

# Alvotech

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Annual report and Report of the  
*Réviseur d'Entreprises Agréé* as of  
31 December 2022 and 2021 and  
for the years ended 31 December  
2022 and 2021

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Alvotech  
9, rue de Bitbourg  
L-1273 Luxembourg  
Grand Duchy of Luxembourg  
RCS Luxembourg B 258.884

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*Réviseur d'Entreprises Agréé* as of  
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# Endorsement by the Board of Directors

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Alvotech  
Société anonyme  
(the “Company”)

Registered Office: 9, rue de Bitbourg, L-1273 Luxembourg  
R.C.S. Luxembourg B 258.884

## Management report to the General Meeting of Shareholders

Dear shareholders,

We hereby wish to submit to you the consolidated financial statements of the Company and the Alvotech Group (“**Alvotech**” or the “**Group**”) its Corporate Governance Statement (referred to as appendix 1) and non-financial disclosure (referred to as appendix 2) (combined together the “Annual Report”) for the financial year ending on 31 December 2022. The present report relates to the consolidated accounts in accordance with article 1720-1 (3) of the law of 10 August 1915 on commercial companies, as amended.

### I. Business developments for the financial year ended 31 December 2022

On 15 June 2022, the Group completed its business combination with Oaktree Acquisition Corp. II, a special purpose acquisition company sponsored by an affiliate of Oaktree Capital Management, L.P. The day after Alvotech began trading on the Nasdaq Stock Market LLC in USA. On 23 June 2022, the shares were also listed on Nasdaq First North Growth Market in Iceland. See further information in note 1.1.

On 8 December 2022, the Group announced that trading in its shares would move from the Nasdaq Iceland First North Growth market to the Nasdaq Iceland Main Market.

During the financial year the Group’s main activities were focused on product development in preparation for the commercial launch of Adalimumab which commenced in Canada and Europe during the year. Also, the group focused on its research and development programs as three biosimilar candidates, AVT03, AVT06 and AVT05 advanced into clinical development in 2022. In April 2022, the Group’s commercial partner, JAMP Pharma, launched AVT02 under the name SIMLANDI in Canada. In 2022, the Group’s commercial partner, STADA, launched AVT02 under the name Hukyndra in select European markets. The Group recognized \$24.8 million in product revenue resulting from the commercialization of AVT02.

On 16 November 2022, the Group announced that it had secured additional financing facilities with gross proceeds of approximately \$136 million, which included \$70 million from upsizing of existing senior bonds, an additional \$50 million in the form of a subordinated loan and the purchase of Alvotech’s previously leased Reykjavik manufacturing facility, the refinancing of which resulted in approximately \$16 million in gross proceeds.

On 16 December 2022, the Group completed a private placement of subordinated convertible bonds convertible into new fully paid ordinary shares of Alvotech, for gross proceeds of approximately \$70 million. The majority of the net proceeds were used to replace a \$50 million unsecured subordinated loan from Alvogen.

The consolidated statement of financial position total assets amount to **828.4** million United States dollars (USD).

The financial year ending on 31 December 2022, has produced a loss of **513.6** million USD.

In addition to its operating results, as calculated in accordance with IFRS, the Group uses Adjusted EBITDA when monitoring and evaluating operational performance. Adjusted EBITDA is defined as profit or loss for the relevant period, as adjusted for certain items that Alvotech management believes are not indicative of ongoing operating performance. Alvotech believes that this non-IFRS measure assists its shareholders because it enhances the comparability of results each period, helps to identify trends in operating results and provides additional insight and transparency on how management evaluates the business. Alvotech’s executive management team uses this non-IFRS measure to evaluate financial measures to budget, update forecasts, make operating and strategic decisions, and evaluate performance. This non-IFRS financial measure is not meant to be considered alone or as a substitute for IFRS financial measures and should be read in conjunction with Alvotech’s consolidated financial statements prepared in accordance with IFRS. Additionally, this non-IFRS measure may not be comparable to similarly titled measures used by other companies. The most directly comparable IFRS measure to this non-IFRS measure is loss for the year.

## Endorsement by the Board of Directors

The following table reconciles loss for the year to Adjusted EBITDA for the years ended 31 December 2022, and 2021, respectively:

<i>USD in million</i>	2022	2021
Loss for the year.....	(513.6)	(101.5)
Income tax benefit.....	(38.1)	(47.7)
Total net finance costs.....	185.9	65.8
Depreciation and amortization.....	20.4	18.2
Impairment of property, plant and equipment .....	-	2.1
Impairment of intangible assets .....	2.8	4.0
Incentive plan expense .....	11.0	18.0
Share of net loss of joint venture .....	2.6	2.4
Exchange rate differences .....	(10.6)	(2.7)
Share listing expense .....	83.4	-
Loss (Gain) on extinguishment of financial liabilities .....	27.3	(151.8)
Transaction costs .....	23.7	12.5
Adjusted EBITDA.....	<u>(205.2)</u>	<u>(180.7)</u>

We suggest the following allocation of the result:

<b>USD (million)</b>	
Result brought forward from the previous year.....	(1,140.5)
Result for the year.....	(513.6)
Distribution of dividends.....	-
Result to be carried forward to the following financial year.....	<u>(1,654.1)</u>

### II. Future developments

On 10 February 2023, Alvotech announced the completion of a private share placement of 11,834,061 ordinary shares at a price of \$11.57 per share, for aggregate gross proceeds of approximately \$137 million. The shares were delivered from previously issued own shares held by Alvotech's subsidiary, Alvotech Manco ehf. See further information on own shares in note 19.

At this point, the Board of Directors is confident that the appropriate level of funding will be available from these sources to meet the business needs in 2023 and beyond. See further information in note 1.5.

### III. Business risks and their mitigation

This section contains a summary of the main risks that the Group may face during the normal course of its business. Detailed information on the Group's risks relating to financial instruments, risk management objectives and policies can be found in note 27.

Please note however, that

- This section does not purport to contain an exhaustive list of the risks faced by the Group, as the Group may be significantly affected by risks that it has not identified, or not considered as material;
- Some risks faced by the Group, whether they are mentioned in this section or not, may arise from external factors beyond the Group's control;
- Where means of mitigation are mentioned in this section, such mention does not constitute a guarantee that the means of mitigation will be effective (in whole or in part) to remove, or reduce the effect of the risk.

The Group business model is built around the development, manufacturing and commercialization of biosimilar medicine. Development of biosimilar medicine is subjected to numerous risks, as the product travels through different stages of development, scale-up, clinical, regulatory to name a few. On the commercial side the Group is faced with an ever-changing competitive landscape, as well as pricing for its products.

## Endorsement by the Board of Directors

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### IV. Additional disclosures

Alvotech is committed to strong and transparent corporate governance. Our corporate governance framework, along with our internal controls and policies, is intended to support sustainable financial performance and long-term value creation for all of our stakeholders including shareholders, patients, employees and other stakeholders. Further information on corporate governance can be found in appendix 1 to these consolidated financial statements and on the Groups website at [www.alvotech.com](http://www.alvotech.com).

Information about sustainability and non-financial reporting is disclosed in appendix 2 to these consolidated financial statements, where information about operations, environment, social environment and governance can be found.

In our opinion, the consolidated financial statements of Alvotech for the year 2022 with the file name 222100DCZBOWV5DZ8372-2022-12-31-en.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Pursuant to Article 68 of the law of 19 December 2002 regarding the trade and companies' register and the accounting as well as annual accounts of companies, as amended, the board of directors hereby declares:

1. To the best of our knowledge, we are not aware of any events which would have a material bearing on the accounts since the end of the previous financial year. Information on subsequent events can be found in note 29.
2. The Groups's likely foreseeable future development is stable.
3. Research and development expenses consist primarily of costs incurred in connection with Alvotech's research, development and pre-commercial manufacturing activities prior to the commercialization of its biosimilar products. Expenditures related to research and development activities are generally recognized as an expense in the period in which they are incurred. Due to significant regulatory uncertainties and other uncertainties inherent in the development of pharmaceutical products, Alvotech did not capitalize any research and development expenses as internally developed intangible assets during the year. Research and development activities will continue to be central to Alvotech's business model and will vary significantly based upon the success of its programs. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of development, primarily due to the increased size and duration of later-stage clinical trials. The Group conducts research and development activities at its subsidiaries in Iceland, Germany and Switzerland.
4. The Company did not purchase any of its own shares.
5. The Company does not have established branches.

We kindly ask you to grant discharge to the directors for the exercise of their mandates during the financial year ended on 31 December 2022.

Done in Luxembourg on 1 March 2023,

**For the Board of Directors:**



Robert Wessman

Title: CEO & Chairman

To the Shareholders of  
Alvotech S.A.  
9, rue de Bitbourg,  
L-1273 Luxembourg

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Alvotech S.A. (the “Company”) and its subsidiaries (together the “Group”), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the “*Commission de Surveillance du Secteur Financier*” (CSSF). Our responsibilities under the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the “*Responsibilities of the “réviseur d’entreprises agréé” for the Audit of the consolidated financial statements*” section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw your attention to Note 1.5 to the consolidated financial statements, which indicates that, the Group incurred recurring losses since its inception, including net losses of \$513.6 million and \$101.5 million for the years ended 31 December 2022 and 2021, respectively, and had an accumulated deficit of \$1,654.1 million as of 31 December 2022. The Group has not generated positive operational cash flow, largely due to the continued focus on biosimilar product development and expansion efforts. As set in note 1.5, these conditions together with the events set forth, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Management is nevertheless confident that financing of the Group during the development of its biosimilar products will continue to come from several sources including new and existing out-license contracts with customers. Based on the cash in hand, funding received, and projected future cash flows, Management concluded that the Group has the ability to continue as a going concern for at least one year after the date that the consolidated financial statements are issued, however there is no assurance that the Group will be successful in obtaining sufficient funding on terms acceptable to the Group to fund continuing operations. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the Key Audit Matter was addressed in our audit
<p><b>Capital Reorganization — Refer to Notes 1.1 to the consolidated financial statements</b></p> <p>As disclosed in Note 1.1, on 15 June 2022, the Company consummated the capital reorganization (the "Business Combination") contemplated between Oaktree Acquisition Corp. II ("OACB"), the Company, and Alvotech Holdings S.A. (the "Predecessor"). As a result, both OACB and the Predecessor merged with and into the Company.</p> <p>The Company accounted for the transaction as a reverse acquisition where Alvotech Holding S.A. was the accounting acquirer and accounting predecessor. Accordingly, the capital reorganization was treated as the equivalent of the Company issuing shares at the closing of the Business Combination for the net assets of OACB as of the Closing Date, accompanied by a recapitalization within the scope of IFRS 2.</p>	<p>Our audit procedures included amongst others:</p> <ul style="list-style-type: none"> <li>• We obtained the relevant Business Combination Agreements and a detailed understanding of the accounting treatment and transaction.</li> <li>• We evaluated the appropriateness of management's accounting treatment of the transaction and equity instruments.</li> <li>• We evaluated whether the business combination transaction should be treated within the scope of IFRS 3 or IFRS 2, since OACB, as special purpose acquisition company, is a non-operational entity and does not possess inputs or perform processes necessary to create an economic output; therefore, OACB does not constitute a business.</li> <li>• We involved specialists to evaluate the fair value of the shares issued by comparing these to OACB share price at Closing Date and assessing the application of a discount for the lack of</li> </ul>

As part of the Business Combination, the Predecessor and OACB's shareholders were granted a total of 38,330,000 ("Predecessor Earn Out Shares") and 1,250,000 ("OACB Earn Out Shares") Ordinary Shares respectively subject to certain vesting conditions. Additionally, as part of the Business Combination the Company assumed the 10,916,647 outstanding warrants ("OACB Warrants"), on substantially the same contractual terms and conditions as were in effect immediately prior to the Business Combination. The Predecessor Earn Out Shares, OACB Earn Out Shares and OACB warrants are accounted for as derivative financial instruments in accordance with IAS 32.

We identified the Company's accounting for the Business Combination and the Predecessor Earn Out Shares, OACB Earn Out Shares and OACB Warrants as Key audit matter because of its importance for the users' understanding of the transaction, the complexity of the agreements and the significant judgment used by the Management relating to the valuation and classification in the Company's consolidated financial statements.

## **Classification and valuation of new financing arrangements — Refer to Notes 20 to the consolidated financial statements**

As disclosed in Note 20 to the consolidated financial statements, the Group initiated several financing arrangements, including among others the following: On 16 November 2022, the Group amended and upsized the original outstanding bonds, which in accordance with IFRS 9 was accounted for as an extinguishment of the existing liability given a substantial modification was made to the terms of the outstanding bonds due to the upside amount and change in interest rates;

Through a series of transaction, the Group entered in 2022 into settlement agreements with related parties and a new subordinated loan agreement on 16 November 2022, under which amongst other things the Group agreed to rollover the prior outstanding loan into new subordinated loan agreement and contingently issuable penny warrants to the bondholders. The Group determined that these transactions were a substantial modification to its related party loans and accounted for the transaction as an extinguishment.

On 16 November, the Group issued a new convertible bond for the Share Purchase Agreement and the acquisition of the Alvotech Facility. Bondholders have

marketability for those shares that are subject to lock-up terms.

- With regard to the accounting of the OACB warrants, we involved specialists to assist us in evaluating the appropriateness of:
- Management's classification of the instruments as derivative financial liabilities according to IAS 32;
- Management's valuation approach for public and private warrants. We evaluated the fair value of both types of warrants by comparing these to the publicly listed price of the public warrants.
- We evaluated the sufficiency of the related disclosures in Note 1.1

Our audit procedures included amongst others:

- We obtained an understanding of the Group's recognition, derecognition and measurement policies for derivative financial instruments;
- We evaluated the design effectiveness and implementation of relevant controls;
- We involved internal accounting specialists in the evaluation of:
  - The appropriateness of the Group's substantial modification assessment and the subsequent extinguishment of the Senior Bonds and Alvogen Facility loan;
  - The appropriateness of the Group's classification of the derivative financial instruments;
- We involved internal fair value specialists in the evaluation of:
  - Input data used in the Group's valuation models by comparing it to contract terms and independent sources of available external market data;
  - The appropriateness of method adopted by the Group to develop the



the right to convert their outstanding bond into ordinary shares of Alvotech at specific date.

On 20 December 2022, the Group issued two tranches of Convertible bonds. Tranche A is ISK denominated while tranche B is USD denominated. Holders of the bonds of both Tranche A and Tranche B, may elect to convert all or part of the principal amount and accrued coupon into Alvotech ordinary shares at a fixed conversion rate.

We considered the change in the terms of the financing arrangements and the measurement of fair value for derivatives and other financial instruments as key audit matters, as the application of the accounting standards and the development of the assumptions referred to above involve a high level of complexity and require significant judgment and estimates from Management.

## Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated annual report including the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of the "*réviseur d'entreprises agréé*" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

- value of the derivative financial instrument;
- Key assumptions such as the group's applied volatility, risky yield and scenario analysis;
- Whether the terms and conditions of the underlying agreements were made at arm's length basis;
- We evaluated the compliance of the disclosure in Note 20 to the consolidated financial statements with disclosure requirements of the applicable accounting standard.

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

The Board of Directors is responsible for presenting and marking up the consolidated financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format as amended ("the ESEF Regulation").

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Responsibilities of the "réviseur d'entreprises agréé" for the Audit of the Consolidated Financial Statements**

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors use of the going concern basis of accounting 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated 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 report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and 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.

Our responsibility is also to assess whether the consolidated financial statements have been prepared in all material respects with the requirements laid down in the ESEF Regulation.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, “actions taken to eliminate threats or safeguards applied”.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

## **Report on Other Legal and Regulatory Requirements**

We have been appointed as “*réviseur d’entreprises agréé*” by the General Meeting of the Shareholders on 7 June 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is one year.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Statement and Non-financial disclosure are presented on pages 76 to 89. The information required by Article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of, as amended,

is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We have checked the compliance of the consolidated financial statements of the Group as at 31 December 2022 with the relevant statutory requirements set out in the ESEF Regulation that are applicable to consolidated financial statements

For the Group, it relates to:

- Financial statements prepared in a valid XHTML format;
- The XBRL markup of the consolidated financial statements using the core taxonomy and the common rules on markups specified in the ESEF.

In our opinion, the consolidated financial statements of the Group as at 31 December 2022, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

We confirm that the audit opinion is consistent with the additional report to the audit committee.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

For Deloitte Audit, *Cabinet de révision agréé*

Nick Tabone, *Réviseur d'entreprises agréé*  
Partner

1 March 2023

## Consolidated Statements of Profit or Loss and Other Comprehensive Income or Loss for the years ended 31 December 2022 and 2021

<i>USD in thousands, except for per share amounts</i>	<b>Notes</b>	<b>2022</b>	<b>2021</b>
Product revenue .....	5	24,836	-
License and other revenue .....	5	58,193	36,772
Other income .....		1,988	2,912
Cost of product revenue .....		(64,095)	-
Research and development expenses .....		(180,622)	(191,006)
General and administrative expenses .....		(186,742)	(84,134)
<b>Operating loss</b>		<u>(346,442)</u>	<u>(235,456)</u>
Share of net loss of joint venture .....	26	(2,590)	(2,418)
Finance income .....	7	2,549	51,568
Finance costs .....	7	(188,419)	(117,361)
Exchange rate difference .....		10,566	2,681
(Loss) / gain on extinguishment of financial liabilities .....	20	(27,311)	151,788
<b>Non-operating (loss) / profit</b>		<u>(205,205)</u>	<u>86,258</u>
<b>Loss before taxes</b>		<u>(551,647)</u>	<u>(149,198)</u>
Income tax benefit .....	10	38,067	47,694
<b>Loss for the year</b>		<u><u>(513,580)</u></u>	<u><u>(101,504)</u></u>
<b>Other comprehensive income / (loss)</b>			
<i>Item that will be reclassified to profit or loss in subsequent periods:</i>			
Exchange rate differences on translation of foreign operations .....		(6,111)	(305)
<b>Total comprehensive loss</b>		<u><u>(519,691)</u></u>	<u><u>(101,809)</u></u>
<b>Loss per share</b>			
Basic and diluted loss for the year per share .....	11	<u>(2.60)</u>	<u>(0.92)</u>

*The accompanying notes are an integral part of these Consolidated Financial Statements*

## Consolidated Statements of Financial Position as of 31 December 2022 and 2021

<i>USD in thousands</i>	<b>Notes</b>	<b>31 December 2022</b>	<b>31 December 2021</b>
<b>Non-current assets</b>			
Property, plant and equipment .....	12	220,594	78,530
Right-of-use assets .....	13	47,501	126,801
Goodwill .....	14	11,643	12,367
Other intangible assets .....	15	25,652	21,509
Contract assets .....	5	3,286	1,479
Investments in joint venture .....	26	48,568	55,307
Other long-term assets .....		5,780	1,663
Restricted cash .....	16	25,187	10,087
Deferred tax assets .....	10	209,496	170,418
<b>Total non-current assets</b>		<u>597,707</u>	<u>478,161</u>
<b>Current assets</b>			
Inventories .....	17	71,470	39,058
Trade receivables .....	5	32,972	29,396
Contract assets .....	5	25,370	17,959
Other current assets .....	18	32,949	14,736
Receivables from related parties .....	24	1,548	1,111
Cash and cash equivalents .....	16	66,427	17,556
<b>Total current assets</b>		<u>230,736</u>	<u>119,816</u>
<b>Total assets</b>		<u><u>828,443</u></u>	<u><u>597,977</u></u>

*The accompanying notes are an integral part of these Consolidated Financial Statements*

## Consolidated Statements of Financial Position as of 31 December 2022 and 2021

<i>USD in thousands</i>	<b>Notes</b>	<b>31 December 2022</b>	<b>31 December 2021</b>
<b>Equity</b>			
Share capital .....	19	2,126	135
Share premium .....	19	1,058,432	1,000,118
Other reserves .....	20, 22	30,582	-
Translation reserve .....		(1,442)	4,669
Accumulated deficit .....		(1,654,114)	(1,140,534)
<b>Total equity</b>		<u>(564,416)</u>	<u>(135,612)</u>
<b>Non-current liabilities</b>			
Borrowings .....	20	744,654	398,140
Derivative financial liabilities .....	27	380,232	-
Other long-term liability to related party .....	2	7,440	7,440
Lease liabilities .....	13	35,369	114,845
Long-term incentive plan .....	21	544	56,334
Contract liabilities .....	5	57,017	44,844
Deferred tax liability .....	10	309	150
<b>Total non-current liabilities</b>		<u>1,225,565</u>	<u>621,753</u>
<b>Current liabilities</b>			
Trade and other payables .....		49,188	28,587
Lease liabilities .....	13	5,163	7,295
Current maturities of borrowings .....	20	19,916	2,771
Liabilities to related parties .....	24	1,131	638
Contract liabilities .....	5	36,915	29,692
Taxes payable .....		934	841
Other current liabilities .....	25	54,047	42,012
<b>Total current liabilities</b>		<u>167,294</u>	<u>111,836</u>
<b>Total liabilities</b>		<u>1,392,859</u>	<u>733,589</u>
<b>Total equity and liabilities</b>		<u>828,443</u>	<u>597,977</u>

*The accompanying notes are an integral part of these Consolidated Financial Statements*

## Consolidated Statements of Cash Flows for the years ended 31 December 2022 and 2021

USD in thousands

	Notes	2022	2021
<b>Cash flows from operating activities</b>			
Loss for the year .....		(513,580)	(101,504)
<b>Adjustments for non-cash items:</b>			
Gain on extinguishment of SARs liability .....	21	(4,803)	-
Share listing expense .....	1.1	83,411	-
Long-term incentive plan expense .....	21	5,492	17,955
Depreciation and amortization .....	8	20,409	18,196
Impairment of property, plant and equipment .....	12	-	2,092
Impairment of other intangible assets .....	15	2,755	3,993
Share of net loss of joint venture .....	26	2,590	2,418
Finance income .....	7	(2,549)	(51,568)
Finance costs .....	7	188,419	117,361
Loss/(Gain) on extinguishment of financial liabilities .....	20	27,311	(151,788)
Share based payments .....	22	10,317	-
Exchange rate difference .....		(10,566)	(2,681)
Income tax benefit .....	10	(38,067)	(47,694)
<b>Operating cash flow before movement in working capital</b>		<b>(228,861)</b>	<b>(193,220)</b>
Increase in inventories .....		(32,412)	(29,412)
(Increase) / decrease in trade receivables .....		(3,576)	(28,813)
Increase / (decrease) in liabilities with related parties .....		56	(453)
(Increase) / decrease in contract assets .....		(9,218)	15,286
Increase in other assets .....		(17,194)	(4,363)
Increase in trade and other payables .....		16,442	14,318
Increase in contract liabilities .....		19,396	21,470
(Decrease) / increase in other liabilities .....		(21,384)	5,160
<b>Cash used in operations</b>		<b>(276,751)</b>	<b>(200,027)</b>
Interest received .....		568	16
Interest paid .....		(35,372)	(28,004)
Income tax paid .....		(834)	(155)
<b>Net cash used in operating activities</b>		<b>(312,389)</b>	<b>(228,170)</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment .....	12	(37,880)	(20,462)
Disposal of property, plant and equipment .....	12	379	-
Acquisition of intangible assets .....	15	(11,122)	(20,171)
Restricted cash in connection with the amended bond agreement .....	20	(14,914)	-
<b>Net cash used in investing activities</b>		<b>(63,537)</b>	<b>(40,633)</b>
<b>Cash flows from financing activities</b>			
Repayments of borrowings .....	20	(34,714)	(37,496)
Repayments of principal portion of lease liabilities .....	13	(11,147)	(7,350)
Proceeds from new borrowings .....	20	193,678	113,821
Proceeds on issue of equity shares .....	19	-	185,856
Transaction costs for amended borrowing agreements .....	20	(12,102)	-
Gross proceeds from the PIPE Financing .....	1.1	174,930	-
Gross PIPE Financing fees paid .....	1.1	(5,562)	-
Proceeds from the Capital Reorganization .....	1.1	9,827	-
Proceeds from loans from related parties .....	20	160,000	-
Repayment of loans from related parties .....	20	(50,000)	-
<b>Net cash generated from financing activities</b>		<b>424,910</b>	<b>254,831</b>



Increase / (decrease) in cash and cash equivalents .....		48,984	(13,972)
Cash and cash equivalents at the beginning of the year .....	16	17,556	31,689
Effect of movements in exchange rates on cash held .....		(113)	(161)
<b>Cash and cash equivalents at the end of the year .....</b>	<b>16</b>	<b><u>66,427</u></b>	<b><u>17,556</u></b>

Supplemental cash flow disclosures (Note 28)

*The accompanying notes are an integral part of these Consolidated Financial Statements*

## Consolidated Statements of Changes in Equity for the years ended 31 December 2022 and 2021

<i>USD in thousands</i>	Share capital	Share premium	Other reserves	Translation reserve	Accumulated deficit	Total equity
<b>At 1 January 2021</b> .....	73	166,740	-	4,974	(1,039,030)	(867,243)
Loss for the year.....	-	-	-	-	(101,504)	(101,504)
Foreign currency translation differences.....	-	-	-	(305)	-	(305)
Total comprehensive loss.....	-	-	-	(305)	(101,504)	(101,809)
Increase in share capital.....	62	833,378	-	-	-	833,440
<b>At 31 December 2021</b> .....	<b>135</b>	<b>1,000,118</b>	<b>-</b>	<b>4,669</b>	<b>(1,140,534)</b>	<b>(135,612)</b>
Loss for the year.....	-	-	-	-	(513,580)	(513,580)
Foreign currency translation differences.....	-	-	-	(6,111)	-	(6,111)
Total comprehensive loss.....	-	-	-	(6,111)	(513,580)	(519,691)
PIPE Financing.....	175	169,193	-	-	-	169,368
Settlement of SARs with shares.....	35	30,267	-	-	-	30,302
Capital Reorganization.....	1,731	(173,296)	-	-	-	(171,565)
Settlement of related party loans with Ordinary Shares.....	50	32,150	-	-	-	32,200
Recognition of share-based payments.....	-	-	14,548	-	-	14,548
Recognition of equity component of convertible bonds.....	-	-	16,034	-	-	16,034
<b>At 31 December 2022</b> .....	<b>2,126</b>	<b>1,058,432</b>	<b>30,582</b>	<b>(1,442)</b>	<b>(1,654,114)</b>	<b>(564,416)</b>

*The accompanying notes are an integral part of these Consolidated Financial Statements*

# Notes to the Consolidated Financial Statements

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## 1. General information

Alvotech (the “Parent” or the “Company” or “Alvotech”), previously known as Alvotech Lux Holdings S.A.S., the surviving company after the Business Combination (as defined below) with, among other parties, Alvotech Holdings S.A. (the “Predecessor”), is a Luxembourg public limited company (société anonyme) incorporated and existing under the laws of the Grand Duchy of Luxembourg, having its registered office at 9, rue de Bitbourg, L-1273 Luxembourg, Grand Duchy of Luxembourg and is registered with the Luxembourg Trade and Companies’ Register under number B 258884. The Company was incorporated on 23 August 2021. These consolidated financial statements were approved by the Group’s Board of Directors, and authorized for issue, on 1 March 2023.

The Company and its subsidiaries (collectively referred to as the “Group”) are a global biotech company specialized in the development and manufacture of biosimilar medicines for patients worldwide. The Group has commercialized a certain biosimilar product and has multiple biosimilar molecules.

### 1.1 Capital Reorganization

On 15 June 2022 (the “Closing Date”), the Company consummated the capital reorganization with Alvotech Holdings S.A. and OACB (the “Business Combination” or “Capital Reorganization”) pursuant to the business combination agreement, dated as of 7 December 2021, as amended by an amendment agreement dated 18 April 2022 and 7 June 2022 (the “Business Combination Agreement”), by and among the Company, Oaktree Acquisition Corp. II (“OACB”) and the Predecessor. The closing of the Business Combination resulted in the following transactions:

- OACB merged with and into the Company, whereby (i) all of the outstanding ordinary shares of OACB (“OACB Ordinary Shares”) were exchanged for ordinary shares of Alvotech (“Ordinary Shares”) on a one-for-one basis, pursuant to a share capital increase of Alvotech and (ii) all of the outstanding warrants of OACB ceased to represent a right to acquire OACB Ordinary Shares and now represent a right to be issued one Ordinary Share, with Alvotech as the surviving company in the merger. Prior to the merger OACB shares were redeemed, resulting in \$9.8 million of cash proceeds from the OACB trust account;
- Alvotech redeemed and canceled the initial shares held by the initial sole shareholder of Alvotech pursuant to a share capital reduction of Alvotech;
- The legal form of Alvotech changed from a simplified joint stock company (société par actions simplifiée) to a public limited liability company (société anonyme) under Luxembourg law; and
- The Predecessor merged with and into the Parent, whereby all outstanding ordinary shares of the Predecessor (“Predecessor Ordinary Shares”) were exchanged for Ordinary Shares, pursuant to a share capital increase of Alvotech, with Alvotech as the surviving company in the merger.

Concurrently with the execution of the Business Combination Agreement, OACB and Alvotech entered into subscription agreements (“Subscription Agreements”) with certain investors (the “PIPE Financing”). On 15 June 2022, immediately prior to the closing of the Business Combination, the PIPE Financing was closed, pursuant to the Subscription Agreements, in which subscribers collectively subscribed for 17,493,000 Ordinary Shares at \$10.00 per share for an aggregate subscription price equal to \$174.9 million.

As part of the Business Combination, Predecessor shareholders were granted a total of 38,330,000 Ordinary Shares subject to certain vesting conditions (“Predecessor Earn Out Shares”). Former OACB shareholders were granted a total of 1,250,000 Ordinary Shares subject to certain vesting conditions (“OACB Earn Out Shares”). Additionally, as part of the Business Combination the Company assumed the 10,916,647 outstanding warrants (“OACB Warrants”), on substantially the same contractual terms and conditions as were in effect immediately prior to the Business Combination. See Note 27 for further details.

The Business Combination was accounted for as a capital reorganization. Under this method of accounting, OACB was treated as the “acquired” company for financial reporting purposes, with Alvotech Holdings S.A. being the accounting acquirer and accounting predecessor. Accordingly, the capital reorganization was treated as the equivalent of Alvotech issuing shares at the closing of the Business Combination for the net assets of OACB as of the Closing Date, accompanied by a recapitalization. The capital reorganization, which was not within the scope of IFRS 3 since OACB did not meet the definition of a business in accordance with that guidance, was accounted for within the scope of IFRS 2. In accordance with IFRS 2, Alvotech recorded a one-time non-cash share listing expense of \$83.4 million, recognized as a general and administrative expense, based on the excess of the fair value of Alvotech shares issued, at the Closing Date, over the fair value of OACB’s identifiable net assets acquired. The fair value of shares issued was estimated based on a market price of \$9.38 per share as of 15 June 2022.

# Notes to the Consolidated Financial Statements

	Shares	(in 000s)
OACB Shareholders		
Class A Shareholders.....	976,505	
Class B Shareholders.....	5,000,000	
OACB Earn Out Shares.....	1,250,000	
Total Alvotech Shares issued to OACB shareholders.....	7,226,505	
Fair value of Shares issued to OACB as of 15 June 2022.....		\$ 56,060
Fair value of OACB Earn Out Shares issued to OACB as of 15 June 2022.....		9,100
Estimated fair market value.....		65,160
Adjusted net liabilities of OACB as of 15 June 2022.....		(18,251)
Difference - being the share listing expense.....		83,411

In connection with the Business Combination and PIPE Financing, the Company incurred \$28.5 million of transaction costs, which represent legal, financial advisory, and other professional fees in connection with the Business Combination and PIPE Financing, during the year ended 31 December 2022. Of this amount, \$5.6 million represented equity issuance costs related to PIPE Financing that were capitalized in share premium. The remaining \$22.9 million was recognized as general and administrative expense.

## 1.2 Information about subsidiaries and joint ventures

Entity name	Principal activity	Issued and paid capital (presented in whole shares)	Place of establishment	Proportion of ownership and voting power held by Alvotech	
				31.12.2022	31.12.2021
Alvotech hf.....	Biopharm.	3,885,102	Iceland	100.00%	100.00%
Alvotech Germany GmbH.....	Biopharm.	31,182	Germany	100.00%	100.00%
Alvotech Swiss AG.....	Biopharm.	153,930	Switzerland	100.00%	100.00%
Alvotech Hannover GmbH.....	Biopharm.	29,983	Germany	100.00%	100.00%
Alvotech Malta Ltd.....	Group Serv.	80,450	Malta	100.00%	100.00%
Alvotech USA Inc.....	Biopharm.	10	USA	100.00%	100.00%
Alvotech UK Ltd.....	Group Serv.	135	UK	100.00%	100.00%
Alvotech Manco ehf.....	Group Serv.	203,046	Iceland	100.00%	-
Alvotech Biosciences India Pvt Ltd.....	Biopharm.	96,113	India	100.00%	-
Fasteignafélagið Sæmundur hf.....	Real Estate	12,965,337	Iceland	100.00%	-
Alvotech & CCHN Bioph.. Co. Ltd*.....	Biopharm.	110,000,021	China	50.00%	50.00%

\* Alvotech & CCHN Biopharmaceutical Co. Ltd. is an unconsolidated joint venture (see Note 26).

## 1.3 Information about shareholders

Significant shareholders of the Company are Aztiq Pharma Partners S.à r.l. (Aztiq) and Alvogen Lux Holdings S.à r.l. (Alvogen), with 40.7% and 35.8% ownership interest as of 31 December 2022, respectively. The remaining 23.5% ownership interest is held by various entities, with no single shareholder holding more than 2.4% ownership interest as of 31 December 2022.

Aztiq and Alvogen held 45.1% and 39.5% ownership interest as of 31 December 2021, respectively. The remaining 15.4% ownership interest was held by various entities, with no single shareholder holding more than 2.4% ownership interest as of 31 December 2021.

# Notes to the Consolidated Financial Statements

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## 1.4 Impact of COVID-19, the Russia and Ukraine Conflict, and Economic Conditions

With the ongoing COVID-19 pandemic, the Group created a COVID-19 task force which implemented a business continuity plan to address and mitigate the impact of the pandemic on the Group's business and operations across sites. As a result, in the short-term, the pandemic has not had a material impact on the Group's financial condition, results of operations, the timelines for biosimilar product development, expansion efforts or the Group's operations as a whole. However, the extent to which the pandemic will impact the Group's business, biosimilar product development and expansion efforts, corporate development objectives and the value of and market for the Ordinary Shares will depend on future developments that are highly uncertain and cannot be predicted with confidence at this time, such as the ultimate direction of the pandemic, emergence and spread of new variants of the disease, travel restrictions, quarantines, social distancing, business closure requirements and the effectiveness of other actions taken globally to contain and treat the disease. The global economic slowdown, the overall disruption of global supply chains and distribution systems, the effects of this on the work of appropriate regulatory authorities in different regions and the other risks and uncertainties associated with the pandemic could have a material adverse effect on the Group's business, financial condition, results of operations and growth prospects.

In February 2022, Russia began a military invasion of Ukraine. The global response to this invasion could have an adverse impact on the Group's business, including the effects of relocating clinical trials and the Group's ability to market and sell products in Europe, by creating disruptions in global supply chain, and potentially having an adverse impact on the global economy, European economy, financial markets, energy markets, currency rates, and otherwise. Currently, the conflict has not had a material impact on the Group's financial condition, results of operations, the timelines for biosimilar product development, expansion efforts or the Group's operations as a whole.

The Company believes that inflation will have a general impact on the business in line with overall price increases, increases in the cost of borrowing, and operating in an inflationary economy. We cannot predict the timing, strength, or duration of any inflationary period or economic slowdown or its ultimate impact on the Company. If the conditions in the general economy significantly deviate from present levels and continue to deteriorate it could have a material adverse effect on the Group's business, financial condition, results of operations and growth prospects.

## 1.5 Going concern

The Group has primarily funded its operations with proceeds from the issuance of ordinary shares and the issuance of loans and borrowings to both related parties and third parties. The Group has also incurred recurring losses since its inception, including net losses of \$513.6 million and \$101.5 million for the years ended 31 December 2022 and 2021, respectively, and had an accumulated deficit of \$1,654.1 million as of 31 December 2022. The Group has not generated positive operational cash flow, largely due to the continued focus on biosimilar product development and expansion efforts.

As of 31 December 2022, the Group had cash and cash equivalents, excluding restricted cash, of \$66.4 million and current assets less current liabilities of \$63.4 million. In February and March 2022, Alvotech received \$25.0 million from each of Alvogen and Aztat pursuant to interest free loan advances provided by both significant shareholders, who agreed to settle these outstanding amounts in Ordinary Shares rather than cash in July 2022. The closing of the Business Combination and the PIPE Financing provided the Group with net proceeds of \$131.9 million that is expected to be used to finance the continuing development and commercialization of its biosimilar products. Additionally, during the year ended 31 December 2022 the Company received \$110.0 million in loans from Alvogen, successfully amended and upsized the outstanding Senior Bonds resulting in \$57.9 million of net cash proceeds, along with net cash proceeds of \$73.4 million from the issuance of the Tranche A and Tranche B Convertible Bonds and Facility Loans, of which \$50.0 million was used to repay amounts drawn under the Alvogen Facility.

On 25 January 2023, the Company issued an additional \$10.0 million in Tranche B Convertible Bonds. Holders of the Tranche B Convertible Bonds may elect, at their sole discretion, to convert all or part of the principal amount and accrued interest into Alvotech Ordinary Shares at a conversion price of \$10.00 per share on December 31, 2023, or June 30, 2024. See Note 29 for further details.

# Notes to the Consolidated Financial Statements

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On 10 February 2023, Alvotech completed a private placement, at the then-prevailing exchange rates, of its Ordinary Shares at a purchase price of \$11.57 per Ordinary Share, resulting in proceeds of \$137.0 million and transaction costs of \$4.8 million. See Note 29 for further details.

Additionally, the Group expects to continue to source its financing during the development of its biosimilar products from new and existing out-license contracts with customers. In light of these conditions and events, along with those noted in Note 1.4, management evaluated whether there is substantial doubt about the Group's ability to continue as a going concern for at least one year after the date that the consolidated financial statements are issued. Based on the cash on hand, funding received, and projected future cash flows, management concluded that the Company has the ability to continue as a going concern for at least one year after the date that the consolidated financial statements are issued.

As such, the consolidated financial statements have been prepared on a going concern basis. However, although management continues to pursue these plans, there is no assurance that the Group will be successful in obtaining sufficient funding on terms acceptable to the Group to fund continuing operations, if at all. If financing is obtained, the terms of such financing may adversely affect the holdings or the rights of the Group's shareholders. The ability to obtain funding, therefore, is outside of management's control and is a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance and in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as issued by the International Accounting Standards Board (IASB), which comprise all standards and interpretations approved by the IASB.

All amendments to IFRSs issued by the IASB that are effective for annual periods that begin on or after 1 January 2022 have been adopted as further described within the footnotes to the consolidated financial statements. The Group has not adopted any standards or amendments to standards in issue that are available for early adoption.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and financial liabilities which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The consolidated financial statements are presented in U.S. Dollar (USD) and all values are rounded to the nearest thousand unless otherwise indicated.

### 2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

# Notes to the Consolidated Financial Statements

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Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

All intra-group transactions, balances, income and expenses are eliminated in full in consolidation.

## 2.3 Investments in joint ventures

To the extent the Group concludes that it does not control, and thus consolidate, a joint venture, the Group accounts for its interest in joint ventures using the equity method of accounting. As such, investments in a joint venture are initially recognized at cost and the carrying amount is subsequently adjusted for the Group's share of the profit or loss of the joint venture, as well as any distributions received from the joint venture. The Group carries its ownership interest in a joint venture as "Investment in joint venture" on the consolidated statements of financial position. The Group's profit or loss includes its share of the profit or loss of the joint venture and, to the extent applicable, other comprehensive income or loss for the Group includes its share of other comprehensive income or loss of the joint venture. The Group's share of a joint venture's profit or loss in a particular year is presented as "Share of net loss of joint venture" in the consolidated statements of profit or loss and other comprehensive income or loss.

The carrying amount of equity-accounted investments is assessed for impairment as a single asset. Impairment losses are incurred only if there is objective evidence of impairment as a result of loss events that have an impact on estimated future cash flows and that can be reliably estimated. Losses expected as a result of future events are not recognized. The Group did not recognize any impairment losses related to its investment in the joint venture for the years ended 31 December 2022 and 2021.

Refer to Note 26 for additional information regarding the Group's joint venture as of 31 December 2022 and 2021 and for the years ended 31 December 2022 and 2021.

## 2.4 Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires Group management to make judgments, estimates and assumptions about the reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources.

The estimates and associated assumptions are based on information available when the consolidated financial statements are prepared, historical experience and other factors that are considered to be relevant. Judgments and assumptions involving key estimates are primarily made in relation to the measurement and recognition of revenue (as described in Note 2.6 and Note 5), the measurement and recognition of extinguishment of financial liabilities (as described in Note 2.18 and Note 20), the valuation of derivative financial liabilities (as described in Note 2.18 and Note 25), the valuation of management share appreciation rights (SARs) (as described in Note 2.18 and Note 21), and the valuation of deferred tax assets (as described in Note 2.14 and Note 10). Apart from those involving estimations, critical accounting judgments include the Group's evaluation as to whether it controls its joint venture in China (as described in Note 2.3 and 26) and material uncertainties with respect to the Group's going concern assessment (as described in Note 1.5).

Existing circumstances and assumptions may change due to events arising that are beyond the Group's control. Therefore, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# Notes to the Consolidated Financial Statements

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## 2.5 Segment reporting

The Group operates and manages its business as one operating segment based on the manner in which the Chief Executive Officer, the Group's chief operating decision maker, assesses performance and allocates resources across the Group.

## 2.6 Revenue recognition

### Product revenue

The Company recognizes revenue from the sale of its biosimilar product to commercial partners, identified as the customer, when control is transferred, and the performance obligations have been satisfied. This is when the title passes to the customer, which is upon shipment of the product. At that point, the commercial partner has full discretion over the channel and price to sell the products. Revenue is recognized based on the net selling price from the commercial partners, which is considered to be the transaction price and includes estimated rebates, returns and chargebacks, and other forms of variable consideration recognized by the Customer. Variable consideration is accounted for by the Company only to the extent that it is highly probable that a significant reversal in the revenue recognized will not occur. Variable consideration, which includes any adjustments to the net selling price, is estimated based on the most likely amount method on a contract-by-contract basis.

### Out-licensing revenue

The majority of the Group's revenue is generated from long-term out-license contracts which provide the customer with an exclusive right to market and sell products in a particular territory once such products are approved for commercialization. These contracts typically include the Group's promises to continue development of the underlying compound and to provide supply of the product to the customer upon commercialization. The Group concludes that the license, development services and commercial supply are separate performance obligations. This is because customers generally have the capabilities to perform the necessary development, manufacturing and commercialization activities on their own or with readily available resources and have the requisite expertise in the industry and the territory for which the license has been granted. Further, the intellectual property is generally in a later phase of development at the time the license is granted such that any subsequent development activities performed by the Group are not expected to significantly modify or transform the intellectual property. The fact that the Group is contractually obligated to perform development activities for and provide commercial supply to the customer does not impact this conclusion. The Group's promise to provide commercial supply to its customers is contingent upon the achievement of regulatory approval in the particular territory for which the license has been granted.

The consideration to which the Group is entitled pursuant to these contracts generally includes upfront payments and payments based upon the achievement of development and regulatory milestones. All contracts include a potential refund obligation whereby the Group must refund the consideration paid by the customer in the event of a technical failure or the occurrence of certain other matters that result in partial or full cancellation of the contract. As such, the entire transaction price is comprised of variable consideration, which is estimated using the most likely amount method due to the binary nature of the outcomes under these contracts. Such variable consideration is included in the transaction price only when it is highly probable that doing so will not result in a significant reversal of cumulative revenue recognized when the underlying uncertainty associated with the variable consideration is subsequently resolved. The Group does not account for a significant financing component since a substantial amount of consideration promised by the customer is variable and the amount or timing of that consideration varies on the basis of a future event that is not substantially within the control of either party. Certain contracts also include commercialization milestones upon the first commercial sale of a product in a particular territory, as well as royalties. Commercialization milestones and royalties are accounted for as sales-based royalties; therefore, such amounts are not included in the transaction price and recognized as revenue until the underlying sale that triggers the milestone or royalty occurs.



## Notes to the Consolidated Financial Statements

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Upfront payments, when applicable, are received in advance of transferring control of all goods and services. Therefore, a portion of upfront payments is recorded as a contract liability upon receipt. Due to the existence of refund provisions, upfront payments and certain development milestone payments are generally included in the transaction price upon submission of the first clinical trial application to the respective regulatory agency, since it is at this point in time that a significant reversal of cumulative revenue recognized related to such payments is no longer highly probable. Other development and regulatory milestones may not be included in the transaction price until such milestones are achieved due to the degree of uncertainty associated with achieving these milestones. Contract liabilities are presented on the consolidated statements of financial position as either current or non-current based upon forecasted performance. In certain contracts, the Group may transfer control of goods and services, and thus recognize revenue, prior to having the right to invoice the customer. In these circumstances, the Group recognizes contract assets for revenue recognized, and subsequently reclasses the contract asset to trade receivables upon issuing an invoice and the right to consideration is only conditional on the passage of time. Contract assets are presented on the consolidated statements of financial position as either current or non-current based upon the expected timing of settlement.

The standalone selling prices of the development services and the license to intellectual property are not directly observable and, therefore, are estimated. The standalone selling price of the development services is estimated based on the expected costs to be incurred during the development period, using various data points such as the underlying development budget, contractual milestones and performance completed at the time of entering into the contract with a customer. The standalone selling price of the license is estimated using the residual approach on the basis that the Group licenses intellectual property for a broad range of amounts and has not previously licensed intellectual property on a standalone basis. Therefore, the Group first allocates the transaction price to the development services and subsequently allocates the remainder of the transaction price to the license. If product is still in early phase development and the constraint on variable consideration has not been resolved, all the transaction price is allocated to the development service.

The standalone selling price of the commercial supply is directly observable and the stated prices in the Group's supply contracts reflect the standalone selling price of such goods.

The licenses to intellectual property are right of use licenses on the basis that the ongoing development work performed by the Group does not significantly affect the intellectual property to which the customer has rights. Therefore, control of the license transfers to the customer at the point in time when the right to use the license is granted to the customer. The license is generally granted to the customer at the time the contract is executed with the customer.

The Group satisfies its performance obligation related to the development services over time as the Group's performance enhances the value of the licensed intellectual property controlled by the customer throughout the performance period. The Group recognizes revenue using a cost-based input measure since this measure best reflects the progress of the development services and, therefore, the pattern of transfer of control of the services to the customer. In certain instances, the Group may subcontract services to other parties for which the Group is ultimately responsible. Costs incurred for such subcontracted services are included in the Group's measure of progress for satisfying its performance obligation. Changes in the total estimated costs to be incurred in measuring the Group's progress toward satisfying its performance obligation may result in adjustments to cumulative revenue recognized at the time the change in estimate occurs.

Upon the achievement of regulatory approval and the commencement of commercial sale of its products, the Group will satisfy its performance obligation related to commercial supply at the point in time when control of the manufactured product is transferred to the customer. Transfer of control for such goods will occur in accordance with the stated shipping terms.

The Group does not incur incremental costs of obtaining a contract with a customer that would require capitalization. Costs to fulfill performance obligations are not incurred in advance of performance and, as such, are expensed when incurred.

### Other revenue

Other revenue primarily consists of clinical trial support services rendered by the Group for its customers, which is recognized as the service is provided. Revenue for such services is presented in the consolidated statements of profit or loss and other comprehensive income or loss net of any discounts.

# Notes to the Consolidated Financial Statements

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## 2.7 Cost of product revenue

Cost of product revenue includes the cost of inventory sold, labor costs, manufacturing overhead expenses and reserves for expected scrap, as well as shipping and freight costs and royalty costs related to in-license agreements.

## 2.8 Research and development expenses

Research and development expenses primarily consist of personnel costs, material and other lab supply costs, facility costs and internal and external costs related to the execution of studies and other development program advancement initiatives. Such expenses also include costs incurred in preparation for commercial launch, such as designing and developing commercial-scale manufacturing capabilities and processes, quality control processes, production asset validation and other related activities. The costs also include amortization, depreciation and impairment losses related to software, property, plant and equipment, and right-of-use assets used in research and development activities and pre-commercial manufacturing and quality control activities.

An internally generated intangible asset arising from the Group's development is recognized only if the Group can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intent to complete the intangible asset and use or sell it; how the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the aforementioned recognition criteria. If an internally-generated intangible asset cannot be recognized, the related development expenditure is charged to profit or loss in the period in which it is incurred.

Expenditures related to research and development activities are generally recognized as an expense in the period in which they are incurred. Due to significant regulatory uncertainties and other uncertainties inherent in the development of pharmaceutical products, the Group did not capitalize any research and development expenses as internally-developed intangible assets during the years ended 31 December 2022 and 2021.

## 2.9 General and administrative expenses

General and administration expenses primarily consist of personnel-related costs, including salaries and other related compensation expense, for corporate and other administrative and operational functions including finance, human resources, information technology and legal, as well as facility-related costs. These costs relate to the operation of the business and are not related to research and development initiatives.

Expenditures related to general and administration activities are recognized as an expense in the period in which they are incurred.

## 2.10 Finance income and finance cost

Finance income consists of changes in the fair value of derivative financial liabilities and interest income. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance cost consists of changes in the fair value of derivative financial liabilities, interest expense related to lease liabilities and borrowings, accretion of borrowings and amortization of deferred debt issue costs.

# Notes to the Consolidated Financial Statements

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## 2.11 Foreign currency translation

The consolidated financial statements are presented in U.S. Dollars, which is the Group's presentation currency. The Group maintains the financial statements of each entity within the Group in its respective functional currency. The majority of the Group's expenses are incurred in U.S. Dollar and Icelandic Krona, and the majority of the Company's cash and cash equivalents are held in a combination of U.S. Dollars and Euros. Transactions in currencies other than the Group's presentation currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Exchange differences arising on translation of a foreign controlled subsidiary are recognized in other comprehensive income or loss and accumulated in a translation reserve within equity. The cumulative translation amount is reclassified to profit or loss if and when the net investment in the foreign controlled subsidiary is disposed.

## 2.12 Fair value measurements

The Group measures certain financial liabilities at fair value through profit or loss (FVTPL) each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair values of such financial liabilities, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

- Level 1: quoted prices in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (e.g., prices) or indirectly (e.g., derived from prices); and
- Level 3: inputs for the asset or liability that are unobservable.

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, other current assets, contract assets, trade and other payables and accrued and other liabilities in the Group's consolidated statements of financial position approximate their fair value because of the short maturities and nature of these instruments.

For liabilities that are measured at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the fair value hierarchy by reassessing the inputs used in determining fair value at the end of each reporting period.

## 2.13 Goodwill and other intangible assets

### Goodwill

Acquisitions are first reviewed to determine whether a set of assets acquired constitute a business and should be accounted for as a business combination. If the assets acquired do not meet the definition of a business, the Group will account for the transaction as an asset acquisition. If the definition of a business combination is met, the Group will account for the transaction using the acquisition method of accounting. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in the consolidated statements of profit or loss and other comprehensive income or loss as incurred.

## Notes to the Consolidated Financial Statements

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Goodwill represents the excess of the purchase price of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities, contingent liabilities, the amount of any noncontrolling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree. Goodwill is reviewed for impairment at least annually, and whenever there is an indication that the asset may be impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The value in use calculation is performed using discounted expected future cash flows. The discount rate applied to these cash flows is based on the weighted average cost of capital and reflects current market assessments of the time value of money.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or as additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

The Group did not complete any business combinations during the year ended 31 December 2021. Refer to Note 1.1 for the Business Combination completed during the year ended 31 December 2022.

### Other intangible assets

Other intangible assets consist of software, customer relationships, and intellectual property rights licensed from Biosana (see Note 2.18). Intangible assets acquired in a business combination are identified and recognized separately from goodwill if they satisfy the definition of an intangible asset and their fair values can be reliably measured. The cost of intangible assets is their fair value at the acquisition date.

Intangible assets with finite useful lives are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over an asset's estimated useful life. The estimated useful life and amortization method are reviewed at each balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The following useful lives are used in the calculation of amortization:

Software	3-5 years
Customer relationships	7 years

Intangible assets with indefinite useful lives are reviewed for impairment at least annually, and whenever there is an indication that the asset may be impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The value in use calculation is performed using discounted expected future cash flows. The discount rate applied to these cash flows is based on the weighted average cost of capital and reflects current market assessments of the time value of money.

# Notes to the Consolidated Financial Statements

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## 2.14 Income tax

Income tax includes the current tax and deferred tax charge recorded in the consolidated statements of profit or loss and other comprehensive income or loss.

### Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income or loss because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Accruals for tax contingencies are made when it is not probable that a tax authority will accept the tax position, based upon management's interpretation of applicable laws and regulations and the expectation of how the tax authority will resolve the matter. Accruals for tax contingencies are measured using either the most likely amount or the expected value amount depending on which method the entity expects to better predict the resolution of the uncertainty.

### Deferred tax

Deferred tax is provided in full for all temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, except to the extent the temporary difference arises from:

- The initial recognition of an asset or a liability in a transaction that is not a business combination and that affects neither the taxable profit nor accounting profit;
- The initial recognition of residual goodwill (for deferred tax liabilities only); or
- Investments in subsidiaries, branches, associates and joint ventures, where the Group is able to control the timing of the reversal of the temporary difference and it is not probable that it will reverse in the foreseeable future.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of the assets and liabilities.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited to the consolidated statement of profit or loss and other comprehensive income or loss, except when the tax arises from a business combination or it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis in that taxation authority.

# Notes to the Consolidated Financial Statements

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## 2.15 Property, plant and equipment

Property, plant and equipment is recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured in a reliable manner. Property, plant and equipment which qualifies for recognition as an asset are initially measured at cost.

The cost of property, plant and equipment includes an asset's purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.

Depreciation is calculated and recognized as an expense on a straight-line basis over an asset's estimated useful life. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The following useful lives are used in the calculation of depreciation:

Facility	40 years
Facility equipment	5-20 years
Computer equipment	3 years
Leasehold improvements	3-15 years
Furniture and fixtures	5 years

Certain of the Group's property, plant and equipment assets have been pledged to secure borrowings as further described in Note 20. Significant disposals of pledged assets are subject to lender approval. Upon disposal or retirement of an asset, the difference between the sales proceeds, if applicable, and the carrying amount of the asset is recognized in the consolidated statements of profit or loss and other comprehensive income or loss at the time of disposal or retirement.

At the end of each reporting period, or sooner if events triggering an interim impairment assessment occur, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that the value of such assets are impaired. Triggering events that warrant an interim impairment assessment include, but are not limited to, the technical obsolescence of equipment or failure of such equipment to meet regulatory requirements. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, which is the higher of fair value less costs of disposal and value in use.

## 2.16 Inventories

Inventories, which consist of raw materials and supplies, work in progress and finished goods are stated at the lower of cost or net realizable value. Net realizable value is the expected sales price less completion costs and costs to be incurred in marketing, selling and distributing the inventory. Cost is calculated using the weighted average cost method or the first-in, first-out method, depending on the nature of the inventory.

Inventories include direct costs for raw materials and supplies and, as applicable, direct and indirect labor and overhead expenses that have been incurred to bring inventories to their present location and condition. See Note 17 for further details.

If the net realizable value is lower than the carrying amount, a write-down of inventory is recognized for the amount by which the carrying amount exceeds net realizable value. During the years ended 31 December 2022 and 2021, write-down of inventories amounted to \$2.1 million and \$1.2 million, respectively, due to product expiration. There were no reversals of inventory write-downs during the years ended 31 December 2022 and 2021. See Note 17 for further details.

The Group does not pledge inventories as collateral to secure its liabilities.

# Notes to the Consolidated Financial Statements

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## 2.17 Financial assets

### Recognition of financial assets

Financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets, other than financial assets measured at FVTPL, are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss. There were no transaction costs related to the acquisition of financial assets in 2022 or 2021. All of the Group's financial assets are measured at amortized cost as of 31 December 2022 and 2021.

### Financial assets measured at amortized cost

Financial assets measured at amortized cost are debt instruments that give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group's financial assets measured at amortized cost are trade receivables, certain other current assets, receivables from related parties, restricted cash and cash and cash equivalents.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

### Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses (ECL) on its trade receivables and other debt instruments that are measured at amortized cost. In addition, although contract assets are not financial assets, a loss allowance for ECL are also recognized for such assets. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecasted direction of conditions at the reporting date, including time value of money where appropriate.

The Group writes off a financial asset when there is no reasonable expectation of recovery, such as information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. A trade receivable or contract asset that is considered uncollectible is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. The Group did not write off any trade receivables or contract assets during the years ended 31 December 2022 and 2021.

The Group estimates impairment for related party receivables on an individual basis. No impairment is recognized for restricted cash or cash and cash equivalents as management has estimated that the effects of any calculated ECL would be immaterial.

### Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset as well as an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income or loss and accumulated in equity is recognized in profit or loss.

# Notes to the Consolidated Financial Statements

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## 2.18 Financial liabilities

### Financial liabilities

The Group's financial liabilities consist of trade and other payables, certain other current liabilities loans and borrowings, lease liabilities, derivative financial instruments, long-term incentive plans, share appreciation right plans and other long-term liability to a related party. All financial liabilities are initially measured at fair value. Loans and borrowings are recorded net of directly attributable transaction costs and less the value attributable to any embedded derivative financial instruments, if applicable.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled, substantially modified or have expired. Additionally, management elected, as part of its accounting policy, to recognize the difference between the carrying amount of the financial liabilities and the fair value of the consideration paid for the extinguishment in the consolidated statement of profit or loss and other comprehensive income or loss.

### Financial liabilities subsequently measured at amortized cost

After initial recognition, financial liabilities other than derivative financial instruments, and awards issued pursuant to long-term incentive plans are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts all estimated future cash payments through the expected life of the financial liability, or a shorter period if appropriate, to the amortized cost of a financial liability. The effective interest rate includes the effects of any discount or premium on acquisition of the financial liability, as well as any fees or costs incurred upon acquisition.

### Financial liabilities subsequently measured at FVTPL

#### *Derivative financial instruments*

Certain rights and features pursuant to borrowing arrangements and other contracts may provide the counterparty with one or more financial instruments that need to be evaluated and potentially accounted for separately by the Group. These financial instruments are either embedded in a host instrument or are treated as a separate financial instrument if they are contractually transferable independent from the host instrument. Such rights and features pursuant to the Group's contracts with both third parties and related parties include earn out rights, conversion rights and warrant rights.

Equity conversion features within host debt instruments that meet the definition of a derivative and have economic and risk characteristics that are not closely related to the host instrument are embedded derivatives that are separated from the host instrument and accounted for separately. As part of the accounting for embedded derivatives or separate financial instruments, management considers the appropriate accounting classification under IAS 32. Embedded derivatives and separate financial instruments that meet the fixed-for-fixed criteria are classified as equity and initially measured at fair value.

Warrant rights that provide the holder with an option to purchase ordinary shares at a specified price or pursuant to a specified formula are generally separate derivative financial instruments that are accounted for as derivative liabilities. Earn Out Shares grant the holder with a variable number of Ordinary Shares based on certain vesting conditions tied to the stock price and are accounted for as derivative liabilities. In the event that the fair value of any derivative liabilities, determined using unobservable inputs, exceeds the transaction price of a borrowing arrangement, the Group records a deferred loss at the inception of the borrowing arrangement for the difference between the fair value of the derivative liabilities and the transaction price of the borrowing arrangement. Such deferred losses are recognized over the term of the related borrowing arrangement using the straight-line method of amortization. The deferred loss is netted against derivative financial liabilities on the consolidated statements of financial position. Amortization of the deferred loss is recognized as a component of "Finance costs" in the consolidated statements of profit or loss and other comprehensive income or loss.

The Group recognized derivative liabilities related to the Predecessor Earn Out Shares, OACB Earn Out Shares and assumed OACB warrants. Additionally, the Group recognized an embedded derivative for the conversion feature associated with the Tranche A Convertible Bonds, as further described in Note 20. These features are liability-classified, rather than equity-classified, because the Group is obligated to issue a variable number of ordinary shares to the holder upon conversion or exercise of the feature. Therefore, these derivative liabilities were initially recorded at fair value and remeasured to fair value at each reporting period with gains and losses arising from changes in the fair value recognized in finance income or finance costs, as appropriate.



# Notes to the Consolidated Financial Statements

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The fair values of the derivative liabilities were determined using a valuation approach that incorporated a range of inputs that are both observable and unobservable in nature. The inputs used in the initial and subsequent fair value measurements predominantly relate to (i) the price of the Group's Ordinary Shares (ii) the volatility of the Group's Ordinary Shares, (ii) a risky discount rate corresponding to the credit risk associated with the repayment of the host debt instruments, and (iii) the probabilities of each derivative being exercised by the holder and the timing of such exercises. The probabilities are determined based on all relevant internal and external information available and are reviewed and reassessed at each reporting date.

The Group will derecognize any derivative liabilities if and when the rights are exercised by the holders or the time period during which the rights can be exercised expires.

## *Other long-term liability to related party*

The Group's other long-term liability to a related party arose from its acquisition of rights for the commercialization of the Group's biosimilar Adalimumab product in certain territories in Asia from Lotus Pharmaceutical Co. Ltd., a related party, during the year ended 31 December 2020. Pursuant to the terms of the asset acquisition, the Group made an upfront payment of \$1.9 million and is required to pay \$7.4 million upon the commercial launch of Adalimumab in China. The Group concluded that the event triggering future payment is probable and, as such, recorded the full amount of the liability as a non-current liability in the consolidated statements of financial position as of 31 December 2022 and 2021. The upfront payment and contingent payment amounts were charged to "Research and development expense" in the consolidated statements of profit or loss and other comprehensive income or loss.

## *Other current liabilities*

In December 2021, Alvotech entered into an exclusive global licensing agreement with BiosanaPharma (Biosana) for the co-development of AVT23. Under the terms of the agreement, Biosana granted Alvotech an exclusive global right for AVT23, which will be produced using Biosana's proprietary process technology. In exchange, Alvotech made an upfront payment of \$7.5 million upon the signing of the agreement (the "upfront payment"), with an additional \$7.5 million due at the earlier of the closing of the Business Combination (see Note 27) or 30 April 2022 (the "deferred upfront payment"). In addition, Alvotech may be obligated to pay Biosana up to an aggregate of \$13.5 million, payable upon the achievement of various development and regulatory milestones, as well as certain tiered royalty payments based on commercial sales of AVT23. The agreement terminates 15 years after the launch of AVT23 and is subject to certain customary termination rights.

The Group concluded that the deferred upfront payment is probable and, as such, recorded the full amount of the liability in "Other current liabilities" on the consolidated statement of financial position as of 31 December 2021. The upfront payment and the deferred upfront payment amounts were capitalized as other intangible assets in the consolidated statement of financial position and will be amortized over the useful life of 15 years. The Group will accrue the additional contingent payments if and when the related milestones and other contingencies are deemed probable of being achieved.

## *Long-term incentive plans*

### Share appreciation rights

The Group issued to certain current and former employees share appreciation rights (SARs) that require settlement in connection with the occurrence of specified, future triggering events. Grants occurred from 2015 through 2020. The awards include a combination of vesting conditions, such as service and performance conditions, as well as non-vesting conditions depending on the particular award. The individuals retain their vested awards upon termination of employment with the Group. Settlement amounts are determined by the change in the Group's market value from the grant date of the SAR until the triggering events occur. The SARs do not expire at a specific date.

# Notes to the Consolidated Financial Statements

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Pursuant to the terms of the SAR agreements, management determined that the Group cannot avoid paying cash to settle the awards and, therefore, SARs are liability-classified in the consolidated statements of financial position. Accordingly, SARs were recorded at fair value and were subsequently remeasured each reporting period with the change in fair value reflected as a gain or loss in the consolidated statements of profit or loss and other comprehensive income or loss, as appropriate. The fair value of the SARs was determined using the Black-Scholes-Merton pricing model. In connection with the closing of the Business Combination, the Company reached a settlement agreement for share appreciation rights previously awarded to certain current and former employees. The remaining share appreciation rights were settled through the issuance of fully vested RSUs under the Management Incentive Plan on 1 December 2022. See Note 21 for further details.

## Employee incentive plan

The Group also sponsors an employee incentive plan for certain qualifying employees. Under the plans, such employees are entitled to cash payments upon achievement of key milestones, such as a research and development milestone or the occurrence of an exit event. The awards include a combination of vesting conditions, such as service and performance conditions, as well as non-vesting conditions depending on the particular award. Since the Group cannot avoid paying cash to settle the awards, the employee incentive plan is liability-classified in the consolidated statements of financial position. Accordingly, awards issued pursuant to the employee incentive plan are recorded at fair value and are subsequently remeasured each reporting period with the change in fair value reflected as a gain or loss in the consolidated statements of profit or loss and other comprehensive income or loss, as appropriate. Employee incentive plan liabilities are presented as either current or non-current on the consolidated statements of financial position based on the anticipated timing of settlement.

The fair value of the employee incentive plan awards is determined by estimating the probability of success in reaching the specified milestones and other levers, such as the anticipated timing of potential milestone achievement. See Note 21 for further details.

## Management incentive plan

The Group can issue share options, restricted share units (“RSUs”), and other share-based awards under the Company’s new incentive plan (the “Management Incentive Plan”) which was approved by the Board in June 2022. Awards issued under the Management Incentive Plan are accounted for in accordance with IFRS 2. Share-based payments are classified as equity-settled share-based payments as the Company intends to settle the awards with equity and has the commercial substance to do so. Share-based payments are measured at the grant date fair value of the instruments issued and recognized over the expected vesting periods. The number of shares expected to vest are reviewed and adjusted at the end of each reporting period such that the amount of expense recognized shall be based on the number of equity instruments that will eventually vest. See Note 22 for further details.

## **2.19 Litigation and other contingencies**

The Group may, from time to time, become involved in legal proceedings arising out of the normal course of its operations. For instance, as a developer and manufacturer of biosimilars, the Group may be subject to lawsuits alleging patent infringement or other similar claims filed by the reference product sponsor. Similarly, the Group may utilize patent challenge procedures to challenge the validity, enforceability or infringement of the reference product sponsor’s patents. Other parties may also file patent infringement claims against the Group alleging that the Group’s products or manufacturing process techniques infringe their patents.

The Group establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. When such conditions are not met for a specific legal matter, no reserve is established. Although management currently believes that resolving claims against the Group, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of the Group, these matters are subject to inherent uncertainties and management’s view of these matters may change in the future. It is possible that an unfavorable outcome of a lawsuit or other contingency could have a material impact on the liquidity, results of operations, or financial condition of the Group.

# Notes to the Consolidated Financial Statements

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Significant judgment is required in both the determination of probability of loss and the determination as to whether the amount of loss can be reasonably estimated. Accruals are based only on information available at the time of the assessment, due to the uncertain nature of such matters. As additional information becomes available, management reassesses potential liabilities related to pending claims and litigation and may revise its previous estimates, which could materially affect the Group's results of operations in a given period.

The Group maintains liability insurance coverages for various claims and exposures. The Group's insurance coverage limits its maximum exposure on claims; however, the Group is responsible for any uninsured portion of losses. Management believes that present insurance coverage is sufficient to cover potential exposures.

## 2.20 Leases

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for those with a lease term of twelve months or less and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The Group's leased assets consist of various real estate, fleet and equipment leases.

Right-of-use assets reflect the initial measurement of the lease liability, lease payments made at or before the lease commencement date and any initial direct costs less lease incentives that may have been received by the Group. These assets are subsequently measured at cost less accumulated depreciation, impairment losses and remeasurements of the underlying lease liability. Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset to the Group or the lease includes a purchase option that the Group is reasonably certain to exercise, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate, which is the rate of interest that the Group would need to pay to borrow, on a collateralized basis, an amount equal to the lease payments over a similar term in a similar economic environment based on information available at the commencement date of the lease. The lease payments included in the measurement of the lease liability comprise fixed payments (including in-substance fixed payments) less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the exercise price of purchase options reasonably certain to be exercised by the Group.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, using the effective interest method, and by reducing the carrying amount to reflect payments made during the lease term. The Group remeasures the lease liability if the lease term has changed, when lease payments based on an index or rate change or when a lease contract is modified and the modification is not accounted for as a separate lease.

Variable payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, lessees are not required to separate non-lease components from lease components, and instead account for any lease and associated non-lease components as a single lease component. The Group has used this practical expedient.

# Notes to the Consolidated Financial Statements

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## 2.21 Loss per share

Holders of the Predecessor Earn Out Shares and OACB Earn Out Shares have equal dividend and participation rights to the ordinary shareholders. However, these participating securities are classified as liabilities and as such, the shares held are not included in the weighted average number of ordinary shares outstanding in the basic loss per share calculation.

The calculation of basic loss per share is based on the loss for the year attributable to ordinary shareholders of the Group and the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share is computed by dividing the loss for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding in the basic loss per share calculation, both of which are adjusted for the effects of all dilutive potential ordinary shares. Antidilutive effects of potential ordinary shares, which result in an increase in earnings per share or a reduction in loss per share, are not recognized in the computation of diluted loss per share.

## 3. New accounting standards

### New standards and interpretations adopted and effective during the periods

The following new IFRS standards have been adopted by the Group effective 1 January 2022:

#### *IAS 16 (Amendments) – Property, Plant and Equipment – Proceeds before Intended Use*

The IASB issued amendments to IAS 16, which prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use; that is, proceeds from items being sold while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories. The amendments also clarified the meaning of ‘testing whether an asset is functioning properly’. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. The adoption of the amendments did not have a material impact on the consolidated financial statements of the Group.

#### *IAS 37 (Amendment) - Onerous Contracts – Cost of Fulfilling a Contract*

The IASB issued amendments to IAS 37 to specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The adoption of the amendments did not have a material impact on the consolidated financial statements of the Group.

#### *Annual Improvements to IFRS Standards 2018-2020 Cycle*

##### *IFRS 9 Financial Instruments*

The IASB issues amendments on IFRS 9, which clarifies that in applying the ‘10 percent’ test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. The adoption of the amendments did not have a material impact on the consolidated financial statements of the Group.

# Notes to the Consolidated Financial Statements

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## New and revised IFRS standards in issue but not yet effective

The following new standards are not yet adopted by or effective for the Group and have not been applied in preparing these Consolidated Financial Statements.

### *IFRS 10 and IAS 28 (Amendments) – Sale or Contribution of Assets between Investor and its Associate or Joint Venture:*

The IASB issues amendments to IFRS 10 and IAS 28, which relate to situations where there is a sale or contribution of assets between an investor and its associate or joint venture. The amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted. The Group anticipates that the application of these amendments may have an impact on the consolidated financial statements in future periods should such transactions arise.

### *IAS 1 (Amendments) – Classification of Liabilities as Current or Non-Current*

The IASB issues amendments to IAS 1, which affect the presentation of liabilities as current or non-current in the statement of financial position. The amendment does not impact the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The Group anticipates that the application of these amendments may have an impact on the consolidated financial statements in future periods.

### *Annual Improvements to IFRS Standards 2018-2020 Cycle*

The Annual Improvements include amendments to the following Standards that are relevant to the Group:

#### *IFRS 16 Leases*

The IASB issues amendments on IFRS 16, which removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

#### *IAS 1 Presentation of Financial Statements, Practice statement 2 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

The aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The amendment is effective for annual periods beginning on or after 1 January 2023.

#### *IAS 12 Income Taxes*

These require companies to recognize deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. The amendment is effective for annual periods beginning on or after 1 January 2023.

The Group anticipates that the application of these amendments will not have a material impact on the consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 4. Segment reporting

As disclosed in Note 2, the Group operates and manages its business as one operating segment.

The majority of the Group's revenue is generated from long-term out-license contracts which provide the customer with exclusive rights to a particular territory, which generally span multiple countries or a particular continent, as well as the Group's promises to continue development of the underlying compound and to provide supply of the product to the customer upon commercialization. Therefore, based on the nature of the customer agreements, revenue information is not currently available on a country-by-country basis.

Revenue from customers based on the geographic market in which the revenue is earned, which predominantly aligns with the rights conveyed to the Group's customers pursuant to its out-license contracts, is as follows (in thousands):

	2022	2021
North America.....	30,780	11,660
Europe.....	39,433	20,509
Asia.....	6,798	1,323
Other.....	6,018	3,280
	<u>83,029</u>	<u>36,772</u>

Non-current assets, excluding financial instruments and deferred tax assets, based on the location of the asset is as follows (in thousands):

	2022	2021
North America.....	240	439
Europe.....	334,837	249,803
Asia and other.....	3,715	2,194
	<u>338,792</u>	<u>252,436</u>

Revenue from transactions with individual customers that exceed ten percent or more of the Group's total revenue is as follows (in thousands, except for percentages):

	2022	
	Revenue	% Total
Customer A.....	17,940	21.6%
Customer B.....	38,376	46.2%

  

	2021	
	Revenue	% Total
Customer A.....	10,070	27.4%
Customer B.....	18,369	50.0%

# Notes to the Consolidated Financial Statements

## 5. Revenue and other income

Revenue from contracts with Customers

### *Disaggregated revenue*

The following table summarizes the Groups' revenue from contracts with customers, disaggregated by the type of good or service and timing of transfer of control of such goods and services to customers (in thousands):

	2022	2021
Product revenue (point in time revenue recognition).....	24,836	-
License revenue (point in time revenue recognition).....	424	1,453
Research and development and other service revenue*.....	57,769	35,319
	<u>83,029</u>	<u>36,772</u>

\* Over time revenue recognition

### *Reassessment of variable consideration*

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of change. The Group updates variable consideration estimates on a quarterly basis. The quarterly changes in estimates did not result in material adjustments to the Group's previously reported revenue or trade receivables during the years ended 31 December 2022 and 2021.

### *Contract assets and liabilities*

A reconciliation of the beginning and ending balances of contract assets and contract liabilities is shown in the table below (in thousands):

	Contract assets	Contract liabilities
31 December 2020 .....	34,724	53,066
Contract asset additions .....	21,525	-
Amounts transferred to trade receivables .....	(36,811)	-
Customer prepayments .....	-	34,577
Revenue recognized .....	-	(13,107)
31 December 2021 .....	<u>19,438</u>	<u>74,536</u>
Contract asset additions .....	29,823	-
Amounts transferred to trade receivables .....	(19,690)	-
Customer prepayments .....	-	46,127
Revenue recognized .....	-	(26,782)
Foreign currency adjustment .....	(915)	51
31 December 2022 .....	<u>28,656</u>	<u>93,932</u>

The net increase in contract assets as of 31 December 2022 is primarily due revenue recognized when the performance obligation has been met which is offset by the transfer of such amounts to trade receivables on the basis that the Group's right to that consideration is no longer contingent on its performance. The net increase in contract liabilities as of 31 December 2022 is due to customer prepayments in advance of the Group's performance. As of 31 December 2022, \$3.3 million and \$25.4 million are recorded as non-current contract assets and current contract assets, respectively. Non-current contract assets will materialize over the next 2 to 3 years. As of 31 December 2022, \$57.0 million and \$36.9 million are recorded as non-current contract liabilities and current contract liabilities, respectively. Non-current contract liabilities will be recognized as revenue over the next 2 to 5 years as either services are rendered or contractual milestones are achieved, depending on the performance obligation to which the payment relates.

# Notes to the Consolidated Financial Statements

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## *Remaining performance obligations*

Due to the long-term nature of the Group's out-license contracts, the Group's obligations pursuant to such contracts represent partially unsatisfied performance obligations at year-end. The revenues under existing out-license contracts with original expected durations of more than one year are estimated to be \$283.0 million. The Group expects to recognize the majority of this revenue over the next 3 years.

## Out-license agreements

### *Teva Pharmaceutical Industries Ltd. (Teva)*

In August 2020, the Group entered into an exclusive strategic agreement with Teva for the commercialization in the United States of five of the Group's biosimilar product candidates. The initial pipeline contains biosimilar candidates addressing multiple therapeutic areas. Under this agreement, the Group will be responsible for the development, registration and supply of the biosimilars, while Teva will be exclusively commercializing the products in the United States pursuant to an intellectual property license granted by the Group to Teva.

In connection with the agreement, Teva made an upfront payment of \$40.0 million. The Group also received \$35.0 million in development milestones and is entitled to receive up to an additional \$50.0 million in development milestones, \$175.0 million in regulatory milestones and milestones due upon the first commercial sale of the biosimilar product candidates and \$200.0 million in contingent payments based upon the achievement of cumulative net sales amounts. Subject to some limitations, as consideration for supplies, the Group will receive 40% of the value of Teva's net sales of the products.

On 27 February 2023, the Group and Teva signed an amendment to the licence & development agreement. As part of that amendment, the Group agreed to provide future financial consideration to Teva to assist with the cost of launching and marketing the licensed biosimilar products.

### *STADA Arzneimittel AG (STADA)*

In November 2019, the Group entered into an exclusive strategic agreement with STADA for the commercialization of seven biosimilars in all key European markets and selected markets outside Europe. The initial pipeline contains biosimilar candidates aimed at treating autoimmunity, oncology, ophthalmology and inflammatory conditions. Under this agreement, the Group will be responsible for the development, registration and supply of the biosimilars, while STADA will be exclusively commercializing the products in the relevant territories pursuant to an intellectual property license granted by the Group to STADA.

In connection with the agreement, STADA made an upfront payment of \$5.9 million. The Group has received \$78.6 million in development milestones through the year ended 31 December 2022. The Group is also entitled to receive up to an aggregate of \$130.9 million in additional development milestones, \$60.1 million in regulatory milestones and milestones due upon the first commercial sale of the biosimilar product candidates and \$11.8 million in contingent payments based upon the achievement of cumulative net sales amounts. The Group is also expected to receive a royalty of approximately 40% of the estimated net selling price from STADA's and its affiliates' commercialization of the contracted biosimilars.



## Notes to the Consolidated Financial Statements

### 6. Salaries and other employee expenses

The average number of individuals employed by the Group during the years ended 31 December 2022 and 2021 was 858 and 645 respectively. The aggregate salary and other employee expenses incurred by the Group for these employees were as follows (in thousands):

	2022	2021
Salary expense.....	92,082	67,433
Defined contribution plan expense (1) .....	10,052	7,694
Long-term incentive plan expense.....	5,481	17,955
Share-based payments (see Note 22) .....	10,317	-
Other employee expense.....	11,670	10,274
Temporary labor.....	5,838	6,164
	<u>135,440</u>	<u>109,520</u>

<sup>(1)</sup> Defined contribution plan expense consists of costs incurred by the Group for employees of certain subsidiaries that are required by local laws to participate in pension schemes. These pension schemes are not sponsored or administered by the Group. Pursuant to the requirements of the schemes, the Group is required to contribute a certain percentage of its payroll costs to the pension schemes. Such contributions are charged to the consolidated statements of profit or loss and other comprehensive income or loss as they become payable in accordance with the rules of the pension schemes.

Salaries and other employee expense is included within the consolidated statements of profit or loss and other comprehensive income or loss as follows (in thousands):

	2022	2021
Cost of product revenue.....	42,501	-
Research and development expenses .....	52,962	71,588
General and administrative expenses .....	39,977	37,932
Total salary and other employee expenses.....	<u>135,440</u>	<u>109,520</u>

### 7. Finance income and finance cost

Finance income earned during the years ended 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Changes in the fair value of derivatives (see Note 27).....	1,637	51,549
Interest income from cash and cash equivalents.....	556	18
Other interest income.....	356	1
	<u>2,549</u>	<u>51,568</u>

Finance cost incurred during the years ended 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Changes in the fair value of derivatives (see Note 27).....	96,981	2,804
Interest on debt and borrowings.....	71,452	106,548
Consenting fee (see Note 20).....	7,430	-
Loss on remeasurement of bonds (see Note 20).....	6,511	-
Interest on lease liabilities (see Note 13).....	6,022	6,423
Amortization of deferred debt issue costs.....	23	1,586
	<u>188,419</u>	<u>117,361</u>

# Notes to the Consolidated Financial Statements

## 8. Depreciation, amortization and impairment

Depreciation, amortization and impairment expenses incurred during the years ended 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
Deprec. and impairm. of property, plant and equipm. (see Note 12).....	9,807	10,666
Depreciation of right of use assets (see Note 13).....	9,869	8,699
Amortization and impairment of intangible assets (see Note 15).....	3,488	4,916
	<u>23,164</u>	<u>24,281</u>

Depreciation, amortization and impairment expense is included within the consolidated statements of profit or loss and other comprehensive income or loss as follows (in thousands):

	2022	2021
Cost of product revenue.....	10,053	-
Research and development expenses .....	9,757	21,764
General and administrative expenses .....	3,354	2,517
Total depreciation, amortization and impairment expense.....	<u>23,164</u>	<u>24,281</u>

## 9. Audit fees

	2022	2021
Financial Statement audit fees.....	2,615	5,502
Other fees, including tax services.....	676	136
Total fees.....	<u>3,291</u>	<u>5,638</u>

Audit fees for 2021 include fees for the audit of the PCAOB uplift of the consolidated financial statements for 2019 and 2020. Other fees for 2022 include review services for the F-4 and other SEC filings.

## 10. Income tax

Taxation recognized in the consolidated statements of profit or loss and other comprehensive income or loss during the years ended 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
<b>Current tax</b>		
Direct taxes - current.....	1,015	706
Direct taxes - prior year.....	(115)	491
Total current tax.....	<u>900</u>	<u>1,197</u>
<b>Deferred tax</b>		
Current.....	(54,236)	(48,414)
Prior year.....	15,269	(477)
Total deferred tax.....	<u>(38,967)</u>	<u>(48,891)</u>
Total income tax benefit.....	<u>(38,067)</u>	<u>(47,694)</u>

The prior year deferred tax impact of \$15.3 million mainly relates to foreign currency impact on losses denominated in Icelandic krona.

The factors affecting the tax benefit during the years ended 31 December 2022 and 2021 relate to the recognition of a deferred tax asset on accumulated tax losses, as management assessed that it was probable that the accumulated tax losses would be fully utilized in the coming years, as further described below.

## Notes to the Consolidated Financial Statements

There were no accruals for tax contingencies during the years ended 31 December 2022 and 2021.

The effective tax rate for the year of 6.9% (2021: 32.0%) is lower than the applicable Luxembourgish statutory rate of corporation tax. The reconciling items between the statutory rate and the effective tax rate are as follows:

	2022	2021
Tax rate .....	24.9%	24.9%
Effect of tax rate in foreign jurisdictions .....	(2.4%)	(8.2%)
Recognition of tax losses .....	-	-
Permanent differences .....	(8.9%)	30.4%
Non-recognition of tax losses .....	(3.8%)	(15.0%)
Other items .....	(2.9%)	(0.1%)
Effective tax rate .....	<u>6.9%</u>	<u>32.0%</u>

The movement in net deferred taxes during the years ended 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Balance at 1 January.....	170,268	121,647
Deferred tax credited to profit or loss.....	38,919	48,621
Balance at 31 December.....	<u>209,187</u>	<u>170,268</u>
Deferred tax assets.....	209,496	170,418
Deferred tax liabilities.....	<u>(309)</u>	<u>(150)</u>

Where there is a right of offset of deferred tax balances within the same tax jurisdiction, IAS 12 requires these to be presented after such offset in the consolidated statements of financial position. The closing deferred tax balances included above are after offset; however, the disclosure of deferred tax assets by category below are presented before such offset.

The amount of deferred tax recognized in the consolidated statements of financial position as of 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Deferred tax assets attributable to temporary differences in respect of tax losses.....	205,290	158,330
Deferred tax asset attributable to other temporary differences.....	6,832	12,088
Deferred tax liabilities attributable to other temporary differences.....	(2,935)	(150)
Net deferred tax assets.....	<u>209,187</u>	<u>170,268</u>

A deferred tax liability of \$2.9 million and \$0.2 million has been recognized in relation to the difference in measurement basis of customer relationships and other ordinary timing differences as of 31 December 2022 and 2021, respectively.

A deferred tax asset has been recognized in relation to ordinary timing differences arising from various provisions, reserves, employee benefits and tax losses carried forward in the group. The recognition of the deferred tax asset on the Icelandic tax losses, since 2020, is backed by the Group's latest ten-year forecast whereby profit associated with product and milestone revenue is significant and provides considerable headroom over and above the level needed to support full recognition of such losses. A deferred tax asset of \$209.5 million and \$170.4 million is recognized as of 31 December 2022 and 2021, respectively.

These tax losses expire as follows (in thousands):

2023-2025 .....	35,751
2026-2028 .....	210,224
Later .....	836,536
	<u>1,082,511</u>

# Notes to the Consolidated Financial Statements

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## 11. Loss per share

Basic loss per share is computed by dividing loss for the year by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share is computed by adjusting the calculation of basic loss per share for the effects of dilutive potential ordinary shares from financial instruments that may be converted or exercised into ordinary shares of the Group. For the year ended 31 December 2022 148,857,998 potential ordinary shares pursuant to the RSUs, Senior Bond Warrants, Aztiq Convertible Bond, December Convertible Bonds, OACB warrants, Predecessor Earn Out Shares, and OACB Earn Out Shares were excluded in the calculation of diluted loss per share, since the effect of doing so would result in a reduction of loss per share and thus be antidilutive. For the year ended 31 December 2021, there were no potential ordinary shares pursuant to such agreements as all conversion, warrant and funding rights associated with these agreements had been exercised or otherwise expired (refer to Note 21 for further details). Therefore, the calculation of diluted loss per share did not differ from the calculation of basic loss per share.

The calculation of basic and diluted loss per share for the years ended 31 December 2022 and 2021 is as follows (in thousands, except for share and per share amounts):

	<u>2022</u>	<u>2021</u>
Earnings		
Loss for the year .....	(513,580)	(101,504)
Number of shares		
Weighted average number of ordinary shares outstanding .....	<u>197,721,710</u>	<u>110,673,309</u>
Basic and diluted loss per share .....	<u>(2.60)</u>	<u>(0.92)</u>

## Notes to the Consolidated Financial Statements

### 12. Property, plant and equipment

Property, plant and equipment consists of facility and computer equipment, furniture, fixtures and leasehold improvements. Movements within property, plant and equipment during the years ended 31 December 2022 and 2021 are as follows (in thousands):

	Facility	Facility equipment	Furniture, fixt. and leasehold improvements	Computer equipment	Total
<b>Cost</b>					
Balance at 1 January 2022 .....	-	88,510	32,395	1,551	122,456
Reclassifications of assets .....	-	25,486	(25,486)	-	-
Additions .....	115,000	35,156	2,706	357	153,219
Disposals .....	-	(2,959)	-	-	(2,959)
Translation difference .....	-	(1,043)	(17)	51	(1,009)
Balance at 31 December 2022 .....	115,000	145,150	9,598	1,959	271,707
<b>Depreciation</b>					
Balance at 1 January 2022 .....	-	33,853	8,614	1,459	43,926
Reclassifications of assets .....	-	5,985	(5,985)	-	-
Depreciation .....	359	8,752	621	75	9,807
Disposals .....	-	(2,597)	-	-	(2,597)
Translation difference .....	-	9	(17)	(15)	(23)
Balance at 31 December 2022 .....	359	46,002	3,233	1,519	51,113
<b>Net carrying amount</b>					
Balance at 31 December 2022 .....	114,641	99,148	6,365	440	220,594
<b>Cost</b>					
		Facility equipment	Furniture, fixt. and leasehold improvements	Computer equipment	Total
Balance at 1 January 2021 .....		70,308	27,600	1,513	99,421
Additions .....		19,345	4,845	69	24,259
Translation difference.....		(1,143)	(50)	(31)	(1,224)
Balance at 31 December 2021 .....		88,510	32,395	1,551	122,456
<b>Depreciation</b>					
Balance at 1 January 2021 .....		25,540	7,016	1,419	33,975
Depreciation .....		6,870	1,637	67	8,574
Impairment .....		2,092	-	-	2,092
Translation difference.....		(649)	(39)	(27)	(715)
Balance at 31 December 2021 .....		33,853	8,614	1,459	43,926
<b>Net carrying amount</b>					
Balance at 31 December 2021 .....		54,657	23,781	92	78,530

On 16 November 2022 the Group entered into a share purchase agreement (the “Share Purchase Agreement”) relating to shares in Fasteignafélagið Sæmundur hf. (“Sæmundur”) with ATP Holdings ehf., an affiliate of Aztiq. Pursuant to the Share Purchase Agreement, Alvotech is purchased 99.99% of the shares in Sæmundur through the issuance the Aztiq Convertible Bond, as defined and discussed in Note 20, and the assumption of debt. At the time of closing, Sæmundur’s only asset was the property where Alvotech’s Reykjavik manufacturing and research facility (the “Facility”) are located. See Note 20 for further details.

## Notes to the Consolidated Financial Statements

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The Share Purchase Agreement was accounted for as an asset acquisition under IFRS 3 as all of the fair value of the gross assets acquired from Saemundur were concentrated in the Alvotech Facility. As a result, the purchase price was determined to be \$115.0 million, which consists of \$80.0 million related to the fair value of the Aztiq Convertible Bond, \$30.0 million in loans assumed by the Company, and \$5.0 million associated with the settlement of the pre-existing relationship with Saemundur. The entire purchase price was allocated to the Facility as it was the only asset acquired. Additionally, the Company recognized a \$3.9 million loss on the extinguishment of the lease liability related to the Facility. See Note 20 for further details.

At 31 December 2021, the Group performed a review of its property, plant and equipment and determined certain laboratory equipment was no longer in use. In assessing recoverable amount, the Group determined the market for resale was non-existent due to the unique nature of the equipment. Management therefore determined to fully impair the assets, resulting in an impairment of \$2.1 million during each of the year ended 31 December 2021. See Note 8 for where impairment charges have been recognized as an expense within in the consolidated statements of profit or loss and other comprehensive income or loss.

The Group pledged \$122.4 million and \$6.8 million of property, plant and equipment as collateral to secure bank loans with third parties as of 31 December 2022 and 2021, respectively.

## Notes to the Consolidated Financial Statements

### 13. Leases

The Group's leased assets consist of facilities, fleet and equipment pursuant to both arrangements with third parties and related parties. The carrying amounts of the Group's right-of-use assets and the movements during the years ended 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
<b>Right-of-use assets</b>		
Balance at 1 January .....	126,801	111,519
Adjustments for indexed leases .....	10,201	5,358
New or renewed leases .....	9,583	18,871
Derecognition due to acquisition of Alvotech Facility (see Note 12) .....	(88,941)	-
Depreciation .....	(9,869)	(8,699)
Translation difference .....	(274)	(248)
Balance at 31 December .....	47,501	126,801

The Group's right-of-use assets as of 31 December 2022 and 2021 are comprised of the following (in thousands):

	2022	2021
<b>Right-of-use assets</b>		
Facilities .....	41,702	122,927
Fleet .....	339	159
Equipment .....	5,460	3,715
	47,501	126,801

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The Group's lease liabilities and the movements during the years ended 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
<b>Lease liabilities</b>		
Balance at 1 January .....	122,140	108,947
Adjustments for indexed leases .....	10,247	5,358
New or renewed leases .....	7,458	18,116
Installment payments .....	(7,655)	(6,595)
Derecognition due to acquisition of Alvotech Facility (see Note 12) .....	(80,075)	-
Foreign currency adjustment .....	(11,682)	(3,744)
Translation difference .....	99	58
Balance at 31 December .....	40,532	122,140
Current liabilities .....	(5,163)	(7,295)
Non-current liabilities .....	35,369	114,845

## Notes to the Consolidated Financial Statements

The amounts recognized in the consolidated statements of profit or loss and other comprehensive income or loss during the years ended 31 December 2022 and 2021 in relation to the Group's lease arrangements are as follows (in thousands):

	2022	2021
Depreciation expense from right-of-use assets		
Facilities .....	(9,423)	(8,228)
Fleet .....	(119)	(38)
Equipment .....	(327)	(433)
Total depreciation expense from right-of-use assets .....	<u>(9,869)</u>	<u>(8,699)</u>
Interest expense on lease liabilities .....	(6,022)	(6,423)
Foreign currency difference on lease liability .....	11,682	3,744
Loss from extinguishment of lease agreement (see Note 12) .....	(3,859)	-
Total amount recognized in profit and loss .....	<u>(8,068)</u>	<u>(11,378)</u>

The maturity analysis of undiscounted lease payments as of 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Less than one year .....	6,000	13,164
One to five years .....	20,160	49,379
Thereafter .....	22,274	117,511
	<u>48,434</u>	<u>180,054</u>

The Group's lease liabilities as of 31 December 2022 and 2021 do not include \$0.1 million of costs for short-term leases and low value leases.

### 14. Goodwill

The Group's goodwill balances as of 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
Balance at 1 January.....	12,367	13,427
Translation difference.....	(724)	(1,060)
Balance as of 31 December.....	<u>11,643</u>	<u>12,367</u>

Goodwill is recognized at the Group level, which is determined to be the smallest cash-generating unit. The recoverable amount of the cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on the financial forecast for the period 2023-2030 that has been approved by management and the Board of Directors. The Group's operations are currently in a development phase, and the ten-year forecast includes the initial revenue generating phase when products currently in development will be available for market. The Group determined that the terminal growth rate and the discount rate are the key assumptions used in determining the current estimate of value in use.

Cash flows beyond 2030 have been extrapolated using a negative 5.0% terminal rate in both the 2022 and 2021 value in use calculations respectively. A discount rate of 27.6% (2021: 21.5%) per annum was used in determining the current estimate of value in use. Since the recoverable amount of the cash-generating unit was substantially in excess of its carrying amount as of 31 December 2022 and 2021, management believes that any reasonably possible change in the key assumptions on which the recoverable amount of the cash-generating unit is based would not cause the carrying amount of the cash-generating unit to exceed its recoverable amount.

There were no goodwill impairment charges recognized in the consolidated statements of profit or loss and other comprehensive income or loss in any prior periods.



## Notes to the Consolidated Financial Statements

### 15. Intangible assets

Intangible assets consist of software, customer relationships and licensed intellectual property rights. Movements in intangible assets during the years ended 31 December 2022 and 2021 are as follows (in thousands):

	Software	Customer relationships	Intellectual property rights	Total
<b>Cost</b>				
Balance at 1 January 2022.....	8,777	2,329	15,000	26,106
Additions.....	7,682	-	-	7,682
Impairment.....	(2,755)	-	-	(2,755)
Translation difference.....	(20)	(148)	-	(168)
Balance at 31 December 2022.....	13,684	2,181	15,000	30,865
<b>Amortization</b>				
Balance at 1 January 2022.....	2,933	1,664	-	4,597
Amortization .....	423	310	-	733
Translation difference.....	(13)	(104)	-	(117)
Balance at 31 December 2022.....	3,343	1,870	-	5,213
<b>Net carrying amount</b>				
Balance at 31 December 2022.....	10,341	311	15,000	25,652

	Software	Customer relationships	Intellectual property rights	Total
<b>Cost</b>				
Balance at 1 January 2021.....	7,603	2,528	-	10,131
Additions.....	5,186	-	15,000	20,186
Impairment.....	(3,993)	-	-	(3,993)
Translation difference.....	(19)	(199)	-	(218)
Balance at 31 December 2021.....	8,777	2,329	15,000	26,106
<b>Amortization</b>				
Balance at 1 January 2021.....	2,351	1,445	-	3,796
Amortization .....	591	332	-	923
Translation difference.....	(9)	(113)	-	(122)
Balance at 31 December 2021.....	2,933	1,664	-	4,597
<b>Net carrying amount</b>				
Balance at 31 December 2021.....	5,844	665	15,000	21,509

Additions during the year ended 31 December 2021 were primarily comprised of licensed intellectual property rights from Biosana. Refer to Note 2.18 for further details.

Expense for amortization of the Group's intangible assets is included within the consolidated statements of profit or loss and other comprehensive income or loss as follows (in thousands):

## Notes to the Consolidated Financial Statements

	2022	2021
Cost of product revenue.....	471	-
Research and development expenses .....	-	324
General and administrative expenses .....	262	599
	<u>733</u>	<u>923</u>

At 31 December, 2022 and 2021, the Group performed a review of its intangible assets and determined certain software development had been abandoned. In assessing recoverable amount, the Group determined the market for resale was non-existent. Management therefore determined to fully impair the assets, resulting in an impairment charge of \$2.8 million and \$4.0 million during the year ended 31 December 2022 and 2021, respectively. The impairment charge was recognized as an expense as follows: \$2.1 million in “Cost of product revenue” and \$0.7 million in “General and administrative expenses.” For the year ended 31 December 2021 the impairment was recognized as an expense within “Research and development expenses” in the consolidated statements of profit or loss and other comprehensive income or loss.

At 31 December 2022 the Group performed an impairment analysis on the intellectual property rights indefinite lived intangible asset. No impairment loss was recognized as the asset’s recoverable amount exceeded the carrying amount.

### 16. Cash and cash equivalents

#### Cash and cash equivalents

Cash and cash equivalents include both cash in banks and on hand. Cash and cash equivalents as shown in the consolidated statements of cash flows as of 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Cash and cash equivalents denominated in US dollars .....	10,377	15,798
Cash and cash equivalents denominated in other currencies .....	56,050	1,758
	<u>66,427</u>	<u>17,556</u>

#### Restricted cash

Restricted cash as shown on the consolidated statements of financial position relates to cash that may only be used pursuant to certain of the Group’s borrowing arrangements. Therefore, these deposits are not available for general use by the Group. Movements in restricted cash balances during the years ended 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
Balance at 1 January .....	10,087	10,087
Additions during the year .....	14,914	-
Interest income .....	186	-
Balance at 31 December .....	<u>25,187</u>	<u>10,087</u>

The Group’s restricted cash is available for use after one year or later.

# Notes to the Consolidated Financial Statements

## 17. Inventories

The Group's inventory balances as of 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
Raw materials and supplies.....	41,961	26,590
Work in progress.....	29,450	13,730
Finished goods.....	2,121	-
Inventory reserves.....	(2,062)	(1,262)
Balance at 31 December .....	71,470	39,058

The increase in inventory from 31 December 2021 to 31 December 2022 is due to the commercial launch of certain of the Group's biosimilar product candidates.

The Company recognized \$8.5 million of inventories in cost of product revenue during the year ended 31 December 2022.

## 18. Other current assets

The composition of other current assets as of 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Value-added tax.....	6,468	4,725
Prepaid expenses.....	20,601	9,320
Proceeds receivable from Convertible Bonds (see Note 20).....	3,520	-
Derivative asset.....	851	-
Other short-term receivables.....	1,509	691
	32,949	14,736

## 19. Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all liabilities. Equity instruments issued by a Group entity are recognized in the amount of the proceeds received, net of direct issue costs.

Prior to the Capital Reorganization the Group's equity consisted of Class A and Class B ordinary shares (together the "Predecessor Ordinary Shares"). The Group's authorized share capital was \$99.7 million, consisting of the equivalent of 99,961,829 Class A or Class B ordinary shares with a par value of \$0.01 per share. All share capital issued as of 31 December 2021 and 2020 was fully paid.

The Capital Reorganization resulted in the following share capital activity:

- All of the outstanding Predecessor Ordinary Shares were exchanged for 180,600,000 Ordinary Shares and 38,330,000 Predecessor Earn Out Shares;
- 976,505 of Class A OACB Ordinary Shares were exchanged for Ordinary Shares;
- 6,250,000 of Class B OACB Ordinary Shares were exchanged for 5,000,000 Ordinary Shares and 1,250,000 OACB Earn Out Shares; and
- 17,493,000 Ordinary Shares were issued in the PIPE Financing.

No dividends were paid or declared during the years ended 31 December 2022 and 2021.

## Notes to the Consolidated Financial Statements

Share capital and share premium of the Group's Ordinary Shares issued as of 31 December 2022 and 2021 is as follows (in thousands, except for share amounts):

	2022		2021	
	Shares	Share capital and share premium	Shares	Share capital and share premium
Class A ordinary shares.....	-	-	13,386,098	997,824
Class B ordinary shares.....	-	-	95,701	2,429
Ordinary shares.....	252,160,087	1,060,558	-	-
Total share capital and share premium.....	252,160,087	1,060,558	13,481,799	1,000,253

Movements in the Group's Class A and Class B ordinary shares, share capital and share premium during the years ended 31 December 2022 and 2021 are as follows (in thousands, except for share amounts):

	Ordinary Shares	Predecessor Ordinary Shares	Share capital	Share premium	Total
Balance at 1 January 2021.....	-	7,259,139	73	166,740	166,813
Share issue.....	-	6,222,660	62	833,378	833,440
Balance at 31 December 2021.....	-	13,481,799	135	1,000,118	1,000,253
Elimination of Predecessor Ordinary Shares (Note 1.1).....	-	(13,481,799)	(135)	135	-
Issuance of Ordinary Shares (Note 1.1)....	186,576,505	-	1,866	63,169	65,035
PIPE Financing (Note 1.1).....	17,493,000	-	175	174,755	174,930
Transaction costs on share issue.....	-	-	-	(5,562)	(5,562)
Predec. Earn Out Sh. (Note 22).....	38,330,000	-	-	(227,500)	(227,500)
OACB Earn Out Sh. (Note 22).....	1,250,000	-	-	(9,100)	(9,100)
SARs settlement (Note 21).....	3,510,582	-	35	30,267	30,302
Settlement of related party loans with Ordinary Shares.....	5,000,000	-	50	32,150	32,200
Balance at 31 December 2022.....	252,160,087	-	2,126	1,058,432	1,060,558

Alvotech Manco ehf., a subsidiary of Alvotech hf., owns 27,072,167 Ordinary Shares in Alvotech. Such shares are intended for the future issuance of Ordinary Shares under the Management Incentive Plan and other equity offerings.

## Notes to the Consolidated Financial Statements

### 20. Borrowings

The Group's debt consists of interest-bearing borrowings from financial institutions, related parties and third parties. Outstanding borrowings, net of transaction costs, presented on the consolidated statements of financial position as current and non-current as of 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Senior Bonds.....	530,506	-
Bonds.....	-	394,129
Aztiq Convertible Bond.....	65,793	-
Alvogen Facility.....	64,588	-
Convertible Bonds.....	32,441	-
Other borrowings.....	71,242	6,782
Total outstanding borrowings, net of debt issue costs.....	764,570	400,911
Less: current portion of borrowings.....	(19,916)	(2,771)
Total non-current borrowings.....	744,654	398,140

#### Convertible shareholder loans

In connection with the Business Combination Agreement (see Note 1.1), on 7 December 2021, the Group's shareholders entered into the BCA Framework Agreement resulting in the exercise of the conversion, warrant, and funding rights associated with the convertible shareholder loans. As a result, the following issuances of Class A ordinary shares occurred:

- 1,522,103 shares from the exercise of warrant and funding rights in exchange for \$101.3 million of cash;
- 1,137,248 shares from the exercise of warrant rights in exchange for the settlement of \$73.7 million of accrued payment-in-kind
- 2,306,555 shares resulting from the conversion of \$166.8 million of outstanding principal and accrued payment-in-kind interest.

In connection with these exercises, for the year ended 31 December 2021, the Group recognized finance income of \$48.7 million resulting from the remeasurement of the derivative liabilities at the date of extinguishment and a \$149.2 million gain on extinguishment of financial liabilities, which primarily reflects the difference between the carrying amount of the pre-transaction convertible shareholder loans and the related derivative financial liabilities and the fair value of the ordinary shares issued. In addition, the gain on extinguishment of financial liabilities includes transaction costs incurred as part of the extinguishment, the acceleration of previously deferred debt issue costs incurred in connection with the issuance of the convertible shareholder loans and the acceleration of previously unamortized accretion of the convertible shareholder loans.

#### Convertible bonds, Bonds and Senior Bonds

##### Convertible bonds

On 14 December 2018, the Group issued \$300.0 million of convertible bonds to multiple third parties. The offering included \$125.0 million of Tranche A bonds that included a guarantee from Alvogen and a 10% bonus if the bondholders converted at the time of an IPO. In addition, \$175.0 million of Tranche B bonds were issued that do not have a guarantee but include a 25% bonus if the bondholders elect to convert at the time of an IPO. The bonds offered a 15% payment-in-kind interest rate and a put option to sell the bond back to the Group if an IPO had not occurred within three years from the original date of issuance.

The Group recorded \$5.4 million, recorded as a component of finance income in the consolidated statements of profit or loss and other comprehensive income or loss for the year ended 31 December 2020. Fair value measurements of the derivative financial liabilities are set out in Note 27.

# Notes to the Consolidated Financial Statements

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## Bonds

On 24 June 2021, holders of the Group's convertible bonds converted \$100.7 million of principal and accrued interest and \$4.8 million of additional premium offered by the Group to the bondholders into 455,687 Class A ordinary shares. Following the conversion, certain bondholders elected to redeem their remaining bonds for cash, resulting in the payment of \$55.3 million in outstanding principal and accrued interest plus an additional \$6.1 million of premium that the bondholders elected to be paid in cash.

The remaining unconverted and unredeemed bonds were replaced with new bonds with an extended maturity of June 2025 and the elimination of conversion rights, among other amendments to the terms and conditions. The Group offered the holders of the replaced bonds an extension premium of \$8.1 million for their agreement to extend the maturity of the replaced bonds to June 2025, as well as an additional premium of \$2.6 million, both of which were granted to the bondholders in the form of additional bonds. The Group also issued an additional \$113.8 million of bonds to one previous bondholder and one new bondholder. On the date of issuance, the fair value and the nominal value of the bonds was \$358.8 million and \$397.4 million, respectively. The difference between the nominal value and fair value was recognized as a discount that will be amortized over the term of the bonds.

The Group determined that the 24 June 2021 transaction was a substantial modification to its convertible bonds and the associated derivative financial liability and accounted for the transaction as an extinguishment. As a result, the Group recognized a gain on extinguishment of financial liabilities of \$2.6 million during the year ended 31 December 2021, primarily driven by the difference between the fair value of the post-transaction bonds and the carrying amount of the pre-transaction bonds. The gain on extinguishment of financial liabilities also includes the following:

- Transaction costs and fees incurred as part of the extinguishment;
- The acceleration of previously deferred debt issue costs incurred in connection with the issuance of the pre-transaction bonds;
- The acceleration of previously unamortized accretion of the pre-transaction bonds.

Prior to the extinguishment of the convertible bonds and as noted above, the bondholders had the option to convert the bonds into Class A ordinary shares up to fourteen days prior to maturity. This conversion right was separately accounted for as a derivative financial liability. During the period from 1 January 2021 to 24 June 2021, there was no change in fair value of the derivative financial liability.

As of 31 December 2021, the carrying amount of the bonds was \$363.1 million. Accrued interest on the bonds as of 31 December 2021 is \$31.0 million. The Group has the option, at any time, to prepay all or any part of the outstanding bonds. If the Group elects to prepay the bonds within the first three years of the bond agreement, the bondholders are entitled to be paid an additional premium of at least 2.0% of the outstanding principal at the time of such prepayment.

In January and June of 2022, the Group amended the terms of the outstanding bonds. The amendments resulted in the following:

- Following the close of the Business Combination, the interest rate will range from 7.5% to 10.0% depending on the amount of aggregate net proceeds, as defined by the terms of the amended bond agreement;
- A \$7.4 million consent fee, recognized as finance costs, paid to the bondholders who did not vote against the Business Combination Agreement;
- The requirement for Alvotech to maintain a minimum of \$25.0 million of restricted cash in a separate liquidity account; and
- A decrease in the interest rate to 7.5%, following the closing of the Business Combination, if the Company issues additional shares within six months of the Closing Date, resulting in the Company exceeding the amount of aggregate net proceeds, as defined in the bond agreement.

As a result of the closing of the Business Combination, there was a change in future cash flows on the bonds related to the increase in interest rate from 7.5% to 10.0%. The Company remeasured the carrying value in accordance with IFRS 9 to the present value of the revised cash flows and recognized a \$6.5 million loss on the remeasurement of the bonds.

# Notes to the Consolidated Financial Statements

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## Senior Bonds

On 16 November 2022, the Group amended and upsized the outstanding bonds by \$70.0 million. The amended bond agreement (the “Senior Bonds”) resulted in the following:

- An increase in principal from \$455.7 million at the time of the amendment, to \$525.7 million;
- An increase in the interest rate, resulting in a range from 10.75% to 12.0% depending on the occurrence of certain events, as defined by the terms of the agreement. The Group accounted for this interest rate feature (the “Senior Bond Interest Rate Feature”) as an embedded derivative, classified as an other current asset in the consolidated statement of financial position as of 31 December 2022;
- Amended the terms of the related party loans from Alvogen, setting forth subordination conditions;
- Contingently issuable penny warrants (exercise price of \$0.01) to the bondholders (the “Senior Bond Warrants”) if certain events occur, issuable in two tranches representing 1.5% and 1.0% of the fully diluted ordinary share capital, as defined in the Senior Bonds agreement (see Note 27).

The Group determined that the 16 November 2022 transaction was a substantial modification to its bonds and accounted for the transaction as an extinguishment. As a result, the Group recognized a loss on extinguishment of financial liabilities of \$40.9 million, including \$12.1 million of transaction costs, during the year ended 31 December 2022, primarily driven by the difference between the fair value of the post-transaction Senior Bonds and the Senior Bond Warrants and the carrying amount of the pre-transaction bonds. The loss on extinguishment of financial liabilities includes the following:

- Extinguishment of bonds with a carrying value of \$440.1 million, including \$4.8 million of accrued interest;
- Net cash proceeds of \$57.9 million, including transaction costs paid of \$12.1 million;
- Recognition of a \$4.6 million derivative asset for the Senior Bond Interest Rate Feature;
- Recognition of \$528.2 million and \$15.4 million representing the fair value of the new Senior Bonds and Senior Bond Warrants

As of 31 December 2022, the carrying amount of the Senior Bonds is \$530.5 million. Accrued interest on the Senior Bonds as of 31 December 2022 is \$2.6 million. The Group has the option, at any time, to prepay all or any part of the outstanding bonds.

The Group has pledged its intellectual property as collateral for the Senior Bonds.

## Aztiq Convertible Bond

On 16 November 2022 the Group issued a convertible bond (the “Aztiq Convertible Bond”) to ATP Holdings ehf. for the Share Purchase Agreement and the acquisition of the Alvotech Facility (See Note 12). The Aztiq Convertible Bond has a principal amount of \$80.0 million and carries an interest rate of 12.50% per annum. Interest is payable in six-month intervals and is capitalized and added to the outstanding principal amount of the bonds. The maturity date of the convertible bond is the later of the (i) 16 November 2025 or (ii) 91 days after the earlier of the full redemption or the final maturity date of the Senior Bonds. Bondholders have the right to convert their outstanding bonds into ordinary shares of Alvotech on December 31, 2023, June 30, 2024, or when the bond has been called or put up for redemption, including on the maturity date, for a conversion price is \$10.00 per share.

The conversion feature (the “Aztiq Conversion Feature”) was determined to be an embedded derivative as the economic characteristics and risks are not closely related to the debt host. The Group classified the Aztiq Conversion Feature as equity due to the conversion price having preservation and passage of time adjustments that meet fixed-for-fixed criteria. As a result, the Group recognized the following related to the Aztiq Convertible Bond:

- \$64.0 million related to the debt host;
- \$16.0 million related to the Aztiq Conversion Feature;
- \$30.0 million related to the loans (the “Facility Loans”) on the building, which were assumed by the Group as part of the asset

As of 31 December 2022, the carrying amount of the Aztiq Convertible Bond is \$65.8 million. Accrued interest on the Aztiq Convertible Bond as of 31 December 2022 is \$0.5 million.

# Notes to the Consolidated Financial Statements

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## Facility Loans

As noted above, the Group assumed the Facility Loans as part of the asset acquisition for the Facility. On 9 December 2022, the Group extinguished the assumed loans from Arion banki hf., with an outstanding balance of \$30.9 million, with new loans from Landsbankinn hf. for \$48.8 million, and carries variable interest rate, currently 8.3% and 9.3% per annum. The refinancing resulted in net cash proceeds of \$17.2 million after transaction costs paid.

As of 31 December 2022, the carrying amount of the Facility Loans is \$48.8 million. Accrued interest on the Facility Loans as of 31 December 2022 is \$0.3 million.

## Related party loans and Alvogen Facility

In connection with an undertaking by Alvotech shareholders to ensure that Alvotech was sufficiently funded through the closing of the Business Combination by providing at least \$50.0 million for the operations of the Group, Alvogen and Aztiq provided interest free loan advances to Alvotech. On 22 February 2022, Alvotech borrowed \$15.0 million under the facility from Alvogen, as lender. On 29 March 2022, Alvotech withdrew an additional amount of \$10.0 million under the facility, for aggregate indebtedness of \$25.0 million. On 11 March 2022, Alvotech borrowed \$15.0 million under the facility from Aztiq, as lender. On 31 March 2022, Alvotech withdrew an additional amount of \$10.0 million under the facility, for aggregate indebtedness of \$25.0 million.

On 12 July 22, the Company entered into settlement agreements with both Aztiq and Alvogen for the \$25.0 million in related party loans provided by each party. As a result of the settlement agreements, Aztiq and Alvogen each received 2,500,000 Ordinary Shares. The settlement was accounted for as an extinguishment of financial liabilities. In accordance with IFRS 9, the difference between the fair value of the consideration paid for the settlement, which was determined to be \$32.2 million, and the extinguished financial liabilities of \$50.0 million was recognized as a gain on the extinguishment of financial liabilities in the consolidated statement of profit or loss and other comprehensive income or loss.

On 11 April 2022, Alvotech entered into a loan agreement with Alvogen, as lender, for a loan of up to \$40.0 million bearing an interest rate of 10% per annum. The loan was drawable in two separate installments of \$20.0 million each. On 12 April 2022, Alvotech withdrew the first installment of \$20.0 million. Alvotech withdrew a second installment of \$20.0 million on 9 May 2022 for aggregate indebtedness of \$40.0 million.

On 1 June 2022, Alvotech also entered into a loan agreement with Alvogen, as lender, for a loan of \$20.0 million bearing an interest rate of 10% per annum. Alvotech withdrew the entire loan amount of \$20.0 million on 1 June 2022.

In connection with the 16 November 2022 bond amendment, Alvotech entered into a subordinated loan agreement with Alvogen (the "Alvogen Facility"). As part of the subordinated loan agreement, the Group agreed to the following:

- Rollover the \$63.3 million outstanding, which includes \$3.3 million of accrued interest, under the Alvogen loans, into the new subordinated loan agreement, and withdraw an additional \$50.0 million in loans;
- The interest rate was increased from 10% per annum to 17.5% per annum on the outstanding amounts under the loan facility;
- A repayment date of 91 days after the full redemption or the final maturity date of the Senior Bonds;
- Contingently issuable penny warrants to the bondholders (the "Alvogen Facility Warrants") if certain events occur, representing 4.0% of the fully diluted ordinary share capital, as defined in the Alvogen Facility agreement.

The Group determined that the 16 November 2022 transaction was a substantial modification to its related party loans and accounted for the transaction as an extinguishment. As a result, the Group recognized the following:



## Notes to the Consolidated Financial Statements

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- Extinguishment of bonds with a carrying value of \$63.2 million, including \$3.2 million of accrued interest;
- Net cash proceeds of \$50.0 million;
- Recognition of \$113.2 million and \$1.3 million representing the fair value of the new Alvogen Facility and Alvogen Facility Warrants, respectively.

On 20 December 2022, the Company repaid \$50.0 million under the Alvogen Facility, with proceeds from the Convertible Bonds. As a result, Alvotech extinguished the liability to issue the Alvogen Facility Warrants.

As of 31 December 2022, the carrying amount of the loans is \$64.6 million.

### Convertible Bonds

On 20 December 2022 the Group issued two tranches of convertible bonds (the “Convertible Bonds”). Tranche A is ISK denominated with a principal balance of \$59.1 million, of which \$3.5 million in cash proceeds were received subsequent to 31 December 2022 (see Note 18), and carries an annual payment-in-kind interest rate of 15% per year, while Tranche B is USD denominated with a principal balance of \$0.6 million and carries an annual payment-in-kind interest rate of 12.5% per year. The maturity date of the Convertible Bonds is the later of the (i) 20 December 2025 or (ii) 91 days after the earlier of the full redemption or the final maturity date of the Senior Bonds. Holders of both the Tranche A and Tranche B Convertible Bonds, may elect, at their sole discretion, to convert all or part of the principal amount and accrued interest into Alvotech Ordinary Shares at a conversion price of \$10.00 per share on December 31, 2023, or June 30, 2024.

The conversion features (the “Tranche A Conversion Feature” and “Tranche B Conversion Feature”) for both the Tranche A and Tranche B Convertible Bonds were determined to be embedded derivatives as the economic characteristics and risks are not closely related to the debt host. The Group classified the Tranche A Conversion Feature as a liability due to the variability created by conversion rates resulting from the tranche being denominated in ISK and was determined to have a fair value of \$24.9 million at issuance date (see Note 27 for further details). The Group classified the Tranche B Conversion Feature as equity due to the conversion price having preservation and passage of time adjustments that meet the fixed-for-fixed criteria.

As of 31 December 2022, the carrying amount of the Tranche A and Tranche B Convertible Bond is \$31.9 million and \$0.5 million, respectively.

### Other borrowings

In 2015 and 2016, the Group entered into several term loan agreements with a financial institution for a total principal amount of \$25.9 million. The loan agreements set forth terms and conditions between the Group and the financial institution, inclusive of certain representations and non-financial covenants. Per the terms of the loan agreements, the loans mature throughout late 2023 and into the second half of 2024, depending on the issuance date of each loan. Interest on the loans is variable interest rate of USD SOFR plus a margin of 4.95%, payable on a monthly basis. Interest accrued and unpaid at the end of each interest period increases the principal obligations owed by the Group to the financial institution. As of 31 December 2022 and 2021, the outstanding balance on the loans, including accrued interest, is \$3.2 million and \$5.7 million, respectively. The Group is in compliance with all representations and non-financial covenants required by these agreements. In addition, the Group has pledged property, plant and equipment as collateral to secure these borrowings, as further described in Note 12.

In 2021, the Group entered into two loan agreements with two separate lenders, Origo hf. and Arion banki hf. The outstanding balance on the borrowings held with Origo hf. and Arion banki hf., including accrued interest, was \$0.2 million and \$0.3 million as of 31 December 2022 and 31 December 2021, respectively. The loans mature in late 2023 and 2024.

On 22 February 2022, the Group entered into a credit facility agreement with Landsbankinn hf. with the ability to draw down an amount up to \$18.3 million. The credit facility is in place to help finance equipment purchases in the future. Per the terms of the credit facility, any borrowings are required to be paid by 1 August 2023 and have a variable interest rate of USD SOFR plus a margin of 4.95%. As of 31 December 2022, the outstanding balance on the credit facility was \$14.0 million, including accrued interest.

## Notes to the Consolidated Financial Statements

On 22 February 2022, the Group entered into a loan agreement with Landsbankinn hf. for a principal amount of \$3.2 million. The loan is in place to help finance equipment purchases. Per the terms of the loan agreement, annuity payments are due monthly with a final maturity in February 2029. The loan has a variable interest rate of USD SOFR plus a margin of 4.25%. As of 31 December 2022, the outstanding balance on the loan was \$2.9 million, including accrued interest.

On 8 August 2022, the Group entered into a loan agreement with Landsbankinn hf. for a principal amount of \$1.8 million. The loan is in place to help finance equipment purchases. Per the terms of the loan agreement, annuity payments are due monthly with a final maturity in August 2029. The loan has a variable interest rate of USD SOFR plus a margin of 4.25%. As of 31 December 2022, the outstanding balance on the loan was \$1.8 million, including accrued interest.

Movements in the Group's outstanding borrowings during the years ended 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
Borrowings, net at 1 January.....	400,911	567,899
Borrowings converted to equity.....	-	(105,501)
Redemption of borrowings.....	-	(34,899)
Paid payment-in-kind interest.....	-	(19,200)
Premium on redeemed and unredeemed bonds.....	-	15,472
Change in fair value upon extinguishment of convertible shareholder loans.....	-	32,114
Recognition of deferred debt issue costs.....	(2,889)	-
Accretion/derecognition of borrowings discount.....	35,065	5,506
Recognition of new borrowings discount.....	(43,241)	(34,302)
Proceeds from new borrowings.....	467,196	114,282
Loans from related party converted to equity.....	(50,000)	(240,542)
Repayments of borrowings.....	(83,951)	(2,597)
Accrued interest.....	40,424	89,958
Amortization of deferred debt issue costs.....	23	12,754
Foreign currency exchange difference.....	1,032	(33)
Borrowings, net at 31 December.....	<u>764,570</u>	<u>400,911</u>

The weighted-average interest rates of outstanding borrowings for the years ended 31 December 2022 and 2021 are 12.41% and 14.83%, respectively.

Contractual maturities of principal amounts on the Group's outstanding borrowings as of 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
Within one year.....	19,916	2,771
Within two years.....	3,804	2,920
Within three years.....	696,646	622
Within four years.....	3,374	394,222
Thereafter.....	40,830	376
	<u>764,570</u>	<u>400,911</u>

# Notes to the Consolidated Financial Statements

## 21. Long-term incentive plans

### Share appreciation rights

Prior to 2019, the Group granted SARs to three former employees. During the year ended 31 December 2020 and 2019, the Group granted SARs to one and two current employees, respectively. There were no new granted SARs in the years ended 31 December 2022 and 2021.

### *Settlement of SARs*

In connection with the closing of the Business Combination, the Company reached a settlement agreement for share appreciation rights previously awarded to certain current and former employees. The rights were settled as follows:

- two former employees will each receive 1,755,291 Ordinary Shares to be issued one year after the Closing Date. In accordance with IFRS 2, the settlements were accounted for as a modification of a share-based payment transaction that changes the awards classification from cash-settled to equity-settled;
- one former employee will receive a \$1.5 million cash payment in July 2022; and
- one current employee can elect to receive a cash payment of \$1.5 million or 150,000 Ordinary Shares to be issued one year after the Closing Date. The Company recognized the cash settlement option as a liability with a fair value of \$0.8 million and the share settlement option as equity with a fair value of \$0.7 million.

The settlement agreements resulted in a net \$36.8 million decrease in the SARs liability, a \$31.0 million increase in equity equal to the fair value of the Ordinary Shares issued to the two former employees and potentially issued to one current employee, a \$1.5 million increase in other current liabilities and income of \$4.3 million in general and administrative expense recognized for the difference between the extinguished liabilities and the fair value of consideration paid to the current and former employees. As of 31 December 2022, the Company recognized \$0.7 million as an other current liability related to the remaining SARs liability.

Significant assumptions used in the Finnerty model to determine the fair value of the Ordinary Shares to be issued for the settlement as of 15 June 2022 are as follows:

	<u>15 June 2022</u>
Asset price.....	\$9.38
Term (years).....	1 year
Volatility rate.....	35.0%
Dividend yield.....	0.0%
Indicated put option value.....	\$0.75
Discount for lack of marketability.....	8.0%

The asset price is based on the public trading price of Ordinary Shares at the time of the settlement. The term is based on when the holder's will no longer be restricted from trading the Ordinary Shares. The volatility rate is based on historical data from a peer group of public companies with an enterprise value between \$500 million and \$5 billion. The dividend yield is based on the expected dividends to be paid out by the Company. The discount for lack of marketability reflects the timing of when the shares will be issued and can be traded by the holders.

On 1 December 2022, the Company issued Ordinary Shares to settle the remaining outstanding SARs. The vested portion of the Group's SARs liability as of the settlement date was \$3.8 million. The Ordinary Shares granted for the settlement will be delivered in June 2023. As a result, management recognized a gain of \$0.3 million on the extinguishment of the SARs liability resulting from the difference in the carrying value of the liability and fair value of the Ordinary Shares issued.

### *Historical SARs Accounting*

The Group's SAR liability as of 31 December 2021 totaled \$41.4 million. Expense recognized for the Group's SAR liability for the year ended 31 December 2021 totaled \$11.3 million. The vested portion of the Group's SAR liability as of 31 December 2021 is \$36.6 million.

## Notes to the Consolidated Financial Statements

Significant assumptions used in the Black-Scholes-Merton pricing model as of 31 December 2021 is as follows:

	2021
Risk-free interest rate.....	0.1%
Volatility rate.....	42.0%
Expected dividend yield.....	0.0%
Expected life.....	0.4 - 1.0 years
Share price at valuation.....	\$1,806
Strike price.....	\$925-\$1,695

The risk-free interest rate is the continuously compounded risk-free rate for a one-year US government zero-yield bond. Expected volatility is based on historical data from a peer group of public companies. The expected life is based on when the Group expects each holder's award will be fully vested and settled by the Group, which is dependent on management's expectation of when specified triggering events requiring settlement will occur. The share price at valuation is based on the Group's equity valuation at the time of various equity-related transactions that occurred during 2021 and 2020. The strike price represents actual and anticipated increases in equity between the SAR agreement date and the anticipated dates of settlement triggering events. The strike price is used to determine the difference between the equity value at the time of the settlement triggering event and the original equity value of the Group.

### Employee incentive plan

Movements in the Group's employee incentive plan liabilities during the years ended 31 December 2022 and 2021 are as follows

	2022	2021
Balance at 1 January.....	14,935	10,501
Additions.....	5,075	6,648
Payments.....	(7,693)	(2,214)
Balance at 31 December prior to reclassification.....	12,317	14,935
Reclassified to other current liabilities.....	(11,773)	-
Balance at 31 December.....	544	14,935

## 22. Share-based payments

On 1 December 2022, the Remuneration Committee authorized and the Group granted restricted stock units ("RSUs") to employees, executives, and directors granting rights to Ordinary Shares once vesting conditions are met. Compensation expense for RSUs is determined based upon the market price of the Ordinary Shares underlying the awards on the date of grant and expensed over the vesting period, which is generally a one to four-year period, with a 1-year cliff vesting period and subsequent monthly vesting, resulting from participants completing a service condition. Movements in RSUs during the year ended 31 December 2022 are as follows:

	RSUs	Weighted Average Fair value
Granted.....	7,659,049	\$6.68
Vested.....	(679,563)	\$6.30
Outstanding at 31 December.....	6,979,486	\$6.72

The Group recognized \$10.3 million of share-based payment expense during the year ended 31 December 2022 (in thousands):

	2022
Cost of product revenue.....	1,522
Research and development expenses.....	2,994
General and administrative expenses.....	5,801
	10,317

# Notes to the Consolidated Financial Statements

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## 23. Litigation

In 2022, prior to the issuance date of these consolidated financial statements, the Group was involved in four litigations (all now dismissed) in the United States adverse to AbbVie arising out of the development of Alvotech's AVT02 product, and the filing of a biologics license application with the U.S. Food and Drug Administration seeking regulatory approval (the "AbbVie Litigations").

On 19 March 2021, AbbVie Inc. and AbbVie Biotechnology Ltd. (collectively, "AbbVie") filed an action against Alvotech hf. in the United States District Court for the Northern District of Illinois alleging trade secret misappropriation under the Defend Trade Secrets Act and under the Illinois Trade Secrets Act. The complaint pleaded, among other things, that Alvotech hired a certain former AbbVie employee in order to acquire and access trade secrets belonging to AbbVie. In October 2021, the Court granted Alvotech's motion to dismiss the action, and AbbVie later appealed that ruling to U.S. Court of Appeals for the Seventh Circuit.

On 17 December 2021, AbbVie Inc., AbbVie Biotechnology Ltd, and AbbVie Operations Singapore Pte. Ltd. filed a complaint with the U.S. International Trade Commission against Alvotech hf., Alvotech Germany GmbH, Alvotech Swiss AG, Alvotech USA Inc., Teva Pharmaceutical Industries Ltd., Teva Pharmaceuticals USA Inc., and Ivers-Lee AG (Certain Adalimumab, Processes for Manufacturing or Relating to Same, and Products Containing Same, Investigation No. 337-TA-1296). The complaint raised trade secret misappropriation allegations similar to those raised in the trade secret litigation that AbbVie previously filed in the Northern District of Illinois.

On 27 April 2021, AbbVie filed an action against Alvotech hf. in the United States District Court for the Northern District of Illinois alleging infringement of four patents, under the patent laws of the United States. On 28 May 2021, AbbVie filed another action against Alvotech hf. in the United States District Court for the Northern District of Illinois alleging infringement of 58 patents, under the patent laws of the United States, the BPCIA, and the Declaratory Judgment Act, and later added two more patents.

As of 31 December 2022, the AbbVie Litigations were dismissed. On 8 March 2022, Alvotech entered into the AbbVie U.S. Agreement with AbbVie Inc. and AbbVie Biotechnology Ltd with respect to AVT02 for the U.S. market. Pursuant to the settlement component of the AbbVie U.S. Agreement, the parties agreed to stipulate to the dismissal of all claims, counterclaims and potential claims in the four U.S. litigations, with each party to bear its own fees and costs. The parties further agreed to release each other from certain claims and demands. Under the licensing component of the AbbVie U.S. Agreement, AbbVie granted Alvotech a license effective 1 July 2023 to make, import, use, distribute, sell and offer for sale AVT02 in the U.S. and a license to manufacture, import and store a reasonable amount of AVT02 in anticipation of the commercial launch of AVT02 in the U.S. Under the agreement, Alvotech may sublicense certain rights to Teva, as a commercialization partner, and may also sublicense to other parties subject to certain conditions. In return, Alvotech is obligated to pay a royalty to AbbVie in the single-digits of the net sales of AVT02 in the U.S. The agreement does not provide for upfront or milestone payments. The obligation of Alvotech to pay royalties shall terminate on the earlier of (i) 11 February 2025; or (ii) a determination that licensed patents are invalid or unenforceable, at which time the license granted will be deemed fully paid up and irrevocable. Each party has the right to terminate the agreement upon breach of certain terms of the agreement that remains uncured for a certain period of time. Additionally, AbbVie may terminate the agreement if Alvotech takes certain actions concerning the patentability, validity or enforceability of AbbVie's patents in the U.S. with respect to AVT02.

The Group incurred approximately \$8.7 million and \$13.5 million in legal expenses during the years ended 31 December 2022 and 2021, respectively, in preparation for, and/or in relation to, these litigations. Aside from these matters, the Group is not currently a party to any material litigations or similar matters.

# Notes to the Consolidated Financial Statements

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## 24. Related parties

Related parties are those parties which have considerable influence over the Group, directly or indirectly, including a parent company, owners or their families, large investors, key management personnel and their families and parties that are controlled by or dependent on the Group, such as affiliates and joint ventures. Key management personnel include the Group's executive officers and directors, since these individuals have the authority and responsibility for planning, directing and controlling the activities of the Group. Interests in subsidiaries are set out in Note 1.

### Transactions with related parties

A related party transaction is a transfer of resources, services or obligations between the Group and a related party, regardless of whether a price is charged. The Group engages with related parties for both purchased and sold services, loans and other borrowings and other activities.

The Group entered into two lease agreements with Fasteignafélagið Sæmundur hf. in January 2019 and October 2020 for facilities in Iceland, both with remaining lease terms of approximately 17 years as of 31 December 2021. The Group also entered into ten separate lease agreements with HRJAF ehf. throughout 2019 and 2020 for a group of apartment buildings in Iceland used for temporary housing of employees and third party contractors. Two of the leases were terminated during the year ended 31 December 2020. The group extinguished the lease agreements with Sæmundur hf. as a result of the Share Purchase Agreement (see Note 12). The remaining lease terms for the other eight leases approximate 8 years, on average, as of 31 December 2022.

The Group provides and receives certain support services through arrangements with Aztiq, Alvogen and Alvogen Malta (Outlicensing) Ltd. (Adalvo). Services provided to Alvogen consist of finance, administrative, legal and human resource services. Services received from Alvogen primarily consist of marketing, salary processing and information technology support services. Services received from Adalvo primarily consist of legal, regulatory, supply chain management and portfolio and market intelligence services.

Purchased service includes rental fees and service expenses, as described above. Rental fees and service expenses with related parties are presented as "General and administrative expenses" or "Research and development expenses" in the consolidated statements of profit or loss and other comprehensive income or loss, depending on the nature of the service performed and expense incurred by the Group. Rental liabilities from lease arrangements with related parties are presented as a component of "Lease liabilities" on the consolidated statements of financial position. Service payables are presented as "Liabilities to related parties" on the consolidated statements of financial position.

Interest includes interest expense on borrowings. Interest expenses on loans from related parties are presented as "Finance costs" in the consolidated statements of profit or loss and other comprehensive income or loss. Borrowings are presented as "Borrowings" and "Current maturities of borrowings" on the consolidated statements of financial position. See Note 20 for further details on the Borrowing arrangements with related parties.

## Notes to the Consolidated Financial Statements

Sold service includes services provided to related parties, as described above. Income from related parties for such services are presented as “Other income” in the consolidated statements of profit or loss and other comprehensive income or loss. Amounts receivable for such activities are presented as “Receivables from related parties” on the consolidated statements of financial position. The Group has not recorded bad debt provisions for its receivables from related parties.

Related party transactions as of and for the year ended 31 December 2022 are as follows (in thousands):

	Purchased service / interest	Sold Service	Receivables	Payables / Loans
Alvogen Lux Holdings S.à r.l. – Sister company (a) .....	5,415	-	-	64,588
Aztiq Fjárfestingar ehf. (a) .....	216	-	-	20
Aztiq Consulting ehf. ....	442	-	-	25
ATP Holdings ehf. ....	1,254	-	765	81,254
Fasteignafélagið Sæmundur hf. - Sister company (e) .....	7,189	-	-	-
Fasteignafélagið Eyjólfur hf. - Sister company .....	-	196	-	-
Alvogen Iceland ehf. - Sister company .....	465	174	-	484
Alvogen ehf. - Sister company .....	-	68	1	-
Lotus Pharmaceuticals Co. Ltd. - Sister company (b) .....	-	3	2	7,440
Lotus International Pte. Ltd. - Sister company .....	-	4	3	-
Alvogen Emerging Markets - Sister company .....	98	-	-	-
Alvogen Korea co. Ltd - Sister company .....	-	1	-	-
Alvogen Inc. - Sister company .....	585	266	12	222
Alvotech and CCHN Biopharmaceutical Co., Ltd. (c) .....	-	-	758	-
Adalvo Limited - Sister company .....	1,218	106	-	349
Alvogen Malta Sh. Services - Sister company .....	603	-	7	-
Alvogen Spain SL - Sister Company .....	117	-	-	-
Norwich Clinical Services Ltd - Sister Company .....	301	-	-	31
Alvogen Pharma Pvt Ltd - Sister Company .....	1,159	-	-	-
Flóki Fasteignir ehf. (HRJÁF ehf.) - Sister company .....	1,516	-	-	8,876
L41 ehf. ....	26	-	-	-
Lambhagavegur 7 ehf. (d) .....	537	-	-	-
	<u>21,141</u>	<u>818</u>	<u>1,548</u>	<u>163,289</u>

(a) The full amount of purchased service relates to interest expenses from long-term liabilities and the full amount of payables / loans are interest-bearing long-term liabilities (see Note 20).

(b) Payables to Lotus Pharmaceuticals Co. Ltd. consists of the long-term liability as further described in Note 2. This long-term liability is presented as “Other long-term liability to related party” on the consolidated statements of financial position.

(c) The amount receivable from Alvotech and CCHN Biopharmaceutical Co., Ltd. relates to amounts due for reference drugs used in research and development studies and certain consulting fees incurred by the Group.

(d) Lambhagavegur is no longer a related party as it was sold during the year ended 31 December 2022.

(e) Fasteignafélagið Sæmundur hf. was acquired as part of the Share Purchase Agreement, with ATP Holdings ehf., on 16 November 2022. The related party transactions reflect activity until the acquisition date. See Note 12 and Note 20 for further details.

## Notes to the Consolidated Financial Statements

Related party transactions as of and for the year ended 31 December 2021 are as follows (in thousands):

	Purchased service / interest	Sold Service	Receivables	Payables / Loans
Alvogen Lux Holdings S.à r.l. – Sister company (a) .....	9,383	-	-	-
Aztiq Pharma Partners S.à r.l. – Sister company (a) .....	16,048	-	-	-
Alvogen Aztiq AB – Sister company (a) .....	297	-	-	43
Aztiq Fjárfestingar ehf. (a) .....	120	-	-	-
Aztiq Investment Advisory AB (a) .....	-	-	2	-
Fasteignafélagið Sæmundur hf. - Sister company .....	7,762	-	-	83,770
Alvogen Iceland ehf. - Sister company .....	454	2,308	109	14
Alvogen ehf. - Sister company .....	6	2	2	-
Alvogen UK - Sister company .....	299	-	17	-
Lotus Pharmaceuticals Co. Ltd. - Sister company (b) .....	-	312	295	7,440
Alvogen Emerging Markets - Sister company .....	238	-	-	16
Alvogen Korea co. Ltd - Sister company .....	-	9	-	-
Alvogen Inc. - Sister company .....	89	654	301	-
Alvotech and CCHN Biopharmaceutical Co., Ltd. (c) .....	-	-	320	-
Alvogen Malta Sh. Services - Sister company .....	1,216	151	-	283
Alvogen Malta (Outlicensing) Ltd - Sister company .....	1,045	279	65	229
Alvogen Spain SL - Sister Company .....	294	-	-	23
Norwich Clinical Services Ltd - Sister Company .....	41	-	-	17
Alvogen Pharma Pvt Ltd - Sister Company .....	491	-	-	13
HRJÁF ehf - Sister company .....	1,415	-	-	9,794
L41 ehf. ....	29	-	-	-
Lambhagavegur 7 ehf. ....	713	-	-	12,661
	<u>39,940</u>	<u>3,715</u>	<u>1,111</u>	<u>114,303</u>

(a) The full amount of purchased service relates to interest expenses from long-term liabilities and the full amount of payables / loans are interest-bearing long-term liabilities (see Note 20).

(b) Payables to Lotus Pharmaceuticals Co. Ltd. consists of the long-term liability as further described in Note 2. This long-term liability is presented as “Other long-term liability to related party” on the consolidated statements of financial position.

(c) The amount receivable from Alvotech and CCHN Biopharmaceutical Co., Ltd. relates to amounts due for reference drugs used in research and development studies and certain consulting fees incurred by the Group.

### Commitments and guarantees

The Group does not have any contractual commitments with its related parties other than the receivables, loans and payables previously disclosed.

### Key management personnel

At 31 December 2022 and 2021 there are no loans to the members of the Board of Directors and the CEO. In addition, there were no transactions carried out (except those in Note 24) between the Group and members of the Board of Directors nor the CEO in the year ended 31 December 2022 and 2021. The Board of Directors' remuneration is shown in the table below.



## Notes to the Consolidated Financial Statements

Board of Directors' fee for the year and shares at year end (board fees in thousands and shares in whole amounts).

	2022		
	Board fees	Pension contribution	Shares at year-end**
Robert Wessman, Chairman of the board.....	740	-	-
Richard Davies, Vice-Chairman.....	68	-	1,133,131
Ann Merchant, Board Member (from 16.6.2022).....	43	-	-
Árni Harðarson, Board Member (from 16.6.2022)*.....	-	-	-
Faysal Kalmoua, Board Member*.....	-	-	-
Linda McGoldrick, Board Member (from 16.6.2022).....	38	-	-
Lisa Graver, Board Member (from 16.6.2022).....	38	-	-
Tomas Ekman, Board Member*.....	-	-	-
Hirofumi Imai, Board member (until 16.6.2022).....	-	-	-
	<b>927</b>	<b>-</b>	<b>1,133,131</b>

\*Waived their board compensation (both cash and equity).

\*\*Direct share ownership

	2022			
	Salaries and benefits	Pension contribution	Termination benefits	Other long-term benefits
Mark Levick CEO.....	892	162	1,157	-
Other Executive Team Members (9).....	5,400	446	820	5,015
	<b>6,292</b>	<b>608</b>	<b>1,977</b>	<b>5,015</b>

Board of Directors' fee for the year and shares at year end (board fees in thousands and shares in whole amounts).

	2021		
	Board fees	Pension contribution	Shares at year-end**
Robert Wessman, Chairman of the board.....	-	-	-
Richard Davies, Vice-Chairman.....	-	-	893,060
Faysal Kalmoua, Board Member*.....	-	-	-
Tomas Ekman, Board Member*.....	-	-	-
Hirofumi Imai, Board member.....	-	-	-
Tanya Zharov (from 23.8.2021)*.....	-	-	-
	<b>-</b>	<b>-</b>	<b>893,060</b>

\*Waived their board compensation (both cash and equity).

\*\*Direct share ownership

	2021			
	Salaries and benefits	Pension contribution	Termination benefits	Other long-term benefits
Mark Levick CEO.....	877	159	-	-
Other Executive Team Members (9).....	4,531	333	-	985
	<b>5,408</b>	<b>492</b>	<b>-</b>	<b>985</b>

## Notes to the Consolidated Financial Statements

### 25. Other current liabilities

The composition of other current liabilities as of 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Unpaid salary and salary related expenses.....	15,620	10,235
Accrued interest.....	2,249	7,547
Accrued payable to Biosana.....	-	7,500
Accrued vacation leave.....	5,025	4,626
Employee incentive plan.....	12,433	-
Accrued expenses.....	18,720	12,104
	54,047	42,012

### 26. Interests in joint ventures

In September 2018, Alvotech hf, a subsidiary of the Group, entered into a joint venture agreement with Changchun High & New Technology Industries (Group) Inc. (the “joint venture partner”) to form a newly created joint venture entity, Alvotech & CCHN Biopharmaceutical Co., Ltd. (the “joint venture” or “JVCO”). The purpose of the JVCO is to develop, manufacture and sell biosimilar products in the Chinese market. The JVCO’s place of business is also the country of incorporation.

Name of entity	Place of business	Ownership interest		Carrying amount	
		2022	2021	2022	2021
Alvotech & CCHN Biopharmaceutical Co., Ltd	China	50%	50%	48,568	55,307

The proportion of ownership interest is the same as the proportion of voting rights held by the Group. Management evaluated whether the Group’s voting rights are sufficient for providing a practical ability to direct the relevant activities and strategic objectives of JVCO unilaterally. As the Group does not hold a majority of the voting rights, the Group does not control JVCO. As a result, the Group’s investment in JVCO is accounted for using the equity method.

The following table provides the change in the Group’s investment in a joint venture during the years ended 31 December 2022 and 2021 (in thousands):

	2022	2021
Balance at 1 January.....	55,307	56,679
Share in losses.....	(2,590)	(2,418)
Translation difference.....	(4,149)	1,046
Balance at 31 December.....	48,568	55,307

The tables below provide summarized financial information for the JVCO. The information disclosed reflects the amounts presented in the financial statements of the JVCO and not the Group’s share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

## Notes to the Consolidated Financial Statements

<i>Summarized Statement of Financial Position (in thousands)</i>	2022	2021
Current assets		
Cash and bank balances.....	17,203	29,659
Trade receivables.....	-	15
Inventories.....	250	18
Other current assets .....	1,539	1,372
Total current assets .....	18,992	31,064
Total non-current assets	107,487	94,525
Current liabilities		
Financial liabilities .....	145	-
Other current liabilities.....	14,129	12,156
Total current liabilities .....	14,274	12,156
Total non-current liabilities	15,069	2,820
Net assets	97,136	110,613
<i>Reconciliation to carrying amounts (in thousands):</i>	2022	2021
Opening net assets at 1 January.....	110,613	113,061
Loss for the year.....	(5,180)	(4,836)
Other comprehensive income.....	-	-
Cash contributions of owners.....	-	-
Receivable from owners.....	-	-
Dividend paid.....	-	-
Other, net.....	(8,297)	2,388
Closing net assets at 31 December.....	97,136	110,613
Group's share in %.....	50%	50%
Group's share in USD.....	48,568	55,307
Carrying amount.....	48,568	55,307
<i>Summarized Statement of Profit or Loss &amp; Other Comprehensive Income (in thousands)</i>	2022	2021
Revenue.....	-	-
Interest income.....	433	1,295
Depreciation and Amortization.....	829	210
Interest expense.....	151	-
Income tax expense.....	-	-
Other expenses.....	4,633	5,920
Exchange rate differences.....	-	1
<b>Loss for the year.....</b>	<b>(5,180)</b>	<b>(4,836)</b>
Other comprehensive income.....	-	-
Total comprehensive loss.....	(5,180)	(4,836)
Dividends received from joint venture entity.....	-	-

## Notes to the Consolidated Financial Statements

The Group did not receive any dividends from JVCO during the years ended 31 December 2022 and 2021. The Group had a \$5.0 million commitment to provide a cash contribution to JVCO as of 31 December 2019, which was paid during the year ended 31 December 2020. Similarly, the joint venture partner had a \$50.0 million commitment to provide a cash contribution to JVCO as of 31 December 2019, which was also paid during the year ended 31 December 2020. The Group does not have any remaining commitments to JVCO as of 31 December 2022 and 2021. Furthermore, the Group does not have any contingent liabilities relating to its interests in JVCO as of 31 December 2022 or 2021. While there are no significant restrictions resulting from contractual arrangements with JVCO, entities in China are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than dividends.

### 27. Financial instruments

#### Accounting classification and carrying amounts

Financial assets as of 31 December 2022 and 2021, all of which are measured at amortized cost, are as follows (in thousands):

	2022	2021
Cash and cash equivalents.....	66,427	17,556
Restricted cash.....	25,187	10,087
Trade receivables.....	32,972	29,396
Other current assets.....	5,880	14,518
Receivables from related parties.....	1,548	1,111
Other long-term assets.....	4,484	-
	136,498	72,668

Financial liabilities as of 31 December 2022 and 2021 are as follows (in thousands):

	2022	2021
Borrowings (measured at amortized cost).....	764,570	400,911
Derivative financial liabilities (measured at FVTPL).....	380,232	-
Other long-term liability to related party (measured at amortized cost).....	7,440	7,440
Long-term incentive plan (measured at FVTPL).....	544	56,334
Trade and other payables (measured at amortized cost).....	49,188	28,587
Lease liabilities (measured at amortized cost).....	40,532	122,140
Liabilities to related parties (measured at amortized cost).....	1,131	638
Other current liabilities.....	53,664	42,012
	1,297,301	658,062

It is management's estimate that the carrying amounts of financial assets and financial liabilities carried at amortized cost approximate their fair value, with the exception of the Senior Bonds, since any applicable interest receivable or payable is either close to current market rates or the instruments are short-term in nature. Material differences between the fair values and carrying amounts of these borrowings are identified as follows (in thousands):

## Notes to the Consolidated Financial Statements

	At 31 December 2022	
	Carrying amount	Fair value
Senior Bonds.....	530,506	535,167

  

	At 31 December 2021	
	Carrying amount	Fair value
Bonds.....	363,100	368,476

### Fair value measurements

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments measured to fair value on a recurring basis as of 31 December 2022 (in thousands):

	2022			Total
	Level 1	Level 2	Level 3	
Senior Bond Warrants.....	-	-	45,325	45,325
Tranche A Conversion Feature.....	-	-	38,055	38,055
Sr. Bond Interest Rate Feat. (incl. in oth. current assets).....	-	-	851	851
Predecessor Earn Out Shares.....	-	276,200	-	276,200
OACB Earn Out Shares.....	-	10,500	-	10,500
OACB Warrants.....	10,152	-	-	10,152
	<u>10,152</u>	<u>286,700</u>	<u>84,231</u>	<u>381,083</u>

The Group did not recognize any transfers of assets or liabilities between levels of the fair value hierarchy during the years ended 31 December 2022 and 2021.

The Group recognized derivative financial liabilities related to the equity conversion rights in the convertible bonds as well as the equity conversion rights, warrant rights and funding rights in the convertible shareholder loans as of 31 December 2020. These derivative financial liabilities were extinguished during the year ended 31 December 2021. Refer to Note 20 for additional details on the extinguishment.

### Tranche A Conversion Feature

As noted in Note 20, in connection with the Convertible Bonds the Group classified the Tranche A Conversion Feature as an embedded derivative liability due to the variability created by conversion rates resulting from the tranche being denominated in ISK. The conversion feature had a fair value of \$24.9 million and \$38.1 million as of 20 December 2022 and 31 December 2022, respectively. The change in fair resulted in \$13.2 million of finance costs for the year ended 31 December 2022.

The fair value of the Tranche A Conversion Feature was determined using a lattice model that incorporated inputs and assumptions as further described below. The inputs and assumptions associated with the valuation of the instruments are determined based on all relevant internal and external information available and are reviewed and reassessed at each reporting date. The following table presents the assumptions and inputs that were used for the model in valuing the Tranche A Conversion Feature:

## Notes to the Consolidated Financial Statements

	31 December 2022	20 December 2022
Stock price.....	\$10.00	\$8.00
Conversion price.....	\$10.00	\$10.00
Volatility rate.....	45.0%	45.0%
Risk-free interest rate.....	4.2%	4.0%
Dividend yield.....	0.0%	0.0%
Risk yield.....	19.3%	18.6%

### Senior Bond Warrants

As part of the Senior Bonds agreement (see Note 20), the Group agreed to issue penny warrants to the Bondholders that are issuable if certain events occur. The contingently issuable Senior Bond Warrants include two tranches:

- One tranche representing 1.5% of the fully diluted ordinary share capital if the aggregate amount of the net proceeds of all new equity issuances received by the Company on or before 15 December 2022 is less than \$75.0 million, as defined in the Senior Bonds agreement.
- One tranche representing 1.0% of the fully diluted ordinary share capital if the aggregate amount of the net Proceeds of all new equity issuances received by the Company on or before 31 March 2023 is less than \$150.0 million, as defined in the Senior Bonds agreement.

The Senior Bond Warrants are accounted for as derivative financial liabilities in accordance with IFRS 9 and IAS 32 and will be subject to ongoing mark-to-market adjustments through the consolidated statement of profit or loss and other comprehensive income or loss. The Senior Bond Warrants had a fair value of \$15.4 million on 16 November 2022. The fair value was determined using the Finterty model along with the publicly quoted trading price of Ordinary Shares and probability of the contingent events occurring at the valuation date. Probabilities associated with the instruments are determined based on all relevant internal and external information available and are reviewed and reassessed at each reporting date.

On 31 December 2022, the Company issued 4,198,807 warrants, with an exercise price of \$0.01, representing the first tranche of Senior Bond Warrants. The issued warrants, along with the remaining tranche of contingently issuable warrants had a fair value of \$45.3 million as of 31 December 2022. The Group recognized \$29.9 million in finance costs resulting from the change in fair value of the Senior Bond Warrants.

### Predecessor Earn Out Shares

As part of the Business Combination, Predecessor shareholders were granted a total of 38,330,000 Ordinary Shares subject to certain vesting conditions ("Predecessor Earn Out Shares"). One half of the Predecessor Earn Out Shares will vest if, at any time during the five years following the closing of the Business Combination, the Alvotech ordinary share price is at or above a volume weighted average price ("VWAP") of \$15.00 per share for any ten trading days within any twenty-trading day period, with the other half vesting at a VWAP of \$20.00 per share for any ten trading days within any twenty-trading day period. The Predecessor Earn Out Shares are accounted for as derivative financial liabilities in accordance with IAS 32 and will be subject to ongoing mark-to-market adjustments through the consolidated statement of profit or loss and other comprehensive income or loss. The Predecessor Earn Out Shares had a fair value of \$227.5 million at the Closing Date and \$276.2 million as of 31 December 2022, resulting in \$48.7 million of finance costs during the year ended 31 December 2022.

The fair value of the Predecessor Earn Out Shares was determined using Monte Carlo analysis that incorporated inputs and assumptions as further described below. The inputs and assumptions associated with the valuation of the instruments are determined based on all relevant internal and external information available and are reviewed and reassessed at each reporting date. The following table presents the assumptions and inputs that were used for the model in valuing the Predecessor Earn Out Shares:

## Notes to the Consolidated Financial Statements

	31 December 2022	15 June 2022
Share price.....	\$10.00	\$9.38
Volatility rate.....	45.0%	37.5%
Risk-free interest rate.....	4.05%	3.4%

### OACB Earn Out Shares

Former OACB shareholders were granted a total of 1,250,000 Ordinary Shares subject to certain vesting conditions (“OACB Earn Out Shares”). One half of the OACB Earn Out Shares will vest if, at any time during the five years following the closing of the Business Combination, the Alvotech ordinary share price is at or above a VWAP of \$12.50 per share for any ten trading days within any twenty-trading day period, with the other half vesting at a VWAP of \$15.00 per share. The OACB Earn Out Shares are accounted for as derivative financial liabilities in accordance with IAS 32 and will be subject to ongoing mark-to-market adjustments through the statement of profit or loss and other comprehensive income or loss. The OACB Earn Out Shares had a fair value of \$9.1 million at the Closing Date and \$10.5 million as of 31 December 2022, resulting in \$1.4 million of finance costs during the year ended 31 December 2022.

The fair value of the OACB Earn Out Shares was determined using a Monte Carlo analysis that incorporated inputs and assumptions as further described below. Assumptions and inputs associated with the valuation of the instruments are determined based on all relevant internal and external information available and are reviewed and reassessed at each reporting date. The following table presents the assumptions and inputs that were used for the model in valuing the OACB Earn Out Shares:

	31 December 2022	15 June 2022
Share price.....	\$10.00	\$9.38
Volatility rate.....	45.0%	37.5%
Risk-free interest rate.....	4.05%	3.4%

### OACB Warrants

Additionally, as part of the Business Combination the Company assumed the 10,916,647 outstanding OACB warrants, on substantially the same contractual terms and conditions as were in effect immediately prior to the Business Combination, including an exercise price of \$11.50. Each warrant entitles the holder to purchase one Alvotech ordinary share. The OACB warrants are accounted for as derivative financial liabilities in accordance with IAS 32 and will be subject to ongoing mark-to-market adjustments through the consolidated statement of profit or loss and other comprehensive income or loss. The OACB warrants had a fair value of \$11.8 million at the Closing Date and \$10.2 million as of 31 December 2022. The fair value of the warrants was derived from the publicly quoted trading price at the valuation date. The change in fair value of the OACB Warrants resulted in \$1.6 million of finance income for the year ended 31 December 2022.

# Notes to the Consolidated Financial Statements

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## Convertible shareholder loans

The fair value of the derivatives associated with the convertible shareholder loans was \$485.9 million and \$534.7 million at 7 December 2021, the date of extinguishment (refer to Note 20 for additional details) and 31 December 2020. Changes in the fair value of the financial instruments during the period are recognized in the consolidated statements of profit or loss and other comprehensive income or loss.

The fair value of the derivatives associated with the convertible shareholder loans on 7 December 2021 was determined based on the number of shares to be issued at the closing of the Business Combination Agreement multiplied by OACB stock price (\$9.86).

In aggregate, the fair value of the derivative liabilities associated with the convertible shareholder loans and convertible bonds at 31 December 2019 was \$479.3 million. In 2020, the fair value of the derivative liabilities increased by \$55.4 million, resulting in derivative liabilities of \$534.7 million at 31 December 2020. In 2021, the fair value of the financial instruments decreased by \$48.8 million, resulting in derivative liabilities of \$485.9 million at 7 December 2021, the date of extinguishment. Included in the changes in fair value of the derivative liabilities is the amortization of a deferred loss associated with the recognition of funding rights at the inception of the convertible shareholder loan with Aztiq. Specifically, at inception, the fair value of the funding rights, determined using unobservable inputs, exceeded the transaction price by \$15.0 million. The deferred loss was recognized over the 5-year term of the convertible shareholder loan using the straight-line method of amortization. The unamortized deferred loss, which is netted against derivative financial liabilities on the consolidated statements of financial position, was \$3.1 million as of 7 December 2021, the date of extinguishment.

The Group did not recognize any transfers of assets or liabilities between levels of the fair value hierarchy during the years ended 31 December 2022 and 2021.

## Capital management

The capital structure of the Group consists of equity, debt and cash. For the foreseeable future, the Board of Directors will maintain a capital structure that supports the Group's strategic objectives through managing the budgeting process, maintaining strong investor relations and managing the financial risks of the Group, as further described below. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 2021.

## Financial risk management

The Group's corporate treasury function provides services across the organization, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the Group's operations through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

## Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of fluctuations in market interest rates primarily relates to the cash in bank that is subject to floating interest rates.

The following table provides an interest rate sensitivity analysis for the effect on loss before tax (in thousands):

	2022	2021
Variable-rate financial liabilities +100.....	(186)	(65)
Variable-rate financial liabilities -100.....	186	65



## Notes to the Consolidated Financial Statements

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk arises from financial assets and financial liabilities denominated in other currencies than the presentation currency of the Group.

Below are the foreign currencies that have the most significant impact on the Group's operations.

	Closing rate		Average rate		Change
	2022	2021	2022	2021	
EUR .....	1.061	1.133	1.052	1.183	(6.4%)
GBP .....	1.204	1.350	1.233	1.376	(10.8%)
ISK .....	0.007	0.008	0.007	0.008	(8.3%)
CHF .....	1.071	1.094	1.047	1.094	(2.1%)
INR .....	0.012	0.013	0.013	0.014	(10.1%)

The Group's assets and liabilities that are denominated in foreign currencies as of 31 December 2022 are as follows (in thousands):

	Assets	Liabilities	Net
EUR .....	36,420	26,514	9,906
GBP .....	111	1,538	(1,427)
ISK .....	49,484	109,507	(60,023)
CHF .....	69	7,305	(7,236)
INR .....	11	517	(506)

The Group's assets and liabilities that are denominated in foreign currencies as of 31 December 2021 are as follows (in thousands):

	Assets	Liabilities	Net
EUR .....	31,718	15,720	15,998
GBP .....	180	673	(493)
ISK .....	5,421	148,747	(143,326)
CHF .....	715	7,305	(6,590)

A reasonable possible strengthening or weakening of the Group's significant foreign currencies against the USD would affect the measurement of financial instruments denominated in a foreign currency and affect equity by the amount shown in the sensitivity analysis table below. The analysis assumes that all other variables, such as interest rates, remain constant.

Year ended 31 December 2022	EUR	GBP	ISK	CHF	INR
-10% weakening .....	(991)	(143)	(6,002)	(724)	(51)
+10% strengthening .....	991	143	6,002	724	51
Year ended 31 December 2021	EUR	GBP	ISK	CHF	INR
-10% weakening .....	(1,600)	(49)	(14,333)	(659)	N/A
+10% strengthening .....	1,600	49	14,333	659	N/A

## Notes to the Consolidated Financial Statements

### Credit risk

Credit risk is the risk that a counterparty will not fulfill its contractual obligations under a financial instrument contract, leading to a financial loss for the Group. The maximum credit risk exposure for the Group's financial assets as of 31 December 2022 and 2021 is as follows (in thousands):

	2022	2021
Cash and cash equivalents .....	66,427	17,556
Restricted cash .....	25,187	10,087
Other assets .....	44,884	66,344
	<u>136,498</u>	<u>93,987</u>

The Group's cash and cash equivalents and restricted cash are deposited with high-quality financial institutions. Management believes these financial institutions are financially sound and, accordingly, that minimal credit risk exists. The Group has not experienced any losses on its deposits of cash and cash equivalents and restricted cash yet monitors the credit rating of these financial institutions on a periodic basis.

Other assets primarily consist of other current assets, as described in Note 18, and trade receivables and contract assets recognized in connection with the Group's performance pursuant to its contracts with customers, all of which are large multinational pharmaceutical companies. There are no significant amounts past due as of 31 December 2022 and 2021 and the Group concludes that any expected credit losses with respect to these assets is immaterial.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Contractual maturities of financial assets and liabilities as of 31 December 2022 are as follows (in thousands):

	Within one year	One to two years	Thereafter	Total
<b>Financial assets</b>				
Non-interest bearing .....	40,400	-	-	40,400
Variable-interest bearing .....	66,427	-	29,671	96,098
Total financial assets .....	<u>106,827</u>	<u>-</u>	<u>29,671</u>	<u>136,498</u>
<b>Financial liabilities</b>				
Non-interest bearing .....	104,366	-	7,984	112,350
Fixed-interest bearing - Borrowings .....	45,757	66,308	896,921	1,008,986
Derivative liabilities .....	-	-	380,232	380,232
Variable-interest bearing - Borrowings .....	25,259	8,036	59,109	92,404
Total financial liabilities .....	<u>175,382</u>	<u>74,344</u>	<u>1,344,246</u>	<u>1,593,972</u>

## Notes to the Consolidated Financial Statements

Contractual maturities of financial assets and liabilities as of 31 December 2021 are as follows (in thousands):

	Within one year	One to two years	Thereafter	Total
<b>Financial assets</b>				
Non-interest bearing .....	29,396	-	-	29,396
Variable-interest bearing .....	17,556	-	10,087	27,643
Total financial assets .....	46,952	-	10,087	57,039
<b>Financial liabilities</b>				
Non-interest bearing .....	71,237	-	63,774	135,011
Fixed-interest bearing - Borrowings .....	16,663	33,235	500,675	550,573
Variable-interest bearing - Borrowings .....	3,041	3,035	1,117	7,193
Total financial liabilities .....	90,941	36,270	565,566	692,777

Refer to Note 13 for the maturity analysis of the Group's undiscounted lease payments.

### 28. Supplemental cash flow information

Supplement cash flow information for the year ended 31 December 2022 and 2021 is included below (in thousands).

<b>Non-cash investing and financing activities</b>	2022	2021
Acquisition of property, plant and equipment in trade payables.....	4,131	3,812
Acquisition of intangibles in trade payables and other current liabilities.....	4,075	-
Right-of-use assets obtained through new operating leases.....	9,583	18,871
Addition of the Facility through Aztiq Convertible Bond.....	115,005	-
Non-cash issuance of Aztiq Convertible Bond.....	80,000	-
Equity issued through conversion of borrowings.....	32,200	346,043
Acquisition of other intangible assets through financing agreements.....	-	461

### 29. Subsequent events

The Group evaluated subsequent events through 1 March 2023, the date the consolidated financial statements were available to be issued.

On 25 January 2023, the Company issued an additional \$10.0 million in Tranche B Convertible Bonds. Holders of the Tranche B Convertible Bonds may elect, at their sole discretion, to convert all or part of the principal amount and accrued interest into Alvotech Ordinary Shares at a conversion price of \$10.00 per share on December 31, 2023, or June 30, 2024. The conversion feature will be accounted for as an embedded derivative and classified as equity.

On 10 February 2023, the Company completed a private placement equity offering of \$137.0 million, at current ISK exchange rates, of its Ordinary Shares, par value \$0.01 per share, at a purchase price of \$11.57 per share. The Shares are expected to be delivered from previously issued ordinary shares held by Alvotech's subsidiary, Alvotech Manco ehf. As a result of proceeds raised from the private placement offering, the Company extinguished the liability related to the Senior Bond Warrants resulting in the potential issuance of penny warrants representing 1.0% of the fully diluted ordinary share capital (see Note 20). This will be accounted for as an extinguishment of a financial liability in the consolidated statement of profit or loss and other comprehensive income or loss.

## Notes to the Consolidated Financial Statements

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On 17 February 2023, the first tranche of OACB Earn Out Shares vested resulting in the issuance of 625,000 Ordinary Shares. The issuance of Ordinary Shares for the first tranche will be accounted for as an extinguishment of a financial liability in the consolidated statement of profit or loss and other comprehensive income or loss.

On 27 February 2023, the Group and Teva signed an amendment to the licence & development agreement. As part of that amendment, the Group agreed to provide future financial consideration to Teva to assist with the cost of launching and marketing the licensed biosimilar products.

Subsequent to 31 December 2022, Senior Bond Warrant holders elected to exercise their warrants. As a result, 3,014,189 Ordinary Shares were issued in exchange for the exercising of the penny warrants. The Company received an immaterial amount of cash and will recognize the transaction as an extinguishment of the derivative financial liabilities. The difference between the equity issued and carrying value of the derivative financial liabilities will be recognized in the consolidated statement of profit or loss and other comprehensive income or loss.

Subsequent to 31 December 2022, holders of the OACB Warrants exercised their warrant rights for an exercise price of \$11.50 for the rights to one Ordinary Share per warrant. The exercises result in the issuance of 271,150 Ordinary Shares and cash proceeds of \$3.1 million. The Company will recognize the transaction as an extinguishment of the derivative financial liabilities. The difference between the equity issued and carrying value of the derivative financial liabilities will be recognized in the consolidated statement of profit or loss and other comprehensive income or loss.

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## Corporate Governance Report for 2022

This corporate governance report (the “**Report**”) covers the period from 16 June 2022 (date immediately following the date on which Alvotech consummated the business combination with Oaktree Acquisition Corp. II and Alvotech Holdings S.A.) through 31 December 2022 of Alvotech, a *société anonyme*, incorporated and existing under the laws of the Grand Duchy of Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B258884, having its registered office at 9, rue de Bitbourg, L-1273 Luxembourg, Grand Duchy of Luxembourg (“**Alvotech**” or the “**Company**”). Alvotech was incorporated on August 23, 2021 for the sole purpose of completing a business combination between Alvotech Holdings S.A., Oaktree Acquisition Corp. II and Alvotech. The business combination closed on 15 June 2022 and, concurrently with the closing, the current Directors of Alvotech were appointed.

The ordinary shares and warrants of Alvotech are listed on The Nasdaq Stock Market LLC (“**Nasdaq US**”) under the symbol “ALVO” and “ALVOW”, respectively, since 16 June 2022. Alvotech’s ordinary shares are also listed on the Nasdaq Iceland Main Market under the ticker symbol “ALVO” since 8 December 2022 and, prior to that, on the Nasdaq First North Growth Market since 23 June 2022 until their admission to trading to the Nasdaq Iceland Main Market. This Report will be a part of the financial statements for the year ended 31 December 2022, and has been approved by the Board of Directors of the Company (the “**Board of Directors**” or “**Board**”) and reviewed by its Audit Committee.

As regards general meetings of shareholders, at an ordinary general meeting, there is no quorum requirement and resolutions are adopted by a simple majority of validly cast votes. Abstentions are not considered “votes.”

Resolutions at an extraordinary general meeting are required for any of the following matters, among others: (i) an increase or decrease of the authorized or issued capital, (ii) a limitation or exclusion of preferential subscription rights, (iii) approval of a statutory merger or de-merger (scission), (iv) Alvotech’s dissolution and liquidation, (v) any and all amendments to Alvotech’s articles of association and (vi) change of nationality. Pursuant to Alvotech’s articles of association, for any resolutions to be considered at an extraordinary general meeting of shareholders, the quorum shall be at least one half of Alvotech’s issued share capital unless otherwise mandatorily required by law. If the said quorum is not present, a second meeting may be convened, for which Luxembourg Company Law does not prescribe a quorum. Any extraordinary resolution shall be adopted at a quorate general meeting, except otherwise provided by law, by at least a two-thirds majority of the votes validly cast on such resolution by shareholders. Abstentions are not considered “votes.”

An annual general meeting of shareholders (“**AGM**”) shall be held in the Grand Duchy of Luxembourg within 6 months of the end of the preceding financial year.

Each Ordinary Share entitles the holder thereof to one vote. Neither Luxembourg law nor Alvotech’s articles of association contain any restrictions as to the voting of Ordinary Shares by non-Luxembourg residents. The Luxembourg Company Law distinguishes ordinary general meetings of shareholders and extraordinary general meetings of shareholders with respect to the required quorums and majorities.

Alvotech is committed to recognizing general principles aimed to ensure good corporate governance. Our approach to corporate governance is further described in this Report.

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Alvotech’s corporate governance consists of a framework of principles and rules, including its Articles of Association, the 6<sup>th</sup> edition from February 2021 of the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, Nasdaq Iceland Main Market and the Confederation of Icelandic Employers. The Board of Directors also adopted a Code of Business Conduct and Ethics (the “**Code**”) applicable to the directors, officers, employees and other team members that complies with the rules and regulations of Nasdaq US, Nasdaq Iceland Main Market, and the SEC. The Code is available on Alvotech’s website.

Alvotech’s regulatory framework for corporate governance practices consists of the law applicable listed companies as well as other applicable law and regulations, including those imposed by Nasdaq Iceland Main Market and Nasdaq US available at their respective websites.

The Board of Directors is committed to excellence in corporate governance by complying with the applicable regulatory standards and international best practices in the field of corporate governance.

All directors of the Company must act honestly, with due skill and care in the best interests of the Company and the group. All directors must adhere to the highest standards of honest and ethical conduct, including taking proper and due actions to avoid any conflicts of interest in his or her dealings with the Alvotech or the group, or dealings with other parties that may relate to or affect the group of Alvotech, its interest and assets.

### **Internal Control**

The Audit and Risk Committee is responsible, among other things, for establishing procedures for the confidential anonymous submission of complaints (a whistle blowing mechanism).

### **Risk Management**

Alvotech has a strong track record of growth. The Board of Directors is responsible for overseeing Alvotech’s risk management process. The Board of Directors focuses on Alvotech’s general risk management strategy, the most significant risks, and oversees the implementation of risk mitigation strategies by management. The audit and risk committee is also responsible for discussing Alvotech’s policies with respect to risk assessment and risk management. The Board of Directors believes its administration of its risk oversight function has not negatively affected the Board’s leadership structure. As part of the steady expansion of Alvotech’s risk management processes, the Company has launched a number of initiatives. Each initiative is contributing to achieving the company’s objectives with regard to efficacy and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The Company has identified certain key risks that are given special attention and monitored.

### **Audit, accounting and risk**

The Board of Directors adopted the Audit and Risk Committee Charter. The Chief Executive Officer of the Company ensures that the directors are provided with accurate information on Alvotech’s finances, development, operations and risk assessments on a regular basis and the Audit and Risk Committee assists the Board in fulfilling its oversight responsibilities concerning the financial reporting process and the system of internal controls. The Board of Directors ensures that internal procedures for risk management are revised at least annually.

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The consolidated financial statements are published on an annual, semi-annual and quarterly basis, as applicable, subject to and in accordance with applicable publication requirements under Icelandic and/or Luxembourg and/or and U.S. laws.

The AGM appoints the independent auditor (*réviseur d'entreprises agréé*) and shall determine their office, in accordance with Alvotech's Articles of Association. The Board's proposal to the AGM is based on the Audit and Risk Committee's recommendation on the selection of an audit firm. Deloitte hf. has carried out the external audit of Alvotech in recent years. In addition, Deloitte Audit (20, Boulevard de Kockelscheuer L-1821, Luxembourg, Grand Duchy of Luxembourg) is appointed as the independent auditor (*réviseur d'entreprises agréé*) of Alvotech and in recent years conducted external audits in accordance with the Luxembourg law of 23 July 2016 on the audit profession (the "**Audit Law**"). In accordance with Article 51 of the law of the Audit Law and by way of derogation from Article 17(1) of Regulation (EU) No 537/2014, the maximum duration of a statutory audit of a public-interest entity may be of 20 years, where a public tendering process for the statutory audit is conducted in accordance with paragraphs 2 to 5 of Article 16 of the above-mentioned regulation.

## **Compliance**

Alvotech has a Compliance function. The General Counsel of the company is the Compliance Officer and is responsible for the Code, the training of employees and business ethics. Under Icelandic Act 60/2021, a Securities Compliance Officer has been appointed to oversee the compliance with the Company's Insider Trading policy. The Securities Compliance Officer is responsible for assessing and monitoring if Alvotech, its directors, officers and employees are in compliance with the laws and regulations that apply to a company listed on the Nasdaq Iceland Main Market. The Compliance Officer monitors if the company is in compliance with other applicable law and the Company's Business Code of Conduct.

## **Code of Business Conduct and Ethics**

The Board of Directors adopted a Code of Business Conduct and Ethics for Alvotech's directors, officers and employees. The Code sets out Alvotech's code of business conduct and ethics, consisting of the principal business, ethical, moral and legal standards which Alvotech's directors, officers and employees are required to observe. The aim of the Code is a further testament to Alvotech's commitment to sustainability, having oversight and managing relevant environment, social and government risks and opportunities in Alvotech's operations and value chain.

## **Sustainability**

Alvotech has adopted a Sustainability Policy that is focused on making its operations exemplary in the pharmaceutical environment based on established international environmental, social and governance ("**ESG**") criteria. In this respect, the company has created a separate Non-Financial Disclosures 2023 report for 2022 that will be attached to the 2022 financials.

## **Board Committees**

Alvotech has five standing committees of the Board of Directors (an audit and risk committee, a compensation committee, a nominating and corporate governance committee, a strategy committee and a Corporate Sustainability Committee). All the committees are constituted of members of the Board based on their expertise,

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skills and experience relevant to that Committee and in accordance with the rules set for each committee by the Board of Directors.

### **Audit and Risk Committee**

The members of Alvotech’s audit and risk committee are LindaMcGoldrick (Chair), Ann Merchant and Richard Davies. Each member of Alvotech’s audit and risk committee qualifies as independent directors according to the rules and regulations of the SEC and Nasdaq with respect to audit and risk committee membership. In addition, all audit and risk committee members meet the requirements for financial literacy under applicable SEC and Nasdaq rules and at least one of the audit and risk committee members qualifies as an “audit and risk committee financial expert,” as such term is defined in Item 407(d) of Regulation S-K under the United States Securities Act of 1933, as amended. The audit and risk committee is responsible for, among other things:

- appointing, compensating, retaining, evaluating, terminating and overseeing our independent registered public accounting firm;
- discussing with our independent registered public accounting firm their independence from management;
- reviewing, with our independent registered public accounting firm, the scope and results of their audit;
- approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm;
- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the annual financial statements that we file with the SEC;
- overseeing our financial and accounting controls and compliance with legal and regulatory requirements;
- reviewing our policies on risk assessment and risk management;
- reviewing related party transactions; and
- establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters.

### **Compensation Committee**

Richard Davies (Chair), Árni Harðarson and Tomas Ekman. Mr. Davies qualifies as an independent director according to the rules and regulations of the SEC and Nasdaq with respect to compensation committee membership, including the heightened independence standards for members of a compensation committee. The compensation committee is responsible for, among other things:

- reviewing and approving the corporate goals and objectives, evaluating the performance of and reviewing and approving, (either alone or, if directed by the board of directors, in conjunction with a



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majority of the independent members of the board of directors) the compensation of our chief executive officer;

- overseeing an evaluation of the performance of and reviewing and setting or making recommendations to our board of directors regarding the compensation of our other executive officers;
- reviewing and approving or making recommendations to our board of directors regarding our incentive compensation and equity-based plans, policies and programs;
- reviewing and approving all employment agreement and severance arrangements for our executive officers;
- making recommendations to our shareholders regarding the compensation of our directors; and
- retaining and overseeing compensation consultants.]

#### **Corporate Sustainability Committee:**

The members of Alvotech's ESG committee are Ann Merchant (Chair), Árni Harðarson and Róbert Wessman. The ESG committee is responsible for, among other things:

- reviewing, monitoring and setting strategy in the area of corporate responsibility;
- overseeing Alvotech's activities in the area of corporate responsibility that may have an impact on the Company's reputation and operations;
- periodically assess the Alvotech's compliance obligations;
- monitor and review matters of health and safety and report findings to the broader board; and
- review and evaluate environmental, social and political issues and trends and their relevance to Alvotech's business and make recommendations to the board regarding those trends and issues.

#### **Nomination and Corporate Governance Committee**

The members of Alvotech's nominating and corporate governance committee are Richard Davies (Chair), Lisa Graver and Tomas Ekman. The nominating committee is responsible for, among other things:

- identifying individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors;
- overseeing succession planning for our Chief Executive Officer and other executive officers;
- periodically reviewing our board of directors' leadership structure and recommending any proposed changes to our board of directors;

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- overseeing an annual evaluation of the effectiveness of our board of directors and its committees; and
  - developing and recommending to our board of directors a set of corporate governance guidelines.

### **Strategy Committee**

The Strategy committee is responsible for, among other things, reviewing, monitoring and setting strategy for the business of Alvotech. The members of Alvotech's Strategy committee are Faysal Kalmoua (Chair), Lisa Graver and Róbert Wessman.

### **The structure and composition of the Board of Directors**

Alvotech's Board of Directors is currently composed of eight members. In accordance with Alvotech's articles of association, the Board is not divided into classes of directors. Each director was appointed at the closing of the business combination on June 15, 2022, to serve as director until the end of the general meeting of shareholders called to approve the Alvotech's annual accounts for the 2024 financial year. There are no limitations on the duration of the board membership. The composition of the board shall at any time be diverse, with regard to educational and professional background, gender and age.

The board undertakes Alvotech's affairs in between shareholders' meetings unless otherwise provided by law or Alvotech's Articles of Association. The board is responsible for setting Alvotech's general strategy. The board has a supervisory role in overseeing that Alvotech's organization and activities are at all times in accordance with the relevant law, regulation and good business practices. The board met 9 times last year since the Company went public.

### **Members of the Board of Directors**

*Robert Wessman, Chairman and CEO*, is the founder of Alvotech and has served as Executive Chairman and member of the board of directors of Alvotech since January 2019. Since November 2018, he has also served as Director at Fuji Pharma and chairman of the board of directors of Lotus Pharmaceuticals and since May 2009, he has served as a member of the board of directors of Aztiq and as a member of the board of directors of Aztiq GP, the general partner of Aztiq Fund I SCSp, a Luxembourg alternative investment fund, and the parent company of Aztiq. Mr. Wessman is also the founder and main partner of the Aztiq group. Mr. Wessman founded Alvogen in July 2009, and served as its Executive Chairman and Chief Executive Officer until June 2022. He continues to serve as Alvogen's chairman since July 2022. Between 1999 and 2008, Mr. Wessman served as the Chief Executive Officer of Actavis. He has a Bachelor of Science degree in Business Administration from the University of Iceland. We believe Mr. Wessman is qualified to serve on Alvotech's board of directors due to the perspective he brings as Alvotech's founder and his experience in top executive positions in the pharmaceutical industry.

*Richard Davies, Director and Deputy Chairman*, has served as Deputy Chairman of Alvotech's board from June 2022. He was previously on one of Alvotech's directors since January 2019 and served as Chairman. Since November 2018, he has served as Chief Executive Officer of Auregen Bio Therapeutics SA. Prior to joining Auregen Bio Therapeutics, Mr. Davies served as Chief Executive Officer of Bonesupport AB between 2016

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and 2018, as Senior Vice President and Chief Commercial Officer of Hospira Inc. between 2012 and 2015, and in various leadership roles at Amgen Inc between 2003 and 2012. Mr. Davies holds an MBA from the University of Warwick and Bachelor of Science in applied chemistry from the University of Portsmouth.

*Tomas Ekman, Director*, has served as one of Alvotech's directors since January 2019. Since November 2014 he has served as a partner at CVC Capital Partners where he is a member of the CVC Nordics team and is based in Stockholm. Prior to joining CVC in 2014, Mr. Ekman was a partner and Managing Director at 3i, responsible for its Nordic business. Mr. Ekman holds MSc degrees from the University of Strathclyde and Chalmers University of Technology, and an MBA from IMD, Switzerland.

*Faysal Kalmoua, Director*, has served as one of Alvotech's directors since June 2020. Mr. Kalmoua has also served as a partner of the Aztiq group since June 2022. Between April 2020 and June 2022, Mr. Kalmoua served as Executive Vice President of Portfolio, Business Development and Research and Development for Alvogen. Between November 2015 and March 2020, Mr. Kalmoua served as Executive Vice President of Portfolio for Alvogen, Inc. Prior to joining Alvogen, Mr. Kalmoua served in various management positions for Synthon for nearly 16 years. Mr. Kalmoua holds a Master's degree in Chemistry from the Radboud University Nijmegen and an executive MBA from Insead.

*Ann Merchant, Director*, has served as one of Alvotech's directors since June 2022. Since 2018, she has served as Vice President for MorphoSys, and as Head of Global Supply Chain since January 2019. Prior to joining MorphoSys, from September 2011 to August 2018, Ms. Merchant served as the President for Schreiner Medipharm. Between 1994 and 2011, Ms. Merchant held various roles at Amgen, including Vice President, Head of International Supply Chain and Site Head between 2007 and 2011. Ms. Merchant holds an MBA from the Henley Business School and a Bachelor of Science in Languages from Georgetown University. We believe Ms. Merchant is qualified to serve on Alvotech's board of directors because of her experience in executive positions with several pharmaceutical companies and expertise in financial planning, new product launches and creating and executing international strategies to increase market share.

*Arni Hardarson, Director*, has served as one of Alvotech's directors since June 2022. Mr. Hardarson is a co-founder and partner of the Aztiq group. Between 2009 and June 2022, he served as Deputy to the Chief Executive Officer and General Counsel of Alvogen. Prior to joining Alvogen, Mr. Hardarson was Vice President of Tax and Structure at Actavis, and as partner, member of the executive management committee, and served as a head of tax and legal at Deloitte. Mr. Hardarson holds a Master's degree in law from the University of Iceland. We believe Mr. Hardarson is qualified to serve on Alvotech's board of directors because of his extensive expertise in financial and legal matters and his past experience in top executive positions.

*Lisa Graver, Director*, has served as one of Alvotech's directors since June 2022. Ms. Graver has served in various leadership positions for Alvogen since June 2010, including as President of Alvogen Inc, a subsidiary of Alvogen, since August 2015, as Executive Vice President and Deputy to the Chief Executive Officer of Alvogen Inc. since February 2013, and as Vice president Intellectual Property of Alvogen since June 2010. Prior to joining Alvogen, Ms. Graver was Vice President Intellectual Property and Senior Director Intellectual Property at Actavis Inc. between 2006 and 2008. Ms. Graver holds a BSc in Biology from Lakehead University and a law degree from the Case Western Reserve University School of Law. We believe Ms. Graver is qualified to serve on Alvotech's board of directors because of her extensive expertise in intellectual property and the pharmaceutical industry.

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*Linda McGoldrick, Director*, has served as one of Alvotech’s directors since June 2022 and as the Chairman of the Audit Committee. In 1985, Ms. McGoldrick founded, and currently serves as Chairman and Chief Executive Officer of, Financial Health Associates International, a strategic consulting company specializing in healthcare and life sciences. Since January 2020, she has served as the Chief Executive Officer for 2Enable Health LLC. Prior to joining 2Enable Health LLC, Ms. McGoldrick served as interim CEO at Zillion between June 2019 and December 2019. Over her professional career, Ms. McGoldrick has served in a number of leadership roles, including Senior Vice President and National Development Director for the Healthcare and Life Sciences Industry Practices at Marsh-MMC Companies, International Operations and Marketing Director of Veos plc, and Managing Director Europe for Kaiser Permanente International. In 2018, Ms. McGoldrick was appointed by the Governor of Massachusetts to serve on the state’s Health Information Technology Commission. Ms. McGoldrick has served as a director of numerous publicly traded and private held companies and non-profit organizations in the U.S., UK and Europe, including as director for Compass Pathways since September 2020. In 2012, Ms. McGoldrick was named as one of the Top 100 Corporate Directors of Fortune 100 Companies by the Financial Times. Ms. McGoldrick holds a Master’s Degree in Healthcare from the University of Pennsylvania and an MBA from Wharton. We believe Ms. McGoldrick is qualified to serve on Alvotech’s board of directors because of her extensive expertise in financial matters and the healthcare and life sciences industry.

### **Business ethics and Code of Conduct**

Alvotech sets high standards for all employees and directors. We also adhere to ethical commitments in every aspect of our business, with respect to our employees as well as outside stakeholders, including contractors, suppliers, commercial partners, government authorities and the general public. These commitments are spelled out in our Code of Corporate Conduct and Ethics, which applies to all our employees, including our senior executive, officers and directors. We apply our Code of Conduct both in internal and external relations and give preference in our business dealings to those who adhere to comparable ethical standards.

It is the duty of the Board of Directors to serve as fiduciary for shareholders and to oversee the management of the company. To fulfill its responsibilities and to discharge its duties prudently, the Board of Directors follows the procedures and standards that are set forth in guidelines and charters. These documents are subject to modification from time to time as the Board of Directors deems appropriate in the best interests of Alvotech or as required by applicable laws and regulations.

The Code of Conduct and charters for the Board of Directors are accessible on Alvotech’s website at <https://investors.alvotech.com/corporate-governance/documents-charters>

Approved by the board on: 1 March 2023

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## Non-financial disclosure

### Business model

Alvotech was founded in 2013 to develop and manufacture biosimilars which have the potential to improve the life and health of millions of patients globally. The goal is to become the leading global biosimilar company in the production and sales of cost-effective medicines while increasing availability for all patients.

Alvotech's headquarters are located at the University of Iceland's Science Park in Reykjavik, Iceland and the company also operates out of several buildings in the Reykjavik metro area. Alvotech has affiliates in the U.S., Germany, India and Switzerland.

### Due diligence process regarding non-financial disclosures

#### Rules governing Alvotech's quality assurance and certification processes

Alvotech operates according to the standard of Good Manufacturing Practice (GMP) as other companies which manufacture medicines for patients. To be able to demonstrate that these practices are being followed, Alvotech has implemented a quality assurance system for all manufacturing, monitoring, and distribution processes. The quality assurance system is based on thousands of documents of varying types. Many are standard operating procedures for the product manufacturing process or for quality control processes, equipment and instrument validation, environmental systems and buildings, proper document control and so on. All documents which are part of the quality control system form the basis of the quality of the medicines being produced. Furthermore, all pharma companies which adopt GMP must be able to accept regular audits by the local Health Authority which regulate the pharmaceutical industry and international Health Authority regulators from the countries where these medicines will be commercially distributed.

Alvotech's quality control system has been certified, first in 2018 when a permission was granted to produce medicines for clinical trials (clinical manufacturing) and in September 2020 when Alvotech received permission to produce marketed products (commercial manufacturing). Alvotech has also been audited by other pharmaceutical companies and partners in relations to Alvotech's global marketing biosimilars agreements and is inspected on a regular basis by medical authorities of the regions and countries where Alvotech's biosimilars are either already marketed or where applications for marketing authorization have been submitted.

Alvotech's largest divisions operate according to an ISO 9001 certified quality control system which also applies to several non-financial issues, such as environmental controls. The British Standards Institution (BSI) validates annually that these protocols are being followed.

The company's compliance officer ensures that the business Code of Conduct is being followed and implements annual training for employees in these matters. The Environmental, Health and Safety committee ensures Alvotech is following Icelandic statute nr. 46/1980. The executive management team and board of directors are responsible for ensuring that the company's operations follow all respective rules and regulations. Additionally, this team ensures that internal procedures and Code of Conduct are followed.

Alvotech has conducted a survey of its performance in implementing these policies, including environmental, social and governance factors, with reference to the provisions of paragraph 66.d. of the Icelandic Financial Statement Act No. 3/2006. This survey highlighted information on how the company performs according to various applicable international standards and guidelines. The report provides a wholistic overview of Alvotech's operations from this viewpoint, which management can then use to guide further work on implementing improvements to reduce risk exposure or prevent adverse impact on the environment.

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## Operations

Biosimilars are manufactured using living cells. Alvotech develops its medicines in mammalian cells which have been specialized to produce a specific protein. The protein becomes the active ingredient in a biosimilar that is designed to match the effectiveness and safety of a particular reference biologic. Biologic medicines have proven especially effective in many therapeutic areas, such as oncology or immunology. Alvotech's portfolio consists of seven biosimilar candidates and one approved biosimilar.

Biosimilars must pass rigorous clinical trials to demonstrate that they are equally effective as the reference biologic. Alvotech works with experienced collaborators to implement these clinical studies.

On average in 2022, Alvotech hf. employed 858 people, the majority with a master's degree or doctorate.

## Environment

We are committed to understanding and mitigating our impact on the natural environment. From our home-base and manufacturing hub in Reykjavik, Iceland, we can leverage the country's abundant renewable natural resources, including clean water and renewable hydro- and geothermal energy that power a dedicated grid and supplies local industry and homes. This allows us to balance the growth of our operations and prosperity of our stakeholders, with the overarching objective of sustainability.

As a global company, we believe that our impact on the environment correlates strongly with our long-term success and value as an enterprise. We are committed to minimizing the impact we have on natural resources and climate change and recognize that this commitment starts with understanding our contribution through our energy use and CO2 emissions and continues with our dedication to mitigate the energy intensity and emissions intensity of our operations.

We focus on protecting the environment from any adverse impact from our operations. We reach these goals by reducing waste, using energy more efficiently, increasing reuse, recycling as much waste as possible and reducing the use of all raw materials and consumables. We also handle genetically modified cells, biological and chemical waste safely, to reduce the risk of contamination or environmental damage.

It has been demonstrated that monoclonal antibody production in single-use technology reduces overall environmental impact when compared to more traditional durable process technology. However, single-use technology does create a material waste stream from single-use plastics, which is not present in traditional stainless-steel processes. We recognize that the industry must play an active role in moving from a linear plastic system into a circular economy for plastics. To accomplish this, Alvotech must not only improve internal processes, but cooperate with and demand more from our vendors in the future. A key part of maturing our sustainability program will be focused on understanding and mitigating the impact of single-use plastics on the natural environment.

Alvotech has appointed an environment committee with volunteers from its staff. The committee works closely with the company's safety committee. Each committee focuses on improving processes that have an impact on the environment or employee safety. From an environmental perspective, particular emphasis is on sorting waste and reducing the use of raw materials while increasing awareness of how our operation and processes impact these metrics.

Staff is also encouraged to commute to work by bike, walking or on public transport. To further incentivize this behavior, Alvotech offers transportation grants and facilities for those that walk or bike to work.

### Scope 1, 2 and 3 emissions

We can measure Scope 1 and Scope 2 emissions for our facilities in Iceland, including the main manufacturing facility, based on invoices or direct metering. For facilities outside of Iceland we rely on indirect measures, based on headcount, facility size and regional emission factors, to estimate this. We have also begun to track some Scope

3 emissions related to activity under our own control, such as business travel, but are not able at this point to quantify all the emissions that fall under Scope 3, and this remains a work in progress.

### Key environmental performance indicators

<b>GHG Emissions and Emissions Intensity</b>	<b>Unit</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Scope 1 & 2 emissions	tCO <sub>2</sub> eq.	218	219	235
Scope 1, 2 & 3 emissions	tCO <sub>2</sub> eq.	479	513	957
Scope 1 emissions	tCO <sub>2</sub> eq.	16	12	19
Scope 1 emissions from fuel use	tCO <sub>2</sub> eq.	2	12	12
Scope 1 emissions from refrigerants	tCO <sub>2</sub> eq.	14	0	6
Scope 2 emissions	tCO <sub>2</sub> eq.	202	206	217
Scope 2 emissions from electricity use	tCO <sub>2</sub> eq.	177	181	192
Scope 2 emissions from thermal energy use	tCO <sub>2</sub> eq.	25	25	25
Scope 3 emissions	tCO <sub>2</sub> eq.	261	294	721
Scope 3 emissions from flights	tCO <sub>2</sub> eq.	192	207	573
Scope 3 emissions from waste	tCO <sub>2</sub> eq.	69	85	145
Scope 3 emissions from fuel and energy use	tCO <sub>2</sub> eq.	0.5	3.2	3.2
Scope 1 & 2 emissions intensity per employee	tCO <sub>2</sub> eq./emp.	0.4	0.3	0.3
Scope 1, 2 & 3 emissions intensity per employee	tCO <sub>2</sub> eq./emp.	0.9	0.8	1.1

Nasdaq: E1,E2 | GRI: 305-1,305-2,305-3,305-4

<b>Energy Usage, Energy Intensity and Energy Mix</b>	<b>Unit</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Total use of energy	MWh	8,438	8,190	11,326
Total use of electricity	MWh	4,663	4,776	5,758
Total use of thermal energy (heat)	MWh	3,768	3,369	5,386
Total use of fuel	MWh	7	45	46
Total use of energy per employee	MWh	16	13	13
Percentage of total energy from renewables	%	94%	93%	94%

Nasdaq: E3,E4,E5 | GRI: 302-1,302-2,302-3

<b>Water Usage</b>	<b>Unit</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Total water usage	m <sup>3</sup>	48,294	40,119	60,630

Nasdaq: E6 | GRI: 303-5

<b>Environmental Operations</b>	<b>Unit</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
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Environmental policy in place	Yes/No	Yes	Yes	Yes
Total amount of non-hazardous waste	tons	97	116	190
Total amount of hazardous waste	tons	42	52	92

Nasdaq: E7 | GRI: 103-2

## Social environment

One of the most valuable assets for any company is undoubtedly the experience and knowledge obtained by its employees. Alvotech therefore focuses on employee satisfaction and a strong sense of company culture. Alvotech is committed to ensuring the health, safety and well-being of its staff and guests of the company.

### Health and wellbeing

A strong emphasis on training is part of Alvotech’s focus on the staff’s health and well-being. We collect and disseminate monthly key indicators about our performance in this area. These include statistics on incidents, accidents, near-accidents, potentially dangerous situations, and risk assessments. We also monitor our impact on the environment and potentially our behaviors by collecting statistics about waste, effluents, water, and energy consumption.

By implementing a reporting system for accidents, near accidents and potentially dangerous events, Alvotech implements risk prevention measures and creates a safety culture among employees. Employees also receive information about the origin of these reports, by department. This creates a sense of duty by employees to show that their department is contributing to the safety culture.

We have performed a detailed risk assessment for each role at Alvotech, which includes a definition of the main sources of risks in regular tasks and preventive measures.

Because of the large number of foreign employees that have migrated to Iceland to work at Alvotech, the company also offers special assistance to ex-pats. This includes offering housing in apartments leased by the company, to help employees better adapt to the new environment and integrate into society.

Other initiatives to improve the workplace environment include support for training and continuing education, a system for shift workers which enhances work-life balance, paid visits to psychiatrist and an online service, which offers counseling for work- and family related matters free of charge. Alvotech regularly offers instructional seminars about health and well-being, which have been very popular with employees. Staff is also offered semi-annual subsidies for sports activities, including health-club memberships or grants to cover the cost of sports-equipment.

### Equality

Alvotech’s gender equality policy was approved and presented to employees in January 2021, with an associated action plan. The goal of this policy is to guarantee that all employees face the same opportunities regardless of gender, age, religion, nationality, race, disability, sexual orientation, or political views and to avoid any discrimination or harassment based on these or other issues unrelated to the quality of work. The policy is implemented to ensure that all employees are evaluated based on their own merit and that they can reach their potential based on skill and ability. The policy should also eliminate ingrained gender bias from the workplace. Furthermore, the policy should lead to more equal ratios of the genders for employees holding each type of position or within departments. Alvotech’s equality policy also states that an equality report should be issued each year and made available no later than April based on data for the previous year.



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## Equal pay certification

In 2020 Alvotech started preparing for an equal pay certification audit which was conducted in January 2021, by ICert (a domestic accredited certification body which carries out audits and certification of management systems). In February 2021 Alvotech was awarded an equal pay certification and subsequently given permission to use the equal pay insignia by the Icelandic Equal Rights Administration and the Ministry of Welfare. In addition to employees in Iceland, we also implement the same policy globally in all our affiliates.

## Job satisfaction and well-being

In November 2021 Alvotech started performing periodic comprehensive surveys of employees with respect to job satisfaction and how employees view the company, measuring for example indicators of stress, undue work pressures or employee harassment. The results of employee surveys have been used to identify areas for improvement and implement policies to address issues highlighted by the survey results.

## Anti-harassment policy

Alvotech enforces a strict policy with respect to bullying and harassment in the workplace. The policy states that any type of bullying, harassment or improper behavior is not condoned and defines a clear policy for dealing with such incidents. Employees responsible for responding to such incidents have been assigned and trained to accept complaints or conduct interviews with the parties involved. All managers are also trained in responding to such incidents.

Alvotech offers free consulting services from the occupational health service Vinnuvernd, where employees can meet with a specialist, discuss their experience, and get confidential advice on next steps. The purpose of this policy is to ensure that all reports about bullying, or harassment incidents are dealt with properly and promptly.

## Human rights and child labor policies

We are working on implementing human rights and child labor which will apply to Alvotech and our vendors.

## Key social performance indicators

Social	Unit	2020	2021	2022
Ratio of pay of men to women	%		120%	117%
Women in management (ratio to total headcount)	%	27%	31%	31%
Women in the company excluding management (ratio to total headcount)	%	53%	49%	58%
Ratio of temporary workers to total headcount	%	7%	5%	4%
Existence of a sexual harassment and/or non-discrimination policy?	Y/N	Yes	Yes	Yes
Frequency of injury events relative to total workforce (TIR)	TIR	0.63	0.24	0.87
Existence of an occupational health and/or global health & safety policy?	Y/N	Yes	Yes	Yes
Does your company follow a child and/or forced labor policy?	Y/N	No	No	No
If yes, does the policy cover suppliers and vendors?	Y/N			
Does your company follow a human rights policy?	Y/N	No	No	No
If yes, does the policy cover suppliers and vendors?	Y/N			
Survey of employees regarding job satisfaction	0-10	7.0	7.2	7.0

Survey of employees regarding job commitment	0-10	8.7	8.6	8.6
Participation rate in job satisfaction and commitment survey	%	50%	78%	89%
Number of new hires		171	306	345
New hires as percentage of total workforce of the company	%	29%	42%	35%
Number of data privacy breaches		0	0	0

Nasdaq: S2,S3,S4,S5,S6,S7,S8,S9, S10 | GRI: 405-1, 406,102-8,103-2,401-1,401-1b,403-9,405-1,405-2,418-1

## Governance

### Human rights and business ethics

Alvotech conducts its business in a responsible and ethical fashion. Any type of corruption, bribery or violation of human rights is not condoned. To prevent such conduct from taking place the company has implemented a Code of Conduct which applies to the company's entire business, including relationships with suppliers, partners, and contractors. The core principle is that Alvotech and its employees always act ethically and honestly in any given circumstance. The Code of Conduct addresses the companies Ethics and Anti-Corruption Policy as well as Whistleblower Policy. The Code of Conduct and a formal certification by the employee of compliance to the code is a part of on-boarding and training.

### Data protection policy

Alvotech has implemented a data protection policy based on the EU General Data Protection Regulation which has also been transposed into Icelandic law, which applies to all employees, associates, contractors, participants in clinical studies and users of the company's products. Alvotech follows all standards and laws regarding personal privacy and data protection, including specific rules and regulations applying to clinical studies as well as any other applicable rules which apply to our business.

### Key governance performance indicators

Corporate Governance	Unit	2020	2021	2022
Percentage of total headcount covered by collective bargaining agreement	%	77%	76%	75%
Does your company follow an Ethics and/or Anti-Corruption policy?	Y/N	Yes	Yes	Yes
If yes, what percentage of your workforce has certified its compliance?	%		84%	86%
Does your company follow a Data Privacy policy?	Y/N	Yes	Yes	Yes
Has your company taken steps to comply with GDPR rules?	Y/N	Yes	Yes	Yes
Are your sustainability disclosures assured or validated by a third party?	Y/N	No	No	No
Does your company have a Whistleblower Policy in place?	Y/N	Yes	Yes	Yes
If yes, what percentage of your workforce has certified its compliance?	%		84%	86%

Nasdaq: G4,G6,G7,G8 | GRI: 102-16,102-41,102-56,103-2,418