



**Farmaceutisk Laboratorium
Ferring A/S**

Kay Fiskers Plads 11
2300 København S
CVR No. 62664819

Annual report 2019

The Annual General Meeting adopted the
annual report on 29.06.2020

Ole Kjerulf-Jensen
Chairman of the board

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Entity details

Entity

Farmaceutisk Laboratorium Ferring A/S

Kay Fiskers Plads 11

2300 København S

CVR No.: 62664819

Registered office: København

Financial year: 01.01.2019 - 31.12.2019

Board of Directors

Ole Kjerulf-Jensen, Chairman of the board

Marianne Kock

Lars Peter Brunse

Executive Board

Marianne Kock, CEO

Attorney

Plesner

Amerika Plads 37

DK-2100 Copenhagen Ø

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

P. O. Box 1600

0900 Copenhagen C

Statement by Management

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 01.01.2019 - 31.12.2019.

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 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

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, 29.06.2020

Executive Board

Marianne Kock
CEO

Board of Directors

Ole Kjerulf-Jensen
Chairman of the board

Marianne Kock

Lars Peter Brunse

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 01.01.2019 - 31.12.2019, 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 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 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.

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.

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, 29.06.2020

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 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.

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 profit in 2019 and the equity is currently negative with DKK 202,3 million. 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.

Development in activities and finances

The income statement of the Company for 2019 shows a profit of DKK 0,1 thousand and, at 31 December 2019, the balance sheet of the Company shows equity of DKK -202.324 thousand.

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 2019

	Notes	2019 DKK'000	2018 DKK'000
Administrative expenses		156	(384)
Operating profit/loss		156	(384)
Other financial expenses	3	(4)	(4,514)
Profit/loss before tax		152	(4,898)
Tax on profit/loss for the year	4	(33)	1,078
Profit/loss for the year		119	(3,820)
Proposed distribution of profit and loss			
Retained earnings		119	(3,820)
Proposed distribution of profit and loss		119	(3,820)

Balance sheet at 31.12.2019

Assets

	Notes	2019 DKK'000	2018 DKK'000
Receivables from group enterprises		2,227	1,624
Other receivables		1,173	0
Joint taxation contribution receivable		0	1,078
Receivables		3,400	2,702
Current assets		3,400	2,702
Assets		3,400	2,702

Equity and liabilities

	Notes	2019 DKK'000	2018 DKK'000
Contributed capital		1,000	1,000
Retained earnings		(203,324)	(203,443)
Equity		(202,324)	(202,443)
Trade payables		12	394
Payables to group enterprises		205,529	204,694
Joint taxation contribution payable		33	0
Other payables		150	57
Current liabilities other than provisions		205,724	205,145
Liabilities other than provisions		205,724	205,145
Equity and liabilities		3,400	2,702
Going concern	1		
Uncertainty relating to recognition and measurement	2		
Contingent liabilities	5		
Group relations	6		

Statement of changes in equity for 2019

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	1,000	(203,443)	(202,443)
Profit/loss for the year	0	119	119
Equity end of year	1,000	(203,324)	(202,324)

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 reassessed 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 object about the valuations determined by the independent valuers. And as a result the process is prolonged. 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

	2019 DKK'000	2018 DKK'000
Financial expenses from group enterprises	4	4,514
	4	4,514

4 Tax on profit/loss for the year

	2019 DKK'000	2018 DKK'000
Refund in joint taxation arrangement	33	(1,078)
	33	(1,078)

5 Contingent liabilities

The Company participates in a Danish joint taxation arrangement where Ferring Pharmaceuticals A/S serves as the administration company. 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 dividend for the jointly taxed companies. The jointly taxed companies' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

6 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:

Insula Corporation S.á.r.l.
7 rue Robert Stümper
L2557 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 B enterprises with addition of certain provisions for reporting class C.

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 expenses

Administrative expenses comprise consultancy expenses.

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 group 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).

Balance sheet

Receivables

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

Joint taxation contributions receivable or payable

Current joint taxation contributions payable or joint taxation contributions receivable are recognised in the balance sheet, calculated as tax computed on the taxable income for the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.

Other financial liabilities

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