

Orifarm Group A/S

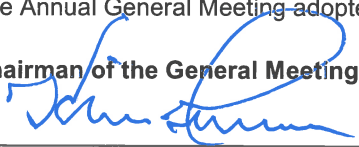
Energivej 15
5260 Odense S

Central Business Registration no. 27 34 72 82

Annual report 2018

The Annual General Meeting adopted the annual report on ²¹ / ⁵ 2019

Chairman of the General Meeting:



Kim Jensen



Orifarm Group A/S

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Orifarm Group A/S

Company details

Company

Orifarm Group A/S
Energivej 15
5260 Odense S
Central Business Registration No: 27 34 72 82
Registered in: Odense

Board of Directors

Niels Harald de Coninck-Smith, Chairman
Hans Carl Bøgh-Sørensen, Vice chairman
Ole Michael Friis, Vice chairman
Claudio Albrecht
Karen Lykke Sørensen
Lars Monrad-Gylling
Dan Bøgh Hartwig, employee elected representative
Gitte Alhed Poulsen, employee elected representative
Jeanette Jæger Wallentin, employee elected representative

Group Executive Board

Erik Sandberg, Chief Executive Officer
Eva Berner, EVP HR & Communication
Jacob Lucassen, EVP and CFO

Company auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Orifarm Group A/S

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 Group 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. May 2019

Executive Board



Erik Sandberg
Chief Executive Officer




Eva Berner
EVP HR & Communication



Jacob Lucassen
EVP and CFO

Board of Directors



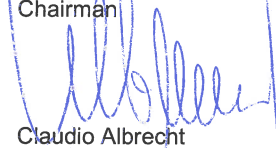
Niels Harald de Coninck-Smith
Chairman



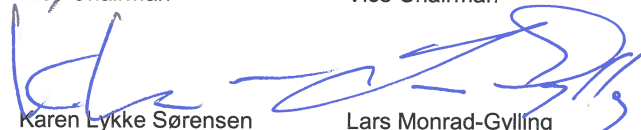
Hans Carl Bøgh-Sørensen
Vice Chairman



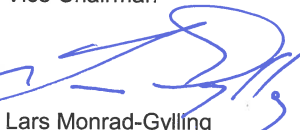
Ole Michael Friis
Vice Chairman



Claudio Albrecht



Karen Lykke Sørensen



Lars Monrad-Gylling



Dan Bøgh Hartwig



Gitte Alhed Poulsen



Jeanette Jørgensen Wallentin

Orifarm Group A/S

Independent auditor's report

To the shareholders of Orifarm Group A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Orifarm Group 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, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2018, and of the results of their operations and the consolidated cash flows 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 the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements* section of this auditor's report. We are independent of the Group 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 consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent'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 consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 consolidated financial statements and parent financial statements.

Orifarm Group A/S

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 consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Orifarm Group A/S

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 consolidated financial statements and the parent 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. May 2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



Lars Knage Nielsen

State-Authorised
Public Accountant

MNE Number mne10074

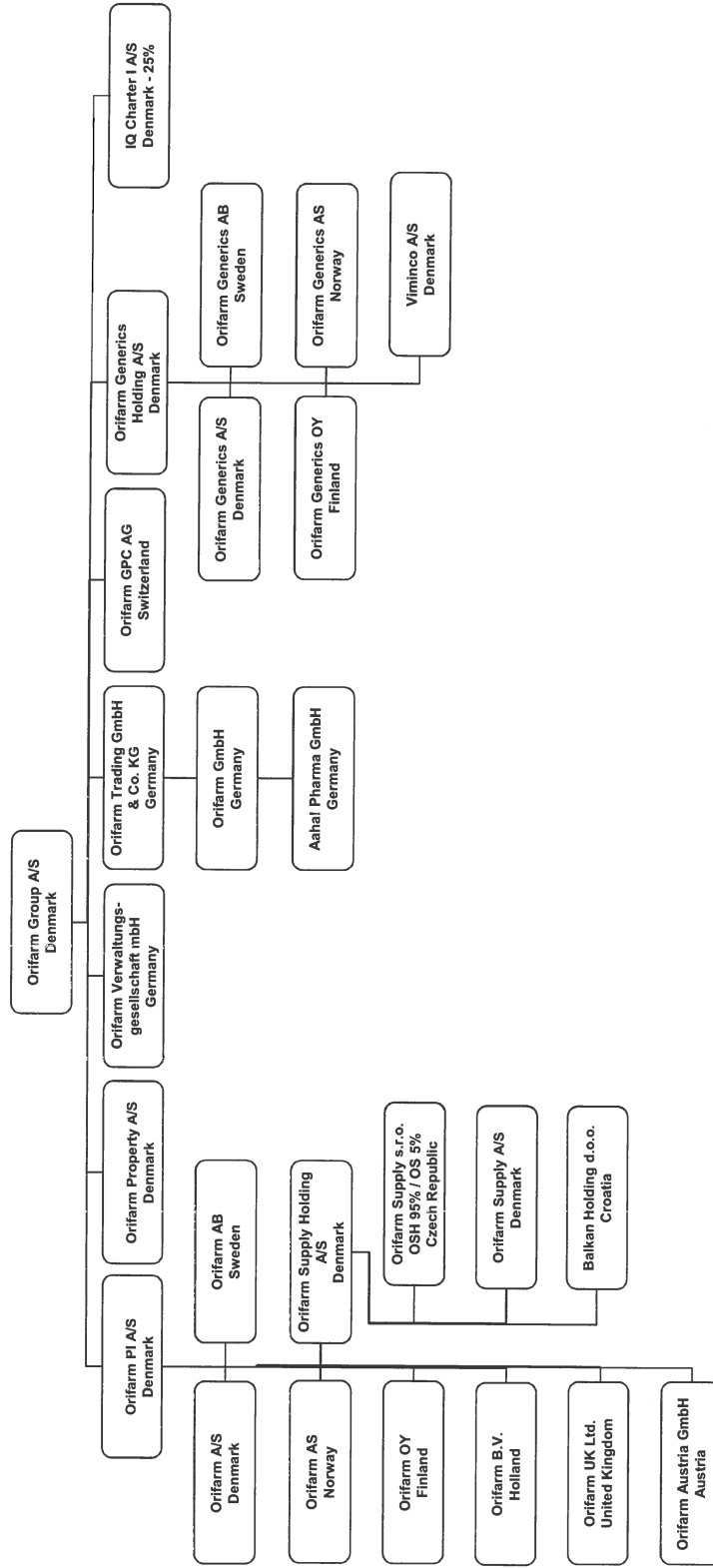


Allan Dydensborg Madsen

State-Authorised
Public Accountant

MNE Number mne34144

Group structure



* If no other % is mentioned the ownership is 100%

Orifarm Group A/S

Management's Commentary

Financial highlights of the Group

<i>(mio. EUR)</i>	2018	2017	2016	2015	2014
Key figures					
Revenue	832,9	796,9	725,8	759,1	755,0
Gross profit	131,0	120,4	108,7	96,9	91,2
Operating income	38,1	33,8	24,5	20,2	16,4
Net financials	-3,9	-5,1	-8,1	-8,7	-7,7
Profit for the year	26,5	21,9	10,2	9,1	6,2
Investments in Tangible fixed assets	4,2	4,1	3,0	2,8	1,4
Inventories	140,4	151,4	148,6	119,2	143,0
Receivables	101,4	111,7	95,4	95,0	78,3
Equity	136,0	117,0	98,5	90,3	60,4
Balance sheet total	344,3	360,6	347,2	319,0	281,2
Cash flows from operating activities	36,1	25,5	-14,3	39,7	27,8
Cash flows from investing activities	-10,9	-8,7	-7,8	-66,1	-6,1
Ratios					
Gross margin (%)	15,7	15,1	15,0	12,8	12,1
Operating margin (%)	4,6	4,2	3,4	2,7	2,2
Equity ratio (%)	39,5	32,4	28,4	28,3	21,5
Return on equity (%)	20,9	20,3	10,8	12,1	10,7

Orifarm Group A/S

Management's Commentary

2018 was in many ways the best year ever in company history as revenue and earnings were realized on the highest levels ever. This entails that more Orifarm pharmaceuticals were sold and thereby the society savings on pharmaceuticals increased. Especially the business unit Orifarm Parallel Import showed an excellent development through new market entries and growth on mature markets. Orifarm Generics had a difficult year with stagnation in revenue and decreasing income.

- Orifarm Group's revenues increased by 4.5% to MEUR 833 (2017: MEUR 797). Operating income excl. non-recurring items increased by MEUR 6.5 to MEUR 40.3 (2017: MEUR 33.8) and earnings before tax increased by MEUR 6.2 to MEUR 34.9 (2017: MEUR 28.7)
- Orifarm Parallel Import's revenues totalled MEUR 756 (2017: MEUR 720). Operating income excl. non-recurring items increased by MEUR 8.0 to MEUR 34.2 (2017: MEUR 26.2)
- Orifarm Generics' revenues totalled MEUR 77 (2017: MEUR 77). Operating income fell by MEUR 2.6 to MEUR 9.7 (2017: MEUR 12.3)

In January 2019 a management change was successfully completed. Since March 2018, Deputy CEO Erik Sandberg has had the full operational responsibility of Orifarm Group and as of January 1, 2019 the Orifarm Group title and responsibility was officially handed over to Erik Sandberg by Hans Bøgh-Sørensen.

Erik Sandberg draws on a tremendous experience and market understanding as well as a proven track record and a huge commitment to the company over the past 7 years. As of January 1, 2019 Hans Bøgh-Sørensen stepped up to a position as 1st Deputy Chairman of the Orifarm Group Board of Directors alongside Ole Friis, who took on the role as 2nd Deputy Chairman of the Board.

Company Presentation

Orifarm Group 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 Group consists of two business areas: Orifarm Parallel Import and Orifarm Generics.

Common to both business areas is healthcare business model innovation. This is expressed in Orifarm Group's mission statement which is "*Challenging the pharmaceutical market*".

Orifarm Group'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 Group delivers solutions that meet its stakeholder's needs. Orifarm Group's operating activities are guided by our values which are Flexibility, Ambition, Responsibility and Customer Centricity.

Orifarm Parallel Import

Orifarm Parallel Import was established in 1994 in response to significant price differentials for identical pharmaceuticals across EU Member States. Pharmaceuticals are imported from EU/EEA Member States where original pharmaceutical producers sell their preparations at prices that are lower than what they demand for the identical products in e.g. the Nordic countries or Germany. In doing so, Orifarm Group is depending on the principle of free movement of goods within the EU/EEA.

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Management's Commentary

Orifarm Parallel Import's activities have led to lower prices of pharmaceuticals and thus savings benefitting both patients and society at large in the markets in which it operates.

Despite the principles of free movement of goods within the EU/EEA, and without regard for the fact that the efforts of Orifarm Parallel Import and its competitors have led to lower costs of pharmaceuticals, various barriers to the parallel import trade are still being tolerated by the EU; see section entitled "Obstacles to healthcare cost savings generated by the Parallel Import trade" below.

Orifarm Generics

Orifarm Group entered the generic pharmaceuticals market in the Nordic countries in 2001. Generic pharmaceuticals can be produced and marketed once the original manufacturer's patent expires and thereby its exclusive rights lapse. Generic competition normally lowers prices on medicine significantly which benefits patients and society at large.

Orifarm Generics has established a broad range of generic preparations, including both prescription and over-the-counter products.

Review of Financial Performance in 2018

Orifarm Group's results for 2018 are considered very satisfactory and better than expected.

Overall Orifarm Group proudly achieved new record breaking levels for the following key elements

- Highest revenue ever in company history
- Highest number of units sold ever in company history
- Highest level of earnings ever in company history

Orifarm Group's revenues increased by 4.5% to MEUR 833 (2017: MEUR 797) through dedicated focus on new market entries and organic growth in mature markets in Parallel Import. Number of units of pharmaceuticals sold increased by 6.7% to 25.2 million units (2017: 23.7 million units).

Orifarm Group's gross margin increased by 0.6 percentage points to 15.7% (2017: 15.1%) as a result of improved efficiency in Parallel Import.

Orifarm Group's operating margin increased to 4.6% (2017: 4.2%). Orifarm Group's operating income excl. non-recurring items increased by MEUR 6.5 to MEUR 40.3 (2017: MEUR 33.8).

2018 Performance Highlights – Orifarm Parallel Import

- Although market conditions were challenging, Orifarm Parallel Import achieved growth in revenue and margin improvements, both contributing to the significant improvement in net result
- Orifarm Parallel Import's revenues totalled MEUR 756 (2017: MEUR 720)
- Number of units of pharmaceuticals sold increased by 11%
- Orifarm Parallel Import's operating income excl. non-recurring items totalled MEUR 34.2 (2017: MEUR 26.2)

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Management's Commentary

- Orifarm Parallel Import strengthened its leading position as Europe's largest parallel importer of pharmaceuticals
- In Germany, operating profit was lifted through dedicated efforts and despite fierce price competition
- In Sweden, operating income as well as margins were under significant pressure due to the weak Swedish Krona. Orifarm Parallel Import maintained its position at the Swedish market
- In Denmark, revenue grew and profitability was increased despite fierce competition
- Orifarm Parallel Import grew the revenue in UK under full awareness of potential consequences from BREXIT. The weakened British Pound, however, has led to pressure on profitability, but as UK is the second largest PI market in Europe, Orifarm Parallel Import continues to see mid-term possibilities
- Activity level and profitability from presence on the Dutch market increased significantly in 2018 despite challenging entry barriers
- Orifarm Parallel Import continued to grow revenue in the Austrian market and gained additional significant market shares

2018 Performance Highlights – Orifarm Generics

- Orifarm Generics' revenues totalled MEUR 77 (2017: MEUR 77)
- Number of units of pharmaceuticals sold increased by 4.3%
- Operating income fell by MEUR 2.6 to MEUR 9.7 (2017: MEUR 12.3) 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 alongside a strong general assortment-wide growth within the Rx segment
- Orifarm Generics maintained its strong position across the Danish and Swedish markets within the segment for over-the-counter pharmaceuticals through a strengthened focus on a few important categories

Obstacles 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 Group'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. This

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Management's Commentary

practise limits Orifarm Group's sourcing opportunities and consequently also the capacity to increase sales of the lower priced parallel imported pharmaceuticals. In Orifarm Group'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 introduced or attempted to introduce bans on exports of pharmaceuticals to other member states or have hampered exports by imposing obligations onto exporters' notification as 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 Group's entire business model. We therefore strongly object to such measures. The European Commission is regularly informed about developments and in this context we note that the Commission is currently investigating the extent of such export restrictions with the purpose of potential political intervention.

Dual pricing

In Spain, a number of multinational pharmaceutical manufacturers have established or maintained – supported by a legal framework initiated by the Government – a dual pricing system. Dual pricing forces pharmaceutical manufacturers to sell their products at an artificially inflated price to Spanish pharmaceutical wholesalers. However, if the wholesalers can document that the products are intended for domestic sale - and not for re-export – then wholesalers will receive a discount bringing the price to the 'normal' Spanish price level. For parallel importers, the dual-pricing system, therefore, means that one of the EU's fundamental principles - free movement of goods between union members states - is effectively overruled. In Orifarm Group's opinion, dual-pricing violates the competition provisions set out in the EU Treaty.

Nonetheless, despite these trade restrictions, Orifarm Group has continued to provide its customers with stable deliveries 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 Orifarm Group's policy to avoid infringing on trademark rights, and Orifarm Group is not currently involved in any major pending litigation of this kind.

For the business area Orifarm Generics, Orifarm Group 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 Group is from time to time involved in pending legal proceedings. The outcome of these may affect Orifarm Group's earnings.

Financial matters

Orifarm Group is exposed to fluctuations in foreign exchange rates and interest rate levels. These risks are mitigated through hedge, in accordance with the Group's policy. Exchange rate risks are primarily related to the currencies SEK, CZK and GBP. Concerning a change in the interest rate level a 1 percentage point change affects the Group's earnings net by approx. MEUR 1.3.

Orifarm Group A/S

Management's Commentary

Orifarm Group'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 Group's objective to be a leading supplier of parallel-imported and generic pharmaceuticals in the Nordic countries, Germany, Austria, Holland and UK. 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 Group's results and growth-oriented culture.

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

Target Figures for Gender Distribution 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 to ensure that Orifarm Group has the capacity of appointing the best candidate for a given position. This is also reflected in the gender distribution among our managers in Danish companies where 45% are female and 55% 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 in Orifarm's management team.

The Supervisory Board of Orifarm Group A/S currently consists of 6 general elected members of whom 1 is a woman. This distribution is deemed to be acceptable and according to the ambitions stated in previous financial statements. The ambition over the coming 3 years is to further include 1 woman on the Supervisory Board concurrently with natural replacement which continues to be contingent on our ability to identify the best candidate.

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.

Management's Commentary

Development Activities

Orifarm Group's two business areas have 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 occurred which could change the assessments made in the Annual Report.

Outlook

For 2019, Orifarm Group has a goal of revenue growth in the range of 3-6% and an operating income at 2018 level.

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Income statement

(1.000 EUR)

Parent company			Group	
2017	2018		2018	2017
8.611	10.016	Revenue	832.917	796.905
1.164	750	Other operating income	1.187	1.538
-1.019	-620	Cost of sales	-703.063	-678.085
8.756	10.146	Gross profit	131.041	120.358
-5.077	-5.251	Other external expenses	-32.001	-31.955
-5.973	-6.654	Staff costs	-51.049	-45.241
-2.294	-1.759	Income before depreciation	47.991	43.162
-1.345	-1.493	Depreciation, amort. and impairm. losses	-9.890	-9.313
-3.639	-3.252	Operating income	38.102	33.849
24.870	29.651	Income from investments in group entities		
0	-268	Income from investments in associated entities	721	0
1.102	841	Financial income	2.954	3.464
-1.195	-701	Financial expenses	-6.874	-8.593
21.138	26.271	Profit before tax	34.903	28.720
743	183	Tax	-8.449	-6.839
21.881	26.454	Profit for the year	26.454	21.881

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Balance sheet

(1.000 EUR)

Parent company			Group		
2017	2018		Note	2018	2017
0	0	Goodwill		45.233	46.909
0	0	Files and application fees		13.169	19.403
1.933	1.979	Other intangible assets		1.988	1.979
0	0	Development projects in progress		4.370	719
0	0	Development projects completed		4.019	0
1.933	1.979	Intangible assets	10	68.779	69.010
0	0	Property		18.550	18.588
0	0	Leasehold improvements		0	82
1.322	1.429	Plant and equipment		7.138	5.407
1.322	1.429	Tangible fixed assets	11	25.688	24.077
94.987	115.207	Investments in group entities	12		
0	201	Investments in associated entities	13	1.540	0
19.643	19.650	Receivables from group entities	12		
0	293	Receivables from associated entities	13	293	0
0	0	Other bonds and equity investments	13	0	645
114.630	135.351	Financial assets		1.833	645
117.885	138.759	Fixed assets		96.300	93.732
7.024	7.832	Inventories	14	140.409	151.405
303	8	Trade Receivables		101.446	111.742
45.060	48.861	Receivables from group entities		0	301
909	667	Other receivables		2.276	1.251
556	1.013	Prepayments	15	1.835	928
0	0	Deferred tax assets	16	1.757	462
681	551	Income taxes		293	747
47.509	51.100	Receivables		107.607	115.431
7	7	Cash		23	39
54.540	58.939	Current assets		248.039	266.875
172.425	197.698	Total assets		344.339	360.607

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Balance sheet

(1.000 EUR)

Parent company			Group	
2017	2018		2018	2017
282	281	Share capital	281	282
28.749	48.969	Reserve for net revaluation of equity holdings		
81.299	76.669	Retained earnings	125.638	110.048
6.716	10.044	Dividend	10.044	6.716
117.046	135.963	Total equity	135.963	117.046
334	331	Deferred tax liabilities	5.692	3.185
334	331	Provisions	5.692	3.185
0	0	Mortgage debt	4.517	5.093
0	0	Payables to group entities	5.203	9.807
15.671	12.428	Bank debt	19.964	22.339
15.671	12.428	Long-term liabilities	29.684	37.239
7.835	7.102	Short-term portion of long-term liabilities	11.930	18.588
25.271	24.385	Bank debt	90.053	94.702
299	457	Trade payables	27.746	52.962
4.088	14.503	Payables to group entities	0	0
0	0	Income taxes	6.388	5.980
1.881	2.529	Other debt	36.883	30.905
39.374	48.976	Short-term liabilities	173.000	203.137
55.045	61.404	Liabilities	202.684	240.376
172.425	197.698	Total equity, provisions and liabilities	344.339	360.607
		Assets charged and collateral		
		Other Notes		

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Statement of changes in equity (1.000 EUR)

	Group			
	Share capital	Retained earnings	Dividend	Total
Equity at 01.01.2018	282	110.048	6.716	117.046
Adjustment of hedging instruments	0	-232	0	-232
Exchange rate adjustments	-1	-588	0	-589
Distributed dividend	0	0	-6.716	-6.716
Profit for the year	0	16.410	10.044	26.454
Equity at 31.12.2018	281	125.638	10.044	135.963

	Parent company				
	Share capital	Net revaluation, equity method	Retained earnings	Dividend	Total
Equity at 01.01.2018	282	28.749	81.299	6.716	117.046
Adjustment of hedging instruments	0	-232	0	0	-232
Exchange rate adjustments	-1	-533	-55	0	-589
Distributed dividend in the year	0	0	0	-6.716	-6.716
Profit for the year	0	20.985	-4.575	10.044	26.454
Equity at 31.12.2018	281	48.969	76.669	10.044	135.963

Orifarm Group A/S

Cash flow statement

(1.000 EUR)

	Note	Group	
		2018	2017
Operating income		38.102	33.849
Depreciation and impairment losses		9.890	9.313
Exchange rate and hedging adjustments on equity		-820	51
Working capital changes	21	424	-6.907
		47.596	36.306
Interests, net		-3.920	-5.129
Income taxes paid		-7.559	-5.678
Cash flows from operating activities		36.117	25.499
Acquisition of intangible assets, property, plant and equipment		-14.535	-10.219
Sale of property, plant and equipment		3.040	2.119
Change in deposits, fixed asset investments		645	-618
Cash flows from investing activities		-10.850	-8.718
Cash flows from operating and investing activities		25.267	16.781
Change in long-term liabilities other than provisions, net		-14.213	-14.355
Dividend received from associated		295	0
Dividend paid		-6.716	-3.363
Cash flow from financing activities		-20.634	-17.718
Increase/decrease in cash and cash equivalents		4.633	-937
Cash and equivalents 01.01.2018		-94.663	-93.726
Cash and equivalents 31.12.2018	22	-90.030	-94.663

Orifarm Group A/S

Notes

(1.000 EUR)

Parent company			Group	
2017	2018		2018	2017
		1. Revenue		
		Activity information		
		Parallelimport	755.719	720.142
		Generics	77.198	76.763
		Total	832.917	796.905
		2. Staff costs		
5.179	5.849	Wages and salaries	41.740	35.934
678	699	Pension costs	3.545	3.313
116	106	Other social security costs	5.764	5.994
5.973	6.654		51.049	45.241
886	989	Fee to Group Executive Board	3.439	2.871
80	80	Fee to Board of Directors	121	121
966	1.069		3.560	2.992
50	57	Average number of employees	1.036	979
		3. Depreciation, amort. and impairm. losses		
0	0	Goodwill	1.555	1.557
0	0	Files and applications	4.721	5.017
1.097	971	Other intangible assets	940	1.131
0	0	Development projects completed	705	0
0	0	Buildings	633	577
248	522	Operating equip. and leasehold improvements	1.336	1.031
1.345	1.493		9.890	9.313
		4. Income from investments in group entities		
25.204	29.377	Share of profit/loss after tax		
-10	598	Adjustment, internal profit on inventory		
-324	-324	Amortization of goodwill		
24.870	29.651			
		5. Income from investments in associated entities		
0	-268	Share of profit/loss after tax	721	0
0	-268		721	0
		6. Financial income		
982	725	Financial income, group entities	725	982
120	116	Other financial income	2.229	2.482
1.102	841		2.954	3.464

Orifarm Group A/S

Notes

(1.000 EUR)

Parent company			Group	
2017	2018		2018	2017
7. Financial expenses				
206	0	Financial expenses, group entities	1.244	2.563
989	701	Other financial expenses	5.630	6.030
1.195	701		6.874	8.593
8. Tax				
-715	-737	Current tax	7.384	6.238
-126	-3	Change in deferred tax	1.278	333
438	512	Foreign tax regarding activity in group companies	0	0
-340	45	Adjustments concerning previous years	-213	268
-743	-183		8.449	6.839
9. Distribution of profit				
10.044		Proposed dividends	10.044	
20.985		Reserve for net revaluation of equity holdings	0	
-4.575		Retained earnings	16.410	
26.454			26.454	

Orifarm Group A/S

Notes

(1.000 EUR)

10. Intangible assets	Group					Total
	Goodwill	Files and applica-tions	Other intangible assets	Develop-ment projects in progress	Develop-ment projects completed	
Cost at 01.01.2018	59.075	42.811	15.136	719	0	117.741
Transfer	0	-8.179	0	2.067	6.112	0
Additions	0	4.507	1.029	3.485	1.335	10.356
Exchange rate adjustments	-143	-372	-52	0	0	-567
Disposals	0	-1.923	-2.484	-1.901	-278	-6.586
Cost at 31.12.2018	58.932	36.844	13.629	4.370	7.169	120.944
Amortization						
01.01.2018	12.166	23.408	13.157	0	0	48.731
Transfer	0	-2.713	0	0	2.713	0
Amortization for the year	1.555	4.721	940	0	705	7.921
Exchange rate adjustments	-22	-246	-44	0	0	-312
Reversal relating to disposals	0	-1.495	-2.412	0	-268	-4.175
Amortization 31.12.2018	13.699	23.675	11.641	0	3.150	52.165
Carrying amount 31.12.2018	45.233	13.169	1.988	4.370	4.019	68.779
Carrying amount 31.12.2017	46.909	19.403	1.979	719	0	69.010

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.

Orifarm Group A/S

Notes

(1.000 EUR)

10. Intangible assets (continued)	Parent company	
	Other intangible assets	Total
Cost at 01.01.2018	14.360	14.360
Additions	1.022	1.022
Exchange rate adjustments	-43	-43
Disposals	-2.132	-2.132
Cost at 31.12.2018	13.207	13.207
Amortization 01.01.2018	12.427	12.427
Amortization for the year	971	971
Exchange rate adjustments	-38	-38
Reversal relating to disposals	-2.132	-2.132
Amortization 31.12.2018	11.228	11.228
Carrying amount 31.12.2018	1.979	1.979
Carrying amount 31.12.2017	1.933	1.933

Group

11. Tangible fixed assets	Leasehold improve- ments			Operating equipment	Total
	Buildings				
Cost at 01.01.2018	22.737	1.449	13.539	37.725	
Additions	660	0	3.519	4.179	
Exchange rate adjustments	-91	-4	66	-29	
Disposals	0	-526	-2.727	-3.253	
Cost at 31.12.2018	23.306	919	14.397	38.622	
Depreciation 01.01.2018	4.149	1.367	8.132	13.648	
Depreciation for the year	633	0	1.336	1.969	
Exchange rate adjustments	-21	-4	-34	-59	
Reversal relating to disposals	-5	-444	-2.175	-2.624	
Depreciation 31.12.2018	4.756	919	7.259	12.934	
Carrying amount 31.12.2018	18.550	0	7.138	25.688	
Carrying amount 31.12.2017	18.588	82	5.407	24.077	

Orifarm Group A/S

Notes

(1.000 EUR)

	Parent company	
	Operating equipment	Total
11. Tangible fixed assets (continued)		
Cost at 01.01.2018	5.001	5.001
Additions	633	633
Exchange rate adjustments	-15	-15
Disposals	-1.486	-1.486
Cost at 31.12.2018	4.133	4.133
Depreciation 01.01.2018	3.679	3.679
Depreciation for the year	522	522
Exchange rate adjustments	-11	-11
Reversal relating to disposals	-1.486	-1.486
Depreciation 31.12.2018	2.704	2.704
Carrying amount 31.12.2018	1.429	1.429
Carrying amount 31.12.2017	1.322	1.322
	Parent company	
	Investments in group entities	Recei- vables, group entities
12. Financial asset investment		
Cost at 01.01.2018	66.238	19.720
Cost at 31.12.2018	66.238	19.720
Net revaluation at 01.01.2018	28.749	-77
Net share of profit/loss for the year	29.377	0
Amortization goodwill	-324	0
Adjustment of internal profit on inventory, net	598	0
Disposals/Dividend	-8.666	0
Adjustment of hedging on equity	-232	0
Exchange rate adjustments	-533	7
Net revaluation 31.12.2018	48.969	-70
Carrying amount 31.12.2018	115.207	19.650
Carrying amount 31.12.2017	94.987	19.643

Orifarm Group A/S

Notes

(1.000 EUR)

12. Financial asset investment (continued)

Unamortised share of group goodwill on consolidation amounts 2.261t.EUR.

Investments in group enterprises:	Country	Share
Orifarm PI A/S	Denmark	100%
Orifarm Generics Holding A/S	Denmark	100%
Orifarm Property A/S	Denmark	100%
Orifarm Verwaltungsgesellschaft mbH	Germany	100%
Orifarm Trading GmbH & Co. KG	Germany	100%
Orifarm GPC AG	Switzerland	100%

See Group structure page 8

Group

	Investments associated entities	Receivables associated entities	Other equity invest-ments
13. Investments in associated entities etc.			
Cost at 01.01.2018	0	0	453
Transfer	453	0	-453
Additions	469	293	0
Cost at 31.12.2018	922	293	0
Value adjustment 01.01.2018	0	0	192
Transfer	192	0	-192
Disposals/Dividend	-295	0	0
Profit for the year	721	0	0
Value adjustment 31.12.2018	618	0	0
Carrying amount 31.12.2018	1.540	293	0
Carrying amount 31.12.2017	0	0	645

Details on investments which can harm the business has not been shown in accordance to section 97a(4) of the Danish Financial Statement Act

Parent company

	Investments associated entities	Receivables associated entities
Cost at 01.01.2018	0	0
Additions	469	293
Cost at 31.12.2018	469	293
Value adjustment 01.01.2018	0	0
Profit for the year	-268	0
Value adjustment 31.12.2018	-268	0
Carrying amount 31.12.2018	201	293
Carrying amount 31.12.2017	0	0

Investments in associated companies (parent):	Country	Share
IQ Charter I A/S	Denmark	100%

Orifarm Group A/S

Notes

(1.000 EUR)

		14. Inventories			
0	0	Raw materials and consumables	58.844	54.694	
7.024	7.832	Manufactured goods and goods for resale	81.565	96.711	
<u>7.024</u>	<u>7.832</u>		<u>140.409</u>	<u>151.405</u>	

15. Prepayments

Consists of prepayments on costs concerning subsequent financial year.

Parent company				Group	
2017	2018		2018	2017	
		16. Deferred tax			
		Deferred tax is incumbent on the following financial statement items:			
493	435	Intangible assets	1.948	1.588	
-159	-104	Tangible fixed assets	1.806	1.571	
0	0	Inventories	254	-14	
0	0	Tax loss carryforwards	-73	-422	
<u>334</u>	<u>331</u>		<u>3.935</u>	<u>2.723</u>	
		Net value is recognised in the balance sheet as follows:			
0	0	Deferred tax assets	-1.757	-462	
334	331	Deferred tax liabilities	5.692	3.185	
<u>334</u>	<u>331</u>		<u>3.935</u>	<u>2.723</u>	
		Development Deferred tax:			
460	334	Net value in balance sheet - primo year	2.723	2.390	
-126	-3	Effect in P&L during the year	1.278	333	
0	0	Effect on Equity during the year	-66	0	
<u>334</u>	<u>331</u>	Net value in balance sheet - ultimo year	<u>3.935</u>	<u>2.723</u>	

17. Share capital

The share capital consists of 2.100 shares at EUR 134.

The shares have not been divided into classes.

134	134	1.000 Contribution from demerger 01.01.2003
134	134	1.000 Capital increase 09.12.2003
13	13	100 Capital increase 07.07.2015
1	0	Exchange rate adjustments
<u>282</u>	<u>281</u>	Share capital 31.12.2018

Orifarm Group A/S

Notes

(1.000 EUR)

	Group			
	Due for payment within 1 year	Due for payment after 1 year	Amortized debt in total	Nominal debt in total
18. Long-term debt				
Mortgage debt	526	4.517	5.043	5.043
Payables to group enterprises	0	5.203	5.203	5.203
Bank debt	11.404	19.964	31.368	31.368
Long-term debt 31.12.2018	11.930	29.684	41.614	41.614
Long term debt 31.12.2017	18.588	37.239	55.827	55.827
Due for payment after 5 years:				
Mortgage debt		2.029		
Payables to group enterprises		0		
Bank debt		0		
		<u>2.029</u>		

	Parent company			
	Due for payment within 1 year	Due for payment after 1 year	Amortized debt in total	Nominal debt in total
Bank debt	7.102	12.428	19.530	19.530
Long-term debt 31.12.2018	7.102	12.428	19.530	19.530
Long term debt 31.12.2017	7.835	15.671	23.506	23.506
Due for payment after 5 years:				
Bank debt		0		
		<u>0</u>		

Orifarm Group A/S

Notes

(1.000 EUR)

Parent company		Group	
2017	2018	2018	2017
19. Assets charged and collateral			
Mortgage deeds and letter of indemnity have been issued as security for credit institutions with a nominal amount of		18.373	18.398
The actual liability on the balance sheet date amounts to		5.043	5.630
0	0	15.978	15.872
Carrying amount of pledged properties			
Certain operating equipment have been financed by means of finance leases.			
Total operational lease obligation until contracts expire		805	945
41	85	4.384	5.586
Leasehold liabilities			

Group:

The Group companies has provided receivables from sales of goods and services, MEUR 65.2 and inventories MEUR 25.0, as security for debt to the Group's banks and credit institutions.

The Group companies are a party to litigation regarding alleged infringements of trademark and patent rights. Management believes that these legal proceedings will not lead to material losses for the company. The group has normal trade obligations on returned goods, and no significant losses are expected.

Parent:

The entity has provided guarantees under which the guarantors assume joint and several liability for group companies net debt with bank and credit institution. Total net debt in relation to this guarantee is booked at MEUR 75.8 at 31. December 2018.

20. Contingent liabilities

Group:

The parent company and the Danish Group companies are jointly taxed with all Danish subsidiaries, with Habico Holding A/S as the administration company. The parent Company and the danish group companies are 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.

Parent Company:

In addition, there are also security for the debt to banks and credit institutions, pledged unlisted shares in certain companies with a total book value per. 31. December 2018 of MEUR 105.3.

	Group	
	2018	2017
21. Working capital changes		
Change in inventories (- = increase)	10.996	-2.829
Change in receivables (- = increase)	8.666	-15.880
Change in trade payables etc. (- = decrease)	-19.238	11.802
	424	-6.907
22. Cash and cash equivalents		
Cash	23	39
Short-term bank debt	-90.053	-94.702
	-90.030	-94.663

Orifarm Group A/S

Notes

(1.000 EUR)

23. Related parties with controlling interest

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

The companies parent company Habico A/S, Central Business Registration No 75 12 85 17, Odense.

Other related parties Orifarm Group A/S has had transactions with in 2018:

The companies Board of Directors and Executive Board.

Fees etc. are separately disclosed in note 2, Staff costs.

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

All transactions with related parties are carried out on arms length.

24. 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:

Habico A/S, Energivej 15, 5260 Odense S.

25. Consolidation

Name and registered office of the Parent preparing consolidated financial statement for the ultimate group: Habico Holding A/S, Energivej 15, 5260 Odense S, Denmark (Central Business Registration No 27 34 71 34).

Name and registered office of the Parent preparing consolidated financial statement for the closest group: Habico A/S, Energivej 15, 5260 Odense S, Denmark (Central Business Registration No 75 12 85 17).

	Group	
	2018	2017
26. Fees to auditors appointed at the Company's general meeting		
Fees are recognized under Other external expenses with:		
Fees for statutory audit	203	198
Fees for assurance engagements	12	9
Fees for tax advice	328	173
Fees for other services	86	31
	629	411

27. Exchange rate risk and financial instruments

As part of the hedge of recognized and unrecognized transactions, the Group uses hedging instruments in the form of forward exchange contracts. Hedge of recognized transactions primarily comprise receivables and payables. As at 31.12.2018 unrealized net losses on derivative financial instruments for currency hedging on Group level in total amounts TEUR 418. The amount is in the balance sheet included under other debt.

28. 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.

Orifarm Group A/S

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).

The accounting policies applied for these financial statements are consistent with those applied last year. The annual report is presented in EUR.

Income statement items are translated at the average rate for the year. Balance sheet items are translated at closing rate. The exchange rate adjustment from the average for the year, respectively, previous year's closing rate are posted directly to equity.

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 Group, and the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when the Group 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 Group, 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.

The consolidated financial statements

The consolidated financial statements include Orifarm Group A/S (parent company) and companies (group enterprises) controlled by the parent, see the group overview page 8. The parent company is considered to have control when it directly or indirectly owns more than 50% of the voting rights or in other ways actually exercises controlling influence. Companies in which the Group directly or indirectly owns between 20% and 50% of the voting rights and exercises significant influence, but no controlling influence, are considered as associated companies. See the group overview page 8.

Consolidation principles

The consolidated financial statements are prepared on the basis of the financial statements for Orifarm Group A/S and its subsidiaries. The consolidated financial statements are prepared by aggregation of uniform accounting items. On consolidation, elimination of intercompany revenue and expenses, and dividends as well as gains and losses on transactions between consolidated companies. The accounts used for consolidation are prepared in accordance with the groups accounting policies.

In the consolidated financial statement accounts of the subsidiaries are recognized 100%. Minority interests' proportionate share of net profit and net assets are presented as separate items in the income statement and balance sheet.

Orifarm Group A/S

Accounting policies

Business combinations

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquiring or establishing such enterprises. Divested or wound-up entities are recognised in the consolidated income statement up to the time of their divestment or windingup.

The purchase method is applied in the acquisition of new enterprises, under which identifiable assets and liabilities of these enterprises are measured at fair value at the acquisition date. On acquisition of enterprises, provisions are made for costs relating to decided and published restructurings in the acquired enterprise. Allowance is made for the tax effect of restatements.

Positive differences in amount (goodwill) between cost of the acquired share and fair value of the assets and liabilities acquired are recognised under intangible assets, and they are amortised systematically in the income statement based on an individual assessment of their useful lives, however, no more than 40 years. Negative differences in amount (negative goodwill), corresponding to an estimated adverse development in the relevant enterprises, are recognised in the balance sheet as a separate item under deferred income, and they are recognised in the income statement as such adverse development is realised.

Profits or losses from divestment of equity investments

Profits or losses from divestment or winding-up of subsidiaries are calculated as the difference between selling price or settlement price and carrying amount of the net assets at the time of divestment or winding-up, inclusive of non-amortised goodwill and estimated expenses for divestment or winding-up.

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. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

On recognition of foreign subsidiaries which are independent units, all amounts are translated at the year-end rate. Differences in the exchange rate which arise when translating the foreign company's equity at the beginning of the year using the exchange rates at balance sheet date are recognised directly in equity.

Derivatives

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables, respectively.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging of the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Orifarm Group A/S

Accounting policies

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are classified directly on equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not qualify as hedging instruments, changes in fair market value are recognised currently in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments applied for hedging net investments in independent foreign group enterprises or associates are classified directly as equity.

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.

Other operating income

Other operating income comprises income of a secondary nature to the Group's primary activities.

Cost of sales

Cost of sales includes the consumption of commodities and freight costs that are incurred to generate the calculated revenue.

Other operating 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.

Income from investments in Group entities and associated entities

Income from investments in group entities and associated entities comprises the pro rata share of the individual enterprises' profit/loss after full elimination of intra-group profits or losses.

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.

Income taxes

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/loss 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.

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

Orifarm Group A/S

Accounting policies

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 is measured based on the tax regulations and tax rates of the relevant countries that will be in effect according to law at the balance sheet date when the deferred tax is estimated to be triggered as current tax. Changes in deferred tax resulting from changed tax rates are recognised in the income statement.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable values, either as a set-off against deferred tax liabilities or as net tax assets.

The Parent is jointly taxed with all Danish subsidiaries and parent companies. 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 interest deduction is recognised in the company in which the interest deduction 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 maximum amortization period of goodwill is 40 years.

The determination of the lifetime is decided based on an evaluation of a combined company with Know How, skills and a efficient organization, which is expected to provide development of the business in a long time to come, and because the lifetime of the medicinal products normally are very long.

When goodwill is 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.

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 5-12 years.

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

Orifarm Group A/S

Accounting policies

Development projects in progress

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.

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.

Other intangible assets

Cost of development and implementation of major IT systems as well as other intangible assets is measured at cost with deduction of accumulated amortisation and impairment losses. The period of amortisation is usually 3-7 years.

When other intangible assets are subject to impairment, other intangible assets are written down to the lower of recoverable amount and carrying amount.

Property, Leasehold improvements and Plant and equipment

Properties, leasehold improvements and operating equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

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. Interest expenses are not included in cost.

The basis of depreciation is cost less estimated residual value after the end of useful life. The residual value amounts to 40% of the acquisition price. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Property:	10-50 years
Leasehold improvements:	5-10 years
Operating equipment:	3-10 years

Estimated useful lives and residual values are reassessed annually.

When property, plant and equipment are subject to impairment, PPE are written down to the lower of recoverable amount and carrying amount.

Profits and losses from the sale of property, plant and equipment are calculated as the difference between selling price less selling costs and the carrying amount at the time of sale. Profit or loss is recognised in the income statement.

Investments in group entities and associated entities

Investments in group entities and associated entities are recognised and measured under the equity method. This means that investments are measured at the pro rata share of the entities' equity plus or minus unamortised goodwill or negative goodwill on consolidation and plus or minus unrealised intra-group profits and losses.

The Parent's share of the entities' profits or losses after elimination of unrealised intra-group profits and losses and plus or minus amortisation of positive, or negative, goodwill on consolidation is recognised in the income statement.

Group entities and associated entities with negative equity are measured at zero value, and any receivables from these entities are written down by the Parent's share of such negative equity if it is deemed irrecoverable. If the negative equity value exceeds the amount receivable, the remaining amount is recognised under provisions if the Parent has a legal or constructive obligation to cover the liabilities of the relevant entity.

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Net revaluation of investments in group and associated entities is taken to reserve for net revaluation under the equity method if the carrying amount exceeds cost.

The purchase method is applied in the acquisition of investments in group and associated entities; see above description under consolidated financial statements.

Details on investments which can harm the business has not been shown in accordance to section 97a(4) of the Danish Financial Statement Act

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost of goods for resale, raw materials and consumables consists of purchase price plus landing costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables and direct labour costs as well as indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of and depreciation and impairment losses on machinery, factory buildings and equipment applied for 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 write-downs for bad receivables.

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Bank debt

Bank debt comprises debt to banks.

Mortgage debt

At the time of borrowing, mortgage debt is measured at cost which corresponds to the proceeds received less transaction costs incurred. The mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Other financial liabilities

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

Operating lease commitments

Lease payments on operating leases are recognised on an ongoing basis in the income statement over the term of the lease.

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Accounting policies

Cash flow statement

The cash flow statement of the Group is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as the Group's cash and cash equivalents at the beginning and the end of the financial year. No separate cash flow statement has been prepared for the Parent because it is included in the consolidated cash flow statement.

Cash flows from acquisition and divestment of enterprises are shown separately under cash flows from investing activities. Cash flows from acquired enterprises are recognised in the cash flow statement from the time of their acquisition, and cash flows from divested enterprises are recognised up to the time of sale.

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

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as acquisition, development, improvement and sale, etc of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the size or composition of the Parent's share capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares, and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank debt.

Segment information

Information should be provided for business segments. No information is given in respect of geographical markets as the risk to which the markets are subject is found to be quite similar.

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:	$\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$