no significant credit risks relating to individual customers or partners.

Research and development activities in and for reporting entity

Investments in research and development activities has been as expected.

Management's review

Statutory report on corporate social responsibility

The external and internal environmental impact is considered low.

The Group's report on social responsibility matters, including gender balance can be found at the following link: https://fertin.com/about-us/corporate-social-responsibility/

Significant events occurring after end of reporting period

After the balance sheet date, the Group signed and closed the acquisition of two companies:

- **MedCan Pharma A/S** (Acquired by Claudio Bidco A/S), a research organization focusing on developing innovative products containing cannabinoids with a primary focus on the fast-growing market for medicated cannabis, and
- **Tab Labs Inc.** (Acquired by the Company), a leader in compressed gum and mints / lozenges and one of the largest contracts tableting companies in North America servicing customers within Nutraceuticals as well as Confectionery

The acquisitions will give MedCan Pharma A/S access to the Group's strong capabilities within chewing gum and other oral delivery systems and form a unique platform for finalizing the commercial development of medicinal cannabinoid products. MedCan Pharma A/S will continue its wide range of existing dialogues with both large and specialty players in the cannabis industry and will be seeking new partnerships on a global scale through the Group's existing set-up. Based in Vancouver, Canada, Tab Labs will also provide MedCan Pharma A/S, with an interesting opportunity to serve the Canadian market with edible types of cannabinoid containing products. A market that is expected to be liberalized within the next 12 months and is estimated to be a market reaching a value of more than a billion dollars in 2023.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Income statement

		Group		Parent Company	
Note	DKK'000	2018	2017	2018	2017
2	**Revenue**	815,728	859,071	0	0
3,4	Production costs	-823,735	-783,314	0	0
	Gross margin	-8,007	75,757	0	0
3	Distribution costs	-16,735	-12,014	0	0
3,4	Administrative expenses	-16,054	-37,460	-52	-158
	Operating profit/loss	-40,796	26,283	-52	-158
	Other operating income	442	4,157	0	0
	Other operating expenses	-521	-37	0	0
	Profit/loss before net financials	-40,875	30,403	-52	-158
8	Share of net profit/loss in subsidiaries	0	0	-101,165	-34,672
	Financial income	35	85	0	0
	Financial expenses	-68,531	-59,649	-2	-48
	Profit/loss before tax	-109,371	-29,161	-101,219	-34,878
5	Tax for the year	8,164	-5,677	12	40
	Profit/loss for the year	-101,207	-34,838	-101,207	-34,838

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Balance sheet

		Group		Parent Company	
Note	DKK'000	2018	2017	2018	2017
	ASSETS				
	Fixed assets				
6	**Intangible assets**				
	Completed development projects	72,188	79,642	0	0
	Customer relationships and technology	766,114	851,719	0	0
	Patents and licences	64,071	2,052	0	0
	Goodwill	633,975	669,078	0	0
	Development projects in progress	119,231	84,328	0	0
		1,655,579	1,686,819	0	0
7	**Property, plant and equipment**				
	Land and buildings	618,752	506,940	0	0
	Equipment and machinery	498,254	317,018	0	0
	Fixtures and fittings, plant and other equipment	12,121	11,015	0	0
	Leasehold improvements	730	1,402	0	0
	Property, plant and equipment under construction	139,556	357,327	0	0
		1,269,413	1,193,702	0	0
	Financial assets				
8	Equity investments in subsidiaries	0	0	1,204,404	1,220,990
		0	0	1,204,404	1,220,990
	Total fixed assets	2,924,992	2,880,521	1,204,404	1,220,990
	Non-fixed assets				
	Inventories				
	Raw materials and consumables	136,916	91,180	0	0
	Work in progress	18,985	26,839	0	0
	Finished goods and goods for resale	46,876	34,613	0	0
		202,777	152,632	0	0
	Receivables				
	Trade receivables	148,127	159,305	0	0
	Receivables from subsidiaries	0	0	16,055	18,165
	Joint taxation receivables	0	0	0	26,737
	Deferred tax assets	0	0	12	0
	Other receivables	9,502	10,123	0	0
	Prepayments	5,311	3,293	0	0
		162,940	172,721	16,067	44,902
	Cash	87,282	5,020	67	0
	Total non-fixed assets	452,999	330,373	16,134	44,902
	TOTAL ASSETS	3,377,991	3,210,894	1,220,538	1,265,892

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
	EQUITY AND LIABILITIES				
	Equity				
9	Share capital	13,517	12,803	13,517	12,803
	Retained earnings	1,206,615	1,226,296	1,206,615	1,226,296
	Dividend proposed for the year	0	0	0	0
	Total equity	1,220,132	1,239,099	1,220,132	1,239,099
	Provisions				
10	Deferred tax	275,203	284,611	0	0
	Total provisions	275,203	284,611	0	0
	Liabilities other than provisions				
11	**Non-current liabilities other than provisions**				
	Debt to credit institutions	1,417,334	1,451,081	0	0
		1,417,334	1,451,081	0	0
	Current liabilities other than provisions				
11	Current portion of non-current liabilities other than provisions	40,000	45,010	0	0
	Debt to credit institutions	246,485	8,389	0	46
	Trade payables	109,757	76,982	0	0
	Income taxes	0	22,251	0	22,251
	Joint taxation receivables	0	0	0	4,446
	Other payables	69,080	83,471	406	50
		465,322	236,103	406	26,793
	Total liabilities other than provisions	1,882,656	1,687,184	406	26,793
	TOTAL EQUITY AND LIABILITIES	3,377,991	3,210,894	1,220,538	1,265,892

1 Accounting policies
12 Contractual obligations and contingencies
13 Mortgages and collateral
14 Currency and interest rate risks and the use of derivative financial instruments
15 Related parties
16 Fees paid to auditors appointed at the annual general meeting

Consolidated financial statements and parent company financial statements 1 January - 31 December

Statement of changes in equity

		Group			
Note	DKK'000	Share capital	Retained earnings	Dividend proposed for the year	Total
	Equity at 1 January 2018	12,803	1,226,296	0	1,239,099
	Capital from shareholders	714	83,840	0	84,554
	Dividend distribution	0	0	0	0
17	Transfer, see "Appropriation of profit/loss"	0	-101,207	0	-101,207
	Purchase of own shares	0	-2,338	0	-2,338
	Other value adjustments of equity	0	-314	0	-314
	Value adjustment of hedging instruments, year-end	0	433	0	433
	Tax on equity transactions	0	-95	0	-95
	Equity at 31 December 2018	13,517	1,206,615	0	1,220,132

Consolidated financial statements and parent company financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Parent Share capital	 Retained earnings	 Dividend proposed for the year	 Total
	Equity at 1 January 2018	12,803	1,226,296	0	1,239,099
	Capital from shareholders	714	83,840	0	84,554
17	Transfer, see "Appropriation of profit/loss"	0	-101,207	0	-101,207
	Purchase of treasury shares	0	-2,338	0	-2,338
	Other value adjustments of equity	0	-314	0	-314
	Value adjustment of hedging instruments, year-end	0	433	0	433
	Tax on equity transactions	0	-95	0	-95
	Equity at 31 December 2018	13,517	1,206,615	0	1,220,132

Consolidated financial statements and parent company financial statements 1 January – 31 December

Cash flow statement

Cash flow statement

		Group	
Note	DKK'000	2018	2017
	Profit/loss before net financials	-40,875	30,403
	Amortisation/depreciation charges	220,519	208,338
	Other adjustments of non-cash operating items	332	998
	Cash generated from operations before changes in working capital	179,976	239,739
18	Changes in working capital	-17,953	-39,135
	Cash generated from operations	162,023	200,604
	Interest received	35	85
	Interest paid	-60,755	-41,069
	Income taxes paid	-22,950	0
	Cash flows from operating activities	78,353	159,620
6	Acquisition of intangible assets	-48,690	-34,377
7	Acquisition of property, other plant and equipment	-218,024	-166,277
	Disposal of property, other plant and equipment	335	0
	Acquisition of subsidiaries and activities	0	-2,720,247
	Cash flows from investing activities	-266,379	-2,920,901
	Loan financing:	-45,010	
	Repayment of non-current liabilities		
	Proceeds from loans	200,000	1,472,602
	Purchase of treasury shares	-2,338	0
	Shareholders:		
	Paid capital from shareholders	84,554	1,280,295
	Cash flows from financing activities	237,206	2,752,897
	Net cash flows	49,181	-8,384
	Cash and cash equivalents, beginning of year	-8,384	0
19	**Cash and cash equivalents, year-end**	40,797	-8,384

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 **Accounting policies**

The annual report of Claudio HoldCo A/S for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

Consolidated financial statements

Control

The consolidated financial statements comprise the Parent Company Claudio HoldCo A/S and subsidiaries controlled by Claudio HoldCo A/S.

Control means the power to exercise decisive influence over a subsidiary's financial and operating decisions. Moreover, the possibility of yielding a return from the investment is required.

In assessing if the Parent Company controls an entity, de facto control is taken into consideration as well.

The existence of potential voting rights which may currently be exercised or converted into additional voting rights is considered when assessing if an entity may become empowered to exercise decisive influence over another entity's financial and operating decisions.

Preparation of consolidated financial statements

The consolidated financial statements have been prepared as a consolidation of the Parent Company's and the individual subsidiaries' financial statements, which are prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains unless they do not reflect impairment.

In the consolidated financial statements, the items of subsidiaries are recognised in full. Non-controlling interests' share of the profit/loss for the year and of the equity of subsidiaries which are not wholly-owned are included in the Group's profit/loss and equity, but are disclosed separately.

Acquisitions and disposals of non-controlling interests which are still controlled are recognised directly in equity as a transaction between shareholders.

Business combinations

Recently acquired entities are recognised in the consolidated financial statements from the date of acquisition. Entities sold or otherwise disposed of are recognised up to the date of disposal. Comparative figures are not restated to reflect newly acquired entities. Discontinued operations are presented separately, see below.

The date of acquisition is the date when the Group actually obtains control of the acquiree.

The purchase method is applied to acquisitions of new businesses over which the Group obtains control. The acquired businesses' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. Deferred tax related to the revaluations is recognised.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Positive differences (goodwill) between, on the one hand, the consideration for the acquiree, the value of non-controlling interests in the acquired entity and the fair value of any previously acquired equity investments and, on the other hand, the fair value of the assets, liabilities and contingent liabilities acquired are recognised as goodwill under "Intangible assets". Goodwill is amortised on a straight-line basis in the income statement based on an individual assessment of the economic life of the asset.

Negative differences (negative goodwill) are recognised in the income statement at the date of acquisition.

Upon acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for impairment testing. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency different from the presentation currency used in the consolidated financial statements are accounted for as assets and liabilities belonging to the foreign entity and are, on initial recognition, translated into the foreign entity's functional currency using the exchange rate at the transaction date.

The consideration paid for an entity consists of the fair value of the agreed consideration in the form of assets transferred, liabilities assumed and equity instruments issued. If part of the consideration is contingent on future events or compliance with agreed terms, such part of the consideration is recognised at fair value at the date of acquisition. Subsequent adjustments of contingent considerations are recognised in the income statement.

Expenses incurred to acquire entities are recognised in the income statement in the year in which they are incurred.

Where, at the date of acquisition, the identification or measurement of acquired assets, liabilities, contingent liabilities or the determination of the consideration is associated with uncertainty, initial recognition will take place on the basis of provisional values. If it turns out subsequently that the identification or measurement of the purchase consideration, acquired assets, liabilities or contingent liabilities was incorrect on initial recognition, the statement will be adjusted retrospectively, including goodwill, until 12 months after the acquisition, and comparative figures will be restated. Hereafter, any adjustments are recognised as misstatements.

Gains or losses from divestment or winding-up of subsidiaries which imply that control is no longer maintained are calculated as the difference between, on the one hand, the selling price less selling expenses and, on the other hand, the proportionate share of the carrying amount of net assets. If the entity still holds equity investments in the divested entity, the remaining proportionate share of the carrying amount forms the basis for the measurement of equity investments in associates or securities and equity investments.

Foreign currency translation

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

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 **Accounting policies (continued)**

Foreign subsidiaries and associates are considered separate entities. Items in such entities' income statements are translated at average exchange rates for the month, and balance sheet items are translated at closing rates. Foreign exchange differences arising on translation of the opening equity of foreign entities to closing rates and on translation of the income statements from average exchange rates to closing rates are taken directly to equity.

Foreign exchange adjustments of balances with separate foreign subsidiaries which are considered part of the total investment in the subsidiary are taken directly to equity. Foreign exchange gains and losses on loans and derivative financial instruments designated as hedges of foreign subsidiaries are also recognised directly in equity.

On recognition of foreign subsidiaries which are integral entities, monetary items are translated at closing rates. Non-monetary items are translated at the exchange rates at the acquisition date or at the date of any subsequent revaluation or impairment of the asset. Income statement items are translated at the exchange rates at the transaction date, although items derived from non-monetary items are translated at the historical exchange rates applying to the non-monetary items.

Derivative financial instruments

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

Fair value adjustments of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with fair value adjustments of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity must be transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously recognised in equity must be transferred to the income statement in the period in which the hedged item affects the income statement.

Fair value adjustments of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement on a current basis.

Fair value adjustments of derivative financial instruments held to hedge net investments in separate foreign subsidiaries or associates are recognised directly in equity.

Income statement

Revenue

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 fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

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Notes

1 Accounting policies (continued)

Production costs

Production costs comprise costs, including depreciation and amortisation and salaries, incurred in generating revenue for the year. Such costs include direct and indirect costs related to raw materials and consumables, wages and salaries, rent and leases as well as impairment losses on production plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

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 comprise expenses paid in the year to manage and administer the Company, including expenses related to administrative staff, management, office premises, office expenses and amortisation/depreciation.

Other operating income

Other operating income comprises items secondary to the entities' activities, including gains on disposal of intangible assets and items of property, plant and equipment.

Other operating expenses

Other operating expenses comprise items secondary to the entities' activities, including losses on disposal of intangible assets and items of property, plant and equipment.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment. The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Completed development costs	5-15 years
Customer relationships and technology	10-12 years
Software	3-10 years
Goodwill	20 years

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

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

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

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Profit/loss from equity investments in subsidiaries and associates

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

Financial income and expenses

Financial income and expenses comprise interest income and expenses, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax for the year

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 subsidiaries. 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

Goodwill is amortised over the expected economic life of the asset, measured by reference to Management's experience in the individual business segments. Goodwill is amortised on a straight-line basis over the amortisation period, which is 20 years. The amortisation period is fixed on the basis of the expected repayment horizon.

Customer relationships and technology

Customer relationships and technology is amortised over the expected economic life of the asset, measured by reference to Management's experience in the individual business segments. Customer relationships and technology is amortised on a straight-line basis over the amortisation period, which is 10-12 years. The amortisation period is fixed on the basis of the expected repayment horizon.

Development projects, patents and licences

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

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

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 and 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, however not exceeding 20 years. 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.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, and wages and salaries as well as borrowing costs relating to specific and general borrowing directly attributable to the construction of the individual asset.

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.

Leases

On initial recognition, leases for assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the net present value of future lease payments. In calculating the net present value, the interest rate implicit in the lease or the incremental borrowing rate is used as discount factor. Assets held under finance leases are subsequently accounted for as the Company's other assets.

The capitalised residual lease liability is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are considered operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total liabilities relating to operating leases and other leases are disclosed in contingencies, etc.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Equity investments in subsidiaries and associates

Equity investments in subsidiaries and associates are measured according to the equity method in the parent company financial statements. Equity investments in associates are also measured according to the equity method in the consolidated financial statements.

On initial recognition, equity investments in subsidiaries and associates are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding the consolidated financial statements above.

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 in the consolidated financial statements. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

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

Impairment of non-current assets

The carrying amount of intangible assets, property, plant and equipment and equity investments in subsidiaries and associates is tested annually for impairment.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the 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 net 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.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

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

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

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1 Accounting policies (continued)

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 assessed for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the country of domicile and credit ratings of the debtors in accordance with the Group's credit 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 net 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 "Current assets" comprise expenses incurred concerning subsequent financial years.

Equity

Treasury shares

The purchase- and sales price of treasury shares are recognized directly in the capital under retained earnings.

Reserve for net revaluation according to the equity method

Net revaluation of equity investments in subsidiaries and associates is recognised at cost in the reserve for net revaluation according to the equity method.

The reserve can be eliminated in case of losses, realisation of equity investments or a change in accounting estimates.

The reserve cannot be recognised at a negative amount.

Dividend

Dividend proposed for the year is recognised as a liability at the date when it is adopted at the general meeting (declaration date). Dividend expected to be distributed for the year is disclosed as a separate item under equity.

Income tax and deferred tax

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

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Income tax receivable" or "Income tax payable".

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Deferred tax is measured using the balance sheet 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 or on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting neither the profit/loss for the year nor the 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 assets, including the tax base of tax loss carry-forwards, 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 and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

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.

Cash flow statement

The cash flow statement shows the Group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of entities is shown separately in cash flows from investing activities. Cash flows from corporate acquisitions are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of entities are recognised up until the date of disposal.

Cash flows from operating activities

Cash flows from operating activities are calculated as the Group's share of the profit/loss adjusted for non-cash operating items, changes in working capital and income taxes paid.

Cash flows from investing activities

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

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Cash flows from financing activities

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

Cash and cash equivalents

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

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

DKK'000	Group 2018	Group 2017	Parent 2018	Parent 2017
2 Segment information				
Activities – primary segment				
Medical products	698,038	835,302	0	0
Other products	117,690	23,769	0	0
	815,728	859,071	0	0
3 Expenses				
Wages and salaries	325,396	315,453	0	0
Pensions	32,945	30,606	0	0
Other social security costs	5,204	4,675	0	0
	363,545	350,734	0	0
Staff costs are recognised the financial statements under the following line items:				
Production costs	337,625	322,337	0	0
Distribution costs	10,676	6,323	0	0
Administrative expenses	15,244	22,074	0	0
	363,545	350,734	0	0
Average number of full-time employees	738	717	0	0

Remuneration and pensions to the members of the Parent Company's Executive Board and Board of Directors:

	Group 2018	Group 2017	Parent 2018	Parent 2017
Remuneration and pension	5,945	6,167	0	0
	5,945	6,167	0	0

DKK'000	Group 2018	Group 2017	Parent 2018	Parent 2017
4 Amortisation/depreciation and impairment losses				
Intangible assets	138,157	129,509	0	0
Property, plant and equipment	82,362	78,988	0	0
	220,519	208,497	0	0
Amortisation/depreciation charges and impairment losses are recognised in the financial statements under the following line items:				
Production costs	215,931	201,726	0	0
Distribution costs	0	0	0	0
Administrative expenses	4,588	6,771	0	0
	220,519	208,497	0	0

Consolidated financial statements and parent company financial statements 1 January – 31 December

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DKK'000	Group 2018	Group 2017	Parent 2018	Parent 2017
5 Tax for the year				
Current tax charge for the year	-1,339	-20,114	0	40
Adjustment of the deferred tax charge for the year	9,503	14,437	12	0
	8,164	-5,677	12	40
Analysed as follows:				
Tax for the year	8,164	-5,677	12	40
Tax on changes in equity	95	-969	0	0
0	8,259	-6,646	12	40

6 Intangible assets

DKK'000	Group: Completed develop-ment projects	Customer relation-ships and technology	Patents and licences	Goodwill	Develop-ment projects in progress	Total
Cost at 1 January 2018	90,533	933,300	5,600	702,567	84,328	1,816,328
Additions	5,198	0	5,951	0	37,541	48,690
Transferred	2,638	0	58,227	0	-2,638	58,227
Cost at 31 December 2018	98,369	933,300	69,778	702,567	119,231	1,923,245
Amortisation and impairment losses at 1 January 2018	10,891	81,581	3,548	33,489	0	129,509
Amortisation	15,290	85,605	2,159	35,103	0	138,157
Amortisation and impairment losses at 31 December 2018	26,181	167,186	5,707	68,592	0	267,666
Carrying amount at 31 December 2018	72,188	766,114	64,071	633,975	119,231	1,655,579
Amortised over	5-15 years	10-12 years	3-10 years	20 years	-	

Rationale for choice of goodwill amortisation periods

Fertin Pharma A/S

The Group's investment in the subsidiary is considered to be strategically important to the Company. Due regard being had to the Group's expected plans to increase the level of activity and earnings, the economic life of goodwill has been set at 20 years.

Consolidated financial statements and parent company financial statements 1 January – 31 December

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Development projects (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 comprise salaries, wages and other costs for development and test of products for customers.

The carrying amount of completed projects is 72,188 tDKK. The impairmenttest indicates a higher commercial value.

The carrying amount of projects in progress is 119,231 tDKK. The impairmenttest indicates a higher commercial value.

7 Property, plant and equipment

	Group					
DKK'000	Land and buildings	Equipment and machinery	Fixtures and fittings, plant and other equipment	Leasehold improve-ments	Property, plant and equipment under construc-tion	Total
Cost at 1 January 2018	531,049	360,850	19,557	3,727	357,327	1,272,510
Additions	0	459	377	0	217,188	218,024
Transferred	140,436	230,682	5,090	0	-434,445	-58,237
Disposals	0	-1,042	-158	0	-514	-1,714
Cost at 31 December 2018	671,485	590,949	24,866	3,727	139,556	1,430,583
Depreciation and impairment losses at1 January 2018	24,109	43,832	8,542	2,325	0	78,808
Depreciation	28,624	48,863	4,203	672	0	82,362
Disposals	0	0	0	0	0	0
Depreciation and impairment losses at 31 December 2018	52,733	92,695	12,745	2,997	0	161,170
Carrying amount at 31 December 2018	618,752	498,254	12,121	730	139,556	1,269,413
Depreciated over	10-70 years	5-20 years	3-5 years	6-30 years	-	

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DKK'000	Parent 2018	Parent 2017
8 Equity investments in subsidiaries		
Cost at 1 January	1,262,020	0
Additions	84,554	1,262,020
Cost at 31 December	1,346,574	1,262,020
Value adjustments at 1 January	-41,030	0
Other value adjustments of equity	-313	
Foreign exchange adjustment and adjustment of hedging instruments	338	-6,358
Profit/loss for the year	-101,165	-34,672
Value adjustments at 31 December	-142,170	-41,030
Carrying amount at 31 December	1,204,404	1,220,990
Non-amortised differences	1,462,038	1,585,435

Name and registered office	Voting rights and ownership
Claudio Bidco A/S, Vejle, Denmark	100%
Fertin Pharma A/S, Vejle, Denmark	100%
Fertin Pharma R&D India Pv. Ltd., India	100%
Fertin India Private Ltd. , India	100%

All subsidiaries are considered separate entities.

9 Share capital

The share capital comprises:

12,116,706 A-shares of DKK 1 each.

1,400,112 B-shares of DKK 1 each.

639,923 new A-shares have been subscribed in the financial year.

73,945 new B-shares have been subscribed in the financial year.

The Company owns treasury shares at the balance sheet date. The company acquired in 2018 21,500 of treasury shares of nominally DKK 1 each. Own shares constitute 0.2 % of the share capital. Treasury shares are acquired, among other reasons, to be used in the plan to bring in new partners to the company.

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DKK'000	Group 2018	Group 2017	Parent 2018	Parent 2017
10 Deferred tax				
Deferred tax at 1 January	284,611	0	0	0
Adjustment of the deferred tax charge for the year	-9,503	-14,437	12	0
Addition of subsidiary	95	299,048	0	0
Deferred tax at 31 December	275,203	284,611	12	0
The deferred tax charge relates to:				
Intangible assets	211,943	223,903	0	0
Property, plant and equipment	69,484	57,338	0	0
Investments (internal gains)	-366	-285	0	0
Current assets	6,434	6,146	0	0
Liabilities	-3,816	-2,491	0	0
Net operating loses	-8,476	0	12	0
	275,203	284,611	12	0
Deferred tax is recognised in the balance sheet as follows:				
Deferred tax assets	0	0	12	0
Deferred tax liabilities	275,203	284,611	0	0
	275,203	284,611	12	0

	Group 2018	Group 2017	Parent 2018	Parent 2017
11 Debt to mortgage credit institutions and other credit institutions				
Analysis of liabilities:				
Credit institutions				
Long-term	1,417,334	1,451,081		0
Short-term	40,000	45,010		0
Overdraft facility	246,485	8,389		46
	1,703,819	1,504,480	0	46
Non-current liabilities falling due more than five years after the financial year-end (carrying amount)	0	1,152,041		0

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12 Contractual obligations and contingencies, etc.

Contingent liabilities

The Parent Company is jointly taxed with its Danish subsidiaries. As management company, the Company has joint and several unlimited liability, together with the subsidiaries, for all Danish income taxes and withholding taxes on dividend, interest and royalties within the group of jointly taxed entities. The jointly taxed entities' total known net liability in respect of income taxes and withholding taxes payable on dividend, interest and royalties amounted to DKK 0 thousand at 31 December 2018. Any subsequent corrections of income subject to joint taxation and withholding taxes, etc. could entail an increase in the entities' tax liability. The Group as a whole is not liable vis-à-vis any third parties.

Operating lease liabilities

The group entities have entered into operating leases. The leases have a remaining term of 0-5 years and a total, nominal residual lease liability of DKK 17,003 thousand.

	Group		Parent	
DKK'000	2018	2017	2018	2017
13 Mortgages and collateral				
The following assets have been placed as security for the Group's debt to credit institutions:				
Land and buildings with a carrying amount of	556,803	442,303	0	0

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

Claudio HoldCo A/S has moreover provided a guarantee for the subsidiary's bank loan in Danske Bank, amounting to maximally DKK 445 million. Furthermore Claudio Bidco A/S has provided guarantee for the subsidiary's bank loan in Danske Bank with it shares in Claudio Bidco A/S.

14 Currency and interest rate risks and use of derivative financial instruments

The Group uses hedging instruments such as forward exchange contracts and interest and currency swaps to hedge recognised and non-recognised transactions.

Interest rate risks

The Group uses interest rate swaps to hedge interest rate risks, whereby floating interest payments are rescheduled into fixed interest payments.

Group	2018			
DKK'000	Notional principal	Value adjust-ment recog-nised in equity	Fair value	Term to maturity (months)
Interest rate swaps	740,000	-433	-3,199	18

The hedged cash flows are expected to be realised and will affect results of operations over the term to maturity of the interest rate swap.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

15 Related parties

Claudio Holdco A/S' related parties comprise the following:

Parties exercising control

Claudio Topco B.V., Holland holds the majority of the share capital in the entity.

Related party transactions

No transactions were carried through with shareholders in the year.

Remuneration/fees to members of the Executive Board and the Board of Directors of the Parent Company are reflected in note 2.

16 Fees paid to auditors appointed at the annual general meeting

	Group		Parent	
DKK'000	2018	2017	2018	2017
Total fee to EY				
Fee for statutory audit	285	286	15	19
Fees for tax advisory services	127	18	10	12
Other assistance	406	386	15	19
	818	690	40	50

	Parent	
DKK'000	2018	2017
17 Appropriation of profit/loss		
Recommended appropriation of profit/loss		
Transferred to reserves under equity	-101,207	-34,838

	Group	
DKK'000	2018	2017
18 Changes in working capital		
Change in inventories	-50,145	-11,516
Change in receivables	11,178	-20,590
Change in trade and other payables	20,581	-3,397
Fair value adjustments of hedging instruments recognised in equity	433	-3,632
	-17,953	-39,135

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19 Cash and cash equivalents

DKK'000	Group 2018	Group 2017
Cash and cash equivalents at 31 December comprise:		
Cash	87,282	5
Short-term debt to banks	-46,485	-8,389
	40,797	-8,384