Navamedic ASA

# Annual Report 2019

19

# Contents

# This is Navamedic

**Navamedic is a Nordic-based pharmaceutical company providing high-quality products to hospitals and pharmacies. The company meets the needs of patients and consumers by leveraging its highly scalable market access platform, leading product category competence and in-depth local market knowledge. Navamedic is present in all the Nordic countries, the Baltics and Benelux, with sales representation in the UK and Greece. The company's vision is to become a leading pharmaceutical company in Northern Europe, by providing access to high-quality products to patients and delivering sustainable growth organically and inorganically.**

**Navamedic is headquartered in Oslo, Norway, and listed on the Oslo Stock Exchange (ticker: NAVA).**

www.navamedic.com

## Business areas

Navamedic markets and sells pharmaceuticals and other health products to hospitals, pharmacies and patients in all Nordic countries, the Baltics and Benelux. The product portfolio consists of more than 40 different products within segments such as Consumer Health, Medical Nutrition and Specialty Pharma/Branded Generics. The company has an ambitious growth strategy defined by maximising the potential of its existing products, entering into new distribution and in-licensing agreements, and by making bolt-on acquisitions of products and portfolios.

# Highlights of 2019

- The acquisition of Novicus Pharma led to a change of the executive management and formed a basis for a new and ambitious growth strategy for Navamedic.
- Successful demerger and separate listing of the former Medtech division as Observe Medical ASA provided both companies with platforms for accelerated growth.
- Implemented a three-step growth strategy: 1) strengthen the core operating business model and realising untapped potential in existing portfolio, 2) secure and increase the value through ownership to products and brands, and 3) growth through M&A.
- Execution on the new growth strategy through the launch of new and innovative products from an exciting pipeline, and expansion into new territories. In 2019, Navamedic launched Alflorex® for irritable bowel syndrome (IBS) addressing unmet needs in the gastro therapeutic category, and expanded Imdur® in Greece and GeloRevoice® in Norway.
- Strengthened focus on Investor Relations for a successful capital increase in 2020 to fund future M&A, strategic investments and general corporate purposes.

# Post 31 December 2019

- Signed the Term Sheet with ACS Dobfar and InfoRLife for the purchase of Nordic Marketing Authorizations for large hospital antibiotics portfolio.
- Signed a long-term exclusive distribution agreement with Angelini Pharma for Thermacare® in the Nordics and the Netherlands.
- Successfully completed private placement of NOK 50 million expanding the shareholder base with two major Nordic institutional investors.

# Key figures

- Navamedic's operating revenue amounted to NOK 188.8 million in 2019, compared with NOK 183.9 million in 2018. The operating result before depreciation and impairment (EBITDA) was NOK -6.5 million, compared to NOK 8.5 million in 2018. In a year where a lot of time and resources was taken up by the demerger of Observe Medical, growth in revenue was achieved due to strong growth in Obesity and Medical Nutrition.

- The net result for total operations was NOK 27.9 million, compared with a profit of NOK 7.3 million in 2018. The net result for the year includes a profit from discontinued operations of NOK 44.2 million.

| *(Figures in NOK millions)* | **2019** | **2018** [1] |
|---|---|---|
| Operating revenues | 188.8 | 183.9 |
| Gross profit * | 57.6 | 60.8 |
| EBITDA * | -6.5 | 8.5 |
| Operating result* | -10.1 | -6.2 |
| Result before tax | -15.5 | 3.5 |
| Net result continuing operations | -16.3 | 3.8 |
| Net result total operations | 27.9 | 7.3 |
| | | |
| Equity | 79.2 | 99.3 |
| Total assets | 187.1 | 214.7 |
| | | |
| Gross margin (%)* | 30.5 | 33.1 |
| EBITDA margin (%)* | -3.4 | 4.6 |
| Equity ratio (%)* | 42.4 | 46.3 |

* Alternative performance measures (APMs)

[1] The 2018 figures are restated for discontinued operations.

# Letter from the CEO

**Following the successful demerger of Observe Medical, Navamedic is now a focused pharmaceutical company with a scalable platform for marketing and sales to hospitals, pharmacies and patients in the Nordics and selected countries in Northern Europe. Building on our ambitious new strategy and the successful milestones reached in 2019, we have now set the course for continued growth in 2020 and beyond.**

2019 was an eventful year for Navamedic, with several important milestones reached. The acquisition of Novicus Pharma lead to a change of the executive management and formed the basis for a new ambitious growth strategy in three steps:

Throughout the year we have worked systematically to strengthen our core business by maximizing the potential of our current portfolio by delivering growth through the introduction of new products in existing markets and expanding products to new geographies.

Secondly, we have started the tedious process to increase company value by owning new products and brands.

As a third step, we have been actively sourcing and evaluating M&A opportunities delivering sustainable growth with the objective of building Navamedic to a leading Nordic pharmaceutical company with a North European footprint.

The most significant event in 2019 was the demerger and separate listing of the former Medtech division as Observe Medical ASA. In order for both entities to prosper and grow, it was necessary to separate these two businesses, which had limited synergies. As a result, both Navamedic and Observe Medical are now provided with their own efficient and focused platforms to accelerate growth.

As a focused pharmaceutical company, Navamedic has a flexible and scalable platform for marketing and sale of products to hospitals, pharmacies and patients. Our strength is our tailormade local business platform, local expertise, understanding of customers' needs, and partnerships. We are at the forefront in launching, positioning and marketing of consumer health, medical nutrition and specialty pharma/branded generics products. Through solid market insights and knowledge and multi-channel marketing initiatives, we build awareness, knowledge and loyalty for our products.

One example is the specialty pharma product Mysimba®, which was the first tablet approved for the treatment of obesity in ten years when launched in 2017. We work closely with general practitioners, obesity clinics and specialist groups to increase the benefit for the patients. There is currently a very high interest in Mysimba®, which leads us to believe in a continued positive development and that this category represents significant future opportunities.

Another example is Alflorex®, which we launched in Norway and Denmark in 2019 and has planned for launch in Iceland and the Netherlands in 2020. Alflorex® is a unique product for irritable bowel syndrome (IBS) and we aim to drive growth in the underdeveloped consumer health category of gastro therapeutics going forward.

Through execution of our new three-step growth strategy we are confident that the positive development will continue. We are receiving very positive feedback on our products, operating model, organisation and the new ambitious strategy from current and potential new partners in Europe. They all want to be a part of our success and work together with our energized and experienced team in our local markets.

The Board of Director's see major potential in Navamedic based on the current infrastructure and portfolio, impending product launches, and potential opportunities for mergers and acquisitions.

Navamedic is very well positioned to secure and increase value across all our business segments. Our vision is to become a leading pharmaceutical company in Northern Europe.

I would like to take the opportunity to thank our shareholders, customers and partners for your trust and support, and I look forward to the road ahead.

**Kathrine Gamborg Andreassen,**
CEO

# A growing product portfolio with great potential

**Navamedic has signed long-term licensing and distribution agreements for a number of innovative pharmaceuticals and other healthcare products that meet important and unaddressed needs in the market. New additions in 2019 include Alflorex® which, together with the rest of the company's portfolio, represents substantial earnings potential for Navamedic.**

Over the last years, Navamedic has systematically developed a solid network of suppliers and partners for the distribution of pharmaceuticals and other healthcare products.

At the end of 2019, Navamedic had a portfolio of more than 30 products consisting of prescription drugs (Rx) and over-the-counter (OTC) pharmaceuticals as well as other healthcare products registered as medical devices, food supplements and cosmetics, and in addition a wide selection of medical nutrition products. The portfolio includes both products that Navamedic owns and licensed brands. The portfolio can be divided into the following product groups: Cardiology, Medical Nutrition, Obesity, Urology/gynecology and other.

As part of the portfolio stemming from Novicus Pharma, Alflorex® was launched in Norway and Denmark, with launch in Iceland and the Netherlands planned for 2020.

## Navamedic is building a strong and diversified portfolio within attractive categories

**CARDIOLOGY**


**MEDICAL NUTRITION**

**OBESITY**

**UROLOGY AND WOMEN'S HEALTH**

**OTHER**

# Directors' report 2019

The Navamedic Group expanded its Pharma business driven by strong performance in the Obesity and Medical Nutrition product categories, in parallel to completing the strategically important demerger of Observe Medical. The financial results reflect the company's strategy of building a leading Nordic pharma company with a North European footprint.

# Group’s result for the year

After the demerger of Observe Medical on November 1, 2019 the Medtech division is now reflected as discontinued business in the consolidated statement of comprehensive income and the balance sheet.

The group’s operating revenue amounted to NOK 188.8 million in 2019, compared to NOK 183.9 million in 2018. Pharma now accounts for all of the operating revenue and the slight increase was due to the strong performance in the Obesity and Medical Nutrition product categories which more than compensated for weak performances in Cardiology (due to supply issues for Imdur) and Urology/Women’s health (due to increased competition for Gepan).

The group’s gross profit (operating revenue minus cost of materials) fell from NOK 60.8 million to NOK 57.6 million and the gross margin (gross profit as a percentage of operating revenue) decreased from 33.1% to 30.5% in 2019. The change in the gross margin is related to the changed composition of the product portfolio, with an increased proportion of lower-margin products. The group's payroll and other operating expenses for 2019 amounted to NOK 64.1 million, an increase of NOK 11.8 million. This was mainly due to costs related to the demerger of Observe Medical and an increase in the number of employees.

Navamedic ASA and its subsidiaries does not engage in research and development activities.

This resulted in operating profit before depreciation and impairment (EBITDA) of NOK - 6.5 million, compared with NOK 8.5 million the year before.

The group’s depreciation and impairment charge increased from NOK 2.3 million to NOK 3.6 million in 2019. The operating result was therefore NOK -10.1 million, compared with NOK 6.2 million the year before.

The result before tax amounted to NOK -15.5 million for 2019, compared to NOK 3.5 million for 2018 after net financial costs of NOK -4.7 million in 2019, compared with net financial costs of NOK -2.7 million in 2018.

After a tax expense of NOK 0.8 million, the net result for continuing operations for 2019 amounted to NOK -16.3 million, compared to NOK 3.8 million the year before.

The net result for total operations for 2019 amounted to NOK 27.9 million, compared to NOK 7.3 million in 2018.

The net result for total operations is significantly influenced by the resulting gain from demerger of Observe Medical of NOK 44.2 million.

## Group's cash flow 2019

The group's cash position at the end of 2019 amounted to NOK 11.4 million, up from NOK 11.0 million the year before.

The cash flow from operating activities for continuing operations amounted to NOK 22.8 million in 2019, compared with NOK -29.6 million in 2018, mostly due to improvements in the net working capital position due to de-recognised trade receivables under a new factoring agreement and partly offset by the negative net result for 2019 from continuing operations.

Net cash flow from financing activities was NOK -10.9 million in 2019, compared to NOK 20.4 million in 2018. The change in 2019 was primarily due to net down payment of debt in connection with refinancing of existing debt.

With a change in the exchange rate of NOK 0.4 million and a net increase in cash of NOK 0.05 million, cash holdings and bank deposits were NOK 11.4 million at the end of 2019.

## The company's financial position as of 31 December 2019

The group's total assets as at 31 December 2019 amounted to NOK 187.1 million, compared with NOK 214.7 million at the end of 2018. Fixed assets amounted to NOK 118.2 million and primarily consisted of goodwill and the change was primarily due to reduction from the Observe Medical demerger partly offset by the acquisition of Novicus Pharma, investment in the associated company Observe Medical through conversion of loan converted to equity and issuance of loans to the associated company Observe Medical.

Navamedic had current assets of NOK 68.8 million as at 31 December 2019, a decrease from NOK 95.1 million. The decrease was primarily due to a reduction in inventories, receivables and prepaid tax, in addition to the effect from the demerger of Observe Medical.

Equity amounted to NOK 79.2 million at the end of 2019, compared with NOK 99.3 million at the end of the previous year. This resulted in an equity ratio of 42.4% for 2019, which represents a decrease from 2018. The net reduction was due to the net result, demerger of Observe Medical and an issuance of new shares in connection with the acquisition of Novicus Pharma.

The group's total liabilities amounted to NOK 107.8 million as at 31 December 2019, compared with NOK 115.4 million at the end of 2018. The decrease was primarily due to a reduction in current liabilities to financial institutions. This was partly offset by increased non-current liabilities as the group has refinanced the current liabilities and increased the time to maturity for the interest bearing liabilities. By establishing the new 3-year loan facility of SEK 20 million together with the one year loan facility of SEK 5 million, the factoring facility was repaid in total.

# Navamedic Pharma

| *NOK millions* | **2019** | **2018** |
|---|---|---|
| *Operating revenues* | *188.8* | *183.9* |
| *Gross profit* | *57.6* | *60.8* |
| *Gross margin* | *30.5%* | *33.1%* |
| *EBITDA* | *-4.4* | *9.5* |
| *EBITDA margin* | *-2.3%* | *5.1%* |
| *Special items* | *12.5* | *6.1* |
| *Adjusted EBITDA* | *8.1* | *15.6* |

The operating revenue in 2019 amounted to NOK 188.8 million, compared with NOK 183.9 million in 2019. The slight increase was due to the strong performance in the Obesity and Medical Nutrition product categories which more than compensated for weak performances of Cardiology (due to supply issues for Imdur) and Urology/Women's health (due to increased competition for Gepan).

However, 2019 showed growth in the company's existing portfolio. The company's operating revenue increased from NOK 183.9 million to NOK 188.8 million. EBITDA within the area of Navamedic Pharma amounted to NOK -4.4 million in 2019, down from NOK 9.5 million in 2018.

In 2019, Other items (external expenses related to corporate projects outside scope of ordinary operations) mostly related to the demerger of Observe Medical added costs of NOK 12.5 million. The lower gross margin was linked to sales of products with lower margins.

EBITDA from the de-merged Medtech division in the period from 1 January 2019 up to to 31 October 2019 was NOK -9,5 million, down from NOK -7.8 in 2018, see note 25 Discontinued operations.

## Corporate social responsibility and the external environment

Navamedic is committed to ethical operations. The company complies with the laws of the countries in which it operates and runs its business operations in line with nationally and internationally recognised principles and guidelines for human and labour rights.

The company refuses to tolerate any form of corruption in its day-to-day work or in relation to business contacts. The group has guidelines for all employees on accepting gifts, benefits, or other tokens of appreciation.

Based on an assessment of the company's size, nature of its business, and available management resources, the company has not deemed it appropriate to establish other specific guidelines on fulfilling its corporate social responsibilities and preventing corruption. In the opinion of the board, the company exercises good control in this area. Any need for such guidelines will be assessed on an ongoing basis as the company grows and develops.

The company's operations have little effect on the external environment beyond that which is normal for this type of company and its operations are not particularly energy intensive.

The group maintains a continuous focus on minimising its negative environmental impact through routines for reducing paper and energy consumption, increasing the efficiency of waste sorting, increasing recycling and the reuse of electronic waste, as well as limiting travel activities.

All employees are encouraged to report internally if they are concerned about the group's integrity or identify breaches of laws and regulations. Whistle-blowing can take place confidentially if so desired, and the company cannot impose negative sanctions on the whistle-blower, irrespective of whether the whistle-blowing is genuine.

## Going concern

The annual financial statements have been prepared on the assumption that the company is a going concern. In addition, subsequent to 31.12.2019, the company has in 2020 successfully completed a private placement with gross proceeds in the amount of NOK 50 million, further strengthening the company’s liquidity as well as providing a solid base to undertake significant investments in growth initiatives going forward. The board confirms that the basis for the company as a going concern exists and bases its opinion on the company and the group’s financial positions, the agreements that have been signed with both suppliers and customers, expected cash flows in 2020, and the company's financial liabilities. Due consideration has also been given to possible negative impacts of the Covid-19 pandemic outbreak in the assessment supporting the going concern assumption.

## Working environment, equality and discrimination

There were no serious incidents that resulted in personal injuries or absences in 2019. Nor was any damage to property or equipment reported.

The working environment is generally satisfactory. The sick leave rate was 2.0% in 2019, compared with 2.8% in 2018. The group continuously strives to protect and improve health and safety in its operations.

Navamedic strives to be a responsible employer that does not discriminate and that assesses all employees on an equal basis with respect to career opportunities and rights, regardless of gender, ethnicity, disability, or sexual orientation.

Navamedic wants to achieve a balance between the genders. The group's management team in 2019 consisted of six members, three of whom are women. Lars Hjarrand joined the Navamedic as CFO on 9 December 2019, replacing Toril Marie Ås.

# Risk factors

The operational and financial risks Navamedic is exposed to differ little from what could be considered normal risks in the distribution of pharmaceuticals. In the Pharma business area, it is the producer of the individual products that bears the product risk for the products that Navamedic distributes.

Operational risk consists of market risk and agreement risk. In Navamedic's case, market risk can be subdivided further into risk within approval and registration processes, partnerships, price competition, and general market developments. Agreement risk will generally be linked to the duration of an individual agreement.

The products that Navamedic markets through its subsidiaries are generally products with a limited number of customer segments, which means that the company does not need a large number of pharmaceutical consultants in the market in order to maintain its competitiveness in relation to larger pharmaceutical companies.

There is a risk that some of the company's products will face competition from new products and generic products. The company has close ties with a few major suppliers, something that can entail a concentration risk. The risk of this can be reduced by a more diversified and broader portfolio of products.

Financial risk mainly consists of interest-, currency-, credit- and liquidity risks. Navamedic continuously monitors these factors and actively manages risk through commercial operations and other measures to reduce these risks.

As at 31 December 2019, the company considered the group’s liquidity to be satisfactory. The company has a focus on improving liquidity in order to finance further growth.

The interest rate risk is primarily linked to the group's liquidity, and interest rates affect the group's borrowing expenses. Thus far, the group has not entered into any types of hedging arrangements in order to reduce interest rate risks. The company's borrowing rates and interest rates on bank deposits and short term liquidity investments are floating. Interest rates on loans to associated company is fixed.

In 2019, a substantial portion of the group’s revenue and the majority of salaries and other operating expenses were in NOK, SEK, DKK and EUR. Materials are generally paid for in EUR, GBP, SEK and USD. Net investments in foreign subsidiaries is exposed to currency risk in SEK. The board assesses the company's need for currency hedging on an ongoing basis, but has currently not introduced specific hedging strategies beyond natural hedging and specific assessments in larger agreements.

Navamedic trades with deemed creditworthy third parties and generally sells its products to major actors such as pharmacy chains and wholesalers, as well as public health sectors and hospitals.

Trade receivables are continuously monitored and the risk of incurring losses is generally regarded as low.

The Covid-19 outbreak has implied risk with regards to supply chain and sourcing of products and a risk related to Navamedic’s employees becoming infected and consequently may not being able to carry out their work and functions as required. The company has initiated its business continuity plan to secure all key areas of operations.

## Organisation

The group had 24 employees at the end of 2019. The number of employees has increased by one since 2018.

In accordance with the Norwegian Public Limited Liability Companies Act, the board has prepared a declaration concerning pay and other benefits for executive personnel, which is included in note 15.

## Corporate governance

Navamedic generally complies with the Norwegian Code of Practice for Corporate Governance (NUES).

See the special section of the annual report for the company's corporate governance report.

## The share

The Navamedic share has been listed on the Oslo Stock Exchange since 2006 with the ticker NAVA. As at 31 December 2019, the company had 11.867.673 shares, each with a nominal value of NOK 0.74 per share, and 642 shareholders.

## Parent company

Internal support and shared services have been organized in the parent company, Navamedic ASA, in areas where substantial economies of scale and synergies can be realised. The parent company has a master agreement on royalties from its subsidiary Navamedic AB. The parent company holds the rights to various products that are resold by the subsidiaries and thereby earns royalties. The royalties are based on actual sales in Navamedic AB. Service fees are charged out to subsidiaries covering costs for strategic development, marketing, logistics and purchasing management, as well as financial and accounting management. In addition, the parent company has activities relating to insurance, systems development and operations and other operating activities that are performed on behalf of its subsidiaries, which are also charged out.

The operating revenue in Navamedic ASA of NOK 32.4 million in 2019 was an increase of NOK 7.9 million mainly due to increased service fees. Other operating expenses increased by NOK 6.9 million due to costs associated with strategic projects and the demerger of Observe Medical.

Net financial items amounted to NOK -1,0 million, compared with NOK 13.3 million in 2018. The change relates to a reassessment of contingent consideration in 2018.

Equity amounted to NOK 87.7 million, a net decrease from 131.1 in 2018, mainly due to the demerger of Observe Medical and issuance of new shares in connection with the Novicus Pharma acquisition.

## Disposal of net result for the year and dividends

The parent company's result after tax for 2019 was NOK -9.9 million. The board proposes that the net result for the year be transferred to and covered by other equity.

The board also proposes no dividends to Navamedic ASA's shareholders for 2019. However, the board will continuously assess the company's financial situation with a view to future dividend payments.

## Subsequent events

On 18 February, 2020, the company announced the intention to complete a private placement with gross proceeds of NOK 50 million to fund future M&A activities, strategic investments and general corporate purposes. The private placement was successfully completed that same day. The transaction was divided into two tranches, the second of which required approval by the general meeting. On 11 March, an extraordinary general meeting was held. The second tranche was approved by the general meeting and it was subsequently executed. The EGM also approved the issuing of new shares as part compensation for the acquisition of a significant portfolio of antibiotics from ACS/Villerton. The shares will be issued at the time of signing the final agreement, however, at this point in time, only a term sheet agreement has been signed. At the time of the publication of this annual report, the decision to also perform a repair issue is yet to be decided.

As of April 2020, we have not yet seen the end of, and therefore not yet the full extent of the Covid-19 outbreak. However, the demand for Navamedic's products is not expected to be significantly affected by the pandemic outbreak. We have so far in 2020 not seen any significant drop in the demand for our products, mainly due to our products being mostly medical products that the end users need regardless of external factors. We have seen indication of increased demand for certain of our products, however, this may be likely related to some safety stock initiatives at some of our customers. The company has nonetheless initiated its business continuity plan to secure all key areas of its operations. Special attention has been given to the upstream logistics, i.e. the supply side, to reduce risk of failed deliveries and shortage of supply of our key products in the near term future. In addition to the risk related supply chain and sourcing of products, we see a risk related to our employees becoming infected and consequently may not being able to carry out their work and functions as required. We do not currently expect these risks to have a material negative impact on our business, and we have so far in 2020 not been significantly operationally affected by the Covid-19 outbreak. However, it cannot be ruled out that the Covid-19 outbreak will not have a significant negative impact on our operations and financial performance.

Since the reporting period that concluded on 31 December 2019 and until the date the annual financial statements were approved, no additional reportable subsequent events have been identified

## Outlook

Navamedic has the goal of becoming a leading pharmaceutical company in Northern Europe. Growth shall be achieved by developing the existing product portfolio, licensing new products and through acquisitions.

We see major potential for including more products in the existing distribution platform in the Nordic region, Baltic States and the Benelux countries. With a well-functioning system of logistics and distribution, as well as skilled salespeople who regularly meet with hospitals, specialists, general practitioners and pharmacies, we have the strength to launch new prescription and non-prescription pharmaceuticals.

The company will also actively work to build and retain value through ownership and further development of assets, both short- and long-term. Through licensing rights and developing and purchasing products, the company will increase its share of pharmaceuticals that we ourselves own the marketing rights and trademarks to. Following the acquisition of Novicus Pharma, the company has strengthened its expertise and capacity within this field and is in the process of building up its portfolio of potential products to be launched in the coming years. If the conditions are right, we will also consider further merger and acquisition options.

Based on the growth strategy and outlook, the board of Navamedic expects that the company will continue the positive development in 2020 and show growth in the coming years.

Oslo, 30 April 2019

## The Board of Directors and CEO of Navamedic ASA

**Terje Bakken (sign.)**
Chair of the Board

**Jostein Davidsen (sign.)**
Board member

**Inger Johanne Solhaug (sign.)**
Board member

**Narve Reiten (sign.)**
Board member

**Cheng Lu (sign.)**
Board member

**Kathrine Gamborg Andreassen (sign.)**
CEO

# The Management Team and Board

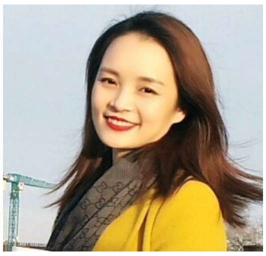
**Kathrine Gamborg Andreassen, CEO,** was elected chair of the board of Navamedic from June 2018 and has extensive experience from sales, marketing and management of healthcare products. She held the position of CEO at Weifa ASA until the company was acquired by Karo Pharma AB in November 2017. Ms Gamborg Andreassen holds an MSc in Business Strategy & Marketing from the University of Wisconsin, Madison.

**Lars Hjarrand, CFO**, joined Navamedic in December 2019. Prior to joining Navamedic, Mr Hjarrand has extensive finance experience from several different companies and industries over the past 20 years. Mr Hjarrand holds a bachelor degree in Economics from University of Minnesota and an MBA in Finance from the Carlson School of Management.

**Terje Bakken, Chair of the Board**, is a partner at Reiten & Co. He has solid investor experience through leading and implementing various strategic and operational value-based processes, across different industries, combined with considerable financial transaction and finance experience. Mr Bakken holds a Master of Science in Financial Economics and Bachelor of Business and Administration degrees from BI Norwegian Business School. Mr Bakken currently sits on the Board of Directors of Webstep ASA, QuestBack AS and Grilstad AS.

**Jostein Davidsen, Board Member,** has more than 30 years' experience from the international pharmaceutical industry, which includes Executive Management positions at Nycomed Pharma in Eastern Europe/Russia-CIS and in Takeda Pharmaceuticals, where he was a Corporate officer and Head of Emerging Markets. He served most recently as CEO of Acino Pharmaceuticals in Switzerland. Mr Davidsen currently holds several international Board mandates within the pharma industry.

**Inger Johanne Solhaug, Board Member**, has extensive experience from the brand sector and has held leading positions at Orkla for 20 years. Among other things, she has served as a member of the corporate management team at Orkla and was CEO of Nidar. Ms. Solhaug holds a Master of Business and Economics degree from the Norwegian School of Economics and is currently Head of Business Development at Insula AS.



**Cheng Lu, Board Member,** is a director at TopRidge Pharma. She has an Msc in Human Resource Management from King's College in London and Bachelor of Business Administration from Wisconsin International University, Ukraine.

**Narve Reiten, Board Member**, is the founder of Reiten & Co and has extensive investment and operational experience in the Nordic market. Mr Reiten holds a Master of Business and Economics degree from the BI Norwegian Business School and is a Certified Financial Analyst (CFA) from the Norwegian School of Economics and Business Administration.

# Corporate governance

The board of Navamedic describes the corporate governance at Navamedic in 2019 below. The description is based on the Norwegian Code of Practice for Corporate Governance of 17 October 2018. The structure follows the Code of Practice, with the same headings and numbering, and the description covers each point in the Code of Practice. Any deviations from the Code of Practice are clearly specified. The company's articles of association and selected guidelines referred to in this description can be found on the company's website: www.navamedic.com.

## Implementation and reporting on corporate governance

*Deviations: None*
The board of Navamedic has adopted guidelines for corporate governance in Navamedic ASA.

The board has stipulated guidelines for ethics and corporate social responsibility that apply to all of the companies in the Navamedic Group. The guidelines clarify the ethical values and standards for corporate social responsibility on which the group's and the employees' work shall be based.

## Business

*Deviations: None*
Navamedic's business and purpose are described in article 3 of the articles of association, which reads:

"The company's business is to develop, produce, market, and sell pharmaceuticals and related products, perform consultancy services in connection with this, and invest in related activities."

The company's goals and main strategies are described on the company's website. Its vision, goals, and core values are set out in the company's guidelines for corporate governance and guidelines for ethics and corporate social responsibility.

Navamedic also has active risk management to ensure value creation for shareholders and safeguard societal interests in general.

The company's vision is that the business, as it is described in the articles of association, shall be run in a sustainable manner.

## Equity and dividends

*Deviations: None*

**Capital structure**

Navamedic's registered share capital amounts to NOK 11,867,673, divided into 11,867,673 shares, each with a nominal value of NOK 0,74. As at 31 December 2019, equity amounted to NOK 79.2 million, which results in an equity ratio of 42.4%.

**Dividends**

Navamedic's dividend policy is established by the board through the guidelines for corporate governance. Each year, in connection with the preparation of the annual financial statements, the board assesses the company's need for capital in the coming period. Based on this assessment, the board issues its recommendation concerning dividends to the general meeting with the explicit goals of ensuring the company's strategy is implemented and providing optimum value creation for the company's shareholders.

The board has presented a proposal not to pay a dividend for 2019. No dividend was paid for the years 2010-2018. NOK 1 per share was paid in 2009.

**Board authorisations**

At the annual general meeting on 28 May 2019, the board was given an authorisation to increase the company's share capital with up to NOK 1,186,767 (10% of the company's share capital at the time of the general meeting) in order to finance further growth of the company by completing private placements or mergers and acquisitions. The authorisation is effective until the annual general meeting in 2020, and 30 June 2020 at the latest. Pursuant to the authorisation, the shareholders' pre-emptive right to subscribe for the shares according to the Norwegian Public Limited Liability Companies Act (Nw. allmennaksjeloven) §10-4 may be put aside. The authorisation comprises share contributions in kind as well as a right to incur specific obligations on the company's behalf in addition to cash contributions. The authorisation also comprises mergers and if the company is the acquiring party, demergers. Furthermore, the annual general meeting also gave an authorisation to the board to increase the share capital with up to NOK 350,000 in conjunction with the company's share incentive programme.

In February 2020, the board of directors used the authorisation to issue 1,186,767 new shares in tranche 1 of the private placement to fund future M&A activity, strategic investments and general corporate purposes. Tranche 2 of the private placement which comprised 1,443,233 new shares were approved by the extraordinary general meeting of the company on 11 March 2020, and the private placement gave the company approximately NOK 50 million in gross proceeds. Furthermore, in January 2020 the board of directors issued 275,000 new shares to employees after they had exercised their options under the company's share incentive program.

## Equal treatment of shareholders and transactions with close associates

*Deviations: None*

The company has one class of share and each share in the company has one vote. The company owned none of its own shares as at 31 December 2019.

Pursuant to the Norwegian Code of Practice for Corporate Governance, companies should have guidelines that ensure that board members and executive personnel report to the board if they have, direct or indirect, significant interests in an agreement entered into by the company.

In the case of members of the board of Navamedic, this is explicitly set out in the rules of procedure for the board. The company's guidelines for ethics and corporate social responsibility, which apply to all employees and board members in the group, contain guidelines on handling potential conflicts of interest.

The guidelines also stipulate that Navamedic's employees and board members should avoid having ownership interests or board positions in other enterprises if these could be deemed likely to weaken their loyalty to Navamedic. Pursuant to the guidelines, questions concerning board members' and executive personnel's board positions or share investments in companies that compete with Navamedic or that are business contacts of Navamedic, must always be clarified with the board of Navamedic.

## Shares and negotiability

*Deviations: None*

Pursuant to the Norwegian Code of Practice for Corporate Governance, the articles of association should not stipulate any restrictions on ownership. Navamedic had no deviations from this.

The articles of association contain no restrictions on the negotiability of shares. Navamedic ASA is listed on the Oslo Stock Exchange. Navamedic also actively strives to interest new investors in the company.

## General meetings

*Deviations: None*

Navamedic held its annual general meeting on 28 May 2019 and an extraordinary general meeting on 5 August 2019.

The notices were sent within the 21 days deadline and contained descriptions of the items on the agenda and the board's proposed resolutions. The supporting documentation was prepared with the aim of enabling shareholders to arrive at a view concerning the items on the agenda. The registration deadline was set at three days before the general meetings, cf. the provision in the company's articles of association. The notices described the procedures for taking part in and casting votes at the general meetings, as well as attendance by proxies.

The proxy forms were designed such that votes could, to the extent possible, be cast concerning each item on the agenda. In the proxy form a person was also proposed to act as a proxy for the shareholders.

The chair of the board attended the annual and extraordinary general meetings in 2019. The company's auditor was also available by telephone at the annual general meeting, although no need for contact arose.

The extraordinary general meeting in 2019 was chaired by Anders Arnkværn as an independent chair of the meeting. The board will ensure that the general meetings are also independently chaired in 2020. The board and chair of the nomination committee are also normally in attendance at the annual general meeting.

After the general meeting was formally closed, the CEO summarised the status of the group. Minutes of general meetings are published and available under the company's ticker on Newsweb and the company's website www.navamedic.com shortly after the meetings.

## Nomination committee

*Deviations: None*

The company established a nomination committee at the annual general meeting on 8 June 2015, consisting of committee chair Bernt Olav Røttingsnes and committee member Grete Hogstad, who were elected for two-year terms. The committee chair and committee member were re-elected at the annual general meeting on 6 June 2017. The extraordinary general meeting of 20 December 2018 elected Bård B. Ingerø as an additional member of the nomination committee. At the annual general meeting on 28 May 2019, all members of the nomination committee were re-elected with term ending on the annual general meeting 2020.

## The board, composition and independence

*Deviations: None*
The board of Navamedic has five ordinary members, all of whom are elected by the shareholders. The board and chair of the board are elected by the general meeting. No board members are elected for terms of more than two years at time. None of the company's board members has special interests that prevent them acting independently.

The company's website contains information about the board members' year of birth, work experience, and current position. The board members have varied experience from industries such as pharmaceuticals, finance, acquisitions and mergers, industry, and marketing. This experience was gained in Norwegian and international companies and public enterprises.

It is Navamedic's opinion that, as a corporate body, the board safeguards the best interests of the shareholders as a group. This is based on the board's qualifications, capacity, and diversity suiting the business Navamedic operates.

The company does not explicitly state which board members are considered independent.

In the opinion of the board, it is desirable for board members to own shares in the company, but no formalised encouragement to own shares in the company exists. Chair of the board Terje Bakken and Narve Reiten have significant ownership in IRIC (Ingerø Reiten Investment Company), Navamedic's largest shareholder, while Cheng Lu is employed by TopRidge Pharma which is also one of the largest shareholders.

No executive personnel sit on the company's board.

## The work of the board of directors

*Deviations: None*
The board bears overarching responsibility for the management of the company and supervising the day-to-day management and the company's operations. Its main duties consist of formulating the company's strategy and following up the implementation of this strategy. The board also performs control functions that ensure the company's asset management is prudent. The board appoints the CEO.

Pursuant to the provisions of Norwegian company law, the board has stipulated rules of procedure for the board that provide detailed rules for the board's functions, duties, and responsibilities.

The board has a policy that board members and executive personnel must inform the company of any significant interests they may have in matters that are to be addressed by the board.

The board has an annual plan for its work that particularly focuses on goals, strategy, and implementation. The chair of the board is responsible for ensuring that the board's work is executed effectively and correctly in accordance with the law. For matters in which the chair of the board is, or has been, actively involved, another board member is nominated to chair the discussion such that the company is assured an independent process.

A clear division of work between the board and executive personnel has been established. The CEO is responsible for the company's operational management.

The board holds a minimum of six board meetings a year, one of which is a strategy meeting. Extraordinary board meetings are held as required to consider matters that cannot wait until the next ordinary board meeting.

18 formal board meetings were held in 2019, and the duties of the board were also addressed through updates via telephone conferences, with and without the management team present.

The board has established an audit committee as a sub-committee to the board. Special rules of procedure have been set out for this committee. The audit committee consists of two board members who are independent of the company's day-to-day management team. The committee held 5 meetings in 2019.

The board has the objective of conducting an annual evaluation of its work, working methods, and qualifications. A similar evaluation is also conducted of the CEO.

## Risk management and internal control

*Deviations: None*
The board's supervision must ensure that the company has good internal control routines and appropriate systems for risk management that are commensurate with the scope and nature of the business being operated, including the company's values and guidelines for ethics and corporate social responsibility. The audit committee has particular responsibility for monitoring risk management and internal control.

Navamedic is a small company with a small management team, and with limited capacity, and need, to implement extensive routines for internal control and risk management. While the company's size and operations are not especially extensive, they are somewhat complex, and the company's established routines ensure satisfactory internal control and risk management.

The board will ensure that routines for internal control and risk management are developed on an ongoing basis as the scope of the company's operations increase.

As part of its auditing services, the auditor assesses whether or not there are any material weaknesses in the internal control for financial reporting. The auditor takes part in the audit committee and board meetings in connection with the auditor's annual summary for the management team of factors identified during audits.

The management team emphasises establishing good control routines in those areas that are of material importance for financial reporting. The control routines are based on an authorisation structure that defines roles and responsibilities for each level of management, as well as guidelines for how one should ensure good internal control, including through the satisfactory division of work.

The board receives regular financial reports in which the company's economic and financial status is commented on. The company complies with the Oslo Stock Exchange's deadlines for interim reporting. The company has chosen not to issue interim reports from and including the fourth quarter of 2017 in accordance with IAS 34, instead it prepares and publishes a presentation for the quarter.

Accounting problems are analysed immediately and the auditor consulted as required. An overview of relevant questions is presented to the board in connection with the publication of interim presentations and half-year and annual reports.

## Remuneration of the board of directors

*Deviations: None*
The board's remuneration is agreed each year by the general meeting. The board's remuneration is independent of the company's results and board members do not have options in the company.

Information about the board's remuneration for 2019 is included in note 15 to the financial statements. no board members have special duties in relation to the company beyond their board position and participation in the audit committee.

## Remuneration of executive personnel

*Deviations: None*
In 2010, the board set out guidelines for the remuneration of executive personnel in accordance with the provisions of the Norwegian Public Limited Liability Companies Act.

The board's statement on executive pay is included in the annual report and considered by the general meeting in accordance with the Public Limited Liability Companies Act. No subsequent changes have been made to these guidelines.

The board's statement on executive pay was approved by the general meeting on 28 May 2019.

Procedures and authorisations for determining the remuneration of the corporate management team are governed by the company's rules of procedure for the board.

The rules of procedure for the board and the board's statement on executive pay stipulate that all schemes that include the awarding of shares, subscription rights, options, and other forms of remuneration linked to shares or the development of the share price, must be established by the company's general meeting.

The setting of the CEO's salary for 2019 was approved by the board and information about the remuneration of the CEO and other executive personnel in 2019 can be found in note 15 to the consolidated annual financial statements. Before setting the pay of the management team, a comparison is made with equivalent positions in companies outside the group. A ceiling is set for the result-dependent remuneration of the management team.

## Information and communication

*Deviations: None*
Navamedic's information and communication policies are presented in the company's guidelines for corporate governance. The guidelines are based on the principle of the equal treatment of market actors and cover financial reporting and investor relations.

Navamedic will provide the market with accurate, consistent, and relevant information. Half-year reports and interim presentations for the Oslo Stock Exchange are presented in English only.

According to the company's guidelines for corporate governance, the board must ensure that interim presentations issued by the company provide a true and complete picture of the group's financial and business positions, as well as the extent to which the company's operational and strategic goals are achieved.

The financial reporting must also describe the management team's realistic expectations concerning business and financial performance.

The Norwegian Code of Practice for Corporate Governance recommends that the board establishes guidelines for the company's contact with shareholders outside the general meeting. Navamedic's guidelines for contact with the shareholders are published on the company's website.

Navamedic's communication with shareholders is based on the principle that all owners should have equal access to the information. Navamedic arranges public investor presentations in connection with the publication of half-year reports and interim presentations. In these, the results are reviewed, and the development of the market and the company's outlook are commented on.

As a minimum, the CEO and CFO take part in the presentations. For 2020, Navamedic will present interim presentations, as well as publish a half-year report and an annual report.

## Take-overs

*Deviations: None*
The company's guidelines for corporate governance stipulate that in the event of potential take-overs or restructuring situations, the board shall exercise particular care such that the assets and interests of all shareholders are safeguarded.

The guidelines for corporate governance at Navamedic also stipulate that the Norwegian Code of Practice for Corporate Governance must be followed, and the board will follow the more detailed recommendations in this document if a potential take-over situation arises.

No take-over offers were presented to Navamedic or its shareholders in 2019.

## Auditor

*Deviations: None*
KPMG AS has been the company's auditor since the annual general meeting in 2012. The auditor attends board meetings in connection with the annual financial statements and most meetings of the board's audit committee. At least one meeting a year is held between the auditor and board without the CEO or others from the day-to-day management team being present.

The auditor presents an audit plan for the audit committee each year. According to the company's guidelines for corporate governance, the auditor shall each year provide the board with written confirmation that the person concerned satisfies the requirements for independence and objectivity. The guidelines also stipulate that services from the auditor beyond the mandatory audit and closely related advice must only be provided following a decision by the board or audit committee. The auditor has provided the board with an overview of services other than auditing that were provided to Navamedic in 2019.

Navamedic believes the independence of the external auditor is important.

# Consolidated financial statements for 2019

# Consolidated statement of comprehensive income

| *Figures in NOK* | Note | 2019 | 2018* |
|---|---|---|---|
| | | 1 January - 31 December | |
| Operating revenue | 5 | 188 754 922 | 183 915 609 |
| **Total revenue** | | **188 754 922** | **183 915 609** |
| Cost of materials | | 131 152 082 | 123 111 276 |
| Payroll expenses | 15 | 33 363 212 | 26 115 367 |
| Other operating expenses | 14 | 30 696 398 | 26 159 819 |
| **Operating result before depreciation and impairment (EBITDA)** | | **-6 456 770** | **8 529 148** |
| Depreciation | 6, 7 | 3 629 187 | 2 311 299 |
| **Operating result (EBIT)** | 5 | **-10 085 957** | **6 217 849** |
| **Results from asociated companies** | 21 | **-699 920** | 0 |
| Financial income | 16 | 330 789 | 544 668 |
| Financial expenses | 17 | -2 442 059 | -1 808 439 |
| Net currency gains/losses (-) | 17 | -2 579 605 | -1 471 807 |
| **Net Financial income and expenses** | | **-4 690 875** | **-2 735 578** |
| **Result before tax continuing operations** | | **-15 476 752** | **3 482 271** |
| Income taxes, continuing operations | 18 | 820 471 | -273 000 |
| **Net profit / loss (-) continuing operations** | | **-16 297 223** | **3 755 271** |
| **Net profit / loss (-) discontinued operations** | 25 | **44 231 832** | **3 528 504** |
| **Net profit / loss (-) total operations** | | **27 934 608** | **7 283 775** |
| **Other comprehensive income that will be reversed over Profit and loss** | | | |
| Translation differences | | -4 232 626 | -4 795 269 |
| Reversal of transelatation differences | | 1 855 268 | |
| **Total comprehensive income** | | **25 557 250** | **-1 039 998** |
| **Net result for the year is allocated to:** | | | |
| Shareholders in the parent company | | 27 934 608 | 7 283 775 |
| | | 27 934 608 | 7 283 775 |
| **Total comprehensive income is allocated to:** | | | |
| Shareholders in the parent company | | 25 557 250 | 2 488 506 |
| | | 25 557 250 | 2 488 506 |
| Weighted average shares issued | | 11 706 029 | 10 867 673 |
| Basic and diluted earnings per share continuing operations | 19 | -1.39 | 0.35 |
| Basic and diluted earnings per share total operations | 19 | 2.39 | 0.67 |

*The 2018 figures are restated for discontinued operations.

# Consolidated statement of financial position

| | Note | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Other non-current assets** | | | |
| **Intangible assets** | | | |
| Goodwill | 7 | 59 519 749 | 79 550 392 |
| Intangible assets | 7 | 6 631 016 | 30 059 685 |
| **Total intangible assets** | | **66 150 765** | **109 610 077** |
| **Other fixed assets** | | | |
| Investment in associated company | 21 | 15 300 080 | 0 |
| Loans to associated company | 21 | 25 564 934 | 0 |
| Deferred tax asset | 13 | 9 241 920 | 9 944 499 |
| **Total other fixed assets** | | **50 106 934** | **9 944 499** |
| **Tangible assets** | | | |
| Equipment and Rights of use assets | 6 | 1 955 715 | 109 260 |
| **Total tangible assets** | | **1 955 715** | **109 260** |
| **Total fixed assets** | | **118 213 415** | **119 663 837** |
| **Current assets** | | | |
| Inventory | 9 | 31 983 265 | 38 146 472 |
| Trade receivables and other receivables | 8 | 19 971 913 | 38 903 358 |
| Prepaid tax | 8, 13 | 5 448 881 | 6 971 387 |
| Bank deposits | 10 | 11 438 861 | 11 046 251 |
| **Total current assets** | | **68 842 920** | **95 067 468** |
| **Total assets** | | **187 056 335** | **214 731 305** |

# Consolidated statement of financial position

| | Note | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| **Equity** | | | |
| Share capital | 11 | 8 782 078 | 10 867 673 |
| Share Premium | 11 | 66 037 497 | 110 480 152 |
| **Total equity** | | **74 819 575** | **121 347 825** |
| **Retained earnings** | | | |
| Other equity | | 4 411 018 | -22 025 596 |
| **Total equity** | | **79 230 593** | **99 322 229** |
| **LIABILITIES** | | | |
| Deferred tax | 13 | 0 | 213 422 |
| **Total deferred tax** | | **0** | **213 422** |
| **Non-current liabilities** | | | |
| Contingent consideration upon acquisitions | 10, 23 | 0 | 12 177 000 |
| Non-current licensing liabilities | 10 | 9 568 422 | 10 234 820 |
| Long term loans to financial institutions and lease liabilities | 10 | 16 872 302 | 0 |
| **Total non-current liabilities** | | **26 440 724** | **22 411 820** |
| **Current liabilities** | | | |
| Short term loans to financial instititions and lease liabilities | 10 | 8 663 613 | 32 575 553 |
| Trade account payables | 12 | 42 703 620 | 41 086 747 |
| Withheld payroll taxes, VAT and social security liabilities | 12 | 6 529 005 | 2 507 594 |
| Current tax payable | 13 | 1 091 691 | 2 064 252 |
| Current licensing liabilities | 10 | 8 830 718 | 6 600 743 |
| Other current liabilities | 12 | 13 566 371 | 7 948 946 |
| **Total current liabilities** | | **81 385 018** | **92 783 834** |
| **Total liabilities** | | **107 825 742** | **115 409 076** |
| **Total equity and liabilities** | | **187 056 335** | **214 731 305** |

Oslo, 30 April 2020

# The Board of Directors and CEO of Navamedic ASA

| | |
|---|---|
| **Terje Bakken (sign.)**<br>Chair of the Board | **Jostein Davidsen (sign.)**<br>Board Member |
| **Inger Johanne Solhaug (sign.)**<br>Board Member | **Narve Reiten (sign.)**<br>Board Member |
| **Cheng Lu (sign.)**<br>Board Member | **Kathrine Gamborg Andreassen (sign.)**<br>CEO |

# Consolidated statement of changes in equity

| | Equity | | | | |
|---|---|---|---|---|---|
| | Share capital | Premium | Translation differences | Uncovered losses | Total |
| **Equity as at 1 January 2018** | 10,867,673 | 110,480,152 | 18,990,163 | -43,638,479 | 96,699,509 |
| Options | | | | 134,214 | 134,214 |
| Translation differences | - | - | -4,795,269 | - | -4,795,269 |
| Net result for the year | | | | 7,283,775 | 7,283,775 |
| **Equity as at 31 December 2018** | **10,867,673** | **110,480,152** | **14,194,894** | **-36,220,490** | **99,322,229** |
| | | | | | |
| **Equity as at 1 January 2019** | 10,867,673 | 110,480,152 | 14,194,894 | -36,220,490 | 99,322,229 |
| Options | | | | 879,768 | 879,768 |
| Translation differences | | | -2,377,358 | | -2,377,358 |
| Capital increase Novicus | 1,000,000 | 11,141,179 | | | 12,141,179 |
| De-merger of Observe Medical | -3,085,595 | -55,584,238 | | | -58,669,833 |
| Net result for the year | | | | 27,934,608 | 27,934,608 |
| **Equity as at 31 December 2019** | **8,782,078** | **66,037,093** | **11,817,537** | **-7,406,114** | **79,230,593** |

# Consolidated statement of cash flows

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Result before tax continuing operations | | -15 476 752 | 3 482 271 |
| Taxes paid | | 328 960 | -5 335 268 |
| Depreciation | 6,7 | 3 629 187 | 2 311 300 |
| Interets with no cash effect | | 2 066 299 | 526 279 |
| Change in inventories | 9 | 3 601 069 | 7 519 944 |
| Change in trade receivables and other receivables | 8 | 16 720 760 | 2 548 830 |
| Change trade account payables and other current liabilities | 12 | 12 333 532 | -40 662 970 |
| Cash flows from operating activities discontinued operations | 25 | -10 480 919 | -8 363 792 |
| **Net cash flows from operating activities** | | **12 722 136** | **-37 973 407** |
| | | | |
| **Cash flows from investing activities** | | | |
| Additions of tangible assets | 6 | -52 788 | -59 448 |
| Additions of intangible assets | 7 | -668 620 | -152 778 |
| Demerger of Observe Medical | 25 | -1 147 154 | - |
| **Net cash used in investing activities** | | **-1 868 562** | **-212 226** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from new current loans and borrowings | | 4 721 000 | 25 218 263 |
| Repayment of loans and borrowings | | -32 241 589 | - |
| Costs of issuance of shares | | -358 821 | - |
| Proceeds from long term loans and borrowings | | 18 550 036 | -4 850 500 |
| Payments of lease liabilities | | -1 571 160 | - |
| **Net cash used in financing activities** | | **-10 900 534** | **20 367 763** |
| | | | |
| Net cash flows | | -46 960 | -17 817 870 |
| Exchange rate fluctuations | | 439 538 | -1 382 184 |
| Bank deposits as at 1 January | | 11 046 251 | 30 246 305 |
| | | | |
| Bank deposits as at 31 December | 10 | **11 438 828** | **11 046 251** |

# Explanatory notes to the consolidated financial statements 2019

# Note 1 – General information

**Navamedic ASA is a Nordic pharma company with a footprint in Northern Europe listed on the Oslo Stock Exchange. The company is a reliable supplier of high-quality products, delivered to hospitals and through pharmacies, meeting the specific medical needs of patients and consumers.**

The product portfolio consists of prescription and non prescription pharmaceuticals as well as other healthcare products registered as medical nutrition, medical devices, food supplements or cosmetics.

Navamedic is present in all Nordic countries, the Baltics and Benelux and has sales of specific products even in other European countries like UK and Greece.

Through its subsidiary Navamedic AB, the group distributes more than 40 products from 20 international producers and brand owners in the European market.

Navamedic's ambition is to grow by expanding its product portfolio and launching existing products in new markets.

Navamedic ASA is registered and based in Norway. Its head office is in Solli Plass in Oslo. Its postal address is Henrik Ibsens gate 90, 0255 Oslo, Norway.

# Note 2 – Summary of significant accounting policies

**The most important accounting policies used in the preparation of the consolidated financial statements are described below. These policies are applied consistently in all of the periods presented, unless the description states otherwise.**

## 2.1 Framework for preparation of the financial statements

Navamedic's consolidated financial statements have been prepared in accordance with international accounting standards and interpretations from the IFRS Interpretations Committee (IFRIC), as established by the EU (IFRS).

The consolidated financial statements have been prepared on the basis of historical cost, with the exception of contingent consideration upon acquisition at fair value through profit or loss.

Navamedic's consolidated financial statements for 2019 and 2018 cover the following companies:

- Navamedic ASA
- Navamedic AB
- Navamedic A/S
- Novicus AS
- Observe Medical International AB 1)
- Observe Medical Aps 1)
- Navamedic Medtech AB 1)
- Observe Medical ASA 1)

1) The companies Observe Medical Interntional AB, Oberve Medical Aps and Navamedic Medtech AB was at 31 October 2019 distributed to the owners of Navamedic. See note 25 Discontinued operations and assets and liabilities distributed.

The annual financial statements were approved by the board and CEO on 29 April, 2020. The annual financial statements will be presented for approval by the annual general meeting on 3 June, 2020.

The consolidated financial statements have been prepared by applying the same accounting policies to transactions and events that would be similar under otherwise equal conditions.

The accounting policies applied, and the presentation of the consolidated financial information except from discontinued operations and presentation of IFRS 16, are consistent with the previous annual financial statements for the year that ended 31 December 2018.

Preparing financial statements in accordance with IFRS requires the use of estimates. Furthermore, applying the group's accounting policies requires the management team to use its judgment. Areas that involve a high degree of estimation and a high degree of complexity, or areas where assumptions and estimates are significant for the consolidated financial statements, are described in note 4.

The consolidated financial statements have been prepared on the assumption that the group is a going concern.

## 2.2 Consolidation policies

A subsidiary is a company over which Navamedic ASA (directly or indirectly) has control. Control is attained when Navamedic is exposed to, or has rights to, variable returns from its engagement in a company in which it has invested and is able to influence this return by exercising power over the company. Power means existing rights that currently provide Navamedic with the ability to steer relevant activities, i.e. the activities that affect, to a significant degree, the return from the company that has been invested in. All subsidiaries are owned by 100% and there are no minority interests.

Subsidiaries are consolidated from the date when the group attains control and consolidation ceases when control of the subsidiary ceases.

The acquisition method is used for acquisitions of business. The consideration is measured at the fair value of the assets transferred, liabilities assumed, and equity instruments issued. The fair value of all assets or liabilities according to the agreement on contingent consideration is also included in the remuneration. Identifiable assets, liabilities, and contingent liabilities are recognised at their fair value on the acquisition date.

Acquisitions-related costs linked business combinations are recognised as expenses when they are incurred.

Contingent consideration is measured at fair value on the acquisition date. Subsequent changes in the fair value of contingent consideration classified as an asset or liability and that are not adjustments during the measurement period must be recognised through profit or loss.

If the sum of the remuneration, fair value of earlier assets, and any fair value of minority interests exceed the fair value of identifiable net assets in the acquired company, the difference is capitalised as goodwill. If the sum is lower than the company's net assets, the difference is recognised through profit or loss.

Intra-group revenue, expenses, and balances are eliminated. The gain and loss elements in a capitalised asset that arose due to an intra-group transaction are also eliminated. The accounts of subsidiaries are, if necessary, restated so they correspond with the group's accounting policies.

## 2.3 Segment information

Navamedic identifies its segments according to the organisation and reporting structure as decided and followed up by group management. Operating segments are components of a business that are evaluated regularly by the chief operating decision maker, defined as the CEO, for the purpose of assessing performance and allocating resources. Navamedic operating segments represent separately managed business areas with unique products serving different markets. After the demerger of the Medtech division as at 31 October 2019, Navamedic currently has one business segment which is the Pharma division.

## 2.4 Translation of foreign currency

### a) Functional currency and presentation currency

The accounts of the individual units in the group are measured in the currency that is mainly used in the economic area in which the unit operates (functional currency). The consolidated financial statements are presented in NOK, which is both the parent company's functional currency and its presentation currency.

### b) Transactions and balance sheet items

Transactions in foreign currency are translated to the functional currency using the transaction's exchange rate. Realised currency gains and losses that arise during the settlement and translation of monetary items in foreign currency at the exchange rate on the balance sheet date are recognised through profit or loss.

Currency gains and losses are presented (net) as financial income or financial expenses.

### c) Group companies

The income statements and balance sheets of group companies with functional currencies different from the presentation currency are translated in the following way:

a) balance sheets are translated using the exchange rate on the balance sheet date

b) income statements are translated using the average exchange rate for the year

c) translation differences are recognised in other comprehensive income and specified in equity as a separate item

Goodwill and excess values upon the acquisition of a foreign unit are treated as assets and liabilities in the acquired unit and translated at the exchange rate on the balance sheet date. Translation differences that arise are recognised in other comprehensive income.

## 2.5 Intangible assets

### a) Contracts and licences (product rights)

Navamedic holds rights to market and sell products in defined geographical areas. Expenditures for product rights are capitalised to the extent that future economic benefits can be identified and expenditures can be reliably measured. If the opposite is true, such expenditures are recognised as expenses as they accrue. Upon indication that the carrying value of a product right is higher than its recoverable amount a test for impairment will be conducted. For products that are already on the market, values are calculated based on actual sales, expected sales development, gross margins, and agreement duration. For products that are under registration, values are calculated based on expected market share, estimated time to launch, gross margin, and agreement duration.

In addition to contracts from the acquisition of Navamedic AB, the group has product rights in the form of licences. The contract from the acquisitions is fully amortised. Minimum liabilities in licensing agreements are capitalised as intangible assets and a financial liability.

Contracts (product rights) are amortised on a straight-line basis over their expected lifetime, which is assumed to range between five to ten years. Minimum payments for licensing agreements are depreciated on a straight-line basis over term of the agreement.

### b) Technology assets

The fair value of patented and unpatented technology associated with Sippi® was calculated upon the acquisition of Observe Medical International AB (OM) in 2015. This was estimated based on the estimated annual revenue from Sippi® over a period of 20 years, discounted by 18.3%. The revenue was based on estimates of market size, estimated market share, and planned price, and is consistent with the calculation of contingent consideration for the acquisition of OM. The technology asset is depreciated on a straight-line basis over 10 years. The shorter period than the one used to estimate fair value upon acquisition is justified by the risk of technological obsolescence. IAS 38 states that uncertainty justifies estimating the useful lifetime of an intangible asset prudently, but an unrealistically short useful lifetime cannot be assumed. The depreciation method must reflect the pattern of the expected consumption of financial resources and normally this cannot be based on expected revenue. If no pattern can credibly be determined, a straight-line method must be used.

This technology asset was distributed as part of the demerger as at 31 October 2019, see note 25 Discontinued operations and assets and liabilities distributed.

### c) Marketing authorisations

Navamedic distributes a number of pharmaceuticals via wholesalers in the Nordic countries, the Baltic States, the UK, Ireland, the Netherlands, Cyprus, Malta and Iceland on behalf of rights holders. As far as marketing authorisations in Navamedic are concerned, this applies to generic pharmaceuticals and they are presently marketed in Sweden and the Netherlands. Investments linked to authorisations for marketing such products are recognised at acquisition cost and amortised on a straight-line basis over their expected useful lifetime (normally five years). For products that are under registration, the amortisation of the cost of acquisition commences upon launch and is amortised over the period of the agreement. The group has the following guidelines for capitalisation:

- the authorisation can be used or sold

- the authorisation's means of generating probable future financial benefits can be demonstrated
- sufficient financial and other resources are available to start using or selling products
- the expenditures can be reliably measured

## 2.6 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Following the demerger of the Medtech business segment management to Observe Medical ASA have assessed that Navamedic has only one business segment and assessment of goodwill for possible impairment is done at group level.

## 2.7 Inventories

Inventories are measured at the lowest of acquisition cost and net realisable value. Acquisition cost is calculated using the first-in, first-out method (FIFO). Net realisable value is the estimated selling price less cost of sale

## 2.8 Financial assets

The company implemented IFRS 9 Financial Instruments 1 January 2018. The company has financial assets in the category of amortised cost which primarily consist of trade receivables and other receivables, loan receivables and bank deposits. Except for trade receivables, financial assets are initially recognised at fair value.  In addition to transaction costs and then at amortised cost using the effective interest method adjusted for impairment. Provisions are made for expected credit losses.  Receivables are considered impaired in full or in part when management assess that these will either not be paid or only paid in part, respectively. They are classified as current assets, unless they fall due more than twelve months after the period end

## 2.9 Trade receivables

Trade receivables arise from sales of goods or services within the ordinary business cycle. If settlement is expected within one year or less (or in the ordinary business cycle if this is longer), the receivables are classified as current assets. If this is not the case, the receivables are classified as non-current receivables.

Trade receivables are measured at the transaction price upon initial recognition. In subsequent measurements, trade receivables are measured at amortised cost less provisions for expected credit losses. Trade receivables subsequently sold under factoring agreement without recourse are derecognised upon transfer and receipt of net proceeds.

The group applies a practical approach to measure anticipated credit losses, which take into account the customers historical losses and experiences, expectations concerning the future and detailed assessments of individual receivables.

In 2019 Navamedic AB entered into an agreement with Avida Finans AB where Avida is buying our trade receivables. The agreement consists of a trade receivable financing agreement with a credit limit of SEK 47 million which carries a 0.48% per 30-days covering the agreed customer credit period of the sold trade receivable, an annual fee of 0.5 % on the full credit limit amount as well as a fixed fee of SEK 5.00 per invoice.

## 2.10 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank deposits which are readily convertible into cash within a 3 month period.

## 2.11 Financial liabilities

A financial liability is a liability that represents a contractual obligation to deliver cash and is classified as current and non-current based on whether the estimated settlement date is less than or more than 12 months in the future. Financial liabilities include:

(a) **Financial liabilities at fair value through profit or loss;** contingent consideration in connection with business acquisitions; and

(b) **financial liabilities at amortised cost:** interest-bearing liabilities in the form of overdraft facilities and instalment loans, the discounted value of licensing liabilities, trade account payables, and other non-interest-bearing liabilities.

Financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to issuance are deducted from financial liabilities that are not recognised at fair value through profit or loss. After initial recognition, other financial liabilities are measured at amortised cost applying the effective interest rate method.

The agreement with Avida Finans also include a 12 month loan of SEK 5 million due in September 2020 with a fixed interest rate of 6.5% p.a., and a 36 month loan of SEK 20 million due in September 2022 with a fixed interest rate of 6.5% p.a.

## 2.12 Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI. The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

### a) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

### b) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

– temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

The Group has evaluated that the initial recognition exemption is not relevant on initial recognition of an asset and liability of the same amount, as recognising of a license liability and intangible asset and lease liability and right of use assets.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset only if certain criteria are met.

## 2.13 Employee benefits

### a) Pensions

The company has entered into a mandatory defined contribution pension schemes for employees in Norway and Sweden. Under defined contribution plans, the group pays contributions to public or private organized insurance plans for pensions on a compulsory, contractual, or voluntary basis. The group has no further payment obligations once the contributions have been paid. The plan in Norway complies with the requirements of the Norwegian Mandatory Occupational Pension Act. The contributions are recognised as payroll expenses as incurred, see note 15.

### b) Severance pay

Severance payments are recognised when the employment relationship is terminated by the group before the normal retirement date or when an employee accepts voluntary redundancy in return for such remuneration. The group recognises severance pay when it is demonstrably obliged to either end the employment relationship of today's employees in accordance with a formal, detailed plan that the group cannot withdraw, or to provide severance pay due to an offer made to encourage voluntary redundancies.

## 2.14 Provisions

Provisions for product warranties, onerous contracts, restructuring costs, termination benefits and legal claims are recognized when: The Group has a present or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are discounted only when the effect is material and the distribution in time can be reliably estimated.

## 2.15 Revenue recognition

### a) Revenue from contracts with customers

Navamedic distributes and delivers pharmaceuticals and other products to hospitals and pharmacies, mainly in the Nordic region, but also in a number of other countries in Europe. Revenues are measured based on the transaction price specified in a contract with a customer. Revenues are recognised when a customer is given control of a good or service. The company's revenues are generated from the sale of goods, and revenue is recognised when the group has delivered its products to the customer.

The group has concluded that it takes over control of the products before they are sold to customers and that it is the principal in all agreements.

Invoices are issued upon delivery of the goods or based on accumulated monthly sales via a warehouse. The goods are normally paid for within 30 days. Invoiced amounts are presented as trade receivables. The group does not have contract assets (earned, non-invoiced revenues) or contractual liabilities (prepaid revenues.)

### b) Interest income

Interest income is recognised through profit or loss proportionally over time in accordance with the effective interest rate method.

### c) Revenue from dividends

Dividend revenues are recognised through profit or loss when the right to receive payment arises.

## 2.16 Leases

For 2018, leases were classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Other leases were classified as operating leases. Leases were evaluated at inception, based on the substance of the transaction.

The evaluation of leases requires substantial judgment.

At 31 December 2018, the Group had no finance leases.

On 1 January 2019 the Group implemented IFRS 16 Leases, using the modified retrospective implementation method. In accordance with this standard, the Group recognizes, measures, presents, and discloses leases using a single on-balance sheet model. Accordingly, the group recognized a lease liability and a right-of-use asset associated with the Group’s lease arrangements at 31 December 2019. The Group also separately recognized the interest expense on the lease liability and the depreciation expense on the right-of-use asset in the Statement of Income for the year ended 31 December 2019. Leases of ’low-value’ assets and short-term leases (lease terms of 12 months or less) are recognized as expense in profit or loss when incurred.

### 2.17 Dividends

Dividend payments to the company's shareholders are classified as liabilities from and including the moment the dividend is determined by the general meeting.

### 2.18 Associated companies

Associates are those entities in which Navamedic has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the group’s share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

### 2.19 Statement of cash flows - presentation

The Group presents cash flows from operating activities using the indirect method. Cash flows attributable to operating activities of discontinued operations are presented separately in the statement of cash flows. Cash flows from financing activities are presented separately only to the extent that the discontinued operations have external financing activities.

# Note 3 – Financial risk management

### Financial risk factors

The group's operations expose it to various types of financial risk: market risk (including currency risk, variable interest risk, and price risk), credit risk, and liquidity risk. The group focuses on minimising the potential negative effects that unforeseeable movements in the capital markets can have on the group's financial results. The group does not use financial derivatives to protect itself from specific risks.

The group's risk management is performed by the management team in accordance with company risk policy approved by the board.

**a) Market and operational risk**

Navamedic is exposed to market risk. The group believes that such risk will primarily arise in relation to the development of future sales of the company's products, measured in terms of both price and volume. Factors that can influence market risk include increased competition, instructions to reduce prices from the authorities, and competition from existing and future pharmaceuticals within the company's range of therapies.

The company depends on distribution rights from suppliers. The company has distribution agreements with suppliers in which the term of the agreement varies from one to eight years. The company is dependent on renewing these agreements at market prices and on market terms and conditions, and is therefore in continuous dialogue with the suppliers to ensure they are renewed.

With reference to Note 24, Events after the Balance day, the Covid-19 outbreak is likely to have an effect on the company. The company is exposed to risk related to pandemic outbreaks, however, the company is probably less prone to be affected to the same extent as many other companies. The demand for the company's products is less likely to affected since the end users typically use the products based on needs and can not easily discontinue using them. There is a risk that some products' production and delivery could be affected in the event of long term shut down.

**b) Foreign currency exposure risk**

A significant proportion of the group's revenue and expenses are in currencies other than the functional currency in the individual companies (NOK and SEK). Materials are generally paid for in EUR, SEK, GBP, USD, DKK and NOK. Most of the sales in Navamedic AB take place in Nordic currencies and EUR. Payroll and operating expenses are generally incurred in the currency of the country in which the individual company is registered. The group has not adopted specific currency hedging strategies in relation to operations.

The group is exposed to exchange rate fluctuations relating to trade receivables, trade account payables, overdraft facilities, factoring and licensing liabilities. On the balance sheet date, a sensitivity analysis is conducted of the effect of a potential change in the exchange rate of +/- 5% in relation to the functional currency of each company, with a focus on higher net positions in individual currencies. The net positions are net debt items in SEK and an internal loan. If the SEK weakens by 5% in relation to the EUR, there will be a reduction in the pre-tax result of approximately NOK 1,1million (a reduction of NOK 1.5 million in 2018). In addition, if the NOK weakens by 5% in relation to the EUR this will entail in a reduction in the pre-tax result of approximately NOK 0,8 million (a reduction of NOK 0.8 million in 2018).

**c) Credit risk**

The group is exposed to no significant concentrations of credit risk. Routines have been introduced to ensure products are sold to customers with satisfactory creditworthiness. The company's customers are largely public enterprises and larger pharmacy chains that represent a low credit risk. The level of consumer sales is relatively low. Please also see note 8, which shows when the group's receivables fall due.

**d) Liquidity risk**

The group's liquidity risk is considered moderate as at 31 December. As at 31 December 2019, the group had NOK 11.4 million in liquid assets in the bank (NOK 11.0 million as at 31 December 2018). In 2019 Navamedic has a 3 year loan of SEK 20 million and 1 year loan of SEK 5 million, in addition to a non-recourse factoring agreement with a limit of SEK 47 million of which SEK 16.6 million was drawn as at 31. December 2019. In 2018 the company had a factoring agreement with a factoring limit of SEK 20 million, SEK 8.6 million of which had been used as at 31 December 2018. The group continually monitors the liquidity risk evident from the profile of the due dates for financial liabilities in note 10. As at 31 December 2019, the company considered the group's liquidity to be satisfactory. The company also focuses on improving liquidity to finance growth.

**Variable interest rate risk**

The group is exposed to interest rate risk related to bank deposits. The calculated interest income and expenses, as well as actual interest payments, are affected by rate changes. The group has not entered into any hedging arrangements to cover fluctuations in in the general level of interest rates. The interest rates for 2019 for the loans from financial institutions and loans to associated company are fixed, while the rates for the major part of the interest-bearing debt of 2018 were variable. Net interest-bearing liabilities to financial institutions including lease liabilities less bank deposits amounted to NOK 14.1 million as at 31 December 2019 (NOK 21.6 million as at 31 December 2018). Calculations show that a 1% rise in the general interest rates would increase interest income with NOK 0.11 million, originating from the bank deposits. A 1% rise in interest rates for the net interest-bearing liabilities in 2018 would increase interest expenses of NOK 0.22 million per year.

**e) Capital management goals and risk**

The group's goal in relation to capital management is to ensure continued operations to secure returns for its owners, and to maintain an optimal capital structure. The group continuously strives to have a leverage ratio and an equity ratio adapted to the business' risk profile. The Group's main financing agreements are between Navamedic AB and Avida Finans AB and consist of i) an accounts receivable financing agreement with a credit limit of SEK 47 million which carries a fixed interest rate of 0.48% per 30-days covering the agreed customer credit period of the sold trade receivable, an annual fee of 0.5 % on the full credit limit amount as well as a fixed fee of SEK 5.00 per invoice; ii) a 12 month loan of SEK 5 million due in September 2020 with a fixed interest rate of 6.5% p.a.; and iii) a 36 month loan of SEK 20 million due in September 2022 with a fixed interest rate of 6.5% p.a. for the 36 month loan agreement there is a covenant that the outstanding balance should not exceed 50% of the inventory level.

Due to the temporary out-of-stock situation of one of our key products, the inventory level temporarily was lower than normal and the outstanding balance was over 50%. This constitutes a formal breach of covenants leading to a reclassification of approx. NOK 2,8 million of long-term loans as short term as at 31. December 2019. The company has had close cooperation with our lending partner and the inventory levels have during Q1 2020 increased to normal levels, meaning that the breach of covenant leading to the reclassification was remediated at that time.

# Note 4 – Critical accounting estimates and judgement applied by management

**Estimates and management judgements are evaluated on an ongoing basis and are based on past experience and other factors, inclusive of expectations concerning future events that are regarded as probable under current circumstances.**

**Important accounting estimates and assumptions**

The group prepares estimates and makes assumptions about the future. The accounting estimates that follow from these will, by definition, seldom be fully in line with the final outcomes. Estimates and assumptions that represent a significant risk of material changes to the carrying values for assets and liabilities during the next accounting year are discussed below.

a) **Measurement of goodwill and intangible assets**

The most important estimates and assumptions that carry a significant risk that they will materially affect the carrying values for assets and liabilities during the next accounting year relate to the measurement of goodwill, contracts and licences (product rights), technology assets, and marketing authorisations, see note 7. Management use significant judgment in determining estimates and assumptions in the determination of the accounting depreciation period and impairment assessments of goodwill and intangible fixed assets. These are inherently uncertain and actual outcomes may differ significantly from these estimates and assumptions. See notes 2.5, 2.6, and 7 for further information. The valuation of the gain on distribution of the Medtech business segment upon demerger to Observe Medical ASA is based on management's assumptions about the fair value of the demerged business and its related assets and liabilities. Assumptions regarding forecasted future cash flows and discount rates applied in calculating the gain on distribution are inherently uncertain.

Capitalisation of identifiable intangible assets is based on expectations of future financial benefits. Measurements of future financial benefits are based on the management team's judgment and estimates on balance sheet dates.

**b) Tax**

Assessment of whether a deferred tax asset is recognisable involves a significant degree of judgment in determination the likelihood of utilisation against future taxable results within the various tax jurisdiction in which the company operates.

The capitalised deferred tax asset is primarily linked to the tax losses carried forward in the parent company in Norway.

Management considered the following positive evidence to support an assertion that there is convincing evidence that taxable profits will be available:

- Prior year losses occurred due to identifiable one-time/non-recurring losses such as strategic projects in 2018 and listing process in 2019

- New business opportunities entered into in 2019 and 2020 which will generate licence revenues for the parent company
- Focusing on the Pharma division will allow for more efficient use of management resources to provide services for subsidiaries and generate taxable profits for the parent company going forward

Based on the items above, management considered it probable that future taxable profits would be available against which the tax losses can be recovered and, therefore, the related deferred tax asset can be realised.

# Note 5 - Segment Information and Revenue from Contracts with Customers

## Operating segments are identified on the basis of the reporting the corporate management team uses when it evaluates performance and profitability at a strategic level.

The group reports it operations within one division, the Pharma division. This reporting structure reflects the company's operations and product mix.

In 31 October 2019 the group distributed Observe Medical to its owners, which was the segment previously reported as the Medtech division. See note 25 Discontinued Operation. Following the demerger of the Medtech division the Navamedic have only one operating segment – Pharma.

The tables below show revenue and EBITDA for the Pharma segment. The group does not report total assets and liabilities for each segment.

**Pharma**

Over the last years, Navamedic has systematically developed a solid network of suppliers and partners for the distribution of pharmaceuticals and other healthcare products.

At the end of 2019, Navamedic had a portfolio of more than 30 products consisting of prescription drugs (Rx) and over-the-counter (OTC) pharmaceuticals as well as other healthcare products registered as medical devices, food supplements and cosmetics, and in addition a wide selection of medical nutrition products. The portfolio includes both products that Navamedic owns and licensed brands. The portfolio can be divided into the following product groups: Cardiology, Medical Nutrition, Obesity, Urology/gynaecology and other.

As part of the portfolio stemming from Novicus Pharma, Alflorex® was launched in Norway and Denmark, with launch in Iceland and the Netherlands planned for 2020.

| Figures in NOK millions | Pharma | | Medtech | | Reclassification of disc. Operations | | Group, Continuing operations | |
|---|---|---|---|---|---|---|---|---|
| **Segment** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Operating revenue | 188.8 | 183.9 | 0.1 | 0.1 | -0.1 | -0.1 | 188.8 | 183.9 |
| EBITDA | -4.4 | 9.5 | -9.6 | -7.8 | 7.6 | 6.9 | -6.5 | 8.5 |
| Special items | 12.5 | 6.1 | 0.0 | 0.0 | 0.0 | 0.0 | 12.5 | 6.1 |
| Adjusted EBITDA | 8.1 | 15.6 | -9.6 | -7.8 | 7.6 | 6.9 | 6.0 | 14.6 |

The Pharma division consists primarily of Navamedic AB and Navamedic ASA. In 2019 the group had NOK 12,5 million in strategic group projects and demerger of OM (special items). (In 2018, NOK 6.1 million). These were projects that were not part of the operational activities of the Pharma segment, but were strategic projects carried out by the parent company.

**Operating revenue by major markets***

| Figures in NOK millions | 2019 | 2018 |
|---|---|---|
| Sweden | 54.9 | 59.9 |
| Norway | 51.6 | 42.7 |
| Denmark | 30.8 | 32.4 |
| Finland | 15.4 | 13.6 |
| Other countries | 36.1 | 35.3 |
| **Total** | **188.8** | **183.9** |

* "Operating revenues by major markets" is distributed based on the country the product is sold in.

**Product groups**

| Figures in NOK millions | Revenues 2019 | Revenues 2018 |
|---|---|---|
| Cardiology | 67.0 | 75.8 |
| Medical nutrition | 47.1 | 42.7 |
| Obesity (Mysimba) | 24.7 | 14.4 |
| Urology/gynecology | 15.3 | 18.4 |
| Other | 34.6 | 32.6 |
| Total | 188.8 | 183.9 |

The group had no contract assets, contractual obligations or unfulfilled delivery obligations as at 31 December 2019 and 2018, respectively.

**Tangible assets, goodwill and intangible assets by country***

| Figures in NOK millions | 2019 | 2018 |
|---|---|---|
| Sweden | 65.6 | 106.9 |
| Norway | 2.5 | 2.8 |
| Total | 68.1 | 109.7 |

* "Tangible assets, goodwill and intangible assets" is distributed based on the country in which the legal entity in Navamedic that owns the assets is located.

# Note 6 – Tangible assets

| | |
|---|---|
| **Financial year 2018** | |
| Balance at 1 Jan 2018 | 599 552 |
| Additions | 59 448 |
| Reclassification | -407 853 |
| Translation differences | -22 020 |
| Year's depreciation | -53 563 |
| Depreciation related to discontinued operations | -66 303 |
| Balance at 31 Dec 2018 | 109 261 |
| | |
| Accumulated cost price as at 31 Dec 2018 | 2 328 184 |
| Translation differences | -226 |
| Reclassifications | -407 853 |
| Accumulated depreciation | -1 744 541 |
| Depreciation related to discontinued operations | -66 303 |
| Balance at 31 Dec 2018 | 109 261 |
| | |
| **Financial year 2019** | |
| Balance at 1 January 2019 | 109 261 |
| Opening Balance IFRS 16 | 2 173 569 |
| Additions | 52 788 |
| Disposal/Demerger OM | -131 590 |
| Translation differences | 1 353 458 |
| Year's depreciation | -1 601 771 |
| Balance at 31 Dec 2019 | 1 955 715 |
| | |
| Accumulated cost price as at 31 Dec 2019 | 4 554 541 |
| Disposal/Demerger OM | -131 590 |
| Translation differences | 945 379 |
| Accumulated depreciation | -3 412 615 |
| Balance at 31 Dec 2019 | 1 955 715 |

# Note 7 – Intangible assets and Goodwill

| | Goodwill | Contracts and licences | Technology assets | Patent / Marketing authorisations | Sum |
|---|---|---|---|---|---|
| **2018 financial year** | | | | | |
| Balance at 1 Jan 2018 | 81 969 459 | 7 692 015 | 22 874 313 | 4 063 580 | 116 599 367 |
| Year's additions | - | 149 822 | - | 1 952 385 | 2 102 207 |
| Year's reclassification | - | - | | 407 853 | 407 853 |
| Translation differences | -2 419 067 | -176 810 | -777 057 | -33 965 | -3 406 899 |
| Year's depreciation and amortisation | - | -1 491 311 | - | -766 424 | -2 257 735 |
| Amortisation related to discontinued operations | | | -2 825 379 | -1 009 337 | -3 834 716 |
| Year's impairment | - | | - | | - |
| Balance at 31 Dec 2018 | 79 550 392 | 6 173 716 | 19 271 877 | 4 614 092 | 109 610 077 |
| | | | | | |
| **As at 31 December 2018** | | | | | |
| Acquisition cost | 72 363 082 | 78 832 625 | 26 683 560 | 33 890 568 | 211 769 835 |
| Accumulated amortisation and impairment | - | -78 373 153 | -7 156 213 | -28 513 835 | -114 043 201 |
| Year's additions | - | 149 822 | - | 1 952 385 | 2 102 207 |
| Reclassification | | | | 407 853 | 407 853 |
| Amortisation related to discontinued operations | | | -2 825 379 | -1 009 337 | -3 834 716 |
| Translation differences | 7 187 310 | 5 564 422 | 2 569 909 | -2 113 542 | 13 208 099 |
| Balance at 31 Dec 2018 | 79 550 392 | 6 173 716 | 19 271 877 | 4 614 092 | 109 610 077 |
| | | | | | |
| **2019 financial year** | | | | | |
| Balance at 1 January 2019 | 79 550 392 | 6 173 716 | 19 271 877 | 4 614 092 | 109 610 077 |
| Acquisitions | 12 426 674 | | | | 12 426 674 |
| Year's additions | | 1 804 220 | | 420 400 | 2 224 620 |
| Demerger OM | -30 638 657 | - | -18 903 981 | -4 227 797 | -53 770 435 |
| Reclassification | | | | - | - |
| Translation differences | -1 818 660 | -117 992 | -367 896 | -8 206 | -2 312 754 |
| Year's depreciation and amortisation | - | -1 745 897 | - | -281 520 | -2 027 417 |
| Year's impairment | - | - | - | - | - |
| Balance at 31 Dec 2019 | 59 519 749 | 6 114 047 | - | 516 969 | 66 150 765 |
| | | | | | |
| **As at 31 December 2019** | | | | | |
| Acquisition cost | 72 363 082 | 78 982 447 | 26 683 560 | 35 842 953 | 213 872 042 |
| Accumulated amortisation and impairment | - | -80 119 050 | -7 156 213 | -28 795 355 | -116 070 618 |
| Year's additions/ acquisitions | 12 426 674 | 1 804 220 | - | 420 400 | 14 651 294 |
| Demerger OM | -30 638 657 | | -21 729 360 | -5 237 134 | -57 605 151 |
| Reclassification | | | | - | - |
| Translation differences | 5 368 650 | 5 446 430 | 2 202 013 | -1 713 895 | 11 303 198 |
| Balance at 31 Dec 2019 | 59 519 749 | 6 114 047 | - | 516 969 | 66 150 765 |
| | | | | | |
| Depreciation period | | 5-10 years | 10 years | 5 years | |

Goodwill relates to the acquisition of Vitaflo Scandinavia AB in 2007 (NOK 48.4 million) and the acquisition of Novicus AS in 2019 of NOK 12.4 million. In 2018, the goodwill related to the acquisition of Observe Medical International AB in 2015 were NOK 31.2 million.

Minimum liabilities in licensing agreements are capitalised as an intangible asset and a financial liability in contracts and licenses. Technology assets in 2018 were linked to the acquisition of OM and marketing authorisations consisted of numerous individual purchases. This also includes capitalised external expenditures for development in the Medtech division. The Observe Medical were at 31 October 2019 distributed to the owners of Navamedic, see note 25 Discontinued operations and assets and liabilities distributed. Capitalised development expenses were reclassified from Tangible assets to intangible assets in 2018. Assets under construction of NOK 0,4 million were capitalised for 2019.

**Test for impairment losses for cash generating units that contain goodwill**

Goodwill originates from the purchase of Vitaflo AB and other minor acquisitions, including Novicus Pharma AS in 2019. For the purpose of impairment testing, goodwill has been allocated to the group's single cash generating unit ('CGU'), being the Pharma division.

In 2019, the goodwill in the group was entirely related to the Pharma division. In 2018, NOK 48.4 million was related to the Pharma division and NOK 31.2 million was related to the Medtech division. In addition to goodwill, the Medtech division had a residual carrying value for intangible assets amounting to NOK 23.5 million in 2018.

**Impairment test of goodwill for 2019**

Impairment testing is based on value-in-use calculations, determined by discounting the estimated future cash flows to be generated by the CGU.

The calculations were based on the original product portfolio as well as new products. The basis for including new products as well is that the acquisition not only provided a product portfolio, but also a platform to be used for launch of new products. The 2020 budget is used as our estimate for 2020 and a modest revenue growth of 5% is used from 2021-2024, after which we have assumed a 2.5% growth. In 2018 and 2019, a discount rate after tax of 9.8% was used to discount future cash flows. The estimated value of the CGU exceeded the book value at 31.12.2019, therefore resulting in no impairment of the goodwill.  In addition to the discounted cash flow estimation, sensitivity analysis showed that even with a significantly more conservative view, the estimated value would still not result in a write-down. Key assumptions include moderate growth in the revenue according to the above mentioned during the period, together with the estimated EBITDA margin and the level of the discount rate. Nor reasonably possible negative changes in the growth assumption, nor reasonably possible negative changes in the EBITDA margin would lead to an impairment. Also a reasonably possible increase in the discount rate after tax would not give rise to impairment.

# Note 8 – Trade receivables and other receivables

| | 2019 | 2018 |
|---|---|---|
| Trade receivables | 17 338 618 | 36 900 516 |
| Provisions for loss on receivables | 17 201 | 831 414 |
| Trade receivables net | 17 321 417 | 36 069 102 |
| Other receivables | 2 650 496 | 2 834 256 |
| Prepaid tax | 5 448 881 | 6 971 387 |
| Total | 25 420 793 | 45 874 745 |
| | | |
| Net change in cash flow during the year without prepaid tax | 18 276 760 | 5 472 727 |

Losses on receivables of NOK 0.8 million (2018) and NOK 0.1 million (2017) were recognised.
The group had no non-current receivables as at 31 December 2018.

**Due date profile for trade receivables**

| | 2019 | 2018 |
|---|---|---|
| Not due | 13 953 576 | 22 749 503 |
| 0-3 months | 3 098 258 | 12 835 049 |
| > 3 months | 269 582 | 484 550 |
| Total | 17 321 417 | 36 069 102 |

The risk associated with trade receivables is low.

Receivables by currency

| | 2019 | 2018 |
|---|---|---|
| Receivables in EUR | 3 901 136 | 13 631 385 |
| Receivables in GBP | 229 556 | 504 104 |
| Receivables in SEK | 15 414 368 | 23 145 651 |
| Receivables in DKK | 4 359 749 | 3 878 846 |
| Receivables in NOK | 1 515 985 | 4 714 758 |
| Total | 25 420 794 | 45 874 745 |

# Note 9 – Inventories

| | 2019 | 2018 |
|---|---|---|
| Goods for resale | 32 851 194 | 40 362 597 |
| Provisions for inventory obsolescence | -867 929 | -2 216 125 |
| Total | 31 983 265 | 38 146 472 |
| Net change in cash flow during the year | 3 601 069 | 6 551 731 |

# Note 10 – Financial instruments

Of the group's bank deposits as at 31 December 2019, NOK 0,75 million (NOK 0.38 million as at 31 December 2018) was restricted because it constituted tax withholdings for employees. There are no significant restrictions on transferring cash within the group.

**Financial liabilities as at 31 December 2019**

| *(Figures in NOK millions)* | 0-3 months | 3-12 months | 1-2 years | 2-3 years | 3-4 years | > 4 years | Total | Carrying value |
|---|---|---|---|---|---|---|---|---|
| Other liabilities to financial institutions | 2.8 | 4.7 | 0.0 | 16.1 | 0.0 | 0.0 | 23.6 | 23.6 |
| Licensing liabilities | 0.0 | 0.0 | 13.0 | 2.2 | 2.2 | 0.0 | 17.4 | 17.0 |
| Trade account payables | 26.6 | 16.1 | 0.0 | 0.0 | 0.0 | 0.0 | 42.7 | 42.7 |
| Public dues, tax deductions, etc. | 6.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.5 | 6.5 |
| Other current liabilities | 6.9 | 6.6 | 0.0 | 0.0 | 0.0 | 0.0 | 13.6 | 13.6 |
| Total | 42.9 | 27.4 | 13.0 | 18.3 | 2.2 | 0.0 | 103.8 | 103.4 |
| Interest payments of interest bearing liabilities | 0.4 | 1.0 | 2.5 | 0.8 | 0.0 | 0.0 | 4.7 | |

**Financial liabilities as at 31 December 2018**

| *(Figures in NOK millions)* | 0-3 months | 3-12 months | 1-2 years | 2-3 years | 3-4 years | > 4 years | Total | Carrying value |
|---|---|---|---|---|---|---|---|---|
| Overdraft facility and factoring | 0.0 | 32.6 | 0.0 | 0.0 | 0.0 | 0.0 | 32.6 | 32.6 |
| Other liabilities to financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Licensing liabilities | 2.2 | 4.4 | 2.2 | 2.2 | 2.2 | 4.4 | 17.5 | 16.8 |
| Contingent consideration upon acquisitions | 0.0 | 0.0 | 0.5 | 1.6 | 14.6 | 9.7 | 26.3 | 12.2 |
| Trade account payables | 39.6 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 41.1 | 41.1 |
| Public dues, tax deductions, etc. | 2.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.5 | 2.5 |
| Other current liabilities | 5.2 | 2.7 | 0.0 | 0.0 | 0.0 | 0.0 | 7.9 | 7.9 |
| Total | 49.5 | 41.2 | 2.6 | 3.8 | 16.8 | 14.1 | 127.9 | 113.2 |
| Interest payments of interest bearing liabilities | 0.4 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | |

The table does not include tax payable as this is not defined as a financial liability.

The table shows that the loan with Avida is due in sept 2020 and in 2022. The interest is paid monthly and is included at the end of the table above. The interest rate was 6.5% per annum as at 31 December 2019.

For the 36-month loan agreement there is a covenant that the outstanding balance should not exceed 50% of the inventory level. Due to the temporary out-of stock situation of one of our key products, the inventory level temporarily was lower than normal and the outstanding balance was over 50%. The company has had close cooperation with our lending partner and the inventory levels have during Q1 increased to normal levels.

Licensing liabilities were discounted by an interest rate of 2.1% per annum as at 31 December 2019.

The liquidity situation is considered to be satisfactory. The company will continue to work on initiatives to improve liquidity to finance growth. See also note 3.

Loans of SEK 20.0 million are secured by security in the company's inventories of NOK 37.8 million.

Classification of financial assets and liabilities as at 31 December 2019

| **(Figures in NOK millions)** | Measured at amortised cost | Fair value through profit or loss | Total |
|---|---|---|---|
| **Assets** | | | |
| Bank deposits | 11.4 | 0.0 | 11.4 |
| Trade receivables and other receivables [1)] | 18.0 | 2.0 | 20.0 |
| Total financial assets [3) and 4)] | 29.4 | 2.0 | 31.4 |
| **Liabilities** | | | |
| Liabilities to financial institutions | 23.6 | 0.0 | 23.6 |
| Licensing liabilities | 17.0 | 0.0 | 17.0 |
| Trade account payables and other liabilities | 62.8 | 0.0 | 62.8 |
| Total financial liabilities [4)] | 103.4 | 0.0 | 103.4 |

Classification of financial assets and liabilities as at 31 December 2018

| **(Figures in NOK millions)** | Measured at amortised cost | Fair value through profit or loss | Total |
|---|---|---|---|
| **Assets** | | | |
| Bank deposits | 11.0 | 0.0 | 11.0 |
| Trade receivables and other receivables [1)] | 38.9 | 0.0 | 38.9 |
| Total financial assets [3)] and [4)] | 49.9 | 0.0 | 49.9 |
| **Liabilities** | | | |
| Liabilities to financial institutions | 32.6 | 0.0 | 32.6 |
| Licensing liabilities | 16.8 | 0.0 | 16.8 |
| Contingent consideration upon acquisitions [2)] | 0.0 | 12.2 | 12.2 |
| Trade account payables and other liabilities | 51.5 | 0.0 | 51.5 |
| Total financial liabilities [4)] | 101.0 | 12.2 | 113.2 |

1) No advance payments are included as these are not defined as financial assets or liabilities. Trade receivables exposed to credit risk is presented net of provision for expected credit losses and categorized in level 3 in the fair value measurement hierarchy.

2) Contingent consideration arose in connection with the acquisition of Observe Medical in 2015, see section below. The item is level 3 on the fair value measurement hierarchy.

3) The carrying value equals maximum credit risk.

4) The carrying value is regarded as a reasonable approach to fair value.

Additional information about the change in financial liabilities arising from financing, excluding lease liabilities (see note 24).

| | Credit institutions incl. overdraft facility | Licensing liabilities | Contingent consideration upon acquisitions | Total |
|---|---|---|---|---|
| **Carrying value 1 January 2019** | 32.6 | 16.8 | 12.2 | 61.6 |
| Cash flow | -9.0 | 0.0 | | -9.0 |
| Change in liability with no cash effect | | 0.2 | 1.9 | 2.1 |
| Demerger OM | | | -14.1 | -14.1 |
| **Carrying value 31 January 2019** | 23.6 | 17.0 | 0.0 | 40.6 |

| | Credit institutions without overdraft facility | Licensing liabilities | Contingent consideration upon acquisitions | Total |
|---|---|---|---|---|
| **Carrying value 1 January 2018** | 12.2 | 16.3 | 26.2 | 54.7 |
| Cash flow | 20.4 | 0.0 | | 20.4 |
| Change in liability with no cash effect | | 0.5 | -14.0 | -13.5 |
| **Carrying value 31 January 2018** | 32.6 | 16.8 | 12.2 | 61.6 |

Changes in liabilities without cash effect apply to the calculated interest and estimated fair value of contingent consideration.

**Acquisition of Observe Medical**

On 3 August 2015, Navamedic ASA signed an agreement concerning the acquisition of all of the shares and votes in Observe Medical International AB (OM). The purchase price was NOK 35 million in the form of cash (NOK 25 million) and the issuance of shares (888,100 shares with a combined fair value on the date of acquisition of NOK 10 million). An extra payment (contingent consideration) dependent on the results in the coming years was also agreed. The contingent consideration was valued at NOK 25.6 million on the date of acquisition, which means that the value of the remuneration on the date of acquisition was NOK 60.6 million. The fair value of the contingent consideration involves discounting expected future payments. Discounting is carried out based on the same discount rate (18.3%) used for the identified intangible assets.

In 2018, changes in the fair value of the future liability were recognised through profit or loss, which included calculated interest associated with the conditional consideration. Expected payments to former owners were adjusted downwards, which reduces the total liability by NOK 14.0 million. The change was primarily a result of the probability of milestone payments and royalties in the purchase agreement having changed.

After the demerger of Observe Medical the liability to former owners in Navamedic ASA is NOK 0 million.

# Note 11 – Share capital and premium

The parent company has one class of share. Each share has a nominal value of NOK 0.74 at 31 December 2019. (Nominal value of NOK 1.00 as at 31 December 2018)

**The share capital consists of:**

| | Share capital | Premium | Total |
|---|---|---|---|
| As at 1 January 2018 | 10 867 673 | 110 480 152 | 121 347 825 |
| Issues | | | 0 |
| As at 1 January 2019 | 10 867 673 | 110 480 152 | 121 347 825 |
| Issues | 1 000 000 | 11 141 179 | 12 141 179 |
| De-merger of Medtech | -3 085 595 | -55 584 238 | -58 669 833 |
| As at 31 December 2019 | 8 782 078 | 66 037 093 | 74 819 171 |

The number of shares has increased with 1 000 000 shares from 10 867 673 per 31.12.2018 to 11 867 673 to 31.12.2019

| | 2019 | | |
|---|---|---|---|
| | Number of shares | Ownership interest | Voting share |
| INGERØ REITEN INV. COMPANY AS | 2 916 667 | 24.6 % | 24.6 % |
| TOPRIDGE PHARMA LTD | 1 420 522 | 12.0 % | 12.0 % |
| RO | 1 320 000 | 11.1 % | 11.1 % |
| ALPINE CAPITAL AS | 460 000 | 3.9 % | 3.9 % |
| SOLEGLAD INVEST AS | 416 668 | 3.5 % | 3.5 % |
| LEIKERANE AS | 416 666 | 3.5 % | 3.5 % |
| TRANBERGKOLLEN INVEST AS | 416 666 | 3.5 % | 3.5 % |
| ARTAL AS | 282 766 | 2.4 % | 2.4 % |
| Danske Invest Norge Vekst | 262 660 | 2.2 % | 2.2 % |
| LID | 245 000 | 2.1 % | 2.1 % |
| KRAEBER Verwaltung GMBH | 214 850 | 1.8 % | 1.8 % |
| HARDING INVEST AS | 212 892 | 1.8 % | 1.8 % |
| BUKKEVIK INVESTERING AS | 211 300 | 1.8 % | 1.8 % |
| Nordnet Bank AB | 145 178 | 1.2 % | 1.2 % |
| HJARRAND | 132 882 | 1.1 % | 1.1 % |
| NOBELSYSTEM SCANDINAVIA AS | 124 333 | 1.0 % | 1.0 % |
| JGB EIENDOM AS | 101 011 | 0.9 % | 0.9 % |
| MP PENSJON PK | 100 025 | 0.8 % | 0.8 % |
| BATJAK AS | 100 000 | 0.8 % | 0.8 % |
| BJØRNTVEDT | 89 000 | 0.7 % | 0.7 % |
| OTHER SHAREHOLDERS | 2 278 587 | 19.2 % | 19.2 % |
| Total | 11 867 673 | 100.0 % | 100.0 % |

Ingerø Reiten owns 2,916,667 shares and is represented on the board by Terje Bakken and Narve Reiten. TopRidge Pharma owns 1,420,522 shares and is represented on the board by Cheng Lu. Navamedic distributes the preventive medicine Imdur for TopRidge Pharma.

**Shares owned by the board and executive personnel in Navamedic ASA as at 31 December 2019.**

| Name | Role | Shares | Comments |
|---|---|---|---|
| Terje Bakken/Narve Reiten | Chairman of the Board/Board Member | 2,916,667 | Via Ingerø Reiten Inv. Company AS |
| Kathrine Gamborg Andreassen | CEO | 416 668 | Via Soleglad Invest |
| Lars Hjarrand | CFO | 132 882 | |
| Ole Henrik Eriksen | COO | | Via Leikerane AS |
| Astrid T Bratvedt | CSO | 416 666 | Via Tranbergkollen Invest AS |
| Astrid T Bradvedt | CSO | 2 000 | |
| Per Anders Elvertrø | Head of Regulatory | 30,000 | |
| Bernt Olav Røttingsnes | Chair of the Nomination Committee | 79 900 | |
| Grete Hogstad | Member of the Nomination Committee | 1,406 | |

**Shares owned by the board and executive personnel in Navamedic ASA as at 31 December 2018.**

| Name | Role | Shares | Comments |
|---|---|---|---|
| Terje Bakken/Narve Reiten | Chairman of the Board/Board Member | 2,916,667 | via Ingerø Reiten Inv. Company AS |
| Tom Rönnlund | CEO | 40,000 | |
| Per Anders Elvertrø | Head of Regulatory | 30,000 | |
| Bernt Olav Røttingsnes | Chair of the Nomination Committee | 109,141 | |
| Grete Hogstad | Member of the Nomination Committee | 1,406 | |
| Mattias Von Hartmann | Marketing and Sales Director | 20,000 | Including through Aleric AB |

# Note 12 – Unpaid public dues and other current liabilities

| | 2019 | 2018 |
|---|---|---|
| Trade account payables | 42 703 620 | 41 086 747 |
| Public dues, tax deductions, etc. | 6 529 005 | 2 507 594 |
| Total | 49 232 625 | 43 594 341 |
| | | |
| Net change in cash flow during the year | 7 011 324 | -37 585 390 |

Due date profile for trade account payables

| | 2019 | 2018 |
|---|---|---|
| Not due | 17 138 056 | 30 732 391 |
| 0-3 months | 9 507 829 | 8 820 378 |
| > 3 months | 16 057 736 | 1 533 979 |
| Total | 42 703 620 | 41 086 747 |

The amount over 3 months is related to one big supplier with whom we have entered into a repayment plan.

| | 2019 | 2018 |
|---|---|---|
| Other current liabilities | 13 566 371 | 7 948 946 |
| | | |
| Net change in cash flow during the year | 5 322 208 | -4 868 150 |

# Note 13 – Deferred tax and tax payable

**Change in the deferred tax asset and deferred tax (without net recognition within the same tax regime):**

| | 01.01.2018 | Recognised through profit or loss in the period | Translation differences | 31.12.2018 |
|---|---|---|---|---|
| Intangible assets | 4 019 672 | -1 130 915 | 30 403 | 2 919 160 |
| Tax allocation reserve Sweden | 527 789 | -288 380 | -25 986 | 213 423 |
| Liabilities | -3 751 135 | 47 311 | 0 | -3 703 824 |
| Tax losses carried forward | -23 660 704 | 61 889 | -160 721 | -23 759 536 |
| Deferred tax/deferred tax asset before limitation | -22 864 378 | -1 310 095 | -156 303 | -24 330 776 |
| Temporary differences that are not capitalised | 14 678 118 | -24 952 | -53 467 | 14 599 699 |
| Carrying value | -8 186 260 | -1 335 047 | -209 770 | -9 731 078 |

| | 01.01.2019 | Recognised through profit or loss in the period | Translation differences | Other* | 31.12.2019 |
|---|---|---|---|---|---|
| Intangible assets | 2 919 160 | 98 835 | -26 460 | -2 937 478 | 54 058 |
| Tax allocation reserve Sweden | 213 423 | -207 724 | -5 698 | 0 | 1 |
| Liabilities | -3 703 824 | -250 998 | 0 | 0 | -3 954 821 |
| Tax losses carried forward | -23 759 536 | -2 462 505 | 196 560 | 18 239 757 | -7 785 723 |
| Deferred tax/deferred tax asset before limitation | -24 330 776 | -2 822 391 | 164 402 | 15 302 279 | -11 686 487 |
| Temporary differences that are not capitalised | 14 599 699 | 3 642 862 | -422 138 | -15 375 857 | 2 444 566 |
| Carrying value | -9 731 078 | 820 471 | -257 736 | -73 579 | -9 241 920 |

* Other adjustments relate to disposal group held for sale (note 25) and acquired in business combinations (note 26).

The deferred tax asset linked to the tax losses carried forward is capitalised to the extent that it is probable that the group can utilize it in relation to future taxable profit.  The group's deferred tax asset is primarily related to its operations within the tax jurisdiction of Norway.

There are no time limits relating to the utilization of the tax losses carried forward.

# Note 13 – Deferred tax and tax payable cont

**Overview of temporary differences in the group:**

| | Temporary differences Norway | Temporary differences Sweden | Temporary differences Denmark | Total 2019 |
|---|---|---|---|---|
| Intangible assets | 245 716 | 0 | 0 | 245 716 |
| Tax allocation reserve Sweden | 0 | 0 | 0 | 0 |
| Provisions for liabilities | -19 185 020 | 0 | 0 | -19 185 020 |
| Total temporary differences | -18 939 304 | 0 | 0 | -18 939 304 |
| Tax losses carried forward | -32 549 936 | -2 919 333 | 0 | -35 469 269 |
| Basis for deferred tax | -51 489 240 | -2 919 333 | 0 | -54 408 573 |
| Temporary differences that are not capitalised | 9 480 511 | 2 919 333 | 0 | 12 399 844 |
| Total net temporary differences | -42 008 729 | 0 | 0 | -42 008 729 |
| Tax rate | 22.0 % | 21.4 % | 22.0 % | |
| Net deferred tax asset (-)/deferred tax (+) | -9 241 920 | 0 | 0 | -9 241 920 |
| This is recognised in the following lines on the balance sheet: | | | | |
| Deferred tax asset | -9 241 920 | 0 | 0 | -9 241 920 |
| Deferred tax | 0 | 0 | 0 | 0 |
| Besides this, withholding tax was paid in Sweden, recognised on the line: | | | | |
| Prepaid tax | 0 | 5 448 881 | 0 | 5 448 881 |

**Tax payable:**

| | 2019 | 2018 |
|---|---|---|
| **Carrying value 1 January** | -2 064 254 | -1 347 022 |
| Paid during the period | 972 561 | 539 307 |
| Res booked in the period (22%) | | -1 256 539 |
| Translation differences | - | - |
| **Carrying value 31 December** | -1 091 691 | -2 064 254 |

# Note 14 – Other operating expenses

| Other operating expenses consist of: | **2019** | **2018*** |
|---|---|---|
| Misc. Fees [1)] | 17 199 772 | 12 740 312 |
| Travel expenses | 2 277 147 | 1 773 185 |
| Insurance | 527 509 | 352 566 |
| Oslo Stock Exchange | 236 540 | 202 095 |
| Marketing, freight, and commissions | 4 571 595 | 5 083 656 |
| Other expenses (incl. control and regulatory fees) | 5 883 835 | 6 008 004 |
| Total other operating expenses | 30 696 398 | 26 159 819 |

*The 2018 figures are restated for discontinued operations.
1) The amount includes costs associated with strategic projects and cost related to the demerger of Observe Medical

Remuneration for auditor specified as follows:

| | **2019** | **2018** |
|---|---|---|
| Statutory audit fee | 1 706 403 | 1 012 000 |
| Audit-related services | 3 181 000 | 333 000 |
| Tax advisory services | 227 270 | 225 000 |
| Other non-audit services | - | 1 426 000 |
| Total | 5 114 673 | 2 996 000 |

The auditor's remuneration equals the amount recognised as an expense in 2019 and covers services related to both 2018 and 2019 reporting.

See also note 24 for IFRS 16.

# Note 15 – Employee benefits

Payroll expenses are in NOK

| | 2019 | 2018* |
|---|---|---|
| Salaries | 19 429 000 | 19 359 888 |
| Employer's Nantional insurance contributions | 3 668 583 | 3 757 926 |
| Share options for employees | 879 769 | 134 216 |
| Pension expenses – defined-contribution scheme | 1 713 299 | 2 119 975 |
| Other payroll expenses | 7 672 562 | 743 363 |
| Total | 33 363 212 | 26 115 367 |
| | | |
| Number of FTEs | 24 | 23 |

*The 2018 figures are restated for discontinued operations.

**Remuneration for executive personnel:**

| | CEO Navamedic ASA, Kathrine Gamborg Andreassen | |
|---|---|---|
| | 2019 | 2018 |
| Salary | 1 898 077 | |
| Bonus | - | |
| Pension expenses | 111 274 | |
| Other remuneration | 424 571 | |
| Total | 2 433 922 | - |

| | CEO Navamedic ASA, Tom Rönnlund | |
|---|---|---|
| | 2019 | 2018 |
| Salary | | 1 929 121 |
| Bonus | | - |
| Pension expenses | | 530 039 |
| Other remuneration | | 4 400 |
| Total | - | 2 463 560 |

| | CFO Navamedic ASA, Toril Marie ÅS | |
|---|---|---|
| | 2019 | 2018 |
| Salary | 1 507 231 | 1 505 519 |
| Bonus | 74 520 | 201 600 |
| Pension expenses | 219 876 | 262 588 |
| Other remuneration/benefits in kind | 199 155 | 210 900 |
| Options | | 33 554 |
| Other payroll expenses | 2 200 000 | |
| Total | 4 200 782 | 2 214 161 |

| | CFO Navamedic ASA, Lars Hjarrand | |
|---|---|---|
| | 2019 | 2018 |
| Salary | 141 667 | |
| Bonus | - | |
| Pension expenses | 9 272 | |
| Other remuneration/benefits in kind | 8 139 | |
| Options | | |
| Total | 159 078 | - |

Lars Hjarrand joined the Navamedic as CFO on 9 December 2019, replacing Toril Marie Ås.

Executive employees in the Navamedic ASA group are defined as being the chief executive officer (CEO) and chief financial officer (CFO)

Lars Hjarrand has 75.000 options and Kathrine Gamborg Andreassen has 250.000 options. No loans were given and no assets were pledged to the benefit of employees, shareholders or board members.

Board fees paid:

| | 2019 | 2018 |
|---|---|---|
| Johan Reinsli | | 150 000 |
| Jostein Davidsen | 120 000 | 120 000 |
| Svein Erik Nicolaysen | 80 342 | 150 000 |
| Grete Hogstad | 20 000 | 20 000 |
| Kari Stenersen | | 120 000 |
| Kathryn Moore Baker | | 500 000 |
| Bernt Olav Røttingsnes | 30 000 | 30 000 |
| Huaizheng Peng | | 240 000 |
| Kathrine Gamborg Andreassen | 267 808 | |
| Rikard Storvestre | 64 274 | |
| Bård B Ingerø | 8 830 | |
| Terje Bakken | 220 665 | |
| Narve Reiten | 66 201 | |
| Inger Johanne Solberg | 66 201 | |
| Cheng Lu | 52 961 | |
| Total | 997 282 | 1 330 000 |

**Share options**

Key management personnel in Navamedic ASA receive parts of their salary as share-based remuneration.

Of the 2018 option program, 22,500 options were forfeited in the second quarter 2019, leaving 61 875 options outstanding at 31 December 2019. First exercise date 4 June 2020. In May 2019, a total of 400,000 new options were granted, divided into 275,000 Series A options and 125,000 Series B options. Each option, when exercised, will give the right to acquire one share in the Company. The exercise price was NOK 12 per share (NOK 8.88 after the demerger, see below).

Due to the demerger of the Medtech division, the exercise price for the 467,500 share options were reduced by 26% to reflect the exchange ratio in the demerger to compensate the share option holders for the negative effect of the capital transaction. The option holders further received options in Observe Medical ASA. The change was intended to hold the option holders harmless from the capital transaction in Navamedic, and the modifications did not increase the total fair value of the share-based payment arrangement or were otherwise beneficial to the option holders. The effect for Navamedic at 31 October 2019 was a reduction of the remaining unamortised fair value calculated at the grant date.

On 30 December 2019 a further 75,000 Series A share options were granted, with exercise price of NOK 14.46 per share.

For the Series A options, 1/3 of the options will vest every 12 months after the grant date (if the option holder is still employed). Options that have not been exercised will lapse 3,5 years after grant date.

However, for the grants in May 2019 it was an accelerated vesting clause, and as the Navamedic share price was above NOK 24 for ten consecutive trading days all these options vested in the third quarter. At grant date in the second quarter, it was estimated that the vesting periods would be equal to the service requirement periods. Due to IFRS 2's explicit prohibition on revising the length of the vesting period, the company has evaluated that the cost should continue to be recognised in accordance with the original vesting period.

For the Series B options, all options vested on the grant date. Options that have not been exercised will lapse 30 September 2020.

Shares received from exercised options are subject to a lock-up period of 12 months for the Series A and 24 months for the Series B options. The lock-up obligations shall not prevent the option holders from selling an amount of the option shares necessary to finance the exercise price, as well as the tax payable as a consequence of the exercise of options.

For the May 2019 grants, the share price at grant date was NOK 16.8 per share. The estimated fair value at grant date was in total NOK 1.4 million for the Series A options (reduced to NOK 1.1. million due to the demerger) and NOK 0.3 million for the Series B options by using a Monte Carlo Simulation Model. A volatility of approximately 55% and zero expected dividends were used in the calculations. The share price on 30 December was NOK 18.5 per share, and for the grant at this date a volatility of approximately 60% and zero expected dividends were used in the Monte Carlo Simulation Model calculation. The risk-free interest rates used were approximately 1.3%.

During 2019, the total estimated fair value of the Series B options of NOK 0.3 million, NOK 0.47 million of the Series A options and NOK 0.11 million of the 2018 options have been recognized as an expense, in total NOK 0.88 million. In addition, estimated social security tax is expensed over the estimated vesting period, in an amount of NOK 0.44 million for 2019. Remaining unamortised fair value and social security tax at 31 December 2019 was NOK 1.09 million and NOK 0,3 million, respectively.

**At 31 December 2019**

| Program | Number | Exercisable | Exercise price (NOK) | Last exercise date |
|---|---|---|---|---|
| 2018 | 61 875 | 0 | 6.96 | 4 June 2021 |
| May 2019, series A | 275 000 | 275 000 | 8.88 | 13 November 2022 |
| May 2019, series B | 125 000 | 125 000 | 8.88 | 31 March 2020 |
| 30 December 2019 | 75 000 | 0 | 14.46 | 30 June 2023 |
| Total | 536 875 | 400 000 | | |

**Statement on the stipulation of salaries and other remuneration for the CEO and other executive personnel**

Pursuant to Section 6-16a of the Norwegian Public Limited Liability Companies Act, the board of Navamedic has prepared a statement on the stipulation of salaries and other remuneration for the CEO and executive personnel.

All pay and remuneration in the group are based on the gross pay principle, meaning that any tax consequences of remuneration individuals receive are not the concern of the group.

The main principle in Navamedic's executive pay policy is that executive personnel will be offered competitive terms and conditions. The group aims to offer a level of pay that reflects an average pay level in small pharmaceutical companies in the Nordic region.

As a guideline, executive personnel can be awarded remuneration in addition to their basic salary (bonus), but this is limited to 50% of the annual salary and linked to the achievement of specific targets, and at the same time such that total compensation is within the average. Any bonuses to the CEO must be determined by the board.

Executive personnel can only be awarded options for the acquisition of/subscription to shares in the company.

The company offers defined contribution based pensions to all employees. Some executive personal has been awarded share options. See above.

The CEO and CFO are subject to notice periods of 6 months. There are termination payment agreements of 12 and 6 months.

# Note 16 – Financial income

| | 2019 | 2018* |
|---|---|---|
| Interest income – financial institutions | 9 602 | 14 111 |
| Other financial income | 321 187 | 530 557 |
| Total | 330 788 | 544 668 |

*The 2018 figures are restated for discontinued operations.

# Note 17 – Financial expenses

| | 2019 | 2018* |
|---|---|---|
| Interest expenses – financial institutions | 1 775 052 | 1 142 233 |
| Other financial expenses | 667 007 | 666 206 |
| Total | 2 442 058 | 1 808 439 |

| | 2019 | 2018* |
|---|---|---|
| Currency losses/gains – net | -2 579 605 | -1 471 807 |
| Total | -2 579 605 | -1 471 807 |

*The 2018 figures are restated for discontinued operations.

# Note 18 – Tax expense

## Note 18 – Tax expense

| | 2019 | 2018* |
|---|---|---|
| Tax payable (note 13) | - | 1 256 539 |
| Change in deferred tax (note 13) | 820 471 | -1 335 046 |
| Adjustment from previous years | | -194 493 |
| Tax expense | 820 471 | -273 000 |

Explanation of year's effective tax rate:

| | | | 2019 | 2018 |
|---|---|---|---|---|
| Tax calculated according to the result in the geographical area: | | | | |
| Profit before tax from continuing operations | | Tax rate | | |
| Norway | -10 071 602 | 22.0 % | -2 215 752 | 132 017 |
| Sweden | -5 405 150 | 21.4 % | -1 156 702 | 959 201 |
| Denmark | 0 | 22.0 % | - | |
| Total calculated tax expense (+) / tax income (-) | -15 476 752 | | -3 372 455 | 1 091 218 |

Reconciliation items:

| | | | | |
|---|---|---|---|---|
| Norway – non-deductible changes related to contingent consideration shares | 0 | 22.0 % | - | |
| Norway – other non-deductible expenses | 39 421 | 22.0 % | 8 673 | -464 614 |
| Norway – effect of deferred tax asset not capitalised | 10 032 180 | 22.0 % | 2 207 080 | -1 833 187 |
| Norway – change in tax rate | 0 | 1 % | - | 416 743 |
| Denmark – deferred tax asset not capitalised | 0 | 22.0 % | 776 158 | 702 377 |
| Sweden – other non-deductible expenses | 3 728 258 | 21.4 % | 797 847 | 29 901 |
| Sweden – deferred tax asset not capitalised | 1 883 963 | 21.4 % | 403 168 | -215 436 |
| Sweden - effect of errors from previous years | | 21.4 % | - | - |
| Total reconciliation items | | | 4 192 925 | -1 364 218 |
| Calculated tax expense | | | 820 471 | -273 000 |
| Effective tax rate | | | -5.3 % | -24.2 % |

*The 2018 figures are restated for discontinued operations.

# Note 19 – Earnings per share

**Ordinary earnings per share**
Ordinary earnings per share are calculated by dividing the part of the net result for the year that is allocated to the company's shareholders by a weighted average of the number of issued ordinary shares in the year, less own shares.

| | 2019 | 2018 |
|---|---|---|
| Net profit / loss (-) continuing operations | -16 297 223 | 3 755 251 |
| Net profit / loss (-) total operations | 27 934 608 | 7 283 755 |
| | | |
| Weighted average shares issued | 11 706 029 | 10 867 673 |
| | | |
| Ordinary earnings per share continuing operations | -1.39 | 0.35 |
| Ordinary earnings per share total operations | 2.39 | 0.67 |

**Diluted earnings per share**
The ordinary and diluted earnings per share were equal in 2019 and 2018. For 2019 it is because net result from continuing operations is negative, and additional issue of shares would reduce the negative earnings per share.

# Note 20 – Related parties

TopRidge Pharma Limited, which owns 1,420,522 shares in Navamedic ASA, has one board member and is also a supplier to Navamedic. Navamedic purchased goods from TopRidge worth SEK 44.197.021 in 2019 and SEK 56.910.511 in 2018.

Novicus Pharma, which was acquired in February 2019, was partially owned by then Chairman of the board, now CEO, Kathrine G Andreassen. See note 26

# Note 21 – Associated companies

**Investments in associated company – Observe Medical ASA**

| | 2019 | 2018 |
|---|---|---|
| Balance as of 1 January | **0** | - |
| Additions through de-merger of subsidiary | 16 000 000 | - |
| Share of net income (loss) | -699 920 | - |
| Balance as of 31 December | 15 300 080 | **-** |
| | | |
| Of which investment in Observe Medical ASA | 15 300 080 | |

At 31.12.2019 the share price of Observe Medical ASA was NOK 11.90, indicating a share value of Navamedic ASA's share in Observe Medical ASA of NOK 38.1 mill.

For the full year 2019 Observe Medical ASA Group has reported operating revenues of TNOK 177 and incurred a net loss of TNOK 16 917. For 2019 depreciation and amortization was TNOK 4 285, other operating expenses was TNOK 11 041 and net financial expenses was TNOK 1 131. Net tax expense was TNOK 0.

As at 31 December 2019 the Observe Medical ASA Group reported current assets of TNOK 3 663 of which bank deposits was TNOK 485, non-current assets of TNOK 51 670 of which 51 331 was goodwill and intangible assets, current liabilities of TNOK 2 902, non-current liabilities of TNOK 37 889.

In 2019, Navamedic ASA spun-off its Medtech division to a separate entity, Observe Medical ASA, which became listed on the regulated marketplace Oslo Axess, operated by Oslo Børs ASA. In connection with the demerger, Navamedic made an investment in this company (1) by way of setting of a loan it had against the Observe Medical group and received consideration in the form of shares in Observe Medical ASA and (2) by giving a loan to Observe Medical ASA as further described in the section Loan to Observe Medical ASA.

**Loan to Observe Medical ASA**

| | 2019 | 2018 |
|---|---|---|
| Balance as of 1 January | 0 | - |
| Additions through de-merger of subsidiary | 19 000 000 | - |
| Additional drawdown of loan facility during the period | 6 250 000 | |
| Accrued interest during period added to the loan balance | 314 934 | |
| Balance as of 31 December | 25 564 934 | - |
| | | |
| Of which investment in Observe Medical ASA | 25 564 934 | |

On 31 October 2019, the Company completed a demerger of its Medtech division to Observe Medical ASA. The Demerger was carried out as a demerger with a transfer to an existing entity (demerger and merger) in accordance with Chapter 14 of the Norwegian Public Limited Liability Companies Act.

The Company's shares in Observe Medical International AB and a conditional deferred earn-out obligation which the Company had towards the previous shareholders of OMI in connection with the Company's acquisition of OMI, was transferred from the Company to Observe Medical ASA in the demerger, while all other assets, rights and liabilities remained with Navamedic ASA.

The board of directors of Navamedic ASA and Observe Medical ASA agreed in that the exchange ratio in the demerger should be based on assessed fair values of Navamedic ASA and the part transferred to Observe Medical ASA, which gave an exchange ratio of 74% (remaining) / 26% (transferred). The exchange ratio was based on an assessment made by the boards, based on a valuation carried out by an external party, and founded on principles of discounted cash flow analysis, analysis of comparable transactions and the implied trading multiples of listed comparable companies.

The Demerger was implemented by way of decreasing the share capital of Navamedic ASA through a reduction of the nominal value of its shares. The size of the share capital decrease in Navamedic ASA reflected the allocation of the net values between the companies in the demerger. The shareholders of Navamedic ASA received shares in Observe Medical ASA by way of increasing the share capital in Observe Medical ASA through issuance of new shares as demerger consideration. Prior to the share capital increase in Observe Medical ASA, Navamedic's shareholding in Observe Medical ASA was redeemed in its entirety. Upon completion of the demerger, but prior to completion of the debt conversion described below, the shareholders of the Company became shareholders in Observe Medical ASA in the same ratio as they owned shares in Navamedic ASA when the demerger became effective.

On 1 October 2019, the Company subscribed for 3,200,000 shares in Observe Medical ASA by setting-off a loan Observe Medical ASA had to Navamedic in the amount of NOK 16 million as contribution in kind. The subscription price in the share issue was NOK 5.00 per share. The completion of the debt conversion was conditional upon the demerger being completed. Following the debt conversion, Navamedic owned approximately 21% of the shares in Observe Medical ASA. The share investment is presented in the financial position as Investment in associated company. Navamedic's share of results, is presented as Results from associated companies in the Consolidated financial statements.

On 27 September 2019, Navamedic (as lender) entered into a subordinated convertible loan agreement with Observe Medical (as the borrower) for a loan of an aggregate amount of NOK 32 000 000. The loan was structured as a bullet loan, with repayment of the entire loan at the maturity date.

The loan agreement consists of the two following facilities:

- A subordinated convertible term loan facility in the amount of NOK 19 000 000; and

- A subordinated convertible term loan facility in the maximum amount of NOK 13 000 000.

The facilities given under the loan agreement constitute direct, unsecured and fully subordinated obligations of Observe Medical ASA, and rank at least pari passu with all other existing and future unsecured and subordinated obligations of Observe Medical ASA (other than in respect of any obligations preferred by mandatory provisions of applicable law), and rank ahead of all amounts payable in respect of the share capital.

The Facility A was made available to Observe Medical on the completion date of the demerger, while the Liquidity Facility is to be draw down until 1 August 2020. In 2019 an amount of amount of NOK 6 250 000 was drawn. Each loan given under the facilities accrue interest at a fixed interest rate of 8.00% per annum. Accrued interest shall on the last day of the three months' interest period be capitalized and added to the aggregate principal amount of the loans outstanding under the Loan Agreement.

Observe Medical ASA shall on the date falling 36 months after the date of the Loan Agreement repay to Navamedic ASA the aggregate amount of each loan then outstanding together will all accrued but unpaid interest. Observe Medical ASA may at any time prepay any loan outstanding in part or in full. Any amount repaid or prepaid may not be re-borrowed.

Additionally, Navamedic ASA has the right to, following the date falling 12 months after the completion date of the demerger, 31 October 2020, request that all, but not parts of, the loan outstanding is converted into Shares. Following the disbursement of a written notice to Observe Medical ASA by the Company informing about an exercise of the conversion right, Observe Medical has the optionality to either (1) accept the conversion right or (2) reject such conversion right by settling the loans in full in cash or settling parts of any loans in cash and the remainder through conversion.

The subscription price in a conversion shall be equal to the volume weighted average share price of Observe Medical ASA's shares on the Oslo Axess for the last ten days prior to the conversion date, but in no event be less than the nominal value of each share.

# Note 22 – Contingent outcomes and contingent consideration

There were no contingent liabilities as at 31 December 2019 and 2018, respectively. See notes 10 and 23 regarding contingent consideration to former owners of Observe Medical International AB for contingent consideration in 2018.

# Note 23 – Change in contingent consideration upon acquisitions

Change in contingent consideration of NOK 14,009,000 during 2018. The change was primarily a result of the probability of milestone payments and royalties in the purchase agreement having changed. In 2019, Observe Medical has been distributed to the owners of Navamedic, see note 25 Discontinued operations and assets and liabilities distributed.

# Note 24 – Leases

Total undiscounted future lease payments at 1 January 2019 has been discounted with an average discount rate of 4,6% to arrive to the lease liability of NOK 2,173,569.

**Right of use assets**

| | Motor vehicles | Land and buildings | Office equipment | Total |
|---|---|---|---|---|
| Balance at 01 January 2019 | 1 640 452 | 464 906 | 68 211 | **2 173 569** |
| Depreciations | -756 543 | -654 098 | -26 171 | **-1 436 812** |
| Additions | 506 401 | 917 513 | 0 | **1 423 914** |
| Adjustments | 92 034 | 0 | 0 | **92 034** |
| Termination | -293 962 | 0 | 0 | **-293 962** |
| Other changes (exchange rate) | -44 404 | -11 350 | -2 206 | **-57 960** |
| Balance at 31 December 2019 | 1 143 979 | 716 970 | 39 834 | **1 900 783** |

**Lease liabilities**

| **Maturity analysis - contractual undiscounted cash flows** | **2019** |
|---|---|
| First quarter | 340,183 |
| Second quarter | 249,448 |
| Third quarter | 273,428 |
| Fourth quarter | 273,428 |
| One to two years | 594,569 |
| Two to three years | 203,755 |
| Total undiscounted lease liabilities at 31 December | 1,934,810 |
| | |
| Lease liabilities included in the statement of financial position at 31 December | 1,930,915 |
| Current | 1,150,245 |
| Non-current | 780,670 |

In 2019, Navamedic group made lease payments totalling NOK 1.6 million, comprised of NOK 1.5 million of lease liability payments and NOK 0.1 million of interest.

**Amounts recognised in profit or loss**

| | 2019 |
|---|---|
| Interest on lease liabilities | 118,179 |
| Lease payments for short term leases and low value assets | 1,689,939 |

**Amounts recognised in the statement of cash flow**

| | 2019 |
|---|---|
| Total cash outflow for leases | 1,571,160 |

Lease payments for short term leases and low value assets.

# Note 25 – Discontinued operations and assets and liabilities distributed

As a result of the demerger completed on 31 October 2019, group external profit and loss items related to the demerged Medtech division, the Medtech operating segment, have been re-presented as "discontinued operations" for 2018 and 2019. The Medtech division is consolidated according to normal consolidation principles until distributed on 31 October 2019, where Navamedic Group internal income and expenses are eliminated. External income and expense items are re-presented to a net amount as results from discontinued operations which also includes a gain on distribution of NOK 53,2 million for 2019. The fair value of the Medtech division and its related assets and liabilities was calculated applying valuation techniques with significant assumptions about forecasted future cash flows and discount rates. The EBITDA from discontinued operations differs from the "stand alone" EBITDA amounts calculated for the Medtech division including business service cost and rental expense, as shown below. Details of the amounts for discontinued operations and the demerged assets and liabilities at 31 October 2019 are presented below.

**Profit and loss items discontinued operations** [1)]

| *(in NOK '1000)* | **2019** | **2018** |
|---|---|---|
| Operating revenues | 95 | 106 |
| Total operating costs incl. cost of materials | -7 662 | -6 994 |
| EBITDA | -7 566 | -6 888 |
| Depreciation, amortization, impairment | -2 140 | -3 901 |
| Operating result (EBIT) | -9 706 | -10 789 |
| Change fair value contingent consideration | -221 | 14 009 |
| Net other financial items | 917 | 309 |
| Net financial result | 695 | 14 318 |
| **Result before and after tax discontinued operations** [2)] | **-9 011** | **3 529** |
| Gain on distribution | 53 243 | 0 |
| **Result after tax of discontinued operations including gain on distribution** | **44 232** | **3 529** |

***Reconciliation of the EBITDA of the Medtech division 2) and 3)***

| *(in NOK '1000)* | 2019 | 2018 |
|---|---|---|
| *EBITDA discontinued operations 2)* | -7,566 | -6,888 |
| Business service costs and rental expense 3) | -1,890 | -935 |
| **EBITDA Medtech division up to the distribution at 31 October 2019** | **-9,456** | **-7,823** |

1) The amounts include Navamedic group external profit and loss items recognised in the separate financial statements of Observe Medical International AB (OMI AB) group and includes also amortization of Navamedic's excess values and contingent consideration related to the acquisition of OMI AB in 2015.

2) Navamedic group external EBITDA related to the demerged Medtech division have been re-presented as "discontinued operations" for 2018 and 2019. EBITDA from discontinued operations differs from the "stand alone" EBITDA for the Medtech division, because income and expenses between the Medtech division and the rest of the Navamedic group have not been re-presented as discontinued operations, see footnote 3).

3) Refer to footnote 2). The net expenses that the Medtech division has been charged from other Navamedic group companies are related to business service costs and office rental expense. The expenses are charged based on estimated consumption of services.

**Cash flow from discontinued operations 4)**

| *(in NOK '1000)* | 2019 | 2018 |
|---|---|---|
| Net cash flow from operating activities | -10 123 | -8 364 |
| Net cash flow from investing activities | -1 808 | -1 949 |
| Net cash flow from financing activities | 12 474 | 9 558 |
| Currency effects | -18 | -683 |
| **Net change in cash** | **526** | **-1 438** |
| Cash and cash equivalents beginning of period | 621 | 2 059 |
| **Cash and cash equivalents end of period** | **1 147** | **621** |

4) These cash flow figures include cash flows between the Medtech division and other Navamedic group companies, primarily financing cash flows related to net loans and group contributions from Navamedic AB, and some operating activities cash flow related to intercompany charges.

On distribution of the Medtech division at 31 October 2019, a reclassification adjustment NOK 1.855 million increased other comprehensive income and reduced the gain on distribution.

**Main items of assets and liabilities distributed at 31 October 2019**

On 31 October 2019 the shares in Observe Medical were distributed. The net assets comprised assets of NOK 58,2 million less liabilities of NOK 56,3 million including Navamedic group internal balances.

| *(in NOK '1000)* | |
|---|---|
| *External assets* | ***31 October 2019*** |
| Intangible assets | 22 886 |
| Operating equipment, fixtures, office machines, etc. | 371 |
| Goodwill | 30 639 |
| Inventories | 2 530 |
| Trade receivables and other receivables | 628 |
| Bank deposits | 1 147 |
| Total external assets | 58 201 |
| **Total assets** | **58 201** |
| *External liabilities* | |
| Contingent consideration | -14 034 |
| Trade account payables | -1 436 |
| Lease liabilities | -305 |
| Other current liabilities | -1 659 |
| Total external liabilities | -17 434 |
| *Internal liabilities* | |
| Payables to Navamedic group 5) | -38 834 |
| Total internal liabilities | -38 834 |
| **Total liabilities** | **-56 268** |

5) NOK 16 million of the loan from Navamedic group to the demerged Medtech division has been converted into shares in Observe Medical ASA at 31 October 2019. The remaining part of the internal loan, which after the demerger has been presented as an external loan to Observe Medical, is at 31 October 2019, a total of NOK 22,8 million.

# Note 26 – Acquisitions of Novicus Pharma AS

On 27 February 2019, Navamedic ASA completed the acquisition of Novicus Pharma AS, a Norway based pharmaceutical company focusing on Consumer Health products for the Norwegian and Nordic markets. The company was founded by the former management of Weifa ASA, and the founders have executive professional experience from the pharma-, OTC- and FMCG industries.The acquisition contributed to new products in Navamedic's product portfolio, increased volumes for Navamedic because of Novicus Pharma AS' logistics setup and a strengthening of the Navamedic team with Kathrine Gamborg Andreassen, Ole Henrik Eriksen and Astrid T. Bratvedt joining Navamedic as part of the transaction.

The Company issued 1 million shares as consideration shares to the shareholders of Novicus Pharma AS, constituting the purchase price for the acquisition.

The Consideration Shares will be subject to a lock up period of 24 months from closing, under which the sellers of Novicus cannot sell, pledge or otherwise transfer the Consideration Shares.

The acquisition of Novicus Pharma resulted in an increase Goodwill of NOK 12 426 674, see note 7 Intangible assets.

Acquisition related costs that are not related to the issue of Navamedic shares has been expensed with NOK 0.4 million in 2019.

# Note 27 – Subsequent events

On February 18, 2020, the company announced the intention to complete a private placement with gross proceeds of 50MNOK to fund future M&A activities, strategic investments and general corporate purposes. The private placement was successfully completed that same day. The transaction was divided into two tranches, the second of which required approval by the general meeting. On March 11th, an extraordinary general meeting was held. The second tranche was approved by the general meeting and it was subsequently executed. The EGM also approved the issuing of new shares as part compensation for the acquisition of a significant portfolio of antibiotics from ACS/Villerton. The shares will be issued at the time of signing the final agreement, however, at this point in time, only a term sheet agreement has been signed. At the time of the publication of this annual report, the decision to also perform a repair issue is yet to be decided.

Covid-19 situation. As of April 2020, we have not yet seen the end of, and therefore not yet the full extent of the covid-19 outbreak. However, the demand for Navamedic's products is not greatly affected by the covid-19 virus outbreak. We do not see a markable drop in the demand, nor do we foresee that this will be the case since our products are mostly medicinal products that the end users need regardless of external factors. If anything, we see an indication that the demand for some of our products is increasing, likely related to some safety stock initiatives at some of our customers. The company has nonetheless initiated its business continuity plan to secure all key areas of its operations. Special attention has been given to the upstream logistics, i.e. the supply side, to ensure we have delivery and stock of our key products for the foreseeable future. Although there are some challenges, we do not believe 2020 will be significantly affected by the covid-19 outbreak.

Since the reporting period that concluded on 31 December 2019 and until the date the annual financial statements were approved, no additional events have been identified requiring reporting.

# Parent Company Navamedic ASA, annual financial statements 2019

# Income statement

| | | Navamedic ASA 1 January - 31 December | |
|---|---|---|---|
| | Note | **2019** | **2018** |
| Operating revenue | 9, 12 | 32 390 691 | 24 465 176 |
| **Total revenue** | | **32 390 691** | **24 465 176** |
| Payroll expenses | 7 | 20 896 219 | 9 053 341 |
| Depreciation and impairment | 3 | 782 462 | 1 249 770 |
| Other operating expenses | 7, 10 | 19 666 169 | 12 800 217 |
| **Total operating expenses** | | **41 344 850** | **23 103 328** |
| **Operating result** | | **-8 954 159** | **1 361 848** |
| Financial income | 13 | 324 536 | 14 111 |
| Other financial income | 13 | 2 700 309 | 14 066 514 |
| Financial expenses | 13 | -2 384 292 | -114 734 |
| Other financial expenses | 13 | -1 622 133 | -687 240 |
| **Profit from financial items** | | **-981 580** | **13 278 651** |
| **Result before tax expense** | | **-9 935 739** | **14 640 500** |
| Tax expense | 6 | - | 1 749 042 |
| **Net result for the year** | | **-9 935 739** | **16 389 542** |
| **Total income is allocated to:** | | | |
| Other equity | 1 | 9 935 739 | -16 389 542 |

# Balance sheet

| | Note | Navamedic ASA 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Intangible assets** | | | |
| Intangible assets | 3 | 2 484 117 | 2 828 583 |
| Deferred tax asset | 6 | 9 168 341 | 9 168 341 |
| **Total intangible assets** | | 11 652 458 | 11 996 924 |
| **Tangible assets** | | | |
| Operating equipment, fixtures, office machines, etc. | 3 | 35 192 | 0 |
| **Total tangible assets** | | 35 192 | 0 |
| **Financial assets** | | | |
| Investments in group companies | 2 | 102 504 285 | 148 972 822 |
| Investments in associated companies | 2 | 16 000 000 | 0 |
| Loans to associated companies | | 25 564 934 | 0 |
| Total financial assets | | 144 069 219 | 148 972 822 |
| **Total fixed assets** | | **155 756 869** | **160 969 746** |
| **Current assets** | | | |
| **Debitors** | | | |
| Trade receivables | 4 | 482 036 | 82 676 |
| Other short-term loans group companies | 4 | 4 085 086 | 5 796 596 |
| Other receivables | 4 | 2 196 573 | 311 790 |
| **Total receivablles** | | 6 763 695 | 6 191 061 |
| Bank deposits | 5 | 1 727 622 | 1 410 231 |
| **Total current assets** | | **8 491 317** | **7 601 293** |
| **Total assets** | | **164 248 186** | **168 571 039** |

| | Note | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| | | | |
| **Equity** | | | |
| Share capital | 1,8 | 8 782 078 | 10 867 673 |
| Premium | 1 | 89 696 740 | 109 881 162 |
| **Total equity** | | **98 478 818** | **120 748 835** |
| | | | |
| Other equity | 1 | -10 817 394 | 10 397 691 |
| **Total other equity** | | **-10 817 394** | **10 397 691** |
| | | | |
| **Total equity** | 1 | **87 661 424** | **131 146 526** |
| | | | |
| **Liabilities** | | | |
| | | | |
| **Long term liabilities** | | | |
| Contingent consideration upon acquisitions | 14 | - | 12 177 000 |
| Loan to group companies | 4 | 46 424 536 | - |
| Non-current licensing liabilities | 15 | 8 154 302 | 10 477 053 |
| **Total long term liabilities** | | **54 578 838** | **22 654 053** |
| | | | |
| **Current liabilities** | | | |
| Trade account payables | 4 | 3 469 019 | 813 132 |
| Unpaid public dues | | 1 082 437 | 554 829 |
| Other short-term loans group companies | 4 | - | 4 769 195 |
| Current licensing liabilities | 15 | 8 830 718 | 6 358 510 |
| Other current liabilities | 4 | 8 625 750 | 2 274 793 |
| **Total current liabilities** | | **22 007 924** | **14 770 459** |
| | | | |
| **Total liabilities** | | **76 586 762** | **37 424 512** |
| | | | |
| **Total equity and liabilities** | | **164 248 186** | **168 571 039** |

Oslo, 30 April 2020

# The Board of Directors and CEO of Navamedic ASA

| | |
|---|---|
| **Terje Bakken (sign.)**<br>Chair of the Board | **Jostein Davidsen (sign.)**<br>Board Member |
| **Inger Johanne Solhaug (sign.)**<br>Board Member | **Narve Reiten (sign.)**<br>Board Member |
| **Cheng Lu (sign.)**<br>Board Member | **Kathrine Gamborg Andreassen (sign.)**<br>CEO |

# Statement of cash flows

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flow statement** | | | |
| **Cash flows from operating activities** | | | |
| Profit for the period before tax | | -9 935 739 | 14 640 500 |
| Depreciation and impairment | | 782 462 | 1 249 770 |
| Changes in provision for share options | | 879 768 | 134 214 |
| Interest and contingent consideration with no cash effect | | -137 595 | -13 482 721 |
| Change in trade receivables | | -399 360 | 413 420 |
| Change trade account payables | | 2 655 887 | 741 848 |
| Changes other current liabilities and receivables | | 5 143 239 | -614 107 |
| **Net cash used in operating activities** | | -1 011 338 | 3 082 924 |
| **Cash flows from investing activities** | | | |
| Acquisition of tangible- and intangible assets | | -473 188 | -27 631 |
| **Net cash used in investing activities** | | -473 188 | -27 631 |
| **Cash flows from financing activities** | | | |
| Net change loans to group companies | | 1 801 917 | -4 914 647 |
| **Net cash from financing activities** | | 1 801 917 | -4 914 647 |
| **Net increase in cash and cash equivalents** | | 317 391 | -1 859 355 |
| Cash and cash equivalents at 1 January | | 1 410 230 | 3 269 585 |
| **Cash and cash equivalents at 31 December** | | 1 727 622 | 1 410 230 |

# Explanatory notes to the annual financial statements

## Summary of significant accounting policies

The annual financial statements have been prepared in accordance with the Accounting Act and good accounting practice.

### Sales revenue

Revenue is measured at the fair value of the remuneration, net after deductions for discounts, returns, and VAT. Revenue is recognised through profit or loss when it can be reliably measured and it is likely that the financial benefits will flow to the company. Estimates related to revenue recognition are based on history and assessments of the type of customer and transaction, as well as the specific circumstances surrounding each transaction.

The company has an agreement on royalties from its subsidiary Navamedic AB. The company holds the rights to various products that are resold by the subsidiary and thereby earns royalties. The royalties are based on actual sales in Navamedic AB. The company also charges subsidiaries for services relating to sales management, marketing and regulatory management, as well as financial and accounting management.

### Subsidiaries

In Navamedic ASA's annual financial statements, subsidiaries are measured using the cost method less any impairment.

### Classification and measurement of balance sheet items

Current assets and current liabilities include balance sheet items that fall due for payment within one year of the balance sheet date and are associated with the with the daily business operations. Other items are classified as tangible and intangible fixed assets or non-current liabilities. Current assets are measured at the lower of acquisition cost and fair value. Current liabilities are recognised at nominal amount at the time of initial recognition. Fixed assets are measured at acquisition cost but are written down to fair value if the impairment is not expected to be temporary.  Non-current liabilities are initially recognised at nominal amount.

### Receivables

Trade receivables are recorded on the balance sheet at their nominal amount less deductions for provisions for expected losses. Provisions for expected losses are made on the basis of an individual assessment of each receivable

Other receivables are subject to a corresponding assessment.

### Currency

Monetary items in foreign currency are measured using the exchange rate at the end of the accounting year.

### Pension scheme

The company has a defined-contribution pension plan. The cost of the plan is recognised through profit or loss when the liability occurs.

### Financial risk management

For further information about financial risk management please refer to note 3 to the consolidated financial statements.

### Share-based remuneration

The company has the option of awarding share-based remuneration to some executive personnel. The total amount that must be recognised as an expense over the qualifying period is calculated on the basis of the fair value of the awarded options.

### Intangible assets

*Licences (product rights)*

Navamedic holds rights to market and sell products in defined geographical areas. The company holds product rights in the form of licences. Minimum liabilities in licensing agreements are capitalised as intangible assets and a financial liability.

*Marketing authorisations*

Navamedic ASA distributes a number of pharmaceuticals via suppliers in the Nordic countries, the Baltic States, the UK, Ireland, Greece and the Netherlands on behalf of the owner of the products.  As far as marketing authorisations in Navamedic ASA are concerned, this applies to generic pharmaceuticals and they are sold in Sweden and the Netherlands.

Investments linked to authorisations for marketing such products are recognised at acquisition cost and depreciated on a straight-line basis over their expected useful lifetime (normally five years). For products that are under registration, amortisation commences upon launch and they will thereafter be amortised over the remaining period of the agreement. The company has the following guidelines for capitalization.

- the authorisation can be used or sold
- the authorisation's means of generating probable future financial benefits can be demonstrated
- sufficient financial and other resources are available to start using or selling products
- the expenditures can be reliably measured

**Contingent liabilities**

Contingent liabilities are recognised if it is more than 50% likely that a settlement will be forthcoming. The value of the settlement is based on a best estimate. Contingent consideration linked to future settlement clauses in the Observe Medical acquisition is deemed to be an uncertain liability and not a conditional liability. The best estimate of the settlement amount is updated on each balance sheet date and the change is recognised through profit or loss.

**Use of estimates**

Preparing financial statements in accordance with good accounting practice requires the management team to produce estimates and assumptions that affect the recorded assets, liabilities, revenue and expenses, as well as explanatory notes concerning contingent assets and liabilities. The actual results may differ from these estimates and assumptions.

**Tax**

The parent company's tax expense for 2019 is calculated on the basis of 22% (23% for 2018). The tax expense in the income statement covers both the period's tax payable and the change in deferred tax. Deferred tax is calculated on the basis of the temporary differences that exist between accounting values and tax values, as well as the tax loss carried forward at the end of the accounting year. Tax increasing and tax reducing temporary differences that are reversed or may be reversed in the same period are offset and recorded net. The deferred tax asset is recorded after taking into account future revenue in the company. The tax rate for the deferred tax asset was 22% as at 31 December 2019 (22% as at 31 December 2018).

**Cash flow statement**

The cash flow statement is prepared using the indirect method.  Cash and cash equivalents consist of bank deposits.

# Note 1 – Equity

| | Share capital | Premium | Other equity | Total |
|---|---|---|---|---|
| **Equity as at 1 January 2018** | 10 867 673 | 109 881 162 | 10 397 690 | 131 146 526 |
| New equity | 1 000 000 | 11 141 179 | | 12 141 179 |
| Demerge | -3 085 595 | -31 684 422 | -11 800 293 | -46 570 310 |
| Options | | | 879 768 | 879 768 |
| Net result for the year | | | -9 935 739 | -9 935 739 |
| **Equity as at 31 December 2018** | **8 782 078** | **89 337 919** | **-10 458 574** | **87 661 424** |

# Note 2 – Shares

| Company | Acquired | Ownership / voting rights |
|---|---|---|
| Navamedic AS - Denmark | 25.09.13 | 100 % |
| Navamedic AB - Sweden | 04.10.07 | 100 % |
| Novicus Pharma AS - Norway | 27.02.19 | 100 % |

| | Book value |
|---|---|
| Navamedic AS | 540 050 |
| Novicus Pharma AS | 12 500 000 |
| Navamedic AB | 89 464 235 |
| Totalt investment in subsidaries | 102 504 286 |

There has been a demerger of Observe Medical on November 1, 2019. See note 25 in consolidated financial statement.

# Note 3 – Intangible assets and tangible assets

| | Tangible assets | Licences | Patent / Marketing authorisations | Sum |
|---|---|---|---|---|
| **Financial year 2018** | | | | |
| Acquisition cost at 1 Jan 2018 | 83 277 | 16 939 245 | 17 093 756 | 34 116 278 |
| Year's additions | - | - | 27 631 | 27 631 |
| Acquisition cost at 31 Dec 2018 | 83 277 | 16 939 245 | 17 121 387 | 34 143 909 |
| Accumulated amortisation pr 01.01 | -83 277 | -14 005 406 | -15 976 873 | -30 065 556 |
| Year's depreciation and amortisation | - | -483 346 | -766 424 | -1 249 770 |
| Accumulated amortisation pr 31.12 | -83 277 | -14 488 752 | -16 743 297 | -31 315 326 |
| **Balance at 31 Dec 2018** | **-** | **2 450 493** | **378 090** | **2 828 583** |
| | | | | |
| **Financial year 2019** | | | | |
| Acquisition cost at 1 Jan 2019 | 83 277 | 16 939 245 | 17 121 387 | 34 143 909 |
| Year's additions | 52 788 | - | - | 52 788 |
| Acquisition cost at 31 Dec 2019 | 136 065 | 16 939 245 | 17 121 387 | 34 196 697 |
| Accumulated amortisation pr 01.01 | -83 277 | -14 488 752 | -16 743 297 | -31 315 326 |
| Year's depreciation and amortisation | -17 596 | -483 346 | -281 520 | -782 462 |
| Accumulated amortisation pr 31.12 | -100 873 | -14 972 098 | -17 024 817 | -32 097 788 |
| **Balance at 31 Dec 2019** | **35 192** | **1 967 147** | **96 570** | **2 098 909** |
| | | | | |
| **Depreciation period** | **3 years** | **10 years** | **5 years** | |

The company has capitalized R&D costs of NOK 420,400 which have not been amortized in 2019. Annual office rent that is treated as operational lease is NOK 657 thousand. The rental end date is 3 months running.

# Note 4 – Receivables, liabilities and intra-group balances

| | 2019 | 2018 |
|---|---|---|
| Debts to companies in the same group | 46 424 536 | 4 769 195 |
| Total | 46 424 536 | 4 769 195 |

Loans between group companies interest-rate equivalent to 7% annual interest rate.

In 2018 and 2019 the companies have transactions related to invoicing of administrative costs, royalties and interest on loans. See note 13.

**Short-term receivables consist of:**

| | 2019 | 2018 |
|---|---|---|
| VAT etc | 1 222 152 | 93 567 |
| Trade receivables | 482 036 | 82 676 |
| Loan group companies | 4 085 086 | 5 796 596 |
| Other receivables | 974 421 | 216 205 |
| Total | 6 763 695 | 6 191 062 |

**Short-term liabilities consist of:**

| | 2019 | 2018 |
|---|---|---|
| Accrued holiday expenses | 1 192 655 | 634 580 |
| Provision for accrued costs, public dues etc | 7 433 095 | 1 640 212 |
| Total | 8 625 750 | 2 274 793 |

**Accounts payable:**

| | 2019 | 2018 |
|---|---|---|
| Accounts payable | 3 469 019 | 813 132 |
| Total | 3 469 019 | 813 132 |

# Note 5 – Bank deposits, overdrafts, etc.

Of the parent company's means of payment as at 31 December 2019, NOK 745,812 (NOK 375,789 as at 31 December 2018) was restricted tax withholdings for employees.

Bank deposits consist of:

| | 2019 | 2018 |
|---|---|---|
| Bank deposits | 1 727 622 | 1 410 231 |
| Total | 1 727 622 | 1 410 231 |

# Note 6 – Income Tax

**Total tax expenses is divided into;**

| | 2019 | 2018 |
|---|---|---|
| Changes in deferred tax assets | 0 | -1 749 043 |
| Total taxes | 0 | -1 749 043 |

**Calculation of this year's tax base;**

| | 2019 | 2018 |
|---|---|---|
| Net result for the year | -9 935 739 | 14 640 500 |
| Permanent differences | 39 421 | -16 086 577 |
| Changes in temporary differences | 2 436 284 | 3 448 648 |
| Tax losses carried forward | 0 | -2 002 571 |
| **This year's tax base** | -7 460 034 | 0 |
| Tax payable, 22% | - | - |

| | 2019 | 2018 |
|---|---|---|
| Intangible assets | 245 716 | 298 463 |
| Outstanding receivables | 0 | -381 727 |
| Provisions for liabilities | -19 185 020 | -16 835 563 |
| Tax losses carried forward | -32 215 488 | -24 755 454 |
| **Total temporary differences** | -51 154 792 | -41 674 281 |
| Capitalised deferred tax asset (22% / 22%) | -11 254 054 | -9 168 341 |
| Deferred tax that are not capitalised | 2 085 713 | - |
| **Deferred tax asset** | -9 168 341 | -9 168 341 |

The deferred tax asset is NOK 9,168,341, as the parent company expects to be able to utilize this tax asset in the future.

**Explanation of why this year's tax expense does not constitute 22% of profit before tax:**

| | 2019 | 2018 |
|---|---|---|
| Tax on result for the year | -2 185 863 | 3 367 315 |
| Permanent differences | 8 673 | -3 699 913 |
| Effect deferred tax that are not capitalised | 2 177 189 | -1 833 187 |
| Effect on deferred tax due to changes in tax rate | 0 | 416 743 |
| **Calculated tax** | **0** | **-1 749 042** |

# Note 7 –Employee benefits

The Managing Director and Board of Navamedic ASA correspond to the CEO and the corporate Executive committee. Information about remuneration for the board and executive personnel can be found in note 15 to the consolidated financial statements.

| | 2019 | 2018 |
|---|---|---|
| Salaries | 11 136 474 | 6 890 090 |
| Remuneration of board members | 997 282 | 1 330 000 |
| Employer's Nantional insurance contributions | 1 896 585 | 1 070 787 |
| Pension expenses | 423 244 | 212 345 |
| Other payroll expenses* | 6 442 634 | -449 881 |
| Total | 20 896 219 | 9 053 341 |
| | | |
| Number of FTEs | 10 | 9 |

* includes provisions for future salary obligations, NOK 4 969 799

The company is obliged to have an occupational pension scheme for the company's employees.
The company has established an occupational pension scheme that satisfies the requirements of the law.
The scheme comprises 10 employees and an annual premium is expensed with NOK 423 244.

Remuneration for auditor specified as follows:

| | 2019 | 2018 |
|---|---|---|
| Statutory audit | 1 048 000 | 465 000 |
| Tax advice | 105 000 | 225 000 |
| Attestation services | 173 000 | 6 000 |
| Other assurance services | 84 000 | 260 000 |
| Due Dilligence | 2 924 000 | 1 426 000 |
| Total | 4 334 000 | 2 382 000 |

# Note 8 – Share capital and shareholder information

| **The share capital consists of:** | Quantity | Nomial | Book value |
|---|---|---|---|
| Share capital | 11 867 673 | 0.74 | 8 782 078 |

Overview of the largest shareholders as of 31.12.2019 and shares owned by the Board of Directors and senior executives in Navamedic ASA see note 11 in the consolidated financial statements.

# Note 9 – Sales revenue

**Geographical distribution:**

| | 2019 | 2018 |
|---|---|---|
| Nordic countries | 32 390 691 | 24 465 176 |
| Other EU/EØS | - | - |
| Total operating income | 32 390 691 | 24 465 176 |

# Note 10 – Other operating expenses

**Other operating expenses consist of:**

| | 2019 | 2018 |
|---|---|---|
| Rent, etc. | 799 048 | 564 942 |
| Misc. rent/maintenance, etc. | 347 056 | 327 147 |
| Misc. fees | 12 990 756 | 7 913 546 |
| Travel expenses | 1 664 249 | 523 986 |
| Insurance | 436 963 | 321 027 |
| Oslo Stock Exchange | 236 540 | 202 095 |
| Regulatory | 532 527 | 943 000 |
| Other expenses | 2 659 030 | 1 622 474 |
| Losses on claims | - | 382 000 |
| Total other operating expenses | 19 666 169 | 12 800 217 |

# Note 11 – Claims and contingent liabilities

Navamedic ASA is not a party to any ongoing legal proceedings or disputes.

# Note 12 – Transactions with related parties

The following internal transactions between the parent company and subsidiaries took place in the accounting year (figures in NOK thousands):

| Company: | Transaction: | Nature: | 2019 | 2018 |
|---|---|---|---|---|
| Navamedic ASA | Sales from parent to subsidiary | Royalty | 2 770 | 2 989 |
| Navamedic ASA | Sales from parent to subsidiary | Service fee | 29 270 | 19 499 |
| Navamedic ASA | Cost reduction from parent to | Adm.expenses | 55 | 2 178 |
| Navamedic AB | | Interest | 507 | 113 |

The company Infirma AS, where board member Johan Reinsli was a board member and co-owner, and former chair of the board Kathrine Gamborg Andreassen was a hired consultant, sold services to Navamedic for NOK 1,162,776. The services were priced on market terms.

# Note 13 – Financial items

(all figures in 1000)

| Financial income | 2019 | 2018 |
|---|---|---|
| Interest income – financial institutions | 325 | 14 |
| Changes contingent consideration | 1 635 | 14 009 |
| Foreign exchange gains | 1 065 | 58 |
| Total financial income | 3 025 | 14 081 |

| Financial expenses | 2018 | 2018 |
|---|---|---|
| IC interest expenses | 507 | 113 |
| Interest expenses | 20 | - |
| Other financial expenses | 2 916 | 526 |
| Foreign exchange losses | 563 | 163 |
| Total financial expenses | 4 006 | 802 |

# Note 14 – Contingent consideration upon acquisitions

On 3 August 2015, Navamedic ASA signed an agreement concerning the acquisition of all of the shares and votes in Observe Medical International AB (OM). The purchase price was NOK 35 million in the form of cash (NOK 25 million) and the issuance of shares (888,100 shares with a combined fair value on the date of acquisition of NOK 10 million). An extra payment (contingent consideration) dependent on the results in the coming years was also agreed. The contingent consideration was valued at NOK 25.6 million on the date of acquisition, which means that the value of the remuneration on the date of acquisition was NOK 60.6 million. The fair value of the contingent consideration involves discounting expected future payments. Discounting is carried out based on the same discount rate (18.3%) used for the identified intangible assets.

In 2018, changes in the fair value of the future liability were recognised through profit or loss, which included calculated interest associated with the conditional consideration. Expected payments to former owners were adjusted downwards, which reduces the total liability by NOK 14.0 million. The change was primarily a result of the probability of milestone payments and royalties in the purchase agreement having changed.

After the demerger of Observe Medical the liability to former owners in Navamedic ASA is NOK 0 million.

# Note 15 – Other financial liabilities

Licensing agreements have been capitalised that give Navamedic exclusive rights to market a number of products within a defined geographical area for a number of years. The carrying value of intangible asset associated with these agreements can be found in note 3.

# Note 16 – Subsequent events

Subsequent to the year end, the company successfully completed a Private placement of NOK 50 million. The process was divided into two tranches, the second tranche required approval from the General Assembly. An extraordinary General Assembly meeting was held on March 11$^{th}$ and the second tranche was approved.

Also, subsequent to the year end the outbreak of the Covid-19 virus has happened. The pandemic has at the time of this document only had limited effect on the company. The demand for the company's products is fairly stable and is not expected to drop significantly. The customers using most of the company's products are using them because they need to take them for health reasons and cannot easily stop using them.

# Statement from the board and CEO

The board and CEO have on this date considered and approved the director's report and financial statements for the Navamedic Group and its parent company Navamedic ASA for 2019. The board has based this statement on reports and statements from the chair of the board and CEO, the results of the group's operations and on other information that is material in assessing the group's position and was provided to the board of the parent company. To the best of our knowledge, confirm:

That the consolidated financial statements for 2019 have been prepared in compliance with the IFRS as established by the EU, with the requirements for additional disclosures stipulated in the Norwegian Accounting Act.

That the annual financial statements for the parent company for 2019 have been prepared in compliance with the Accounting Act and with good accounting practice in Norway.

The information in the financial statements provides a true and fair representation of the assets, liabilities, results and overall financial positions of the Navamedic Group and Navamedic ASA as at 31 December 2019.

That the director's 2019 report provides a true and fair overview of the performance, operating results and financial positions of the group and the company, as well as the key factors regarding risk and uncertainty currently facing the group and the company.

Oslo, 30 April 2020

## The Board of Directors and CEO of Navamedic ASA

**Terje Bakken (sign.)**
Chair of the Board

**Jostein Davidsen (sign.)**
Board Member

**Inger Johanne Solhaug (sign.)**
Board Member

**Narve Reiten (sign.)**
Board Member

**Cheng Lu (sign.)**
Board Member

**Kathrine Gamborg Andreassen (sign.)**
CEO

# Auditor's report

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Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the Annual General Meeting of Navamedic ASA

## Independent auditor's report

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Navamedic ASA. The financial statements comprise:

- The financial statements of the parent company Navamedic ASA (the Company), which comprise the balance sheet as at 31 December 2019, and the income statement and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Navamedic ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2019, and statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

#### Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

*Navamedic ASA*

*Auditor's report 2019*

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Accounting treatment, presentation and disclosure of discontinued operations*
Reference is made to Note 4, Note 5 and Note 25

| *The key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| The former Medtech division was demerged from Navamedic ASA as per 31 October 2019. As a consequence the operations was deconsolidated at the same date.<br><br>To form the basis for the calculated gain in the transaction, management estimated the fair value of the demerged assets and liabilities with assistance from external valuation specialists. The estimation of the fair value involved significant judgement with regards to assumptions about forecasted future cash flows, their timing and discount rates. There are inherent uncertainties involved in management's assumptions. The recognized gain upon distribution is NOK 53.2 million.<br><br>The Medtech business segment is presented and reported as discontinued operations in the consolidated financial statements, as a result of the demerger. The profit after tax recognized during the year from discontinued operation is NOK 44.2 million.<br><br>Due to the significant judgement involved in calculating the gain from the demerger of the Medtech business segment, and the consequential substantial changes in the financial statements we considered this issue to be a key audit matter. | Our audit procedures to assess the accounting gain on distribution of the Medtech business segment included:<br>• We read the demerger agreements supporting the distribution transaction and examined the rights and obligations of Navamedic in the transaction.<br><br>• We used KPMG valuation specialists to assess the mathematical and methodical integrity of the valuation models and to assess the reasonableness of the method and assumptions applied in the management determined WACC (Weighted Average Cost of Capital).<br><br>• We evaluated the competence and independence of the external valuation specialists engaged by management.<br><br>• We assessed the valuation of the distributed business and related assets and liabilities through challenging management's cash flow forecast assumptions about future sales and sales margins, through comparison with the board approved budgets and forecasts.<br><br>• We recalculated the gain in the transaction, the presentation of the net results for the discontinued operations and the restatement of the comparative numbers.<br><br>• We evaluated the adequacy of the disclosure requirements against the requirements of IFRS 5. |

*Assessment of the carrying value of goodwill*
Reference is made to Note 2.6, Note 4 and Note 7

| *The key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| The book value of goodwill amounts to NOK 59.5 million.<br><br>Management performs impairment assessments of recognized goodwill with assistance from external valuation specialists. To determine if any impairment loss should be recognized, management compares the carrying value of the relevant identifiable cash-generating unit ("CGU") to which goodwill has been allocated, with the value in use based on estimated discounted cash flow forecasts. | Our audit procedures to assess the recoverability of book value of goodwill included:<br><br>• We assessed management's identification of appropriate level of CGU.<br><br>• We used KPMG valuation specialists to assess the mathematical and methodical integrity of the valuation models used and to assess the reasonableness of the method and assumptions |

| | |
|---|---|
| There is an inherent uncertainty of whether future cash flows will support the carrying value of goodwill. Management applies judgement when determining the key assumptions in the impairment test, such as:<br>• future sales and sales margins<br>• growth rates, and<br>• discount rates.<br><br>Due to the size and risk of non-recoverability, goodwill impairment is considered a key audit matter. | applied by management for determining discount rates.<br>• We evaluated the competence and independence of the external valuation specialists engaged by management.<br>• We evaluated and challenged management's cash flow forecast assumptions, including assumptions about growth rates used in their calculation of value in use through comparing the board approved budgets and forecasts of future sales and sales margins.<br>• We compared the 2019 cashflow forecasts prepared for the purpose of impairment assessment with the actual performance of the businesses for 2019 to assess the accuracy of the cash flow forecasts historically and evaluated any significant variations.<br>• We assessed the impact of possible changes in the key assumptions applied in the valuation model, in order to challenge the conclusions reached in the impairment assessment. |

*Assessment of the recoverability of deferred tax assets*
Reference is made to Note 2.12, Note 4 and Note 13

| *The key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| The value of deferred tax assets from tax positions within the tax jurisdiction of Norway is depending on future profits generated from royalties on distribution rights and charge outs of business service costs from Navamedic ASA to its subsidiaries, primarily Navamedic International AB in Sweden.<br><br>The recognized value of deferred tax assets is primarily related to carry forward net operating losses for tax purposes and long term provisions.<br><br>Recoverability of deferred tax assets is assessed based on estimates of future taxable profits and are judgmental in nature.<br><br>As of 31 December 2019, the Group has recognized NOK 9.2 million in deferred tax assets. | Our audit procedures to assess the recognized deferred tax assets within the tax jurisdiction of Norway included:<br>• Comparing the royalties earned from historical sales of pharmaceutical products through the Navamedic subsidiaries and revenue from internal charge out of business services costs to forecasted future revenues in the company's assessment.<br>• Evaluated management's assessment by comparing the forecasted future revenue and taxable profits to budgets approved by the board of directors.<br>• Recalculated and challenged management's assumptions on the level of expected future taxable profits by reference to the requirements under IAS 12. |

## Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of our report on Other Legal and Regulatory Requirements below.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, 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 Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment 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. We 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 Company's or the Group'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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group'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 Company and the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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 the Board of Directors 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.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

### Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 30. April 2020
KPMG AS

Thomas Sørhaug

John Thomas Sørhaug
*State Authorised Public Accountant*

# Alternative performance measures (APMs)

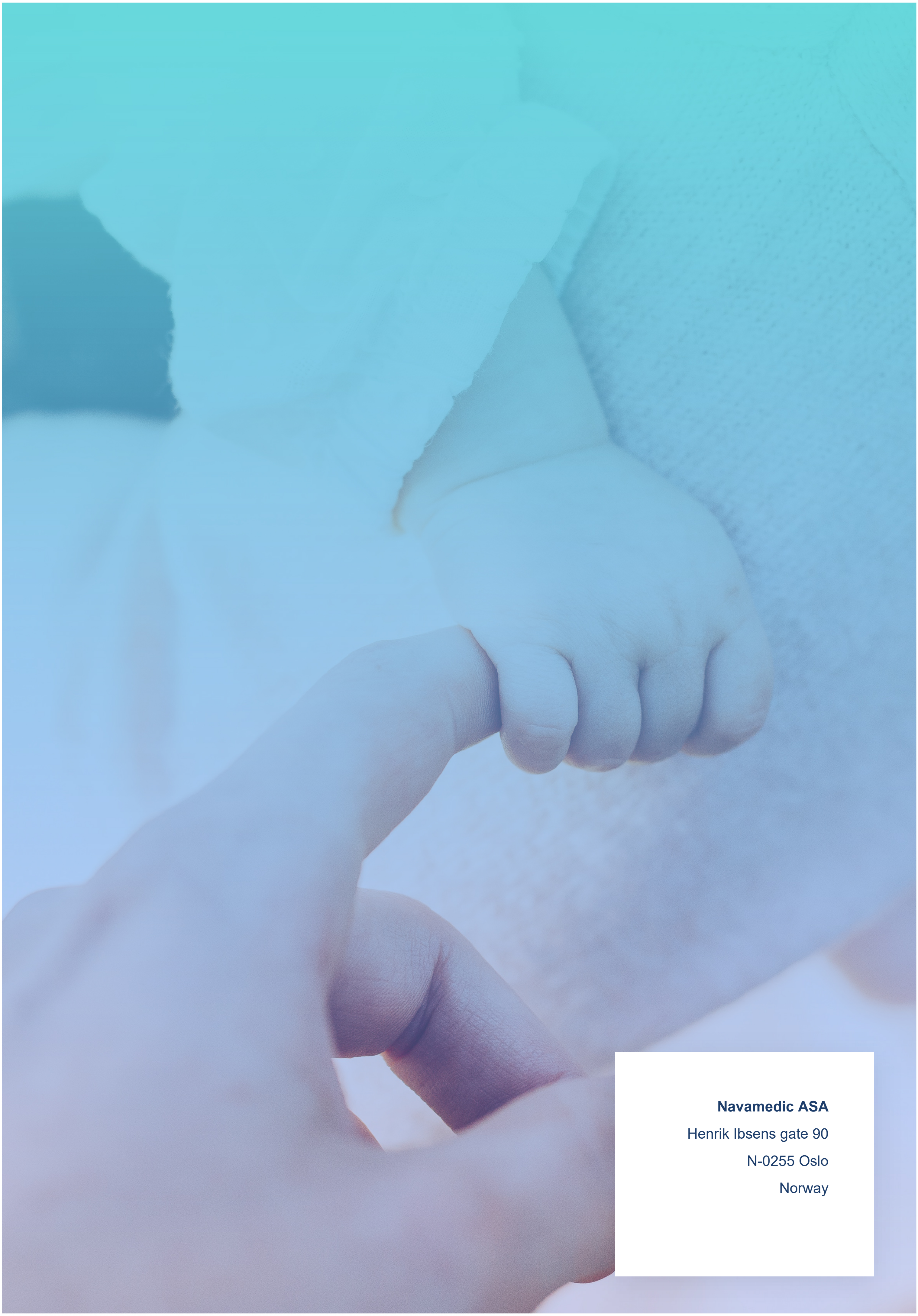
EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is equal to the operating result before depreciation and is an alternative performance measure used in this report.

Gross profit is equal to operating revenues minus cost of materials and is another alternative performance measure used in this report. Gross margin is gross profit as a percentage of operating revenue.

EBITDA margin is EBITDA as a percentage of operating revenue.

Adjusted EBITDA is EBITDA adjusted for costs relating to strategic projects.

Equity ratio is the total equity as a percentage of total assets.

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