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**Leo Holding A/S**  
Lautrupsgade 7, 5.  
2100 København Ø  
Business Registration No  
39122251

**Annual report 29.11.2017  
- 31.12.2017**

The Annual General Meeting adopted the annual report on 28.02.2018

**Chairman of the General Meeting**

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Name: Peter Kjeldsen Hansen

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## Entity details

### Entity

Leo Holding A/S  
Lautrupsgade 7, 5.  
2100 København Ø

Central Business Registration No (CVR): 39122251

Registered in: København

Financial year: 29.11.2017 - 31.12.2017

### Board of Directors

Lars Olsen, Chairman  
Jens Bo Olesen, Vice Chairman  
Ingelise Saunders  
John Carsten Mehlbye  
Eivind Drachmann Kolding  
Peter Schwarz  
Lars Kjøller  
Jannie Kogsbøll  
Allan Carsten Dahl  
Cristina Lage

### Executive Board

Jesper Mailind, CEO

### Auditors

Deloitte Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
Postboks 1600  
0900 København C

## Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Leo Holding A/S for the financial year 29.11.2017 - 31.12.2017.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 29.11.2017 - 31.12.2017.

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

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

Copenhagen, 28.02.2018

### Executive Board

Jesper Mailind  
CEO

### Board of Directors

Lars Olsen  
Chairman

Jens Bo Olesen  
Vice Chairman

Ingelise Saunders

John Carsten Mehlbye

Eivind Drachmann Kolding

Peter Schwarz

Lars Kjøller

Jannie Kogsbøll

Allan Carsten Dahl

Cristina Lage

# Independent auditor's report

## To the shareholder of Leo Holding A/S

### Opinion

We have audited the financial statements of Leo Holding A/S for the financial year 29.11.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 29.11.2017 - 31.12.2017 in accordance with the Danish Financial Statements Act.

### Basis for opinion

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

### Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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:

## Independent auditor's report

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

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

### Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

## Independent auditor's report

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

Copenhagen, 28.02.2018

### **Deloitte**

Statsautoriseret Revisionspartnerselskab  
Central Business Registration No (CVR)  
33963556

Kirsten Aaskov Mikkelsen  
State Authorised Public Accountant  
Identification No (MNE) 21358

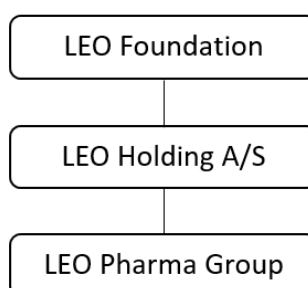
Bjarne Iver Jørgensen  
State Authorised Public Accountant  
Identification No (MNE) 35659

## Management commentary

### Primary activities

As part of the implementation of a new corporate structure in the LEO Group, LEO Holding A/S was established on 29 November 2017 as a wholly owned subsidiary of the LEO Foundation. Following the establishment of the company, the ownership of LEO Pharma A/S was transferred from the LEO Foundation to LEO Holding. On 22 December 2017, the accumulated capital reserves in LEO Pharma A/S, amounting to DKK 17.2 billion, were transferred in a dividend payment to LEO Holding, where the financial asset management will reside going forward.

The new corporate structure of the LEO Group:



At the end of 2017 LEO Holding's financial portfolio consisted of Danish Mortgage Bonds (30%), Corporate Bonds (26%), Covered Bonds (23%), Equities (19%) and Real estate (2%). The portfolio was managed externally.

LEO Holding generated a net profit in 2017 of DKK 2 million. Income from investments in affiliates after tax was a loss of DKK 22 million.

For more information on LEO Pharma Group please refer to LEO Pharma A/S Annual Report.

### Outlook

In 2018, growth at LEO Pharma is expected to come primarily from the continued launches of Enstilar® and Kyntheum® as well as Daivobet® in Japan, leading to annual revenue in the DKK 10-10.5 billion range. The financial result will be challenged by continued pressure for price reductions in the US and the risk of increased generic competition for Daivobet® Ointment and Protopic® in Europe.

LEO Pharma will significantly increase its spending on research and development, including spending related to the phase 3 studies with tralokinumab. Combined with modest growth in sales, LEO Pharma expects this to lead to an operating profit around break-even.

### Particular risks

#### Risk management

The financial portfolio will be managed in accordance with LEO Holding's Investment Policy issued annually 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 made. Furthermore, the Investment 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 are generally with full currency exposure. All asset classes, external managers and external investment funds are approved by the Board of Directors prior to any investments. Compliance with the Investment Policy is verified by our finance department, and investment results are documented in reports to the Board's Investment Committee and the CEO.

### Environmental performance

LEO Holding has not defined its own detailed policies for CSR, climate impact and human rights.



## Management commentary

### **Statutory report on corporate governance**

The members of the Board of Trustees of the LEO Foundation 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. The Board of Directors consist of 10 members, of which three are representatives elected by LEO Pharma A/S employees.

A permanent Investment Committee has been set up and meet at regular intervals. 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. Together with external auditors, it also monitors and reviews relevant internal controls, risk management and governance models.

### **Events after the balance sheet date**

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

## Income statement for 2017

	<u>Notes</u>	<u>2017</u> <u>DKK'm</u>
Income from investments in group enterprises		(22)
Other financial income		<u>3</u>
<b>Profit/loss before tax</b>		<b>(19)</b>
Tax on profit/loss for the year		<u>(1)</u>
<b>Profit/loss for the year</b>		<b><u>(20)</u></b>
<b>Proposed distribution of profit/loss</b>		
Retained earnings		<u>(20)</u>
		<b><u>(20)</u></b>

## Balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'm</u>
Investments in group enterprises		<u>8.326</u>
<b>Fixed asset investments</b>	1	<u><b>8.326</b></u>
<b>Fixed assets</b>		<u><b>8.326</b></u>
Other investments		<u>17.167</u>
<b>Other investments</b>		<u><b>17.167</b></u>
<b>Cash</b>		<u><b>4</b></u>
<b>Current assets</b>		<u><b>17.171</b></u>
<b>Assets</b>		<u><b>25.497</b></u>

## Balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017</u> <u>DKK'm</u>
Contributed capital		100
Retained earnings		<u>25.396</u>
<b>Equity</b>		<b><u>25.496</u></b>
Income tax payable		<u>1</u>
<b>Current liabilities other than provisions</b>		<b><u>1</u></b>
<b>Liabilities other than provisions</b>		<b><u>1</u></b>
<b>Equity and liabilities</b>		<b><u>25.497</u></b>
Contingent liabilities	2	
Related parties with controlling interest	3	

## Statement of changes in equity for 2017

	<b>Contributed capital DKK'm</b>	<b>Retained earnings DKK'm</b>	<b>Total DKK'm</b>
Contributed upon formation	100	25.416	25.516
Profit/loss for the year	0	(20)	(20)
<b>Equity end of year</b>	<b>100</b>	<b>25.396</b>	<b>25.496</b>

## Notes

	<b>Investment s in group enterprises DKK'm</b>
<b>1. Fixed asset investments</b>	
Additions	25.667
<b>Cost end of year</b>	<b>25.667</b>
Share of profit/loss for the year	(22)
Dividend	(17.319)
<b>Revaluations end of year</b>	<b>(17.341)</b>
<b>Carrying amount end of year</b>	<b>8.326</b>

### 2. Contingent liabilities

The Entity serves as the administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for these entities.

LEO Holding A/S has no guarantee commitments, lease obligations or pledges.

### 3. Related parties with controlling interest

LEO Holding A/S Board of Directors and executive management, LEO Foundation Board of Trustees, LEO Pharma A/S and its affiliates are considered related parties. For remuneration of the management of LEO Holding A/S please refer to Note 2 in LEO Foundation Annual Report.

LEO Holding A/S has no receivable from or payable to related parties at the end of the year.

LEO Holding A/S has no other transactions with related parties.

## Accounting policies

### Reporting class

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

### Consolidated financial statements

Referring to section 112(2) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

### Income statement

#### Gross profit or loss

Gross profit or loss comprises other operating income and external expenses.

#### Income from investments in group enterprises

Income from investments in group enterprises comprises dividend etc received from the individual group enterprises in the financial year.

#### Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities as well as tax relief under the Danish Tax Prepayment Scheme etc.

#### Tax on profit/loss for the year

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

### Balance sheet

#### Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value. Refer to the above section on business combinations for more details about the accounting policies used on acquisitions of investments in group enterprises.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation is imminent, a provision is recognised that is measured at present value of the costs deemed necessary to incur to settle the obligation.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

## Accounting policies

### **Other investments**

Other current asset investments comprise listed securities measured at fair value (market price) at the balance sheet date.

### **Cash**

Cash comprises cash in hand and bank deposits.

### **Income tax receivable or payable**

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