



Quarterly report

3rd Quarter 2014



Highlights

- Focused strategy proves successful
 - 60 per cent sales growth in Q3
 - EBITDA margin 7.2% in the quarter
- Expanded Aspen portfolio drives growth
 - 12 new products added to portfolio YTD

Key figures

| (NOK mill) | Q3 2014 | Q3 2013 | YTD 2014 | YTD 2013 |
|-----------------------|---------|---------|----------|----------|
| Operating revenues | 58.8 | 36.7 | 161.1 | 108.9 |
| Gross profit | 13.2 | 11.0 | 39.4 | 34.4 |
| EBITDA | 4.2 | 0.8 | 9.2 | 5.1 |
| Earnings before taxes | 1.9 | -1.5 | 2.3 | -0.7 |
| Net profit | 1.5 | -0.9 | 1.9 | 0.0 |
| Gross margin (%) | 22.5 | 30.1 | 24.5 | 31.6 |
| EBITDA margin (%) | 7.2 | 2.2 | 5.7 | 4.7 |

2013 results included MNOK 2.6 in non-recurring, other revenues

Financial results

Navamedic's strong sales growth continued in the third quarter, and the Company presented its best quarterly financial result ever.

An expanded product portfolio allowed the Company to benefit even further from economies of scale. Also, successful price increases during the quarter and renegotiated purchasing terms contributed to the positive development.

Navamedic launched a revised corporate strategy in the second quarter, and is now actively pursuing products with attractive margin potentials within a smaller number of strategic product groups.

Revenues in the third quarter were NOK 58.8 million, compared to NOK 36.7 million in the third quarter of 2013. For the first nine months of 2014, revenues were NOK 161.1 million, up from NOK 108.9 million in the first nine months of last year.

Navamedic's gross margin was 22.5 per cent in the third quarter 2014, compared to 30.1 per cent in the corresponding quarter last year. The gross margin for the first nine months was 24.5 per cent, against 31.6 per cent last year.

Operating costs were NOK 9.0 million in the third quarter, compared to NOK 10.2 million in the same period of 2013. This represents an 11 per cent reduction in operating costs, while sales in the same period grew by 60 per cent, demonstrating the economies of scale benefits now available.

EBITDA for the third quarter 2014 came in at NOK 4.2 million, compared to NOK 0.8 million in the same period last year. The result represents EBITDA margin of 7.2 per cent in the quarter, compared to 2.2 per cent in the same period last year. The margin has improved also from the previous quarter, when it ended at 5.1 per cent.

Also for the first nine months Navamedic's operating costs were reduced compared to last year. EBITDA for the first nine months were NOK 9.2 million, up from last year's NOK 5.1 million (which included NOK 2.6 million of non-recurring revenues).

The Company's net result for the third quarter 2014 came in at NOK 1.5 million, compared to negative NOK 0.9 million in the same period last year.

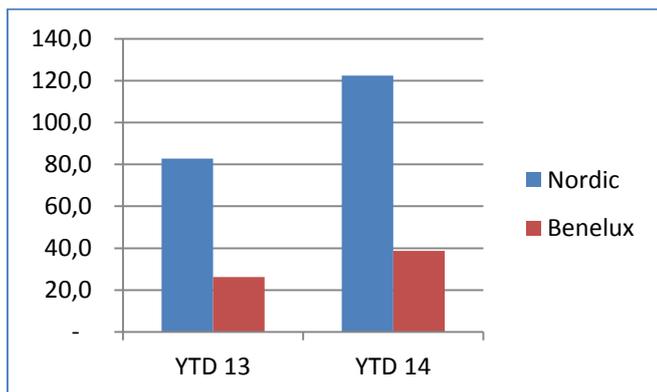
The net profit for the first nine months was NOK 1.9 million, against NOK 0.0 million last year (which included NOK 2.6 million of non-recurring revenues).

Cash flow from operations was negative in the third quarter, significantly affected by downpayments to suppliers and inventory increases caused by the expanded product portfolio. The cash flow from operations was negative NOK 11.8 million (negative NOK 7.2 million) in the third quarter.

Navamedic's cash holdings were NOK 6.0 million (NOK 4.4 million) at the end of the quarter. NOK 29.1 of the Group's credit facilities were utilized at the end of the quarter, leaving the Group's net borrowings at NOK 23.1 million (NOK 11.9 million).

The Nordic markets represented 76 per cent of Navamedic's revenues in the third quarter 2014, while the remaining 24 per cent of the revenues were in the Benelux markets. Sweden remains Navamedic's single most important market. The sales development in Finland has been positive over recent months, and Finland sales are currently at the same level as sales in Norway and Denmark.

Revenues from the Benelux region has increased, partly caused by price increases. This has also had a positive effect on profitability in Benelux. However, Navamedic's main priority remains the further development of its Nordic business, where margins in general are more attractive.



Sales distribution; Nordic and Benelux, year to date

| | 2013 | 2014 |
|--------------|----------------|----------------|
| Scandinavia | 82 674 | 122 417 |
| Benelux | 26 177 | 38 708 |
| Total | 108 851 | 161 125 |

Operational update

Navamedic's cooperation with its main supplier Aspen was extended and expanded in the second quarter. The third quarter demonstrated the benefits of the cooperation in terms of increased sales and improved profitability. The margins in the Aspen portfolio is low and the company will strive to improve the margins going forward.

The product portfolio was further expanded in the third quarter, including the launch of Aspen's drug Arixtra, which is primarily used by hospitals to prevent blood from clotting during and after heart and coronary artery surgery. The market potential for the product in the Nordic markets is estimated to EUR 1 million.

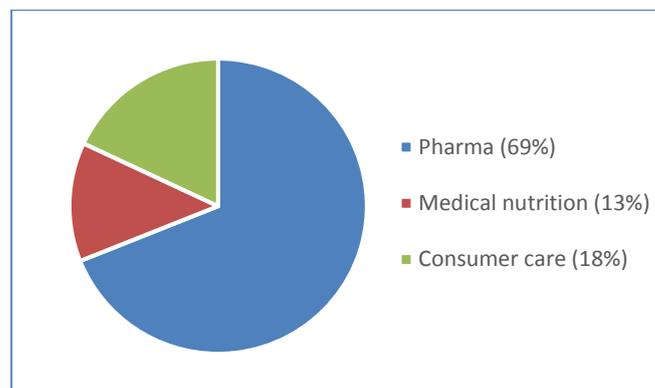
In collaboration with Aspen, Navamedic intensified the marketing of its single largest product Ovesterin in the third quarter. The Company believes that the product has a larger market potential than reflected in current sales.

In the first nine month of 2014 a total of 12 new products have been included in Navamedic's product portfolio, which now includes more than 110 pharmaceutical and health care products.

All of Navamedic's segments performed well in the third quarter and saw sales growth as well as improved profitability.

Pharma remains the Company's largest segment, while the Consumer care segment grew as a result of the new Aspen/MSD products acquired in the second quarter.

Navamedic has defined five strategic product groups and these have performed according to expectations in the third quarter. In particular, the female care product group showed excellent performance in the quarter.



Revenues by segment, year to date 2014

| | |
|-------------------|------------|
| Medical Nutrition | 21 |
| Consumer Care | 29 |
| Pharma | 111 |
| Total | 161 |

Pharma

The pharma portfolio holds a variety of products and has been Navamedic's main growth area over the last few years. The portfolio includes generic, branded and patented pharmaceuticals as well as medical devices. The products are sold to hospitals, through pharmacies and directly to medical professionals. The business segment is exposed to a variety of purchasing regimes, where the market conditions are subject to various product category business practices and different national regulations.

Generic pharmaceuticals of various categories have since 2011 been an important part of Navamedic's pharma portfolio.

The generics market has changed significantly over a short period of time, and the Company has therefore revised its previous strategy. Going forward, only generic pharmaceuticals found attractive by the Company under current market conditions will be included in the portfolio.

The Pharma business segment had revenues of NOK 40.1 million in the third quarter 2014, compared to NOK 27.5 million in the same period of 2013, a growth of 46 per cent. EBITDA for the quarter reached NOK 1.7 million, which is an increase from last year's EBITDA of NOK 0.2 million. The pharma segment's EBITDA margin for the third quarter 2014 was 4.3 per cent.

| <i>NOK million</i> | <i>Revenues Q3 14</i> | <i>Revenues Q3 13</i> | <i>Q3 14 EBITDA</i> | <i>Q3 13 EBITDA</i> |
|--------------------|-----------------------|-----------------------|---------------------|---------------------|
| Pharma | 40.0 | 27.5 | 1.7 | 0.2 |
| Medical nutrition | 6.5 | 5.8 | 1.2 | 0.4 |
| Consumer care | 12.3 | 3.4 | 1.3 | 0.1 |
| Total | 58.8 | 36.7 | 4.2 | 0.8 |

Medical nutrition

The Medical nutrition business segment consists of products for the treatment of inborn errors of metabolism (IEM). It includes the distribution agreement with Vitaflo International (a subsidiary of Nestlé) for the Nordic region. The agreement was extended for another five year period in 2013.

The Company has introduced a product for patients suffering from of epilepsy. The ketogenic diet is a high-fat, adequate-protein, low-carbohydrate diet that in medicine is used primarily to treat difficult-to-control (refractory) epilepsy in children.

Medical nutrition saw a sales growth in the third quarter 2014 compared to the same quarter last year. The business segment had revenues of NOK 6.5 million in the third quarter, compared to NOK 5.8 million in the corresponding quarter of 2013. EBITDA for the third quarter was NOK 1.2 million, compared to 0.4 million in the same quarter the previous year. The Medical nutrition business segment had an EBITDA margin of 18.9 per cent in the third quarter 2014.

Consumer care

The Consumer care product portfolio includes a variety of non-prescription drugs and health care products, mainly sold through pharmacies and drugstores. The portfolio includes both Navamedic owned and in-licensed brands. Future sales are secured through pharmacy chain agreements in the four largest Nordic countries.

Ovesterin (topical estrogen therapy products) from the new Aspen-portfolio contributed significantly to the sales increase in the quarter. Ovesterin represents annual sales of more than NOK 30 million in the Nordic markets. The success of this product has also opened new possibilities with the pharmacy chains.

The expanded joint marketing of Ovesterin in the Nordic region reflects the strong partnership between the two companies.

Revenues for the business segment in the third quarter were NOK 12.3 million, compared to NOK 3.4 million in the third quarter of 2013. EBITDA was NOK 1.3 million, compared to NOK 0.1 million in the third quarter of 2013. The EBITDA margin for the Consumer Care segment was 10.6 per cent in the third quarter 2014.

Financial situation

Navamedic enjoys a solid equity position and has no interest bearing long term debt.

The strong sales growth in the quarter was partly caused by the introduction of new Aspen product, which necessitated an increase in inventory. While sales in the quarter grew by 60 per cent, inventory increased by 44 per cent. At the end of the third quarter, inventory stood at NOK 65.8 million compared to 45.6 million in the same quarter in 2013.

The Company's short term receivables were higher at the end of the third quarter 2014 than in 2013, reflecting the general increase in sales. Navamedic's cash at hand was NOK 6.0 million.

Following increased sales volumes, Navamedic's short term debt grew, totalling NOK 97.1 million at the end of the third quarter. The short term debt included NOK 29.1 million in bank debt compared to NOK 16.3 million in the same quarter in 2013.

The long term debt shown in the balance sheet is entirely deferred taxes.

Navamedic's total assets have increased from NOK 184.8 million last year to NOK 206.2 at the end of the third quarter 2014. The Company's equity ratio at the end of the third quarter was 50 per cent (57 per cent).

Strategy

The Board of Directors has conducted a thorough strategy review in 2014, and has concluded a revised strategy for the Company.

The rapid market changes and the strong price pressure in the generic pharmaceutical market have caused the Board to revisit the Company's generics strategy. The Board's conclusion is that the dynamics of this market has changed fundamentally over a short period of time, and that a pure generics strategy no longer is attractive for Navamedic. Going forward, generic pharmaceuticals will be included in the Company's portfolio alongside other products only when found attractive.

Navamedic's strategy going forward is aimed at improving profitability through sales growth leveraging existing sales capabilities.

The strategy contains three main elements:

1. Develop Navamedic into a more focused company going forward. This means that fewer product groups will receive priority, and that only the Nordic region is defined as the Company's core market.
2. Highly selective approach to portfolio expansion. New products added will mainly be within strategic product groups which offer attractive margins and where Navamedic has competitive advantages. The strategic product groups are
 - Female care
 - Urology
 - Dermatology
 - Oral medicine
 - Medical nutrition
3. An active growth strategy, where growth will be secured through expanding the product portfolio and the network of manufacturing partners, while also secure owned products through acquisitions.

Outlook

Navamedic expects a continued sales growth in the next quarters, both organically and through the addition of new products.

Navamedic expects profitability also in the fourth quarter.

Inventories will decrease slightly going forward even with increasing sales throughout Q4.

The Company will benefit further from economies of scale offered by Navamedic's business model in its product expansion. Navamedic is now in a position to focus on products with attractive margins. The Company's operating costs are expected to remain moderate.

The Company is also actively evaluating possible candidates for the acquisition of owned products. However, the Company will use the time necessary to identify and evaluate optimal candidates. With the established 30 % share issue proxy granted by the last Annual General Meeting, Navamedic is prepared to move swiftly when the right opportunity is identified.

Consolidated Income Statement

| <i>(In NOK '000)</i> | Q3 2014 | Q3 2013 | YTD 2014 | YTD 2013 |
|--------------------------------------|--------------------|--------------------|---------------------|---------------------|
| Operating revenues | 58 769 | 36 722 | 161 125 | 108 852 |
| Cost of goods sold | 45 546 | 25 686 | 121 693 | 74 404 |
| Gross profit | 13 223 | 11 035 | 39 432 | 34 448 |
| <i>Gross profit %</i> | 22,5 % | 30,1 % | 24,5 % | 31,6 % |
| Other revenues | - | - | - | 2 631 |
| Payroll expense | 4 264 | 4 827 | 14 203 | 15 669 |
| Other operating cost | 4 334 | 5 158 | 14 778 | 15 683 |
| Other (losses)/gains - net | 421 | 230 | 1 242 | 603 |
| Operating costs | 9 018 | 10 215 | 30 224 | 31 955 |
| EBITDA | 4 205 | 821 | 9 209 | 5 124 |
| <i>EBITDA %</i> | 7,2 % | 2,2 % | 5,7 % | 4,7 % |
| Depreciation | 3 | 7 | 10 | 23 |
| Amortization | 2 292 | 2 035 | 6 156 | 5 156 |
| Write offs | - | - | - | - |
| OPERATING RESULT (EBIT) | 1 910 | 221 | 3 043 | -55 |
| Financial income and expenses | | | | |
| Financial income | 301 | 53 | 1 604 | 284 |
| Other financial income | - | - | - | - |
| Financial expenses | - | - | - | -4 |
| Other financial expenses | -330 | -307 | 312 | -971 |
| Net financial result | -30 | -254 | -708 | -692 |
| ORDINARY RESULT BEFORE TAX | 1 880 | 476 | 2 335 | -747 |
| Tax on ordinary result | -361 | 540 | -403 | 716 |
| NET PROFIT | 1 519 | -936 | 1 931 | -31 |

Consolidated Statement of Financial Position

| <i>(In NOK '000)</i> | 30 September 2014 | 30 September 2013 | 31 December 2013 |
|--|-------------------|-------------------|------------------|
| Fixed and Intangible Assets | | | |
| Fixed Assets | | | |
| Intangible assets | 74 628 | 85 907 | 85 773 |
| Deferred tax assets | 11 154 | 12 285 | 11 154 |
| Tangible assets | 3 | 18 | 14 |
| Non-current assets | 85 785 | 98 210 | 96 941 |
| Inventories | 65 828 | 45 593 | 40 314 |
| Short term receivables | 48 629 | 36 642 | 39 978 |
| Cash at hand, in banks | 5 979 | 4 373 | 2 245 |
| Current assets | 120 436 | 86 608 | 82 537 |
| Total assets | 206 221 | 184 819 | 179 478 |
| Equity and liabilities capital and reserves | | | |
| Paid in capital | 139 384 | 137 956 | 138 879 |
| Other equity | -36 097 | -32 497 | -31 622 |
| Total equity | 103 287 | 105 459 | 107 257 |
| Liabilities | | | |
| Deferred tax | 5 848 | 8 521 | 8 026 |
| Non-current liabilities | 5 848 | 8 521 | 8 026 |
| Trade account payables | 57 299 | 42 867 | 38 140 |
| Short term debt to Financial Institutions | 29 083 | 16 264 | 12 483 |
| Other short term debt | 10 704 | 11 708 | 13 572 |
| Current liabilities | 97 086 | 70 839 | 64 194 |
| Total liabilities | 102 934 | 79 360 | 72 220 |
| Total shareholders' equity and liabilities | 206 221 | 184 819 | 179 478 |

Consolidated Statement of Changes in Equity

| | Paid in capital | Other paid in capital/ reserves | Translation differences | Retained earnings | Total |
|--|-----------------|------------------------------------|-------------------------|-------------------|----------------|
| <i>NOK 1000</i> | | | | | |
| Balance at 1. January 2013 | 138 224 | -362 | 1 870 | -42 615 | 97 117 |
| Issue of shares, net of share issue cost | 888 | | | 206 | 1 094 |
| Translation difference | | | 10 315 | - | 10 315 |
| Net profit of the period | | | | -1 268 | -1 268 |
| Balance at 1 January 2014 | 139 112 | -362 | 12 185 | -43 677 | 107 258 |
| Issue of shares, net of share issue cost | | | | | - |
| Share option scheme | 505 | | | | 505 |
| Translation difference | | | -6 406 | | -6 406 |
| Net profit of the period | | | | 1 931 | 1 931 |
| Balance at end period | 139 617 | -362 | 5 778 | -41 746 | 103 287 |

Consolidated Statement of Cash Flow

| <i>(In NOK '000)</i> | Q3 2014 | Q3 2013 | 2 014 | 2013 |
|--|----------------|----------------|----------------|----------------|
| Profit (loss) before tax | 1 884 | -1 476 | 2 335 | -747 |
| Taxes paid | -1 010 | -456 | -2 560 | -2 036 |
| Depreciation | 2 295 | 2 042 | 6 166 | 5 179 |
| Changes in inventory | -6 002 | -4 859 | -25 514 | -32 103 |
| Changes in receivables | -367 | -853 | -5 881 | -10 771 |
| Changes in payables | -8 261 | -710 | 19 159 | 25 475 |
| Changes in other current items | -342 | -856 | -4 953 | 385 |
| Net cash flow from operations | -11 802 | -7 168 | -11 249 | -14 618 |
| Cash flow from investments | | | | |
| Purchase/disposal of intangible assets | -185 | 0 | -813 | -1 900 |
| Net cash flow from investments | -185 | 0 | -813 | -1 900 |
| Cash flow from financing | | | | |
| Short term debt to Financial Institutions | 11 216 | 6 018 | 16 600 | 16 264 |
| Share capital | 0 | 173 | 505 | 538 |
| Net cash flow from financial activities | 11 216 | 6 191 | 17 105 | 16 802 |
| Changes in currency | -804 | 239 | -1 310 | 227 |
| Net change in cash | -1 575 | -739 | 3 733 | 749 |
| Cash and cash equivalents start period | 7 553 | 5 112 | 2 245 | 3 624 |
| Cash and cash equivalents end period | 5 979 | 4 373 | 5 979 | 4 373 |

Explanatory notes

General information

Navamedic ASA is a public limited company domiciled in Norway. The business of the Group is associated with development, distribution, marketing and sales of pharmaceutical products and related technical medical equipment. The Company's shares are listed on the Oslo Stock Exchange. The Company's registered office is Fornebuveien 44, 1366 Lysaker, Norway. Navamedic comprises Navamedic ASA and the wholly owned subsidiary Navamedic AB in Sweden. Navamedic shares are listed on the Oslo Stock Exchange under the ticker NAVA.

1. Nature of operation

Navamedic's strategy is to be a specialty pharma company with a focus on sales and distribution in the Nordic and Benelux regions. The company does not develop new pharmaceuticals, but collaborates with a number of manufacturers in bringing their products within selected therapeutic areas to the market.

Navamedic aims at being the partner of choice for pharma manufacturers looking to enter the Northern European market. An increasing number of products are being sold under the Navamedic brand. The company is in the process of taking a major position on the growing market for generic pharmaceuticals in the Nordic and Benelux regions.

Navamedic currently represents more than 110 products from over 20 manufacturers.

Navamedic's largest partner is Aspen, Africa's largest pharmaceutical manufacturer and one of the five largest generics pharmaceutical companies in the world, with distribution in more than 100 countries.

A key partner is also Torrent Pharmaceuticals, one of India's leading generics manufacturers.

2. Basis of preparation

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2013 (the Annual Financial Statements) as they provide an update of previously reported information. The accounting policies used are consistent with those used in the Annual Financial Statements. The presentation of the interim financial statements is consistent with the Annual Financial Statements. The interim report has not been subject to an audit. The Board of Directors approved the interim financial statements on 5 May 2015.

Navamedic has NOK as its functional currency and presentation currency. In the absence of any statement to the contrary, all financial information is reported in whole thousands. As a result of rounding adjustments, the figures in the financial statements may not add up to the totals.

3. Summary of significant accounting policies

The accounting policies applied and the presentation of the interim condensed consolidated financial information are consistent with the consolidated financial statements for the year ended 31 December 2013.

4. Earnings per share

| | Q3 2014 | Q3 2013 | 2014 | 2013 | FY 2013 |
|--|---------|---------|-------|-------|---------|
| Result allocated to shareholders (in NOK '000) | 1 519 | (936) | 1 931 | (31) | (1 268) |
| Weighted average of outstanding shares (in '000) | 8 562 | 8 437 | 8 562 | 8 387 | 8 512 |
| Earnings per share (NOK per share) | 0,18 | -0,11 | 0,23 | 0,00 | -0,15 |

Diluted earnings per share:

| | Q3 2014 | Q3 2013 | 2014 | 2013 | FY 2013 |
|--|---------|---------|-------|-------|---------|
| Result allocated to shareholders (in NOK '000) | 1 519 | (936) | 1 931 | (31) | (1 268) |
| Weighted average of outstanding shares (in '000) | 8 562 | 8 637 | 8 562 | 8 637 | 8 587 |
| Earnings per share (NOK per share) | 0,18 | -0,11 | 0,23 | 0,00 | -0,15 |

Earnings per share (EPS) are calculated on the basis of the profit/loss for the year after tax but excluding other comprehensive items. The result is divided by a weighted average number of outstanding shares over the year, reduced by acquisition of treasury shares. The diluted earnings per share is calculated by adjusting the average number of outstanding shares by the number of employee options that can be exercised. Anti-dilution effects are not taken into consideration. As of 30 of June 2014 all options in the employee options scheme are exercised and paid for.

5. Segment information

For 2013, Navamedic's financial reporting will display three business segments: Pharma Products, Medical Nutrition and Consumer Care. Previously Navamedic has provided financial information for two business areas; Generics and Vitaflo. The reporting structure will reflect the Company's business and product composition. Several of the products which in 2013 were placed in the Vitaflo portfolio, are products compliant with Navamedic's definition of generic drugs. The new Pharma segment will consist of various categories of generics as well as patented and branded drugs.

Within the three business areas the company operates in these product groups:

- Female Care
- Medical Nutrition
- Oral Medicin
- Urology
- Dermatology
- Tender/Hospital
- Rheumatology
- Oncology
- Cardiology
- Antibiotics
- Immunology
- Abuse
- Neurology
- Endocrinology
- Gastro

The product groups combine growth possibilities and high profit potential with Navamedic's core expertise and distribution capabilities.

Consumer care

The business area consists of a large variety of non-prescription drugs, pharmaceuticals, and health care products mainly sold via pharmacies and drugstores. It consist of several strong own and in-licensed brand names in our respective knowledge areas.

Some important Consumer product brands are:

- NYDA (Dermatologi)
- Ovestin and Vitakalk g, (Female Care)
- Bifolac and Importal, (Gastroenterology)
- Aftamed, Gelerovoice and Dentofix , (Oral Medicin)

Medical Nutrition

The Medical Nutrition business area is a traditional market segment. Navamedic is the Nordic distributor for the UK based Company Vitaflo International Ltd with more than 30 years of experience in producing specialist nutritional products for inborn errors of metabolism (IEM). Navamedic can offer a complete range of products for over 8 different metabolic disorders (for example Phenylketonuria, Tyrosinemia, Maple Sirup Urine Disease, Homocystinuria, Methylmalonic Acidemia (MMA), Propionic Acidemia (PA), Glutaric Aciduria Type 1 (GA1). The product range also includes products within carbohydrate metabolism, fat metabolism (MCT products) and renal disease.

Vitaflo International Ltd. has a research and development team that constantly endeavour to use the latest process technology, raw materials and packaging to guarantee that we offer the most nutritionally up-to-date and acceptable consumer-friendly products. Vitaflo conduct clinical trials on all their products at leading centres around the world.

Our nutrition products treat different disorders in connection with IEM (Inborn errors of metabolism). Many different types of disorders may affect metabolism.

The disorders develop from lack of a certain type of enzyme that is crucial for metabolism of nutrients; disorders of fat metabolism, protein metabolism and carbohydrate metabolism. The food they eat contains minimal amounts of protein. They drink protein substitute to make sure that they get all the essential amino acids that they need. Through established relationships with specialists and patient leaders, nutritionists and doctors Navamedic market protein substitutes.

Pharma Products

Navamedic's Pharma product segment includes Navamedic's newly launched commodity generics business and other pharmaceuticals previously included in the Vitaflo portfolio. The product segment covers subscription pharmaceuticals sold in pharmacies as well as hospital pharmaceuticals.

Navamedic aims to become one of Scandinavia's top suppliers of various pharmaceutical products. Navamedic's expertise in this area is unrivalled in the Nordic region. Management has been involved in the generics sector since its beginning and has more than 100 years of combined generics experience.

Generics -definition

Generic medicines, Generics, are medicines that have lost patent protection.

Typically, generic medicines cost far less than the original, patented brands, thereby creating affordable, high quality medicines for national healthcare systems and patients. With the growing use of and increased reliance on generic medicines, and due to its large number of strategic alliances, Navamedic is well positioned to deliver high quality, cost-effective medicines for the Nordic and Benelux markets in all sub groups described above.

In other words, a traditional generic medicine is essentially the same as the original medicine, incorporating the active pharmaceutical ingredient (API) for which the patent protection has expired. The generic is typically sold under a common, rather than brand, name. In a typical generics market scenario, a medicine goes off patent and competitors rapidly penetrate the market within weeks. This results in a significant price decrease, the product becomes a commodity, and the market share and revenues shift from the innovator medicine to the generic competitors.

Three sub-groups

Generic drugs can typically be divided in three sub-groups, all known as generics.

- **Commodity generics**
Generic medicines as described above. Generally sold via government managed monthly, bi-monthly or quarterly tenders. This sub-group is characterized by high competition, high volumes and rapidly decreasing prices. Drugs in this category can be fully and freely substituted against similar drugs purely based on price.

These medicines are often also referred to as unbranded formulations and are sold under their chemical names as both over the counter and prescription forms. Examples of commodity generics are; candesartan, donepezil, montelukast and olanzapine.

- **Hospital generics**
Hospital generics consist of fluids and injectables and generally sold via time limited tenders direct to hospitals. This sub-group is characterized by less competition and somewhat higher market prices than commodity generics due to a relative more difficult manufacturing process.

While price competition in the sub-group of commodity generics tend to be fierce from expiration of innovators patent protection, the hospital generics segment tend to be less exposed to rapid price erosion. Typical examples of hospital

generics are; ciprofloxacin solution for infusion, fluconazole infusion, furosemide solution for injection and propofol infusion.

- **Branded generics**

Generic medicines as described above but where a drug manufacturing company has attached its brand name and may have invested in its marketing to differentiate it from other generic brands. Often the old original medicine being genericized. Examples of branded generics; Zyloric (allopurinol), Lanoxin (digoxin), Imuran (azathioprine) and Eusaprim (trimetoprim+sulfa).

6. Related party transactions

Navamedic is relying on services provided by fourth parties, as a result of its organisational set-up. None of these fourth parties are considered as related parties.

7. Credit risk and foreign currency risk

Credit risk

Navamedic trades only with recognised, creditworthy fourth parties, of whom most companies are large, profitable pharmaceutical companies and wholesalers. Receivable balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant. As per Q3 2014, there is no offset of bad debt.

Maturity profile on short-term receivables as per 30 September 2014:

| NOK 1000 | Not due | Less than 3 months | 3 to 12 months | Total |
|--------------------------|---------------|-----------------------|-------------------|---------------|
| Trade receivables | 35 192 | 11 198 | 1 087 | 47 477 |
| Other receivables | 1 152 | | - | 1 152 |
| Total receivables | 36 344 | 11 198 | 1 087 | 48 629 |

Foreign currency risk

Navamedic has transactional currency exposure arising from sales and purchases in currencies other than the functional currencies (NOK and SEK). The major portion of sales is currently in SEK. In relation to normal operations, Navamedic has not implemented any hedging positions to reduce currency risk.

8. Tangible assets

| NOK 1000 | Q3 2014 | Q3 2013 | YTD 2014 | YTD 2013 |
|--|----------|-----------|----------|-----------|
| Carrying value at the beginning of the period | 7 | 21 | 14 | 30 |
| Depreciation in the period | -7 | -7 | -11 | -23 |
| Exchange differences | 3 | 4 | - | 11 |
| Carrying value at the end of the period | 3 | 18 | 3 | 18 |

9. Intangible assets

| NOK 1000 | Q3 2014 | Q3 2013 | YTD 2014 | YTD 2013 |
|--|---------------|---------------|---------------|---------------|
| Carrying value at the beginning of the period | 79 930 | 83 014 | 85 773 | 81 202 |
| Additions/disposal (-) | 185 | - | 813 | 1 909 |
| Amortization in the period | -2 292 | -2 035 | -6 156 | -5 156 |
| Exchange differences | -3 196 | 4 928 | -5 803 | 7 952 |
| Carrying value at the end of the period | 74 628 | 85 907 | 74 628 | 85 907 |

11. Deferred tax and deferred tax assets

| NOK 1000 | Q3 2014 | Q3 2013 | YTD 2014 | YTD 2013 |
|--|---------------|---------------|---------------|---------------|
| Carrying value at the beginning of the period | 11 154 | 11 705 | 11 154 | 10 953 |
| Income statement charge | - | 580 | - | 1 332 |
| Carrying value at the end of the period | 11 154 | 12 285 | 11 154 | 12 285 |

Defferd Tax

| NOK 1000 | Q3 2014 | Q3 2013 | YTD 2014 | YTD 2013 |
|--|--------------|--------------|--------------|--------------|
| Carrying value at the beginning of the period | 6 827 | 8 585 | 8 026 | 8 519 |
| Income statement charge | -419 | -424 | -1 280 | -1 242 |
| Exchange differences | -560 | 360 | -898 | 1 244 |
| Carrying value at the end of the period | 5 848 | 8 521 | 5 848 | 8 521 |

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority.

12. Share options

As per 30 September the company has no Share options outstanding.

All options are equity settled and valued at the date of award. The value is expensed over the vesting period, which is usually three years. The exercise price of the granted options is equal to the market price on the date of the grant.

In May 2009, 100 000 share options were granted to Navamedics CEO with an exercise price set at the market share price on the 4 May 2009 of NOK 5.40 per share. Olof Milveden, CEO of Navamedic ASA, has on 4 April 2013 exercised these 100,000 stock options and bought 100,000 new shares in Navamedic ASA. Additional share options were granted 15 February 2010 with a total of 50,000 share options to Navamedics CEO. The exercise price was NOK 7.31 per share. These 50,000 shares were exercised 22 February 2013. In May 2010 the CEO was granted additional 25,000 share options with an exercise price of NOK 6.90 per share. Olof Milveden, CEO of Navamedic ASA, exercised these 25 000 shares 27 May 2013. In September 2010 the CFO was granted 30,000 options and the general manager of Navamedic AB was granted 20,000 share options with an exercise price of NOK 7.00 per share. The CFO Bjørn Lindholt and the general manager Håkan Josephsson has on 25 September 2013 exercised these 50,000 stock options. In July 2011 the Head of Regulatory Affairs Per-Anders Elvertrø was granted 30,000 share options with an exercise price of NOK 9.50 per share. These 30,000 shares were exercised 31 January 2014. In August 2011 the CFO was granted 20,000 share options with an exercise price of NOK 11.00 per share. These 20,000 shares were exercised 31 January 2014. In July 2011 the CEO Olof Milveden was granted 12 500 share options with an exercise price of NOK 13.50 per share. In November 2011 the CEO was granted 12,500 share options with an exercise price of NOK 12.00 per share. None of these 25,000 share options were exercised within the date of award.

A fair value of the options using the Black-Sholes valuation model is by year end 2013 TNOK 400. The significant inputs into the model were a volatility of 65% and annual risk free rate of 4.0%.

The option program has had the following expiry date and exercise prices:

| | Price | 2014 | 2013 | 2 012 |
|---------------------|-------|------|---------|---------|
| 2012 - 15.05 | 5.4 | | | 100 000 |
| 2013 - 15.02 | 7.3 | | 50 000 | 50 000 |
| 2013 - 05.05 | 6.9 | | 25 000 | 25 000 |
| 2013 - 01.09 | 7.0 | | 50 000 | 50 000 |
| 2014 - 18.01 | 9.5 | | 30 000 | 30 000 |
| 2014 - 04.02 | 11.0 | | 20 000 | 20 000 |
| 2014 - 26.02 | 13.5 | | 12 500 | 12 500 |
| 2014 - 02.06 | 12.0 | | 12 500 | 12 500 |
| Outstanding options | | | 200 000 | 300 000 |

13. Bank arrangement and credit facility

The Company has access to bank agreements and credit facilities totalling NOK 45 million to cower credits and guarantees. NOK 29.1 million of the credit facility was utilized at the end of the third quarter. Towards a selective group of suppliers the

company has issued letter of credit of a total of NOK 4 million. This standby letter of credit is issued as security for the applicant's payment obligations under distribution agreements.

14. Material events subsequent to the end of the reporting period

To the best of Navamedic's knowledge, there have been no events subsequent to the end of the reported interim period that would influence on the financial statements included in this report.

15. Shareholder Information

As of 30 June the Company had 548 share owners. The total numbers of outstanding shares were 8,562,051.

Fornebu, 30 October 2014

Johan Reinsli (sign)
Chairman

Masha Strømme (sign)
Board Member

Halvor Stenstadvold (sign)
Board Member

Synne H. Røine (sign)
Board Member

Svein Erik Nicolaysen (sign)
Board Member

Håkan Josephsson (sign)
CEO