— we help people
achieve healthy skin

Annual Report 2016

Godkendt på generalforsamlingen den 30. marts 2017
Dirigent: Mikkel Svoldgaard Gadsbøll

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

LEO Pharma A/S

LEO®

LEO mission

— we help people achieve healthy skin

LEO vision

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

Contents

The Management's Review, as defined by the Danish Financial Statements Act, is found on pages 1-27.

Presented and adopted at the Annual General Meeting of the Company on 30 March 2017.

CVR no. 56 75 95 14

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


“We helped
73 million people
in 2016”

CEO letter: A defining year

In 2016, LEO Pharma invested significantly in expanding current and future treatments, delivering better care for more people and securing LEO Pharma a unique position to help people with skin diseases. We helped 73 million people, which is a big step towards our aspiration to reach more than 100 million people by 2020.

In China, Russia and other markets, we doubled the number of people we help by expanding our offering to include Protopic® for eczema, Locoid® for eczema and psoriasis, Locobase® for skin care and Zineryt® for acne. In the US and Europe, we introduced Enstilar®, which provides people with psoriasis with the first-ever fixed-dose combination spray foam.

LEO Pharma's performance in 2016 surpassed our expectations. Our top line grew significantly by 17% to a record high of DKK 9,863 million. This is as a result of expanding our portfolio with new products, such as Enstilar® and Protopic®, as well as the strong performance of innohep®. Our operating profit before depreciation, amortisation and impairment losses (EBITDA) totalled DKK 1,346 million, while our operating profit (EBIT) totalled DKK 341 million. This is as a result of increased amortisation due to the planned significant investments in our future.

Expanding our treatment offering

We entered biologics in dermatology and established a strong pipeline in this area during the year. The most advanced projects are brodalumab for psoriasis and tralokinumab for atopic dermatitis. For earlier-stage projects, we initiated a partnership with MorphoSys to discover and develop therapeutic antibodies.

To help people with skin conditions, we look at all aspects of their everyday life. At the LEO Innovation Lab, we are successfully building and rolling out digital technologies and platforms that help patients and physicians in completely new ways. Moreover, we established our LEO Science & Tech Hub in Boston, US, which will support us in identifying future opportunities for skin solutions.

All of this means that LEO Pharma has a unique and broad treatment offering for helping people achieve healthy skin – meeting the many different needs of people with skin diseases, whether their condition is mild, moderate or severe or whether they are looking for skin care products.

We continued to work hard on developing our organisation and capabilities. We need new capabilities to develop our portfolio and we need to continue to increase the efficiency of our global operations to make sure that LEO Pharma stays competitive and healthy in the long term. Our efficiency projects led us to say goodbye to some employees in 2016, especially employees working in support and commercial functions in Europe. Decisions about layoffs are always tough, but I am convinced that we are doing the right thing for patients and for the Company.

Reducing the burden of disease

One quarter of the world's population suffers from a skin disease, yet their needs are often overlooked. Only a fraction of people have access to optimal treatment, and many struggle to follow their treatment regime. Whenever I meet with patients, I am deeply touched by their stories about how their skin disease impacts their lives. For example, many psoriasis patients tell me that they never dare to go to a public swimming pool because people mistakenly believe psoriasis is contagious. As a result, the physical burden of their psoriasis is compounded by the social stigma.

Therefore, I was very pleased to see that the WHO has issued a global report on psoriasis in order to raise awareness about this serious global problem that affects more than 125 million people worldwide.

LEO Pharma's ambition is to help even more people achieve healthy skin and, as a foundation-owned company, we have a responsibility to invest in helping more patients. All 5,000 employees at LEO Pharma worldwide will continue to work towards this goal.

I am happy to say that we are in a stronger position than ever before to deliver on this promise.

Gitte P. Aabo
President & CEO, LEO Pharma

Key figures and **events in 2016**

Key figures

(DKK million)	2016	2015*	2014†	2013†	2012†
Income statement					
Revenue	9,863	8,457	7,973	7,842	8,216
Operating profit	341	763	762	675	-179
Net financials	766	178	1,288	1,000	1,049
Profit before tax	1,104	928	2,050	1,675	870
Net profit for the year	**743**	**713**	**1,544**	**1,175**	**663**
Balance sheet					
Net investment in:					
Intangible assets	6,115	244	160	225	186
Property, plant and equipment	297	193	121	235	343
Fixed assets	19,672	15,093	17,357	22,681	24,695
Current assets	17,140	16,989	14,270	10,454	4,737
Total assets	**36,812**	**32,082**	**31,627**	**33,135**	**29,432**
Equity	**25,212**	**24,751**	**24,523**	**23,136**	**21,990**
Ratios					
Operating profit margin	3%	9%	10%	9%	-2%
Return on assets	1%	2%	2%	2%	-1%
Return on equity	4%	4%	9%	7%	4%
Solvency ratio	68%	77%	78%	70%	75%
Employees					
Average number of employees	5,170	4,813	4,712	4,733	4,783

* These figures have been restated to reflect adoption of the new Danish Financial Statements Act. For a description of the effect of the transition to the amended Danish Financial Statements Act, please refer to note 23 in the Consolidated Financial Statements.

† In accordance with section 101 of the Danish Financial Statements Act, the Company has chosen not to restate the comparative figures for 2014, 2013 and 2012.

Key events

Enstilar®, LEO Pharma's latest topical treatment for psoriasis, was launched in January in the US as the first market and in May in the EU. Enstilar® is the first fixed-combination foam spray for the treatment of plaque psoriasis. The product supplements LEO Pharma's existing topical psoriasis portfolio consisting of Daivobet® gel, Daivobet® gel Applicator, Daivobet® Ointment, Xamiol® gel and the Daivonex® range.

In April, LEO Pharma successfully transferred the global dermatology portfolio acquired from **Astellas**, comprising prescription and over-the-counter products, including established and strong brands, such as Protopic® for eczema, Locoid® for eczema and psoriasis, Locobase® for skin care and Zineryt® for acne. The portfolio is expected to enable LEO Pharma to reach more than 25 million additional people in 2017.

In July, LEO Pharma entered into a strategic partnership with **AstraZeneca**. LEO Pharma acquired the global licence for tralokinumab for skin diseases and the exclusive licence for brodalumab in Europe, strengthening the Company's presence in biologics within dermatology.

In September, LEO Pharma expanded its partnering presence with the establishment of the **LEO Science & Tech Hub** in Boston, US. The Hub aims to catalyse early-stage collaborations in science and technology in order to advance the treatment of skin diseases.

In November, LEO Pharma entered into a **strategic partnership with MorphoSys** relating to therapeutic antibodies. The alliance strengthens LEO Pharma's presence in biologics within dermatology, marking the third partnership within therapeutic antibodies, following the partnerships with AstraZeneca and arGEN-X.

Throughout the year, the **LEO Innovation Lab** launched an array of new solutions for people with skin diseases. The new solutions – including online communities, apps and information portals – all aim to empower people with skin conditions to manage their disease. The LEO Innovation Lab also expanded its presence in 2016 by establishing a satellite in the US.

Financial review and outlook

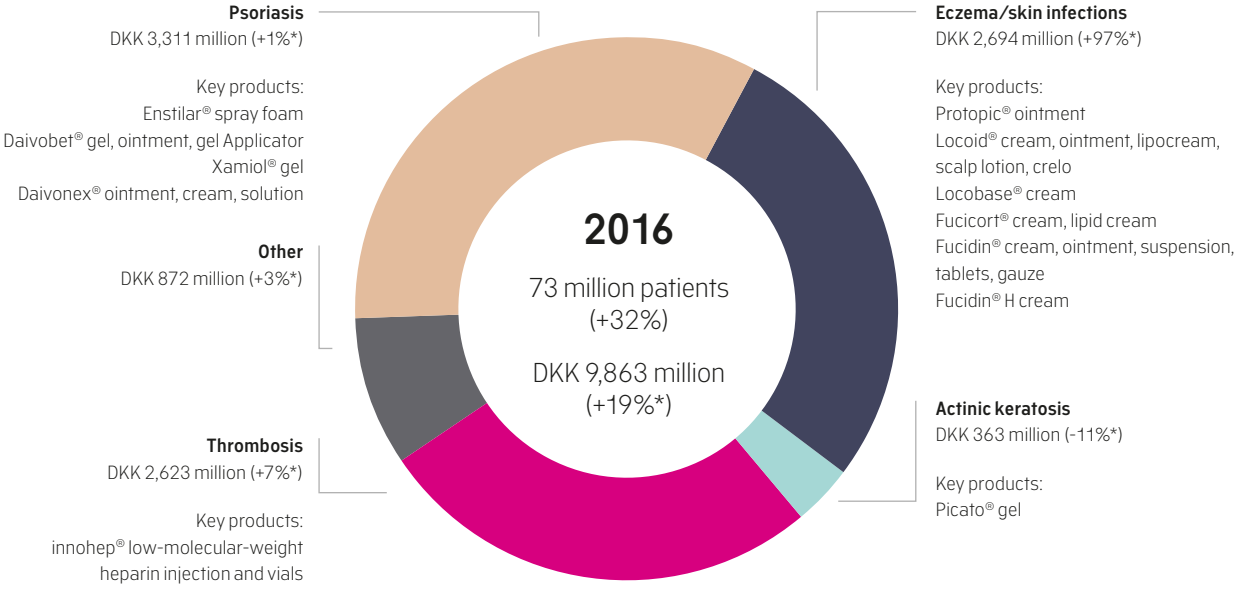
REVENUE
LEO Pharma's revenue in 2016 amounted to DKK 9,863 million. This is an increase of DKK 1,406 million or 19% in local currencies compared to 2015, which is above expectations for 2016.

Revenue by therapeutic area
Sales within our eczema/skin infection solutions grew by DKK 1,341 million or 97% in local currencies. This was the main driver behind the total net sales growth. The growth in eczema/skin infection solutions was primarily related to the acquisition of the global dermatology portfolio from Astellas, which contributed an increase of 88% in local currencies for nine months of sales and strengthened LEO Pharma's business worldwide. This is 13% above expectations, mainly due to strong sales of Protopic® in the US and Europe.

Excluding sales from the product portfolio acquired from Astellas, revenue increased by 9% in local currencies compared to 2015.

The psoriasis business grew by 1% in local currencies compared to 2015. LEO Pharma saw strong Daivobet® Ointment sales in Japan, up by 40% in local currencies. In addition, our sales within the psoriasis area avoided the negative impact of generic competition due to the positive outcome of the EU ruling on the Daivobet® Ointment patent. The launch of Enstilar® in the US in January 2016 was another growth driver, contributing a 5% increase in local currencies. The sales growth of Enstilar® was partly offset by a decline in Taclonex® Topical Suspension sales of 21% in local currencies. In addition, Enstilar® was launched in Germany and the UK in the second half of 2016.

Revenue by therapeutic area – delivering treatments to more people



* The development in % is presented in local currencies.

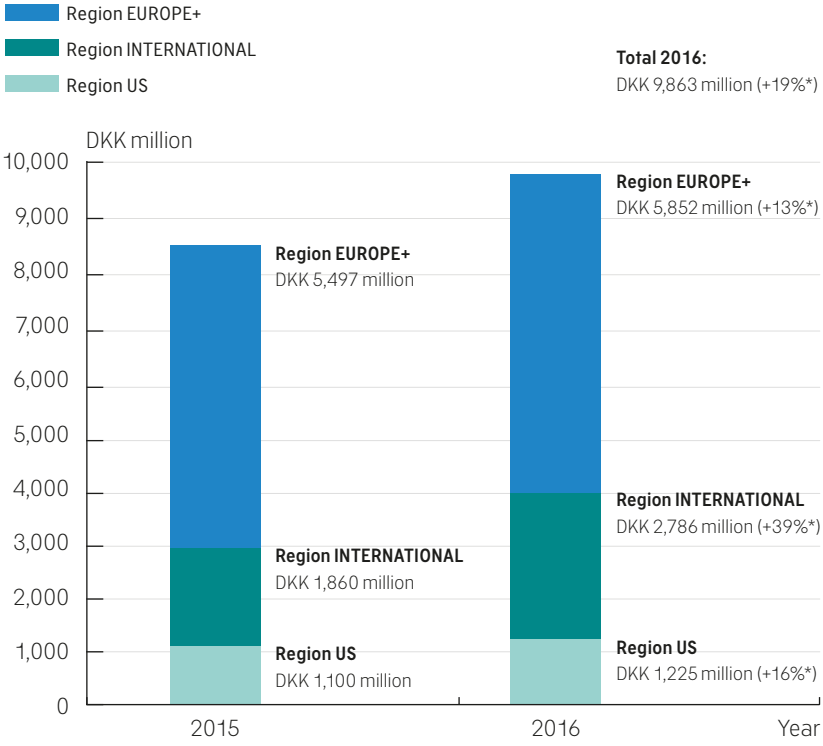
Sales of Picato®, LEO Pharma's actinic keratosis treatment solution, declined by 11% in local currencies compared to 2015. Picato® sales are declining in the US following a change in the product label and are flat in most European markets apart from France and Germany, where sales are growing. The level of investment in Picato® has been reduced accordingly.

Thrombosis sales grew by DKK 255 million or 7% in local currencies. This growth was driven by innohep® sales, which grew by 9% in local currencies. This strong growth came from across Europe, where LEO Pharma continues to help more people with cancer-associated thrombosis.

Revenue by region

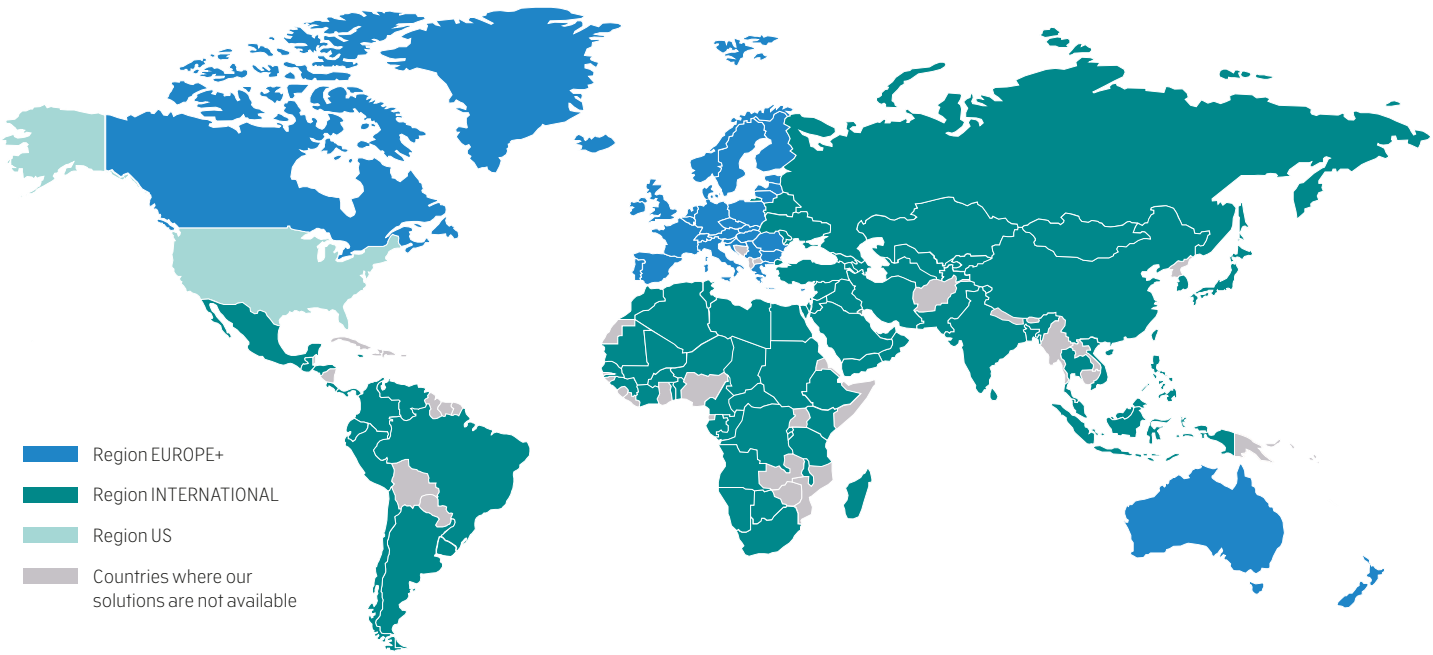
Region EUROPE+ grew by DKK 355 million for net sales or 13% in local currencies. The majority of the growth was driven by the global dermatology portfolio acquired from Astellas. In addition, EUROPE+ showed organic growth of 1% during 2016, which is an improvement on the 0.5% organic growth seen in 2015. This organic growth was mainly driven by the strong performance of our European thrombosis business (7% growth) and growth of 1% in the Fucidin® range. Psoriasis sales were flat compared to 2015. The launches of Enstilar® in the UK, Ireland, Germany and Denmark were successful. Generic competition for

Revenue by region – expanding our global reach



* The development in % is presented in local currencies.

Global presence – offering treatments in more than 100 countries



LEO Pharma's revenue increased to **DKK 9,863 million** in 2016

Daivobet® and price cuts for the Daivobet® gel Applicator are counterbalancing the growth in Region EUROPE+.

Region US grew by DKK 125 million or 16% in local currencies, driven by royalties from Protopic® and the launch of Enstilar®. The overall growth in the region was impacted by a decline in Taclonex® Topical Suspension sales, due to lower demand. The overall development in the psoriasis business in the US was negatively impacted by a decline in Dovonex® cream, due to a third generic entering the market.

Region INTERNATIONAL grew by DKK 926 million in total or 39% in local currencies, and by 10% excluding the global dermatology portfolio acquired from Astellas. The successful integration of the new portfolio was a key contributor to the strong financial performance of Region INTERNATIONAL, particularly in the Chinese and Russian markets. Organic growth in the region was primarily driven by Japan and LAMEA. Net sales in Japan grew by approximately 29%, despite the launch of a product approved for the same indication as Dovobet®. In LAMEA, organic growth of 11% was driven by the Fucidin® portfolio, which saw net sales growth in excess of 23% in local currencies compared to 2015.

OPERATING PROFIT

Operating profit before depreciation, amortisation and impairment losses increased from DKK 1,209 million to DKK 1,346 million. Operating profit decreased from DKK 763 million in 2015 to DKK 341 million in 2016. The operating profit is above expectations for 2016.

The decrease in operating profit was predominantly due to higher administrative as well as sales and distribution costs, which were DKK 1,171 million higher than in 2015. The acquisition of the global dermatology portfolio from Astellas led to increased costs, including higher amortisation. Furthermore, the increase in costs was driven by one-off organisational restructuring costs due to a focus on efficiency projects which, among other things, led to the announcement that 400 positions will be discontinued.

EMPLOYEES

Thanks to its global team of people from different cultures and backgrounds, LEO Pharma is a workplace where innovation thrives and people grow. It is LEO Pharma's 2020 aspiration for nine out of 10 employees to recommend LEO Pharma as a great place to work (up from eight out of 10 in the most recent employee survey).

In 2016, LEO Pharma continued to strengthen its capabilities through a team performance programme for its leaders and the introduction of a global competency framework.

To facilitate the Company's entry into biologics, LEO Pharma strengthened its leadership team and announced plans for a reorganisation at the end of October. This will help safeguard investments in upcoming products and bring in new competencies, while continuously optimising operations and reducing costs where possible. As a result, approximately 400 positions will cease to exist. At the same time, LEO Pharma plans to create up to 200 new positions supporting the new products.

FINANCIAL ITEMS

In 2016, net financial income increased by DKK 588 million to DKK 766 million. DKK 550 million of the increase was due to the improved performance of the investment portfolios. The net financial result was negatively impacted by currency exchange losses of DKK 48 million (2015: DKK 223 million) and one-off items, including write-downs of investments, totalling DKK 40 million.

The market value of LEO Pharma's financial securities amounted to DKK 10,694 million, of which the held-to-maturity bond portfolio amounted to DKK 10,661 million at 31 December 2016 (2015: DKK 11,576 million). The decrease in value was predominantly due to expired bonds being used to repay loans during the year. LEO Pharma's listed investments had a market value of DKK 12,268 million at 31 December 2016

(2015: DKK 11,462 million). The portfolio includes low-volatility stocks, covered bonds and investment-grade corporate bonds.

SATISFACTORY EARNINGS

LEO Pharma generated a net profit of DKK 743 million in 2016, compared to DKK 713 million in 2015.

Net investments in intangible assets amounted to DKK 6,115 million in 2016 (2015: DKK 244 million). The investments primarily concerned the strategic acquisitions and partnerships with Astellas and AstraZeneca. Furthermore, LEO Pharma continued to invest in a SAP-based ERP system, resulting in software additions of DKK 321 million.

In 2016, LEO Pharma invested (net) DKK 297 million (2015: DKK 193 million) in the expansion and optimisation of production facilities to ensure capacity for the future growth of LEO Pharma's solutions and in preparations for the launch of new products.

Operating activities generated a positive cash flow of DKK 3,074 million (2015: DKK 903 million). LEO Pharma achieved a 4% return on equity (2015: 4%) and equity of DKK 25,212 million at 31 December 2016 (2015: DKK 24,751 million). Based on these results, LEO Pharma entered 2017 with a solvency ratio of 68% (2015: 77%).

2017 outlook

In 2017, LEO Pharma expects revenue to be DKK 9.5-10 billion, primarily driven by the full-year impact of the global dermatology portfolio acquired from Astellas. The Company's result will be challenged by continued pressure for price reductions and the risk of increased generic competition for Daivobet® Ointment in Europe.

Operating profit for the financial year 2017 is expected to be positively impacted by both the realised cost savings from organisational restructuring and benefits from efficiency projects carried out during 2016. Operating profit for 2017 is expected to be DKK 525-675 million.

In 2017, LEO Pharma will continue to explore new ways to improve the lives of people with skin diseases, through the search for new business development and innovation opportunities in line with the Company's mission.

ELEMENTS OF UNCERTAINTY

LEO Pharma focuses on proactively aligning and developing its organisation to address changes in the marketplace and to ensure that resources are invested where they matter the most: helping patients.

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

Basis for future earnings

2016 was a year when LEO Pharma significantly enhanced its research and development pipeline and treatment offering. LEO Pharma now holds a robust pipeline portfolio of small molecules, biologics and injectable antibodies, constituting a broad portfolio of treatment options for people with skin diseases.

Below are the highlights of the key development projects – spanning internal innovation, external partnerships and acquisitions. In the section "Our business", the pipeline visual provides an overview of the compounds and projects in development.

RESEARCH AND DEVELOPMENT

LEO Pharma invested 13% of its revenue, or DKK 1,290 million, in research and development in 2016, which is similar to 2015 (DKK 1,184 million).

PSORIASIS

The commercial rights to brodalumab in Europe were acquired by LEO Pharma as part of a strategic partnership with AstraZeneca. Kyntheum® will be the brand name for brodalumab in Europe. It is an IL-17 receptor monoclonal antibody under regulatory review for patients with moderate-to-severe plaque psoriasis. Brodalumab has shown unsurpassed efficacy in clinical trials, with total clearance for more than half the patients when evaluated after one year of treatment. Subject to approval, brodalumab will be LEO Pharma's first biological treatment for psoriasis and is expected to be launched in Europe in the second half of 2017.

One highlight from the early systemic research pipeline is the oral PDE4i, a systemic anti-inflammatory compound intended to offer an oral long-term treatment for people with moderate-to-severe psoriasis. The project is in phase IIa, a proof-of-concept trial in moderate-to-severe psoriasis patients, and preparing for initiation of phase IIb, dose finding.

Enstilar®, LEO Pharma's new foam treatment for plaque psoriasis, was launched in the US in early 2016 and in the first European markets in the second half of 2016. A long term study to investigate the ability to control psoriasis over a 12-month period using Enstilar® was commenced during the year.

ECZEMA

The global licence for tralokinumab for dermatological indications was acquired by LEO Pharma as part of the partnership with AstraZeneca. Tralokinumab is a potential new biological medicine, an anti-IL-13 monoclonal antibody, which has completed a phase IIb study for the treatment of patients with atopic dermatitis. Top-line results from the phase IIb trial showed that at week 12, a statistically significant improvement from baseline in the EASI score (Eczema Area and Severity Index) was observed in the two highest tralokinumab dosage arms tested when compared to the placebo arm. Significant improvements in the DLQI (Dermatology Life Quality Index) were also observed. Tralokinumab is scheduled to enter phase III in Q2 2017.

The early research pipeline includes several highlights within eczema. JAK topical, a JAK (Janus kinase) inhibitor licensed from Japan Tobacco in 2014, delivered proof of concept during 2016 in multiple indications

associated with eczema. SEGRA is a non-steroidal topical solution for the treatment of a potentially broad range of inflammatory diseases, including atopic dermatitis. The aim is to offer an improved safety profile compared to topical steroids. The project is in the preclinical phase and approaching the clinical phase.

In May 2015, LEO Pharma entered into a licence arrangement with arGEN-X regarding one of its innovative antibody-based solutions for the treatment of the chronic inflammation underlying many skin conditions. During 2016, the parties collaborated on the project ARGX-112, which has now progressed into manufacturing process development as well as pharmacology studies, with preclinical toxicology studies commencing during Q1 2017.

ACTINIC KERATOSIS

Ingenol disoxate is a novel ingenol derivative and a flexible product solution intended for field treatment of actinic keratosis on the face, chest and scalp covering up to 250 cm^2. The pivotal phase III trials are in progress. The eight-week key results were presented at the end of December 2016, and a 12-month follow-up period is planned. The API manufacturing facility at LEO Pharma in Southport, Australia, was completed in February 2017. Ingenol disoxate is expected to be launched in the US in Q4 2018.

ACQUISITION AND INTEGRATION

Following the transfer in April of the global dermatology portfolio acquired from Astellas, a dedicated team worked on integrating the portfolio. Seamless collaboration across the organisation enabled LEO Pharma to efficiently integrate the majority of the portfolio in just nine months, while adding significant additional value to the acquired portfolio.

Integration involved transferring 702 marketing authorisations to LEO Pharma, integrating documentation for more than 350 completed clinical studies, assuming responsibility for ongoing clinical studies, transferring global safety data and obtaining production know-how. In addition, LEO Pharma submitted marketing authorisation transfer applications equivalent to 72% of the net sales value and received authority approvals equivalent to 64% of the net sales value.

Special business **and financial risks**

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

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

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

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

LIQUIDITY RISKS
Thanks to its foundation ownership, LEO Pharma is in a unique position to help people with skin diseases. Owned 100% by a private commercial foundation, the LEO Foundation, LEO Pharma is an independent company with no external shareholders. All profits are reinvested in the LEO Group with the aim of continually providing better solutions to patients – so that LEO Pharma can go further in its mission to help people achieve healthy skin.

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

INTEREST RATE RISKS
Interest rate risks occur in connection with our investments in various asset classes. LEO Pharma invests in low-volatility stocks, real estate, investment-grade corporate bonds and covered bonds, all with high ratings.

The interest rate risk on our hold-to-maturity portfolio of Danish mortgage bonds is partly offset by the interest rate risk of our debt portfolio, as interest rate swaps are used to hedge the interest rate of our debt portfolio.

CREDIT RISKS
LEO Pharma's credit risk consists of two components. The first component is the risk related to payment terms for LEO Pharma's customers. LEO Pharma has a continued focus on credit assessment, customers' payment behaviour and dunning procedures in order to mitigate future losses on bad debt.

The second component is the counterparty risk related to LEO Pharma's banking partners. The counterparty risk is estimated to be low, due to the mix of high bank partner ratings and signed Credit Support Annexes.

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


How to

Our strategy

All over the world, skin diseases are a burden for individuals, families and societies. A strong focus on addressing high unmet needs lies at the heart of LEO Pharma's corporate strategy, which aims to help more than 100 million people in 2020.

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

LEO Pharma is in a unique position to help people with skin diseases and is at a strategic turning point in the Company's more than 100-year history. In 2009, LEO Pharma made dermatology its strategic focus and began its growth journey. This led to a new mission to help people achieve healthy skin and a new vision to become the preferred dermatology care partner, improving people's lives around the world. Since then, LEO Pharma has established a global presence, demonstrated expertise in skin diseases such as psoriasis and expanded into new therapeutic areas and markets.

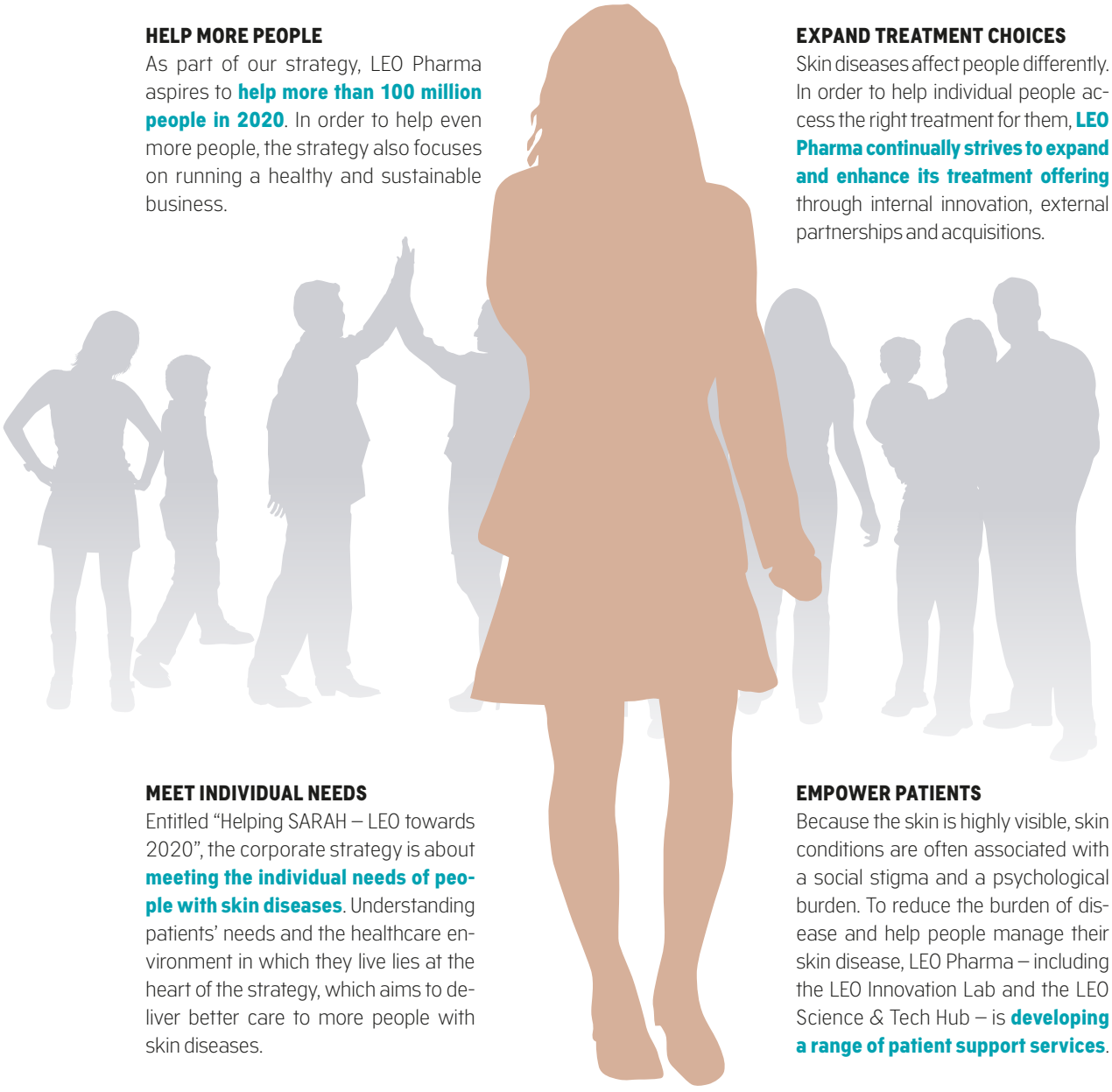
Today, LEO Pharma is recognised for having made significant advances in dermatology and for helping people with skin diseases improve their quality of life.

A high unmet need remains, however. Many people with skin diseases do not have access to treatment. Of those who do have access to medication, many fail to adhere to their treatment regime. Despite an increase in disease awareness, far too many people experience the stigmatisation and social isolation often associated with a skin disease. Patients worldwide are looking for better treatment and support, so that they can take control of their disease and enjoy a better quality of life.

Helping SARAH – our strategy focusing on patient needs

HELP MORE PEOPLE
As part of our strategy, LEO Pharma aspires to **help more than 100 million people in 2020**. In order to help even more people, the strategy also focuses on running a healthy and sustainable business.

EXPAND TREATMENT CHOICES
Skin diseases affect people differently. In order to help individual people access the right treatment for them, **LEO Pharma continually strives to expand and enhance its treatment offering** through internal innovation, external partnerships and acquisitions.



MEET INDIVIDUAL NEEDS
Entitled "Helping SARAH – LEO towards 2020", the corporate strategy is about **meeting the individual needs of people with skin diseases**. Understanding patients' needs and the healthcare environment in which they live lies at the heart of the strategy, which aims to deliver better care to more people with skin diseases.

EMPOWER PATIENTS
Because the skin is highly visible, skin conditions are often associated with a social stigma and a psychological burden. To reduce the burden of disease and help people manage their skin disease, LEO Pharma – including the LEO Innovation Lab and the LEO Science & Tech Hub – is **developing a range of patient support services**.

Foundation ownership

Thanks to its foundation ownership, LEO Pharma is in a unique position to help people with skin diseases.

Owned 100% by a private commercial foundation, the LEO Foundation, LEO Pharma is an independent company with no external shareholders. All profits are reinvested in the LEO Group with the aim of continually providing better solutions to patients – so that LEO Pharma can go further in its mission to help people achieve healthy skin.

Living with a **skin disease**

At LEO Pharma, we help people achieve healthy skin. This means understanding the science of the skin. It also means looking at all aspects of the everyday lives of people with skin diseases. Because the skin is highly visible, skin conditions are often compounded by a social stigma, leading to an additional psychological burden. We listen to patients and their caregivers to understand their needs and develop solutions that empower people to manage their skin condition.

DID YOU KNOW?

– Worldwide, 1 in 4 people suffers from a skin disease at any point in time

– More than 125 million people worldwide suffer from psoriasis

"No matter what you do in life, you carry your body and skin around with you. You're constantly confronted with other people's reactions to your appearance. My skin condition has taught me that most challenges in life give you a chance to grow."
Julie, Denmark

"I'd do anything to get rid of my psoriasis tomorrow, absolutely anything. I first developed psoriasis when I was 12. That was quite difficult to deal with. People associate skin disease with a certain social class or level of cleanliness, and judge you because of that."
Caroline, UK

"I remember being younger, I never liked going to the beach. I used to go when there were no others. I guess I felt embarrassed because of my skin. Getting older I've also gotten much better at treating my condition. Learning to deal with my psoriasis has given me more confidence."
Ignacio, Spain

"Some people find themselves in a vicious cycle where stress can trigger their psoriasis and cause them to feel more stressed and anxious. It's really important that we view people as an entire person and not just treat the symptoms we can see."
Carla Renton,
The Psoriasis Association, UK

"The itching is ridiculous. Sometimes I've scratched during the night so badly that I've ended up being admitted into hospital because my psoriasis has been so severe."
Rena, UK

"While non-sufferers refer to psoriasis as 'just' a skin condition, it's often the psychological burden that's the real problem."
Dr Stuart Wolfman,
dermatologist, UK

Innovating for **healthy skin**

We innovate to advance treatment standards for people with skin conditions worldwide. Our robust portfolio of small molecules and antibodies allows us to meet the diverse medical needs of the patients we serve. Our goal is to find functional cures, enabling people with skin conditions to live a life free from symptoms.

LEO Pharma's innovation engine is powered by a global R&D organisation with more than 700 scientists and specialists. Together with our partners, we have built a strong pipeline focused on dermatology, covering several indications. We are expanding our internal innovation and external partnerships to bring life-changing medicines to people with skin conditions.

We are moving into the field of systemic treatment

Today, corticosteroids are among the most prescribed topical medications to clear flare-ups of skin inflammation. We are working to find new topical treatments that combine the benefits of steroids with safety and efficacy for long-term use. Likewise, we are moving into the field of systemic treatment in order to provide new treatment options for severe skin conditions.

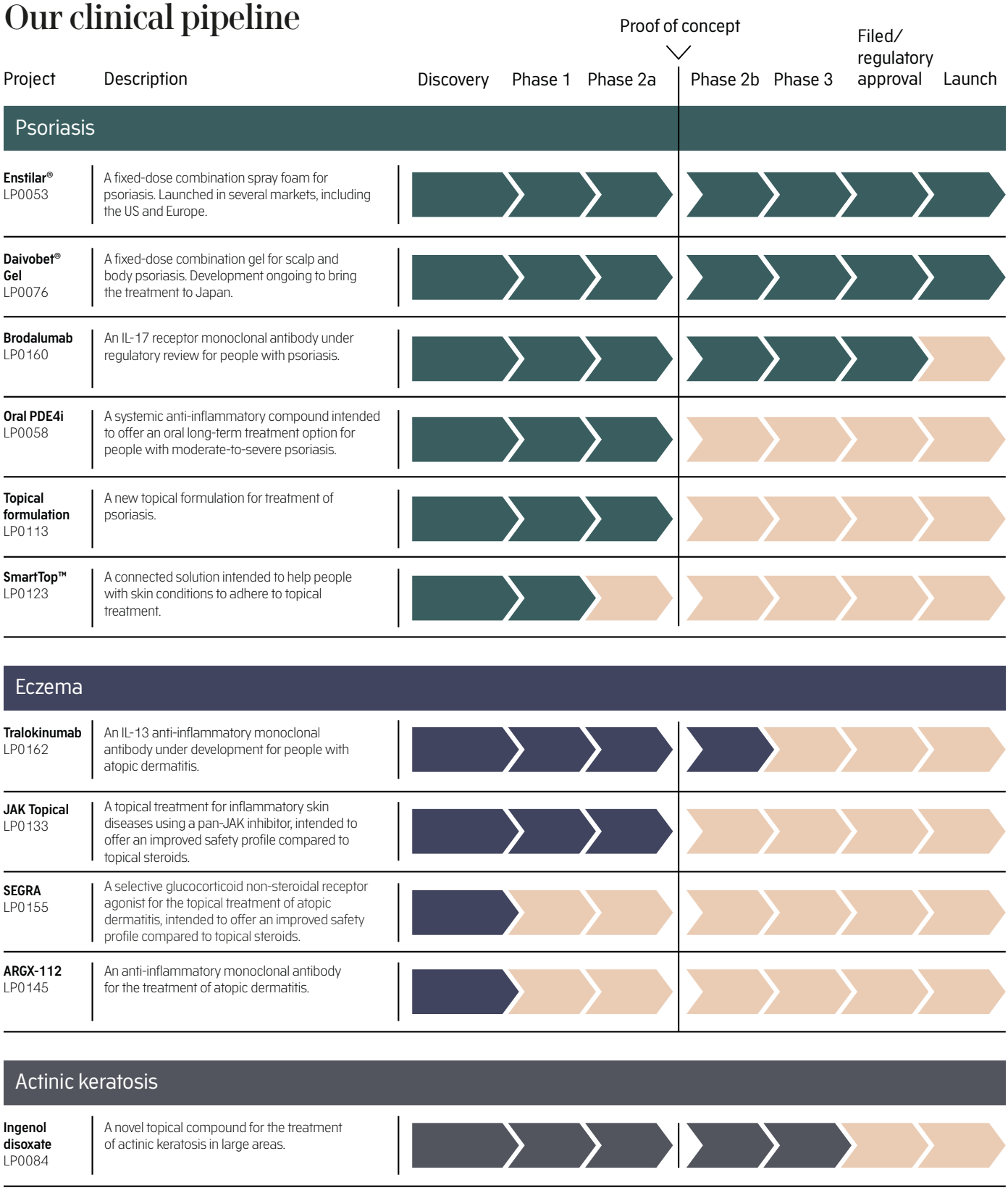
EXPANDING OUR PIPELINE

Our pipeline includes a novel JAK inhibitor for the non-steroidal topical treatment of inflammatory skin diseases (phase II); a novel small-molecule compound for the topical treatment of actinic keratosis (phase III); a novel orally bioavailable PDE4 inhibitor for psoriasis (phase II); tralokinumab, an IL-13 antibody for the systemic treatment of atopic dermatitis (phase II) and brodalumab, an IL-17R antibody for the systemic treatment of moderate-to-severe psoriasis (undergoing regulatory review).

Recently, LEO Pharma launched two new topical formulations for psoriasis patients: Enstilar®, a fixed-dose combination spray foam, and Daivobet® gel Applicator, a fixed-dose combination gel with an applicator for scalp and body psoriasis.

In addition, we explore opportunities to make treatment easier for patients through innovations within medical device technologies and digital solutions and services.

Our clinical pipeline



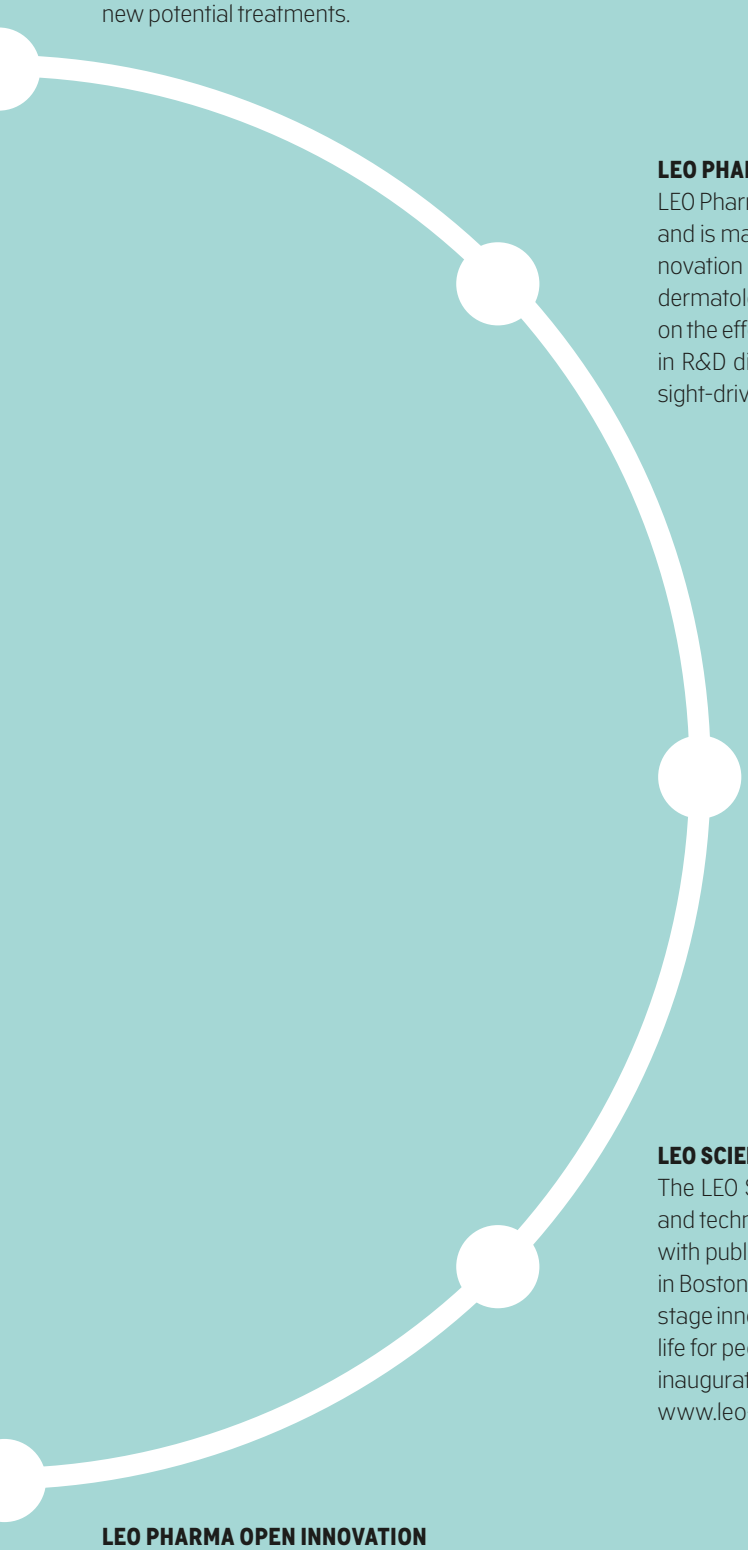
Our innovation ecosystem

At LEO Pharma, we are committed to developing great solutions through innovation. We believe that being truly innovative requires global ambitions, significant investments and a diverse approach where multiple initiatives go hand in hand.

Five important elements make up LEO Pharma's unique innovation ecosystem: our internal R&D capabilities, partnerships and acquisitions, open innovation, the LEO Innovation Lab and the LEO Science & Tech Hub.

Collaboration and co-creation are the glue that binds our ecosystem together, advancing science and technology to fuel the development of new treatment solutions.

PARTNERSHIPS
LEO Pharma's commitment to research and development is strengthened by extensive collaborations between the R&D organisation and more than 400 academic and institutional research centres and industry partners worldwide, making the world our lab. By collaborating with scientific experts globally, LEO Pharma aims to enhance its knowledge of skin diseases and explore new potential treatments.



LEO PHARMA R&D
LEO Pharma's R&D organisation is located at headquarters in Ballerup, Denmark, and is made up of more than 700 scientists and specialists. Through internal innovation and external partnerships, the R&D organisation pioneers advances in dermatology care. Research and development projects are increasingly based on the efforts of multidisciplinary project teams integrating advanced knowledge in R&D disciplines with expertise in clinical practice and therapeutic needs. Insight-driven innovation propels all product development.

LEO INNOVATION LAB
The LEO Innovation Lab is LEO Pharma's separate innovation unit that develops non-pharmaceutical solutions in order to improve the lives of people with skin diseases. With satellites in Denmark, France, the UK, the US and Canada, the LEO Innovation Lab develops apps, digital platforms and other initiatives to support people with skin diseases in areas such as diet and nutrition, health, fitness, dialogue with doctors and mental health. The LEO Innovation Lab was established in 2015 for an initial period of three years with EUR 60 million in funding. More than 50 people work at the LEO Innovation Lab.
www.leoinnovationlab.com

LEO SCIENCE & TECH HUB
The LEO Science & Tech Hub in Boston, US, explores cutting-edge science and technology opportunities with relevance to dermatology. By partnering with public and private institutions in the world's leading life science cluster in Boston, the LEO Science & Tech Hub acts as a catalyst to transform early-stage innovations and technologies into solutions that will improve quality of life for people with skin diseases. The LEO Science & Tech Hub was officially inaugurated in September 2016.
www.leo-scitech.com

LEO PHARMA OPEN INNOVATION
LEO Pharma Open Innovation is a platform for exploring opportunities for drug discovery with external partners. It allows external partners to submit compounds for testing using the unique research tools at LEO Pharma's laboratories. To ensure compound confidentiality, we do not ask for the structures of confidential compounds. All the data generated by testing a partner's compounds are reported to that partner. Promising results can lead to a collaboration or business partnership.
www.openinnovation.leo-pharma.com

Convenience, please

How do you help people with psoriasis follow their treatment regime and achieve better treatment outcomes? Start by developing a product that works and is easy to use. That is the ethos behind LEO Pharma's user-driven innovation, where patients' needs are central to product development. The latest result is Enstilar®, a spray foam for the treatment of psoriasis.

For people with psoriasis, sticking to their treatment regime is not always easy. Finding time can be difficult in a busy day, when work and family account for most waking hours. In fact, up to 40% of people with psoriasis do not use their medication as prescribed. With more than 125 million people worldwide suffering from psoriasis, the lack of adherence is literally affecting the lives of millions.

It is a huge issue, which is why LEO Pharma – like many other pharmaceutical companies – sets out to develop treatments that are not only effective in tackling disease, but also convenient and easy to use. The hope is that by providing treatments that are user-friendly and cosmetically acceptable, people are more likely to follow their treatment regime – and achieve better health outcomes as a result.

"Top of patients' wish list isn't just improved efficacy, but also convenience," says Kim Kjøller, Executive Vice President, Global Research & Development, LEO Pharma. "Making an effective product is one thing, but we need to develop treatments that meet the real-life challenges facing people with skin diseases."

INNOVATING WITH PATIENTS

This mindset was sparked by patients' feedback, which revealed that LEO Pharma could do better in product development. Patients described their daily treatment routines, and it was clear that the products were not as easy to use as intended.

Some people struggled to get the ointment out of the tube. Others struggled to find time to apply the ointment and let it dry. Many voiced a need for more alternative treatments and support services.

LEO Pharma decided to change its approach to innovation. Whereas the Company used a more traditional research model in the past, today it is committed to using an increasingly user-driven innovation model. It is a change that supports LEO Pharma in its ongoing efforts to meet patients' needs.

IMPROVING QUALITY OF LIFE

The latest result of LEO Pharma's user-driven innovation goes by the name of Enstilar®, a spray foam for the treatment of plaque psoriasis in adults. Launched in 2016, Enstilar® was developed based on insights from the everyday lives of people with psoriasis.

The treatment comes just a year after the launch of another topical psoriasis treatment co-developed by LEO Pharma with patients: Daivobet® gel Applicator, a drug device that makes it easier for people with psoriasis to apply Daivobet® gel in a more targeted way and reach difficult-to-reach areas.

Thanks to LEO Pharma's representatives and external-facing colleagues, who have been educating potential prescribers and payers about the product's efficacy and safety profile, Enstilar® is now reaching people with psoriasis.

NEXT TREATMENT IN THE PIPELINE
So what will be the next addition to LEO Pharma's treatment offering?

In 2017, LEO Pharma expects to launch brodalumab, an IL-17 receptor monoclonal antibody for people with moderate-to-severe plaque psoriasis. The move into biologics within dermatology is a milestone for LEO Pharma, whose legacy is firmly grounded in topicals.

Entering the highly competitive space of biologics will be no easy ride. However, it is an important step in the Company's efforts to expand its treatment offering and meet the needs of people with skin diseases.

GOING BEYOND MEDICINE

To help people adhere to their treatment regime and achieve optimal outcomes, LEO Pharma and the LEO Innovation Lab have developed a suite of resources, including:

- TREAT, a nutritional coaching service that helps people with inflammatory diseases transform their diet and reduce the inflammation that can cause symptoms
- Flaym, a community that enables people with psoriasis to connect with other people with psoriasis worldwide and find support, acceptance and friends
- Imagine, an app that helps people with psoriasis track and analyse their condition over time using advanced image analysis
- InTouch, allowing people with skin conditions to send photos, videos or texts to their dermatologist as part of a dialogue to evaluate treatment progress

Governance **and compliance**

OWNERSHIP STRUCTURE
LEO Pharma A/S is a wholly owned subsidiary of the LEO Foundation, Industriparken 55, 2750 Ballerup, Denmark.

REMUNERATION COMMITTEE
The Company has set up a Remuneration Committee.

The members of the Committee are:
Jukka Pertola, Chairman
John R. Weeks

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

CORPORATE SOCIAL RESPONSIBILITY
Compliance by LEO Pharma A/S with Sections 99a and 99b of the Danish Financial Statements Act is reported in a separate Corporate Social Responsibility (CSR) report available at: www.leo-pharma.com/csr-report-2016

Thanks to its foundation ownership, LEO Pharma is in a **unique position to help people** with skin diseases

Consolidated Financial Statements

FINANCIAL STATEMENTS

NOTES

Income statement

(DKK million)	Note	2016	2015
Revenue	(1)	9,863	8,457
Cost of sales	(3,4)	-2,720	-2,155
Gross profit		**7,143**	**6,302**
Sales and distribution costs	(3,4)	-4,098	-3,437
Research and development costs	(3,4)	-1,290	-1,184
Administrative costs	(2,3,4)	-1,444	-934
Other operating income		47	40
Other operating expenses		-17	-24
Operating profit		**341**	**763**
Income from investment in associate		-3	-13
Financial income	(5)	903	430
Financial expenses	(6)	-137	-252
Profit before tax		**1,104**	**928**
Tax on profit for the year	(7)	-361	-215
Net profit for the year		**743**	**713**

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2016	2015
Intellectual property rights		4,527	133
Trademarks		0	5
Development projects		1,081	336
Software		389	107
Intangible assets	(8)	**5,997**	**581**
Land and buildings		760	824
Leasehold improvements		70	81
Plant and machinery		492	593
Other fixtures and fittings, tools and equipment		83	70
Fixed assets under construction		406	256
Property, plant and equipment	(9)	**1,811**	**1,824**
Investment in associate		3	5
Other financial securities	(10)	10,539	11,519
Deferred tax assets	(11)	1,322	1,164
Financial fixed assets		**11,864**	**12,688**
Fixed assets		**19,672**	**15,093**
Raw materials and consumables		151	214
Work in progress		951	936
Finished goods and goods for resale		628	513
Inventories		**1,730**	**1,663**
Trade receivables		2,410	1,992
Other receivables		504	1,308
Prepayments		83	121
Receivables		**2,997**	**3,421**
Other securities		**12,269**	**11,531**
Cash at bank and in hand		**144**	**374**
Current assets		**17,140**	**16,989**
TOTAL ASSETS		**36,812**	**32,082**

Balance sheet at 31 December

EQUITY AND LIABILITIES

(DKK million)	Note	2016	2015
Share capital	(12)	250	250
Retained earnings		24,962	24,501
Equity		**25,212**	**24,751**
Deferred tax	(11)	0	39
Pension obligations	(13)	780	627
Other provisions	(14)	935	593
Provisions		**1,715**	**1,259**
Other long-term liabilities	(15)	1,622	0
Non-current liabilities		**1,622**	**0**
Credit institutions		5,258	4,023
Trade payables		2,375	1,383
Loan from the LEO Foundation		61	90
Corporation tax		31	30
Other payables		538	546
Current liabilities		**8,263**	**6,072**
TOTAL EQUITY AND LIABILITIES		**36,812**	**32,082**

Cash flow statement

(DKK million)	Note	2016	2015
Profit before tax		**1,104**	**928**
Adjustments			
Amortisation, depreciation and impairment losses		1,005	446
Unrealised exchange rate adjustment		-85	100
Corporation tax paid		359	-538
Pension obligations		-44	-45
Other provisions		326	-15
Other adjustments	(16)	-249	202
Change in working capital			
Change in inventories and receivables		-273	-458
Change in trade payables and other payables		931	283
CASH FLOWS FROM OPERATING ACTIVITIES		**3,074**	**903**
Investments in intangible assets, net		-6,115	-241
Investments in property, plant and equipment, net		-288	-181
Other securities		242	-571
Acquisition of companies		0	-19
CASH FLOWS FROM INVESTING ACTIVITIES		**-6,161**	**-1,012**
Change in long-term debt		1,622	0
Change in bank debt		1,235	-378
CASH FLOWS FROM FINANCING ACTIVITIES		**2,857**	**-378**
CHANGE IN CASH AND CASH EQUIVALENTS		**-230**	**-487**
Cash and cash equivalents at 1 January		**374**	**861**
Cash and cash equivalents at 31 December		**144**	**374**

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

Consolidated statement of equity

(DKK million)	Share capital	Retained earnings	**Total**
Equity at 1 January 2016	250	24,501	24,751
Net profit for the year	0	743	743
Adjustment of financial instruments	0	8	8
Exchange rate adjustment	0	-108	-108
Actuarial gains and losses	0	-214	-214
Tax on changes in equity	0	32	32
Equity at 31 December 2016	**250**	**24,962**	**25,212**
Equity at 1 January 2015	250	24,273	24,523
Adjustment of opening balance	0	-719	-719
Adjusted equity at 1 January 2015	**250**	**23,554**	**23,804**
Net profit for the year	0	713	713
Adjustment of financial instruments	0	85	85
Exchange rate adjustment	0	49	49
Actuarial gains and losses	0	147	147
Tax on changes in equity	0	-47	-47
Equity at 31 December 2015	**250**	**24,501**	**24,751**

Notes
Group

NOTE 1 – REVENUE

(DKK million)	2016	2015
Revenue by region		
EUROPE+	5,852	5,497
INTERNATIONAL	2,786	1,860
US	1,225	1,100
Total	**9,863**	**8,457**
Revenue by therapeutic area		
Psoriasis	3,311	3,467
Eczema/skin infections	2,694	1,353
Thrombosis	2,623	2,368
Actinic keratosis	363	423
Other	872	846
Total	**9,863**	**8,457**

NOTE 2 – OTHER EXTERNAL EXPENSES

(DKK million)	2016	2015
Fees to auditors appointed at the annual general meeting		
Statutory audit	-6	-7
Tax advisory services	-10	-10
Other services	-2	-3
Total	**-18**	**-20**

NOTE 3 – STAFF EXPENSES

(DKK million)	2016	2015
Wages and salaries	-2,895	-2,640
Pensions	-245	-223
Social security expenses	-270	-230
Other employee expenses	-191	-204
Capitalised staff expenses	36	30
Total	**-3,565**	**-3,267**
Included in		
Cost of sales	-614	-676
Sales and distribution costs	-1,777	-1,755
Research and development costs	-526	-471
Administrative costs	-648	-365
Total	**-3,565**	**-3,267**
Remuneration to the Board of Directors	-4	-4
Remuneration to the Executive Board	-15	-27
Average number of full-time employees	5,170	4,813

NOTE 4 – AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(DKK million)	2016	2015
Amortisation	-666	-171
Depreciation	-307	-261
Impairment losses	-32	-14
Total	**-1,005**	**-446**
Included in		
Cost of sales	-276	-225
Sales and distribution costs	-565	-14
Research and development costs	-12	-89
Administrative costs	-152	-118
Total	**-1,005**	**-446**

NOTE 5 – FINANCIAL INCOME

(DKK million)	2016	2015
Interest income on bonds	282	327
Capital gains, financial assets	604	90
Other financial income	17	13
Total	**903**	**430**

NOTE 6 – FINANCIAL EXPENSES

(DKK million)	2016	2015
Exchange rate losses	-48	-223
Other financial expenses	-89	-29
Total	**-137**	**-252**

NOTE 7 – TAX ON PROFIT FOR THE YEAR

(DKK million)	2016	2015
Current tax for the year	-253	-381
Change in deferred tax	-101	156
Adjustment relating to previous years	-7	10
Total	**-361**	**-215**
Tax on changes in equity	32	-47

Tax in affiliates totalled DKK 201 million (2015: DKK 288 million).

NOTE 8 – INTANGIBLE ASSETS

(DKK million)	Intellectual property rights	Trademarks	Development projects	Software	**Total intangible assets**
Cost at 1 January 2016	5,138	30	2,064	154	7,386
Exchange rate adjustment	-1	0	1	0	0
Additions during the year	5,013	0	984	118	6,115
Transfers	0	0	-203	203	0
Cost at 31 December 2016	**10,150**	**30**	**2,846**	**475**	**13,501**
Amortisation and impairment losses at 1 January 2016	-5,005	-25	-1,728	-47	-6,805
Exchange rate adjustment	-1	0	0	0	-1
Amortisation for the year	-585	-5	-37	-39	-666
Impairment losses for the year	-32	0	0	0	-32
Amortisation and impairment losses at 31 December 2016	**-5,623**	**-30**	**-1,765**	**-86**	**-7,504**
CARRYING AMOUNT AT 31 DECEMBER 2016	**4,527**	**0**	**1,081**	**389**	**5,997**
Cost at 1 January 2015	5,135	30	1,820	154	7,139
Exchange rate adjustment	3	0	0	0	3
Additions during the year	0	0	246	0	246
Disposals during the year	0	0	-2	0	-2
Cost at 31 December 2015	**5,138**	**30**	**2,064**	**154**	**7,386**
Amortisation and impairment losses at 1 January 2015	-4,933	-19	-1,655	-10	-6,617
Exchange rate adjustment	-3	0	0	0	-3
Amortisation for the year	-61	-6	-67	-37	-171
Impairment losses for the year	-8	0	-6	0	-14
Amortisation and impairment losses at 31 December 2015	**-5,005**	**-25**	**-1,728**	**-47**	**-6,805**
CARRYING AMOUNT AT 31 DECEMBER 2015	**133**	**5**	**336**	**107**	**581**

Development projects amounted to DKK 1,081 million (2015: DKK 336 million), of which development projects in progress represented DKK 1,081 million (2015: DKK 299 million). Capitalised costs for development projects primarily consist of licences in relation to research and development projects and internally developed software.

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

(DKK million)	Land and buildings	Leasehold improvements	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	**Total property, plant and equipment**
Cost at 1 January 2016	2,160	144	2,398	459	256	5,417
Exchange rate adjustment	-1	0	-1	0	0	-2
Additions during the year	0	26	1	25	250	302
Disposals during the year	-1	-12	-1	-29	-1	-44
Transfers	40	0	49	10	-99	0
Cost at 31 December 2016	**2,198**	**158**	**2,446**	**465**	**406**	**5,673**
Depreciation and impairment losses at 1 January 2016	-1,336	-63	-1,805	-389	0	-3,593
Exchange rate adjustment	0	0	-1	0	0	-1
Disposals during the year	1	10	1	27	0	39
Depreciation for the year	-103	-35	-149	-20	0	-307
Depreciation and impairment losses at 31 December 2016	**-1,438**	**-88**	**-1,954**	**-382**	**0**	**-3,862**
CARRYING AMOUNT AT 31 DECEMBER 2016	**760**	**70**	**492**	**83**	**406**	**1,811**
Cost at 1 January 2015	2,146	141	2,303	475	212	5,277
Exchange rate adjustment	2	0	3	0	0	5
Additions during the year	11	5	66	15	164	261
Disposals during the year	-2	-2	-25	-33	-64	-126
Transfers	3	0	51	2	-56	0
Cost at 31 December 2015	**2,160**	**144**	**2,398**	**459**	**256**	**5,417**
Depreciation and impairment losses at 1 January 2015	-1,233	-45	-1,711	-398	0	-3,387
Exchange rate adjustment	-1	0	-2	0	0	-3
Disposals during the year	0	1	24	33	0	58
Depreciation for the year	-102	-19	-116	-24	0	-261
Depreciation and impairment losses at 31 December 2015	**-1,336**	**-63**	**-1,805**	**-389**	**0**	**-3,593**
CARRYING AMOUNT AT 31 DECEMBER 2015	**824**	**81**	**593**	**70**	**256**	**1,824**

NOTE 10 – OTHER FINANCIAL SECURITIES

(DKK million)	2016	2015
Cost at 1 January	11,556	13,986
Additions during the year	2,659	1,702
Disposals during the year	-3,637	-4,132
Cost at 31 December	**10,578**	**11,556**
Value adjustment at 1 January	-37	2
Value adjustment for the year	-6	-23
Value adjustment on disposals for the year	4	-16
Value adjustment at 31 December	**-39**	**-37**
CARRYING AMOUNT AT 31 DECEMBER	**10,539**	**11,519**
Market value at 31 December	10,694	11,576

NOTE 11 – DEFERRED TAX

(DKK million)	2016	2015
Deferred tax at 1 January	1,125	967
Exchange rate adjustment, beginning of year	-5	18
Adjustments relating to previous years	-14	-7
Reclassifications	284	34
Deferred tax on equity	33	-43
Deferred tax on profit for the year	-101	156
Deferred tax at 31 December (net)	**1,322**	**1,125**
Deferred tax is recognised in the balance sheet as follows		
Deferred tax assets	1,322	1,164
Deferred tax liabilities	0	-39
Deferred tax at 31 December (net)	**1,322**	**1,125**

The deferred tax assets relate to current assets, licences, fixed assets, losses relating to previously jointly taxed foreign affiliates, intercompany profits, indirect production costs, etc. Deferred tax has been calculated as the temporary differences between assets and liabilities expected to be realised, based on the tax rates applicable for the respective countries.

NOTE 12 – SHARE CAPITAL

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

No shares or shareholders have any additional special rights.

The total share capital is owned by the LEO Foundation.

NOTE 13 – PENSION ASSETS AND PENSION OBLIGATIONS

(DKK million)	2016	2015
Provision for pension obligations at 1 January	627	817
Exchange rate adjustment, beginning of year	-17	2
Actuarial gains and losses	214	-147
Other movements	-44	-45
Provision for pension obligations at 31 December	**780**	**627**

The Group companies in Ireland, the UK and France operate defined benefit plans.

NOTE 14 – OTHER PROVISIONS

(DKK million)	2016	2015
Discounts	460	351
Product returns	208	148
Staff-related provisions	218	51
Other provisions	49	43
Total	**935**	**593**
Other provisions fall due		
0-1 year	700	425
1-5 years	221	164
> 5 years	14	4
Total	**935**	**593**

NOTE 15 – OTHER LONG-TERM LIABILITIES

(DKK million)	2016	2015
Other long-term liabilities fall due		
1-5 years	1,620	0
> 5 years	2	0
Total	**1,622**	**0**

NOTE 16 – OTHER ADJUSTMENTS

(DKK million)	2016	2015
Inventory write-down	-164	57
Provision for bad debt	-104	31
Gain/loss on sale of fixed assets	-10	-4
Deferred income	0	107
Accrued interest, bonds	20	24
Other	9	-13
Total	**-249**	**202**

NOTE 17 – UNUSUAL CIRCUMSTANCES

In 2016, the Group incurred restructuring costs of DKK 377 million. Restructuring costs recognised in the Parent Company amounted to DKK 68 million.

NOTE 18 – CONTINGENCIES

The Parent Company's security provided and guarantee commitments totalled DKK 974 million at 31 December 2016 (2015: DKK 961 million). The amount for the Group totalled DKK 1,039 million at 31 December 2016 (2015: DKK 999 million).

Guarantees issued relating to the Group's Irish companies comprised all liabilities of the companies. At 31 December 2016, the companies had total external liabilities, excluding pensions, of DKK 147 million (2015: DKK 110 million).

Guarantees issued relating to pension commitments in the Group companies totalled DKK 728 million at 31 December 2016 (2015: DKK 791 million).

The Parent Company had lease obligations of DKK 37 million (2015: DKK 36 million), of which DKK 22 million related to affiliates (2015: DKK 20 million). Lease obligations relating to the Group totalled DKK 357 million (2015: DKK 317 million).

The Parent Company has pledged bonds at a carrying amount of DKK 6,145 million (2015: DKK 4,719 million) as security for bank loans and overdraft facilities at a carrying amount totalling DKK 7,058 million (2015: DKK 4,023 million), as well as established guarantee commitments at a value of DKK 77 million (2015: DKK 24 million). The amount for the Group also totalled DKK 6,145 million (2015: DKK 4,719 million).

At the end of 2016, there were pending patent lawsuits filed by and against LEO Pharma concerning rights related to products in LEO Pharma's psoriasis portfolio in both the US and Europe. LEO Pharma does not expect the pending cases to have any significant effect on the Group's financial position.

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

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

NOTE 19 – FINANCIAL INSTRUMENTS

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

At 31 December 2016, there were outstanding forward contracts in: BRL, CAD, CHF, CNH, CZK, EUR, GBP, HKD, JPY, KRW, MXN, MYR, NOK, PHP, RON, RUB, SAR, SEK, SGD, THB, USD and ZAR. The total contract amount at 31 December 2016 was DKK 3,674 million (2015: DKK 8,193 million).

At 31 December 2016, the Group and the Parent Company also had option contracts in USD, CAD and SGD with contract amounts of DKK 78 million (2015: DKK 478 million).

NOTE 20 – RELATED PARTIES

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

The Company has chosen to disclose transactions that are not carried out on an arm's length basis in accordance with section 98c(7) of the Danish Financial Statements Act. There were no such transactions in 2016.

NOTE 21 – EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 22 – COMPANIES IN THE LEO GROUP

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

NOTE 23 – ACCOUNTING POLICIES

The Consolidated Financial Statements of LEO Pharma for 2016 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

LEO Pharma has implemented Act no. 738 of 1 June 2015 from 1 January 2016, when it came into force.

This has entailed the following changes to recognition and measurement:
– Going forward, the residual value of intangible assets and property, plant and equipment will be reassessed on an ongoing basis. Pursuant to the transitional provisions of the Act, any adjustments to residual values will be made prospectively as an accounting estimate without restatement of comparative figures and without any impact on equity.

– Going forward, the corridor method for recognising actuarial gains and losses will not be applied. As a result, actuarial losses existing in the Group have a direct effect on the consolidated statement of financial position and lead to an increase in provisions for pension and similar obligations and a reduction in equity. Since the actuarial losses will be recognised directly in equity, the income statement will in future remain free from the effects of amortisation of the amount exceeding the corridor.

The effect of the transition to the amended Danish Financial Statements Act is as follows:

(DKK million)	1 January 2015	31 December 2015
Effect on		
Deferred tax assets	121	-27
Provision for pension obligations	840	-215
Administrative costs	-	68
Equity	-719	188

The comparative figures have been restated to reflect the changed accounting policies. Apart from the above, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

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

The Financial Statements for 2016 are presented in DKK (million).

CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

NOTE 23 – ACCOUNTING POLICIES

FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used to manage the exposure to market risk. In 2016, LEO Pharma used forward exchange contracts to hedge currency risk on assets and liabilities, and interest rate swaps to hedge the interest rate risk for each loan in its debt portfolio.

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

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

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

REVENUE

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

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

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

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

COST OF SALES

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

SALES AND DISTRIBUTION COSTS

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

RESEARCH AND DEVELOPMENT COSTS

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

NOTE 23 – ACCOUNTING POLICIES

ADMINISTRATIVE COSTS

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

OTHER OPERATING INCOME AND EXPENSES

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

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

FINANCIAL INCOME AND EXPENSES

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

TAX ON PROFIT/LOSS FOR THE YEAR

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

INTANGIBLE ASSETS

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

The expected useful lives are as follows:

Intellectual property rights, trademarks and development projects	3-20 years
Software	5-10 years

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

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

Amortisation and write-down of such capitalised development projects start from the date of completion and are included in research and development costs. Other development costs are recognised in the income statement as incurred.

Projects are assessed on an ongoing basis, taking into account development progress, expected approvals and commercial utilisation.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated depreciation and impairment. Cost comprises expenses for materials, sub-suppliers and salaries, etc. The total cost of an asset is broken down into components that are depreciated separately if the expected useful lives of the individual components are not the same. Cost does not include any interest or other borrowing expenses.

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

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

Assets costing less than DKK 75 thousand or with an estimated useful life of less than three years are expensed in the year of acquisition.

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

IMPAIRMENT OF FIXED ASSETS

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

NOTE 23 – ACCOUNTING POLICIES

lower than the carrying amount, and the asset is written down to its lower recoverable amount.

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

LEASES

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

INVESTMENTS IN ASSOCIATES

Investments in associates are measured under the equity method. This means that the associates are measured in the balance sheet at the proportionate share of their net asset value, with deduction or addition of unrealised intercompany profits or losses, and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill). The Parent Company's share of the associates' profit for the year is recognised in the income statement less unrealised intercompany profits.

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

OTHER FINANCIAL SECURITIES

Other financial securities consist of equity investments and bonds held to maturity.

Equity investments, which comprise unlisted shares, are measured at cost less any impairment losses.

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

INVENTORIES

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

Work in progress and finished goods are measured at cost. The cost of finished goods and work in progress comprises the cost of raw materials, consumables, direct labour and indirect production costs. Indirect production costs comprise indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process, and costs of factory administration and management.
The net realisable value of inventories is calculated as sales price with deduction of costs of completion and expenses incurred to effect the sale, and is determined allowing for marketability, obsolescence and development in expected sales price.

Obsolete goods, including slow-moving goods, are expensed.

RECEIVABLES

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

PREPAYMENTS

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

OTHER SECURITIES (CURRENT ASSETS)

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

EQUITY

Dividend

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

Exchange rate adjustments

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

PROVISIONS

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

NOTE 23 – ACCOUNTING POLICIES

LIABILITIES OTHER THAN PROVISIONS

Financial liabilities are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. Subsequently, the loans are measured at amortised cost. The difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

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

PENSIONS

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

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

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

Any differences between expected developments in plan assets and pension obligations on the one hand and the realised values calculated at the beginning of the year on the other are considered actuarial gains or losses. Actuarial gains and losses are recognised in equity. Pension costs relating to previous years are recognised as incurred.

TAX

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

The tax base of tax losses carried forward is included in the calculation of deferred tax to the extent the values are likely to be utilised in future taxable income.

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

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

DEFINITION OF KEY FIGURES

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

SEGMENT REPORTING

Segment information is provided on business segments and geographical markets. The segment information is in line with the Group's accounting policies, risks and internal financial management.

CASH FLOW STATEMENT FOR THE GROUP

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

Cash flows from operating activities are calculated as the Group's profit for the year before extraordinary items and tax, adjusted for non-cash operating items such as depreciation, amortisation and impairment losses, and changes in working capital. Working capital comprises inventories, trade receivables and trade payables, etc.

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

Cash flows from financing activities comprise payments from the raising and repayment of short-term and long-term debt, and payments to and from shareholders.

Cash and cash equivalents comprise solely cash at bank and in hand.

Financial Statements **Parent Company**

FINANCIAL STATEMENTS

NOTES


NIKE

Income statement

(DKK million)	Note	2016	2015
Revenue	(1)	7,360	6,876
Cost of sales	(2,3)	-4,644	-4,838
Gross profit		**2,716**	**2,038**
Sales and distribution costs	(2,3)	-1,928	-733
Research and development costs	(2,3)	-1,072	-1,085
Administrative costs	(2,3)	-1,156	-987
Other operating income		350	356
Other operating expenses		-1	-15
Operating profit		**-1,091**	**-426**
Income from investments in affiliates	(10)	967	940
Income from investment in associate		-3	-13
Financial income	(4)	910	432
Financial expenses	(5)	-118	-265
Profit before tax		**665**	**668**
Tax on profit for the year	(6)	78	45
Net profit for the year	(7)	**743**	**713**

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2016	2015
Intellectual property rights		4,527	133
Trademarks		0	5
Development projects		1,079	299
Software		389	107
Intangible assets	(8)	**5,995**	**544**
Land and buildings		378	415
Leasehold improvements		1	3
Plant and machinery		235	257
Other fixtures and fittings, tools and equipment		62	58
Fixed assets under construction		178	159
Property, plant and equipment	(9)	**854**	**892**
Investment in associate		3	5
Investments in affiliates	(10)	3,451	4,488
Other financial securities	(11)	10,539	11,519
Deferred tax assets	(12)	246	160
Financial fixed assets		**14,239**	**16,172**
Fixed assets		**21,088**	**17,608**
Raw materials and consumables		30	34
Work in progress		497	311
Finished goods and goods for resale		418	333
Inventories		**945**	**678**
Trade receivables		1,108	822
Loans to affiliates		899	566
Receivables from affiliates		557	2,355
Other receivables		934	1,442
Prepayments		32	70
Receivables		**3,530**	**5,255**
Other securities		**12,268**	**11,531**
Current assets		**16,743**	**17,464**
TOTAL ASSETS		**37,831**	**35,072**

Balance sheet at 31 December

EQUITY AND LIABILITIES

(DKK million)	Note	2016	2015
Share capital	(15)	250	250
Net revaluation, affiliates		206	1,248
Reserve for development projects		83	0
Retained earnings		24,523	23,253
Proposed dividend		150	0
Equity		**25,212**	**24,751**
Other provisions	(13)	26	44
Provisions		**26**	**44**
Other long-term liabilities	(14)	1,618	0
Non-current liabilities		**1,618**	**0**
Credit institutions		5,400	4,022
Bank loans		0	84
Trade payables		1,596	671
Loans from affiliates		2,860	3,464
Payables to affiliates		839	1,792
Other payables		280	244
Current liabilities		**10,975**	**10,277**
TOTAL EQUITY AND LIABILITIES		**37,831**	**35,072**

Statement of equity

(DKK million)	Share capital	Net revaluation, affiliates	Reserve for development projects	Retained earnings	Proposed dividend	**Total**
Equity at 1 January 2016	250	1,248	0	23,253	0	24,751
Profit from affiliates after tax	0	967	0	0	0	967
Profit in Parent Company	0	0	0	-224	0	-224
Capitalised development costs	0	0	83	-83	0	0
Adjustment of financial instruments	0	0	0	8	0	8
Dividend received	0	-1,721	0	1,721	0	0
Exchange rate adjustment	0	-108	0	0	0	-108
Proposed dividend for the year	0	0	0	-150	150	0
Other movements	0	-180	0	0	0	-180
Tax on changes in equity	0	0	0	-2	0	-2
Equity at 31 December 2016	**250**	**206**	**83**	**24,523**	**150**	**25,212**
Equity at 1 January 2015	250	997	0	23,276	0	24,523
Adjustment of opening balance	0	-719	0	0	0	-719
Equity at 1 January 2015	**250**	**278**	**0**	**23,276**	**0**	**23,804**
Profit from affiliates after tax	0	940	0	0	0	940
Profit in Parent Company	0	0	0	-227	0	-227
Adjustment of financial instruments	0	0	0	85	0	85
Dividend received	0	-134	0	134	0	0
Exchange rate adjustment	0	46	0	0	0	46
Other movements	0	118	0	5	0	123
Tax on changes in equity	0	0	0	-20	0	-20
Equity at 31 December 2015	**250**	**1,248**	**0**	**23,253**	**0**	**24,751**

Notes
Parent Company

NOTE 1 – REVENUE

(DKK million)	2016	2015
Revenue by region		
EUROPE+	4,409	4,985
INTERNATIONAL	2,159	1,437
US	792	454
Total	**7,360**	**6,876**
Segmentation – business areas		
Healthcare	7,360	6,876
Total	**7,360**	**6,876**

NOTE 2 – STAFF EXPENSES

(DKK million)	2016	2015
Wages and salaries	-1,301	-1,103
Pensions	-123	-111
Social security expenses	-14	-13
Other employee expenses	-30	-40
Capitalised staff expenses	27	25
Total	**-1,441**	**-1,242**
Included in		
Cost of sales	-321	-258
Sales and distribution costs	-207	-194
Research and development costs	-428	-409
Administrative costs	-485	-381
Total	**-1,441**	**-1,242**
Remuneration to the Board of Directors	-4	-4
Remuneration to the Executive Board	-15	-27
Average number of full-time employees	1,993	1,849

NOTE 3 – AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(DKK million)	2016	2015
Amortisation	-629	-104
Depreciation	-118	-122
Impairment losses	-32	-14
Total	**-779**	**-240**
Included in		
Cost of sales	-51	-107
Sales and distribution costs	-540	0
Research and development costs	-11	-20
Administrative costs	-177	-113
Total	**-779**	**-240**

NOTE 4 – FINANCIAL INCOME

(DKK million)	2016	2015
Interest income on bonds	282	327
Interest income from affiliates	7	2
Capital gains, financial assets	604	90
Other financial income	17	13
Total	**910**	**432**

NOTE 5 – FINANCIAL EXPENSES

(DKK million)	2016	2015
Interest expenses to affiliates	-2	-5
Exchange rate losses	-47	-238
Other financial expenses	-69	-22
Total	**-118**	**-265**

NOTE 6 – TAX ON PROFIT FOR THE YEAR

(DKK million)	2016	2015
Current tax for the year	-8	-9
Change in deferred tax	86	55
Adjustment relating to previous years	0	-1
Total	**78**	**45**
Tax on changes in equity	-2	-20

NOTE 7 – PROPOSED DISTRIBUTION OF NET PROFIT FOR THE YEAR

(DKK million)	2016	2015
Net revaluation for the year	967	940
Proposed dividend	150	0
Retained earnings	-374	-227
Total	**743**	**713**

NOTE 8 – INTANGIBLE ASSETS

(DKK million)	Intellectual property rights	Trademarks	Development projects	Software	**Total intangible assets**
Cost at 1 January 2016	5,138	30	376	154	5,698
Exchange rate adjustment	-1	0	1	0	0
Additions during the year	5,013	0	982	118	6,113
Transfers	0	0	-203	203	0
Cost at 31 December 2016	**10,150**	**30**	**1,156**	**475**	**11,811**
Amortisation and impairment losses at 1 January 2016	-5,005	-25	-77	-47	-5,154
Exchange rate adjustment	-1	0	0	0	-1
Amortisation for the year	-585	-5	0	-39	-629
Impairment losses for the year	-32	0	0	0	-32
Amortisation and impairment losses at 31 December 2016	**-5,623**	**-30**	**-77**	**-86**	**-5,816**
CARRYING AMOUNT AT 31 DECEMBER 2016	**4,527**	**0**	**1,079**	**389**	**5,995**
Cost at 1 January 2015	5,138	30	130	154	5,452
Additions during the year	0	0	246	0	246
Cost at 31 December 2015	**5,138**	**30**	**376**	**154**	**5,698**
Amortisation and impairment losses at 1 January 2015	-4,936	-19	-71	-10	-5,036
Amortisation for the year	-61	-6	0	-37	-104
Impairment losses for the year	-8	0	-6	0	-14
Amortisation and impairment losses at 31 December 2015	**-5,005**	**-25**	**-77**	**-47**	**-5,154**
CARRYING AMOUNT AT 31 DECEMBER 2015	**133**	**5**	**299**	**107**	**544**

Development projects amounted to DKK 1,079 million (2015: DKK 299 million), of which development projects in progress represented DKK 1,079 million (2015: DKK 299 million). Capitalised costs for development projects primarily consist of licences in relation to research and development projects and internally developed software.

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

(DKK million)	Land and buildings	Leasehold improvements	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	**Total property, plant and equipment**
Cost at 1 January 2016	1,056	4	1,190	384	159	2,793
Exchange rate adjustment	0	-1	0	-1	0	-2
Additions during the year	0	0	0	13	71	84
Disposals during the year	-1	0	-1	-25	0	-27
Transfers	14	0	28	10	-52	0
Cost at 31 December 2016	**1,069**	**3**	**1,217**	**381**	**178**	**2,848**
Depreciation and impairment losses at 1 January 2016	-641	-1	-933	-326	0	-1,901
Disposals during the year	1	0	1	23	0	25
Depreciation for the year	-51	-1	-50	-16	0	-118
Depreciation and impairment losses at 31 December 2016	**-691**	**-2**	**-982**	**-319**	**0**	**-1,994**
CARRYING AMOUNT AT 31 DECEMBER 2016	**378**	**1**	**235**	**62**	**178**	**854**
Cost at 1 January 2015	1,053	3	1,136	404	122	2,718
Additions during the year	3	1	9	9	92	114
Disposals during the year	-2	0	-6	-31	0	-39
Transfers	2	0	51	2	-55	0
Cost at 31 December 2015	**1,056**	**4**	**1,190**	**384**	**159**	**2,793**
Depreciation and impairment losses at 1 January 2015	-589	0	-890	-337	0	-1,816
Disposals during the year	0	0	7	30	0	37
Depreciation for the year	-52	-1	-50	-19	0	-122
Depreciation and impairment losses at 31 December 2015	**-641**	**-1**	**-933**	**-326**	**0**	**-1,901**
CARRYING AMOUNT AT 31 DECEMBER 2015	**415**	**3**	**257**	**58**	**159**	**892**

NOTE 10 – INVESTMENTS IN AFFILIATES

(DKK million)	2016	2015
Cost at 1 January	3,240	3,313
Additions	5	2
Disposals	0	-75
Cost at 31 December	**3,245**	**3,240**
Value adjustment at 1 January	1,248	278
Share of profit/loss for the year	967	940
Dividend	-1,721	-134
Exchange rate adjustment	-108	46
Other movements	-180	118
Value adjustment at 31 December	**206**	**1,248**
CARRYING AMOUNT AT 31 DECEMBER	**3,451**	**4,488**

NOTE 11 – OTHER FINANCIAL SECURITIES

(DKK million)	2016	2015
Cost at 1 January	11,556	13,986
Additions during the year	2,659	1,702
Disposals during the year	-3,637	-4,132
Cost at 31 December	**10,578**	**11,556**
Value adjustment at 1 January	-37	2
Value adjustment for the year	-6	-23
Value adjustment on disposals for the year	4	-16
Value adjustment at 31 December	**-39**	**-37**
CARRYING AMOUNT AT 31 DECEMBER	**10,539**	**11,519**
Market value at 31 December	10,694	11,576

NOTE 12 – DEFERRED TAX ASSETS

(DKK million)	2016	2015
Deferred tax assets at 1 January	160	124
Adjustments relating to previous years	0	-3
Deferred tax on equity	0	-16
Deferred tax on profit for the year	86	55
Deferred tax assets at 31 December	**246**	**160**

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

NOTE 13 – OTHER PROVISIONS

(DKK million)	2016	2015
Staff-related provisions	25	29
Other provisions	1	15
Total	**26**	**44**
Other provisions fall due		
0-1 year	8	26
1-5 years	7	10
> 5 years	11	8
Total	**26**	**44**

NOTE 14 – OTHER LONG-TERM LIABILITIES

(DKK million)	2016	2015
Other long-term liabilities fall due		
1-5 years	1,618	0
Total	**1,618**	**0**

NOTE 15 – OTHER NOTES

For Share capital, please refer to note 12 in the Consolidated Financial Statements.

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

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

For Financial instruments, please refer to note 19 in the Consolidated Financial Statements.

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

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

NOTE 16 – ACCOUNTING POLICIES

The Financial Statements of the Parent Company, LEO Pharma A/S, for 2016 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

LEO Pharma has implemented Act no. 738 of 1 June 2015 from 1 January 2016, when it came into force.

The effect of the transition to the amended Danish Financial Statements Act is as follows:

(DKK million)	1 January 2015	31 December 2015
Effect on		
Investments in affiliates	-719	188
Income from investments in affiliates after tax	-	68
Equity	-719	188

The comparative figures have been restated to reflect the changed accounting policies.

Furthermore, the amended Danish Financial Statements Act has entailed the following changes to presentation for the Parent Company:
– Going forward, an amount corresponding to the capitalised development costs will be tied to the restricted reserve, "Reserve for development costs", under equity. This reserve cannot be used for dividends or distributions or to cover losses. If the recognised development costs are sold or otherwise excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the development costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

Apart from the above, the accounting policies used in the preparation of the Financial Statements are consistent with those of last year and are the same as for the Consolidated Financial Statements with the following additions.

For a description of the Group's accounting policies, please refer to note 23 in 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 Danish affiliates.

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

EQUITY

Reserve for development costs

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

INVESTMENTS IN AFFILIATES

Investments in affiliates are measured under the equity method. This means that the affiliates are measured in the balance sheet at the proportionate share of their net asset value, with deduction or addition of unrealised intercompany profits or losses, and addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill). The Parent Company's share of the affiliates' profit for the year is recognised in the income statement less unrealised intercompany profits.

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

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 2016.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements of the Parent Company give a true and fair view of the financial position at 31 December 2016 of the Group and the Parent Company, and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for 2016.

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

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

Ballerup, 30 March 2017

EXECUTIVE BOARD:

Gitte P. Aabo
President & CEO

Anders Kronborg
CFO

BOARD OF DIRECTORS:

Jukka Pertola
Chairman

Patrik O. Dahlén
Vice Chairman

Jens Bo Olesen

Peder Holk Nielsen

John R. Weeks

Ingelise Saunders

Jesper Høiland

Jannie Kogsbøll

Karin Attermann

Lotte Hjortshøj Larsen

Independent Auditor's Report

To the Shareholder of LEO Pharma A/S

OUR OPINION
In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016, and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of LEO Pharma A/S for the financial year 1 January – 31 December 2016, which comprise income statement, balance sheet, statement of equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("financial statements").

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 Financial Statements section* of our report. We are independent of the Group in accordance with the International Ethics Standards Board for 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 MANAGEMENT'S REVIEW
Management is responsible for Management's Review. Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

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

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

Based on the work we have performed, in our view, 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 Management's Review.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS
Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to

going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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 Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the 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.

Hellerup, 30 March 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no.: 33 77 12 31

Kim Füchsel
State Authorised Public Accountant

Allan Knudsen
State Authorised Public Accountant

Company information

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

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