Annual report 2018

ABACUS MEDICINE

Original European Supply

Presented and adopted at the Annual General Meeting on 2 May 2019

Rikke Schiøtt Petersen
Chairman

CVR no. 28 11 15 76

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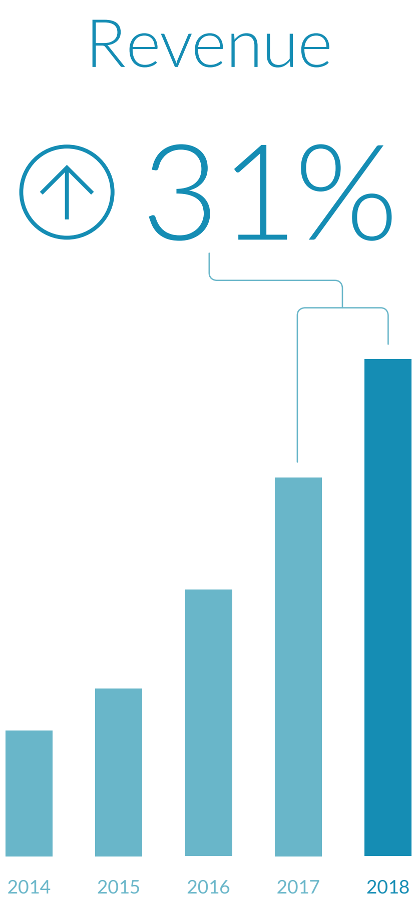
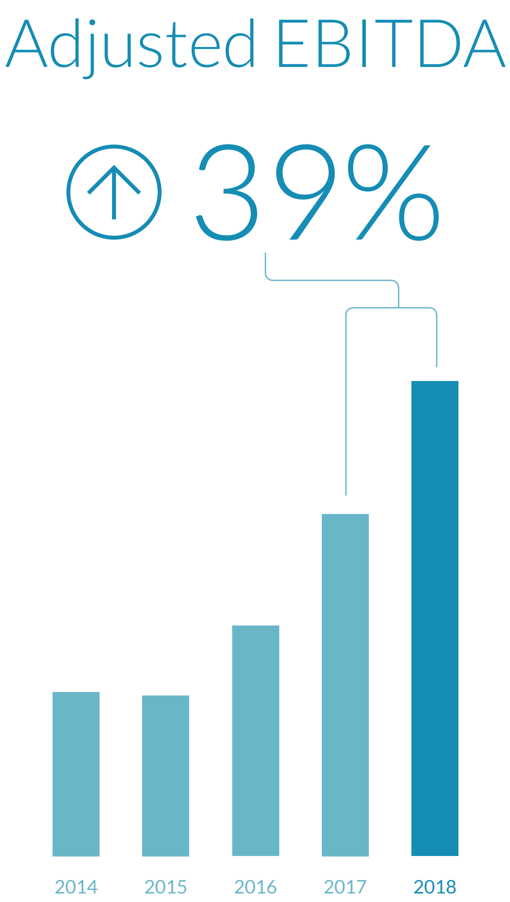
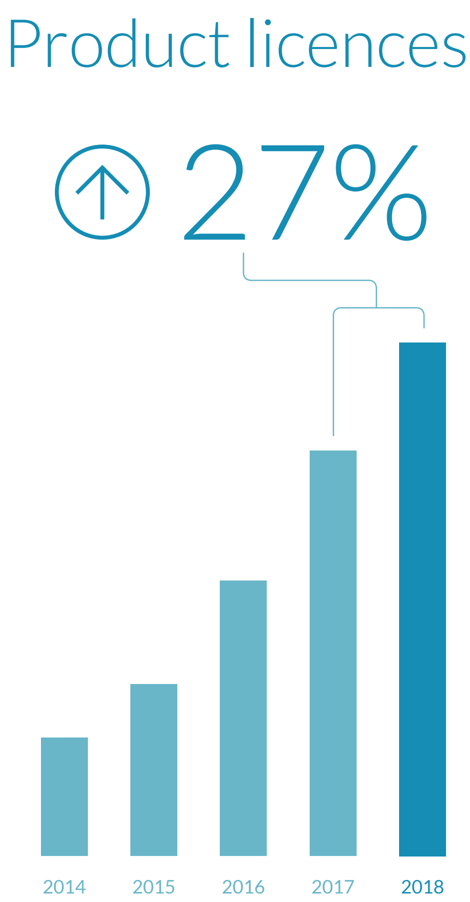






Financial highlights for the Group

In EUR'000, except for per share data	2018	2017**	2016**	2015**	2014*
KEY FIGURES					
Revenue	332,347	253,056	177,850	111,884	83,870
Gross profit	40,803	29,312	20,665	12,990	11,334
Operating profit before depreciations, amortisation and special items (Adjusted EBITDA)	13,645	9,794	6,622	4,576	4,651
Operating profit before depreciations, and amortisation (EBITDA)	12,580	9,417	6,622	4,576	4,651
Operating profit (EBIT)	9,868	7,560	5,112	3,321	3,495
Financial expenses, net	-2,518	-1,428	-638	-596	-1,064
Profit before tax	7,350	6,132	4,474	2,725	2,378
Profit for the year	5,359	4,328	3,259	1,996	1,774
Non-current assets	17,282	11,889	5,498	4,536	4,485
Current assets	79,954	44,618	52,665	40,909	20,504
Total assets	97,236	56,507	58,163	45,445	24,989
Portion relating to investments in items of property, plant and equipment	2,970	1,491	593	359	244
Portion relating to investments in intangible assets	13,890	10,218	4,779	4,076	4,150
Equity	14,399	9,671	9,506	8,263	3,278
Non-current liabilities	1,892	2,057	740	769	3,290
Current liabilities	80,945	44,779	47,917	36,413	18,421
Cash flow from operating activities	13,182	21,029	-263	-14,164	2,050
Cash flow from investing activities	-9,036	-5,013	-1,343	-1,314	-915
Of which relate to intangible assets	-6,513	-3,938	-1,530	-1,039	-767
Of which relate to tangible assets	-2,426	-1,350	-509	-265	-117
Cash flow from financing activities	20,207	-30,128	-937	8,884	3,359
Total cash flow	**24,353**	**-14,112**	**-2,543**	**-6,594**	**4,494**

In EUR'000, except for per share data	2018	2017**	2016**	2015**	2014*
FINANCIAL RATIOS					
Revenue growth	31.3%	42.3%	59.0%	33.4%	27.8%
Gross margin	12.3%	11.6%	11.6%	11.6%	13.5%
Adjusted EBITDA margin	4.1%	3.9%	3.7%	4.1%	5.5%
EBITDA margin	3.8%	3.7%	3.7%	4.1%	5.5%
Operating profit (EBIT) margin	3.0%	3.0%	2.9%	3.0%	4.2%
Return on invested capital (ROIC)	11.2%	11.4%	8.1%	7.7%	10.6%
Solvency ratio	14.8%	17.1%	16.3%	18.2%	13.1%
Return on equity	44.5%	45.1%	36.7%	34.6%	86.6%
Earnings per share, EUR	0.7	0.6	0.5	0.3	0.3
Diluted earnings per share, EUR	0.7	0.6	0.5	0.3	0.3
OTHER FIGURES					
Average number of full-time employees	449	349	206	136	111
Marketing authorisations (licences)	3,186	2,515	1,709	1,067	734

* Danish GAAP numbers

** The comparative figures are not adjusted for the implementation of IFRS 9 and IFRS 15

Financial ratios are calculated in accordance with the terms and definitions described in note 1 Accounting policies. The calculation of earnings per share and diluted earnings per share is based on the guidance in IAS 33.

Letter from the CEO

The year 2018 proved very successful for Abacus Medicine. We achieved high revenue growth of 31% to reach a total of EUR 332.3 million and even higher growth of Adjusted EBITDA of 39% to EUR 13.6 million - our best result ever.

Our progress in 2018 was the result of a fantastic achievement by the entire team. But not necessarily an unusual one. In many ways, the year was business as usual for Abacus Medicine. Since the company was founded 14 years ago, we have achieved revenue growth each year. And like in 2018, always in the high double digits.

Shaping the future

What marks 2018 as an exceptional year was that we simultaneously carried out several large development projects to lay the foundation for the company's future growth. Much of what we did in 2018 will come to shape the contours of the company we will be in the future.

Today, Abacus Medicine is among the market leaders and shaping the Parallel Trade industry in Europe. Tomorrow, we will be a global company with a diverse business platform in the pharmaceutical industry. This year, we welcomed a net total of 164 colleagues to reach 560 employees worldwide by year-end.

In January 2018, we opened the doors to our new warehouse in Berlin dedicated to serving the all-important German market.

At our main production site in Budapest, we renovated and increased our floor space to 9,000 square meters.

In October 2018, we completed the first production at our new site in Alkmaar in the Netherlands which will support the main facility in Budapest and serve as a back-up production site.

On top these major activities, we also invested in redesigning many of our core work processes and data streams.

Our newly implemented ERP system (Dynamics 365) will help us significantly improve and integrate multiple processes such as order management, the flow of the physical goods and accounting.

The hard work put into becoming compliant with the Falsified Medicines Directory will allow us not only to increase patient safety but also to achieve efficiencies in how we repackage and distribute medicine.

Finally, we invested considerable resources in preparing an Initial Public Offering on the Frankfurt Stock Exchange. Unfortunately, we were forced to postpone the IPO at the very last minute because of volatile financial markets. As a result, we will continue our efforts to raise capital for further growth.

Best regards,

Flemming Wagner
CEO and Co-founder

“A fantastic achievement by the entire team. Much of what we did in 2018 will come to shape the contours of the company we will be in the future.”

Performance

Business review

Abacus Medicine achieved growth in revenue and profits in 2018. We proved once again that our market strategy and product strategy combined with strong competence in advanced data analytics and sourcing allows us to continuously achieve high growth rates.

Revenue in 2018 grew by 31% to EUR 332.3 million against EUR 253.1 million the previous year, driven by organic growth in established markets.

As a further positive development, the high growth did not come at the expense of margins. In fact, we managed to improve gross margin to 12.3% in 2018 against 11.6% in 2017.

EBITDA adjusted for Special items rose by 39% to EUR 13.6 million in 2018 against EUR 9.8 million in 2017.

Profit before tax in 2018 increased to EUR 7.4 million against EUR 6.1 million in 2017, resulting in Profit for the year 2018 of EUR 5.4 million – the highest result ever for the company.

Measured against our outlook for 2018, we exceeded expectations for revenue (EUR 332.3 million against expected EUR 291-316 million) and achieved our target of an EBITDA margin around 4%. Management considers this satisfactory.

This year's result is influenced by one-off costs (Special items) for the preparation of an Initial Public Offering (IPO) that was postponed because of volatile financial markets.

The average number of full time employees rose from 349 in 2017 to 449 in 2018.

Market segments

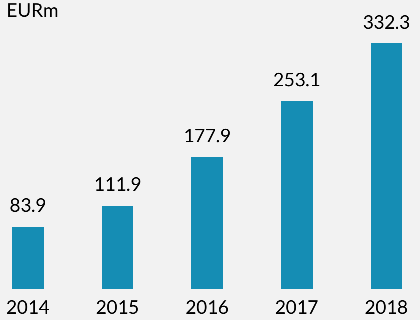
Revenue growth in 2018 came primarily from established markets.

In the Netherlands, sales grew by 170%, from EUR 14.7 million in 2017 to EUR 39.8 million in 2018, not least through winning a number of public tenders to supply Dutch hospitals.

The revenue increase of 27% in Germany, from EUR 149.9 million in 2017 to EUR 189.6 million in 2018, was a similarly impressive result considering that Germany was already our largest market.

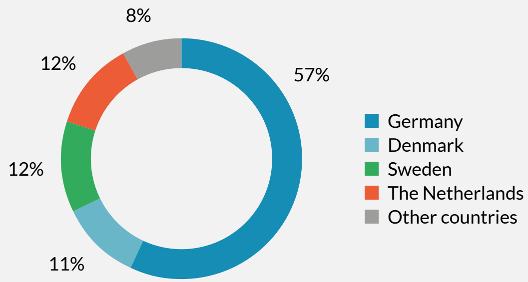
REVENUE

EURm



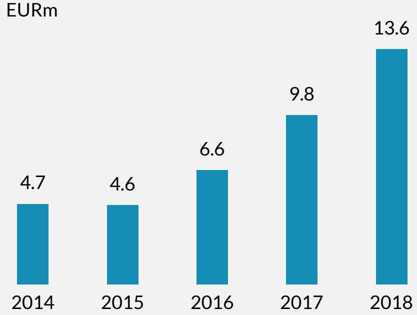
REVENUE

%



EBITDA (ADJUSTED)

EURm



In the group of eight "Other countries" we achieved a total revenue growth of 90%, from EUR 13.7 million in 2017 to EUR 26.1 million in 2018, but with large variations between the individual countries. This is to be expected in new markets. The eight markets comprise a total of approximately 8% of sales and as such only a modest share of revenue, but still play an important role in our market strategy as they allow us to diversify our market risk and provide high growth opportunities.

Aposave, our pharmaceutical services arm, made good progress in 2018. With a number of new hires, we have built a team with international industry expertise and have laid a solid foundation that will allow Aposave to accelerate growth globally.

In August 2018, we divested the food supplement business DayDose to create a more focused Abacus Medicine with clearer synergies between the business areas. Staff costs and other external costs from DayDose had a one-off negative effect on the result for 2018 of EUR 1.1 million.

Investing in new licences

Product licences represent the clear majority of our intangible assets which rose to EUR 13.9 million in 2018 from EUR 10.2 million in 2017.

This year, our total number of licences increased from 2,515 to 3,186. Following last year's record of 804 new licences, management considers the 671 new licences in 2018 an impressive achievement in a year where the employees in our Product Development and Regulatory departments also devoted considerable resources to implementing the changes brought on by the Falsified Medicines Directive (FMD).

The ability of Abacus Medicine to identify and obtain new licences sets a new standard in our industry, and in 2019 we will continue to be very ambitious in applying for new licences. There is a clear correlation between our rapidly increasing number of licences and our revenue growth.

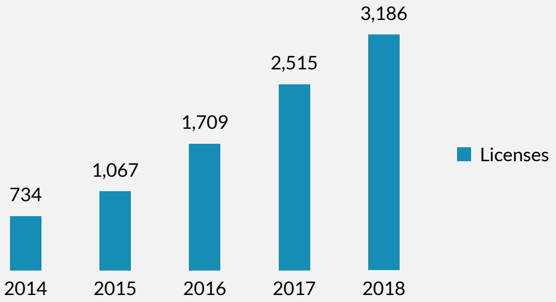
Another noteworthy intangible assets investment in 2018 was IT software in the form of a new Enterprise Resource Planning (ERP) system, which was implemented in a timely and professional manner.

Increasing capacity

As a consequence of the continuous, high growth, we are constantly taking new steps to ensure sufficient production capacity. During 2018, we carried out an expansion project at our main production site in Budapest, Hungary, and initiated production at a new, supporting site in the Netherlands. By adding a second site, we will be introducing a new level of flexibility and efficiency in our production planning, while simultaneously lowering our operational risk substantially.

PRODUCT LICENSES

Number of



AVERAGE FULL-TIME EMPLOYEES

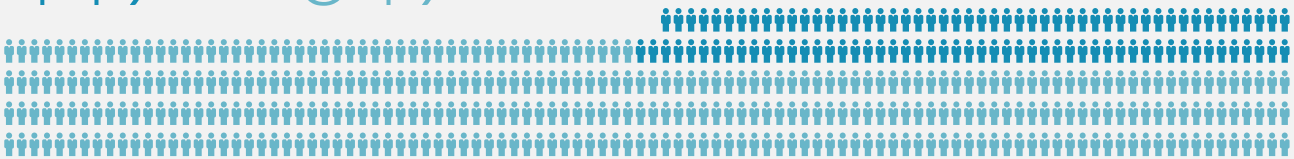
(FTE)

2018

449

2017

349



Increased capacity combined with investments in IT software and new production machinery related to the implementation of the Falsified Medicines Directive (FMD), led to a rise in Property, plant and equipment assets from EUR 1.5 million in 2017 to EUR 3.0 million in 2018. In spite of this, Abacus Medicine remains an asset light company.

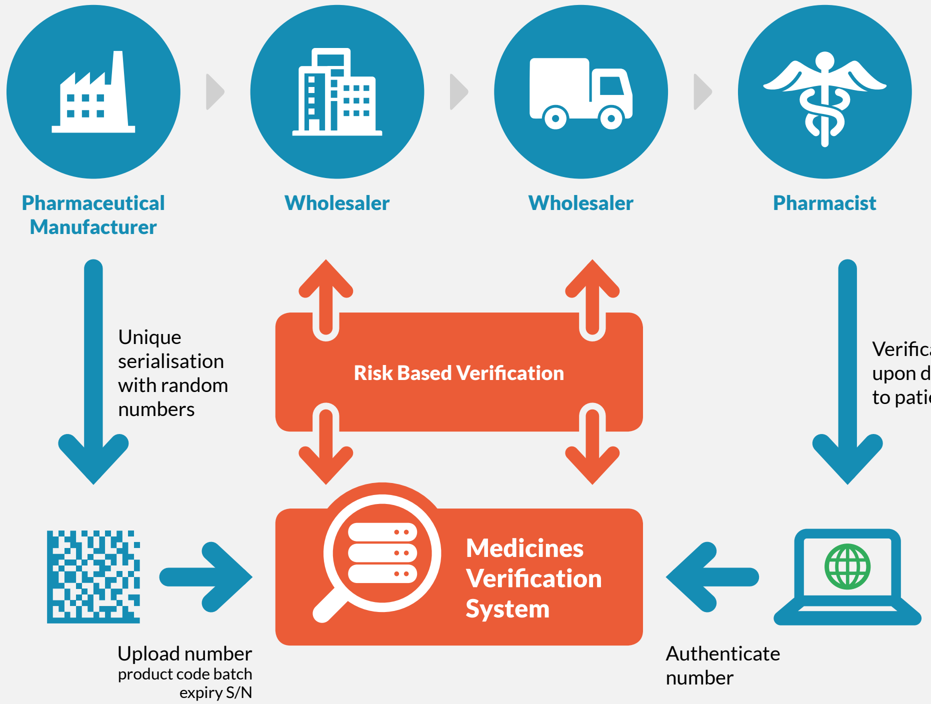
As the company grows, so do our inventory levels. On top of the overall growth, we decided to keep a temporarily high level of stock at the end of 2018 to ensure uninterrupted deliveries during the implementation of our new ERP system and the FMD in January and February 2019. In total, inventory rose by 79% over the year, from EUR 33.4 million in 2017 to EUR 59.6 million in 2018. The inventory has been reduced in the first months of 2019.

Abacus Medicine operates on the basis of a factoring agreement for the sale of trade receivables. The predominant part of the year's rise in Trade and other receivables were connected to a temporary rise in invoices in process at our factoring partner. These invoices were processed in January 2019. Abacus Medicine suffered no significant losses on customers in 2018 or in the previous years.

The majority of the year's rise in Other payables relates to German VAT to be settled in August 2019.

The net cash-flow from financing activities increased due to the inclusion of the bank credit facility which is now considered to be financing activity and not a part of net cash as presented previously. This change is further described in the accounting policies in note 1.

The FMD: A gigantic project



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On 9 February 2019, the EU's Falsified Medicines Directive (FMD) became operational. This marked the final stage of a gigantic process to further increase patient safety which has worked its way through the pharmaceutical industry for almost a decade.

At the heart of the FMD sits the European Medicines Verification System - a database system to track individual packs of medicine at each step of their way from the manufacturer to the patient. All participants in the pharmaceutical supply chain throughout 32 countries will be directly or indirectly linked to this central database managed by the European Medicines Verification Organisation.

At Abacus Medicine, a dedicated project team has been working full time since 2017 to implement the FMD. It has substantial impact on how we handle and produce goods, ranging from workflow design to our physical printers, scanners and other machinery.

In 2018, our investments in software and hardware related to the implementation of the FMD came to approximately EUR 1 million. On top of this, thousands of man-hours were spent on process reengineering, testing and documentation in our Regulatory, Production, Supply Chain and other departments. The implementation in early 2019 went smoothly and is fully integrated in our operations.

Unusual matters
On 1 October 2018, Abacus Medicine announced our intention to become a listed company on the Frankfurt Stock Exchange. Following a period of high market volatility, the Initial Public Offering (IPO) was postponed four weeks later.

No other unusual matters occurred in the financial year which have had a material effect on the Group and Parent Company's financial position.

Subsequent events
In February 2019, Abacus Medicine granted a convertible loan of EUR 0.65 million to the Dutch wholesaler Pluripharm which can be converted to a majority ownership of shares of its parent company, Goofy-Sam Holding B.V. The convertible loan was granted in the light of a liquidity shortage at Pluripharm and securing the continuance of core operations and will secure Abacus Medicine's main access and distribution channel in the Netherlands. Abacus Medicine and Pluripharm thereby recognize substantial strategical advantages and operational synergies from the strategic alliance between the two companies.

Material recognition and measurement uncertainties
In preparing the consolidated financial statements, Management makes various accounting estimates and assumptions which form the basis of the presentation, recognition and measurement of Abacus Medicine's assets and liabilities.

Determining the carrying amounts of certain assets and liabilities requires estimates and assumptions concerning future events. Estimates and assumptions are based on historical experience and other factors, which Management assesses to be reasonable, but which by their nature involve uncertainty and unpredictability. These assumptions may have to be revised, and unexpected events or circumstances may occur.

Abacus Medicine is subject to risks and uncertainties that may lead to the actual results differing from these estimates, both positively and negatively. Specific risks for Abacus Medicine are discussed in the relevant sections of the Management review and in the notes.

The areas that involve a high degree of judgement and estimation and which are material to the financial statements are described in more detail in note 2.

Outlook 2019

For 2019, Management expects that the Group will achieve significant, organic growth of around 20-35%.

Like in 2018, we will apply for a large number of new product licences to expand our product portfolio at a high rate.

The Group revenue is expected to be within the range of EUR 400-445 million and the EBITDA margin adjusted for expected IPO-related costs is expected to be within the range of 4.1% - 4.6% in 2019.

ORGANIC GROWTH

20-35%

REVENUE, EUR

400-445 M

ADJUSTED EBITDA MARGIN

4.1-4.6%

Our Business Model

Significant price differences on medicine between EU countries combined with the EU principle of the free movement of goods creates a sustainable business model for Abacus Medicine.

The pharmaceutical industry is known for its complex pricing mechanism where governments, original manufacturers, wholesalers, and sometimes insurance companies negotiate prices.

In the European Economic Area (EEA), each member state has its own regime for setting prices for pharmaceutical products. The regimes take into consideration a wealth of factors, such as:

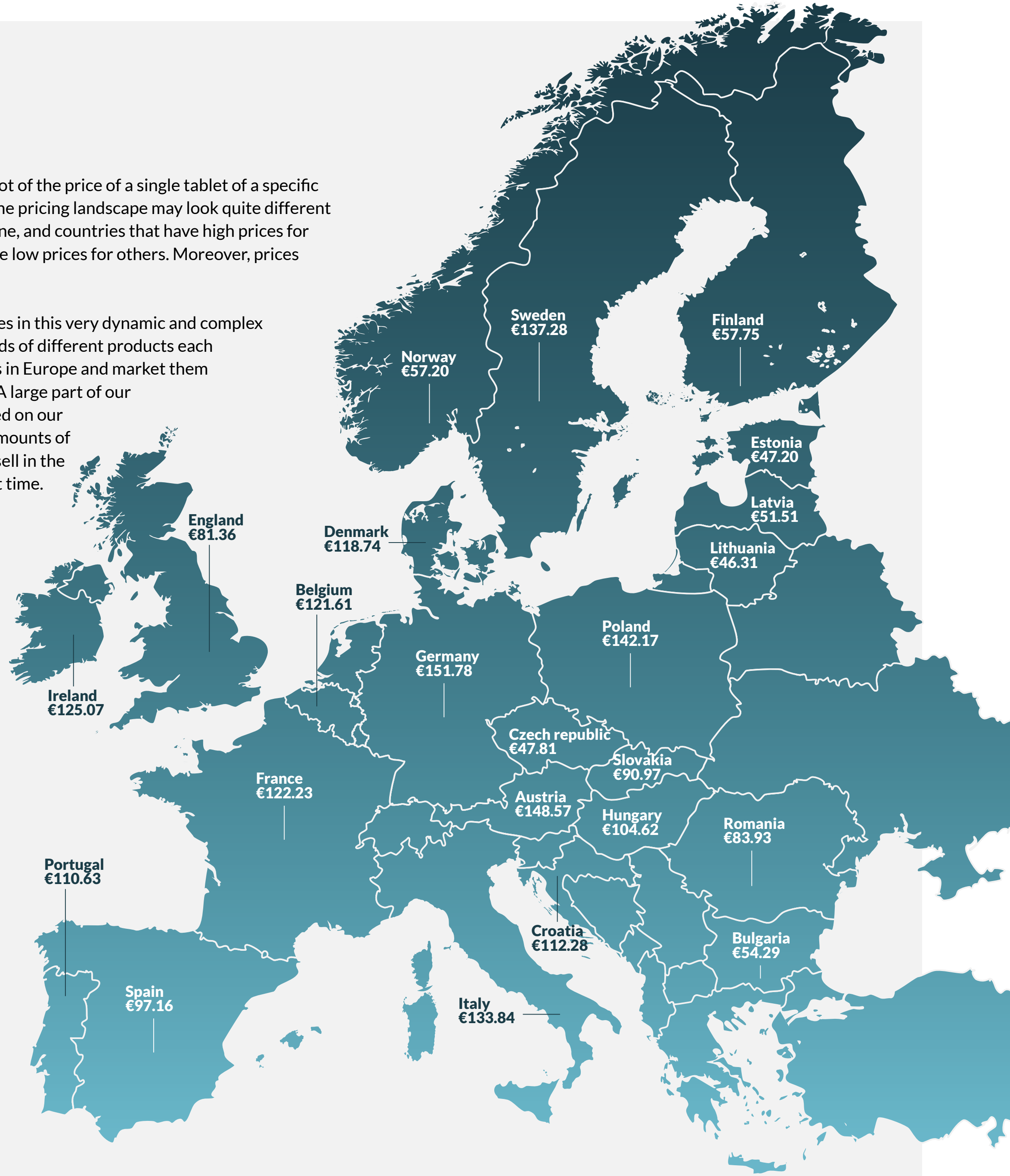
- different national income per capita,
- different pricing mechanisms used by regulators (e.g. external reference pricing, value-based pricing, free pricing model),
- different reimbursement systems,
- different mark-up systems for wholesalers and retailers in each country,
- different tendering regulations, and
- different national levels of VAT for medicine

The result is that medicine prices vary significantly across EEA countries.

PRICE DIFFERENCE

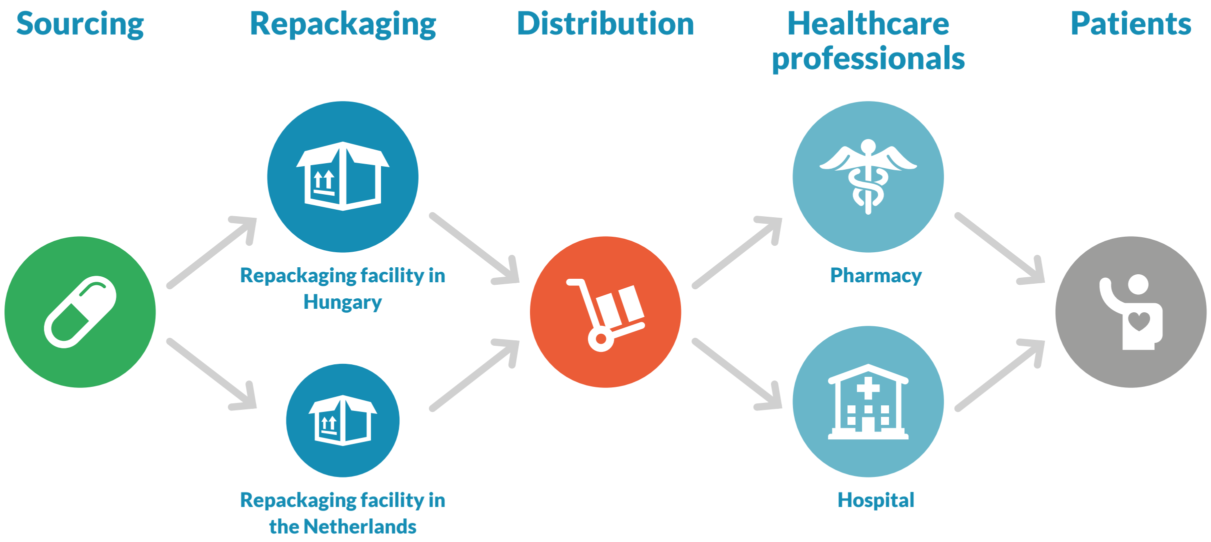
The map shows a snapshot of the price of a single tablet of a specific prescription medicine. The pricing landscape may look quite different for other kinds of medicine, and countries that have high prices for some medicines may have low prices for others. Moreover, prices change continuously.

Abacus Medicine operates in this very dynamic and complex market. We buy thousands of different products each month from 27 countries in Europe and market them directly in 12 countries. A large part of our success is therefore based on our ability to analyse large amounts of data, so we can buy and sell in the right markets at the right time.



This combined with the EU principle of the free movement of goods creates trading opportunities for Abacus Medicine and contributes to reducing healthcare costs in EU.

This business model is generally known as parallel trade, parallel distribution or parallel import.



Macro trends that impact our industry

Rising healthcare costs
The pharmaceutical parallel trade industry had a value of approximately EUR 5.4 billion in 2017 and is expected to grow to EUR 6.2 billion by 2022, according to internal calculations based on IQVIA MIDAS Quantum. Industry growth is driven by a number of trends:

- **An ageing population**
  In Western Europe, about one in five people are aged 65 or older. By 2030, this proportion will climb to one in four.

- A continuous **increase in healthcare spending**
  From 2015 to 2017, healthcare expenditure per capita increased by 8.1% in Germany, by 5.4% in Denmark, by 4.5% in Sweden, and by 3.5% in countries such as the United Kingdom, France, Belgium and Norway, according to the OECD.

- As healthcare costs keep rising, a **legislative support** to decrease healthcare spending is seen.

The FMD
2019 brings significant change to the entire pharmaceutical industry. The EU's Falsified Medicines Directive (FMD) came into force on 9 February 2019.

The directive aims to increase patient safety and reduce the risk of counterfeit or unauthorised prescription medicine by using tamper evident devices and barcodes with a unique serial number on individual packages.

All participants in the pharmaceutical industry must comply with the new directive. Abacus Medicine has invested in and implemented the necessary hardware and IT-software.

A new source of growth in pharmaceutical services

Our proven business platform in parallel trade allows us to develop new, complementary revenue streams. In 2019 and beyond, a top strategic priority is the Aposave business unit which has strong synergies to our existing business, not least our extensive sourcing network.

AN ABACUS MEDICINE COMPANY

We will invest to develop the business and establish Aposave as one of the leading, global players within pharmaceutical services such as managed access programs, access to non-registered medicine and supply for clinical trials. The Aposave team has a strong track-record in pharmaceutical services:

Managed access

Aposave helps patients anywhere in the world to get access to the medicine they need. Working in partnership with pharmaceutical companies, we design, implement and run managed access programs, which are a controlled mechanism for allowing patients to get access to medicines that are still in clinical development.

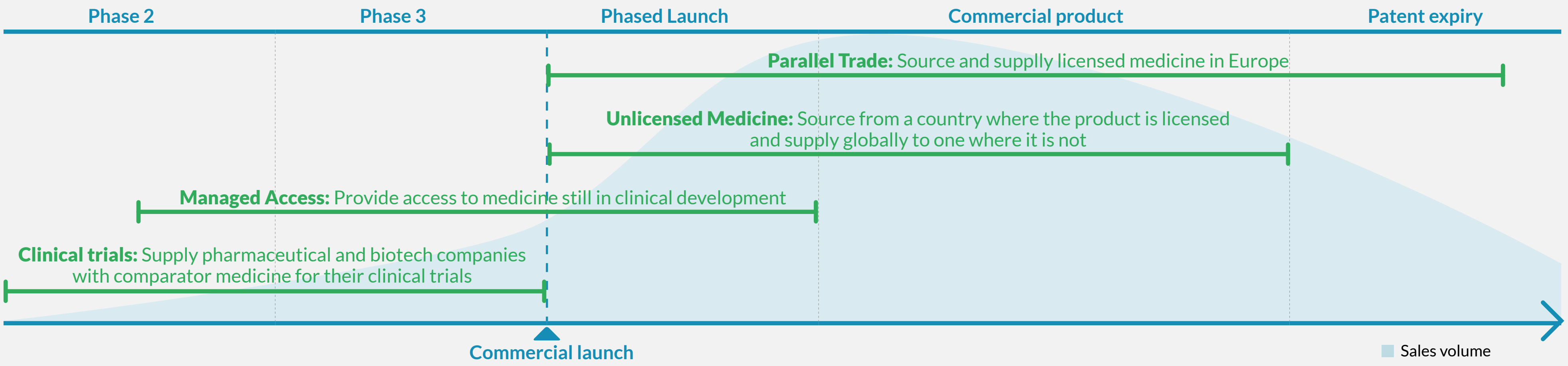
Unlicensed medicine

We also work with health care professionals to source products to treat patients in countries where products have not been licensed or are in short supply. We offer access to a wide range of quality assured products at competitive prices that we can deliver quickly and compliantly around the world.

Clinical trials

Aposave also supplies pharmaceutical and biotech companies with medicine for their clinical trials. The companies are increasingly required to do so-called comparator trials to demonstrate the value of their new drugs against those already available on the market. The Tufts Centre for Drug Research projects that by 2020 70% of Phase 3 trials will require a comparator.

Access to medicine throughout the product life cycle



Risk management

At Abacus Medicine, risk management is essential to the business, and it is Management's aim that the Group's risks should be adequately reported at all times. Policies and procedures have been determined to ensure efficient management, to the widest extent possible, of the identified risks.

Abacus Medicine prioritises its risks in order to focus on the most relevant. Risks are evaluated on the basis of impact and likelihood analyses from which relevant actions are planned and implemented to manage and mitigate the respective risks. The key risks for Abacus Medicine's business are:

- Compliance and regulatory risks
- Supply chain and sourcing
- Capacity constraints
- Funding and liquidity risks
- IT risks

A detailed description of Abacus Medicine's financial risks is provided in note 27.

Brexit is not in itself considered to be one of our key risk factors, as the UK is only a minor market for Abacus Medicine on both the purchase and sales side.

Risk management

Abacus Medicine's risk management structure is rooted in processes for early risk identification followed by processes for risk analysis, risk assessment and risk mitigation planning. This structure provides a detailed overview of the key short and long term risks.

The overall risk management structure is outlined as follows:

Board of Directors

- Approves the overall risk policy
- Monitors the development in the total strategic risk exposures, the individual risk factors, and verifies compliance with the overall risk policy

Senior Management

- Determines risk management policies and strategies for the individual risks and ensures implementation
- Ensures consistency between the Risk Management policy and the business objectives
- Monitors risk management and the development in key risks
- Ensures that adequate resources are available to implement efficient risk management

Staff functions and business units

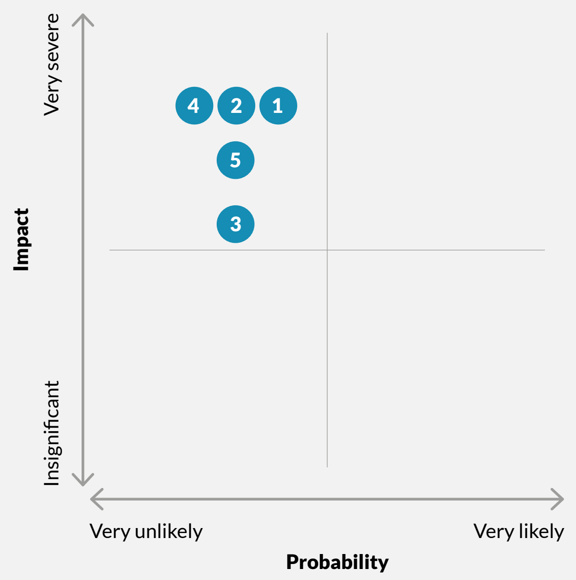
- Identify, assess, quantify and record risks
- Make suggestions for addressing risks
- Monitor risk management activities initiated
- Report regularly to the Senior Management

Local risk owners

- Continuous monitoring and reduction of risks through risk-mitigating activities

Abacus Medicine risk map

1 Compliance and regulatory risk
2 Supply chain and sourcing
3 Capacity constraints
4 Funding and liquidity risks
5 IT risks



Key risk factors in 2019

Area	Description	Risk mitigation
Compliance and regulatory risk	Abacus Medicine is required to meet all legal standards set by national and EU authorities. Abacus Medicine is approved as a company for parallel import of pharmaceuticals by the responsible authorities and holds a manufacturer and distribution licence, which entitles Abacus Medicine to repack and distribute pharmaceuticals. Abacus Medicine is liable to the same strict quality and safety requirements as the original manufacturer of pharmaceuticals. Compliance with these requirements is closely monitored by national and European institutions such as the European Medicines Agency (EMA). Failure to comply with QA, regulatory and other sets of rules may result in prosecution, fines or ultimately loss of licences.	Abacus Medicine has an extensive and dedicated Regulatory and Quality Assurance (QA) department along with Regulatory and Quality Assurance policies which ensure compliance.
Supply chain and sourcing	Abacus Medicine is highly dependent on a reliable network of suppliers. A loss of key suppliers, interruptions in the availability of sufficient supply, disruption to the supply chain or the inability of Abacus Medicine to source the required amount of pharmaceutical products within a given price range could adversely affect Abacus Medicine's business operations. Further, Abacus Medicine relies on our suppliers' quality assurance policies to prevent falsified medicine from entering our supply chain. However, the number of falsification cases in the legal supply chain where parallel import takes place is very low and expected to diminish further due to the FMD.	Abacus Medicine has an extensive and dedicated Regulatory and Quality Assurance (QA) department along with Regulatory and Quality Assurance policies which ensure compliance. Further, Abacus Medicine continuously maintains high quality standards, extensive qualification of suppliers and comprehensive receipt control procedures. Abacus Medicine has successfully implemented the requirements of the FMD which is expected to further minimise the risk of counterfeit.
Capacity constraints	Increased sales and demand for products from Abacus Medicine puts pressure on our production capacity including the human workforce of Abacus Medicine.	To mitigate the risk of capacity constraints in production, Abacus Medicine constantly expands production facilities. We have recently expanded our production facility in Hungary and opened a new production facility in the Netherlands.
Funding and liquidity risks	Fundamental liquidity risks may occur should Abacus Medicine not have sufficient liquid resources at its disposal. For instance, such a risk could materialise as a result of the unavailability of lines of credit, the loss of existing cash resources, the inability to access the financial markets or strong fluctuations in the operating business. In addition, Abacus Medicine's existing financial liabilities could limit the cash flows available for the operating business and defaults on the payment of financial liabilities could result in insolvency on Abacus Medicine's part. An increase in the level of the company's debt could also have a detrimental effect on Abacus Medicine's business.	The objective of liquidity management is to ensure solvency at all times and safeguard financial flexibility by holding sufficient liquidity reserves and free lines of credit.
IT risks	The threat of IT criminals is increasing, and with Abacus Medicine's increased activities in several countries, new business areas and new IT platforms, the IT risk pattern has changed and has become more critical.	There is increased management focus on the area, continuous testing and technical tools are kept up to date. A new position as IT manager has been established with IT security as a key area of responsibility.

Governance

Corporate governance

Abacus Medicine has experienced several years of rapid growth both in terms of turnover and employees. As the company grows, good corporate governance becomes more important than ever.

The corporate governance structure of Abacus Medicine was significantly strengthened during 2018. This was achieved by updating the company's Articles of Association and Management Instructions along with the implementation of several new corporate governance initiatives, including:

- Audit Committee;
- Diversity Policy;
- Remuneration Policy;
- Rules of Procedure for the Board of Directors; and
- Whistleblowing Scheme.

The changes were made to adhere to the recommendations of the Danish Committee on Corporate Governance. The overall result of the changes has been additional control measures and better structured and more clearly defined roles and responsibilities within the company.

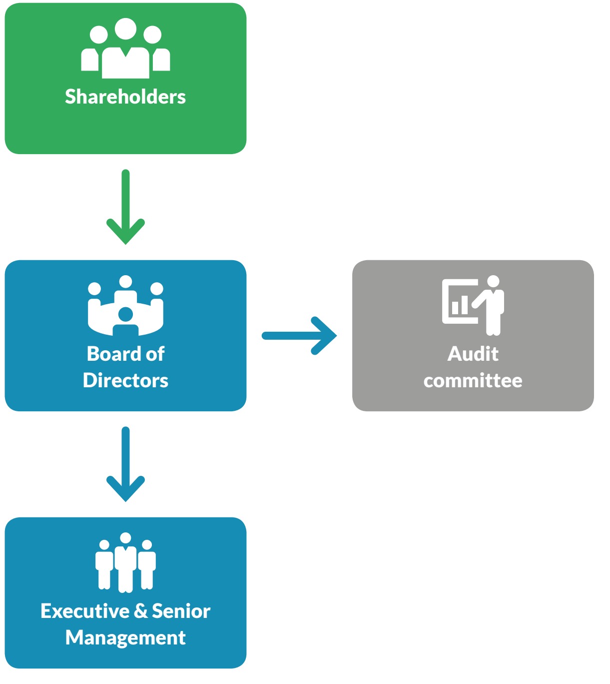
Corporate governance at Abacus Medicine

The management and control of Abacus Medicine is divided among the shareholders (General Meeting), the Board of Directors and the Executive and Senior Management.

The corporate governance structure is comprised of the General Meeting, the Board of Directors, the Executive and Senior Management and the Audit Committee.

Further, Abacus Medicine plans to strengthen the governance, risk and compliance framework in 2019 through better controls enabled by the new ERP system and by allocating further resources to the area. The Corporate Governance structure is organised as outlined below:

CORPORATE GOVERNANCE STRUCTURE



The General Meeting and Voting

The company's shareholders exercise their control over the company at the General Meeting and are responsible for electing the members of the Board of Directors.

All shares are equal and carry one vote each. Resolutions submitted for approval at the General Meeting are passed by a simple majority of votes.

Wagner Family Holding ApS is the majority shareholder of Abacus Medicine A/S. Flemming Wagner, who is the CEO of Abacus Medicine and member of the Board of Directors, is the ultimate majority shareholder of Wagner Family Holding ApS.

The Board of Directors

The Board of Directors is currently comprised of four members elected by the shareholders for a one-year term. The Board of Directors elects the Executive Management and is responsible for formulating the corporate strategy, supervising the day-to-day management of the company and ensuring the internal control of the company. In 2018, an Audit Committee was established to assist the Board of Directors mainly with its obligation to oversee the financial reporting and disclosure process.

Independence of the Board of Directors

Abacus Medicine strives to keep the Board of Directors independent to the greatest extent possible. During 2018, 75% of the members of the Board of Directors were considered independent according to the guidelines of the Danish Committee on Corporate Governance. The company's CEO is member of the Board of Directors and cannot be considered independent.

Audit Committee

The Audit Committee is a supervisory body assisting the Board of Directors in fulfilling its responsibilities by monitoring the company's financial reporting process, assessing risk and internal control measures and supervising the external auditors.

The committee consists of three members serving one-year terms. Two members of the committee are appointed by and among the members of Board of Directors. One independent member is elected by the General Meeting.

Executive and Senior Management

The Executive Management consists of the CEO, Flemming Wagner. The CEO together with the Chief Financial Officer (CFO) forms the Senior Management who is responsible for the day-to-day management of the company.

The responsibilities and obligations of the Senior Management are set out in the Management Instructions adopted by the Board of Directors.

Remuneration of the Board of Directors and the Executive Management

The remuneration of the individual members of the Board of Directors and Executive Management is regulated by the company's Remuneration Policy. The purpose of the policy is to establish a formal and transparent remuneration procedure in accordance with the recommendations of the Danish Committee on Corporate Governance.

Internal control measures

The Board of Directors is responsible for the existence of adequate internal control measures within the company. In Abacus Medicine, these exist on three different levels:

At the lowest level, employees are provided with guidance on how to act in accordance with applicable law and provided with a platform to report any concerns. This includes the company's Code of Conduct, Anti-Corruption Policy and a Whistleblowing Scheme ensuring that employees know when and how to react.

The second level is the maintenance of the internal control measures and the ongoing compliance monitoring performed by the Finance department to ensure that compliance issues are identified and dealt with.

The final and top level is the testing of the functionality of the control measures themselves along with internal auditing. Abacus Medicine plans to further strengthen the governance, risk and compliance framework in 2019.

External auditor

According to the Articles of Association, Abacus Medicine's annual report must be audited by a state-authorised public accountant elected by the General Meeting for a one-year term.

For 2018, Abacus Medicine has appointed EY as its external auditor to perform the audit of the financial statements.

Board of Directors and Executive Management

Board of Directors

Troels Peter Troelsen
Chairman since 2009

Member of
the Audit Committee

Mr. Troelsen is an experienced board member, CEO, and former Associate Professor at Copenhagen Business School (CBS).

Flemming Wagner
CEO, Co-founder and majority shareholder. Member since 2009

Prior to founding Abacus Medicine A/S, Mr. Wagner was the CEO of RAMCON A/S. He holds an Executive MBA and an M.Sc in biochemistry.

Ole Jensen
Member since 2014

Member of
the Audit Committee

Mr. Jensen has CEO and CFO experience and currently serves as Associated Partner with Business Broker A/S.

Jens Albert Harsaae
Member since 2017

Mr. Harsaae is a professional board member with previous positions as Partner and Managing Director for the Boston Consulting Group, and Marketing Director with Procter & Gamble.

Executive Management

Flemming Wagner
CEO

Corporate Social Responsibility

Abacus Medicine adopted a new CSR Policy for 2018 and publishes a CSR Report for the first time this year. The report covers the twelve-month period ending 31 December 2018.

Our CSR activities are anchored with the CSR Steering Committee which reports to the Board of Directors. The members of the CSR Steering Committee are selected among executives and department managers to ensure management buy-in.

The CSR Policy of Abacus Medicine is rooted in the 10 principles of the UN Global Compact and the 17 UN Sustainable Development Goals.

Among the principles of the UN Global Compact, we believe three groups have the most relevance to our business:

- Labour
- Environment
- Anti-corruption

Among the Sustainable Development Goals, two have particular relevance to Abacus Medicine:

Goal #3: Good Health and Well-being, including Target 3.8: "Achieve universal health coverage (UHC), including financial risk protection, access to quality essential health care services, and access to safe, effective, quality, and affordable essential medicines and vaccines for all"

Goal #8: Decent Work and Economic Growth, including Target 8.5: "by 2030 achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value"

The general guidelines of the Global Compact and the Sustainable Development Goals are subsequently adapted into Focus Programs with specific goals and action plans reflecting the actual business practices of Abacus Medicine.

Our Progress

In 2018, we carried out four Focus Programs. These are activities designed to connect the global principles and goals of the Global Compact and the Sustainable Development Goals with the daily operations and business of Abacus Medicine.

ANTI-CORRUPTION

The goal of the program was to increase awareness of the issue by formulating an Anti-Corruption Policy for Abacus Medicine and implementing it throughout the organisation. Further, the program was to review and document our existing control measures.

These goals were achieved in the program.

During 2018, we also implemented a whistleblower scheme. This was not specifically part of the Anti-Corruption program, but supports our effort to fight corruption, bribery and similar dishonest business practices. No reports were received through the whistleblower scheme in 2018.

COMPLETION RATE

100%

EMPLOYEES AND WORKING ENVIRONMENT

The goal of the program was to develop and conduct an Employee Satisfaction Survey across all countries and all employees in Abacus Medicine. We have not previously had a framework in place to do this on a Group-wide scale.

This goal was achieved, albeit with a response rate in Hungary of just 35%, which was significantly below other Abacus Medicine sites and below the defined KPI of 70%.

With the 2018 Employee Satisfaction Survey, we have now established a baseline against which to measure progress in the future.

COMPLETION RATE

88%

ENVIRONMENT AND CLIMATE

The goal of the program was to reduce the environmental footprint at our main production facility in Budapest, Hungary, through initiatives such as:

- Reducing water consumption
- Reducing electricity usage
- Improving waste management

The program did not achieve this goal.

During 2018, the site in Hungary underwent a major expansion and rebuilding project. Because of this, we did not manage to devote resources to define and develop the agreed environment and climate program.

COMPLETION RATE

0%

SUPPLIER EDUCATION

Extensive quality control is an integrated part of the operational setup of Abacus Medicine Group and ensures product quality, patient safety and compliance.

The goal of the Supplier Education program was to share educational information on potentially counterfeit products with a range of selected suppliers. This knowledge sharing would allow our suppliers to support our own efforts to keep counterfeit medicine out of the legal supply chain.

This goal was generally achieved.

We increased awareness of medicine safety at our approved suppliers by sharing anti-counterfeit measures used by Abacus Medicine to identify possible manipulated products.

The educational packages sent to suppliers included photos of possible manipulated products and descriptions of procedures used within Abacus Medicine.

In addition to our regular program for supplier audits, we conducted audits at all new suppliers in accordance with our quality system.

COMPLETION RATE

75%

CONCLUSION

With the notable exception of the environment program, we generally achieved our defined goals for CSR in 2018.

But the world is more than KPI's.

The CSR Steering Committee is of the opinion that the amount of real progress made in 2018 was below our level of ambition and needs to improve in 2019.

One of the ways we hope to achieve this will be through engaging a wider number of employees of Abacus Medicine in the CSR activities.

For 2019, we have prioritised the following four Focus Programs:

- **Environment and climate**
  The program will seek to reduce the environmental footprint at our main production facility in Budapest, Hungary.
- **Packaging material**
  The program will specifically address the environmental effects of how we source and dispose of packaging material.
- **Employees**
  The program will address issues identified in the Employee Satisfaction Survey 2018, including elements relating to benefits and compensation.
- **Medicine donation**
  The program will establish
  1) an internal standard operating procedure and
  2) cooperation with one or more NGO's to ensure that overstock or non-saleable medicine will be offered to non-profit organisations.

Policies and guidelines

In addition to the activities prioritised as Focus Programs, we report on our policies and guidelines in accordance with section 99a of the Danish Financial Statements Act and section 54, part 6 of the UK Modern Slavery Act.

ANTI-CORRUPTION

Abacus Medicine operates in more than 30 countries in Europe and increasingly across the globe, including some countries where corruption is far from uncommon. While corruption has in practice not been an issue for our business historically, we are fully aware of the potential risk it poses. We disassociate ourselves from all forms of bribery, nepotism or similar dishonest business practices.

Abacus Medicine has implemented a wide range of internal guidelines and governance systems to prevent improper behaviour, including an Anti-Corruption Policy, a Code of Conduct and a Whistleblower scheme.

EMPLOYEES AND WORKING ENVIRONMENT

Abacus Medicine has grown rapidly in recent years, and we have welcomed hundreds of new employees in constantly changing physical workplaces. This is an obvious challenge in a company that wishes to offer all employees a safe and healthy working environment.

One element of the solution lies in culture: A high degree of flexibility and acceptance of rapid change are defining characteristics of our company culture. Another element is sound policies and management systems, such as our Health & Safety committees which include employee representatives.

ENVIRONMENT AND CLIMATE

At Abacus Medicine, we do not produce the products we sell but repackage medicine produced by other companies. As a result, our operations consume few natural resources and generate relatively modest amounts of emissions and waste. Still, we believe there is room for improvement, and reducing our environmental footprint is an important part of the CSR Policy.

Today, the largest part of our environmental impact consists of electricity used for production and cold storage at our production facilities and from emissions from transport which is carried out by sub-suppliers. From 2019, we also expect to see a substantial increase in waste in the form of used packaging material due to changes in how we repackage medicine. These areas will be central in our commitment towards the environment and climate in the coming years.

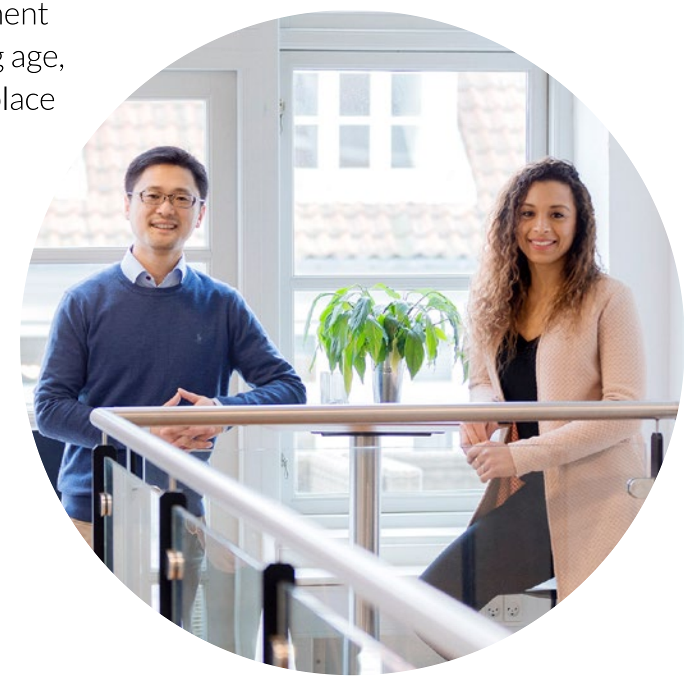
As part of the pharmaceutical supply chain, Abacus Medicine already complies with a wide range of environmental legislation, including waste management, handling of hazardous materials and responsible destruction of out-of-date medicine.

HUMAN RIGHTS

At this point, we have not defined a policy for Humans Rights. With a core business in the highly regulated business of buying and selling prescription medicine in the EU, we have not identified Human Rights abuses as a critical risk in our CSR risk and materiality analysis.

Diversity

Abacus Medicine recognises the importance of promoting diversity, including gender, at management levels. The purpose is to ensure equal opportunities through encouragement of diversity including age, ethnicity, nationality, religion, education and sexual orientation. We seek to be an attractive workplace for all employees and focus on ensuring equal opportunities for all in career advancement and the prospect of occupying management positions.



Abacus Medicine employs candidates for management positions with profiles and qualifications best suitable for the company. In this context, gender will be considered when appointing candidates for management positions while taking into account other relevant recruitment criteria, including professional qualifications, relevant experience, educational background, etc.

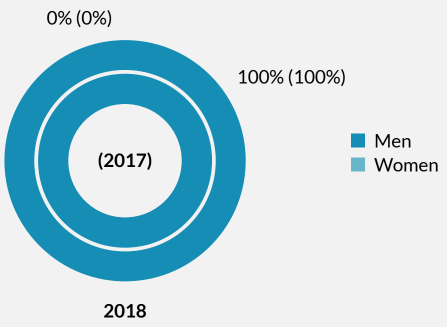
Abacus Medicine intends to increase the proportion of women in the Board of Directors and the Executive Management Team and at the other management levels of the company to mirror the representation of women employed within the company.

Abacus Medicine pursues the aim of having at least one female member on the Board of Directors by the end of 2020. As the company did not have female candidates with the right profile, we did not achieve this goal in 2018.

Below we have listed the development in the gender-representation at the management levels.

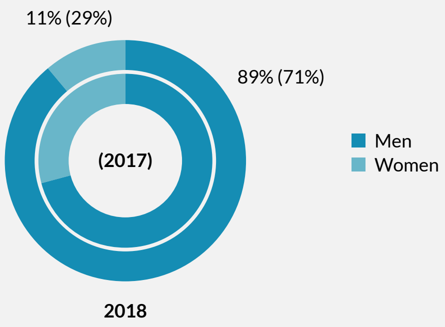
BOARD OF DIRECTORS

Gender representation (%)



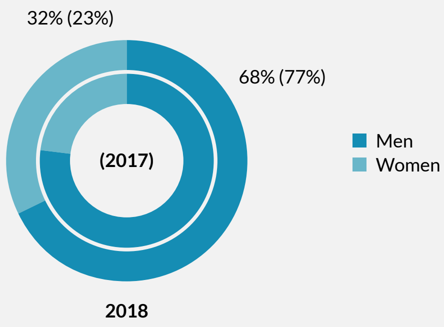
EXECUTIVE MANAGEMENT TEAM

Gender representation (%)

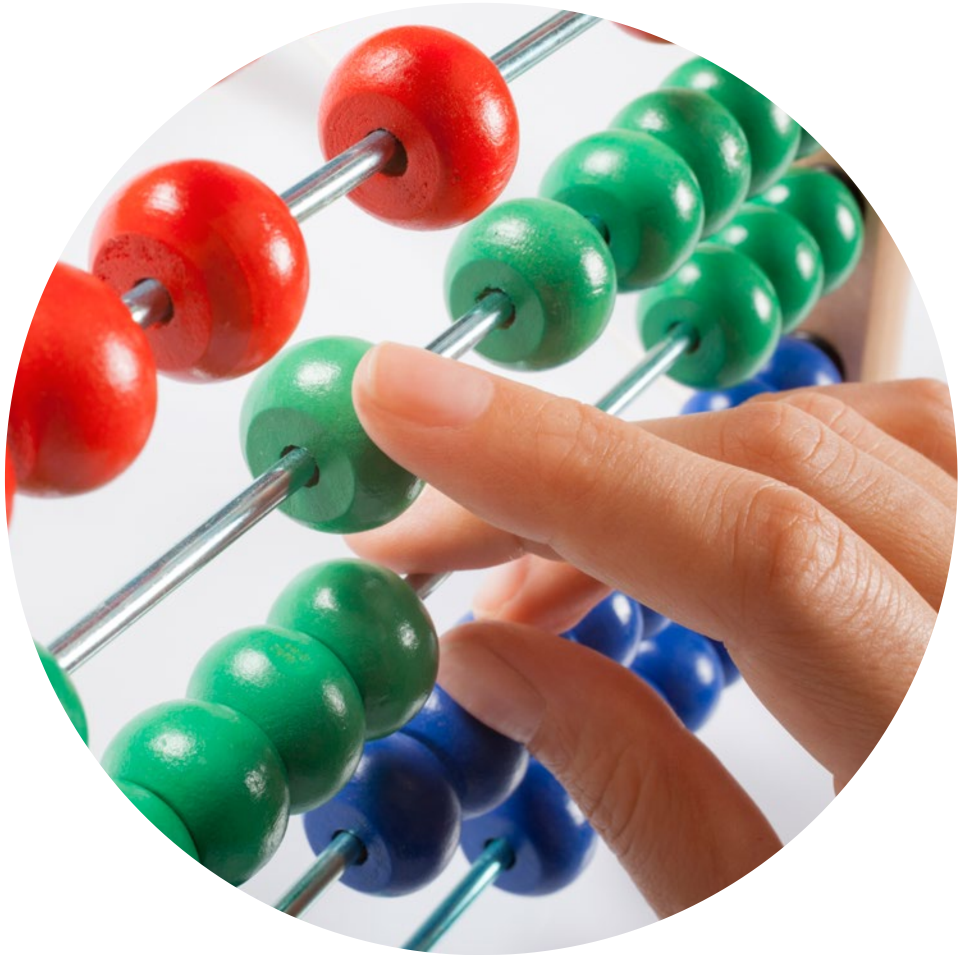


MANAGERS

Gender representation (%)



Financial statements



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Notes to the Group financial statements

Income statement

Note	EUR'000	2018	2017
3	Revenue	332,347	253,056
4	Cost of sales	-291,544	-223,744
	Gross profit	**40,803**	**29,312**
8	Other external costs	-8,189	-6,662
5	Staff costs	-18,969	-12,856
	Operating profit before depreciations, amortisation and special items (adjusted EBITDA)	**13,645**	**9,794**
1	Special items (IPO-related costs)	-1,065	-377
	Operating profit before depreciations and amortisation (EBITDA)	**12,580**	**9,417**
7	Depreciation and amortisation	-2,712	-1,857
	Operating profit (EBIT)	**9,868**	**7,560**
10	Finance income	108	202
10	Finance expenses	-2,626	-1,630
	Profit before tax	**7,350**	**6,132**
11	Tax	-1,991	-1,804
	Profit for the year	**5,359**	**4,328**
17	Earnings per share, EUR	0.7	0.6
	Diluted earnings per share, EUR	0.7	0.6

Statement of other comprehensive income

Note	EUR'000	2018	2017
	Profit for the year	5,359	4,328
	Other comprehensive income		
	Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
27	Cash flow hedges – effective portion of changes in fair value	-757	25
	Exchange differences on translation of foreign operations	-60	-14
11	Income tax effect	167	-5
		-650	6
	Other comprehensive income/(loss) for the year, net of tax	**-650**	**6**
	Total comprehensive income	**4,709**	**4,334**
	Earnings per share, EUR	0.6	0.6
	Diluted earnings per share, EUR	0.6	0.6

Balance sheet

Note	EUR'000	2018	2017
	ASSETS		
	Non-current assets		
12	Intangible assets	13,890	10,218
13	Property, plant and equipment	2,970	1,491
	Other receivables	344	180
11	Deferred tax assets	78	-
	Total non-current assets	**17,282**	**11,889**
	Current assets		
14	Inventory	59,587	33,364
15	Trade and other receivables	19,021	10,213
23	Cash	1,346	1,041
	Total current assets	**79,954**	**44,618**
	TOTAL ASSETS	**97,236**	**56,507**

Note	EUR'000	2018	2017
	EQUITY AND LIABILITIES		
	Equity		
16	Share capital	373	373
	Other reserves	-667	-17
	Retained earnings	14,693	9,315
	Total equity	**14,399**	**9,671**
	Non-current liabilities		
11	Deferred tax liabilities	1,892	1,105
20	Other payables	-	952
	Total non-current liabilities	**1,892**	**2,057**
	Current liabilities		
21	Provisions	2,159	543
18	Borrowings	21,270	24,048
19	Trade payables	11,442	11,170
11	Income tax payable	897	1,254
20	Other payables	45,177	7,764
	Total current liabilities	**80,945**	**44,779**
	Total liabilities	**82,837**	**46,836**
	TOTAL EQUITY AND LIABILITIES	**97,236**	**56,507**

Cash flow statement

Note	EUR'000	2018	2017
	Operating activities		
	Profit before tax	7,350	6,132
	Adjustments to reconcile profit before tax to net cash flow:		
	Depreciation and amortisation	2,712	1,857
	Finance income	-108	-202
	Finance expenses	2,626	1,630
	Working capital adjustments:		
	Non-cash items, net	1,633	583
22	Changes in working capital	2,427	14,172
	Interest received	108	202
	Interest paid	-2,120	-1,439
	Income tax paid	-1,446	-1,906
	Net cash flow from operating activities	**13,182**	**21,029**

Note	EUR'000	2018	2017
	Investing activities		
12	Purchase of intangible assets	-6,513	-3,938
13	Purchase of property, plant and equipment	-2,426	-1,350
26	Business combinations	-	323
	Paid deposits	-164	-52
	Disposals, non-current assets	67	4
	Net cash flow used in investing activities	**-9,036**	**-5,013**
	Financing activities		
18	Proceeds from borrowings (credit facility)	21,270	-
	Proceeds from exercise of warrants	-	287
	Deposits regarding bank agreement	-1,063	-2,823
	Proceeds from factoring debt	-	133,288
	Repayment of factoring debt	-	-156,129
	Dividends paid to equity holders of the parent	-	-4,751
	Net cash flow from financing activities	**20,207**	**-30,128**
	Cash flow for the year	**24,353**	**-14,112**
	Cash at beginning of the year	-23,007	-8,895
23	**Cash at 31 December**	**1,346**	**-23,007**

The above cannot be derived directly from the income statement and the balance sheet.

Statement of changes in equity

EUR'000	Share capital	Cash flow hedge reserve	Foreign currency translation reserve	Retained earnings	Total
Equity 1 January 2018	**373**	**-27**	**10**	**9,315**	**9,671**
Total comprehensive income 2018					
Profit for the year	-	-	-	5,359	5,359
Other comprehensive income					
Cash flow hedges – effective portion of changes in fair value	-	-757	-	-	-757
Exchange differences on translation of foreign operations	-	-	-60	-	-60
Tax on other comprehensive income	-	167	-	-	167
Total other comprehensive income	**-**	**-590**	**-60**	**-**	**-650**
Total comprehensive income for the period	**-**	**-590**	**-60**	**5,359**	**4,709**
Transactions with owners					
Equity-settled share-based payments	-	-	-	19	19
Total transactions with owners	**-**	**-**	**-**	**19**	**19**
Equity 31 December 2018	**373**	**-617**	**-50**	**14,693**	**14,399**

EUR'000	Share capital	Cash flow hedge reserve	Foreign currency translation reserve	Retained earnings	Total
Equity 1 January 2017	**355**	**-47**	**24**	**9,174**	**9,506**
Total comprehensive income 2017					
Profit for the year	-	-	-	4,328	4,328
Other comprehensive income					
Cash flow hedges – effective portion of changes in fair value	-	25	-	-	25
Exchange differences on translation of foreign operations	-	-	-14	-	-14
Tax on other comprehensive income	-	-5	-	-	-5
Total other comprehensive income	**-**	**20**	**-14**	**-**	**6**
Total comprehensive income for the period	**-**	**20**	**-14**	**4,328**	**4,334**
Transactions with owners					
Dividends paid	-	-	-	-4,751	-4,751
Equity-settled share-based payments	-	-	-	295	295
Warrants exercised	18	-	-	269	287
Total transactions with owners	**18**	**-**	**-**	**-4,187**	**-4,169**
Equity 31 December 2017	**373**	**-27**	**10**	**9,315**	**9,671**

Notes

1 Accounting policies

Abacus Medicine A/S is a private limited company registered in Denmark. The financial statements section of the annual report, for the period 1 January – 31 December 2018, comprises both the consolidated financial statements of Abacus Medicine A/S and its subsidiaries (Abacus Medicine) and the separate Parent company financial statements.

The consolidated financial statements for Abacus Medicine A/S for 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements according to the Danish Financial Statements Act applying to large reporting class C entities. The accounting policies are consistent with the policies set out in the Annual Report 2017 of Abacus Medicine A/S, except for the implementation of new and amended standards (see below) and the presentation of the movements in the bank credit facility which due to circumstances in 2018 has been considered to be financing activity and not a part of net cash as presented previously.

The consolidated income statement and the consolidated statement of financial positions separately present items that are considered individually significant or are required under the minimum presentation of IAS 1. When determining whether an item is individually significant, Abacus Medicine A/S considers both quantitative and qualitative factors. If the presentation or disclosure of an item is not decision-useful, the information is considered insignificant. Explanatory disclosure notes related to the consolidated financial statements are presented for individually significant items. Where separate presentation of a line item is made solely due to minimum presentation requirements in IAS 1, no further disclosures are provided in respect of that line item.

The Board of Directors and the Executive Board have on 2 May 2019 discussed and approved the annual report for Abacus Medicine A/S for 2018. The annual report will be presented to the shareholders of Abacus Medicine A/S for adoption at the annual general meeting on 2 May 2019.

Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (EUR'000), except when otherwise indicated.

Changes in accounting policies and disclosures
New and amended standards and interpretations
Abacus Medicine applied IFRS 15 and IFRS 9 for the first time in the financial statements for 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of Abacus Medicine. Abacus Medicine has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

Abacus adopted IFRS 15 using the modified retrospective method of adoption and the implementation of IFRS 15 has resulted in a change in the presentation of the return provision, which from 2018 is presented gross under inventory and provision as well as revenue and cost of goods sold. The gross up amounts to EUR 2,159 thousand. Apart from this, the implementation of IFRS 15 have not had any material impact on the recognition and measurement of revenue, and the adoption has had no impact on the income statement, statement of cash flows and no impact on basic and diluted EPS.

Notes

1 Accounting policies (continued)

The effect on the Balance sheet of adopting IFRS 15 is as follows:

	31 December 2018		
EUR'000	Old policies	Effect of adoption	New policies
Current assets			
Inventory	58,306	1,281	59,587
Trade and other receivables	19,021	-	19,021
Total current assets	**78,673**	**1,281**	**79,954**
TOTAL ASSETS	**95,955**	**1,281**	**97,236**
Equity			
Share capital	373	-	373
Other reserves	-667	-	-667
Retained earnings	14,693	-	14,693
Total equity	**14,399**	**-**	**14,399**
Current liabilities			
Provisions	878	1,281	2,159
Total current liabilities	**46,245**	**1,281**	**47,526**
TOTAL EQUITY AND LIABILITIES	**95,955**	**1,281**	**97,236**

The effect on the Income statement of adopting IFRS 15 is as follows:

	1 January - 31 December 2018		
EUR'000	Old policies	Effect of adoption	New policies
Revenue	334,506	-2,159	332,347
Cost of sales	-293,703	2,159	-291,544
Gross profit	**40,803**	**-**	**40,803**
Profit before tax	**7,350**	**-**	**7,350**
Tax	-1,991	-	-1,991
Profit for the year	**5,359**	**-**	**5,359**

The change did not have any impact on income statement or the statement of cash flows for 2018.

Notes

1 Accounting policies (continued)

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39, which changes the classification, measurement and impairment of financial assets, and introduces new rules for hedge accounting. IFRS 9 requires Abacus Medicine to record expected credit losses on all its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Abacus Medicine applied the simplified method upon adoption of IFRS 9 on 1 January 2018 and record lifetime expected losses on all trade and other receivables. Based on the portfolio of financial assets and the historical low realised loss on trade receivables, the adoption of the new standard did not have any material impact on Abacus Medicine's consolidated financial statements and therefore no effect on retained earnings at 1 January 2018. Further, no other elements from the adoption of the standard has affected recognition and measurement.

Consolidated financial statements
The consolidated financial statements comprise the financial statements of Abacus Medicine A/S (the Parent company) and the subsidiaries controlled by the Parent company, as at 31 December 2018. Abacus Medicine A/S controls an entity when it is exposed to or has rights to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity.

On consolidation, intra-Group income and expenses, shareholdings, intra-Group balances and dividends, and realised and unrealised gains on intra-Group transactions are eliminated.

Foreign currency translation
Abacus Medicine's consolidated financial statements are presented in euros, which is also the Parent company's functional currency. For each entity, Abacus Medicine determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. Abacus Medicine uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances
Transactions in foreign currencies are initially recorded by Abacus Medicine's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which Abacus initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, Abacus Medicine determines the transaction date for each payment or receipt of advance consideration.

Business combinations
Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated profit or loss until the date of disposal and settlement date.

The acquisition method is applied to acquisitions of new businesses over which Abacus Medicine obtains control. The acquired businesses' identifiable assets and liabilities are measured at fair value at the acquisition date. Deferred tax related to the fair value adjustments in identified net assets is recognised.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

Costs directly attributable to the acquisition are expensed as incurred.

Current versus non-current classification
Abacus Medicine presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when, either:

- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

Abacus Medicine classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Derivative financial instruments
Initial recognition
Abacus Medicine uses forward currency contracts (derivative financial instruments) to hedge its foreign currency risks relating to receivables and payables. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to the income statement when the hedge item affects the income statement.

Notes

1 Accounting policies (continued)

Income Statement

Revenue
Revenue from the sale of goods is recognised when the performance obligation is satisfied, i.e. when control of the goods have passed to the buyer. All sales of goods are recognized at one-point-of-time. Due to the factoring agreement, the receivables are sold, and the payments are in general received from the factoring company within one day. Revenue is measured at fair value of the agreed consideration, excluding VAT and taxes charged on behalf of third parties. Provisions for rebates and discounts granted to customers are recognised as a reduction of revenue, whereas the effect of expected returns is recorded as a reduction of gross profit, i.e. revenue and cost of sales.

Rights of return
Certain contracts provide our customers with a right to return the goods. Abacus Medicine uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which Abacus Medicine will be entitled. For goods that are expected to be returned, instead of revenue, Abacus Medicine recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Assets and liabilities arising from rights of return:

Rights of return assets
Right of return asset represents Abacus Medicine's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. Abacus Medicine updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Rights of return liabilities
A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount Abacus Medicine ultimately expects it will have to return to the customer. Abacus Medicine updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

Cost of sales
Cost of sales includes the costs for pharmaceutical goods and consumables used in generating the year's revenue.

Other external expenses
Other external costs include expenses in regards to Abacus Medicine's principal activities, arising during the year. This includes expenses for sales, advertisement, administration, office buildings, etc.

Staff costs
Staff costs include wages and salaries, including share-based payments, holiday pay and pensions, as well as other expenses for social security etc., relating to Abacus Medicine's employees. Within staff costs, any compensation received from public authorities has been deducted.

Incentive programs under which the employees have the opportunity for net settlement are recognised on a regular basis with the share of the earned value and are similarly recognised under Other payables. The value of the underlying agreement is defined in the contracts and depends on Abacus Medicine's earnings.

Share-based payments
Certain employees of Abacus Medicine receive remuneration in the form of share-based payments, whereby program participants render services as consideration for equity instruments ("equity-settled transactions") or cash ("cash-settled transactions"), which is relevant for the program where the employees have the option to choose between equity instruments or cash. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made, using an appropriate valuation model. The cost of cash-settled transactions are determined by the expected payment to the employees.

That cost is recognised in staff costs, together with a corresponding increase in equity (other capital reserves) for equity-settled programs or other payables for cash-settled programs, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and Abacus Medicine's best estimate of the number of equity instruments that will ultimately vest. The expense or income in the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

A liability is recognised for the fair value of cash-settled transactions, within other payables (current). The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

Special items
Special items are IPO related costs. IPO related costs of EUR 377 thousand incurred in 2017 have been reclassified from "Other external costs" to "Special items" in the 2017 figures.

Finance income and expenses
Finance income and expenses comprise interest income and expenses, exchange gains and losses on transactions denominated in foreign currencies etc., as well as surcharges and allowances under the on-account tax scheme etc.

Income tax
Tax for the year
Tax for the year comprises current tax on the expected taxable income for the year and the year's deferred tax adjustments. The tax expense relating to the profit for the year is recognised in the income statement, and the tax expense relating to transactions recognised in equity is recognised in equity.

The Parent company is jointly taxed with its Danish Group entities including the Group Parent, FTW Holding ApS, which is also the administration company of the Danish Group entities towards the Danish Tax authorities. The total Danish income tax charge is allocated between profit/loss-making Danish entities in proportion to their taxable income (full absorption).

Jointly taxed entities entitled to a tax refund are, as a minimum, reimbursed by the administration company based on the current rates applicable to interest allowances, and jointly taxed entities having less

Notes

1 Accounting policies (continued)

tax paid, as a maximum, a surcharge based on the current rates applicable to interest surcharges to the management company.

Balance sheet

Intangible assets
Goodwill
Goodwill is initially recognised at the amount by which the purchase price for a business combination exceeds the recognised value of the identifiable assets and liabilities assumed. Goodwill comprises future growth expectations, buyer-specific synergies, the workforce in place and know-how. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment as a minimum yearly, and impairment losses charged in previous years cannot be reversed.

Licenses and IP rights
Licenses relate to marketing permits and product approvals. Licenses are measured at cost less accumulated amortisation and impairment losses. Cost comprises of the purchase price and salaries directly attributable until the date when the marketing permits and product approvals are available for use. The basis of amortisation is cost. The licenses are set with no residual value. Amortisation is provided on a straight-line basis over the expected useful lives of the assets. The basis of amortisation is reduced by impairment losses, if any. In case of changes in the amortisaion period, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

IP rights are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

On initial recognition, the costs of licenses and IP rights are recognised in the balance sheet and are measured at cost and subsequently at cost less accumulated amortisation and impairment losses.

Amortisation periods are as follows:

Licenses	5 - 8 years
IP Rights	10 years

The assets have no scrap value.

Gains and losses on the disposal of rights and licenses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement as Other operating income or Other operating expenses, respectively.

Development costs
Development expenditures on an individual project are recognised as an intangible asset when Abacus Medicine can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to reliably measure the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Property, plant and equipment
Property, plant and equipment consists of leasehold improvements and other fixtures and fittings. Leasehold improvements and other fixtures and fittings are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

The cost for a total asset is split in separate components, which are depreciated separately, if the useful life of each of the components differs.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets/components. The expected useful lives are as follows:

Leasehold improvements	3 years
Other fixtures and fittings	2-5 years

The assets have no scrap value.

Depreciation is calculated on cost price less scrap value and impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. If the residual value exceeds the carrying amount, no further depreciation charges are recognised.

When the depreciation period or the residual value is changed, the effect on depreciation is recognised prospectively as a change in accounting estimates.

Gains and losses at sale of property, plant and equipment is calculated as the difference between the sales price less the selling costs and the carrying amount at the date of sale. Gains or losses are recognised in the income statement as the item Other operating income and Other operating expenses, respectively.

Leases
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement. The operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Services in connection with operating leases are recognised in the income statements on a straight-line basis over the lease term.

Notes

1 Accounting policies (continued)

Impairment of non-current assets
Abacus Medicine assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, Abacus Medicine estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Abacus Medicine bases its impairment calculation on detailed budgets and forecast calculations. The budget and forecast calculation generally covers a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, Abacus Medicine estimates the asset's recoverable amount.

Goodwill is tested for impairment annually at year-end and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU to which the goodwill relates (Aposave). When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Inventories
Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

The cost of goods for resale, as well as materials and consumables, comprises the cost of acquisition plus delivery costs and, for finished goods, indirect production overheads, including packaging material, are added.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables
Receivables are measured at amortised cost.

The measurement of the provision for bad debt for receivables is based on the expected credit loss and the lifetime expected loss for all trade receivables. Where there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised at the individual receivable level.

Prepayments
Prepayments recognised under Current assets comprise expenses incurred concerning subsequent financial years.

Cash
Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand.

Equity
Foreign currency translation reserve
The exchange adjustment reserve in the consolidated financial statements comprises exchange differences arising on the translation of the financial statements of foreign enterprises from their functional currencies into EUR. On realisation, accumulated value adjustments are taken from equity to financial items in the income statement.

Cash flow hedge reserve
The hedge transaction reserve contains the accumulated net change in the fair value of hedging transactions that meet the criteria for hedging future cash flows and for which the hedged transaction has yet to be realised.

Dividend
Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date).

Taxation
Current income tax and deferred tax
Current tax payable and receivable is recognised in the balance sheet as tax computed on the expected taxable income for the year, adjusted for tax on the taxable income of prior years and for prepaid tax.

Provisions for deferred tax are calculated, based on the liability method, of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity.

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Corporation tax receivable" or as "Corporation tax payable".

Notes

1 Accounting policies (continued)

Provisions
Provisions comprise anticipated expenses for returned goods. Provisions are recognised when Abacus Medicine has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation.

Liabilities
Financial liabilities are initially recognised at fair value less transaction costs. Subsequently, the financial liabilities are measured at amortised cost using the effective interest method, whereby transaction costs and any premium or discount are recognised as financial expenses over the term of the liabilities.

Other liabilities are measured at net realised value.

Fair value
All assets and liabilities which are measured at fair value, or whose fair value is disclosed, are classified based on the fair value hierarchy, see below:

Level 1: Value in an active market for similar assets/liabilities.

Level 2: Value based on recognised valuation methods on the basis of observable market information.

Level 3: Value based on recognised valuation methods and reasonable estimates (non-observable market information).

Fair value measurements are based on the principal market. If no principal market exists, the measurement is based on the most advantageous market, i.e. the market that maximises the price of the asset or liability less transaction and/or transport costs.

Cash flow statement
The cash flow statement shows Abacus Medicine's cash flows from operating, investing and financing activities for the year, the year's changes in Cash as well as Abacus Medicine's Cash at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of entities is shown separately in cash flows from investing activities. Cash flows from corporate acquisitions are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of entities are recognised up until the date of disposal.

Cash flows are presented using the indirect method.

Cash flow from operating activities
Cash flow from operating activities are calculated as Abacus Medicine's share of the profit/loss adjusted for non-cash operating items, changes in working capital and income taxes paid.

Cash flow from investing activities
Cash flow from investing activities comprises payments in connection with acquisitions and disposals of entities, activities and intangible assets, property, plant and equipment and financial assets.

Cash flow from financing activities
Cash flow from financing activities comprises changes in the size or composition of the Abacus Medicine's share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, and payment of dividend to shareholders.

Notes

1 Accounting policies (continued)

Financial ratios
Key figures and financial ratios stated in the consolidated financial statements have been calculated in accordance with the Danish Finance Society's guidelines, except the calculation of ROIC:

Gross profit	Gross profit x 100 / Revenue
Revenue growth	(Current year revenue – prior year revenue) x 100 / Revenue
Return on invested capital (ROIC)	Operating profit (EBIT) x (1 - effective tax rate) x 100 / Average invested capital (includes intangible assets, PP&E, inventory, trade & other receivables and trade payables)
Solvency ratio	Closing equity x 100 / Total assets
Return on equity	Profit for the year after tax x 100 / Average equity
EPS basic	Net profit / Average number of shares outstanding
EPS diluted	Net profit / Average number of shares outstanding, including the dilutive effect of share options

Alternative performance measures
Abacus Medicine presents financial measures in the Annual Report that are not defined according to IFRS. Abacus Medicine believes these non-GAAP measures provide valuable information to investors and Abacus Medicine's management when evaluating performance. Since other companies may calculate these differently from Abacus Medicine, they may not be comparable to the measures used by other companies. These financial measures should therefore not be considered to be a replacement for measures defined under IFRS. For definitions of the performance measures used by Abacus Medicine, please see below.

Adjusted EBITDA margin	Operating profit excl. amortisation, depreciation and special items x 100 / Revenue
EBITDA margin	Operating profit excl. amortisation and depreciation x 100 / Revenue
Operating profit (EBIT) margin	Operating profit (EBIT) x 100 / Revenue

Notes

2 Significant accounting judgements, estimates and assumptions

The preparation of Abacus Medicine's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Management continuously reassesses these estimates and judgements based on a number of factors in the given circumstances.

Warrants program
Estimating fair value for Warrant programs transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the share price of Abacus Medicine A/S at the grant date, the expected life of the warrant, volatility and dividend yield and making assumptions about them.

Abacus Medicine A/S has established a share plan in 2016, 2017 and 2018. The decision to grant warrants is made by the Board of Directors in accordance with the general guidelines. Warrants have been granted to members of the key management personnel and other employees in the company. For the 2017 and 2018 program, the employees only receive equity instruments. For the 2016 program, the employees have the option to choose between equity instruments or cash. For the accounting principles, please refer to the section on "share based payments" in the accounting policies.

Sales return
Certain contracts for the sale of products include a right of return that give rise to variable consideration. In estimating the variable consideration, Abacus Medicine considers the historical experience, business forecast and the current economic conditions. The provision is presented gross under provisions and inventory.

Valuation of intangible assets
The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives (licences) are amortised over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement as amortisation.

Intangible assets with indefinite useful lives (goodwill) and development projects in progress are not amortised, but are tested for impairment annually at least.

The estimated values of intangible assets are based on management estimations and assumptions and is by nature subject to uncertainty.

Inventory write-downs
The valuation of the inventory per the balance sheet date involves judgements and estimates on the provision for write-downs. The provision is based on the ageing of the products, i.e. the expiration date, and evaluation of the commercial possibilities of selling the products.

3 Segment information

The presentation of operating segments for Abacus Medicine is in line with the internal management reporting.

Management monitors the Group's operations as one segment on earnings, and on countries and products when monitoring revenue activities. Accordingly, Abacus Medicine is organised into business units based on markets, as below.

Geographical allocation of revenue and non-current operating assets

	2018		2017	
EUR'000	Revenue	Non-current operating assets	Revenue	Non-current operating assets
Denmark	37,561	11,511	34,837	7,336
Sweden	39,251	-	39,893	-
Germany	189,635	-	149,893	-
The Netherlands	39,819	1,379	14,742	622
Other countries	26,081	3,970	13,691	3,751
	332,347	**16,860**	**253,056**	**11,709**

Non-current assets for this purpose consists of property, plant and equipment and intangible assets.

In 2017-18, the Group had one customer in the Danish and Swedish market with more than 10% of the Group revenue, and one customer in the German market with more than 10% of the Group revenue.

Notes

4 Cost of sales

Cost of sales comprise of the following:

EUR'000	2018	2017
Cost of inventories recognised as an expense	287,348	220,436
Write-down of inventory, net	4,196	3,308
	291,544	**223,744**

5 Staff costs

EUR'000	2018	2017
Wages and salaries	16,577	10,032
Pensions, defined contribution plans	1,470	990
Other social security costs	254	128
Other staff costs	1,525	826
Share-based payment expense	170	1,180
Total employee benefit expenses	**19,996**	**13,156**
Of which are capitalised as intangible assets	-1,027	-300
Total employee benefit expense in the income statement	**18,969**	**12,856**
Average number of full-time employee	449	349

5 Staff costs (continued)

The below amounts are included in the total staff costs.

EUR'000	Board of Directors and Executive Management	Key Management Personnel
2018		
Wages and salaries	620	1,460
Pensions, defined contribution plans	32	104
Share-based payments	2	63
Social security costs	1	8
Total	**655**	**1,635**
Average number	4	8
2017		
Wages and salaries	556	1,229
Pensions, defined contribution plans	29	88
Share-based payments	-	240
Social security costs	1	5
Total	**586**	**1,562**
Average number	4	7

Key Management Personnel is defined as the members of daily management, and includes CFO, CLO, VPs and Directors.

Remuneration to the Key Management Personnel and other employees.
Remuneration to the Executive Management and Board of Directors represent EUR 655 thousand (2017: EUR 586 thousand). Warrant agreements with Key Management Personnel and members of the Board of Directors in Abacus Medicine has been entered into. For further details on remuneration to Key Management Personnel, refer to note 6 regarding share-based payments.

Notes

6 Share-based payments

The decision to grant warrants to subscribe for shares in Abacus Medicine A/S is made by the Board of Directors in accordance with general guidelines on incentive pay for Abacus Medicine. Warrants have been granted to members of the board of directors, Key Management Personnel and other employees in Abacus Medicine.

In 2018, the number of shares has been increased, due to a decrease in the nominal value per share from EUR 0.13 to EUR 0.05. The number of share options and price per share option in the warrants agreements from prior years have been adjusted accordingly.

Warrant agreements entered in November 2016 allow those eligible to subscribe for up to 145,248 new shares of EUR 0.05 each in Abacus Medicine A/S. The right to subscribe the shares are based on the earnings of Abacus Medicine over the vesting period. The subscription price is EUR 4.82 per share. Under the terms of the agreement, the participants have a choice to subscribe for cash or take a cash alternative. As of the grant date, the estimated value of the cash alternative was more favorable than the equity alternative, accordingly the warrants have been accounted for as a cash-settled scheme in its entity. Settlement and/or subscription must take place in June 2019.

Warrant agreements entered into in December 2017 allow those eligible to subscribe for up to 84,567 new shares of EUR 0.05 each in Abacus Medicine A/S. The right to subscribe the shares are based on the earnings of Abacus Medicine in 2018. The subscription price is EUR 4.92 per share, corresponding to a total potential subscription price of EUR 400 thousand. This warrant agreement can only be settled and must take place in June 2020. The warrant scheme has been accounted for as an equity-settled program.

Warrant agreements entered into in December 2018 allow those eligible to subscribe for up to 127,452 new shares of EUR 0.05 each in Abacus Medicine A/S. This warrant agreement can only be settled with shares and must take place in December 2020 (72,690 shares), July 2021 (27,381 shares) and February 2022 (27,381 shares). The subscription price of the warrants in the first tranche of 72,690 shares is EUR 16.2 per share, corresponding to a total potential subscription price of EUR 1,179 thousand. The subscription price of the remaining warrant agreements will be based on a valuation of the shares per July 2019 (27,381 shares) and February 2020 (27,381 shares). The warrant scheme has been accounted for as an equity-settled program.

EUR'000	2018	2017
Equity-settled expense	19	295
Cash-settled expense	151	885
Total share-based payment expense	**170**	**1,180**

Specification of outstanding share options

	Board of Directors	Key management personnel	Other employees	Total number	Average exercise price per option
Outstanding at 31 December 2016	**-**	**132,130**	**145,248**	**277,378**	
Granted	-	28,192	56,375	84,567	
Forfeited	-	-	-5,906	-5,906	
Exercised	-	-132,130	-	-132,130	2.2
Outstanding at 31 December 2017	**-**	**28,192**	**195,717**	**223,909**	
Granted	45,309	14,766	67,377	127,452	
Forfeited	-	-	-7,920	-7,920	
Exercised	-	-	-	-	
Outstanding at 31 December 2018	**45,309**	**42,958**	**255,174**	**343,441**	
Exercisable 31 December 2018*	**-**	**-**	**-**	**-**	

*Not exercisable before June 2020

Notes

6 Share-based payments (continued)

Specification of outstanding warrants with cash settlement alternative

	Other employees (2016 program)	Total number	Average exercise price per Option
Outstanding at 31 December 2016	**145,248**	**145,248**	
Granted	-	-	
Forfeited	-5,906	-5,906	
Exercised	-	-	
Expired	-	-	
Outstanding at 31 December 2017	**139,342**	**139,342**	
Granted	-	-	
Forfeited	-4,564	-4,564	
Exercised	-	-	
Expired	-	-	
Outstanding at 31 December 2018	**134,778**	**134,778**	
Exercisable at 31 December 2018	**-**	**-**	**-**

The average remaining contractual life for the share options outstanding at 31 December 2018 was 2 years (2017: 2 years). The exercise prices are between EUR 4.82 - EUR 16.2 per share option (2017: EUR 4.8 - EUR 4.9).

In 2018, the expense in regards to share-based payments recognised in the income statement amounts to EUR 170 thousands (2017: EUR 1,180 thousands).

The following table lists the inputs to the models used for the two plans for the years ended 31 December 2018 and 31 December 2017, respectively:

	2018 Equity Settled	2017 Equity Settled
Weighted average fair values at measurement date	1.7	1.7
Weighted average share price	10.8	4.7
Exercise price	16.2	4.9
Expected volatility (%)	25%	25%
Expected life of share options	25-39 months	30 months
Dividend yield (%)	0.00%	0.00%
Risk-free interest rate (%)	0.00%	0.00%
Valuation method	Black-Scholes	Black-Scholes

The expected volatility reflects 25%, which is based on a peer group median.

EUR'000	2018	2017
Liability for cash-settled scheme	1,103	952
Of which vested (intrinsic value)	-	-
	1,103	**952**

Notes

7 Amortisation and depreciation

EUR'000	2018	2017
Amortisation, intangible assets	1,936	1,396
Depreciation, property, plant and equipment	776	461
Total	**2,712**	**1,857**

8 Fees paid to auditors appointed at the annual general meeting

Fees payable to Abacus Medicine's auditor for the audit of Abacus Medicine's financial statements and other non-audit services are specified as below.

EUR'000	2018	2017
Audit	60	46
Other assurance engagements	72	1
Total audit related services	**132**	**47**
Tax consultancy	10	10
Other non-audit services	411	377
Total fee to EY	**553**	**434**

9 Investments in subsidiaries

Name	Registered office	Ownership 2018 and voting rights	Ownership 2017 and voting rights
Abacus Medicine Hungary KFT	Hungary	100%	100%
Abacus Medicine B.V.	The Netherlands	100%	100%
+365 Medicines GmbH	Germany	100%	100%
Abacus Medicine Berlin GmbH	Germany	100%	100%
Abacus Medicine Ltd	United Kingdom	100%	100%
Abacus Medicine Austria GmbH	Austria	100%	100%
Abacus Medicine France S.A.S	France	100%	100%
Abacus Medicine Finland Oy	Finland	100%	100%
Abacus Medicine Ireland Ltd.	Ireland	100%	-
PharmaSave BVBA	Belgium	100%	100%
Originalis B.V.	The Netherlands	100%	100%
Aposave ApS	Denmark	100%	100%
Aposave Ltd.	United Kingdom	100%	100%
Aposave Asia Ltd.	Hong Kong	100%	100%
Aposave USA Inc.	USA	100%	100%
Aposave B.V.	The Netherlands	100%	-
Aposave Mexico S de RL de	Mexico	100%	-
Aposave prestacao de servicos de marketing E Pesquisa de	Brazil	100%	-

Notes

10 Net finance costs

EUR'000	2018	2017
Finance income		
Other finance income	108	202
Total finance income	**108**	**202**

Finance income related to balance sheet items recognised at amortised cost EUR 108 thousand (2017: EUR 202 thousand).

EUR'000	2018	2017
Finance expenses		
Other finance costs	1,968	1,438
Amortised loan costs	153	-
Foreign exchange loss, net	505	192
Total finance expenses	**2,626**	**1,630**

Finance expenses related to balance sheet items recognised at amortised cost (the credit facility) EUR 635 thousand (2017: EUR 553 thousand).

11 Income tax

EUR'000	2018	2017
Income statement		
Current income tax		
Current income tax charge	1,102	1,354
Deferred tax		
Relating to origination and reversal of temporary difference	889	450
Income tax expense reporting in the income statement	**1,991**	**1,804**

EUR'000	2018	2017
Statement of other comprehensive income		
Deferred tax related to items recognized in other comprehensive income during the year		
Net gain/loss on revaluation of cash flow hedges	167	-5
Income tax recognised in other comprehensive income	**167**	**-5**

Notes

11 Income tax (continued)

EUR'000	2018	2017
Tax on profit for the year can be explained as follows:		
Accounting profit before income tax		
Calculated 22% tax on profit for the year	1,617	1,349
Tax effect of:		
Deviation in foreign subsidiaries' tax rates compared with the Danish rate	100	131
Other non-deductible expenses, etc.	274	324
Total	**1,991**	**1,804**
Effective tax (%)	27.1%	29.4%

EUR'000	2018	2017
Deferred tax		
Deferred tax 1 January	-1,105	-660
Currency translation	13	-
Deferred tax for the year recognised in profit for the year	-889	-450
Deferred tax for the year recognised in other comprehensive income	167	5
Deferred tax 31 December	**-1,814**	**-1,105**
Reflected in the statement of financial position as follows:		
Deferred tax assets	78	0
Deferred tax liabilities	-1,892	-1,105
Deferred tax 31 December, net	**-1,814**	**-1,105**

There are unrecognized deferred tax assets relating to tax losses in the group amounting to EUR 630 thousand (2017: EUR 635 thousand). The deferred tax assets have not been recognised due to uncertainties on the timing of the realisation.

EUR'000	2018	2017
Deferred tax relates to:		
Intangible assets	-2,166	-1,199
Property, plant and equipment	17	13
Trade and other receivables	2	2
Other current assets	-112	-40
Provisions	200	114
Cash flow hedge reserve	167	5
Tax losses carried forward	78	-
Total	**-1,814**	**-1,105**

EUR'000	2018	2017
Income tax payable		
Income tax payable 1 January	1,254	1,796
Current tax for the year	1,102	1,354
Exchange rate adjustments, interests etc.	-13	10
Corporation tax paid during the year	-1,446	-1,906
Income tax payable 31 December	**897**	**1,254**

Notes

12 Intangible assets

EUR'000	Devel-opment costs	Licenses	IP Rights	Goodwill	Total
Cost 1 January 2018	-	14,187	1,097	2,905	18,189
Currency translation	-	-21	-	-	-21
Additions	-	2,139	-	-	2,139
Additions internally developed	2,946	1,449	-	-	4,395
Disposals	-	-1,057	-1,097	-	-2,154
Cost 31 December 2018	2,946	16,697	-	2,905	22,548
Amortisation and impairment 1 January 2018	-	7,971	-	-	7,971
Currency translation	-	8	-	-	8
Amortisation and impairment	-	1,693	243	-	1,936
Disposals	-	-1,014	-243	-	-1,257
Amortisation and impairment 31 December 2018	-	8,658	-	-	8,658
Carrying amount 31 December 2018	**2,946**	**8,039**	**-**	**2,905**	**13,890**
Cost 1 January 2017	-	11,355	-	-	11,355
Currency translation	-	-5	-	-	-5
Additions	-	2,841	1,097	-	3,938
Additions from acquisition	-	-	-	2,905	2,905
Disposals	-	-4	-	-	-4
Cost 31 December 2017	-	14,187	1,097	2,905	18,189
Amortisation and impairment 1 January 2017	-	6,576	-	-	6,576
Currency translation	-	-1	-	-	-1
Amortisation and impairment	-	1,396	-	-	1,396
Amortisation and impairment 31 December 2017	-	7,971	-	-	7,971
Carrying amount 31 December 2017	**-**	**6,216**	**1,097**	**2,905**	**10,218**

Development costs comprise capitalised expenses for the FMD project, which will be effective from February 2019 and the implementation of a new ERP system, which will be taken into use from January 2019.

Licenses are amortised over 5-8 years. There have been no indications of impairment of the intangible assets. There have not been any significant write-down of licenses in 2017-2018 as the main part of licenses are still considered to be in use. The disposals of IP rights relate to the sale of the DayDose brand. The DayDose related activities were sold and transferred on September 1, 2018, to a newly established subsidiary of Wagner Family Holding ApS. The transaction included non-current assets, inventories, receivables and payables. The sales transaction had no material impact on the Group earnings.

Goodwill was recognised as a part of the acquisition of the Aposave entities on 21 December 2017, please see note 26 on business combinations. Since goodwill is not amortised, the carrying amount is at least tested for impairment annually. The impairment test in 2018 did not give rise to recognising any impairment losses.

Assumptions
The calculation of the recoverable amount is based on a value in use for calculation of the Aposave business, which consists of the following key assumptions:

- Revenue growth in the budget period
- Gross profit
- Development in net working capital
- Discount rate
- Growth rate in terminal period

The revenue growth and the gross profit figures used in the impairment test are based on the Aposave budget prepared for next year and approved by the Board of Directors, and the outlook for the subsequent 3 years. We have applied an average yearly revenue growth of 90% in the period 2019-2022. An average revenue growth rate lower than 85% over the budget period would result in an impairment of goodwill. The Gross margin for the industry is in the range of 20-40%. We have applied an average gross margin of approximately 20% over the budget period. Decreased demand for clinical trial services and unlicensed medicine can lead to a decline in the gross margin. A decrease in the average gross margin over the budget period by 0.2% would result in an impairment of goodwill.

Net working capital in the budget, relative to the revenue, is based on the best estimation and increases on a linear basis as the activity level increases.

Notes

12 Intangible assets (continued)

We have used a pre-tax discount rate of 15.1%, which represents the current market assessment of the risks specific to the Aposave business, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is derived from the weighted average cost of capital (WACC) of Aposave. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by Abacus Medicine's investors. The cost of debt is based on the interest-bearing borrowings Abacus Medicine is obliged to service which is considered to be on market terms. Industry specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

A rise in the pre-tax discount rate to 16.6% (i.e. +1.5%) would result in an impairment of the goodwill.

We have applied a growth rate of 2%, which is an estimate of the expected average inflation in the terminal period. As such, no real growth is applied to the terminal period when calculating the recoverable amount. A negative growth of 7% in the terminal period would result in an impairment of goodwill.

13 Property, plant and equipment

EUR'000	Leasehold improvements	Other fixtures and fittings, plant and equipment	Total
Cost 1 January 2018	450	2,369	2,819
Currency translation	-	30	30
Additions	689	1,737	2,426
Disposals	-	-602	-602
Cost 31 December 2018	1,139	3,534	4,673
Depreciation and impairment 1 January 2018	314	1,014	1,328
Currency translation	-	-20	-20
Depreciation	101	675	776
Disposals	-	-381	-381
Depreciation and impairment 31 December 2018	415	1,288	1,703
Carrying amount 31 December 2018	**724**	**2,246**	**2,970**

13 Property, plant and equipment (continued)

EUR'000	Leasehold improvements	Other fixtures and fittings, plant and equipment	Total
Cost 1 January 2017	338	1,125	1,463
Currency translation	1	-1	0
Additions	119	1,231	1,350
Additions from acquisitions	-	14	14
Disposals	-8	-	-8
Cost 31 December 2017	450	2,369	2,819
Depreciation and impairment 1 January 2017	239	631	870
Depreciation	78	383	461
Disposals	-3	-	-3
Depreciation and impairment 31 December 2017	314	1,014	1,328
Carrying amount 31 December 2017	**136**	**1,355**	**1,491**

14 Inventories

EUR'000	2018	2017
Raw materials and consumables	28,385	23,438
Manufactured goods and goods for resale	31,202	9,926
Total inventories at the lower of cost and net realisable value	**59,587**	**33,364**

During 2018, EUR 4,196 thousand (2017: EUR 3,308 thousand) was recognised as an expense for inventories carried at net realisable value due to expired goods. This is recognised in cost of sales, please refer to note 4.

EUR'000	2018	2017
Inventory write-downs at 1 January	629	1,206
Utilised and reversed during the year	-629	-1,206
Additional write-downs during the year	1,793	629
Inventory write-downs at 31 December	**1,793**	**629**

Notes

15 Trade and other receivables

EUR'000	2018	2017
Receivables from sales and services	9,477	5,962
Deposits regarding factoring agreement	3,876	2,819
Other receivables	3,901	1,038
Receivable from parent company	829	-
Prepayments	938	394
	19,021	**10,213**

Abacus Medicine's customers are mainly distributors and pharmacies. In general, all Abacus Medicine's invoices to customers are sold to the factoring company of Abacus Medicine which limits the trade receivable risk and days. Further, management monitors payment patterns of customers and estimates the need for write-downs. Credit ratings, insurance of customers and market-specific development are taken into account in order to assess the need for further write-downs. Abacus Medicine has not suffered any significant losses in 2017 or 2018, and the provision for bad debt is considered to be immaterial. There are no significant overdue receivables. In 2017, insignificant write-downs where made and for 2018 the simplified expected credit loss model has been considered and no write-downs have been recognised.

16 Equity

Capital management

For the purpose of Abacus Medicine's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of Abacus Medicine A/S. Abacus Medicine manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. The primary objective of Abacus Medicine's capital management is to maximise the shareholder value. To maintain or adjust the capital structure, Abacus Medicine may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Abacus Medicine monitors capital using a solvency ratio, which is total equity divided by total equity and liabilities. Abacus Medicine's long term target is to keep the solvency ratio at minimum 40% (end 2018: 15%, end 2017: 17%).

To achieve the overall objective, Abacus Medicine's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. The calculation of the convenants is based on the inventory level compared to the credit utilisation, the solvency and leverage. As per 31 December 2018, the covenant relating to the solvency has been breached, but Abacus Medicine has received a waiver letter in December 2018 from the bank on this. There have been no other breaches of the financial covenants of any interest-bearing loans and borrowing in the current period. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

16 Equity (continued)

Equity

Issued shares

	Number				
	2018	2017	2016	2015	1 january 2015
1 January	2,774,747	2,642,617	2,642,617	2,128,378	2,128,378
Additions	-	132,130	-	514,239	-
Increase in shares due to decrease of nominal value per share	4,675,253	-	-	-	-
31 December – fully paid	**7,450,000**	**2,774,747**	**2,642,617**	**2,642,617**	**2,128,378**

	Nominal value (EUR)				
	2018	2017	2016	2015	1 january 2015
1 January	372,500	354,714	354,714	285,688	285,688
Additions	-	17,736	-	69,026	-
Impact of conversion of registered share capital from DKK to EUR	-	50	-	-	-
31 December – fully paid	**372,500**	**372,500**	**354,714**	**354,714**	**285,688**

The share capital consist of 7,450,000 shares with a nominal value of 0.05 EUR each. None of the shares are assigned with special rights.

Notes

17 Earnings per share and dividend

EUR'000	2018	2017
Profit attributable to equity holders	**5,359**	**4,328**
Weighted average number of ordinary shares	7,450,000	2,708,682
Effect of share options	274,641	131,460
Weighted average number of ordinary shares adjusted for the effect of dilution	**7,724,641**	**2,840,142**
Basic earnings per share, EUR	0.7	0.6
Diluted earnings per share, EUR	0.7	0.6

In October 2018, the nominal value per share was decreased from DKK 1 (EUR 0.13) to EUR 0.05, and the share capital was converted from DKK 2,774,747 to EUR 372,500, and accordingly the number of shares was increased from 2,774,747 to 7,450,000. 7,450,000 has been used for the calculation of earnings per share.

There have been no transactions between the reporting date and the date of completion of the Annual Report involving shares that would have significantly changed the number of shares or potential shares in Abacus Medicine A/S.

Dividend are specified as below:

EUR'000	2018	2017
Declared and paid during the year	-	4,751
Total	**-**	**4,751**
In general, dividends are proposed for approval at the annual general meeting and therefore not recognised as a liability in the balance.		
Dividends on ordinary shares:		
Final dividend for 2018: EUR 0 per share (2017: EUR 1.71 per share)		-1.71

18 Borrowings

EUR'000	2018	2017
Non-current liabilities	-	-
Current liabilities		
Bank credit facility	21,270	24,048
Carrying amount	**21,270**	**24,048**
Nominal amount	21,270	24,048

Abacus Medicine has a committed credit facility with Danske Bank, with a maximum credit limit of EUR 32.9 million (DKK 245 million). The bank credit facility is renegotiated on a three year basis. Next renegotiation is in 2021.

The movements in the bank credit facility are included the financing activities in the cash flow statement. The movement in 2018 is impacted by the change in the presentation of the credit facility, which in 2017 was presented as cash, but in 2018 is presented as a finance liability.

19 Trade payables

EUR'000	2018	2017
Trade payables	11,442	10,995
Payables to parent company	-	175
Total	**11,442**	**11,170**

Notes

20 Other payables

EUR'000	2018	2017
Non-current		
Employee related payables	-	952
Total non-current	**-**	**952**
Current		
VAT payables	35,307	2,754
Employee related payables	1,999	1,361
Other payables	7,871	3,649
Total current	**45,177**	**7,764**

VAT paybles includes a VAT payable in Germany which is to be settled in August 2019. The unpaid amount as of 31 December 2018 is EUR 33.4 million (2017: EUR 0).

21 Provisions

	Return provisions
At 1 January 2018	**543**
Arising during the year	2,159
Utilised	-543
Unused amounts reversed	-
At 31 December 2018	**2,159**
Current	2,159
Non-current	-

Provisions comprise provisions for sold products expected to be returned in the coming year.

22 Change in working capital

EUR'000	2018	2017
Change in inventory	-26,223	-12,902
Change in receivables	-6,883	24,488
Change in trade payables etc.	35,533	2,586
Total	**2,427**	**14,172**

23 Cash

EUR'000	2018	2017
Cash at bank and in hand	1,346	1,041
Bank credit facility	-	-24,048
Total cash	**1,346**	**-23,007**

The movements in the bank credit facility are due to circumstances in 2018 now considered to be financing activity and not a part of net cash as presented previously.

24 Contractual obligations and contingencies etc.

Contingent liabilities
The company is jointly taxed with the Danish entities within the FTW Holding ApS group, with FTW Holding ApS as the administrative company. The company is, together with the other Danish companies in FTW Holding ApS group, liable for corporate taxes and withholding taxes on dividends, interests and royalties.

Notes

25 Mortgage and collateral

Bank debt of EUR 21.3 million within Abacus Medicine has been secured by way of a pledge on all of Abacus Medicine's existing as well as future receivables, totaling EUR 14.2 million (2017: EUR 7.0 million), in intangible assets totaling EUR 13.9 million (2017: EUR 10.2 million), property totaling EUR 0 million (2017: EUR 0 million), plant and equipment totaling EUR 3.0 million (2017: EUR 1.5 million) and inventories totaling EUR 60.3 million (2017: EUR 33.4 million).

In addition, the shares in the subsidiary Abacus Medicine Hungary KFT, totaling EUR 1.1 million (2017: EUR 1.0 million), and the shares in the subsidiary Abacus Medicine Berlin Gmbh, totaling EUR 0.4 million, have been provided as collateral.

26 Business combinations

Acquisitions in 2017
Acquisition of Aposave UK, Hong Kong and US entities
On 21 December 2017, Abacus Medicine A/S established the company Aposave ApS, and acquired 100% of the voting shares of Aposave Ltd. (UK), Aposave Asia Ltd. (Hong Kong) and Aposave USA Inc. (USA). The Aposave entities sell unlicensed speciality medicine and orphan drugs globally, with a focus in regions where these medicines are either not licensed or in short supply. The synergies from the purchase is expected to come from the Abacus Medicine A/S sourcing network, as it is expected that Aposave can benefit from this. This is the main factor of the recognised goodwill.

As consideration of the purchase, Abacus Medicine A/S paid EUR 0.8 million (DKK 5.6 million) through a debt note to the sellers of the entities. There is no non-controlling interest in the acquired subsidiary.

26 Business combinations (continued)

The provisional assessment of the fair values of the identifiable assets and liabilities of the Aposave entities as at the date of acquisition were:

EUR'000	Aposave UK	Aposave Asia & US*	Total
Tangible assets	-	14	14
Inventories	50	-	50
Other receivables, non-current	15	-	15
Trade receivables	198	-	198
Other receivables, current	173	5	178
Cash	310	13	323
Trade payables	-2,767	-158	-2,925
Other payables	-3	-	-3
Net assets acquired	**-2,024**	**-126**	**-2,150**
Goodwill	2,766	139	2,905
Consideration	**742**	**13**	**755**
Cash payment (debt note)	-742	-13	-755
Net cash acquired with the subsidiary	-310	-13	-323
Cash consideration	**-310**	**-13**	**-323**

*Purchase price allocation has been combined for the two entities

From the date of acquisition, the Aposave entities contributed EUR 0 of revenue and EUR 0 to profit before tax from operations of Abacus in 2017. If the combination had taken place at the beginning of 2017, revenue from continuing operations would have been EUR 0.1 million and profit before tax from operations for Abacus Medicine would have been EUR -0.2 million. There have been no significant transaction costs in connection with the acquisition.

Notes

27 Financial risk and financial instruments

Risk management policy
Abacus Medicine's principal financial liabilities, other than derivatives, comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to finance Abacus Medicine's operations and to support its operations. Abacus Medicine's principal financial assets include trade and other receivables, and cash and short-term deposits that derive directly from its operations.

Abacus Medicine is exposed to market risk, credit risk and liquidity risk. Abacus Medicine's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. Abacus Medicine is not considered to be directly affected by an equity price risk or a commodity risk (price volatility of certain commodities, i.e. oil prices, metal prices etc.).

Currency risk
Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Abacus Medicine's exposure to the risk of changes in foreign exchange rates relates primarily to Abacus Medicine's operating activities (when revenue or expense is denominated in a foreign currency) and Abacus Medicine's net investments in foreign subsidiaries.

Abacus Medicine sells finished products and purchases products in currencies other than EUR and is therefore exposed to a currency risk. The currency policy must ensure that the risk is hedged, either by buying and selling in the same currencies or by making use of financial hedging. At the same time, the currency policy must in an operational manner describe how the risk is assessed when a possible hedging is entered and who is responsible for entering into currency hedging agreements with the company's bank.

Sales/receivables: Abacus Medicine enters sales agreements with customers, which will result in invoicing in DKK, EUR, SEK, NOK and GBP. It is considered not to be relevant to hedge sales in DKK, as DKK and EUR are close to each other and, in practice, a sale in EUR corresponds to a sale in DKK. Abacus Medicine's sales in SEK are considered a risk, as the currency has historically been unstable compared to EUR/DKK.

Purchase/payables: On the purchase side, EUR is the main currency, but products and freight are also purchased in CZK, HUF, PLN, SEK, NOK and GBP, where SEK to some extent provides a natural hedge against the currency risk on the sales side. All the purchase currencies used have historically been volatile. In the medium and long term, a change in the value of these currencies will lead to an adjustment of the purchase prices in the local currencies, and thereby eliminating the currency risk. In the short term, i.e. from the date of invoice to the payment, the price is fixed in currency and an increase (strengthening) of these currencies will result in a loss. However, the time from order delivery to payment is limited and thereby also the currency risk exposure. Consequently, Abacus Medicine does not enter into forward transactions.

Group Finance enters the hedges with the bank on the basis of confirmed customer orders or in some cases on the budgeted sales. Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecasted sales in foreign currencies, mainly SEK and forecasted purchases, mainly NOK. These forecasted transactions are highly probable. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and commodity forward contracts match the terms of the expected highly probable forecasted transactions (i.e., notional amount and expected payment date). Abacus Medicine has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, Abacus Medicine uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

It is Abacus Medicine's policy that no trading in derivatives for speculative purposes may be undertaken.

Notes

27 Financial risk and financial instruments (continued)

Below is an illustration of the impact in EUR thousand on profit before tax from a change in Abacus Medicine's primary foreign currencies.

EUR'000	Change in exchange rate	Profit before tax 2018	Profit before tax 2017
SEK	5%	2,155	2,154
GBP	5%	-657	-423
NOK	5%	-1,271	-338
PLN	5%	-400	-380
HUF	5%	-372	-247

The analysis is based on sales and purchases in the respective currencies in the given period, and keeps all other assumptions unchanged. A change in the exchange rate of the currencies will also impact the business in terms of the possibilities of purchase and selling volumes.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Abacus Medicine's exposure to the risk of changes in market interest rates relates primarily to Abacus Medicine's credit facility with Danske Bank with a credit limit of EUR 32.8 million (DKK 245 million) and the factoring agreement with AL Finans with a limit of EUR 63.7 million (DKK 475 million). Abacus Medicine has not hedged interest rate risks.

A change in the interest rate by 1 percentage point in comparison to the interest rate at the balance sheet date would all other things equal affect Abacus Medicine's income statement by EUR 0.2 million (2017: EUR 0.5 million) and equity by EUR 0.2 million (2017: EUR 0.5 million).

Liquidity risk
Parallel import is a very liquidity-intensive business, as most of the raw material purchases are to be paid in advance or with very short payment terms, while the customer side is characterized by normal and often long payment terms, which can be up to 2 months. This creates a liquidity requirement in the period between payment to suppliers and receipt of customer payments.

Abacus Medicine therefore aims to have sufficient credit facilities that can accommodate the fluctuations that occur in day-to-day operations, and that within these facilities Abacus Medicine has sufficient reserves to account for unforeseen liquidity needs.

This objective is met through building and maintaining sound and trustworthy relationships with bank and factoring partners which have resulted in the existence of sufficiently large lines for factoring and credit facilities.

Abacus Medicine has a committed credit facility at Danske Bank with a credit limit of DKK 245 million (EUR 32.8 million) with a three years term and a factoring agreement with AL Finans with a limit of DKK 475 million (EUR 63.7 million). The limit of the factoring agreement will increase during 2019 to EUR 70.4 million (DKK 525 million). The increase is incremental, so the full increase is effective from 1 July 2019. Factoring is chosen because it allows for financing of all sales invoices, where risk related to the receivable is transferred and 100% of invoice amounts are paid to Abacus Medicine no later than the day after the invoice has been issued.

Maturity analysis

(EUR'000)	Contractual cash flows	< 1 year	1 - 3 years	3 - 5 years	>5 years
2018					
Non-derivative financial instruments					
Credit institutions and banks (credit facility)	21,695	21,695	-	-	-
Trade payables	11,442	11,442	-	-	-
Other payables	45,177	45,177	-	-	-
Derivative financial instruments					
Exchange rate hedging	792	792	-	-	-
31 December 2018	**79,106**	**79,106**	**-**	**-**	**-**
2017					
Non-derivative financial instruments					
Credit institutions and banks (credit facility)	24,529	24,529	-	-	-
Trade payables	11,170	11,170	-	-	-
Other payables	8,716	7,764	952	-	-
Derivative financial instruments					
Exchange rate hedging	35	35	-	-	-
31 December 2017	**44,450**	**43,498**	**952**	**-**	**-**

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

Notes

27 Financial risk and financial instruments (continued)

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Abacus Medicine is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables
The customers in the medical industry are in general considered to be very creditworthy, and the company has historically not had any material write downs on receivables. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits and credit insurances are defined in accordance with this assessment. All trade receivables are sold to the factoring company and thereby the credit risk is limited. A reference is also made to note 15 Trade and other receivables. Any outstanding customer receivables and contract assets are regularly monitored and any deliveries to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions.

Accordingly, no allowance for bad debt has been made in the carrying amount of trade receivables in the balance sheet (2017: EUR 0). All trade receivables have been paid (2017: all).

Categories of financial instruments

	Carrying amount		Fair value	
EUR'000	2018	2017	2018	2017
Financial assets measured at amortised cost				
Trade receivables	19,021	10,213	19,021	10,213
Cash	1,346	1,041	1,346	1,041
Total	**20,367**	**11,254**	**20,367**	**11,254**
Financial liabilities at fair value – hedging instruments				
Derivative financial instruments	792	35	792	35
Total	**792**	**35**	**792**	**35**
Financial liabilities measured at amortised cost				
Borrowings	21,270	24,048	21,270	24,048
Trade payables	11,442	11,170	11,442	11,170
Other payables	44,075	7,764	44,075	7,764
Total	**76,787**	**42,982**	**76,787**	**42,982**

The derivative financial instruments are measured at level 2 (Observable input) of the fair value hierarchy. The instruments are recognised in the related line item, when effective, i.e. inventories on derivaties related to purchases (EUR 747 thousand; 2017: EUR 0) and revenue for derivatives related to sales (EUR 45 thousand; 2017: EUR 35 thousand).

Methods and assumptions for calculating fair value
The applied methods and assumptions for calculating the fair values of financial instruments are described for each class of financial instruments.

Abacus Medicine uses hedging instruments to hedge non-recognised transactions. Abacus Medicine's purchases are mainly in EUR. Abacus Medicine's sales are effected in currencies other than EUR and DKK, which are partially hedged.

Notes

27 Financial risk and financial instruments (continued)

Cash flow hedging

Foreign currency risk

Derivatives designated as hedging instruments reflect the positive change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecasted sales and purchases in other currencies than EUR. Historically this has mainly been SEK, GBP and NOK. The fair value of the hedges has been recognised under "Other payables" and equity under the FX hedge reserve. The table below shows the timing of the nominal values of Abacus Medicine's hedging items:

	Nominal value	Expiry below 1 year	Expiry 1-5 years	Expiry above 5 years	Average hedging price	Fair value assets	Fair value liabilities	Change in fair value used for measuring cash flow hedge reserve
2018								
SEK/DKK	55,362	55,362	-	-	1 SEK/1 DKK	-	45	45
NOK/DKK	144,000	144,000	-	-	1 NOK/1 DKK	-	747	747
						-	**792**	**792**
2017								
SEK/DKK	27,400	27,400	-	-	1 SEK/1 DKK	-	35	35
						-	**35**	**35**

Notes

28 Leases

Operating leases
Abacus Medicine leases premises and printers under operating leases. The leasing period is typically between 0 and 5 years with the possibility of extending the contracts.

Non-cancellable operating leases are as follows:

EUR'000	2018	2017
0-1 years	1,058	538
1-5 years	1,462	684
> 5 years	-	-
Total	**2,520**	**1,222**

For the year 2018, EUR 1,043 thousand (2017: EUR 686 thousand) has been recognised in the income statement in regards to operating leases.

29 Related party disclosures

Controlling Influence
Wagner Family Holding ApS, Vesterbrogade 149, 1620 Copenhagen, Denmark, has a controlling interest in the Parent company. FTW Holding ApS is the ultimate owner. The Parent company is part of the consolidated financial statements of FTW Holding ApS.

Abacus Medicine carried through the following related party transactions:

EUR'000	2018	2017
Sale of goods to other related parties	-	568
Purchase from other related parties	-	547
Interest income from other related parties	18	127
Sale of DayDose activities including IP rights to other related parties	1,070	-
Reimbursement of expenses in DayDose ApS from 1/9-18 to 31/12-18	223	-
Acquisition of IP rights from other related parties	-	1,097
Acquisition of shares in subsidiaries from other related parties	-	755
Receivables from Parent company	829	-
Payables to other related parties	161	962
Payables to the Parent company	-	175
Dividend to the Parent company	-	4,751

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, Abacus Medicine has not recorded any impairment of receivables relating to amounts owed by related parties (2017: EUR 0). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Executives
Abacus Medicine's related parties with significant influence include Abacus Medicine's Board of Directors and executives of the Parent company, including these employees' family members, and entities in which these executives have a significant influence.

The remuneration to executives is disclosed in note 5.

Notes

30 Events after the reporting period

In February 2019, Abacus Medicine granted a convertible loan of EUR 0.65 million to the Dutch wholesaler Pluripharm which can be converted to a majority ownership of shares of its parent company, Goofy-Sam Holding B.V. The convertible loan was granted in the light of a liquidity shortage at Pluripharm and securing the continuance of core operations and will secure Abacus Medicine's main access and distribution channel in the Netherlands. Abacus Medicine and Pluripharm thereby recognize substantial strategical advantages and operational synergies from the strategic alliance between the two companies.

No other events have occurred after the balance sheet date which could have a material effect on Abacus Medicine's financial position at 31 December 2018.

31 Standards issued but not yet effective

The following new accounting standards and interpretations are not yet effective, but will be commencing on or after 1 January 2019.

IFRS 16 – Leases
The International Accounting Standards Board issued a new standard on the accounting treatment of leases on 13 January 2016. IFRS 16 replaces the existing guidelines on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. The standard is applicable for the first time in reporting periods beginning on or after 1 January 2019. Early application is permissible if IFRS 16 is already being applied. Abacus Medicine will not early adopt IFRS 16.

Summary of Impact on Financial Statements:
Abacus Medicine acts exclusively as a lessee. The major portion of Abacus Medicine's leases is attributable to the leasing of real estate. IFRS 16 requires lessees to account for leases under an on-balance sheet model, with the distinction between operating and finance leases being removed. The standard provides certain exemptions from recognising leases on the balance sheet, including where the underlying asset is of low value or the lease term is 12 months or less.

Under the new standard, Abacus Medicine will be required to:

- recognise right of use lease assets and lease liabilities on the balance sheet. Liabilities are measured based on the present value of future lease payments over the lease term. The right of use lease asset generally reflects the lease liability;
- recognise depreciation of right of use lease assets and interest on lease liabilities over the lease term; and
- separately present the principal amount of cash paid and interest in the cash flow statement as a financing activity.

Abacus Medicine has assessed the impact of the new standard. Abacus Medicine's lease agreements mainly relate to lease of the headquarter premises in Copenhagen, Denmark, and the production site in Budapest, Hungary.

If IFRS 16 were implemented in 2018, Adjusted EBITDA would increase with approximately EUR 0.9 million and depreciation and interest expenses would increase similar with approximately EUR 0.9 million. Accordingly the cash flow from the lease agreements will be changed from operating activities to financing activities. The net impact would be close to zero. Assets and liabilities would increase with approximately EUR 2.1 million.

Contents

Parent company financial statements

Notes to the Parent company financial statements

Income statement

Note	EUR'000	2018	2017
	Revenue	330,154	249,820
3	Cost of sales	-301,652	-228,843
	Gross profit	**28,502**	**20,977**
7	Other external costs	-5,066	-4,175
4	Staff costs	-11,406	-8,350
	Operating profit before depreciations, amortisation and special items (adjusted EBITDA)	**12,030**	**8,452**
1	Special items (IPO-related costs)	-1,065	-377
	Operating profit before depreciations and amortisation (EBITDA)	**10,695**	**8,075**
6	Depreciation and amortisation	-2,201	-1,510
	Operating profit (EBIT)	**8,764**	**6,565**
8	Share of profit from subsidiaries accounted under the equity method	191	634
9	Finance income	235	219
9	Finance expenses	-2,016	-1,618
	Profit before tax	**7,174**	**5,800**
10	Tax	-1,815	-1,472
	Profit for the year	**5,359**	**4,328**

Statement of other comprehensive income

Note	EUR'000	2018	2017
	Profit for the year	**5,359**	**4,328**
	Other comprehensive income		
	Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
25	Cash flow hedges – effective portion of changes in fair value	-757	25
	Exchange differences on translation of foreign operations	-60	-14
10	Income tax effect	167	-5
		-650	6
	Other comprehensive income/(loss) for the year, net of tax	**-650**	**6**
	Total comprehensive income	**4,709**	**4,334**

Balance sheet

Note	EUR'000	2018	2017
	ASSETS		
	Non-current assets		
11	Intangible assets	9,847	6,375
12	Property, plant and equipment	1,664	961
8	Investments in subsidiaries	3,928	3,785
	Other receivables	74	70
	Total non-current assets	**15,513**	**11,191**
	Current assets		
13	Inventory	59,470	32,388
14	Trade and other receivables	20,853	11,612
22	Cash	201	13
	Total current assets	**80,524**	**44,013**
	TOTAL ASSETS	**96,037**	**55,204**

Note	EUR'000	2018	2017
	EQUITY AND LIABILITIES		
	Equity		
15	Share capital	373	373
	Reverse for net revaluation according to the equity method	1,132	955
	Other reserves	-617	-27
	Retained earnings	13,511	8,370
	Total equity	**14,399**	**9,671**
	Non-current liabilities		
10	Deferred tax liabilities	1,892	1,101
19	Other payables	-	952
8	Provisions	2	18
	Total non-current liabilities	**1,894**	**2,071**
	Current liabilities		
20	Provisions	2,159	543
17	Borrowings	21,247	24,048
18	Trade payables	12,268	11,078
10	Income tax payable	867	1,073
19	Other payables	43,203	6,720
	Total current liabilities	**79,744**	**43,462**
	Total liabilities	**81,638**	**45,533**
	TOTAL EQUITY AND LIABILITIES	**96,037**	**55,204**

Cash flow statement

Note	EUR'000	2018	2017
	Operating activities		
	Profit before tax	7,174	5,800
	Adjustments to reconcile profit before tax to net cash flow:		
	Depreciation and amortisation	2,201	1,510
	Share of profit from subsidiaries	-191	-634
	Finance income	-235	-219
	Finance expenses	2,016	1,618
	Working capital adjustments:		
	Non-cash items, net	1,876	543
21	Changes in working capital	984	17,171
	Interest received	235	219
	Interest paid	-1,591	-1,383
	Income tax paid	-1,099	-1,731
	Net cash flow from operating activities	**11,370**	**22,894**

Note	EUR'000	2018	2017
	Investing activities		
11	Purchase of intangible assets	-6,042	-3,565
12	Purchase of property, plant and equipment	-1,464	-999
8	Investments in subsidiaries	-	-1,961
	Change in deposit	-4	-26
	Disposals, non-current assets	67	5
	Net cash flow used in investing activities	**-7,443**	**-6,546**
	Financing activities		
	Proceeds from exercise of warrants	-	287
17	Proceeds from borrowings (credit facility)	21,372	-
	Deposits regarding bank agreement	-1,063	-2,823
	Proceeds from factoring debt	-	133,288
	Repayment of factoring debt	-	-156,129
	Dividends paid to equity holders of the parent	-	-4,751
	Net cash flow from financing activities	**20,309**	**-30,128**
	Cash flow for the year	**24,236**	**-13,780**
	Cash at beginning of the year	-24,035	-10,255
22	**Cash at 31 December**	**201**	**-24,035**

The above cannot be derived directly from the income statement and the balance sheet.

Statement of changes in equity

EUR'000	Share capital	Cash flow hedge reserve	Reverse for net revaluation according to the equity method	Retained earnings	Total
Equity 1 January 2018	**373**	**-27**	**955**	**8,370**	**9,671**
Total comprehensive income 2018					
Profit for the year	-	-	191	5,168	5,359
Other comprehensive income					
Cash flow hedges – effective portion of changes in fair value	-	-757	-	-	-757
Exchange differences on translation of foreign operations	-	-	-14	-46	-60
Tax on other comprehensive income	-	167	-	-	167
Total other comprehensive income	**-**	**-590**	**-14**	**-46**	**-650**
Total comprehensive income for the period	**-**	**-590**	**177**	**5,122**	**4,709**
Transactions with owners					
Equity-settled share-based payments	-	-	-	19	19
Total transactions with owners	**-**	**-**	**-**	**19**	**19**
Equity 31 December 2018	**373**	**-617**	**1,132**	**13,511**	**14,399**

EUR'000	Share capital	Cash flow hedge reserve	Reverse for net revaluation according to the equity method	Retained earnings	Total
Equity 1 January 2017	**355**	**-47**	**322**	**8,876**	**9,506**
Total comprehensive income 2017					
Profit for the year	-	-	634	3,694	4,328
Other comprehensive income					
Cash flow hedges – effective portion of changes in fair value	-	25	-	-	25
Exchange differences on translation of foreign operations	-	-	-1	-13	-14
Tax on other comprehensive income	-	-5	-	-	-5
Total other comprehensive income	**-**	**20**	**-1**	**-13**	**6**
Total comprehensive income for the period	**-**	**20**	**633**	**3,681**	**4,334**
Transactions with owners					
Dividends paid	-	-	-	-4,751	-4,751
Equity-settled share-based payments	-	-	-	295	295
Warrants exercised	18	-	-	269	287
Total transactions with owners	**18**	**-**	**-**	**-4,187**	**-4,169**
Equity 31 December 2017	**373**	**-27**	**955**	**8,370**	**9,671**

Notes

1 Accounting policies

For general information about the Parent company, Abacus Medicine A/S, including description of its principal activities, reference is made to note 1 in the consolidated financial statements.

Basis of preparation
The separate financial statements of the Parent company have been included in the annual report as required by the Danish Financial Statements Act.

The separate financial statements for the Parent company for 2018 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements according to the Danish Financial Statements Act applying to large reporting class C entities.

The financial statements have been prepared on a historical cost basis.

Financial statements of the Parent company
The accounting policies of the Parent company are unchanged from last year and consistent with those applied in the consolidated financial statements, note 1 in the consolidated financial statements, including the below accounting policies for investments in Group subsidiaries.

Special items
Special items are IPO related costs. IPO related costs of EUR 377 thousand incurred in 2017 have been reclassified from "Other external costs" to "Special items" in the 2017 figures.

Investments in Group subsidiaries
The Parent's investments in its subsidiaries are accounted for using the equity method.

Under the equity method, an investment in a subsidiary is initially recognised at cost. The carrying amount of the investment is adjusted to recognize changes in the Parent's share of net assets of the subsidiary since the acquisition date.

Goodwill relating to the subsidiary is included in the carrying amount of the investment and is not tested for impairment separately, however the carrying amount of the investments in subsidiaries is subject to an annual test for indications of impairment.

The statement of profit or loss reflects the Parent's share of the results of operations of the subsidiaries. Any change in other comprehensive income of those subsidiaries is presented as part of the Parent's other comprehensive income. In addition, where a change has been recognised directly in the equity of the subsidiary, the Parent recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Parent and the subsidiary are eliminated.

Investments in enterprises with negative net asset values are measured at EUR 0 (nil). The enterprise's proportionate share of any negative equity is set off against receivables from the investment to the extent that the receivable is deemed irrecoverable. If the Parent company has a constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluations of the investments in subsidiaries are transferred to the reserve for net revaluation, according to the equity method, to the extent that the carrying amount exceeds the acquisition value.

Reserve for net revaluation according to the equity method
Net revaluation of investments in subsidiaries is recognised at cost in the reserve for net revaluation according to the equity method if the earnings amount exceeds the costs.

The reserve can be eliminated in case of losses, realisation of investments or a change in accounting estimates.

The reserve cannot be recognised at a negative amount.

Changes in accounting policies and disclosures
New and amended standards and interpretations
Abacus applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of Abacus Medicine. Abacus Medicine has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

Abacus Medicine adopted IFRS 15 using the modified retrospective method of adoption and the implementation of IFRS 15 has resulted in a change in the presentation of the return provision, which from 2018 is presented gross under inventory and provision. The gross up amounts to EUR 2,159 thousand. Apart from this, the implementation of IFRS 15 has not had any material impact on the recognition and measurement of revenue, and the adoption has had no impact on the income statement, statement of cash flows and no impact on basic and diluted EPS.

Notes

1 Accounting policies (continued)

The effect on the balance sheet of adopting IFRS 15 is as follows:

	31 December 2018		
EUR'000	Old policies	Effect of adoption	New policies
Current assets			
Inventory	58,189	1,281	59,470
Trade and other receivables	20,853	-	20,853
Total current assets	**80,524**	**1,281**	**81,805**
TOTAL ASSETS	**96,037**	**1,281**	**97,318**
Equity			
Share capital	373	-	373
Other reserves	-617	-	-617
Retained earnings	13,497	-	13,497
Total equity	**14,399**	**-**	**14,399**
Current liabilities			
Provisions	2,161	1,281	3,442
Total current liabilities	**46,325**	**1,281**	**47,089**
TOTAL EQUITY AND LIABILITIES	**96,037**	**1,281**	**97,318**

The effect on the income statement of adopting IFRS 15 is as follows:

	31 December 2018		
EUR'000	Old policies	Effect of adoption	New policies
Revenue	332,313	-2,159	330,154
Cost of sales	-303,811	2,159	-301,652
Profit before tax	**7,174**	**-**	**7,174**
Tax	-1,815	-	-1,815
Profit for the year	**5,359**	**-**	**5,359**

The change did not have any material impact on the income statement or the statement of cash flows for 2018.

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39, which changes the classification, measurement and impairment of financial assets, and introduces new rules for hedge accounting. IFRS 9 requires Abacus Medicine to record expected credit losses on all its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Abacus Medicine applied the simplified method upon adoption of IFRS 9 on 1 January 2018 and record lifetime expected losses on all trade receivables. Based on the portfolio of financial assets and the historical low realised loss on trade receivables, the adoption of the new standard did not have any material impact on Abacus Medicine's consolidated financial statements and therefore no effect on retained earnings at 1 January 2018. Further, no other elements from the adoption of the standard have affected recognition and measurement.

Notes

2 Significant accounting judgements, estimates and assumptions

Management assesses that, in respect of the financial reporting for the Parent company, no accounting estimates or judgements are made when applying the Parent company's accounting policies which are significant to the financial reporting apart from those disclosed in note 2 to the consolidated financial statements.

3 Cost of sales

Cost of sales comprise of the following:

EUR'000	2018	2017
Cost of inventories recognised as an expense	297,456	225,535
Write-down of inventory, net	4,196	3,308
	301,652	**228,843**

4 Staff costs

EUR'000	2018	2017
Wages and salaries	10,798	6,533
Pensions, defined contribution plans	701	440
Other social security costs	91	56
Other staff costs	673	441
Share-based payment expense	170	1,180
Total employee benefit expenses	**12,433**	**8,650**
Of which are capitalised as intangible assets	-1,027	-300
Total employee benefit expense in the income statement	**11,406**	**8,350**
Average number of full-time employee	122	86

4 Staff costs (continued)

The below amounts are included in the total staff costs.

EUR'000	Board of Directors and Management	Key Management Personnel
2018		
Wages and salaries	620	1,460
Pensions, defined contribution plans	32	104
Share-based payments	2	63
Social security costs	1	8
Total	**655**	**1,635**
Average number	4	8
2017		
Wages and salaries	556	1,229
Pensions, defined contribution plans	29	88
Share-based payments	-	240
Social security costs	1	5
Total	**586**	**1,562**
Average number	4	7

Key Management Personnel is defined as the members of daily management, and includes CFO, CLO, VPs and Directors.

Remuneration to the Key Management Personnel and other employees.
Remuneration to the Executive Management and Board of Directors represent EUR 655 thousand (2017: EUR 586 thousand). Warrant agreements with Key Management Personnel and members of the Board of Directors in Abacus Medicine has been entered into. For further details on remuneration to Key Management Personnel, refer to note 5 regarding share-based payments.

Notes

5 Share-based payments

The company's cash and equity-settled share-based payment schemes comprise various share schemes designed to reward employees. For further information on these schemes, including the valuation methods and assumptions used, see Note 6 to the consolidated financial statements.

6 Amortisation and depreciation

EUR'000	2018	2017
Amortisation, intangible assets	1,664	1,206
Depreciation, property, plant and equipment	537	304
Total	**2,201**	**1,510**

7 Fees paid to auditors appointed at the annual general meeting

Fees payable to the parent's auditor for the audit of the parent's financial statements and other non-audit services are specified as below.

EUR'000	2018	2017
Audit	56	46
Other assurance engagements	72	1
Total audit related services	**128**	**47**
Tax consultancy	10	10
Other non-audit services	411	377
Total fee to EY	**549**	**434**

8 Investments in subsidiaries

Name	Registered office	Ownership 2018 and voting rights	Ownership 2017 and voting rights
Abacus Medicine Hungary KFT	Hungary	100%	100%
Abacus Medicine B.V.	The Netherlands	100%	100%
+365 Medicines GmbH	Germany	100%	100%
Abacus Medicine Berlin GmbH	Germany	100%	100%
Abacus Medicine Ltd	United Kingdom	100%	100%
Abacus Medicine Austria GmbH	Austria	100%	100%
Abacus Medicine France S.A.S	France	100%	100%
Abacus Medicine Finland Oy	Finland	100%	100%
Abacus Medicine Ireland Ltd.	Ireland	100%	-
PharmaSave BVBA	Belgium	100%	100%
Originalis B.V.	The Netherlands	100%	100%
Aposave ApS	Denmark	100%	100%
Aposave Ltd.	United Kingdom	100%	100%
Aposave Asia Ltd.	Hong Kong	100%	100%
Aposave USA Inc.	USA	100%	100%
Aposave B.V.	The Netherlands	100%	-
Aposave Mexico S de RL de	Mexico	100%	-
Aposave prestacao de servicos de marketing E Pesquisa de	Brazil	100%	-

Notes

8 Investments in subsidiaries (continued)

EUR'000	2018	2017
Cost as at 1 January	2,710	757
Additions	-	1,961
Disposals	-	-5
Foreign exchange adjustments	-28	-3
Cost as at 31 December	2,682	2,710
Value adjustments as at 1 January	955	322
Profit for the year	191	634
Foreign exchange adjustment	-14	-1
Value adjustments as at 31 December	1,132	955
Carrying value as at 31 December	**3,814**	**3,665**
Which are presented as follows:		
Investments in subsidiaries	3,928	3,785
Offset in receivables	-112	-102
Provision for negative equity in subsidiaries	-2	-18
As at 31 December	**3,814**	**3,665**

Investments in subsidiaries are measured using the equity method. See note 26 in the notes to the Group financial statements for full details of the business combinations that took place during the periods presented. This includes details of the assets and liabilities acquired in the business combinations, in addition to information regarding the contingent consideration agreed as part of the acquisitions.

9 Net finance costs

EUR'000	2018	2017
Finance income		
Other finance income	77	196
Intercompany interest income	158	23
Total finance income	**235**	**219**

Finance income related to balance sheet items recognised at amortised cost EUR 235 thousand (2017: EUR 219 thousand).

EUR'000	2018	2017
Finance expenses		
Other finance costs	1,437	1,383
Amortised loan costs	153	-
Foreign exchange loss, net	426	235
Total finance expenses	**2,016**	**1,618**

Finance expenses related to balance sheet items recognised at amortised cost (the credit facility) EUR 635 thousand (2017: EUR 553 thousand).

Notes

10 Income tax

EUR'000	2018	2017
Income statement		
Current income tax		
Current income tax charge	844	1,033
Deferred tax		
Relating to origination and reversal of temporary difference	971	439
Income tax expense reporting in the income statement	**1,815**	**1,472**

EUR'000	2018	2017
Statement of other comprehensive income		
Deferred tax related to items recognized in other comprehensive income during the year		
Net gain/loss on revaluation of cash flow hedges	167	-5
Income tax recognised in other comprehensive income	**167**	**-5**

EUR'000	2018	2017
Tax on profit for the year can be explained as follows:		
Accounting profit before income tax		
Calculated 22% tax on profit for the year	1,578	1,276
Tax effect of:		
Non-taxable income	-42	-139
Other non-deductible expenses, etc.	279	335
Total	**1,815**	**1,472**
Effective tax (%)	25.3%	25.4%

EUR'000	2018	2017
Deferred tax		
Deferred tax 1 January	-1,101	-667
Deferred tax for the year recognised in profit for the year	-971	-439
Deferred tax for the year recognised in other comprehensive income	167	5
Other adjustments	13	-
Deferred tax 31 December	**-1,892**	**-1,101**
Reflected in the statement of financial position as follows:		
Deferred tax liabilities	-1,892	-1,101
Deferred tax 31 December, net	**-1,892**	**-1,101**

There are no unrecognised deferred tax assets.

Notes

10 Income tax (continued)

EUR'000	2018	2017
Deferred tax relates to:		
Intangible assets	-2,166	-1,195
Property, plant and equipment	17	13
Trade and other receivables	2	2
Other current assets	-112	-40
Provisions	200	114
Cash flow hedge reserve	167	5
Total	**-1,892**	**-1,101**

EUR'000	2018	2017
Income tax payable		
Income tax payable 1 January	1,073	1,761
Current tax for the year	845	1,033
Interests etc.	48	10
Corporation tax paid during the year	-1,099	-1,731
Income tax payable 31 December	**867**	**1,073**

11 Intangible assets

EUR'000	Devel-opment costs	Licenses	IP Rights	Total
Cost 1 January 2018	-	12,714	1,097	13,811
Currency translation	-	-10	-	-10
Additions	-	1,647	-	1,647
Additions internally developed	2,946	1,449	-	4,395
Disposals	-	-1,057	-1,097	-2,154
Cost 31 December 2018	2,946	14,743	-	17,689
Amortisation and impairment 1 January 2018	-	7,436	-	7,436
Currency translation	-	-1	-	-1
Amortisation and impairment	-	1,421	243	1,664
Disposals	-	-1,014	-243	-1,257
Amortisation and impairment 31 December 2018	-	7,842	-	7,842
Carrying amount 31 December 2018	**2,946**	**6,901**	**-**	**9,847**
Cost 1 January 2017	-	10,266	-	10,266
Currency translation	-	-17	-	-17
Additions	-	2,468	1,097	3,565
Disposals	-	-3	-	-3
Cost 31 December 2017	-	12,714	1,097	13,811
Amortisation and impairment 1 January 2017	-	6,240	-	6,240
Currency translation	-	-10	-	-10
Amortisation and impairment	-	1,206	-	1,206
Amortisation and impairment 31 December 2017	-	7,436	-	7,436
Carrying amount 31 December 2017	**-**	**5,278**	**1,097**	**6,375**

Licenses are amortised over 5-8 years. There have been no indications of impairment of the intangible assets. There have not been any significant write-down of licenses in 2017-2018 as the main part of licenses are still considered to be in use. The disposals of IP rights relate to the sale of the DayDose brand. The DayDose related activities were sold and transferred on September 1, 2018, to a newly established subsidiary of Wagner Family Holding ApS. The transaction included non-current assets, inventories, receivables and payables. The sales transaction had no material impact on the company's earnings.

Notes

12 Property, plant and equipment

EUR'000	Leasehold improve-ments	Other fixtures and fittings, plant and equipment	Total
Cost 1 January 2018	58	1,754	1,812
Currency translation	-	-3	-3
Additions	-	1,464	1,464
Disposals	-	-602	-602
Cost 31 December 2018	58	2,613	2,671
Depreciation and impairment 1 January 2018	45	806	851
Depreciation and impairment	6	531	537
Disposals	-	-381	-381
Depreciation and impairment 31 December 2018	51	956	1,007
Carrying amount 31 December 2018	**7**	**1,657**	**1,664**
Cost 1 January 2017	41	772	813
Additions	17	982	999
Cost 31 December 2017	58	1,754	1,812
Depreciation and impairment 1 January 2017	40	507	547
Depreciation and impairment	5	299	304
Depreciation and impairment 31 December 2017	45	806	851
Carrying amount 31 December 2017	**13**	**948**	**961**

There have been no indications of impairment of the tangible assets.

13 Inventories

EUR'000	2018	2017
Raw materials and consumables	28,385	23,438
Manufactured goods and goods for resale	31,085	8,950
Total inventories at the lower of cost and net realisable value	**59,470**	**32,388**

During 2018, EUR 4,196 thousand (2017: EUR 3,308 thousand) was recognised as an expense for inventories carried at net realisable value due to expired goods. This is recognised in cost of sales, please refer to note 3.

EUR'000	2018	2017
Inventory write-downs at 1 January	629	1,206
Utilised and reversed during the year	-629	-1,206
Additional write-downs during the year	1,793	629
Inventory write-downs at 31 December	**1,793**	**629**

Notes

14 Trade and other receivables

EUR'000	2018	2017
Receivables from sales and services	5,390	3,374
Receivables from group entities	8,075	4,995
Deposits regarding factoring agreement	3,876	2,819
Other receivables	2,722	176
Prepayments	790	248
Total	**20,853**	**11,612**

Abacus Medicine's customers are mainly distributors and pharmacies. In general, all Abacus Medicine's invoices to customers are sold to the factoring company which limits the trade receivable risk and days. Further, management monitors payment patterns of the customers and estimates the need for write-downs. Credit ratings, insurance of customers and market-specific developments are taken into account in order to assess the need for further write-downs. Abacus Medicine did not suffer any significant losses in 2017 or 2018, and the provision for bad debt is considered to be immaterial. There are no significant overdue receivables.

15 Equity

Share capital
For disclosure regarding equity, refer to note 16 in the consolidated financial statements.

16 Distributions made and proposed

For disclosure regarding distributions made during the years, refer to statement of changes in equity.

17 Borrowings

EUR'000	2018	2017
Non-current liabilities	-	-
Current liabilities		
Bank credit facility	21,247	24,048
Carrying amount	21,247	24,048
Nominal amount	**21,247**	**24,048**

Abacus Medicine has a committed credit facility with Danske Bank, with a maximum credit limit of EUR 32.9 million (DKK 245 million). The bank credit facility is renegotiated on a three year basis. Next renegotiation is in 2021.

The movements in the bank credit facility are included the financing activities in the cash flow statement. The movement in 2018 is impacted by the change in the presentation of the credit facility, which in 2017 was presented as cash, but in 2018 is presented as a finance liability.

18 Trade payables

EUR'000	2018	2017
Trade payables	10,656	9,390
Payables to group entities	1,612	1,688
Total	**12,268**	**11,078**

Notes

19 Other payables

EUR'000	2018	2017
Non-current		
Employee related payables	-	952
Total non-current	**-**	**952**
Current		
VAT payables	35,307	2,143
Employee related payables	1,363	935
Other payables	6,533	3,642
Total current	**43,203**	**6,720**

VAT paybles includes a VAT payable in Germany which is to be settled in August 2019. The unpaid amount as of 31 December 2018 is EUR 33.4 million (2017: EUR 0).

20 Provisions

	Return provisions
At 1 January 2018	543
Arising during the year	2,159
Utilised	-543
Unused amounts reversed	-
At 31 December 2018	**2,159**
Current	2,159
Non-current	-

Provisions comprise provisions for sold products expected to be returned in the coming year.

21 Change in working capital

EUR'000	2018	2017
Change in inventory	-27,082	-12,413
Change in receivables	-8,500	22,916
Change in trade payables etc.	36,566	6,668
Total	**984**	**17,171**

22 Cash

EUR'000	2018	2017
Cash at bank and in hand	201	13
Bank credit facility	-	-24,048
Total cash	**201**	**-24,035**

The movements in the bank credit facility are due to circumstances in 2018 now considered to be financing activity and not a part of net cash as presented previously.

23 Contractual obligations and contingencies etc.

Contingent liabilities

The company is jointly taxed with the Danish entities within the FTW Holding ApS group, with FTW Holding ApS as the administrative company. The company is, together with the other Danish companies in FTW Holding ApS group, liable for corporate taxes and withholding taxes on dividends, interests and royalties.

24 Mortgage and collateral

For information on mortgage and collateral, please refer back to the note 25 in the consolidated financial statements.

Notes

25 Financial risk and financial instruments

Risk management policy
The company's principal financial liabilities, other than derivatives, comprise bank credit facility and trade and other payables. Management of market, currency, credit, interest rate and liquidity and pricing risk is consistent with the policies in place at the Group level. Please see note 27 of the Group financial statements for detailed information related with these risk management policies, practices and assumptions.

Maturity analysis

(EUR'000)	Contractual cash flows	< 1 year	1 - 3 years	3 - 5 years	>5 years
2018					
Non-derivative financial instruments					
Credit institutions and banks (credit facility)	21,695	21,695	-	-	-
Trade payables	12,268	12,268	-	-	-
Other payables	43,203	43,203	-	-	-
Derivative financial instruments					
Exchange rate hedging	792	792	-	-	-
31 December 2018	**77,958**	**77,958**	**-**	**-**	**-**
2017					
Non-derivative financial instruments					
Credit institutions and banks (credit facility)	24,529	24,529	-	-	-
Trade payables	11,078	11,078	-	-	-
Other payables	7,672	6,720	952	-	-
Derivative financial instruments					
Exchange rate hedging	35	35	-	-	-
31 December 2017	**43,314**	**42,362**	**952**	**-**	**-**

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

Categories of financial instruments

	Carrying amount		Fair value	
EUR'000	2018	2017	2018	2017
Financial assets measured at amortised cost				
Trade receivables	20,853	11,612	20,853	11,612
Cash	201	13	201	13
Total	**21,054**	**11,625**	**21,054**	**11,625**
Financial liabilities at fair value – hedging instruments				
Derivative financial instruments	792	35	792	35
Total	**792**	**35**	**792**	**35**
Financial liabilities measured at amortised cost				
Borrowings	21,247	24,048	21,247	24,048
Trade payables	12,268	11,078	12,268	11,078
Other payables	42,101	6,720	42,101	6,720
Total	**75,616**	**41,846**	**75,616**	**41,846**

The derivative financial instruments are measured at level 2 (Observable input) of the fair value hierarchy. The instruments are recognised in the related line item, when effective, i.e. inventories on derivaties related to purchases (EUR 747 thousand; 2017: EUR 0) and revenue for derivatives related to sales (EUR 45 thousand; 2017: EUR 35 thousand).

Notes

25 Financial risk and financial instruments (continued)

Methods and assumptions for calculating fair value
The applied methods and assumptions for calculating the fair values of financial instruments is described for each class of financial instruments.

Abacus Medicine uses hedging instruments to hedge non-recognised transactions. Abacus Medicine's purchases are mainly in EUR. Abacus Medicine's sales are effected in currencies other than EUR and DKK, which are partially hedged.

Cash flow hedging
Foreign currency risk
Derivatives designated as hedging instruments reflect the positive change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecasted sales and purchases in other currencies than EUR, mainly SEK and NOK. The table below shows the timing of the nominal values of the company's hedging items:

	Nominal value	Expiry below 1 year	Expiry 1-5 years	Expiry above 5 years	Average hedging price	Fair value assets	Fair value liabilities	Change in fair value used for measuring cash flow hedge reserve
2018								
SEK/DKK	55,362	55,362	-	-	1 SEK /1 DKK	-	45	45
NOK/DKK	144,000	144,000	-	-	1 NOK /1 DKK	-	747	747
						-	**792**	**792**
2017								
SEK/DKK	27,400	27,400	-	-	1 SEK /1 DKK	-	35	35
						-	**35**	**35**

Notes

26 Leases

Operating leases
The Company leases premises and printers under operating leases. The leasing period is typically between 0 and 5 years with the possibility of extending the contracts.

Non-cancellable operating leases are as follows:

EUR'000	2018	2017
0-1 years	523	354
1-5 years	714	649
> 5 years	-	-
Total	**1,237**	**1,003**

For the year 2018, EUR 460 thousand (2017: EUR 307 thousand) has been recognised in the income statement in regards to operating leases.

27 Related party disclosures

Controlling Influence
Wagner Family Holding ApS, Vesterbrogade 149, 1620 Copenhagen, Denmark, has a controlling interest in the Parent company. FTW Holding ApS is the ultimate owner. The Parent company is part of the consolidated financial statements of FTW Holding ApS.

Abacus Medicine carried through the following related party transactions:

EUR'000	2018	2017
Sale of goods to subsidiaries	209,032	37,581
Sale of goods to other related parties	-	568
Service fees from subsidiaries	14,661	-
Purchase from subsidiaries	-	6,170
Purchase from other related parties	-	547
Interest income from subsidiaries	158	23
Interest income from other related parties	18	127
Acquisition of IP rights from other related parties	-	1,097
Acquisition of shares in subsidiaries from other related parties	-	755
Sale of IP rights from other related parties	1,070	-
Reimbursement of expenses in DayDose ApS from 1/9-18 to 31/12-18	223	-
Receivables from subsidiaries	7,246	4,995
Receivables from Parent company	829	-
Payables to subsidiaries	1,612	1,513
Payables to other related parties	161	962
Payables to the Parent company	-	175
Dividend to the Parent company	-	4,751

Notes

27 Related party disclosures (continued)

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, Abacus Medicine has not recorded any impairment of receivables relating to amounts owed by related parties (2017: EUR 0). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Executives
Abacus Medicine's related parties with significant influence include Abacus Medicine's Board of Directors and executives in the parent company, including these employees' family members, and entities in which these executives have a significant influence.

The remuneration to executives is disclosed in note 4.

28 Events after the reporting period

In February 2019, Abacus Medicine granted a convertible loan of EUR 0.65 million to the Dutch wholesaler Pluripharm which can be converted to a majority ownership of shares of its parent company, Goofy-Sam Holding B.V. The convertible loan was granted in the light of a liquidity shortage at Pluripharm and securing the continuance of core operations and will secure Abacus Medicine's main access and distribution channel in the Netherlands. Abacus Medicine and Pluripharm thereby recognize substantial strategical advantages and operational synergies from the strategic alliance between the two companies.

No other events have occurred after the balance sheet date which could have a material effect on the company's financial position at 31 December 2018.

29 Standards issued but not yet effective

The following new accounting standards and interpretations are not yet effective, but will be commencing on or after 1 January 2019.

IFRS 16 – Leases
The International Accounting Standards Board issued a new standard on the accounting treatment of leases on 13 January 2016. IFRS 16 replaces the existing guidelines on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. The standard is applicable for the first time in reporting periods beginning on or after 1 January 2019. Early application is permissible if IFRS 15 is already being applied. Abacus Medicine will not early adopt IFRS 16.

Summary of Impact on Financial Statements:
Abacus Medicine acts exclusively as a lessee. The major portion of Abacus Medicine's leases is attributable to the leasing of real estate. IFRS 16, requires lessees to account for leases under an on-balance sheet model, with the distinction between operating and finance leases being removed. The standard provides certain exemptions from recognising leases on the balance sheet, including where the underlying asset is of low value or the lease term is 12 months or less.

Under the new standard, the company will be required to:

- recognise right of use lease assets and lease liabilities on the balance sheet. Liabilities are measured based on the present value of future lease payments over the lease term. The right of use lease asset generally reflects the lease liability;
- recognise depreciation of right of use lease assets and interest on lease liabilities over the lease term; and
- separately present the principal amount of cash paid and interest in the cash flow statement as a financing activity.

Abacus Medicine has assessed the impact of the new standard. Abacus Medicine's lease agreements mainly relate to lease of the headquarter premises in Copenhagen, Denmark.

If IFRS 16 were implemented in 2018, Adjusted EBITDA would increase with approximately EUR 0.3 million and depreciation and interest expenses would increase similar with approximately EUR 0.3 million. Accordingly, the cash flow from the lease agreements will be changed from operating activities to financing activities. Net impact would be close to zero. The assets and liabilities would increase with approximately EUR 0.9 million.

Statements

Statement by the Board of Directors and the Executive Management

Today, the Board of Directors and Executive Management have discussed and approved the Annual Report of Abacus Medicine A/S for the financial year 1 January – 31 December 2018.

The Annual Report is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the Parent company financial statements give a true and fair view of the Group's and the Parent company's financial position at 31 December 2018 and of the results of the Group's and the Parent company's operations and cash flows for the financial year 1 January – 31 December 2018.

In our opinion, the Management review includes a true and fair review of the development in the Group's and the Parent company's operations and financial conditions, of the results for the year and of the financial position of the Group and the Parent company, as well as a description of the more significant risks and uncertainty facing the Group and the Parent company.

We recommend that the Annual Report be approved at the Annual General Meeting.

Copenhagen, 2 May 2019

Executive Management

Flemming Wagner
CEO

Board of Directors

Troels Troelsen, Chairman

Jens Harsaae

Ole Jensen

Flemming Wagner

Independent auditor's report

To the shareholders of Abacus Medicine A/S

Opinion
We have audited the consolidated financial statements and the parent company financial statements of Abacus Medicine A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on the Management review
Management is responsible for the Management review.

Our opinion on the financial statements does not cover the Management review, and we do not express any assurance conclusion thereon.

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

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

Based on our procedures, we conclude that the Management review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management review.

Management's responsibilities for the financial statements
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the 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.

Copenhagen, 2 May 2019

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Peter Gath	Ole Becker
State Authorised	State Authorised
Public Accountant	Public Accountant
mne19718	mne33732

ABACUS MEDICINE

Original European Supply

CVR no. 28 11 15 76