

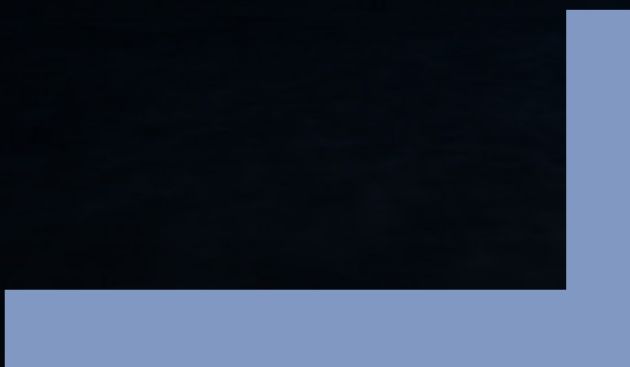


LEO FOUNDATION

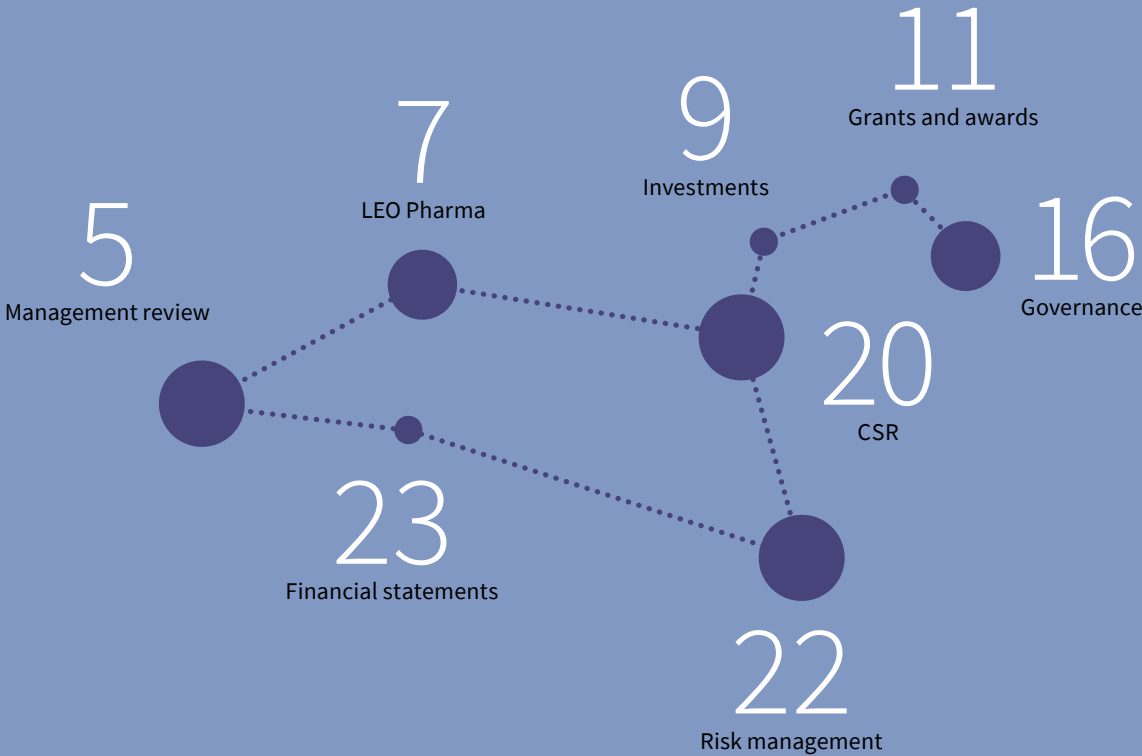


Annual Report 2019

Supporting advances in dermatology



Contents

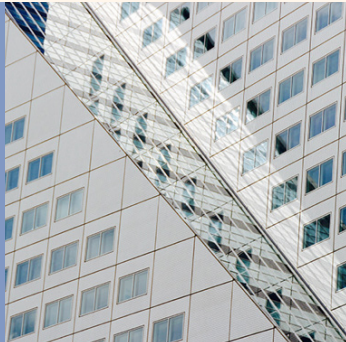


The Leo constellation was first identified by the Greek astronomer Ptolemy in the 2nd century. It is one of the largest constellations in the sky.

LEO Foundation at a glance

Who we are

The LEO Foundation is one of Denmark's largest commercial foundations. Our main objective is to ensure the long-term continuation and success of the global pharmaceutical company LEO Pharma. Through our philanthropic activities, we want to support the best international research in skin diseases and make Denmark a global beacon for skin research.



What we want

We are here to make a difference in dermatology

At any given time, one in four people around the world are suffering from a skin disease, many of which cannot be adequately treated. We combat the impact of skin diseases through our engaged ownership of LEO Pharma and our philanthropic support to international skin research.

How we work

At the LEO Foundation, we take a long-term view on creating sustainable value and impact through our engaged ownership, philanthropic activities and financial investments.

About LEO Group

The LEO Group consists of the LEO Foundation, LEO Holding A/S and LEO Pharma A/S, including its Danish and international subsidiaries (collectively LEO Pharma Group).

LEO Foundation

LEO Foundation

The LEO Foundation was established in 1984. The foundation is the ultimate sole owner of LEO Pharma and provides philanthropic support to independent research.

LEO Holding A/S

LEO Holding

The LEO Foundation's financial assets are held in LEO Holding, where all investment activities are carried out.

LEO Pharma Group

LEO Pharma Group

LEO Pharma develops, manufactures and markets pharmaceutical drugs for the treatment of skin diseases in more than 130 countries.

Who we are

The LEO Foundation organisation comprises a small and dedicated team of highly competent specialists. We are ambitious and dedicated to creating sustainable value for people and society through engaged ownership, philanthropy and investments.



Charlotte Malassé,
Communication
Specialist

Ida Brams,
Chief Grant
Officer

Lars Thørs,
Senior
Investment
Director

Morten Stampe
Christensen,
Chief Investment
Officer

Lars Kruse,
Scientific
Officer

Jesper
Mailind,
CEO

Peter Kjeldsen Hansen,
Director, Legal and
Business Development

Christina Gerner
Arnsfelt,
Management
Assistant

Arne Mandøe,
LEO Historical
Archives & Museum

Mette
Poulsen,
Finance
Manager

Building a platform for sustainable value creation

At the LEO Foundation, we believe the world would be a better place if we could remove the burden of skin diseases. In our work, we strive to improve acceptance, understanding and treatment for the many people worldwide living with these diseases.

Developing and offering better diagnostics and treatments is vital; however, skin research is hugely underprioritised globally. The LEO Foundation has thus chosen to focus our philanthropic efforts on supporting the best global talents and research in skin diseases and making Denmark a global beacon for skin research.

As a Danish commercial foundation, we are the proud owner of the global pharmaceutical company LEO Pharma. We are very aware of our responsibility towards society and of the value we can create by being an engaged and responsible owner of the company. The long-term commercial success of LEO Pharma is instrumental to the overall impact we can make as a foundation – including through our philanthropic activities. In other words, securing the right platform and framework conditions for LEO Pharma is a

cornerstone in the Foundation's ambitions to generate value for society in a broader sense.

Having consolidated our operations after the modernisation of the LEO Foundation governance model in 2017, we have focused on further developing our role as engaged owner of LEO Pharma. We aim to become the best possible owner by offering the company optimal conditions for developing as a high-performing global leader in its field.

LEO Pharma welcomed both a new chairmanship of its Board of Directors and a new CEO in 2019, all with strong backgrounds in the global pharma industry. LEO Pharma met their revenue expectations for 2019 while making significant progress with its transformation into an innovation driven growth company. Late in the year, we received the positive news that the company's investigational treatment

for atopic dermatitis, tralokinumab, had passed a key development milestone, meeting all primary and secondary endpoints in its three pivotal phase 3 studies. LEO Pharma plans to submit marketing authorisation applications for tralokinumab for the treatment of adult patients with moderate-to-severe atopic dermatitis to regulatory agencies in 2020.

Back in 2018, the LEO Foundation Board of Trustees approved a new grant strategy, focused on supporting the best international skin research and making Denmark a global beacon for skin research. Implementation of the strategy will lead to a higher grant level and is expected to generate increased awareness about the LEO Foundation and our activities. Already in 2019, we saw early signs of increased interest in our grants, which enabled more global geographical coverage. In line with the strategy to make Denmark a global beacon for skin



research, the LEO Foundation Skin Immunology Research Center at the University of Copenhagen was inaugurated early in the year, following the receipt of the LEO Foundation's largest ever grant, awarded in late 2018. In 2019, we awarded 25 grants totaling DKK 79 million and continued the professionalisation of our grant processes with implementation of digital grant management and impact assessment systems.

Throughout 2019, we continued actively diversifying our financial investment portfolio in a sensible, well-balanced manner. Despite the ongoing geopolitical uncertainties through most of the year, the financial markets developed very positively, resulting in the LEO Foundation generating a substantial positive return on our financial investments. The result contributes to fulfilling our long-term return targets, generating funds for our philanthropic activities, and strengthening our ability to support LEO Pharma's long-term continuation and success.

As part of the Foundation's continuous board succession, two new members joined the Board of Trustees, bringing global pharma insights and considerable philanthropy experience.

Looking ahead, we endeavour to increase the sustainable value creation across all our activities with a clear aim to ensure the long-term success of LEO Pharma and improve acceptance, understanding and treatment of people living with skin disease.

Developing and offering better diagnostics and treatments is vital; however, skin research is hugely underprioritised globally.



LEO Pharma – Setting new standards of care

In 2019, LEO Pharma took significant steps towards its 2025 ambition to bring new and innovative treatments to the market and strengthen its portfolio of established products. LEO Pharma’s sales grew by 4%, and a significant milestone was reached on tralokinumab, LEO Pharma’s investigational treatment for atopic dermatitis.

In 2019, LEO Pharma completed the take-over of the prescription dermatology unit acquired from Bayer AG in 2018. The portfolio has been successfully integrated, strengthening LEO Pharma’s leadership position within topical treatments.

In December 2019, LEO Pharma announced pivotal phase 3 clinical trial results for tralokinumab, an investigational treatment for atopic dermatitis. Tralokinumab is one of several new innovative treatments in LEO Pharma’s pipeline, and advancing these into medical products will require increasing investments in research and development over the coming years. In 2020, LEO Pharma plans to submit marketing authorisation applications for tralokinumab for the treatment of adult patients with moderate-to-severe atopic dermatitis to regulatory agencies, and to submit the detailed results of the studies for presentation at scientific conferences and publication in peer-reviewed medical journals.

Collaboration with partners is a key element of LEO Pharma’s R&D strategy and, in 2019, the company entered into a number of partnerships

and collaboration agreements within medical compounds and technologies. Further, in August 2019 the company announced that it had acquired the exclusive rights to develop and market brodalumab – a biologic for treatment of moderate-to-severe psoriasis already marketed by LEO Pharma in the EU as Kyntheum® – in several additional countries with high unmet needs.

To finance the 2025 growth strategy, LEO Pharma secured a EUR 1 billion credit facility from a consortium of Nordic banks in combination with a shareholder loan of EUR 500 million from LEO Holding. The shareholder loan was paid out on 1 July 2019, while the credit facility will be utilised over the coming years for investments in the next phase of LEO Pharma’s ambitious programme to introduce new medicines and help more patients with severe conditions.

In February 2019, Olivier Bohuon and Anders Ekblom assumed the roles of Chairman and Vice Chairman of LEO Pharma’s Board of Directors, and Birgitta Stymne Göransson joined the Board in November.

All three bring strong international industry experience that will help LEO Pharma achieve its ambitious plan to strengthen its position as a leader in medical dermatology. In August, Catherine Mazzacco took up the position of CEO of LEO Pharma. Catherine has more than 25 years’ international experience in business management, strategy execution, marketing and sales from the pharmaceutical and life science industry, including experience of launching biologics in immunology.

Revenue

Revenue grew by 4% to DKK 10,805 million (2018: DKK 10,410 million). Growth was driven by the acquisition of Bayer’s portfolio of prescription dermatologics as well as the strong performance of Enstilar® and Kyntheum®. Revenue was affected by lower sales of innohep® and Daivobet® Gel. Excluding currency effects, divestments of non-core business to Karo Pharma AB and other one-time effects, the underlying revenue growth was 7%.

Revenue by region

Region Europe+ revenue increased by 5% to DKK 6,840 million. Excluding the acquired and divested



portfolios growth was 5% (DKK 312 million). Organic growth was driven by Enstilar® and Kyntheum®, with sales increasing by 36% and 136% respectively.

Region US revenue declined by DKK 237 million or 22% with net sales totaling DKK 848 million. The decline reflected the competitive landscape in the US, with increasing net pricing pressure. Finacea® foam, which was acquired from Bayer AG in 2018, has been out of stock since May 2019, resulting in revenue falling from DKK 81 million in 2018 to DKK 34 million in 2019. LEO Pharma expects to be able to resupply Finacea® foam to the US market from mid-2020.

Region International revenue increased by DKK 325 million or 12% to DKK 3,117 million. Growth was mainly driven by the integration of the products acquired from Bayer, which added significant volumes to Brazil and Russia.

Operating result

2019 operating loss before depreciation and amortisation (EBITDA) ended at DKK 131 million (2018: profit of DKK 2,366 million). Operating loss (EBIT) was DKK 1,313 million (2018: profit of DKK 1,605 million). The decrease from 2018 was a

consequence of a non-recurring gain in 2018 of DKK 1,566 million from the divestment of non-core product rights to Karo Pharma AB as well as increased costs in 2019. The increase in research and development costs were driven by investments in the innovative portfolio, while sales, distribution and administrative costs increased due to the integration of the established product portfolio acquired from Bayer. Furthermore, a non-recurring impairment loss regarding rights acquired from Bayer AG and supply issues had a negative impact on the net loss for the year. Adjusted for currency effects and non-recurring items, EBITDA amounted to DKK 762 million in 2019 compared to DKK 996 million in 2018.

On 23 December 2019, a contract was signed with Karo Pharma AB for the divestment of non-core proctology assets for DKK 670 million.


Expanding options for patients

LEO Pharma strives to introduce new innovative medicines and broaden the reach of its existing treatments for the benefit of people living with skin diseases. LEO Pharma is preparing to submit marketing authorisation applications for tralokinumab for the treatment of adult patients

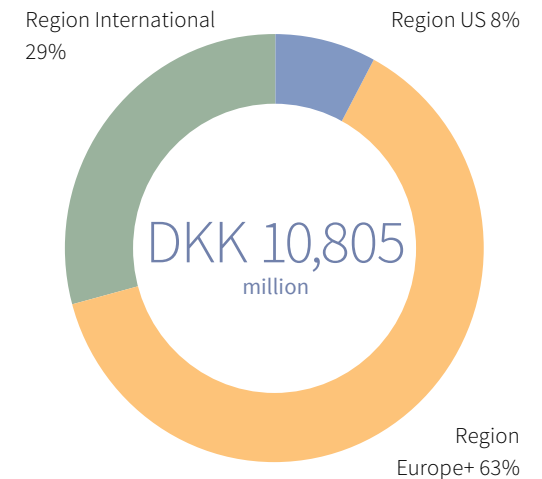
with moderate-to-severe atopic dermatitis to regulatory agencies in 2020. The company has a topical JAK inhibitor, delgocitinib, in phase 2 of clinical development for the treatment of eczema. LEO Pharma has partnered with PellePharm to develop patidegib, a topical hedgehog inhibitor to treat the rare skin disease Gorlin syndrome, currently in clinical phase 3.

2020 outlook

In 2020, LEO Pharma will continue to move forward towards its strategic 2025 goals. This entails significant investments in the pipeline, especially in the clinical development of tralokinumab and delgocitinib. LEO Pharma will continue to focus on profitability improvements in the established portfolio, and annual revenue is anticipated to grow by 2-5% in 2020. The significant increase in spending on research and development activities is expected to lead to an operating loss in 2020 of DKK 1.8 -2.0 billion. Further divestments or acquisitions may change the outlook.

 For further information about the LEO Pharma Group, please refer to LEO Pharma's Annual Report

LEO Pharma revenue by region



Investments

– A year to remember

The main objectives of our investments are to ensure continued financial capability to support LEO Pharma’s long-term continuation and success, as well as provide funds for the LEO Foundation’s philanthropic activities. In line with these objectives, we strive to generate the best possible returns while retaining a sensible, well-balanced risk profile.

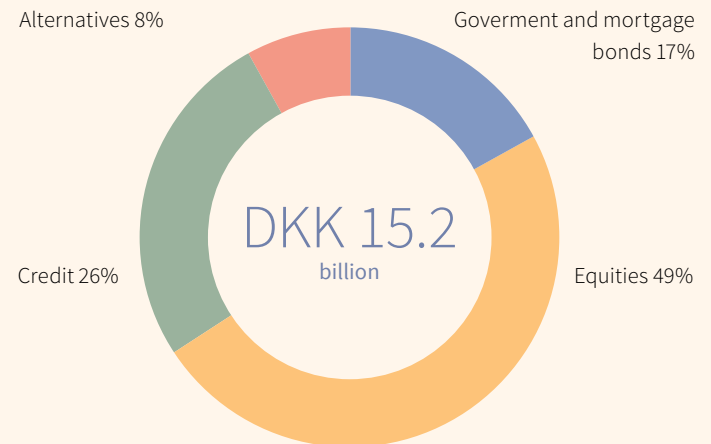
As in 2018, the financial portfolio was further refined with new components throughout 2019. Most significantly, this concerned allocation to alternatives, including private equity, real estate and fixed-income hedge funds. Furthermore, investments were made in European senior secured loans, and two active managers of listed equities were added. The portfolio continues to comprise both actively managed investments and passive index exposure – currently with a close to 50/50 split. On 1 July 2019, LEO Holding participated together with a consortium of banks in an external loan financing to LEO Pharma by providing a shareholder loan of EUR 500 million. This was funded throughout the first half of 2019 by selling assets from the financial portfolio. Following this reduction in the portfolio value of more than 20%, a new strategic asset allocation was introduced with higher relative exposure to equities and credit.

Extraordinary financial markets in 2019

Contrary to most expectations, 2019 proved to be a remarkably positive year on the financial markets. Following the significant downturn for equities and credit in Q4 2018, 2019 saw a complete turnaround and already by the end of February, global developed-market equities were up by more than 10%, ending the year up 30%. All asset classes delivered significant positive returns – even government bonds, where yields continued to decline.

The financial markets were driven by several factors. Economic data showed there was no recession on the horizon, and most countries saw GDP growth around trend. Geopolitical events such as Brexit and the trade war between the US and China caused volatility, but sentiment changed in Q4 when a first trade deal between the US and China started to take shape and the risk of a no-deal Brexit abated.

Investment portfolio composition on 31/12/2019



This contributed to significant gains on equities at year-end. Finally, the positive sentiment was enhanced by a significant shift to an accommodative monetary policy by both the European Central Bank (ECB) and the US Federal Reserve.

LEO Holding's financial portfolio generated a return of DKK 2.3 billion or 14.9%, with all the main asset classes – equities, credit, government and mortgage bonds, and alternatives – contributing positively. Equities came out on top, with a return of DKK 1.6 billion and an asset class return of DKK 26.1%. This was primarily driven by developed-market equities, while emerging-market and Danish equities contributed to a lesser extent. Credit contributed DKK 0.4 billion with an asset class return of 9.8%,

while the government and mortgage bond portfolio returned 1.7%, reflecting falling yields and positive manager performance. Alternatives generated a return of 7.9% or DKK 0.1 billion.

Investment strategy for 2020

In 2020, our efforts will continue on the same path as in 2018 and 2019, with further refinements being made to the portfolio by adding more alternative components in place of low-yield listed assets. The level of risk in the portfolio will be slightly higher than in 2019, due to lower exposure to negative-yield bonds – and thus higher exposure to credit, equities and alternatives. The financial portfolio's risk and liquidity will continue to ensure that the LEO Foundation is able to support LEO Pharma.

Investment portfolio

Assets	Market value (DKK million)		Return (%)	
	31/12/2019	31/12/2018	2019	2018
Government and mortgage bonds	2,596	3,521	1.7%	0.7%
Equities	7,453	7,210	26.1%	-7.8%
Credit	3,914	4,968	9.8%	-1.0%
Alternatives	1,263	1,057	7.9%	-3.2%
Total	15,226	16,756	14.9%	-3.1%



Grants and awards

- A year of high activity

Through our philanthropic activities, the LEO Foundation aims to support the best international research in skin diseases and make Denmark a global beacon for skin research. The LEO Foundation is becoming more visible and better known and, in 2019, we saw increased interest in our philanthropic activities.

The LEO Foundation provides four types of grants and awards

In 2019, we continued implementing our grant strategy, which is based on four types of grants and awards:

Strategic grants are larger and long-term commitments given to support excellent dermatological research within specific areas.

2019: 1 Strategic add-on grant of DKK 15.3 million

Open-competition grants are given to support the best dermatological research projects worldwide.

2019: 18 Open competition grants totalling DKK 52.3 million

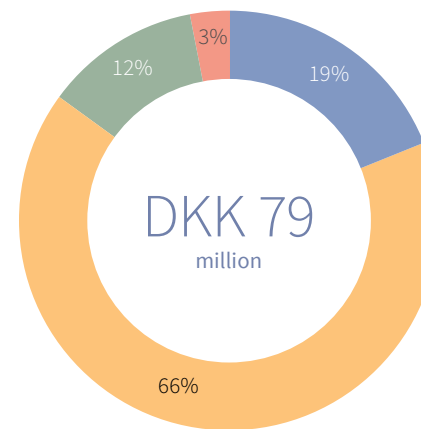
Education and awareness grants are given to support activities in Denmark that strengthen the pipeline of future researchers within the fields of medicine, chemistry and pharmacy, and raise awareness of skin and skin diseases.

2019: 3 Education and awareness grants totalling DKK 9 million

LEO Foundation Awards are given to outstanding young scientists from around the world, whose work represents extraordinary contributions to dermatology research.

2019: 3 regional awards totalling DKK 2 million and 3 other grants to SID, ESDR and JSID* totalling DKK 0.3 million

2019 philanthropic activities



In 2019, the LEO Foundation committed DKK 79 million in support of 25 grants and three awards, and the total pay-out (incl. milestone payments on grants awarded in previous years) amounted to DKK 100 million.

The LEO Foundation Board of Trustees approves all grants and awards, and the Foundation has no intellectual property rights to results from our philanthropic activities. However, we request that the results are published.

*SID: American Society for Investigative Dermatology, ESDR: European Society for Dermatological Research, JSID: Japanese Society for Investigative Dermatology

LEO Foundation Skin Immunology Research Center will strengthen Denmark's position in global skin research

In February 2019, the LEO Foundation Skin Immunology Research Center (SIC) was inaugurated by HRH Prince Joachim. Headquartered in the Maersk Tower at the University of Copenhagen, SIC has been made possible by a strategic grant from the LEO Foundation of up to DKK 400 million over 10 years.

In pursuit of research excellence and based on collaboration across specialities and geographies, SIC will bring together leading Danish and international researchers within skin, skin diseases and immunology, and contribute new knowledge through basic, translational and clinical research.

In 2019, SIC established itself and published its first research results, which have already created positive awareness of the centre's scientific activities.

The first SIC graduate programme was conducted, and the first international Summer School within skin immunology will take place in 2020. The theme for the intense three-day learning experience will be The Skin Barrier, with 14 of the world's leading researchers providing the latest insights on the physical and chemical skin barrier, the microbiome in the skin, and how to target it

therapeutically. The Summer School is aimed at PhD students and postdoctoral researchers, and participation is free of charge, with participants being selected based on applications.

During SIC's first year of operations, the first recruitments were made to its two existing research groups and the recruitment of a new principal investigator was completed.

1. Professor Jan Pravsgaard Christensen
Director of Core Facility for Flow Cytometry and Single Cell Sequencing

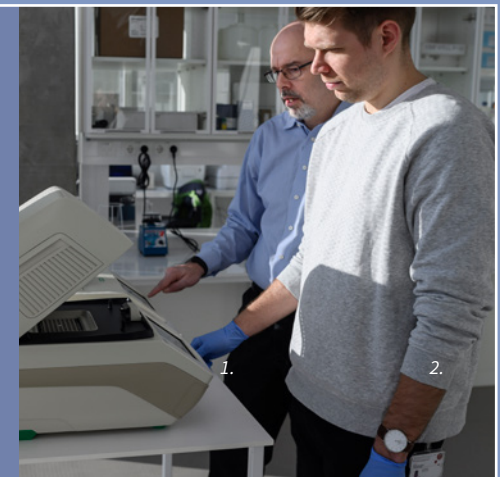
2. Rasmus Nielsen Klitgaard, Ph.D.
Specialist Operator

Studying skin diseases at the cellular level

A major investment in state-of-the-art single-cell sequencing equipment was made possible with an add-on grant to SIC of DKK 15.3 million from the LEO Foundation.

A typical human cell consists of about 2 x 3.3 billion base pairs of DNA, and usually a mix of millions of cells are used in sequencing the DNA. The new equipment enables SIC researchers to examine DNA sequence information from individual cells and obtain a much better understanding of the function of an individual cell in the context of its microenvironment.

Single-cell sequencing is expected to become the new "gold standard" in all areas of research related to immunology and inflammation – and it is just beginning to be used in skin disease research too. The technology demonstrates huge potential for unravelling novel cell populations as well as gaining deep insight into skin disease heterogeneity and mechanisms.



Growing interest in open competition grants

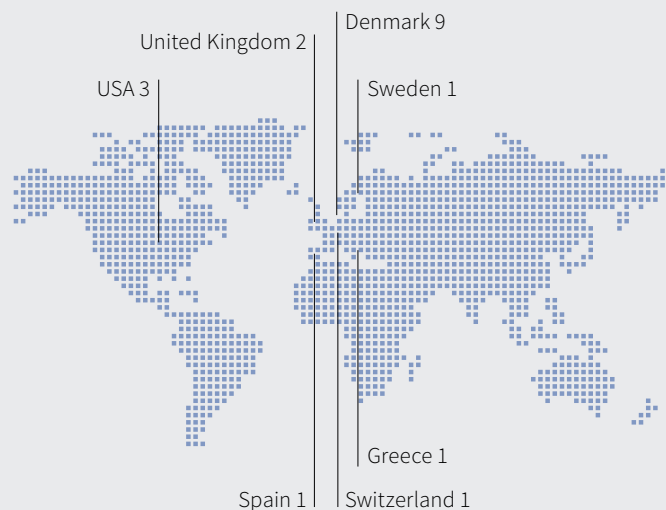
In 2019, we saw a 57% increase in the number of open-competition grant applications compared to 2018. Our Scientific Evaluation Committee (SEC) evaluated 143 applications, and the LEO Foundation Board of Trustees approved 18 grants totalling DKK 52.3 million – a success rate of 13%. Researchers from Denmark and the USA received 67% of the funds awarded, with the remaining 33% going to five other countries.

In 2019, we strengthened our SEC to ensure that all applications receive a professional and independent evaluation. Our current SEC includes members from Denmark, Ireland, Italy, the Netherlands, Sweden, the UK and the USA, who together possess the desired expertise, experience and international perspective.

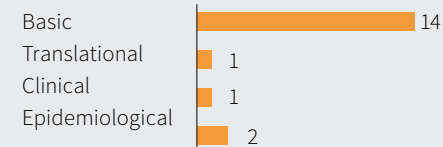
The Foundation’s application and review process for open-competition grants has until recently entailed e-mail submission of application and evaluation forms. To cope with an increasing number of applications, we have now implemented LEO Nora, which is an electronic grant management system. LEO Nora is accessed via a secure link, and ensures more structured, consistent and efficient processes for applicants, reviewers and the Foundation.

18 open competition grants, DKK 52.3 million, 13% success rate

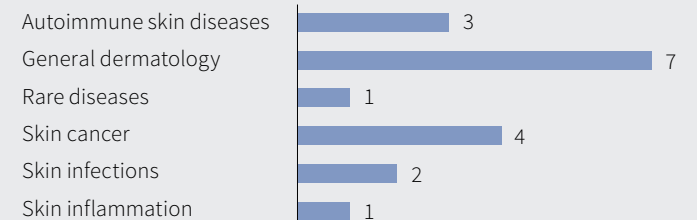
Number of open competition grants per country



Number of open competition grants per research type



Number of open competition grants per research area



With a clear vision to improve acceptance, understanding and treatment for people with skin diseases, we continue to implement our grant strategy and enhance our long-term impact, to the benefit of patients and society.

LEO Foundation awards

In 2019, we implemented our new regional award strategy with three USD 100,000 awards to young researchers from the Americas, EMEA and Asia-Pacific regions.

The award process was conducted in close collaboration with the regional societies for investigative dermatology, i.e. the American SID, European ESDR and Japanese JSID. Through these societies, a Global Review Panel of nine members, three from each region, was appointed, ensuring a truly global review of all candidates.

The 2019 awards were presented to Maksim Plikus, Shoba Amarnath and Tetsuro Kobayashi at ceremonies held at the societies’ annual meetings in Chicago (USA), Bordeaux (France) and Aomori (Japan) respectively. In addition to the pleasure of being able to recognise three outstanding young skin researchers, the awards have made the Foundation

much more visible and increased our network within the dermatological research community.

Focus on data, results and output

We want to make an impact through our philanthropic activities – and all impact assessment starts with data collection and systematic tracking of results and output. In 2019, we implemented the reporting tool Researchfish, in which strategic and open-competition grantees are requested to submit information once a year about their scientific output, mainly in the form of published peer-reviewed articles.

Together with other Danish foundations, the LEO Foundation is involved in the development of the Foundgood platform to facilitate collaboration, knowledge sharing and reporting between foundations and grantees. Grantees that have received LEO Foundation education and awareness grants, such as ASTRA* and BLOOM*, report using Foundgood.

The skin


The skin is the largest organ of the body (in a 70 kg individual, the skin weighs over 5 kg and covers a surface area of approx. 2 m²)

2 m² 

The skin protects us from mechanical impact, radiation, microbes and chemicals



At any point in time, one in every four persons will suffer from a skin disease, which is often visible and stigmatising – and in some cases completely debilitating. Therefore, much more research in skin and skin diseases is required – to provide better diagnoses, treatments and perhaps even cures for the millions of people living with skin diseases.

 °C The skin regulates our body temperature

The skin enables us to detect heat, cold, touch and pain

*ASTRA is the national centre for learning in science, technology and health in Denmark. The BLOOM Science festival is organised by the non-profit organisation Golden Days

LEO Foundation – 2019 grants and awards

Open competition grants

Open competition grants support some of the best dermatology research projects around the World

18 grants for a total of DKK 52 million given to researchers from seven countries. Here are three examples of research projects from around the world

Jonathan Brewer University of Southern Denmark

With an interdisciplinary project and team, the grantee aims to develop artificial 3D skin which more accurately represents human skin in comparison to current models.



Maria Kasper Karolinska Institutet, Sweden

With a world-leading team, the grantee aims to create a human body map of skin cell types and investigate important differences in cell type composition as well as alterations in cell behaviour between healthy and diseased skin.



George Murphy Harvard Medical School, USA

With stem cells taking centre stage in current skin research, the grantee aims to determine if epidermal and dermal stem cell behaviour is linked to the pathogenesis of psoriasis and atopic dermatitis.



Education and awareness grants

Education and awareness grants strengthen the pipeline of future researchers

The Big Bang conference gives teachers in Denmark within Science, Technology, Engineering and Mathematics (STEM) an update on research, trends and good practice in STEM education.



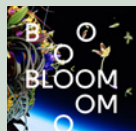
Unges Forskere (Young Scientists)

is a talent competition for Danish primary and high school students and aims to identify, recognise and challenge talents within science.



The BLOOM festival

is an innovative Danish festival about nature and science that aims to improve our understanding of the universe, the world and ourselves.



LEO Foundation Awards

LEO Foundation Awards recognise three outstanding young researchers

Region Americas Maksim Plikus from the USA, who aims to improve our understanding of the skin by studying how hair follicles coordinate their growth activities with one another.



Region EMEA Shoba Amarnath from the United Kingdom, who aims to improve our understanding of immune tolerance in skin inflammation.



Region Asia-Pacific Tetsuro Kobayashi from Japan, who aims to improve our understanding of the interaction between microbes and the immune system in skin.




Governance

The LEO Foundation has established a transparent governance model with clearly defined roles and responsibilities.



As an engaged owner of LEO Pharma and one of Denmark's largest commercial foundations with substantial philanthropic activities and significant financial investments, the LEO Foundation has considerable societal impact in Denmark and beyond. Thus, we have an important obligation and responsibility to operate transparently and with integrity, and we fully support and comply with all the recommendations of the Danish Committee on Foundation Governance.

 For further information, please visit leo-foundation.org/governancerecommendations

The LEO Foundation Board of Trustees consists of 11 members. Seven members are appointed in accordance with the Foundation's charter, while four members are elected by LEO Pharma employees in accordance with applicable laws. The composition of the Board reflects the qualifications and skills necessary for the LEO Foundation to fulfil the objectives specified in its charter.

In February 2019, Anja Boisen and Karin Jexner Hamberg joined the Board. Anja Boisen has deep roots in academia and is today professor at DTU

Health Technology, as well as Director of the IDUN Center at the Technical University of Denmark. She is also vice chairman of the Danish Innovation Foundation and a board member at the Villum Foundation. Karin Jexner Hamberg has a strong understanding of the entire value creation chain in pharma development. She is a Doctor of Medicine, has more than 25 years' international experience from the pharmaceutical industry and currently works as Senior Vice President at Lundbeck.

The members of the LEO Foundation's Board of Trustees also make up the Board of Directors of LEO Holding A/S. Both boards meet at least four times a year and, in addition, hold an annual seminar to discuss and review strategies. Two permanent Board committees have been set up: a Grant Committee (as part of the LEO Foundation) and an Investment Committee (as part of LEO Holding A/S). Both meet at regular intervals. In addition, ad hoc committees are established when deemed relevant, to handle specific matters.

LEO Foundation Grant Committee

The Grant Committee supervises all grant and award activities and advises the Board on relevant matters,

including grant strategies and policies. The Grant Committee also ensures that all grant and award applications undergo relevant assessment to ensure alignment with the Foundation's objectives for its philanthropic activities. This includes evaluation of applications by scientific evaluation committees with external members who, among other things, assess the scientific topic being researched, the qualifications of the applicant and the academic standard of the host institution. All grants and awards are decided by the Board of Trustees.

LEO Holding Investment Committee

The Investment Committee advises the Board on matters relating to investments and asset management. It prepares and recommends investment strategies and policies to the Board and ensures their implementation in cooperation with the Executive Management. The Committee also monitors and reviews relevant internal controls, risk management and governance models.

Statutory Report on Gender Diversity

The Board strives to ensure that, by 2020, at least 40% of charter-appointed members are women and, similarly, that at least 40% of its charter-appointed

members are men. In 2019, two changes were made to the Board, bringing the gender composition within the desired range with three out of seven (43%) of the charter-appointed members being women.

Given the very limited number of employees at the LEO Foundation, no policy has been established for gender diversity at management levels below the Board.

LEO Pharma has set a goal of having at least three female members on its Board of Directors (in addition to the employee-elected members) by the end of 2021. Currently, two out of eight members are women. Overall, women represent 45% of management positions at levels below the Board of Directors of LEO Pharma A/S. For more information on LEO Pharma's governance, please refer to LEO Pharma's Annual Report.

Active ownership of LEO Pharma

The LEO Foundation's main objective is to ensure the long-term continuation and success of LEO Pharma.

We exert our ownership actively by electing highly qualified professionals to the LEO Pharma Board of Directors and by:

- Issuing a mandate to LEO Pharma's Board of Directors specifying the fundamental values and scope of the company
- Approving the long-term performance targets and capital structure of the company
- Endorsing the strategy proposed by LEO Pharma's Board of Directors

LEO Pharma issues a quarterly report on the progress and performance of the business, followed by status meetings. In addition, an annual Capital Markets Day is held, during which the strategic progress is reviewed and discussed. The LEO Foundation holds two ordinary seats on the company's Board of Directors. These seats are currently held by LEO Foundation CEO Jesper Mailind and LEO Foundation Board member Cristina Lage.



Board of Trustees



	Lars Olsen <i>Chairman</i>	Eivind Kolding <i>Vice Chairman</i>	John Mehlbye <i>Board member</i>	Peter Schwarz <i>Board member</i>	Cristina Lage <i>Board member</i>	Anja Boisen <i>Board member</i>
Born / Gender	1965 / M	1959 / M	1950 / M	1959 / M	1954 / F	1967 / F
Joined the Board of Trustees	2015	2017	2008	2017	2016	2019
Re-elected	Yes	Yes	Yes	Yes	Yes	No
Term expires	2021	2021	2021	2021	2021	2021
Member's special skills	Pharma, general management, R&D, sales and marketing	General management, finance, law	Pharma, general management, product supply	Endocrinology, medicine and clinical biochemistry	General and change management, investment and asset management, financial risk management	Research, general management, innovation, fundraising
Other management positions	LEO Holding A/S, Chairman	LEO Holding A/S, Vice Chairman LEO Holding A/S, Investment Committee member Danish Ship Finance, Chairman CASA Group, Chairman NNIT, Board member Axcelfuture, Advisory Board member Kunstforeningen Gl Strand, Chairman BiQ ApS, Board member Altor Fund Manager AB, Board member NTG Nordic Transport Group A/S, Chairman	LEO Holding A/S, Board member LEO Holding A/S, Investment Committee member Østagergaard, Board member	LEO Holding A/S, Board member LEO Foundation, Grant Committee, Chairman	LEO Holding A/S, Board member LEO Pharma A/S, Board member LEO Holding A/S, Investment Committee, Chairman Det Obelske Familiefond, Board member C.L. Davids Fond, Board member Topdanmark A/S, Board member and Audit Committee member	LEO Holding A/S, Board member LEO Foundation Grant Committee member Villum Foundation, Board member Lightnovo Aps, Board member
Appointed by the authorities	No	No	No	No	No	No
Member considered independent?	No	Yes	No	Yes	Yes	Yes



	Karin Jexner Hamberg <i>Board member</i>	Lars Kjølner <i>Employee-elected Board member</i>	Jannie Kogsbøll <i>Employee-elected Board member</i>	Allan Carsten Dahl <i>Employee-elected Board member</i>	Lotte Hjortshøj <i>Employee-elected Board member</i>
Born / Gender	1961 / F	1967 / M	1962 / F	1967 / M	1971 / F
Joined the Board of Trustees	2019	2017	1998	2015	2018
Re-elected	No	Yes	Yes	Yes	No
Term expires	2021	2022	2022	2022	2022
Member's special skills	Strategic R&D management, drug development, medicinal product innovation, health economics, regulatory affairs, pharmacovigilance, promotional compliance	R&D information search and analysis, scientific competitive intelligence	Medicinal production, processes	Organic process R&D, CMC development	People, project management, administration
Other management positions	LEO Holding A/S, Board member LEO Foundation, Grant Committee member	LEO Holding A/S, employee-elected Board member	LEO Holding A/S, employee-elected Board member LEO Pharma A/S, employee-elected Board member	LEO Holding A/S, employee-elected Board member	LEO Holding A/S, employee-elected Board member
Appointed by the authorities	No	No	No	No	No
Member considered independent?	Yes	No	No	No	No

Corporate social responsibility

As the owner of a global pharmaceutical company, a substantial financial investor and a philanthropic supporter of scientific research around the world, the LEO Foundation plays an active role in society.

The vast majority of the LEO Group's business activities are conducted by LEO Pharma, and CSR is embedded in the company's business and in the behaviour of its employees. LEO Pharma has a business-driven CSR approach and acknowledges its economic, social and environmental responsibility in compliance with the principles of the UN Global Compact. LEO Pharma's 2018-2020 CSR commitment defines nine focus areas where the company is taking concrete action to contribute to the UN Sustainable Development Goals. This commitment is built on three pillars: empowering patients, sustainable operations and business integrity.

A key ambition of LEO Pharma is to help patients by addressing unmet medical needs. A key driver for this ambition is having world-class science in the company's dermatology research and development programmes. In 2019, LEO Pharma invested heavily in R&D activities – both in the form of internal projects and external collaborations. Major achievements included selection of a drug candidate for the company's first developed monoclonal antibody as well as clinical phase 1 results for two new candidates and one line-extension project.

As a global pharmaceutical company, LEO Pharma performs many functions that impact society. To address and mitigate the risk of negative impacts,

the company has developed policies and processes covering the different CSR focus areas. For more information about LEO Pharma's CSR initiatives and policies, please refer to LEO Pharma's Annual Report.

We are committed to acting ethically and responsibly throughout our organisation. An important part of our framework for responsible conduct in relation to our investments is our environmental, social and governance (ESG) policy. This policy is based on adherence to the Ten Principles of the UN Global Compact, which form the basis for ethical, human and corporate behaviour that supports long-term sustainability and success. By basing our policy on these principles, we aim to address the CSR risks we face as a large financial investor. As our investments are managed through external investment managers, we work actively with these managers to ensure compliance with the policy. Our investment team reviews the investment managers as an integrated part of the investment process, and managers are required to report yearly on ESG factors and matters, including, where relevant, exited investments, engagement with companies and corrective actions carried out by the managers. In 2019, we converted all our equity index investments to ESG-screened investment funds.


Given the type of business conducted by the LEO Foundation with just 10 employees, our direct

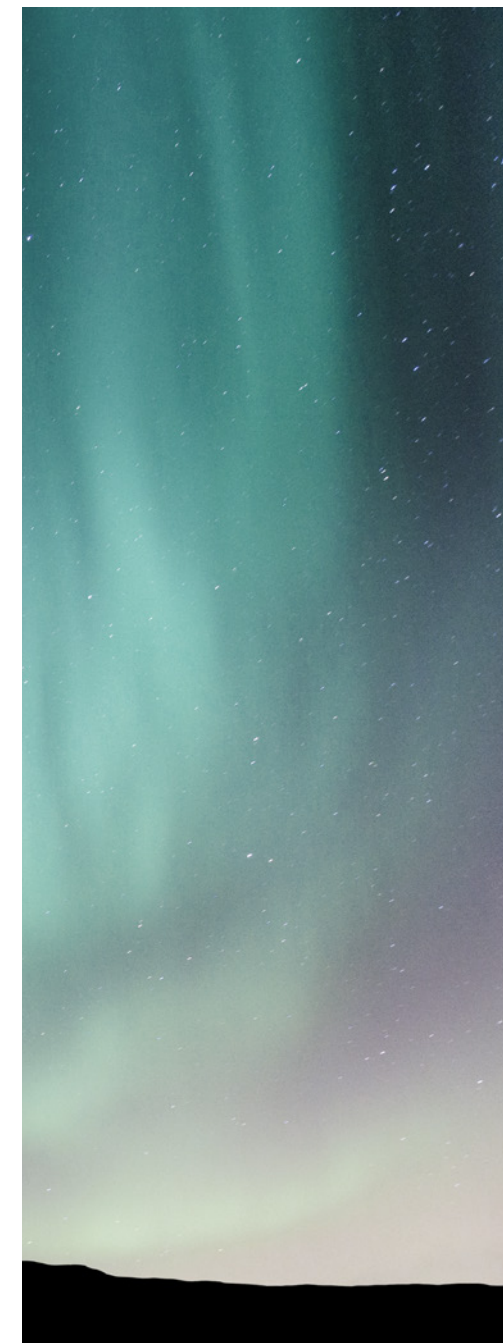
impact on climate and the environment is limited. At LEO Group level, the main impact stems from LEO Pharma's six production facilities. Protecting and preserving the environment is an integral part of LEO Pharma's daily business, and the company works actively to minimise its impact. The company has set a goal for 2020 to save an amount of energy corresponding to 10% of its energy consumption in 2013 via energy savings. This is equivalent to reducing its energy consumption by 12,900 MWh. In 2019, LEO Pharma achieved a reduction of 1.2 GWh/year by installing new heat pumps and circulation pumps, replacing lamps for conventional lighting units with LED, and improving ventilation and cooling across its manufacturing sites.

The LEO Foundation supports and respects the protection of internationally adopted human and labour rights. At the LEO Foundation, we require our grantees and everybody working on the projects we support to be employed under conditions that comply with applicable laws. The LEO Code of Conduct, which applies to all employees of the LEO Group, prohibits any discrimination on the basis of privacy, race, colour, sex, language, religion, political or other opinion, caste, national or social background, property, citizenship, ethnicity, birth, union affiliation, sexual orientation, health status, family responsibilities, age, disability or any other distinguishing characteristics. At LEO Group level,

a key initiative in 2019 was the development of a stand-alone human rights policy in LEO Pharma, strengthening the company's basis for embedding the responsibility to respect human rights in all its business functions.

Throughout the LEO Group, we are committed to upholding high business standards and promoting good business conduct in our interactions with customers, grantees, healthcare professionals, public officials and other business partners. Our commitment to work against corruption is set out in our anti-corruption and bribery policy, which is part of the LEO Code of Conduct. Throughout 2019, LEO Pharma worked to strengthen its global Anti-Corruption Programme, in order to improve the prevention and early detection of corruption. This included strengthening of processes within areas of the programme such as risk assessment, training and knowledge testing, due diligence, reporting and monitoring – all with the purpose of ensuring continuous alignment with global standards and best practice for preventing corruption.

 For further details of our grants and beneficiaries, please visit <https://leo-foundation.org>



Risk management

Risk management is a key part of the LEO Foundation’s work. The main objective of these efforts is to remain able to fulfil the charter-defined obligations of ensuring the continuation of LEO Pharma and supporting research within medicine, chemistry and pharmacy.

In order to do this, the LEO Foundation must ensure that sufficient capital is always available to withstand a severe crisis, including a convergence of several high-impact risk events.


Updating the LEO Foundation’s risk management and reporting system was a continued focus area in 2019, with particular focus on ensuring strong and consistent reporting of major risks at LEO Pharma.

The LEO Foundation applies risk models to simulate the effect of potential high-impact risks to ensure that the Foundation always has sufficient capital available to withstand such crises. These simulations are carried out twice a year and reported to the Board. The LEO Foundation’s main risks relate to value generation and operational risks at LEO Pharma as well as the management of the financial assets. In addition, the Foundation is subject to a number of other risks of a more generic nature, including risks related to the Foundation’s philanthropic activities as well as political and reputational risks. These are, as far as possible, mitigated through the implementation of policies and procedures.

LEO Pharma

Business and financial risks associated with operations are managed by LEO Pharma, which has defined risk management policies and procedures. To facilitate a sustained repeatable approach to risk management, an Enterprise Risk Management (ERM) Framework is being implemented globally, primarily based on the ISO 31000 International Risk Management Standard. This includes a standardised risk assessment, risk treatment, and risk-reporting methodology and cycle. The LEO Pharma Board of Directors has overall responsibility for the company’s enterprise risk management, with oversight of the ERM Framework delegated to its Audit Committee. A separate risk report with a risk heat map of the key enterprise risks relevant to LEO Pharma’s strategic ambitions towards 2025, including high-level scenarios and main risk treatment activities for each key risk, is provided to the company’s Board of Directors as well as to the Foundation on a biannual basis. In parallel, a biannual worst-case risk report is provided to support financial stress testing and ensure that key internal stakeholders stay vigilant and maintain a balanced level of preparedness for

these often low-likelihood but high-consequence risk scenarios.

 *For more information about risks at LEO Pharma, please refer to LEO Pharma’s Annual Report.*

Financial portfolio risks

The financial portfolio is managed according to the investment policy, which is reviewed and approved annually by the Board. The investment policy sets out the strategic asset allocation and the boundaries for each asset class within which tactical asset allocation positions can be taken. Furthermore, the investment policy sets limits on counterparty risk, overall interest rate risk and the liquidity of the financial portfolio. Currency risk is hedged for all fixed-income exposure, while equity investments have full currency exposure but with the option of hedging. All asset classes, external managers and external investment funds are approved by the Board’s Investment Committee prior to any investments. Compliance with the investment policy is verified by the finance department, and investment results are documented in reports to the Investment Committee and the CEO.

Each week, a portfolio performance report is prepared by the Chief Investment Officer and distributed to the CEO and the Chairman of the LEO Holding Investment Committee, followed by a meeting between the CEO and the investment team. A monthly report is issued to the Investment Committee. An investment update is presented to the full Board by the Chief Investment Officer at all regular Board meetings.

In relation to ESG, the investment team reviews the external investment managers as an integrated part of the investment process. All investment managers report annually on ESG factors and matters, including, where relevant, exited investments, engagement with companies and ESG Committee issues.



Financial highlights

– LEO Group

(DKK million)	2019	2018	2017	2016	2015
Income statement					
Revenue	10,805	10,410	10,481	9,863	8,457
Operating profit	(1,343)	1,577	835	329	759
Financial items	2,045	(674)	941	789	179
Profit before tax	673	892	1,773	1,115	925
Net profit for the year	389	708	1,383	723	713
Balance sheet					
Investments in property, plant and equipment	1,968	480	385	302	261
Non-current assets	16,169	10,234	8,216	19,471	14,895
Current assets	23,026	22,715	23,608	17,500	17,333
Total assets	39,195	32,949	31,824	36,971	32,228
Equity	27,077	26,921	26,519	25,094	24,804
Key ratios					
Return on equity	1%	3%	7%	4%	4%
Solvency ratio	69%	82%	83%	68%	77%

Consolidated Financial Statements — LEO Group

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Income statement

1 JANUARY - 31 DECEMBER

(DKK million)	Note	2019	2018
Revenue	2	10,805	10,410
Cost of sales	3, 10, 16	(3,350)	(3,040)
Gross profit		7,455	7,370
Sales and distribution costs	3, 9, 10	(4,611)	(3,946)
Research and development costs	3, 9, 10	(2,444)	(1,914)
Administrative costs	3, 9, 10, 19	(1,735)	(1,330)
Other operating income	4	19	1,612
Other operating expenses	4	(27)	(215)
Operating profit		(1,343)	1,577
Share of profit/(loss) on investment in associates		(29)	(11)
Financial income	7	2,327	27
Financial expenses	7	(282)	(701)
Profit before tax		673	892
Tax on profit for the year	8	(284)	(184)
Net profit for the year		389	708

Statement of comprehensive income

1 JANUARY - 31 DECEMBER

(DKK million)	Note	2019	2018
Net profit for the year		389	708
Other comprehensive income			
Actuarial gains/(losses)	19	(147)	59
Tax on other comprehensive income	8	13	(6)
Items that will not be reclassified subsequently to the income statement		(134)	53
Exchange rate adjustments on investments in foreign subsidiaries		2	(40)
Cash flow hedges (exchange rate), deferred gains/(losses) incurred during the period		(31)	(27)
Cash flow hedges (interest rate), deferred gains/(losses) incurred during the period		4	2
Tax on other comprehensive income	8	6	5
Items that may be reclassified subsequently to the income statement		(19)	(60)
Other comprehensive income		(153)	(7)
Comprehensive income for the year		236	701

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2019	2018
Goodwill		126	-
Intellectual property rights		6,875	3,514
Development projects		2,315	2,099
Software		959	654
Intangible assets	9	10,275	6,267
Land and buildings		1,381	707
Leasehold improvements		46	38
Plant and machinery		1,029	496
Other fixtures and fittings, tools and equipment		224	126
Assets under construction		1,121	799
Property, plant and equipment	10	3,801	2,166
Investments in associates		9	35
Other financial securities	14	1,291	1,076
Deferred tax assets	15	776	673
Other receivables	14	17	17
Financial assets		2,093	1,801
Total non-current assets		16,169	10,234
Inventories	16	2,305	1,729
Trade receivables	12	3,325	3,229
Tax receivables		943	689
Other receivables		981	499
Prepayments		302	208
Other securities	14	14,189	16,010
Cash and bank balances	14	269	351
Assets held for sale	17	712	-
Total current assets		23,026	22,715
TOTAL ASSETS		39,195	32,949

EQUITY AND LIABILITIES

(DKK million)	Note	2019	2018
Foundation capital	18	98	98
Foreign currency translation reserve		(210)	(212)
Hedging reserve		(44)	(23)
Reserve for future grants		124	104
Retained earnings		27,109	26,954
Equity		27,077	26,921
Deferred tax liabilities	15	1,105	4
Retirement benefit obligations	19	413	243
Provisions	20	405	234
Credit institutions	13	3,807	536
Lease liabilities	11	462	-
Other long-term liabilities		90	3
Total non-current liabilities		6,282	1,020
Provisions	20	794	842
Credit institutions	14	719	914
Trade payables		1,547	900
Lease liabilities	11	97	-
Tax payables		62	59
Contract liabilities	2	-	15
Other payables		2,617	2,278
Total current liabilities		5,836	5,008
TOTAL EQUITY AND LIABILITIES		39,195	32,949

Statement of changes in equity

(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Reserve for future grants	Retained earnings	Total
2019						
Equity at 1 January 2019	98	(212)	(23)	104	26,954	26,921
Net profit for the year	-	-	-	100	289	389
Other comprehensive income for the year	-	2	(21)	-	(134)	(153)
Total comprehensive income for the year	-	2	(21)	100	155	236
Additions	-	-	-	-	-	-
Grants for the year	-	-	-	(80)	-	(80)
Equity at 31 December 2019	98	(210)	(44)	124	27,109	27,077

(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Reserve for future grants	Retained earnings	Total
2018						
Equity at 1 January 2018	98	(172)	(3)	83	26,513	26,519
Net profit for the year	-	-	-	100	608	708
Other comprehensive income for the year	-	(40)	(20)	-	53	(7)
Total comprehensive income for the year	-	(40)	(20)	100	661	701
Additions	-	-	-	220	(220)	-
Grants for the year	-	-	-	(299)	-	(299)
Equity at 31 December 2018	98	(212)	(23)	104	26,954	26,921

Cash flow statement

1 JANUARY - 31 DECEMBER

(DKK million)	Note	2019	2018
Operating profit before financial items		(1,343)	1,577
Adjustment for non-cash operating items			
Amortisation, depreciation and impairment losses	9, 10	1,185	760
Change in retirement benefit obligations	19	114	(112)
Change in provisions	20	107	203
Reversal of gain on divestments of assets		13	(1,593)
Other adjustments	21	(16)	(66)
Change in working capital			
Change in inventories and receivables		(553)	(643)
Change in trade payables and other payables		1,122	110
Corporation tax paid		(711)	(240)
Interest paid		(164)	(143)
Interest received		5	43
Cash flows from operating activities		(240)	(104)

1 JANUARY - 31 DECEMBER

(DKK million)	Note	2019	2018
Investments in intangible assets	9	(1,077)	(878)
Investments in property, plant and equipment	10	(1,229)	(478)
Investments in acquisitions		(4,371)	(436)
Proceeds from sale of intangible assets and property, plant and equipment	21	1,858	
Investments in other securities		(2,902)	(160)
Proceeds from sale of other securities		6,819	206
Cash flows from investing activities		(2,739)	112
Proceeds from raising loans		3,809	-
Repayment of bank debt		(1,006)	(474)
Overdraft		276	443
Lease repayment		(92)	-
Grants paid out during the year		(100)	(49)
Cash flows from financing activities		2,887	(80)
Change in cash and cash equivalents		(92)	(72)
Cash and cash equivalents at 1 January		351	428
Unrealised exchange gains/(losses) on cash and cash equivalents		10	(5)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	12	269	351

The figures in the cash flow statement cannot be directly derived from the figures in the balance sheet.

Notes — LEO Group

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NOTE 1 BASIS OF REPORTING**Basis of preparation**

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of the Danish Financial Statements Act.

The Consolidated Financial Statements are presented in Danish kroner (DKK), which is also the functional currency of the Parent Company.

The accounting policies applied to the Consolidated Financial Statements in general are described below, while the remaining accounting policies are described in the notes to which they relate.

Applying materiality

In the preparation of the Consolidated Financial Statements, the LEO Group aims to focus on information which is considered to be material and relevant to the users of the Consolidated Financial Statements.

The Consolidated Financial Statements are a result of aggregating large numbers of transactions into classes of similar items according to their nature or function in the Consolidated Financial Statements. If a line item is not individually material, it is aggregated with other items of a similar nature in the Consolidated Financial Statements or in the notes.

The provisions in IFRS contain extensive disclosure requirements. The specific disclosures required by IFRS are provided in the Consolidated Financial Statements unless the information is considered immaterial to the users of the Consolidated Financial Statements.

Key accounting estimates and judgements

Executive Management has made certain estimates regarding valuation and judgements that affect the accounting policies and the reported amounts in the Consolidated Financial Statements. Estimates are based on historical experience and assumptions reasonable under the circumstances. They are based on whatever information is currently available. Therefore the actual amounts may differ from the estimated amounts.

Below are listed the key accounting estimates and judgements relevant to the specific notes:

- Note 5 Acquisition of activities: Estimate of purchase price allocation in business combinations. Judgement in assessing the type of transaction/asset and control
- Note 8 Tax on profit/loss for the year: Estimates regarding provisions for uncertain tax positions
- Note 9 Intangible assets: Estimated useful lives and impairment test. Judgement in assessing type of asset and level of control
- Note 11 Leases: Judgement in determining the lease term
- Note 15 Deferred tax: Estimates of deferred tax assets and provisions for uncertain tax provisions
- Note 16 Inventories: Estimates of valuation of inventories
- Note 20 Provisions: Estimates of provision for legal disputes and sales deductions

In 2018, the useful lives of intangible assets were reassessed. Based on the review, the useful lives of some intellectual property rights were increased to reflect the pattern of future economic benefits from the assets. The change was accounted for in accordance with IAS 8 as a change in accounting estimates.

The impact on the Consolidated Financial Statements in 2018 was a decrease in amortisation of DKK 166 million in the income statement and a corresponding increase in carrying amount of intangible assets in the balance sheet.

In 2019 certain liabilities, in total DKK 1,164 million have been reclassified to other payables, whereas they in 2018 were presented as trade payables.

NOTE 1 BASIS OF REPORTING (CONTINUED)

General accounting policies

Consolidation

The Consolidated Financial Statements comprise the LEO Foundation and entities in which the LEO Foundation directly holds more than 50% of the votes or otherwise exercises control (its subsidiaries).

The Consolidated Financial Statements are prepared by combining the Financial Statements of the Parent Company and all subsidiaries with subsequent elimination of intercompany transactions, intercompany shareholdings and balances, as well as unrealised profits from intercompany transactions. The Financial Statements of all the companies have been prepared according to the same accounting policies as applied by the LEO Group.

The proportionate share of the results of associates is recognised in the income statement after tax. Unrealised gains and losses on transactions with associates are eliminated in proportion to the Group's share of the enterprise.

Foreign currency translation

On initial recognition, transactions in foreign currencies are translated at the exchange rates at the transaction dates. Exchange rate differences arising between the rates on the transaction and payment dates are recognised in Financial income and Financial expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rate at the time when the receivable or the payable arises, or on recognition in the most recent Financial Statements, are recognised in Financial income and Financial expenses in the income statement.

On consolidation of foreign subsidiaries having a functional currency other than DKK, income statements are translated into DKK at the average exchange rates for the period, and balance sheet items are translated at the exchange rates at the balance sheet date. The effects of the translation of the opening equity of foreign subsidiaries at the exchange rates at the balance sheet date and the translation of the statement of comprehensive income from average exchange rates to the exchange rates at the balance sheet date are recognised in Other comprehensive income.

Cash flow statement

The cash flow statement is prepared according to the indirect method based on operating profit. The statement shows cash flows from operating, investing and financing activities, as well as cash and cash equivalents at the start and end of the year. Cash flows from operating activities are calculated as the Group's operating profit, adjusted for non-cash operating items such as depreciation, amortisation and impairment

losses, as well as changes in working capital. Working capital comprises inventories, trade receivables and trade payables, etc.

Cash flows from investing activities comprise payments from acquisitions and disposals of intangible assets and property, plant and equipment, investments in and proceeds from sale of other investments, as well as net investments in securities.

Cash flows from financing activities comprise payments from the raising and repayment of short-term and long-term debt, and payments to and from shareholders. Cash and cash equivalents comprise solely cash at bank and in hand.

Grants

Grants paid out: Grants that have been adopted and paid out in accordance with the purpose of the

Foundation at the balance sheet date are deducted from equity.

Grants not yet paid out: Grants that have been adopted in accordance with the purpose of the Foundation at the balance sheet date and announced to the recipients, but not yet paid out at the balance sheet date, are deducted from equity and recognised as debt.

Grant limit: At the meeting of the Board of Trustees at which the Annual Report is adopted, the Board of Trustees lays down a grant limit in respect of the amount expected to be granted. This amount is transferred from retained earnings to the grant limit. Concurrently with being announced to the recipients, the grant amounts are paid out, transferred to debt or, in rare cases, transferred to provisions relating to grants.

Definition of key figures

Return on equity ¹	$\frac{\text{Profit before tax}}{\text{Average equity}}$	x 100
Solvency ratio ¹	$\frac{\text{Equity}}{\text{Assets}}$	x 100

1. Definitions according to the Danish Society of Financial Analysts' Recommendations & Financial Ratios.

NOTE 1 BASIS OF REPORTING (CONTINUED)

Implementation of new standards and interpretations

We have assessed the effect of new IFRS accounting standards and interpretations. Effective from 1 January 2019, we have implemented the following new or changed accounting standards and interpretations:

The implemented IFRS 16 resulted in the changes described below. The implementation of IFRIC 23 has not had any impact on the financial statements. Other new and revised standards have been assessed, but they have not had a material impact on the accounting policies or disclosures for the year.

IFRS 16 Leases was implemented on 1 January 2019 and replaces IAS 17 and IFRIC 4. The LEO Group uses the relief from restating comparative figures (modified retrospective method). Therefore, the comparative figures have been prepared and presented in accordance with IAS 17 and IFRIC 4.

The impact of the IFRS 16 has resulted in the following changes:

- Lease assets and lease liabilities are recognised in the balance sheet
- Lease expenses are recognised as depreciation of lease assets instead of operating costs as under IAS 17
- Interest elements regarding lease liabilities are recognised as financial expenses
- Lease debt repayments are classified as cash flows from financing activities. Under IAS 17, all lease payments were classified as cash flows from operating activities

As permitted when applying IFRS 16 for the first time, LEO Group has used the following practical expedients:

- Assessed a lease with a remaining lease term of less than 12 months as of 1 January 2019 as a short-term lease
- Applied a single discount rate to a portfolio of assets with similar characteristics

(DKK million)	December 31, 2019	January 1, 2019
Carrying amount of lease assets are recognised in:		
Right of use assets	547	577
Non-current lease liabilities	462	480
Current lease liabilities	97	97

The following table shows a reconciliation from operating lease commitment as of December 31, 2018 to lease liabilities as of January 1, 2019

Operating lease commitments as December 31, 2018

Finance lease liabilities recognized at december 31, 2018	440
Discounted using the Group incremental borrowing rates as of January 1, 2019	-37
Adjustment for useful life changes	174
Lease liabilities recognized at January 1, 2019	577

NOTE 2 REVENUE

Accounting policies

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when control has been transferred – generally this is when delivery and transfer of risk have taken place. For sales delivered on a consignment basis, control is transferred when the products are sold to the end-customer.

Revenue is measured at the amount of consideration which the Group expects to be entitled to in exchange for transferring the goods.

Revenue is recognised exclusive of VAT and net of sales deductions, including product returns as well as discounts and rebates.

Revenue includes licence income and sales-based royalties from outlicensed products as well as milestone payments and other revenues in connection with partnerships. These revenues, except for royalties, are recognised when the performance obligation is satisfied, when control is transferred to the customer. For sales-based royalties, revenue is recognised when the subsequent sale occurs. Please refer to note 20 Provisions regarding the accounting policies for sales deductions and returns.

(DKK million)	2019	2018
Revenue by region		
Europe+	6,840	6,530
International	3,117	2,795
US	848	1,085
Total	10,805	10,410
Revenue by therapeutic area		
Psoriasis	3,988	3,837
Eczema/skin infections	3,220	2,598
Thrombosis	2,219	2,396
Actinic keratosis	312	374
Other	1,066	1,205
Total	10,805	10,410
Revenue by category		
Products	10,563	10,164
Sales-based royalties	212	225
Other	30	21
Total	10,805	10,410
Timing of revenue recognition		
Goods transferred at a point in time	10,791	10,380
Services transferred over time	14	30
Total	10,805	10,410

NOTE 2 REVENUE (CONTINUED)

Contract balances

Generally, billing occurs subsequent to revenue recognition, resulting in trade receivables. Payment terms are typically 30-60 days. However, the Group sometimes receives upfront payments related to

various sales and distribution rights where the upfront payments are recognised over time, resulting in contract liabilities. Contract liabilities are recognised as Revenue in line with fulfilment of the contract obligation.

(DKK million)	2019	2018	2017
Contract liabilities (non-current)	-	-	14
Contract liabilities (current)	-	15	30
Total contract liabilities	-	15	44
Revenue recognised in the period from			
Amounts included in contract liabilities at the beginning of the period	15	30	32

Unsatisfied performance obligations

The Group's unsatisfied performance obligations relate to the contract liabilities that have not yet been recognised as Revenue, as well as contracts where the

Group has an obligation to deliver goods that has not yet been fulfilled.

The transaction price not yet recognised as Revenue is:

(DKK million)	2020	2021	Total
Remaining performance obligations expected to be recognised as of 31 December 2019	24	-	24

NOTE 3 STAFF EXPENSES

Accounting policies

Wages, salaries, social security expenses, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the associated services are rendered by employees of the LEO Group.

Where the LEO Group provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

The average number of employees is calculated as the average of the number of permanent employees at the end of each month.

(DKK million)	2019	2018
Wages and salaries	3,625	3,086
Pensions – defined benefit plans	7	6
Pensions – defined contribution plans	276	256
Social security expenses	321	292
Other employee expenses	172	213
Total staff expenses for the year	4,411	3,853
Capitalised staff expenses	(198)	(137)
Total staff expenses in the income statement	4,213	3,716
Staff expenses included in		
Cost of sales	626	656
Sales and distribution costs	1,799	1,701
Research and development costs	831	709
Administrative costs	957	650
Total	4,213	3,716
Remuneration to the Executive Board	4	4
Average number of full-time employees	5,830	5,534

Remuneration to the Board of Trustees

In accordance with the governance recommendations issued by the Danish Committee on Foundation

Governance, the LEO Foundation discloses the following information about the Board of Trustees (with the exception of employee-elected members):

(DKK thousand)	Lars Olsen	Eivind D Kolding	Jens Bo Olesen	Anja Boisen	Cristina Lage	Ingelise Saunders	John Mehlbye	Karin J Hamberg	Peter Schwarz	Employee-elected	Total
Remuneration period	Full year	Full year	1.1-28.2	1.3-31.12	Full year	1.1-28.2	Full year	1.3-31.12	Full year		
LEO Foundation, Board	450	275	50	125	150	25	150	125	150	600	2,100
LEO Foundation, Committees				42				42	100		184
LEO Holding A/S	450	275	50	125	150	25	150	125	150	600	2,100
LEO Holding A/S, Committees			8		100		50				158
LEO Pharma A/S					350					350	700
LEO Pharma A/S, Committees					92						92

The Chairman and Vice Chairman do not receive separate remuneration for committee work.

NOTE 4 OTHER OPERATING INCOME AND EXPENSES

Accounting policies

Other operating income and other operating expenses comprise items of a secondary nature to the LEO Group's primary activities.

Other operating income and expenses

The decrease in Other operating income in 2019 was mainly the result of a realised gain of DKK 1,566 million from the sale of product rights to Karo Pharma AB in 2018.

The decrease in other operating expenses of DKK 188 million in 2019, relates mainly to the compensation to Karo Pharma AB for a share of the net profit from sales under the intellectual property rights, in an intermediate period in 2018 where LEO Pharma continued to be responsible for the sales to the customers.

NOTE 5 ACQUISITION AND DIVESTMENT OF ASSETS AND ACTIVITIES

Accounting policies

Acquisition of activities is recognised using the acquisition method in accordance with IFRS 3.

The date of acquisition is the date on which the Group obtains control of the company.

Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the date of acquisition by applying relevant valuation methods. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. Deferred tax is recognised for identifiable tax benefits existing at the date of acquisition and from the perspective of the new combined Group in compliance with local tax legislation.

Acquisitions are recognised in the Consolidated Financial Statements from the date of acquisition.

The fair value of intangible assets is determined using an income approach where assets are valued at present value based on the expected cash flow they can generate. Inventories are valued at estimated sales price less selling costs. The fair values of property, plant and equipment and other assets and liabilities is determined using the approach we find most relevant for the individual item, which can be either a comparative market approach or a cost approach.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The fair value of assets held for sale is determined based on negotiated price in arm's length transaction.

Key accounting estimates and judgements

Assessment of type of transaction and control

In connection with an acquisition, LEO Pharma uses judgments to determine whether the transaction is a business combination by applying the definition in IFRS 3 Business combinations. A transaction is determined as a business combination when the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. If the assets acquired do

not constitute a business, the transaction is recognised as a purchase of individual assets.

Purchase price allocation

When applying the acquisition method to business combinations, by nature this involves estimates in assessing the fair value of identifiable assets and liabilities. Assessment of the fair value of intellectual property rights is based on a number of estimates regarding WACC and expected cash flows, which have a significant impact on the fair value.

NOTE 5 ACQUISITION AND DIVESTMENT OF ASSETS AND ACTIVITIES (CONTINUED)

Acquisition during 2019

On 27 July 2018, the LEO Pharma Group entered into two separate agreements to purchase 100% of Bayer's global prescription dermatology portfolio. The first agreement relating to the US business was recognised in the Consolidated Financial Statements at the closing date, 4 September 2018. The second agreement, regarding Bayer's prescription dermatology business for the rest of the world, including the intellectual property rights and taking over sales and marketing organisations was recognised on 1 July 2019, when LEO Pharma Group obtained control. The acquisition further comprised a factory in Segrate, Italy, and 100% of the shares in the German companies Intendis GmbH, Intraseriv Verwaltungs GmbH and Intraseriv KG. The acquisition is in line with the Group's growth strategy within the areas of acne, fungal skin infections and rosacea, as well as LEO Pharma's range of topical steroids. By completing the final part of the acquisition, the Group increased its size in key markets such as Brazil, Austria and South Africa, underlining the ambition to become a world leader in medical dermatology.

The fair value of the assets and liabilities acquired are not considered final until 12 months after acquisition

Impact on 2019 financials

From the acquisition date to 31 December 2019, the Rest of the World business contributed revenue of DKK 752 million. If the acquisition had taken place on 1 January 2019, the Group's revenue would have been DKK 11,601 million. Disclosure of net profit/loss for the period is impracticable as the required information is not available from the seller of the acquired company. A cash consideration of DKK 4,626 million was paid in 2019. Goodwill of DKK 126 million was recognised as part of the transaction, primarily

related to deferred tax assets and liabilities that arose due to fair value adjustments of assets acquired in the share deal.

Transaction costs relating to the acquisition amounted to DKK 45 million that were recognised as administrative costs in the income statement.

US acquisition in 2018

From the acquisition date to 31 December 2018, the US business contributed revenue of DKK 128 million. If the acquisition had taken place on 1 January 2018, the contribution to the Group's revenue would have been DKK 423 million.

A cash consideration of DKK 436 million was paid in 2018. Based on a purchase price allocation, intellectual property rights were valued at DKK 331 million and inventories at DKK 105 million. No goodwill was recognised as part of the transaction. Transaction costs of DKK 27 million were recognised as administrative costs in the income statement.

Divestment of emollients and proctology portfolio to Karo Pharma

On 23 December 2019, LEO Pharma announced the sale of 10 products to Karo Pharma AB for DKK 712 million. The divested portfolio is non-core to LEO Pharma's business and was part of the portfolio acquired from Bayer in July 2019. As a consequence of the divestment, the assets have been valued based on negotiated price in the purchase price allocation. The transaction is subject to the competition authority's approval but is expected to be effective by the end of March 2020.

The divested portfolio has been classified as assets held for sale.

FAIR VALUE AT DATE OF ACQUISITION

(DKK million)	2019
Intangible assets	4,007
Property, plant and equipment	187
Inventories	405
Trade receivables	290
Deferred tax asset	22
Cash and cash equivalents	255
Assets held for sale	712
Total assets	5,878
Pensions and similar obligations	57
Trade payables	62
Deferred tax liabilities	1,120
Other payables	139
Total liabilities	1,378
Net assets acquired	4,500
Goodwill arising from the acquisition	126
Purchase price (enterprise value)	4,626

NOTE 6 AUDIT FEES

(DKK million)	2019	2018
Deloitte Statsautoriseret Revisionspartnerselskab		
Statutory audit	7	7
Other assurance services	2	-
Tax advisory services	2	2
Other non-audit services	10	6
Total	19	15

NOTE 7 FINANCIAL INCOME AND EXPENSES**Accounting policies**

Financial income and expenses comprise interest, realised and unrealised exchange rate adjustments and market value adjustments of financial assets.

Market value adjustments of currency derivatives that have not been classified as effective cash flow hedges are presented as Financial income and expenses.

(DKK million)	2019	2018
Interest income on bonds (amortised cost)	-	8
Interest income on bonds (fair value)	6	-
Capital gains, financial assets	2,313	3
Other interest income	-	3
Other financial income	8	13
Financial income	2,327	27
Interest expenses, banks	(43)	(19)
Capital losses, financial assets	(2)	(522)
Loss arising on financial assets designated at fair value through profit and loss	-	(2)
Exchange rate losses	(138)	(74)
Write-down of financial assets	(2)	(67)
Other financial expenses	(97)	(17)
Financial expenses	(282)	(701)

NOTE 8 TAX ON PROFIT FOR THE YEAR

Accounting policies

Tax for the year, which consists of the year's current tax, the change in deferred tax and adjustment in respect of previous years, is recognised in the income statement at the amount that can be attributed to the profit or loss for the year, and in other comprehensive income at the amount that can be attributed to items in other comprehensive income. The change in deferred tax as a result of changed income tax rates or tax rules is recognised in the income statement. Interest on tax cases that are ongoing or have been settled during the year is reported under financial items.

Current tax for the year is calculated based on the income tax rates and rules applicable at the balance sheet date.

The taxable income in the LEO Foundation is calculated according to the tax legislation for foundations. When calculating the taxable income, LEO Foundation may deduct adopted grants and tax provisions for future grants. No deferred taxes are recognised in the accounts concerning tax

provisions for future grants, as the liability is not expected to realise, given the LEO Foundation intends to adopt grants of an equal amount to the provisions within the allowed timeframe.

As a global company, LEO Pharma will from time to time have tax audits and tax discussions with tax authorities in various countries regarding tax issues within transfer pricing and indirect taxes. The Executive Management has the opinion that appropriate estimates have been made in the financial statements for current tax audits and exposures related to uncertain tax positions.

The estimates are based on expected value or the most likely amount, whichever method best predicts the resolution of the uncertainty, and the effects hereof are recognised as part of tax receivables/payables and deferred tax. Due to uncertainty associated with the outcome and timing, it will be possible that, on conclusion of open tax matters at a future date, the final outcome may differ significantly from the amounts recognised.

Key accounting estimates and judgements

Uncertain tax positions

As a global company, LEO Pharma will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues within transfer pricing and indirect taxes. Executive Management has the opinion that appropriate estimates have been made in the financial statements for current tax audits and exposures related to uncertain tax positions.

The estimates are based on expected value or the most likely amount, whichever method best predicts the resolution of the uncertainty, and the effects thereof are recognized as part of tax receivables/payables and deferred tax.

Due to the uncertainty associated with the outcome and timing, it will be possible that, on the conclusion of open tax matters at a future date, the final outcome may differ significantly from the amounts recognised.

(DKK million)	2019	2018
Current tax	362	219
Prior-year adjustments, current tax	1	(14)
Prior-year adjustments, deferred tax	(18)	30
Change in deferred tax for the year	(80)	(50)
Total tax for the year	265	185
Tax for the year is included in		
Tax on profit/(loss) for the year	284	184
Tax on other comprehensive income	(19)	1
Total tax for the year	265	185

For a specification of tax on other comprehensive income, please refer to the statement of comprehensive income.

Explanation of the Group's effective tax rate relative to the Danish corporate income tax rate

(DKK million)	2019	%
Profit/(loss) before tax	673	
Calculated tax, 22%	148	22.0%
Tax effect of		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	(151)	(22.4%)
Non-deductible expenses/non-taxable income and other permanent differences	(9)	(1.3%)
Tax credits	11	1.6%
Change in deferred tax as a result of changed income tax rate	(9)	(1.3%)
Change in valuation of net tax assets	311	46.2%
Prior-year tax adjustments, etc., total effect on operations	(17)	(2.5%)
Effective tax/tax rate for the year	284	42.2%

(DKK million)	2018	%
Profit/(loss) before tax	892	
Calculated tax, 22%	196	22,0%
Tax effect of		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	(151)	(17.0%)
Non-deductible expenses/non-taxable income and other permanent differences	2	0.2%
Tax credits	(1)	(0.1%)
Change in deferred tax as a result of changed income tax rate	(24)	(2.7%)
Change in valuation of net tax assets	146	16.4%
Prior-year tax adjustments, etc., total effect on operations	16	1.8%
Effective tax/tax rate for the year	184	20.6%

NOTE 9 INTANGIBLE ASSETS

Accounting policies

Intellectual property rights are measured at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight-line basis over the expected useful lives of the assets. For the relevant assets, the amortisation profile is adjusted to reflect the economic benefit relating to the underlying asset. Amortisation of intellectual property rights is mainly recognised in Sales and distribution cost and Administrative costs.

Costs relating to the maintenance of patents, etc. are expensed in the income statement as incurred.

Development projects are recognised as Intangible assets if the recognition criteria are met. Development costs are capitalised only if the following can be

demonstrated: technical feasibility of and intention to complete the asset, ability to use or sell the asset, expectation of generating future economic benefits and ability to measure the expenditure reliably.

The costs of development projects include direct salaries, materials and other direct costs attributable to the development project. Other development costs are recognised in the income statement as incurred. Projects are assessed on an ongoing basis taking into account development progress, expected approvals and commercial utilisation. Development projects are not amortised, as the assets are not available for use.

Research costs are recognised in the income statement as incurred.

Internally developed computer software and other IT projects for internal use are recognised as Intangible assets if the recognition criteria are met. Amortisation is provided on a straight-line basis over the expected useful lives. Amortisation and impairment are recognised in the income statement as Administrative costs.

Useful lives are determined at the acquisition date and reassessed annually. The expected useful lives are as follows:

Intellectual property rights and trademarks: 3-15 years
Software: 3-10 years

Impairment testing

During the year the carrying amounts of the intangible assets are reviewed to determine whether there is any

indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Goodwill and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Key accounting estimates and judgements
Estimated useful lives

Useful lives are initially assessed when the assets are acquired. Executive Management assesses intangible assets for changes in useful lives and impairment on an annual basis. This assessment may involve judgement and inherent uncertainties, as there is often no active market for the intangible assets.

Impairment testing

Irrespective of whether there is an indication of impairment, intangible assets not yet available for use are tested for impairment annually. Intangible assets in use with definite useful lives are tested for impairment if there is any indication of impairment.

Indications of impairment include:

- Changes in patent and licence rights
- Changes to future cash inflows in the Group
- R&D results
- Technological changes
- Development of competing products

To determine the value in use, the discounted cash flow approach is applied. The expected future cash flows are based on the budget and target plans for the patent period or other applicable period for marketable products, and up to 15 years for licences where products have not yet been launched. Useful life is estimated individually in each case. The budgets

and target plans are based on Executive Management's expectations of current market conditions and future growth. The key factors used in calculating the value are revenue, costs of goods sold (COGS), operating expenses (OPEX), EBITDA, working capital, capital expenditures (CAPEX) and discount rate. The LEO Group has identified capitalised software relating to the ERP system as corporate assets. During the year, Executive Management considers the recoverability of the assets and assesses indications of impairment. The expected future performance on core business areas supports the carrying value of the assets.

Assessment of type of asset and level of control
On entering into the agreement with PellePharm Inc.

in 2018, Executive Management exercised judgment on the level of control gained by LEO Pharma and whether they should account for the investment as a subsidiary, an investment in an associate or as another type of investment. Furthermore, Executive Management assessed whether the arrangement was in substance an acquisition of the shares and intellectual property rights to be capitalised, or prepaid research and development costs to be expensed over the development period. Executive Management has assessed that the investment is an associate, and that up-front payments and milestone payments relating to the development projects with PellePharm Inc. are accounted for as prepaid development project.

NOTE 9 INTANGIBLE ASSETS (CONTINUED)

(DKK million)	Goodwill	Intellectual property rights	Development projects	Software	Total intangible assets
2019					
Cost at 1 January	-	10,105	3,803	858	14,766
Adjustment to opening balance	-	-	(14)	-	(14)
Additions during the year	-	64	629	52	745
Additions from business combinations	126	4,007	-	-	4,133
Disposals during the year	-	-	(9)	(1)	(10)
Transfers	-	-	(381)	381	-
Cost at 31 December	126	14,176	4,028	1,290	19,620
Amortisation and impairment losses at 1 January	-	(6,591)	(1,704)	(204)	(8,499)
Amortisation for the year	-	(596)	-	(127)	(723)
Disposals during the year	-	-	-	-	-
Impairment losses for the year	-	(114)	(9)	-	(123)
Amortisation and impairment losses at 31 December	-	(7,301)	(1,713)	(331)	(9,345)
CARRYING AMOUNT AT 31 DECEMBER	126	6,964	2,029	958	10,275

(DKK million)	Goodwill	Intellectual property rights	Development projects	Software	Total intangible assets
2018					
Cost at 1 January	-	10,292	2,924	617	13,863
Exchange rate adjustment	-	24	(64)	-	(40)
Additions during the year	-	331	1,058	127	1,516
Disposals during the year	-	(542)	(1)	-	(573)
Transfers	-	-	(114)	114	-
Cost at 31 December	-	10,105	3,803	858	14,766
Amortisation and impairment losses at 1 January	-	(6,300)	(1,765)	(120)	(8,215)
Exchange rate adjustment	-	(24)	64	-	40
Amortisation for the year	-	(462)	-	(76)	(538)
Disposals during the year	-	195	1	-	226
Impairment losses for the year	-	-	(4)	(8)	(12)
Amortisation and impairment losses at 31 December	-	(6,591)	(1,704)	(204)	(8,499)
CARRYING AMOUNT AT 31 DECEMBER	-	3,514	2,099	654	6,267

NOTE 9 INTANGIBLE ASSETS (CONTINUED)

Impairment 2019

At the end of 2019, LEO Pharma identified indications of impairment relating to the intellectual property rights acquired from Bayer AG in 2018, which impacted the long-term sales projections. The negative changes to the future cash flows have resulted in an impairment loss of DKK 114 million. The recoverable amount of the assets has been determined based on value in use.

Research and development costs 2019

In 2019, Research and development costs recognised in the income statement amounted to DKK 2,444 million (2018: DKK 1,914 million). Research and development costs primarily comprise internal and external costs related to studies, employee costs, materials, depreciation and other directly attributable costs.

(DKK million)	2019	2018
Amortisation and impairment losses are specified as follows:		
Sales and distribution costs	710	446
Research and development costs	-	4
Administrative costs	136	100
Total	846	550

Additions

Additions during 2019 mainly comprise intellectual property rights acquired from Bayer AG, Kyntheum® sublicense agreement and a development project with Portal Instruments.

The carrying amount of intellectual property rights acquired from Bayer AG in 2019 was DKK 3,873 million at 31 December 2019.

Significant intellectual property

At 31 December 2019, other individually significant intellectual property rights comprise assets acquired from Astellas (carrying amount of DKK 2,554 million), development project Tralokinumab (carrying amount of DKK 773 million) and Kyntheum® (carrying amount of DKK 262 million).

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment. Cost comprises the acquisition price and other directly attributable costs until the date the asset is available for use. For self-constructed assets, cost comprises direct costs of materials, sub-suppliers and salaries, etc. The total cost of an asset is broken down into components that are depreciated separately if the expected useful lives of the individual components are not the same.

Depreciation is provided on a straight-line basis from the time of acquisition, or when the asset is available for use, over the expected useful life. A reassessment is made once a year to ascertain that the depreciation basis reflects the expected useful life and future residual values of the assets. Land is not depreciated.

The expected useful lives are as follows:

Buildings	10-50 years
Leasehold improvements	Up to 10 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-10 years

Impairment testing

The carrying amount of property, plant and equipment is reviewed to determine whether there is any indication of impairment loss. If the recoverable amount of an asset is estimated to be lower than the carrying amount, an impairment loss is recognised.

For 2019 and 2018 the review resulted in no impairment losses.

NOTE 10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(DKK million)	Land and buildings	Leasehold improvements	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	Total property, plant and equipment
2019						
Cost at 1 January	2,133	80	2,341	501	799	5,854
Exchange rate adjustment	12	2	1	3	-	18
Additions during the year	535	17	29	130	1,070	1,781
Additions from business combinations	109	-	56	22	-	187
Disposals during the year	(14)	(6)	(15)	(38)	-	(73)
Transfers	128	-	599	23	(750)	-
Cost at 31 December	2,903	93	3,011	641	1,121	7,769
Depreciation and impairment losses at 1 January	(1,426)	(42)	(1,845)	(375)	-	(3,688)
Exchange rate adjustment	-	(1)	(1)	(1)	-	(3)
Disposals during the year	11	5	10	36	-	62
Depreciation for the year	(107)	(9)	(146)	(77)	-	(339)
Depreciation and impairment losses at 31 December	(1,522)	(47)	(1,982)	(417)	-	(3,968)
CARRYING AMOUNT AT 31 DECEMBER	1,381	46	1,029	224	1,121	3,801

(DKK million)	Land and buildings	Leasehold improvements	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	Total property, plant and equipment
2018						
Cost at 1 January	2,085	148	2,248	452	673	5,606
Exchange rate adjustment	3	(1)	1	-	2	5
Additions during the year	-	6	3	47	424	480
Disposals during the year	(25)	(73)	(89)	(16)	(34)	(237)
Transfers	70	-	178	18	(266)	-
Cost at 31 December	2,133	80	2,341	501	799	5,854
Depreciation and impairment losses at 1 January	(1,394)	(109)	(1,814)	(356)	(122)	(3,795)
Adjustment to opening balance	-	-	-	-	122	122
Exchange rate adjustment	(2)	2	(1)	-	-	(1)
Disposals during the year	22	73	90	12	-	197
Depreciation for the year	(52)	(8)	(120)	(31)	-	(211)
Depreciation and impairment losses at 31 December	(1,426)	(42)	(1,845)	(375)	-	(3,688)
CARRYING AMOUNT AT 31 DECEMBER	707	38	496	126	799	2,166

(DKK million)

Depreciation and impairment losses are specified as follows:

	2019	2018
Cost of sales	178	176
Sales and distribution costs	21	13
Research and development costs	13	10
Administrative costs	127	12
Total	339	211

NOTE 11 LEASES

Accounting policies

Lease assets

Lease assets are right-of-use assets from lease agreements. If, at inception, it is assessed that a contract contains a lease, a lease asset is recognised. Lease assets are initially measured at the present value of future lease payments, plus the cost of the obligation to refurbish the asset. Payments include fixed payments, variable lease payments based on an index or a rate and the exercise price of purchase options that are reasonably certain to be exercised. The lease assets are depreciated using the straight-line method over the shorter of the expected lease term and the useful life of the underlying asset. The lease assets are tested for impairment whenever there is an indication that the asset may be impaired.

Lease assets are presented as part of the Property, plant and equipments in note 10.

Lease assets are depreciated as follows:

Buildings	10 - 50 years
Leasehold improvements	Up to 10 years
Plant and machinery	5 - 10 years
Other fixtures and fittings, tools and equipment	3 - 10 years

Short-term leases and low-value leases are recognised as expenses in the income statement on a straight-line basis over the lease term. The LEO Group's portfolio of leases covers primarily leases of buildings and other equipment such as cars.

Lease liabilities

Lease liabilities are initially recognised at the present value of future lease payments, including payments from extension or purchase options that are considered reasonably certain to be exercised. The lease liability is measured using the implicit borrowing rate in the contracts. If a lease contract is modified, the lease liability is remeasured.

Judgements in determining the lease term

For building leases, lease terms are estimated taking the size of the building and its strategic importance into consideration. The LEO Group has entered into several open-ended building leases and building leases with extension options. Lease terms of such agreements are estimated based on the strategic importance of the buildings and the estimated time frame necessary to vacate the premises. The estimated lease term is reassessed at each reporting date.

(DKK million)	Land and buildings	Other fixtures and fittings, tools and equipment	Total property and equipment
Lease assets			
Balance at 1 January 2019	491	86	577
Additions	38	24	62
Depreciation	(67)	(37)	(104)
Exchange rate adjustment	11	1	12
Balance at 31 December 2019	473	74	547
Lease liabilities			
Balance at 1 January 2019	491	86	577
Additions	38	24	62
Interest	10	2	12
Lease payment	(67)	(37)	(104)
Exchange rate adjustment	11	1	12
Lease liabilities at 31 December 2019	483	76	559
Non-current liabilities	421	41	462
Current liabilities	62	35	97
	483	76	559

Depreciation and interest costs relating to leases are recognised in the income statement under Administrative costs and Financial expenses respectively. The amounts recognised impact the operating cash flow as well as the cash flow from financing activities as shown in below table. The figures in the cash flow statement cannot be directly derived as they are presented combined with other cash movements.

(DKK million)			
Interest paid	(10)	(2)	(12)
Cash flows from operating activities	(10)	(2)	(12)
Repayment of lease liabilities	(56)	(36)	(92)
Cash flows from financing activities	(56)	(36)	(92)

NOTE 12 FINANCIAL RISKS

Financial portfolio risks

Financial portfolio risks are managed according to the LEO Holding Investment policy, which is approved by LEO Holding’s Board of Directors. The Investment policy states the strategic asset allocation and the boundaries for each asset class within which tactical asset allocation positions can be taken. Furthermore, the policy defines the limits on counterparty risk, overall duration risk and liquidity of the financial portfolio. Currency risk is hedged for all fixed-income exposure, while equity investments generally have full currency exposure.

Operational financial risks

As a consequence of its operations, investments and financing, the LEO Pharma Group is exposed to a variety of financial risks:

- Market risks, i.e. currency risk, interest rate risks etc.
- Credit risk
- Liquidity risk

The Group’s overall management programs focus on the unpredictability of financial markets, and seek to minimize the potential adverse effects on the Group’s performance. The Group uses derivatives financial instruments to hedge certain risk exposures.

Risk management is undertaken by a central finance department, subject to objectives and policies approved by the Executive Management. Those objectives and policies are outlined in the internal Treasury Policy, which incorporates cash flow hedges of highly probable forecasted sales and purchase transactions. Furthermore, it consists of the Foreign Exchange Policy and the Investment Policy, the Policy Regarding Credit Risk on Financial Counterparties, and includes a description of the permitted use of financial instruments. LEO Pharma only hedges commercial

exposures and consequently, does not enter into derivative transactions for trading or speculative purposes. LEO Pharma uses a fully integrated Treasury Management System to manage all financial positions.

Currency risk

As a global company with DKK as its presentation currency, LEO Pharma undertakes transactions denominated in foreign currencies, and foreign exchange risk therefore has a significant impact on the income statement, balance sheet and cash flow statement. The overall objective of currency risk management is to reduce the short-term negative impact of exchange rate fluctuations on earnings and cash flow.

LEO Pharma is mainly exposed to USD, GBP, CAD, JPY, RUB, SAR, CNY and AUD, either through direct sales to third parties or indirect sales through a subsidiary. Currency risk arises due to imbalances between income and costs in each individual currency and because LEO Pharma has more assets than liabilities in foreign currencies in connection with its global operations.

LEO Pharma hedges existing assets and liabilities in key currencies as well as future expected cash flows 12 months forward. The majority of LEO Pharma’s sales are in EUR, USD, GBP, CAD, JPY, RUB, SAR, CNY and AUD. The EUR exchange risk is considered low, as we believe that Denmark will maintain its fixed-exchange-rate policy.

Foreign currency sensitivity analysis

The sensitivity analysis below shows the estimated impact on operating profit of a 5% change in DKK versus the key currencies. The analysis shows the impact of foreign currency exchange differences on the Group’s monetary assets and liabilities and foreign exchange forwards. A similar negative change in exchange rates would have a similar opposite effect on operating profit.

Foreign currency analysis

(DKK million)	Increase in exchange rates	Profit/loss for the year	Other comprehensive income ¹	Profit/loss for the year	Other comprehensive income ¹
	2019			2018	
USD	5.0%	(17)	26	14	(12)
GBP	5.0%	(3)	(14)	(13)	(13)
CAD	5.0%	1	(21)	(1)	(18)
JPY	5.0%	1	1	-	-
RUB	5.0%	(1)	(8)	-	(5)
CNY	5.0%	-	(2)	3	-
BRL	5.0%	-	(6)	-	-
SAR	5.0%	-	(6)	-	(5)
AUD	5.0%	-	(5)	-	(2)

1. This is mainly as a consequence of the changes in fair value of derivative instruments designated as cash flow hedges.

Interest rate risk

Interest rate risk is the risk of interest rate fluctuations resulting in changed costs related to floating-rate loans. Long-term funding at floating interest rates is mitigated by entering into interest rate swaps as hedge instruments where the Group pays a fixed rate of interest and receives interest at floating rates. Hedging

of interest rate risk is approved by the Executive Management, and hedge effectiveness is assessed on a regular basis. No ineffectiveness has been observed so far. The current hedging instruments are shown in the next table on the basis of the average fixed interest rate used.

NOTE 12 FINANCIAL RISKS (CONTINUED)

Outstanding receivable floating-rate fixed contracts

(DKK million)	Notional principal value	Change in fair value recognised in Other comprehensive income	Fair value assets (liabilities)	Average fixed interest rate
2019				
DKK	1,125	-	-	0.03%
DKK	1,500	3	3	0.10%
Total		3	3	
2018				
DKK	100	1	-	0.39%
DKK	370	1	(1)	0.45%
Total		2	(1)	

At 31 December 2019, the fair value of DKK 3 million has been recognised in Other receivables.

At 31 December 2018, the fair value of DKK 1 million was recognised in Other payables.

Credit risk

LEO Pharma's products are sold primarily to pharmacies, wholesalers and hospitals. Historically, realised losses sustained on debtors have been insignificant, which was also the case in both 2019 and 2018. However, LEO Pharma has a number of ongoing legal actions nearing completion against customers in receivership and other financial difficulties.

LEO Pharma has no significant concentration of credit risk related to trade receivables, as the exposure is spread over a large number of counterparties and customers. As such, LEO Pharma has no significant

reliance on any specific customer, but continues to monitor the credit exposure on all customers, both new and existing. Thus, the risk of significant loss is minimised and at an acceptable level.

LEO Pharma recognises a loss allowance for expected credit losses and writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. The write-down amount is recognised in the income statement under sales and distribution costs. Subsequent recovery of amounts previously written down is credited against sales and distribution costs.

Maturity analysis of trade receivables

(DKK million)	Not past due	Overdue by 3 months	Overdue by 3-6 months	Overdue by 6-12 months	Overdue by more than 12 months	Total
31 December 2019						
Expected credit loss rate	0%	0%	0%	21%	100%	
Trade receivables	3,021	256	21	34	36	3,368
Lifetime expected credit losses	-	-	-	7	36	43
31 December 2018						
Expected credit loss rate	0%	0%	0%	36%	66%	
Trade receivables	2,899	204	89	30	51	3,273
Lifetime expected credit losses	0	0	0	11	33	44

The following table details the risk profile for trade receivables based on the Group's provision matrix. No allowance for expected credit loss has been made for trade receivables overdue less than 6 months based on historical credit loss experience. The Group's historical credit losses do not show different patterns for different customer segments.

To manage credit risk on financial counterparties, LEO Pharma enters into derivative financial instruments and money market deposits only with financial counter-parties having a satisfactory long-term credit rating assigned by at least one of the three

international creditrating agencies: Standard and Poor's, Moody's and Fitch.

If a counterparty has a rating below Investment Grade, LEO Pharma minimises the risk by keeping the lowest possible bank balance or by spreading the risk between several banks. At year-end, the bank balances held with counterparties below Investment Grade were low, and the credit risk is considered low. Furthermore, the credit risk on bond investments is limited, as investments are made in highly liquid bonds with solid credit ratings such as Investment Grade.

NOTE 12 FINANCIAL RISKS (CONTINUED)

Liquidity risk

It is of great importance that the company maintains a financial reserve to cover the company's obligations and investment opportunities and to provide the capital necessary to offset changes in the company's liquidity due to changes in the cash flow from operating activities.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The table below outlines the current cash resources and undrawn credit facilities that the Group has at its disposal.

Cash resources and financing facilities

LEO Pharma has access to financing facilities of DKK 3,119 million (2018: DKK 831 million) of which unused

and secured overdraft facilities amounted to DKK 2,944 million (2018: DKK 532 million) as of the reporting date. The remaining amount of DKK 175 million (2018: DKK 299 million) consists primarily of cash and cash equivalents. The facilities are subject financial covenants and no breaches were encountered during the year.

On April 26, 2019 LEO Pharma entered into a loan agreement with 5 Nordic Banks of DKK 6,350 million. The facility has five years duration with an option to extend the maturity for up to two additional years.

In addition to the cash resources, LEO Pharma A/S has pledged bonds and cash with a carrying amount of DKK 254 million (2018: DKK 311 million) as securities for pension liabilities primarily in the UK. Other obligations are met from operating cash flows and proceeds from maturing financial assets.

Cash resources

(DKK million)	2019	2018
Cash and cash equivalents	269	351
Secured overdraft facilities, banks – amount unused	2,944	532
Cash resources, banks	3,213	883
Marketable securities	13,935	15,699
Securities at 31 December	13,935	15,699
Cash resources, banks and securities	17,148	16,582

Maturity of contractual cash flows

(DKK million)	Contractual amount	Less than 1 year	1-3 years	3-5 years	5+ years
2019					
Non-financial derivatives					
Floating-interest rate bank debt	3,433	44	1,168	2,221	-
Fixed-interest rate bank debt	1,280	9	19	147	1,105
Trade and other payables	3,915	3,915	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	7	2	3	2	-
Forwards used as hedging instruments	60	60	-	-	-
Total contractual cash flow	8,695	4,030	1,190	2,370	1,105
2018					
Non-financial derivatives					
Floating-interest rate bank debt	471	471	-	-	-
Fixed-interest rate bank debt	543	4	539	-	-
Trade and other payables	3,180	3,180	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	1	1	-	-	-
Forwards used as hedging instruments	60	60	-	-	-
Total contractual cash flow	4,255	3,716	539	-	-

NOTE 13 FINANCIAL DERIVATIVES

Accounting policies

Derivative financial instruments

Derivative financial instruments are used to manage the exposure to interest rate and foreign exchange rate risk. None of the derivative financial instruments are held for trading. On initiation of the contract, the Group designates each derivative financial contract as either a hedge of the fair value of a recognised asset or liability (fair value hedge) or as a hedge of a future transaction (cash flow hedge). All contracts are initially recognised at fair value and subsequently remeasured at fair value at the end of the reporting period. The resulting gain or loss is recognised in the income statement immediately, unless the derivative

is designated and effective as a hedging instrument, in which case the timing of recognition in the income statement depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives held as hedging instruments in respect of foreign currency risk as either fair value hedges or cash flow hedges, and certain derivatives held as hedging instruments in respect of interest rate risk as cash flow hedges.

The fair value adjustment on qualifying hedging instruments is recognised in the income statement in

the same line as the hedged item when the hedging instrument is designated as a fair value hedge. Value adjustments of the effective part of cash flow hedges are recognised in equity through Other comprehensive income. The cumulative value adjustment of these contracts is transferred from Other comprehensive income to the income statement in the same period and the same line as the hedged item.

It is LEO Pharma Group's policy to hedge EUR currency even though the exchange rate risks are considered low. In addition, the Chinese yuan traded offshore (CNH) is used as a proxy when hedging the CNY currency exposure of the Group.

Discontinuance of cash flow hedging

When a hedging instrument expires or is sold but the hedge still meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement under Financial income or Financial expenses.

Forward exchange rate contracts

It is the policy of LEO Pharma to enter into either forward foreign exchange contracts or currency options to hedge minimum 80% of the forecasted sales and purchase transactions for the coming 12 months and to hedge recognised assets and liabilities. In the case of hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying value) of the foreign exchange forward contracts and

their corresponding hedged items are the same, LEO Pharma performs a qualitative assessment of effectiveness, and it is expected that the value of the forward contracts and the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying exchange rates. Executive Management has chosen to classify the result of cash flow hedging activities as part of financial items, and not in the same line as the hedged item.

Currently, net investments in foreign subsidiaries are not hedged.

LEO Pharma has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from the expected future sales transactions that will take place during the next 12 months, at which time the amount deferred in equity will be reclassified as a gain or loss under financial items. During 2019, no purchase transactions were hedged.

The following table shows the outstanding forward contracts classified as cash flow hedges at the end of the reporting period. Foreign currency forward contract assets and liabilities are presented in the line Derivative financial instruments (either as assets or liabilities) in the balance sheet (see the table Categories of financial assets and financial liabilities).

NOTE 14 FINANCIAL ASSETS AND LIABILITIES**Accounting policies****Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets, except for trade receivables, and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

All recognised financial assets are required to be measured subsequently at amortised cost or fair value on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Other financial securities presented under non-current assets consist of equity investments and bonds.

Investments in bonds that are held within a business model the objective of which is to collect the contractual cash flows are subsequently measured at amortised cost. Investments that are held within a business model of which the objective is both to collect the contractual cash flows and to sell are subsequently measured at fair value through Other comprehensive income.

All other investments, including equity investments, are subsequently measured at fair value through profit and loss.

Other securities, which comprise listed bonds, shares, credit, and listed and unlisted alternatives, are classified as current assets and measured at fair value through profit and loss. Securities that are subsequently measured at amortised cost or at fair value through Other comprehensive income are subject to impairment.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial instruments measured at fair value

Financial instruments measured at fair value can be divided into three categories:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices)

Level 3 – Inputs for assets or liabilities that are not based on observable market data

Financial instruments carried at amortised cost

The fair value of the short-term financial assets and other financial liabilities carried at amortised cost is not materially different from the carrying amount. In general, fair value is primarily determined based on the present value of expected future cash flows. Where a market price is available, however, this is deemed to be the fair value.

NOTE 14 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Categories of financial assets and financial liabilities

(DKK million)	Carrying amount		Fair value	
	2019	2018	2019	2018
<i>Carried at amortised cost</i>				
Cash and bank balances	269	351	269	351
Trade and other receivables	4,306	3,728	4,306	3,728
Other financial assets	1,308	1,093	1,308	1,003
Financial assets at amortised cost	5,883	5,172	5,883	5,172
<i>Carried at fair value through profit/loss (FVTPL)</i>				
Financial assets mandatorily measured at FVTPL	14,189	16,010	14,189	16,010
Derivative instruments in designated hedge relationships	20	10	20	10
Financial assets at fair value through profit/loss	14,209	16,020	14,209	16,020
<i>Carried at fair value through other comprehensive income (OCI)</i>				
Derivative instruments in designated hedge relationships	9	12	9	12
Financial liabilities at fair value through other comprehensive income (OCI)	9	12	9	12
Total financial assets	20,101	21,204	20,101	21,204

Categories of financial assets and financial liabilities

(DKK million)	Carrying amount		Fair value	
	2019	2018	2019	2018
<i>Carried at amortised cost</i>				
Trade and other payables	4,254	3,180	4,254	3,180
Bank loans (both current and non-current)	3,344	1,450	3,344	1,456
Mortgage loans	1,182	-	1,216	-
Financial liabilities at amortised cost	8,780	4,630	8,814	4,638
<i>Carried at fair value</i>				
Derivative instruments in designated fair value hedge relationships	19	22	-	-
Financial liabilities at fair value	19	22	-	-
<i>Carried at fair value through other comprehensive income (OCI)</i>				
Derivative instruments in designated hedge accounting relationships	67	39	-	-
Financial liabilities at fair value through other comprehensive income (OCI)	67	39	-	-
Total financial liabilities	8,866	4,691	8,814	4,638

Fair value measurements

The fair value of derivative financial instruments is measured on the basis of quoted market prices of financial instruments traded in active markets (Level 1). If an active market exists, the fair value is based on the most recently observed market price at the end of the reporting period. If a financial instrument is quoted in a market that is not active, the LEO Group bases its valuation on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including

transactions in similar financial instruments assumed to be motivated by normal business considerations.

If an active market does not exist, the fair value of standard and simple financial instruments, such as forward foreign exchange contracts, interest rate swaps, currency swaps, and unlisted bonds and shares, is measured according to generally accepted valuation techniques (Level 2). Market-based parameters are used to measure the fair value.

NOTE 14 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial assets and financial liabilities where disclosure at fair value is required

(DKK million)	Fair value hierarchy at 31 December 2019			
	Level 1	Level 2	Level 3	Total
<i>Measured at fair value</i>				
Government and mortgage bonds	2,822	-	-	2,822
Equities	7,453	-	-	7,453
Credit	3,914	-	-	3,914
Alternatives	621	642	-	1,263
Other financial assets	-	-	-	-
Derivative instruments	-	29	-	29
Financial assets measured at fair value	14,810	671	-	15,481
<i>Measured at amortised cost, disclosure of fair value</i>				
Bank loans	-	2,625	-	2,625
Measured at fair value	-	1,216	-	1,216
Derivative instruments	-	86	-	86
Financial liabilities measured at fair value	-	3,927	-	3,927

Financial assets and financial liabilities where disclosure at fair value is required

(DKK million)	Fair value hierarchy at 31 December 2018			
	Level 1	Level 2	Level 3	Total
<i>Measured at fair value</i>				
Government and mortgage bonds	3,831	-	-	3,831
Equities	7,210	-	-	7,210
Credit	4,968	-	-	4,968
Alternatives	826	231	-	1,057
Other financial assets	-	32	-	32
Derivative instruments	-	22	-	22
Financial assets measured at fair value	16,835	285	-	17,120
<i>Measured at amortised cost, disclosure of fair value</i>				
Bank loans	-	1,014	-	1,014
Measured at fair value	-	-	-	-
Derivative instruments	-	61	-	61
Financial liabilities measured at fair value	-	1,075	-	1,075

Items with a carrying amount corresponding to fair value are not included in the fair value hierarchy above.

NOTE 15 DEFERRED TAX

Accounting policies

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities and their tax bases, except for temporary differences arising on initial recognition of a transaction that is not a business combination and where the temporary difference ascertained at the time of initial recognition affects neither the financial result nor the taxable income.

Provisions for withholding taxes on dividends from subsidiaries is only recognised if the distribution of the dividends had been planned or approved by the management of the subsidiary no later than the balance sheet date.

Deferred tax is measured on the basis of the income tax rates and tax rules applying in the respective countries at the balance sheet date. The effect of exchange rate differences on deferred tax is recognised in the balance sheet as part of the movement in deferred tax.

Deferred tax assets, including the tax assets on tax loss carry forwards, are recognised in the balance sheet at the value at which the assets are expected to be utilised.

Deferred tax assets and liabilities are offset if the Group has a legal right to offset these and intends to settle these on a net basis, or to realise the assets and settle the liabilities simultaneously.

Key accounting estimates and judgements

Valuation of deferred tax assets

The Executive Management's estimate of future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years supports the utilization of the deferred tax assets

within the foreseeable future. A forecast period of 5 years is applied for estimated utilisation of deferred tax assets. In this assessment, the continuous utilisation of existing deferred tax assets and creation of new deferred tax assets are considered.

(DKK million)	Balance at 1 January	Deferred tax assets/(liabilities) related to acquisitions	Effect of foreign currency exchange differences	Adjustment of deferred tax at beginning of year	Movements during the year	Balance at 31 December
2019						
Intangible assets	51	(874)	(1)	31	293	(500)
Property, plant and equipment	45	(7)	-	(30)	26	34
Inventories	570	(55)	-	-	44	559
Provisions	89	(5)	2	18	62	166
Other items	57	6	-	2	(47)	18
Tax loss carryforwards, etc.	3	-	-	(3)	-	-
Assets held for sale	-	(162)	-	-	-	(162)
Valuation allowance	(146)	-	-	-	(298)	(444)
Total temporary differences	669	(1,097)	1	18	80	(329)
Deferred tax assets	673	-	1	18	84	776
Deferred tax liabilities	(4)	(1,097)	-	-	(4)	(1,105)
Deferred tax assets/(liabilities)	669	(1,097)	1	18	80	(329)
2018						
Intangible assets	176	-	1	(1)	(125)	51
Property, plant and equipment	18	-	1	4	22	45
Inventories	543	-	-	-	27	570
Provisions	(203)	-	2	(12)	302	89
Other items	105	-	(2)	(21)	(25)	57
Tax loss carryforwards, etc.	8	-	-	-	(5)	3
Valuation allowance	-	-	-	-	(146)	(146)
Total temporary differences	647	-	2	(30)	50	669
Deferred tax assets	667	-	2	(30)	34	673
Deferred tax liabilities	(20)	-	-	-	16	(4)
Deferred tax assets/(liabilities)	647	-	2	(30)	50	669

NOTE 16 INVENTORIES

Accounting policies

Inventories are measured at the lower of standard cost under the FIFO method and net realisable value.

Finished goods and work in progress comprise the cost of raw materials, consumables, direct labour and indirect production costs. Indirect production costs comprise indirect consumables and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process, and costs of factory

administration and management. If the expected sales price is lower than the carrying amount, a write-down is recognised.

The net realisable value of inventories is calculated as sales price less costs of completion and expenses incurred to effect the sale, and is determined allowing for marketability, obsolescence and development in expected sales price.

Obsolete goods, including slow-moving goods, are written down.

Key accounting estimates and judgements

Executive Management performs a yearly assessment of whether the standard cost of inventories is at approximately the same level as the actual cost. The standard cost is adjusted if there are significant deviations.

Indirect production costs are calculated on the basis of relevant assumptions as to capacity utilisation, production time and other relevant factors, and allocated based on the normal production capacity.

(DKK million)	2019	2018
Raw materials and consumables	452	169
Work in progress	915	864
Finished goods and goods for resale	938	696
Total	2,305	1,729
Write-down for the year	20	72
Cost of goods sold included in Cost of sales	2,816	2,466

NOTE 17 ASSETS HELD FOR SALE

Accounting policies

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. The fair value is determined based on negotiated price in arm's length transaction. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded

as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of the classification. No depreciation or amortisation is effected on assets from the time of classification as Held for sale.

(DKK million)	2019	2018
Intangible assets	672	-
Inventory	40	-
Total assets classified as held for sale	712	-
Total	3,325	3,229

At December 31, 2019, assets classified as held for sale comprise the divested portfolio of emollients and proctology products, please see note 5

NOTE 18 FOUNDATION CAPITAL

The nominal value of the Foundation capital amounts to DKK 98 million (2018: DKK 98 million).

NOTE 19 RETIREMENT BENEFIT OBLIGATIONS

Accounting policies

Defined contribution plans

Payments to defined contribution plans are recognised in the income statement in the period to which they relate, and any amounts payable are recognised in Other payables in the balance sheet.

Defined benefit plans

Where defined benefit plans are concerned, an annual actuarial calculation is made of the present value of future payments under the scheme. The present value is calculated based on assumptions relating to future developments in salary, interest rates, inflation, mortality and other factors. Present value is calculated only for the benefits to which the employees have earned a right through their employment with the Group. Plan assets are

recognised to the extent the Group is able to obtain future economic benefits in the form of reimbursement from the pension scheme or reduction of future payments.

Pension costs for the year are recognised in the income statement based on actuarial estimates and financial expectations at the beginning of the year.

Any differences between expected developments in plan assets and defined benefit obligations on the one hand and the realised values calculated at the beginning of the year on the other are considered actuarial gains or losses. Actuarial gains and losses are recognised in Other comprehensive income. Past service costs are recognised in the income statement as incurred.

Defined contribution plans

The Group operates a number of defined contribution plans throughout the world. These plans are externally funded in entities that are legally separate from the Group.

Defined benefit plans

In a few countries, the Group operates defined benefit plans. The most significant of these are in Ireland, the UK and France. The defined benefit plans expose the Group to actuarial risks, such as longevity, interest rate, salary, market and currency risks.

The plans in Ireland and the UK are funded and constituted under a trust whose assets are legally separated from those of the Group. Under the scheme-funding regime introduced by the UK Pensions Act 2004, the trustees are required to carry out regular

scheme-funding valuations for the plans and establish a schedule of contributions and a recovery plan when there is a shortfall in the plan. The plans entitle the employees to an annual pension on retirement, based on length of service and salary level up to retirement.

The plan in France is funded and covered by an insurance contract, the assets of which are legally separated from those of the Group. The plan is defined by the collective agreement of "Pharmacie Industrie" and covers all employees, who are entitled to a lump-sum payment on retirement, based on length of service and salary level up to retirement.

Acquisitions in 2019

As a result of LEO Pharma's acquisition of Bayer's prescription dermatology business, a net retirement

NOTE 19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

benefit obligation of DKK 54 million was added, relating to defined benefit plans in Germany, Italy and Austria. The plans in Germany are funded and covered under a contractual trust agreement ("Metzler") whose assets are legally separated from those of the Group. The

plans are defined by different work council agreements and entitle the employees to an annual pension on retirement based on the service and salary level up to retirement.

Sensitivity analysis

The discount rate is the most significant assumption used in the calculation of the obligation for defined benefit plans. The sensitivity analysis indicates what the development in the obligation would be as a result of a change in the individual assumptions. However, the

assumptions will most likely be correlated and consequently result in a different obligation.

A 0.25% decrease in the discount rate would result in an increase in the obligation of approximately 5% or DKK 100 million.

(DKK million)	2019	2018
Present value of defined benefit plans		
Present value of defined benefit plans at 1 January	1,628	1,773
Effect of exchange rate adjustment	37	-
Additions from business combinations	176	-
Current service costs	7	6
Interest costs	42	39
Actuarial (gains)/losses from changes in demographic assumptions	8	(4)
Actuarial (gains)/losses from changes in financial assumptions	301	(126)
Experience adjustments	(19)	(12)
Benefits paid to employees	(48)	(51)
Past service costs	-	3
Present value of defined benefit plans at 31 December	2,132	1,628
Fair value of plan assets		
Fair value of plan assets at 1 January	1,385	1,418
Effect of exchange rate adjustment	32	-
Additions from business combinations	122	-
Return on plan assets	143	(82)
Interest income	36	33
Benefits paid to employees	(46)	(51)
Employer contributions	47	67
Fair value of plan assets at 31 December	1,719	1,385
Net retirement benefit obligations at 31 December	413	243

(DKK million)	2019	2018
Specification of amount recognised in the statement of comprehensive income		
Actuarial (gains)/losses	147	(59)
Total	147	(59)

NOTE 20 PROVISIONS

Accounting policies

Provisions are recognised when, as a result of events before or at the balance sheet date, the Group has a legal or a constructive obligation, it is probable that there may be an outflow of economic resources to settle the obligation and the obligation can be measured reliably. Provisions are measured as the best estimate of the costs required to settle the liabilities at the balance sheet date.

Provisions for sales deductions and returns are recognised at the time the related revenues are recognised. Unsettled deductions and returns are recognised as Provisions when the timing or amount

is uncertain. Where absolute amounts are known, the deductions are recognised as Other liabilities.

Staff-related provisions include employee benefits such as long-term incentive programmes and long-service awards as well as provisions for restructuring. Provisions for restructuring are made only for liabilities set out in a specific restructuring plan, either by starting to implement the plan or announcing its main components.

Other provisions consist of different types of other provisions, including provisions for legal disputes and other restructuring provisions.

Key accounting estimates and judgements

Provisions for legal disputes

Provisions for legal disputes consist of various types of provisions linked to ongoing legal disputes. Executive Management makes judgements about provisions and contingencies, including the probability of pending and potential future litigation outcomes, which, by their very nature, are dependent on inherently uncertain future events. When determining likely outcomes of litigations, etc., Executive Management considers the input of external counsels on each case, as well as known outcomes in case law.

Although Executive Management believes that the total provisions for legal proceedings are adequate based on currently available information, there can be no assurance that there will not be any changes in facts or matters, or that any future lawsuits, claims, proceedings or investigations will not be material.

Provisions for sales deductions

Sales discounts and rebates are predominantly issued in the US in connection with the US Federal

and State Government Healthcare programmes, primarily commercial rebates, Copay schemes, Medicare and Medicaid.

Executive Management's estimate of sales discounts and rebates is based on a calculation which includes a combination of historical utilisation data and expectations in relation to the development in sales and utilisation. Specific circumstances regarding the different programmes are also considered. The obligations for discounts and rebates are incurred at the time the sale is recorded. However, the actual discount or rebate related to a specific sale may be invoiced six to nine months later.

The Group considers the provisions established for sales discounts and rebates to be reasonable and appropriate based on currently available information. However, the actual amount of discounts and rebates may differ from the amounts estimated by Executive Management as more detailed information becomes available.

NOTE 20 PROVISIONS (CONTINUED)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2019					
Provisions at 1 January	609	208	160	99	1,076
Exchange rate adjustment	11	2	(26)	15	2
Additional provisions	1,076	116	220	171	1,583
Used during the year	(1,110)	(75)	(104)	(25)	(1,314)
Reversed during the year	(95)	(20)	(19)	(15)	(149)
Provisions at 31 December	491	231	231	245	1,198
Provisions are recognised in the balance sheet as					
Non-current liabilities	13	172	92	127	404
Current liabilities	478	59	139	118	794
Provisions at 31 December	491	231	231	245	1,198

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2018					
Provisions at 1 January	452	162	152	77	843
Exchange rate adjustment	17	5	(5)	3	20
Additional provisions	1,547	126	130	66	1,869
Used during the year	(1,315)	(73)	(110)	(26)	(1,524)
Reversed during the year	(92)	(12)	(7)	(21)	(132)
Provisions at 31 December	609	208	160	99	1,076
Provisions are recognised in the balance sheet as					
Non-current liabilities	-	112	40	82	234
Current liabilities	609	96	120	17	842
Provisions at 31 December	609	208	160	99	1,076

NOTE 21 OTHER ADJUSTMENTS

(DKK million)	2019	2018
Inventory write-down	(15)	(43)
Provision for bad debt	(1)	(27)
Other	-	4
Total	(16)	(66)

NOTE 22 CONTINGENCIES

Guarantees and commitments

The total guarantee commitment for the LEO Group amounts to DKK 200 million at 31 December 2019 (2018: DKK 7,041 million).

At 31 December 2019, the guarantee commitment comprises mainly guarantees relating to associated company and pending litigations of DKK 152 million. Guarantees in 2018 related mainly to acquisitions (DKK 5,004 million) and loans (DKK1,412 million).

Pending lawsuits

At the end of 2019, there were pending patent lawsuits filed by and against LEO Pharma concerning rights related to products in LEO Pharma's psoriasis portfolio in both the US and Europe. LEO Pharma does not expect the pending cases to have any significant effect

on the Group's financial position. LEO Pharma is involved in a number of legal proceedings. In the opinion of Management, the outcome of these proceedings will not have a material impact on the financial position or cash flows. Such proceedings will, however, develop over time, and new proceedings may occur which could have a material impact on LEO Pharma's financial position and/or cash flows.

Tax

As a global business, the Group will from time to time have tax audits and tax discussions with tax authorities in various countries regarding tax issues including transfer pricing and indirect tax issues. Executive Management is of the opinion that current tax audits and tax discussions will have no significant impact on the Group's financial position.

Contracted but not provided for in the financial statements:

(DKK million)	2019	2018
Intangible assets	3,292	6,283
Property, plant and equipment	753	456
Other current assets	-	373
Total	4,045	7,112

The commitments related to Intangible assets comprises milestone payments on the development of new products and intellectual property rights from acquisitions. The remaining commitments of DKK 753 million relate to fixed contractual obligations. The amounts have not been risk-adjusted or discounted.

In addition to the above, there are certain commercial milestone payments that depend on future sales.

The Group has commitments related to financial investments of DKK 1,936 million (2018: DKK 596 million).

NOTE 23 RELATED PARTIES

The LEO Group's related parties comprise:

- Its associates, SkinVision B.V. and PellePharm Inc.
- Members of the LEO Foundation's Board of Trustees and Executive Board as well as close relatives of these persons
- Companies in which the Board of Trustees and Executive Board have a controlling influence

Transactions and balances with associates were as follows:

- Capital transactions to PellePharm Inc. of total DKK 267 million (2018: DKK 144 million)

There have been no transactions with the Board of Trustees or Executive Board besides remuneration. For information on remuneration, please refer to note 3.

NOTE 24 EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred in the period from the balance sheet date until the presentation of the Financial Statements that materially affect the assessment of the Annual Report.

NOTE 25 COMPANIES IN THE LEO GROUP

(DKK million)	Country	Share of ownership, %	Activities
Parent Company			
The LEO Foundation	Denmark		Other
Subsidiaries			
SARL LEO Pharma	Algeria	100	Other
LEO Pharma Southport Pty Ltd	Australia	100	Production
LEO Pharma Pty Ltd	Australia	100	Production
LEO Pharma GmbH	Austria	100	Production
LEO Pharma NV	Belgium	100	Production
LEO Pharma LTDA.	Brazil	100	Production
LEO Pharma Inc.	Canada	100	Production
LEO Pharma Consultancy Company Ltd.	China	100	Other
LEO Pharma Trading Company Ltd.	China	100	Production
LEO Pharma s.r.o.	Czech Republic	100	Other
LEO Holding A/S	Denmark	100	Other
LEO Pharma A/S	Denmark	100	Production, Other
LH Capital A/S	Denmark	100	Other
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100	Other
LEO Pharma OY	Finland	100	Production
Laboratoires LEO S.A.	France	100	Production, Other
LEO Pharma GmbH	Germany	100	Production
Intendis GmbH	Germany	100	Production, Other
Intraserv Verwaltungs GmbH	Germany	100	Other
LEO Pharmaceutical Hellas S.A.	Greece	100	Production
LEO Laboratories Ltd.	Ireland	100	Production, Other
Wexport Ltd.	Ireland	100	Other
LEO Pharma Holding Ltd.	Ireland	100	Other

(DKK million)	Country	Share of ownership, %	Activities
LEO Pharma Manufacturing	Italy	100	Other
LEO Pharma S.p.A.	Italy	100	Production
LEO Pharma K.K.	Japan	100	Production
LEO Pharmaceuticals, S. de R.L. de C.V.	Mexico	100	Other
LEO Pharma LLC	Morocco	100	Other
LEO Pharma BV	Netherlands	100	Production
LEO Pharma Ltd.	New Zealand	100	Production
LEO Pharma AS	Norway	100	Production
LEO Pharma Sp. z o.o.	Poland	100	Other
LEO Farmacêuticos Lda.	Portugal	100	Production
LEO Pharmaceutical Products LLC	Russia	100	Production
LEO Pharma Asia PTE Ltd.	Singapore	100	Other
LEO Pharma Ltd	South Korea	100	Production
Laboratorios LEO Pharma S.A.	Spain	100	Production
LEO Pharma AB	Sweden	100	Production
LEO Pharmaceutical Products Sarath Ltd.	Switzerland	100	Production
LEO Pharma SARL	Tunisia	100	Other
LEO Pharma İlaç Ticaret Anonim Şirketi	Turkey	100	Production
LEO Laboratories Ltd.	United Kingdom	100	Production
LEO Pharma Inc.	USA	100	Production
LEO Spiny Merger Sub Inc.	USA	100	Other
LEO US Holding Inc.	USA	100	Other
Associates			
PellePharm Inc.	USA	16.75	
SkinVision B.V.	Netherlands	26.32	



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Income statement

(DKK million)	Note	2019	2018
Administrative costs	1, 2	(16)	(16)
Operating profit		(16)	(16)
Income from investments in subsidiaries	7	348	667
Financial income	3	25	24
Profit before tax		357	675
Tax on profit for the year	4	3	3
Net profit for the year	5	360	678

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2019	2018
Intangible and tangible fixed assets	6	1	1
Investments in subsidiaries	7	26,325	26,132
Receivables from LEO Pharma A/S		1,000	1,000
Total financial fixed assets		27,325	27,132
Total fixed assets		27,326	27,133
Receivables from subsidiaries		52	131
Other receivables		1	1
Total receivables		53	132
Cash at bank and in hand		31	44
Total current assets		84	176
TOTAL ASSETS		27,410	27,309

EQUITY AND LIABILITIES

(DKK million)	Note	2019	2018
Foundation capital	8	98	98
Net revaluation, subsidiaries		26,225	26,032
Reserve for future grants		125	104
Retained earnings		593	681
Total equity		27,041	26,915
Deferred tax liabilities	9	-	3
Total provisions		-	3
Grants payable	10	289	306
Total non-current liabilities		289	306
Grants payable	10	76	80
Other payables		4	5
Total current liabilities		80	85
TOTAL EQUITY AND LIABILITIES		27,410	27,309

Statement of changes in equity

(DKK million)	Foundation capital	Net revaluations, subsidiaries	Reserve for future grants	Retained earnings	Total
2019					
Equity at 1 January 2019	98	26,032	104	681	26,915
Profit/(loss) in the LEO Foundation	-	348	100	(88)	360
Additions	-	-	-	-	-
Other adjustments in subsidiaries	-	(155)	-	-	(155)
Grants for the year	-	-	(79)	-	(79)
Equity at 31 December 2019	98	26,225	125	593	27,041

(DKK million)	Foundation capital	Net revaluations, subsidiaries	Reserve for future grants	Retained earnings	Total
2018					
Equity at 1 January 2018	98	25,367	83	990	26,538
Profit/(loss) in the LEO Foundation	-	667	100	(89)	678
Additions	-	-	220	(220)	-
Other adjustments in subsidiaries	-	(2)	-	-	(2)
Grants for the year	-	-	(299)	-	(299)
Equity at 31 December 2018	98	26,032	104	681	26,915

Notes — LEO Foundation

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NOTE 1 AUDIT FEES

(DKK thousand)	2019	2018
Fees to auditors appointed at the Board meeting		
Statutory audit	110	110
Other services	83	4
Total	193	114

NOTE 2 STAFF EXPENSES

(DKK million)	2019	2018
Wages and salaries	10	9
Total	10	9

Included in

Administrative costs	10	9
Total	10	9

Remuneration to the Board of Trustees from other Group companies	3	3
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Remuneration to the Board of Trustees amounted to DKK 2.3 million (2018: DKK 2.2 million), and the fee to the administrator, LEO Pharma A/S, amounted to DKK 0.2 million (2018: DKK 0.2 million).

Average number of full-time employees	6	6
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For a specification of the remuneration to the Board of Trustees and Executive Board, refer to note 3 to the Consolidated Financial Statements.

NOTE 3 FINANCIAL INCOME

(DKK million)	2019	2018
Interest income from subsidiaries	25	24
Other financial income	-	-
Total	25	24

NOTE 4 TAX ON PROFIT FOR THE YEAR

(DKK million)	2019	2018
Change in deferred tax	3	3
Total	3	3

NOTE 5 PROPOSED DISTRIBUTION OF NET PROFIT FOR THE YEAR

(DKK million)	2019	2018
Net revaluation for the year	348	667
Proposed grant limit for the following year	100	100
Retained earnings	(88)	(89)
Total	360	678

NOTE 6 FIXED ASSETS

(DKK thousand)	Leasehold improvements	Other fixtures and fittings, tools and equipment	Total tangible assets	Software	Total intangible assets	Total fixed assets
Cost at 1 January 2019	83	1,266	1,349	247	247	1,596
Additions during the year	-	344	344	-	-	344
Cost at 31 December 2019	83	1,610	1,693	247	247	1,940
Depreciation and amortisation at 1 January 2019	(16)	(232)	(248)	(54)	(54)	(302)
Depreciation and amortisation for the year	(17)	(249)	(266)	(57)	(57)	(323)
Depreciation and amortisation at 31 December 2019	(33)	(481)	(514)	(111)	(111)	(625)
Carrying amount at 31 December 2019	50	1,129	1,179	136	136	1,315

(DKK thousand)

Cost at 1 January 2018	-	-	-	-	-	-
Additions during the year	83	1,266	1,349	247	247	1,596
Cost at 31 December 2018	83	1,266	1,349	247	247	1,596
Depreciation and amortisation at 1 January 2018	-	-	-	-	-	-
Depreciation and amortisation for the year	(16)	(232)	(248)	(54)	(54)	(302)
Depreciation and amortisation at 31 December 2018	(16)	(232)	(248)	(54)	(54)	(302)
Carrying amount at 31 December 2018	67	1,034	1,101	193	193	1,294

NOTE 7 INVESTMENTS IN SUBSIDIARIES

(DKK million)	2019	2018
Cost at 1 January	100	100
Cost at 31 December	100	100
Value adjustment at 1 January	26,032	25,367
Share of profit/(loss) for the year	348	667
Exchange rate adjustment	2	(41)
Adjustment of financial instruments	(27)	(25)
Tax on changes in equity	6	5
Other movements	(136)	59
Value adjustment at 31 December	26,225	26,032
Carrying amount at 31 December	26,325	26,132

For a list of all subsidiaries in the LEO Group, please refer to note 23 in the Consolidated Financial Statements.

NOTE 8 FOUNDATION CAPITAL

The nominal value of the Foundation capital is DKK 98 million (2018: DKK 98 million).

NOTE 9 DEFERRED TAX

(DKK million)	2019	2018
Deferred tax assets/(liabilities) at 1 January	(3)	(6)
Deferred tax on profit/(loss) for the year	3	3
Deferred tax assets/(liabilities) at 31 December	0	(3)

NOTE 10 GRANTS PAYABLE

(DKK million)	2019	2018
Grants payable fall due		
Within one year	76	80
Between one and five years	177	169
After more than five years	112	137
Grants payable	365	386

NOTE 11 CONTINGENCIES

The LEO Foundation has lease obligations of DKK 4 million (2018: DKK 6 million).

The LEO Foundation has no guarantee commitments or pledges.

NOTE 12 RELATED PARTIES

The LEO Foundation's related parties with significant influence comprise the LEO Foundation's Board of Trustees and Executive Board, LEO Holding A/S, and LEO Pharma A/S and its subsidiaries.

For information regarding remuneration to the Board of Trustees and administrative costs, please refer to note 2.

The LEO Foundation has provided a loan to LEO Pharma A/S of DKK 1,000 million (2018: DKK 1,000 million). The loan is granted on an arm's length basis at an interest rate of 2.45% and will be repaid in 2027.

Balances with LEO Pharma A/S comprise receivables of DKK 0 million (2018: receivables of DKK 0 million), and with LEO Holding A/S a receivable of DKK 51 million (2018: DKK 131 million). The LEO Foundation has no other transactions with related parties.

NOTE 13 EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred in the period from the balance sheet date until the presentation of the Financial Statements that materially affect the assessment of the Annual Report.

NOTE 14 ACCOUNTING POLICIES**Accounting policies**

The Financial Statements of the Parent Company, the LEO Foundation, for 2019 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies are unchanged from the previous year.

The Parent Company's accounting policies for recognition and measurement are consistent with the policies of the Consolidated Financial Statements except for IFRS 16 - Leases, which is not implemented for the Parent Company.

Cash flow statement

In accordance with the exemption clause in section 86(4) of the Danish Financial Statements Act, no separate cash flow statement has been prepared for the Parent Company.

Investments in subsidiaries

Investments in subsidiaries are measured under the equity method. This means that the subsidiaries are measured in the balance sheet at the proportionate share of their net asset value, with deduction or addition of unrealised intercompany profits or losses, and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill). The Parent Company's share of the subsidiaries' profit for the year is recognised in the income statement less unrealised intercompany profits.

The total net revaluation of investments in affiliates is transferred upon distribution of profit to Reserve for net revaluation under equity under the equity method. The reserve is reduced by dividends distributed to the Parent Company and adjusted for other equity movements in subsidiaries.

Management Statement

The Executive Board and the Board of Trustees have today considered and adopted the Annual Report of the LEO Foundation for the financial year 1 January – 31 December 2019.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU, and the

Financial Statements of the Parent Company and the Management Review have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements of the Parent Company give a true and fair view of the financial position as at 31 December 2019 of the Group and the Parent

Company, and the results of the Group and the Parent Company's operations and consolidated cash flows for 2019.

In our opinion, the Management Review gives a true and fair view of the matters addressed in the Review.

Copenhagen, 11 March 2020

EXECUTIVE BOARD:

Jesper Mailind
CEO

BOARD OF TRUSTEES:

Lars Olsen
Chairman

Eivind Drachmann Kolding
Vice Chairman

Anja Boisen

Allan Carsten Dahl

Karin Jexner Hamberg

Lars Kjøller

Jannie Kogsbøll

Cristina Patricia Lage

Lotte Hjortshøj Larsen

John Carsten Mehlbye

Peter Schwarz

Independent auditor's report

TO THE BOARD OF TRUSTEES OF LEO FONDET

Opinion

We have audited the Consolidated Financial Statements and the Parent Financial Statements for LEO Fondet 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, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent Financial Statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31.12.2019, and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the Parent Financial Statements give a true and fair view of the Parent's financial position at 31.12.2019, and of the results of its operations for the financial year 01.01.2019

- 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 Consolidated Financial Statements and the Parent Financial Statements section of this auditor's report. We are independent of the Group 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.

Statement on the Management Review

Management is responsible for the Management Review.

Our opinion on the Consolidated Financial Statements and the Parent Financial Statements does not cover the Management Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements and the Parent Financial

Statements, our responsibility is to read the Management Review and, in doing so, consider whether the Management Review is materially inconsistent with the Consolidated Financial Statements and the Parent 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 Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management Review is in accordance with the Consolidated Financial Statements and the Parent Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in the Management Review.

Management's responsibilities for the Consolidated Financial Statements and the Parent Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act as well as the preparation of Parent 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

Consolidated Financial Statements and Parent Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements and the Parent Financial Statements, Management is responsible for assessing the Group's and the Parent'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 Consolidated Financial Statements and the Parent Financial Statements unless Management either intends to liquidate the Group or the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Consolidated Financial Statements and the Parent Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements and the Parent 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 Consolidated Financial Statements and the Parent 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 Consolidated Financial Statements and the Parent 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 Group's and the Parent'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 Consolidated Financial Statements and the Parent 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 Group's and the Parent'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 Consolidated Financial Statements and the Parent 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 Group and the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements and the Parent Financial Statements, including the disclosures in the notes, and whether the Consolidated Financial Statements and the Parent Financial Statements represent the underlying

transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

Copenhagen, 11 March 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

**Erik Holst
Jørgensen**
State Authorised
Public Accountant
MNE no. 9943

**Kirsten Aaskov
Mikkelsen**
State Authorised
Public Accountant
MNE no. 21358

Foundation information

LEO Foundation

LEO Fondet
Lautrupsgade 7, 5.
DK-2100 Copenhagen
Denmark

CVR no.: 11 62 33 36

Financial year:
1 January – 31 December

Executive Board

Jesper Mailind, CEO

Board of Trustees

Lars Olsen, Chairman
Eivind Drachmann Kolding, Vice Chairman
Anja Boisen
Allan Carsten Dahl
Karin Jexner Hamberg
Lars Kjøller
Jannie Kogsbøll
Cristina Patricia Lage
Lotte Hjortshøj Larsen
John Carsten Mehlbye
Peter Schwarz

Auditors

Deloitte
Statsautoriseret
Revisionspartnerselskab

Weidekampsgade 6
DK-2300 Copenhagen S
Denmark