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

Annual report 2018

The Annual General Meeting adopted the annual report on 27.02.2019

Chairman of the General Meeting



Name: Peter Kjeldsen Hansen

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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 01.01.2018 - 31.12.2018.

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

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

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

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

Copenhagen, 27.02.2019

Executive Board



Jesper Mailind

Board of Directors



Lars Olsen



Lars Kjøller



John Carsten Møhlbye



Jannie Kogsbøll



Cristina Patricia Lage



Allan Carsten Dahl



Angelise Saunders



Peter Schwarz



Eivind Drachmann Kolding



Lotte Hjortshøj Larsen

Entity details

Entity

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

Central Business Registration No (CVR): 39122251
Registered in: København
Financial year: 01.01.2018 - 31.12.2018

Board of Directors

Lars Olsen
Lars Kjøller
John Carsten Mehlbye
Jens Bo Olesen
Jannie Kogsbøll
Cristina Patricia Lage
Allan Carsten Dahl
Ingelise Saunders
Peter Schwarz
Eivind Drachmann Kolding
Lotte Hjortshøj Larsen

Executive Board

Jesper Mailind

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 København C

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

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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, 27.02.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR)
33963556



Kirsten Aaskov Mikkelsen

State Authorised Public Accountant
Identification No (MNE) mne21358



Bjarne Iyer Jørgensen

State Authorised Public Accountant
Identification No (MNE) mne35659

Management commentary

Primary activities

LEO Holding A/S is the sole shareholder and active owner of LEO Pharma A/S. Further, LEO Holding manages the investment activities of the LEO Foundation. The main objectives of the investment activities are to ensure the continued financial capability to support LEO Pharma's long-term strategic development as well as provide funds for the LEO Foundation's philanthropic activities.

LEO Holding was founded in late 2017, where accumulated reserves in LEO Pharma, consisting of a portfolio of financial assets valued at DKK 17.2 billion, were transferred from LEO Pharma to LEO Holding. During H1 2018, the financial portfolio transitioned to a new strategic asset allocation. This implied higher risk but with due respect to the LEO Foundation's obligations towards LEO Pharma, which is facing a period of substantial investments in pipeline and infrastructure.

The financial markets were characterised by significant volatility in 2018, which resulted in a negative return on the financial assets at year-end. LEO Holding generated a net loss in 2018 of DKK 414 million (2017: Profit of DKK 2 million).

At the end of 2018, LEO Holding's financial portfolio consisted of equities (43%), government and mortgage bonds (21%), credit bonds (30%) and alternatives (6%).

Income from investments in affiliates after tax was a profit of DKK 1.081 million (2017: loss of DKK 22 million).

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

Outlook

The return for the financial portfolio is expected to be low in 2019 – but positive – due to the very low yields in the Fixed Income markets. Further refinements of the portfolio are expected with increasing exposure to Alternatives – substituting low yielding Fixed Income exposure. This relatively low risk profile combined with high liquidity is expected to be upheld over the coming years while LEO Pharma goes through its current phase of substantial investments in future growth.

The outlook for 2019 for LEO Pharma is an operating loss of up to DKK 750 million, which is mainly driven by substantial investments in R&D. Further divestments can change the outlook.

Particular risks

Risk management

The financial portfolio is 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. 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

Management commentary

monthly report is issued to the Investment Committee. At all regular Board meetings, an investment update is presented to the full Board by the Chief Investment Officer.

Business and financial risks associated with operations are managed by LEO Pharma, which has defined risk management policies and procedures. LEO Pharma works continuously to ensure a reasonable balance between risk exposure and value creation. LEO Holding is kept updated about relevant risks through regular reporting. For more information about risk management in LEO Pharma Group, please refer to LEO Pharma A/S' Annual Report.

Environmental performance

In 2018 LEO Holding adopted an environmental, social and governance (ESG) policy for our investment activities. The policy is based on adherence to the 10 principles of UN Global Compact which set a basis for ethical, human and corporate behavior supporting long-term sustainability and success. As our investments are managed through use of external investment managers, we work actively with the 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 incl. (where relevant) exited investments, engagement with companies, and other corrective actions conducted by the Managers. With the adoption of the ESG policy, LEO Holding has achieved a strengthened framework for responsible conduct in relation to our investments.

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 11 members, of which four 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 2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Gross profit/loss		(3)	0
Staff costs	1	<u>(9)</u>	<u>0</u>
Operating profit/loss		(12)	0
Income from investments in group enterprises		1.081	(22)
Other financial income		3	3
Other financial expenses		<u>(522)</u>	<u>0</u>
Profit/loss before tax		550	(19)
Tax on profit/loss for the year		<u>117</u>	<u>(1)</u>
Profit/loss for the year		667	(20)
Proposed distribution of profit/loss			
Transferred to reserve for net revaluation according to the equity method		1.081	0
Retained earnings		<u>(414)</u>	<u>(20)</u>
		667	(20)

Balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Investments in group enterprises		<u>9.407</u>	<u>8.326</u>
Fixed asset investments	2	<u>9.407</u>	<u>8.326</u>
Fixed assets		<u>9.407</u>	<u>8.326</u>
Joint taxation contribution receivable		<u>125</u>	<u>0</u>
Receivables		<u>125</u>	<u>0</u>
Other investments		<u>16.757</u>	<u>17.167</u>
Other investments		<u>16.757</u>	<u>17.167</u>
Cash		<u>8</u>	<u>4</u>
Current assets		<u>16.890</u>	<u>17.171</u>
Assets		<u>26.297</u>	<u>25.497</u>

Balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Contributed capital		100	100
Reserve for net revaluation according to the equity method		1.081	0
Retained earnings		<u>24.982</u>	<u>25.396</u>
Equity		<u>26.163</u>	<u>25.496</u>
Payables to group enterprises		<u>131</u>	<u>0</u>
Non-current liabilities other than provisions		<u>131</u>	<u>0</u>
Income tax payable		0	1
Other payables		<u>3</u>	<u>0</u>
Current liabilities other than provisions		<u>3</u>	<u>1</u>
Liabilities other than provisions		<u>134</u>	<u>1</u>
Equity and liabilities		<u>26.297</u>	<u>25.497</u>
Contingent liabilities	3		
Related parties with controlling interest	4		

Statement of changes in equity for 2018

	Contributed capital DKK'm	Reserve for net revaluation according to the equity method DKK'm	Retained earnings DKK'm	Total DKK'm
Equity beginning of year	100	0	25.396	25.496
Profit/loss for the year	0	1.081	(414)	667
Equity end of year	100	1.081	24.982	26.163

Notes

	2018	2017
	DKK'm	DKK'm
1. Staff costs		
Wages and salaries	9	0
	9	0
Average number of employees	4	0

	Invest- ments in group enterprises DKK'm
2. Fixed asset investments	
Cost beginning of year	25.667
Cost end of year	25.667
Revaluations beginning of year	(17.341)
Share of profit/loss for the year	1.258
Other adjustments	(177)
Revaluations end of year	(16.260)
Carrying amount end of year	9.407

3. 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 investment commitments of 598 mDKK.

In 2018, LEO Pharma A/S acquired a portfolio of dermatological products from Bayer AG. LEO Holding has provided an interim parent guarantee of 500 mEUR (3.733 mDKK) to Bayer AG which is valid until the purchase price is fully paid by LEO Pharma A/S in mid-2019.

Other securities worth 13.237 mDKK were pledged as security for loans of 1.412 mDKK taken by LEO Pharma A/S.

Notes

4. 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.

Balances with LEO Foundation comprised payables of DKK 131 m (2017: DKK 0).

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

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.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies and marketing costs.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

Income from investments in group enterprises

Income from investments in group enterprises comprises dividends, realised and unrealised value adjustments of 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.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

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

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.

Accounting policies

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.

Joint taxation contributions receivable or payable

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

Other 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.

Other financial liabilities

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

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.

