

Paranova Group A/S
Marielundvej 46 D, 2. sal, 2730 Herlev

Company reg. no. 18 13 94 80

Annual report

1 January - 31 December 2015

The annual report has been submitted and approved by the general meeting on the 29 April 2016.

Erik B. Pfeiffer
Chairman of the meeting

Notes to users of the English version of this document:

- To ensure the greatest possible applicability of this document, British English terminology has been used.
- Please note that decimal points remain unchanged from the Danish version of the document. This means that for instance DKK 146.940 is the same as the English amount of DKK 146,940, and that 23,5 % is the same as the English 23.5 %.

Contents

	<u>Page</u>
Reports	
Management's report	1
The independent auditor's reports	2
Management's review	
Company data	4
Group enterprises	5
Consolidated financial highlights	6
Management's review	7
Consolidated annual accounts and annual accounts 1 January - 31 December 2015	
Profit and loss account	9
Balance sheet	10
Cash flow statement	12
Notes	13
Accounting policies used	20

Management's report

The board of directors and the managing director have today presented the annual report of Paranova Group A/S for the financial year 1 January to 31 December 2015.

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

We consider the accounting policies used appropriate, and in our opinion, the consolidated annual accounts and the annual accounts provide a true and fair view of the assets, the liabilities and the financial position, consolidated and for the company respectively as on 31 December 2015, and of the results of the activities, consolidated and of the company respectively and of consolidated cash flows in the financial year 1 January to 31 December 2015.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

The annual report is recommended for approval by the general meeting.

Herlev, 29 April 2016

Managing Director

Dirk Andreas Oltersdorf

Board of directors

Erik Bernhard Pfeiffer
Chairman

Dirk Andreas Oltersdorf

Hans-Joachim Oltersdorf

The independent auditor's reports

To the shareholders of Paranova Group A/S

Report on the consolidated annual accounts and the annual accounts

We have audited the consolidated annual accounts and the annual accounts of Paranova Group A/S for the financial year 1 January to 31 December 2015, which comprise accounting policies used, profit and loss account, balance sheet and notes, consolidated and for the company respectively and consolidated cash flow statement. The consolidated annual accounts and the annual accounts are prepared in accordance with the Danish Financial Statements Act.

The management's responsibility for the consolidated annual accounts and the annual accounts

The management is responsible for the preparation of consolidated annual accounts and annual accounts that give a true and fair view in accordance with the Danish Financial Statements Act. Furthermore, the management is responsible for such internal control as it determines necessary in order to prepare consolidated annual accounts and annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated annual accounts and the annual accounts based on our audit. We conducted our audit in accordance with international standards on auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts and the annual accounts are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts and the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements in the consolidated annual accounts and the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of consolidated annual accounts and annual accounts that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as the overall presentation of the consolidated annual accounts and the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The audit has not resulted in any qualification.

The independent auditor's reports

Opinion

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets, liabilities and financial position, consolidated and for the company respectively at 31 December 2015 and of the results of the company's operations, consolidated and for the company respectively and of consolidated cash flows for the financial year 1 January to 31 December 2015 in accordance with the Danish Financial Statements Act.

Reports on other legal and regulatory requirements

Emphasis of matter paragraph on other matters

Without modifying our opinion, we draw attention to note 1, which states, that the Company has received a letter of support from the parent Company MPA Pharma GmbH, stating that MPA Pharma GmbH guarantees that the Company has the necessary capital resources and liquidity available until at least 31 December 2016.

Statement on the management's review

Pursuant to the Danish Financial Statements Act, we have read the management's review. We have not performed any further procedures in addition to the audit of the consolidated annual accounts and the annual accounts. On this basis, it is our opinion that the information provided in the management's review is consistent with the consolidated annual accounts and the annual accounts.

Copenhagen, 29 April 2016

AP | Statsautoriserede Revisorer P/S

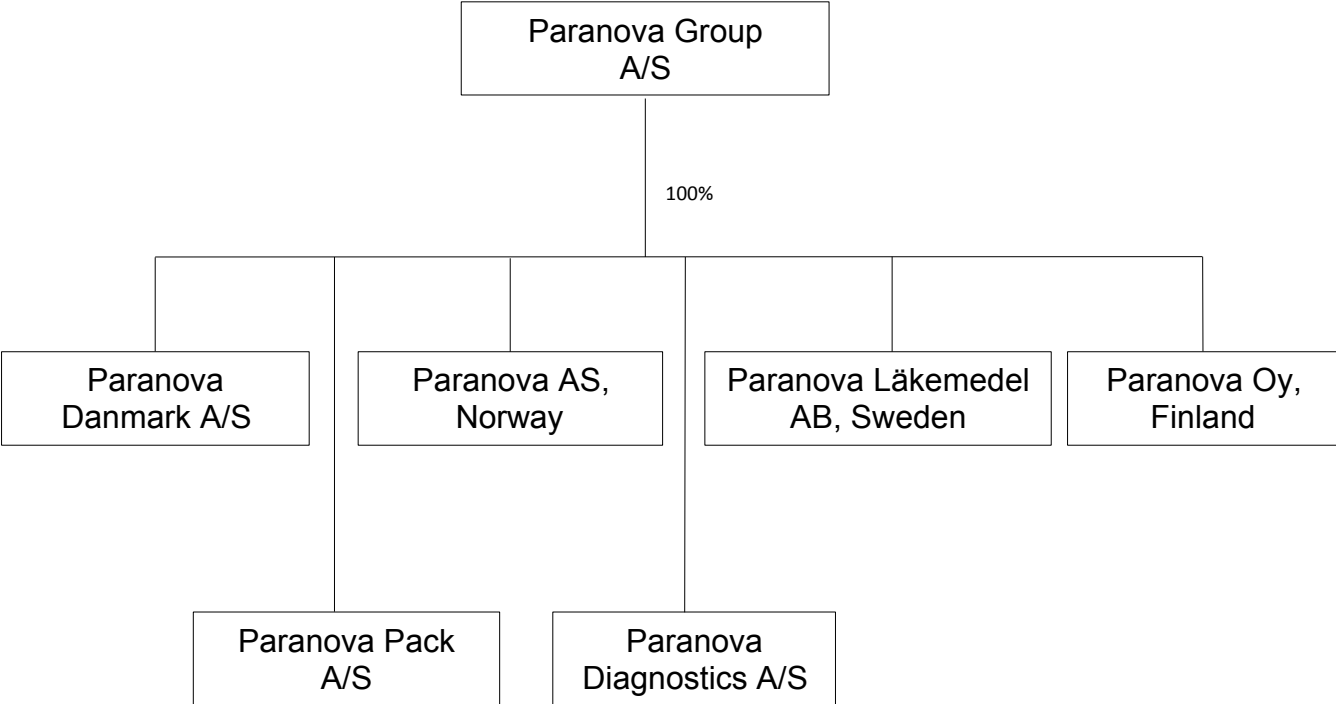
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Jan Nygaard
State Authorised Public Accountant

Company data

The company	Paranova Group A/S Marielundvej 46 D, 2. sal 2730 Herlev Phone: +45 44 66 32 00 Company reg. no.: 18 13 94 80 Established: 14 October 1994 Domicile: Herlev Financial year: 1 January - 31 December
Board of directors	Erik Bernhard Pfeiffer, Chairman Dirk Andreas Oltersdorf Hans-Joachim Oltersdorf
Managing Director	Dirk Andreas Oltersdorf
Auditors	AP Statsautoriserede Revisorer P/S
Parent company	MPA Pharma GmbH
Subsidiaries	Paranova Pack A/S, Denmark Paranova Danmark A/S, Denmark Paranova Diagnostics A/S, Denmark Paranova AS, Norway Paranova Läkemedel AB, Sweden Paranova Oy, Finland

Group Structure



Consolidated financial highlights

DKK in thousands.	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Profit and loss account:					
Net turnover	1.106.159	1.159.950	1.038.210	787.215	345.594
Gross profit	37.161	37.708	53.539	53.771	14.241
Results from operating activities	1.401	3.525	22.324	26.950	-10.570
Net financials	-8.923	-1.757	-4.466	-11.869	-6.796
Results for the year	-6.116	2.026	8.943	10.106	-12.402
Balance sheet:					
Balance sheet sum	324.798	427.273	405.693	383.522	218.614
Equity	-19.835	-12.312	-14.394	-23.438	-33.997
Cash flow:					
Operating activities	95.757	-27.292	24.075	-18.048	-2.627
Investment activities	-10.172	-8.309	-10.661	-8.796	-5.526
Financing activities	0	0	0	-20.000	0
Cash flow in total	85.585	-35.601	13.414	-46.844	-8.153
Employees:					
Average number of full time employees	50	46	45	42	38
Key figures in %: *)					
Gross margin	3,4	3,3	5,2	6,8	4,1
Profit margin	0,1	0,3	2,2	3,4	-3,1

*) The key figures have been laid out in accordance with the publication "Anbefalinger & Nøgletal 2015" ("Recommendations & Key Figures 2015") published by the CFA Society Denmark. As to definitions, please see the section on accounting policies used.

Management's review

The principal activities of the group

The parent company has no activity besides being holding company for the subsidiaries within the group. The main activity of the Group is distribution of parallel imported pharmaceuticals.

Development in activities and financial matters

The revenue for the year is DKK 1,106 m against DKK 1,160 m last year. The results from ordinary activities after tax are DKK -6,1m against DKK 1,7m last year.

The result is negatively affected by the decline of foreign currencies in combination with a change in the management board. The new management board has reviewed all relevant business processes and based on this a new strategy has been build up. The new organization is in place since 1st January 2016. The management considers the results unsatisfactory under the market conditions present in 2015

The Company has lost the entire share capital. The Executive Board expects that the share capital will be re-established through future profit and/or by debt conversion.

The Company has received a letter of support from the Company's ultimate parent, MPA Pharma GmbH, stating that MPA Pharma GmbH guarantees that the Company has the necessary capital resources and liquidity available until at least 31 December 2016.

Special risks

Price and currency risks

A significant share of the sourcing is in foreign currencies. Part of this hedged through currency contracts, but there is a risk involved for the remaining unhedged part. It is company policy to hedge commercial currency risk. The Company does not engage in speculative currency positions.

Interest risks

The Company's interest-bearing receivables and debt substantially relate to balances with group enterprises that carry interest according to concluded agreements. The Company's most significant risk relates to foreign currency adjustments of balances that are booked in local currencies.

The expected development

With the new strategy and optimized processes the Company expects a sustainable improved positive result for 2016.

Events subsequent to the financial year

No events have occurred subsequent to the balance sheet date, which would have material impact on the financial position of the company.

Management's review

Statutory statement of corporate social responsibility, cf. the Danish Financial Statements Act, section 99 a

With reference to the Danish Financial Statements Act – article 99 a the company can declare that it has established policies for Corporate Social Responsibility – including human rights, social responsibility, environmental- and climate responsibility and anti- corruption measures.

Paranova is importing, repackaging and distributing pharmaceutical products that have been marketed by respected pharmaceutical companies within The European Union. Paranova has no control or impact on the manufacturing of the active ingredients or the finished dosage forms. Paranova does however seek to stay informed about the manufacturers policies for CSR on a general level and in special cases also on product level.

Paranova has established standard terms for its suppliers whereby these must establish and follow their own policies for Corporate Social Responsibility – which must as a minimum follow the international conventions ILO 29, 87, 98, 100, 105, 111, 138 and 182 in addition to UN convention on the rights of the children.

Paranova is a founding sponsor of the orphanage for girls ENABLE (www.enable.dk) in south eastern India and maintains an active role on board level in the management of the orphanage. Paranova's employees are supporting a local charity for Children with Cancer.

Paranova aims at reducing its global footprint through internal policies for waste recycling, energy efficiency and preference for products with no or little environmental impact. Paranova has acquired CO2 quotas to offset its CO2 footprint.

Paranova is actively cooperating with the local authorities in bringing unemployed back to the labor market through job training.

Target figures and policies for the under-represented sex

Paranova Group A/S currently has no women on its board of directors. The board consists of 3 members, and due to the ownership structure of the group, the members are primarily shareholders in the group.

The target figure for the group for the under-represented sex is to increase the representation of women to 25% within the following 4 years. The group will continue its recruitment initiatives with the aim to engaging qualified women board members.

Profit and loss account 1 January - 31 December

DKK in thousands.

<u>Note</u>	Group		Parent enterprise		
	2015	2014	2015	2014	
2	Net turnover	1.106.159	1.159.950	0	0
	Raw materials and consumables used	-1.048.527	-1.102.620	0	0
	Other external costs	-20.471	-19.622	-161	-176
	Gross results	37.161	37.708	-161	-176
3	Staff costs	-27.149	-26.002	0	0
	Depreciation, amortisation and writedown relating to tangible and intangible fixed assets	-8.611	-8.181	-13	-49
	Operating profit	1.401	3.525	-174	-225
	Income from equity investments in group enterprises	0	0	-3.933	3.374
	Other financial income	22	7.109	442	576
4	Other financial costs	-8.945	-8.866	-1.826	-2.477
	Results before tax	-7.522	1.768	-5.491	1.248
	Tax on ordinary results	1.406	258	-625	478
	Results for the year	-6.116	2.026	-6.116	1.726
Proposed distribution of the results:					
	Allocated to results brought forward			0	1.726
	Allocated from results brought forward			-6.116	0
	Distribution in total			-6.116	1.726

Balance sheet 31 December

DKK in thousands.

Assets

Note	Group		Parent enterprise	
	2015	2014	2015	2014
Fixed assets				
5	11.593	9.473	0	0
6	0	0	0	0
	<u>11.593</u>	<u>9.473</u>	<u>0</u>	<u>0</u>
7	585	779	0	0
8	0	26	0	12
	<u>585</u>	<u>805</u>	<u>0</u>	<u>12</u>
9	0	0	95.787	102.978
	32.216	31.047	6.375	6.220
	<u>32.216</u>	<u>31.047</u>	<u>102.162</u>	<u>109.198</u>
	44.394	41.325	102.162	109.210
Current assets				
	28.223	79.168	0	0
	85.966	118.621	0	0
	22.438	32.335	0	0
	<u>136.627</u>	<u>230.124</u>	<u>0</u>	<u>0</u>
	136.993	148.308	0	0
	2.445	2.904	3.492	6.507
	0	0	2.445	0
	2.531	239	937	0
	538	1.736	0	830
	1.270	1.266	0	0
	<u>143.777</u>	<u>154.453</u>	<u>6.874</u>	<u>7.337</u>
	0	1.371	111	126
	280.404	385.948	6.985	7.463
	324.798	427.273	109.147	116.673

Balance sheet 31 December

DKK in thousands.

Equity and liabilities

Note	Group		Parent enterprise	
	2015	2014	2015	2014
Equity				
10	28.300	28.300	28.300	28.300
11	-48.135	-40.612	-48.135	-40.612
	-19.835	-12.312	-19.835	-12.312
Provisions				
	1.449	1.651	0	0
	0	0	2.650	2.932
	1.449	1.651	2.650	2.932
Liabilities				
	57.500	57.500	45.000	45.000
	57.500	57.500	45.000	45.000
	0	86.956	111	0
	19.289	15.141	225	225
	203.024	236.726	80.940	80.161
	3.138	820	0	514
	60.233	40.791	56	153
	285.684	380.434	81.332	81.053
	343.184	437.934	126.332	126.053
	324.798	427.273	109.147	116.673

12 Fee, auditor

13 Contingencies

14 Related parties

Cash flow statement 1 January - 31 December

DKK in thousands.

<u>Note</u>	Group	
	2015	2014
Results for the year	-6.116	2.026
15 Adjustments	16.128	9.680
16 Change in working capital	96.376	-37.370
Cash flow from operating activities before net financials	106.388	-25.664
Interest received and similar amounts	22	7.109
Interest paid and similar amounts	-8.945	-8.866
Cash flow from ordinary activities	97.465	-27.421
Corporate tax paid	-1.381	-227
Other cash flows from operating activities	-327	356
Cash flow from operating activities	95.757	-27.292
Purchase of intangible fixed assets	-10.172	-7.629
Sale of intangible fixed assets	0	-680
Cash flow from investment activities	-10.172	-8.309
Repayments of long-term debt	0	0
Cash flow from financing activities	0	0
Changes in available funds	85.585	-35.601
Available funds 1 January 2015	-85.585	-49.984
Available funds 31 December 2015	0	-85.585
Available funds		
Cash funds	0	1.371
Short-term bank debts	0	-86.956
Available funds 31 December 2015	0	-85.585

Notes

DKK in thousands.

1. Uncertainties concerning the enterprise's ability to continue as a going concern

Paranova Group A/S has received a letter of support from the Company's ultimate parent, MPA Pharma GmbH, stating that MPA Pharma GmbH guarantees that the Company has the necessary capital resources and liquidity available until at least 31 December 2016.

	Group	
	2015	2014
2. Net turnover		
Sales in Denmark	399.111	352.823
Sales abroad	707.048	807.127
	1.106.159	1.159.950

	Group	
	2015	2014
3. Staff costs		
Salaries and wages	21.975	20.525
Pension costs	2.563	3.393
Other costs for social security	1.275	624
Other staff costs	1.336	1.460
	27.149	26.002
Average number of employees	50	46

	Group		Parent enterprise	
	2015	2014	2015	2014
4. Other financial costs				
Financial costs, group enterprises	4.290	6.366	1.789	2.371
Other financial costs	4.655	2.500	37	106
	8.945	8.866	1.826	2.477

Notes

DKK in thousands.

	Group	
	31/12 2015	31/12 2014
5. Patents and licenses		
Cost 1 January 2015	25.854	42.571
Translation by use of the exchange rate valid on balance sheet date 31 December 2015	235	-1.198
Additions during the year	10.172	7.629
Disposals during the year	-5.190	-23.148
Cost 31 December 2015	31.071	25.854
Amortisation and writedown 1 January 2015	-16.381	-32.532
Translation by use of the exchange rate valid on balance sheet date 31 December 2015	-174	785
Amortisation for the year	-8.111	-7.782
Amortisation and writedown, assets disposed of	5.188	23.148
Amortisation and writedown 31 December 2015	-19.478	-16.381
Book value 31 December 2015	11.593	9.473
6. Production plant and machinery		
Cost 1 January 2015	658	658
Cost 31 December 2015	658	658
Depreciation and writedown 1 January 2015	-658	-658
Depreciation and writedown 31 December 2015	-658	-658
Book value 31 December 2015	0	0

Notes

DKK in thousands.

	Group		Parent enterprise	
	31/12 2015	31/12 2014	31/12 2015	31/12 2014
7. Other plants, operating assets, and fixtures and furniture				
Cost 1 January 2015	3.697	3.080	187	187
Additions during the year	279	680	0	0
Disposals during the year	-221	-63	0	0
Cost 31 December 2015	3.755	3.697	187	187
Amortisation and writedown 1 January 2015	-2.918	-2.529	-187	-187
Translation by use of the exchange rate valid on balance sheet date 31 December 2015	0	2	0	0
Depreciation for the year	-473	-454	0	0
Depreciation and impairment, assets disposed of	221	63	0	0
Amortisation and writedown 31 December 2015	-3.170	-2.918	-187	-187
Book value 31 December 2015	585	779	0	0
	Group		Parent enterprise	
	31/12 2015	31/12 2014	31/12 2015	31/12 2014
8. Decoration rented premises				
Cost 1 January 2015	1.404	1.404	244	244
Cost 31 December 2015	1.404	1.404	244	244
Depreciation and writedown 1 January 2015	-1.378	-1.293	-231	-183
Depreciation for the year	-26	-85	-13	-49
Depreciation and writedown 31 December 2015	-1.404	-1.378	-244	-232
Book value 31 December 2015	0	26	0	12

Notes

DKK in thousands.

	Parent enterprise	
	31/12 2015	31/12 2014
9. Equity investments in group enterprises		
Acquisition sum, opening balance 1 January 2015	43.703	43.703
Cost 31 December 2015	43.703	43.703
Revaluations, opening balance 1 January 2015	44.134	40.413
Translation by use of the exchange rate valid on balance sheet date	562	-1.061
Results for the year before goodwill amortisation	-3.933	3.374
Other adjustments	-1.892	1.408
Other movements in capital 2	-1.115	0
Revaluation 31 December 2015	37.756	44.134
Offsetting against receivables	11.678	12.209
Transferred to provisions	2.650	2.932
Set off against debtors and provisions for liabilities	14.328	15.141
Book value 31 December 2015	95.787	102.978

Group enterprises:

	Domicile	Share of ownership
Paranova Pack A/S	Denmark	100 %
Paranova Danmark A/S	Denmark	100 %
Paranova Diagnostics A/S	Denmark	100 %
Paranova AS	Norway	100 %
Paranova Läkemedel AB	Sweden	100 %
Paranova Oy	Finland	100 %

10. Contributed capital

Contributed capital 1 January 2015	28.300	28.300	28.300	28.300
	28.300	28.300	28.300	28.300

The share capital consists of 28.300 shares, each with a nominal value of DKK 1. No shares hold particular rights.

Notes

DKK in thousands.

	Group		Parent enterprise	
	31/12 2015	31/12 2014	31/12 2015	31/12 2014
11. Results brought forward				
Results brought forward 1 January 2015	-40.612	-42.694	-40.959	-42.694
Profit or loss for the year brought forward	-6.116	2.026	-6.116	1.726
Exchange adjustment	485	-1.352	-576	-1.052
Financial instruments	-1.892	1.408	-484	1.408
	<u>-48.135</u>	<u>-40.612</u>	<u>-48.135</u>	<u>-40.612</u>
12. Fee, auditor				
Total fee for AP Statsautoriserede Revisorer P/S	404	599	55	173
	<u>404</u>	<u>599</u>	<u>55</u>	<u>173</u>
Fee concerning compulsory audit	306	464	55	156
Tax consultancy	0	24	0	14
Other services	98	111	0	3
	<u>404</u>	<u>599</u>	<u>55</u>	<u>173</u>

13. Contingencies

Contingent liabilities

The group has rent obligations with an average annual payment of DKK 530 thousand. The total obligations is DKK 530 thousand.

Operational leasing

In addition to financial leasing contracts, the company has entered into operational leasing contracts with an average annual leasing payment of DKK 1,518. The leasing contracts have 12-36 months left to run, and the total outstanding leasing payment is DKK 3.193.

Joint taxation

The company is the administration company of the group of companies subject to the Danish scheme of joint taxation and unlimited jointly and severally liable with the other jointly taxed companies for the total corporation tax.

Notes

DKK in thousands.

13. Contingencies (continued)

Joint taxation (continued)

The company is unlimited jointly and severally liable with the other jointly taxed companies for any obligation to withhold tax on interest, royalties and dividends.

The liability relating to obligations in connection with corporation tax represents an estimated maximum of DKK 0 thousand. The liability relating to obligations in connection with withholding taxes represents an estimated maximum of DKK 0 thousand.

Any subsequent adjustments of corporate taxes or withheld taxes etc. may cause changes in the company's liabilities.

14. Related parties

Ownership

According to the company's list of shareholders, the following shareholders own a minimum of 5 % of the voting rights or a minimum of 5 % of the share capital:

MPA Pharma Gmbh, Trittau, Germany

Chista Consult ApS, Hellerup, Denmark

Notes

DKK in thousands.

	Group	
	<u>2015</u>	<u>2014</u>
15. Adjustments		
Depreciation and amortisation	8.611	8.181
Income from equity investments in group enterprises	0	0
Other financial income	-22	-7.109
Other financial costs	8.945	8.866
Tax on ordinary results	-1.406	-258
	<u>16.128</u>	<u>9.680</u>
16. Change in working capital		
Change in inventories	93.497	-29.695
Change in debtors	10.676	-5.691
Change in trade creditors and other liabilities	-7.797	-1.984
	<u>96.376</u>	<u>-37.370</u>

Accounting policies used

The annual report for Paranova Group A/S is presented in accordance with those regulations of the Danish Financial Statements Act concerning companies identified as class C enterprises (large enterprises).

The accounting policies used are unchanged compared to last year, and the annual accounts are presented in Danish kroner (DKK).

The consolidated annual accounts

The consolidated annual accounts comprise the parent company Paranova Group A/S and those group enterprises of which Paranova Group A/S directly or indirectly owns more than 50 % of the voting rights or in other ways has controlling interest. As it appears from the group chart, enterprises of which the group owns between 20 and 50 % of the voting rights and exercises considerable, but not controlling interest are considered associated enterprises.

By the consolidation, elimination of intercompany income and costs, shareholding, intercompany balances and dividends and realised and unrealised gains and losses from transactions among the consolidated enterprises takes place.

Equity interests in group enterprises are settled by the proportional share of the group enterprises' trade value of net assets and liabilities at the date of acquisition.

Newly acquired or newly established enterprises are recognised in the consolidated annual accounts as of the date of acquisition. Disposed or terminated enterprises are recognised in the consolidated annual accounts until the date of disposal. In relation to newly acquired, disposed or terminated enterprises, comparative figures are not adjusted.

By the takeover of new enterprises, the acquisition method is used, which means that the identified assets and liabilities of the newly acquired enterprises are measured at their fair value at the date of acquisition. Provisions are made for covering the costs of decided and published restructurings of the acquired enterprise in relation to the acquisition.

The positive difference (goodwill) between cost and fair value of taken-over, identified assets and liabilities, including provisions for restructuring, are recognised under intangible fixed assets and amortised systematically in the profit and loss account after an individual evaluation of their financial lifetime, however, with a maximum of 20 years. Negative differences (negative goodwill) which reflects an expected adverse development in the relevant enterprises are recognised in the balance sheet under accruals and recognised in the profit and loss account concurrently with the adverse development being realised. In relation to negative goodwill not concerning expected adverse development, an amount corresponding to the fair value of non-monetary assets is recognised in the balance sheet. Subsequently, the non-monetary assets are recognised in the profit and loss account over their average lifetime.

Goodwill and negative goodwill from acquired enterprises may be adjusted until the end of the year after the year of acquisition.

Accounting policies used

Gains or losses from the disposal or termination of group enterprises or associated enterprises are recognised as the difference between the sales price or the termination sum and the book value of the net assets at the sales date and expected costs of sale or termination.

The profit and loss account

Net turnover

The net turnover is recognised in the profit and loss account if delivery and risk transfer to the buyer have taken place before the end of the year, and if the income can be determined reliably and is expected to be received. The net turnover is recognised exclusive of VAT and taxes and with the deduction of any discounts granted in connection with the sale.

Cost of sales

Cost of sales include costs for the purchase of raw materials and consumables less discounts and changes in inventories.

Other external costs

Other external costs comprise costs for distribution, sales, advertisement, administration, premises, loss on debtors, and operational leasing costs.

Staff costs

Staff costs include salaries and wages including holiday allowances, pensions and other costs for social security etc. for staff members. Staff costs are less public reimbursements.

Depreciation, amortisation and writedown

Depreciation, amortisation and writedown comprise depreciation on, amortisation of and writedown relating to intangible and tangible fixed assets respectively.

Net financials

Net financials include interest income, interest expenses, and realised and unrealised capital gains and losses on financial assets and liabilities. Net financials are recognised in the profit and loss account with the amounts concerning the financial year.

Interest and other costs concerning loans for financing the production of intangible and tangible fixed assets and concerning the production period are not recognised in the cost of the fixed asset.

Results from equity investments in group enterprises

After full elimination of intercompany profit or loss and deduction of amortisation of consolidated goodwill, the equity investment in the individual group enterprises are recognised in the profit and loss account at a proportional share of the group enterprises' results after tax.

Accounting policies used

Tax of the results for the year

The tax for the year comprises the current tax for the year and the changes in deferred tax, and it is recognised in the profit and loss account with the share referring to the results for the year and directly in the equity with the share referring to entries directly on the equity.

The parent enterprise and the Danish group enterprises are subject to the Danish rules on compulsory joint taxation of the consolidated Danish enterprises. The parent enterprise acts as an administration company in relation to the joint taxation. This means that the total Danish tax payable of the income of the Danish consolidated companies is paid to the tax authorities by the company.

The current Danish corporate tax is allocated among the jointly taxed companies in proportion to their respective taxable income (full allocation with reimbursement of tax losses).

The balance sheet

Intangible fixed assets

Development projects, patents, and licences

Patents and licenses are measured at cost with deduction of accrued amortisation. Patents are amortised on a straight-line basis over the remaining patent period, and licenses are amortised over the contract period, however, for a maximum of 10 years.

Profit and loss from the realisation of development projects, patents, and licenses are measured as the difference between the sales price with deduction of sales costs and the book value at the time of the sale. Profit or losses are recognised in the profit and loss account as other operating income or other operating expenses.

Tangible fixed assets

Tangible fixed assets are measured at cost with deduction of accrued depreciation and writedown. Land is not depreciated.

The basis of depreciation is cost with deduction of expected residual value after the end of the useful life of the asset.

The cost comprises the acquisition cost and costs directly attached to the acquisition until the time when the asset is ready for use.

Depreciation takes place on a straight line basis and based on an evaluation of the expected useful life:

Technical plants and machinery	5 years
Other plants, operating assets, fixtures and furniture	3-5 years

Minor assets with an expected useful life of less than 1 year are recognised as costs in the profit and loss account in the year of acquisition.

Accounting policies used

Profit or loss deriving from the sales of tangible fixed assets is measured as the difference between the sales price reduced by the selling costs and the book value at the time of the sale. Profit or losses are recognised in the profit and loss account as other operating income or other operating expenses.

As regards self-constructed assets, the cost comprises costs for materials, components, deliveries from sub suppliers, direct wages expenditure, and indirect production costs.

Decoration of rented premises

Decoration of rented premises are measured at cost with deduction of accrued depreciation. Depreciation takes place on a straight-line basis over the estimated useful life of the asset, which is set at 5 years.

Financial fixed assets

Equity investments in group enterprises

Equity investments in group enterprises are recognised in the balance sheet at a proportional share under the equity method, the value being calculated on the basis of the accounting policies of the parent company by the deduction or addition of unrealised intercompany profits and losses, and with the addition or deduction of residual value of positive or negative goodwill measured by applying the acquisition method.

Group enterprises and associated enterprises with negative equity are recognised without any value, and to the extent they are considered irrevocable, amounts owed by these companies are written down by the parent's share of the equity. If the negative equity exceeds the debtors, the residual amount is recognised under liability provisions to the extent the parent has a legal or actual liability to cover the negative equity of the subsidiary.

To the extent the equity exceeds the cost, the net revaluation of equity investments in group enterprises are transferred to the reserves under the equity for net revaluation as per the equity method. Dividends from group enterprises expected to be decided before the approval of this annual report are not subject to a limitation of the revaluation reserves. The reserves are adjusted by other equity movements in group enterprises.

Newly taken over or newly established companies are recognised in the annual accounts as of the time of acquisition. Sold or liquidated companies are recognised at the time of cession.

Profit or loss in connection with the sale of group enterprises are measured as the difference between the sales amount and the book value of net assets at the time of the sale, inclusive of remaining consolidated goodwill and expected costs for sale and cession. Profit and loss are recognised in the profit and loss account under net financials.

Accounting policies used

In connection with the take over of new group enterprises and associated enterprises, the acquisition method is applied, by which the taken over companies' assets and liabilities are measured at fair value at the time of take over. Provisions are made for covering costs in connection with decided restructuring projects in the taken over enterprise in connection with the take-over. The tax effect of the revaluation carried out is taken into consideration, cf. the below description of goodwill.

Positive differences (goodwill) between the acquisition value and the fair value of the assets and liabilities taken over, inclusive of liability provisions for restructuring, are recognised under equity investments in group enterprises, and they are amortised over the estimated financial life. The financial life is determined on the basis of the management's experience with the individual business areas. The amortisation period is maximum 20 years, being the longer for strategically taken over companies with a strong market position and a long range earnings potential. The book value of goodwill is evaluated currently and written down in the profit and loss account in those cases where the book value exceeds the expected future net income from the enterprise or the activity, to which the goodwill is attached.

Inventories

Inventories are measured at cost on basis of the FIFO method. In case the net realisable value of the inventories is lower than the cost, writedown takes place to this lower value.

The cost for trade goods, raw materials, and consumables comprises the acquisition cost with the addition of the delivery costs.

The cost for manufactured goods comprises the cost for raw materials, consumables, direct wages, and indirect production costs. Indirect production costs comprise indirect materials and wages, maintenance of and depreciation on machinery, factory buildings and equipment applied during the production process, and costs for factory administration and factory management. Borrowing costs are not recognised in cost.

The net realisable value for inventories is recognised as the market price with deduction of completion costs and selling costs. The net realisable value is determined taking into consideration the negotiability, obsolescence, and development of the expected market price.

Debtors

Debtors are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, writedown takes place at the net realisable value.

Accrued income and deferred expenses

Accrued income and deferred expenses recognised under assets comprise incurred costs concerning the next financial year.

Available funds

Available funds comprise cash at bank and in hand.

Accounting policies used

Corporate tax and deferred tax

Current tax receivable and tax liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years' taxable income and prepaid taxes. Tax receivable and tax liabilities are set off to the extent that legal right of set-off exists and if the items are expected to be settled net or simultaneously.

Paranova Group A/S is jointly taxed with the Danish group companies and acts in this respect as the administration company. According to the rules of joint taxation, Paranova Group A/S is unlimited, jointly and severally liable towards the Danish tax authorities for the total corporation tax, including withholding tax on interest, royalties and dividends, arising within the jointly taxed group of companies.

Payable and receivable joint taxation contributions are recognised in the balance sheet as "Receivable corporate tax" or "Payable corporate tax".

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus.

Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as current tax. In the period 2014 to 2016, the corporate tax rate will be reduced gradually from 25 % to 22 %, which will affect the deferred tax liabilities and deferred tax assets. Unless a recognition with a different tax rate than 22 % will result in a significant material deviation in the estimated deferred tax liability or tax asset, deferred tax liabilities and assets are recognised by 22 %.

Liabilities

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

The cash flow statement

The cash flow statement shows the cash flow of the group for the year, divided in cash flows deriving from operating activities, investment activities, and financing activities respectively, the changes in the liabilities, and the available funds at the beginning and the end of the year respectively.

The effect of cash flow deriving from purchase and sale of enterprises appears separately under cash flow from investment activities. In the cash flow statement, cash flow deriving from purchased enterprises is recognised as of the date of acquisition, and cash flow deriving from sold enterprises is recognised until the sales date.

Cash flow from operating activities

Cash flow from operating activities are calculated as the results for the year adjusted for non-cash operating items, the change in the working capital, and corporate tax paid.

Accounting policies used

Cash flow from investment activities

Cash flow from investment activities comprises payments in connection with the acquisition and sale of enterprises and activities and payments related to the acquisition and sale of fixed assets.

Cash flow from financing activities

Cash flow from financing activities comprises changes in the size or the composition of the share capital and the costs in this connection. Furthermore, these activities comprise borrowings, instalments on interestbearing debt, and payment of dividend to the shareholders.

Available funds

Available funds comprise cash funds with deduction of short-term bank debt and short term securities which can easily be converted into cash funds and on which only an insignificant risk of value changes exists.

The key figures

The key figures have been laid out in accordance with the publication "Anbefalinger & Nøgletal 2015" ("Recommendations & Key Figures 2015") published by the CFA Society Denmark.

The key figures in the survey appear as follows:

Gross margin	$\frac{\text{Gross results} \times 100}{\text{Net turnover}}$
Profit margin (EBIT margin)	$\frac{\text{Results from primary activities (EBIT)} \times 100}{\text{Net turnover}}$