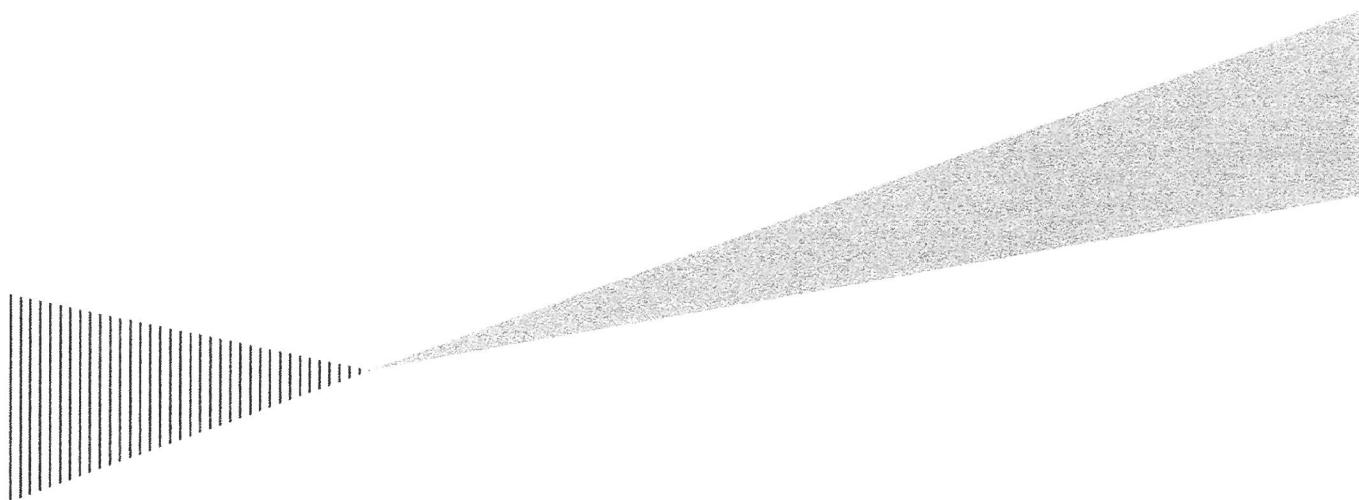


Mundipharma A/S

Frydenlundsvej 30, 2950 Vedbæk


CVR no. 17 98 19 94



Annual report 2016

Approved at the annual general meeting of shareholders on 31 May 2017

Chairman:


.....



Building a better
working world



Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	5
Company details	5
Financial highlights	6
Management commentary	7
Financial statements for the period 1 January - 31 December	9
Income statement	9
Balance sheet	10
Statement of changes in equity	12
Cash flow statement	13
Notes to the financial statements	14



Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Mundipharma A/S for the financial year 1 January - 31 December 2016.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016.

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

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

Vedbæk, 31 May 2017
Executive Board:

Anders W. Fogstrup

Board of Directors:

.....
Christopher B. Mitchell
Chairman

.....
Stuart D. Baker

.....
Jörg Fischer

Independent auditor's report

To the shareholders of Mundipharma A/S

Opinion

We have audited the financial statements of Mundipharma A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including 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 financial position of the Company at 31 December 2016 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 our report. We are independent of the Company in accordance with the International Ethics Standards Board for 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 rules and 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance 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 the 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 skepticism 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 Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- ▶ 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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 Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Christian Schwenn Johansen
State Authorised Public Accountant

Management's review

Company details

Name	Mundipharma A/S
Address, Postal code, City	Frydenlundsvej 30, 2950 Vedbæk
CVR no.	17 98 19 94
Financial year	1 January - 31 December
Website	www.mundipharma.dk
E-mail	mundipharma@mundipharma.dk
Telephone	+45 45 17 48 00
Telefax	+45 45 17 48 29
Board of Directors	Christopher B. Mitchell, Chairman Stuart D. Baker Jörg Fischer
Executive Board	Anders W. Fogstrup
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark
Bankers	Sydbank Danske Bank

Management's review

Financial highlights

DKK'000	2016	2015	2014	2013	2012
Key figures					
Revenue	72,961	90,545	2,387,910	2,097,309	1,928,442
Operating profit/loss	2,217	-11,496	47,178	9,436	31,058
Net financials	1,187	162	-1,035	-1,129	-1,156
Profit/loss for the year	2,386	51,521	33,802	4,453	21,889
Total assets	147,156	457,412	1,013,078	998,384	736,626
Equity	55,706	128,320	76,799	72,997	68,545
Cash flows from operating activities	19,349	27,580	68,040	-97,829	81,656
Financial ratios					
Operating margin	3.0%	-12.7%	2.0%	0.4 %	1.6 %
Return on assets	0.7%	-1.6%	4.7%	1.1%	5.0%
Solvency ratio	37.9%	28.1%	7.6%	7.3%	9.3%
Return on equity	2.6%	50.2%	45.1%	6.3%	29.1%
Average number of employees	23	24	41	39	44

Financial ratios are calculated in accordance with the Danish Finance Society's recommendations on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

From 1 January 2016, Mundiharma A/S has no longer been a central supply chain hub for the Mundipharma network of independent associated companies, which explains the very significant change the financial highlights above from 2016 and prior years. Comparative for 2014-2012 have not been restated to reflect results from continued and discontinued operations.

Management's review

Management commentary

Business review

The Company's main business activity is the sale of pharmaceutical products.

Unusual matters having affected the financial statements

As a result of the challenging outlook for Mundipharma A/S and the other local European distributors, the Mundipharma network has decided as at 31 December 2015 to reorganise its business to drive efficiencies and to allow for greater planning, oversight and control over Mundipharma's supply chain management and European commercialisation activities. The restructuring involved certain commercialisation responsibilities of the European distribution IACs, including Mundipharma A/S, being increasingly centralised. However, it is noted that the only impact of this business reorganisation on Mundipharma A/S through 2015 was an inventory transfer on 31 December 2015, as the reorganisation was made effective on 1 January 2016. Reference is made to note regarding discontinued operations and segmental note.

Financial review

In 2016, the Company's revenue came in at DKK 72,961 thousand against DKK 90,545 thousand last year. The income statement for 2016 shows a profit of DKK 2,386 thousand against DKK 51,521 thousand last year, and the balance sheet at 31 December 2016 shows equity of DKK 55,706 thousand.

Knowledge resources

The Company operates in a very knowledge-intensive industry and is therefore dependent on highly committed employees and executives. Our ambition to be market-leading in our field implies constant focus on developing our employees competences. In doing so, we will be able to adapt to a market under constant change and to expand our activities.

Mundipharma A/S is working actively to develop and utilise employee skills through internal and external courses, and participation in projects with our partners.

Special risks

It is in Management's opinion that the annual report is not affected by unusual risks.

Impact on the external environment

No production activity takes place in Denmark, and most of the Company's products are bought in packaging designed for the Danish market. Drugs and products where the expiry date is exceeded are destroyed in accordance with industry standards.

Research and development activities

During the year under review, significant research and development activities were maintained for new products as well as products to be marketed in future.

Statutory CSR report

Activities in this area in 2016:

Mundipharma A/S wants to ensure a good working environment for employees, both mentally and physically. Risk assessments are carried out and actions are taken on these, for example improvement of workplaces, conference facilities and canteen. Fitness facilities are also offered to all employees.

The Company is making ongoing efforts to improve the employees' well-being. One significant initiative that was taken was in relation to the Company's relocation in 2014 to newly refurbished premises where the employees' well-being and cooperation were highly prioritised. This remains a continuous focus for Mundipharma A/S, as all employees in 2016 were offered assessments of the physical working conditions.

Management's review

Management commentary

It is also Mundipharma A/S' concern that the Company both internally and externally is acting ethically in all respects. If an employee disagrees, then an "ethics code hotline" allows him/her to draw attention to this anonymously. No employees have in 2016 seen the occasion to make use of this hotline.

Mundipharma A/S is committed to preserving the environment and multiple initiatives are implemented to ensure that products are disposed of in an environmentally friendly manner, including destruction of expired medicine, and that environmental pollution and waste are reduced as much as possible.

The distribution and warehousing structure of the export products has been reorganised to reduce the mileage and the effect on the environment.

The Company maintains its focus on innovation and creativity, making a structured strategy development effort to embed innovative measures in the corporate mission and ensure an entrepreneurial spirit in the Company.

Account of the gender composition of Management

The Company is aware of the importance of furthering an equal gender composition at managerial level in the organisation.

The Company has a staff policy that ensures that every single employee is assessed for purposes of further development, irrespective of gender. Development and retention of "high performance and high potential" employees are key to ensure the necessary qualifications and competencies in the Company going forward.

The Company aims at increasing the ratio of female members of the Board of Directors. Currently the Board of Directors consists of 3 men. The Company aims to have one female board member by 2019. Since this objective was adopted, there have not been any vacancies on the board.

As the Company has less than 50 employees, there are no policies for the gender representation in the daily management; however, a balanced representation is aimed for.

Events after the balance sheet date

No events have occurred after the financial year end, which could significantly affect the Company's financial position.

Outlook

The market dynamics in the Danish pharmaceutical market are challenging due to significant pricing and reimbursement risk. This is true especially in the primary care segment, in which the majority of Mundipharma A/S' current business sits. Management does not expect more favorable conditions in the coming years.

The existing promoted portfolio is mature and is expected to reduce significantly within the next years. To counter the eroding existing portfolio, Management is pursuing an active strategy to add assets with a strategic fit to the current portfolio. These efforts have resulted in several late stage negotiations regarding additional assets, which potentially can boost Mundipharma A/S sales in the short and medium term in existing and new therapy areas.

Sales and expenses for 2017 are still expected to be in line with the previously announced information at the budget presentation meeting in November 2017.

From 1 January 2016, Mundipharma A/S has no longer been a central supply chain hub for the Mundipharma network of independent associated companies, which explains the very significant change in revenues and profits. However, Mundipharma A/S remains as domestic distributor for the Danish and Icelandic markets.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK'000	2016	2015
2	Revenue	72,961	90,545
	Cost of sales	-24,775	-46,137
	Other operating income	40	0
	Other external expenses	-24,016	-36,571
	Gross margin	24,210	7,837
3	Staff costs	-21,564	-18,877
4	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-429	-456
	Profit/loss before net financials	2,217	-11,496
	Financial income	1,518	166
	Financial expenses	-331	-4
	Profit/loss from continuing operations before tax	3,404	-11,334
5	Tax for the year	-1,018	-493
	Profit/loss for the year from continuing operations	2,386	-11,827
5.6	Profit/loss after tax from discontinued operations	0	63,348
	Profit for the year	2,386	51,521

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Non-current assets		
7	Intangible assets		
	Acquired intangible assets	372	465
		372	465
8	Property, plant and equipment		
	Other fixtures and fittings, tools and equipment	828	1,164
		828	1,164
	Financial assets		
	Deposits	379	378
11	Deferred tax assets	0	172
		379	550
	Total non-current assets	1,579	2,179
	Current assets		
	Inventories		
	Finished goods and goods for resale	20,014	18,230
		20,014	18,230
	Receivables		
	Trade receivables	34,867	19,378
	Receivables from associates	4,030	0
	Income taxes receivable	715	7,893
	Other receivables	49	23,349
9	Prepayments	419	435
		40,080	51,055
	Cash	85,483	66,134
6	Assets relating to discontinued operations	0	319,814
	Total current assets	145,577	455,233
	TOTAL ASSETS	147,156	457,412

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
10	Share capital	4,500	4,500
	Retained earnings	51,206	48,820
	Dividend proposed for the year	0	75,000
	Total equity	<u>55,706</u>	<u>128,320</u>
	Non-current liabilities		
11	Deferred tax	69	0
	Total non-current liabilities	<u>69</u>	<u>0</u>
	Current liabilities		
	Trade payables	9,148	5,229
	Payables to associates	75,000	0
	Other payables	7,233	73,768
	Deferred income	0	1,800
6	Liabilities relating to discontinued operations	0	248,295
	Total current liabilities	<u>91,381</u>	<u>329,092</u>
	Total liabilities	<u>91,450</u>	<u>329,092</u>
	TOTAL EQUITY AND LIABILITIES	<u><u>147,156</u></u>	<u><u>457,412</u></u>

- 1 Accounting policies
- 12 Contractual obligations and contingencies, etc.
- 13 Collateral
- 14 Related parties
- 15 Fee to the auditors appointed by the Company in general meeting

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Dividend proposed for the year	Total
Equity at				
1 January 2016	4,500	48,820	75,000	128,320
16 Transfer, see				
"Appropriation of profit"	0	2,386	0	2,386
Dividend distributed	0	0	-75,000	-75,000
Equity at				
31 December 2016	4,500	51,206	0	55,706

Financial statements for the period 1 January - 31 December

Cash flow statement

Note	DKK'000	2016	2015
	Profit for the year	2,386	51,521
17	Adjustments	258	11,796
	Cash generated from operations (operating activities)	2,644	63,317
18	Changes in working capital	9,116	-25,015
	Cash generated from operations (operating activities)	11,760	38,302
	Interest received, etc.	1,518	5,200
	Interest paid, etc.	-331	-112
	Income taxes paid	6,402	-15,810
	Cash flows from operating activities	19,349	27,580
	Additions of intangible assets	0	-373
	Additions of property, plant and equipment	0	-235
	Cash flows to investing activities	0	-608
	Net cash flow	19,349	26,972
	Cash and cash equivalents at 1 January	66,134	39,162
19	Cash and cash equivalents at 31 December	85,483	66,134

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Mundipharma A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

Changes in accounting policies

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies the following changes in the recognition and measurement:

1. In future, residual values of property, plant and equipment will be subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land. Consequently, the change is made with future effect only as a change in accounting estimates with no impact on equity. This change does not affect the income statement or the balance sheet for 2016 or the comparative figures.
2. As a consequence of the adoption of this new law, in the income statement of the annual report the Company has presented results of continued operations and results from discontinued operations separately, also for the comparative year of 2015. Key figures for the financial years 2014-2012 have not been adjusted for this. The change to presentation has no impact on the recognition and measurement of assets and liabilities but only the presentation of the discontinued operation.

Apart from the above changes in accounting policy and new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Changes in the entity's activities

From 1 January 2016, Mundipharma A/S has no longer been a central supply chain hub for the Mundipharma network of independent associated companies. The termination of the central supply hub activity is considered a discontinued operation.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

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

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Leases

Leases in respect of which the entity does not bear all significant risks and enjoy all significant benefits associated with the title to the assets are considered operating leases. Payments under operating leases are recognised in the income statement over the term of the lease.

Income statement

Revenue

Income from the sale of goods and finished goods is recognised in revenue at the time of delivery and when the risk passes to the buyer, provided that the income can be determined up reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Other operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of non-current assets.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

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

Acquired intangible assets	7-13 years
----------------------------	------------

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	8 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses, realised and unrealised capital gains and losses relating to exchange gains and losses and amortisation of financial assets and liabilities.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Intangible assets

Intangible assets include acquired product rights.

Intangible assets are measured at cost less accumulated amortisation and impairment losses.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses arising from the sale of items of property, plant and equipment are recognised in the income statement under 'Other operating income' or 'Other operating expenses', respectively. Gains and losses are calculated by reference to the difference between the selling price less selling expenses and the carrying amount at the time of sale.

Impairment of non-current assets

Every year, intangible assets and property, plant and equipment are reviewed for impairment. Where there is indication of impairment, an impairment test is made for each individual asset or group of assets, respectively, generating independent cash flows. The assets are written down to the higher of the value in use and the net selling price of the asset or group of assets (recoverable amount) if it is lower than the carrying amount.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Assets relating to discontinued operations

Assets relating to discontinued operations comprise non-current assets expected to be sold in connection with the discontinued operations and disposal groups, which are defined as a group of assets which are to be disposed of together as a group in a single transaction. Liabilities associated with assets relating to discontinued operations are liabilities directly associated with these assets and which are to be transferred in the transaction. Assets are classified as assets relating to discontinued operations where Management has drawn up a formal plan to sell, close down or abandon the operations concerned and the relevant assets and liabilities can be separated from the continuing operations.

Where the residual amount of assets classified as discontinued operations exceeds the carrying amount, no further amortisation/depreciation charges are recognised.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Equity

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Income taxes

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

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the taxation rules and taxation rates in the respective countries applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the value at which they are expected to be utilised, either through elimination against tax on future earnings or through a set-off against deferred tax liabilities.

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expenses already recorded. The Company has established provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities or similar exposures of the respective countries in which it operates. The amount of such provisions is based on various factors, such as interpretations of tax regulations by the taxable entity, etc. The actual obligation may deviate and be dependent on the outcome of litigations and settlements with the relevant tax authorities.

Other payables

Other payables are measured at net realisable value.

Deferred income

Deferred income recognised as a liability comprises payments received concerning income in subsequent financial reporting years.

Cash flow statement

The cash flow statement shows the Company's net cash flows broken down according to operating, investing and financing activities, the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non cash operating items, changes in working capital and paid corporate income tax.

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

Cash and cash equivalents comprise cash, short term bank loans and short term securities which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Segment information

Information is provided on geographical markets. Segment information is based on the Company's accounting policies, risks and internal financial management.

Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

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

Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$	
Return on assets	$\frac{\text{Profit/loss from operating activities} \times 100}{\text{Average assets}}$	
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$	
Return on equity	$\frac{\text{Profit/loss for the year after tax} \times 100}{\text{Average equity}}$	
DKK'000	<u>2016</u>	<u>2015</u>

2 Segment information

Breakdown of revenue by geographical segment:

Europe, excl. Denmark	0	2,739,769
Denmark	<u>72,961</u>	<u>90,545</u>
	<u>72,961</u>	<u>2,830,314</u>

From 1 January 2016, Mundipharma A/S has no longer been a central supply chain hub for the Mundipharma network of independent associated companies, which explains the very significant change in revenues. In 2016 Mundipharma A/S was solely domestic distributor for the Danish and Icelandic markets. Reference is also made to note regarding discontinued operations.

In the income statement, the above stated revenue from Europe, excl. Denmark, in 2015 is presented as part of the results of discontinued operations. Reference is made to note regarding discontinued operations.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2016	2015
3 Staff costs		
Wages/salaries	19,408	16,178
Pensions	1,904	2,375
Other social security costs	185	281
Other staff costs	67	43
	<u>21,564</u>	<u>18,877</u>
 Average number of full-time employees	 <u>23</u>	 <u>24</u>

By reference to section 98b(3)(ii) of the Danish Financial Statements Act, remuneration to Management is not disclosed.

Staff costs related to the discontinued operation is presented in the note regarding discontinued operations. In 2015, 12 employees were employed with the discontinued operation.

DKK'000	2016	2015
4 Amortisation/depreciation of intangible assets and property, plant and equipment		
Amortisation of intangible assets	93	137
Depreciation of property, plant and equipment	336	319
	<u>429</u>	<u>456</u>
 5 Tax for the year		
Estimated tax charge for the year	777	9,445
Deferred tax adjustments in the year	241	6,981
	<u>1,018</u>	<u>16,426</u>

Of the tax charge for the year 2015, DKK 15,933 thousand related to the discontinued operation and DKK -493 thousand related to the continued operation.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

6 Profit from discontinued operations

As a result of the challenging outlook for Mundipharma A/S and the other local European distributors, the Mundipharma network has decided as at 31 December 2015 to reorganise its business to drive efficiencies and to allow for greater planning, oversight and control over Mundipharma's supply chain management and European commercialisation activities. The restructuring involved certain commercialisation responsibilities of the European distribution IACs, including Mundipharma A/S, being increasingly centralised. However, it is noted that the only impact of this business reorganisation on Mundipharma A/S through 2015 was an inventory transfer on 31 December 2015, as the reorganisation was made effective on 1 January 2016. Thus, the Company had no discontinued operations in 2016.

Revenue from discontinued operations relates to the geographical segment Europe, excl. Denmark.

Profit from discontinued operations is broken down on main items below:

DKK'000	2016	2015
Revenue	0	2,739,769
Cost of sales	0	-2,517,370
Other external expenses	0	-132,561
Staff costs	0	-15,483
Financial income	0	5,034
Financial expenses	0	-108
Profit before tax	0	79,281
Tax on profit/loss	0	-15,933
Profit after tax from discontinued operations	0	63,348

Assets and liabilities regarding discontinued operations 2016

DKK'000	2016	2015
Receivables relating to discontinued operations	0	319,814
Assets relating to discontinued operations	0	319,814
Payables relating to discontinued operations	0	248,295
Liabilities relating to discontinued operations	0	248,295
Net assets relating to discontinued operations	0	71,519

7 Intangible assets

DKK'000	Acquired intangible assets
Cost at 1 January 2016	27,856
Additions in the year	0
Disposals in the year	0
Cost at 31 December 2016	27,856
Impairment losses and amortisation at 1 January 2016	27,391
Amortisation in the year	93
Impairment losses and amortisation at 31 December 2016	27,484
Carrying amount at 31 December 2016	372

Financial statements for the period 1 January - 31 December

Notes to the financial statements

8 Property, plant and equipment

DKK'000	<u>Other fixtures and fittings, tools and equipment</u>
Cost at 1 January 2016	1,630
Additions in the year	0
Disposals in the year	0
Cost at 31 December 2016	<u>1,630</u>
Impairment losses and depreciation at 1 January 2016	466
Depreciation in the year	336
Impairment losses and depreciation at 31 December 2016	<u>802</u>
Carrying amount at 31 December 2016	<u>828</u>
Amortised over	<u>3-8 years</u>

9 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years:

- ▶ Prepaid insurance, DKK 85 thousand (2015: DKK 151 thousand)
- ▶ Prepaid leasing, DKK 111 thousand (2015: DKK 133 thousand)
- ▶ Other prepayments, DKK 223 thousand (2015: DKK 151 thousand)

DKK'000	<u>2016</u>	<u>2015</u>
10 Share capital		
Analysis of the share capital:		
4,500 shares of DKK 1,000.00 nominal value each	4,500	4,500
	<u>4,500</u>	<u>4,500</u>

The Company's share capital has remained DKK 4,500 thousand in the past year.

DKK'000	<u>2016</u>	<u>2015</u>
11 Deferred tax		
Deferred tax relates to:		
Intangible assets	-7	-32
Property, plant and equipment	-16	-16
Liabilities	0	-220
Other taxable temporary differences	92	96
	<u>69</u>	<u>-172</u>

Financial statements for the period 1 January - 31 December

Notes to the financial statements

12 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2016	2015
Rent and lease liabilities	7,081	9,360

13 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2016.

14 Related parties

Mundipharma A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Halm, SARL	Luxembourg	Participating interest
Jonathan D. Sackler as Trustee	USA	Participating interest
Dr. Richard S. Sackler as Trustee	USA	Participating interest

Related party transactions

Mundipharma A/S was engaged in the below related party transactions:

DKK'000	2016	2015
Sales of finished goods	0	707,499
Purchase cost of goods	0	2,464,719
Royalty	0	69,855
Other costs	41	466,052
Receivables from associated companies	0	64,877
Payables to associated companies	0	150,408

DKK'000	2016	2015
---------	------	------

15 Fee to the auditors appointed by the Company in general meeting

Statutory audit	233	234
Tax assistance	166	311
Other assistance	396	253
	795	798

16 Appropriation of profit/loss

Recommended appropriation of profit

Proposed dividend recognised under equity	0	75,000
Retained earnings/accumulated loss	2,386	-23,479
	2,386	51,521

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2016	2015
17 Adjustments		
Amortisation/depreciation and impairment losses	429	456
Financial income	-1,518	-5,200
Financial expenses	331	112
Tax for the year	1,018	16,426
Other adjustments	-2	2
	<u>258</u>	<u>11,796</u>
18 Changes in working capital		
Change in inventories	-1,784	298,665
Change in receivables	302,872	-217,737
Change in trade and other payables	-291,972	-105,943
	<u>9,116</u>	<u>-25,015</u>
19 Cash and cash equivalents at year-end		
Cash according to the balance sheet	85,483	66,134
	<u>85,483</u>	<u>66,134</u>