

**Farmaceutisk Laboratorium  
Ferring A/S**

Kay Fiskers Plads 11  
2300 København S  
Business Registration No  
62664819

**Annual report 2017**

The Annual General Meeting adopted the annual report on 28.03.2018

**Chairman of the General Meeting**

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Name: Ole Kjerulf-Jensen

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## Entity details

### Entity

Farmaceutisk Laboratorium Ferring A/S  
Kay Fiskers Plads 11  
2300 København S

Central Business Registration No (CVR): 62664819  
Registered in: Copenhagen  
Financial year: 01.01.2017 - 31.12.2017

### Board of Directors

Ole Kjerulf-Jensen, Chairman  
Lars Peter Brunse  
Marianne Kock

### Executive Board

Marianne Kock

### Lawyer

Plesner  
Amerika Plads 37  
DK-2100 Copenhagen Ø

### 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 Farmaceutisk Laboratorium Ferring 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 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

Lars Peter Brunse

Marianne Kock

# Independent auditor's report

## To the shareholders of Farmaceutisk Laboratorium Ferring A/S

### Opinion

We have audited the financial statements of Farmaceutisk Laboratorium Ferring A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity 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 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.

### Emphasis of matter regarding circumstances in the financial statements

As described in the management commentary. The company's Intermediate Parent (Ferring B.V.) has issued a letter of support, in which it will ensure adequate financial support to the Company, should the Company become insolvent or no longer be able to comply with the going concern assumption as a result of the ongoing tax dispute. On this basis, Management has presented the financial statements based on a going concern assumption.

Without qualifying our opinion, we point out the information in the management commentary note 2, in which Management accounts for significant uncertainties in relation to recognition and measurement of the provision regarding the ongoing tax dispute.

### 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.

## Independent auditor's report

### **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.

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

### Primary activities

Until the beginning of 2008 when production was discontinued, Farmaceutisk Laboratorium Ferring acted as a contract manufacturer for the Ferring Group. The Company has ceased its business activities.

### Development in activities and finances

The income statement of the Company for 2017 shows a loss of DKK 201,626 thousand and, at 31 December 2017, the balance sheet of the Company shows equity of DKK -198,623 thousand.

### Description of material changes in activities and finances

With reference to the ongoing tax dispute and the recognition of expenses for tax and interest, as described in detail in note 2, the Company has a loss in 2017 and the equity is currently negative with DKK 198,6m. Based on the letter of support from the Intermediate Parent. Management considers the condition for preparing the financial statements on a going concern basis to be met. Reference is made to the detailed description in note 1.

### Uncertainty relating to recognition and measurement

The tax dispute concerning increase of the income related to the sale of trademarks and other intangible assets to a consolidated enterprise in 2004 is ongoing. For a detailed description, see note 2.

### 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>
Administrative expenses		<u>(593)</u>	<u>(406)</u>
<b>Operating profit/loss</b>		<b><u>(593)</u></b>	<b><u>(406)</u></b>
Other financial income from group enterprises		0	43
Other financial expenses	3	<u>(88.448)</u>	<u>(3.065)</u>
<b>Profit/loss before tax</b>		<b><u>(89.041)</u></b>	<b><u>(3.428)</u></b>
Tax on profit/loss for the year	4	<u>(112.585)</u>	<u>764</u>
<b>Profit/loss for the year</b>		<b><u>(201.626)</u></b>	<b><u>(2.664)</u></b>
<b>Proposed distribution of profit/loss</b>			
Retained earnings		<u>(201.626)</u>	<u>(2.664)</u>
		<b><u>(201.626)</u></b>	<b><u>(2.664)</u></b>

## Balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Receivables from group enterprises		1.038	2.550
Other receivables		1.095	84
Income tax receivable		<u>835</u>	<u>56.663</u>
<b>Receivables</b>		<u><b>2.968</b></u>	<u><b>59.297</b></u>
 <b>Current assets</b>		 <u><b>2.968</b></u>	 <u><b>59.297</b></u>
 <b>Assets</b>		 <u><b>2.968</b></u>	 <u><b>59.297</b></u>

## Balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Contributed capital		1.000	1.000
Retained earnings		<u>(199.623)</u>	<u>2.003</u>
<b>Equity</b>		<b><u>(198.623)</u></b>	<b><u>3.003</u></b>
Trade payables		515	422
Payables to group enterprises		<u>201.076</u>	<u>55.872</u>
<b>Current liabilities other than provisions</b>		<b><u>201.591</u></b>	<b><u>56.294</u></b>
<b>Liabilities other than provisions</b>		<b><u>201.591</u></b>	<b><u>56.294</u></b>
<b>Equity and liabilities</b>		<b><u>2.968</u></b>	<b><u>59.297</u></b>
Going concern	1		
Uncertainty relating to recognition and measurement	2		
Contingent liabilities	5		
Related parties with controlling interest	6		

## Statement of changes in equity for 2017

	<b>Contributed capital DKK'000</b>	<b>Retained earnings DKK'000</b>	<b>Total DKK'000</b>
Equity beginning of year	1.000	2.003	3.003
Profit/loss for the year	0	(201.626)	(201.626)
<b>Equity end of year</b>	<b>1.000</b>	<b>(199.623)</b>	<b>(198.623)</b>

## Notes

### 1. Going concern

The Company has received a letter of support from the Intermediate Parent (Ferring B.V.). Based on the letter of support, the financial statements have been prepared on a going concern assumption.

### 2. Uncertainty relating to recognition and measurement

The Danish Tax Authorities (SKAT) have reviewed the sale of intellectual property rights to Ferring International Center S.A. according to an agreement of 16 December 2003, according to which the agreement took effect on 1 January 2004. Farmaceutisk Laboratorium Ferring recognised the market value of DKK 162 million in the financial statements and in the statement of taxable income for 2004.

In a letter of 30 April 2009, the Danish Tax Authorities assessed the market value of the intellectual property rights transferred to amount to DKK 1,028 million and, therefore, the taxable income is proposed increased by DKK 866 million. The Danish Tax Authorities' assessment will involve an additional proposed net tax payment of DKK 259 million plus interest. The Danish Tax Authorities have stated that, in their opinion, the model used by the Company and the preconditions of this resulted in a valuation that did not reflect the actual market value at the time of sale.

Management maintains that, in view of the considerable commercial uncertainty, the model and the preconditions applied for the valuation of the intellectual property rights was in accordance with the tax rules applicable at that time and was as such based on the arm's length principle at the time of the transfer. Meanwhile in 2011 the company set up a provision to cover the potential impact from the tax dispute in total DKK 56 million (DKK 30 million corporate tax and DKK 26 million interest). This was based on management's estimate of the outcome of the tax dispute in 2011. In 2013 the company made an advance payment of corporate tax of DKK 112 million to minimize the interest exposure on the tax dispute.

In April 2012, the management appealed to the national tax tribunal against the valuation done by the Danish tax authorities. Consequently two independent valuers have been appointed and confirmed by the civil court. They have issued their report in 2017. Based on the valuation report, management has re-assessed the risk and has recorded an additional provision in 2017. The increase in provision of DKK 113 million for additional taxation and DKK 85 million for interest is based on the values determined by the independent valuers.

The company has made a payment to the Danish tax authorities in December 2017 to cover the updated corporate tax provision including interest up and to December 2017.

The Danish tax authorities have made use of their right to ask questions about the valuations determined by the independent valuers. And as a result the process is prolonged into 2018. The process is expected to be finalised in 2018 and consequently a final settlement will likely happen in 2018. As the original assessment made by the Danish Tax authorities is significantly higher than the value determined by the independent valuers, the company's Management still considers that there are some uncertainty as to the final outcome of the tax dispute.

### 3. Other financial expenses

Financial expenses from group enterprises

Other interest expenses

Other financial expenses

	<b>2017</b>	<b>2016</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Financial expenses from group enterprises	3.204	3.065
Other interest expenses	112.514	0
Other financial expenses	(27.270)	0
	<b>88.448</b>	<b>3.065</b>

## Notes

	<b>2017</b>	<b>2016</b>
	<b>DKK'000</b>	<b>DKK'000</b>
<b>4. Tax on profit/loss for the year</b>		
Current tax	(835)	(764)
Adjustment concerning previous years	113.420	0
	<b>112.585</b>	<b>(764)</b>

### 5. Contingent liabilities

The Entity participates in a Danish joint taxation arrangement in which Ferring Pharmaceuticals A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable from the financial year 2013 for income taxes etc for the jointly taxed entities, and from 1 July 2012 for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The total known net liability of the jointly taxed entities under the joint taxation arrangement is evident from the administration company's financial statements.

### 6. Related parties with controlling interest

The Company has registered the following shareholder to hold more than 5% of the voting share capital or of the nominal value of the share capital:

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

## Accounting policies

### Reporting class

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

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

### Recognition and measurement

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.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

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.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

### Income statement

#### Administrative costs

Administrative costs comprise consultancy expenses.

#### Other financial income from group enterprises

Other financial income from group enterprises comprises interest income etc on receivables from group enterprises.

#### Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises.

#### 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 consolidated enterprises. 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

#### Receivables

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

#### Income tax payable or receivable

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

#### Other financial liabilities

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