



LEO Holding A/S

Lautrupsgade 7, 5., 2100 Copenhagen Ø
CVR No. 39122251

Annual report 2019

The Annual General Meeting adopted the
annual report on 11.03.2020

Peter Kiildsen Hansen
Chairman of the General Meeting

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Entity details

Entity

LEO Holding A/S

Lautrupsgade 7, 5.

2100 Copenhagen Ø

CVR No.: 39122251

Date of foundation: 29.11.2017

Registered office: Copenhagen

Financial year: 01.01.2019 - 31.12.2019

Board of Directors

Lars Olsen, Chairman

Evind Drachmann Kolding, Vice-Chairman

John Carsten Mehlbye

Peter Schwarz

Anja Boisen

Lars Kjøller

Karin Jexner Hamberg

Jannie Kogsbøll

Lotte Hjortshøj Larsen

Allan Carsten Dahl

Cristina Patricia Lage

Executive Board

Jesper Mailind

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

P. O. Box 1600

0900 Copenhagen C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of LEO Holding A/S for the financial year 01.01.2019 - 31.12.2019.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

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

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

Copenhagen, 11.03.2020

Executive Board



Jesper Mailind

Board of Directors



Lars Olsen
Chairman



Eivind Drachmann Kolding
Vice-Chairman



John Carsten Mehlbye



Peter Schwarz



Anja Boisen



Lars Kjeller



Karin Jexner Hamberg



Jannie Kogsbøll



Lotte Hjortshøj Larsen



Allan Carsten Dahl



Cristina Patricia Lage

Independent auditor's report

To the shareholders of LEO Holding A/S

Opinion

We have audited the financial statements of LEO Holding A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Copenhagen, 11.03.2020

Deloitte Statsautoriseret Revisionspartnerselskab

CVR No. 33 96 35 56



Kirsten Aaskov Mikkelsen

Public Accountant

Identification No (MNE) mne21358



Bjarne Iver Jørgensen

Public Accountant

Identification No (MNE) mne35659

Management commentary

Financial highlights

	2019	2018	2017
	DKK'm	DKK'm	DKK'm
Key figures			
Gross profit/loss	(4)	(3)	0
Operating profit/loss	(15)	(12)	0
Net financials	2,396	(519)	3
Profit/loss for the year	348	667	(20)
Total assets	26,682	26,297	25,496
Equity	26,355	26,163	25,496
Ratios			
Return on equity (%)	1.32	2.58	(0.16)
Equity ratio (%)	98.77	99.49	100.00

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Return on equity (%):

Profit/loss for the year * 100

Average equity

Equity ratio (%):

Equity * 100

Total assets

Primary activities

LEO Holding A/S is the sole shareholder and engaged 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.

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.

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. LEO Holding's financial portfolio generated a return of DKK 2.3 billion, corresponding to a return of 14,9%. All asset classes delivered significant positive returns.

At the end of 2019, LEO Holding's financial portfolio consisted of equities 49% (2018: 43%), government and mortgage bonds 17% (2018: 21%), credit bonds 26% (2018: 30%) and alternatives 8% (6%).

Income from investments in affiliates after tax was a loss of DKK 1,625 million (2018: profit of DKK 1,081 million). For more information on LEO Pharma Group, please refer to LEO Pharma A/S' Annual Report.

Outlook

In 2020 our efforts will continue on the same path as 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.

The outlook for 2020 for LEO Pharma is an operating loss of up to DKK 1,900 million, which is mainly driven by substantial investments in R&D. Further divestments can change the outlook.

Particular risks

The financial portfolio is managed in accordance with LEO Holding's Investment Policy, which is reviewed and approved annually by the Board. 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 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.

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.

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.

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 corporate social responsibility

In 2018 LEO Holding adopted an environmental, social and governance (ESG) policy for our investment activities. 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.

For further information about CSR in the LEO Group, please refer to LEO Foundation's Annual Report.

Income statement for 2019

	Notes	2019 DKK'm	2018 DKK 'm
Other external expenses		(4)	(3)
Gross profit/loss		(4)	(3)
Staff costs	2	(11)	(9)
Operating profit/loss		(15)	(12)
Income from investments in group enterprises		(1,625)	1,081
Other financial income		2,397	3
Other financial expenses		(1)	(522)
Profit/loss before tax		756	550
Tax on profit/loss for the year	3	(408)	117
Profit/loss for the year	4	348	667

Balance sheet at 31.12.2019

Assets

	Notes	2019 DKK'm	2018 DKK'm
Investments in group enterprises		8,550	9,407
Receivables from group enterprises		3,810	0
Other financial assets	5	12,360	9,407
Fixed assets		12,360	9,407
Income tax receivable		0	125
Receivables		0	125
Other investments	6	14,314	16,757
Other investments		14,314	16,757
Cash		8	8
Current assets		14,322	16,890
Assets		26,682	26,297

Equity and liabilities

	Notes	2019 DKK'm	2018 DKK'm
Contributed capital		100	100
Reserve for net revaluation according to the equity method		0	1,081
Retained earnings		25,735	24,982
Proposed dividend		520	0
Equity		26,355	26,163
Payables to group enterprises		325	131
Other payables		2	3
Current liabilities other than provisions		327	134
Liabilities other than provisions		327	134
Equity and liabilities		26,682	26,297
Events after the balance sheet date	1		
Contingent liabilities	7		

Statement of changes in equity for 2019

	Contributed capital DKK'm	Reserve for net revaluation according to the equity method DKK'm	Retained earnings DKK'm	Proposed dividend DKK'm	Total DKK'm
Equity beginning of year	100	1,084	24,979	0	26,163
Other entries on equity	0	(156)	0	0	(156)
Profit/loss for the year	0	(928)	756	520	348
Equity end of year	100	0	25,735	520	26,355

Notes

1 Events after the balance sheet date

No events with significant impact on the financial statements have occurred subsequent to 31 December 2019.

2 Staff costs

	2019	2018
	DKK'm	DKK'm
Wages and salaries	11	9
	11	9
Number of employees at balance sheet date	4	4
Average number of full-time employees	4	4

3 Tax on profit/loss for the year

	2019	2018
	DKK'm	DKK'm
Current tax	408	(117)
	408	(117)

4 Proposed distribution of profit and loss

	2019	2018
	DKK'm	DKK'm
Ordinary dividend for the financial year	520	0
Retained earnings	(172)	667
	348	667

5 Financial assets

	Investments in group enterprises DKK'm	Receivables from group enterprises DKK'm
Cost beginning of year	25,666	0
Addition through business combinations etc	925	0
Additions	0	3,810
Cost end of year	26,591	3,810
Revaluations beginning of year	(16,260)	0
Share of profit/loss for the year	(1,781)	0
Revaluations end of year	(18,041)	0
Carrying amount end of year	8,550	3,810

Investments in subsidiaries	Registered in	Equity interest %
LEO PHARMA A/S	Denmark	100
LH Capital A/S	Denmark	100

6 Other investments

Fair value hierarchy at 31 December 2019

(DKK million)	Level 1	Level 2	Level 3	Total
Measured at fair value				
Government and mortgage bonds	2,596	-	-	2,596
Equities	7,453	-	-	7,453
Credit	3,097	-	-	3,097
Alternatives	621	642	-	1,263
Financial assets measured at fair value	13,767	642	-	14,409

7 Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where it serves as the administration company. 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 the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

Accounting policies

Reporting class

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

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

Consolidated financial statements

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

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

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

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

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

Income statement

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for legal matters, statutory audit fees, tax advisory, etc.

Staff costs

Staff costs comprise salaries and wages, and 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 including interest income on receivables from group enterprises, exchange gains on securities and gain on other securities.

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.

The company is – when determining taxable income for the year – entitled to claim a deduction for certain dividends which are declared at the general meeting where the financial statements for the company are adopted. The expected deduction is recognized when determining taxable income for the year as the dividend distribution suggested by the Board of Directors is assumed to be adopted at the general meeting.

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.

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 will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

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.

Receivables

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

Income tax payable or receivable

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

Other investments

Other current asset investments comprise listed securities measured at fair value at the balance sheet date, and unlisted investments measured at the lower of cost and net realisable value.

Cash

Cash comprises cash in hand and bank deposits.

Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity.

Other financial liabilities

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

Cash flow statement

The Cash flow statement is presented in the consolidated financial statement for LEO FONDET.