



Orifarm Generics A/S

Energivej 15
5260 Odense S
CVR No. 25674030

Annual report 2019

The Annual General Meeting adopted the annual report on 19.06.2020

Kim Jensen
Chairman of the General Meeting

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Entity details

Entity

Orifarm Generics A/S

Energivej 15

5260 Odense S

CVR No.: 25674030

Registered office: Odense

Financial year: 01.01.2019 - 31.12.2019

Board of Directors

Hans Carl Bøgh-Sørensen, Chairman

Erik Sandberg

Birgitte Bøgh-Sørensen

Executive Board

Karsten Haumann, Chief Executive Officer

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

P. O. Box 1600

0900 Copenhagen C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Orifarm Generics A/S for the financial year 01.01.2019 - 31.12.2019.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

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

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

Odense, 19.06.2020

Executive Board

Karsten Haumann

Chief Executive Officer

Board of Directors

Hans Carl Bøgh-Sørensen

Chairman

Erik Sandberg

Birgitte Bøgh-Sørensen

Independent auditor's report

To the shareholder of Orifarm Generics A/S

Opinion

We have audited the financial statements of Orifarm Generics A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Copenhagen, 19.06.2020

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR No. 33963556

Nikolaj Thomsen

State Authorised Public Accountant

Identification No (MNE) mne33276

Jens Serup

State Authorised Public Accountant

Identification No (MNE) mne45825

Management commentary

Financial highlights

	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000
Key figures					
Revenue	545,016	504,442	468,663	443,735	151,301
Gross profit/loss	197,046	162,691	171,952	169,884	40,011
Operating profit/loss	134,228	92,584	101,788	107,630	970
Net financials	(891)	(2,632)	(2,938)	(670)	(2)
Profit/loss for the year	103,855	70,055	76,351	83,250	605
Total assets	330,196	295,018	259,688	240,606	46,456
Investments in property, plant and equipment	0	0	0	54	0
Equity	145,680	116,825	86,770	60,419	8,039
Ratios					
Gross margin (%)	36.15	32.25	36.69	38.29	26.44
Net margin (%)	19.06	13.89	16.29	18.76	0.40
Return on equity (%)	79.13	68.82	103.75	243.21	7.50
Equity ratio (%)	44.12	39.60	33.41	25.11	17.30

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

Gross margin (%):

Gross profit/loss * 100

Revenue

Net margin (%):

Profit/loss for the year * 100

Revenue

Return on equity (%):

Profit/loss for the year * 100

Average equity

Equity ratio (%):

Equity * 100

Total assets

Primary activities

Orifarm Generics A/S is part of the Orifarm Group which is an ambitious operator in the European market for pharmaceuticals, and 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 A/S reversed the negative trend in earnings from 2018 and increased revenue by MDKK 41 to MDKK 545 (2018: MDKK 504). The operating profit increased by MDK 41 to MDK 134 (2018: MDKK 93).

The development in revenue and earnings relates to increased market shares on products with profitable margins.

Newly launched niche products for the Rx segment (prescribed medicine) contributed a positive development alongside an 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 invested significantly in developing new products in order to achieve long-term growth.

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

Outlook

For 2020, Orifarm Generics A/S expects revenue growth in the range of 10-15% and an operating income at 2019 level. No consequences from COVID-19 have been incorporated into these expectations.

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

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

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

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

Culture and Employees

It is Orifarm's objective to be a leading supplier of 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 and the level of internationalization in Orifarm has increased significantly in recent years.

Orifarm is working strategically with digitalizing and are developing and introducing new tools and ways to solve tasks faster and smarter. The goal is not to reduce the number of employees, but to fulfill the full potential of the employees and the business of Orifarm. Through education and training the employees are getting new digital skills, and as a result, tasks are easier solved across borders and some of the bottlenecks are avoided.

A large number of student assistants are part-time employed at Orifarm. Orifarm wants to support the educational institutions, and to give the students the opportunity to combine theory with practice in a modern company. The students are shown a lot of responsibility to solve tasks that develops their competencies. In return, Orifarm gets the newest insights and new inspiration.

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

Statutory report on the underrepresented gender

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

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

Income statement for 2019

	Notes	2019 DKK'000	2018 DKK '000
Revenue		545,016	504,442
Other operating income		58,835	42,495
Cost of sales		(296,761)	(282,443)
Other external expenses		(110,044)	(101,803)
Gross profit/loss		197,046	162,691
Staff costs	2	(54,407)	(61,867)
Depreciation, amortisation and impairment losses	3	(8,411)	(8,240)
Operating profit/loss		134,228	92,584
Other financial income	4	2,516	2,253
Other financial expenses	5	(3,407)	(4,885)
Profit/loss before tax		133,337	89,952
Tax on profit/loss for the year	6	(29,482)	(19,897)
Profit/loss for the year	7	103,855	70,055

Balance sheet at 31.12.2019

Assets

	Notes	2019 DKK'000	2018 DKK'000
Completed development projects	9	6,231	2,337
Acquired licences		17,585	22,214
Development projects in progress	9	23,936	17,540
Intangible assets	8	47,752	42,091
Plant and machinery		0	0
Property, plant and equipment	10	0	0
Fixed assets		47,752	42,091
Raw materials and consumables		2,456	1,005
Manufactured goods and goods for resale		159,395	147,111
Prepayments for goods		2,069	2,486
Inventories		163,920	150,602
Trade receivables		36,618	43,179
Receivables from group enterprises		61,697	50,497
Other receivables		19,753	8,198
Prepayments	11	456	451
Receivables		118,524	102,325
Current assets		282,444	252,927
Assets		330,196	295,018

Equity and liabilities

	Notes	2019 DKK'000	2018 DKK'000
Contributed capital	12	1,000	1,000
Reserve for development expenditure		23,530	13,641
Retained earnings		121,150	102,184
Equity		145,680	116,825
Deferred tax	13	10,469	8,953
Provisions		10,469	8,953
Other payables		2,180	0
Non-current liabilities other than provisions	14	2,180	0
Bank loans		38,200	40,520
Trade payables		69,269	35,078
Payables to group enterprises		34,585	40,641
Income tax payable		12,966	17,704
Other payables		16,847	35,297
Current liabilities other than provisions		171,867	169,240
Liabilities other than provisions		174,047	169,240
Equity and liabilities		330,196	295,018
Events after the balance sheet date	1		
Unrecognised rental and lease commitments	15		
Contingent liabilities	16		
Assets charged and collateral	17		
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Statement of changes in equity for 2019

	Contributed capital DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Proposed extraordinary dividend DKK'000	Total DKK'000
Equity beginning of year	1,000	13,641	102,184	0	116,825
Extraordinary dividend paid	0	0	0	(75,000)	(75,000)
Transfer to reserves	0	9,889	(9,889)	0	0
Profit/loss for the year	0	0	28,855	75,000	103,855
Equity end of year	1,000	23,530	121,150	0	145,680

Notes

1 Events after the balance sheet date

From the balance sheet date until today, no events have occurred which could change the assessments made in the Annual Report. The outbreak of COVID-19 at the beginning of 2020 is not expected to have an material impact on the Company's financial position, as Orifarm's supply chain is intact and pharmaceuticals are highly demanded and essential also during the COVID-19 outbreak.

2 Staff costs

	2019 DKK'000	2018 DKK'000
Wages and salaries	45,410	52,959
Pension costs	8,330	8,326
Other social security costs	667	582
	54,407	61,867
Average number of full-time employees	99	102

Total amount for remuneration of management is 992 t.DKK in 2019 (1.589 t.DKK in 2018).

3 Depreciation, amortisation and impairment losses

	2019 DKK'000	2018 DKK'000
Amortisation of intangible assets	8,487	8,146
Profit/loss from sale of intangible assets and property, plant and equipment	(76)	94
	8,411	8,240

4 Other financial income

	2019 DKK'000	2018 DKK'000
Financial income from group enterprises	900	654
Exchange rate adjustments	1,580	1,599
Other financial income	36	0
	2,516	2,253

5 Other financial expenses

	2019 DKK'000	2018 DKK'000
Financial expenses from group enterprises	568	847
Exchange rate adjustments	1,830	3,192
Other financial expenses	1,009	846
	3,407	4,885

6 Tax on profit/loss for the year

	2019 DKK'000	2018 DKK'000
Current tax	27,916	17,704
Change in deferred tax	1,516	2,099
Adjustment concerning previous years	50	94
	29,482	19,897

7 Proposed distribution of profit and loss

	2019 DKK'000	2018 DKK'000
Extraordinary dividend distributed in the financial year	75,000	40,000
Retained earnings	28,855	30,055
	103,855	70,055

8 Intangible assets

	Completed development projects DKK'000	Acquired licences DKK'000	Development projects in progress DKK'000
Cost beginning of year	15,575	36,497	17,540
Transfers	3,683	0	(3,683)
Additions	1,989	3,276	10,797
Disposals	(376)	(5,215)	(718)
Cost end of year	20,871	34,558	23,936
Amortisation and impairment losses beginning of year	(13,238)	(14,283)	0
Amortisation for the year	(1,781)	(6,705)	0
Reversal regarding disposals	379	4,015	0
Amortisation and impairment losses end of year	(14,640)	(16,973)	0
Carrying amount end of year	6,231	17,585	23,936

9 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 evaluates the value of development projects in progress, and write-down projects which are unprofitable.

10 Property, plant and equipment

	Plant and machinery DKK'000
Cost beginning of year	54
Disposals	(54)
Cost end of year	0
Depreciation and impairment losses beginning of year	(54)
Reversal regarding disposals	54
Depreciation and impairment losses end of year	0
Carrying amount end of year	0

11 Prepayments

Prepayments consist of expenses payed in advance.

12 Share capital

	Number	Par value DKK'000	Nominal value DKK'000
Share	1,000	1	1,000
	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.

13 Deferred tax

	2019 DKK'000	2018 DKK'000
Intangible assets	10,380	8,869
Property, plant and equipment	(11)	(15)
Receivables	100	99
Deferred tax	10,469	8,953

	2019 DKK'000
Changes during the year	DKK'000
Beginning of year	8,953
Recognised in the income statement	1,516
End of year	10,469

14 Non-current liabilities other than provisions

	Due after more than 12 months	2019	DKK'000
Other payables		2,180	2,180

15 Unrecognised rental and lease commitments

	2019	2018
	DKK'000	DKK'000
Liabilities under rental or lease agreements until maturity in total	1,140	1,052

16 Contingent liabilities

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

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

17 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 788 m.DKK at 31.12.2019.

The Entity has normal trade obligations on returned goods, and no significant losses are expected.

The Entity has provided receivables from sales of goods and services, 36.618 t.DKK, as security for debt to the Entity's banks and credit institutions.

18 Related parties with controlling interest

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

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

All transactions with related parties are conducted on arms length.

19 Group relations

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

Name and registered office of the Parent preparing consolidated financial statements for the smallest group: Orifarm Generics Holding A/S, Odense, Central Business Registration Number 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, as the Entity only has one segment as mentioned in the management commentary.

Other operating income

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

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary 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.

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

Staff costs

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

Depreciation, amortisation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible 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, 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, 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).

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.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised on a straight-line basis over their remaining duration, and licences are amortised over the term of the agreement.

Intellectual property rights etc 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.

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.

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.

Operating leases

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

Other financial liabilities

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

Income tax receivable or payable

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

Cash flow statement

Referring to section 86 (4) of the Danish Financial Statements Act, Orifarm 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.

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Hans Carl Bøgh-Sørensen

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