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Orifarm Supply A/S

Energivej 15
5260 Odense S
Central Business Registration No
17153684

Annual report 2017

The Annual General Meeting adopted the annual report on 28.05.2018

Chairman of the General Meeting

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Name: Kim Jensen

Contents

Entity details

Entity
Orifarm Supply A/S
Energivej 15
5260 Odense S

Central Business Registration No: 17153684
Registered in: Odense
Financial year: 01.01.2017 - 31.12.2017

Board of Directors
Ole Michael Friis, Chairman
Hans Carl Bøgh-Sørensen
Birgitte Bøgh-Sørensen

Executive Board
Erik Sandberg, Chief Executive Officer

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
Tværkajen 5
Postboks 10
5100 Odense C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Orifarm Supply A/S for the financial year 01.01.2017 - 31.12.2017.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Odense, 28.05.2018

Executive Board

Erik Sandberg
Chief Executive Officer

Board of Directors

Ole Michael Friis Chairman	Hans Carl Bøgh-Sørensen	Birgitte Bøgh-Sørensen

Independent auditor's report

To the shareholders of Orifarm Supply A/S

Opinion

We have audited the financial statements of Orifarm Supply A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management’s use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary
Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Odense, 28.05.2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Lars Knage Nielsen
State Authorised Public Accountant
Identification number (MNE) mne10074

Allan Dydensborg Madsen
State Authorised Public Accountant
Identification number (MNE) mne34144

Management commentary

	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000	2013 DKK'000
Financial highlights					
Key figures					
Revenue	4.965.464	4.685.833	5.003.362	5.178.538	3.363.704
Gross profit/loss	180.569	111.553	75.969	72.702	41.027
Operating profit/loss	130.019	84.973	54.310	50.432	4.500
Net financials	(19.040)	(31.499)	(36.947)	(37.640)	(36.848)
Profit/loss for the year	86.200	41.711	13.315	9.558	(24.391)
Inventories	756.512	761.822	660.635	555.334	559.908
Total assets	1.020.999	1.161.554	999.591	850.099	1.009.227
Investments in property, plant and equipment	604	0	0	0	0
Equity	334.545	246.081	203.237	68.322	58.765
Ratios					
Gross margin (%)	3,6	2,4	1,5	1,4	1,2
Net margin (%)	1,7	0,9	0,3	0,2	(0,7)
Return on equity (%)	29,7	18,6	9,8	15,0	(34,4)
Equity ratio (%)	32,8	21,2	20,3	8,0	5,8

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	**Calculation formula**	**Ratios**
Gross margin (%)	$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

Orifarm Supply A/S is part of Orifarm Group A/S which is an ambitious operator in the European market for pharmaceuticals. Our ambition is to supply high quality pharmaceuticals at a lower cost. In other words: We offer consumers and societies more healthcare for their money.

Orifarm Supply A/S deals with import, repackaging and sale of pharmaceuticals.

The formation and development of the company is healthcare business model innovation. This is expressed in Orifarm's mission statement, which is "Challenging the pharmaceutical market".

Orifarm's vision - "We want to be number 1 in making healthcare a better deal" - expresses the general objective. "A better deal" refers not only to savings, but also to how Orifarm delivers solutions that meet its stakeholder's needs. Orifarm's operating activities are guided by our values, which are flexibility, ambition, responsibility and customer focus.

Orifarm Parallel Import

Orifarm Parallel Import was established in 1994 in response to significant price differentials for identical pharmaceuticals across EU Member States. Pharmaceuticals are imported from EU/EEA Member States where original pharmaceutical producers sell their preparations at prices that are lower than what they demand for the identical products in e.g. the Nordic countries and Germany. In doing so, Orifarm utilises the principle of free movement of goods within the EU/EEA.

Orifarm Parallel Import's activities have led to lower prices of pharmaceuticals and thus savings benefitting both patients and society at large in the markets in which it operates.

Despite the principles of free movement of goods within the EU/EEA, and without regard for the fact that the efforts of Orifarm Parallel Import and its competitors have led to lower costs of pharmaceuticals, various barriers to the parallel import trade are still being tolerated by the EU; see section entitled "Obstacles to healthcare cost savings generated by the Parallel Import trade" below.

Development in activities and finances

Orifarm Supply's revenues totalled MDKK 4.965 (2016: MDKK 4.685) which primarily consists of sale to other Parallel Import inter group companies.

By a continued focus on tight cost control through the purchase and supply chain flow, the gross margin was improved to 3.6% (2016: 2.4%) and operating profit to increase by MDKK 45 to MDKK 130.

Orifarm Supply's results for 2017 are considered satisfactory and in line with expectations.

Obstacles to healthcare cost savings generated by the Parallel Import trade

A series of measures undertaken by original producers and by some EU Member States hamper trade in pharmaceuticals and reduce Orifarm's ability to grow its parallel-import business:

Quota systems

A number of the world's biggest pharmaceutical manufacturers have introduced quota systems for selling pharmaceuticals in the EU. In some cases, pharmaceutical manufacturers have gone even further and stopped making deliveries to wholesalers who are re-exporting pharmaceuticals. This practise limits Orifarm's sourcing opportunities and consequently also the capacity to increase sales. In Orifarm's view, quota systems are in breach of the EU Treaty because they let pharmaceutical manufacturers restrict competition within the EU.

Management commentary

Export ban
Several EU Member States have introduced or attempted to introduce bans on exports of pharmaceuticals to other member states or have hampered exports by imposing obligations onto exporters' notification as regards to regulatory authorities and approval regimens prior to export. Export bans and disproportionate export barriers violate the EU Treaty's provisions on the free movement of goods and may change Orifarm's entire business model. We therefore strongly disapprove of such measures. The European Commission is regularly informed about developments and in this context we are pleased to note that the Commission is currently investigating the extent of such export restrictions with the purpose of potential political intervention.

Dual pricing
In Spain, a number of multinational pharmaceutical manufacturers have established or maintained – supported by a legal frame work initiated by the Government – a dual pricing system. Dual pricing forces pharmaceutical manufacturers to sell their products at an artificially inflated price to Spanish pharmaceutical wholesalers. However, if the wholesalers can document that the products are intended for domestic sale - and not for re-export – then wholesalers will receive a discount bringing the price to the 'normal' Spanish price level. For parallel importers, the dual-pricing system, therefore, means that one of the EU's fundamental principles - free movement of goods between union members states - is effectively overruled. In Orifarm's opinion, dual-priding violates the competition provisions set out in the EU Treaty.

Nonetheless, despite these trade restrictions, Orifarm has continued to provide its customers with stable deliveries of goods by cultivating new procurement countries and channels.

Special Risks

Operating conditions
To a significant extent, earnings depend on legislative measures that affect the pricing of pharmaceuticals in both the purchase and the sales countries. Earnings are also affected by measures in the sales countries which are intended to limit the consumption of pharmaceuticals.

It is Orifarm's policy to avoid infringing on trademark rights, and Orifarm Supply A/S is not currently involved in any major pending litigation of this kind.

Financial matters
The Company is exposed to fluctuations in foreign exchange rates and interest rate levels. The risks are mitigated through hedge, in accordance with the company's policy. Exchange rate risks are primarily related to the currencies SEK, CZK and GBP.

Orifarm's financial risks, including its cash management and extension of credits, are managed centrally. The aim is to maintain a low risk profile.

Culture and Employees

It is Orifarm's objective to be a leading supplier of parallel-imported pharmaceuticals in the Nordic countries, Germany, Austria, Holland and UK. We believe that our results and the competencies and commitment of our employees are intertwined. That is why we are constantly seeking to develop our employees' knowledge and competencies, which in turn bolster Orifarm's results and growth-oriented culture.

Orifarm is aware of its social responsibilities and accordingly, it is important for the company to have a wide variety of employees. Consequently, the company is stressing internal efforts to integrate employees of other ethnic backgrounds as well as disabled employees.

The level of internationalisation in Orifarm has increased significantly in recent years, and Orifarm has conducted international rotations of employees to ensure integration, knowledge sharing and cultural exchange.

Management commentary

Environment, Corporate Social Responsibility and Target Figures for Gender Composition of Management

Descriptions of these subjects can be found in the Management's Commentary of Orifarm Group A/S Annual Report.

Development Activities

Orifarm has a significant development activities covering both product and process development.

Events since the End of the Fiscal Year

From the reporting date until today, no events have occurred which could change the assessments made in the Annual Report.

Outlook

Orifarm Supply A/S expects results for 2018 to be at the same level as 2017.

Income statement for 2017

	Notes	2017 DKK'000	2016 DKK'000
Revenue		4.965.464	4.685.833
Other operating income		42.853	50.947
Cost of sales		(4.749.767)	(4.502.437)
Other external expenses		(77.981)	(122.790)
Gross profit/loss		**180.569**	**111.553**
Staff costs	1	(47.248)	(23.104)
Depreciation, amortisation and impairment losses	2	(3.302)	(3.476)
Operating profit/loss		**130.019**	**84.973**
Other financial income	3	17.562	18.722
Other financial expenses	4	(36.602)	(50.221)
Profit/loss before tax		**110.979**	**53.474**
Tax on profit/loss for the year	5	(24.779)	(11.763)
Profit/loss for the year	6	**86.200**	**41.711**

Balance sheet at 31.12.2017

	Notes	2017 DKK'000	2016 DKK'000
Acquired intangible assets		290	553
Goodwill		57.137	60.402
Intangible assets	7	**57.427**	**60.955**
Other fixtures and fittings, tools and equipment		566	19
Property, plant and equipment	8	**566**	**19**
Other investments		0	0
Fixed asset investments	9	**0**	**0**
Fixed assets		**57.993**	**60.974**
Raw materials and consumables		630.743	658.830
Manufactured goods and goods for resale		125.769	102.992
Inventories		**756.512**	**761.822**
Trade receivables		23.176	5.755
Receivables from group enterprises		170.895	321.264
Other receivables		7.244	10.897
Receivables		**201.315**	**337.916**
Cash		**5.179**	**842**
Current assets		**963.006**	**1.100.580**
Assets		**1.020.999**	**1.161.554**

Balance sheet at 31.12.2017

	Notes	2017 DKK'000	2016 DKK'000
Contributed capital	10	10.000	10.000
Retained earnings		294.545	236.081
Proposed dividend		30.000	0
Equity		**334.545**	**246.081**
Deferred tax	11	4.295	2.308
Provisions		**4.295**	**2.308**
Payables to group enterprises		73.015	103.707
Non-current liabilities other than provisions		**73.015**	**103.707**
Bank loans		0	410
Prepayments received from customers	12	781	0
Trade payables		262.827	193.123
Payables to group enterprises		211.849	509.960
Income tax payable		23.164	10.135
Other payables		110.523	95.830
Current liabilities other than provisions		**609.144**	**809.458**
Liabilities other than provisions		**682.159**	**913.165**
Equity and liabilities		**1.020.999**	**1.161.554**
Financial instruments	13		
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Related parties with controlling interest	15		
Group relations	16		

Statement of changes in equity for 2017

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	10.000	236.081	0	246.081
Fair value adjustments of hedging instruments	0	2.264	0	2.264
Profit/loss for the year	0	56.200	30.000	86.200
Equity end of year	**10.000**	**294.545**	**30.000**	**334.545**

Notes

	2017 DKK'000	2016 DKK'000
1. Staff costs		
Wages and salaries	41.773	20.652
Pension costs	4.826	2.043
Other staff costs	649	409
	47.248	**23.104**
Average number of employees	**80**	**46**

Total amount of remuneration of management is 759 t.DKK in 2017 (585 t.DKK in 2016).

	2017 DKK'000	2016 DKK'000
2. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	3.528	3.467
Depreciation of property, plant and equipment	57	9
Profit/loss from sale of intangible assets and property, plant and equipment	(283)	0
	3.302	**3.476**

	2017 DKK'000	2016 DKK'000
3. Other financial income		
Financial income arising from group enterprises	2.642	3.219
Interest income	20	11
Exchange rate adjustments	14.900	15.492
	17.562	**18.722**

	2017 DKK'000	2016 DKK'000
4. Other financial expenses		
Financial expenses from group enterprises	17.786	33.204
Interest expenses	3.766	536
Exchange rate adjustments	15.050	16.481
	36.602	**50.221**

Notes

	2017 DKK'000	2016 DKK'000
5. Tax on profit/loss for the year		
Tax on current year taxable income	23.164	10.135
Change in deferred tax for the year	1.348	1.628
Adjustment concerning previous years	267	0
	24.779	**11.763**

	2017 DKK'000	2016 DKK'000
6. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	30.000	0
Retained earnings	56.200	41.711
	86.200	**41.711**

	Acquired intangible assets DKK'000	Goodwill DKK'000
7. Intangible assets		
Cost beginning of year	2.899	65.300
Cost end of year	**2.899**	**65.300**
Amortisation and impairment losses beginning of year	(2.346)	(4.898)
Amortisation for the year	(263)	(3.265)
Amortisation and impairment losses end of year	**(2.609)**	**(8.163)**
Carrying amount end of year	**290**	**57.137**

Notes

	Other fixtures and fittings, tools and equipment DKK'000
8. Property, plant and equipment	
Cost beginning of year	9.289
Additions	604
Cost end of year	**9.893**
Depreciation and impairment losses beginning of the year	(9.270)
Depreciation for the year	(57)
Depreciation and impairment losses end of the year	**(9.327)**
Carrying amount end of year	**566**

	Other investments DKK'000
9. Fixed asset investments	
Cost beginning of year	25
Cost end of year	**25**
Impairment losses beginning of year	(25)
Impairment losses end of year	**(25)**
Carrying amount end of year	**0**

Other investments comprises of a 5 % share in Orifarm Supply s.r.o. registered in the Czech Republic.

	Number	Par value DKK'000	Nominal value DKK'000
10. Contributed capital			
Share	10.000	1	10.000
	10.000		**10.000**

The shares is not divided into share classes.

There has not been changes in contributed capital in the past five financial years.

Notes

	2017 DKK'000	2016 DKK'000
11. Deferred tax		
Intangible assets	4.425	3.148
Property, plant and equipment	(130)	(202)
Equity	0	(638)
	4.295	**2.308**
Changes during the year		
Beginning of year	2.308	
Recognised in the income statement	1.348	
Recognised directly in equity	639	
End of year	**4.295**	

12. Prepayments received from customers

Consists of prepayments received from customers on goods not delivered.

13. Financial instruments

As part of the companys hedge of cash flow, the company has entered forward contracts on sales of SEK aginst EUR. The contracts has expired during 2017.

14. Mortgages and securities

Collateral security provided for subsidiaries and other group entities

The Group has provided guarantees under which the guarantors assume joint and several liability for group enterprises’ net debt with bank and credit institution. The Groups total net debt in relation to this guarantee is booked at 672 m.DKK at 31.12.2017.

The Company is a party to litigations regarding alleged infringement of trademarks rights. Management believes that these legal proceedings will not lead to material losses.

The Company jointly taxed with all Danish subsidiaries, with Habico Holding A/S as the administration company. The Company therefore held liable under the Corporation Tax Act rules for incometaxes and for any obligation to withhold tax on interest, royalties and dividends for the jointly taxed companies.

Notes

15. Related parties with controlling interest

Related parties with controlling interest in Orifarm Supply A/S:

The parent company Orifarm Supply Holding A/S, Odense and the other companies in the Habico Holding Group.

All transactions with related parties are conducted on arms length.

16. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:

Habico Holding A/S, Odense, Central Business Registration Number 27 34 71 34

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:

Orifarm Group A/S, Odense, Central Business Registration Number 27 34 72 82

Accounting policies

Reporting class
This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (big).

The accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign subsidiaries that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date.

Derivative financial instruments
On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Accounting policies

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Income statement
Revenue
Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Referring to section 96 (1) in the Danish Financial Statement Act the entity has decided not to show revenue allocated on segments on accounts of competitive consideration, because the revenue essentially is internal revenue. Reference is made to the information regarding segments for the Group in the consolidated financial statements for Orifarm Group A/S.

Other operating income
Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities, including rental income and gains from the sale of intangible assets and property, plant and equipment.

Cost of sales
Cost of sales includes direct and indirect costs incurred to generate revenue. The cost of sales is recognized raw materials, consumables and cost of production staff.

Other external expenses
Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for distribution, sale, advertising, administration, premises etc.

Staff costs
Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc. for entity staff.

Depreciation, amortisation and impairment losses
Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the

Accounting policies

basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Other financial income
Other financial income comprises dividends etc. received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with all Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

The jointly taxed companies to the rules of section 11B of the Danish Companies Act governing interest deduction limitation. It has been agreed in the joint taxation that reduced interestdeduction is recognized in the company in which the interestdeduction has been reduced.

Balance sheet
Goodwill
Goodwill is the positive difference between cost and value in use of assets and liabilities taken over as part of the acquisition. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. The amortisation period used is 20 years.

The determination of the lifetime is decided based on an evaluation of a combined company with Know How, skills and a efficient organization, which is expected to provide development of the business in a long time to come, and because the lifetime of the medical products normally are very long.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Accounting policies

Intellectual property rights etc
Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, but over no more than 20 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment
PPE are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment	3-5 years

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Profit or loses from the sale of property, plant and equipment are calculated as the difference between selling price less selling cost and carrying amount at the tim of sale. Profit and losses are recognized in the income statement.

Other investments
Other investments comprise listed securities which are measured at fair value (market price) at the balance sheet date and unlisted equity investments measured at cost. Unlisted equity investments are written down to any lower net realisable value.

Inventories
Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

Accounting policies

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables
Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

Cash
Cash comprises cash in hand and bank deposits.

Dividend
Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity.

Deferred tax
Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Other financial liabilities
Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Prepayments received from customers
Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Income tax receivable or payable
Current tax payable or receivable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax

Cash flow statement
Referring to section 86 (4) of the Danish Financial Statements Act, Orifarm Supply A/S has not prepared any cash flow statements, given that there are cash flow statements are consistent with those applied last year.