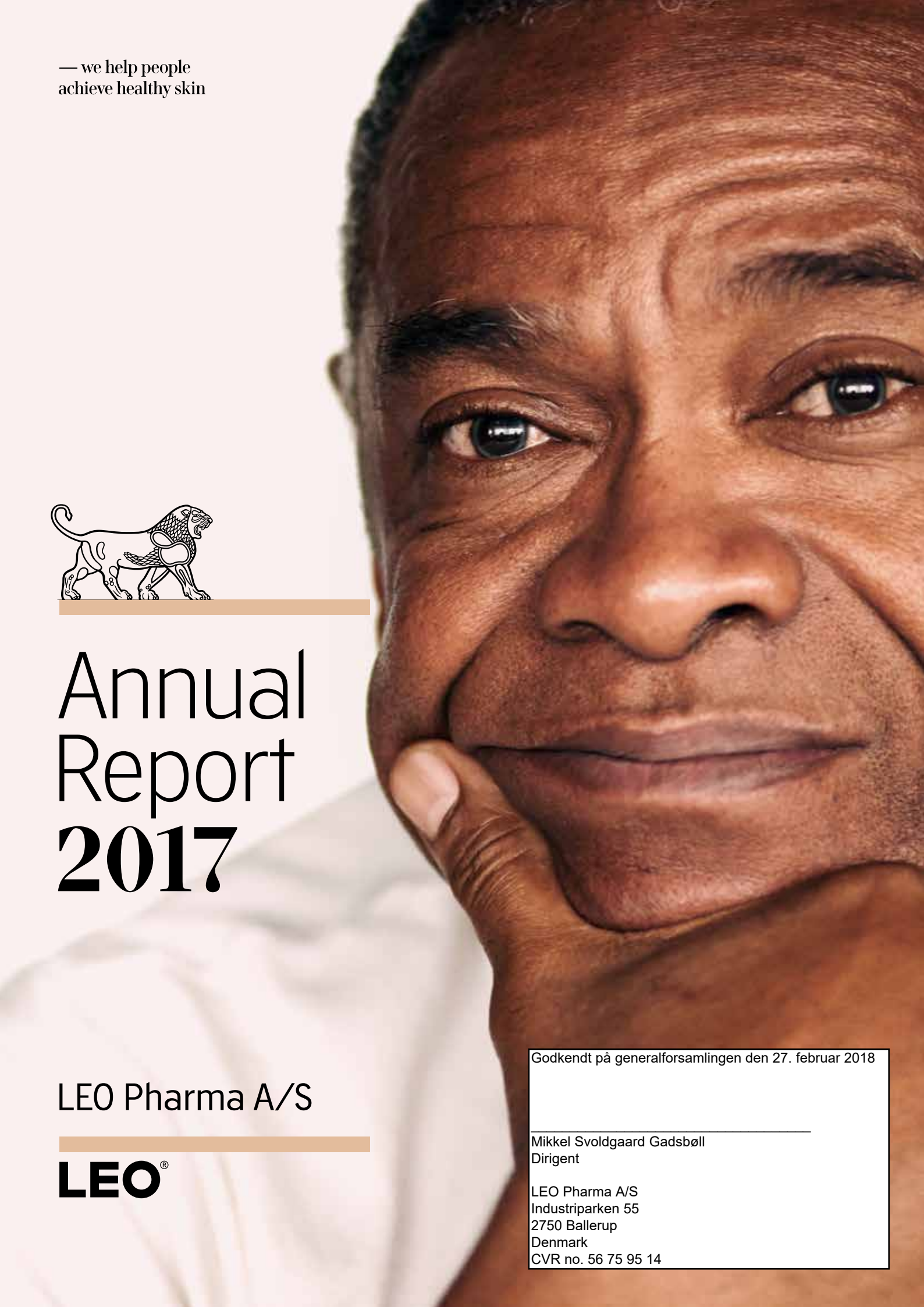
— we help people
achieve healthy skin



Annual Report 2017

LEO Pharma A/S

LEO®

Godkendt på generalforsamlingen den 27. februar 2018

Mikkel Svoldgaard Gadsbøll
Dirigent

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

Patients first. Always.

Shaping medical dermatology

LEO Pharma is a global leader in medical dermatology, dedicated to helping people achieve healthy skin. Together with our partners, we advance science and develop life-changing medicines which improve people's lives.

Being ultimately owned by the LEO Foundation, we are first and foremost accountable to patients. As we have no external shareholders, all profits are reinvested in the LEO Group. We focus on patient needs and do what is right for the long term.

We focus on skin diseases with a high unmet need for treatment, including rare skin diseases. Our pipeline covers a strong mix of biologic, systemic and topical treatments. To help patients beyond medicine, we also develop digital solutions for managing their disease.

80 million

people in more than 130 countries benefit from our treatments

Aspiration for 2025

To help 125 million people living with skin diseases

Our mission

We help people achieve healthy skin

Our vision

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

Our values

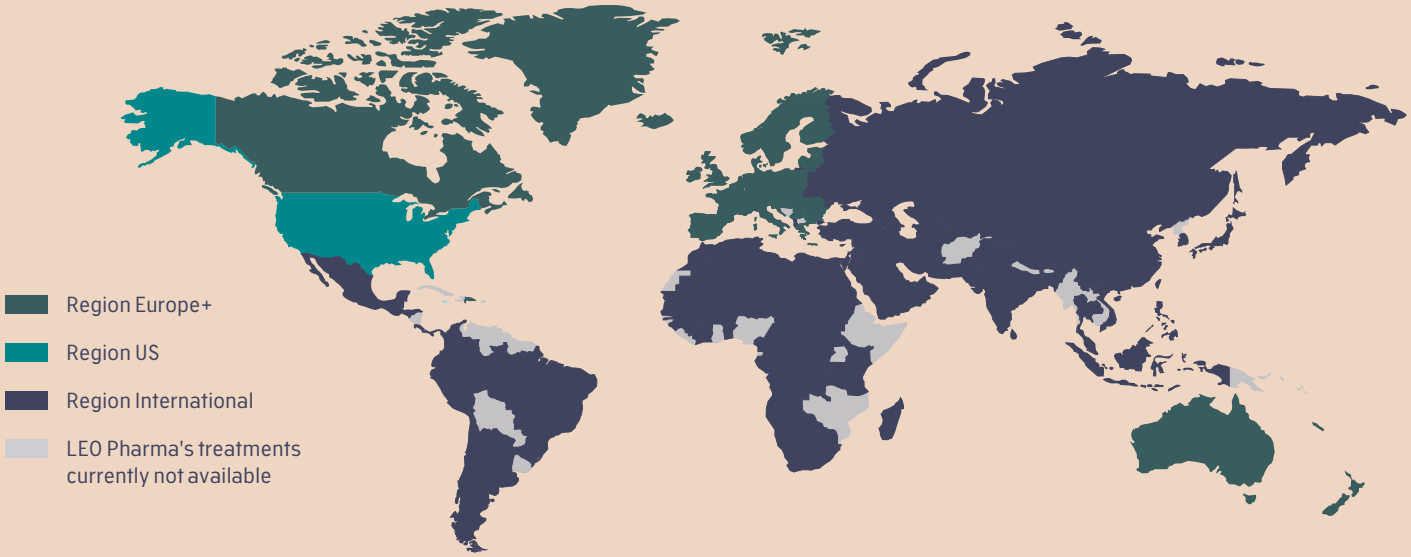
Integrity
Customer focus
Innovation
Passion
Adaptability

1908
Founded in 1908 and headquartered in Denmark

61
Presence in 61 countries

5,000
employees, incl. more than 700 scientists and specialists

15%
of revenue is invested in research and development



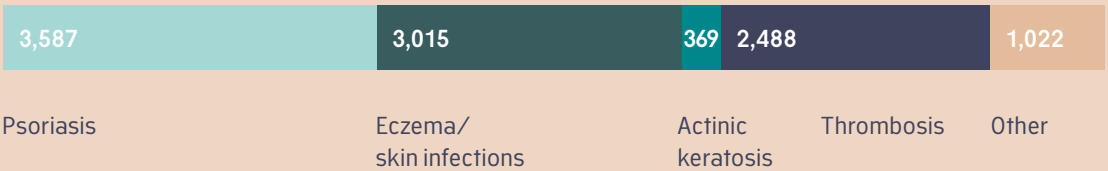
Total revenue 2017
10,481
DKK million

Growth in revenue 2017
8%
in local currencies

EBIT 2017
852
DKK million

Revenue by region 2017
DKK million

Revenue by therapeutic area 2017
DKK million



Key products

Psoriasis
Kyntheum®
Enstilar®
Daivobet®/Taclonex®
Daivonex®

Eczema/skin infections
Fucidin®
Fucidin® H
Fucicort®
Protopic®
Locoid®

Actinic keratosis
Picato®

Thrombosis
innohep®

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"Our ambition is to shape medical dermatology to help patients with skin diseases whose needs are often overlooked."

CEO letter:
A clear direction

2017 was a very good year for LEO Pharma. We helped 80 million patients, 7 million more than the year before, and achieved financial results that exceeded our expectations. For the first time in 110 years, our revenue stood at more than DKK 10 billion – up 8% in local currencies – and we more than doubled our EBIT compared to 2016, despite significant investments in new products. We grew in all regions through new products and increased our profitability by means of rigorous cost control. To continue this momentum, we also laid out LEO Pharma's strategy towards 2025.

LEO Pharma keeps bringing innovation to dermatology patients. In September 2017, we introduced Kyntheum® (brodalumab) in the first European markets. This gives patients with moderate-to-severe plaque psoriasis a new biologic option and has been very well received by healthcare professionals and patients. Our Enstilar® foam for psoriasis continues to exceed our expectations as we launch it around the world. And we deepened our focus on medical dermatology by initiating phase 3 clinical trials with tralokinumab for atopic dermatitis.

Long-term investments in medical dermatology

To position LEO Pharma for a sustainable future, we laid out LEO Pharma's strategy towards 2025. Our ambition is to shape medical dermatology to help patients with skin diseases whose needs are often overlooked. Many dermatologic diseases affect the entire body, but the fact that they are seen as being "only on the surface" leads to inadequate treatment and a lack of innovation.

We will increase our efforts in developing innovative therapeutics, such as biologics, systemic treatments and new topical mechanisms of action. To achieve this, we will nurture and expand our existing pipeline through close partnerships with biotech and academia.

LEO Pharma's established topicals have helped millions of people around the world. We will strengthen this part of our business, particularly in Region International, and continue to support innohep®, our thrombosis business. Our award-winning LEO Innovation Lab will continue to explore how to improve diagnosis and communication between patients, physicians and payers.

Understanding patients better than anyone else

As a foundation-owned company, LEO Pharma has the privilege and the obligation to put patients first. This allows us to plan for the long term and create new approaches to move medical dermatology forward.

Our stringent and continuous focus on efficiency in our established business makes additional investments in research and development possible. We are, however, prepared to accept a temporary dip in our earnings in order to bring new and better treatments to the market.

We aim to understand patients better than anyone else, so I make it a personal priority to talk with patients and patient organisations. This year, I was particularly touched when I heard Michael, a psoriasis patient, describe how devastating the disease had been for him for many years – and how thankful he was for our work.

Giving new hope to patients such as Michael is what inspires the 5,000 people who work at LEO Pharma. I would like to thank them for their commitment and dedication. Their collaboration drives our success, and their curiosity helps us to understand how to create better care.

LEO Pharma is on an exciting journey, and we have set ourselves ambitious goals. Our performance and the high engagement of everyone at LEO Pharma make me confident that we can bring our vision to life.

Gitte P. Aabo
President & CEO, LEO Pharma

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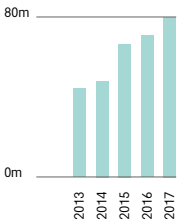
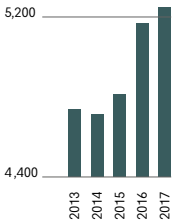
Key figures 2013-2017

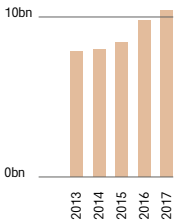
Patients



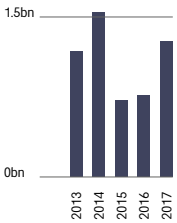
Employees



Revenue



Net profit



(DKK million)	2017	2016	2015	2014	2013
Income statement					
Revenue	10,481	9,863	8,457	7,973	7,842
Operating profit before depreciation and amortisation (EBITDA)	2,005	1,343	1,209	1,343	1,846
Operating profit (EBIT)	852	338	763	762	675
Net financials	934	789	178	1,288	1,000
Profit before tax	1,783	1,124	928	2,050	1,675
Net profit for the year	**1,381**	**744**	**713**	**1,544**	**1,175**
Balance sheet					
Investments in Intangible assets	479	6,115	246	214	222
Investments in Property, plant and equipment	385	302	261	144	269
Non-current assets	8,222	19,490	14,902	17,357	22,681
Current assets	6,371	17,494	17,325	14,270	10,454
Total assets	**14,593**	**36,984**	**32,227**	**31,627**	**33,135**
Equity	**8,277**	**25,175**	**24,735**	**24,523**	**23,136**
Ratios					
Operating profit margin	8%	3%	9%	10%	9%
Return on assets	3%	1%	2%	2%	2%
Return on equity	11%	5%	4%	9%	7%
Solvency ratio	57%	68%	77%	78%	70%
Employees					
Average number of employees	5,251	5,170	4,813	4,712	4,733

The figures for 2017 and 2016 as well as the balance sheet items and ratios for 2015 have been prepared in accordance with IFRS. All other figures have been prepared in accordance with the Danish Financial Statements Act. For a description of the effect of the transition to IFRS, please refer to note 2 to the Consolidated Financial Statements.

Key events 2017

Helping more people with biologic treatments

LEO Pharma initiates phase 3 clinical studies for tralokinumab in atopic dermatitis

In May, LEO Pharma initiated phase 3 clinical studies for tralokinumab in moderate-to-severe atopic dermatitis. Tralokinumab is an investigational human monoclonal antibody and LEO Pharma's most advanced biologic compound under development. The phase 3 studies, ECZTRA 1 and ECZTRA 2, will each include 780 patients globally and are expected to conclude in 2019.

Patients in Europe commence treatment with Kyntheum®, LEO Pharma's new biologic psoriasis treatment

In September, LEO Pharma entered a new era when the first patient in Europe started treatment with Kyntheum® after marketing authorisation was obtained. The treatment took place at the University Hospital of Frankfurt in Germany. Kyntheum® is our new biologic treatment helping people with moderate-to-severe plaque psoriasis. By the end of 2017, Kyntheum® had been launched in six European markets: Germany, the UK, Denmark, the Netherlands, Sweden and Ireland. More European countries will follow in 2018.

Improving patients' everyday life with new technologies

LEO Pharma wins prize for digital innovation

In September, LEO Innovation Lab won the Confederation of Danish Industry's prestigious annual prize. The 2017 theme was companies' ability to use new digital technologies to create value for society. The nomination committee stated that the apps and digital platforms developed by LEO Innovation Lab "make it easier for people to live with chronic diseases and at the same time yield invaluable knowledge to LEO Pharma for its continued work with development of new treatments". Earlier in 2017, LEO Innovation Lab won the eyeforpharma Customer Innovator Award, which celebrates innovative approaches for delivering increased value to patients.

Shaping medical dermatology

LEO Pharma builds new R&D hub in China

In March, LEO Pharma started construction of a new R&D hub in Shanghai, China. With an increased R&D presence and capabilities, LEO Pharma will be able to help more Chinese patients with treatments that meet their needs and expectations. It is LEO Pharma's ambition to be the preferred partner and leading dermatology company in China by 2020.

Almirall and LEO Pharma join forces to set new standards for skin sampling

In May, Almirall and LEO Pharma entered into a collaboration to advance science in dermatology by setting a new standard for skin sampling. The aim is to develop and clinically validate a painless, minimally invasive skin-sampling method. Though competing on the market for dermatology, Almirall and LEO Pharma are collaborating to achieve a common goal: to advance science and help people living with skin diseases.

LEO Pharma invests in Novopyxis to develop an aerosol-based drug delivery device

In June, LEO Pharma invested in the biotech company Novopyxis to support the development of an early-stage drug delivery device designed to increase the penetration of topical treatments into the skin. The hand-held aerosol device will be clinically tested on people with alopecia (hair loss), where there is a high need for alternative treatment options to steroid injections. The partnership with Novopyxis was one of several collaborations established by the LEO Science & Tech Hub in Boston in 2017.

LEO Pharma ranked second in AllTrials global audit

In July, LEO Pharma was ranked an impressive second in the AllTrials global audit on clinical trials transparency. The audit acknowledges LEO Pharma's commitment to ensuring data transparency and increasing access to clinical trial information. For example, LEO Pharma's clinical trial results dating back to 1990 are available to the public. LEO Pharma also shares individual patient-level data upon request from qualified third-party researchers.

Satisfactory earnings in 2017

2017 was a significant year for LEO Pharma: revenue exceeded DKK 10 billion for the first time in the company's more than 100-year history. LEO Pharma's operating profit was above expectations and more than doubled compared to 2016, reaching DKK 852 million. The operating profit improvements were mainly driven by cost control and the full-year effect of sales from the global dermatology portfolio from Astellas, which LEO Pharma acquired in April 2016.

Revenue

LEO Pharma's revenue in 2017 increased by DKK 618 million to DKK 10,481 million, or 8% in local currencies compared to 2016. Of this growth, DKK 440 million related to the full-year effect of the new LEO portfolio (Astellas). Adjusted for this, organic growth was 3%. Increasing growth is addressed in LEO Pharma's strategy towards 2025, which is elaborated on pages 22-23.

Revenue by therapeutic area

Psoriasis

LEO Pharma's psoriasis business grew by 6% in local currencies compared to 2016, from DKK 3,445 million to DKK 3,587 million. The primary growth driver in psoriasis was Enstilar®, which was successfully launched in Germany, the UK and Spain in 2017. In total, Enstilar® contributed 97% growth in local currencies, with a stagnating tendency in the US. Enstilar® growth was partly offset by patients switching from Daivobet® gel to Enstilar®, resulting in a decline for Daivobet® gel of 11% in local currencies. Daivobet® ointment sales were flat, with lower sales in Europe due to generic competition in the UK and the Nordics, while strong Daivobet® ointment sales in Japan generated growth of 14% in local currencies. Daivonex® grew by 20% in local currencies, driven by Region International. We launched Kyntheum® in Europe in September, and this will have a positive effect on future sales.

Eczema/skin infections

Sales from LEO Pharma's eczema and skin infection portfolio grew by DKK 468 million, or 19% in local currencies, to a total of DKK 3,015 million. Adjusting for the full-year impact, the new LEO portfolio grew by 10% in local currencies. This increase was mainly driven by Protopic®, which grew by 15% in local currencies due to strong sales in Region International and Region Europe+.

Actinic keratosis

Sales of Picato®, LEO Pharma's actinic keratosis treatment solution, increased by DKK 7 million, or 4% in local currencies compared to 2016. The growth is driven by improved return experience in 2017 compared to 2016 and a price increase in the US, which is offset by declining sales in Europe+ mainly due to fewer promotional activities by LEO Pharma to optimise its profitability.

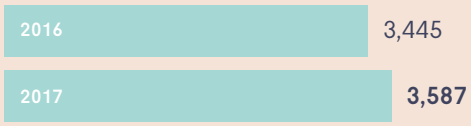
Thrombosis

Thrombosis sales, of which 93% are generated by innohep®, increased by DKK 26 million, or by 2% in local currencies. This growth came mainly from cancer-associated thrombosis.

Revenue by therapeutic area

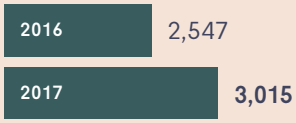
DKK million

Psoriasis (+6%*)



Key products
Kyntheum®
Enstilar®
Daivobet®/Taclonex®
Daivonex®

Eczema/skin infections (+19%*)



Key products
Fucidin®
Fucidin® H
Fucicort®
Protopic®
Locoid®

Actinic keratosis (+4%*)

Key product
Picato®

Thrombosis (+2%*)

Key product
innohep®

Other (0%*)

* The development in % is presented in local currencies.

Revenue by region

Region Europe+

Region Europe+ grew by DKK 297 million, or 6% in local currencies, to DKK 6,379 million. The full-year impact of the new LEO portfolio acquired from Astellas in 2016 contributed DKK 194 million. Excluding this effect, Region Europe+ grew by 4% in local currencies in 2017. The new LEO portfolio grew by 9% in local currencies, primarily driven by Protopic®. The psoriasis franchise grew by 6% in local currencies, driven by the launch of Enstilar® in Spain, the UK and Germany. Enstilar® sales in Region Europe+ contributed 12% of the total psoriasis sales in 2017. Region Europe+ will continue to launch Enstilar® in further markets in Europe and in Canada in 2018.

Region US

Region US grew by DKK 132 million, or 13% in local currencies, to DKK 1,357 million. Enstilar® sales increased by 17% in local currencies, mainly in the first half of 2017. Taclonex® Topical Suspension sales declined by 24% in local currencies. The topical psoriasis market in the US is dominated by generic solutions due to the continued focus on higher rebates combined with increased patient payment. This trend is expected to impact the psoriasis market growth potential in the US in 2018.

Region International

Region International increased by DKK 189 million, or by 8% in local currencies to DKK 2,745 million. Excluding the full-year impact of the new LEO portfolio, sales grew by 2%. The new LEO portfolio grew by 6%, particularly in LAMEA and Asia, with China driving growth. Psoriasis sales in Region International grew by 14% in local currencies, primarily driven by China and Japan. Fucidin® was the second-largest franchise in Region International, with sales of DKK 597 million. However, sales of Fucidin® declined by 9%, mainly due to the performance in LAMEA, which is the largest market for Fucidin®.

Operating profit

Operating profit before depreciation and amortisation increased from DKK 1,343 million to DKK 2,005 million. Operating profit rose from DKK 338 million to DKK 852 million in 2017, an increase of more than 100%.

The increase in operating profit was predominantly driven by a decrease in Administative costs from realised cost savings from the efficiency projects launched in 2016. The efficiency projects are progressing as expected and were key to reducing operating expenses in 2017. The total impact of these projects in 2017 was DKK 325 million. The efficiency projects will continue, and in 2018 we expect to see an additional impact from optimising our processes, IT infrastructure and product portfolio.

In early December 2017, LEO Pharma announced its decision to discontinue its ingenol disoxate pipeline project. Based on results from phase 3 studies, ingenol disoxate was deemed not commercially viable for LEO Pharma. Ingenol disoxate was intended to be produced at LEO Pharma's production site in Southport, Australia, replacing the production of ingenol mebutate, which took place in Southport until recently. As inventories for ingenol mebutate will cover sales until 2022 and production of ingenol disoxate is no longer needed, the site in Southport will be shut down during 2018, impacting 27 employees working there. A write-down and redundancy costs of DKK 170 million was recorded in December 2017 for impairment of assets and to cover expected shutdown costs. Securing deliveries of ingenol mebutate through other suppliers after 2022 will be assessed in due course.

Sales and distribution costs decreased slightly by DKK 7 million to DKK 4,091 million (2016: DKK 4,098 million).

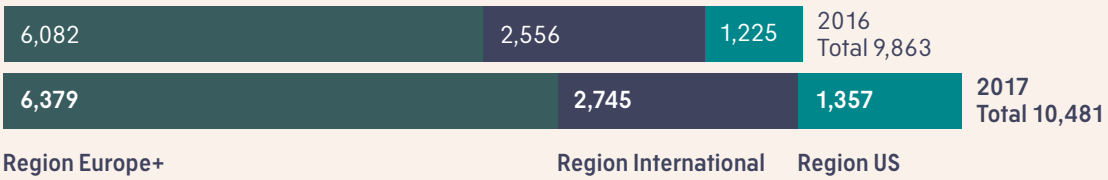
Total revenue 2017

10,481
DKK million

Growth in revenue 2017

+8%
in local currencies

Revenue by region
DKK million



An overview of countries in Region Europe+, Region International and Region US can be found on page 3.

Research and development costs increased by DKK 312 million compared to 2016. In 2017, we successfully progressed our pipeline, in particular within biologic and systemic treatments. This led to increased investments within the R&D portfolio, such as the development of Kyntheum® (brodalumab) and the initiation of phase 3 studies for tralokinumab.

LEO Pharma's subsidiary in Ireland operates a defined benefit pension plan, which was closed for future services in 2014. In 2017, employees who were members of the plan were offered an enhanced transfer value (ETV). The take-up (number of employees who accepted the ETV and left the scheme) resulted in an income of DKK 98 million recorded in Other operating income.

Financial items

In 2017, net financial income increased by DKK 145 million to DKK 934 million. DKK 603 million of the increase was the result of improved performance in LEO Pharma's investment portfolios. The net financial result was negatively impacted by currency exchange losses of DKK 43 million (2016: DKK 48 million).

In April 2017, the LEO Foundation introduced a new structure and governance model. The change allows LEO Pharma to focus even more on its core business as a healthcare company, while allowing the LEO Foundation to focus on asset management as well as on grants for research and activities that increase disease awareness, disease understanding and access to treatment within dermatology. As part of the new structure, the capital allocation between LEO Pharma and the LEO Foundation was rearranged. LEO Pharma paid a dividend of DKK 17,169 million to LEO Holding A/S, after which the market value of LEO Pharma's hold-to-collect bond portfolio was DKK 0 at 31 December 2017 (2016: DKK 10,661 million).

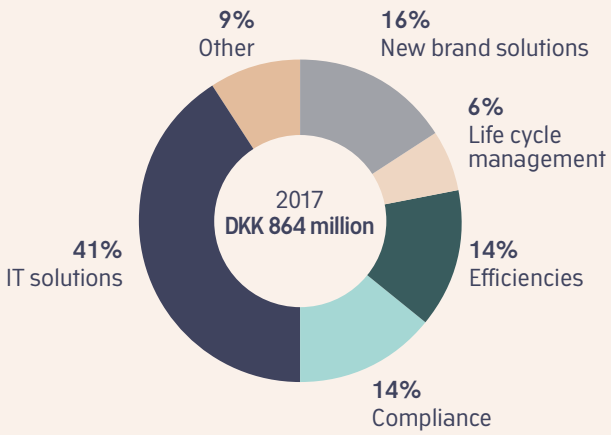
Capital expenditure and cash flow

Investments in intangible assets amounted to DKK 479 million in 2017 (2016: DKK 6,115 million). The investments primarily related to strategic acquisitions and the partnership with AstraZeneca. Furthermore, LEO Pharma continued to invest in a SAP-based ERP system, resulting in software additions as well as other software related development projects of DKK 354 million.

In 2017, LEO Pharma invested DKK 385 million (2016: DKK 302 million) in the expansion and optimisation of production facilities. The main activities in 2017 related to the "Serialisation project", which enables LEO Pharma to track and trace drugs from manufacturing through to dispensing. Among other activities, LEO Pharma is currently working on upgrading the API facility in Ballerup, introducing new products and transferring acquired brands to our own production sites. LEO Pharma is not only maintaining its fixed asset base, but also actively optimising and increasing it where relevant, with the aim of reducing production costs and creating an efficient and agile supply organisation.

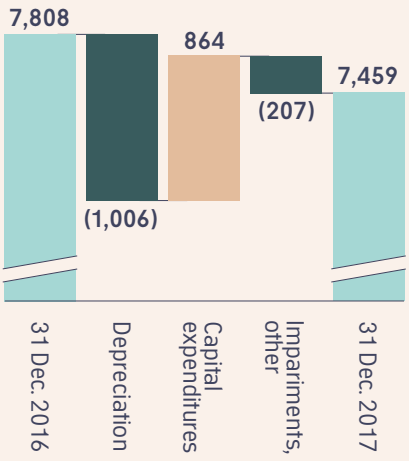
Operating activities generated a positive cash flow of DKK 720 million (2016: DKK 2,661 million). LEO Pharma achieved a return on equity of 11% (2016: 5%) and on 31 December 2017 had equity of DKK 8,277 million (2016: DKK 25,175 million). Based on these results, LEO Pharma entered 2018 with a solvency ratio of 57% (68% at the start of 2017). The decrease is related to the extraordinary dividend payment to LEO Holding A/S and the LEO Foundation.

Capital expenditures



Fixed asset development*

DKK million



* Fixed assets consist of Intangible assets and Property, plant and equipment.

Transition to IFRS

From 2017, LEO Pharma is presenting its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) for ease of comparison with other international companies.

The transition to IFRS changes our accounting policies and affects a number of areas in the report. For further information about the effect of the transition to IFRS, please refer to note 2 to the Consolidated Financial Statements.

People

LEO Pharma's 5,000 employees form the basis for the success of our company. Our global team of committed and highly skilled employees is crucial for the realisation of our strategy towards 2025. We continuously focus on creating a working environment which fosters engagement and collaboration, enabling us to build on LEO Pharma's unique culture.

We measure our progress regularly through our global employee engagement survey, LEO Voice. In 2017, we achieved a sustainable engagement score of 84%, meaning that 84% of employees responded favourably to questions relating directly to engagement and enablement. This is higher than the average for pharmaceutical companies and shows a strong organisation with highly motivated and committed employees. We will continue to ensure that employee engagement and well-being are further enhanced through ongoing dialogue and action plans.

In 2017, LEO Pharma's 100 senior leaders globally completed a leadership development programme, Leading Execution, with focus on building new competences and implementing new behaviours in daily routines. The programme was also rolled out to the next level of approximately 280 leaders and will be completed in 2018.

Moving into new business areas, such as biologic and systemic treatments and rare skin diseases, requires special capabilities and a strong focus on competence development and talent attraction. In 2017, we welcomed many new employees, particularly in Region Europe+ and Region US. In July 2017, Chris Posner was appointed Executive Vice President Region US and a member of LEO Pharma's Global Leadership Team.

Outlook

For 2018, we expect sales growth primarily from the continued launches of Enstilar® and Kyntheum® in Europe, as well as Daivobet® ointment in Japan. The financial result will be challenged by continued pressure for price reductions and the risk of increased generic competition for Daivobet® ointment in Europe, leading to annual revenue at the same level as 2017 in the range of DKK 10-10,5 billion.

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

LEO Pharma's 2025 strategy focuses on addressing high unmet needs with the aim of helping 125 million people in 2025. To achieve this goal, we plan to make further acquisitions and invest significantly in innovation within new biologic, systemic and topical treatments.

Therefore, in order to secure long-term growth and performance, LEO Pharma's established and innovative portfolios will be managed differently. This will allow us to focus on continuous profitability improvements in our established portfolio at the same time as making significant investments in developing the innovative portfolio. As a result of these investments, LEO Pharma's financial results in 2018 are expected to be negative.

Advancing science in dermatology

At LEO Pharma, we innovate to advance science in dermatology and deliver better treatments to people with skin diseases. Our robust pipeline of small molecules and antibodies addresses the diverse and unmet medical needs of the many patients we serve.

LEO Pharma's global R&D organisation is powered by more than 700 scientists and specialists who all possess in-depth knowledge of the skin. Together with our partners, we have built a strong pipeline in dermatology that covers several indications and addresses a wide range of medical needs. We are steadily expanding our pipeline with innovative topical, biologic and systemic treatments to bring life-changing medicines to people with skin diseases.

Today, people with skin diseases are treated with a wide variety of medicines such as topical creams and ointments, oral tablets and injectable biologics, depending on the severity of their disease. At LEO Pharma, we acknowledge these different needs, and our aim is to discover and develop the safest and most effective treatments for all patient segments.

A strong and expanding pipeline

In 2017, we successfully progressed our pipeline, in particular within biologic and systemic treatments. The pipeline represents a strong mix of projects aimed at topical, oral and injectable treatments. The clinical stage part of our pipeline includes tralokinumab, an IL-13 antibody for the systemic treatment of atopic dermatitis (phase 3a), and Kyntheum® (brodalumab), an IL-17R antibody for the systemic treatment of moderate-to-severe psoriasis (launched in 2017).

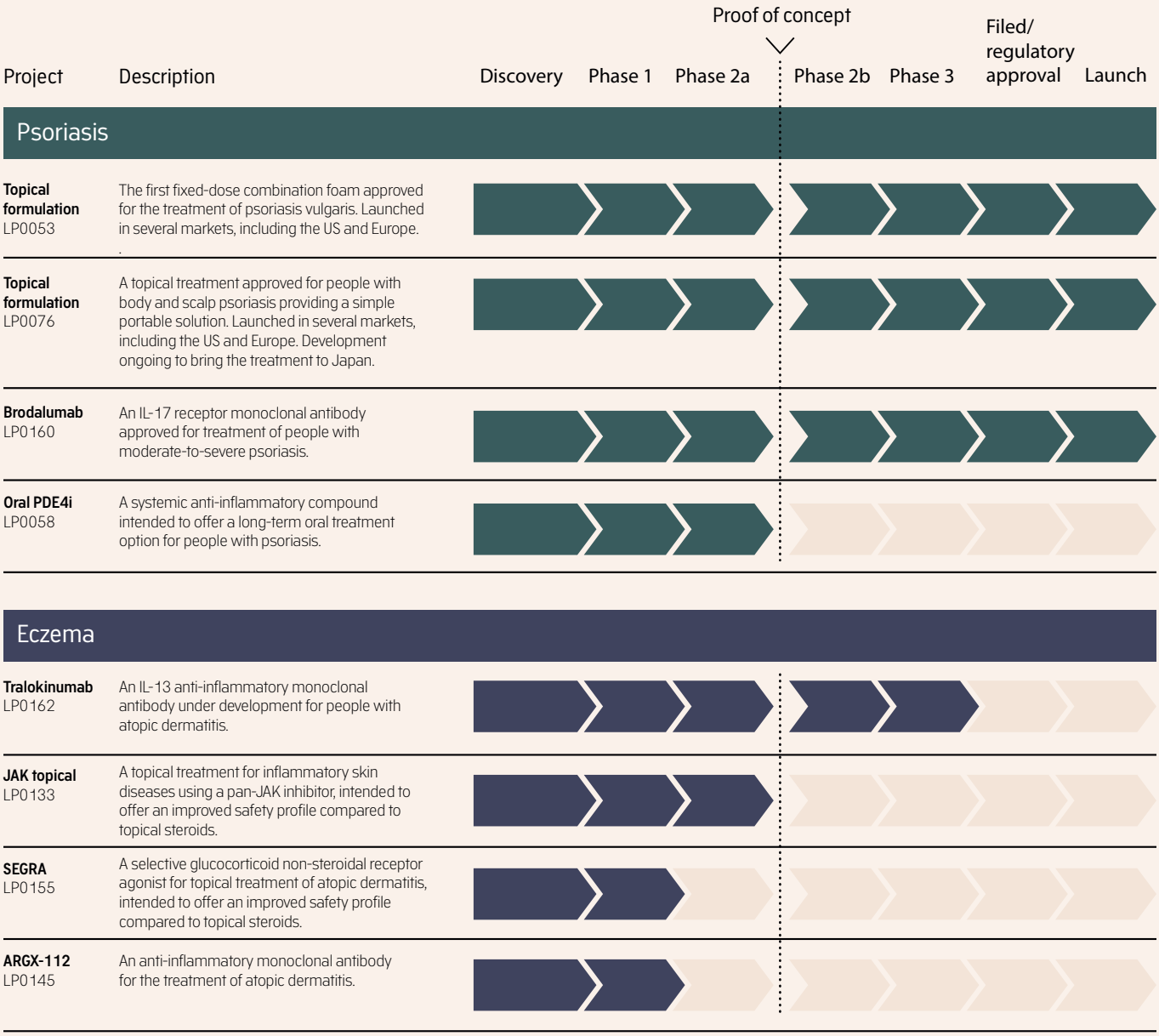
The pipeline also includes a novel JAK (Janus kinase) inhibitor (phase 2a) and a SEGRA (selective glucocorticoid receptor antagonist) molecule (explorative clinical testing), both candidates for the non-steroidal topical treatment of inflammatory skin diseases.

We are moving into **rare skin diseases**

Finally, the pipeline includes an orally bioavailable PDE4 (phosphodiesterase 4) inhibitor for psoriasis (phase 2a) and an injectable anti-IL22R antibody for the systemic treatment of atopic dermatitis (phase 1).

Furthermore, LEO Pharma has embarked upon developing new medicines for rare diseases to help the many people whose skin conditions are currently untreated.

Our clinical pipeline



All data current as of 31 December 2017.

Pipeline progress

In 2017, LEO Pharma made significant progress in developing new treatments and providing patients with new options for achieving healthy skin. Kyntheum® was approved for the treatment of psoriasis, and we initiated phase 3 studies for tralokinumab in atopic dermatitis.

Kyntheum®

Kyntheum®, a fully human monoclonal antibody, is LEO Pharma's new biologic treatment for moderate-to-severe psoriasis. The treatment offers patients the opportunity to achieve high levels of skin clearance, meaning that their skin is completely clear of any psoriasis plaques.

"I feel hideous and unattractive; I don't want to leave the house in the morning. I feel like everyone is secretly repulsed by me. I worry that the psoriasis will never go away. I feel hopeless every time it gets worse."

Woman, 23, UK

LEO Pharma acquired the commercial rights to Kyntheum® in the EU from AstraZeneca in 2016. In July 2017, Kyntheum® was approved by the European Commission and, in early September, Kyntheum® was launched in Germany as the first country in the EU. By the end of 2017, Kyntheum® had been launched in six European markets: Germany, the UK, Denmark, the Netherlands, Sweden and Ireland. Kyntheum® will be introduced in more European markets in 2018.

LEO Pharma has several post-approval commitments which are currently being prepared, such as registry studies. Furthermore, Kyntheum® is undergoing further clinical testing to investigate the full potential of the molecule and explore opportunities for additional indications.

Enstilar®

Enstilar® is a unique and innovative foam spray formulation for the treatment of plaque psoriasis that uses propellants as solvents for the active ingredients, calcipotriene and betamethasone dipropionate. Enstilar® was developed with the aim of increasing patient acceptability compared to current treatment options. The foam spray has been very well received in the market by patients with psoriasis.

In Japan, a key market for LEO Pharma, we will conduct two studies with Enstilar® from 2018 to offer Enstilar® to Japanese patients. However, for Japanese patients with plaque psoriasis, Daivobet® gel will be available as early as 2018.

About skin diseases

The skin is the body's largest single organ. In an average person the skin weighs 4 kg and covers a surface of 2 m^2.

Worldwide, one in four people suffer from a skin disease at any point in time. There are more than 3,000 recognised skin diseases.

The primary function of the skin is to provide protection – for example from water loss, injury, ultraviolet radiation (sunlight) and microbial attack such as bacteria.

More than 125 million people worldwide suffer from psoriasis.

Tralokinumab

Tralokinumab, an IL-13 monoclonal antibody, is LEO Pharma's most advanced biologic compound under development. The global licence to tralokinumab in dermatological indications was acquired from AstraZeneca in 2016. In mid-2017, LEO Pharma initiated two phase 3a studies with tralokinumab, ECZTRA 1 and ECZTRA 2. The studies will evaluate the efficacy of tralokinumab compared to placebo in treating moderate-to-severe atopic dermatitis. The phase 3a studies include 780 patients each and are planned to conclude in 2019.

Top-line results from a phase 2b study with tralokinumab for the treatment of atopic dermatitis showed a statistically significant improvement from baseline in EASI score (Eczema Area and Severity Index) at week 12 in the two highest tralokinumab dosage arms when compared to the placebo arm. Significant improvements in DLQI score (Dermatology Life Quality Index) were also observed.

Preclinical and early clinical pipeline

The preclinical and early clinical pipeline includes a novel oral PDE4 (phosphodiesterase 4) inhibitor for the treatment of psoriasis. In September 2017, proof of concept was demonstrated in a phase 2a study, and further clinical development is now planned.

The pipeline also contains a novel topical JAK (Janus kinase) inhibitor licensed from Japan Tobacco in 2014. The JAK inhibitor delivered proof of concept in 2016 in multiple indications associated with eczema. Finally, we expect two projects to move into clinical testing in 2018: a non-steroidal topical SEGRA (selective glucocorticoid receptor antagonist) for inflammatory skin diseases, and an injectable novel anti-IL22R antibody for atopic dermatitis. The latter is being developed in collaboration with argenx.

Working together for patients

At LEO Pharma, we collaborate with great partners around the world to explore new potential treatments and drive innovation forward to the benefit of patients.

LEO Pharma collaborates with academic institutions, research centres and industry partners worldwide. Our shared goal is to advance dermatology and deliver better treatments. We are driven by the belief that one day, people with skin diseases will be able to live free from symptoms.

Successful collaboration is characterised not only by shared goals, but also by benefit, respect and trust. We believe that by joining forces, the chances of identifying new opportunities increase. Great partnerships have the potential to change treatment paradigms and potentially improve life for the millions of people living with a skin disease.

We approach our partnerships with dedication, curiosity and humility. In every partnership, we do our utmost to deliver true value and progress science. As stated in our vision, we want to be the preferred dermatology care partner, improving people's lives around the world.

morphosys

LEO Pharma & MorphoSys

Discovery of therapeutic antibodies

Discovery and development of novel therapeutic antibodies addressing unmet medical needs in the treatment of skin diseases. The project is in its discovery phase.

"We really enjoy working with LEO Pharma. We appreciate the inspiring atmosphere driven by our common goal of building a powerful biologics pipeline dedicated to skin diseases – and most of all great scientists working together in an extraordinarily good mood."

— *Dr Markus Enzelberger, Chief Scientific Officer, MorphoSys AG*

LEO Pharma & argenx

Innovative antibody in phase 1

Development of an innovative antibody-based solution for the treatment of chronic inflammation underlying many skin diseases. LEO Pharma and argenx expect to initiate a first clinical study in the first quarter of 2018.

"Our partnership with LEO Pharma fits the argenx philosophy of joining forces with industry experts in areas outside our therapeutic focus. We are delighted to have been LEO Pharma's first-ever partner for development of antibody-based therapeutics for skin diseases."

— *Tim Van Hauwermeiren, Chief Executive Officer, argenx*

LEO Pharma & JT

Novel topical JAK inhibitor in phase 2

Development of a Janus kinase (JAK) inhibitor for the non-steroidal topical treatment of inflammatory skin diseases, discovered by the pharmaceutical division of Japan Tobacco Inc. (JT). LEO Pharma is currently conducting phase 2 clinical studies with the JAK inhibitor, for which LEO Pharma holds the global licence in dermatology, excluding Japan, where JT holds the rights.

"Collaborating with LEO Pharma enables us to accelerate the translation of scientific discoveries into effective treatments. LEO Pharma is a reliable partner with great expertise in delivering innovative solutions to people living with skin diseases."

— *Muneaki Fujimoto, President, Pharmaceutical, Japan Tobacco Inc.*

LEO Pharma & AstraZeneca

Biologic compound in phase 3

Strategic partnership relating to the development of two biologic therapy candidates: brodalumab and tralokinumab. Brodalumab was launched by LEO Pharma in 2017 under the brand name Kyntheum®, and tralokinumab is currently undergoing phase 3 studies conducted by LEO Pharma.

"LEO Pharma's proven track record of bringing new dermatological treatments to patients in Europe made them an attractive company to partner with. We've developed great relationships at all levels of the alliance and look forward to continuing our work with LEO."

— *David Chang, Head, Inflammation, Autoimmunity & Neuroscience, Global Medicines Development, AstraZeneca*

LEO Pharma & Washington University School of Medicine in St. Louis

Increasing disease understanding

Expansion of disease understanding of atopic dermatitis by unveiling the cellular and molecular regulation of atopic inflammation and itch in patients suffering from atopic dermatitis. The collaboration has already made great progress and led to the publication of *Sensory Neurons Co-opt Classical Immune Signalling Pathways to Mediate Chronic Itch* in the prestigious scientific journal *Cell*.

"Our collaboration with LEO Pharma centers on improving the lives of people with skin diseases, including chronic itch. Through this collaboration, we are afforded the support and freedom to pursue bold science that can accelerate the discovery of new therapeutic paradigms. LEO Pharma has been intellectually invested in and dynamically interactive with our research program, allowing for true academic-industry team science."

— *Brian S. Kim, Co-Director, Center for the Study of Itch, Washington University School of Medicine in St. Louis*

LEO Pharma & Icahn School of Medicine at Mount Sinai

Applying imaging technologies and big data in dermatology

Investigation of non-invasive imaging technologies and data-driven efficacy recommendation systems by means of biomarker data analytics, drug-target interaction and medical literature.

"The ideal collaborations are ones where all parties bring their expertise to the table to tackle a problem, and then everyone works in tandem to make progress. Although a number of organisations and institutions preach these ideals, I've found that LEO Pharma practises them, making intellectual and material contributions that advance projects beyond scientific publication."

— *Brian Kidd, Assistant Professor, Icahn School of Medicine at Mount Sinai*

Innovating for healthy skin

A partnership with LEO Pharma provides access to an innovation ecosystem consisting of multiple and diverse initiatives, forming the ideal basis for discovery and development.

LEO Pharma's innovation ecosystem consists of five components that interact with and complement each other: our R&D capabilities, our global partnerships, LEO Science & Tech Hub, LEO Innovation Lab and LEO Pharma Open Innovation. Collaboration and co-creation is the glue that binds the ecosystem together. We believe that the more we interact and collaborate, the better we can pioneer advances in dermatology care and improve treatment for patients.

LEO Science & Tech Hub

At LEO Science & Tech Hub in Boston, we identify, develop and fund innovative technological solutions that improve the lives of people with skin diseases. In 2017, we established partnerships with several innovative start-up companies and leading US academic institutions, such as Brigham & Women's Hospital, Massachusetts General Hospital, Massachusetts Institute of Technology and Mount Sinai Hospital. In collaboration with our partners, LEO Science & Tech Hub strives to transform early-stage innovations into dermatological treatments and supporting technologies, particularly within precision medicine.

LEO Innovation Lab

At LEO Innovation Lab, we develop non-pharmaceutical solutions in the form of apps, digital platforms and venture initiatives which can help to improve everyday life for patients. We strive to optimise the interaction between patients and physicians by means of new technologies, and we investigate the impact of chronic skin diseases on patients' mental health and well-being. One example is the KlikKit app, which helps patients plan, track and review treatment routines and improves individual awareness and consistency of treatment.

Read more about the digital solutions from LEO Innovation Lab on pages 26-27.

LEO Pharma Open Innovation

Our Open Innovation platform offers a truly unique set-up for exploring drug research with external partners in a mutually beneficial way. The Open Innovation platform provides the opportunity to test whether a compound has the potential to treat dermatological diseases. The initiative allows any scientist to submit compounds for testing using the extensive research tools at LEO Pharma's laboratories.

A key principle of our Open Innovation partnerships is trust: when testing a new compound from a partner, we do not ask for the structure, yet we reveal the science behind our own assets. All the data generated from testing a partner's compounds are openly disclosed to that partner free of charge and confidentially – in other words, with no strings attached.

The external partner retains all rights to the molecule and owns all the generated data. If the results look promising, we investigate the potential for a scientific collaboration or business partnership.

Since we launched LEO Pharma Open Innovation in 2015, we have tested approximately 500 molecules in collaboration with more than 40 partners from biotech companies, start-up companies and academic drug research institutions. Among these projects, we have identified several scientific opportunities with potential for progress.

By opening our laboratories to the outside world, we explore new opportunities for providing better treatments to patients.

About LEO Pharma Open Innovation

Any scientist outside LEO Pharma who has developed a molecule which may have potential within treatment of skin diseases can explore drug research with LEO Pharma free of charge and in full confidentiality. The process is simple:

1. The scientist signs a simple partnership agreement and shares the molecule with LEO Pharma Open Innovation.
2. Scientists at LEO Pharma's laboratories test the molecule in non-confidential models to identify whether it has the potential to become a treatment for skin diseases.
3. LEO Pharma hands over all data and results to the scientist, who maintains intellectual property ownership.
4. If the data look promising from a scientific perspective, LEO Pharma enters into a dialogue with the scientist regarding further collaboration.

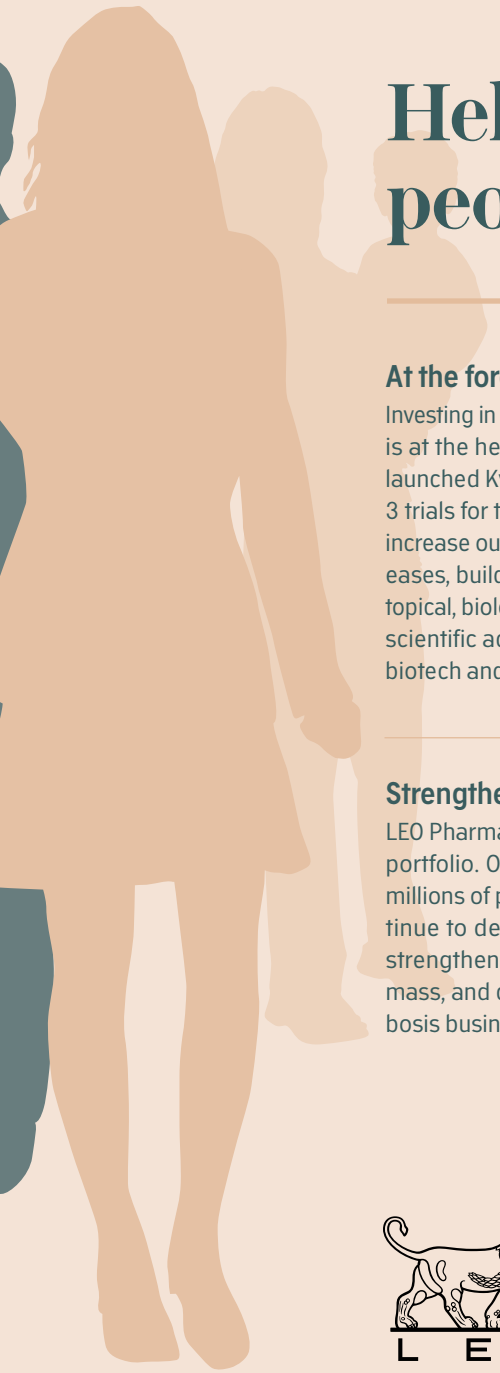
Shaping medical dermatology

All over the world, skin diseases are a burden for individuals, families and societies. A strong focus on addressing high unmet needs lies at the heart of LEO Pharma's corporate strategy, which aims to help 125 million people in 2025.

At any point in time, an estimated one in four people worldwide are living with a skin disease, making skin diseases some of the most prevalent diseases globally. Yet skin diseases continue to receive little attention in global health. As a result, the burden of disease remains high.

LEO Pharma's ambition is to shape medical dermatology to help people with skin diseases improve their quality of life. We have named our corporate strategy 'Helping SARAH' to emphasise that we strive to meet the individual needs of people and understand the healthcare environment in which they live. We are recognised for our significant advances in dermatology, and going forward we will continue to improve treatments for SARAH and the millions of other people living with a skin disease.

Dermatology is changing thanks to progress in science and the application of new technology such as immunologic approaches. At LEO Pharma, we are determined to be a key driver in this development.



Helping 125 million people in 2025

At the forefront of science

Investing in innovative topical and systemic treatments is at the heart of our strategy. LEO Pharma recently launched Kyntheum® for psoriasis and started phase 3 trials for tralokinumab in atopic dermatitis. We will increase our innovation efforts and move into rare diseases, building on a pipeline that is rich in innovative topical, biologic and systemic treatments, on the latest scientific advances, and on strong partnerships with biotech and academia.

Strengthening our roots

LEO Pharma's current success is rooted in our topical portfolio. Our topical treatments have been helping millions of people around the world, and we will continue to develop new, innovative topicals. We will strengthen this part of our business to build critical mass, and continue to invest in innohep®, our thrombosis business.

Digital support for patients

Digital technologies promise to help patients beyond medicines. LEO Innovation Lab will continue to explore this field to find solutions for improving patients' interactions with their physicians and the healthcare system, and for managing their disease.

Local presence

Supporting patients requires us to be close to them. We will increase our presence in the US with new products and R&D. Region International will gain critical mass in topical dermatology, and Region Europe+ will grow in terms of both current and new innovative products.

Deep understanding and collaboration

Understanding patients better than anyone else is key to LEO Pharma's success, as is our ability to bring together the best ideas and the brightest minds. LEO Pharma has a unique culture, based on curiosity, collaboration, simplicity and our desire to help patients.

L E O

Foundation ownership

Thanks to its foundation ownership, LEO Pharma is in a unique position to help people with skin diseases. Ultimately owned by the LEO Foundation, a private commercial foundation, LEO Pharma is an independent company with no external shareholders. This means that all profits are reinvested in the LEO Group.

Showing the way to clear skin

Imagine a world where people with psoriasis can achieve clear skin. A world where they are in control of their disease, and not the other way around. With new, innovative biologic treatments, this vision has come a crucial step closer to realisation. LEO Pharma plays an important part in this evolution, most recently with the launch of Kyntheum® (brodalumab) for the treatment of moderate-to-severe plaque psoriasis.

In recent years, scientific advances in genetics and immunology have led to a wave of new treatments, such as biologics. Over the past decade, biologics have accounted for one-third of new medicine approvals, offering new hope to patients within several disease areas, including psoriasis.

As psoriasis is a chronic disease where the body's own immune system is overactive, the impact of the disease goes beyond the skin. The reality of living with moderate-to-severe psoriasis can undermine people's physical, social and psychological quality of life, often preventing those affected from living fulfilled lives and reaching their goals. In fact, psoriasis carries a greater physical and mental burden than many other chronic diseases. It is therefore critical that people with psoriasis have the necessary tools to help them go through life as unhindered by their disease as possible. Ideally, patients should feel that they control their disease. Not the other way around.

"Psoriasis isn't just a skin condition, and the full impact of the disease is often underestimated. At LEO Pharma, we're dedicated to supporting patients with innovative treatment solutions such as Kyntheum® that can help them live a more positive life, clear of their skin condition."

— *Gitte P. Aabo, President & CEO, LEO Pharma*

Kyntheum®
A major advancement towards clear skin

For psoriasis, the availability of biologic treatment signals a relatively new era for disease management. With the launch of Kyntheum® in 2017, LEO Pharma is underpinning the company's dedication to supporting people with innovative treatments and integrated solutions in order to help them live a life unrestricted by their skin disease.

Kyntheum® is LEO Pharma's biologic treatment for moderate-to-severe plaque psoriasis and offers patients the opportunity to achieve high levels of skin clearance, meaning that their skin is clear of any psoriasis plaques.

" Kyntheum® has the potential to virtually clear psoriasis for almost three in four patients [...] a major advancement within the field of psoriasis. "

— *Professor Dr Ulrich Mrowietz, Psoriasis-Center, University Medical Center Schleswig-Holstein, Kiel, Germany*

So far, the results look promising: in clinical trials, more than half of patients reported that they experienced complete clearance of their psoriasis after 52 weeks of treatment. Most importantly, after 12 weeks of treatment, seven out of 10 patients reported that their psoriasis no longer impaired their health-related quality of life.

What is psoriasis?

Psoriasis is a serious, life-long disease impacting emotional, psychological and physical health. It is a common, chronic, immune-mediated, inflammatory disease that primarily involves the skin. The most frequently reported symptoms include thickening and scaling of the skin, itching and erythema (superficial reddening of the skin, usually in patches).

Social stigma places a heavy burden and can negatively impact the mental health of people with psoriasis:

People with moderate-to-severe psoriasis have a two- to threefold risk of anxiety and depression

77% of people with psoriasis say that they have experienced stigmatisation

46% of people with moderate-to-severe psoriasis report being often or always depressed

What are biologics?

In contrast to most drugs that are chemically synthesised and have a known structure, most biologics are complex mixtures that are not easily identified or characterised. Biologics can be composed of sugars, proteins or nucleic acids, or complex combinations of these substances, or may be living entities such as cells and tissues.

Biological products often represent the cutting-edge of biomedical research and, in time, may offer the most effective means of treating a variety of medical illnesses and conditions that presently have no other treatments available.

What are monoclonal antibodies?

Monoclonal antibodies are proteins that help the immune system identify and bind to substances, allowing for the treatment of some of the most challenging diseases. Kyntheum® is the first and only fully human monoclonal antibody that selectively targets the IL-17 receptor subunit A. Kyntheum® works by blocking immune-signalling proteins that cause skin lesions, thereby stopping the inflammatory process.

Raising the bar for patient care

People with skin diseases often do not receive adequate treatment. LEO Pharma is looking into how interactions between patients and the many stakeholders within and around the healthcare system can be improved.

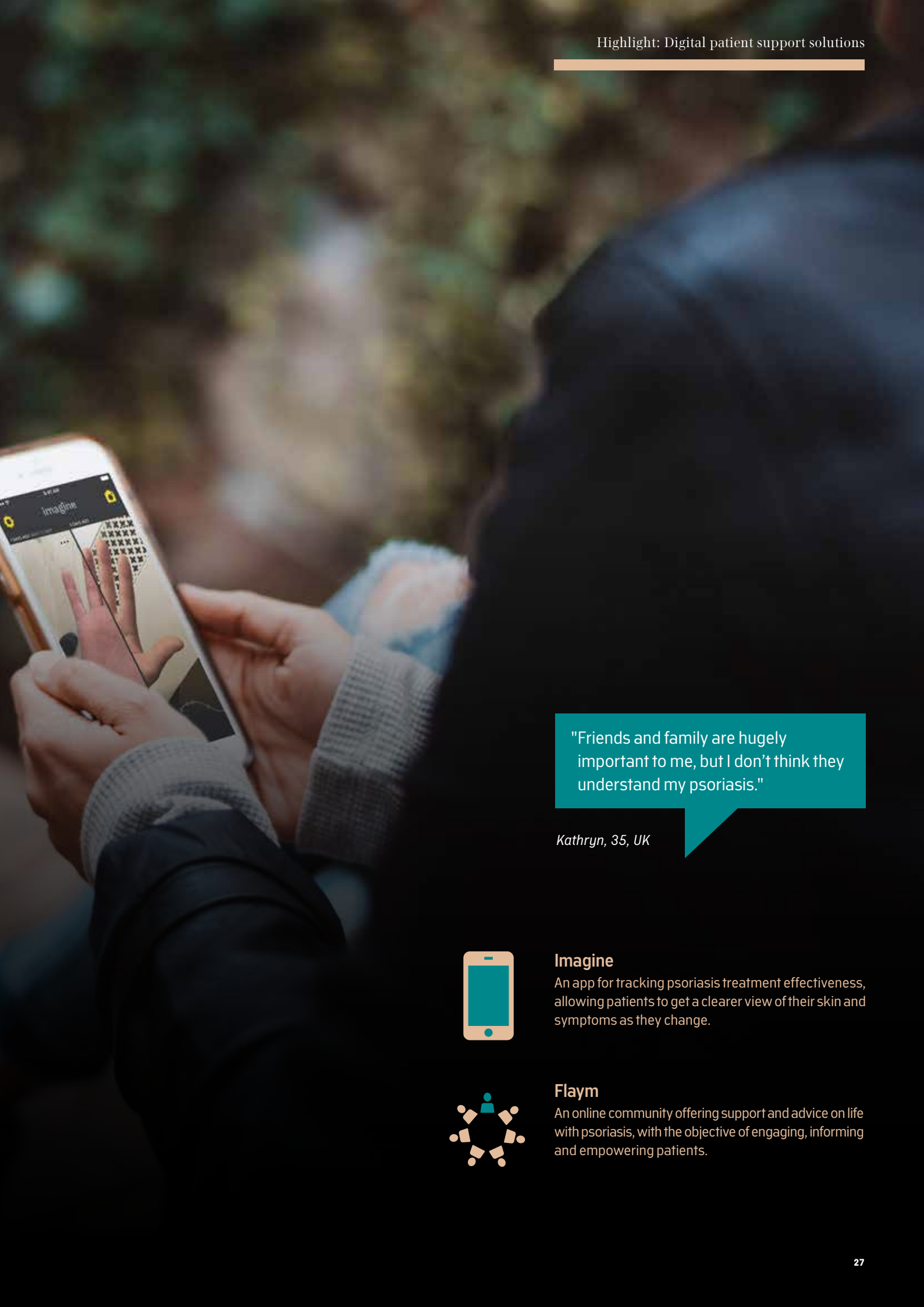
As the skin is highly visible, skin diseases are often associated with social stigma and psychological burden. To reduce the burden of disease and help people manage their skin disease, LEO Innovation Lab is developing a range of digital patient support solutions.

LEO Innovation Lab is casting a wide net, focusing for example on how to improve the patient-physician relationship and on tools which enable patients to manage their skin disease better. Some tools help optimise patient interactions with the physician, and others facilitate the investigation of the impact of chronic skin diseases on mental health and well-being.

One of the solutions developed by LEO Innovation Lab is Imagine, an app that enables patients to track the effectiveness of their psoriasis treatment with imaging technology. Imagine allows patients to get a clearer view of their skin and symptoms as they change, and to monitor the impact of lifestyle factors such as stress. So far, more than 15,000 images have been clinically evaluated by a panel of dermatologists, enabling LEO Pharma to establish the largest database of real-world psoriasis photos. These are used to enable artificial intelligence-powered diagnosis, severity rating and prediction.

Another example is Flaym, an online community offering support and advice on life with psoriasis while informing and empowering patients. Flaym engages people across the world in a friendly, safe environment, allowing them to share experiences, good or bad, and learn from one another. So far, the community has more than 15,000 members who have generated more than 60,000 posts and comments.

LEO Innovation Lab's current product portfolio includes nine digital solutions in more than 12 languages. So far, LEO Innovation Lab has connected with more than 300,000 patients in 184 countries. The knowledge gathered is used to optimise projects as well as to design and develop new treatments and digital solutions, helping to improve quality of life for people living with a skin condition.



"Friends and family are hugely important to me, but I don't think they understand my psoriasis."

Kathryn, 35, UK

Imagine

An app for tracking psoriasis treatment effectiveness, allowing patients to get a clearer view of their skin and symptoms as they change.

Flaym

An online community offering support and advice on life with psoriasis, with the objective of engaging, informing and empowering patients.

Our key products

Psoriasis

Psoriasis is a serious, life-long disease impacting emotional, psychological and physical health. It is a common, chronic, immune-mediated, inflammatory disease that primarily involves the skin. The most frequently reported symptoms include thickening and scaling of the skin, itching and erythema (superficial reddening of the skin, usually in patches).

Psoriasis affects about 2-3% of the population and is equally common in men and women. The severity of the disease varies greatly.

Kyntheum® – A subcutaneous injection for the treatment of moderate-to-severe plaque psoriasis in patients who are candidates for systemic therapy.

Enstilar® – A spray foam for cutaneous treatment of psoriasis vulgaris in adults.

Daivobet® (Taclonex®) – Gel and gel applicator for cutaneous treatment of scalp psoriasis in adults. Topical treatment of mild-to-moderate 'non-scalp' psoriasis vulgaris. Daivobet® is also available as ointment.

Daivonex® – Ointment, cream and solution for cutaneous treatment of chronic, stable psoriasis vulgaris.

Eczema and skin infections

Atopic dermatitis – also called atopic eczema – is a chronic, relapsing, inflammatory skin disease that is characterised by intense pruritus (itching). It can occur at any age and has a high prevalence of up to 20% in children. Atopic dermatitis is regarded as a multi-factorial condition, the onset and severity of which are influenced by both genetic and environmental factors.

Fucidin® – Cream and ointment for cutaneous treatment of skin infections caused by sensitive strains of *staphylococcus aureus*, *streptococcus spp* and *corynebacterium minutissimum*. Fucidin® is also available as suspension, tablets and impregnated dressings.

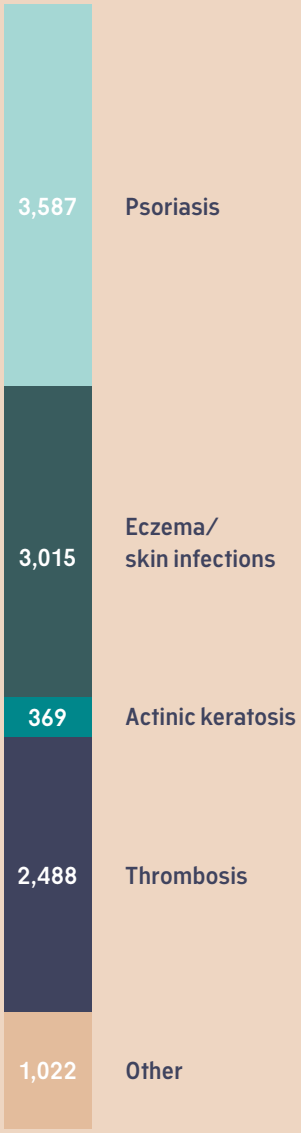
Fucidin® H – Cream for cutaneous treatment of eczema and dermatitis with secondary bacterial infections, including atopic eczema, primary irritant dermatitis and allergic and seborrhoeic dermatitis.

Fucicort® – Cream and lipid cream for cutaneous treatment of eczematous dermatoses, including atopic eczema, discoid eczema, stasis eczema and seborrhoeic eczema.

Protopic® – Ointment for cutaneous treatment of moderate-to-severe atopic dermatitis.

Locoid® – Cream, crelo, lipocream, scalp lotion and ointment for cutaneous treatment of inflammatory skin disorders not caused by microorganisms, such as atopic dermatitis and psoriasis.

Revenue by therapeutic area 2017
DKK million



Total revenue 2017
10,481
DKK million

Growth in revenue 2017
+8%
in local currencies

Actinic keratosis

Actinic keratosis is a type of skin lesion caused by extensive exposure to sunlight. The skin lesion appears as a thickened, scaly growth and may feel rough to touch.

While some actinic keratoses regress or persist without change for many years, some lesions may progress to become squamous cell carcinomas, also called non-melanoma skin cancer.

Picato® – Gel for cutaneous treatment of actinic keratosis in adults.

Thrombosis

Deep vein thrombosis is a clot that forms within a deep vein, usually in the leg. If untreated, part of the clot can break off and travel to the lungs, blocking blood flow. This is called a pulmonary embolism, and can be fatal if not detected and treated early.

innohep® – Subcutaneous treatment of venous thrombosis and thromboembolic disease in adults, and prevention of recurrences in adults with active cancer.

Bridging the happiness gap

With the World Psoriasis Happiness Report, LEO Pharma helps to raise global awareness of the impacts of psoriasis on quality of life.

In recent years, happiness has emerged as a key metric by which we measure our progress as societies and, in 2011, the United Nations passed its resolution on happiness and emphasised that "Happiness as a universal goal and aspiration embodies the spirit of the Millennium Development Goals".

At LEO Pharma, we see it as our responsibility to constantly improve our understanding of patients and search for new ways to help them cope with their skin disease. Together with the Happiness Institute in Denmark, we are exploring the impact of health on happiness. The results of this collaboration are the PsoHappy app for patient surveys, and the World Psoriasis Happiness Report 2017, based on answers from more than 120,000 patients in 19 countries.

"This report will itself help to educate the public at large about the extent, nature and consequences of psoriasis. This should help to quell false fears as well as to fuel greater awareness of the importance of acceptance, and of reaching out to those who look different."

John Helliwell, Professor Emeritus, University of British Columbia, Distinguished Fellow of the Canadian Institute for Advanced Research

Measuring the impact of psoriasis

Using the methodology of the UN World Happiness Report 2017, the report measures well-being across a wide spectrum of topics important to people living with psoriasis.

The results show that people with severe psoriasis experience significantly lower levels of happiness than their fellow citizens. The impact of having psoriasis is three times greater than the happiness gap between the richest and the poorest quintiles of society.

Some countries that scored happiest for their general population in the UN World Happiness Report 2017, such as Norway and Denmark, are ranked low in the World Psoriasis Happiness Index.

"There are large happiness gaps in countries that have consistently scored highly on the UN's global happiness index, indicating that the negative impact of chronic health conditions may be flying under the policy radar of otherwise healthy and happy societies and leaving people behind."

— *Meik Wiking, CEO, the Happiness Research Institute*

The report also shows that psoriasis reduces the happiness of women more than men. While both genders with psoriasis are very much affected physically, emotionally and psychologically, the impact on women is greater.

About the World Psoriasis Happiness Report 2017

The report is based on a survey focused on exploring happiness and psoriasis, and has been developed with input from IFPA, the International Federation of Psoriasis Associations. Survey questions were designed to help quantify the psychosocial burden of psoriasis, covering topics such as stress, self-esteem, loneliness, treatment habits and respondents' relationship with their physicians.

Measuring well-being with mobile technology

The World Psoriasis Happiness Report is produced using PsoHappy, an adaptive digital survey platform which collects data on the impact of psoriasis on people's well-being on a global scale. PsoHappy is recognised by patient associations around the world for its value in improving awareness of how psoriasis affects people's quality of life. The platform is operated by LEO Innovation Lab.

Collaborating to empower patients

"Nobody sat me down and explained what psoriasis actually was. I had to look it all up on the internet [...]. We need education of doctors to pass information onto the patients."

Psoriasis patient, UK

"[The Psoriasis Academy] is a revolution, teaching communication to doctors. You have a solution to a problem that always existed."

Kristian Reich, DMSc, Professor in Dermatology, Georg-August University, Göttingen, Germany

"I don't think we're aware how cutting edge this programme is. LEO Pharma should be proud of pioneering this."

Dr Anthony Bewley, Consultant Dermatologist, Royal London Hospital, UK

Communication between physician and patient is crucial for the success of psoriasis therapy. The Psoriasis Academy provides a forum for healthcare professionals to help patients take better control of their skin condition.

The World Health Organization sees good communication between physicians and patients as a critical success factor in helping patients to adhere to their treatment. This is key, because following treatment through is very important for a successful outcome.

The Psoriasis Academy was established by LEO Pharma in 2015 in collaboration with a multi-disciplinary global faculty led by Professor Kristian Reich, Georg-August University, Germany. The goal for the Psoriasis Academy is to empower patients to take control of their disease. It is a collaborative programme with educational events, panel discussions and train-the-trainer workshops where new ways to improve psoriasis care are explored. So far, 1,600 healthcare professionals in more than 20 countries have participated in national academy workshops, representing expertise areas such as dermatology, psychology, psychodermatology, nursing and patient communication. In the longer term, the ambition is to extend the Psoriasis Academy concept to other skin diseases.

One focus of the Psoriasis Academy is on improving communication between patients and their physicians. For example, together with LEO Innovation Lab, the Psoriasis Academy is looking into developing an app to enable patients to prepare better for discussions with their physician, making it easier to address the unspoken and difficult areas of psoriasis management on both sides of the table. The prototype is currently being tested with patients.

The overall philosophy behind the Psoriasis Academy is that patients with psoriasis are the real experts in their own condition, and that they should be partners in the care process. Therefore, the Psoriasis Academy has established a partnership with the International Federation of Psoriasis Associations (IFPA) to ensure that patients are integrated in the Psoriasis Academy's work. In another project, a work stream under the Psoriasis Academy is designing a process for measuring and validating the effect of the Psoriasis Academy's work.

" Communication between physicians and patients is key for helping psoriasis patients. Therefore, we partnered with doctors and patient organisations like IFPA to establish the Psoriasis Academy. Physicians are trained in understanding the profile of each patient and how to communicate most effectively with them. The Psoriasis Academy shows how LEO Pharma puts the patient at the centre of everything we do. "

— Tine Dahlberg, Principal Professional, Stakeholder Partnership, LEO Pharma

Taking CSR to the next level

In December 2017, we launched our Corporate Social Responsibility (CSR) Commitment 2018-2020. The purpose of the CSR commitment is to support LEO Pharma in achieving its mission, vision, corporate strategy 'Helping SARAH' as well as the following two 2020 aspirations: 'Help more than 100 million people' and 'Reach 82% or more in sustainable engagement score'.

Going forward, our ambition is to take CSR at LEO Pharma to the next level to increase the positive impact, as well as minimise the adverse impact, we have on society and the environment.

Global goals and human rights

Our CSR Commitment 2018-2020 provides a strategic and coherent framework for LEO Pharma's CSR work building on the LEO values of Integrity, Customer focus, Innovation, Passion and Adaptability.

Our commitment to respect human rights and support the UN Sustainable Development Goals is part of the overall framework for our CSR work and is integrated into relevant CSR areas. With respect to human rights, we are implementing the UN Guiding Principles on Business and Human Rights (UNGPs), including conducting human rights impact assessments.

CSR focus areas

To support the ambition of taking our CSR efforts to the next level, Right to health, Right to privacy, Mental well-being at work, Anti-corruption and Responsible supply chain management have been chosen as focus areas for 2018-2020. For the next three years, we will work actively to achieve the KPIs set within each of these areas. Specific action plans have been developed to drive progress within the CSR focus areas, which are described in LEO Pharma's CSR Report 2017.

Other essential areas of our CSR commitment

CSR at LEO Pharma encompasses much more than these five focus areas. Animal welfare, climate change, environment and energy, people safety and people development are all essential areas of LEO Pharma's CSR commitment, and efforts within these areas are key to upholding LEO Pharma's high standards within CSR.

LEO Pharma's CSR Report 2017

Read more about the CSR Commitment 2018-2020 in LEO Pharma's CSR Report 2017, in which LEO Pharma A/S' compliance with Sections 99a and 99b of the Danish Financial Statements Act is reported. The report is available at: www.leo-pharma.com/csr-report-2017

We are committed to supporting the UN Sustainable Development Goals

THE GLOBAL GOALS
For Sustainable Development

Our 5 focus areas

Right to health

Right to privacy

Mental well-being at work

Anti-corruption

Responsible supply chain management

Other essential areas of our CSR commitment

Animal welfare

Climate change, environment and energy

People safety

People development

Special business & financial risks

Operating risks

LEO Pharma continuously 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 LEO Pharma's production.

Market risks

LEO Pharma makes considerable efforts to protect 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 majority of LEO Pharma's sales are in EUR, USD, GBP, CAD and JPY. Consequently, LEO Pharma's foreign exchange risk is most significant in USD, GBP and CAD, as the foreign exchange risk arising from the EUR sales is regarded as low due to Denmark's fixed-rate policy towards the EUR.

LEO Pharma does not hedge net investments in foreign subsidiaries. LEO Pharma's hedging is centralised at Parent Company level. Hedging is carried out based on the cash flows generated from realised transactions.

Liquidity risks

LEO Pharma has obtained credit facilities with our banking partners, has a high solvency ratio and is supported by the LEO Foundation, and thus encounters no significant risk.

Interest rate risks

Interest rate risks are managed through LEO Pharma's policies, and the interest rate risk of our debt portfolio is mitigated using interest rate swaps. We have a small portfolio of Danish mortgage bonds, and if the interest rate increases by 1%, the value of the portfolio will decrease by approximately DKK 23 million.

Credit risk

LEO Pharma's credit risk consists of two components. The first component is related to the sale of products to our customers. We do not have any one customer accounting for more than 10% of sales. Instead, we have a customer portfolio consisting of many customers diversified by size and markets. LEO Pharma continues to focus on credit assessment, customers' payment behaviour and dunning procedures in order to mitigate future losses on bad debt.

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

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

Elements of uncertainty

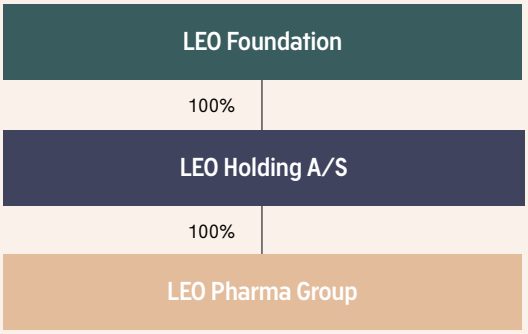
Financial expectations are subject to uncertainties and assumptions, which may cause actual results to differ from expectations. The factors that may affect future results include delayed or unsuccessful development projects, market-driven price reductions for products, exposure to product liability and other lawsuits, changes in reimbursement rules and legislation.

Company information

Ownership structure

LEO Pharma A/S is an ultimately owned subsidiary of the LEO Foundation, Lautrupsgade 7, 5th floor, 2100 Copenhagen Ø, Denmark.

LEO Group legal structure



LEO Pharma Group is comprised of LEO Pharma A/S and its Danish and international subsidiaries.

Audit Committee

The Board of Directors has established an Audit Committee to assist the Board of Directors in overseeing aspects related to financial reporting, auditing, risk management, currency and investment policies and compliance. The Audit Committee meets when required but at least four times a year.

The Audit Committee is comprised of three members, all of whom are members of the Board of Directors. The members possess the relevant qualifications as specified in the Rules of Procedure for the Audit Committee.

The Board of Directors has elected the following board members to the Audit Committee:

Patrik Olof Dahlén (Chairman)
Cristina Patricia Lage
Karin Attermann

Remuneration Committee

The Board of Directors has established a Remuneration Committee to assist the Board of Directors in aspects related to remuneration, assessment and nomination. The Remuneration Committee meets when required but at least twice a year.

The Remuneration Committee is comprised of four members, three of whom are members of the Board of Directors and one of whom is appointed by the LEO Foundation.

The Board of Directors has elected the following board members to the Remuneration Committee:

Jukka Pertola (Chairman)
John Robert Weeks
Peder Holk Nielsen
Jesper Mailind (The LEO Foundation)

Scientific Committee

The Board of Directors has established a Scientific Committee to assist the Board of Directors in overseeing the Research and Development Strategy and the R&D pipeline. The Scientific Committee meets when required but at least four times a year.

The Scientific Committee is comprised of three members, all of whom are members of the Board of Directors. The Board of Directors has elected the following board members to the Scientific Committee:

Jan van de Winkel (Chairman)
Ingelise Saunders
Jesper Høiland

From left: EVP Kim Kjøller, SVP Mette Vestergaard, EVP Anders Kronborg, SVP Patrice Baudry, EVP Guillaume Clément, President & CEO Gitte P. Aabo, EVP Jørgen Damsbo Andersen, SVP Jim McPherson and EVP Chris Posner.

Board of Directors

Jukka Pertola
Chairman

Patrik Olof Dahlén
Vice Chairman

Jesper Høiland
Board member

Cristina Patricia Lage
Board member

Jan van de Winkel
Board member

Peder Holk Nielsen
Board member

John Robert Weeks
Board member

Ingelise Saunders
Board member

Jannie Kogsbøll
Employee-elected board member

Karin Attermann
Employee-elected board member

Lotte Hjortshøj Larsen
Employee-elected board member

Jukka Pertola, Chairman, LEO Pharma

Global Leadership Team

Gitte P. Aabo
President & CEO

Anders Kronborg
Executive Vice President
Global Finance & Business Services

Jørgen Damsbo Andersen
Executive Vice President
Region International

Chris Posner
Executive Vice President
Region US and President & CEO of LEO Pharma, Inc.

Guillaume Clément
Executive Vice President
Region Europe+

Kim Kjøller
Executive Vice President
Global Research & Development

Patrice Baudry
Senior Vice President
Global Strategic Marketing

Mette Vestergaard
Senior Vice President
Global People & Communications

Jim McPherson
Senior Vice President
Global Product Supply

Consolidated **Financial Statements**

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Income statement

1 January – 31 December

(DKK million)	Note	2017	2016
Revenue	3	10,481	9,863
Cost of sales	4, 6, 10	(2,938)	(2,720)
Gross profit		**7,543**	**7,143**
Sales and distribution costs	4, 5, 6	(4,091)	(4,098)
Research and development costs	4, 5, 6	(1,602)	(1,290)
Administrative costs	4, 5, 6, 14	(1,111)	(1,447)
Other operating income		145	47
Other operating expenses		(32)	(17)
Operating profit		**852**	**338**
Share of profit/(loss) on investment in associate		(3)	(3)
Financial income	15	1,089	943
Financial expenses	15	(155)	(154)
Profit before tax		**1,783**	**1,124**
Tax on profit for the year	8	(402)	(380)
Net profit for the year		**1,381**	**744**

Statement of comprehensive income

1 January – 31 December

(DKK million)	Note	2017	2016
Net profit for the year		1,381	744
Other comprehensive income			
Actuarial gains/(losses)	13	131	(214)
Tax	8	(48)	34
Items that will not be reclassified subsequently to the income statement		**83**	**(180)**
Exchange rate adjustments on investments in foreign subsidiaries		(64)	(108)
Deferred exchange gains/(losses) on hedging instruments designated at fair value through other comprehensive income		5	(8)
Gains/(losses) on cash flow hedges recycled to financial items		-	(4)
Other adjustments		17	(2)
Tax	8	(1)	(2)
Items that may be reclassified subsequently to the income statement		**(43)**	**(124)**
Other comprehensive income		**40**	**(304)**
Comprehensive income for the year		**1,421**	**440**

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2017	2016	1.1.2016
Intellectual property rights		3,992	4,527	133
Trademarks		-	-	5
Development projects		1,159	1,081	336
Software		497	389	107
Intangible assets	5	**5,648**	**5,997**	**581**
Land and buildings		691	760	824
Leasehold improvements		39	70	81
Plant and machinery		434	492	593
Other fixtures and fittings, tools and equipment		96	83	70
Assets under construction		551	406	256
Property, plant and equipment	6	**1,811**	**1,811**	**1,824**
Investment in associate		3	3	5
Other financial securities	12	27	10,539	11,519
Deferred tax assets	9	673	1,057	973
Other receivables	12	60	83	-
Financial assets		**763**	**11,682**	**12,497**
Total non-current assets		**8,222**	**19,490**	**14,902**
Inventories	10	1,719	1,730	1,663
Trade receivables	11	2,644	2,515	2,036
Tax receivables		656	573	1,226
Other receivables		384	182	374
Prepayments		160	81	121
Other securities	12	451	12,269	11,531
Cash and cash equivalents	12	357	144	374
Total current assets		**6,371**	**17,494**	**17,325**
TOTAL ASSETS		**14,593**	**36,984**	**32,227**

Balance sheet at 31 December

EQUITY AND LIABILITIES

(DKK million)	Note	2017	2016	1.1.2016
Share capital	17	250	250	250
Foreign currency translation reserve		(172)	(108)	-
Hedging reserve		(3)	(8)	4
Retained earnings		8,202	25,041	24,481
Equity		**8,277**	**25,175**	**24,735**
Deferred tax liabilities	9	20	-	39
Retirement benefit obligations	13	355	780	627
Provisions	7	170	254	184
Credit institutions	12	1,006	1,569	-
Loan from the LEO Foundation	12	1,002	-	-
Contract liabilities	3	14	45	49
Other long-term liabilities		22	53	-
Total non-current liabilities		**2,589**	**2,701**	**899**
Provisions	7	673	700	425
Credit institutions	12	482	5,258	4,023
Trade payables		1,591	2,375	1,383
Payables to the LEO Foundation	12	150	61	90
Tax payables		70	138	175
Contract liabilities	3	30	30	21
Other payables		731	546	476
Total current liabilities		**3,727**	**9,108**	**6,593**
TOTAL EQUITY AND LIABILITIES		**14,593**	**36,984**	**32,227**

Statement of changes in equity

(DKK million)	Share capital	Foreign currency translation reserve	Hedging reserve	Retained earnings	**Total**
2017					
Equity at 1 January 2017	250	(108)	(8)	25,041	25,175
Net profit for the year	-	-	-	1,381	1,381
Other comprehensive income for the year	-	(64)	5	99	40
Total other comprehensive income for the year	-	(64)	5	1,480	1,421
Transactions with owners					
Dividend distributed	-	-	-	(18,319)	(18,319)
Changes in equity in 2017	-	-	-	(18,319)	(18,319)
Equity at 31 December 2017	**250**	**(172)**	**(3)**	**8,202**	**8,277**
2016					
Equity at 1 January 2016	250	-	4	24,481	24,735
Net profit for the year	-	-	-	744	744
Other comprehensive income for the year	-	(108)	(12)	(184)	(304)
Total other comprehensive income for the year	-	(108)	(12)	560	440
Equity at 31 December 2016	**250**	**(108)**	**(8)**	**25,041**	**25,175**

Cash flow statement

1 January – 31 December

(DKK million)	Note	2017	2016
Operating profit		**852**	**338**
Adjustment for non-cash operating items			
Amortisation, depreciation and impairment losses	5, 6	1,143	1,005
Change in retirement benefit obligations	13	(420)	(44)
Change in provisions	7	(21)	326
Other adjustments	16	50	(239)
Change in working capital			
Change in inventories and receivables		(398)	(273)
Change in trade payables and other payables		(541)	931
Corporation tax paid		(161)	359
Interest paid		(40)	(29)
Interest received		256	287
Cash flows from operating activities		**720**	**2,661**
Investments in intangible assets	5	(479)	(6,115)
Investments in property, plant and equipment	6	(385)	(302)
Proceeds from sale of intangible assets and property, plant and equipment		45	14
Investments in other securities		-	(3,275)
Proceeds from sale of other securities		5,654	3,937
Cash flows from investing activities		**4,835**	**(5,741)**
Proceeds from raising loans		1,000	3,232
Repayment of bank debt		(5,325)	(375)
Dividends paid		(1,000)	-
Cash flows from financing activities		**(5,325)**	**2,857**
Change in cash and cash equivalents		**230**	**(223)**
Cash and cash equivalents at 1 January		144	374
Unrealised exchange gains/(losses) on cash and cash equivalents		(17)	(7)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**357**	**144**

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

Notes
LEO Pharma Group

NOTE 1 BASIS OF REPORTING

BASIS OF PREPARATION

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

As set out in note 2, these are the Group's first Consolidated Financial Statements prepared in accordance with IFRS.

In accordance with IFRS 1, the opening balance sheet at 1 January 2016 and the comparative figures for 2016 have been prepared in accordance with the IFRSs/IAS and IFRICs/ SIC applicable at 31 December 2017. The opening balance sheet at 1 January 2016 has been prepared as if these standards and interpretations had always been applied, apart from the exemptions described in note 2.

LEO Pharma has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs in advance of their effective dates. Details of IFRS 9 requirements and their impact on the Consolidated Financial Statements are described in note 12. IFRS 9 has been applied in accordance with the transition provisions set out in the standard and IFRS 1 First-time adoption of IFRS.

Furthermore, LEO Pharma has applied IFRS 15 Revenue from Contracts with Customers. The early application of IFRS 15 has had no impact on the Consolidated Financial Statements other than the extended disclosure requirements.

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

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

APPLYING MATERIALITY

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

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

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

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

- Note 5 Intangible assets: Estimated useful lives, impairment test, and judgement on acquisition of intangible assets
- Note 7 Provisions: Estimates of provision for legal disputes and sales deductions
- Note 9 Deferred tax: Estimates of deferred tax assets
- Note 10 Inventories: Estimates of valuation of inventories
- Note 12 Financial instruments: Judgement on measurement of fair value, classifications and assessment of credit risk

NOTE 1 BASIS OF REPORTING (CONTINUED)

GENERAL ACCOUNTING POLICIES

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

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

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

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

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

Cash flow statement
The cash flow statement is prepared according to the indirect method based on operating profit. The statement shows cash flows from operating, investing and financing activities, as well as cash and cash equivalents at the start and end of the year. Cash flows from operating activities are calculated as the Group's operating profit, adjusted for non-cash operating items such as depreciation, amortisation and impairment losses, as well as changes in working capital. Working capital comprises inventories, trade receivables and trade payables, etc.

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

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

DEFINITION OF KEY FIGURES

Average number of employees	Average number of full-time-equivalent employees
Operating profit margin[1]	$\frac{\text{Operating profit}}{\text{Revenue}} \times 100$
Return on assets[1]	$\frac{\text{Operating profit}}{\text{Average assets}} \times 100$
Return on equity[1]	$\frac{\text{Profit before tax}}{\text{Average equity}} \times 100$
Solvency ratio[1]	$\frac{\text{Equity}}{\text{Assets}} \times 100$

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

NOTE 1 BASIS OF REPORTING (CONTINUED)

NEW AND REVISED IFRSs ISSUED BUT NOT YET EFFECTIVE THAT ARE RELEVANT TO LEO PHARMA

LEO Pharma has not applied the following standards that have been issued but are not yet effective:

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, with earlier application permitted)
  In January 2016, IASB issued IFRS 16 Leases, which is effective from 1 January 2019. LEO Pharma will adopt the new standard from the effective date. The changed lease accounting will have an impact, as the major part of the leases will be recognised in the balance sheet as right-of-use assets with a related lease liability at the present value of future lease payments. The income statement will also be affected, as the lease costs will be split between depreciation of the right-of-use asset recognised in operating costs and interest on the lease liabilities recognised in Financial expenses. The impact of implementing the standard in LEO Pharma is expected to be low.

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. IASB has deferred the effective date of these amendments. LEO Pharma will apply these amendments when they become effective.

- Annual Improvement Cycle – 2014-2016
  - IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters (effective from 1 January 2018). The amendment is not applicable to LEO Pharma, as IFRS has been first-time adopted on 1 January 2017.
  - IAS 28 Investment in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective from 1 January 2018). These amendments are not applicable to LEO Pharma.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related assets, expense or income on derecognition of a non-monetary asset or a non-monetary liability relating to advance consideration, the transaction date is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration (effective from 1 January 2018). LEO Pharma does not expect any effect from this interpretation.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019, but certain transition reliefs are available)
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty affecting the application of IAS 12 and does not apply to taxes and levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. LEO Pharma will apply the interpretation from its effective date and perform the necessary procedures to ensure implementation in a timely manner.

NOTE 2 FIRST-TIME ADOPTION OF IFRS

These Consolidated Financial Statements, for the year ended 31 December 2017, are the first LEO Pharma has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2016, LEO Pharma prepared its Financial Statements in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises in reporting class C.

The opening balance at 1 January 2016 has been prepared according to IFRS as if the Group had always applied IFRS, with the exception of specific transition rules, which are described below. Comparative figures for 2016 have been restated.

The effects of IFRS adoption for the consolidated income statement and balance sheet, and a reconciliation between Net profit for the year according to previous GAAP and IFRS, are presented below:

		1 January 2016			31 December 2016			
(DKK million)	Note	Assets	Liabilities	Equity	Net profit for the year 2016	Assets	Liabilities	Equity
According to previous GAAP (Danish Financial Statements Act)		**32,082**	**7,331**	**24,751**	**743**	**36,812**	**11,600**	**25,212**
Restatements in tax	(a)	145	145	-	(18)	91	109	(18)
Other restatements	(b)	-	-	-	-	81	81	-
Adjusted figures according to previous GAAP		**32,227**	**7,476**	**24,751**	**725**	**36,984**	**11,790**	**25,194**
Effect of transition to IFRS								
Gains/losses on interest swap	(c)	-	-	-	23	-	-	-
Other employee provisions	(d)	-	16	(16)	(3)	-	19	(19)
Tax on total adjustments		-	-	-	(1)	-	-	-
Total adjustments		**-**	**16**	**(16)**	**19**	**-**	**19**	**(19)**
According to IFRS		**32,227**	**7,492**	**24,735**	**744**	**36,984**	**11,809**	**25,175**
Other comprehensive income								
Actuarial gains and losses					(214)			
Financial instruments					(12)			
Exchange rate adjustments on investments in foreign subsidiaries					(108)			
Tax on other comprehensive income					32			
Other adjustments					(2)			
Total comprehensive income under IFRS					**440**			

a) Restated presentation of uncertain tax positions. See note 8 for further description.
b) Certain other assets and liabilities have been reclassified to present the gross value, whereas they were previously presented with the net value.
c) Documentation for hedge accounting under Danish GAAP did not comply with the requirements under IFRS, thus the hedge reserve recognised in equity has been transferred to retained earnings.
d) Under previous GAAP, certain employee provisions did not qualify for recognition. According to IAS 19, LEO Pharma is required to recognise long-service awards. A provision of DKK 16 million has been recognised at 1 January 2016 against Retained earnings.

RECLASSIFICATIONS

In addition to the changes in accounting policies, reclassifications and adjustments to presentation have been carried out, including assets being presented as current and non-current assets, compared to fixed and current assets previously, and provisions no longer being presented as a principal group in the balance sheet, but included in current and non-current liabilities.

NOTE 2 FIRST-TIME ADOPTION OF IFRS (CONTINUED)

TRANSITION RULES

In applying IFRS, the Group has used the following transition rules:

- Cumulative currency translation adjustments in foreign subsidiaries are recognised through Other comprehensive income in a separate reserve in equity. According to IFRS 1, the cumulative reserve for translation differences as of 1 January 2016 has been reset, and only differences arising after 1 January 2016 have been separated in the reserve.
- IFRS 1 provides the option to apply IFRS 3 Business Combinations prospectively from a chosen point in time, e.g. from the transition date. This provides relief from full retrospective application, which would require restatement of all business combinations prior to the transition date. LEO Pharma has chosen to apply IFRS 3 prospectively to business combinations occurring after the transition date. Business combinations occurring prior to the transition date have not been restated.

ESTIMATES

The estimates at 1 January 2016 and 31 December 2016 are consistent with those made at the same dates in accordance with previous GAAP.

IMPACT OF APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS

Classification and measurement of financial assets

LEO Pharma has applied IFRS 9 Financial Instruments (as revised in July 2014) in connection with the first-time adoption of IFRS. The date of initial application is 1 January 2017. Financial assets have been reviewed based on the facts and circumstances that existed at that date. It has been assessed whether the financial assets meet the business model for amortised cost or fair value through either profit and loss or other comprehensive income measurement on the basis of the facts and circumstances that exist. The resulting classification is applied retrospectively irrespective of the business model in prior reporting periods.

Impairment of financial assets

In relation to impairment of financial assets, IFRS 9 requires an expected credit loss (ECL) model, compared to an incurred credit loss model under Danish GAAP. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. As of 1 January 2017, the existing financial assets have been reviewed and assessed to determine the credit risk of the respective items.

The Group applies the simplified approach and recognises lifetime expected credit loss for trade receivables and other receivables directly related to the operating activities. Based on the low historical loss on these receivables, the application of IFRS 9 has resulted in additional loss allowances that are considered insignificant. Cash and bank balances and bonds are assessed to have low credit risk, as they are held with reputable international banking institutions. Thus, expected credit losses on these financial assets are deemend insignificant.

General hedge accounting

The Group's qualifying hedging relationships in place under Danish GAAP also qualified for hedge accounting in accordance with IFRS 9, except for hedging of repo loans, which no longer qualify for hedge accounting. As a consequense, gains on repo interest rate swaps have been reclassified to financial items. Apart from this, the application of the IFRS 9 hedge accounting requirements has had no impact on the Group's results and financial position for current and prior years.

EFFECT OF IFRS ADOPTION ON THE CONSOLIDATED CASH FLOW STATEMENT

In applying IFRS, the presentation of the reported operating, investing and financing cash flow has been assesed. In accordance with IFRS, cash flows from interest received and paid shall be disclosed separately. Consequently, the presentation of cash flow to be based on operating profit instead of net profit for the year has been changed. Furthermore, in applying IFRS, the value adjustments related to other securities from investing activities to operating activities has been reclassified. Other than the adjustments mentioned, no other effects have been identified.

NOTE 3 REVENUE

ACCOUNTING POLICIES

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

Revenue is measured at the amount of consideration which the Group expects to be entitled to in exchange for transferring the goods. Revenue is recognised exclusive of VAT and net of sales deductions, including product returns as well as discounts and rebates.

Revenue includes licence income and sales-based royalties from outlicensed products as well as milestone payments and other revenues in connection with partnerships. These revenues, except for royalties, are recognised when the performance obligation is satisfied, i.e. when transferred to the customer. For sales-based royalties, revenue is recognised when the subsequent sale occurs. Please refer to note 7 Provisions regarding the accounting policies for sales deductions and returns.

(DKK million)	2017	2016
Revenue by region		
Europe+	6,379	6,082
International	2,745	2,556
US	1,357	1,225
Total	**10,481**	**9,863**
Revenue by therapeutic area		
Psoriasis	3,587	3,445
Actinic keratosis	369	362
Eczema/skin infections	3,015	2,547
Thrombosis	2,488	2,462
Other	1,022	1,047
Total	**10,481**	**9,863**
Revenue by category		
Products	10,083	9,466
Sales-based royalties	377	376
Other	21	21
Total	**10,481**	**9,863**
Timing of revenue recognition		
Goods transferred at a point in time	10,449	9,837
Services transferred over time	32	26
Total	**10,481**	**9,863**

NOTE 3 REVENUE (CONTINUED)

Contract balances

Generally, billing occurs subsequent to revenue recognition, resulting in trade receivables. Payment terms are typically 30-60 days. However, the Group sometimes receives upfront payments related to various sales and distribution rights where the upfront payments are recognised over time, resulting in contract liabilities. Contract liabilities are recognised as Revenue in line with fulfillment of the contract obligation.

(DKK million)	2017	2016
Contract liabilities (non-current)	14	45
Contract liabilities (current)	30	30
Total contract liabilities	**44**	**75**
Revenue recognised in the period from:		
Amounts included in contract liabilities at the begnning of the period	32	26

Unsatisfied performance obligations

The Group's unsatisfied performance obligations relate to the contract liabilities that have not yet been recognised as Revenue, as well as contracts where the Group has an obligation to deliver goods, which has not yet been satisfied.

The transaction price not yet recognised as Revenue is:

(DKK million)	2018	2019	Total
Remaining performance obligations expected to be recognised as of 31 December 2017	53	14	**67**

The Group applies the practical expedient in paragraph C5(c) of IFRS 15, and does not disclose the amount of the transaction price allocated to the remaining performance obligations or when the Group expects to recognise that amount as revenue for the year ended 31 December 2016.

NOTE 4 STAFF EXPENSES

(DKK million)	2017	2016
Wages and salaries	2,726	2,898
Pensions – defined benefit plans	7	9
Pensions – defined contribution plans	211	236
Social security expenses	271	270
Other employee expenses	219	191
Total staff expenses for the year	**3,434**	**3,604**
Capitalised staff expenses	(63)	(36)
Total staff expenses in the income statement	**3,371**	**3,568**
Staff expenses included in		
Cost of sales	603	614
Sales and distribution costs	1,625	1,780
Research and development costs	658	526
Administrative costs	485	648
Total	**3,371**	**3,568**
Average number of full-time employees	**5,251**	**5,170**

REMUNERATION TO EXECUTIVE MANAGEMENT AND BOARD OF DIRECTORS

(DKK million)	Salary	Cash bonus2	Pension	Severance payments	**Total remuneration**
2017					
Registered members of Executive Management	13	6	1	-	20
Other members of Executive Management[1]	12	7	1	3	23
Board of Directors	5	-	-	-	5
Total	**30**	**13**	**2**	**3**	**48**
2016					
Registered members of Executive Management	13	1	1	-	15
Other members of Executive Management[1]	11	3	2	3	19
Board of Directors	4	-	-	-	4
Total	**28**	**4**	**3**	**3**	**38**

1. Other members of Executive Management comprise Kim Kjøller (Executive Vice President, Global Research & Development), Guillaume Clément (Executive Vice President, Region Europe+), Jørgen Damsbo Andersen (Executive Vice President, Region International) and Chris Posner (Executive Vice President, Region US). Chris Posner joined LEO Pharma in 2017. The 2017 remuneration for Christopher Posner is included in the above table. Barbara Osborne (Executive Vice President, Region US) retired from LEO Pharma in 2016. The 2016 remuneration for Barbara Osborne is included in the above table.
2. Members of Executive Management participate in short- and long-term incentive programmes that provide a bonus for the achievement of predetermined targets.

NOTE 5 INTANGIBLE ASSETS

ACCOUNTING POLICIES

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

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

Development projects are recognised as Intangible assets if the recognition criteria are met. Development costs are capitalised only if the following can be demonstrated: technical feasibility of and intention to complete the asset, ability to use or sell the asset, expectation of generating future economic benefits and ability to measure the expenditure reliably.

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

Research costs are recognised in the income statement as incurred.

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

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

Intellectual property rights and trademarks

3-10 years

Software

3-10 years

IMPAIRMENT

At the end of each reporting period, LEO Pharma reviews the carrying amounts of the intangible assets to determine whether there is any indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

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

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

NOTE 5 INTANGIBLE ASSETS (CONTINUED)

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

To determine the value in use, the expected cash flow approach is applied. The expected future cash flows are based on the budget and target plans for the next five years for marketable products and up to 15 years for licences where products have not yet been launched as a result of the patent period. Useful life is estimated individually in each case. In addition, the budgets and target plans are based on the Executive Management's expectations of current market conditions and future growth expectations. The key factors used in calculating the value are revenue, EBIT, working capital and discount rate.

LEO Pharma has identified capitalised software relating to the ERP system (GLOBE) as corporate assets. During the year, the Executive Management considers the recoverability of the assets and assesses indications of impairment.

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

Impairment testing

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

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

Assessment of acquisitions

On initial recognition of investments in intellectual property rights, the Executive Management assesses whether the acquisition comprises a business combination or solely an intangible asset. In making this judgement, the Executive Management assesses key issues relating to each case, as the distinction can be uncertain.

NOTE 5 INTANGIBLE ASSETS (CONTINUED)

(DKK million)	Intellectual property rights	Trademarks	Development projects	Software	**Total intangible assets**
2017					
Cost at 1 January 2017	10,150	30	2,846	475	13,501
Additions during the year	125	-	297	57	479
Disposals during the year	(117)	-	-	-	(117)
Transfers	134	-	(219)	85	-
Cost at 31 December 2017	**10,292**	**30**	**2,924**	**617**	**13,863**
Amortisation and impairment losses at 1 January 2017	(5,623)	(30)	(1,765)	(86)	(7,504)
Amortisation for the year	(758)	-	-	(34)	(792)
Disposals during the year	81	-	-	-	81
Amortisation and impairment losses at 31 December 2017	**(6,300)**	**(30)**	**(1,765)**	**(120)**	**(8,215)**
CARRYING AMOUNT AT 31 DECEMBER 2017	**3,992**	**-**	**1,159**	**497**	**5,648**
2016					
Cost at 1 January 2016	5,138	30	2,064	154	7,386
Exchange rate adjustment	(1)	-	1	-	-
Additions during the year	5,013	-	984	118	6,115
Disposals during the year	-	-	(203)	203	-
Cost at 31 December 2016	**10,150**	**30**	**2,846**	**475**	**13,501**
Amortisation and impairment losses at 1 January 2016	(5,005)	(25)	(1,728)	(47)	(6,805)
Exchange rate adjustment	(1)	-	-	-	(1)
Amortisation for the year	(585)	(5)	(37)	(39)	(666)
Impairment losses for the year	(32)	-	-	-	(32)
Amortisation and impairment losses at 31 December 2016	**(5,623)**	**(30)**	**(1,765)**	**(86)**	**(7,504)**
CARRYING AMOUNT AT 31 DECEMBER 2016	**4,527**	**-**	**1,081**	**389**	**5,997**

In 2017, research and development costs recognised in the income statement amounted to DKK 1,602 million (2016: DKK 1,290 million). Research and development costs primarily comprise internal and external costs related to studies, employee costs, materials, depreciation and other directly attributable costs.

The value of intellectual property rights acquired from Astellas amounted to DKK 5,013 million when purchased in 2016. The carrying amount at 31 December 2017 was DKK 3,760 million (2016: DKK 4,473 million). The remaining amortisation period is six years (seven years in 2016).

The value of intellectual property rights of Kyntheum® amounted to DKK 136 million when purchased in 2016. The carrying amount was DKK 253 million at 31 December 2017 (2016: DKK 136 million). Amortisation started in August 2017 and the remaining amortisation period is 10 years.

NOTE 5 INTANGIBLE ASSETS (CONTINUED)

(DKK million)	2017	2016
Amortisation and impairment losses are specified as follow:		
Sales and distribution costs	714	552
Administrative costs	78	146
Total	**792**	**698**

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

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

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

The expected useful lives are as follows:

Buildings

10-50 years

Leasehold improvements

Up to 10 years

Plant and machinery

5-10 years

Other fixtures and fittings, tools and equipment

3-10 years

IMPAIRMENT TESTING

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

For 2017, the impairment test resulted in an impairment loss of DKK 147 million on the production facilities in Southport, Australia, where production of ingenol disoxate was planned. Based on results from phase 3 studies, ingenol disoxate was deemed not commercially viable for LEO Pharma. The impairment loss has been recognised in Cost of sales in the income statement.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(DKK million)	Land and buildings	Leasehold improvements	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	**Total property, plant and equipment**
2017						
Cost at 1 January 2017	2,198	158	2,446	465	406	5,673
Exchange rate adjustment	1	(9)	(2)	(4)	-	(14)
Additions during the year	-	8	3	34	340	385
Disposals during the year	(121)	(9)	(261)	(47)	-	(438)
Transfers	7	-	62	4	(73)	-
Cost at 31 December 2017	**2,085**	**148**	**2,248**	**452**	**673**	**5,606**
Depreciation and impairment losses at 1 January 2017	(1,438)	(88)	(1,954)	(382)	-	(3,862)
Exchange rate adjustment	(1)	4	2	2	-	7
Disposals during the year	121	9	244	47	-	421
Impairment for the year	-	(20)	(5)	-	(122)	(147)
Depreciation for the year	(76)	(14)	(101)	(23)	-	(214)
Depreciation and impairment losses at 31 December 2017	**(1,394)**	**(109)**	**(1,814)**	**(356)**	**(122)**	**(3,795)**
CARRYING AMOUNT AT 31 DECEMBER 2017	**691**	**39**	**434**	**96**	**551**	**1,811**
2016						
Cost at 1 January 2016	2,160	144	2,398	459	256	5,417
Exchange rate adjustment	(1)	-	(1)	-	-	(2)
Additions during the year	-	26	1	25	250	302
Disposals during the year	(1)	(12)	(1)	(29)	(1)	(44)
Transfers	40	-	49	10	(99)	-
Cost at 31 December 2016	**2,198**	**158**	**2,446**	**465**	**406**	**5,673**
Depreciation and impairment losses at 1 January 2016	(1,336)	(63)	(1,805)	(389)	-	(3,593)
Exchange rate adjustment	-	-	(1)	-	-	(1)
Disposals during the year	1	10	1	27	-	39
Depreciation for the year	(103)	(35)	(149)	(20)	-	(307)
Depreciation and impairment losses at 31 December 2016	**(1,438)**	**(88)**	**(1,954)**	**(382)**	**-**	**(3,862)**
CARRYING AMOUNT AT 31 DECEMBER 2016	**760**	**70**	**492**	**83**	**406**	**1,811**

(DKK million)	**2017**	**2016**
Depreciation and impairment losses are specified as follow:		
Cost of sales	326	276
Sales and distribution costs	15	13
Research and development costs	10	11
Administrative costs	10	7
Total	**361**	**307**

NOTE 7 PROVISIONS

ACCOUNTING POLICIES

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

Provisions for sales deductions and returns are recognised at the time the related revenues are recognised. Unsettled deductions and returns are recognised as Provisions when the timing or amount is uncertain. Where absolute amounts are known, the deductions are recognised as Other liabilities.

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

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

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

Provisions for legal disputes

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

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

Provisions for sales deductions

Sales discounts and rebates are predominantly issued in the US in connection with the US Federal and State Government Healthcare programmes, primarily commercial rebates, Copay schemes, Medicare and Medicaid.

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

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

NOTE 7 PROVISIONS (CONTINUED)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2017					
Provisions at 1 January 2017	460	208	237	49	954
Exchange rate adjustment	(48)	(21)	(5)	(1)	(75)
Additional provisions	1,123	88	60	34	1,305
Used during the year	(929)	(109)	(116)	(5)	(1,159)
Reversed during the year	(154)	(4)	(24)	-	(182)
Provisions at 31 December 2017	**452**	**162**	**152**	**77**	**843**
Provisions are recognised in the balance sheet as					
Non-current liabilities	-	121	36	13	170
Current liabilities	452	41	116	64	673
Provisions at 31 December 2017	**452**	**162**	**152**	**77**	**843**
2016					
Provisions at 1 January 2016	351	148	67	43	609
Exchange rate adjustment	9	5	1	1	16
Additional provisions	1,049	98	174	8	1,329
Used during the year	(872)	(112)	(5)	(1)	(990)
Reversed during the year	(77)	69	-	(2)	(10)
Provisions at 31 December 2016	**460**	**208**	**237**	**49**	**954**
Provisions are recognised in the balance sheet as					
Non-current liabilities	12	173	52	17	254
Current liabilities	448	35	185	32	700
Provisions at 31 December 2016	**460**	**208**	**237**	**49**	**954**

NOTE 8 TAX ON PROFIT FOR THE YEAR

ACCOUNTING POLICIES

Tax for the year, which consists of the year's current tax, the change in deferred tax and adjustment in respect of previous years, is recognised in the income statement at the amount that can be attributed to the net profit or loss for the year, and in Other comprehensive income at the amount that can be attributed to items in Other comprehensive income. The effect of foreign currency exchange differences on deferred tax is recognised in the balance sheet as part of the movement in deferred tax.

Current tax for the year is calculated based on the income tax rates and rules applicable at the balance sheet date.
The Parent Company and Danish subsidiaries are jointly taxed.

(DKK million)	2017	2016
Current tax	73	194
Prior-year adjustments, current tax	(18)	(7)
Prior-year adjustments, deferred tax	17	14
Change in deferred tax for the year	379	147
Total tax for the year	**451**	**348**
Tax for the year is included in		
Tax on profit/(loss) for the year	402	380
Tax in other comprehensive income	49	(32)
Total tax for the year	**451**	**348**

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

EXPLANATION OF THE GROUP'S EFFECTIVE TAX RATE RELATIVE TO THE DANISH CORPORATE INCOME TAX RATE

(DKK million)		%
2017		
Profit/(loss) before tax	**1,783**	
Calculated tax, 22%	392	22.0%
Tax effect of		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	(86)	-4.8%
Non-deductible expenses/non-taxable income and other permanent differences	28	1.6%
Tax credits	(3)	-0.2%
Change in deferred tax as a result of changed income tax rates	56	3.1%
Change in valuation of net tax assets	16	0.9%
Prior-year tax adjustments, etc., total effect on operations	(1)	-0.1%
Effective tax/tax rate for the year	**402**	**22.5%**

NOTE 8 TAX ON PROFIT FOR THE YEAR (CONTINUED)

(DKK million)		%
2016		
Profit/(loss) before tax	**1,124**	
Calculated tax, 22%	247	22.0%
Tax effect of		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	(49)	-4.4%
Non-deductible expenses/non-taxable income and other permanent differences	62	5.5%
Tax credits	(13)	-1.2%
Tax effect on changed tax rate	108	9.6%
Change in deferred tax as a result of changed income tax rates	18	1.6%
Prior-year tax adjustments, etc., total effect on operations	7	0.6%
Effective tax/tax rate for the year	**380**	**33.7%**

RESTATEMENT

Uncertain tax positions have been restated to present the gross amounts (previously presented net).
The effect of the restatement is as follows:

(DKK million)	1 January 2016	31 December 2016
Tax on profit for the year (adjustment to deferred tax and tax payables)	-	(18)
Deferred tax assets	(191)	(266)
Tax receivables	336	355
Equity	-	(18)
Tax payables	145	107

NOTE 9 DEFERRED TAX

ACCOUNTING POLICIES

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

Deferred tax is measured on the basis of the income tax rates and tax rules in force in the respective countries on the balance sheet date. Change in deferred tax as a result of changed income tax rates or tax rules is recognised in the income statement.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised in the balance sheet at the value at which the assets are expected to be realised.

NOTE 9 DEFERRED TAX (CONTINUED)

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group operates in a multinational tax environment. Complying with tax rules can be complex, as the interpretation of legislation and case law may not always be clear or may change over time. Transfer pricing disputes with the tax authorities may occur. Executive Management judgement is applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties.

(DKK million)	Balance at 1 January	Reclassification	Effect of foreign currency exchange differences	Adjustment of deferred tax at beginning of year	Movements during the year	**Balance at 31 December**
2017						
Intangible assets	29	0	0	(1)	148	176
Property, plant and equipment	(2)	0	0	(1)	21	18
Inventories	599	0	(1)	0	(55)	543
Provisions	98	0	0	0	(301)	(203)
Other items	333	0	(6)	(15)	(199)	113
Tax loss carryforwards, etc.	0	0	(1)	0	7	6
Deferred tax assets/(liabilities)	**1,057**	**0**	**(8)**	**(17)**	**(379)**	**653**
Deferred tax assets	1,057	0	(8)	(17)	(359)	673
Deferred tax liabilities	0	0	0	0	(20)	(20)
Deferred tax assets/(liabilities)	**1,057**	**0**	**(8)**	**(17)**	**(379)**	**653**
2016						
Intangible assets	94	0	0	(1)	(64)	29
Property, plant and equipment	(26)	0	0	(1)	25	(2)
Inventories	455	284	0	0	(140)	599
Provisions	103	0	1	1	(7)	98
Other items	267	0	0	(14)	80	333
Tax loss carryforwards, etc.	41	0	0	0	(41)	0
Deferred tax assets/(liabilities)	**934**	**284**	**1**	**(15)**	**(147)**	**1,057**
Deferred tax assets	973	284	1	(15)	(186)	1,057
Deferred tax liabilities	(39)	0	0	0	39	0
Deferred tax assets/(liabilities)	**934**	**284**	**1**	**(15)**	**(147)**	**1,057**

NOTE 10 INVENTORIES

ACCOUNTING POLICIES

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

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

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

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

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(DKK million)	2017	2016	1.1.2016
Raw materials and consumables	166	151	214
Work in progress	932	951	936
Finished goods and goods for resale	621	628	513
Total	**1,719**	**1,730**	**1,663**
Write-down for the year	76	133	
Cost of goods sold included in cost of sales	2,201	2,081	

NOTE 11 TRADE RECEIVABLES

ACCOUNTING POLICIES

Trade receivables are recognised initially at their transaction price and subsequently measured at amortised cost, which usually corresponds to the nominal value less lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix with reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the market in which the debtor operates. The Group recognises a loss allowance for expected credit losses and writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

The amount of write-downs is recognised in the Income statement under sales and distribution costs. Subsequent recoveries of amounts previously written down are credited against sales and distribution costs.

NOTE 11 TRADE RECEIVABLES (CONTINUED)

(DKK million)	2017	2016	2015
Trade receivables	2,716	2,600	2,225
Write-downs	(72)	(85)	(189)
Total	**2,644**	**2,515**	**2,036**

Write-downs have decreased by DKK 13 million compared to 2016, mainly related to changes in Greece. Due to improvement in the Greek economy, Greece is now aligned with the Group's policy for write-downs, instead of sales to public customers being provided at the time of sale. This means a reversal of previous bad debt provisions.

The following table details the risk profile of trade receivables based on the Group's provision matrix. The Group's historical credit losses do not show different patterns for different customer segments.

(DKK million)	Not past due	Overdue by 3 months	Overdue by 3-6 months	Overdue by 6-12 months	Overdue by more than 12 months	Total
31 December 2017						
Expected credit loss rate	0%	2%	4%	75%	61%	
Trade receivables	2,257	269	90	8	92	2,716
Lifetime expected credit losses	1	5	4	6	56	72
31 December 2016						
Expected credit loss rate	1%	2%	31%	21%	98%	
Trade receivables	2,139	310	13	95	43	2,600
Lifetime expected credit losses	15	5	4	19	42	85

NOTE 12 FINANCIAL INSTRUMENTS

ACCOUNTING POLICIES

Impact of application of IFRS 9 Financial Instruments

See Note 2 First-time adoption of IFRS for a description of the consequences of applying IFRS 9 Financial Instruments.

Financial instruments

Financial assets and financial liabilities are recognised when LEO Pharma becomes a party to the contractual provisions of the instrument. Financial assets other than trade receivables are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropiate, on intitial recognition.

Financial assets

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

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

NOTE 12 FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

Hedge accounting
LEO Pharma designates certain derivatives as hedging instruments in respect of foreign currency risk as fair value hedges, and certain derivatives as hedging instruments in respect of interest rate risk as cash flow hedges.

The fair value adjustment on qualifying hedging instruments is recognised in the income statement in the same line as the hedged item when the hedging instrument is designated as fair value hedge.

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

Discontinuance of cash flow hedging
When a hedging instrument expires or is sold but the hedge still meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement under Financial income or Financial expenses.

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS
The application of IFRS 9 and IFRS 13 requires significant judgements, including:
- Judgement on measurement of fair value
- Classification of financial assets and assessment of business model within which the assets are held
- Assessment of credit risks on financial assets and impairment within IFRS 9

NOTE 12 FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISKS

LEO Pharma has centralised management of the Group's financial risks. The overall objectives and policies for the company's financial risk management are outlined in an internal Treasury Policy, which has been approved by the Board of Directors. The Treasury Policy consists of the Foreign Exchange Policy, the Investment Policy and the Policy regarding Credit Risk on Financial Counterparts, and includes a description of permitted use of financial instruments. LEO Pharma hedges only commercial exposures and consequently does not enter into derivative transactions for trading or speculative purposes. LEO Pharma uses a fully integrated Treasury Management System to manage all financial positions.

LEO Pharma may use forward exchange contracts and currency options to hedge the recognised assets and liabilities. Currently, net investments in foreign subsidiaries are not hedged.

To manage credit risk on financial counterparties, LEO Pharma enters into derivative financial instruments and money market deposits only with financial counterparties possessing a satisfactory long-term credit rating assigned by at least one out of the three international credit-rating agencies: Standard and Poor's, Moody's and Fitch. If a counterparty has a rating below Investment Grade, LEO Pharma minimises the risk by keeping the lowest possible bank balance or by spreading the risk between several banks. At year-end the bank balances in Investment Grade is low, and the credit risk is considered low. Furthermore, the credit risk on bond investments is limited, as investments are made in highly liquid bonds with solid credit ratings such as Investment Grade.

CREDIT RISK

LEO Pharma's products are sold primarily to pharmacies, wholesalers and hospitals. Historically, realised losses sustained on debtors have been insignificant, which was also the case in both 2017 and 2016. However, LEO Pharma has a number of ongoing legal actions against customers in receivership and other financial difficulties that are nearing completion.

LEO Pharma has no significant concentration of credit risk related to Trade receivables, as the exposure is spread over a large number of counterparties and customers. As such, LEO Pharma has no significant reliance on any specific customer. LEO Pharma continues to monitor the credit exposure on all customers, both new and existing. Therefore, the risk of significant loss is minimised and are at an acceptable level.

FOREIGN EXCHANGE RISK

As a global company, LEO Pharma undertakes transactions denominated in foreign currencies and therefore foreign exchange risk has a significant impact on the income statement, balance sheet and cash flow statement. The overall objective of foreign exchange risk management is to reduce the short-term negative impact of exchange rate fluctuations on net profit before tax by entering into fair value hedges using forward exchange contracts. The Group's policy is to hedge minimum 80% of the recognised assets and liabilities.

MONETARY ASSETS AND MONETARY LIABILITIES FOR THE MAJOR CURRENCIES AT 31 DECEMBER

LEO Pharma is mainly exposed to USD, GBP, CAD, JPY, RUB and CNY, either through direct sales to third parties or indirect sales through a subsidiary. The foreign currency-denominated monetary assets and liabilities located in Ireland and Denmark that were hedged at the end of the reporting period can be seen in the following table. The monetary assets and liabilities are not divided into EUR and DKK because of the narrow band between the two currencies.

	Monetary assets		Monetary liabilities	
(DKK million)	2017	2016	2017	2016
USD	1,251	881	1,000	2,033
GBP	280	315	350	601
CAD	183	52	10	36
JPY	112	129	46	40
RUB	111	10	0	0
SAR	97	100	0	0
CNY	77	195	38	69
AUD	43	52	241	141

Monetary assets and monetary liabilities include trade receivables, other receivables, securities, cash, trade payables and other payables.

NOTE 12 FINANCIAL INSTRUMENTS (CONTINUED)

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

ESTIMATED IMPACT ON PROFIT/(LOSS) FOR THE YEAR AND EQUITY OF A 5% INCREASE IN YEAR-END EXCHANGE RATES OF THE MAJOR CURRENCIES

(DKK million)	CAD	CNY	GBP	JPY	USD	RUB
2017						
Profit/(loss) for the year/Equity	-	2	(4)	1	(2)	1
2016						
Profit/(loss) for the year/Equity	-	(1)	(6)	(1)	(19)	1

FINANCIAL DERIVATIVES – FAIR VALUE HEDGES

Forward exchange contracts (against DKK) (DKK million)	2017 Contract value	2017 Fair value at year-end	2017 Maturity end date	2016 Contract value	2016 Fair value at year-end	2016 Maturity end date
Sold CAD	178	(1)	12/03/2018	35	-	10/01/2017
Sold CNY1	-	-	N/A	135	(1)	28/07/2017
Bought GBP	-	-	N/A	156	-	31/01/2017
Sold JPY	43	-	28/03/2018	100	3	15/03/2017
Sold SAR	98	-	11/06/2018	89	(3)	09/05/2017
Sold RUB	100	-	21/03/2018	10	-	23/01/2017
Sold USD 2017 / Bought USD 2016	299	5	31/07/2018	779	4	20/01/2017
Bought AUD	41	-	29/01/2018	-	-	09/05/2017
Bought EUR2	1,845	1	28/06/2018	1,862	-	01/08/2017
Sold other currencies	461	(1)	15/06/2018	473	(2)	01/08/2017
Total	**3,065**	**4**		**3,639**	**1**	

1. Chinese yuan traded offshore (CNH) is used as a proxy when hedging the CNY currency exposure of the Group.
2. Even though the exchange rate risk of EUR is considered low, EUR is still hedged.

The fair value gain of forward exchange contracts of DKK 4 million at the end of 2017 is recognised in the income statement in Financial income (2016: DKK 1 million).

INTEREST RATE RISK

The Group is exposed to interest rate risk if entities in the Group borrow funds at floating interest rates. The Group manages the risk by choosing to pay fixed rate on this financing by entering into interest rate swaps as hedging instruments and paying fixed and receiving floating rates (CIBOR 12M). Hedging of interest rate risk is approved by the Executive Management, and hedge effectiveness is assessed on a regular basis. No ineffectiveness has been observed so far. A 1% increase in the interest rate will reduce the value of the Danish mortage bonds portfolio by approximately DKK 23 million in the income statement. The current hedging instruments are shown in the next table.

NOTE 12 FINANCIAL INSTRUMENTS (CONTINUED)

CLASSIFICATION OF AND MATURITY DATES FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Outstanding receivable floating-rate fixed contracts (DKK million)	Notional principal value	Change in fair value recognised in Other comprehensive income	Fair value assets (liabilities)	Average fixed interest rate	Maturity end date
2017					
DKK	100	-	-	0.325%	28/03/2018
DKK	400	2	(1)	0.386%	29/03/2019
DKK	370	3	(2)	0.445%	30/12/2019
Total		**5**	**(3)**		
2016					
DKK	400	-	-	0.325%	28/03/2018
DKK	400	(3)	(3)	0.386%	29/03/2019
DKK	370	(5)	(5)	0.445%	30/12/2019
Total		**(8)**	**(8)**		

At 31 December 2017, the fair value of DKK 3 million has been recognised in Other payables. At 31 December 2016, the fair value of DKK 8 million was recognised in Other payables.

LIQUIDITY RISK

The Group manages liquidity risk by maintaining adequate bank credit facilities and by continuously monitoring forecast and actual cash flows. The table below outlines the details of the current cash resources and undrawn credit facilities that the Group has at its disposal.

Cash resources

Cash and cash equivalents and securities consist of cash at bank and in hand offset by any drawn overdraft facilities plus marketable securities, both current and non-current financial assets.

(DKK million)	2017	2016
Cash and cash equivalents	357	144
Secured overdraft facilities, banks – amount unused	791	67
Cash resources, banks	**1,148**	**211**
Hold-to-collect bonds1	-	4,394
Marketable securities 2	141	12,269
Securities at 31 December	**141**	**16,663**
CASH RESOURCES, BANK AND SECURITIES	**1,289**	**16,874**

1. Amortised cost. The portfolio consists of Danish mortgage bonds with a limited credit risk.
2. Fair value (2016 consists of low-volatility shares, covered bonds and corporate bonds with investment-grade rating, while 2017 consists of Danish mortgage bonds with a limited credit risk).

Securities have significantly decreased compared to 2016, as the majority of the securities were distributed to LEO Holding A/S during 2017. In addition to the cash resources, at the end of 2017 the Parent Company had pledged bonds with a carrying amount of DKK 309 million as security for pension liabilities in Ireland and the UK. At the end of 2016, the Parent Company has pledged bonds at a carrying amount of DKK 6,145 million as security for bank loans, overdraft facilities and established guarantee commitments.

NOTE 12 FINANCIAL INSTRUMENTS (CONTINUED)

RECLASSIFICATION OF FINANCIAL ASSETS

During 2017, the LEO Foundation introduced a new structure and governance model. As a part of the new structure, LEO Pharma paid a dividend of DKK 18,169 million to LEO Holding A/S and the LEO Foundation. As a consequence the business model of the portfolio of securities in LEO Pharma has changed. Going forward, management reporting and evaluation will be prepared on a fair value basis. Consequently, the portfolio of bonds previously measured at amortised cost has been reclassified as marketable securities measured at fair value. The amount reclassified from amortised cost at 31 October 2017 is DKK 9,007 million, corresponding to a fair value measurement of DKK 9,259 million. The gain of DKK 252 million is recognised in Financial income.

BANK DEBT (DENOMINATED IN DKK AND FLOATING-RATE CIBOR 12M)

(DKK million)	2017	2016
Maturing cash flow within the following periods from the balance sheet date without interest		
Within one year	482	5,258
Between one and two years	470	563
Between two and three years	480	470
Between three and four years	56	480
After more than four years	0	56
Total	**1,488**	**6,827**
Bank debt is recognised in the balance sheet as		
Non-current liabilities	1,006	1,569
Current liabilities	482	5,258
Total	**1,488**	**6,827**

In addition, the LEO Foundation has provided a loan to LEO Pharma of DKK 1,000 million in 2017. The loan is granted on an arm's length basis with an interest percentage of 2.45 and will be repaid in 2027.

NOTE 12 FINANCIAL INSTRUMENTS (CONTINUED)

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Carrying amount		Fair value	
(DKK million)	**2017**	**2016**	**2017**	**2016**
Financial assets				
Amortised cost				
Cash and bank balances	357	144	357	144
Trade and other receivables	3,028	2,697	3,028	2,697
Other financial assets	87	10,622	87	10,777
Total	**3,472**	**13,463**	**3,472**	**13,618**
Fair value through profit and loss				
Financial assets mandatorily measured at FVTPL	451	12,269		
Derivative instruments in designated hedge relationships	9	10		
Total	**460**	**12,279**		
Financial liabilities				
Amortised cost				
Trade and other payables	2,322	2,921	2,322	2,921
Collaterised loans	0	4,833	0	4,833
Bank loans (both current and non-current)	1,488	1,994	1,503	2,013
Loan from the LEO Foundation	1,002	-	1,002	-
Payables to the LEO Foundation	150	61	150	61
Total	**4,962**	**9,809**	**4,977**	**9,828**
Fair value through profit and loss				
Derivative instruments in designated fair value hedge relationships	5	9		
Total	**5**	**9**		
Fair value through other comprehensive income				
Derivative instruments in designated hedge-accounting relationships	3	8		
Total	**3**	**8**		

Fair value measurements

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

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

NOTE 12 FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS AND FINANCIAL LIABILITIES WHERE DISCLOSURE AT FAIR VALUE IS REQUIRED

Fair value hierarchy at 31 December 2017

(DKK million)	Level 1	Level 2	Level 3	**Total**
Financial assets				
Measured at fair value				
Danish mortgage bonds	451	-	-	451
Other financial assets	-	87	-	87
Derivative instruments	-	9	-	9
Total	**451**	**96**	**-**	**547**
Financial liabilities				
Amortised cost, disclosure of fair value				
Bank loans	-	1,503	-	1,503
Loan from the LEO Foundation	-	1,002	-	1,002
Measured at fair value				
Derivative instruments	-	8	-	8
Total	**-**	**2,513**	**-**	**2,513**

Fair value hierarchy at 31 December 2016

(DKK million)	Level 1	Level 2	Level 3	**Total**
Financial assets				
Amortised cost, disclosure of fair value				
Other financial securities	10,694	83	-	10,777
Measured at fair value				
Other financial assets	12,269	-	-	12,269
Derivative instruments	-	10	-	10
Total	**22,963**	**93**	**-**	**23,056**
Financial liabilities				
Amortised cost, disclosure of fair value				
Bank loans	-	2,013	-	2,013
Measured at fair value				
Derivative instruments	-	17	-	17
Total	**-**	**2,030**	**-**	**2,030**

NOTE 13 RETIREMENT BENEFIT OBLIGATIONS

ACCOUNTING POLICIES

Defined contribution plans

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

Defined benefit plans

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

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

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

DEFINED CONTRIBUTION PLANS

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

DEFINED BENEFIT PLANS

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

The plans in Ireland and the UK are funded and constituted under a trust whose assets are legally separated from those of the Group. Under the scheme-funding regime introduced by the UK Pensions Act 2004, the trustees are required to carry out regular scheme-funding valuations for the plans and establish a schedule of contributions and a recovery plan when there is a shortfall in the plan. The plans entitle the employees to an annual pension on retirement based on the service and salary level up to retirement.

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

ENHANCED TRANSFER VALUE IN IRELAND

In 2017, the employees in Ireland were offered an enhanced transfer value (ETV), which was exercised and carried out during the year. The ETV resulted in a net settlement gain of DKK 98 million, recognised under Other operating income. As of 31 December 2017, the net retirement benefit obligation in Ireland amounted to DKK 164 million (2016: DKK 535 million).

NOTE 13 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(DKK million)	2017	2016
Present value of defined benefit plans		
Present value of defined benefit plans at 1 January	2,374	2,149
Effect of exchange rate adjustment	(24)	(111)
Current service costs	7	9
(Gains)/losses on settlements	(111)	-
Interest costs	50	60
Actuarial (gains)/losses from changes in demographic assumptions	(1)	(1)
Actuarial (gains)/losses from changes in financial assumptions	(38)	374
Experience adjustments	(30)	(27)
Settlement payments from plan assets	(251)	-
Settlement payments from employer	(117)	-
Benefits paid to employees	(70)	(79)
Other	(16)	-
Present value of defined benefit plans at 31 December	**1,773**	**2,374**
Fair value of plan assets		
Fair value of plan assets at 1 January	1,594	1,522
Effect of exchange rate adjustment	(19)	(94)
Return on plan assets	62	132
Interest income	35	44
Benefits paid to employees	(70)	(76)
Settlement payments from plan assets	(251)	-
Employer contributions	67	66
Fair value of plan assets at 31 December	**1,418**	**1,594**
Net retirement benefit obligations at 31 December	**355**	**780**
Specification of amount recognised in the statement of comprehensive income		
Actuarial (gains)/losses	(131)	214
Total	**(131)**	**214**

SENSITIVITY ANALYSIS

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

A 0.25% decrease in the discount rate would result in an increase in the obligation of approximately DKK 3 million in France and DKK 51 million in Ireland and vice versa. A 0.1% decrease in the discount rate would result in an increase of approximately DKK 14 million in the UK and vice versa.

NOTE 14 AUDIT FEES

(DKK million)	2017	2016
Fees to auditors appointed at the Annual General Meeting[1]		
Statutory audit	5	6
Tax advisory services	-	10
Other services	3	2
Total	**8**	**18**

1. For 2017, Deloitte Statsautoriseret Revisionspartnerselskab is the elected auditor. For 2016, the elected auditor was PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab.

NOTE 15 FINANCIAL INCOME AND EXPENSES

ACCOUNTING POLICIES

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

(DKK million)	2017	2016
Interest income on bonds (amortised cost)	183	282
Interest income on bonds (fair value)	28	-
Capital gains, financial assets	582	621
Gain arising on reclassification of financial assets from amortised cost to fair value through profit and loss	252	-
Gain arising on interest rate swaps designated as hedging instruments of floating-rate debt reclassified from equity to the income statement	-	23
Other financial income	44	17
Financial income	**1,089**	**943**
Interest expenses, loan from the LEO Foundation	(2)	0
Loss arising from financial assets measured at amortised cost	(10)	(17)
Exchange rate losses	(43)	(48)
Write-down financial assets	(48)	(55)
Other financial expenses	(52)	(34)
Financial expenses	**(155)**	**(154)**

NOTE 16 OTHER ADJUSTMENTS

(DKK million)	2017	2016
Inventory write-down	(20)	(164)
Provision for bad debt	(14)	(104)
Other	84	29
Total	**50**	**(239)**

NOTE 17 SHARE CAPITAL AND DISTRIBUTION TO SHAREHOLDERS

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.

The total share capital is owned by LEO Holding A/S, which is ultimately owned by the LEO Foundation. No shares or shareholders have any additional special rights.

The total dividend for 2017 amounts to DKK 18,319 million (DKK 73.3 million per share).

NOTE 18 CONTRACTUAL OBLIGATIONS

OPERATING LEASE OBLIGATIONS

The Group has operating lease obligations of DKK 321 million (2016: DKK 358 million). The obligations are primarily related to company cars and office premises.

(DKK million)	2017	2016
Minimum operating lease payments are as follows:		
Within one year	109	107
Between one and five years	164	204
After five years	48	47
Total	**321**	**358**
Rental and lease expenses recognised in the income statement	148	167

MILESTONE PAYMENTS

LEO Pharma has entered into a number of licence agreements relating to development of new products. These agreements contain certain milestone payments that LEO Pharma is committed to paying upon achievement. The total potential future milestone payments are DKK 1,432 million at 31 December 2017 (2016: DKK 1,678 million). In addition, there are certain commercial milestone payments that depend on future sales.

NOTE 19 CONTINGENCIES

GUARANTEES AND COMMITMENTS

The total guarantee commitment for the Group amounts to DKK 471 million at 31 December 2017 (2016: DKK 1,039 million).

At 31 December 2017, the guarantee commitment comprises mainly guarantees relating to pension commitments of DKK 309 million (2016: DKK 728 million) and guarantees related to tender sales contracts of DKK 73 million (2016: DKK 77 million).

PENDING LAWSUITS

At the end of 2017, there were pending patent lawsuits filed by and against LEO Pharma concerning rights related to products in LEO Pharma's psoriasis portfolio in both the US and Europe. LEO Pharma does not expect the pending cases to have any significant effect on the Group's financial position.

TAX

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. The Executive Management is of the opinion that current tax audits and tax discussions will have no significant impact on LEO Pharma's financial position except for what has already been provided for in the Consolidated Financial Statements.

NOTE 20 RELATED PARTIES

LEO Pharma A/S' related parties comprise:
- The controlling owner, LEO Holding A/S and the ultimate parent of the Group, the LEO Foundation
- The associate, Skinvision B.V.
- Members of the LEO Foundation's Board of Trustees and Executive Board, LEO Pharma A/S' and LEO Holding A/S' Board of Directors and Executive Management as well as close relatives of these persons

There have been the following transactions and balances with the LEO Foundation in 2017:
- Loan of DKK 1,000 million provided as of 29 November 2017 (2016: DKK 0 million)
- Dividend payment from LEO Pharma A/S of DKK 1,000 million
- Receivables of DKK 2 million and payables of DKK 150 million (2016: payables of DKK 61 million)
- Interest expenses of DKK 2 million (2016: DKK 0)

There have been the following transactions and balances with LEO Holding A/S:
- Dividend payment from LEO Pharma A/S of DKK 17,169 million

There have been the following transactions and balances with associates in 2017:
- Loan provided of DKK 9,3 million (2016: DKK 0) with an interest rate of 6%

There have been no transactions with the Board of Directors or the Executive Management besides remuneration. For information on remuneration, please refer to note 4.

The LEO Pharma Group is included in the Consolidated Financial Statements of the LEO Foundation.

NOTE 21 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.

● Sales and distribution ● Sales services
● Production ● Other

NOTE 22 COMPANIES IN THE LEO PHARMA GROUP

(DKK million)	Country	Share of ownership, %	Activities
Parent Company			
LEO Pharma A/S	Denmark		● ●
Subsidiaries			
SARL LEO Pharma	Algeria	100	●
LEO Pharma Southport Pty Ltd	Australia	100	●
LEO Pharma Pty Ltd	Australia	100	●
LEO Pharma GmbH	Austria	100	●
LEO Pharma NV	Belgium	100	●
LEO Pharma LTDA	Brazil	100	●
LEO Pharma Inc.	Canada	100	●
LEO Pharma Consultancy Company Ltd.	China	100	●
LEO Pharma Trading Company Ltd.	China	100	●
LEO Pharma s.r.o.	Czech Republic	100	●
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100	●
HelloSkin A/S	Denmark	100	●
LEO Pharma OY	Finland	100	●
Laboratoires LEO S.A.	France	100	● ●
LEO Pharma GmbH	Germany	100	●
LEO Pharmaceutical Hellas S.A.	Greece	100	●
LEO Laboratories Ltd.	Ireland	100	● ●
Wexport Ltd.	Ireland	100	●
LEO Pharma Holding Ltd.	Ireland	100	●
LEO Pharma S.p.A.	Italy	100	●
LEO Pharma K.K.	Japan	100	●
LEO Pharmaceuticals, S. de R.L. de C.V.	Mexico	100	●
LEO Pharma LLC	Morocco	100	●
LEO Pharma BV	Netherlands	100	●
LEO Pharma Ltd.	New Zealand	100	●
LEO Pharma AS	Norway	100	●
LEO Pharma Sp. z o.o.	Poland	100	●
LEO Farmacêuticos Lda.	Portugal	100	●
LEO Pharmaceutical Products LLC	Russia	100	●
LEO Pharma Asia PTE Ltd.	Singapore	100	●
LEO Pharma Ltd	South Korea	100	●
Laboratorios LEO Pharma S.A.	Spain	100	●
LEO Pharma AB	Sweden	100	●
LEO Pharmaceutical Products Sarath Ltd.	Switzerland	100	●
LEO Pharma SARL	Tunisia	100	●
LEO Pharma İlaç Ticaret Anonim İirketi	Turkey	100	●
LEO Laboratories Ltd.	United Kingdom	100	●
HelloSkin Ltd.	United Kingdom	100	●
LEO Pharma Inc.	USA	100	●
Associate			
SkinVision B.V.	Netherlands	26.32	

Financial Statements **Parent Company**

FINANCIAL STATEMENTS (LEO PHARMA A/S)

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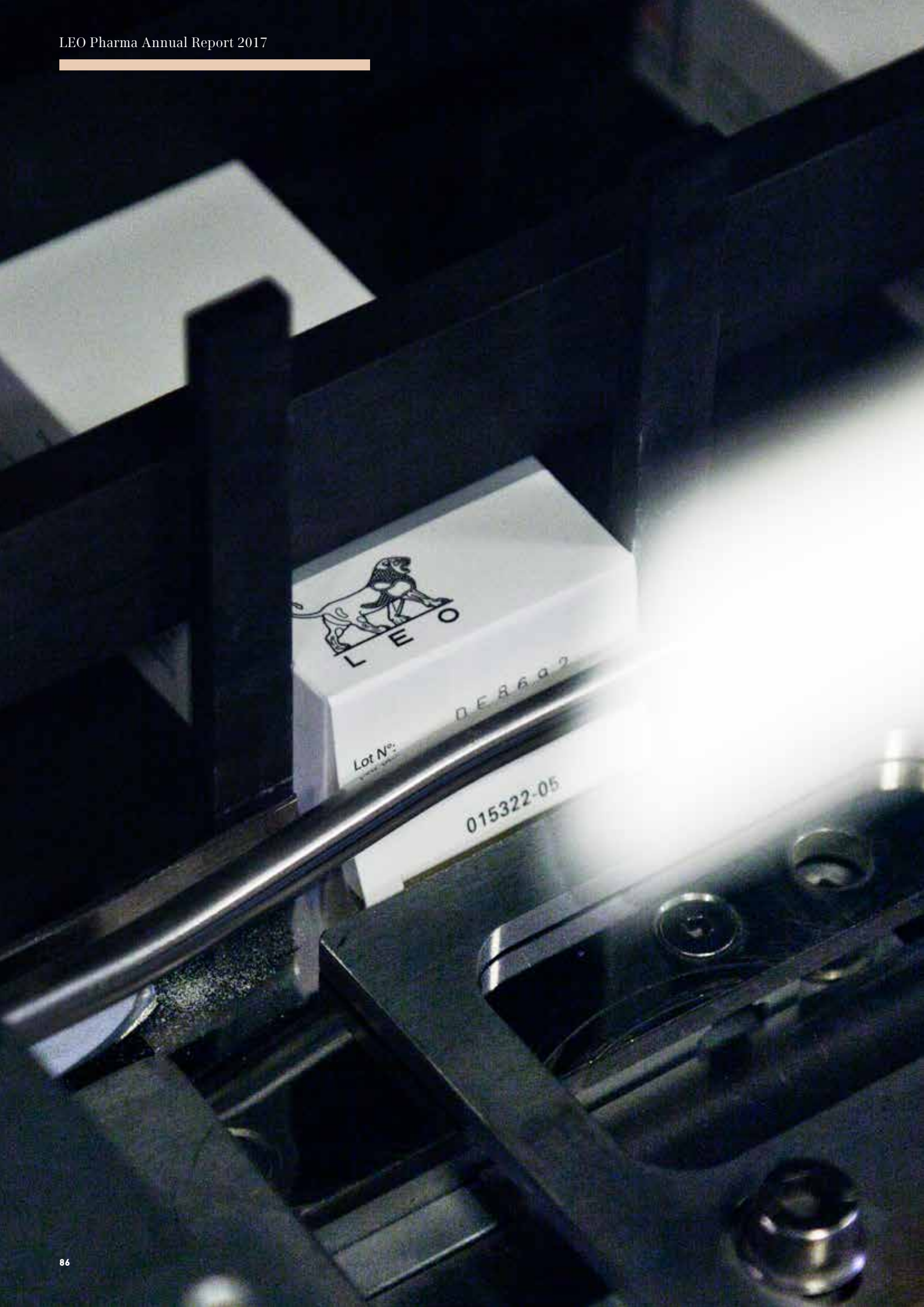

LEO
Lot N°:
015322-05

Income statement

(DKK million)	Note	2017	2016
Revenue	1	8,031	7,360
Cost of sales	3,9	(5,047)	(4,644)
Gross profit		**2,984**	**2,716**
Sales and distribution costs	3,8,9	(1,994)	(1,928)
Research and development costs	3,9	(1,364)	(1,072)
Administrative costs	2,3,8,9	(891)	(1,156)
Other operating income		408	350
Other operating expenses		(2)	(1)
Operating profit/(loss)		**(859)**	**(1,091)**
Income from investments in subsidiaries	10	1,299	986
Share of profit/(loss) on investment in associate		(3)	(3)
Financial income	4	1,094	927
Financial expenses	5	(107)	(135)
Profit before tax		**1,424**	**684**
Tax on profit for the year	6	(43)	41
Net profit for the year	7	**1,381**	**725**

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2017	2016
Intellectual property rights		3,992	4,527
Development projects		1,159	1,079
Software		497	389
Intangible assets	8	**5,648**	**5,995**
Land and buildings		351	378
Leasehold improvements		6	1
Plant and machinery		230	235
Other fixtures and fittings, tools and equipment		65	62
Fixed assets under construction		352	178
Property, plant and equipment	9	**1,004**	**854**
Investment in associate		3	3
Investments in subsidiaries	10	5,015	4,386
Other financial securities	11	27	10,539
Deferred tax assets	12	-	80
Other receivables		57	-
Financial fixed assets		**5,102**	**15,008**
Fixed assets		**11,754**	**21,857**
Raw materials and consumables		31	30
Work in progress		488	497
Finished goods and goods for resale		274	418
Inventories		**793**	**945**
Trade receivables		1,059	1,213
Loans to subsidiaries		302	899
Receivables from the LEO Foundation		2	-
Receivables from subsidiaries		601	557
Tax receivables		19	46
Other receivables		207	207
Prepayments		99	32
Receivables		**2,289**	**2,954**
Other securities		**450**	**12,268**
Cash and bank balances		**25**	**-**
Current assets		**3,557**	**16,167**
TOTAL ASSETS		**15,311**	**38,024**

Balance sheet at 31 December

EQUITY AND LIABILITIES

(DKK million)	Note	2017	2016
Share capital	17	250	250
Net revaluation, subsidiaries		3,909	1,141
Reserve for development projects		367	83
Retained earnings		3,771	23,570
Proposed dividend		-	150
Equity		**8,297**	**25,194**
Deferred tax liabilities	12	20	-
Other provisions	13	42	47
Provisions		**62**	**47**
Credit institutions		1,006	1,569
Loan from the LEO Foundation		1,002	-
Other long-term liabilities		14	49
Non-current liabilities	14	**2,022**	**1,618**
Credit institutions		482	5,400
Trade payables		807	1,596
Payables to the LEO Foundation		150	61
Loans from subsidiaries		2,535	2,799
Payables to subsidiaries		577	839
Tax payables		24	107
Other payables		355	363
Current liabilities		**4,930**	**11,165**
TOTAL EQUITY AND LIABILITIES		**15,311**	**38,024**

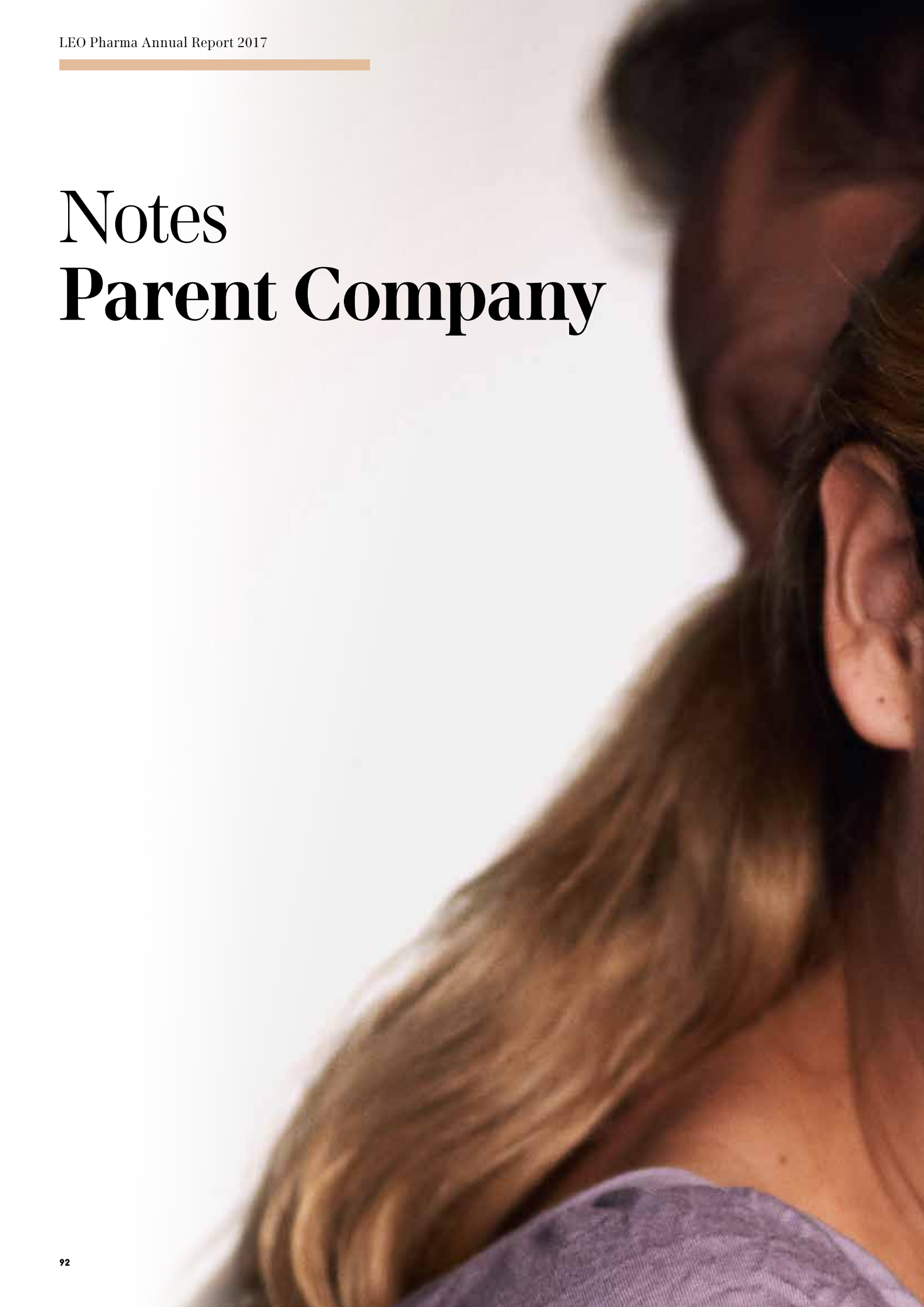
Statement of changes in equity

(DKK million)	Share capital	Net revaluation, subsidiaries	Reserve for development projects	Retained earnings	Proposed dividend	**Total**
2017						
Equity at 1 January 2017	250	1,141	83	23,570	150	25,194
Profit from subsidiaries	-	1,299	-	-	-	1,299
Profit in Parent Company	-	-	-	82	-	82
Capitalised development costs, net	-	-	284	(284)	-	-
Adjustment of financial instruments	-	-	-	5	-	5
Dividend received from subsidiaries	-	(1,707)	-	1,707	-	-
Dividend distributed	-	-	-	(18,169)	(150)	(18,319)
Exchange rate adjustment on foreign subsidiaries	-	(64)	-	-	-	(64)
Divestments	-	3,153	-	(3,153)	-	-
Other movements	-	87	-	14	-	101
Tax on changes in equity	-	-	-	(1)	-	(1)
Equity at 31 December 2017	**250**	**3,909**	**367**	**3,771**	**-**	**8,297**
2016						
Equity at 1 January 2016	250	1,248	-	23,253	-	24,751
Profit from subsidiaries	-	986	-	-	-	986
Profit in Parent Company	-	-	-	(261)	-	(261)
Capitalised development costs, net	-	-	83	(83)	-	-
Adjustment of financial instruments	-	-	-	8	-	8
Dividend received from subsidiaries	-	(1,721)	-	1,721	-	-
Exchange rate adjustment on foreign subsidiaries	-	(108)	-	-	-	(108)
Proposed dividend for the year	-	-	-	(150)	150	-
Other movements	-	736	-	(916)	-	(180)
Tax on changes in equity	-	-	-	(2)	-	(2)
Equity at 31 December 2016	**250**	**1,141**	**83**	**23,570**	**150**	**25,194**

"As a foundation-owned company, LEO Pharma has the privilege and the obligation to put patients first. **This allows us to plan for the long term and create new approaches** to move medical dermatology forward."

Gitte P. Aabo, President & CEO, LEO Pharma

Notes
Parent Company



NOTE 1 REVENUE

(DKK million)	2017	2016
Revenue by region		
Europe+	5,092	4,409
International	1,922	2,159
US	1,017	792
Total	**8,031**	**7,360**

The entire Revenue relates to healthcare.

NOTE 2 AUDIT FEES

(DKK million)	2017	2016
Fees to auditors appointed at the Annual General Meeting[1]		
Statutory audit	2	2
Tax advisory services	-	3
Other services	3	1
Total	**5**	**6**

1. For 2017, Deloitte Statsautoriseret Revisionspartnerselskab is the elected auditor. For 2016, the elected auditor was PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab.

NOTE 3 STAFF EXPENSES

(DKK million)	2017	2016
Wages and salaries	1,284	1,301
Pensions	114	123
Social security expenses	15	14
Other employee expenses	50	30
Total staff expenses for the year	**1,463**	**1,468**
Capitalised staff expenses	(52)	(27)
Total staff expenses in the income statement	**1,411**	**1,441**
Included in		
Cost of sales	331	321
Sales and distribution costs	196	207
Research and development costs	540	428
Administrative costs	344	485
Total	**1,411**	**1,441**
Remuneration to registered members of Executive Management	5	4
Remuneration to Executive Board	20	15

For a specification of the remuneration in categories refer to note 4 to the Consolidated Financial Statements.

Average number of full-time employees	2,111	1,993

NOTE 4 FINANCIAL INCOME

(DKK million)	2017	2016
Interest income on bonds	211	282
Interest income from subsidiaries	4	7
Capital gains, financial assets	582	621
Gain arising on reclassification of financial assets from amortised costs at fair value through profit and loss	252	0
Other financial income	45	17
Total	**1,094**	**927**

NOTE 5 FINANCIAL EXPENSES

(DKK million)	2017	2016
Interest expenses, loan from the LEO Foundation	2	0
Interest expenses to subsidiaries	10	2
Loss on financial assets measured at costs	10	17
Exchange rate losses	9	47
Write-down financial assets	48	55
Other financial expenses	28	14
Total	**107**	**135**

NOTE 6 TAX ON PROFIT FOR THE YEAR

(DKK million)	2017	2016
Current tax for the year	(57)	(30)
Change in deferred tax	99	(11)
Adjustment relating to previous years	1	0
Total	**43**	**(41)**
Tax on changes in equity	1	2

NOTE 7 PROPOSED DISTRIBUTION OF NET PROFIT FOR THE YEAR

(DKK million)	2017	2016
Net revaluation for the year	1,299	986
Proposed dividend	-	150
Retained earnings	82	(411)
Total	**1,381**	**725**

NOTE 8 INTANGIBLE ASSETS

(DKK million)	Intellectual property rights	Trademarks	Development projects	Software	**Total intangible assets**
2017					
Cost at 1 January 2017	10,150	30	1,156	475	11,811
Additions during the year	125	-	299	57	481
Disposals during the year	(117)	-	-	-	(117)
Transfers	134	-	(219)	85	-
Cost at 31 December 2017	**10,292**	**30**	**1,236**	**617**	**12,175**
Amortisation and impairment losses at 1 January 2017	(5,623)	(30)	(77)	(86)	(5,816)
Amortisation for the year	(758)	-	-	(34)	(792)
Disposals during the year	81	-	-	-	81
Amortisation and impairment losses at 31 December 2017	**(6,300)**	**(30)**	**(77)**	**(120)**	**(6,527)**
CARRYING AMOUNT AT 31 DECEMBER 2017	**3,992**	**-**	**1,159**	**497**	**5,648**
2016					
Cost at 1 January 2016	5,138	30	376	154	5,698
Exchange rate adjustment	(1)	-	1	-	-
Additions during the year	5,013	-	982	118	6,113
Transfers	-	-	(203)	203	-
Cost at 31 December 2016	**10,150**	**30**	**1,156**	**475**	**11,811**
Amortisation and impairment losses at 1 January 2016	(5,005)	(25)	(77)	(47)	(5,154)
Exchange rate adjustment	(1)	-	-	-	(1)
Amortisation for the year	(585)	(5)	-	(39)	(629)
Impairment losses for the year	(32)	-	-	-	(32)
Amortisation and impairment losses at 31 December 2016	**(5,623)**	**(30)**	**(77)**	**(86)**	**(5,816)**
CARRYING AMOUNT AT 31 DECEMBER 2016	**4,527**	**-**	**1,079**	**389**	**5,995**

Development projects in progress amounted to DKK 1,159 million (2016: DKK 1,079 million). Capitalised costs for development projects primarily consist of licences in relation to research and development projects and internally developed software.

(DKK million)	**2017**	**2016**
Amortisation and impairment losses are specified as follows:		
Sales and distribution costs	714	622
Administrative costs	78	39
Total	**792**	**661**

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

(DKK million)	Land and buildings	Leasehold improve-ments	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	**Total property, plant and equipment**
2017						
Cost at 1 January 2017	1,069	3	1,217	381	178	2,848
Additions during the year	-	7	2	16	215	240
Disposals during the year	(121)	(4)	(219)	(47)	-	(391)
Transfers	1	-	35	5	(41)	-
Cost at 31 December 2017	**949**	**6**	**1,035**	**355**	**352**	**2,697**
Depreciation and impairment losses at 1 January 2017	(691)	(2)	(982)	(319)	-	(1,994)
Disposals during the year	121	3	218	46	-	388
Depreciation for the year	(28)	(1)	(41)	(17)	-	(87)
Depreciation and impairment losses at 31 December 2017	**(598)**	**-**	**(805)**	**(290)**	**-**	**(1,693)**
CARRYING AMOUNT AT 31 DECEMBER 2017	**351**	**6**	**230**	**65**	**352**	**1,004**
2016						
Cost at 1 January 2016	1,056	4	1,190	384	159	2,793
Exchange rate adjustment	-	(1)	-	(1)	-	(2)
Additions during the year	-	-	-	13	71	84
Disposals during the year	(1)	-	(1)	(25)	-	(27)
Transfers	14	-	28	10	(52)	-
Cost at 31 December 2016	**1,069**	**3**	**1,217**	**381**	**178**	**2,848**
Depreciation and impairment losses at 1 January 2016	(641)	(1)	(933)	(326)	-	(1,901)
Disposals during the year	1	-	1	23	-	25
Depreciation for the year	(51)	(1)	(50)	(16)	-	(118)
Depreciation and impairment losses at 31 December 2016	**(691)**	**(2)**	**(982)**	**(319)**	**-**	**(1,994)**
CARRYING AMOUNT AT 31 DECEMBER 2016	**378**	**1**	**235**	**62**	**178**	**854**

(DKK million)	**2017**	**2016**
Depreciation and impairment losses are specified as follows:		
Cost of sales	74	51
Sales and distribution costs	2	2
Research and development costs	11	11
Administrative costs	0	54
Total	**87**	**118**

NOTE 10 INVESTMENTS IN SUBSIDIARIES

(DKK million)	2017	2016
Cost at 1 January	3,245	3,240
Additions	140	5
Divestments	(2,279)	-
Cost at 31 December	**1,106**	**3,245**
Value adjustment at 1 January	1,141	1,248
Share of profit/(loss) for the year	1,299	986
Dividend	(1,707)	(1,721)
Exchange rate adjustment	(64)	(108)
Divestments	3,153	-
Other movements	87	736
Value adjustment at 31 December	**3,909**	**1,141**
CARRYING AMOUNT AT 31 DECEMBER	**5,015**	**4,386**

NOTE 11 OTHER FINANCIAL SECURITIES

(DKK million)	2017	2016
Cost at 1 January	10,578	11,556
Additions during the year	1.340	2,659
Disposals during the year	(11.451)	(3,637)
Reclassified to current assets	(440)	-
Cost at 31 December	**27**	**10,578**
Value adjustment at 1 January	(39)	(37)
Value adjustment for the year	1	(6)
Value adjustment on disposals for the year	48	4
Reclassified to current assets	(10)	-
Value adjustment at 31 December	**0**	**(39)**
CARRYING AMOUNT AT 31 DECEMBER	**27**	**10,539**
Market value at 31 December	27	10,694

NOTE 12 DEFERRED TAX

(DKK million)	2017	2016
Deferred tax assets/(liabilities) at 1 January	80	69
Adjustments relating to previous years	(1)	-
Deferred tax on equity	-	-
Deferred tax on profit for the year	(99)	11
Deferred tax assets/(liabilities) at 31 December	**(20)**	**80**

The deferred tax assets relate to current assets, licences, fixed assets, losses relating to previously jointly taxed foreign subsidiaries, intercompany profits, indirect production costs, etc. Deferred tax liabilities have been calculated as the temporary differences between assets and liabilities expected to be realised, based on a tax rate of 22%.

NOTE 13 OTHER PROVISIONS

(DKK million)	2017	2016
Staff-related provisions	4	25
Sales deductions	17	-
Other provisions	21	22
Total	**42**	**47**
Other provisions fall due		
Within one year	40	30
Between one and five years	1	7
After five years	1	10
Total	**42**	**47**

NOTE 14 NON-CURRENT LIABILITIES

(DKK million)	2017	2016
Other long-term liabilities fall due		
Between one and five years	1,020	1,618
After five years	1,002	-
Total	**2,022**	**1,618**

NOTE 15 CONTRACTUAL OBLIGATIONS

OPERATING LEASE OBLIGATIONS

The Parent Company had lease obligations of DKK 33 million (2016: DKK 37 million), of which DKK 23 million is related to subsidiaries (2016: DKK 22 million).

MILESTONE PAYMENTS

LEO Pharma has entered into a number of licence agreements relating to development of new products. These agreements contain certain milestone payments which LEO Pharma is committed to paying upon achievement. The total potential future milestone payments are DKK 1,432 million at 31 December 2017 (2016: DKK 1,678 million). In addition there are certain commercial milestone payments depending on future sale.

NOTE 16 CONTINGENCIES

Securities and guarantees

The Parent Company's security provided and guarantee commitments totalled DKK 415 million at 31 December 2017 (2016: DKK 974 million). The Parent Company has pledged bonds at a carrying amount of DKK 309 million (2016: DKK 6,145 million).

Tax

The Parent Company is jointly taxed with all its Danish subsidiaries and its owner LEO Holding A/S. 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.

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. Executive Management is of the opinion that current tax audits and tax discussions will have no significant influence on LEO Pharma's financial position except for what has already been provided for.

NOTE 17 OTHER NOTES

For Financial instruments, please refer to note 12 to the Consolidated Financial Statements.

For Share capital, please refer to note 17 to the Consolidated Financial Statements.

For Related parties, please refer to note 20 to the Consolidated Financial Statements.

For Events after the balance sheet date, please refer to note 21 to the Consolidated Financial Statements.

NOTE 18 ACCOUNTING POLICIES

The Financial Statements of the Parent Company, LEO Pharma A/S, for 2017 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies remain unchanged from the previous year.

The Parent Company's accounting policies for recognition and measurement are consistent with the policies for the Consolidated Financial Statements, however uncertain tax positions have been restated to present the gross amounts (previously presented net).
The effect on the income statement for 2016 is a loss of DKK 18 million with a corresponding effect on equity at 31 December 2016. The financial statement line items affected in the balance sheet are: Deferred tax assets (DKK -166 millon), Tax receivables (DKK -659 million), Investment in subsidaries (DKK 914 million) and Tax payables (DKK 107 million).

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

TAX
The Parent Company is jointly taxed with all its Danish subsidiaries.

The Parent company and its Danish subsidiaries settle the tax with its owner and the administration company LEO Holding A/S. The current Danish tax is allocated between the jointly taxed companies in proportion to their taxable income.

EQUITY
Reserve for development costs
The reserve for development costs comprises capitalised development costs. This reserve cannot be used for dividends or distributions or to cover losses. If the recognised development costs are sold or otherwise excluded from the company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the development costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

INVESTMENTS IN SUBSIDIARIES
Investments in subsidiaries are measured under the equity method. This means that the subsidiaries are measured in the balance sheet at the proportionate share of their net asset value, with deduction or addition of unrealised intercompany profits or losses, and addition of any remaining value of positive differences (goodwill). The Parent Company's share of the subsidiaries' profit for the year is recognised in the income statement less unrealised intercompany profits.
The total net revaluation of investments in subsidiaries is transferred to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividends distributed to the Parent Company.

Management's **Statement**

The Executive Board and the Board of Directors have today considered and adopted the Annual Report of LEO Pharma A/S for the financial year 1 January – 31 December 2017.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU, and the additional requirements of the Danish Financial Statements Act, and the Parent Company Financial Statements have been prepared in accordance with the Danish Financial Statements Act.

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 Parent Company at 31 December 2017, and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for 2017.

We believe that the Management's review includes a fair review of developments in the Group's and the parent company's acitivities and finances, results for the year and the Group's and the parent company's financial position in general as well as a fair description of the principal risks and uncertainties to which the Group and the parent company are exposed.

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

Ballerup, 27 February 2018

EXECUTIVE BOARD:

Gitte P. Aabo
President & CEO

Anders Kronborg
CFO

BOARD OF DIRECTORS:

Jukka Pertola
Chairman

Patrik Olof Dahlén
Vice Chairman

Jesper Høiland

Cristina Patricia Lage

Jan van de Winkel

Peder Holk Nielsen

John Robert Weeks

Ingelise Saunders

Karin Attermann

Lotte Hjortshøj Larsen

Jannie Kogsbøll

Independent **Auditor's Report**

To the Shareholder of LEO Pharma A/S

OPINION
We have audited the Consolidated Financial Statements and the Parent Financial Statements for the financial year 1 January 2017 - 31 December 2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent Financial Statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2017 and of the results of its operations and cash flows for the financial year 1 January 2017 - 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the Parent Financial Statements give a true and fair view of the Parent's financial position at 31 December 2017 and of the results of its operations for the financial year 1 January 2017 - 31 December 2017 in accordance with the Danish Financial Statements Act.

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

STATEMENT ON THE MANAGEMENT'S REVIEW
Management is responsible for the Management's Review.

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

In connection with our audit of the Consolidated Financial Statements and the Parent Financial Statements, our responsibility is to read the Management's Review and, in doing so, consider whether the Management's Review is materially inconsistent with the Consolidated Financial Statements and the Parent Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's Review provides the information required under the Danish Financial Statements Act.

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

MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT FINANCIAL STATEMENTS
Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act as well

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT FINANCIAL STATEMENTS

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

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

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

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

Copenhagen, 27 February 2018

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