

Ferring Pharmaceuticals A/S

Kay Fiskers Plads 11
2300 København S
Business Registration No
16313440

Annual report 2018

The Annual General Meeting adopted the annual report on 29.03.2019

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: 01.01.2018 - 31.12.2018

Phone: +4588338834

Website: www.ferring.com

Board of Directors

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

Executive Board

Marianne Kock, CEO

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 01.01.2018 - 31.12.2018.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018.

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

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

Copenhagen, 29.03.2019

Executive Board

Marianne Kock
CEO

Board of Directors

Ole Kjerulf-Jensen
Chairman of the board

Frederik Dag Arfst Paulsen

Per Gunnar Falk

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 01.01.2018 - 31.12.2018, 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 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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, 29.03.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

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

Management commentary

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------|----------------|----------------|----------------|----------------|
| | DKK'000 | DKK'000 | DKK'000 | DKK'000 | DKK'000 |
| Financial highlights | | | | | |
| Key figures | | | | | |
| Revenue | 1.401.012 | 1.332.355 | 1.225.925 | 1.269.951 | 1.206.882 |
| Gross profit/loss | 1.401.012 | 1.332.355 | 1.225.925 | 1.269.951 | 1.206.882 |
| Operating profit/loss | 74.420 | 69.500 | 65.333 | 68.731 | 63.554 |
| Net financials | (2.850) | 636 | (501) | (1.721) | (185) |
| Profit/loss for the year | 56.130 | 54.688 | 50.325 | 51.621 | 47.850 |
| Total assets | 397.931 | 376.927 | 353.041 | 285.672 | 317.926 |
| Investments in property, plant and equipment | 37.268 | 16.486 | 11.982 | 21.348 | 7.171 |
| Equity | 118.235 | 112.105 | 97.417 | 86.092 | 109.071 |
| Ratios | | | | | |
| Gross margin (%) | 100,0 | 100,0 | 100,0 | 100,0 | 100,0 |
| Net margin (%) | 4,0 | 4,1 | 4,1 | 4,1 | 4,0 |
| Return on equity (%) | 48,7 | 52,2 | 54,8 | 52,9 | 42,3 |
| Solvency ratio (%) | 29,7 | 29,7 | 27,6 | 30,1 | 34,3 |

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 1,332.4 million in 2017 to DKK 1,401 million in 2018.

The research and product development activities managed from IPC increased in 2018 with ongoing development and trial activity related to top priority projects within core competencies of Ferring, primarily Women's Health and Urology.

The administrative costs decreased against last year, mainly driven by a reduction of the external costs, especially Consultancy-, IT- and Travel costs. The profit before tax increased from DKK 70.1 million in 2017 to DKK 71.6 million in 2018 due to the increased underlying activities as explained above and the fixed mark-up.

Investments

Investments amounted to DKK 42.8 million in 2018 against DKK 23.6 million in 2017. The increase is mainly driven by investments in our laboratory to meet future demands.

Capital resources

Ferring Pharmaceuticals A/S has equity of DKK 118.2 million (2017: DKK 112.1 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 1,233.4 million (2017: DKK 1,156.1 million). The development of new products is proceeding as planned. Development of new products is carried out on behalf of other group companies and costs are recognized in the income statement.

Outlook

Management expects a slight decline in activities in 2019. This implies an expectation of revenue and profit before tax in 2019, slightly below 2018.

Management commentary

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, for 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 <https://www.ferring.com/en/about-fering/responsibility>

Ferring Group has developed a CSR framework and approach under the CSR statement: "Making a difference to people's health and quality of life today and tomorrow". Ferring Pharmaceuticals is committed to 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 and Leadership
- Occupational Health

Business Ethics

- Ethical behavior
- Ethical Testing
- Transparency and anti-corruption
- Privacy, Data Protection and human rights

Environment

- Sustainable Building

Community

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

Management commentary

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 ensuring that our managers create a healthy work environment in which the appropriate high ethical and human rights standards are maintained.

People Ethics and 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, addressing the leadership that each employee must exercise in relation to themselves and their own tasks as well as the leadership responsibilities required by managers with personnel responsibilities. Existing staff and managers have been trained in Ferring's new leadership principles in 2018
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 2018 we focused on ethical training and ensured that all new employees were trained as part of their onboarding. In 2018, we also conducted the biannual Global Engagement Survey, and in 2019, we will focus on analyzing the results as well as creating and implementing action plans. Moreover, in 2019, all new employees will be trained in Ferring's leadership principles, and we will develop a Leadership Principles tool kit for managers to use for team activities in their groups.

Occupational Health

Occupational Health focuses 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.

During 2018, Ferring has focused on providing employees with opportunities to improve their health and to ensure physical well-being at work. Actions taken in 2018 in this area are:

1. Treadmills with tables have been installed to facilitate light walking while working, and various devices for standing and changing positions at the desks have been made available
2. All employees have been offered a voluntary consulting with a dietician, a physiotherapist, a personal trainer or a nurse in order to work with a health-related issue of their own choice
3. Stress management and awareness through training and support
4. Follow up on Work Place Assessments

In 2019 we will continue our efforts in the building working groups who will provide proposals for the working environment in the new Soundport building. Besides that, every three 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 Behavior

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 and which runs an alert line to flag up if violations occur to the Ferring Philosophy. The Ferring Philosophy has also been the starting point for the development of the Leadership Principles.

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 and anti-corruption

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 2018, Ferring has worked on improving our efforts within transparency and anti-corruption.
- In 2018, Ferring launched a new code of conduct in 15 languages worldwide. The Code of Conduct has a strong focus on anti-corruption and sets out the overarching policies that Ferring requires its employees to comply with. Training in the Code of Conduct is mandatory for all employees.
- Ferring takes its responsibility to mitigate bribery risks very seriously. In 2018, we launched a corporate standard operating procedure (SOP) on cross-border interactions with external stakeholders. The SOP describes the cross-border procedure for interacting and exchanging anything of value with our external stakeholders - including healthcare professionals (HCPs) and healthcare organizations (HCOs). The SOP covers all Ferring's entities and goes beyond industry standards in its regulation of benefits of all kinds.

Management commentary

- In 2018, Ferring launched a corporate standard operating procedure (SOP) on cross-border transparency reporting. The SOP describes the cross-border procedure for reporting direct and indirect transfers of value (ToV) and other benefits in kind made to healthcare professionals (HCPs), healthcare organizations (HCOs) and other relevant external stakeholders. Along with the corporate SOP, Ferring has launched a global reporting software to ensure transparency and compliance. This new software is currently being implemented, and users are being trained.

Privacy, data protection and human rights

Product development requires the collection and storage of large amounts of data regarding all angles of a drug; including data from subjects and volunteers in the clinical trials. The protection of subjects' and volunteers' human rights is part of the GCP guidelines that we are committed to following. Moreover, the United Nations Declaration of Human Rights states that privacy is a human right. In Ferring, we are committed to protecting the human right to privacy as well as to complying with the new regulation formalized in the General Data Protection Regulation (GDPR) that went into effect on 25th of May 2018. This new legislation also applies to the data we maintain on our employees and other stakeholders. We recognize our duty to protect the personal data of our patients, external stakeholders and employees. In order to live up to this responsibility and to be compliant with GDPR, we have taken a number of steps. In 2018, we have:

- Launched a Global Privacy Policy and principles for privacy.
- Introduced Privacy by Design (PbD) as our framework and methodology to enable privacy as a mindset - embedding it directly into technology, systems and practices at the design phase.
- Appointed a Global Data Protection Officer, responsible for informing and advising Ferring with regards to our obligations on GDPR and other applicable national data protection laws.
- Initiated an internal privacy assessment of all clinical trials, ensuring the privacy rights of data subjects.
- Initiated a privacy assessment of all systems, ensuring that processes and IT-security complies with privacy and data protection requirements.

In 2019, we will continue and expand these efforts.

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 2020.

Management commentary

Vegetarian day in the canteen

According to the UN Food and Agriculture Organization, meat production is among the top sources of world pollution. In order to reduce our carbon footprint, we have introduced one weekly vegetarian day in the canteen of Ferring Pharmaceuticals A/S.

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.

A specific local collaboration is ReproUnion. It represents a multidisciplinary initiative that is focused on delivering 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.

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

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 Organization (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 hemorrhage (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 were presented during the second half of 2018. The results showed favourable, and 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.

Management commentary

Statutory report on the underrepresented gender

Diversity

Ferring Pharmaceuticals A/S has a diverse workforce with 63% women and 38 nationalities in 2018.

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 2020.

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 2018 there were 41 women 51% (2018: 51%) and 40 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 2018

| | <u>Notes</u> | <u>2018 DKK'000</u> | <u>2017 DKK'000</u> |
|---------------------------------|--------------|-------------------------|-------------------------|
| Revenue | 1 | <u>1.401.012</u> | <u>1.332.355</u> |
| Gross profit/loss | | 1.401.012 | 1.332.355 |
| Research and development costs | 3 | (1.233.372) | (1.156.098) |
| Administrative expenses | 2, 3 | <u>(93.220)</u> | <u>(106.757)</u> |
| Operating profit/loss | | 74.420 | 69.500 |
| Other financial income | | 2.631 | 1.806 |
| Other financial expenses | 4 | <u>(5.481)</u> | <u>(1.170)</u> |
| Profit/loss before tax | | 71.570 | 70.136 |
| Tax on profit/loss for the year | 5 | <u>(15.440)</u> | <u>(15.448)</u> |
| Profit/loss for the year | 6 | <u>56.130</u> | <u>54.688</u> |

Balance sheet at 31.12.2018

| | <u>Notes</u> | <u>2018 DKK'000</u> | <u>2017 DKK'000</u> |
|--|--------------|-------------------------|-------------------------|
| Acquired licences | | 30.187 | 37.515 |
| Intangible assets | 7 | <u>30.187</u> | <u>37.515</u> |
| Other fixtures and fittings, tools and equipment | | 40.348 | 20.321 |
| Leasehold improvements | | 2.283 | 339 |
| Property, plant and equipment in progress | | 22.290 | 13.646 |
| Property, plant and equipment | 8 | <u>64.921</u> | <u>34.306</u> |
| Deposits | | 54.442 | 55.585 |
| Fixed asset investments | 9 | <u>54.442</u> | <u>55.585</u> |
| Fixed assets | | <u>149.550</u> | <u>127.406</u> |
| Receivables from group enterprises | | 198.619 | 120.843 |
| Other receivables | | 7.932 | 14.433 |
| Prepayments | 10 | 32.962 | 90.634 |
| Receivables | | <u>239.513</u> | <u>225.910</u> |
| Cash | | <u>8.868</u> | <u>23.611</u> |
| Current assets | | <u>248.381</u> | <u>249.521</u> |
| Assets | | <u>397.931</u> | <u>376.927</u> |

Balance sheet at 31.12.2018

| | <u>Notes</u> | <u>2018 DKK'000</u> | <u>2017 DKK'000</u> |
|--|--------------|-------------------------|-------------------------|
| Contributed capital | | 500 | 500 |
| Retained earnings | | 67.735 | 61.605 |
| Proposed dividend | | <u>50.000</u> | <u>50.000</u> |
| Equity | | <u>118.235</u> | <u>112.105</u> |
| Deferred tax | 11 | <u>8.756</u> | <u>9.179</u> |
| Provisions | | <u>8.756</u> | <u>9.179</u> |
| Trade payables | | 166.898 | 117.121 |
| Payables to group enterprises | | 12.946 | 43.782 |
| Income tax payable | | 2.953 | 4.387 |
| Other payables | | <u>88.143</u> | <u>90.353</u> |
| Current liabilities other than provisions | | <u>270.940</u> | <u>255.643</u> |
| Liabilities other than provisions | | <u>270.940</u> | <u>255.643</u> |
| Equity and liabilities | | <u>397.931</u> | <u>376.927</u> |
| Unrecognised rental and lease commitments | 13 | | |
| Contingent liabilities | 14 | | |
| Related parties with controlling interest | 15 | | |
| Transactions with related parties | 16 | | |
| Group relations | 17 | | |

Statement of changes in equity for 2018

| | Contributed capital DKK'000 | Retained earnings DKK'000 | Proposed dividend DKK'000 | Total DKK'000 |
|--------------------------------|--|--|--|--------------------------|
| Equity beginning of year | 500 | 61.605 | 50.000 | 112.105 |
| Ordinary dividend paid | 0 | 0 | (50.000) | (50.000) |
| Profit/loss for the year | 0 | 6.130 | 50.000 | 56.130 |
| Equity end of year | 500 | 67.735 | 50.000 | 118.235 |

Cash flow statement for 2018

| | <u>Notes</u> | <u>2018</u> <u>DKK'000</u> | <u>2017</u> <u>DKK'000</u> |
|---|--------------|-------------------------------|-------------------------------|
| Operating profit/loss | | 74.420 | 69.500 |
| Amortisation, depreciation and impairment losses | | 19.448 | 18.990 |
| Working capital changes | 12 | <u>111.740</u> | <u>(61.225)</u> |
| Cash flow from ordinary operating activities | | 205.608 | 27.265 |
| Financial income received | | 21 | 35 |
| Financial income paid | | (1.646) | (399) |
| Income taxes refunded/(paid) | | <u>(18.675)</u> | <u>(15.078)</u> |
| Cash flows from operating activities | | 185.308 | 11.823 |
| Acquisition etc of intangible assets | | (5.484) | (7.104) |
| Acquisition etc of property, plant and equipment | | (37.269) | (16.485) |
| Acquisition of fixed asset investments | | 0 | (3.738) |
| Sale of fixed asset investments | | <u>1.314</u> | <u>12.714</u> |
| Cash flows from investing activities | | (41.439) | (14.613) |
| Incurrence of debt to group enterprises | | 0 | 58.307 |
| Repayment of debt to group enterprises | | (108.612) | 0 |
| Dividend paid | | <u>(50.000)</u> | <u>(40.000)</u> |
| Cash flows from financing activities | | (158.612) | 18.307 |
| Increase/decrease in cash and cash equivalents | | (14.743) | 15.517 |
| Cash and cash equivalents beginning of year | | <u>23.611</u> | <u>8.094</u> |
| Cash and cash equivalents end of year | | 8.868 | 23.611 |

Notes

| | 2018 | 2017 |
|---|------------------|------------------|
| | DKK'000 | DKK'000 |
| 1. Revenue | | |
| Revenue by geographical market | | |
| Switzerland | 1.400.856 | 1.332.101 |
| Other countries | 156 | 254 |
| | 1.401.012 | 1.332.355 |
| Revenue by activity | | |
| R&D Services | 1.307.433 | 1.234.016 |
| Other services | 93.579 | 98.339 |
| | 1.401.012 | 1.332.355 |
| | 2018 | 2017 |
| | DKK'000 | DKK'000 |
| 2. Fees to the auditor appointed by the Annual General Meeting | | |
| Statutory audit services | 297 | 276 |
| Tax services | 492 | 332 |
| Other services | 31 | 23 |
| | 820 | 631 |
| | 2018 | 2017 |
| | DKK'000 | DKK'000 |
| 3. Staff costs | | |
| Wages and salaries | 394.634 | 423.232 |
| Pension costs | 39.542 | 40.828 |
| Other social security costs | 4.731 | 3.952 |
| | 438.907 | 468.012 |
| Average number of employees | 525 | 548 |

Notes

| | Pension liabilities 2018 DKK'000 | Remunera- tion of manage- ment 2017 DKK'000 |
|--|---|--|
| Total amount for management categories | 4.911 | 4.988 |
| | 4.911 | 4.988 |

Special incentive programmes

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

| | 2018 DKK'000 | 2017 DKK'000 |
|---|-------------------------|-------------------------|
| 4. Other financial expenses | | |
| Financial expenses from group enterprises | 1.254 | 137 |
| Exchange rate adjustments | 3.835 | 771 |
| Other financial expenses | 392 | 262 |
| | 5.481 | 1.170 |

| | 2018 DKK'000 | 2017 DKK'000 |
|---|-------------------------|-------------------------|
| 5. Tax on profit/loss for the year | | |
| Current tax | 16.136 | 16.615 |
| Change in deferred tax | (423) | (1.167) |
| Adjustment concerning previous years | (273) | 0 |
| | 15.440 | 15.448 |

| | 2018 DKK'000 | 2017 DKK'000 |
|--|-------------------------|-------------------------|
| 6. Proposed distribution of profit/loss | | |
| Ordinary dividend for the financial year | 50.000 | 50.000 |
| Retained earnings | 6.130 | 4.688 |
| | 56.130 | 54.688 |

Notes

| | Acquired licences DKK'000 |
|---|--|
| 7. Intangible assets | |
| Cost beginning of year | 93.922 |
| Additions | 5.484 |
| Disposals | (5.594) |
| Cost end of year | 93.812 |
| Amortisation and impairment losses beginning of year | (56.407) |
| Amortisation for the year | (12.802) |
| Reversal regarding disposals | 5.584 |
| Amortisation and impairment losses end of year | (63.625) |
| Carrying amount end of year | 30.187 |

| | 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 | 122.240 | 35.619 | 13.646 |
| Transfers | 7.761 | 0 | (7.761) |
| Additions | 18.707 | 2.156 | 16.405 |
| Disposals | (27.083) | 0 | 0 |
| Cost end of year | 121.625 | 37.775 | 22.290 |
| Depreciation and impairment losses beginning of year | (101.919) | (35.280) | 0 |
| Depreciation for the year | (6.434) | (212) | 0 |
| Reversal regarding disposals | 27.076 | 0 | 0 |
| Depreciation and impairment losses end of year | (81.277) | (35.492) | 0 |
| Carrying amount end of year | 40.348 | 2.283 | 22.290 |

Notes

| | Deposits DKK'000 |
|------------------------------------|-----------------------------|
| 9. Fixed asset investments | |
| Cost beginning of year | 55.585 |
| Additions | 19 |
| Disposals | <u>(1.162)</u> |
| Cost end of year | <u>54.442</u> |
| | |
| Carrying amount end of year | <u>54.442</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).

| | 2018 DKK'000 | 2017 DKK'000 |
|-------------------------------|-------------------------|-------------------------|
| 11. Deferred tax | | |
| Intangible assets | 8.079 | 8.253 |
| Property, plant and equipment | 677 | 838 |
| Fixed asset investments | <u>0</u> | <u>88</u> |
| | <u>8.756</u> | <u>9.179</u> |

Changes during the year

| | |
|------------------------------------|---------------------|
| Beginning of year | 9.179 |
| Recognised in the income statement | <u>(423)</u> |
| End of year | <u>8.756</u> |

| | 2018 DKK'000 | 2017 DKK'000 |
|---|-------------------------|-------------------------|
| 12. Change in working capital | | |
| Increase/decrease in receivables | 64.173 | (35.801) |
| Increase/decrease in trade payables etc | <u>47.567</u> | <u>(25.424)</u> |
| | <u>111.740</u> | <u>(61.225)</u> |

| | 2018 DKK'000 | 2017 DKK'000 |
|--|-------------------------|-------------------------|
| 13. Unrecognised rental and lease commitments | | |
| Liabilities under rental or lease agreements until maturity in total | <u>73.220</u> | <u>201.571</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 August 2020. 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 65 million and DKK 67 million and it is subject to an agreement regarding construction costs. The Company has paid a deposit of DKK 35.6 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 2020.

14. Contingent liabilities

Contractual obligations 31.12.2018 related to research and development activities amount to DKK 1,026,566 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 for income taxes etc. for the jointly taxed companies and 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
Thistle House, 4 Burnaby Street
Hamilton HM11, Bermuda

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 non-arm's-length related party transactions are disclosed in the financial statements. However, no such transactions have taken place during the year.

17. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Insula Corporation S.á r.l.

1. Rue Hildegard von Bingen
L – 1282 Luxembourg

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Ferring Holding S.A. *

Chemin De La Vergognausaz 50
1162 Saint-Prex, Vaud, Switzerland

* The consolidated financial statement is according to Swiss legislation not published.

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.