

Orifarm Generics A/S

Energivej 15
5260 Odense S
Business Registration No
25674030

Annual report 2018

The Annual General Meeting adopted the annual report on 31.05.2019

Chairman of the General Meeting

Name: Kim Jensen

Contents

	<u>Page</u>
Entity details	1
Statement by Management on the annual report	2
Independent auditor's report	3
Management commentary	6
Income statement for 2018	9
Balance sheet at 31.12.2018	10
Statement of changes in equity for 2018	12
Notes	13
Accounting policies	18

Entity details

Entity

Orifarm Generics A/S
Energivej 15
5260 Odense S

Central Business Registration No (CVR): 25674030
Registered in: Odense
Financial year: 01.01.2018 - 31.12.2018

Board of Directors

Hans Carl Bøgh-Sørensen, Chairman
Birgitte Bøgh-Sørensen
Erik Sandberg

Executive Board

Karsten Haumann, Chief Executive Officer

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Tværkajen 5
Postboks 10
5100 Odense C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Orifarm Generics A/S for the financial year 01.01.2018 - 31.12.2018.

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 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018.

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, 13.05.2019

Executive Board

Karsten Haumann
Chief Executive Officer

Board of Directors

Hans Carl Bøgh-Sørensen
Chairman

Birgitte Bøgh-Sørensen

Erik Sandberg

Independent auditor's report

To the shareholders of Orifarm Generics A/S

Opinion

We have audited the financial statements of Orifarm Generics A/S for the financial year 01.01.2018 - 31.12.2018, 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 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

Independent auditor's report

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

Odense, 13.05.2019

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No (CVR) 33963556

Lars Knage Nielsen

State Authorised Public Accountant

Identification No (MNE) mne10074

Allan Dydensborg Madsen

State Authorised Public Accountant

Identification No (MNE) mne34144

Management commentary

	2018	2017	2016	2015
	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights				
Key figures				
Revenue	504.442	468.663	443.735	151.301
Gross profit/loss	162.693	171.952	169.884	40.013
Operating profit/loss	92.584	101.788	107.630	972
Net financials	(2.632)	(2.938)	(670)	(4)
Profit/loss for the year	70.055	76.351	83.250	605
Total assets	295.017	259.688	240.606	46.456
Investments in property, plant and equipment	0	0	54	0
Equity	116.825	86.770	60.419	8.039
Ratios				
Gross margin (%)	32,3	36,7	38,3	26,4
Net margin (%)	13,9	16,3	18,8	0,4
Return on equity (%)	68,8	103,7	243,2	7,5
Equity ratio (%)	39,6	33,4	25,1	17,3

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

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

Management commentary

Primary activities

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

Orifarm Generics A/S is manufacturing and selling generics pharmaceuticals in the Nordics.

Generic pharmaceuticals can be produced and marketed once the original manufacturer's patent expires and its exclusive rights lapse. Generic competition normally lowers prices on medicine significantly which benefits patients and society at large.

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.

Development in activities and finances

Orifarm Generics' revenue increased to MDKK 504 (2017: MDKK 469). The operating profit fell by MDKK 9 to MDK 93 (2017: MDKK 102) due to challenging market conditions as well as challenges in maintaining a stable supply of a few important products.

Own-developed niche products for the Rx segment (prescribed medicine) continued a satisfactory development along side with a strong general assortment-wide growth within the Rx segment.

Orifarm Generics maintained its strong position within the segment for over-the-counter pharmaceuticals through a strengthened focus on a few important categories.

Orifarm Generics' results for 2018 are not considered satisfactory and are below expectations.

Culture and Employees

It is Orifarm's objective to be a leading supplier of generic pharmaceuticals in the Nordic countries. 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.

Management commentary

Outlook

For 2019, Orifarm Generics A/S expects revenue and operating income on level with 2018.

Particular risks

Operating conditions

For Generic Pharmaceuticals, the company policy states that infringing on patent rights should be avoided. However, since patent holders have a significant commercial interest in defending market monopolies that exceed the protections granted by a given patent, and since manufactures of generic products have an interest in challenging the market at patent expiry, disputes and litigation are difficult to avoid. Orifarm is from time to time involved in pending legal proceedings. The outcome of these may affect the company's earnings.

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 Group's policy. Exchange rate risks are primarily related to the currencies SEK and NOK.

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

Research and development activities

The company 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 progress report is available at www.orifarm.com/responsibility.

Statutory report on the underrepresented gender

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

Income statement for 2018

	<u>Notes</u>	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>
Revenue		504.442	468.663
Other operating income		42.495	45.610
Cost of sales		(282.443)	(248.663)
Other external expenses		<u>(101.801)</u>	<u>(93.658)</u>
Gross profit/loss		162.693	171.952
Staff costs	2	(61.868)	(59.064)
Depreciation, amortisation and impairment losses	3	<u>(8.241)</u>	<u>(11.100)</u>
Operating profit/loss		92.584	101.788
Other financial income	4	2.253	1.389
Other financial expenses	5	<u>(4.885)</u>	<u>(4.327)</u>
Profit/loss before tax		89.952	98.850
Tax on profit/loss for the year	6	<u>(19.897)</u>	<u>(22.499)</u>
Profit/loss for the year	7	<u>70.055</u>	<u>76.351</u>

Balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>
Completed development projects		2.337	0
Acquired licences		22.214	28.965
Development projects in progress		17.540	5.355
Intangible assets	8	42.091	34.320
Plant and machinery		0	0
Property, plant and equipment	9	0	0
Fixed assets		42.091	34.320
Raw materials and consumables		1.005	5.820
Manufactured goods and goods for resale		147.111	144.713
Prepayments for goods		2.486	1.951
Inventories		150.602	152.484
Trade receivables		43.178	33.866
Receivables from group enterprises		50.497	32.648
Other receivables		8.198	1.969
Prepayments	10	451	219
Receivables		102.324	68.702
Cash		0	4.182
Current assets		252.926	225.368
Assets		295.017	259.688

Balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>
Contributed capital	11	1.000	1.000
Reserve for development expenditure		13.641	4.177
Retained earnings		<u>102.184</u>	<u>81.593</u>
Equity		<u>116.825</u>	<u>86.770</u>
Deferred tax	12	<u>8.953</u>	<u>6.854</u>
Provisions		<u>8.953</u>	<u>6.854</u>
Bank loans		40.520	26.008
Trade payables		35.078	34.883
Payables to group enterprises		40.640	54.592
Income tax payable		17.704	21.822
Other payables		<u>35.297</u>	<u>28.759</u>
Current liabilities other than provisions		<u>169.239</u>	<u>166.064</u>
Liabilities other than provisions		<u>169.239</u>	<u>166.064</u>
Equity and liabilities		<u>295.017</u>	<u>259.688</u>
Events after the balance sheet date	1		
Contingent liabilities	13		
Assets charged and collateral	14		
Related parties with controlling interest	15		
Group relations	16		

Statement of changes in equity for 2018

	Contributed capital DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Proposed extraordinary dividend DKK'000
Equity beginning of year	1.000	4.177	81.593	0
Extraordinary dividend paid	0	0	0	(40.000)
Profit/loss for the year	0	9.464	20.591	40.000
Equity end of year	1.000	13.641	102.184	0

	Total DKK'000
Equity beginning of year	86.770
Extraordinary dividend paid	(40.000)
Profit/loss for the year	70.055
Equity end of year	116.825

Notes

1. Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of the annual report.

	2018 DKK'000	2017 DKK'000
2. Staff costs		
Wages and salaries	52.960	50.655
Pension costs	8.326	7.780
Other social security costs	582	594
Other staff costs	0	35
	61.868	59.064
 Average number of employees	 102	 97

Total amount for remuneration of management is 1.589 t.DKK in 2018 (2.609 t.DKK in 2017).

	2018 DKK'000	2017 DKK'000
3. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	8.146	10.611
Profit/loss from sale of intangible assets and property, plant and equipment	95	489
	8.241	11.100

	2018 DKK'000	2017 DKK'000
4. Other financial income		
Financial income arising from group enterprises	654	400
Exchange rate adjustments	1.599	989
	2.253	1.389

	2018 DKK'000	2017 DKK'000
5. Other financial expenses		
Financial expenses from group enterprises	847	1.383
Exchange rate adjustments	3.192	2.279
Other financial expenses	846	665
	4.885	4.327

Notes

	2018	2017
	DKK'000	DKK'000
6. Tax on profit/loss for the year		
Current tax	17.704	21.822
Change in deferred tax	2.099	127
Adjustment concerning previous years	94	550
	19.897	22.499

	2018	2017
	DKK'000	DKK'000
7. Proposed distribution of profit/loss		
Extraordinary dividend distributed in the financial year	40.000	50.000
Transferred to other statutory reserves	9.464	4.177
Retained earnings	20.591	22.174
	70.055	76.351

	Completed develop- ment projects DKK'000	Acquired licences DKK'000	Develop- ment projects in progress DKK'000
8. Intangible assets			
Cost beginning of year	3.364	47.402	5.355
Transfers	13.683	(14.431)	748
Additions	512	5.698	11.437
Disposals	(1.984)	(2.172)	0
Cost end of year	15.575	36.497	17.540
Amortisation and impairment losses beginning of year	(3.364)	(18.438)	0
Transfers	(10.570)	10.570	0
Amortisation for the year	(1.276)	(6.870)	0
Reversal regarding disposals	1.972	455	0
Amortisation and impairment losses end of year	(13.238)	(14.283)	0
Carrying amount end of year	2.337	22.214	17.540

Notes

Development projects

Development projects consists of development of generic medicine. The development of the products are progressing as planned and are expected to be completed within 1-3 years.

The Entity is continually scanning for and developing new generic medicine. It is the managements opinion, that newly developed generic medicine will contribute with positive contribution margin in the future, on equal terms with the currently product portfolio.

Management continuously evalutes the value of development projects in progress, and write-down projects which are unprofitable.

	Plant and machinery DKK'000
9. Property, plant and equipment	
Cost beginning of year	54
Cost end of year	54
Depreciation and impairment losses beginning of year	(54)
Depreciation and impairment losses end of year	(54)
Carrying amount end of year	0

10. Prepayments

Prepayments consist of expenses payed in advance.

	Number	Par value DKK'000	Nominal value DKK'000
11. Contributed capital			
Shares	1.000	1	1.000
	1.000		1.000

The shares have not been divided into classes. The share capital has increased with 200 t. DKK in 2016 due to a capital increase in connection with the merge with Alternova A/S.

Notes

	2018	2017
	DKK'000	DKK'000
12. Deferred tax		
Intangible assets	8.869	6.825
Property, plant and equipment	(15)	(19)
Receivables	99	48
	8.953	6.854
Changes during the year		
Beginning of year	6.854	
Recognised in the income statement	2.099	
End of year	8.953	

13. Contingent liabilities

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

The Company is a party to litigation regarding alleged infringement of patent rights. Management believes that these legal proceedings will not lead to significant losses for the Company.

The Group has normal trade obligations on returned goods, and no material losses are expected.

14. 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 Group's total net debt in relation to this guarantee is booked at 566 m.DKK at 31.12.2018.

The Company has provided receivables from sales of goods and services, 43.178 t.DKK, as security for debt to the Company's banks and credit institutions.

15. Related parties with controlling interest

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

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

All transactions with related parties are conducted on arms length.

Notes

16. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Habico Holding A/S, Odense, Central Business Registration No 27 34 71 34.

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Orifarm Generics Holding A/S, Odense, Central Business Registration No 27 34 72 23.

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.

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.

Income statement

Revenue

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

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

Accounting policies

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 comprises goods consumed in the financial year measured at cost, adjusted for inventory writedowns.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc.

Staff costs

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

Depreciation, amortisation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible asset 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.

Other financial income

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

Other financial expenses

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

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity. The portion of the tax taken to the income statement, which relates to extraordinary profit/loss for the year, is allocated to this entry whereas the remaining portion is taken to the year's profit/loss from ordinary activities.

The Entity is jointly taxed with the ultimate Parent company and all the ultimate Parent company's 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).

Accounting policies

The jointly taxed companies are subject 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

Intellectual property rights etc

Intellectual property rights etc. comprises development costs, acquired licenses, files and application fees.

Development costs comprises costs, staff costs and depreciations, directly associated to development activities.

Development projects, which are clearly defined and identifiable, and where the technical viability, resources and a potential future market can be established with the intention to produce, market or utilise the projects, are recognised in the balance sheet as intangible assets, if the cost are measured reliable, and there is a certain security, that the future profit will cover the production-, marketing- and administrations costs as well as development costs. Additional development costs are recognised in the income statement, as the costs occurs. When recognising development projects as intangible assets, an amount equalling the cost incurred less deferred tax is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

Development projects, are measured at cost less accumulated amortisation and impairment.

When development projects are completed, the products are amortised straight-line over their expected useful lives calculated from the date when the product to which the development cost relate is introduced to the market. The amortisation period usually used is 5-10 years.

Acquired licenses, files and applications fees are measured at cost less accumulated amortisation and impairment.

Licenses, files and application fees regarding a specific product in relation to which a potential future market can be demonstrated and where the intention is to market the product in question are recognised as intangible assets. Other costs relating to applications are recognised as cost in the income statement as incurred.

Licenses, files and application fees regarding generic products are amortised straight-line over their expected useful lives calculated from the date when the product to which the files and application fees relate is introduced to the market. The amortisation period is 5 years.

Estimated useful lives and residual values are reassessed annually.

When licenses, files and application fees are subject to impairment, licenses, files and application fees are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Plant and machinery are measured at cost less accumulated depreciation and impairment losses.

Accounting policies

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:

Plant and machinery	3-5 years
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Estimated useful lives and residual values are reassessed annually.

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

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.

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

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 carryforwards, 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.

Accounting policies

Other financial liabilities

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

Income tax receivable or payable

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

Cash flow statement

Referring to section 86 (4) of the Danish Financial Statements Act, Orifarm Generics A/S has not prepared any cash flow statement. Orifarm Generics A/S is included in the consolidated cash flow statement in Orifarm Group A/S.