Orifarm A/S

Energivej 15
5260 Odense S

Central Business Registration no. 26 05 87 08

Annual report 2015

The Annual General Meeting adopted the annual report on ___/___ 2016

Chairman of the General Meeting:

____

Contents

Company details

Company
Orifarm A/S
Energivej 15
5260 Odense S
Central Business Registration no. 26 05 87 08
Registered in: Odense

Board of Directors
Erik Sandberg
Hans Bøgh-Sørensen
Birgitte Bøgh-Sørensen
Jens Peter Nielsen

Executive Board
Tine Søndergaard Jensen, Chief Executive Officer

Company auditors
Deloitte Statsautoriseret Revisionspartnerselskab

Statement by management

We have today presented the annual report of Orifarm A/S for the financial year 1. januar - 31. december 2015.

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 Company's financial position and results. Also, 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, 11 May 2016

Executive Board

Tine Søndergaard Jensen
Chief Executive Officer

Board of Directors

Erik Sandberg
Chairman of the Board

Hans Bøgh-Sørensen

Birgitte Bøgh-Sørensen

Jens Peter Nielsen

Independent auditor's report

To the shareholders of Orifarm A/S

Report on the financial statements

We have audited the financial statements of Orifarm A/S for the financial year 1. januar - 31. december 2015, which comprise the accounting policies, income statement, balance sheet, statement of change in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements 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 financial statements are free from material misstatement.

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

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the financial statements give a true and fair view of the Company’s financial position at 31 december 2015 and of the results of their operations for the financial year 1. januar - 31. december 2015 in accordance with the Danish Financial Statements Act.

Statement on the management commentary
Pursuant to the Danish Financial Statements Act, we have read the management commentary. We have not performed any further procedures in addition to the audit of the consolidated financial statements and parent financial statements.

On this basis, it is our opinion that the information provided in the management commentary is consistent with the consolidated financial statements and parent financial statements.

Odense, 11 May 2016

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR-nr. 33963556

Lars Knage Nielsen	Allan Dydensborg Madsen
State Authorised Public Accountant	State Authorised Public Accountant

Financial highlights

(1.000 DKK)	**2015**	**2014**	**2013**	**2012**	**2011**
Key figures					
Revenue	1.035.134	1.149.174	1.078.460	928.417	1.160.174
Gross profit	52.200	46.753	42.247	44.423	37.364
Operating income	8.545	8.177	7.612	5.640	6.023
Net financials	-1.466	-2.162	-1.072	326	-1.637
Profit of the year	5.442	4.431	4.473	2.664	3.202
Equity	28.235	22.793	18.362	13.889	11.224
Balance sheet total	194.841	218.875	213.815	115.951	149.577
Ratios					
Gross margin (%)	5,0	4,1	3,9	4,8	3,2
Operating margin (%)	0,8	0,7	0,7	0,6	0,5
Equity ratio (%)	14,5	10,4	8,6	12,0	7,6
Return on equity (%)	21,3	21,5	27,7	21,2	33,9

Management's Commentary

Company presentation

Orifarm A/S is selling Parallel Imported pharmaceuticals in Denmark. Pharmaceuticals are imported from EU/EEA Member States where original producers sell their preparations at prices that are lower than what they demand for the identical products in Denmark. In doing so, the company utilises the principle of free movement of goods within the EU/EEA and hereby create significant savings for the society.

Orifarm's activities have led to lower prices of pharmaceuticals benefitting both patients and society at large in Denmark.

Despite the principles of free movement of goods within the EU/EEA, and even though Orifarm Parallel Import's activities – and that of its competitors – have led to lower costs of pharmaceuticals, various barriers to the parallel import trade are being tolerated by the EU; see section entitled "Hindrances to healthcare cost savings generated by the Parallel Import trade" below.

The formation and development of the company is healthcare business model innovation. This is expressed in Orifarm's mission statement, which is *Rethinking the business of healthcare.*

Orifarm's vision - "We want to be No. 1 in making healthcare a better deal" - expresses the general objective. "A better deal" refers not only to savings, but 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 focus.

Review of financial performance in 2015

Orifarm A/S's revenues declined by 10% to MDKK 1.035 (2014: MDKK 1.149) though the market share was consolidated at around 50%. Despite competitive pressure, the gross margin increased by 0.9%-points to 5.0% (2014: 4.1%) amongst other through a reduction of the cost level.

Orifarm A/S's operating margin slightly improved to 0.8% (2014: 0.7%).

The company's results for 2015 are considered satisfactory.

Hindrances to healthcare cost savings generated by the Parallel Import trade

A series of measures undertaken by original producers and by some EU Member States hamper trade in pharmaceuticals and reduce Orifarm's ability to grow its parallel-import business:

Quota systems
A number of the world's biggest pharmaceutical manufacturers have introduced quota systems for selling pharmaceuticals in the EU. In some cases, pharmaceutical manufacturers have gone even further and stopped making deliveries to wholesalers who are re-exporting pharmaceuticals. That limits Orifarm's purchasing access and thereby also our capacity to increase sales. In Orifarm's view, quota systems are in breach of the EU Treaty because they let pharmaceutical manufacturers restrict competition within the EU.

Export ban
Several EU Member States have attempted to introduce bans on exports of pharmaceuticals to other member states, or to hamper exports by imposing obligations onto exporters' notification as

Management's Commentary

regards to regulatory authorities and approval regimens prior to export. Export bans and disproportionate export barriers violate the EU Treaty's provisions on the free movement of goods and may change Orifarm's entire business model. We, therefore, strongly disapprove of such measures. The European Commission is regularly informed about developments with the purpose of potential intervention.

Dual pricing
A number of multinational pharmaceutical manufacturers have established or maintained dual pricing in Spain. Dual pricing lets pharmaceutical manufacturers sell their products at an artificially inflated price to Spanish pharmaceutical wholesalers. However, if the wholesalers can document that the products are intended for sale in the Spanish market and not for re-export, they will receive the 'normal' Spanish price. Dual-pricing, therefore, means that parallel-importers cannot utilise the EU principle of the free movement of goods. In Orifarm's opinion, this violates the competition provisions set out in the EU Treaty.

Direct deliveries
In conclusion, Orifarm's access to procuring pharmaceuticals in the export countries is further restricted by the fact that multinational pharmaceutical companies are establishing direct deliveries to pharmacies. This, in effect, skips the wholesale link, thereby denying parallel-importers the capacity to buy from them. Direct deliveries restrict competition and the availability of goods in the market, and in Orifarm's view this measure might also infringe on EU statutory and regulatory laws governing the free movement of goods.

Nonetheless, despite these trade restrictions, Orifarm is in a position to guarantee its customers stability in delivery of goods by cultivating new procurement countries and channels.

Special Risks

Operating conditions
To a significant extent, consolidated earnings depend on legislative measures that affect the pricing of pharmaceuticals in both the purchase and the sales countries. Earnings are also affected by measures in the sales countries which are intended to limit the consumption of pharmaceuticals.

It is the company's policy to avoid infringing on trademark rights, and Orifarm is not currently involved in any major pending litigation of this kind.

Financial matters
The company is exposed to fluctuations in interest rate levels and foreign exchange rates.

The company'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 parallel-imported in Denmark. We believe that our results and the competencies and commitment of our employees are intertwined. That is why we are constantly seeking to develop our employees' knowledge and competencies, which in turn bolster Orifarm's results and growth-oriented culture.

Management's Commentary

Orifarm is aware of its social responsibilities and accordingly, it is important for the company to have a wide variety of employees. Consequently, the company is stressing internal efforts to integrate employees of other ethnic backgrounds as well as disabled employees.

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

Target Figures for Gender Composition of Management

At Orifarm, diversity is considered a strength that opens up access to the most talented employees.

Offering excellent career opportunities to both female and male employees helps ensuring that Orifarm has the capacity of appointing the best candidate for a given position. This is also reflected in the gender distribution among our executives in Danish companies where 38% are female and 62% are male.

The policy is to recruit the best candidate for a given position. If more candidates are assessed equal on competencies, the underrepresented gender will be chosen for the position. The ambition is to have at least 40% of both sexes represented on Orifarm's management team.

The Supervisory Board of Orifarm A/S currently consists of 4 general elected members of whom one is female. This distribution is deemed to be acceptable based on the small size of the Board.

Social Responsibility

The company does not have a policy for the area.

The company has only very limited impact on the surrounding environment. Unsalable pharmaceuticals are destroyed by a certified company. Superfluous packaging etc. is sorted and reused to the extent possible.

Development Activities

The company has significant development activities covering both product and process development.

Events since the End of the Fiscal Year

From the reporting date until today, no events have taken place to change the assessments made in the Annual Report.

Outlook

Orifarm A/S expects results for 2016 to be on the same level as 2015.

Accounting policies

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

Referring to section 86 (4) of the Danish Financial Statements Act, Orifarm A/S has not prepared any cash flow statements, given that there are cash flow statements in the consolidated financial statements.

The accounting policies applied for these financiel 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 benefit will flow to the Company, and the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when the Company 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 Company, and the value of the liabilities 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 currency 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 one 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 determined consideration.

Cost of sales

Cost of sales includes direct and indirect costs incurred to generate revenue. The cost of sales is recognized raw materials, consumables and cost of production staff.

Other external expenses

Other external expenses comprise expenses for distribution, sale, advertising, administration, premises, etc.

Staff costs

Staff costs comprise wages and salaries, social security costs, pension contributions, etc. for the Company’s staff.

Financial income and expenses

These items comprise interest income and interest expenses, realised as well as unrealised capital gains and losses on liabilities and transactions in foreign currencies.

Accounting policies

Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the profit/loss for the year and recognized 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.

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

Deferred tax is recognized 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 recognized in the balance sheet at their estimated realisable values, either as a set-off against deferred tax liabilities or as net tax assets.

The Company is jointly taxed with the ultimative Parent company and all the ultimative Parent company's Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed companies 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 interestdeduction is recognized in the company in which the interestdeduction has been reduced.

Balance sheet

Goodwill

Goodwill is amortised straight-line over its estimated useful life which is fixed on the basis of the experience gained by Management for each business area. The period of amortisation is usually 2-5 years.

When goodwill subject to impairment, goodwill is written down to the lower of recoverable amount and carrying amount.

Files and application fees

Files and application fees are measured at cost less accumulated amortisation and impairment losses.

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.

The depreciation period of the application fees regarding other products is 5 years.

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

Accounting policies

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad receivables.

Prepayments

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

Other financial liabilities

Other financial liabilities are measured at amortized cost, usually equaling nominal value of the liability.

Segment information

The company has not specified segment information as the company only has operations in Denmark and all revenue relating to parallel imported pharmaceuticals.

Financial highlights

Financial highlights are calculated as follows:

Gross margin:	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Operating margin:	$\frac{\text{Operating income} \times 100}{\text{Revenue}}$
Equity ratio:	$\frac{\text{Equity} \times 100}{\text{Total assets}}$
Return on equity:	$\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$

Income statement
(1.000 DKK)

	Note	2015	2014
Revenue		1.035.134	1.149.174
Other operating income		40.135	35.613
Use of materials		-990.222	-1.102.310
Other external expenses		-32.847	-35.724
Gross profit		**52.200**	**46.753**
Staff costs	1	-40.983	-33.312
Income before depreciation		**11.217**	**13.441**
Depreciation and impairment losses	2	-2.672	-5.264
Operating income		**8.545**	**8.177**
Financial income	3	183	79
Financial expenses	4	-1.649	-2.241
Profit before tax		**7.079**	**6.015**
Tax	5	-1.637	-1.584
Profit for the year		**5.442**	**4.431**
Distribution of profit			
Retained earnings		**5.442**	

Balance sheet

(1.000 DKK)

	Note	2015	2014
Files and application fees		17.318	9.656
Other intangible assets		0	52
Intangible assets	6	**17.318**	**9.708**
Fixed assets		**17.318**	**9.708**
Receivables from group enterprises		0	21.631
Trade receivables		163.888	173.812
Income taxes		5	0
Other receivables		13.630	13.717
Prepayments		0	7
Receivables		**177.523**	**209.167**
Current assets		**177.523**	**209.167**
Total assets		**194.841**	**218.875**

Balance sheet
(1.000 DKK)

	Note	2015	2014
Share capital	7	5.100	5.100
Retained earnings		23.135	17.693
Total equity		**28.235**	**22.793**
Deferred tax liabilities	8	3.805	2.209
Provisions		**3.805**	**2.209**
Bank debt		52.192	133.192
Trade payables		12.876	26.338
Payables to group enterprises		84.805	26.508
Income taxes		0	1.260
Other debt		12.928	6.575
Short-term liabilities		**162.801**	**193.873**
Liabilities		**162.801**	**193.873**
Total equity, provisions and liabilities		**194.841**	**218.875**
Pledged assets and contingent liabilites etc.	9		
Other Notes	10-12		

Statement of changes in equity for 2015

(1.000 DKK)

	Share capital	Retained earnings	Total
Equity at 01.01.2015	5.100	17.693	22.793
Profit for the year	0	5.442	5.442
Equity at 31.12.2015	**5.100**	**23.135**	**28.235**

Notes

(1.000 DKK)

	2015	2014
1. Staff costs		
Salaries and wages	36.839	29.558
Pension costs	3.671	3.336
Other social security costs	473	418
	40.983	**33.312**
Of this, total remuneration for Board and Management	**1.197**	**766**
Average number of employees	**65**	**61**

	2015	2014
2. Depreciation and impairment losses		
Application fee	2.620	4.984
Other intangible assets	52	280
	2.672	**5.264**

	2015	2014
3. Financial income		
Financial income from group enterprises	179	76
Other financial income	4	3
	183	**79**

	2015	2014
4. Financial expenses		
Financial expenses to group enterprises	310	173
Other financial expenses	1.339	2.068
	1.649	**2.241**

	2015	2014
5. Tax		
Current tax	-5	1.260
Change in deferred tax	1.670	308
Effect of changed tax rates	-73	-63
Adjustment concerning previous years	45	79
	1.637	**1.584**

Notes

(1.000 DKK)

6. Intangible assets	Goodwill	Files and application fees	Other intangible assets
Cost at 01.01.2015	7.800	32.117	2.640
Additions	0	10.502	0
Disposals	0	-220	0
Cost at 31.12.2015	**7.800**	**42.399**	**2.640**
Depreciation at 01.01.2015	7.800	22.461	2.588
Depreciation of the year	0	2.620	52
Depreciation at 31.12.2015	**7.800**	**25.081**	**2.640**
Carrying amount at 31.12.2015	**0**	**17.318**	**0**

In the year the estimate amortization period for application fees been changed from 3 to 5 years. The positiv effect in this year is 3.720 t.DKK

7. Share capital

The share capital consists of 5.100 shares at DKK 1.000.
The shares have not been divided into classes.
There has not been changes in share capital in the past five financial years.

8. Deferred tax	2015	2014
Deferred tax is incumbent on the following financial statement items:		
Intangible assets	3.810	2.197
Tax loss carryforwards	-5	0
Other intangible assets	0	12
	3.805	**2.209**
Net value is recognised in the balance sheet as follows:		
Deferred tax liabilities	3.805	2.209
	3.805	**2.209**

Notes

(1.000 DKK)

9. Pledged assets and contingent liabilities

The Group has provided guarantees under which the guarantors assume joint and several liability for group enterprises' net debt with bank and credit institution. The Groups total net debt in relation to this guarantee is booked at 623 m.DKK at 31.12.2015.

The Company has provided receivables from sales of goods and services, 163.888 t.DKK, as security for debt to the Group's banks and credit institutions.

The Company is a party to litigation regarding alleged infringement of trademark rights and other legal matters. 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 significant losses are expected.

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

10. Related parties

Related parties with controlling interest in Orifarm A/S:

The companies parent company Orifarm PI A/S, Odense, Central Business Registration No 27 34 71 77.

Other related parties and Orifarm A/S has had transactions within 2015.

All transactions with related parties are eliminated in the overlying consolidated statements.

11. Ownership

The company has registered the following shareholders to hold more than 5% of the voting share capital or of the nominal value of the share capital:
Orifarm PI A/S, Energivej 15, 5260 Odense S.

12. Consolidation

Orifarm A/S is included in the consolidated financial statements of Orifarm Group A/S, Odense, Central Business Registration No 27 34 72 82.
Orifarm A/S is additionally included in the ultimative consolidated financial statements of Habico Holding A/S, Odense, Central Business Registration No 27 34 71 34.