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Ferring Pharmaceuticals A/S

Kay Fiskers Plads 11
2300 København S
Business Registration No
16313440

Annual report 2017

The Annual General Meeting adopted the annual report on 28.03.2018

Chairman of the General Meeting

Name: Ole Kjerulf-Jensen

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Entity details

Entity

Ferring Pharmaceuticals A/S
Kay Fiskers Plads 11
2300 København S

Central Business Registration No (CVR): 16313440

Founded: 01.08.1992

Registered in: København

Financial year: 01.01.2017 - 31.12.2017

Phone: +4588338834

Website: www.ferring.com

Board of Directors

Ole Kjerulf-Jensen, Chairman
Per Gunnar Falk
Frederik Dag Arfst Paulsen

Executive Board

Marianne Kock

Bank

Danske Bank
Holmens Kanal 2
DK-1090 Copenhagen

Lawyer

Plesner
Amerika Plads 37
DK-2100 Copenhagen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 København C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Ferring Pharmaceuticals A/S for the financial year 01.01.2017 - 31.12.2017.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations and cash flows for the financial year 01.01.2017 - 31.12.2017.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 28.03.2018

Executive Board

Marianne Kock

Board of Directors

Ole Kjerulf-Jensen
Chairman

Per Gunnar Falk

Frederik Dag Arfst Paulsen

Independent auditor's report

To the shareholder of Ferring Pharmaceuticals A/S

Opinion

We have audited the financial statements of Ferring Pharmaceuticals A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations and cash flows for the financial year 01.01.2017 - 31.12.2017 in accordance with the Danish Financial statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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 ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 28.03.2018

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Flemming Larsen
State Authorised Public Accountant
Identification No (MNE) mne27790

Management commentary

	2017	2016	2015	2014	2013
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Revenue	1.332.355	1.225.925	1.269.951	1.206.882	1.102.920
Gross profit/loss	1.332.355	1.225.925	1.269.951	1.206.882	1.102.920
Operating profit/loss	69.500	65.333	68.731	63.554	57.238
Net financials	636	(501)	(1.721)	(185)	1.199
Profit/loss for the year	54.688	50.325	51.621	47.850	43.830
Total assets	376.926	353.041	285.672	317.926	299.301
Investments in property, plant and equipment	16.485	11.982	21.348	7.171	3.370
Equity	112.105	97.417	86.092	109.471	117.621
Ratios					
Gross margin (%)	100,0	100,0	100,0	100,0	100,0
Net margin (%)	4,1	4,1	4,1	4,0	4,0
Return on equity (%)	52,2	54,8	52,8	42,1	37,3
Solvency ratio (%)	29,7	27,6	30,1	34,4	39,3

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Calculation formula reflects
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Solvency ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strenght of the Entity.

Management commentary

Primary activities

Ferring Pharmaceuticals A/S is an international pharma science centre of the Ferring Group, and is responsible for activities mainly for research and product development and internal services for IT on behalf of the Ferring Group. All costs associated herewith are invoiced to the respective Ferring Group companies which own the underlying activity or research and development project and receive the service, with an agreed mark-up percentage.

Development in activities and finances

Revenue and profit for the year

Revenue increased from DKK 1,225.9 million in 2016 to DKK 1,332.4 million in 2017.

The research and product development activities increased slightly mainly due to the start of a phase IIB study with FE201836 a SV2-agonist, and we started preparations for trials in China and Japan for REKOVELLE (recombinant Follicular Stimulating Hormone), which was approved by the European Medicines Agency in 2016. Unfortunately we had a significant set-back on Selepressin, the Sepsis-Act trial for septic shock, which has been discontinued as the data endpoints were not met for entering into phase 3 (failing the futility analysis). The administrative costs remained stable. The profit before tax increased from DKK 64.8 million in 2016 to DKK 70.1 million in 2017 due to the increased underlying activities as explained above and the fixed mark-up.

Investments

Investments amounted to DKK 23.6 million in 2017 against DKK 23.3 million in 2016. Investments were primarily made in equipment used in the development process and software systems. The total asset value in both categories decreased slightly compared to 2016. Tangible assets mainly decreased due to the disposal of equipment coming from a transfer to a production site within Ferring, amounting to DKK 13 million. Intangible assets decreased due to higher depreciation than investments in 2017, however further digitalization of work approaches and compliance with regulations from regulatory authorities will drive investments in the future.

Capital resources

Ferring Pharmaceuticals A/S has equity of DKK 112.1 million (2016: DKK 97.4 million). The increase is explained by the dividend paid out being lower than results for the year.

Research and development expenses

The total research and development costs incurred amounted to DKK 1,156.0 million (2016: DKK 1,069.7 million). The development of new products is proceeding as planned except for Selepressin as mentioned above. Development of new products is carried out on behalf of other group companies and costs are recognized in the income statement.

Management commentary

Outlook

Management expects the activities to remain stable in 2018. This implies an expectation of revenue and profit before tax in 2018, to be in line with 2017.

Statutory report on corporate social responsibility

Ferring Pharmaceuticals A/S is, as a subsidiary of the Ferring Group, primarily engaged in the development of pharmaceutical products and solutions for the whole Ferring Group, to the benefit of patients worldwide. Through the Ferring Group, Ferring Pharmaceuticals A/S is actively seeking to enhance its corporate social responsibility and acts in accordance with the Ferring Philosophy. Consequently, we refer to the Ferring Group Corporate Social Responsibility policies and guidelines, which can be found at www.ferring.com/en/responsibility.

Ferring Group has developed a CSR framework and approach under the CSR statement of: "Making a difference to people's health and quality of life today and tomorrow". Ferring Pharmaceuticals is committed to and participate in this initiative with resources appointed to developing a framework.

Ferring Pharmaceuticals A/S will ensure that this global approach is aligned and compliant with section 99a of the Danish Financial Statement Act. The CSR policy of the Ferring Group consists of four areas:

- People: Support and develop and meet people's needs and rights
- Business ethics: Conduct ourselves ethically in the market place
- Environment: Minimise our environmental footprint
- Community: Engage with and support the communities around us

The CSR topics selected are based on business relevance. This means that we selected the topics per area to report on based on importance / materiality to our business. This forms our framework which we will use to report on the way forward.

People

- People Ethics (leadership)
- Occupational Health
- Diversity

Business Ethics

- Anti-corruption
- Ethical Testing
- Transparency Compliance
- Privacy and Data Protection

Environment

- Sustainable Building

Management commentary

Community

- Partnerships with healthcare institutions and universities
- Collaboration with Merck for Mothers and WHO to reduce the number of deaths of mothers in childbirth

People

In line with the focus of our business and our governing philosophy, people are the cornerstone of Ferring's CSR structure. We focus on providing a safe and healthy place to work and ensure that our managers create a healthy work environment in which the appropriate high ethical and human rights standards are maintained.

People Ethics Leadership

People Ethics is highly integrated in our way of working and an essential part of leadership. This is based on three approaches.

1. Ethics training is mandatory for all employees
2. We have developed leadership principles at Group level and guidance to managers via our manager handbook 'Lead the Way' and during 2017 a comprehensive leadership development took place for all managers.
3. We execute several surveys among our staff to monitor and implement improvements in this area
 - a. Global Risk Clarity Survey
 - b. Global Engagement Survey
 - c. Work Place Assessments

In 2017 we focused on the ethical training and ensured that all new employees were trained as part of their onboarding and we organized Leadership training as a follow up on results of the engagement survey of 2016.

In 2018 we will maintain and broaden the Leadership training and we will start up training to all staff on the Leadership Principles that are communicated by the Executive Team towards the end of 2017.

Occupational Health

Occupational Health focusses on ensuring that our employees are able to perform in their jobs in a healthy way by providing a safe and healthy place to work and balanced support to minimize the risk of sickness, stress and accidents.

Actions taken in 2017 in this area are:

1. Providing a healthy workplace by training and instruction supported by an in-house physiotherapist, work place set-up instructions and healthy food.
2. Stress management and awareness through training and support
3. Follow up on Work Place Assessments

In 2017 we will continue our efforts on the building working groups who will provide proposals for the working climate in the new Soundport building. Besides that every other there years, we will execute a new Work Place Assessment and do continued follow up and screening in the HSE board.

Management commentary

Business Ethics

This area gives emphasis to 'how' we do our business. It refers specifically to the standards that Ferring and its employees adhere to as part of their legal obligations and ethical conduct. It also covers the expectations we have of our relationships with our business partners on human rights. It touches on issues as wide-ranging as responsible procurement in our supply chains, through to responsible marketing of our products and services. We aim to underpin this part of our CSR activity with our Business Ethics and Compliance policies.

We have the following approaches to maintain our ethical standards:

Ethical Behaviour

Ethical behavior is at the heart of our philosophy. This means that we do everything in our ability to ensure that our employees act within ethical standards. We have an established Ethics Office that provides mandatory training to Ferring employees on ethical behavior. There is a Business ethics and conflict of interest policy and we run an alert line to flag up if violations occur to the Ferring Philosophy. The latter also results in ensuring human rights in our relations with suppliers. The Ferring Philosophy has also been the starting point for the development of the Leadership Principals.

Ethical Testing

Clinical and non-clinical activities and production of clinical materials are highly regulated. The regulations are set-out in the Good Clinical Practice (GCP &GLP). GCP guidelines include protection of human rights for the subjects and volunteers in a clinical trial. The GMP, GLP and GCP guidelines are implemented strictly and we are audited against these guidelines by external regulatory bodies on a regular basis.

Transparency Compliance

As stipulated previously, development of pharmaceutical products is highly regulated. This counts also for clinical trial execution and for our relations and behavior with health care professionals and organizations (HCP/O).

In both the United States and Europe stricter regulations have been implemented to address the pharmaceutical industry's broader requirements to disclose its transactions with HCPs/HCOs.

In 2017, we started the implementation of transparency software and have developed a compliance toolkit and training program for our employees.

The tool will be launched in 2018 and the first report out of this new system, covering the HCP/HCO expense over 2018, is expected to be done in 2019.

Management commentary

Privacy and data protection

Product development requires many data on all the angles of a drug. Amongst others these data consists of data of subjects and volunteers in the clinical trials. GCP guidelines include protection of human rights for the subjects and volunteers. This also relates to their privacy when it comes to data. The subject of privacy and data protection is increasing in importance also due to the new regulation formalized in General Data Protection Legislation as of 25 May 2018. This new legislation also applies to the data we maintain on our employees and other stakeholders. Ferring recognizes this requirement and will ensure to be compliant.

Environment

Sustainable building

We have committed ourselves to implement "Leadership in Energy and Environmental Design" in short LEED in our new building Soundport. This will be achieved by using solar panels and sophisticated climate control systems. At this stage, it is expected that the target will be reached when the building is put into operation by the end of 2019

Community

We want to be known as a company that engages actively with the (local) communities in which we operate. We focus on communities that are relevant to Ferring's areas of expertise.

Partnerships

We actively work with universities to enable them to execute fundamental research in areas that are close to the therapeutic areas in which Ferring is currently involved. This sponsoring is typically for the benefit of science in general and patients in particular. In 2017 we sponsored universities in Denmark, Sweden, Switzerland, United Kingdom and Belgium.

A specific local collaboration is ReproUnion. It represents a multidisciplinary initiative that is focused to deliver solutions for current and future infertility problems. ReproUnion is a large collaborative consortium of thirteen clinical and research units within the Capital Region of Denmark, Region Zealand of Denmark and Region Skåne in Southern Sweden. As a virtual institute ReproUnion hosts a significant critical mass in terms of research, education and clinical management of both male and female fertility questions through approximately 30 senior researchers and more than 50 PhD students. Ferring is part of ReproUnion as the sole industry partner and sponsor for 2016-2018. This has created the opportunity for Ferring R&D to discuss and review multiple on-going ReproUnion research projects.

Ferrings commitment to ReproUnion for this period amounts to approximately EUR 1.5 million. It is envisaged that the collaboration will continue beyond 2018.

Management commentary

Collaboration with Merck for Mothers and WHO to reduce the number of deaths of mothers in childbirth

IPC contributes significantly to the collaboration between Ferring, Merck for Mothers and the World Health Organisation (WHO) aiming for a considerable reduction in the number of deaths of women giving birth.

The leading cause of maternal mortality is a condition called post-partum haemorrhage (PPH), which is excessive bleeding after childbirth. Ferring's carbetocin (PABAL) is an effective and well-researched treatment for the prevention of PPH, currently approved for use after Caesarean section.

Ferring, Merck for Mothers, and WHO have recently completed the biggest clinical trial ever undertaken within PPH, with the aim of investigating carbetocin for prevention of PPH after vaginal delivery.

The Last Patient Last Visit Milestone in the study was reached in early 2018. Results from the trial are expected to be presented and published during the second half of 2018. If these are favourable, heat-stable carbetocin for use after vaginal delivery will be registered and manufactured by Ferring worldwide and will be made available to the public sector of low- and lower middle- income countries at an affordable and sustainable price. A medicine, like heat-stable carbetocin, that can be stored at elevated temperatures has the potential to significantly improve management of bleeding following childbirth.

Statutory report on the underrepresented gender

Diversity

Ferring Pharmaceuticals A/S has a diverse workforce with 63% women and 35 nationalities in 2017.

In accordance with section 139a subsection 1 of the Danish Companies Act, the Company is obliged to set the targets for the share of the underrepresented gender in the Board of Directors. As the Board of Directors comprises three members, the target is that, at no point, should the Board be comprised by persons of one gender only. The Company currently does not fulfil this target, due to the fact that no new members of the board were elected. It is the expectation that the target will be met in 2019.

Ferring has adopted the Ferring Philosophy— "People come first at Ferring". This philosophy ensures that we always strive towards doing the right thing, including compliance with local legislation. The philosophy is well documented and laid out to all employees when they commence their work at Ferring. The philosophy is about ethics and responsibility. The requirements of section 99b are to a certain extent embedded in the philosophy.

The representation of gender at management levels is based primarily on skills and experience. By the end of 2017 there were 40 women 51% (2016: 49%) and 39 men at management levels.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Income statement for 2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Revenue	1	<u>1.332.355</u>	<u>1.225.925</u>
Gross profit/loss		1.332.355	1.225.925
Research and development costs	3	(1.156.098)	(1.069.132)
Administrative expenses	2, 3	<u>(106.757)</u>	<u>(91.460)</u>
Operating profit/loss		69.500	65.333
Other financial income		1.806	2.045
Other financial expenses	4	<u>(1.170)</u>	<u>(2.546)</u>
Profit/loss before tax		70.136	64.832
Tax on profit/loss for the year	5	<u>(15.448)</u>	<u>(14.507)</u>
Profit/loss for the year	6	<u>54.688</u>	<u>50.325</u>

Balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Acquired licences		37.515	42.123
Intangible assets	7	<u>37.515</u>	<u>42.123</u>
Other fixtures and fittings, tools and equipment		20.320	31.743
Leasehold improvements		339	474
Property, plant and equipment in progress		13.646	5.790
Property, plant and equipment	8	<u>34.305</u>	<u>38.007</u>
Deposits		55.585	51.847
Fixed asset investments	9	<u>55.585</u>	<u>51.847</u>
Fixed assets		<u>127.405</u>	<u>131.977</u>
Receivables from group enterprises		120.843	143.704
Other receivables		14.433	8.576
Prepayments	10	90.634	60.690
Receivables		<u>225.910</u>	<u>212.970</u>
Cash		<u>23.611</u>	<u>8.094</u>
Current assets		<u>249.521</u>	<u>221.064</u>
Assets		<u>376.926</u>	<u>353.041</u>

Balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Contributed capital		500	500
Retained earnings		61.605	81.917
Proposed extraordinary dividend		0	15.000
Proposed dividend		<u>50.000</u>	<u>0</u>
Equity		<u>112.105</u>	<u>97.417</u>
Deferred tax	11	<u>9.179</u>	<u>10.346</u>
Provisions		<u>9.179</u>	<u>10.346</u>
Trade payables		117.120	148.804
Payables to group enterprises		43.782	12.059
Income tax payable		4.387	323
Other payables		<u>90.353</u>	<u>84.092</u>
Current liabilities other than provisions		<u>255.642</u>	<u>245.278</u>
Liabilities other than provisions		<u>255.642</u>	<u>245.278</u>
Equity and liabilities		<u>376.926</u>	<u>353.041</u>
Unrecognised rental and lease commitments	13		
Contingent liabilities	14		
Related parties with controlling interest	15		
Transactions with related parties	16		

Statement of changes in equity for 2017

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	500	96.917	0	97.417
Extraordinary dividend paid	0	(40.000)	0	(40.000)
Profit/loss for the year	0	4.688	50.000	54.688
Equity end of year	500	61.605	50.000	112.105

Cash flow statement for 2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Operating profit/loss		69.500	65.333
Amortisation, depreciation and impairment losses		18.990	20.602
Working capital changes	12	<u>(61.225)</u>	<u>128.949</u>
Cash flow from ordinary operating activities		27.265	214.884
Financial income received		35	34
Financial income paid		(399)	(1.021)
Income taxes refunded/(paid)		<u>(15.078)</u>	<u>(15.987)</u>
Cash flows from operating activities		<u>11.823</u>	<u>197.910</u>
Acquisition etc of intangible assets		(7.104)	(11.340)
Acquisition etc of property, plant and equipment		(16.485)	(11.982)
Acquisition of fixed asset investments		(3.738)	(1.769)
Sale of fixed asset investments		<u>12.714</u>	<u>164</u>
Cash flows from investing activities		<u>(14.613)</u>	<u>(24.927)</u>
Incurrence of debt to group enterprises		58.307	(126.857)
Dividend paid		<u>(40.000)</u>	<u>(39.000)</u>
Cash flows from financing activities		<u>18.307</u>	<u>(165.857)</u>
Increase/decrease in cash and cash equivalents		15.517	7.126
Cash and cash equivalents beginning of year		<u>8.094</u>	<u>968</u>
Cash and cash equivalents end of year		<u>23.611</u>	<u>8.094</u>

Notes

	2017	2016
	DKK'000	DKK'000
1. Revenue		
Revenue by geographical market		
Switzerland	1.332.101	1.224.911
Other countries	254	1.014
	1.332.355	1.225.925
Revenue by activity		
R&D Services	1.234.016	1.139.318
Other services	98.339	86.607
	1.332.355	1.225.925
	2017	2016
	DKK'000	DKK'000
2. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	276	323
Tax services	332	346
Other services	23	22
	631	691
	2017	2016
	DKK'000	DKK'000
3. Staff costs		
Wages and salaries	423.232	363.316
Pension costs	40.828	36.102
Other social security costs	3.952	3.823
	468.012	403.241
Average number of employees	548	491

Notes

	Remunera- tion of manage- ment 2017 DKK'000	Remunera- tion of manage- ment 2016 DKK'000
Total amount for management categories	4.988	4.821
	4.988	4.821

Special incentive programmes

Certain members of the management is included in special incentive programs in other group companies, for work performed for the group.

	2017 DKK'000	2016 DKK'000
4. Other financial expenses		
Financial expenses from group enterprises	137	598
Exchange rate adjustments	771	1.526
Other financial expenses	262	422
	1.170	2.546

	2017 DKK'000	2016 DKK'000
5. Tax on profit/loss for the year		
Current tax	16.615	13.521
Change in deferred tax	(1.167)	986
	15.448	14.507

	2017 DKK'000	2016 DKK'000
6. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	50.000	0
Extraordinary dividend distributed in the financial year	0	15.000
Retained earnings	4.688	35.325
	54.688	50.325

Notes

	Acquired licences DKK'000
7. Intangible assets	
Cost beginning of year	89.178
Additions	7.104
Disposals	(2.360)
Cost end of year	93.922
Amortisation and impairment losses beginning of year	(47.055)
Amortisation for the year	(11.712)
Reversal regarding disposals	2.360
Amortisation and impairment losses end of year	(56.407)
Carrying amount end of year	37.515

	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve- ments DKK'000	Property, plant and equipment in progress DKK'000
8. Property, plant and equipment			
Cost beginning of year	145.459	35.619	5.790
Transfers	1.653	0	(1.653)
Additions	6.976	0	9.509
Disposals	(31.849)	0	0
Cost end of year	122.239	35.619	13.646
Depreciation and impairment losses beginning of year	(113.716)	(35.145)	0
Depreciation for the year	(7.143)	(135)	0
Reversal regarding disposals	18.940	0	0
Depreciation and impairment losses end of year	(101.919)	(35.280)	0
Carrying amount end of year	20.320	339	13.646

Notes

	Deposits DKK'000
	<u>DKK'000</u>
9. Fixed asset investments	
Cost beginning of year	51.847
Additions	10.300
Disposals	<u>(6.562)</u>
Cost end of year	<u>55.585</u>
Carrying amount end of year	<u>55.585</u>

10. Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, etc as well as the balance of material of IMPs (Investigational Medical Products) and APIs (Active Pharmaceutical Ingredients).

	2017 DKK'000	2016 DKK'000
	<u>DKK'000</u>	<u>DKK'000</u>
11. Deferred tax		
Intangible assets	8.253	9.267
Property, plant and equipment	838	991
Fixed asset investments	<u>88</u>	<u>88</u>
	<u>9.179</u>	<u>10.346</u>
Changes during the year		
Beginning of year	10.346	
Recognised in the income statement	<u>(1.167)</u>	
End of year	<u>9.179</u>	

	2017 DKK'000	2016 DKK'000
	<u>DKK'000</u>	<u>DKK'000</u>
12. Change in working capital		
Increase/decrease in receivables	(35.801)	73.727
Increase/decrease in trade payables etc	<u>(25.424)</u>	<u>55.222</u>
	<u>(61.225)</u>	<u>128.949</u>

	2017 DKK'000	2016 DKK'000
	<u>DKK'000</u>	<u>DKK'000</u>
13. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	<u>201.571</u>	<u>108.514</u>

Notes

13. Unrecognised rental and lease commitments (continued)

On 23 January 2015, the Group has signed a business lease agreement. The agreement covers the construction and lease of premises for the R&D organisation in Copenhagen. The commencement date of the lease is estimated to be 1 January 2019. The Company has committed to a 15 year lease term at an annual rent as a percentage of the construction costs. The annual rent is currently estimated between to be DKK 60.2 million and DKK 64.7 million and it is subject to an agreement regarding construction costs. In 2015, the Company has paid a deposit of DKK 25.3 million which will be adjusted to 6 months' rent at a later stage and will stay as a fixed deposit until the termination of the lease agreement. The lease of the current premises terminates at the end of 2017. The Company is currently discussing the terms of prolonging this lease until the end of 2019.

14. Contingent liabilities

Contractual obligations related to research and development activities amount to DKK 882,266 thousand.

The Company serves as an administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2013 for income taxes etc. for the jointly taxed companies and from 1 July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for these companies.

15. Related parties with controlling interest

Below-listed companies, performing a management function, have a controlling interest.

Parent Foundation:

Dr. Frederik Paulsen Foundation
Chemin De La Vergognausaz 50
1162 Saint-Prex, Vaud, Switzerland

Intermediate Parent:

Ferring Holding S.A.
Chemin De La Vergognausaz 50
1162 Saint-Prex, Vaud, Switzerland

Immediate Parent:

Ferring B.V.
Polarisavenue 144
2132JX Hoofddorp
The Netherlands

Notes

16. Transactions with related parties

Only transactions with related parties that are not carried out on market terms are stated in the annual report. There are not conducted such operations for the year.

Accounting policies

Reporting class

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

The accounting policies applied for these financial statements are consistent with those applied last year.

Consolidated financial statements

The Entity is included in the consolidated financial statements of the Ultimate Parent Foundation Dr. Frederik Paulsen Foundation. As a result of the legislation in Switzerland, the consolidated financial statements are not published.

Recognition and measurement

Revenue is recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve earning for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Danish kroner (DKK) is used as the measurement currency. All other currencies are regarded as foreign currencies.

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in the financial income and expenses in the income statement.

Accounting policies

Income statement

Revenue

Revenue is recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve earning for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Research and development costs

Research and development costs include expenses for studies and clinical tests as well as related materials and salaries paid.

Administrative costs

Administrative expenses comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationary and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Other financial income

Other financial income comprises interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with all Danish sister companies in the Ferring Group. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Accounting policies

Balance sheet

Intellectual property rights etc

Intellectual property rights etc comprise intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Licences are amortised over the term of the agreement, but over no more than 5 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

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

Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	Term of lease

The fixed assets are written down to the lower of recoverable amount and carrying amount.

Estimated useful lives and residual are reassessed annually.

1.1.1 Fixed asset investment

Deposits and prepaid rent are recognised in fixed asset investments and measured at amortised cost.

Receivables

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

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Accounting policies

Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity. Extraordinary dividend adopted in the financial year is recognised directly as equity when distributed and disclosed as a separate item in Management's proposal for distribution of profit/loss.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

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

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Income tax receivable or payable

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

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

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

Cash flows from investing activities comprise payments in connection with fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets.

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

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