

Annual Report 2018

• Dermatology
beyond the skin



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**“ We pioneer
dermatology
by looking
beyond today
to constantly
improve and
extend what’s
possible for
the benefit
of patients.**

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Dermatology beyond the skin

01.

It is my privilege to meet many people living with skin diseases and those helping them. These conversations are a daily reminder of LEO Pharma's purpose: to help people achieve healthy skin. Living with a skin condition has an impact on a person far beyond the skin, as it is often both debilitating and stigmatizing. To provide patients with safe, effective, and innovative life-changing solutions is what motivates all of us at LEO Pharma every day.

For 2025, we set ourselves the goal to be the leading company in medical dermatology. To get there, we aim to understand patients and their lives better than anyone else, and apply this knowledge to provide even better treatments. Our 2025 Strategy is to strengthen our successful established portfolio, and invest the proceeds in building our innovative portfolio. In 2018, we made significant progress on both areas.

Good results in line with expectations

Following a record year in 2017, LEO Pharma made significant progress with our 2025 Strategy. We invested heavily in our R&D pipeline, which is now one of the strongest pipelines in dermatology, and we considerably strengthened our established portfolio with the agreement to acquire Bayer's prescription dermatology unit.

In 2018, LEO Pharma's revenue amounted to DKK 10,410 million, a level similar to revenue in 2017. EBITDA increased from DKK 2,005 million in 2017 to DKK 2,366 million in 2018, an increase of 18%, mainly driven by the divestment of a number of non-core products to Karo Pharma AB.

Revenue from the established portfolio amounted to DKK 10,268 million in 2018, which is in line with 2017. I am proud to see that Enstilar®, our foam-based solution for psoriasis, continued its success being the primary growth driver in our established portfolio.

For our innovative portfolio, the European launches of Kyntheum®, our biologic solution for psoriasis, continued throughout 2018 following the first launch in Germany in late 2017. We are excited to

follow the progress of Kyntheum® as we continue the launch process in Europe.

A strong and expanding pipeline

Increasing investments in R&D to 18% of revenues in 2018 fueled the progression of our clinical pipeline and added candidates to our future innovative portfolio. In 2018, we initiated our third phase 3 clinical study for tralokinumab, an investigational monoclonal antibody for the treatment of moderate-to-severe atopic dermatitis, and entered phase 2b for delgocitinib for atopic dermatitis and hand eczema. Together with further early-stage projects, including oral treatments, we now have one of the world's strongest pipelines in eczema.

In November, we entered the rare disease arena by partnering with PellePharm to treat Gorlin Syndrome. We consulted patients before we made this decision, a process that not only gave us very important insights, but also involved very moving discussions about how we might be able to help change the course of this life-altering condition.

We are proud of our collaborative approach and how we work with specialists within and outside our company. It enables us to drive scientific advancements further and to pioneer medical dermatology, bringing about much needed progress for patients.

Expanding our lead in medical dermatology

In July, we agreed with Bayer to acquire their prescription dermatology unit. This adds a series of strong brands to our established portfolio, and will expand our global footprint in key markets in Europe, Asia and Latin America.

High engagement leads to success

The collective skills and efforts of everyone at LEO Pharma are the basis for our success, and I would like to thank our 5,528 employees for their strong dedication in 2018. Our transformation process towards achieving our 2025 goals, and the continued high engagement of our employees is more important than ever.

**“ We are proud of
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Gitte P. Aabo
President & CEO



LEO Pharma's unique and caring culture is a key factor for our success.

Therefore, it was great to see the results of our 2018 global employee engagement survey, which showed a sustainable engagement score of 83%, well above the pharmaceutical industry average. These results confirm that LEO Pharma's workforce is highly committed and purpose-driven. They also tell us that LEO Pharma's employees are deeply engaged in pursuing our mission of helping people achieve healthy skin.

Our responsible commitment

As a global company, we have the opportunity as well as the obligation to pursue our business and strategic objectives in a way that fulfills our responsibilities to the society we operate in. This is reflected in our CSR Commitment.

I am pleased and proud that, as a UN Global Compact member, LEO Pharma supports the Ten Principles, which cover the areas of human rights, labor, environment and anti-corruption. We remain committed to engaging with our stakeholders. From 2018 onwards, we will report on our progress, actions and measurements of outcomes, as we integrate the UN Global Compact principles into our business strategy, our culture and our day-to-day operations.

I am looking very much forward to 2019, which will show significant progress in the tralokinumab development, as well as the full integration of the Bayer prescription dermatology portfolio.

We have set ourselves ambitious goals to make a true difference in the lives of people living with skin diseases. We will continue to work relentlessly to further strengthen patients' voice, develop our partnerships with patient advocacy, and support our patients in getting access to the dermatology care they need.



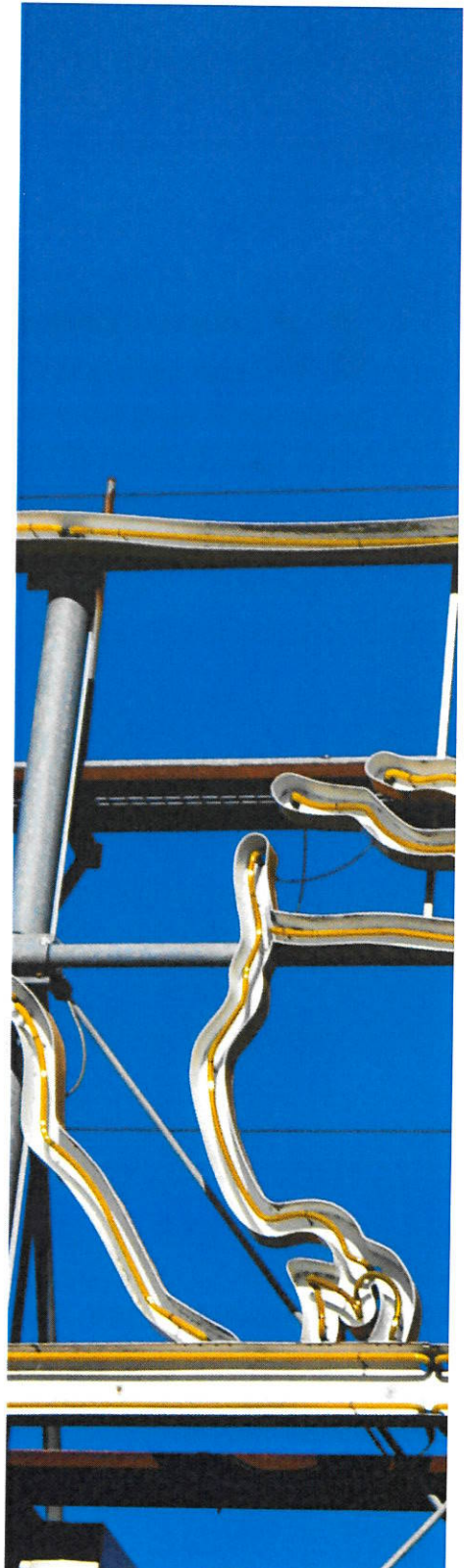
Gitte P. Aabo
President & CEO



COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.





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

**Dermatology
beyond the skin**



LEO Pharma at a glance

As a leader in medical dermatology with a robust pipeline, a wide range of therapies, and a pioneering spirit, LEO Pharma's purpose is to make a true difference in the lives of people living with skin diseases.



LEO FOUNDATION

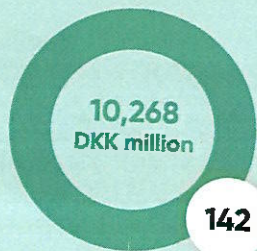
Foundation ownership

LEO Pharma is owned by the LEO Foundation. The main purpose of the foundation is to ensure the long-term independence and success of LEO Pharma. The foundation is also strongly engaged in global philanthropic activities, supporting the best dermatology research worldwide.

www.leo-foundation.org

Total revenue of established and innovative portfolio

Established



Innovative

More than

5,500

employees

18%

of revenue invested in R&D

76

 million

patients in more than 130 countries benefiting from our treatments

Revenue

10,410

 DKK million

Addressing unmet needs
By developing new treatments, we address unmet needs in society.

Empowering patients

Our patient-focused approach extends beyond treatment. Through our training programs, digital solutions, and Artificial Intelligence technologies, we address barriers to treatment and support the needs of 76 million patients worldwide.

Driving medical dermatology innovation

By building a portfolio of new treatments in medical dermatology, such as biologics, we drive innovation in treatments and new products. And by growing and strengthening our strong suite of topical dermatology as well as our support of innovative business models, we drive innovation in the dermatology business.

Revenue

In 2018, LEO Pharma generated DKK 10,410 million in revenue from the sale of medical treatments.

Unique workplace

A great and safe place to work for our 5,500 dedicated employees.

Unmet medical needs

Innovative medical treatments address unmet medical needs

Reinvested profit

Profits are reinvested in R&D, innovations, partnerships and acquisitions in order to strengthen our pipeline and existing portfolio.

Pioneering culture

We rely on our engaged and passionate workforce of more than 5,500 employees, always dedicated to putting patients first and continuously pushing the boundaries of knowledge in order to improve patient care globally.

Innovation

We apply our patient understanding to advance science and develop safe and effective medical solutions which address unmet needs in dermatology.

Stakeholder engagement

We build and nurture long-term relationships with our customers, patient groups, NGOs, governments and industry partners with a collaborative approach and to improve the quality of life of patients.

Partners

We collaborate with academic institutions, research centers, healthcare professionals and the private sector worldwide, with the shared goal of advancing medical dermatology and delivering innovative treatments.

Suppliers

We depend on our trusted suppliers when sourcing the highest quality materials to manufacture our products.



Value creation

Inputs

Core activities

ough solutions ology, nt and patients

dermatology o of innovative of derma- gics, systemic topical solutions. nurturing our il treatments in as continuing ap®, our throm-

Manufacturing

Our five manufacturing sites and 18 contract manufacturing organizations ensure the high quality of our products across our established and innovative portfolios.

World-leading R&D

Our 750 scientists and specialists work globally in research and development to drive scientific advancement further and to pioneer medical dermatology.

Key figures 2014-2018

(DKK million)	2018	2017	2016	2015	2014
Income statement					
Revenue	10,410	10,481	9,863	8,457	7,973
Established portfolio	10,268	10,467	-	-	-
Innovative portfolio	142	14	-	-	-
Operating profit before depreciation and amortization (EBITDA)	2,366	2,005	1,343	1,209	1,343
Established portfolio	4,045	3,010	-	-	-
Innovative portfolio	-1,679	-1,005	-	-	-
Operating profit	1,605	852	338	763	762
Established portfolio	3,321	1,864	-	-	-
Innovative portfolio	-1,716	-1,012	-	-	-
Net financials	-178	934	789	178	1,288
Profit before tax	1,416	1,783	1,124	928	2,050
Net profit	1,258	1,381	744	713	1,544
Balance sheet					
Investments in intangible assets	1,516	479	6,115	246	160
Investments in property, plant and equipment	478	385	302	261	121
Non-current assets	9,321	8,222	19,490	14,902	17,357
Current assets	6,963	6,371	17,494	17,325	14,270
Total assets	16,284	14,593	36,984	32,227	31,627
Equity	9,528	8,277	25,175	24,735	24,523
Ratio					
EBITDA margin	23%	19%	14%	14%	17%
EBITDA margin established portfolio	39%	29%	-	-	-
Operating profit margin	15%	8%	3%	9%	10%
Return of assets	10%	4%	1%	2%	2%
Return on equity	16%	11%	5%	4%	9%
Solvency ratio	58%	57%	68%	77%	78%
Employees					
Number of employees	5,528	5,251	5,170	4,813	4,712

The figures for 2018, 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 definition of ratios, please refer to note 1 to the Consolidated Financial Statements.

2018 highlights

Established

• Strengthening our leading position

LEO Pharma strengthens its leading position in medical dermatology with acquisition of Bayer's prescription dermatology unit. The acquisition will enable LEO Pharma to expand in key markets worldwide and broaden its therapeutic areas. It adds a broad range of branded topical prescription treatments for acne, fungal skin infections and rosacea, and a range of topical steroids. The acquisition was closed in the United States in September 2018, and closing is expected in all other countries in July 2019, subject to the fulfillment of customary closing conditions. LEO Pharma will also add a manufacturing plant in northern Italy to its supply chain.

• Strengthening focus on medical dermatology

LEO Pharma strengthens focus on medical dermatology and innovative products with the divestment of 10 products to Karo Pharma AB. The sale of a product portfolio of 10 products to Karo Pharma AB for DKK 1,940 million means that LEO Pharma has discontinued over-the-counter (OTC) products in most markets. This marks another important step towards strategically aligning the portfolio and increasing focus on innovation and medical dermatology.

• Enstilar® has helped one million patients

Enstilar®, LEO Pharma's fixed-dose combination spray foam for the treatment of psoriasis vulgaris, reached two major milestones since launch in 2016. More than one million patients have now been treated with Enstilar® worldwide, and global net sales exceeded DKK 900 million.

Innovative

• Tralokinumab phase 3 clinical study program

LEO Pharma achieved full enrollment of ECZTRA 3 – a randomized, double-blind, placebo-controlled, phase 3 trial to evaluate the efficacy and safety of tralokinumab in combination with topical corticosteroids. Also, the enrollment of the first adolescent patients in a new phase 3 clinical study with tralokinumab marked an important step towards meeting the high need for more targeted and well-tolerated treatment options for patients under the age of 18. Tralokinumab is currently not licensed in any country for any indication.

• LEO Pharma enters rare diseases

The strategic development and commercialization collaboration with PellePharm will address unmet medical needs relating to various skin diseases with no currently approved treatments, advancing innovation and access to potential therapies for patients with life-altering conditions, such as Gorlin Syndrome and High Frequency Basal Cell Carcinoma (BCC), two distinct and rare forms of skin cancer. Pivotal phase 3 trials are planned to start in Q1, 2019.

• New partnerships and alliances

Partnerships and collaboration form a key element in LEO Pharma's strategy. In 2018, we entered a number of partnerships with academia and pharma partners, ranging from explorative research to licensing agreements, all with the aim of strengthening our clinical pipeline.

Examples include: Naked Biome Inc (microbiome technology), Evotec (drug discovery), Zymeworks (bispecific antibody licensing and research), MorphoSys (peptide-derived therapeutics), JW Pharmaceutical (atopic dermatitis), and Fibro-Tex (non-invasive skin sampling).

Financial review and outlook

In 2018, LEO Pharma made significant progress with our 2025 Strategy. Investments in the innovative portfolio increased from DKK 1,022 million to DKK 1,836 million (in local currencies), primarily driven by the phase 3 studies of tralokinumab and the launch of Kyntheum[®], the IL-17 biologic for psoriasis.

To fund these investments in the innovative portfolio, LEO Pharma continues to implement cost savings and improve the EBITDA margin for the established portfolio. In 2018, operating expenses in the established portfolio declined from DKK 6,411 million to DKK 5,911 million (in local currencies), resulting in an EBITDA margin for the established portfolio of 39%, and an adjusted EBITDA margin of 28% for the established portfolio.

LEO Pharma Group

LEO Pharma's consolidated revenue amounted to DKK 10,410 million in 2018, a level similar to revenue in 2017. Adjusting for divestments and acquisitions, the decrease in organic sales amounted to DKK 187 million in local currencies.

Operating profit increased from DKK 852 million in 2017 to DKK 1,605 million in 2018. The increase in operating profit was predominantly driven by the divestment of LEO Pharma's non-strategic derma portfolio to Karo Pharma AB. The divestment resulted in a net gain of DKK 1,566 million recognized as other operating income.

Sales and distribution costs decreased by DKK 145 million, from DKK 4,091 million in 2017 to DKK 3,946 million in 2018, primarily due to a decrease in depreciation. Research and development costs increased by DKK 312 million compared to 2017, mainly due to planned increased investments in the innovative portfolio.

Established portfolio

Revenue from the established portfolio amounted to DKK 10,268 million in 2018, which is in line with 2017 (in local currencies). Enstilar[®] continues to be the primary growth driver of the established portfolio, which grew 95%, or DKK 929 million, in 2018 compared to DKK 477 million in 2017 (in local currencies).

To further improve the EBITDA margin in the Established portfolio, LEO Pharma has divested our mature derma portfolio to Karo Pharma AB in April 2018. The divestment of our non-strategic dermatology portfolio to Karo Pharma AB in April 2018 led to a significantly reduced number of stock keeping units, simplified manufacturing and improved gross profit margins.

In addition, LEO Pharma acquired Bayer's prescription dermatology unit to gain scale in specific markets in Europe, Asia and Latin America, and to add sales to the existing organization with only a marginal increase in costs.

The adjusted EBITDA margin for the established portfolio, excluding the divestment to Karo Pharma AB and the acquisition of the Bayer portfolio, was 28% and thereby in line with 2017. Total EBITDA margin for the established portfolio was 39% compared to 29% in 2017. This increase was mainly due to the net gain of DKK 1,566 million from the divestment to Karo Pharma AB in 2018.

The US Bayer prescription dermatology business was integrated as of September 2018, with an impact of DKK 124 million on 2018 revenue. The full integration of the rest of the world will take place in July 2019.

Psoriasis

LEO Pharma's psoriasis portfolio grew 9% (in local currencies) compared to 2017, from DKK 3,504 million to DKK 3,828 million. The primary growth driver was Enstilar®, which grew 95% or DKK 452 million. Enstilar® in Europe+ grew DKK 418 million, driven by launches in France and Italy and continued strong performance in the UK, Spain and Germany. Enstilar® in the US increased 11% due to a successful patient support program.

In Japan, LEO Pharma launched Daivobet® Gel in June. The launch has helped to grow the total psoriasis portfolio in Japan by 21%, and market share increased from 42% to 51%.

In Europe, the European Patent Office revoked the Daivobet® ointment patent. As a consequence, LEO Pharma saw increased competition in the Nordics and Germany.

Eczema and skin infections

Sales from LEO Pharma's eczema and skin infection portfolio declined by DKK 311 million, or 11% in local currencies, driven by generic competition across all markets, with the biggest impact in the US. Protopic® sales declined by 70% in the US and by 30% in China. LEO Pharma's Fucidin® products declined DKK 25 million, or 2% in local currencies, with growth in Rest of World of 3% and a small decline in Europe of 8%.

Actinic keratosis

Sales of Picato®, LEO Pharma's actinic keratosis treatment solution, grew 4% compared to 2017 in local currencies. In 2018, LEO Pharma reduced promotional activities significantly in order to improve profitability. The product is now only actively promoted in Germany and the US. Picato® sales grew by 10% in the US, driven by promotional activities in high prescribers, and by 10% in Germany due to marketing activities and a growing market.

Rosacea

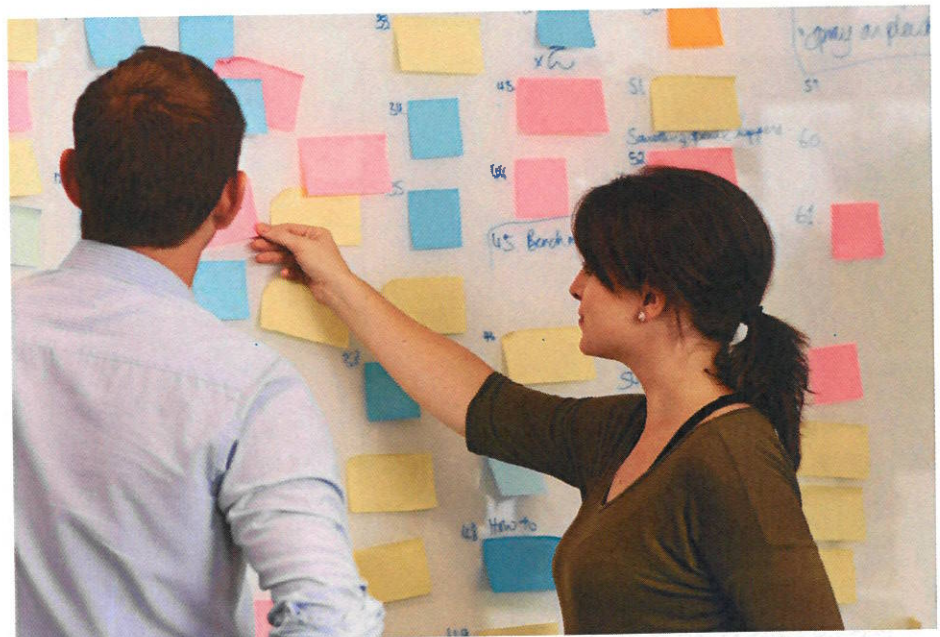
The acquisition of the US-based part of the Bayer prescription dermatology unit took effect on September 4, 2018. The Bayer portfolio is predominantly focused in the Rosacea market, with Finacea® Foam and Finacea® Gel being the flagship products. While Finacea® Gel lost patent exclusivity

on November 18, 2018, a corresponding authorized generic was launched on November 12, 2018. Reported net sales in 2018 amounted to DKK 112 million in local currencies.

Thrombosis

Sales within LEO Pharma's thrombosis area, 93% of which are generated by innohep®, declined by 3% or DKK 77 million in local currencies. The primary reason for the decline was a mandatory 8.5% price reduction in France and increasing competition from biosimilars and oral alternatives. The price reduction impacted performance by DKK 86 million, as France is responsible for 41% of all innohep® sales. Revenue grew in the other major markets in Europe, where the UK grew 4%, Germany 2% and Spain 5%. Compared to 2017, innohep® sales grew by 21% in the Middle East and declined by 41% in Maghreb.

Overall, LEO Pharma saw a 6% volume growth in innohep®, mainly from cancer-associated thrombosis.



Revenue by region

Region Europe+

Region Europe+ grew by DKK 186 million, or 5% in local currencies, to DKK 4,302 million. Sales were impacted by DKK 397 million due to the divestment to Karo Pharma AB. The psoriasis franchise grew by 17% in local currencies, driven by Enstilar® sales growth of 179%, from DKK 234 million to DKK 651

million, driven by unprecedented rates of switch from steroids. Enstilar® sales in Region Europe+ contributed 31% of total topical psoriasis sales in 2018. LEO Pharma saw increased competition on Daivobet® Ointment in the Nordics and Germany in 2018 due to the revocation of patents.

Region US

Net sales declined by DKK 220 million, or 17% in local currencies, to DKK 1,077 million. This decline is reflective of the competitive landscape in the US resulting in overall net pricing pressures on LEO Pharma's branded psoriasis, actinic keratosis and authorized generic portfolios. This decline was partially offset by the acquisition of the US business of the Bayer prescription dermatology unit with reported net sales of DKK 112 million in 2018.

The US marketed products continued to face price compression in 2018 which contributed to a 7% decline in net sales compared to 2017.

LEO Pharma's key marketed products in the US, Enstilar® and Picato®, reported strong net sales growth of 11% and 10%, respectively. LEO Pharma's authorized generics portfolio declined from DKK 572

million to DKK 280 million, mainly due to increased generic entrants in the tacrolimus market.

Region International

Region International increased by DKK 127 million, or 5% in local currencies, to DKK 2,785 million. The divestment to Karo Pharma AB impacted sales by DKK 74 million.

In June 2018, LEO Pharma launched Daivobet® Gel in Japan. This increased LEO Pharma's market share in the psoriasis indication, where sales increased from DKK 836 million in 2017 to DKK 971 million in 2018. Russia grew 10% in 2018, mainly driven by Pimafucin®. China sales grew 8%, driven by higher inventory levels, but in-market sales grew only 2% due to low sales performance in Protopic® and Daivonex® Ointment.

Fucidin® performed well, showing increased sales from DKK 580 million in 2017 to DKK 600 million in 2018. China grew 92% and Turkey grew 11%.



Innovative portfolio

The European launches of Kyntheum®, LEO Pharma's biologic solution for psoriasis and its first approved treatment in the innovative portfolio, continued throughout 2018 following the first launch in Germany in late 2017. Kyntheum® sales in Region Europe+ contributed DKK 141 million in local currencies. Germany continued to be a key driver of revenue within LEO Pharma's innovative portfolio, representing 80% of Kyntheum® revenue in 2018, growing from DKK 14 million in 2017 to DKK 112 million in 2018.

In 2018, Region Europe+ launched Kyntheum® in an additional 10 markets, including Spain and France. LEO Pharma expects to launch in Italy and Portugal in 2019.

Innovative portfolio operating expenses amounted to DKK 1,836 million in local currencies, which is an increase of DKK 814 million compared to 2017. The increase was mainly driven by investments in tralokinumab. EBITDA for the innovative portfolio ended at a loss of DKK 1,679 million in local currencies.

LEO Pharma has several innovative therapeutic candidates in development.

Financial items

Net financial items showed an expense of DKK 178 million, compared with income of DKK 934 million in 2017. The decrease is mainly due to a lower bond portfolio in LEO Pharma after the dividend payment to LEO Holding A/S at the end of 2017. The foreign exchange (net) result was a loss of DKK 73 million, compared to a loss of DKK 43 million in 2017.

Implementing our revised Treasury policy with a 12 months running hedging horizon through the use of foreign exchange forward contracts in the beginning of 2018 has resulted in an exchange rate loss due to the increase in USD and SAR rates against DKK in the second half of 2018. Further, a negative fair value as per the end of December 2018 of approximately DKK 27 million has been deferred for recognition in 2019.

Capital expenditure and cash flow

Investments in intangible assets amounted to DKK 1,516 million in 2018 (2017: DKK 479 million). The investments primarily relate to IT development projects and to the acquisition of the US-based part of Bayer's prescription dermatology unit in September 2018. LEO Pharma also entered into a license agreement with JW Pharmaceutical to develop treatments for atopic dermatitis and in November entered the rare disease arena by acquiring 16.75%

of shares in PellePharm, which is entering a pivotal phase 3 trial of a topical gel to reduce skin cancers in people with Gorlin Syndrome. Income from sale of assets mainly comprises the divestment of LEO Pharma's non-strategic derma portfolio to Karo Pharma AB in April 2018.

Cash flow from operating activities totalled DKK -101 million compared to DKK 702 million in 2017. The development was mainly due to a decrease in financial income.

Follow up on 2018 outlook

In the outlook in the annual report for 2017, LEO Pharma expected revenue of DKK 10 – 10.5 billion. With a revenue of 10.4 billion, the expectations were met. Operating profit was expected to be zero because of the increase in spendings on research and development, but ended positive due to divestments.

2019 outlook

In 2019, LEO Pharma will continue to move forward towards its strategic 2025 goals. This means significant investments in innovative products, progress in the tralokinumab development, continued launches of Enstilar® and Kyntheum® in Europe, and the integration of the remaining part of the Bayer prescription dermatology portfolio. LEO Pharma expects sales growth primarily from the acquisition of Bayer's prescription dermatology unit, which will have full-year impact in the US and six-months impact in Rest of World. Enstilar® and Kyntheum® in Europe will also contribute to this positive trend.

LEO Pharma anticipates that annual revenue will grow 4–6% to DKK 10.8–11.0 billion in 2019. LEO Pharma will continue to focus on profitability improvements in the established portfolio, while also significantly increasing spending on research and development activities, including spending related to the phase 3 studies of tralokinumab and phase 2b studies of delgocitinib. LEO Pharma expects this to lead to an operating loss for the LEO Pharma Group in 2019 of up to DKK 750 million. Further divestments or write-downs of R&D investments can change the outlook.

Towards 2025, LEO Pharma will continue its substantial investments in future growth opportunities. LEO Pharma intends to finance these investments partially through external loan capital, and partially through shareholder loans granted by LEO Holding A/S, the owner of LEO Pharma.

“ Psoriasis gives you a terrible feeling of alienation and disconnection with the world. The pain and exhaustion that you feel make you retreat from many activities you used to enjoy doing.

Margot, 58 years
US

Our Business

02.





Our Strategy

Dermatology is changing. Enabled by science and technology, a new era in dermatology with completely new types of treatments is advancing rapidly. This will fundamentally change the lives of millions of people who do not have the right treatment options for their skin diseases today.

LEO Pharma's ambition is to be the key driver in this change, and we have already taken giant leaps in strengthening our position at the forefront of medical dermatology.

Towards 2025, we will increase our focus on R&D, innovation, strategic partnerships and acquisitions, with the aims of broadening our portfolio of treatment offerings comprising oral, biologic and topical treatments, and investing in treatments for rare skin diseases.

We drive medical dermatology to help people achieve healthy skin.

The aspiration of LEO Pharma's 2025 strategy is to help 125 million people by 2025.

Expanding our established portfolio

LEO Pharma has a longstanding heritage in dermatology and a strong portfolio of topical treatments. Our established portfolio forms the foundation on which we will forcefully build our innovative offerings to ensure we remain at the forefront of scientific developments. We will continue to expand this part of our business, with a focus on increasing efficiency and profitability, mainly in targeted areas in Region Europe+ and Region International.

Building our innovative portfolio

With the successful launch of Kyntheum® for treatment of moderate-to-severe psoriasis, ongoing phase 3 trials for tralokinumab for atopic derma-

titis, and several other biologics in our pipeline, LEO Pharma's biotech foothold in dermatology is growing. We will continue to invest and improve our ability to tap into the world's most important innovation environments by strengthening our R&D footprint, mainly in the United States. This includes partnering with researchers and other companies who work on technologies in this field, with the aim of discovering and launching our first treatment for a rare skin disease by 2025.

Fostering the world's best dermatology R&D

The long-term ambition of LEO Pharma R&D is to prevent and cure skin diseases by developing personalized solutions. We will achieve this through targeted investments in R&D, strategic partnerships and acquisitions, as well as an increased focus on digitalization as a key capability for competitiveness.

LEO Pharma's strategy towards 2025 will require substantial investments over the coming years, not least in R&D and in product launches, which will lay the groundwork for the company's future growth and profitability.

“ Towards 2025, we will increase our focus on R&D, innovation, strategic partnerships and acquisitions, with the aims of broadening our portfolio of treatment offerings comprising oral, biologic and topical treatments, and investing in treatments for rare skin diseases.

Our therapeutic areas

LEO Pharma has devoted decades of research and development to advance the science of dermatology, setting new standards of care for people with skin conditions.

“ I feel it has affected my social interactions by making me feel unattractive and like I'm a person to avoid because of my skin.

Sonia, 49 years
US

Psoriasis

Psoriasis is a chronic systemic inflammatory disease affecting nearly 3% of the population, with the majority remaining undiagnosed or untreated. There are still many psoriasis patients with unaddressed needs who may also suffer from comorbidities. The impact on their quality of life is high:

77% of psoriasis patients have experienced some form of stigmatization and 60% report that the disease has adversely affected their day-to-day lives.

Kyntheum®

A monoclonal antibody in a subcutaneous injection for the treatment of moderate-to-severe plaque psoriasis in adult patients who are candidates for systemic therapy.

Enstilar®

Cutaneous spray foam for the treatment of psoriasis vulgaris in adults.

Daivobet® (Taclonex®)

Gel for topical treatment of scalp psoriasis in adults and of mild-to-moderate non-scalp psoriasis vulgaris. Daivobet® is also available as ointment.

Daivonex®

Ointment, cream and solution for topical treatment of psoriasis vulgaris.

Eczema and skin infection

The chronic skin disease atopic dermatitis, also known as atopic eczema, affects both children and adults and exerts a heavy toll on patients due to the intense itching it can produce. As a high-burden disease with few treatment options, there is an elevated risk for psychological comorbidities such as anxiety and depression.

Protopic®

Non-steroidal topical calcineurin inhibitor that is indicated for moderate-to-severe atopic dermatitis for patients of two years of age and over.

Fucidin®H

Cream indicated for short-term treatment of eczema and dermatitis infected with bacteria susceptible to fucidic acid.

Fucicort®

Cream and lipid cream – both indicated for short-term treatment of eczematous dermatoses infected with bacteria susceptible to fucidic acid, including atopic dermatitis.

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 and tablets.

Locoid®

Mid-potent topical steroid indicated for the treatment of conditions responsive to topical corticosteroids, e.g. eczema, dermatitis and psoriasis.

Actinic keratosis

Actinic keratosis (AK) manifests as scaly patches that appear on sun-damaged areas of the skin. AK is considered an early form of squamous cell carcinoma, which is a variant of non-melanoma skin cancer. Early treatment of all AK lesions and the surrounding skin is necessary to avoid the progression to invasive squamous cell carcinoma.

Picato®

Gel for cutaneous treatment of actinic keratosis in adults.

Acne

Acne is a skin condition affecting the sebaceous glands and hair follicles, characterized by the presence of noninflammatory lesions (comedones), inflammatory lesions (papules and pustules), and, in severe cases, nodules and cysts. It is a disease with a particularly high burden for patients, given that it manifests on the visible, sensitive skin on the face, upper back, chest and shoulders.

Zineryt®

Skin lotion for topical treatment of acne.

Rare skin diseases

In November 2018, LEO Pharma entered a rare diseases partnership with PellePharm, following through on our strategic intent to enter this area. PellePharm is about to enter phase 3 trials for the first therapy targeting Gorlin Syndrome, a rare and severe skin disease for which there are currently no approved therapies.

Rosacea

Rosacea is a chronic inflammatory skin disease that can cause flushing and redness, typically on the face, as well as bumps and spider veins. Over time, flare-ups can progress and the skin may take on a roughened, orange peel texture. Due to its highly visible nature, Rosacea takes a particularly heavy toll on patients.

Finacea®

Foam and gel for the topical treatment of the inflammatory papules (raised spots) and pustules (pimple-like bumps) of mild-to-moderate rosacea

Thrombosis (non-dermatology)

Deep vein thrombosis is a blood 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. The term venous thromboembolism is a collective term for deep vein thrombosis and pulmonary embolism. A blood clot associated with cancer disease or cancer treatment is called cancer associated thrombosis. Other circumstances with increased risk of venous thromboembolism include pregnancy, surgery and immobilization.

Innohep®

Subcutaneous treatment of venous thromboembolism in adults and prevention of recurrences in adults with active cancer. Other LEO Pharma products indicated for thrombosis are LEO Heparin and protamine sulphate.

Building the strongest pipeline in medical dermatology

At LEO Pharma, we strive to pioneer scientific understanding of skin diseases. In R&D, our focus is to constantly work to find new, innovative ways to improve skin health, helping people with skin conditions feel well-treated and increasing their days of well-being.

Building on LEO Pharma's strong legacy of developing groundbreaking psoriasis treatments and helping millions of patients, we continue to broaden our perspective within medical dermatology.

In recent years, we have expanded our pipeline with innovative topical, oral and biologic injectable treatments, and have moved into new skin disease areas such as atopic dermatitis.

As a result, LEO Pharma now has one of the strongest eczema pipelines in the world. In 2018, we ran six phase 3 clinical studies for tralokinumab in atopic

dermatitis. Tralokinumab is an investigational, first-in-class fully human monoclonal selective IL-13 antibody for the treatment of moderate-to-severe atopic dermatitis.

We also announced our collaboration with US-based rare disease pioneers PellePharm. Working together, we will advance innovative therapies for patients with rare and life-altering skin diseases with no approved treatments, such as Gorlin Syndrome and High Frequency Basal Cell Carcinoma (BCC), two distinct and rare forms of skin cancer.

We will continue our efforts and investments to build the strongest pipeline in medical dermatology dedicated to meeting the extensive unmet needs of people living with skin conditions and help advance disease control to provide more days of well-being.

The socio-psychological impact of skin diseases is often underestimated, and many patients experience stigmatization.

15-20%

of all children in the world are affected by eczema

More than

750

scientists and specialists work in R&D

Delgocitinib in phase 2b

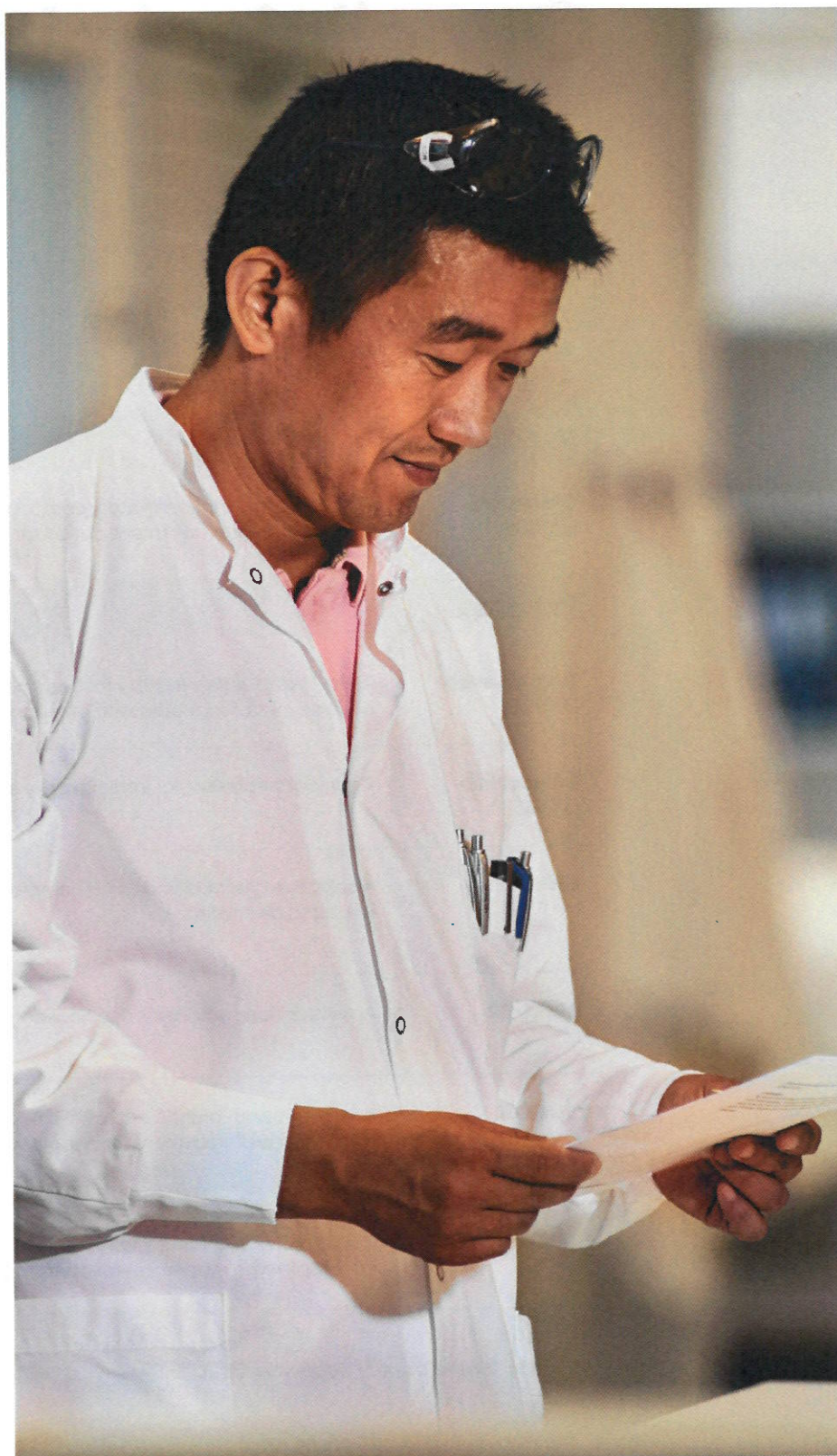
Delgocitinib is a novel pan-JAK inhibitor for non-steroidal topical treatment of inflammatory skin diseases. LEO Pharma has initiated phase 2b clinical dose finding studies evaluating the optimal efficacy and safety of delgocitinib in atopic dermatitis and chronic hand eczema.

Tralokinumab in phase 3

Tralokinumab is a novel monoclonal antibody that targets IL-13, which is considered the primary effector cytokines in atopic dermatitis. LEO Pharma is running an extensive phase 3 clinical program evaluating the efficacy and safety of tralokinumab in patients with moderate to severe atopic dermatitis.

About skin

- The skin is the body's largest single organ.
- The skin of an adult covers around 2 square meters.
- Maintaining healthy skin is crucial to protecting our organism against damage.
- Skin disease is one of the most common human illnesses.
- There are more than 3,000 known skin diseases, which affect between 30-70% of individuals of all cultures at all ages.



Our clinical pipeline

Project	Description
Psoriasis	
Oral PDE4i LP0058	A systemic anti-inflammatory compound intended to offer a long-term oral treatment option for people with psoriasis.
Eczema	
Tralokinumab LP0162	An IL-13 anti-inflammatory monoclonal antibody under development for people with atopic dermatitis.
Delgocitinib LP0133	A topical treatment for inflammatory skin diseases using a pan-JAK inhibitor.
SEGRA LP0155	A selective glucocorticoid non-steroidal receptor agonist for topical treatment of atopic dermatitis.
ARGX-112 LP0145	An anti-inflammatory monoclonal antibody for the treatment of atopic dermatitis.
Oral H4R Antagonist LP0190	A systemic anti-pruritic and anti-inflammatory H4 receptor antagonist, intended to offer an oral treatment for people with atopic dermatitis.
JAK1 oral LP0184	A systemic anti-inflammatory JAK inhibitor intended to offer an oral treatment for people with moderate-to-severe atopic dermatitis.

All data current as of 31 December 2018

Proof of concept

Discovery

Phase 1

Phase 2a

Phase 2b

Phase 3

Filed/
regulatory
approval



Finalized



Current phase

Our CSR Commitment

Corporate social responsibility (CSR) is embedded in LEO Pharma's business and in the behavior of LEO Pharma people.

At LEO Pharma we have a business-driven CSR approach, acknowledging our economic, social, and environmental responsibility, and promoting the Ten Principles of the United Nations Global Compact, which cover the areas of human and labor rights, environment, and anti-corruption.

LEO Pharma's CSR Commitment 2018–2020 defines our CSR focus areas in which we take action to contribute to the SDGs. This commitment is built on three pillars:

Empowering patients

We are dedicated to always putting the patient first. We build on deep patient insights in researching and developing new, safe and effective medicines to treat skin diseases. We collaborate with our stakeholders in healthcare – including patient organizations, policy makers, HCPs, payers and NGOs – to raise awareness of the importance of dermatological health and to address the barriers to healthcare faced by our patients.

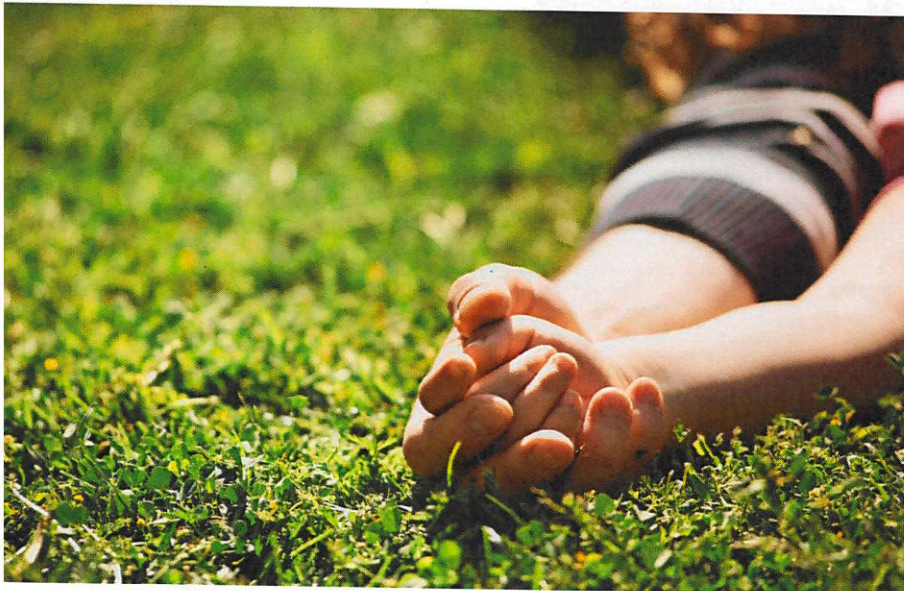
Sustainable operations

We are committed to operating our business sustainably. We nurture the commitment and passion of our employees to face the challenge of future uncertainties to fulfill our LEO Pharma 2025 strategy. As a healthcare company, we want to minimize the impact of our business operations on the environment – not only today, but well into the future.

Business integrity

Integrity is one of our core values at LEO Pharma. We uphold high ethical standards throughout our value chain by being accountable and transparent, respecting human rights, and maintaining sound governance.

We commit to operating in a way that contributes to realization of the UN Sustainable Development Goals (SDGs) and supports the global agreement to address society's greatest challenges towards 2030. We believe that aligning our business with the SDGs will help us be stronger and more sustainable, while also contributing to improve health globally.



WE SUPPORT






Helping people achieve healthy skin

Our CSR Commitment 2018-2020

Empowering patients

-  **Expanding dermatological solutions**
-  **Removing barriers to healthcare**
-  **Strengthening patient voice**

Sustainable operations

-  **Climate change, environment and energy**
-  **Mental well-being at work**
-  **People development**

Business integrity

-  **Employee safety**
-  **Personal data protection**
-  **Anti-corruption**
-  **Responsible supply chain management**
-  **Animal welfare**



THE GLOBAL GOALS
For Sustainable Development

Towards the UN Sustainable Development Goals



Empowering patients

Patients are our first priority. At any point in time, an estimated one in four people worldwide is living with a skin disease, making these diseases some of the most prevalent worldwide.

LEO Pharma's ambition is to drive medical dermatology and develop medical treatments that help people with skin disease improve their quality of life. We do this by constantly improving our understanding of the patient needs and the barriers to treatment they face.

At the core of this are our R&D efforts. LEO Pharma offers a broad range of important standard treatments, as well as new innovative solutions for skin diseases. We have built one of the strongest pipelines in eczema – an area of significant unmet medical needs – and recently entered the field of rare dermatological diseases.

Patients also face significant barriers to healthcare because skin diseases are often overlooked and under-represented in the training of physicians. This leads to long periods where treatable conditions go undiagnosed or untreated, causing a great burden on patients, healthcare systems and society. LEO Pharma is working with physicians and patient organizations to address this awareness gap. Our educational and training programs help patients prepare for their consultations

with physicians. Moreover, LEO Innovation Lab is building digital solutions to improve the diagnosis of skin disease and to help patients and physicians monitor the progress of treatment.

Patients with skin diseases deserve a stronger voice in society. A key challenge for access to healthcare in psoriasis and eczema is the low prioritization of these diseases in health systems around the world. LEO Pharma is committed to raising awareness of skin conditions and supporting patient organizations in advocating their cause so that patients have access to the healthcare services and treatments they need.

LEO Pharma programs for achieving our strategy towards 2025



Expanding dermatological solutions



Removing barriers to healthcare



Strengthening patient voice

“ I try to remind myself that how my skin looks is the least important thing about me. As long as I am as healthy, as I can be with an autoimmune disease, then how my skin look visually doesn't matter. I refuse to let psoriasis be my defining feature!

Judith Duncan, Scotland
Mobile Marketing Campaign Manager
and blogger @theweeblondie



Judith Duncan, Scotland
Mobile Marketing Campaign Manager
and blogger @theweeblondie

Removing barriers to healthcare

We want to support patients in getting access to the dermatological care they need. This includes raising disease awareness through the training of healthcare professionals, digital innovation to improve the speed and accuracy of diagnosis, and identifying solutions to improve access to dermatological services.

Psoriasis Academy

Engaging and empowering people living with psoriasis

LEO Pharma Psoriasis Academy is an educational and train-the-trainers initiative that offers a unique global program to improve the consultation dialogue between patients and their healthcare practitioners.

The program strives to promote person-centered care and patient empowerment in the field of psoriasis by providing communication strategies that help empower patients to take control of their condition.

LEO Pharma collaborates with a multi-disciplinary global faculty in the development and facilitation of the train-the-trainers program. The faculty possesses expertise in fields including: dermatology, psychology, psychodermatology, patient communication/empowerment, dermatology nursing and patient advocacy.

So far, National Psoriasis Academy Workshops have been conducted in 20 markets, reaching more than 1,600 HCPs, including dermatologists, nurses and student doctors.

Mobile access to treatment

Bringing dermatology health care to remote areas in Egypt

Under the name "Geldy Elaziz", which in Arabic means "My dear skin", LEO Pharma Egypt established a comprehensive skin health program to help people with skin diseases in remote and under-privileged areas of Egypt.

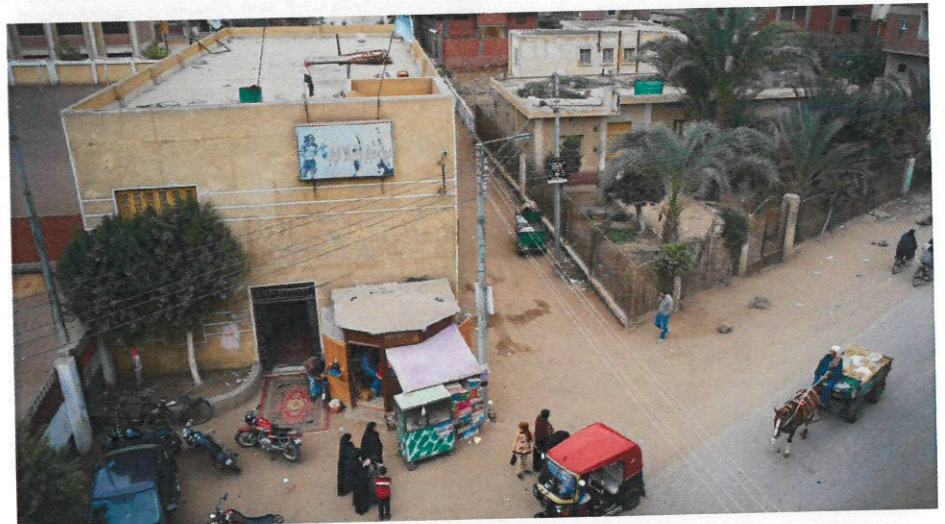
Four local venues were rebuilt into fully equipped clinics to host the activities. The project was run in partnership with the Egyptian Medical Student Association (EMSA) and a local Egyptian NGO, Shamseya, which works to create sustainable, community-based solutions to local healthcare challenges.

The program included town hall awareness meetings, medical check-ups, diagnosis and prescription. Medical students helped prepare individual follow-up plans for patients, taking severity, costs and duration of required treatment into consideration.

The project activities covered four districts in the two Egyptian governorates of Gharbeya and Minya, in coordination with local NGOs. LEO Pharma helped 305 attendees through the town hall awareness meetings, in addition to sponsoring 690 dermatology check-ups and 101 follow-up cases.

“ If we want to identify benefits that we bring to a patient with a therapy, then we always have to ask the patients about their individual needs.

Kristian Reich
Professor for Translational Research in Inflammatory Skin Diseases, University Medical Center Hamburg-Eppendorf and Skinflammation@, Hamburg, Germany.



LEO Pharma Egypt established a comprehensive skin health program to help people with skin diseases in remote and under-privileged areas of Egypt.

Strengthening patient voice

Empowering patients to be included, valued and able to live life free of restraints of their disease.

Exposing the true burden of psoriasis

Helping people with skin diseases means much more than delivering pharmaceutical treatments. It means understanding patients and including their voice in healthcare policies and decisions.

In the UK and Ireland, LEO Pharma runs the Voices in Partnership (ViP) program, inviting a group of patients to get involved at the heart of our business. Working in partnership together helps us understand how we can best give patients a voice to drive positive change and address their challenges. Our ViPs are our patient conscience, telling us when we get it right, and more importantly, when we get it wrong.

Teaming up with the Patients Association, an independent national charity campaigning for improvements in health and social care, supported by an expert multidisciplinary task force and some of our ViPs, we developed the PSO What? report, which aims to expose the true burden of psoriasis. Uncovering many areas of challenge, the report calls for three key efforts:



Building on the PSO What? report and aiming to advance HCP education and patient care, the "PSOMorbidities" (psoriasis co-morbidities) education program was developed for healthcare professionals, comprising a website, educational tools and consultation resources.



“ I was pleased to get the opportunity to be involved in LEO Pharma’s considerations in relation to investing in the development of treatment. Throughout the process, both LEO Pharma and PellePharm showed a sincere interest in the patient-related outcomes.

Matthew Holbert
Member of the Board of Trustees
of the Gorlin Syndrome Group.

Engaging patients in assessing business opportunities

2018 saw LEO Pharma engaging with people from the Gorlin Syndrome Group in assessing whether and how we should invest in a business opportunity and thereby enter a new area. One of these people is Matthew Holbert, member of the Board of Trustees of the Gorlin Syndrome Group and a Gorlin Syndrome patient. Matthew participated in the review of the business case regarding LEO Pharma’s collaboration with PellePharm.

We are proud that this collaboration is already taking us into phase 3 studies in early 2019 with patidegib, which has the potential to become the first therapeutic treatment for the rare disease Gorlin Syndrome, also known as Basal Cell Carcinoma Nevus Syndrome (BCCNS).

Matthew’s story:

“I was diagnosed with Gorlin Syndrome when I was in my late thirties, by which time I’d already had about 20 basal cell cancers (BCC) removed. In the 20 years since then, I’ve had one or two operations per year for BCCs due to the lack of other medical treatment or solutions.

So the worst things about the disease are the surgery, the scarring and the pain. But it’s also very important to me to highlight the psychological effect of Gorlin Syndrome. I often hear people say ‘it must get easier for us over time’, because we know what to expect. It is the complete opposite. Because you do know what to expect. You know that you will be going to hospital five or six times

around the surgery. You know that you will have to overcome pain and scarring.

So the main concern people with the disease have is about the future. Because you just don’t know when you might get another BCC and require surgery again. You can’t make plans for yourself or your family because you worry about whether and when you might need surgery again. It is those uncertainties that cause the high prevalence of depression and anxiety among people with Gorlin Syndrome. It feels like it is your identity that is being eroded. So anything that stops that feeling has got to be good.

Therefore, I was pleased to get the opportunity to be involved in LEO Pharma’s considerations in relation to investing in the development of treatment. Throughout the process, both LEO Pharma and PellePharm showed a sincere interest in the patient-related outcomes. For example, they started off by researching people’s stories rather than going through textbooks or scientific journals. That’s a very unusual and very refreshing approach.

I think the reason we feel so desperate is that we really want to find something that is designed for us, but there is just nothing that is customized to our needs. Therefore, I think the fact that pharma is now looking into rare diseases has really positive implications for us. And so far, it has been a very positive experience to work together with LEO Pharma and PellePharm. I hope we can continue into the future.”

“ We pioneer dermatology by looking beyond today to constantly improve and extend what’s possible for the benefit of patients.



Sustainable operations

Our aim is to grow our business sustainably. We foster a workplace where employees can thrive and manage our environmental footprint to promote a healthy planet.

We want to pioneer innovations in medical dermatology while progressing towards a prosperous future for all.

To fulfill our LEO Pharma strategy moving towards 2025, we need a talented, motivated, and diverse workforce. We want to increase our employees' satisfaction and motivation by creating a good and healthy working environment that fosters a culture of curiosity, collaboration and innovation, and supports their well-being at work.

At our manufacturing sites, we have a responsibility to minimize the impact of our business and strive to strengthen the environmental performance of our operations. This includes reducing our CO₂ footprint in production and maintaining sound environmental practices to help shape a sustainable future for generations to come.

LEO Pharma programs that support our efforts to contribute to a sustainable future



Climate change, environment & energy



Mental well-being at work



People development

Reducing our environmental footprint

LEO Pharma strives to have a positive impact on the health of the planet through sound environmental stewardship and practices.

Our ambition is to meet or exceed performance requirements for environmental regulatory compliance standards in all facilities.

In 2018, we reached our goal to obtain ISO 14001 certifications in accordance with the new ISO standard for all five manufacturing sites by end of 2018. Our goal to obtain ISO 50001 certifications for all manufacturing sites has been delayed and is expected to be achieved no later than 2020.

Setting new environmental goals for 2020

This year, we have continued our focus on improving our energy and environmental performance across our business.

Our approach to achieving our 2020 energy savings target includes purchasing efficient

lighting and performing infrastructure upgrades and replacements that minimize our direct energy consumption. In 2018, we made significant progress towards our target by replacing four hydraulic engines with energy efficient electric equivalents at LEO Pharma's Ballerup site. We have also initiated a process of replacing a significant share of our lighting with more energy efficient LED light fixtures. In 2019, we will continue to invest in new technologies to help us reduce the energy consumption of our operations.

We want to look at the bigger picture regarding the impact that climate change has on our operations. Therefore this year, we engaged with an external partner and established a company-wide carbon footprint baseline, which will serve as the basis for understanding major climate change contributors that we will look into in 2019. We will also develop a plan for climate change mitigation and resilience.

To continue to run an environmentally sustainable business, we will still monitor and improve other areas of our environmental footprint where we maintain a strong performance. This includes our efforts relating to waste reduction and recycling.

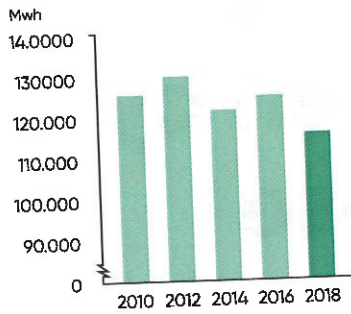
OUR GOALS FOR

2020

- To save an amount of energy corresponding to 10% of our energy consumption in 2013 via energy saving projects.
- To align our climate ambitions to meet EU targets.

“ To support LEO Pharma’s commitment to long-term sustainability, we are always looking for new opportunities to reduce waste, conserve energy, and minimize our global carbon footprint.

Total energy consumption at our sites



Reducing waste

At our site in Cork, Ireland

Our site in Cork, Ireland uses about 500,000 liters of ethanol annually in two different production processes. Instead of buying 99% pure ethanol for both processes, the ethanol used in the first process is re-distilled on site and re-used in the second process, which only requires 93% pure ethanol. All ethanol used in both processes is re-distilled and sold to a company in the UK that uses it for other industries, such as bio-ethanol fuel production, textiles, and chemicals. This means that there is no ethanol waste stream from the production processes. This re-use also reduces the need to purchase about 100,000 liters of 99% pure ethanol per year.

At our site in Esbjerg, Denmark

LEO Pharma's production facility in Esbjerg, Denmark handles 70,000 tons of pig mucosa per year. However, only 1% of the pig mucosa contains the core ingredient needed to make the active pharmaceutical ingredient (API). To reduce our waste, we found a way to dispose of processed pig mucosa that brings value to the community around the Esbjerg facility. Since 2011, we have been working with the Danish company Hede-Danmark, which specializes in making good use of organic materials for agricultural purposes, to turn mucosa waste into Fertigro®, a high potency organic fertilizer. With Fertigro®, we are able to reuse 95% of mucosa waste for a product that brings organic material and nutrients to the fields of about 300 farmers in the Esbjerg area.

Another valuable waste product is Fertifedt®, a high potency fat product delivered to biogas plants. Fertifedt® contains a high amount of carbohydrates that can be easily transformed into methane.

Both Fertigro® and Fertifedt® contribute to LEO Pharma's circular economy life cycle management.



Building a unique workplace driven by a strong purpose

We want to create an environment where our employees are empowered to grow and shape the future.

In 2018, LEO Pharma undertook a comprehensive global research study among our employees. Supplemented by the latest employee survey, it showed that employees consider LEO Pharma to be a unique workplace, characterized by:

- Being purpose driven and having real focus on improving patients' lives due to the foundation ownership.
- Having a high level of trust and people who are empowered to make an impact and grow.
- Having a caring culture with helpful and collaborative colleagues, creating an environment where each employee can be their best professional self.

We achieved a high sustainable engagement score of 83%, meaning that LEO Pharma employees are highly motivated and committed, and feel a very strong connection to the overall purpose of LEO Pharma.

We are proud that our employees feel that they belong to a unique workplace. We do not take this for granted and will continue to develop our people and enhance their well-being at work.

Enabling people and LEO Pharma to grow

In December 2018, we launched LEO GROW, a new global process that ensure managers and employees have ongoing conversations about performance and development. As part of this, the agreed business goals are supplemented with behavior goals to ensure a dual focus on both what to deliver and how to deliver.

The goals are backed up by a development plan for the employee's current job and potential future job roles.

Leadership as a key enabler

We know from our benchmarking that we have strong leaders at LEO Pharma, and we see strong leadership as a key enabler for our change journey. In 2018, we prepared and adopted a leadership development strategy for developing the most critical leadership behaviors for executing the LEO Pharma 2025 Strategy. In 2019, we will start to launch the leadership development program for those who are new to the leadership role as well as our senior leaders.

Sustainable work-life balance

Our approach to sustainable work-life is anchored in our new Position on Mental Well-being at Work.

As a caring healthcare company, we recognize that a productive work-life balance is based on a healthy work life, encompassing good physical and mental well-being. This is a prerequisite for performance in a modern globalized workplace. A sustainable working environment is important in giving our employees satisfaction and enabling them to lead good lives at work and with their friends and families.

Gender diversity in management

We achieved our goal to have at least two female members on the Board of Directors by 2019 already in 2017.

In 2018, we set the goal to have at least three female board members on the Board of Directors of LEO Pharma A/S (in addition to the employee-elected board members) by 2021.

Currently, as one female member resigned during the course of 2018, one of the eight Board of Directors members is female.

Women represent a total of 41% of management positions at levels below the Board of Directors of LEO Pharma A/S.

Statutory report on gender diversity, pursuant to section 99b of the Danish Financial Statements Act.



Business integrity

At LEO Pharma, we want to be valued not only for our treatments, but also for the way we work.

Integrity is one of our core values, and we are committed to acting ethically and responsibly throughout our business. Whether it is finding technological alternatives to animals in science for our research, safeguarding data privacy, or our zero tolerance to bribery and corruption, we apply high standards of ethical practice throughout our business and supply chain.

Integrity also defines how we approach dialogue with our stakeholders, including our suppliers. We want to build trust by listening to their concerns and communicating transparently about LEO Pharma. To build and maintain trust with our stakeholders, we work with a number of programs in our CSR Commitment 2018-2020 that focus on integrity.

“ Integrity is one of our core values, and we are committed to acting ethically and responsibly throughout our business.

We are guided by national law and international frameworks in our approach to responsible business practice. This includes the UN Global Compact, as well as international conventions such as the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights.

We also comply with our legal obligations, including the social responsibility reporting under Danish law, the UK Bribery Act, Foreign Corrupt Practices Act, the UK Modern Slavery Act, and the General Data Protection Regulation (GDPR).

LEO Pharma programs that contribute to upholding the high integrity standards of our business



Employee safety



Personal data protection



Anti-Corruption



Responsible supply chain management



Animal welfare



Strengthening a culture of safety by engaging employees

Maintaining positive safety performance requires strong, proactive and credible leadership, and direct engagement with our employees across the company.

At LEO Pharma, we are determined to protect our employees by avoiding potential accidents and promoting a safe working environment and culture. Our approach to LEO Pharma employee safety is anchored in our Occupational Health and Safety policy, yet we believe that a true culture of safety relies on continued direct engagement with our colleagues.

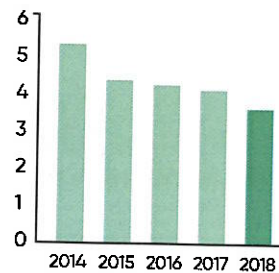
Our ambition is to have a safety performance that is on par with the best in our industry by 2020. Until now, this has been measured in the LTI rate. With an LTI rate of 3.7 in 2018, down from 4.1 in 2017, we are moving in the right direction.

In 2018, we introduced a "Best in Safety" project. One element of the "Best in Safety" project is training managers in production to lead by example

and motivate their teams through ongoing safety training and shop floor "toolbox talks". These interactive sessions strengthen a culture of safety by encouraging employees to engage in their own safety and address potential safety issues through reflections on everyday situations.

In 2019, we will focus on safety as a guiding principle when designing new solutions, and we will introduce a data-driven approach to find the best risk mitigation solutions for preventing incidents. We will also develop and report on new value-creating KPIs that help us improve our safety performance, while working proactively to identify and manage risks and prevent accidents.

LTI rate* at LEO Pharma manufacturing sites:



*LTI rate per million working hours calculated as:

$$\frac{\text{(Number of injuries with more than one day absent from work} \times 1,000,000 \text{ working hours)}}{\text{Total number of working hours based on local standard working hours}}$$

A safer year in Dublin

In 2018, LEO Pharma's Dublin site celebrated a year with only two incidents of lost time due to injury, down from seven incidents in 2017. Stephen Rush, Senior Director in Finished Goods Manufacturing, Dublin, is proud of this achievement: "We are creating a stronger culture of safety by making small things important. We try to talk about safety every day and we communicate minor incidents and near-miss events to get even better. We strive for an injury-free workplace. That is our ultimate goal.

Data protection across the globe

In a rapidly evolving digital world, the responsible handling of personal data is ever more important and complex.

As a global pharmaceutical company, LEO Pharma processes large amounts of data. Much of this data contains personal information.

Our employees, patients, customers, and business partners have the right to expect that we safeguard their personal data and handle it with respect and integrity. The EU General Data Protection Regulation (GDPR) that came into force on May 25, 2018 clarifies what companies must do to observe this right.

Our "Binding Corporate Rules" on data protection set the highest possible privacy protection standard across all countries where we operate, including those with more lenient data privacy legislation. This means that our employees, patients, customers and business partners – regardless of location – have their right to data privacy protected in accordance with the highest standards, as set out by the GDPR.

Embedding a privacy culture

Safeguarding privacy requires company-wide awareness of the importance of accountable and ethical handling of personal data. In 2018, we launched an extensive training program for LEO Pharma employees who handle personal data. These trainings introduced the legal requirements of the GDPR, the ethical importance of privacy protection, and the new LEO Pharma systems and procedures we are implementing to handle data responsibly and with integrity. In 2019, we will complement these trainings with an awareness campaign to further anchor privacy in the hearts and minds of all LEO Pharma people.

Building strong data privacy performance

In 2018, there were zero significant data breaches reported within our operations. A significant data breach is a personal data breach that is likely to result in a risk to the rights and freedoms of individuals and requires reporting to the Danish Data Protection Agency. Nevertheless, we did encounter 13 minor data breach incidents. Minor data breaches are those registered through our information security platform that do not require reporting to the authorities. In these cases, we work to remedy, investigate the rootcause, and implement mitigative actions.

Going forward, we want to maintain our proud record of no significant data breaches, while striving to further decrease minor data breaches. We will incorporate learning from these minor incidents into our training and awareness-raising programs to further strengthen a culture of rigor in the handling of personal data.

Binding Corporate Rules

Binding Corporate Rules (BCR) is a European authority approved mechanism for data transfers within LEO Pharma. By applying GDPR principles globally, EU data protection authorities allow – upon approval – for the free transfer of personal data out of the European Economic Union, thereby permitting the use of global functions and IT systems.

Working responsibly with suppliers

LEO Pharma wants to create better supply chains in the pharmaceutical and healthcare industry. Through our responsible supply chain management processes, we work to minimize adverse impacts from suppliers of goods and services in relation to labor and human rights, environment, and anti-corruption.

We believe we can be more effective by joining forces with other companies in our industry than by acting alone. Therefore, in 2018, we engaged with two collaborative platforms focusing on improving the social, environmental, and ethical performance of supply chains in the pharmaceutical and healthcare industry.

First, we initiated a networking group through the Danish Initiative for Ethical Trade (DIEH) for best practice sharing and peer learning on implementing responsible business practices in pharmaceutical supply chains.

Second, we joined the Pharmaceutical Supply Chain Initiative (PSCI), a collaborative initiative that aims to establish and promote a set of common standards for the continuous improvement of social, health, safety, and environmental performance in supply chains. Through our work with the audit committee group, we collaborate in the development of shared tools and standards in the pharmaceutical industry and engage in a proactive approach to supplier assessment. Next year, we will also participate in PSCI's Human and Labour rights working group. This will enable us to work with our peers on understanding and addressing key human rights risks in pharmaceutical and healthcare industry supply chains.

Stronger assessment of suppliers

As our supply chains are complex and ever-changing, we must continue to improve our respon-

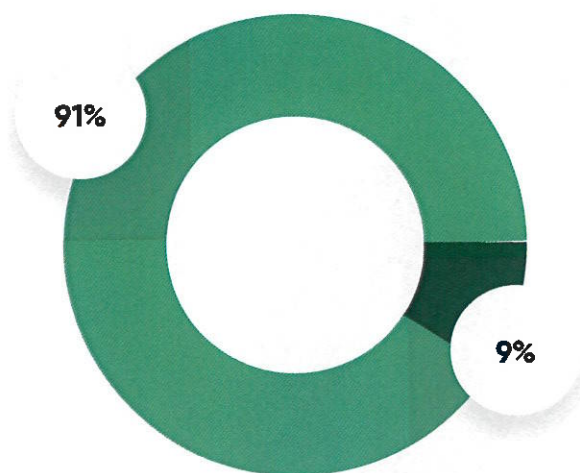
sible supply chain management program along the way. Since 2014, we have progressively integrated our due diligence process into the procurement processes of key affiliates. Today, more than 80% of our spend is covered by our responsible supply chain management processes.

Roll-out of Responsible Supply Chain Management Program across affiliates

2014	DK
2016	FR, IE, AU
2017	North Europe: UK, BE, NL, FI, NO, SE
2018	Central Europe: CH, DE, CZ, RO, PL, AT, SK South Europe: ES, IT Rest of the world: CH, JP, SG, SKR, PT, GCC

In 2019, we will reinforce supplier engagement and develop a site visit program to increase awareness about responsible business practices among our priority suppliers. Our aim in engaging proactively with the suppliers is to emphasize collaboration and foster dialogue about transparent governance frameworks and responsible business practices. We





Location of Tier 1 suppliers in our Responsible Supply Chain Management Program

■ OECD countries ■ Non-OECD countries

will base the site visit program on recommendations in the OECD Guidelines for Multinational Enterprises as well as the Pharmaceutical Supply Chains Initiative audit framework.

In 2018, we complemented our established supplier assessment program by incorporating an assessment of human rights impacts in our supply chains. The outcomes of this process allow us to improve our supplier selection and assessment processes by identifying potential human rights issues early and accurately through a process of analysis.

In 2019, we will conduct site visits of key suppliers using recommendations from the OECD guidelines and PSCI audit framework and upload one site assessment to PSCI platform. In 2020, we will perform five site visits.

Choosing more sustainable options at LEO Pharma

Sometimes small changes can create a ripple effect through the years. As part of our 'What We Buy' project, we have taken our first steps in the journey of choosing the more sustainable option at LEO Pharma.

We have looked at changing our indirect products to more sustainable solutions in internal collaboration with the procurement team. We have decided to work with the products and services with a green impact that is visible to employees. This project will continue in 2019.

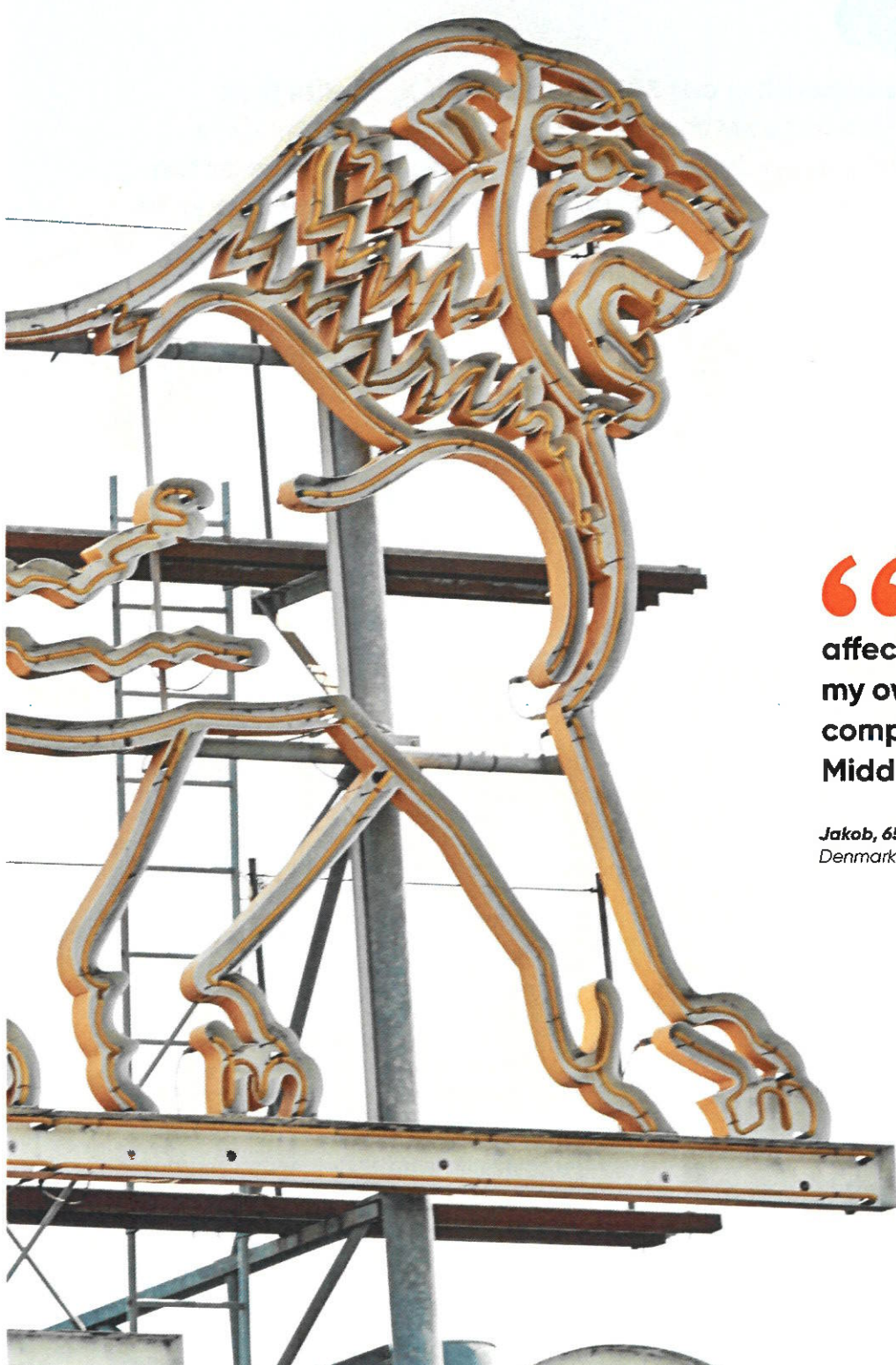
LEO Pharma due diligence process

LEO Pharma systematically screens all new suppliers based on parameters aligned with the Ten Principles of the UN Global Compact and the LEO Pharma Third Party Compliance Code. Through a risk-based approach, we prioritize suppliers for further assessment. In 2018, we implemented new ranking criteria that will strengthen our due diligence by increasing our knowledge of suppliers' CSR performance in 2019.

Our Governance

03.





“ No one understands how much I am affected by my psoriasis. In my own mind, I think it's comparable to leprosy in the Middle Ages”

*Jakob, 65
Denmark*

Special business and financial risks

In implementing our 2025 Strategy, it is crucial that LEO Pharma continues to diligently manage the risks inherent in our business activities and reduce the potential negative impact of these risks to an acceptable level.

Throughout 2018, a number of initiatives to improve enterprise risk management were enacted, including the establishment of a Global Risk & Compliance Officer role reporting to the Audit Committee. The Global Risk & Compliance Officer oversees risk management at enterprise level.

The following section outlines the major negative enterprise risks, all with extensive and continuously evolving prevention and mitigation plans in place:

Strategic risks

Pipeline attrition is an inherent risk in pharmaceutical research and development. This includes potential development failure of one or more of our key pipeline assets, including tralokinumab and delgocitinib.

Market access restrictions and pricing pressure is a trend that is expected to continue for the industry as a whole and potentially at a higher rate than expected. The main factor driving this trend is that private and government payers are demanding increasingly higher discounts and rebates, while restricting reimbursement and access to new and established products (both topicals and systemics). This poses a significant risk for LEO Pharma across most geographies, but is most pronounced in the US market.

The competition dynamics of the prescription dermatology market are rapidly changing, with new players steadily emerging. This can potentially impact our ability to maintain market shares of established products, sustain product launch

trajectory of recently launched products, and successfully commercialize our development pipeline assets (including tralokinumab), while also affecting our ability to partner with the right investigators and study sites for our clinical trials.

Operating risks

Supply disruptions due to delays or failures throughout our global supply chain is a significant risk. These disruptions may result from breakdowns in our internal supply processes or those of external partners, causing product shortages for patients and caregivers and negatively impacting LEO Pharma's finances and reputation.

Information security breaches, including malware attacks and data breaches, form a significant risk. The potential risk impact has increased throughout 2018, due in part to the wide-ranging legislative requirements coming into effect, including the EU General Data Protection Regulation, and due to the extensive malware attacks that have significantly impacted other medium and large size corporations recently.

Compliance risks

Violations of external legislation, regulations, industry codes and internal standards is a potential risk for a company like LEO Pharma, which operates on a global scale in a strictly and increasingly regulated industry. These risks may materialize in our internal operations or in external dealings with business partners, healthcare providers, etc. Such violations could lead to investigations by external

authorities and lawsuits filed against LEO Pharma, causing financial and reputational damage to LEO Pharma, while also negatively impacting the individuals involved.

Financial risks

Transfer pricing disputes with tax authorities and currency impact due to exchange rate fluctuations are external risks that could affect LEO Pharma at any time. LEO Pharma's foreign exchange risk is most significant in USD, GBP and CAD, as the foreign exchange risk arising from EUR sales is regarded as low due to Denmark's fixed-rate policy towards EUR.

CSR risks

LEO Pharma is committed to addressing CSR risks linked to our products and our business operations. This includes addressing the risks of our business on society, the environment, and on climate change, and the risks CSR issues pose to our long-term business objectives.

On pages 57–60 you can find an overview of our CSR risks assessment process, material CSR issues and the LEO Pharma programs we implement to address them.

“ As a foundation-owned company, we have the independence and obligation to put patients first.

Company information

A proactive and transparent corporate governance structure promotes sustainable business behavior and long-term value creation.

Ownership structure

LEO Pharma A/S

LEO Pharma A/S is a fully owned subsidiary of:

LEO Foundation
Lautrupsgade 7, 5th floor
2100 Copenhagen Ø, Denmark.

LEO Group legal structure



*Group comprises LEO Pharma A/S and its Danish and international subsidiaries.

See full bios of LEO Pharma Board of Directors members on page 53–54

Board of Directors

LEO Pharma A/S

Jukka Pekka Pertola
Chairman, Board member since 2011

Olivier Bohuon
Vice Chairman, Board Member since 2018

Patrik Oluf Dahlén
Board member since 2016

Jesper Høiland
Board Member since 2016

Cristina Patricia Lage
Board Member since 2017

Jan van de Winkel
Board member since 2017

Anders Ekblom
Board member since 2018

John Robert Weeks
Board Member since 2014

Jesper Mailind
Board Member since 2018

Signe Maria Christensen
Employee-elected Board Member since 2018

Franck Maréno
Employee-elected Board Member since 2018

Jannie Kogsbøll
Employee-elected Board Member since 1998

Karin Attermann
Employee elected Board Member since 2008

Remuneration and Nomination Committee

The Board of Directors has established a Remuneration and Nomination Committee to assist the Board of Directors in aspects related to remuneration, assessment and nomination. The Remuneration and Nomination Committee meets when required but at least twice a year. The Remuneration and Nomination 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 Nomination Committee: Jukka Pekka Pertola (Chairman), Olivier Bohuon, John Robert Weeks & Jesper Mailind (The LEO Foundation)

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 comprises 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

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), Jesper Høiland & Anders Ekblom

LEO Pharma A/S

Board of Directors

Jukka Pekka Pertola

Chairman, Board Member since 2011

Nationality: Finnish.

Special competencies: More than 25 years of management experience in healthcare, energy, industry and infrastructure sectors.

Board committees, LEO Pharma A/S: Remuneration and Nomination Committee.

Career: Former CEO, Siemens Denmark. Has been with Siemens since 1984. Now professional board member.

Education: M.Sc. in Electrical Engineering from Helsinki University of Technology.

Other board memberships:

- Siemens Gamesa Renewable Energy A/S (Chairman).
- Tryg A/S / Tryg Forsikring A/S (Chairman).
- Gomspace Group AB / Gomspace A/S (Chairman).
- Akademi for de Tekniske Videnskaber (President).
- Monsenso ApS (Chairman).
- IoT Denmark A/S (Chairman).
- COWI Holding A/S (Vice Chairman).
- Industriens Pensionsforsikring A/S.

Olivier Bohuon

**Vice Chairman,
Board Member since 2018**

Nationality: French.

Special competencies: Pharmaceutical Industry.

Board committees, LEO Pharma A/S: Remuneration and Nomination Committee.

Career: CEO Smith and Nephew plc (UK) from 2011 to 2018, CEO Pierre Fabre, Corporate EVP and President Abbott Laboratories Pharmaceutical division.

Education: MBA HEC Paris, France / Doctorate in Pharmacy, University of Paris XI, France.

Other board memberships:

- Takeda plc.
- Smiths Group plc.
- Virbac plc.

Patrik Oluf Dahlén

Board Member since 2016

Nationality: Finnish.

Special competencies: 32 years of global management experience in the field of healthcare, diagnostics and life science.

Board committees, LEO Pharma A/S: Audit committee (Chairman).

Career: Senior leadership roles in PerkinElmer, CEO in Dako (DK), NeuroSearch (DK), Immunodiagnosics Systems (UK), SSI Diagnostica (DK). Board memberships and investor in several start-up companies.

Education: MSc Biochemistry, Åbo Akademi, Finland / PhD Biochemistry, Turku University, Finland.

Other board memberships:

- VisioPharm A/S (Chairman).
- AdvaLight A/S (Chairman).
- Immudex A/S.

Jesper Høiland

Board Member since 2016

Nationality: Danish.

Special competencies: 25+ years of life sciences leadership and experience in the biopharmaceutical industry across leadership roles, geographies and therapeutic areas.

Board committees, LEO Pharma A/S: Scientific Committee (Member).

Career: President & CEO, Radius Health, 2017 to present. Novo Nordisk Inc., A/S, 1987 to 2016, including President/Executive Vice President USA, 2013 – 2016.

Education: M.Sc. from Copenhagen Business School.

Other board memberships:

- Radius Health, Inc.

Cristina Patricia Lage

Board Member since 2017

Nationality: Danish.

Special competencies: Finance, M&A, asset management, CSR, top management.

Board committees, LEO Pharma A/S: Audit Committee (Member).

Career: CEO Finance Industry (Investment, Pension) and inter alia media. Now professional board member.

Education: M.Sc. Economics, CBS Copenhagen.

Other board memberships:

- Arbejdsmarkedets Erhvervssikring (Chairman).
- LEO Foundation.
- LEO Holding A/S.
- Det Obelske Familiefond.
- C. L. Davids Fond.

Jan van de Winkel

Board Member since 2017

Nationality: Dutch.

Special competencies: Extensive antibody creation and development expertise, broad knowl-

edge of the biotechnology industry and executive management skills.

Board committees, LEO Pharma A/S:
Scientific Committee (Chairman).

Career: CO-founder, president and CEO of Genmab A/S. Served as Vice President and Scientific Director of Medarex Europe prior to Genmab and holds a professorship of Immunotherapy at Utrecht University.

Education: M.Sc. in Biology and Ph.D. in Immunology from University of Nijmegen, The Netherlands.

Other board memberships:

- Hookipa Pharma (Chairman).
- Celdara Medical.

Anders Ekblom

Board Member since 2018

Nationality: Swedish.

Special competencies: Broad business knowledge, 20 years experience from senior roles in the biopharmaceutical industry and global work cross functions and countries, delivering products, projects, productivity and change management.

Board committees, LEO Pharma A/S:
Scientific Committee (Member).

Career: Former Executive Vice President Global Medicines Development at AstraZeneca Plc, and CEO AstraZeneca AB. Now professional board member.

Education: M.D., Ph.D., D.D.S. Karolinska Institutet, Stockholm, Sweden.

Other board memberships:

- Alligator Bioscience AB (Director).
- AnaMar, AB (Director).
- Elypta AB (Chairman).
- Infant Bacterial Therapeutics AB (Director).
- Mereo Biopharma Group Plc (Director).
- Trial Form Support AB (Chairman).

John Robert Weeks

Board Member since 2014

Nationality: American.

Special competencies: Leadership, Organization Design, Company Culture, Change.

Board committees, LEO Pharma A/S:
Remuneration and Nomination Committee (Member).

Career: Professor of Leadership and Organizational Behavior, IMD.

Education: PhD, Management, MIT Sloan School of Management MPhil, Management, Oxford University / BA, Computer Science, University of California, Berkeley.

Jesper Mailind

Board Member since 2018

Nationality: Danish.

Special competencies: Global leadership and transformation experience in healthcare, medical devices and industry.

Board committees, LEO Pharma A/S:
Remuneration and Nomination Committee (Member).

Career: CEO, LEO Foundation, former CEO GN Resound, RTX and SVP in Nycomed (Takeda).

Education: MBA, Insead.

Other board memberships:

- RTX A/S (Deputy Chairman).
- Sonion A/S.
- Etac AB.

Signe Maria Christensen

Employee elected Board Member since 2018

Nationality: Danish.

Career: Strategic Alliance manager. Has been with LEO for 8 years in different roles in research and development.

Education: M.Sc. in chemical engineering and Ph.D. in organic chemistry from The Technical University of Denmark.

Franck Maréno

Employee-elected Board Member since 2018

Nationality: Danish.

Career: Operator at Ferring A/S, Operator at Cederroth Paramedical. Now Principal Technician. Former staff delegate at Ferring Pharmaceuticals, now vice chairman of the Technicians Club at Leo Pharma.

Education: AP Graduate Laboratory and Biotechnology "Technonome".

Jannie Kogsbøll

Employee-elected Board Member since 1998

Nationality: Danish.

Career: Has been with LEO Pharma since 1985.

Other board memberships:

- A/B Stenrosen (Chairman).
- LEO Foundation.
- LEO Holding A/S.

Karin Attermann

Employee-elected Board Member since 2008

Nationality: Danish.

Board committees, LEO Pharma A/S:
Audit Committee (Member).

Career: 30 years with LEO Pharma A/S in various roles within the commercial organisation, since 2012 with focus on compliance.

Education: BA in English and German.

Other board memberships:

- LEO Pharma Social Club "Personaleforeningen LEO" (Chairman).

Research Project Board

LEO Pharma's Global Leadership Team has established the Research Project Board to ensure alignment on managing the research projects, from initiation until decision to start clinical testing.

The Research Project Board is a cross-functional board with members from the wider areas of R&D, including Research, Medical Science and Pharmaceutical Design & Development.

Chairman: Thorsten Thormann, Vice President, Research.

Corporate Social Responsibility Board

The Corporate Social Responsibility (CSR) Board is an initiative of LEO Pharma's Global Leadership Team. The LEO Pharma CSR Board sets the strategic direction for CSR at LEO Pharma and supports implementation. The board discusses and approves high-level CSR initiatives, approves annual CSR reporting and acts as CSR spokespersons, supporting internal and external CSR communication. The board also formally appoints CSR Drivers based on recommendations from the CSR team. The President and CEO of LEO Pharma appoints the members of the CSR Board.

The CSR Board is a cross-functional board with members from the following functions: Global Procurement, Global Communications and Public Affairs, Research, Dermatology Value Stream and Cluster Europe (North), Australia & New Zealand.

Chairman: Mette Vestergaard, Executive Vice President, Global People & Business Transformation.

Development Board

LEO Pharma's Global Leadership Team has established the Development Board to ensure strategic alignment and to maximize the value of the portfolio of projects in development, from first clinical studies until launch.

The Development Board is a cross-functional board with members from Global Research & Development, Global Product Supply, Marketing, Region US, Finance, and the CEO.

Chairman: Kim Kjeller, Executive Vice President, Global Research & Development.

Life Cycle Management Board

LEO Pharma's Global Leadership Team has established the Life Cycle Management Board to ensure strategic alignment, to maximize the value and to ensure compliance for LEO Pharma's marketed solutions.

The Life Cycle Management Board is a cross-functional board with members from Research & Development, Global Product Supply, Marketing & Sales Regions, and Finance.

Chairman: Jørgen Damsbo Andersen, Executive Vice President, Region International.

Compliance Board

The Compliance Board is an initiative of LEO Pharma's Global Leadership Team. The role of the compliance board is to strengthen the overall compliance community and to strengthen the compliance mindset throughout the organization. The compliance board has oversight responsibility with respect to overall compliance programs and procedures, and monitors the implementation of compliance programs, procedures and guidelines. The compliance board also oversees the investigation of potential compliance violations.

The Compliance Board is a cross-functional board with members from Global Compliance & Risk, Business Ethics, Global Quality and Global Legal.

Chairman: Mette Vestergaard, Executive Vice President, Global People & Business Transformation.

LEO Innovation Lab Board

Established by LEO Pharma's Global Leadership Team. Advisory board to LEO Innovation Lab in setting the strategic direction.

The LEO Innovation Lab Board consists of the Head of LEO Innovation Lab, the President and CEO of LEO Pharma, the Executive Vice President Global People & Business Transformation, as well as Jacob Jønck, entrepreneur, and Tommy Ahlers, entrepreneur (stepped down from the board on May 3, 2018).

Chairman: Kim Kjeller, Executive Vice President, Global Research & Development.

LEO Pharma A/S

Global Leadership Team



From left: Anders Kronborg, Kim Kjøller, Mette Vestergaard, Jørgen Damsbo Andersen, Gitte P. Aabo, Patrice Baudry, Guillaume Clément, Rhonda Duffy & Chris Posner.

Gitte Aabo: President & CEO

Anders Kronborg: Executive Vice President, Global Finance & Business Services

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

Guillaume Clément: Executive Vice President, Region Europe+

Jørgen Damsbo Andersen: Executive Vice President, Region International

Kim Kjøller: Executive Vice President, Global Research & Development

Mette Vestergaard: Executive Vice President, Global People & Business Transformation

Patrice Baudry: Executive Vice President, G3M – Global Marketing, Market Access & Medical Affairs

Rhonda Duffy: Executive Vice President, Global Product Supply

Defining our CSR issues

In our CSR Commitment 2018-2020, we commit to focus on addressing issues where our impact on society and our business is the most significant.

As a global pharmaceutical company that innovates, researches, produces, and distributes medicines to our patients, our business performs many functions that impact on society.







Most importantly, we address unmet medical needs and support our patients by helping to remove barriers to healthcare and promote patients' voice in healthcare decisions. We also employ a diverse workforce of blue and white collar employees, and maintain relationships with a broad range of business partners throughout our global value chain.

Our CSR focus areas




Our CSR Commitment 2018-2020 sets the framework for working on the CSR issues which are most important to our business. Through continuous dialogue with internal and external stakeholders, we work to understand the impact of our business on society.

We included in our assessment views from patient organizations, regulators, policy makers, civil society, business partners and employees. We have prioritized 11 issues that are considered to be most important to our stakeholders and to LEO Pharma. These key issues are addressed through our portfolio of 11 programs supporting the CSR Commitment.





Empowering patients

Issue	Issue description	Program	UN Sustainable Development goal
Unmet medical needs	Address unmet medical needs of people with skin disease through continued development of medicines and minimize risk to patients' safety through robust clinical trials and data transparency.	Expanding dermatological solutions	 Target 3.4  Target 17.17
Barriers to healthcare	Improve accessibility, quality, and affordability of health services available to dermatology patients.	Removing barriers to healthcare	 Target 3.8  Target 17.17
Patient voice in healthcare policies and decisions	Increase patients' influence on policies, guidelines, and disease management.	Strengthening patient voice	 Target 3.8  Target 17.17

Sustainable operations

Issue	Issue description	Program	UN Sustainable Development goal
Resource use and climate change	Manage impact of our operations on climate change and the environment by reducing energy consumption and CO ₂ emissions throughout our value chain.	Climate change, environment and energy	 Target 7.3  Target 13.1
Sustainable workforce	Foster a positive working environment and enhance mental well-being at work.	Mental well-being at work	 Target 8.8
A capable and motivated workforce	Ensure that we are able to attract, develop and retain the people with the right competences.	People development	

Business integrity

Issue	Issue description	Program	UN Sustainable Development goal
Workplace safety	Protecting the health and safety of our employees.	Employee safety	 Target 8.8
Corruption and unethical business practices	Work against corruption and bribery in all its forms, with attention to high risk countries, relevant internal functions such as sales and marketing, procurement, legal, finance and audit, and interaction with public officials, healthcare professionals (HCPs) and business partners.	Anti-corruption	 Target 16.5
Responsible conduct of suppliers	Conduct CSR due diligence and promote responsible business conduct of suppliers.	Responsible supply chain management	 Target 8.7  Target 12.4 Target 12.5 Target 12.6
Privacy protection	Protect the privacy of clinical trialists (patients), healthcare professionals (HCPs), our employees and other stakeholders in our global operations.	Personal data protection	
Animal welfare in research	Reduce number of animals in experiments and refine the use of animals.	Animal welfare	

Human Rights at LEO Pharma

As a member of the UN Global Compact, LEO Pharma is committed to respecting all human rights as described in the Universal Declaration of Human Rights, the International Bill of Human Rights, and the ILO Declaration on Fundamental Principles and Rights at Work.

LEO Pharma is committed to business practices that respect internationally recognized human rights. As a leader in medical dermatology, we commit to ensure patient safety and safeguard the right to privacy and freedom of consent in reference to clinical trials. Across our global operations, we work to strengthen labor rights through fair and safe working conditions, and promote the respect for labor and human rights in our supply chains. As a member of the UN Global Compact, LEO Pharma is committed to respecting all human rights as described in the Universal Declaration of Human Rights, the International Bill of Human Rights, and the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work.

building efforts: The Human Rights Working Group of the UN Global Compact Network Denmark, and the UN Guiding Principles Network of Global CSR, and the Human Rights Impact Assessment Network (HRIA) of the Danish Initiative for Ethical Trade (DIEH).

Strengthening our due diligence

In 2018, we achieved our goal relating to implementation of the UN Guiding Principles by conducting human rights due diligence on LEO Pharma headquarters. Over the course of the year, the scope was expanded to include LEO Pharma Group. Self-assessment provide us with an understanding of how our business activities could potentially have impacts on rights holders. The self-assessment also provided an overview of the measures we implement to prevent these impacts.

LEO Pharma Code of Conduct and Human Rights Policy

We want to ensure that our employees respect human rights and integrate human and labor rights considerations into their daily work.








Our LEO Pharma Code of Conduct, our Human and Labor Rights Policy, and Third-Party Compliance Code set the framework for our commitment to safeguard and respect human rights across our global operations and supply chains. This framework has been endorsed by LEO Pharma's CEO and the Global Leadership Team. Training on our Code of Conduct is mandatory for all employees and is available in available in 20 languages.

We implement the UN Guiding Principles on Business and Human Rights (UNGPs), including assessing our principle human rights risks in relation to our operations.

We participate in three multi-stakeholder human rights business networks to support our capacity

All LEO Pharma manufacturing sites are located within the EU. We operate in a highly-regulated industry in relation to the development, production, marketing, and distribution of our products, and the monitoring of product safety. These industry regulations inform our LEO Pharma policies, which helps us mitigate our human rights risks. The self-assessment showed that we manage our most significant human rights risks well, and that our LEO Pharma policies and programs constitute an adequate framework of preventative measures. These policies and preventative measures are listed on p. 60.

In 2019, we will build upon this work and focus on supporting areas of the business that are key for our human rights performance. We will also initiate an assessment in one of our key affiliates.

Rights holder	Our people	Our patients	Our business partners
Business activity	Our business operations	<ul style="list-style-type: none"> • Research & Development • Clinical trials • Digital solutions • Distribution of medicines 	Sourcing of materials
Human rights focus area	Working conditions	<ul style="list-style-type: none"> • Right to health • Right to privacy 	<ul style="list-style-type: none"> • Working conditions • intellectual property rights
Key issues	<ul style="list-style-type: none"> • Working hours • Remuneration and pay • Leave and vacation • Health and safety • Non-discrimination • Freedom from harassment • Freedom of association • Privacy of personal data 	<ul style="list-style-type: none"> • Patient safety • Freedom of consent in clinical trials • Privacy of personal data • Responsible lobbying, sales and distribution of medicines 	<ul style="list-style-type: none"> • Working hours • Remuneration and pay • Leave and vacation • Health and safety • Non-discrimination • Freedom from harassment • Freedom of association • Privacy of personal data • Fair and equitable sharing of benefits from use of genetic resources, including traditional knowledge
Policies and documents to manage our Human rights issues	<ul style="list-style-type: none"> • LEO Pharma Code of Conduct • Human and Labor Rights Policy • Protection of Personal Data Policy • Position on Mental Well-being at Work • Occupational Health and Safety Policy • Bullying and Harassment Policy • SOP for Job Descriptions • Global Redundancy Policy • Employee contracts 	<ul style="list-style-type: none"> • LEO Pharma Code of Conduct • Human and Labor Rights Policy • Helsinki Declaration • Patient safety (GXP Quality Policy) • Protection of Personal Data Policy 	<ul style="list-style-type: none"> • Third Party Compliance Code • Position on Responsible Procurement • Nagoya Protocol
Program	 Employee safety	 Expanding dermatological solutions	 Responsible supply chain management
	 Mental well-being at work	 Personal data protection	 Personal data protection
	 Personal data protection		

Access to remedy

We recognize the importance of continuously monitoring our potential human rights risks through our due diligence process and whistleblower hotline. This remediation channel gives LEO Pharma people and others associated with LEO Pharma the ability to report unethical behavior and serious concerns in a secure and confidential way.

In 2018, no reports regarding serious impact on human rights were received through the LEO Pharma Whistleblower Hotline.

Empowering patients

Goal 2020	Status
Help people with skin diseases get access to health and healthcare	In progress
Empower people with skin diseases	In progress
Train healthcare workers	In progress



SDG 3 – Target 3.4
SDG 17 – Target 17.17

Expanding dermatological treatments

Issue: Unmet medical needs

We provide value to our patients and society by developing medicines to improve outcomes of existing treatments and conditions for which no other treatment exists. Our commitment to focus on rare dermatology diseases is unique.

With the aim to treat more patients, in 2018 we have:

- Expanded our clinical pipeline (see page 23).
- Refocused new projects in Research to be First in Class.
- Built a special unit for rare dermatology diseases, establishing a workstream for preparing new projects in rare dermatological diseases.
- Expanded our offering globally. Approvals of established products in new global markets.

With the ambition to have world class science in our dermatology research and development programs, we work in partnerships with academia and other pharma companies to expand our innovative technologies.

Furthermore, we have an Open Innovation Platform for exploring opportunities for drug discovery with external partners. The Open Innovation Platform provides the opportunity to test, free of charge and in full confidentiality, whether a compound has the potential to treat dermatology diseases.

Our position on Public Access to Clinical Trials Information applies to all Clinical Trials sponsored by LEO Pharma, thereby ensuring that these trials meet and in some cases exceed regulatory requirements.

In 2019, we will:

- Continue to develop our projects in our pipeline, and expand our dermatological treatments by both developing internal projects and looking for external opportunities including academic collaborations.
- Invest in research and development globally, to ensure world class science within dermatology.

Read more about LEO Pharma's position on Public Access to Clinical Trials Information.

Link: leo-pharma.com/clinicaltrialstransparency



SDG 3 – Target 3.4
SDG 17 – Target 17.17

Removing barriers to healthcare

Issue: Barriers to healthcare

We seek to understand the barriers to healthcare that people with skin diseases face. We aim to remove the social, cultural, financial and other barriers to enable dermatological patients to live full, happy and healthy lives and access the best care and treatment for their condition.

We strive to develop patient-focused training programs, as well as digital solutions and artificial intelligence (AI) technology, to support Healthcare Professionals (HCPs) and patients in skin condition prediction, diagnosis, and progression monitoring.

In 2018, we increased the integration of HCPs and patients in our Psoriasis Academy. We trained HCPs in two different regions, reaching an estimated total of 15,000 patients. We also launched clinical consultation templates for use by patients and physicians alike to optimize the dermatology consultations, and developed a new content module on suicidal ideation in psoriasis patients.

We also launched the “Imagine” tracking tool and started development of the “Better Visit” chatbot. Designed to promote more widespread use of the patient template, the chatbot enables patients to use their smartphone to prepare for a dermatology consultation while in the waiting room.

In 2019, we will:

- Extend the outreach of the Academy to include dermatology nursing staff in our sessions, as well as consolidate our patient outreach by increasing ease and accessibility of the Academy webpage, and optimizing HCP/patient interaction with the prospective introduction of our chatbot.
- Launch a Policy Commitment outlining our position on access to health and well-being for dermatological patients.
- Explore the possibility to expand our program to a new disease area and work with our partners to develop an “Eczema Academy”, which will support disease awareness. We will also expand our patient understanding by initiating a validation study in order to measure patient impact of participating in our program.



SDG 3 – Target 3.4
SDG 17 – Target 17.17

Strengthening patient voice

Issue: Patient voice in healthcare policies and decisions

We advocate for the increased inclusion of the patient voice, as we believe this is pivotal to improving the health and well-being of people living with skin diseases. We work in close partnership with patient advocacy groups, supporting their work as advocates for our patients. We commit to partnerships and follow the guidance of the LEO Code of Conduct and comply with applicable laws, legislation and industry codes on relationships between the pharmaceutical industry and patient organisations.

In 2018, we worked towards this goal by organizing a seminar with patients, payers, policymakers, legislators from the FDA, EMA and OECD among others to discuss incorporating the patient perspective at all stages of drug development and patient access decisions. While patients are represented with a seat on many committees, further progress needs to be made in truly incorporating their views on drug access issues. LEO Pharma will continue to work with patients on this important topic.

In 2019, we will:

- Continue partnering with patients and policymakers to further strengthen the patient voice and further develop our close partnerships with patient advocacy groups.
- Continue our pursuit to roll out the WHO resolution on psoriasis at the national level.

Sustainable operations

Climate change, environment and energy

Goal 2018	Status
Set new climate change KPIs	In progress
Plan climate change mitigation activities at LEO Pharma	In progress
Standardize and reduce internal complexity regarding EHS certifications	Partly achieved
Goal 2020	
Define climate change KPIs	In progress

Mental well-being at work

Goal 2018	Status
Present a global position to enhance mental well-being at work at LEO Pharma	Achieved
Goal 2020	
Create a baseline for mental well-being issues and for current activities and initiatives	In progress
Share best practices and roll out mental well-being supporting material	In progress
Engage managers, HR, and EHS communicators to enhance mental well-being at work initiatives for LEO people	In progress
Follow up on assessment of mental well-being issues and activities	In progress

People development

Goal 2018	Status
Reach 82% or more in sustainable engagement score	Achieved
Create a strategy for leadership development	Achieved
Goal 2020	
Implement a global process for performance management	In progress



SDG 7 – Target 7.3
SDG 13 – Target 13.1

Climate change, environment and energy

Issue: Resource use and climate change

We want to be more efficient in how we power and heat our manufacturing sites and offices.

Our policy on Environment, Climate and Energy is part of our Code of Conduct, which acknowledges our adherence to international conventions and applicable laws and regulations. Furthermore, it describes the responsibility of LEO Pharma people to consider environmental and energy performance in new projects and their daily work.

Our five manufacturing sites are ISO 14001 certified. We follow the 'Plan – Do – Check – Act' due diligence model on which this ISO standard is based.

On energy efficiency, we have set a goal to save an amount of energy corresponding to 10% of our energy consumption in 2013 via energy savings. This is equal to reducing our energy consumption by 12,900 MWh.

In 2018, we made progress towards this goal by replacing ventilation and installing LED lighting, which led to a total reduction of 1,600 MWh. This year, we also decided on the implementation of heat pumps in our new Ballerup factory. Once the new factory is in operation, we will be delivering our excess heat to the municipal grid in Ballerup 1,650 households in Ballerup are expected to be warmed with our excess heat, which would result in an expected saving of 126 tons of CO₂ annually.

In 2018, we engaged with an external partner and completed a company-wide carbon footprint analysis.

In 2019, we will:

- Use data from the carbon footprint analysis to increase our understanding of our major climate change contributors and develop a plan for working with climate change mitigation and resilience.
- Set 2025 goals according to climate change KPI and define local, site-specific climate change KPIs.
- Aim to reduce 6,000 MWh by saving energy in ventilation, pumps, heating, lighting and compressed air, and by installing solar panels.

Read more about LEO Pharma's Environment, Climate and Energy policy part of our LEO Code of Conduct.

Link: leo-pharma.com/codeofconduct



SDG 8 – Target 8.8

Mental well-being at work

Issue: Sustainable worklife

Having motivated and healthy employees is the foundation for LEO Pharma to reach our corporate strategy 2025. Working conditions represent a salient influence on our employees' mental well-being.

Our LEO Pharma Code of Conduct includes our Occupational Health and Safety Policy, which acknowledges our responsibility to ensure a safe and healthy working environment that complies with applicable laws, regulations and industry codes.

We assess the psycho-social working environment and risks through assessments such as our global engagement survey (LEO Voice), and mitigate any gaps in reference to the mental well-being of our employees at work. We acknowledge the occupational risk of work-related stress, which we take measures to mitigate and prevent.

In 2018, we took the preventive measures of continuing the training of managers in Headquarters in organisational stress prevention.

In 2018, a key deliverable was to develop a LEO Pharma Position on Mental Well-being at Work, which going forward, will serve as our global framework for LEO Pharma employees.

In 2019, we will:

- Roll out the LEO Pharma position on mental well-being at work throughout the organization.
- Collect data on mental well-being issues to create a baseline
- Continue to conduct employee engagement surveys throughout the year to monitor the current status.

Read more about LEO Pharma's Position on Mental Well-being at Work.

Link: leo-pharma.com/mentalwell-beingatworkposition
leo-pharma.com/codeofconduct



People development

Issue: A capable and motivated workforce

The success of LEO Pharma lies in our people; a competent and highly engaged workforce is a prerequisite for executing our LEO Pharma 2025 strategy. In 2017, we launched a new strategy requiring that we are able to build and develop strategic competences that are new to the company.

As a consequence, a number of strategic initiatives were initiated in 2018. We reached the KPIs that we had defined for the year.

- We reached a sustainable engagement score of 83%, which confirms that our people are highly motivated and committed.
- We developed a leadership development strategy covering all leaders that focuses on developing the leadership behaviors critical for executing our LEO Pharma 2025 strategy.
- In December we launched LEO GROW – LEO Pharma's new process to ensure clear individual goals and focused development through on-going conversations between manager and employee.

In 2019, we will:

- Follow the continued implementation of LEO GROW closely.
- Implement the leadership development strategy, starting with new leaders and senior leaders.
- Build on the Employer Value Proposition that we developed in 2018 and start to move from reactive recruiting to proactive sourcing by creating increased awareness about LEO Pharma as an employer and building relationships with prospective future employees.
- Implement the talent development framework that we created in 2018, which focuses on how we accelerate the development of talents for key leadership positions.

We will continue to closely follow the engagement of our people through 3 surveys per year.

Business integrity

Employee safety

Goal 2018	Status
Set new KPIs	In progress
Achieve LTI rate ≤ 3.5 for manufacturing sites	Not achieved
Standardize and reduce internal complexity regarding EHS certifications	Partially achieved
Goal 2020	
Define new KPIs	In progress

Anti-Corruption

Goal 2018	Status
Develop strengthened Anti-Corruption Program ready for implementation	Achieved
Goal 2020	
Develop and implement the Anti-Corruption program	In progress
Train all employees	In progress
Train all partners whose employees represent LEO Pharma	In progress
Strengthen awareness of good business conduct	In progress



SDG 8 – Target 8.8

Employee safety

Issue: Workplace safety

Keeping our employees safe is of great importance in everything we do. We want to protect the health and safety of our colleagues and avoid disruptions to our operations caused by workplace accidents. We face some challenges relating to ergonomics and manual handling, which will be one of our focus areas in 2019.

Our Occupational Health and Safety Policy is set out in our LEO Pharma Code of Conduct and reflected in internal procedures. In terms of safety due diligence, we consistently assess our systems and processes on safety, while employee and builder safety is also a key priority in the design and building phase of new buildings at our sites.

Our five manufacturing sites have OHSAS 18001 certifications and we follow the 'Plan – Do – Check – Act' due diligence model on which this standard is based.

In 2018, we continued our simplification and standardization journey relating to EHS certifications. Our global EHS management system was implemented in 2018. The sites in Ballerup, Esbjerg and Cork were audited against this global system and now share the same OHSAS 18001 and ISO 14001 certifications. The remaining manufacturing sites are expected to join no later than 2020.

Furthermore, we strengthened our focus on improving a culture of safety among employees through our ongoing "Best in Safety" project at our manufacturing sites. This year we have intensified our focus on direct engagement, shop floor dialogues and individual training.

Our lost time injury (LTI) rate at manufacturing sites fell for the fifth year in a row. We came close to the set 2018 KPI of < 3.5 with an LTI rate of 3.7. To maintain this trend and continuously improve our safety performance, we started the process of developing additional KPIs to better monitor the causes and severity of incidents that could result in LTIs.

In 2019, we will:

- Assess the maturity and quality of our data collection system to ensure that we have the data needed to produce an accurate picture of our safety performance.

Read more about LEO Pharma's Occupational Health and Safety Policy in the LEO Pharma Code of Conduct.

Link: www.leo-pharma.com/codeofconduct



SDG 16 – Target 16.5

Anti-corruption

Issue: Corruption and unethical business practices

Integrity is one of LEO Pharma's core values. At LEO Pharma, we are committed to upholding high business standards and promoting good business conduct globally in our interactions with customers, healthcare professionals, public officials and other business partners.

Our commitment to work against corruption is set out in our Anti-Corruption and -Bribery Policy, which is part of the LEO Pharma Code of Conduct. The areas identified as most critical to our global operations from an anti-corruption perspectives are where LEO Pharma people interact with healthcare professionals, healthcare organizations and public officials.

All LEO Pharma people receive training in the Anti-Corruption and -Bribery Policy. LEO Pharma people working in areas identified as medium or high risk of exposure to corruption, including the above mentioned high risk areas, receive additional training. New employees undergo mandatory training in anti-corruption shortly after their employment.

The Anti-Corruption Program is supported by the LEO Pharma Whistleblower Hotline, where employees and external stakeholders can report serious concerns in a secure and confidential way.

In 2018, we have been focusing on strengthening our Anti-Corruption Program to improve the prevention and early detection of corruption.

In 2019, we will:

- Implement the new Anti-Corruption program across the business and train all employees. The program will strengthen processes of key areas such as risk assessment, training, due diligence, and monitoring and ensuring continuous alignment with global standards and best practices of fighting corruption.
- Train partners whose employees represent LEO Pharma by the end of 2019.

Read more about LEO Pharma's Anti-Corruption and -Bribery Policy as part of the LEO Pharma Code of Conduct.

Link: www.leo-pharma.com/codeofconduct

Business integrity

Responsible supply chain management

Goal 2018	Status
Strengthen due diligence procedures	Achieved
Reinforce focus on supply chain management by strengthening procedures	Achieved
Goal 2020	
Conduct five supplier site visits	In progress

Personal data protection

Goal 2018	Status
Establish global unified programme and conduct awareness campaigns	Achieved
Goal 2020	
Establish a global privacy framework for stakeholder dialogue and collaboration	In progress
Strengthen data protection culture	In progress
Strengthen stakeholder dialogue, engagement and collaboration	In progress

Animal welfare

Goal 2020	Status
Engage with approved collaboration partners with full approval for all species of laboratory animals.	In progress
Use fewer animals in the discovery phase of drug development.	In progress
Inspire other research institutions in Denmark to use capillary micro sampling as blood collection technique.	In progress
Produce an overview of experimental animals used in research, including numbers and species used for drug development projects from 2018 onwards	In progress



SDG 8 – Target 8.7

SDG 12 – Target 12.4; 12.5; 12.6

Responsible supply chain management

Issue: Responsible conduct of suppliers

We work with around 5,300 active global suppliers. Our LEO Pharma Position on Responsible Supply Chain Management (updated in 2018) and LEO Pharma Third-Party Compliance Code outline our expectations of our suppliers to operate in compliance with applicable laws, rules and regulations, and to work with high quality and ethical standards.

Based on the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and LEO Pharma Third Party Compliance Code, we conduct assessments and evaluations through a risk-based approach based on frequency of purchase, dependency, spend, and known risks. We focus on areas where adverse impact in our supply chain is most likely to occur or where the consequences are most severe.

In 2018, we assessed 1,657 suppliers across all supplier categories. In high risk cases, we engaged directly with suppliers through self-assessment questionnaires or follow-up questions.

In 2018, we identified our salient human rights in our supply chain to be: Right to life, Right to health, and Right to adequate standard of living. We use this outcome to improve processes, so we place appropriate focus on the categories with high risk of potential adverse impact on human rights, and take preventative measures to address this risk.

In 2019, we will:

- Plan to conduct site visits of key suppliers, using recommendations from the OECD guidelines and PSCI audit framework.
- Perform one site visit and upload one site assessment to the Pharmaceutical Supply Chain Initiative (PSCI) Platform.
- Train employees in due diligence.

Read more about LEO Pharma Third-Party Compliance Code and Position on Responsible Supply Chain Management under the Responsible Supply Chain Management section of our website.

Link: www.leo-pharma.com/thirdparty



Personal data protection

Issue: Privacy protection

We must safeguard the privacy of the LEO Pharma people, patients, doctors and medical staff with whom we engage, and we must protect personal data.

Our policy on Protection of Personal Data is part of our LEO Pharma Code of Conduct. Through our commitment to Binding Corporate Rules, we do not distinguish between regions in our approach to safeguarding individual rights and freedoms, even though some regions have stricter data protection legislation than others. We set the highest bar everywhere.

In 2018, we strengthened our global privacy program to be fully aligned with the EU's General Data Protection Regulation (GDPR). The program mapped the impact of GDPR on business lines and developed governance and training programs to be structurally compliant with GDPR.

As part of these efforts, in 2018 we trained more than 2,500 LEO Pharma people who handle personal data, both online and in face-to-face settings. This has been supported by an internal campaign to raise awareness of personal data protection requirements.

In 2019, we will:

- Keep strengthening the data protection culture internally through ongoing training of the remaining LEO Pharma people and awareness-raising activities.
- Build collaboration with external stakeholders regarding data privacy and establish a global privacy framework for stakeholder dialogue and collaboration.

Read more about LEO Pharma's policy on Protection of Personal Data and Human and Labor rights policy in the LEO Pharma Code of Conduct.

Link: www.leo-pharma.com/codeofconduct



Animal welfare

Issue: Responsible research

Animal experimentation is a prerequisite for drug development. As stated in our LEO Pharma Position on Animal Welfare, we want to adhere to the highest standards in animal research, based on the 3Rs and the EU Directive on the protection of animals used for scientific purposes. The 3Rs ensure replacement, reduction and refinement in the work with research animals. In practice, this means we only use animals if there are no alternatives, and in these cases we use as few animals as possible and minimize the negative impact on each animal.

In 2018, we commenced animal registration to monitor the number of animals used in each research project, with the aim of reducing this use moving towards 2025.

Around 70% of our animal research is performed externally and we have an ongoing focus on improving animal welfare at our partners' facilities through audits and dialogue. In 2018, we audited sites in China and the United States, and approved specific research activities where the animal welfare standards comply with our internal standards.

At our animal facility in Ballerup, Denmark, we developed and implemented cages for rats that are significantly larger and contain more enrichment than required. This work was rewarded with the Animal Welfare Prize 2018 from the Danish 3R Center.

In 2019, we will:

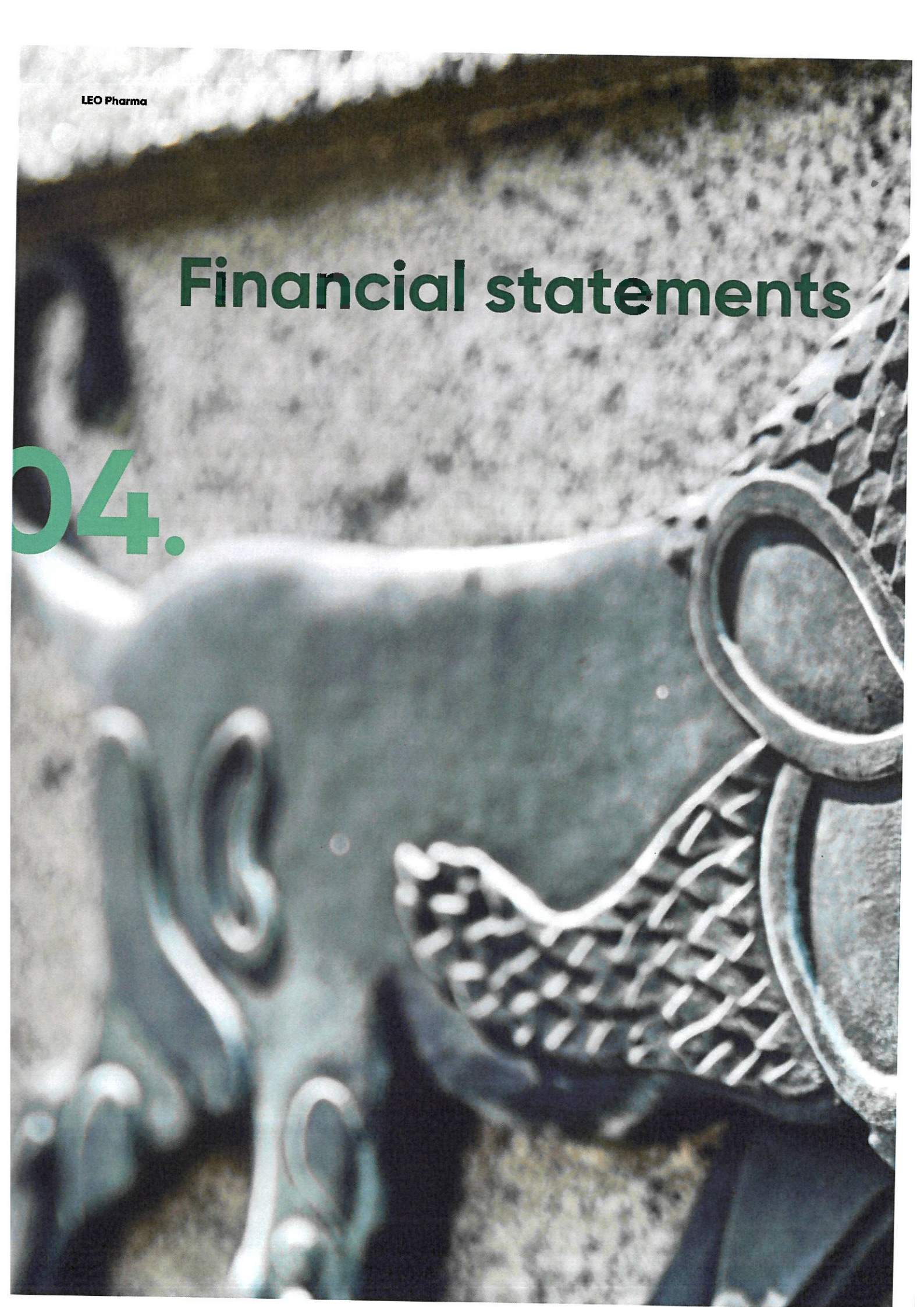
- Continue to focus on capacity building among our partners to increase their general animal welfare standards.

Read more about LEO Pharma's Position on Animal Welfare.

Link: leo-pharma.com/animalwelfareposition

Financial statements

04.





Consolidated Financial Statements

Income statement

1 January - 31 December

(DKK million)	Note	2018	2017
Revenue	2	10,410	10,481
Cost of sales	3, 7, 11	(3,040)	(2,938)
Gross profit		7,370	7,543
Sales and distribution costs	3, 6, 7	(3,946)	(4,091)
Research and development costs	3, 6, 7	(1,914)	(1,602)
Administrative costs	3, 6, 7, 15	(1,302)	(1,111)
Other operating income	4	1,612	145
Other operating expenses	4	(215)	(32)
Operating profit		1,605	852
Share of profit/(loss) of investment in associates		(11)	(3)
Financial income	16	24	1,089
Financial expenses	16	(202)	(155)
Profit before tax		1,416	1,783
Tax on profit for the year	9	(158)	(402)
Net profit for the year		1,258	1,381

Statement of comprehensive income

1 January - 31 December

(DKK million)	Note	2018	2017
Net profit for the year		1,258	1,381
Other comprehensive income			
Actuarial gains/(losses)	14	59	131
Tax	9	(6)	(48)
Items that will not be reclassified subsequently to the income statement		53	83
Exchange rate adjustments on investments in foreign subsidiaries		(40)	(64)
Additions, cash flow hedges (exchange rate) deferred gains/(losses) during the period	13	(27)	-
Disposals, cash flow hedges (interest rate) deferred gains/(losses) during the period	13	2	5
Other adjustments		-	17
Tax	9	5	(1)
Items that may be reclassified subsequently to the income statement		(60)	(43)
Other comprehensive income		(7)	40
Comprehensive income for the year		1,251	1,421

Balance sheet at 31 December

Assets

(DKK million)	Note	2018	2017
Intellectual property rights		3,514	3,992
Development projects		2,099	1,159
Software		654	497
Intangible assets	6	6,267	5,648
Land and buildings		707	691
Leasehold improvements		38	39
Plant and machinery		496	434
Other fixtures and fittings, tools and equipment		124	96
Assets under construction		799	551
Property, plant and equipment	7	2,164	1,811
Investment in associates		35	3
Other financial securities	13	19	27
Deferred tax assets	10	819	673
Other receivables	13	17	60
Financial assets		890	763
Total non-current assets		9,321	8,222
Inventories	11	1,729	1,719
Trade receivables	12	3,229	2,644
Tax receivables		689	656
Other receivables		499	384
Prepayments		207	160
Other securities	13	311	451
Cash and cash equivalents	13	299	357
Total current assets		6,963	6,371
Total assets		16,284	14,593

Balance sheet at 31 December

Equity and liabilities

(DKK million)	Note	2018	2017
Share capital	18	250	250
Foreign currency translation reserve		(212)	(172)
Hedging reserve		(28)	(3)
Retained earnings		9,518	8,202
Equity		9,528	8,277
Deferred tax liabilities	10	1	20
Retirement benefit obligations	14	243	355
Provisions	8	234	170
Credit institutions	13	536	1,006
Loan from the LEO Foundation	13	1,000	1,002
Contract liabilities	2	-	14
Other long-term liabilities		3	22
Total non-current liabilities		2,017	2,589
Provisions	8	842	673
Credit institutions	13	914	482
Trade payables		2,063	1,591
Payables to the LEO Foundation	13	0	150
Tax payables		184	70
Contract liabilities	2	15	30
Other payables		721	731
Total current liabilities		4,739	3,727
Total equity and liabilities		16,284	14,593

Statement of changes in equity

(DKK million)	Share capital	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total
2018					
Equity at 1 January 2018	250	(172)	(3)	8,202	8,277
Net profit for the year	-	-	-	1,258	1,258
Other comprehensive income for the year	-	(40)	(20)	53	(7)
Total other comprehensive income for the year	-	(40)	(20)	1,311	1,251
Equity at 31 December 2018	250	(172)	(23)	9,513	9,528
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

Cash flow statement

1 January – 31 December

(DKK million)	Note	2018	2017
Operating profit		1,605	852
Adjustment for non-cash operating items			
Amortization, depreciation and impairment losses	6, 7	760	1,143
Change in retirement benefit obligations	14	(112)	(420)
Change in provisions	8	203	(21)
Reversal of gain on sale of assets	4	(1,593)	-
Other adjustments	19	(66)	50
Change in working capital			
Change in inventories and receivables		(643)	(398)
Change in trade payables and other payables		110	(541)
Corporation tax paid		(240)	(161)
Interest paid and similar items		(143)	(40)
interest received and similar items		18	256
Cash flows from operating activities		(101)	720
Investments in intangible assets	6	(878)	(479)
Investments in property, plant and equipment	7	(478)	(385)
Proceeds from sale of intangible assets and property, plant and equipment	4	1,858	45
Investments in business activities	5	(436)	-
Investments in other securities		(30)	-
Proceeds from sale of other securities		193	5,654
Cash flows from investing activities		229	4,835
Proceeds from raising loans		-	1,000
Repayment of bank debt		(474)	(5,325)
Overdraft		443	-
Dividends paid		(150)	(1,000)
Cash flows from financing activities		(181)	(5,325)
Change in cash and cash equivalents		(53)	230
Cash and cash equivalents at 1 January		357	144
Unrealized exchange gains/(losses) on cash and cash equivalents		(5)	(17)
Cash and cash equivalents at 31 December		299	357

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

Notes – 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.

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. Except for that stated under new standards and interpretations below, the accounting policies described in the individual notes are applied consistently during the financial year and for the comparative figures.

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 any information that is currently available, as well as historical experiences and assumptions reasonable under the circumstances. Therefore, the actual amounts may differ from the estimated amounts.

Listed below are the key accounting estimates and judgements relevant to the specific notes:

- Note 5 Acquisition and divestments: assessment of type of acquisitions and control and purchase price allocation
- Note 6 Intangible assets: Estimated useful lives, impairment test, and judgment on acquired intangible assets
- Note 8 Provisions: Estimates of provision for legal disputes and sales deductions
- Note 10 Deferred tax: Estimates of deferred tax assets
- Note 11 Inventories: Estimates of valuation of inventories
- Note 13 Financial instruments: Judgment on measurement of fair value, classifications and assessment of credit risk

Refer to the specific notes for further information on the key accounting estimates and judgements.

In 2018, the useful lives of intangible assets have been re-assessed. Based on the review, the useful lives of certain intellectual property rights have been increased to reflect the pattern of future economic benefits from the assets. The change is accounted for in accordance with IAS 8 as a change in accounting estimates. The impact on the Consolidated Financial Statements in 2018 is a decrease in amortisation of DKK 239 million in the income statement and a corresponding increase in carrying amount of intangible assets in the balance sheet.

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).

Entities in which LEO Pharma A/S directly or indirectly holds or have the ability to exercise between 20% and 50% of the voting rights, but do not exercise control, are accounted for as associates. This is based on a specific assessment of LEO Pharma A/S' ability to exercise influence. Entities in which LEO Pharma A/S holds less than 20% can be accounted for as associates when LEO Pharma A/S has the ability to exercise significant influence. Influence means our ability to influence financial and operational decisions.

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 unrealized profits from intercompany transactions. The Financial Statements of all companies have been prepared according to the same accounting policies as applied by LEO Pharma Group.

Foreign currency translation

On initial recognition, transactions in foreign currencies are translated at the exchange rates at the transaction dates. Exchange rate differences arising between the rates on the transaction and payment dates are recognized 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 on the balance sheet date. Any differences between the exchange rate on 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 recognized 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 on the balance sheet date. The effects of the translation of the opening equity of foreign subsidiaries at the exchange rates on the balance sheet date and the translation of the statement of comprehensive income from average exchange rates to the exchange rates on the balance sheet date are recognized 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, amortization 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 proceeds from raising loans and repayment of bank debt, and payments to and from shareholders.

Note 1 Basis of reporting (continued)

Implementation of new standards and interpretations

While LEO Pharma in 2017 applied IFRS 9, Financial instruments, and IFRS 15, Revenue from contracts with customers, in advance of their effective dates, other new and amended standards and interpretations that are effective as at 1 January 2018 have been implemented in the current year. Their adoption has not had any material impact on the disclosures or on the amounts reported in the financial statements.

The following new or changed accounting standards and interpretations have been implemented:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvement Cycle – 2014–2016

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)

LEO Pharma will adopt IFRS 16 from the effective date. Preliminary conclusions show that the change in lease accounting will have limited impact, both on the balance sheet and the income statement. LEO Pharma will implement the standard based on the simplified transition method, where comparative figures will not be restated. The balance sheet is expected to increase by the right-of-use assets by an estimated 2–3% of the total assets in 2019. In the income statement, the lease costs will be split between depreciation of the right-of-use asset and interest on the lease liabilities recognized in financial expenses. The impact on operating profit will be insignificant.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)

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. LEO Pharma does not anticipate that the application of the amendments in the future will have an impact on the Consolidated Financial Statements.

Other new and revised IFRSs issued but not yet effective are listed below. LEO Pharma does not expect that the adoption of these standards will have a material impact on the Group Financial Statements in future periods.

- Amendments to IFRS 9 (Prepayment Features with negative compensation)
- Amendments to IAS 28 (Long-term interests in associates and Joint Ventures)
- Annual Improvements to IFRS Standards 2015–2017 Cycle (Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, and IAS 23 Borrowing Costs)
- Amendments to IAS 19 Employee Benefits (Plan Amendment, Curtailment or Settlement)

Note 1 Basis of reporting (continued)

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	$\frac{\text{Equity}}{\text{Assets}} \times 100$
EBITDA	Operating profit before financial income and expenses, tax and depreciation and amortization
Adjusted EBITDA	EBITDA adjusted for transactions related to divestment to Karo Pharma AB and acquisition from Bayer AG, redundancies and provision for potential revocation of patents.
EBITDA margin	$\frac{\text{EBITDA}}{\text{Revenue}} \times 100$

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

Note 2 Revenue

Accounting policies

Revenue from the sale of goods for resale and finished goods is recognized 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 recognized exclusive of VAT and net of sales deductions, including product returns, discounts and rebates.

Revenue includes license 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 recognized when the performance obligation is satisfied, i.e. when transferred to the customer. For sales-based royalties, revenue is recognized when the subsequent sale occurs. Please refer to Note 8, "Provisions" regarding the accounting policies for sales deductions and returns.

(DKK million)	2018	2017
Revenue by region		
Europe+	6,530	6,379
International	2,795	2,745
US	1,085	1,357
Total	10,410	10,481
Revenue by therapeutic area		
Psoriasis	3,837	3,587
Eczema/Skin infections	2,598	3,015
Thrombosis	2,396	2,488
Actinic keratosis	374	369
Other	1,205	1,022
Total	10,410	10,481
Revenue by category		
Products	10,164	10,083
Sales-based royalties	225	377
Other	21	21
Total	10,410	10,481
Timing of revenue recognition		
Goods transferred at a point in time	10,380	10,449
Services transferred over time	30	32
Total	10,410	10,481

Note 2 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 recognized over time, resulting in contract liabilities. Contract liabilities are recognized as revenue in line with fulfillment of the contract obligation.

(DKK million)	2018	2017	2016
Contract liabilities (non-current)	–	14	45
Contract liabilities (current)	15	30	30
Total contract liabilities	15	44	75
Revenue recognized in the period from:			
Amounts included in contract liability at the beginning of the period	30	32	26

Unsatisfied performance obligations:

The Group's unsatisfied performance obligations relate to the contract liabilities that have not yet been recognized 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 recognized as revenue is:

(DKK million)	2019	2020	Total
Remaining performance obligations expected to be recognized as of 31 December 2018	111	–	111

Note 3 Staff expenses

(DKK million)	2018	2017
Wages and salaries	3,068	2,726
Pensions – defined benefit plans	6	7
Pensions – defined contribution plans	256	211
Social security expenses	292	271
Other employee expenses	213	219
Total	3,835	3,434
Capitalized staff expenses	(137)	(63)
Total staff expenses in the income statement	3,698	3,371
Staff expenses included in:		
Cost of sales	656	603
Sales and distribution costs	1,701	1,625
Research and development costs	709	658
Administrative costs	632	485
Total	3,698	3,371
Average number of full-time employees	5,528	5,251

Note 3 Staff expenses (continued)

Remuneration to Executive Management and Board of Directors

(DKK million)	Salary	Bonus ²	Pension	Severance payments	Total remuneration
2018					
Registered members of Executive Management	13	12	1	-	26
Other members of Executive Management ¹	23	14	4	-	41
Board of Directors	6	-	-	-	6
Total	42	26	5	-	73
2017					
Registered members of Executive Management	13	9	1	-	23
Other members of Executive Management ¹	12	8	1	3	24
Board of Directors	5	-	-	-	5
Total	30	17	2	3	52

1. Other members of Executive Management comprise Kim Kjøller (Executive Vice President, Global Research & Development), Guillaume Clément (Executive Vice President, Regional Europe+), Jørgen Damsbo Andersen (Executive Vice President, Region International), Chris Posner (Executive Vice President, Region US), Patrice Baudry (Executive Vice President, Global Marketing, Market Access and Market Affairs), Rhonda Duffy (Executive Vice President, Global Product Supply) and Mette Vestergaard (Executive Vice President, Global People and Business Transformation) of which the last three were not included in the Executive Management in 2017.
2. Members of Executive Management participate in short- and long-term incentive programs that provide a bonus for the achievement of predetermined targets.

Note 4 Other operating income and expenses

Accounting policies

Other operating income and other operating expenses comprise items of a secondary nature to LEO Pharma Group's primary activities.

Other operating income and expenses

Other operating income in 2018 comprises mainly of gain from sale of product rights to Karo Pharma AB of DKK 1,566 million. The increase in other operating expenses from DKK 32 million in 2017 to DKK 215 million in 2018, relates mainly to compensation to Karo Pharma AB for a share of the net profit from sales under the transferred product rights in an intermediate period where LEO Pharma continues to be responsible for the sales to the customers.

Note 5 Acquisition of activities

Accounting policies

Acquisition of activities are recognized using the acquisition method, whereby assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition.

The fair value of intellectual property rights is determined using an income approach where they are valued at present value based on the expected cash flows. Other assets and liabilities are valued using the most relevant approach for the individual item.

Key accounting estimates and judgements

Assessment of type of transaction and control

LEO Pharma carries out specific assessments of each transaction to determine whether acquired assets and liabilities constitute a business i.e. the transaction is a so called asset acquisition, where by the costs of acquisition is allocated to the group assets and liabilities acquired. This includes an assessment of the assets and activities acquired, determination of acquisition date and LEO Pharma's ability to exercise influence in the acquired enterprise.

Purchase price allocations

When we apply the acquisition method for business combinations, by nature this involves judgment in assessing the fair value of identifiable assets and liabilities. The assessment of fair value of intellectual property rights is based on a number of estimates regarding WACC and expected cash flows which have a large impact on the fair value.

Acquisition

On 27 July 2018, LEO Pharma Group entered into two separate agreements to purchase Bayer's global portfolio of prescription dermatology. The first agreement relating to the US Business is recognized in the Consolidated financial statement at closing date 4 September 2018. The second agreement regarding the rest of the world will be recognized as of the date when LEO Pharma obtains control, which is expected to be 1 July 2019. The acquisitions are accounted for as business combinations.

From the acquisition date to 31 December 2018, the US business contributed with a revenue of DKK 128 million. If the acquisition had occurred on 1 January 2018, the impact on the Group revenue would have been DKK 423 million.

US acquisition in 2018

Cash consideration of DKK 436 million was paid in 2018. Based on a purchase price allocation, intellectual property rights were valued at DKK 332 million and inventory at DKK 104 million. No goodwill was recognized as a part of the transaction. Transaction costs of DKK 27 million are recognised as administrative costs.

Rest of the world 2019

LEO Pharma will acquire the global products rights and take over sales and marketing organisations in the rest of the world. The acquisition comprises furthermore a factory in Segrate, Italy and 100% shares in German companies Intendis GmbH, Intrasev GmbH and Intrasev KG. The initial accounting for the purchase price allocation for the rest of the world agreement will commence in 2019. Please refer to Note 20 on commitments relating to the acquisition.

There were no acquisitions or divestments in 2017.

Note 6 Intangible assets

Accounting policies

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

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

Development projects are recognized as intangible assets if the recognition criteria are met. Development costs are capitalized 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 recognized in the income statement as incurred. Projects are assessed on an ongoing basis, taking into account development progress, expected approvals and commercial utilization. Development projects are not amortized, as the assets are not available for use.

Research costs are recognized in the income statement as incurred.

Internally developed computer software and other IT projects for internal use are recognized as intangible assets if the recognition criteria are met. Amortization is provided on a straight-line basis over the expected useful lives. Amortization and impairment are recognized 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	3-15 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 6 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 capitalized software relating to the ERP system SAP (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 judgment and inherent uncertainties, as there is often no active market for the intangible assets. Please refer to Note 1 for a description of change in useful lives in 2018.

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

Note 6 Intangible assets (continued)

(DKK million)	Intellectual property rights	Trademarks	Deve- lopment projects	Software	Total intangible assets
2018					
Cost at 1 January 2018	10,292	30	2,924	617	13,863
Adjustment to opening	24	-	(64)	-	(40)
Additions during the year	331	-	1,058	127	1,516
Disposals during the year	(542)	(30)	(1)	-	(573)
Transfers	-	-	(114)	114	-
Cost at 31 December 2018	10,105	0	3,803	858	14,766
Amortization and impairment losses at 1 January 2018	(6,300)	(30)	(1,765)	(120)	(8,215)
Adjustment to opening	(24)	-	64	-	40
Amortization for the year	(462)	-	-	(76)	(538)
Disposals during the year	195	30	1	-	226
Impairment losses for the year	-	-	(4)	(8)	(12)
Amortization and impairment losses at 31 December 2018	(6,591)	0	(1,704)	(204)	(8,499)
Carrying amount at 31 December 2018	3,514	0	2,099	654	6,267
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
Amortization and impairment losses at 1 January 2017	(5,623)	(30)	(1,765)	(86)	(7,504)
Amortization for the year	(758)	-	-	(34)	(792)
Disposals during the year	81	-	-	-	81
Amortization and impairment losses at 31 December 2017	(6,300)	(30)	(1,765)	(120)	(8,215)
Carrying amount at 31 December 2017	3,992	0	1,159	497	5,648

Note 6 Intangible assets (continued)

In 2018, research and development costs recognized in the income statement amounted to DKK 1,914 million (2017: DKK 1,602 million).

Research and development costs primarily comprise internal and external costs related to studies, employee costs, materials, depreciation and other directly attributable costs.

Additions during 2018 comprises mainly intellectual rights acquired from Bayer AG and development projects with Pellepharm Inc. and JW Pharmaceutical Corp.

At 31 December 2018, other individually significant rights comprises assets acquired from Astellas with a carrying amount of DKK 2,963 million, development project Tralokinumab with a carrying amount of DKK 711 million and Kyntheum®, carrying amount of DKK 225 million.

(DKK million)	2018	2017
Amortization and impairment losses are specified as follow:		
Sales and distribution costs	446	714
Research and development costs	4	-
Administrative costs	100	78
Total	550	792

Note 7 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, 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 recognized.

For 2018, the impairment test resulted in no impairment losses (2017: DKK 147 million).

(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
2018						
Cost at 1 January 2018	2,085	148	2,248	452	673	5,606
Exchange rate adjustment	3	(1)	1	-	2	5
Additions during the year	0	6	3	45	424	478
Disposals during the year	(25)	(73)	(89)	(16)	(34)	(237)
Transfers	70	-	178	18	(266)	-
Cost at 31 December 2018	2,133	80	2,341	499	799	5,852
Depreciation and impairment losses at 1 January 2018	(1,394)	(109)	(1,814)	(356)	(122)	(3,795)
Adjustment to opening	-	-	-	-	122	122
Exchange rate adjustment	(2)	2	(1)	0	-	(1)
Disposals during the year	22	73	90	12	-	197
Depreciation for the year	(52)	(8)	(120)	(31)	-	(211)
Depreciation and impairment losses at 31 December 2018	(1,426)	(42)	(1,845)	(375)	0	(3,688)
Carrying amount at 31 December 2018	707	38	496	124	799	2,164

Note 7 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

(DKK million)	2018	2017
Depreciation and impairment losses are specified as follows:		
Cost of sales	176	326
Sales and distribution costs	13	15
Research and development costs	10	10
Administrative costs	12	10
Total	211	361

Note 8 Provisions

Accounting policies

Provisions are recognized when, as a result of events before or on 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 on the balance sheet date.

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

Staff-related provisions include employee benefits such as long-term incentive programs 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 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 in 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 Health-care programs, 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 utilization data, combined with expectations in relation to the development in sales and utilization. Furthermore, specific circumstances regarding the different programs 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 8 Provisions (continued)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2018					
Provisions at 1 January 2018	452	162	152	77	843
Exchange rate adjustment	17	5	(5)	3	20
Additional provisions	1,547	126	130	66	1,869
Used during the year	(1,315)	(73)	(110)	(26)	(1,524)
Reversed during the year	(92)	(12)	(7)	(21)	(132)
Provisions at 31 December 2018	609	208	160	99	1,076
Provisions are recognized in the balance sheet as					
Non-current liabilities	-	112	40	82	234
Current liabilities	609	96	120	17	842
Provisions at 31 December 2018	609	208	160	99	1,076
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 recognized 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

Note 9 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 recognized 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 recognized 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 on the balance sheet date. The Parent Company, Danish subsidiaries, and LEO Holding are jointly taxed.

(DKK million)	2018	2017
Current tax	336	73
Prior-year adjustments, current tax	(14)	(18)
Prior-year adjustments, deferred tax	30	17
Change in deferred tax for the year	(193)	379
Total tax for the year	159	451
Tax for the year is included in		
Tax on profit/(loss) for the year	158	402
Tax in other comprehensive income	1	49
Total tax for the year	159	451

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

Note 9 Tax on profit for the year (continued)

Explanation of the Group's effective tax rate relative to the Danish corporate income tax rate

	DKK million	%
2018		
Profit/(loss) before tax	1,416	
Calculated tax, 22 %	312	22.0%
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	(150)	-10.6%
Non-deductible expenses/non-taxable income and other permanent differences	5	0.4%
Tax credits	(1)	-0.1%
Change in deferred tax as a result of changed income tax rates	(24)	-1.7%
Prior-year tax adjustments, etc., total effect on operations	16	1.1%
Effective tax/tax rate for the year	158	11.1%
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 10 Deferred tax

Accounting policies

Deferred tax is recognized 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 recognized in the income statement.

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

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 utilization 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 judgment is applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties.

Note 10 Deferred tax (continued)

(DKK million)	Balance at 1 January	Effect of foreign currency exchange differences	Adjustment of deferred tax at beginning of year	Movements during the year	Balance at 31 December
2018					
Intangible assets	176	1	(1)	(126)	50
Property, plant and equipment	18	1	4	22	45
Inventories	543	-	-	27	570
Provisions	(203)	2	(12)	302	89
Other items	113	(2)	(21)	(29)	61
Tax loss carryforwards, etc.	6	0	-	(3)	3
Total temporary differences	653	2	(30)	193	818
Deferred tax assets	673	2	(30)	174	819
Deferred tax liabilities	(20)	-	-	19	(1)
Deferred (tax assets)/tax liabilities	653	2	(30)	193	818
2017					
Intangible assets	29	-	(1)	148	176
Property, plant and equipment	(2)	-	(1)	21	18
Inventories	599	(1)	-	(55)	543
Provisions	98	-	-	(301)	(203)
Other items	333	(6)	(15)	(199)	113
Tax loss carryforwards, etc.	-	(1)	-	7	6
Total temporary differences	1,057	(8)	(17)	(379)	653
Deferred tax assets	1,057	(8)	(17)	(359)	673
Deferred tax liabilities	-	-	-	(20)	(20)
Deferred (tax assets)/tax liabilities	1,057	(8)	(17)	(379)	653

Note 11 Inventories

Accounting policies

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

Finished goods and work in progress comprise the cost of raw materials, consumables, direct labor and indirect production costs. Indirect production costs comprise indirect consumables and labor, 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 realizable 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 utilization, production time and other relevant factors, and allocated based on the normal production capacity.

(DKK million)	2018	2017
Raw materials and consumables	169	166
Work in progress	864	932
Finished goods and goods for resale	696	621
TOTAL	1,729	1,719
Write-down for the year	72	76
Cost of goods sold included in cost of sales	2,466	2,295

Note 12 Trade receivables

Accounting policies

Trade receivables are recognized initially at their transaction price and subsequently measured at amortized 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 recognizes 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 recognized in the income statement under sales and distribution costs. Subsequent recoveries of amounts previously written down are credited against sales and distribution costs.

(DKK million)	2018	2017	2016
Trade receivables	3,273	2,716	2,600
Write-downs	(44)	(72)	(85)
Total	3,229	2,644	2,515

Write-downs have decreased by DKK 28 million compared to 2017. The decrease is related to a total realised loss of DKK 16 million for customers in El Salvador, Uruguay and Peru after ended court trials, and as a positive result of increased focus on dunning processes and customer collections equal to DKK 12 million. Previous bad debt provisions have been reversed with customers in Chile, Mexico, Panama and Greece having the largest share.

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 2018						
Expected credit loss rate	0%	0%	0%	36%	66%	
Trade receivables	2,899	204	89	30	51	3,273
Lifetime expected credit losses	0	0	0	11	33	44
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

Note 13 Financial instruments

Accounting policies

Financial instruments

Financial assets and financial liabilities are recognized 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 appropriate, on initial recognition.

Financial assets

All recognized financial assets are required to be measured subsequently at amortized 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 presented under non-current assets 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 amortized 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. Other securities presented under current assets, 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 amortized cost or at fair value through other comprehensive income are subject to impairment.

Financial liabilities

All financial liabilities are subsequently measured at amortized 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 recognized asset or liability (fair value hedge), or as a hedge of a future transaction (cash flow hedge). All contracts are initially recognized at fair value and subsequently remeasured at the end of the reporting period. The resulting gain or loss is recognized 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 either fair value hedges or cash flow 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 recognized in the income statement under financial income or financial expenses, along with any value adjustment of the hedged asset or liability that are attributable to the hedged risk. Value adjustments of the effective part of cash flow hedges are recognized in equity through Other comprehensive income. The cumulative value adjustment of these contracts is transferred from Other comprehensive income to the income statement under Financial income or Financial expenses when the hedged transaction is recognized in the income statement.

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 recognized when the forecast transaction is ultimately recognized 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.

Note 13 Financial instruments (continued)

Key accounting estimates and judgements

The application of IFRS 9 and IFRS 13 requires significant judgements, including:

- Judgment 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

Financial risks

LEO Pharma has centralized 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. The new Treasury Policy approved in February 2018 incorporates cash flow hedges of highly probable forecasted sales and purchase transactions as a new area.

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.

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 earnings and cash flow.

LEO Pharma hedges existing assets and liabilities in key currencies, as well as future expected cash flows 12 months on a rolling basis. The majority of LEO Pharma's sales are in EUR, USD, GBP, CAD, JPY, RUB, SAR and CNY. The EUR exchange risk is considered low, as we believe that Denmark will maintain its fixed-exchange-rate policy.

Monetary assets and monetary liabilities for the major currencies at 31 December

LEO Pharma is mainly exposed to USD, GBP, CAD, JPY, RUB, SAR and CNY, either through direct sales to third parties or indirect sales through a subsidiary. The carrying amount of the foreign currency-denominated monetary assets and liabilities in LEO Pharma can be seen in the table below.

(DKK million)	Monetary assets		Monetary liabilities	
	2018	2017	2018	2017
USD	1,239	1,251	483	1,000
GBP	254	280	471	350
CAD	78	183	31	10
JPY	309	112	44	46
RUB	129	111	23	-
SAR	168	97	19	-
CNY	134	77	42	38
AUD	36	43	208	241

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

Note 13 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	SAR
2018							
Profit/(loss) for the year	(1)	3	(13)	-	14	-	-
Other comprehensive income ¹	(18)	-	(13)	-	(12)	(5)	(5)
2017							
Profit/(loss) for the year/Equity	-	2	(4)	1	(2)	1	-

¹ This is mainly as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

Forward exchange rate contracts

It is the policy of LEO Pharma to enter either forward exchange contracts or currency options to hedge minimum 80% of the forecasted sales and purchase transactions for the coming 12 months and to hedge recognized assets and liabilities. For the hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying) of the foreign exchange forward contracts and their corresponding hedged items are the same, LEO Pharma performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying exchange rates. Executive Management has chosen to classify the result of cash flow hedging activities as part of financial items and not in the same line as the hedged item.

Currently, net investments in foreign subsidiaries are not hedged.

LEO Pharma has entered into foreign exchange forward contracts to hedge the exchange rate risk arising from the expected future sales transactions that will take place during the next 12 months, at which time the amount deferred in equity will be reclassified to gain or loss under financial items. During 2018, no purchase transactions were hedged. The following table shows the outstanding forward contracts classified as cash flow hedges at the end of the year. Foreign currency forward contract assets and liabilities are presented in either other asset or as other liabilities within the statement of financial position (see the table, Categories of financial assets and financial liabilities):

Financial derivatives – cash flow hedges	2018				
	Average hedge rate	Notional value foreign currency	Contract value	Carrying amount of the hedging instruments assets/(liabilities)	Change in fair value recognized in other comprehensive income
Forward exchange contracts					
(DKK million)					
Sold CAD	4,75	74	352	4 / (3)	1
Sold GBP	8,31	31	258	1 / (1)	-
Sold USD	6,16	38	234	(11)	(11)
Sold SAR	1,62	64	104	(7)	(7)
Sold RUB	0,093	1,060	99	3	3
Sold PLN	1,71	51	87	(1)	(1)
Sold THB	0,19	278	53	(3)	(3)
Sold other currencies	N/A	N/A	521	4 / (14)	(9)
Total				12 / (40)	(27)

Note 13 Financial instruments (continued)

The financial contracts are expected to impact the income statement for the next 12 months when the cash flow hedges mature and the fair value will be transferred to either financial income or financial expenses.

At the end of December 2018, LEO Pharma has classified the following contracts as fair value hedges. The result of the fair value hedging activities is presented as part of financial items.

Financial derivatives – fair value hedges Forward exchange contracts against DKK (DKK million)	2018			2017		
	Contract value	Fair value at year- end	Maturity end date	Contract value	Fair value at year- end	Maturity end date
Sold CAD	63	1	29/03/2019	178	(1)	12/03/2018
Sold CNY ¹	25	-	10/01/2019	-	-	N/A
Sold GBP	34	-	04/01/2019	-	-	N/A
Sold JPY	263	(6)	29/03/2019	43	-	28/03/2018
Sold SAR	140	-	28/03/2019	98	-	11/06/2018
Sold RUB	108	2	22/03/2019	100	-	21/03/2018
Sold USD	475	-	15/02/2019	299	5	31/07/2018
Bought AUD	174	(6)	15/03/2019	41	-	29/01/2018
Bought EUR ²	1,533	1	22/02/2019	1,845	1	28/06/2018
Sold other currencies	406	(3)	08/08/2019	461	(1)	15/06/2018
Total	3,221	(11)		3,065	4	

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 loss of forward exchange contracts of DKK 11 million at the end of 2018 is recognized in the income statement in financial expenses (2017: gain of DKK 4 million recognized in financial income).

Interest rate risk

Long-term funding at floating interest rates is mitigated by entering interest rate swaps as hedge instruments where, the Group pays fixed and receives floating rates. 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. The current hedging instruments are shown in the next table.

Note 13 Financial instruments (continued)

Classification and maturity dates of financial liabilities

Outstanding receive floating pay fixed contracts	Notional principal value	Change in fair value recognized in other comprehensive income	Fair value assets (liabilities)	Average fixed interest rate	Maturity end date
(DKK million)					
2018					
DKK	100	1	-	0.386%	29/03/2019
DKK	370	1	(1)	0.445%	30/12/2019
Total		2	(1)		
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)		

At 31 December 2018, the fair value of DKK 1 million has been recognized in other payables. At 31 December 2017, the fair value of DKK 3 million was recognized in other payables.

Credit risk

LEO Pharma's products are sold primarily to pharmacies, wholesalers and hospitals. Historically, realized losses sustained on debtors have been insignificant, which was also the case in both 2018 and 2017. 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 minimized and is at an acceptable level.

To manage credit risk on financial counterparties, LEO Pharma only enters into derivative financial instruments and money market deposits 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 minimizes the risk by keeping the lowest possible bank balance or by spreading the risk between several banks. At year-end, the bank balances with a rating below Investment Grade are low, and therefore 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.

Liquidity risk

LEO Pharma manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The table below outlines the details of the current cash resources and undrawn credit facilities that the Group has at its disposal.

Note 13 Financial instruments (continued)

Cash resources and financing facilities

The Group has access to financing facilities as described below, of which DKK 532 million was unused as of the reporting date (2017: DKK 791 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

(DKK million)	2018	2017
Cash and cash equivalents	299	357
Secured overdraft facilities, banks – amount unused	532	791
Cash resources, banks	831	1,148
Marketable securities	–	141
Securities at 31 December	–	141
Cash resources, banks and securities	831	1,289

In addition to the cash resources, at the end of 2018 the Parent Company has pledged bonds with a carrying amount of DKK 311 million (2017: DKK 309 million).

Table of maturity of contractual cash flows

(DKK million)	Contractual amount	Less than 1 year	1 – 3 years	4–5 years	More than 5 years
2018					
Non-financial derivatives:					
Floating interest rate bank debt	471	471	–	–	–
Fixed interest rate bank debt	543	4	539	–	–
Fixed interest rate loan LEO Foundation	1,219	25	49	49	1,096
Trade and other payables	2,543	2,543	–	–	–
Financial derivatives:					
Interest rate swaps used as hedging instruments	1	1	–	–	–
Forwards used as hedging instruments	60	60	–	–	–
Total contractual cash flow	4,837	3,104	588	49	1,096
2017					
Non-financial derivatives:					
Floating interest rate bank debt	872	401	471	–	–
Fixed interest rate bank debt	629	87	486	56	–
Fixed interest rate loan LEO Foundation	1,243	25	49	49	1,120
Trade and other payables	2,322	2,322	–	–	–
Other payables to LEO Foundation	150	150	–	–	–
Financial derivatives:					
Interest rate swap's used as hedging instruments	3	2	1	–	–
Forwards used as hedging instruments	5	5	–	–	–
Total contractual cash flow	5,224	2,992	1,007	105	1,120

Note 13 Financial instruments (continued)

Categories of financial assets and financial liabilities

(DKK million)	Carrying amount		Fair value	
	2018	2017	2018	2017
Financial assets				
<i>Amortized cost</i>				
Cash and bank balances	299	357	299	357
Trade and other receivables	3,728	3,028	3,728	3,028
Other financial assets	36	87	36	87
Total	4,063	3,472	4,063	3,472
Fair value through profit and loss (FVTPL)				
Financial assets mandatorily measured at FVTPL	311	451		
Derivative instruments in designated hedge relationships	10	9		
Total	321	460		
Fair value through other comprehensive income				
Derivative instruments in designated hedge relationships	12	-		
Total	12	0		
Financial liabilities				
<i>Amortized cost</i>				
Trade and other payables	2,784	2,322	2,784	2,322
Bank loans (both current and non-current)	1,450	1,488	1,458	1,503
Loan from the LEO Foundation	1,000	1,002	1,000	1,002
Payables to the LEO Foundation	0	150	0	150
Total	4,790	4,962	4,798	4,977
Fair value through profit and loss				
Derivative instruments in designated fair value hedge relationships	22	5		
Total	22	5		
Fair value through other comprehensive income				
Derivative instruments in designated hedge accounting relationships	39	3		
Total	39	3		

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 year. 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 13 Financial instruments (continued)

Fair value hierarchy of financial assets and financial liabilities measured or disclosed at fair value

Fair value hierarchy at 31 December 2018				
(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Measured at fair value</i>				
Danish mortgage bonds	311	-	-	311
Derivative instruments	-	22	-	22
Total	311	22	-	333
Financial liabilities				
<i>Amortized cost, disclosure of fair value</i>				
Bank loans	-	1,014	-	1,014
<i>Measured at fair value</i>				
Derivative instruments	-	61	-	61
Total	-	1,075	-	1,075
Fair value hierarchy at 31 December 2017				
(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Amortized cost, disclosure of fair value</i>				
Danish mortgage bonds	451	-	-	451
<i>Measured at fair value</i>				
Derivative instruments	-	9	-	9
Total	451	9	-	460
Financial liabilities				
<i>Amortized cost, disclosure of fair value</i>				
Bank loans	-	1,503	-	1,503
<i>Measured at fair value</i>				
Derivative instruments	-	8	-	8
Total	-	1,511	-	1,511

Items with a carrying amount corresponding to fair value are not included in the fair value hierarchy above

Note 14 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 hand, 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 separated 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 2017. The ETV resulted in a net settlement gain of DKK 98 million, recognized under other operating income 2017.

Note 14 Retirement benefit obligations (continued)

(DKK million)	2018	2017
Present value of defined benefit plans		
Present value of defined benefit plans at 1 January	1,773	2,374
Effect of exchange rate adjustment	-	(24)
Current service costs	6	7
(Gains)/losses on settlements	-	(111)
Interest costs	39	50
Actuarial (gains)/losses from changes in demographic assumptions	(4)	(1)
Actuarial (gains)/losses from changes in financial assumptions	(126)	(38)
Experience adjustments	(12)	(30)
Settlement payments from plan assets	-	(251)
Settlement payments from employer	-	(117)
Benefits paid to employees	(51)	(70)
Past service costs	3	-
Other	-	(16)
Present value of defined benefit plans at 31 December	1,628	1,773
Fair value of plan assets		
Fair value of plan assets at 1 January	1,418	1,594
Effect of exchange rate adjustment	-	(19)
Return on plan assets	(82)	62
Interest income	33	35
Benefits paid to employees	(51)	(70)
Settlement payments from plan assets	-	(251)
Employer contributions	67	67
Fair value of plan assets at 31 December	1,385	1,418
Net retirement benefit obligations at 31 December	243	355
Specification of amount recognized in the statement of comprehensive income		
Actuarial (gains)/losses	(59)	(131)
Total	(59)	(131)

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 43 million in Ireland and vice versa. A 0.1% decrease in the discount rate would result in an increase of approximately DKK 12 million in the UK and vice versa.

Note 15 Audit fees

(DKK million)	2018	2017
Deloitte Statsautoriseret Revisionspartnerselskab		
Statutory audit	7	6
Tax advisory services	2	-
Other non-audit services	6	3
Total	15	9

Note 16 Financial income and expenses**Accounting policies**

Financial income and expenses comprise interest, realized and unrealized exchange rate adjustments, and market value adjustments of financial assets. Market value adjustments of currency derivatives that have not been classified as effective cash flow hedges are presented as financial income and expenses.

(DKK million)	2018	2017
Interest income on bonds (amortized cost)	8	183
Interest income on bonds (fair value)	-	28
Capital gains, financial assets	-	582
Gain arising on reclassification of financial assets from amortized cost to fair value through profit and loss	-	252
Other interest income	3	-
Other financial income	13	44
Financial income	24	1,089
Interest expenses, loan from the LEO Foundation	(24)	(2)
Interest expenses, banks	(19)	-
Loss arising from financial assets measured at amortized cost	-	(10)
Loss arising on financial assets designated at fair value through profit and loss	(2)	-
Exchange rate losses	(73)	(43)
Financial assets write-down	(67)	(48)
Other financial expenses	(17)	(52)
Financial expenses	(202)	(155)

Note 17 Other adjustments

(DKK million)	2018	2017
Inventory write-down	(43)	(20)
Provision for bad debt	(27)	(14)
Other	4	84
Total	(66)	50

Note 18 Share capital

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

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.

Note 19 Leasing

Operating lease obligations

LEO Pharma has operating lease obligations of DKK 435 million (2017: DKK 321 million). The obligations are primarily related to company cars and office premises.

(DKK million)	2018	2017
Minimum operating lease payments are as follows:		
Within one year	138	109
Between one and five years	256	164
After five years	41	48
Total	435	321
Rental and lease expenses recognized in the income statement	148	148

Note 20 Contingencies and commitments

Guarantees

The total guarantee commitment for LEO Pharma amounts to DKK 1,896 million at 31 December 2018 (2017: DKK 471 million).

At 31 December 2018, the guarantee commitment comprises mainly guarantees relating to acquisitions of DKK 1,271 million and pension commitments of DKK 559 million (2017: DKK 309 million).

Contractual obligations and commitments

Contracted for but not provided in the financial statements:

(DKK million)	2018	2017
Intangible assets	6,283	1,432
Property, plant and equipment	456	-
Other current assets	373	-
Total	7,112	1,432

The commitments related to intangible assets comprise both intellectual property rights from acquisitions and milestone payments relating to development of new products. DKK 4,297 million of the total commitment comprises fixed contractual obligations. The remaining commitments relate to agreements, which include certain milestone payments that LEO Pharma is committed to paying upon achievement. The amounts are not risk-adjusted or discounted.

In addition to the above, there are certain commercial milestone payments that depend on future sale.

Pending lawsuits

At the end of 2018, 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 LEO Pharma'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 21 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 associates, Skinvision B.V. and PellePharm, Inc.
- 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 2018:

- Loan of DKK 1,000 million (2017: DKK 1,000 million)
- Dividend payment from LEO Pharma A/S of DKK 150 million (2017: DKK 1,000 million)
- Receivables of DKK 0.2 million (2017: Receivables of DKK 2 million) and payables of DKK 0.2 million (2017: Payables of DKK 150 million)
- Interest expenses of DKK 24 million (2017: DKK 2 million)

There have been the following transactions and balances with LEO Holding A/S in 2018:

- Dividend payment from LEO Pharma A/S of DKK 0 million (2017: DKK 17,169 million)

There have been the following transactions and balances with associates in 2018:

- Loan and interests have been converted to investment in the company, total DKK 9.7 million. (2017: DKK 9.3 million in loans)
- Capital transactions from LEO Pharma A/S amount to total DKK 144 million (2017: DKK 0 million).

There have been no transactions with the Board of Directors or the Executive Management besides remuneration. For information on remuneration, please refer to Note 3.

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

Note 22 Events after the balance sheet date

No events have occurred in the period from the balance sheet date until the presentation of the Consolidated Financial Statements that materially affect the assessment of the Annual Report.

Note 23 – Companies in the LEO Pharma Group

(DKK million)	Country	Share of ownership %	Activities			
			Sales and distribution	Manu- facturing	Sales & Services	Other
Parent Company						
LEO Pharma A/S	Denmark		●	▲	◆	▼
Subsidiaries						
SARL LEO Pharma	Algeria	100			◆	
LEO Pharma Southport Pty Ltd (in voluntary liquidation)	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				▼
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 Şirketi	Turkey	100	●			
LEO Laboratories Ltd.	United Kingdom	100	●			
LEO Pharma Inc.	USA	100	●			
LEO Spiny Merger Sub Inc.	USA	100				▼
LEO US Holding Inc.	USA	100				▼
Associates						
SkinVision B.V	Netherlands	26.32				▼
PellePharm Inc.	USA	16.75				▼

Financial Statements

– Parent Company

Income statement

1 January - 31 December

(DKK million)	Note	Parent Company	
		2018	2017
Revenue	1	7,608	8,031
Cost of sales	3,9	(5,029)	(5,047)
Gross profit		2,579	2,984
Sales and distribution costs	3,8,9	(2,389)	(1,994)
Research and development costs	3,9	(1,573)	(1,364)
Administrative costs	2,3,8,9	(967)	(891)
Other operating income	18	2,016	408
Other operating expenses		(193)	(2)
Operating profit/(loss)		(527)	(859)
Income from investments in subsidiaries	10	1,863	1,299
Share of profit/(loss) of investment in associates		(11)	(3)
Financial income	4	26	1,094
Financial expenses	5	(188)	(107)
Profit before tax		1,163	1,424
Tax on profit for the year	6	94	(43)
Net profit for the year	7	1,257	1,381

Balance sheet at 31 December

Assets (DKK million)	Note	Parent Company	
		2018	2017
Intellectual property rights		3,514	3,992
Development projects		2,095	1,159
Software		654	497
Intangible assets	8	6,263	5,648
Land and buildings		361	351
Leasehold improvements		6	6
Plant and machinery		275	230
Other fixtures and fittings, tools and equipment		96	65
Fixed assets under construction		493	352
Property, plant and equipment	9	1,231	1,004
Investments in subsidiaries	10	5,412	5,015
Investment in associates		35	3
Other financial securities		19	27
Deferred tax assets	11	146	-
Other receivables	12	17	57
Financial assets		5,629	5,102
Total non-current assets		13,123	11,754
Raw materials and consumables		26	31
Work in progress		599	488
Finished goods and goods for resale		319	274
Inventories		944	793
Trade receivables		1,151	1,059
Loans to subsidiaries		727	302
Receivables from the LEO Foundation		0	2
Receivables from subsidiaries		715	601
Tax receivables		64	19
Other receivables	12	303	207
Prepayments	13	151	99
Receivables		3,111	2,289
Other securities		311	450
Cash at bank and in hand		34	25
Total current assets		4,400	3,557
Total assets		17,523	15,311

Balance sheet at 31 December

Equity and liabilities (DKK million)	Note	Parent Company	
		2018	2017
Share capital	18	250	250
Net revaluation, subsidiaries		4,284	3,909
Reserve for development projects		1,211	367
Retained earnings		3,807	3,771
Equity		9,552	8,297
Deferred tax liabilities	11	-	20
Provisions	14	164	42
Provisions		164	62
Credit institutions		536	1,006
Loan from the LEO Foundation		1,000	1,002
Other long-term liabilities		-	14
Non-current liabilities	15	1,536	2,022
Credit institutions		876	482
Trade payables		1,200	807
Payables to the LEO Foundation		0	150
Loans from subsidiaries		2,761	2,535
Payables to subsidiaries		1,051	577
Tax payables		123	24
Other payables		260	355
Current liabilities		6,271	4,930
Total equity and liabilities		17,523	15,311

Statement of changes in equity

(DKK million)	Share capital	Net revaluation, subsidiaries	Reserve for development projects	Retained earnings	Proposed dividend	Total
2018						
Equity at 1 January 2018	250	3,909	367	3,771	-	8,297
Profit/(loss)	-	1,863	-	(606)	-	1,257
Capitalized development costs, net	-	-	844	(844)	-	-
Deferred gains/losses on financial instruments	-	-	-	(25)	-	(25)
Dividend received from subsidiaries	-	(1,506)	-	1,506	-	-
Exchange rate adjustment on foreign subsidiaries	-	(41)	-	-	-	(41)
Other movements	-	59	-	-	-	59
Tax on changes in equity	-	-	-	5	-	5
Equity at 31 December 2018	250	4,284	1,211	3,807	-	9,552
2017						
Equity at 1 January 2017	250	1,141	83	23,570	150	25,194
Profit/(loss)	-	1,299	-	82	-	1,381
Capitalized development costs, net	-	-	284	(284)	-	-
Deferred gains/losses on 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)
Divestment	-	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

Notes

– Parent Company

Note 1 Revenue

(DKK million)	2018	2017
Revenue by region		
Europe+	4,908	5,092
International	1,802	1,922
US	898	1,017
Total	7,608	8,031

(DKK million)	2018	2017
Revenue by category		
Products	7,362	7,633
Sales-based royalties	225	377
Other	21	21
Total	7,608	8,031

Note 2 Audit fees

(DKK million)	2018	2017
Deloitte Statsautoriseret Revisionspartnerselskab		
Statutory audit	3	2
Tax advisory services	1	0
Other services	6	3
Total	10	5

Note 3 Staff expenses

(DKK million)	2018	2017
Wages and salaries	1,475	1,284
Pensions	144	114
Social security expenses	14	15
Other employee expenses	42	50
Total	1,675	1,463
Capitalized staff expenses	(119)	(52)
Total staff expenses in the income statement	1,556	1,411
Staff expenses included in:		
Cost of sales	324	331
Sales and distribution costs	228	196
Research and development costs	580	540
Administrative costs	424	344
Total	1,556	1,411
Remuneration to registered members of Executive Management	26	23
Remuneration to Board of Directors	6	5
For a specification of the remuneration in categories, refer to Note 3 to the Consolidated Financial Statements.		
Average number of full-time employees	2,220	2,111

Note 4 Financial income

(DKK million)	2018	2017
Interest income on bonds	8	211
Interest income from subsidiaries	4	4
Capital gains, financial assets	-	582
Gain arising on reclassification of financial assets from amortized cost to fair value through income statement	-	252
Other financial income	14	45
Total	26	1,094

Note 5 Financial expenses

(DKK million)	2018	2017
Interest expenses, loan from the LEO Foundation	(25)	(2)
Interest expenses to subsidiaries	(2)	(10)
Interest expenses bank	(18)	-
Loss on financial assets measured at cost	(2)	(10)
Exchange rate losses	(73)	(9)
Financial assets write-down	(67)	(48)
Other financial expenses	(1)	(28)
Total	(188)	(107)

Note 6 Tax on profit for the year

(DKK million)	2018	2017
Current tax for the year	(94)	72
Prior-year adjustments, current tax	27	(16)
Prior-year adjustments, deferred tax	11	(1)
Change in deferred tax for the year	155	(99)
Total	99	(44)
Tax on profit/loss for the year	94	(43)
Tax on changes in equity	5	(1)
Total tax for the year	99	(44)

Note 7 Proposed distribution of net profit for the year

(DKK million)	2018	2017
Net revaluation for the year	1,863	1,299
Retained earnings	(606)	82
Total	1,257	1,381

Note 8 Intangible assets

(DKK million)	Intellectual property rights	Trade-marks	Deve-lopment projects	Software	Total intangible assets
2018					
Cost at 1 January 2018	10,292	30	1,236	617	12,175
Adjustment to opening	24	-	(64)	-	(40)
Additions during the year	331	-	1,054	127	1,512
Disposals during the year	(542)	(30)	(1)	-	(573)
Transfers	-	-	(114)	114	-
Cost at 31 December 2018	10,105	0	2,111	858	13,074
Amortization and impairment losses at 1 January 2018	(6,300)	(30)	(77)	(120)	(6,527)
Adjustment to opening	(24)	-	64	-	40
Amortization for the year	(462)	-	-	(76)	(538)
Disposals during the year	195	30	1	-	226
Impairment losses for the year	-	-	(4)	(8)	(12)
Amortization and impairment losses at 31 December 2018	(6,591)	0	(16)	(204)	(6,811)
Carrying amount at 31 December 2018	3,514	0	2,095	654	6,263
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
Amortization and impairment losses at 1 January 2017	(5,623)	(30)	(77)	(86)	(5,816)
Amortization for the year	(758)	-	-	(34)	(792)
Disposals during the year	81	-	-	-	81
Amortization and impairment losses at 31 December 2018	(6,300)	(30)	(77)	(120)	(6,527)
Carrying amount at 31 December 2017	3,992	0	1,159	497	5,648

Development projects in progress amounted to DKK 2,095 million (2017: DKK 1,159 million). Capitalized costs for development projects primarily consist of licences in relation to research and development projects and internally developed software.

(DKK million)	2018	2017
Amortization and impairment losses are specified as follows:		
Sales and distribution costs	446	714
Research and development costs	4	-
Administrative costs	100	78
Total	550	792

Note 9 Property, plant and equipment

	Land and buildings	Leasehold improvements	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	Total property, plant and equipment
(DKK million)						
2018						
Cost at 1 January 2018	949	6	1,035	355	352	2,697
Additions during the year	0	1	1	41	328	371
Disposals during the year	(3)	0	(22)	(16)	(21)	(62)
Transfers	50	-	99	17	(166)	-
Cost at 31 December 2018	996	7	1,113	397	493	3,006
Depreciation and impairment losses at 1 January 2018	(598)	0	(805)	(290)	-	(1,693)
Disposals during the year	0	0	21	12	-	33
Depreciation for the year	(37)	(1)	(54)	(23)	-	(115)
Depreciation and impairment losses at 31 December 2018	(635)	(1)	(838)	(301)	0	(1,775)
Carrying amount at 31 December 2018	361	6	275	96	493	1,231
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)	0	(805)	(290)	0	(1,693)
Carrying amount at 31 December 2017	351	6	230	65	352	1,004
(DKK million)						
<i>Depreciation and impairment losses are specified as follows:</i>						
Cost of sales					98	74
Sales and distribution costs					2	2
Research and development costs					10	11
Administrative costs					5	-
Total					115	87

Note 10 Investment in subsidiaries

(DKK million)	2018	2017
Cost at 1 January	1,106	3,245
Acquisitions	23	140
Divestments	(1)	(2,279)
Cost at 31 December	1,128	1,106
Value adjustment at 1 January	3,909	1,141
Share of profit/(loss) for the year	1,863	1,299
Dividend	(1,506)	(1,707)
Exchange rate adjustment	(41)	(64)
Divestment	0	3,153
Other movements	59	87
Value adjustment at 31 December	4,284	3,909
Carrying amount at 31 December	5,412	5,015

Note 11 Deferred tax

(DKK million)	2018	2017
Deferred tax assets/(liabilities) at 1 January	(20)	80
Adjustment relating to previous years	11	(1)
Deferred tax on profit for the year	155	(99)
Deferred tax assets/(tax liabilities) at 31 December	146	(20)

The deferred tax assets relate to current assets, licenses, fixed assets, intercompany profits, indirect production costs, etc. Deferred tax liabilities have been calculated at the temporary differences between assets and liabilities expected to be realized, based on a tax rate of 22%.

Note 12 Other Receivables

Other non-current receivables decreased DKK 40 million compared to 2017, mainly due to conversion of loan.

The increase in other current receivables mainly relates to VAT and royalty accruals.

Note 13 Prepayments

Prepayments primarily consist of research and development payments relating to clinical trials.

Note 14 Provisions

(DKK million)	2018	2017
Staff-related provisions	82	4
Sales deductions	10	17
Other provisions	72	21
Total	164	42
Other provisions fall due:		
Within one year	58	40
Between one and five years	106	1
After five years	0	1
Total	164	42

Note 15 Non-current liabilities

(DKK million)	2018	2017
Other long-term liabilities fall due:		
Between one and five years	536	1,020
After five years	1,000	1,002
Total	1,536	2,022

Non-current liabilities after five years only relate to loan from the LEO Foundation. Please refer to Note 13 in the Consolidated Financial Statements.

Note 16 Leasing

Operating Lease Obligations

The Parent Company had lease obligations of DKK 52 million (2017: DKK 33 million), of which DKK 22 million is related to leases for office premises with the subsidiaries (2017: DKK 23 million).

Note 17 Contingencies and commitments

Guarantees

The total guarantee commitment for the Parent Company amounts to DKK 1,896 million at 31 December 2018 (2017: DKK 471 million).

At 31 December 2018, the guarantee commitment comprises mainly guarantees relating to acquisitions of DKK 1,271 million and pension commitments of DKK 559 million (2017: DKK 309 million).

Contractual obligations and commitments

Contracted for but not provided in the financial statements:

(DKK million)	2018	2017
Intangible assets	6,283	1,432
Property, plant and equipment	456	-
Other current assets	373	-
Total	7,112	1,432

The commitments related to intangible assets comprise both intellectual property rights from acquisitions and milestone payments relating to development of new products. DKK 4,297 million of the total commitment comprises fixed contractual obligations. The remaining commitments relate to agreements which contain certain milestone payments that the Parent Company is committed to paying upon achievement. The amounts are not risk-adjusted or discounted.

In addition to the above, there are certain commercial milestone payments that depend on future sales.

Pending lawsuits

At the end of 2018, there were pending patent lawsuits filed by and against the Parent Company concerning rights related to products in the Parent Company's psoriasis portfolio in both the US and Europe. The Parent Company does not expect the pending cases to have any significant effect on the Parent Company'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.

Note 18 Other notes

For other operating income and expenses, please refer to Note 4 to the Consolidated Financial Statements.

For financial instruments, please refer to Note 13 to the Consolidated Financial Statements.

For share capital, please refer to Note 18 to the Consolidated Financial Statements.

For related parties, please refer to Note 21 to the Consolidated Financial Statements.

For events after the balance sheet date, please refer to Note 22 to the Consolidated Financial Statements.

Note 19 Accounting policies

The Financial Statements of the Parent Company, LEO Pharma A/S, for 2018 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.

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 capitalized development costs. This reserve cannot be used for dividends or distributions or to cover losses. If the recognized 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 recognized development costs are written down, the part of the reserve corresponding to the write-down of the development costs will be reserved. If a write-down of development costs is subsequently reserved, the reserve will be re-established. The reserve is reduced by amortization of capitalized development costs on an ongoing basis.

Investments in subsidiaries

Investment 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 unrealized intercompany profits or losses, and addition of any remaining value of positive differences (goodwill). The Parent Company's shares of the subsidiaries' profit for the year is recognized in the income statement less unrealized 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 2018.

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 2018, and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for 2018. We believe that the Management's review includes a fair review of developments in the Group's and the Parent Company's activities 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, 26 February 2019

Executive board:



Gitte P. Aabo
President & CEO



Anders Kronborg
CFO

Board of directors:



Jukka Pekka Pertola
Chairman



Olivier Bohuon
Vice Chairman



Jesper Høiland



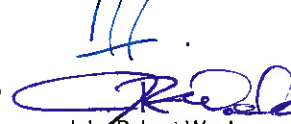
Cristina Patricia Lage



Signe Maria Christensen



Anders Ekblom



John Robert Weeks



Frank Maréno



Karin Affermann



Jesper Mailind



Jannie Kogsbøll



Patrik Olof Dahlén



Jan van de Winkel

Independent Auditor's Report

To the shareholder of LEO Pharma A/S

Opinion

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements for the financial year 1 January 2018 – 31 December 2018, 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 Company, 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 Company 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 2018 and of the results of its operations and cash flows for the financial year 1 January 2018 – 31 December 2018 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 Company Financial Statements give a true and fair view of the Parent's financial position at 31 December 2018 and of the results of its operations for the financial year 1 January 2018 – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements and the Parent Company 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 Company 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 Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements and the Parent Company 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 Company Financial Statements.

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Parent Company 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 Company'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 Company 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 Company 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 Company Financial Statements, including the disclosures in the notes, and whether the Consolidated Financial Statements and the Parent Company 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, 26 February 2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

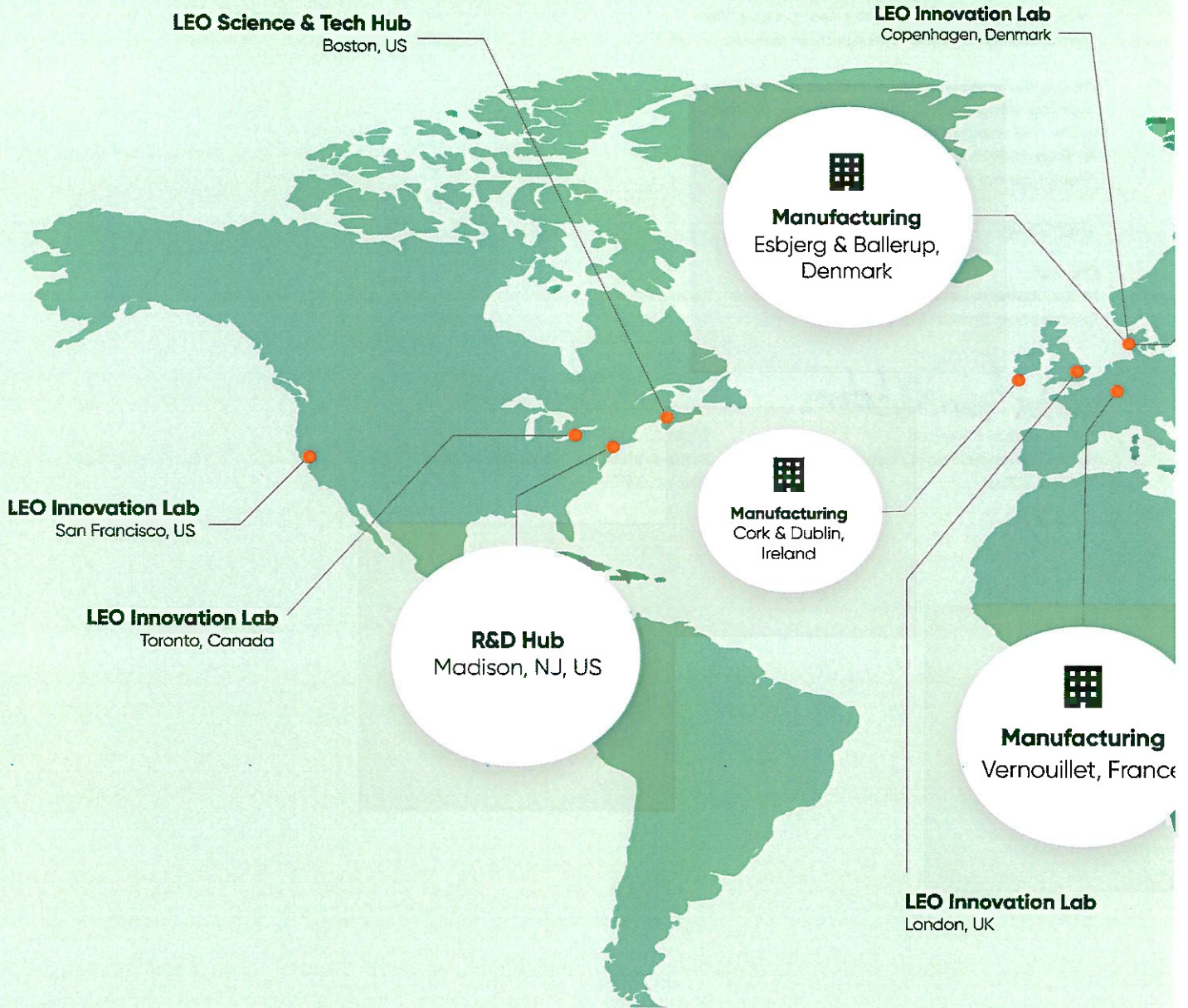


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