



Orifarm Supply A/S

Energivej 15
5260 Odense S
CVR No. 17153684

Annual report 2019

The Annual General Meeting adopted the
annual report on 19.06.2020

Kim Jensen

Chairman of the General Meeting

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Entity details

Entity

Orifarm Supply A/S

Energivej 15

5260 Odense S

CVR No.: 17153684

Registered office: Odense

Financial year: 01.01.2019 - 31.12.2019

Board of Directors

Ole Michael Friis, Chairman

Birgitte Bøgh-Sørensen

Hans Carl Bøgh-Sørensen

Executive Board

Erik Sandberg, Chief Executive Officer

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

P. O. Box 1600

0900 Copenhagen C

Statement by Management

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 01.01.2019 - 31.12.2019.

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 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

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, 19.06.2020

Executive Board

Erik Sandberg

Chief Executive Officer

Board of Directors

Ole Michael Friis

Chairman

Birgitte Bøgh-Sørensen

Hans Carl Bøgh-Sørensen

Independent auditor's report

To the shareholder of Orifarm Supply A/S

Opinion

We have audited the financial statements of Orifarm Supply A/S for the financial year 01.01.2019 - 31.12.2019, 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 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 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:

- 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.

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.

Copenhagen, 19.06.2020

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Nikolaj Thomsen

State Authorised Public Accountant
Identification No (MNE) mne33276

Jens Serup

State Authorised Public Accountant
Identification No (MNE) mne45825

Management commentary

Financial highlights

	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000
Key figures					
Revenue	6,301,721	5,377,580	5,087,340	4,685,833	5,003,362
Gross profit/loss	282,034	238,282	180,569	111,553	75,969
Operating profit/loss	216,034	177,212	130,019	84,973	54,310
Net financials	(4,962)	(15,317)	(19,040)	(31,499)	(36,947)
Profit/loss for the year	164,376	125,991	86,200	41,711	13,315
Total assets	1,199,455	1,028,183	1,021,000	1,161,554	999,591
Inventories	1,006,381	751,435	756,512	761,822	660,635
Investments in property, plant and equipment	2,181	458	604	0	0
Equity	502,565	428,101	334,545	246,081	203,237
Ratios					
Gross margin (%)	4.48	4.43	3.55	2.38	1.52
Net margin (%)	2.61	2.34	1.69	0.89	0.27
Return on equity (%)	35.32	33.04	29.69	18.57	9.81
Equity ratio (%)	41.90	41.64	32.77	21.19	20.33

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Gross margin (%):

$\frac{\text{Gross profit/loss}}{\text{Revenue}} * 100$

Revenue

Net margin (%):

$\frac{\text{Profit/loss for the year}}{\text{Revenue}} * 100$

Revenue

Return on equity (%):

$\frac{\text{Profit/loss for the year}}{\text{Average equity}} * 100$

Average equity

Equity ratio (%):

$\frac{\text{Equity}}{\text{Total assets}} * 100$

Total assets

Primary activities

Orifarm Supply A/S is part of the Orifarm Group which is an ambitious operator in the European market for pharmaceuticals. Our ambition is to supply high quality pharmaceuticals at a lower price. 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 centricity.

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 is depending on 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 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.

Culture and Employees

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

In Orifarm we believe that diversity is very important to employees as well as to business. Consequently, the company is stressing internal efforts to constantly increase diversity across gender, age and culture and hence to e.g. onboard and integrate employees of diverse ethnic backgrounds. We see the potential of each employee and create opportunities for everyone to develop at work and contribute to our business, irrespective of their gender, age, ethnicity, disability or other personal characteristics.

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

Development in activities and finances

Although market conditions continued challenging Orifarm Supply A/S achieved very strong growth in revenue contributing to a significant improvement in net result.

Orifarm Supply's revenues totalled MDKK 6,302 (2018: MDKK 5,378) 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 maintained at 4.5% (2018: 4.5%) and operating profit increased by MDKK 39 to MDKK 216.

Orifarm Supply's results for 2019 are considered very satisfactory and better than expected as set out in the financial statements for 2018.

Outlook

For 2020, Orifarm Supply A/S expects growth in revenue in the range of 1-3% and a decline of 5-10% in operating income compared to 2019 level.

The outbreak of COVID-19 in 2020 has impacted our business positively, and has led to increased uncertainty regarding our supply chain and our future ability to deliver to customers.

Reference is made to note 1 of the annual report for events after the balance sheet date.

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 of the lower priced parallel imported pharmaceuticals. In Orifarm's view, quota systems are in breach of the EU Treaty because they let pharmaceutical manufacturers restrict competition within the EU.

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 object to such measures. The European Commission is regularly informed about developments and in this context we 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-pricing 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.

Particular 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, NOK, 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.

Research and development activities

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

Statutory report on corporate social responsibility

Orifarm joined the UN Global Compact in 2018, and we are consequently incorporating the Ten Principles into our strategies, policies and procedures.

Our 2019 progress report is available at <http://www.orifarm.com/responsibility/>.

Statutory report on the underrepresented gender

Orifarm has decided to publish diversity statements through our CSR reporting.

Our CSR reports are available at <http://www.orifarm.com/responsibility/>.

Income statement for 2019

	Notes	2019 DKK'000	2018 DKK '000
Revenue		6,301,721	5,377,580
Other operating income		54,839	49,888
Cost of sales		(5,978,074)	(5,103,567)
Other external expenses		(96,452)	(85,619)
Gross profit/loss		282,034	238,282
Staff costs	2	(62,244)	(57,248)
Depreciation, amortisation and impairment losses	3	(3,756)	(3,822)
Operating profit/loss		216,034	177,212
Other financial income	4	23,288	22,716
Other financial expenses	5	(28,250)	(38,033)
Profit/loss before tax		211,072	161,895
Tax on profit/loss for the year	6	(46,696)	(35,904)
Profit/loss for the year	7	164,376	125,991

Balance sheet at 31.12.2019

Assets

	Notes	2019 DKK'000	2018 DKK'000
Acquired intangible assets		0	0
Goodwill		50,607	53,872
Intangible assets	8	50,607	53,872
Other fixtures and fittings, tools and equipment		2,130	757
Property, plant and equipment	9	2,130	757
Other investments		0	0
Other financial assets	10	0	0
Fixed assets		52,737	54,629
Raw materials and consumables		679,118	549,491
Manufactured goods and goods for resale		256,267	199,110
Prepayments for goods		70,996	2,834
Inventories		1,006,381	751,435
Trade receivables		728	22,582
Receivables from group enterprises		132,943	195,290
Other receivables		2,913	3,144
Joint taxation contribution receivable		1,648	0
Prepayments	11	538	0
Receivables		138,770	221,016
Cash		1,567	1,103
Current assets		1,146,718	973,554
Assets		1,199,455	1,028,183

Equity and liabilities

	Notes	2019 DKK'000	2018 DKK'000
Contributed capital	12	10,000	10,000
Retained earnings		362,565	328,101
Proposed dividend		130,000	90,000
Equity		502,565	428,101
Deferred tax	13	6,326	4,906
Provisions		6,326	4,906
Payables to group enterprises		0	38,854
Other payables		1,773	0
Non-current liabilities other than provisions	14	1,773	38,854
Trade payables		175,627	113,232
Payables to group enterprises		480,431	329,692
Income tax payable		0	34,507
Other payables		32,733	78,891
Current liabilities other than provisions		688,791	556,322
Liabilities other than provisions		690,564	595,176
Equity and liabilities		1,199,455	1,028,183
Events after the balance sheet date	1		
Financial instruments	15		
Unrecognised rental and lease commitments	16		
Contingent liabilities	17		
Assets charged and collateral	18		
Related parties with controlling interest	19		
Group relations	20		

Statement of changes in equity for 2019

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	10,000	328,101	90,000	428,101
Ordinary dividend paid	0	0	(90,000)	(90,000)
Fair value adjustments of hedging instruments	0	113	0	113
Tax of entries on equity	0	(25)	0	(25)
Profit/loss for the year	0	34,376	130,000	164,376
Equity end of year	10,000	362,565	130,000	502,565

Notes

1 Events after the balance sheet date

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

The outbreak of COVID-19 at the beginning of 2020 is not expected to have an material impact on the Company's financial position, as Orifarm's supply chain is intact and pharmaceuticals are highly demanded and essential also during the COVID-19 outbreak.

2 Staff costs

	2019 DKK'000	2018 DKK'000
Wages and salaries	54,759	50,854
Pension costs	6,449	5,727
Other staff costs	1,036	667
	62,244	57,248
Average number of full-time employees	104	89

Total amount of remuneration of management is 6.514 t.DKK in 2019 (7.565 t.DKK in 2018).

3 Depreciation, amortisation and impairment losses

	2019 DKK'000	2018 DKK'000
Amortisation of intangible assets	3,265	3,375
Depreciation of property, plant and equipment	491	259
Profit/loss from sale of intangible assets and property, plant and equipment	0	188
	3,756	3,822

4 Other financial income

	2019 DKK'000	2018 DKK'000
Financial income from group enterprises	3,519	1,712
Other interest income	12	7,037
Exchange rate adjustments	19,757	13,967
	23,288	22,716

5 Other financial expenses

	2019 DKK'000	2018 DKK'000
Financial expenses from group enterprises	9,487	16,032
Other interest expenses	552	530
Exchange rate adjustments	18,211	21,471
	28,250	38,033

6 Tax on profit/loss for the year

	2019 DKK'000	2018 DKK'000
Current tax	45,220	34,507
Change in deferred tax	1,396	1,297
Adjustment concerning previous years	80	100
	46,696	35,904

7 Proposed distribution of profit and loss

	2019 DKK'000	2018 DKK'000
Ordinary dividend for the financial year	130,000	90,000
Retained earnings	34,376	35,991
	164,376	125,991

8 Intangible assets

	Acquired intangible assets DKK'000	Goodwill DKK'000
Cost beginning of year	269	65,300
Cost end of year	269	65,300
Amortisation and impairment losses beginning of year	(269)	(11,428)
Amortisation for the year	0	(3,265)
Amortisation and impairment losses end of year	(269)	(14,693)
Carrying amount end of year	0	50,607

9 Property, plant and equipment

	Other fixtures and fittings, tools and equipment DKK'000
Cost beginning of year	7,822
Additions	2,181
Disposals	(2,268)
Cost end of year	7,735
Depreciation and impairment losses beginning of year	(7,065)
Depreciation for the year	(491)
Reversal regarding disposals	1,951
Depreciation and impairment losses end of year	(5,605)
Carrying amount end of year	2,130

10 Financial assets

	Other investments DKK'000
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.

11 Prepayments

Prepayments consist of expenses payed in advance.

12 Share capital

	Number	Par value DKK'000	Nominal value DKK'000
Shares	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.

13 Deferred tax

	2019 DKK'000	2018 DKK'000
Intangible assets	7,029	5,696
Property, plant and equipment	(41)	(103)
Equity	(662)	(687)
Deferred tax	6,326	4,906

Changes during the year	2019 DKK'000
Beginning of year	4,905
Recognised in the income statement	1,396
Recognised directly in equity	25
End of year	6,326

14 Non-current liabilities other than provisions

	Due after more than 12 months 2019 DKK'000
Other payables	1,773
	1,773

15 Financial instruments

As part of the Entity's hedge of cash flow, the Entity has entered forward contracts on sales of SEK against EUR expiring in 2020. As on 31.12.2019 the value of the obligations are 3,009 t.DKK, which are included in other payables.

16 Unrecognised rental and lease commitments

	2019 DKK'000	2018 DKK'000
Liabilities under rental or lease agreements until maturity in total	833	434

17 Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where HBS Capital ApS serves as administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

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

18 Assets charged and collateral

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 788 m.DKK at 31.12.2019.

The Entity has provided inventories of a total of 187 m.DKK, as security for bank debt in Orifarm Group A/S, Orifarm GmbH, Orifarm Generics Holding A/S, Orifarm Generics A/S and Habico Invest A/S.

19 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 HBS Capital Group.

All transactions with related parties are conducted on arms length.

20 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
HBS Capital ApS, Odense, Central Business Registration Number 41 00 08 80.

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 (large).

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

Consolidated financial statements

Referring to section 112 (1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

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 nonmonetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign subsidiaries and associates 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.

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.

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, as the Entity only has one segment as mentioned in the management commentary.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

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.

Referring to section 96 (3) in the Danish Financial Statement Act the Entity has decided not to show the fee to auditors. Reference is made to the information for the Group in the consolidated financial statements for Orifarm Group A/S.

Staff costs

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

Depreciation, amortisation and impairment losses

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

Other financial income

Other financial income comprises, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, 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, 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 interest deduction is recognised in the company in which the interest deduction 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.

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

Equipment 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
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Estimated useful lives and residual values are reassessed annually.

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

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

Other investments

Other investments comprise 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.

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 writedowns for bad and doubtful debts.

Joint taxation contributions receivable or payable

Current joint taxation contributions payable or joint taxation contributions receivable are recognised in the balance sheet, calculated as tax computed on the taxable income for the year, which has been adjusted for prepaid tax.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises 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.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

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

Income tax receivable or payable

Current tax receivable or payable 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 statement. Orifarm Supply A/S is included in the consolidated cash flow statement in Orifarm Group A/S.

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Hans Carl Bøgh-Sørensen

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