— we help people
achieve healthy skin

Annual Report 2015

Godkendt på generalforsamlingen den 31. marts 2016
Dirigent: Kristian Merser

LEO Pharma A/S
Industriparken 55
2750 Ballerup
Denmark
CVR no. 56 75 95 14

LEO Pharma A/S

LEO®

Contents

MANAGEMENT'S STATEMENT

Management's Statement 4

MANAGEMENT'S REVIEW

Company information 6
Financial highlights 9
Management's Review 10

FINANCIAL STATEMENTS 2015

Consolidated Financial Statements 27
Parent Company Financial Statements 53
Independent Auditor's Report 70

Presented and adopted at the Annual General Meeting of the Company on 31 March 2016.

CVR no. 56 75 95 14

The images used in this annual report are our corporate brand images of ordinary people in everyday situations showing healthy skin – and as our mission states:
'We help people achieve healthy skin.'

Management's **Statement**

The Executive Board and Board of Directors have today considered and adopted the Annual Report of LEO Pharma A/S for the financial year 1 January – 31 December 2015.

The Annual Report has 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 at 31 December 2015 of the Group and the Company, and of the results of the Group's and the Company's operations and the consolidated cash flows for 2015.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Ballerup, 31 March 2016

EXECUTIVE BOARD:

Gitte P. Aabo
President, CEO

Anders Kronborg
CFO

BOARD OF DIRECTORS:

Jukka Pertola
Chairman

Patrik O. Dahlén
Vice Chairman

Jens Bo Olesen

Peder Holk Nielsen

Ingelise Saunders

John R. Weeks

Jannie Kogsbøll

Karin Attermann

Lotte Hjortshøj Larsen

Our mission

— we help people achieve healthy skin

Our vision

— we are the preferred dermatology care partner improving people's lives around the world

Company **information**

COMPANY	LEO Pharma A/S Industriparken 55 2750 Ballerup Denmark Telephone: +45 44 94 58 88 Fax: +45 72 26 33 21 Website: www.leo-pharma.com Email: www.leo-pharma.com/contact CVR no.: 56 75 95 14 Incorporated: 1908 Municipality of reg. office: Ballerup Financial year: 1 January – 31 December
BOARD OF DIRECTORS	Jukka Pertola, Chairman Patrik O. Dahlén, Vice Chairman Jens Bo Olesen Peder Holk Nielsen Ingelise Saunders John R. Weeks Karin Attermann Jannie Kogsbøll Lotte Hjortshøj Larsen
EXECUTIVE BOARD	Gitte P. Aabo, CEO Anders Kronborg, CFO
AUDITORS	PricewaterhouseCoopers Strandvejen 44 2900 Hellerup Denmark

LEO Pharma's revenue in 2015 was **DKK 8,457 million**

Financial highlights

(DKK million)	2015	2014	2013	2012	2011*
Income statement					
Revenue	8,457	7,973	7,842	8,216	7,487
Operating profit	695	762	675	-179	158
Net financials	178	1,288	1,000	1,049	838
Profit/loss before tax	860	2,050	1,675	870	996
Net profit/loss for the year	**645**	**1,544**	**1,175**	**663**	**624**
Balance sheet					
Net investment in:					
Intangible assets	244	160	225	186	0
Property, plant and equipment	193	121	235	343	410
Fixed assets	14,999	17,357	22,681	24,695	24,600
Current assets	16,989	14,270	10,454	4,737	4,364
Total assets	**31,988**	**31,627**	**33,135**	**29,432**	**28,964**
Equity	**25,282**	**24,523**	**23,136**	**21,990**	**21,426**
Ratios					
Operating profit margin	8%	10%	9%	-2%	2%
Return on assets	2%	2%	2%	-1%	1%
Return on equity	3%	9%	7%	4%	5%
Solvency ratio	79%	78%	70%	75%	74%
Employees					
Average number of employees	4,813	4,712	4,733	4,783	4,391

* The comparative figures for 2011 regarding revenue were adjusted to the presentation in the Annual Report 2012.

Management's **Review**

2015 was the year LEO Pharma embarked on our 'Helping SARAH – LEO towards 2020' journey – a new strategy which was launched in December 2014. With the ambitious aspiration to help more than 100 million people in 2020, LEO Pharma has committed itself to looking at new and innovative solutions and keeping engaging in partnerships to reach its goal.

LEO Pharma wants to offer solutions in all aspects of life for people living with skin diseases, to assist them in taking control of their condition and improve their quality of life.

We have set out on a mission to help people achieve healthy skin; in addition to our products, we offer patients a growing list of solutions and services. As part of our 2020 strategy, we have established LEO Innovation Lab, a separate business unit operating independently outside our traditional business. LEO Innovation Lab works to improve the well-being of people living with psoriasis by developing digital solutions and services.

Generic competition is today a market condition when running a pharmaceutical business with strong products and solutions, and 2015 was no exception. This year we upheld our patents for Daivobet® Ointment in court rulings in the UK and Canada.

The result for 2015 is considered satisfactory.

We aspire to help more than 100 million people in 2020.

Dermatology

LEO Pharma offers integrated care solutions to people suffering from psoriasis, eczema, actinic keratosis, acne and skin infections. We develop drugs, devices, delivery systems and digital health technologies. We also offer solutions for conditions that require supportive treatment, such as thrombosis, kidney disease and cancer.

LEO Pharma's **transformation**

Understanding SARAH and the world she lives in

LEO Pharma wants to be the preferred dermatology care partner improving people's lives around the world. To support our strategic journey – 'Helping SARAH – LEO towards 2020' – we are changing our mindset and way of working in order to better understand patients, markets and the external diversity of the world SARAH, the patient, lives in.

LEO Pharma has already taken the first steps in order to change. With the aim of making employees understand patients better, an internal campaign was launched to teach all LEO people about skin, skin diseases and the people who live with them. Employees' understanding of patients and the world they live in is the prerequisite for developing new solutions that can make a difference to people in their everyday lives.

One way of helping patients is to make the world aware of the different conditions and remove some of the stigma related to skin diseases. Therefore, LEO Pharma continues to put patients on the agenda at any given opportunity. In June, LEO Pharma was invited to speak about the importance of patient leadership at the first ever International Dermatology Patient Organisation Conference (IDPOC) in Vancouver.

In July, LEO Pharma's efforts to ensure that psoriasis is acknowledged as a priority disease area for the US FDA's Patient-Focused Drug Development

Initiative were rewarded. This was the first time that LEO Pharma had commented on an FDA Patient Initiative, enhancing our relationship with both the FDA and patient organisations. Influencing the decision to get psoriasis identified as a priority area by the FDA is a major milestone in our efforts to engage in dialogue with the FDA and further strengthen our relationship with the FDA by demonstrating our focus on people with skin diseases.

On World Psoriasis Day in October, LEO Pharma initiated a global social media event, creating awareness and providing facts about the disease by involving employees in the campaign. LEO Pharma also showed its support on World Thrombosis Day in the same month.

Enabling patients and healthcare professionals to make informed decisions about treatment is an important part of helping people control their disease. Since 2014, LEO Pharma has ensured that the latest clinical trial information is available on its corporate website – information that helps advance the scientific understanding of the disease areas covered by the clinical trials sponsored by LEO Pharma. LEO Pharma's efforts to become more transparent regarding public access to our clinical trial information are increasingly being acknowledged by the public.

2015 was also the year when LEO Pharma launched the Daivobet® gel Applicator. The applicator makes it easier for people to apply Daivobet® gel to difficult-to-reach areas. The applicator is the first of the drug devices LEO Pharma plans to bring to patients, and at the same time, the first solution developed directly based on dialogue with patients.

Enstilar® Foam, another new LEO solution, was approved by the FDA in October 2015 and is ready for launch in the US in 2016. Psoriasis patients suffering from itching may have difficulty falling asleep or be woken up frequently as a result of itching, significantly impacting their quality of life. A study conducted by LEO Pharma, PSO-FAST trial (PSOriasis vulgaris, a Four-week, vehicle-controlled, efficacy And Safety Trial), shows that Enstilar® can provide significant improvements in health-related quality of life by treating the itching and itch-related sleep loss that affect so many patients[1,2]. While itching as a symptom tends to be neglected in favour of the visible plaques associated with psoriasis, itching can be directly related to decreased quality of life, due to the added stress and embarrassment it causes.

One way of helping patients is to make the world aware of the different conditions and remove some of the stigma related to skin diseases. Therefore, LEO Pharma continues to put patients on the agenda at any given opportunity.

1. Life with psoriasis: Understanding the itch. National Psoriasis Foundation. Accessed on 15 April 2015. http://www.psoriasis.org/life-with-psoriasis/understanding-the-itch.
2. Leonardi C, et al. Fixed-combination calcipotriene 0.005%/betamethasone dipropionate 0.064% aerosol foam provides rapid itch relief and improvements in itch-related sleep loss in psoriasis patients (PSO-FAST study).

In 2015, LEO Pharma continued to invest in strategic partnerships, internal research and development (R&D) and patient-focused initiatives. We entered into several new partnerships that will strengthen our position and commitment to dermatology and, at the same time, represent significant growth opportunities. Our new partners include arGEN-X N.V. and NeoPharm.

Signing the agreement with arGEN-X N.V. gave LEO Pharma exclusive access to an existing arGEN-X antibody currently in preclinical development for inflammation-related skin diseases, and by partnering with NeoPharm, LEO Pharma entered the emollients market.

The most recent partnership was the signing of a contract with Astellas Pharma Inc., resulting in the acquisition of a broad portfolio of dermatology solutions. The transaction, which totals EUR 675 million, will be the largest in LEO Pharma's more than 100-year history in terms of incremental turnover. The first steps to include the products will be taken as soon as approval has been given by the competition authorities, which is expected in the first quarter of 2016.

LEO Pharma also invested in the privately owned SkinVision B.V., a derma-focused mobile app company based in the Netherlands. The aim is to be at the forefront of digital healthcare trends in order to deliver innovative and value-added services to people living with skin diseases. With this investment, LEO Pharma has become a significant minority owner of SkinVision B.V.

LEO Pharma's investment in LEO Innovation Lab signals a willingness to do things differently to bring more digital solutions into the portfolio, especially within digital patient solutions, in order to get new holistic solutions to patients faster.

We entered into several new partnerships that will strengthen our position and commitment to dermatology.

TRANSFORMING THE BUSINESS AND RENEWING GOVERNANCE

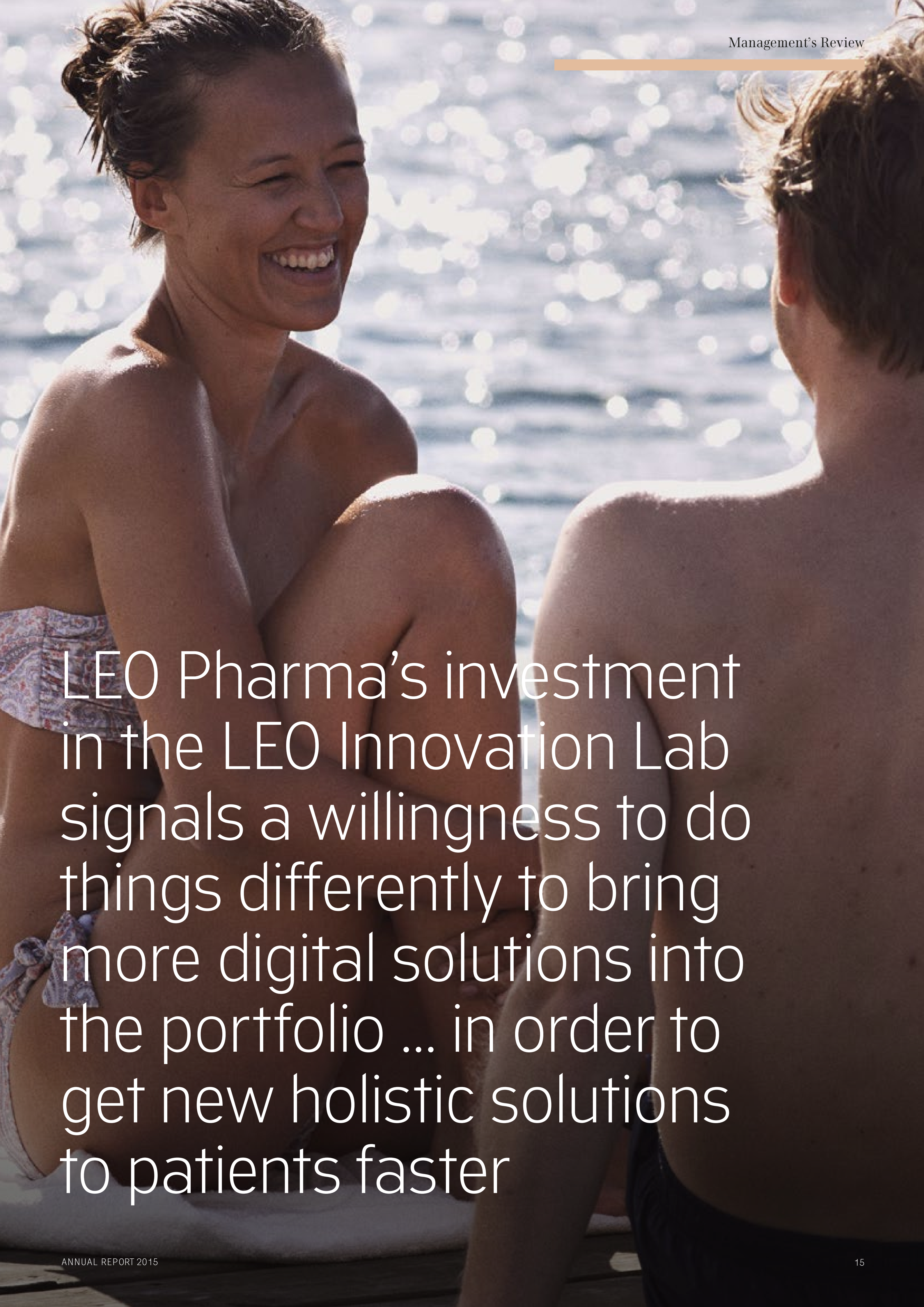
In addition to the increased focus on patients and the external environment surrounding patients, LEO Pharma is also changing its organisation and the way we work. The changes are being made to bring markets and insights into focus, reduce internal complexity and ensure we run a competitive and sustainable business for many years into the future.

In August, the successors to the retiring Chairman, Poul Rasmussen, were announced, completing a process that began several years ago in order to strengthen governance at LEO Pharma. Lars Olsen (former Executive Vice President, Global Sales and Marketing, LEO Pharma A/S) has taken over as Chairman of the LEO Foundation, and Jukka Pertola (former Vice Chairman, Board of Directors, LEO Pharma A/S) has taken over as Chairman of LEO Pharma A/S, both as of 1 January 2016.

In September, LEO Pharma announced a new governance set-up and new leadership teams. Group Management and the Global Management Team were restructured under the names Executive Leadership Team (ELT) and Global Leadership Team (GLT) respectively, with new structures, functions and teams.

The changes brought new profiles to the management teams and will better position LEO Pharma to respond to the needs of patients in their local healthcare contexts, strengthen the strategic direction and enhance the treatment offerings. The changes reflect LEO Pharma's strengthened focus on managing an increasingly diverse external environment, while reducing internal complexity. LEO Pharma aims to create a simpler, more agile and seamless organisation with greater innovation, empowerment and collaboration at all levels.

As a result, LEO Pharma's previous six regions were combined into three, and the heads of Region EUROPE+, Region INTERNATIONAL and Region US are now members of ELT. This aims to ensure that decisions more closely reflect the reality of patients and markets.



LEO Pharma's investment in the LEO Innovation Lab signals a willingness to do things differently to bring more digital solutions into the portfolio ... in order to get new holistic solutions to patients faster

Basis for future **earnings**

Research and development

The cost of research and development in 2015 was DKK 1,184 million (2014: DKK 1,193 million), which is in line with 2014 and constitutes 14% of total revenue.

Dermatology

PSORIASIS
In 2015, LEO Pharma launched the Daivobet® gel Applicator in 12 markets in Europe. The Daivobet® gel Applicator marks the first treatment developed together with psoriasis patients, aiming to improve real-life effectiveness by providing better application control. The Taclonex® Topical Suspension Applicator (US brand for Daivobet® gel Applicator) was approved by the FDA and will be launched in the US in 2016.

Enstilar®, a novel foam treatment, was submitted to both the FDA and the EMA. Approved by the FDA in 2015, the solution will be launched in the US in 2016. Additional approvals, including EMA approval, and launches are expected in 2016. In the clinical development programme, Enstilar® demonstrated statistically significantly superior efficacy to both Daivobet® Ointment and gel, which is due to the foam formulation being easier to apply to larger skin areas.

Daivobet® gel is planned to enter phase III in Japan in early 2016, to follow the successful launch of Daivobet® Ointment, which became the market leader in the Japanese topical psoriasis market in less than a year after its July 2014 launch.

THROMBOSIS
In 2015, LEO Pharma submitted the label extension for the treatment of cancer-associated venous thrombotic events based on data from the CATCH study. CATCH is the largest study in the world to investigate the efficacy of a low-molecular-weight heparin (innohep®) in the treatment of deep venous thrombosis and pulmonary emboli in cancer patients. The CATCH study was published in *JAMA* on 18 August 2015.

ACNE
In 2015, LEO Pharma obtained the CE mark and launched Kleresca® in the first clinic in the UK. Kleresca® is a novel biophotonic treatment for acne. It marks LEO Pharma's first offering of a medical device therapy as a result of the joint venture agreement signed in 2014 between LEO Pharma and Canada-based KLOX Technologies Inc. Expansion into further clinics and markets is planned in 2016.

ECZEMA
The JAK (Janus Kinase) inhibitor licensed from Japan Tobacco is progressing to phase II in early 2016 for four different indications.

A new topical eczema solution based on a new chemical entity developed by LEO Pharma progressed to phase II, with the efficacy readout expected in early 2016. This novel treatment aims to deliver a non-steroidal treatment for sensitive skin, including treatment for children suffering from atopic dermatitis, and has the potential to become the first in a class of new treatments.

ACTINIC KERATOSIS
During 2015, Picato® was approved and launched in several new markets across the world to help many more people living with actinic keratosis. The Picato® EU Summary of Product Characteristics has successfully been updated with repeat treatment and inclusion of data on the sequential use of Picato® following cryo therapy. In the US, the FDA also updated the Picato® label to reflect the good results of repeated treatment with Picato®.

A novel ingenol derivative aiming at offering a flexible, patient-friendly solution for field treatment

LEO Pharma's latest global engagement survey, LEO Voice, was conducted, obtaining an impressive response rate of 90.3%

of actinic keratosis on the face, scalp and chest in areas up to 250 cm^2 delivered strong efficacy data from the phase II programme in the third quarter of 2015. The phase III programme was initiated in November 2015.

The benefits of the novel ingenol-derived compounds are being explored in new indications, including non-melanoma skin cancer, genital warts and acne.

HUMAN CAPITAL

LEO Pharma's employees are the Company's greatest asset. Thanks to our global team of people from different cultures and backgrounds, LEO Pharma is a workplace where innovation thrives and people grow.

In September, LEO Pharma's latest global engagement survey, LEO Voice, was conducted, obtaining an impressive response rate of 90.3%. Ten out of the 17 categories scored higher than and the rest on par with the 2013 survey. As many as 16 out of the 17 categories were higher than or on par with global pharma industry norms. In 2016, the global organisation will work on both global initiatives and local actions.

Financial results for **2015**

REVENUE

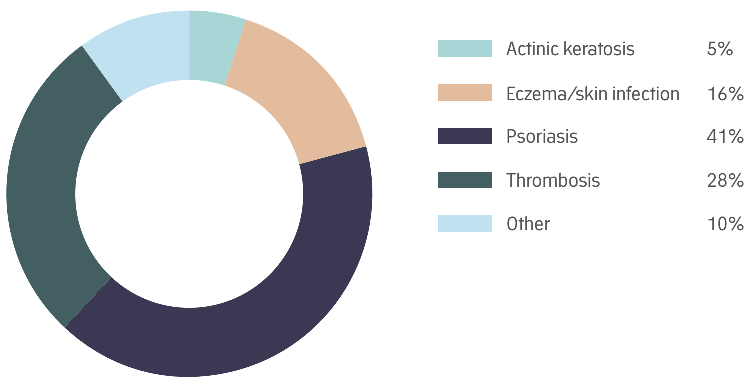
LEO Pharma's revenue in 2015 amounted to DKK 8,457 million – an increase of DKK 484 million or 6% compared to 2014 and 0.5% in local currencies.

LEO Pharma launched the Daivobet® gel Applicator in a number of European markets in 2015, whereas generic competition for Kaleorid® and Centyl® in the Nordic markets impacted revenue negatively. The development compared to 2014 was negatively impacted by the full-year effect of the loss of exclusivity on Taclonex® Ointment in the US in the second quarter of 2014.

Revenue in the US accounted for 10% of LEO Pharma's total revenue, which is on par with 2014. US revenue decreased by 3% in local currency compared to 2014 due to the full-year impact of loss of exclusivity.

The increase in revenue is related to the full-year effect of the continued launches of Picato® and the increased use of innohep® in cancer-associated thrombosis.

Revenue by patient solutions



OPERATING EXPENSES

Total operating expenses in 2015 amounted to DKK 5,607 million (2014: DKK 5,166 million). This represents an increase in operating expenses of DKK 441 million in 2015 compared to 2014. This is mainly due to an increase in sales and distribution costs as well as in administrative costs.

Sales and distribution costs increased by DKK 254 million from DKK 3,183 million in 2014 to DKK 3,437 million in 2015. The increase is mainly due to staff expenses, new launches and digital communication.

Administrative costs increased by DKK 206 million from DKK 796 million in 2014 to DKK 1,002 million in 2015. The increase is mainly due to staff expenses and additional use of consultants related to strategic projects.

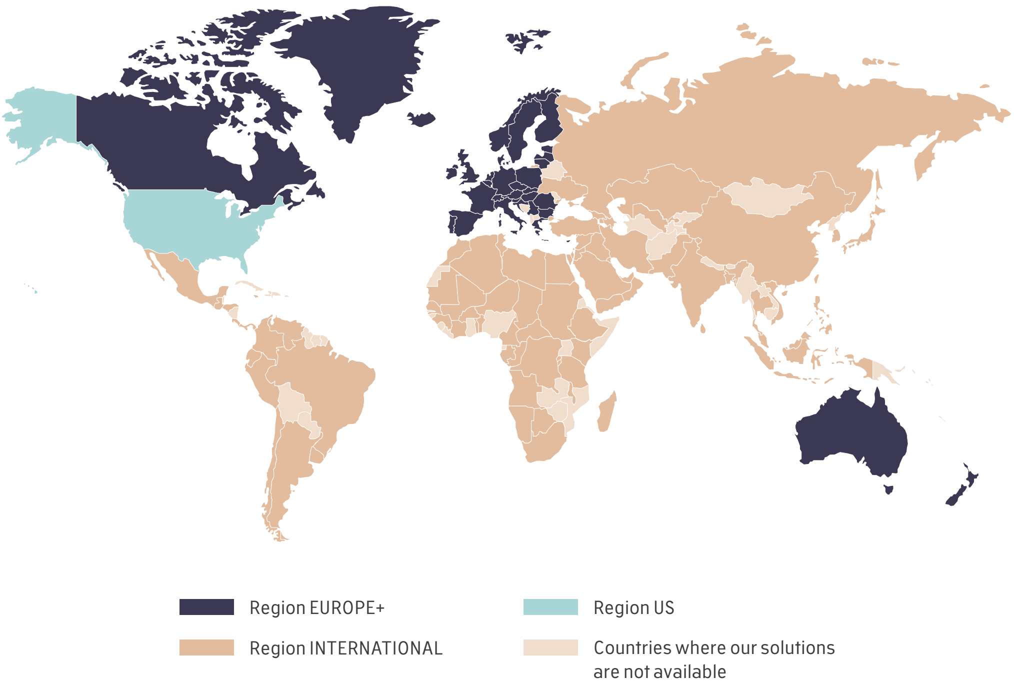
LEO Pharma focuses continuously on operational excellence and efficient business processes, enabling the Company to invest its resources where they matter most: helping SARAH.

The new global ERP business platform, GLOBE, is still being rolled out at LEO Pharma, with the production sites next in line and the rest of the LEO affiliates being enrolled in smaller groups subsequently.

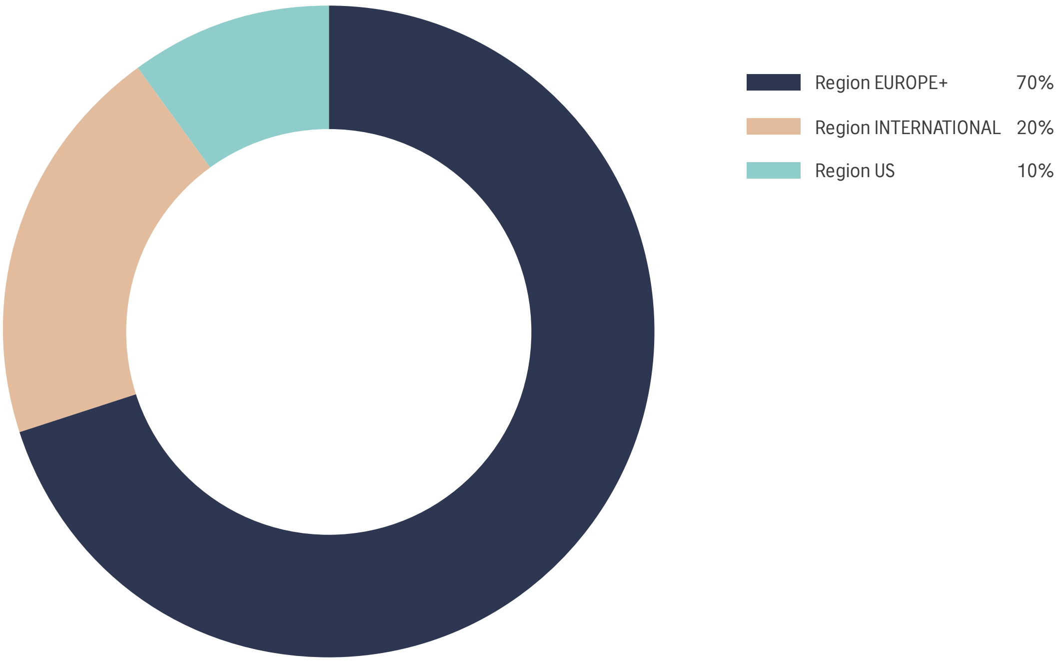
Depreciation, amortisation and impairment losses decreased to DKK 446 million from DKK 581 million in 2014. Amortisation and impairment losses of intangible assets amounted to DKK 185 million (2014: DKK 295 million), which includes an impairment loss of DKK 14 million (2014: DKK 107 million) relating to development projects and intellectual property rights.

At year-end, LEO Pharma had 4,959 employees (2014: 4,679), of whom 1,731 were employed in Denmark (2014: 1,567). The average number of employees increased by 101 employees compared to 2014.

The LEO world



Revenue by region



LEO Pharma's revenue in 2015 increased by 6% compared to 2014.

OPERATING PROFIT

Operating profit decreased by DKK 67 million to DKK 695 million from DKK 762 million in 2014. Operating profit is in line with expectations for 2015.

NET FINANCIAL INCOME

In 2015, net financial income decreased by DKK 1,110 million to DKK 178 million. DKK 362 million of the decrease was due to the reduced performance of the Low Volatility Stocks, Covered Bonds and Investment-Grade Corporate Bonds. The interest income and capital gains on Danish mortgage bonds were DKK 289 million (2014: DKK 817 million). The net financial result was also negatively impacted by DKK 223 million as a result of complying with the hedging policy valid until November 2015, as this policy resulted in a 12-month average hedged period. The negative result primarily arose from the hedging of USD, GBP, CAD and SAR.

The market value of LEO Pharma's bond holdings amounted to DKK 11,576 million as at 31 December 2015 (2014: DKK 14,346 million). The decrease is due to drawn bonds that have been reinvested in the asset classes mentioned below. LEO Pharma's Low Volatility Stocks, Covered Bonds and Investment-Grade Corporate Bonds had a market value of DKK 11,462 million by the end of 2015 (2014: DKK 8,442 million).

SATISFACTORY EARNINGS

LEO Pharma generated a net profit of DKK 645 million in 2015 compared to DKK 1,544 million in 2014. The effective tax rate for LEO Pharma was 25% (2014: 25%), which is in line with expectations.

Net investments in intangible assets amounted to DKK 244 million in 2015 (2014: DKK 160 million) and concerned the investments in arGEN-X as well as continued investment in a SAP-based ERP system being rolled out globally.

In 2015, LEO Pharma invested (net) DKK 193 million (2014: DKK 121 million) in property, plant and equipment. These investments mainly concerned the expansion and optimisation of production facilities to ensure capacity for future growth in volumes of LEO Pharma's solutions and the preparations for the launch of new patient solutions in 2016.

Operating activities generated a positive cash flow of DKK 770 million (2014: DKK 1,041 million). LEO Pharma achieved a 3% return on equity (2014: 9%) and equity of DKK 25,282 million at the end of the year (2014: DKK 24,523 million). Based on these results, LEO Pharma entered 2016 with a solvency ratio of 79% (2014: 78%).

Special business and **financial risks**

OPERATING RISKS

LEO Pharma continually works to ensure a reasonable balance between risk exposure and value creation. Therefore, LEO Pharma regularly enters into long-term agreements for the supply of raw materials and other critical input for the Group's production.

MARKET RISKS

LEO Pharma makes considerable efforts to protect its intellectual property rights at all times, both for new and existing products, and to ensure that we conduct our business without infringing the rights of others.

FOREIGN EXCHANGE RISKS

The greatest foreign exchange risk is associated with the following currencies: USD, GBP, CAD, AUD, SAR, CNY, NOK and SEK. These currencies together accounted for 77% of LEO Pharma's foreign exchange position in 2015.

New hedging principles were initiated in December 2015. This means that hedging will no longer be done based on forecast cash flow from operations but will be done based on the expected cash flows from realised transactions. The Group's hedging is centralised at Parent Company level.

LEO Pharma does not hedge net investments in foreign affiliates.

LIQUIDITY RISKS

At LEO Pharma, we have a unique opportunity to put patients first thanks to our foundation ownership. Because LEO Pharma is 100% owned by the LEO Foundation, we are first and foremost accountable to patients, and all profits are reinvested in LEO Pharma and grants to international dermatological research projects and activities from the LEO Foundation.

LEO Pharma has a high solvency ratio and thus encounters no significant liquidity risks.

INTEREST RATE RISKS

Interest rate risks occur in connection with our investments in various asset classes. LEO Pharma invests in Low Volatility Stocks, Investment-Grade Corporate Bonds and Covered Bonds, all with high ratings.

The interest rate risk on our held-to-maturity portfolio of Danish mortgage bonds is partly offset by the interest rate risk of our debt portfolio. Interest rate swaps are used to hedge the interest rate for each loan in our debt portfolio.

CREDIT RISKS

LEO Pharma's credit risk consists of two components.

The first component is the risk related to payment terms for LEO Pharma's customers. In 2014, LEO Pharma tightened its global credit policy, and combined with increased focus on credit policy, this means that the Company is in a good position to avoid future losses on bad debts.

The second component is the counterparty risk related to LEO Pharma's banking partners. The counterparty risk is estimated to be low due to the high ratings of the partners.

There are not considered to be any material risks relating to individual customers or business partners.

Expectations for **2016**

In 2016, LEO Pharma expects single-digit organic revenue growth, driven by the launch of Enstilar® in the US and the full-year impact of the launch of the Daivobet® gel Applicator in Europe. The acquisition of the dermatology portfolio from Astellas Pharma Inc. will have a positive impact on the top line; however, the transaction awaits final approval from the competition authorities. Pre-tax profit is expected to increase. The Company's result will be challenged by continued pressure for price reductions and the potential loss of exclusivity for Daivobet® Ointment in Europe.

In 2016, LEO Pharma plans to continue the search for business development opportunities in line with the Company's mission.

Our ambition is to help as many people suffering from skin diseases as possible. LEO Pharma will continue its focus on aligning and developing its organisational structure to meet the challenges facing the industry and reduce internal complexity.

ELEMENTS OF UNCERTAINTY

LEO Pharma will continue its focus on proactively aligning and developing its organisation to address changes in the market place and ensure that its resources are invested where they matter the most: helping SARAH.

OWNERSHIP STRUCTURE

LEO Pharma is a wholly owned subsidiary of the LEO Foundation, Industriparken 55, 2750 Ballerup, Denmark.

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.

In 2016, LEO Pharma plans to continue the search for business development opportunities in line with the Company's mission.

Remuneration Committee

The Company has appointed a Remuneration Committee. The members of the Committee are:

Jukka Pertola, Chairman
John R. Weeks

The Committee's task is to establish the terms and conditions of employment for the Company's top management.

Corporate social responsibility

LEO Pharma A/S's compliance with Sections 99a and 99b of the Danish Financial Statements Act is reported in a separate Corporate Social Responsibility (CSR) report available at *www.leo-pharma.com/csr-report-2015*

Our ambition is to help as many people suffering from skin diseases as possible.

— LEO Pharma

Consolidated Financial Statements **Group**

FINANCIAL STATEMENTS

Income statement 29
Balance sheet at 31 December 30
Cash flow statement 32
Consolidated statement of equity 33

NOTES

Note 1 – Revenue 36
Note 2 – Other external expenses 36
Note 3 – Staff expenses 37
Note 4 – Amortisation, depreciation and impairment losses 37
Note 5 – Financial income 38
Note 6 – Financial expenses 38
Note 7 – Tax on profit for the year 38
Note 8 – Intangible assets 39
Note 9 – Property, plant and equipment 40
Note 10 – Other securities 41
Note 11 – Share capital 41
Note 12 – Deferred tax 41
Note 13 – Pension assets and pension obligations 42
Note 14 – Other provisions 42
Note 15 – Other adjustments 42
Note 16 – Contingencies 43
Note 17 – Financial instruments 43
Note 18 – Related parties 43
Note 19 – Companies in the LEO Pharma Group 44
Note 20 – Accounting policies 46

Income statement

(DKK million)	Note	2015	2014
Revenue	(1)	8,457	7,973
Cost of sales	(3,4)	-2,155	-2,045
Gross profit		**6,302**	**5,928**
Sales and distribution costs	(3,4)	-3,437	-3,183
Research and development costs	(3,4)	-1,184	-1,193
Administrative costs	(2,3,4)	-1,002	-796
Other operating income		40	53
Other operating expenses		-24	-47
Operating profit		**695**	**762**
Income from investments in associates after tax		-13	0
Financial income	(5)	430	1,332
Financial expenses	(6)	-252	-44
Profit before tax		**860**	**2,050**
Tax on profit for the year	(7)	-215	-506
Net profit for the year		**645**	**1,544**

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2015	2014
Intellectual property rights		133	202
Trademarks		5	11
Development projects		336	165
Software		107	144
Intangible assets	(8)	**581**	**522**
Land and buildings		824	913
Leasehold improvements		81	96
Plant and machinery		593	592
Other fixtures and fittings, tools and equipment		70	77
Fixed assets under construction		256	212
Property, plant and equipment	(9)	**1,824**	**1,890**
Investments in associates		5	0
Other financial securities	(10)	11,519	13,988
Pension assets	(13)	0	23
Deferred tax assets	(12)	1,070	934
Financial fixed assets		**12,594**	**14,945**
Fixed assets		**14,999**	**17,357**
Raw materials and consumables		214	257
Work in progress		936	893
Finished goods and goods for resale		513	318
Inventories		**1,663**	**1,468**
Trade receivables		1,992	2,065
Other receivables		1,308	1,284
Prepayments		121	95
Receivables		**3,421**	**3,444**
Other securities		**11,531**	**8,497**
Cash at bank and in hand		**374**	**861**
Current assets		**16,989**	**14,270**
ASSETS		**31,988**	**31,627**

Balance sheet at 31 December

EQUITY AND LIABILITIES

(DKK million)	Note	2015	2014
Share capital	(11)	250	250
Retained earnings		25,032	24,273
Equity		**25,282**	**24,523**
Deferred tax	(12)	39	88
Pension obligations	(13)	2	0
Other provisions	(14)	593	555
Provisions		**634**	**643**
Credit institutions		4,023	4,419
Trade payables		1,383	1,363
Loans from affiliates		90	100
Corporation tax		30	111
Other payables		546	468
Current liabilities		**6,072**	**6,461**
EQUITY AND LIABILITIES		**31,988**	**31,627**

Cash flow statement

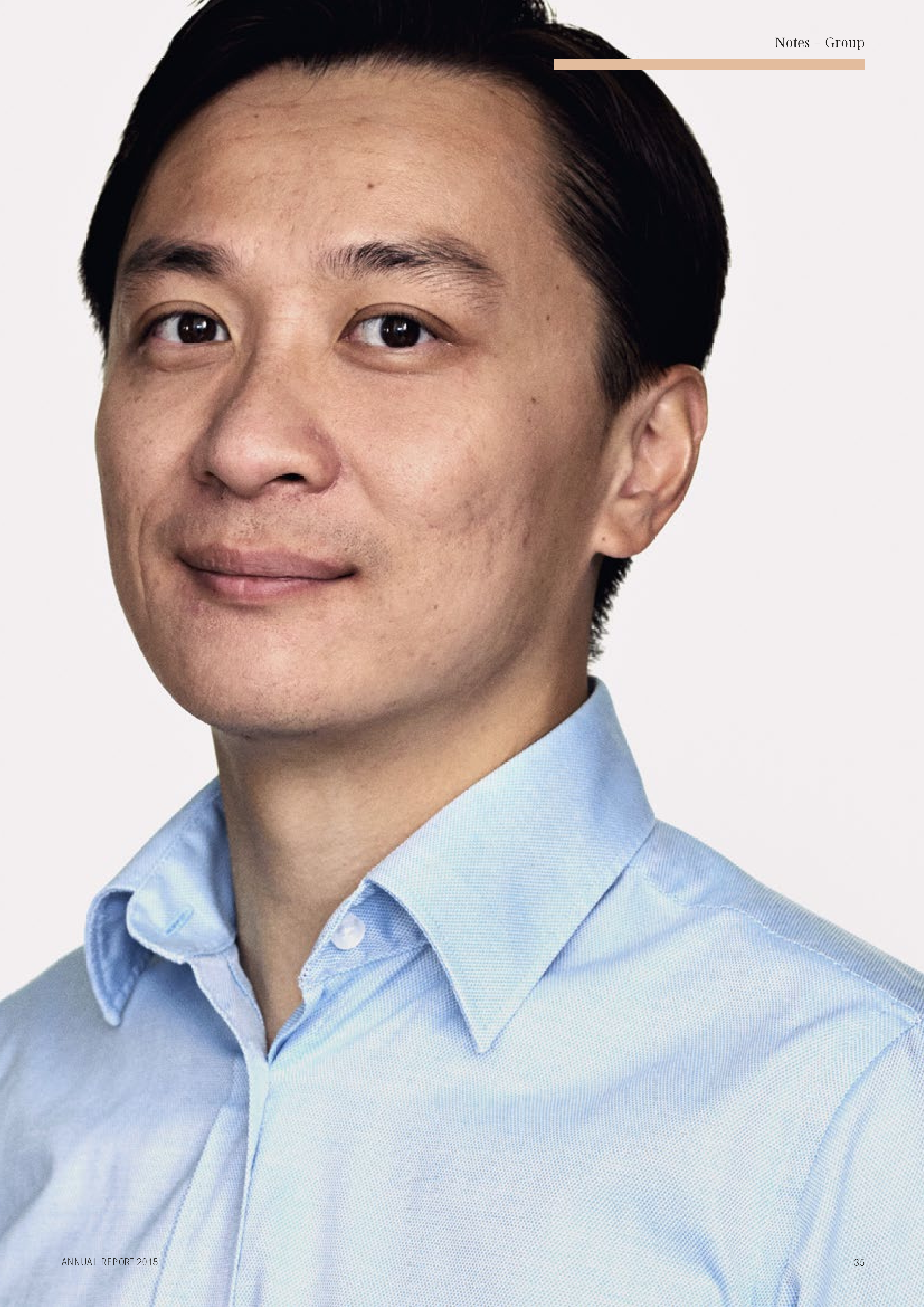
(DKK million)	Note	2015	2014
Profit before tax		**860**	**2,050**
Adjustments:			
Depreciation, amortisation and impairment losses		446	581
Unrealised exchange rate adjustment		100	46
Value adjustment, securities		-133	-695
Corporation tax paid		-538	-747
Pension obligations		23	-27
Other provisions		-15	-66
Other adjustments	(15)	202	-115
Change in working capital:			
Change in inventories and receivables		-458	-202
Change in trade payables and other payables		283	216
CASH FLOWS FROM OPERATING ACTIVITIES		**770**	**1,041**
Investments in intangible assets, net		-241	-214
Investments in property, plant and equipment, net		-181	-99
Other securities		-438	3,040
Acquisition of companies		-19	0
CASH FLOWS FROM OPERATING ACTIVITIES		**-879**	**2,727**
Change in bank debt		-378	-3,386
CASH FLOWS FROM FINANCING ACTIVITIES		**-378**	**-3,386**
CHANGE IN CASH AND CASH EQUIVALENTS		**-487**	**382**
Cash and cash equivalents at 1 January		**861**	**479**
Cash and cash equivalents at 31 December		**374**	**861**

The figures in the cash flow statement cannot be directly derived from the figures in the Consolidated Financial Statements.

Consolidated statement of equity

(DKK million)	Share capital	Retained earnings	**Total**
Equity at 1 January 2015	250	24,273	24,523
Net profit for the year	0	645	645
Adjustment of financial instruments	0	85	85
Exchange rate adjustment	0	49	49
Tax on changes in equity	0	-20	-20
Equity at 31 December 2015	**250**	**25,032**	**25,282**
Equity at 1 January 2014	250	22,886	23,136
Net profit for the year	0	1,544	1,544
Adjustment of financial instruments	0	-167	-167
Exchange rate adjustment	0	23	23
Tax on changes in equity	0	-7	-7
Other movements	0	-6	-6
Equity at 31 December 2014	**250**	**24,273**	**24,523**

Notes
Group



NOTE 1 – REVENUE

(DKK million)	2015	2014
Geographical segments		
Sales in Denmark	215	271
Sales outside Denmark	8,242	7,702
Total	**8,457**	**7,973**
Segmentation – business areas		
Healthcare	8,457	7,973
Total	**8,457**	**7,973**

NOTE 2 – OTHER EXTERNAL EXPENSES

(DKK million)	2015	2014
Fees to auditors appointed at the annual general meeting		
Statutory audit	-7	-6
Tax advisory services	-10	-6
Other services	-3	-3
Total	**-20**	**-15**

NOTE 3 – STAFF EXPENSES

(DKK million)	2015	2014
Wages and salaries	-2,640	-2,506
Pensions	-291	-231
Social security expenses	-230	-226
Other employee expenses	-204	-207
Capitalised staff expenses	30	37
Total	**-3,335**	**-3,133**
Included in:		
Cost of sales	-676	-704
Sales and distribution costs	-1,755	-1,689
Research and development costs	-471	-445
Administrative costs	-433	-295
Total	**-3,335**	**-3,133**
Average number of full-time employees	4,813	4,712
Remuneration to the Board of Directors	-4	-4
Remuneration to the Executive Board	-27	-40

An amount of DKK 21.3 million included in the remuneration to the Executive Board in 2014 relates to changed conditions for post-employment benefits.

NOTE 4 – AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(DKK million)	2015	2014
Amortisation	-171	-188
Depreciation	-260	-286
Impairment losses	-15	-107
Total	**-446**	**-581**
Included in:		
Cost of sales	-225	-235
Sales and distribution costs	-14	-13
Research and development costs	-89	-170
Administrative costs	-118	-163
Total	**-446**	**-581**

NOTE 5 – FINANCIAL INCOME

(DKK million)	2015	2014
Interest income on bonds	327	580
Capital gains, financial assets	90	725
Exchange rate gains	0	10
Other financial income	13	17
Total	**430**	**1,332**

NOTE 6 – FINANCIAL EXPENSES

(DKK million)	2015	2014
Interest expenses to affiliates	0	-2
Exchange rate losses	-223	0
Other financial expenses	-29	-42
Total	**-252**	**-44**

NOTE 7 – TAX ON PROFIT FOR THE YEAR

(DKK million)	2015	2014
Current tax for the year	-381	-384
Change in deferred tax	156	-127
Adjustment relating to previous years	10	5
Total	**-215**	**-506**
Tax on changes in equity	-20	-7

Tax in affiliates totalled DKK 288 million (2014: DKK 231 million).

NOTE 8 – INTANGIBLE ASSETS

(DKK million)	Intellectual property rights	Trademarks	Development projects	Software	**Total intangible assets**
Cost at 1 January 2015	5,135	30	1,820	154	7,139
Exchange rate adjustment	3	0	0	0	3
Additions during the year	0	0	246	0	246
Disposals during the year	0	0	-2	0	-2
Cost at 31 December 2015	**5,138**	**30**	**2,064**	**154**	**7,386**
Amortisation at 1 January 2015	-4,933	-19	-1,655	-10	-6,617
Exchange rate adjustment	-3	0	0	0	-3
Amortisation for the year	-61	-6	-67	-37	-171
Impairment losses for the year	-8	0	-6	0	-14
Amortisation at 31 December 2015	**-5,005**	**-25**	**-1,728**	**-47**	**-6,805**
CARRYING AMOUNT AT 31 DECEMBER 2015	**133**	**5**	**336**	**107**	**581**
Cost at 1 January 2014	5,184	30	1,771	0	6,985
Exchange rate adjustment	-2	0	-4	0	-6
Additions during the year	83	0	54	77	214
Disposals during the year	-54	0	0	0	-54
Transfers	-76	0	-1	77	0
Cost at 31 December 2014	**5,135**	**30**	**1,820**	**154**	**7,139**
Amortisation at 1 January 2014	-4,809	-12	-1,504	0	-6,325
Exchange rate adjustment	2	0	1	0	3
Amortisation for the year	-90	-7	-81	-10	-188
Impairment losses for the year	-36	0	-71	0	-107
Amortisation at 31 December 2014	**-4,933**	**-19**	**-1,655**	**-10**	**-6,617**
CARRYING AMOUNT AT 31 DECEMBER 2014	**202**	**11**	**165**	**144**	**522**

Development projects amounted to DKK 336 million (2014: DKK 165 million), of which development projects in progress represented DKK 299 million (2014: DKK 53 million).

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

(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**
Cost at 1 January 2015	2,146	141	2,303	475	212	5,277
Exchange rate adjustment	2	0	3	0	0	5
Additions during the year	11	5	66	15	164	261
Disposals during the year	-2	-2	-25	-33	-64	-126
Transfers	3	0	51	2	-56	0
Cost at 31 December 2015	**2,160**	**144**	**2,398**	**459**	**256**	**5,417**
Depreciation and impairment losses at 1 January 2015	-1,233	-45	-1,711	-398	0	-3,387
Exchange rate adjustment	-1	0	-2	0	0	-3
Disposals during the year	0	1	24	33	0	58
Depreciation for the year	-102	-19	-116	-24	0	-261
Depreciation and impairment losses at 31 December 2015	**-1,336**	**-63**	**-1,805**	**-389**	**0**	**-3,593**
CARRYING AMOUNT AT 31 DECEMBER 2015	**824**	**81**	**593**	**70**	**256**	**1,824**
Cost at 1 January 2014	2,135	145	2,257	482	198	5,217
Exchange rate adjustment	-2	5	1	-1	-1	2
Additions during the year	6	6	1	7	124	144
Disposals during the year	-15	-15	-27	-26	-3	-86
Transfers	22	0	71	13	-106	0
Cost at 31 December 2014	**2,146**	**141**	**2,303**	**475**	**212**	**5,277**
Depreciation and impairment losses at 1 January 2014	-1,134	-35	-1,602	-393	0	-3,164
Exchange rate adjustment	1	-1	1	-1	0	0
Disposals during the year	3	11	26	23	0	63
Depreciation for the year	-103	-20	-136	-27	0	-286
Depreciation and impairment losses at 31 December 2014	**-1,233**	**-45**	**-1,711**	**-398**	**0**	**-3,387**
CARRYING AMOUNT AT 31 DECEMBER 2014	**913**	**96**	**592**	**77**	**212**	**1,890**

NOTE 10 – OTHER SECURITIES

(DKK million)	2015	2014
Cost at 1 January	13,986	18,935
Additions during the year	1,702	7,434
Disposals during the year	-4,132	-12,383
Cost at 31 December	**11,556**	**13,986**
Value adjustment at 1 January	2	16
Value adjustment for the year	-23	-12
Value adjustment on disposals for the year	-16	-2
Value adjustment at 31 December	**-37**	**2**
CARRYING AMOUNT AT 31 DECEMBER	**11,519**	**13,988**
Market value at 31 December	11,576	14,346

NOTE 11 – SHARE CAPITAL

The share capital comprises 250 shares with a nominal value of DKK 1 million. The share capital is divided into 170 A shares and 80 B shares. Holders of A shares have pre-emption rights if the share capital is increased. Holders of B shares can only vote in connection with alterations to the articles of association, cf. Section 107 of the Danish Companies Act.

No shares or shareholders have any additional special rights.

The total share capital is owned by the LEO Foundation.

NOTE 12 – DEFERRED TAX

(DKK million)	2015	2014
Deferred tax at 1 January	846	969
Exchange rate adjustment, beginning of year	18	25
Adjustments relating to previous years	-7	-37
Reclassifications	34	0
Deferred tax on equity	-16	16
Deferred tax on profit for the year	156	-127
Deferred tax at 31 December (net)	**1,031**	**846**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	1,070	934
Deferred tax liabilities	-39	-88
Deferred tax at 31 December (net)	**1,031**	**846**

The deferred tax relates to current assets, licences, fixed assets and losses relating to previously jointly taxed foreign affiliates, intercompany profits, indirect production costs, etc.

NOTE 13 – PENSION ASSETS AND PENSION OBLIGATIONS

(DKK million)	2015	2014
Provision for pension obligations at 1 January	-23	2
Exchange rate adjustment, beginning of year	2	2
Adjustment for the year	23	-27
Provision for pension obligations at 31 December	**2**	**-23**
The Group's companies in Ireland, the UK and France operate defined benefit plans.		
Deficits relating to pension schemes at 31 December	624	805

NOTE 14 – OTHER PROVISIONS

(DKK million)	2015	2014
Discounts	351	268
Product returns	148	187
Staff-related provisions	51	55
Other provisions	43	45
Total	**593**	**555**

NOTE 15 – OTHER ADJUSTMENTS

(DKK million)	2015	2014
Gain/loss on sale of fixed assets	-4	-22
Inventory write-down	57	-163
Provision for bad debt	31	2
Deferred income	107	0
Accrued interest, bonds	24	73
Other	-13	-5
Total	**202**	**-115**

NOTE 16 – CONTINGENCIES

The Parent Company's security provided and guarantee commitments totalled DKK 944 million at 31 December 2015 (2014: DKK 1,109 million). The amount relating to the Group totalled DKK 982 million at 31 December 2015 (2014: DKK 1,146 million).

Guarantees issued relating to the Group's Irish companies comprised all liabilities of the companies. At 31 December 2015, the companies had total liabilities of DKK 110 million (2014: DKK 141 million).

Guarantees issued relating to pension commitments in the Group's companies totalled DKK 773 million at 31 December 2015 (2014: DKK 813 million), of which DKK 624 million (2014: DKK 805 million) has been disclosed as deficits relating to pension schemes in note 13.

The Parent Company had lease obligations of DKK 36 million (2014: DKK 34 million), of which DKK 20 million related to affiliates (2014: DKK 20 million). Lease obligations relating to the Group totalled DKK 297 million ((2014: DKK 278 million).

As security for a bank loan and overdraft facilities at a carrying amount totalling DKK 4,023 million (2014: DKK 4,419 million), as well as the establishment of guarantee commitments at a value of DKK 24 million (2014: DKK 23 million), LEO Pharma A/S has pledged bonds at a carrying amount of DKK 4,719 million (2014: DKK 4,836 million). The amount relating to the Group also totalled DKK 4,719 million (2014: DKK 4,836 million).

At the end of 2015, 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 he pending cases to have any significant effect on the financial position of the Group.

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

The Parent Company is jointly taxed with all the Danish affiliates. The Parent Company is jointly and severally liable with the other companies in the joint taxation scheme for Danish corporate taxes and withholding taxes on dividends, interest and royalties within the joint taxation scheme.

NOTE 17 – FINANCIAL INSTRUMENTS

The Group and the Parent Company use both option and forward contracts as part of managing foreign exchange risks.

At 31 December 2015, there were outstanding forward contracts in: AUD, BRL, CAD, CHF, CNH, EUR, GBP, HKD, HUF, JPY, KRW, MXN, MYR, NOK, PHP, RON, RUB, SAR, SEK, SGD, THB, TRY and USD. The total contract amount at 31 December 2015 was DKK 8,193 million (2014: DKK 3,488 million).

At 31 December 2015, there were no outstanding option contracts classified as hedging contracts (2014: DKK 0 million).

At 31 December 2015, the Group and the Parent Company also had option contracts in EUR with contract amounts of DKK 478 million (2014: DKK 1,492 million).

NOTE 18 – RELATED PARTIES

LEO Pharma A/S's related parties with significant influence comprise the Company's Board of Directors, Executive Board, the LEO Foundation and affiliates of LEO Pharma A/S.

NOTE 19 – COMPANIES IN THE LEO PHARMA GROUP

Affiliates	Reg. office	Ownership	Currency	Nominal capital (thousand)
SARL LEO Pharma	Algeria	100%	DZD	2,000
PBL Australia Pty Ltd	Australia	100%	AUD	100
Peplin Operations Pty Ltd	Australia	100%	AUD	24,000
LEO Pharma Pty Ltd	Australia	100%	AUD	5,500
LEO Pharma GmbH	Austria	100%	EUR	76
LEO Pharma NV	Belgium	100%	EUR	273
LEO Pharma LTDA.	Brazil	100%	BRL	4,500
LEO Pharma Inc.	Canada	100%	CAD	8,400
LEO Pharma Consultancy company limited	China	100%	USD	3,600
LEO Pharma s.r.o.	Czech Republic	100%	CZK	350
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100%	DKK	30,000
Aktieselskabet af 30. april 2003	Denmark	100%	DKK	3,500
LEO Pharma OY	Finland	100%	EUR	151
Laboratoires LEO S.A.	France	100%	EUR	9,000
LEO Pharma GmbH	Germany	100%	EUR	750
LEO Pharmaceutical Hellas S.A.	Greece	100%	EUR	8,551
LEO Laboratories Ltd.	Ireland	100%	EUR	30,394
Wexport Ltd.	Ireland	100%	EUR	2,600
LEO Pharma Holding Ltd.	Ireland	100%	EUR	100
LEO Pharma S.p.A.	Italy	100%	EUR	620
LEO Pharma K.K.	Japan	100%	JPY	10,000
LEO Pharmaceuticals, S. de R. L. de C. V.	Mexico	100%	MXN	7,922
LEO Pharma LLC	Morocco	100%	MAD	100
LEO Pharma BV	Netherlands	100%	EUR	227
LEO Pharma Ltd.	New Zealand	100%	NZD	85
LEO Pharma AS	Norway	100%	NOK	3,000
LEO Pharma Sp. z o.o.	Poland	100%	PLN	95
LEO Farmacêuticos Lda.	Portugal	100%	EUR	626
LEO Pharmaceutical Products LLC	Russia	100%	RUB	16,500
LEO Pharma Asia PTE Ltd.	Singapore	100%	SGD	100
LEO Pharma Ltd	South Korea	100%	KRW	1,800,000
Laboratorios LEO Pharma S.A.	Spain	100%	EUR	1,214
LEO Pharma AB	Sweden	100%	SEK	1,000
Lövens Läkemedel AB	Sweden	100%	SEK	100
LEO Pharmaceutical Products Sarath Ltd.	Switzerland	100%	CHF	50
LEO Pharma SARL	Tunisia	100%	TND	10
LEO Pharma İlaç Ticaret Anonim Şirketi	Turkey	100%	TRY	1,300
LEO Laboratories Ltd.	United Kingdom	100%	GBP	12,000
LEO Pharma Inc.	USA	100%	USD	2,500
Peplin Inc.	USA	100%	USD	15
Associate				
SkinVision B.V.	Netherlands	26.32%	EUR	30

NOTE 20 – ACCOUNTING POLICIES

The Consolidated Financial Statements of LEO Pharma for 2015 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

LEO Pharma has decided to change the presentation of the income statement from 'by nature' to 'by function'. Consequently, comparative figures in the income statement have been restated. The change relates only to presentation of the income statement and has no impact on either result for the year or the balance sheet.

The accounting policies applied are unchanged from last year.

RECOGNITION AND MEASUREMENT

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation and impairment losses and provisions, as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments, and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report that confirm or invalidate circumstances and conditions existing at the balance sheet date.

The measurement currency is Danish kroner (DKK). All other currencies are regarded as foreign currencies.

CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements comprise the Parent Company, LEO Pharma A/S, and affiliates in which LEO Pharma A/S, directly or indirectly holds more than 50% of the votes or otherwise exercises control.

The Consolidated Financial Statements are prepared by combining the Financial Statements of the Parent Company and all affiliates with subsequent elimination of intercompany transactions, intercompany shareholdings and balances, as well as unrealised profits from intercompany transactions.

The Financial Statements of all companies have been prepared according to the same accounting policies as applied by the Parent Company.

Enterprises acquired during the year and newly formed enterprises are consolidated from the date of acquisition or formation. Enterprises that are sold or wound up during the year are included in the consolidated income statement until the date of disposal or until the business was wound up. Comparative figures are not restated for newly acquired, sold or wound-up enterprises.

FOREIGN CURRENCY TRANSLATION

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

Fixed assets acquired in foreign currencies are measured at the transaction-date rates.

On recognition of foreign affiliates, income statements are translated at the average exchange rates for the period, and balance sheet items are translated at the exchange rates at the balance sheet date.

Exchange adjustments arising on the translation of the opening equity of foreign affiliates at the exchange rates at the balance sheet date and on the translation of the income statement from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised in the balance sheet at cost and are subsequently remeasured to their fair values at the end of the reporting period. Positive and negative fair

NOTE 20 – ACCOUNTING POLICIES

values of derivative financial instruments are recognised in other receivables and other payables respectively.

Changes in the fair values of derivative financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement, as are any changes in the fair value of the hedged asset or the hedged liability.

Changes in the fair values of financial and derivative financial instruments that are designated and qualify as hedges of future cash flows are recognised as other receivables and other payables and as financial hedges in equity. Income and expenses relating to such hedging transactions are transferred from equity on realisation of the hedged item and recognised as financial income and expenses.

REVENUE

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when the sale is considered effected based on the following criteria:

- Delivery and transfer of risk have taken place before year-end
- The sales price can be measured reliably and payment has been received or may with reasonable certainty be expected to be received

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Revenue includes licence income and royalties from outlicensed products as well as milestone payments and other revenues in connection with partnerships. These revenues are recognised when it is probable that future economic benefits will flow to the Company and these benefits can be measured reliably.

COST OF SALES

Cost of sales comprises costs incurred to achieve the revenue for the year. Cost of sales includes direct and indirect costs of raw materials and consumables; salaries; maintenance, depreciation and impairment of production plant; and costs and expenses relating to the operation, administration and management of factories. Also included are inventory write-downs.

SALES AND DISTRIBUTION COSTS

Sales and distribution costs comprise costs relating to the sale and distribution of products, including salaries, sales commissions, advertising and marketing costs, depreciation and impairment, etc.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs comprise costs, including salaries, depreciation of operating assets, amortisation and write-down of development projects and equipment directly or indirectly attributable to the Group's research and development activities.

ADMINISTRATIVE COSTS

Administrative costs comprise expenses incurred for management and administration. Administrative costs include office expenses, salaries, depreciation and impairment, losses on trade receivables, etc.

OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses comprise items secondary to the principal activities. Other operating income includes non-recurring income from the sale of rights and gains on the sale of fixed assets, etc.

As a main rule, the sale of rights, etc. is recognised as income at the time of sale. If the sale results in an obligation for the Company, the income is accrued over the duration of the obligation, and in the case of sales where the income is dependent on future events, the amount is recognised as income when the event occurs.

FINANCIAL INCOME AND EXPENSES

Financial income and expenses comprise interest, realised and unrealised exchange adjustments, price adjustment of securities, as well as extra payments and repayments under the on-account taxation scheme.

TAX ON PROFIT/LOSS FOR THE YEAR

Tax for the year comprises current tax and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. Any changes in deferred tax due to changes in tax rates are recognised in the income statement.

INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated depreciation and impairment. Amortisation is provided on a straight-line basis over the expected useful lives of the assets. The amortisation profile is adjusted for the risk relating to the underlying asset, so that up to 33% of the amortisation is brought forward from the second half of the asset's expected useful life to the first half. Amortisation and impairment are recognised in the income statement as cost of sales, sales and distribution costs, and administrative costs. The expected useful lives are as follows:

Intellectual property rights, trademarks and development projects	3-20 years
Software	5 years

NOTE 20 – ACCOUNTING POLICIES

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

Development projects that are clearly defined and identifiable, where there is evidence of the technical utilisation degree, sufficient resources and a potential future market or development opportunities in the Company, and where LEO Pharma intends to produce, market or use the project, are recognised as intangible assets if it is probable that costs incurred will be covered by future earnings. The cost of such development projects includes direct salaries, materials, and other direct and indirect costs attributable to the development projects. Amortisation and write-down of such capitalised development projects start from the date of completion and are included in development costs. 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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated depreciation and impairment. Cost comprises expenses for 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. Cost does not include any interest or other borrowing expenses.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	10-25 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	Up to 10 years

Gains and losses on the sale of property, plant and equipment are calculated as the difference between the sales price less selling expenses and the carrying amount at the time of sale. Gains and losses are recognised in the income statement under other operating income and expenses (net).

IMPAIRMENT OF FIXED ASSETS

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of a decrease in value other than that expressed by amortisation and depreciation. If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount, and the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

LEASES

Leases are classified as finance leases if they transfer substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognised in the income statement over the term of the lease.

INVESTMENTS IN ASSOCIATES

Investments in associates are measured under the equity method. This means that the associates 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 associates' profit for the year is recognised in the income statement less unrealised intercompany profits.

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

OTHER SECURITIES

The holding of held-to-maturity bonds is classified as a fixed asset investment. The bonds are initially recognised in the balance sheet at cost. Subsequently, the bonds are measured at amortised cost, which includes revaluation/write-down of the holding of bonds at par over the term of the individual series of bonds.

INVENTORIES

Raw materials and consumables are measured at the lower of cost under the FIFO method and net realisable value.

Work in progress and finished goods are measured at cost. The cost of finished goods and work in progress comprises the cost of raw materials, consumables, direct labour and indirect production costs. Indirect production costs comprise indirect materials 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.

NOTE 20 – ACCOUNTING POLICIES

The net realisable value of inventories is calculated as sales price with deduction of 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 expensed.

RECEIVABLES
Receivables are measured at amortised cost less write-down for expected bad debt losses. Based on an individual assessment of each receivable, write-downs have been made where this is considered necessary.

PREPAYMENTS
Prepayments include prepaid expenses incurred relating to rent, insurance premiums, subscriptions and interest.

OTHER SECURITIES (CURRENT ASSETS)
Other securities, which consist of listed bonds and shares classified as current assets, are measured at fair value at the balance sheet date. Fair value is determined based on the latest quoted market price.

EQUITY
Dividend
The dividend distribution for the year proposed by Management is disclosed as a separate equity item.

Exchange rate adjustments
Exchange rate adjustments of intercompany balances with affiliates that are considered part of the total net investment in the affiliate are recognised directly in equity.

PROVISIONS
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 and it is probable that there may be an outflow of economic resources to settle the obligation.

PENSIONS
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.

Where defined benefit plans are concerned, an annual actuarial calculation is made of the value in use of future payments under the scheme. The value in use is calculated based on the assumptions relating to future developments in pay levels, interest rates, inflation and mortality. The value in use 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 pension 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 income or expenses based on a corridor of 0%. Calculated gains and losses are recognised over the expected average remaining employment period of the employees covered by the pension scheme. Pension costs relating to previous years are distributed over the average period until the benefits have vested.

TAX
Deferred tax is measured using the balance sheet liability method for all temporary differences between the carrying amount and tax base of assets and liabilities.

The tax bases of tax losses carried forward and tax incentives carried forward are included in the calculation of deferred tax to the extent these values are likely to be utilised in future taxable income.

Deferred tax is measured at the tax rate expected to be effective when the deferred tax is expected to crystallise as current tax for the enterprise concerned. Tax payable includes current tax calculated on the basis of the expected taxable income for the year, as well as any adjustment for taxes payable for previous years.

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated based on the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

DEFINITION OF KEY FIGURES

Average number of employees	Average number of full-time equivalent employees	
Operating profit margin	$\frac{\text{Operating profit}}{\text{Revenue}}$	x 100
Return on assets	$\frac{\text{Operating profit}}{\text{Average assets}}$	x 100
Return on equity	$\frac{\text{Profit before tax}}{\text{Average equity}}$	x 100
Solvency ratio	$\frac{\text{Equity}}{\text{Assets}}$	x 100

NOTE 20 – ACCOUNTING POLICIES

SEGMENT REPORTING

Revenue is broken down geographically and by business area.

CASH FLOW STATEMENT FOR THE GROUP

The cash flow statement is prepared according to the indirect method based on profit before tax. The statement shows cash flows from operating, investing and financing activities, as well as cash and cash equivalents at the end of the year.

Cash flows from operating activities are calculated as the Group's profit for the year before extraordinary items and tax, 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, property, plant and equipment as well as fixed asset investments.

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 only cash at bank and in hand.

Financial Statements
Parent Company

FINANCIAL STATEMENTS

Income statement 55
Balance sheet at 31 December 56
Statement of equity 58

NOTES

Note 1 – Revenue 62
Note 2 – Staff expenses 62
Note 3 – Amortisation, depreciation and impairment losses 63
Note 4 – Financial income 63
Note 5 – Financial expenses 63
Note 6 – Tax on profit for the year 63
Note 7 – Intangible assets 64
Note 8 – Property, plant and equipment 65
Note 9 – Investments in affiliates 66
Note 10 – Other securities 66
Note 11 – Deferred tax assets 67
Note 12 – Other provisions 67
Note 13 – Other notes 67
Note 14 – Accounting policies 68

Income statement

(DKK million)	Note	2015	2014
Revenue	(1)	6,876	6,571
Cost of sales	(2,3)	-4,838	-4,507
Gross profit		**2,038**	**2,064**
Sales and distribution costs	(2,3)	-733	-692
Research and development costs	(2,3)	-1,085	-1,051
Administrative costs	(2,3)	-987	-876
Other operating income		356	339
Other operating expenses		-15	-18
Operating profit		**-426**	**-234**
Income from investments in affiliates after tax	(9)	872	782
Income from investments in associate after tax		-13	0
Financial income	(4)	432	1,327
Financial expenses	(5)	-265	- 69
Profit before tax		**600**	**1,806**
Tax on profit for the year	(6)	45	-262
Net profit for the year		**645**	**1,544**
Proposed to be distributed as follows:			
Net revaluation for the year		-137	723
Retained earnings		782	821
		645	**1,544**

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2015	2014
Intellectual property rights		133	202
Trademarks		5	11
Development projects		299	59
Software		107	144
Intangible assets	(7)	**544**	**416**
Land and buildings		415	464
Leasehold improvements		3	3
Plant and machinery		257	246
Other fixtures and fittings, tools and equipment		58	67
Fixed assets under construction		159	122
Property, plant and equipment	(8)	**892**	**902**
Investments in associates		5	0
Investments in affiliates	(9)	5,019	4,310
Other financial securities	(10)	11,519	13,988
Deferred tax assets	(11)	160	124
Financial fixed assets		**16,703**	**18,422**
Fixed assets		**18,139**	**19,740**
Raw materials and consumables		34	36
Work in progress		311	264
Finished goods and goods for resale		333	224
Inventories		**678**	**524**
Trade receivables		822	736
Loans to affiliates		566	282
Receivables from affiliates		2,355	3,074
Other receivables		1,442	1,384
Prepayments		70	54
Receivables		**5,255**	**5,530**
Other securities		**11,531**	**8,497**
Cash at bank and in hand		**0**	**318**
Current assets		**17,464**	**14,869**
ASSETS		**35,603**	**34,609**

Balance sheet at 31 December

EQUITY AND LIABILITIES

(DKK million)	Note	2015	2014
Share capital	(13)	250	250
Net revaluation, affiliates		1,779	997
Retained earnings		23,253	23,276
Equity		**25,282**	**24,523**
Other provisions	(12)	44	46
Provisions		**44**	**46**
Credit institutions		4,022	4,410
Bank loans		84	0
Trade payables		671	762
Loans from affiliates		3,464	2,189
Payables to affiliates		1,792	2,493
Corporation tax		0	4
Other payables		244	182
Current liabilities		**10,277**	**10,040**
EQUITY AND LIABILITIES		**35,603**	**34,609**

Statement of equity

(DKK million)	Share capital	Net revaluations	Retained earnings	**Total**
Equity at 1 January 2015	250	997	23,276	24,523
Profit from affiliates after tax	0	872	0	872
Profit in Parent Company	0	0	-227	-227
Adjustment of financial instruments	0	0	85	85
Dividend received	0	-134	134	0
Exchange rate adjustment	0	46	0	46
Tax on changes in equity	0	0	-20	-20
Other movements	0	-2	5	3
Equity at 31 December 2015	**250**	**1,779**	**23,253**	**25,282**
Equity at 1 January 2014	250	274	22,612	23,136
Profit from affiliates after tax	0	782	0	782
Profit in Parent Company	0	0	762	762
Adjustment of financial instruments	0	0	-167	-167
Dividend received	0	-30	30	0
Exchange rate adjustment	0	23	0	23
Tax on changes in equity	0	0	43	43
Other movements	0	-52	-4	-56
Equity at 31 December 2014	**250**	**997**	**23,276**	**24,523**

Notes
Parent Company

NOTE 1 – REVENUE

(DKK million)	2015	2014
Geographical segments		
Sales in Denmark	215	271
Sales outside Denmark	6,661	6,300
Total	**6,876**	**6,571**
Segmentation – business areas		
Healthcare	6,876	6,571
Total	**6,876**	**6,571**

NOTE 2 – STAFF EXPENSES

(DKK million)	2015	2014
Wages and salaries	-1,103	-1,000
Pensions	-111	-99
Social security expenses	-13	-13
Other employee expenses	-40	-36
Capitalised staff expenses	25	37
Total	**-1,242**	**-1,111**
Included in:		
Cost of sales	-258	-303
Sales and distribution costs	-194	-100
Research and development costs	-409	-389
Administrative costs	-381	-319
Total	**-1,242**	**-1,111**
Average number of full-time employees	1,849	1,776
Remuneration to the Board of Directors	-4	-4
Remuneration to the Executive Board	-27	-40

An amount of DKK 21.3 million included in the remuneration to the Executive Board in 2014 relates to changed conditions for post-employment benefits.

NOTE 3 – AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(DKK million)	2015	2014
Amortisation	-104	-107
Depreciation	-123	-140
Impairment losses	-13	-107
Total	**-240**	**-354**
Included in:		
Cost of sales	-107	-107
Research and development costs	-20	-88
Administrative costs	-113	-159
Total	**-240**	**-354**

NOTE 4 – FINANCIAL INCOME

(DKK million)	2015	2014
Interest income on bonds	327	580
Interest income from affiliates	2	5
Capital gains, financial assets	90	725
Other financial income	13	17
Total	**432**	**1,327**

NOTE 5 – FINANCIAL EXPENSES

(DKK million)	2015	2014
Interest expenses to affiliates	-5	-29
Exchange rate losses	-238	-6
Other financial expenses	-22	-34
Total	**-265**	**-69**

NOTE 6 – TAX ON PROFIT FOR THE YEAR

(DKK million)	2015	2014
Current tax for the year	-9	-119
Change in deferred tax	55	-137
Adjustment relating to previous years	-1	-6
Total	**45**	**-262**
Tax on changes in equity	-20	43

NOTE 7 – INTANGIBLE ASSETS

(DKK million)	Intellectual property rights	Trademarks	Development projects	Software	**Total intangible assets**
Cost at 1 January 2015	5,138	30	130	154	5,452
Additions during the year	0	0	246	0	246
Cost at 31 December 2015	**5,138**	**30**	**376**	**154**	**5,698**
Amortisation at 1 January 2015	-4,936	-19	-71	-10	-5,036
Amortisation for the year	-61	-6	0	-37	-104
Impairment losses for the year	-8	0	-6	0	-14
Amortisation at 31 December 2015	**-5,005**	**-25**	**-77**	**-47**	**-5,154**
CARRYING AMOUNT AT 31 DECEMBER 2015	**133**	**5**	**299**	**107**	**544**
Cost at 1 January 2014	5,185	30	77	0	5,292
Additions during the year	83	0	54	77	214
Disposals during the year	-54	0	0	0	-54
Transfers	-76	0	-1	77	0
Cost at 31 December 2014	**5,138**	**30**	**130**	**154**	**5,452**
Amortisation at 1 January 2014	-4,810	-12	0	0	-4,822
Amortisation for the year	-90	-7	0	-10	-107
Impairment losses for the year	-36	0	-71	0	-107
Amortisation at 31 December 2014	**-4,936**	**-19**	**-71**	**-10**	**-5,036**
CARRYING AMOUNT AT 31 DECEMBER 2014	**202**	**11**	**59**	**144**	**416**

Development projects amounted to DKK 299 million (2014: DKK 59 million), of which development projects in progress represented DKK 299 million (2014: DKK 53 million).

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

(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**
Cost at 1 January 2015	1,053	3	1,136	404	122	2,718
Additions during the year	3	1	9	9	92	114
Disposals during the year	-2	0	-6	-31	0	-39
Transfers	2	0	51	2	-55	0
Cost at 31 December 2015	**1,056**	**4**	**1,190**	**384**	**159**	**2,793**
Depreciation and impairment losses at 1 January 2015	-589	0	-890	-337	0	-1,816
Disposals during the year	0	0	7	30	0	37
Depreciation for the year	-52	-1	-50	-19	0	-122
Depreciation and impairment losses at 31 December 2015	**-641**	**-1**	**-933**	**-326**	**0**	**-1,901**
CARRYING AMOUNT AT 31 DECEMBER 2015	**415**	**3**	**257**	**58**	**159**	**892**
Cost at 1 January 2014	1,052	0	1,134	402	79	2,667
Reclassification of company to affiliate	0	1	0	0	0	1
Additions during the year	0	2	0	7	72	81
Disposals during the year	0	0	-10	-18	-3	-31
Transfers	1	0	12	13	-26	0
Cost at 31 December 2014	**1,053**	**3**	**1,136**	**404**	**122**	**2,718**
Depreciation and impairment losses at 1 January 2014	-537	0	-834	-329	0	-1,700
Disposals during the year	0	0	9	15	0	24
Depreciation for the year	-52	0	-65	-23	0	-140
Depreciation and impairment losses at 31 December 2014	**-589**	**0**	**-890**	**-337**	**0**	**-1,816**
CARRYING AMOUNT AT 31 DECEMBER 2014	**464**	**3**	**246**	**67**	**122**	**902**

NOTE 9 – INVESTMENTS IN AFFILIATES

(DKK million)	2015	2014
Cost at 1 January	3,313	3,313
Additions	2	0
Disposals	-75	0
Cost at 31 December	**3,240**	**3,313**
Value adjustment at 1 January	997	274
Share of profit/loss for the year	872	782
Dividend	-134	-30
Exchange rate adjustment	46	23
Other adjustments	-2	-52
Value adjustment at 31 December	**1,779**	**997**
CARRYING AMOUNT AT 31 DECEMBER	**5,019**	**4,310**

NOTE 10 – OTHER SECURITIES

(DKK million)	2015	2014
Cost at 1 January	13,986	18,935
Additions during the year	1,702	7,434
Disposals during the year	-4,132	-12,383
Cost at 31 December	**11,556**	**13,986**
Value adjustment at 1 January	2	16
Value adjustment for the year	-23	-12
Value adjustment on disposals for the year	-16	-2
Value adjustment at 31 December	**-37**	**2**
CARRYING AMOUNT AT 31 DECEMBER	**11,519**	**13,988**
Market value at 31 December	11,576	14,346

NOTE 11 – DEFERRED TAX ASSETS

(DKK million)	2015	2014
Deferred tax assets at 1 January	124	222
Adjustments relating to previous years	-3	23
Deferred tax on equity	-16	16
Deferred tax on profit for the year	55	-137
Deferred tax assets at 31 December	**160**	**124**

The deferred tax relates to current assets, licences, fixed assets and losses relating to previously jointly taxed foreign affiliates, intercompany profits, indirect production costs, etc.

NOTE 12 – OTHER PROVISIONS

(DKK million)	2015	2014
Staff-related provisions	29	30
Other provisions	15	16
Total	**44**	**46**

NOTE 13 – OTHER NOTES

For Share capital, please refer to note 11 in the Consolidated Financial Statements.

For Contingencies, please refer to note 16 in the Consolidated Financial Statements.

For Financial instruments, please refer to note 17 in the Consolidated Financial Statements.

For Related parties, please refer to note 18 in the Consolidated Financial Statements.

NOTE 14 – ACCOUNTING POLICIES

The Financial Statements of the Parent Company, LEO Pharma A/S, for 2015 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

LEO Pharma has decided to change the presentation of the income statement from 'by nature' to 'by function'. Consequently, comparative figures in the income statement have been restated. The change relates only to presentation of the income statement and has no impact on either result for the year or the balance sheet.

The accounting policies applied are unchanged from last year and are the same as for the consolidated financial statements with the following additions. For a description of the accounting policies of the Group, please refer to the Consolidated Financial Statements on page 46.

CASH FLOW STATEMENT

No separate cash flow statement has been prepared for the Parent Company as per the exemption clause of section 86(4) of the Danish Financial Statements Act.

TAX

The Parent Company is jointly taxed with all Danish affiliates.

The jointly taxed Danish affiliates settle the tax with the Parent Company. The current Danish tax is allocated between the jointly taxed companies in proportion to their taxable income.

INVESTMENTS IN AFFILIATES

Investments in affiliates are measured under the equity method. This means that the affiliates 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 affiliates’ 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 the equity method' under equity. The reserve is reduced by dividends distributed to the Parent Company and adjusted for other equity movements in affiliates.

Independent **Auditor's Report**

To the Shareholder of LEO Pharma A/S

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of LEO Pharma A/S for the financial year 1 January to 31 December 2015, which comprise income statement, balance sheet, statement of changes in equity, notes and accounting policies for both the Group and the Parent Company, as well as consolidated cash flow statement. The Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company 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 Company Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the Consolidated Financial Statements and the Parent Company Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements in accordance with Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements and the Parent Company Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Parent Company Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit has not resulted in any qualification.

OPINION

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Company at 31 December 2015 and of the results of the Group and Company operations as well

as the consolidated cash flows for the financial year 1 January – 31 December 2015 in accordance with the Danish Financial Statements Act.

STATEMENT ON MANAGEMENT'S REVIEW

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Consolidated Financial Statements and the Parent Company Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Consolidated Financial Statements and the Parent Company Financial Statements.

Hellerup, 31 March 2016

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-no. 33 77 12 31

Kim Füchsel
State Authorised Public Accountant

Allan Knudsen
State Authorised Public Accountant

LEO Pharma A/S
Industriparken 55
2750 Ballerup
Denmark

Phone +45 4494 5888
CVR no. 56759514
www.leo-pharma.com