Alvotech Holdings S.A.

Consolidated Financial Statements and Report of the Reviseur d'Entreprises Agrée as of 31 December 2021 and 2020 and for the years ended 31 December 2021 and 2020

Alvotech Holdings S.A.
9, rue de Bitbourg
L-1273 Luxembourg
Grand Duchy of Luxembourg
RCS Luxembourg B 229.193

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Endorsement by the Board of Directors

Alvotech Holdings S.A.
Société Anonyme
(the "Company")

Registered Office: 9, rue de Bitbourg, L-1273 Luxembourg
R.C.S. Luxembourg B 229.193

Management report to the General Meeting of Shareholders

Dear shareholders,

We hereby wish to submit to you the annual accounts of the Company, as well as the consolidated financial statements of the Company and the Alvotech Group (the "**Group**") for the financial year ending on 31 December 2021. The present report relates to the annual accounts and 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 2021

During the financial year the Group's main activities were focused on product development in preparation for a commercial launch in 2022-2023. In June 2021 the Company has closed an amendment and upsize transaction of the Alvotech bond. In December 2021, the Company has entered into a business combination agreement in order to get listed on the NASDAQ by way of a de-SPAC transaction.

The balance sheet total amounts to **598** million United States dollars (USD).

The financial year ending on 31 December 2021 has produced a loss of **101.5** million USD.

We suggest the following allocation of the result:

USD (million)	
Result brought forward from the previous year	(1,039.0)
Result for the year	(101.5)
Distribution of dividends	N/A
Result to be carried forward to the following financial year	(1,140.5)

II. Future developments

For 2022, the Group is in the process of raising additional capital through a de-SPAC and PIPE financing transaction financing. In addition, it anticipates signing additional commercial partnership agreements for its portfolio.

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 2022 and beyond.

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.

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

IV. Additional disclosures

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.

2. The Groups's likely foreseeable future development is stable.

3. The Company itself is not involved in any research and development activities. At Group level however, the Company's subsidiary, Alvotech hf and its subsidiaries, excluding Alvotech US, conducts research and development.

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 2021.

Done in Luxembourg on 24 March 2022,

For the Board of Directors:

Robert Wessman

Title: Director and authorized signatory

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Société à responsabilité limitée
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To the Board of Directors of
Alvotech Holdings S.A.
9, rue de Bitbourg,
L - 1273 Luxembourg
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 Holdings S.A. (the "Company"), which comprise the consolidated statement of financial position as at 31 December 2021, 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 Company as at 31 December 2021, 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 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 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 Company 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.

Société à responsabilité limitée au capital de 360.000 €
RCS Luxembourg B67.895
Autorisation d'établissement 10022179

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Emphasis of matter

We draw attention to Note 1.4 in the consolidated financial statements, which indicates that, the Company incurred recurring losses since its inception, including net losses of $101.5 million and $170.0 million for the years ended 31 December 2021 and 2020, respectively, and had an accumulated deficit of $1,140.5 million as of 31 December 2021. Management is confident that financing of the Group during the development of its biosimilar products will come from several sources including new and existing out-license contracts with customers, shareholder equity and shareholder and third party debt financing. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Endorsement by the Board of Directors 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 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.

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

Responsibilities of the "*réviseur d'entreprises agréé*" for the Audit of the consolidated financial statements

Our objectives 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 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.

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As part of an audit in accordance with 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company 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.

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.

Report on Other Legal and Regulatory Requirements

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

For Deloitte Audit, *Cabinet de révision agréé*

Nick Tabone

Nick Tabone, *Réviseur d'entreprises agréé*
Partner

25 March 2022

Consolidated Statements of Profit or Loss and Other Comprehensive Income or Loss for the years ended 31 December 2021 and 2020

USD in thousands, except for per share amounts	Notes	2021	2020
Revenue	5	36,772	66,616
Other income	5	2,912	2,833
Research and development expenses		(191,006)	(148,072)
General and administrative expenses		(84,134)	(58,914)
Operating loss		(235,456)	(137,537)
Share of net loss of joint venture	23	(2,418)	(1,505)
Finance income	7	51,568	5,608
Finance costs	7	(117,361)	(161,551)
Exchange rate difference		2,681	3,215
Gain on extinguishment of financial liabilities	18	151,788	-
Non-operating profit / (loss)		86,258	(154,233)
Loss before taxes		(149,198)	(291,770)
Income tax benefit / (expense)	9	47,694	121,726
Loss for the year		(101,504)	(170,044)
Other comprehensive income / (loss)			
Item that will be reclassified to profit or loss in subsequent periods:			
Exchange rate differences on translation of foreign operations		(305)	5,954
Total comprehensive loss		(101,809)	(164,090)

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

Consolidated Statements of Financial Position as of 31 December 2021 and 2020

USD in thousands	Notes	31 December 2021	31 December 2020
Non-current assets			
Property, plant and equipment	10	78,530	68,319
Right-of-use assets	11	126,801	108,646
Goodwill	12	12,367	13,427
Other intangible assets	13	21,509	6,335
Contract assets	5	1,479	2,190
Investments in joint venture	23	55,307	56,679
Other long-term assets		1,663	715
Restricted cash	14	10,087	10,087
Deferred tax assets	9	170,418	121,864
Total non-current assets		478,161	388,262
Current assets			
Inventories	15	39,058	9,646
Trade receivables	5	29,396	583
Contract assets	5	17,959	32,534
Other current assets	16	14,736	11,322
Receivables from related parties	21	1,111	387
Cash and cash equivalents	14	17,556	31,689
Total current assets		119,816	86,161
Total assets		597,977	474,423

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

Consolidated Statements of Financial Position as of 31 December 2021 and 2020

USD in thousands	Notes	31 December 2021	31 December 2020
Equity			
Share capital	17	135	73
Share premium	17	1,000,118	166,740
Translation reserve		4,669	4,974
Accumulated deficit		(1,140,534)	(1,039,030)
Total equity		(135,612)	(867,243)
Non-current liabilities			
Borrowings	18	398,140	565,396
Derivative financial liabilities	24	-	534,692
Other long-term liability to related party	2	7,440	7,440
Lease liabilities	11	114,845	103,474
Long-term incentive plan	19	56,334	40,593
Contract liabilities	5	44,844	38,874
Deferred tax liability	9	150	217
Total non-current liabilities		621,753	1,290,686
Current liabilities			
Trade and other payables	15	28,587	11,959
Lease liabilities	11	7,295	5,473
Current maturities of borrowings	18	2,771	2,503
Liabilities to related parties	21	638	367
Contract liabilities	5	29,692	14,192
Taxes payable		841	69
Other current liabilities	22	42,012	16,416
Total current liabilities		111,836	50,979
Total liabilities		733,589	1,341,665
Total equity and liabilities		597,977	474,422

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

Consolidated Statements of Cash Flows for the years ended 31 December 2021 and 2020

USD in thousands

	Notes	2021	2020
Cash flows from operating activities			
Loss for the year		(101,504)	(170,044)
Adjustments for non-cash items:			
Long-term incentive plan	6	17,955	18,053
Depreciation and amortization	8	18,196	16,419
Impairment of property, plant and equipment	10	2,092	2,142
Impairment of other intangible assets	13	3,993	-
Share of net loss of joint venture	23	2,418	1,505
Finance income	7	(51,568)	(5,608)
Finance costs	7	117,361	161,551
Gain on extinguishment of financial liabilities	18	(151,788)	-
Exchange rate difference		(2,681)	(3,215)
Income tax benefit / (expense)	9	(47,694)	(121,726)
Operating cash flow before movement in working capital		(193,220)	(100,923)
Increase in inventories		(29,412)	(3,255)
Decrease / (increase) in trade receivables		(28,813)	21,771
Increase / (decrease) in liabilities with related parties		(453)	1,674
Decrease / (increase) in contract assets		15,286	(11,667)
Increase in other assets		(4,363)	(7,383)
Increase in trade and other payables		14,318	227
Increase in contract liabilities		21,470	24,019
Increase / (decrease) in other liabilities		5,160	8,772
Cash used in operations		(200,027)	(66,765)
Interest received		16	212
Interest paid		(28,004)	(6,054)
Income tax paid		(155)	(248)
Net cash used in operating activities		(228,170)	(72,855)
Cash flows from investing activities			
Acquisition of property, plant and equipment	10	(20,462)	(9,313)
Disposal of property, plant and equipment	10	-	79
Acquisition of intangible assets	13	(20,171)	(4,109)
Investment in joint venture	23	-	(5,000)
Net cash used in investing activities		(40,633)	(18,343)
Cash flows from financing activities			
Redemption and repayments of borrowings	18	(37,496)	(2,896)
Repayments of principal portion of lease liabilities	11	(7,350)	(6,087)
Proceeds from new borrowings	18	113,821	30,000
Proceeds on issue of equity shares		185,856	34,385
Net cash generated from financing activities		254,831	55,402

	Note	2021	2020
Increase / (decrease) in cash and cash equivalents		(13,972)	(35,796)
Cash and cash equivalents at the beginning of the year	14	31,689	67,403
Effect of movements in exchange rates on cash held		(161)	82
Cash and cash equivalents at the end of the year	14	17,556	31,689

Supplemental cash flow disclosures (Note 25)

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

Consolidated Statements of Changes in Equity for the years ended 31 December 2021 and 2020

USD in thousands	Share capital	Share premium	Translation reserve	Accumulated deficit	Total equity
At 1 January 2020	69	102,359	(980)	(868,986)	(767,538)
Loss for the year	-	-	-	(170,044)	(170,044)
Foreign currency translation differences	-	-	5,954	-	5,954
Other comprehensive loss	-	-	5,954	(170,044)	(164,090)
Increase in share capital	4	64,381	-	-	64,385
At 31 December 2020	73	166,740	4,974	(1,039,030)	(867,243)
Loss for the year	-	-	-	(101,504)	(101,504)
Foreign currency translation differences	-	-	(305)	-	(305)
Other comprehensive loss	-	-	(305)	(101,504)	(101,809)
Increase in share capital	62	833,378	-	-	833,440
At 31 December 2021	135	1,000,118	4,669	(1,140,534)	(135,612)

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

Notes to the Consolidated Financial Statements

1. General information

Alvotech Holdings S.A. (the "Parent" or the "Company") 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 229193. The Company was incorporated on 2 November 2018. These Consolidated Financial Statements were approved by the Group's Board of Directors, and authorized for issue, on 24 March 2022.

The Company and its subsidiaries (collectively referred to as the "Group") are a global biopharmaceutical company dedicated to becoming one of the leaders in the biosimilars monoclonal antibodies market. The Group has biosimilar molecules in development and operates in a new state-of-the-art manufacturing plant for development and commercial supply.

1.1 Information about subsidiaries and joint ventures

Entity name	Principal activity	Issued and paid capital	Place of establishment	Proportion of ownership and voting power held by Alvotech	
				31.12.2021	31.12.2020
Alvotech hf.	Biopharm.	3,682,056	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%
Changchun Alvotech Bioph. Co. Ltd*	Biopharm.	110,000,021	China	50.00%	50.00%

*Changchun Alvotech Biopharmaceutical Co., Ltd. is an unconsolidated joint venture (see Note 23).

1.2 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 45.1% and 39.5% ownership interest as of 31 December 2021, respectively. The remaining 15.4% ownership interest is held by various entities, with no single shareholder holding more than 2.4% ownership interest as of 31 December 2021.

Aztiq and Alvogen held 62.6% and 27.8% ownership interest as of 31 December 2020, respectively. The remaining 9.6% ownership interest was held by various entities, with no single shareholder holding more than 3.8% ownership interest as of 31 December 2020.

1.3 Impact of COVID-19

With the ongoing COVID-19 pandemic, the Group created a COVID-19 task force which worked on implementing a business continuity plan to address and mitigate the impact of the pandemic on the Group's business and operations across the 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. Furthermore, the Group does not currently anticipate that the pandemic will have a prospective material financial or operational impact. 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 Group's 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, 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.

1.4 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 $101.5 million and $170.0 million for the years ended 31 December 2021 and 2020, respectively, and had an accumulated deficit of $1,140.5 million as of 31 December 2021. 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 2021, the Group had cash and cash equivalents, excluding restricted cash, of $17.6 million and current assets less current liabilities of $8.0 million. Furthermore, while the COVID-19 pandemic has not and is not expected to have a material financial or operational impact on the Group, the pandemic may significantly impact the Group's business, biosimilar product development and expansion efforts, corporate development objectives and the value of and market for the Group's ordinary shares. In light of these conditions and events, management evaluated whether there is substantial doubt about the Group's ability to continue as a going concern within one year after the date that the Consolidated Financial Statements are issued.

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, shareholder equity and shareholder and third party debt financing. In February and March 2022, Alvotech received $15.0 million from both Alvogen and Aztiq pursuant to interest free loan advances provided by both related parties (see Note 26). Throughout 2022, up to the issuance date of these Consolidated Financial Statements, the Group received $30.6 million in milestone payments pursuant to its out-license contracts with customers. However, even with the aforementioned cash received during 2022, management has determined that there is a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

However, the Group is seeking to merge with Oaktree Acquisition Corp II ("OACB") (see Note 26). In the event the Group does not complete this business combination, the Group expects to seek additional funding through an initial public offering (IPO) of its ordinary shares, private equity financings, debt financings or other capital sources.

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 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 2021 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.

As part of the public company uplift procedures, the historical operating expense presentation has been reconsidered and management intends to collapse Manufacturing and Quality expenses into the R&D caption on the income statement, thereby resulting in two operating expense captions: R&D and G&A . This conclusion is based upon review of authoritative guidance and literature as well as review of public company peers in the industry. Comparatives have been changed accordingly.

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.

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 statement 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 2021 and 2020.

Refer to Note 23 for additional information regarding the Group's joint venture as of 31 December 2021 and 2020 and for the years ended 31 December 2021 and 2020.

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 valuation of derivative financial liabilities (as described in Note 2.18 and Note 24), the valuation of management share appreciation rights (SARs) (as described in Note 2.18 and Note 19), the valuation of deferred tax assets (as described in Note 2.14 and Note 9), the determination of incremental borrowing rates and the length of lease terms used to measure the Group's right-of-use assets and lease liabilities (Note 11), and the determination of the carrying amounts of long-lived assets, including property, plant and equipment (as described in Note 2.15 and Note 10), goodwill (as described in Note 2.13 and Note 12) and other intangible assets (as described in Note 2.13 and Note 13). 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 23) and material uncertainties with respect to the Group's going concern assessment (as described in Note 1.4).

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.

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

Out-licensing revenue

Revenue from contracts with customers is recognized when or as control of goods or services is transferred to customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

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.

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.

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.

2.7 Other income

Other income is generated from support service arrangements with certain related parties, as further described in Note 21. Support services performed by the Group include finance, administrative, legal and human resource services.

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 2021 and 2020.

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.

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 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.

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 years ended 31 December 2021 and 2020.

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
Intellectual property rights	15 years

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.

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 equipment	5-12 years
Computer equipment	3 years
Leasehold improvements	3-20 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 18. 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 in preparation for commercial scale manufacturing, 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 determined using the first-in, first-out method.

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. The Group does not have finished goods as it had not yet commenced full scale commercial manufacturing activities as of 31 December 2021. See Note 15 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 2021 and 2020, write-down of inventories amounted to $1.2 million and $1.3 million, respectively, due to product expiration. There were no reversals of inventory write-downs during the years ended 31 December 2021 and 2020.

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

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 financials assets in 2021 and 2020. All of the Group's financial assets are measured at amortized cost as of 31 December 2021 and 2020.

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, 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 2021, 2020 and 2019.

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.

2.18 Financial liabilities

Financial liabilities

The Group's financial liabilities consist of trade and other payables, 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 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, other long-term liability to a related party 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 equity conversion rights, warrant rights and funding 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. 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 separately. Funding rights that grant the holder with an option to provide financing to the Group through the issuance of a convertible loan or through the purchase of ordinary shares at a specified price or pursuant to a specified formula are generally separate derivative financial instruments that are accounted for separately. 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 embedded derivative liabilities related to the equity conversion features within the convertible bonds and convertible shareholder loans, as further described in Note 18. The Group also recognized derivative liabilities related to the warrant rights and funding rights within the convertible shareholder loans, as further described in Note 18. Such rights are exercisable at the option of the holder at any time prior to a specified number of days before an IPO of equity securities by the Group or the maturity date of the host instrument, depending on the particular instrument. 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.

The fair values of the derivative liabilities were determined using an option pricing based approach that incorporated a range of inputs that are both observable and unobservable in nature. The unobservable inputs used in the initial and subsequent fair value measurements for the equity conversion rights, warrant rights and funding rights predominantly relate to (i) the fair value of the Group’s ordinary shares, (ii) the volatility of the Group’s ordinary shares, (iii) a risky discount rate corresponding to the credit risk associated with the repayment of the host debt instruments, and (iv) 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 2021 and 2020. 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 26) 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.

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 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. The fair value of the SARs is determined using the Black-Scholes-Merton pricing model.

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.

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 made by patent-protected pharmaceutical developers and manufacturers. Similarly, the Group may utilize patent challenge procedures to challenge the validity, enforceability or infringement of the originator's patents. The Group may also be involved in patent litigation involving the extent to which its products or manufacturing process techniques may infringe other originator or third party 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.

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.

2.21 Loss per share

Holders of the Group's Class A and Class B ordinary shares have the same rights to share in profits and receive dividends. Accordingly, the Group has one class of ordinary shares for purposes of calculating loss per share.

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders 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 equity holders 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 2021:

IFRS 9, IAS 39 and IFRS 7 – Interest Rate and Benchmark Reform, Phase II

The IASB issued amendments to IFRS 9, IAS 39, and IFRS 7, Phase II, which finalized the IASB's response to the ongoing reform of interest rate benchmark (IBOR) reform. The amendments complemented Phase I amendments and mainly relate to changes in cash flows, hedge accounting, and disclosures. The amendments did not have a material impact on the Consolidated Financial Statements of the Group.

The following new IFRS standards have been adopted by the Group effective 1 January 2020:

IFRS 9, IAS 39 and IFRS 7 – Interest Rate and Benchmark Reform, Phase I

The IASB issued amendments to IFRS 9, IAS 39, and IFRS 7, Phase I, which provides temporary relief from applying specific hedge accounting requirements to hedging relationships directly impacted by the interest rate benchmark (IBOR) reform. The key relief provided by this amendment relates to risk components, "highly probable requirements", prospective assessments, retrospective effectiveness test and recycling the cash flow hedging reserve. The adoption of the amendments did not have a material impact on the Consolidated Financial Statements of the Group.

IFRS 3 – Definition of a Business

The IASB issued amendments to IFRS 3 Business Combinations that revised the definition of a business, which assists entities in the evaluation of whether an acquired set of activities and assets is a group of assets or should be considered a business. The amendment allows an entity to apply an optional concentration test to evaluate if the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, constituting a group of assets rather than a business. The amendments are applied to all business combinations and asset acquisitions of the Group on or after 1 January 2020. The adoption of the amendments did not have a material impact on the Consolidated Financial Statements of the Group.

IAS 1 and IAS 8 – Definition of Material

The IASB issued amendments to IAS 1 and IAS 8, to clarify the definition of "material." The amendment refines the definition of material to information if omitting, misstating or obscuring it could reasonably by expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide information about a specific reporting entity. The amendments are applied to all financial statements and disclosures of the Group effective 1 January 2020. The adoption of the amendments did not have a material impact on the Consolidated Financial Statements of the Group.

Revised Conceptual Framework for Financial Reporting

The IASB issued the Revised Conceptual Framework for Financial Reporting, which sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders, and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction. The Revised Conceptual Framework for Financial Reporting is applied to all financial statements and disclosures of the Group effective 1 January 2020. The adoption of the amendments did not have a material impact on the Consolidated Financial Statements of the Group.

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.

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

The IASB issues 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 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 clarify 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 amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted. The Group anticipates that the application of this amendment will not have a material impact on the Consolidated Financial Statements.

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

The IASB issues 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 amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted. The Group anticipates that the application of these amendments will not have a material impact on the Consolidated Financial Statements.

Annual Improvements to IFRS Standards 2018-2020 Cycle

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

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 amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

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.

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):

	2021	2020
North America	11,660	37,928
Europe	20,509	19,710
Asia	1,323	4,107
Other	3,280	4,871
	36,772	66,616

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

	2021	2020
North America	439	471
Europe	249,803	207,355
Asia and other	2,194	1,892
	252,436	209,718

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):

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

* Less than 10%

	2020	
	Revenue	% Total
Customer A	36,270	54.4%
Customer B	18,572	27.9%
Customer C	*	*

* Less than 10%

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):

	2021	2020
License revenue (point in time revenue recognition)	1,453	24,067
Research and development and other service revenue*	35,319	42,549
	36,772	66,616

* 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 2021 and 2020.

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
1 January 2020	23,056	29,047
Contract asset additions	43,795	-
Amounts transferred to trade receivables	(32,127)	-
Customer prepayments	-	44,418
Revenue recognized	-	(20,399)
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	19,438	74,536

The net decrease in contract assets as of 31 December 2021 is primarily due to 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 2021 is due to customer prepayments in advance of the Group's performance. The Group presents contract assets and contract liabilities arising from the same customer contract on a net basis on the statements of financial position. As of 31 December 2021, $1.5 million and $18.0 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 2021, $44.8 million and $29.7 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

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 $305.0 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 has also received $35.0 million in development milestones and is entitled to receive an additional $50.0 million in development milestones, $205.0 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. The Group is also expected to receive a royalty of approximately 40% of the estimated net selling price from Teva's commercialization of the contracted biosimilars.

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 $24.6 million in development milestones up until the year ended 31 December 2021. The Group is also entitled to receive up to an aggregate of $196.6 million in additional development milestones, $63.2 million in regulatory milestones and milestones due upon the first commercial sale of the biosimilar product candidates and $12.6 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.

Other income

Other income primarily consists of a gain on the contribution of intellectual property to Changchun Alvotech Biopharmaceutical Co. Ltd. (the "joint venture").

The following table presents the components of other income during the years ended 31 December 2021 and 2020 (in thousands):

	2021	2020
Gain on contribution of intellectual property to joint venture	-	-
Other	2,912	2,833
	2,912	2,833

6. Salaries and other employee expenses

The average number of individuals employed by the Group during the years ended 31 December 2021 and 2020 was 645 and 488, respectively. The aggregate salary and other personnel-related costs incurred by the Group for these employees were as follows (in thousands):

	2021	2020
Salary expense	67,433	45,904
Defined contribution plan expense (1)	7,694	5,234
Long-term incentive plan expense	17,955	18,053
Other employee expense	10,274	10,186
Temporary labor	6,164	3,441
	109,520	82,818

(1) 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):

	2021	2020
Research and development expenses	71,588	49,043
General and administrative expenses	37,932	33,775
Total salary and other employee expenses	109,520	82,818

7. Finance income and finance cost

Finance income earned during the years ended 31 December 2021 and 2020 is as follows (in thousands):

	2021	2020
Changes in the fair value of derivatives (see Note 18)	51,549	5,393
Interest income from cash and cash equivalents	18	166
Other interest income	1	49
	51,568	5,608

Finance cost incurred during the years ended 31 December 2021 and 2020 is as follows (in thousands):

	2021	2020
Changes in the fair value of derivatives (see Note 18)	(2,804)	(60,823)
Interest on debt and borrowings	(106,548)	(91,985)
Interest on lease liabilities	(6,423)	(5,481)
Amortization of deferred debt issue costs	(1,586)	(3,262)
	(117,361)	(161,551)

8. Depreciation and amortization

Depreciation and amortization expenses incurred during the years ended 31 December 2021 and 2020 are as follows (in thousands):

	2021	2020
Depr. and impairm. of property, plant and equipm. (see Note 10)	10,666	7,712
Depreciation of right of use assets (see Note 11)	0	7,188
Amortization and impairment of intangibles assets (see Note 13)	4,916	1,010
	15,582	15,909

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

	2021	2020
Research and development expenses	21,764	16,358
General and administrative expenses	2,517	2,203
Total depreciation and amortization expense	24,281	18,561

9. Income tax

Taxation recognized in the consolidated statements of profit or loss and other comprehensive income or loss during the years ended 31 December 2021 and 2020 is as follows (in thousands):

Current tax	2021	2020
Direct taxes - current	706	248
Direct taxes - prior year	491	-
Other employee expense	-	-
Total current tax	1,197	248
Deferred tax		
Current	(48,415)	(121,974)
Prior year	(477)	-
Total deferred tax	(48,892)	(121,974)
Total income tax (benefit) / expense	(47,694)	(121,726)

The factors affecting the tax benefit during the years ended 31 December 2021 and 2020 relates to the initial recognition of a deferred tax asset on accumulated tax losses which, at the end of both 2021 and 2020, management assessed that it was probable that the accumulated tax losses would be fully utilized in the coming years, as further described below.

There were no accruals for tax contingencies during the years ended 31 December 2021 and 2020.

The effective tax rate for the year of 32.0% (2020: 41.7%) is higher than the applicable Luxembourgish statutory rate of corporation tax. The reconciling items between the statutory rate and the effective tax rate are as follows:

	2021	2020
Tax rate	24.9%	24.9%
Effect of tax rate in foreign jurisdictions	(8.2%)	(4.9%)
Recognition of tax losses	-	27.9%
Permanent differences	30.4%	-
Non-recognition of tax losses	(15.0%)	(6.2%)
Other items	(0.1%)	-
Effective tax rate	32.0%	41.7%

The movement in net deferred taxes during the years ended 31 December 2021 and 2020 is as follows (in thousands):

	2021	2020
Balance at 1 January	121,647	(327)
Deferred tax credited to profit or loss	48,621	121,974
Deferred tax charged to other comprehensive income or loss	-	-
Balance at 31 December	170,268	121,647
Deferred tax assets	170,418	121,864
Deferred tax liabilities	(150)	(217)

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 2021 and 2020 is as follows (in thousands):

	2021	2020
Deferred tax assets attributable to temporary differences in respect of tax losses	158,330	121,864
Deferred tax asset attributable to other temporary differences	12,088	-
Deferred tax liabilities attributable to other temporary differences	(150)	(217)
Net deferred tax assets	170,268	121,647

A deferred tax liability of $0.2 million as of both 31 December 2021 and 2020 has been recognized in relation to fair value remeasurement of customer relationships and other ordinary timing differences.

A deferred tax asset has also been recognized with respect to losses carried forward in Iceland. The recognition of this asset, beginning in 2020, is due to the increase in forecasted profit as per the Group's latest ten-year forecast, largely driven by a significant number of new contracts with customers that were executed in 2020 with expected payments due upon the achievement of various milestones throughout the next ten years. The forecasted profit associated with this milestone revenue is significant and provides for considerable headroom over and above the level needed to support full recognition of the losses. This is the case even after excluding sales-based milestones and taking account some uncertainty over milestones being achieved at the projected times. As such, the Group estimates that the tax loss carryforward will be used against taxable profits in the coming years and, therefore, a non-current deferred tax asset of $170.4 million and $121.9 million was recognized as of 31 December 2021 and 2020, respectively.

These tax losses expire as follows (in thousands):

2023-2025	38,948
2026-2028	228,544
Later	630,535
	898,027

10. 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 2021 and 2020 are as follows (in thousands):

	Facility equipment	Furniture, fixt. and leasehold improvements	Computer equipment	Total
Cost				
Balance at 1 January 2021	70,695	27,600	1,513	99,809
Reclassifications of assets	(2,873)	-	-	(2,873)
Additions	19,345	4,845	69	24,259
Translation difference	(1,143)	(50)	(31)	(1,224)
Balance at 31 December 2021	86,024	32,395	1,551	119,970
Depreciation				
Balance at 1 January 2021	23,055	7,016	1,419	31,490
Depreciation	6,870	1,637	67	8,574
Impairment	2,092	-	-	2,092
Translation difference	(649)	(39)	(27)	(715)
Balance at 31 December 2021	31,368	8,614	1,459	41,441
Net carrying amount				
Balance at 31 December 2021	54,657	23,781	92	78,530

	Facility equipment	Furniture, fixt. and leasehold improvements	Computer equipment	Total
Cost				
Balance at 1 January 2020	64,462	26,407	1,444	92,314
Additions	8,162	1,119	32	9,313
Disposals	(197)	-	-	(197)
Impairment	(2,881)	-	-	(2,881)
Translation difference	1,149	74	37	1,259
Balance at 31 December 2020	70,695	27,600	1,513	99,808
Depreciation				
Balance at 1 January 2020	16,818	5,302	1,318	23,438
Depreciation	6,718	1,662	71	8,452
Disposals	(118)	-	-	(118)
Impairment	(740)	-	-	(740)
Translation difference	376	52	30	458
Balance at 31 December 2020	23,055	7,016	1,419	31,490
Net carrying amount				
Balance at 31 December 2020	47,641	20,584	94	68,319

At 31 December 2021 and 2020, the Group performed a review of its property, plant and equipment and determined certain laboratory equipment was no longer in use. In assessing resale value, 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 charge of $2.1 million during each of the years ended 31 December 2021 and 2020. The impairment charges have been recognized as an expense within "Research and development expenses" in the consolidated statements of profit or loss and other comprehensive income or loss.

The Group pledged $6.8 million and $8.9 million of property, plant and equipment as collateral to secure bank loans with third parties as of 31 December 2021 and 2020, respectively.

11. 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 2021 and 2020 are as follows (in thousands):

	2021	2020
Right-of-use assets		
Balance at 1 January	108,646	102,072
Adjustments to opening balance	2,873	(1,034)
Adjustments for indexed leases	5,358	2,983
New or renewed leases	18,871	13,375
Terminated leases	-	(2,206)
Depreciation	(8,699)	(6,955)
Translation difference	(248)	411
Balance at 31 December	126,801	108,646

The Group's right-of-use assets as of 31 December 2021 and 2020 are comprised of the following (in thousands):

	2021	2020
Right-of-use assets		
Facilities	122,927	105,773
Fleet	159	27
Equipment	3,715	2,846
	126,801	108,646

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 2021 and 2020 are as follows (in thousands):

Lease liabilities	2021	2020
Balance at 1 January	108,947	101,794
Adjustments for indexed leases	5,358	2,983
New or renewed leases	18,116	15,937
Installment payments	(6,595)	(6,087)
Terminated leases	-	(1,965)
Foreign currency adjustment	(3,744)	(3,248)
Translation difference	58	(467)
Balance at 31 December	122,140	108,947
Current liabilities	(7,295)	(5,473)
Non-current liabilities	114,845	103,474

The amounts recognized in the consolidated statements of profit or loss and other comprehensive income or loss during the years ended 31 December 2021 and 2020 in relation to the Group's lease arrangements are as follows (in thousands):

	2021	2020
Depreciation expense from right-of-use assets		
Facilities	(8,228)	(6,722)
Fleet	(38)	(7)
Equipment	(433)	(226)
Total depreciation expense from right-of-use assets	(8,699)	(6,955)
Interest expense on lease liabilities	(6,423)	(5,322)
Foreign currency difference on lease liability	3,744	3,248
Loss on terminated leases	-	(241)
Total amount recognised in profit and loss	(11,378)	(9,270)

The maturity analysis of undiscounted lease payments as of 31 December 2021 and 2020 is as follows (in thousands):

	2021	2020
Less than one year	13,164	10,588
One to five years	49,379	41,183
Thereafter	117,511	112,371
	180,054	164,142

The Group's lease liabilities as of 31 December 2021 and 2020 do not include $0.1 million of costs for short-term leases and low value leases.

12. Goodwill

The Group's goodwill balances as of 31 December 2021 and 2020 are as follows (in thousands):

	2021	2020
Balance at 1 January	13,427	12,226
Translation difference	(1,060)	1,201
Balance as of 31 December	12,367	13,427

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 2021-2030 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 growth rate in both the 2021 and 2020 value in use calculations. A discount rate of 21.5% (2020: 21.1%) 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 2021 and 2020, 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.

13. Intangible assets

Intangible assets consist of software, customer relationships and licensed intellectual property rights. Movements in intangible assets during the years ended 31 December 2021 and 2020 are as follows (in thousands):

	Software	Customer relationships	Intellectual property rights	Total
Cost				
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
Amortization				
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
Net carrying amount				
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.

	Software	Customer relationships	Total
Cost			
Balance at 1 January 2020	3,465	2,303	5,768
Additions	4,497	-	4,497
Disposals	(389)	-	(389)
Translation difference	30	225	255
Balance at 31 December 2020	7,603	2,528	10,131
Amortization			
Balance at 1 January 2020	1,684	987	2,671
Amortization	649	361	1,010
Disposals	1	-	1
Translation difference	17	97	114
Balance at 31 December 2020	2,351	1,445	3,796
Net carrying amount			
Balance at 31 December 2020	5,252	1,083	6,335

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):

	2021	2020
Research and development expenses	324	357
General and administrative expenses	599	653
	923	1,010

At 31 December, 2021 and 2020, the Group performed a review of its intangible assets and determined certain software development had been abandoned. In assessing resale value, the Group determined the market for resale was non-existent. Management therefore determined to fully impair the assets, resulting in an impairment charge of $4.0 million during the year ended 31 December 2021. The impairment charge has been recognized as an expense within "Research and development expenses" in the consolidated statements of profit or loss and other comprehensive income or loss. There were no impairments of intangible assets during the year ended 31 December 2020.

14. 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 2021 and 2020 is as follows (in thousands):

	2021	2020
Cash and cash equivalents denominated in US dollars	15,798	27,183
Cash and cash equivalents denominated in other currencies	1,758	4,506
	17,556	31,689

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 2021 and 2020 are as follows (in thousands):

	2021	2020
Balance at 1 January	10,087	10,086
Interest income	-	1
Balance at 31 December	10,087	10,087

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

15. Inventories

	2021	2020
Raw materials and supplies	26,590	10,359
Work in progress	13,730	601
Inventory reserves	(1,262)	(1,314)
Balance at 31 December	39,058	9,646

The increase in inventory from 31 December 2020 to 31 December 2021 is due to ongoing preparation for commercial launch of certain of the Group's biosimilar product candidates. This increase in inventory primarily contributed to the increase in trade and other payables from 31 December 2020 to 31 December 2021.

16. Other current assets

The composition of other current assets as of 31 December 2021 and 2020 is as follows (in thousands):

	2021	2020
Value-added tax	4,725	3,858
Prepaid expenses	9,320	5,922
Other short-term receivables	691	1,542
	14,736	11,322

17. 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.

The Group's equity consists of Class A and Class B ordinary shares. The Group's authorized share capital is $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. The Group's Board of Directors has the authority to issue shares, grant options to subscribe for shares and issue any other instruments giving access to shares within the authorized share capital limits. All share capital issued as of 31 December 2021 and 2020 is fully paid.

Holders of Class A and Class B ordinary shares have the same rights and entitlements with respect to sharing in profits and participating in dividends. While each Class A ordinary share is entitled to one vote in general meetings of shareholders, the Class B ordinary shares are non-voting shares except for resolutions as required by law. Such resolutions include modifications to the rights of the Class B ordinary shares or resolutions resolving on a reduction of capital or liquidation of the Group. Each Class B ordinary share is convertible into one Class A ordinary share upon the occurrence of an IPO.

Share capital and share premium of the Group's Class A and Class B ordinary shares issued as of 31 December 2021 and 2020 is as follows (in thousands, except for share amounts):

	2021		2020	
	Shares	Share capital and share premium	Shares	Share capital and share premium
Class A ordinary shares	13,386,098	997,824	7,163,438	164,384
Class B ordinary shares	95,701	2,429	95,701	2,429
Total share capital and share premium	13,481,799	1,000,253	7,259,139	166,813

Movements in the Group's Class A and Class B ordinary shares, share capital and share premium during the years ended 31 December 2021, 2020 and 2019 are as follows (in thousands, except for share amounts):

	Class A shares	Class B shares	Share capital	Share premium	Total
Balance at 1 January 2020	6,841,361	95,701	69	102,359	102,428
Share issue	322,077	-	4	64,997	65,001
Transaction costs on share issue	-	-	-	(616)	(616)
Balance at 31 December 2020	7,163,438	95,701	73	166,740	166,813
Share issue	6,222,660	-	62	833,378	833,440
Balance at 31 December 2021	13,386,098	95,701	135	1,000,118	1,000,253

No dividends were paid or declared during the years ended 31 December 2021 and 2020.

18. 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 2021 and 2020 is as follows (in thousands):

	2021	2020
Convertible shareholder loans, net of debt issue costs (see Note 21)	-	177,612
Convertible bonds, net of debt issue costs	-	381,338
Bonds	394,129	-
Other borrowings	6,782	8,949
Total outstanding borrowings, net of debt issue costs	400,911	567,899
Less: current portion of borrowings	(2,771)	(2,503)
Total non-current borrowings	398,140	565,396

Convertible shareholder loans

On 22 December 2017, the Group entered into convertible shareholder loans with Alvogen and Aztiq for a total principal amount of $146.5 million and $11.7 million, respectively. The convertible shareholder loans have a repayment date of 31 December 2022. Interest on the loans is 15% of the outstanding principal balance, payable semi-annually on 30 April and 31 October of each year, commencing on 30 April 2018. Interest accrued and unpaid at the end of each interest period increases the principal of obligations owed by the Group to the lenders. The loan agreements set forth terms and conditions between the Company and the lenders, inclusive of certain representations and non-financial covenants. In connection with the issuance of the convertible bonds, as described further below, the Group used $75.0 million of the proceeds to partially repay the outstanding balance on the convertible shareholder loans with Alvogen. $50.0 million of the partial repayment was made during the year ended 31 December 2018; the remaining $25.0 million of the partial repayment was made during the year ended 31 December 2019.

On 14 May 2019, Aztiq provided an additional $50.0 million term loan to the Group. This loan has a repayment date in March 2024 and has been provided on the same payment and interest terms as the previous convertible shareholder loans. Additionally, on 14 May 2019, Alvogen assigned and transferred $50.0 million of outstanding principal on its convertible shareholder loans to Aztiq.

On 30 June 2020, Alvogen provided another convertible loan to the Group for $30.0 million, which was convertible into Class A ordinary shares at Alvogen's option. Alvogen exercised its conversion right on 21 October 2020 in connection with the issuance of ordinary shares through a private placement offering.

On 21 October 2020, Aztiq assigned and transferred $23.1 million of the principal amount outstanding under its convertible shareholder loans to four new lenders and Alvogen. Concurrently, the new lenders also became new shareholders as a result of their participation in the aforementioned private placement offering.

As of 31 December 2020, the outstanding balance on the convertible shareholder loans, including payment-in-kind interest added to the principal, was $171.5 million. Accrued interest on the convertible shareholder loans as of 31 December 2020 was $6.1 million.

The Group has the option, at any time, to prepay all or any part of the outstanding principal and accrued interest on the convertible shareholder loans. Notwithstanding a prepayment of the convertible shareholder loans, the lenders have the option to convert the convertible shareholder loans into equity of the Group, in the form of Class A ordinary shares. The amount convertible for each shareholder is representative of a percentage of interest in the Group that is equal to the higher of a fixed conversion rate or reduced conversion rate that is contingent upon future equity issuances, subject to a maximum cap and may be converted, in whole or in part, up to twenty-eight days prior to an IPO. Furthermore, the lenders received certain warrant rights and additional funding rights in connection with the issuance of the convertible shareholder loans. The warrant rights may be exercised, in whole or in part, up to twenty-eight days prior to an IPO. The additional funding rights may be exercised, in whole or in part, up to three months prior to an IPO.

The derivatives associated with the convertible shareholder loans, which consist of conversion rights, warrant rights, excess warrant rights and funding rights, are recorded as "Derivative financial liabilities" in the consolidated statements of financial position. As of 31 December 2020 the fair value was $534.7 million and the Group recorded an unrealized loss of $60.8 million and $59.9 million, recorded as a component of "Finance costs" in the consolidated statements of profit or loss and other comprehensive income or loss, for the years ended 31 December 2020 and 2019, respectively. Fair value measurements of the derivative financial liabilities are set out in Note 24.

On 15 March 2021, Aztiq assigned and transferred an additional $17.5 million of the principal amount outstanding under its convertible shareholder loans to five existing lenders, including Alvogen. The Group's rights and obligations with respect to the transferred borrowings did not change as a result of the transfer.

In connection with the Business Combination Agreement (see Note 26), 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 interest; and
• 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 and 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 convert 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 offer a 15% payment-in-kind interest rate and a put option to sell the bond back to the Group if an IPO has not occurred within three years from the original date of issuance. $10.0 million was set aside in a reserved cash account as collateral to satisfy the requirement that the Company always maintain a liquidity account with at least $10.0 million. Such reserved cash is presented as "Restricted cash" on the consolidated statements of financial position. During the year ended 31 December 2019, the Group closed on the remaining $68.0 million of borrowings.

As of 31 December 2020, the outstanding balance on the convertible bonds, including payment-in-kind interest added to the principal, is $391.2 million. Accrued interest on the convertible bonds as of 31 December 2020 is $2.6 million.

The Group has the option, at any time, to prepay all or any part of the outstanding principal and accrued interest on the convertible bonds. If the Group elects to prepay the convertible bonds within the first two years of the bond agreement, the bondholders are entitled to be paid an additional premium of at least 1.0% of the outstanding principal at the time of such prepayment. Notwithstanding a prepayment of the convertible bonds, the bondholders have the option to convert the bonds into equity of the Company up to fourteen days prior to maturity date, in the form of Class A ordinary shares. The bonds mature on 14 December 2023 unless otherwise redeemed, converted, purchased or cancelled prior to the maturity date.

The derivatives associated with the convertible bonds are recorded as “Derivative financial liabilities” in the consolidated statements of financial position. As of 31 December 2020 the fair value was $0 and the Group recorded an unrealized gain of $5.4 million and $5.2 million, respectively, recorded as a component of “Finance income” in the consolidated statements of profit or loss and other comprehensive income or loss for the years ended 31 December 2020 and 2019, respectively. Fair value measurements of the derivative financial liabilities are set out in Note 25.

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 is $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.

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 1 month USD LIBOR plus 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 2021 and 2020, the outstanding balance on the loans, including accrued interest, is $5.7 million and $8.1 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 10.

In 2019, the Group entered into two loan agreements with two separate lenders. Per the terms of the loan agreements, the loans mature in early 2024 and late 2029, depending on the issuance date of each loan. As of 31 December 2021 and 2020, the outstanding balance on the loans, including accrued interest, is $0.8 million and $0.9 million, respectively.

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., including accrued interest, was $0.2 million as of 31 December 2021. The loan matures in early 2024. The outstanding balance on the borrowings held with Arion banki hf., including accrued interest, was $0.1 million as of 31 December 2021. The loan matures in late 2023.

Movements in the Group's outstanding borrowings during the years ended 31 December 2021 and 2020 are as follows (in thousands):

	2021	2020
Borrowings, net at 1 January	567,899	475,606
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	-
Derecognition of previously deferred debt issue cost of convertible bonds	5,506	-
Derecogniton of unamortized accretion of convertible shareholders loans	(34,302)	-
Proceeds from new borrowings	114,282	30,000
Loans from related party converted to equity	(240,542)	(30,000)
Repayments of borrowings	(2,597)	(2,896)
Accrued interest	89,958	91,985
Amortization of deferred debt issue costs	12,754	3,262
Foreign currency exchange difference	(33)	(58)
Borrowings, net at 31 December	400,911	567,899

The weighted-average interest rates of outstanding borrowings for the years ended 31 December 2021 and 2020 are 14,83% and 14.85%, respectively.

Contractual maturities of principal amounts on the Group's outstanding borrowings as of 31 December 2021 and 2020 are as follows (in thousands):

	2021	2020
Within one year	2,771	2,503
Within two years	2,920	115,788
Within three years	622	396,651
Within four years	394,222	64,166
Thereafter	376	1,545
	400,911	580,653

19. Long-term incentive plans

Share appreciation rights

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

The Group's SAR liability as of 31 December 2021 and 2020 totaled $41.4 million and $30.1 million, respectively. Expense recognized for the Group's SAR liability for the years ended 31 December 2021 and 2020 totaled $11.3 million and $7.8 million respectively. The vested portion of the Group's SAR liability as of 31 December 2021 and 2020 is $36.6 million and $24.7 million, respectively. As of 31 December 2021, the Group expects to settle the SARs in 2022.

Significant assumptions used in the Black-Scholes-Merton pricing model as of 31 December 2021 and 2020 are as follows:

	2021	2020
Risk-free interest rate	0.1%	0.1%
Volatility rate	42.0%	42.0%
Expected dividend yield	-	-
Expected life	1.0 - 1.2 years	1.0 - 1.2 years
Share price at valuation	$1,806	$1,465
Strike price	$925-$1,695	$904-$1,296

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 2021 and 2020 are as follows (in thousands):

	2021	2020
Balance at 1 January	10,501	510
Additions	6,648	10,322
Payments	(2,214)	(331)
Balance at 31 December	14,935	10,501

20. Litigation

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. On 8 March 2022 AbbVie and Alvotech entered into an agreement (the "U.S. AbbVie Agreement") pursuant to which, among other things, Alvotech and AbbVie settled all U.S. litigation arising out of the development of Alvotech's adalimumab biosimilar, and the filing of the corresponding BLA with the FDA. The case is now dismissed.

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 raises trade secret misappropriation allegations similar to those raised in the trade secret litigation that AbbVie previously filed in the Northern District of Illinois. Pursuant to the U.S. AbbVie Agreement, Alvotech and AbbVie agreed to jointly seek dismissal of this action for all respondents, with each respondent to bear its own fees and costs, by 11 March 2022.

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. Pursuant to the U.S. AbbVie Agreement, Alvotech and AbbVie agreed to jointly seek dismissal of all claims, counterclaims, potential claims and counterclaims in these cases without prejudice, with each respondent to bear its own fees and costs, by 11 March 2022. On 9 March 2022, the parties filed in each action a stipulation of dismissal of the parties' respective claims and counterclaims.

The Group incurred approximately $13.5 million and $7.9 million in legal expenses during the years ended 31 December 2021 and 2020, 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.

21. 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 remaining lease terms for the other eight leases approximate 8 years, on average, as of 31 December 2021.

The Group provides and receives certain support services through arrangements with 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.

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 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
Alvgen Korea co. Ltd - Sister company	-	9	-	-
Alvogen Inc. - Sister company	89	654	301	-
Changchun Alvotech Biopharmac. 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	-	-	-
Lambahagavegur 7 ehf.	713	-	-	12,661
	39,940	3,715	1,111	114,303

(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 18).
(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 Changchun Alvotech Biopharmac. Co. Ltd. relates to amounts due for reference drugs used in research and development studies and certain consulting fees incurred by the Group.

Related party transactions as of and for the year ended 31 December 2020 are as follows (in thousands):

	Purchased service / interest	Sold Service	Receivables	Payables / Loans
Alvogen Lux Holdings S.à r.l. – Sister company (a)	9,452	1,134	-	68,237
Aztiq Pharma Partners S.à r.l. – Sister company (a)	19,471	-	-	123,671
Fasteignafélagið Sæmundur hf. - Sister company	8,111	-	-	84,650
Alvogen Iceland ehf. - Sister company	2,268	1,310	38	21
Alvogen ehf. - Sister company	40	-	-	40
Alvogen UK - Sister company	1,153	-	-	132
Lotus Pharmaceuticals Co. Ltd. - Sister company (b)	3,060	-	-	7,440
Alvogen Emerging Markets - Sister company	68	-	-	11
Alvogen Inc. - Sister company	67	-	-	23
Changchun Alvotech Biopharmac. Co. Ltd. (c)	-	-	323	-
Alvogen PB R&D LLC	-	7	-	-
Alvogen Malta Operations Ltd - Sister company	239	-	-	-
Alvogen Malta Group Services - Sister company	478	-	-	40
Alvogen Malta Sh. Services - Sister company	101	-	-	-
Alvogen Malta LTD - Sister company	-	4	-	-
Alvogen Malta (Outlicensing) Ltd - Sister company	142	185	26	58
Alvogen Spain SL - Sister Company	132	-	-	-
Norwich Clinical Services Ltd - Sister Company	92	-	-	42
Alvogen Pharma Pvt Ltd - Sister Company	218	-	-	-
HRJÁF ehf - Sister company	1,083	-	-	9,191
	46,175	2,640	387	293,556

(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 18).
(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 Changchun Alvotech Biopharmac. 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. Alvogen guarantees $9.6 million of the Group's lease arrangements with other related parties.

Key management personnel

Compensation of key management personnel, which includes the Group's executive officers, during the years ended 31 December 2021 and 2020 was as follows (in thousands):

	2021	2020
Short-term employee benefits	6,031	5,307
Other long-term benefits	1,038	106
Termination benefits	-	237
	7,069	5,650

The Group's directors were not provided with any compensation during the years ended 31 December 2021 and 2020.

22. Other current liabilities

The composition of other current liabilities as of 31 December 2021 and 2020 is as follows (in thousands):

	2021	2020
Unpaid salary and salary related expenses	10,235	8,721
Accrued interest	7,547	-
Accrued payable to Biosana	7,500	-
Accrued vacation leave	4,626	3,682
Accrued expenses	12,104	4,013
	42,012	16,416

23. 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, Changchun Alvotech 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 2021	Ownership interest 2020	Carrying amount 2021	Carrying amount 2020
Changchun Alvotech Biopharm. Co. Ltd.	China	50%	50%	55,307	56,679

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 2021 and 2020 (in thousands):

	2021	2020
Balance at 1 January	56,679	54,020
Share in losses	(2,418)	(1,505)
Translation difference	1,046	4,164
Balance at 31 December	55,307	56,679

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

Summarized Statement of Financial Position (in thousands)	2021	2020
Current assets		
Cash and bank balances	29,659	59,478
Trade receivables	15	-
Inventories	18	-
Other current assets	1,372	25,172
Total current assets	31,064	84,650
Total non-current assets	94,525	34,519
Current liabilities		
Financial liabilities	-	323
Other current liabilities	12,156	5,785
Total current liabilities	12,156	6,108
Total non-current liabilities	2,820	-
Net assets	110,613	113,061

Reconciliation to carrying amounts (in thousands):	2021	2020
Opening net assets at 1 January	113,061	107,764
Profit (loss) for the period	(4,836)	(3,010)
Other comprehensive income	-	-
Cash contributions of owners	-	-
Receivable from owners	-	-
Dividend paid	-	-
Other, net	2,388	8,307
Closing net assets at 31 December	110,613	113,061
Group's share in %	50%	50%
Group's share in USD	55,307	56,531
Other	-	148
Carrying amount	55,307	56,679

Summarized Statement of Profit or Loss &Other Comprehensive Income (in thousands)	2021	2020
Revenue	-	-
Interest income	1,295	2,518
Depreciation and Amortization	210	26
Interest expense	-	-
Income tax expense	-	-
Other expenses	5,920	4,844
Exchange rate differences	1	658
Loss from continued operations	(4,836)	(3,010)
Loss from discontinued operations	-	-
Loss for the period	(4,836)	(3,010)
Other comprehensive income	-	-
Total comprehensive loss	(4,836)	(3,010)
Dividends received from joint venture entity	-	-

** From the date of incorporation of 11 March 2019.*

The Group did not receive any dividends from JVCO during the years ended 31 December 2021 and 2020. 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 2021. Furthermore, the Group does not have any contingent liabilities relating to its interests in JVCO as of 31 December 2021 or 2020. 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.

24. Financial instruments

Accounting classification and carrying amounts

Financial assets as of 31 December 2021 and 2020, all of which are measured at amortized cost, are as follows (in thousands):

	2021	2020
Cash and cash equivalents	17,556	31,689
Restricted cash	10,087	10,087
Trade receivables	29,396	583
Other current assets	14,518	11,322
Receivables from related parties	1,111	387
	72,668	54,068

Financial liabilities as of 31 December 2021 and 2020 are as follows (in thousands):

	2021	2020
Borrowings (measured at amortized cost)	400,911	567,899
Derivative financial liabilities (measured at FVTPL)	-	534,692
Other long-term liability to related party (measured at FVTPL)	7,440	7,440
Long-term incentive plan (measured at FVTPL)	56,334	40,593
Trade and other payables (measured at amortized cost)	28,587	11,959
Lease liabilities (measured at amortized cost)	122,140	108,947
Liabilities to related parties (measured at amortized cost)	638	367
Other current liabilities	42,012	16,416
	658,062	1,288,313

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 convertible bonds and convertible shareholder loans, 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):

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

	At 31 December 2020	
	Carrying amount	Fair value
Convertible bonds	391,244	399,388
Convertible shareholder loans	171,574	210,026
	562,818	609,414

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 2020 (in thousands):

	2020			
Convertible shareholder loans	Level 1	Level 2	Level 3	Total
Conversion rights and warrant rights	-	-	220,695	220,695
Funding rights	-	-	176,888	176,888
Excess warrant rights	-	-	137,109	137,109
	-	-	534,692	534,692

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. The derivative financial liabilities were extinguished during the year ended 31 December 2021. Refer to Note 18 for additional details on the extinguishment.

Convertible bonds

The fair value of the derivatives associated with the convertible bonds was $0 at both 24 June 2021, the date of extinguishment (refer to Note 18 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 equity conversion features associated with the convertible bonds was determined using a lattice model that incorporated inputs as further described below. Probabilities associated with the timing of exercise and/or repayment 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 that were used for the model in valuing the equity conversion rights:

	24 June 2021	31 December 2020
Stock price at valuation	$204.03	$201.82
Conversion ratio	0.387	0.387
Volatility rate	40.0%	42.5%
Risk-free interest rate	0.1%	0.1%
Expected dividend yield	0.0%	0.0%
Risk-adjusted yield	12.2%	11.8%
Expected life	0.5-1.5 years	0.95 years

The stock price at valuation is based on the Group's equity valuation upon arms-length transactions that occurred in 2021 and 2020, respectively. The conversion ratio is a calculation based on the stated conversion price of each instrument. 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 risk-free interest rate is based on U.S. treasury yields corresponding to the expected life input into the pricing model. The expected dividend yield is based on the Group's expectations for annual dividends and indicated stock price. The risky yield is calculated as of the issuance date of the instruments such that the value of the instrument is equal to its purchase price less any original issue discount. It is then adjusted as of each valuation date based on changes in market yields. The expected life is based on when the Group expects the bond to either reach maturity or be redeemed through conversion or redemption.

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 18 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 (see Note 26) multiplied by OACB stock price ($9.86).

As of 31 December 2020 the fair value of the equity conversion rights and warrant rights associated with the convertible shareholder loans was determined using a lattice model that incorporated inputs as further described below. Probabilities associated with the timing of exercise and/or repayment 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 that were used for the model in valuing the equity conversion rights and warrant rights:

	31 December 2020
Stock price at valuation	$201.82
Conversion ratio	1.399
Volatility rate	42.5%
Risk-free interest rate	0.1%
Expected dividend yield	0.0%
Risk yield	14.2%
Expected life	1-2 years

The stock price at valuation is based on the Group's equity valuation upon arms-length transactions that occurred in 2021 and 2020, respectively. The conversion ratio is a calculation based on the stated conversion price of each instrument. 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 risk-free interest rate is based on U.S. treasury yields corresponding to the expected life input into the pricing model. The expected dividend yield is based on the Group's expectations for annual dividends and indicated stock price. The risky yield is calculated as of the issuance date of the instruments such that the value of the instrument is equal to its face value. It is then adjusted as of each valuation date based on changes in market yields. The expected life is based on when the Group expects the loans to either reach maturity or be redeemed through conversion or redemption.

The fair value of the funding rights and excess warrant rights associated with the convertible shareholder loans was determined using a Black-Scholes Option Pricing Model. The following table presents the assumptions that were used for the model in valuing the funding rights and excess warrant rights:

	31 December 2020
Stock price at valuation	$201.82
Conversion ratio	$71.47
Volatility rate	42.5%
Risk-free interest rate	0.1%
Expected dividend yield	0.0%
Expected life	1-2 years

The stock price at valuation is based on the Group's equity valuation upon arms-length transactions that occurred in 2021 and 2020 respectively. The strike price is based on the stated strike price of each instrument. 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 risk-free interest rate is based on U.S. treasury yields corresponding to the expected life input into the pricing model. The expected dividend yield is based on the Group's expectations for annual dividends and indicated stock price. The expected life is based on when the Group expects the loans to either reach maturity or be redeemed through conversion or redemption.

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 is 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 and $5.9 million as of 7 December 2021, the date of extinguishment, and as of 31 December 2020, respectively.

The Group did not recognize any transfers of assets or liabilities between levels of the fair value hierarchy during the years ended 31 December 2021 and 2020.

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 2021 and 2020.

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):

	2021	2020
Variable-rate financial liabilities +100	(65)	(90)
Variable-rate financial liabilities -100	60	90

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.

The majority of the Group's financial assets and liabilities are denominated in a foreign currency. Below are the foreign currencies that have the most significant impact on the Group's operations.

	Closing rate		**Average rate**		**Change**
	2021	2020	2021	2020	
EUR	1.133	1.230	1.183	1.141	(7.9%)
GBP	1.350	1.361	1.376	1.283	(0.8%)
ISK	0.008	0.008	0.008	0.007	(2.6%)
CHF	1.094	1.133	1.094	1.066	(3.4%)

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)

The Group's assets and liabilities that are denominated in foreign currencies as of 31 December 2020 are as follows (in thousands):

	Assets	Liabilities	Net
EUR	11,864	11,792	72
GBP	26	437	(411)
ISK	633	114,442	(113,809)
CHF	231	4,498	(4,267)

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 2021	EUR	GBP	ISK	CHF
-10% weakening	(1,600)	(49)	(14,333)	(659)
+10% strengthening	1,600	49	14,333	659
Year ended 31 December 2020	EUR	GBP	ISK	CHF
-10% weakening	(7)	(41)	(11,381)	(427)
+10% strengthening	7	41	11,381	427

Credit risk

Credit risk it 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 2021 and 2020 is as follows (in thousands):

	2021	2020
Cash and cash equivalents	17,556	31,689
Restricted cash and certificate deposits	10,087	10,087
Other assets	66,344	47,731
	93,987	89,507

The Group's cash and cash equivalents and restricted cash are deposited with high-quality financial institutions. Management believes these financial institutions are finally 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 16, 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 2021 and 2020 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 2021 are as follows (in thousands):

Financial assets	Within one year	One to two years	Thereafter	Total
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
Financial liabilities				
Non-interest bearing	71,237		63,774	135,011
Fixed-interest bearing - Borrowings	16,663	33,235	500,675	550,573
Derivative liabilities	-	-	-	-
Variable-interest bearing - Borrowings	3,041	3,035	1,117	7,193
Total financial liabilities	90,941	36,270	565,566	692,777

Contractual maturities of financial assets and liabilities as of 31 December 2020 are as follows:

	Within one year	One to two years	Thereafter	Total
Financial assets				
Non-interest bearing	582	-	-	582
Variable-interest bearing	31,689	-	10,087	41,776
Total financial assets	32,271	-	10,087	42,358
Financial liabilities				
Non-interest bearing	28,742	-	48,033	76,775
Fixed-interest bearing - Borrowings	-	205,464	683,559	889,023
Derivative liabilities	-	534,692	-	534,692
Variable-interest bearing - Borrowings	2,867	2,865	3,943	9,675
Total financial liabilities	31,609	743,021	735,535	1,510,165

Refer to Note 11 for the maturity analysis of the Group's undiscounted lease payments.

25. Supplemental cash flow information

Supplement cash flow information for the year ended 31 December 2021 and 2020 is included below (in thousands).

Non-cash investing and financing activities	2021	2020
Acquisition of property, plant and equipment in trade payables	3,812	-
Right-of-use assets obtained through new operating leases	18,871	15,204
Equity issued through conversion of borrowings	346,043	30,000
Acquisition of other intangible assets through financing agreements	461	-

26. Subsequent events

The Group evaluated subsequent events through 24 March 2022, the date the Consolidated Financial Statements were available to be issued.

On 7 December 2021, the Group entered into a Business Combination Agreement (the "Business Combination Agreement") with OACB, a special purpose acquisition company that is also an affiliate of one of the Group's current bondholders. As a result of the transactions contemplated by the Business Combination Agreement, OACB and the Group will merge into Alvotech Lux Holdings SAS, a simplified joint stock company, incorporated and existing under the laws of the Grand Duchy of Luxembourg (the "Business Combination"). Transaction closing is subject to customary and other closing conditions, including regulatory approvals and approval by OACB shareholders. More information on these conditions will be included in the proxy statement / prospectus that will be filed with the Securities and Exchange Commission.

In conjunction with the signing of the Business Combination Agreement, the Group is currently negotiating the settlement of existing long-term employee incentive plans. The existing plans may be settled either through cash payments or the issuance of Class A ordinary shares prior to the closing of the Business Combination based on the terms of the negotiations. Additionally, the Group intends to adopt a new equity incentive plan for its employees in connection with the consummation of the Business Combination.

In February and March 2022, Alvotech entered into interest free loan advances with Alvogen and Aztiq. The interest free loan advances provide for a facility of up to $15.0 million from Alvogen, with the potential for up to $10.0 million more in advances, and $25.0 million from Aztiq, for a total of up to $50.0 million. Repayment by Alvotech is due within 30 days of the Second Merger Effective Time.

On 22 February 2022, Alvotech, as borrower, withdrew $15.0 million under the facility from Alvogen, as lender.

On 9 March 2022, Alvotech, as borrower, withdrew $15.0 million under the facility from Aztiq, as lender.

In February and March 2022, Russia began a military invasion of Ukraine. The global response to this invasion could have an adverse impact the Group's business, including 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.