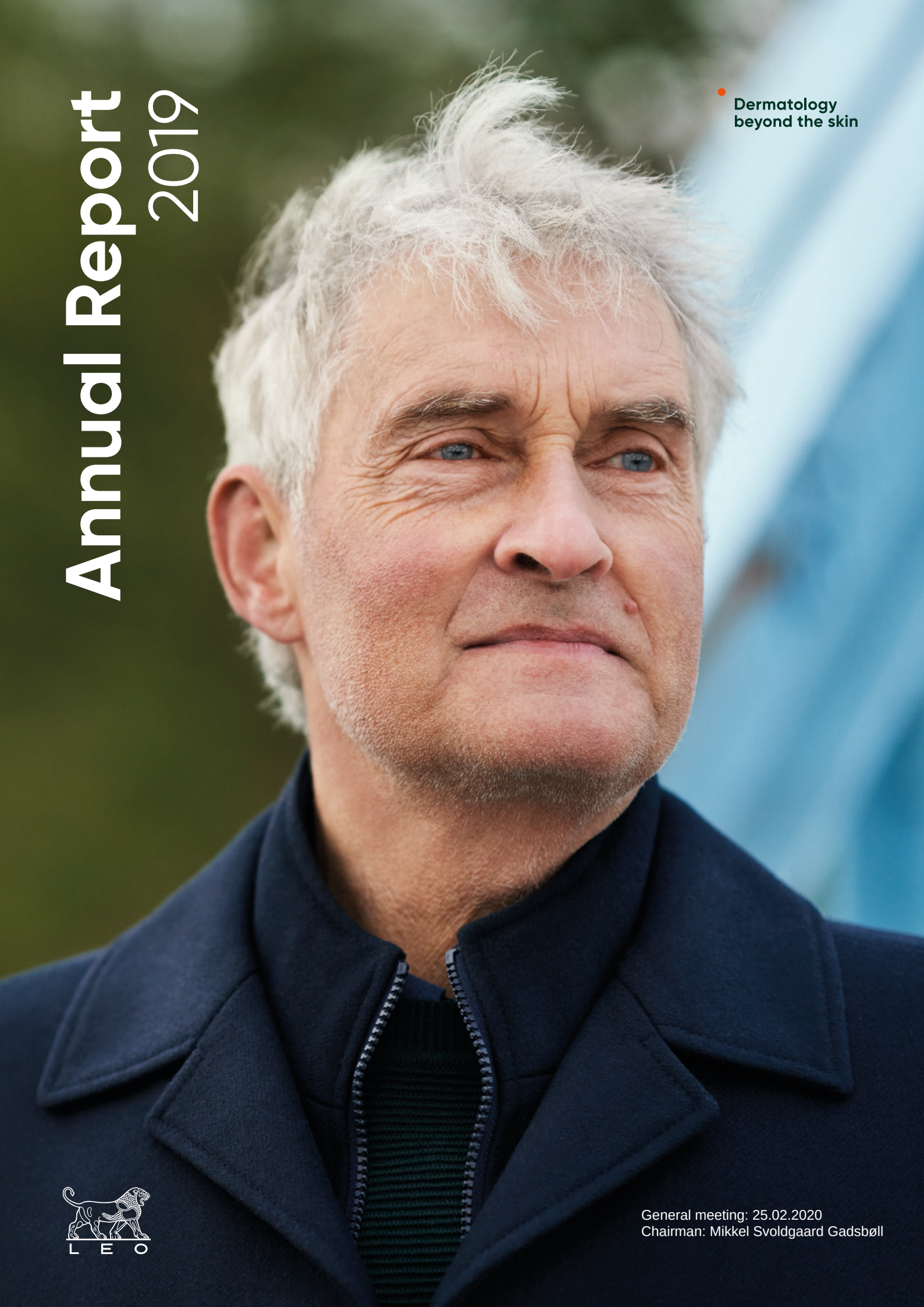
Annual Report 2019

Dermatology beyond the skin



General meeting: 25.02.2020
Chairman: Mikkel Svoldgaard Gadsbøll

LEO

SØREN SCHAUMANN is 61 years old, and lives in Randers, Denmark.

"My psoriasis has never really had a major impact on my life. Until recently I've only had it on my elbows and knees, which are areas that are quite easy to cover. But this winter, I've had outbreaks on the back of my hands and on my ears, and it's become very noticeable. It's a worry, as I don't know just how severe it will get."

Contents

Our business model

We are committed to medical dermatology and our purpose is to make a difference in the lives of people living with skin diseases.

What we do

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

LEO FOUNDATION
Owned by the LEO Foundation

Revenue
DKK 10,805 million
EUR 1,447 million

23% of revenue reinvested in R&D

What we deliver

We enable people with skin diseases to live better lives, develop and deliver medical treatments to address unmet medical needs, and help treat people suffering from thrombosis.

Our training programs for healthcare professionals, digital solutions and artificial intelligence technology help address the barriers to treatment of people with skin diseases.

Multiple drug delivery systems

TOPICALS

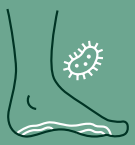
TABLETS

INJECTIONS

Therapeutic areas

PSORIASIS

ECZEMA



SKIN INFECTIONS

ACNE

ACTINIC KERATOSIS

ROSACEA

RARE SKIN DISEASES

THROMBOSIS

We enable people to live better lives

92 million

We help 92 million patients globally

130

Our treatments are available in more than 130 countries

A bright future ahead

IN 2019, LEO PHARMA grew sales as expected, while making significant progress with its transformation into an innovation-driven growth company. Our performance picked up in the fourth quarter, creating good momentum for the coming year, and our R&D pipeline advanced considerably.

Even before the successful integration of the Bayer portfolio in 2019, LEO Pharma was a leading company for topical prescription medicines, both in its breadth of therapeutic areas and in market share. Last year, more than a third by volume of all worldwide topical psoriasis treatments were produced by LEO Pharma, with an even higher share in some regions. In addition, we made very good progress with our strategic ambition to also become a leader within innovative treatments. We are preparing the regulatory filing of tralokinumab that has the potential to set us on a new course for growth.

We have partnered with PellePharm to develop patidegib, a potential treatment for Gorlin Syndrome, which is in clinical phase 3. Furthermore, a range of new and evolving partnerships sets our path for advancing the standard of care.

Innovation is critical to LEO Pharma's long-term success in dermatology which is among the three fastest growing therapeutic areas. We have identified a range of opportunities for expansion into new areas, more severe forms of skin conditions, and rare skin diseases. All of these are shaped by new science and technologies that we are ready to capture in order to create new products that bring value for patients. We are building on a strong legacy towards our ambition to be the leader in terms of market position, breadth of portfolio and pipeline, and in how we enable patients to live healthy lives free of interference from their disease.

All of these developments give us great confidence in LEO Pharma's growth in the coming years. With Catherine Mazzacco we have gained a CEO who has the right experience to steer the company through this phase of growth and innovation, and to define how we maintain and accelerate this trajectory towards 2030.

None of this will happen without the expertise, collaboration and passion of LEO Pharma's employees. This is why we work diligently to ensure that each of our 6,000 employees is well supported in times of change and understands our strategy and their contribution to it. In 2019, we saw an increase in employee engagement as measured by our internal survey, confirming that our employees are highly motivated and committed.

Patients trust us with their lives, so it is very important for us to work on an ethical basis at all times. We have strengthened our compliance and our enterprise risk frameworks in order to manage risks and help our employees do the right thing in an increasingly complex healthcare landscape. This work will continue and the Board of Directors has made this a priority together with the 2030 strategy.

I am very pleased with how LEO Pharma is developing and am convinced of its bright future as a leader in medical dermatology, advancing the standard of care for the benefit of patients.

Olivier Bohuon
Chairman, Board of Directors

COMMUNICATION ON PROGRESS

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

We welcome feedback on its contents.

Setting new standards of care

MILLIONS OF PEOPLE are affected by over 3,000 known skin diseases. Many of these are chronic and have a severe impact on people's quality of life. Yet patients and physicians still lack treatment options, including for psoriasis and atopic dermatitis. At LEO Pharma, we want to address this huge unmet medical need. I joined LEO Pharma in August 2019 to unleash the company's great potential to enable people with skin conditions to live better lives.

LEO Pharma is on an ambitious journey. New therapies and treatment modalities with the potential to transform the lives of people with skin diseases have been emerging in recent years. At LEO Pharma, we embrace the challenge to pioneer medical dermatology by bringing forward new innovative treatments and advancing the standard of care. We will work with partners to expand into new treatment areas, including rare skin diseases, and offer patients with mild-to-severe skin diseases the best possible treatments.

Reaching ever more people

Our purpose is to help more and more people with skin diseases around the world. We are increasing our investments in research and development, which will enable us to provide innovative therapies and new solutions through a more complex and diverse product portfolio, thus creating new options for more dermatological conditions.

In 2019, we took significant steps in this direction. The pivotal phase 3 results for tralokinumab, our investigational treatment for atopic dermatitis, enabled us to prepare regulatory filings in the US, Europe and Japan. We successfully integrated Bayer's prescription dermatology portfolio, leading to critical mass in key markets and a noteworthy increase in revenue. Enstilar®, our key topical product for psoriasis, has grown impressively and taken market share from topical corticosteroids, a sign of confidence from physicians. Kyntheum®, our first biologic for psoriasis, continues to perform well as we introduce it in more markets.

Healthy people, healthy planet

As a healthcare company, we have a responsibility to contribute to building a sustainable future and to take integrated action to protect the health of people and the health of the planet. I am proud to say that, as a signatory to the UN Global Compact, LEO Pharma is committed to upholding its 10 principles, covering the areas of human rights, labor, the environment and anti-corruption. Building on these, we also support the achievement of the UN Sustainable Development Goals (SDGs). We believe that medical innovation, along with a deep understanding of how to best care for people living with skin diseases, and strategic partnerships across industries and sectors, are pivotal to enabling the systemic change needed to achieve SDG 3 'Good health and well-being'.

Strong legacy, and an even brighter future

I see a very bright future for LEO Pharma. We are building on a strong legacy, the passion and drive of our employees, and our ambition to be a leader in medical dermatology. We will pursue scientific innovation, bringing forward new treatments to patients that were not possible only a few years ago. By growing our business and innovating in order to respond to multiple unmet medical needs, I am confident that we will increase our impact on global health and enable people with skin diseases to live better lives.

Catherine Mazzacco
President & CEO

01.

Our performance

2019 marked the start of a new era for LEO Pharma, where we delivered significant progress towards our ambitions. This section provides an overview of our financial performance and key highlights in 2019, as well as the outlook for 2020.

Our mission

We help people
achieve healthy skin

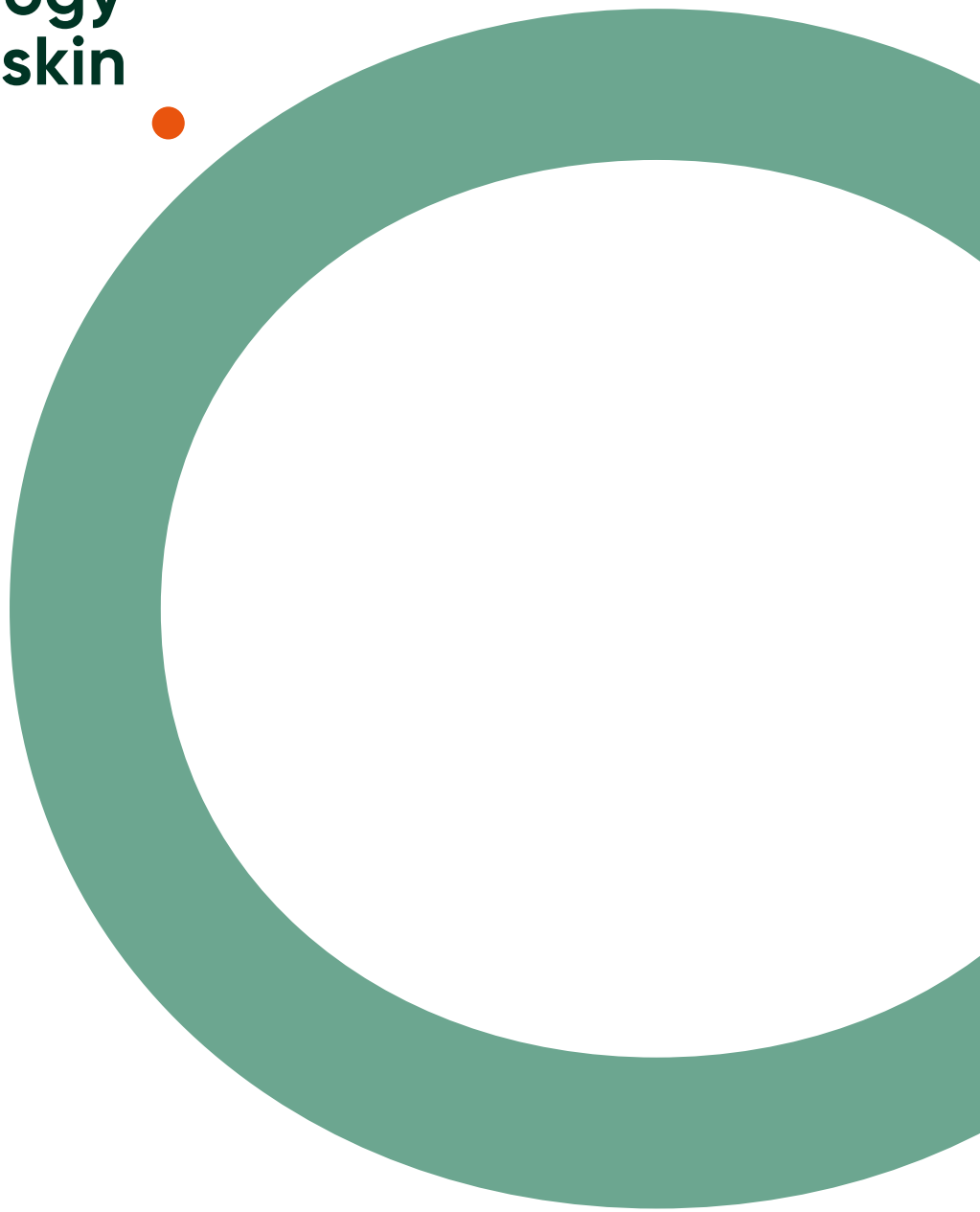
Our vision

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

Our values

Integrity
Innovation
Adaptability
Customer focus
Passion

Dermatology beyond the skin



Key figures 2015–2019

(DKK million)	2019	2018	2017	2016	2015
Income statement					
Revenue	10,805	10,410	10,481	9,863	8,457
Established portfolio	10,472	10,268	10,467	-	-
Innovative portfolio	333	142	14	-	-
Operating profit/(loss) before depreciation and amortization (EBITDA)	(130)	2,366	2,005	1,343	1,209
Operating profit/(loss) (EBIT)	(1,313)	1,605	852	338	763
Net financials	(363)	(178)	934	789	178
Profit/(loss) before tax	(1,705)	1,416	1,783	1,124	928
Net profit/(loss) for the year	**(1,287)**	**1,258**	**1,381**	**744**	**713**
Financial position					
Investments in intangible assets	4,878	1,516	479	6.115	246
Investments in property, plant and equipment	1,963	478	385	302	261
Non-current assets	15,339	9,321	8,222	19,490	14,902
Current assets	9,421	6,963	6,371	17,494	17,325
Total assets	24,760	16,284	14,593	36,984	32,227
Equity	8,088	9,528	8,277	25,175	24,735
Cash flow					
Cash flow from operating activities	(232)	(101)	720	2,661	903
Free cash flow	(6,797)	128	5,555	(3,080)	(109)
Operating working capital	4,122	4,103	3,677	3,503	3,344
Net working capital	4,098	2,528	2,318	1,231	2,850
Invested capital*	10,866	8,168	6,454	27,429	28,300
Net interest-bearing debt	9,682	2,163	2,169	6,781	3,698
Key ratios					
Gross margin	69%	71%	72%	72%	75%
Revenue growth	4%	(1%)	6%	17%	6%
Operating profit margin	(12%)	15%	8%	3%	9%
EBITDA margin	(1%)	23%	19%	14%	14%
R&D costs (% of revenue)	23%	18%	15%	13%	14%
Cash conversion	528%	10%	402%	(414%)	(15%)
Invested capital*/Revenue	101%	78%	62%	278%	335%
Effective tax rate	25%	11%	23%	34%	23%
Operational metrics					
Average number of employees	5,820	5,528	5,251	5,170	4,813
Number of patients	92,192	76,084	80,056	73,052	x**

** Excluding intellectual property rights ** 2015 numbers not available*

2019 highlights

New President & CEO

Catherine Mazzacco took on the position as President & CEO of LEO Pharma in August, 2019. Catherine joined LEO Pharma with more than 25 years' international experience in business management, strategy execution, marketing and sales from the pharmaceutical and life-science industry, including experience from launching biologics in immunology.

Positive top-line results for tralokinumab

In December 2019, LEO Pharma announced that tralokinumab – an investigational, fully human monoclonal antibody that specifically neutralizes the interleukin-13 (IL-13) cytokine – met all primary and secondary endpoints in its three pivotal phase 3 studies (ECZTRA 1-3) for the treatment of moderate-to-severe atopic dermatitis (AD) in adults. During the studies, the overall adverse event rate was comparable between tralokinumab and placebo.

The primary endpoints in the three studies were an Investigator Global Assessment (IGA) score of clear (0) or almost clear (1) skin at week 16 and at least a 75% or greater change from baseline in their Eczema Area and Severity Index (EASI) score at week 16. A change from baseline to week 16 in SCORing of Atopic Dermatitis (SCORAD), Pruritus Numeric Rating Scale (NRS) of at least 4, and Dermatology Life Quality Index (DLQI) were secondary endpoints.

LEO Pharma is planning to submit marketing authorization applications for tralokinumab for the treatment of adult patients with moderate-to-severe AD to regulatory agencies in 2020 and also to submit the detailed results of these studies for presentation at scientific congresses and publication in peer-reviewed medical journals in 2020.

Exclusive rights to develop and market brodalumab – now also outside the EU

In August 2019, LEO Pharma announced its acquisition of the exclusive rights to develop and market brodalumab (marketed by LEO Pharma as Kyntheum® in the EU) for the treatment of moderate-to-severe psoriasis through a new sub-licensing agreement with Bausch Health Ireland Limited. The new agreement includes countries with a significant unmet need, such as Australia, Brazil, Egypt, Mexico, Russia and Saudi Arabia. This deal complements the ongoing licensing agreement between LEO Pharma and AstraZeneca to develop and market brodalumab in Europe. Bausch Health continues to hold the rights for the US and Canada.

Medical compounds and technologies sourced through partnerships

Collaboration with partners is a key element of LEO Pharma's R&D strategy. In 2019, LEO Pharma entered into a number of partnership and collaboration agreements within medical compounds and medical technologies. Examples include: Ubiquigent Ltd. (option agreement for two novel compounds), Elektrofi (expanded partnership to co-develop formulation technologies for antibodies), Epicore Biosystems (partnership to advance the development of Epicore's wearable Discovery patch and electrochemical sensors) and Portal Instruments (innovative needle-free drug delivery systems).

LEO Pharma completes its acquisition of Bayer's prescription dermatology business

In July 2019, LEO Pharma and Bayer achieved all of the relevant closing conditions to allow the full transfer of Bayer's global prescription dermatology business to LEO Pharma. The companies first announced the proposed transaction in July 2018, and completed the first step of the acquisition, with closing in the US, in September 2018. The final closing completed the deal, which includes the global product rights to Bayer's global prescription dermatology business, with the exception of Afghanistan and Pakistan. The acquisition includes a production facility in Segrate, Italy.

Groundbreaking for new state-of-the-art Fucidin® factory in Denmark

In June 2019, LEO Pharma began the construction of a new state-of-the-art Fucidin® API factory. Fucidin® sales amounted to DKK 1,376 million in 2019. The new factory, located at LEO Pharma's headquarters in Denmark, will set new standards for engineering, automation and process analytics within LEO Pharma. The plant is expected to be ready by the end of 2021.

Financial review and outlook

In 2019, LEO Pharma grew sales by 4% to DKK 10,805 million and made significant progress in its R&D pipeline. Tralokinumab met the primary and secondary endpoints in its pivotal phase 3 studies. We successfully integrated the prescription dermatologics portfolio from Bayer in July, further strengthening our leadership position within topical treatments. Enstilar® and Kyntheum® continued to grow, and we invested in innovative new treatments within atopic dermatitis, eczema, psoriasis and Gorlin Syndrome.

LEO Pharma Group

Revenue grew by 4% to DKK 10,805 million in 2019, driven by the successful integration of Bayer's portfolio of prescription dermatologics, as well as the performance of Enstilar® and Kyntheum®. It was impacted by lower sales of innohep® and Daivobet® Gel. Excluding currency effects, divestments of non-core business to Karo Pharma and other one-time effects, the underlying revenue grew by 7%. We made significant progress in our R&D pipeline. Tralokinumab met the primary and secondary endpoints in its pivotal phase 3 studies. These results enable LEO Pharma to prepare filing in the US, Europe and Japan, for its first global biologics launch. LEO Pharma now has one product in phase 3 (tralokinumab) with an option for a second (patidegib) through an acquisition of PellePharm, and two in phase 2 (delgocitinib and an oral PDE4 inhibitor), which is a significant advancement of its late-stage pipeline. Partnerships for new compounds and technologies such as the option agreement with Ubiquigent Ltd. for two novel compounds or Portal Instruments on innovative needle-free drug delivery systems also helped to boost LEO Pharma's capabilities in 2019. R&D expenditure grew with DKK 530 million, from DKK 1,914 million in 2018 to DKK 2,444 million in 2019, positioning LEO Pharma well in dermatology, which is among the three fastest growing therapeutic areas.

In 2018, LEO Pharma acquired Bayer's prescription dermatology unit, in order to gain scale in Europe, Asia and Latin America. The portfolio was taken over as of September 1, 2018 in the US and on July 1, 2019 for the rest of the world. This accounted for an increase in revenue of approximately DKK 752 million in 2019. Enstilar®, a cutaneous foam spray for psoriasis, continues to grow strongly and gain market share from corticosteroid generics. We also introduced Kyntheum®, LEO Pharma's first biologic solution for psoriasis, in additional European markets.

On December 23, 2019 a contract with Karo Pharma was signed for the divestment of Bayer proctology assets for DKK 712 million. The divested assets are part of the acquisition from Bayer and therefore have no impact on the profit/loss for the year. Operating loss before depreciation and amortization (EBITDA) ended at DKK -131 million, which is DKK 2,497 million below the 2018 level. Operating loss (EBIT) ended at DKK -1,313 million, which is DKK 2,918 million below the 2018 level.

The 2018 result was driven by a non-recurring gain of DKK 1,566 million from the sale of product rights for non-core products to Karo Pharma. The loss in 2019 is a consequence of increased research and development costs of DKK 530 million, primarily for investments in the innovative portfolio. Integration of the Bayer portfolio was the main driver of the increase in sales and distribution costs of DKK 665 million and of the increase in administrative costs from DKK 1,302 million in 2018 to DKK 1,705 million in 2019. Furthermore, an impairment loss regarding rights acquired from Bayer AG in 2018 and supply issues had a negative impact on the net loss for the year. Adjusted for currency effects and non-recurring items, EBITDA amounted to DKK 762 million in 2019 compared to DKK 996 million in 2018.

The net loss for the year was DKK 1,287 million in 2019, compared to a profit of DKK 1,258 million in 2018. In local currencies and adjusted for divestments and other one-time effects, operating profit (EBIT) grew by 5%.

These results are in line with our expectations as we continued to invest in the next phase of LEO Pharma's growth and the transformation into an innovation-driven growth company.

Revenue by therapeutic area

Overall revenue grew by 4% compared to 2018. Revenue per therapeutic area for 2019 compared to 2018 is illustrated in the graph to the right.

Psoriasis grew by 4% compared to 2018. The growth was driven by Kyntheum® and Enstilar®. Enstilar® is now the best-selling product in the established psoriasis portfolio, representing a share of 30%. The markets with the highest Enstilar® growth are Italy, with growth of 83%, France with 72% and Canada with 68%. In June 2018, LEO Pharma launched Daivobet® Gel in Japan, increasing our topical psoriasis market share in Japan by 2.3 percentage points, from 56.1% in 2018 to 58.4% in 2019. Total sales in Japan increased from DKK 394 million in 2018 to DKK 483 million in 2019.

Eczema/Skin infection achieved sales of DKK 3,220 million and grew by 24% compared to 2018. The growth was driven mainly by the products acquired from Bayer and the Fucidin® range. Acne/Rosacea sales also improved, due to the acquired Bayer products and reached DKK 332 million, which represents growth of 36% compared to 2018.

Thrombosis sales, of which 91% are generated by innohep®, declined by 7% compared to 2018, due to a shortage of supply. While the volume sold was 15% lower than last year, the corresponding innohep® net sales were only 9% behind. Heparin achieved good performance, with growth of 15% (DKK 23 million), driven by business wins in Germany.

Established portfolio

With revenue of DKK 8,012 million, the established portfolio, excluding Thrombosis, is the backbone of LEO Pharma's business, and continued to grow by 10% compared to 2018. This was driven by the Bayer portfolio acquisition (+DKK 752 million) and Enstilar® (+DKK 156 million or 17%). Organic growth for the established portfolio, excluding Thrombosis, adjusted for divestments and acquisitions was 1%.

EBITDA for the total established portfolio was DKK 2,307 million or 22%, compared to 39% in 2018. The main reason for the decline is the 2018 income from the divestment of the non-core portfolio to Karo Pharma. Adjusting for this non-recurring item, EBITDA for the total established portfolio was DKK 3,198 million, with an improvement of the EBITDA margin by 4 percentage points from 27% in 2018 to 31% in 2019.

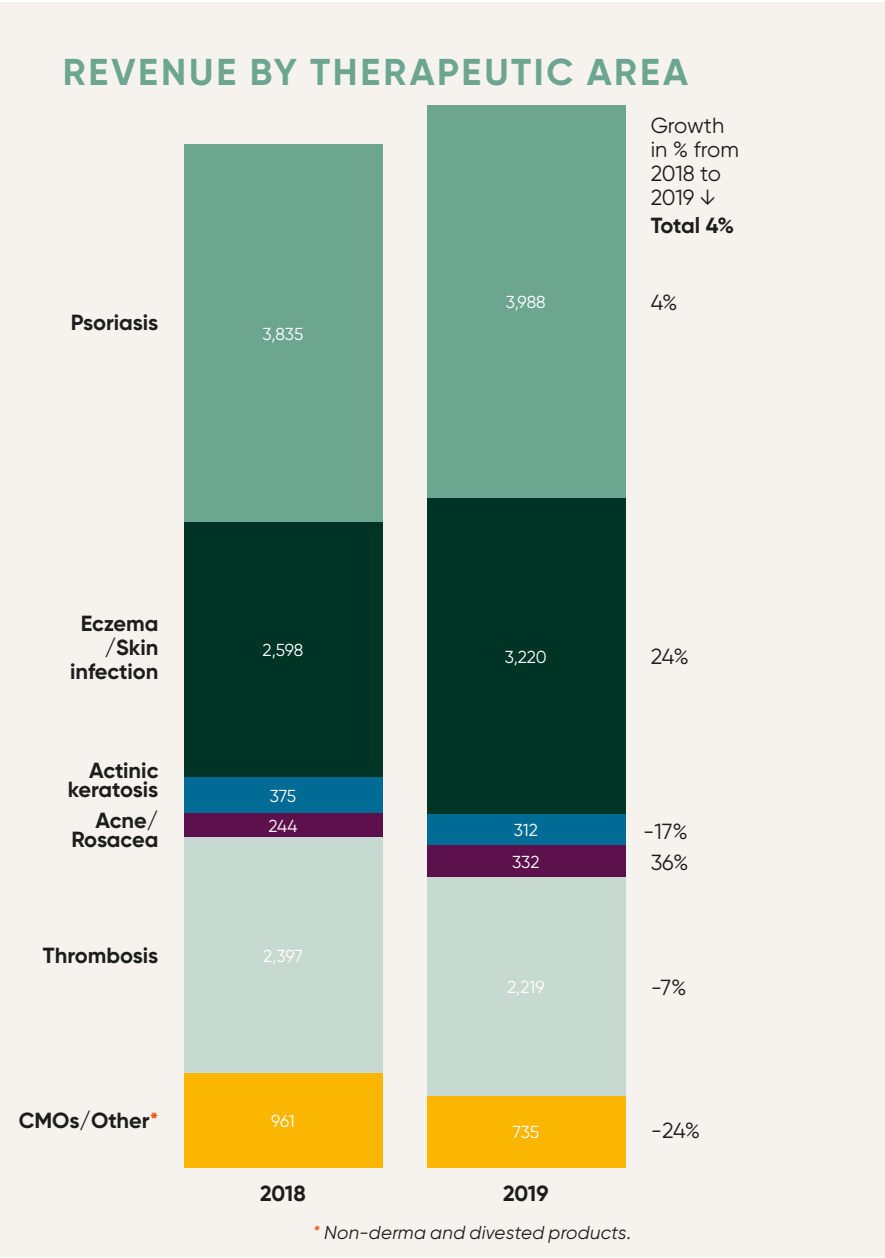
Innovative portfolio

Kyntheum®, LEO Pharma's biologic solution for psoriasis and its first approved treatment in the innovative portfolio, was launched in Italy in June 2019, as the final European country. Kyntheum® sales in Region Europe+ contributed DKK 333 million. Germany continued to be a key driver of revenue within LEO Pharma's innovative portfolio, representing 51% of Kyntheum® revenue in 2019, and increasing from DKK 112 million in 2018 to DKK 170 million in 2019.

Kyntheum® sales are also performing well in the UK (DKK 26 million), France (DKK 33 million) and Greece (DKK 37 million).

Innovative portfolio operating expenses amounted to DKK 2,698 million, which is an increase of DKK 893 million compared to 2018. The increase was driven mainly by investments in R&D costs and post-clinical activities for tralokinumab. EBITDA for the innovative portfolio ended at a loss of DKK 2,438 million.

LEO Pharma has several innovative therapeutic candidates in the course of development.



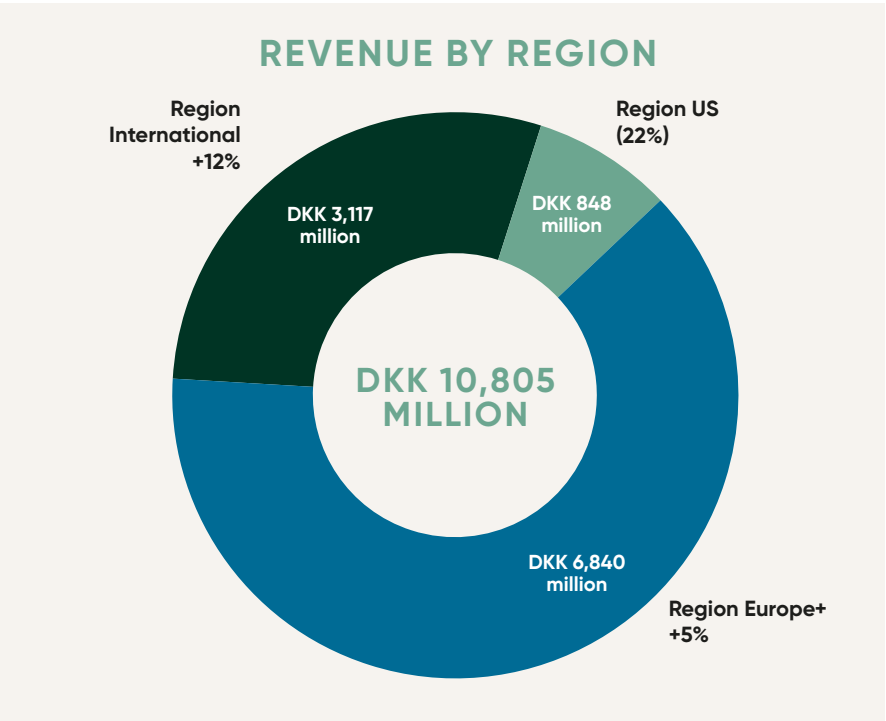
Revenue by region

Region Europe+

Region Europe+ sales reached DKK 6,840 million, having grown by +5% from 2018 (+4% in local currencies). Excluding the acquired and divested portfolios, the growth was 5% (DKK 312 million). The organic growth was driven by Kyntheum® and Enstilar®. Sales of Kyntheum® increased to DKK 333 million, a growth of 136% compared to 2018, while Enstilar® continued the strong performance in the topical psoriasis segment, with total sales in the region increasing by 36% from 2018, yielding total revenue of DKK 892 million.

By the end of 2019, we helped more than 1 million patients with mild-to-moderate psoriasis in Region Europe+, and roughly 50% were incremental, i.e. upgraded from previous treatment with products such as monosteroids.

With strong incremental growth for Enstilar® and Kyntheum®, the overall psoriasis portfolio in Region Europe+ grew by 13%.



During 2019, Kyntheum® was introduced in Italy and Luxembourg, taking the total number of countries where Kyntheum® is marketed and reimbursed to 18. In August 2019, we acquired the exclusive rights from Bausch Health to develop and market Kyntheum® in selected markets outside Europe.

Daivobet® Gel declined by 12%, due to the cannibalization of Enstilar® and Daivobet® Gel Applicator withdrawal. Daivobet® Ointment declined by 12%, mostly due to increased generic penetration, while Daivonex® sales grew by 11%.

Protopic® sales declined by 4%, mostly due to being out of stock, which occurred in the first half of the year and was mitigated by strong replenishment and subsequent promotion in the second half of the year, partly regaining the market share lost to competitors. The generic impact on Protopic® was also limited by being out of stock at generic supply levels.

The rest of the portfolio was stable despite generic pressures.

Region US

Revenue in the US declined by DKK 237 million in 2019, or 22% (26% in local currency), with net sales totaling DKK 848 million. This decline reflects the competitive landscape in the US, with increasing net pricing pressures on LEO Pharma's branded psoriasis, actinic keratosis and authorized generic portfolios.

Finacea® foam, which was acquired from Bayer in 2018, has been out of stock since May 2019, resulting in a decrease in revenue from DKK 81 million in 2018 to DKK 34 million in 2019. LEO Pharma expects to be able to resupply Finacea® foam to the US market by mid-2020.

LEO Pharma's authorized generic portfolio increased from DKK 183 million to DKK 203 million, mainly due to increased sales of tacrolimus, with revenue growth from DKK 15 million to DKK 35 million.

Region International

Region International revenues increased by DKK 325 million, or 12%, to DKK 3,117 million (+8% in local currencies). This growth is mainly attributable to the integration of products acquired from Bayer. The Bayer portfolio has added significant volumes to Brazil and Russia. Fucidin® was another growth driver for Region International, with an increase in sales of 15%, from DKK 592 million in 2018 to DKK 679 million in 2019.

In June 2018, LEO Pharma launched Daivobet® Gel in Japan, increasing our topical psoriasis market share by 2.3 percentage points, from 56.1% in 2018 to 58.4% in 2019. Total sales in Japan increased by 23%, from DKK 394 million in 2018 to DKK 483 million in 2019.

Russia grew by 20% in 2019, mainly driven by the Bayer portfolio acquisition and Pimafucort®. Total sales in China grew by 9%, driven by higher in-market sales. In-market sales grew by 28% for Protopic® and 47% for Fucidin®.

Balance sheet and cash flow

Balance sheet

Total non-current assets increased from DKK 9,321 million in 2018 to DKK 15,339 million in 2019, mainly due to additions in intellectual property rights and a new production facility in Segrate. Total current assets increased by DKK 2,458 million, driven by an increase in inventory relating to the acquisition. The increase in non-current liabilities compared to 2018 comprises an increase in loans of DKK 7,077 million, an increase in deferred tax liabilities related to acquisition, and lease liabilities from implementing IFRS 16.

Financial items

Net financial items showed expenses of DKK 363 million, compared to expenses of DKK 178 million in 2018. The increase is mainly due to a negative foreign exchange (net) result of DKK 134 million (2018: DKK 73 million), interest expenses of DKK 75 million from the EUR 500 million loan from LEO Holding A/S, and increased interest expenses and fees related to bank loans.

According to LEO Pharma's Treasury policy, the Group's foreign exchange risk is hedged by forward foreign exchange contracts. A negative market value of DKK 58 million, due to the increase in CAD, GBP and RUB rates against DKK during 2019, has been deferred for recognition in 2020 (2018: a loss of DKK 27 million was deferred for recognition in 2019).

Capital expenditure and cash flow

Acquisition of subsidiaries amounted to DKK 4,626 million in 2019 (2018: DKK 436 million). The investments are primarily related to the acquisition of Bayer's prescription dermatology unit outside the US in July 2019. Other investments comprise milestone payment to PellePharm after reaching 75 patients in the phase 3 trial of the topical gel intended to reduce skin cancer in people with Gorlin Syndrome, a sub-licensing agreement signed with Bausch Health, and investments in Ireland and Vernouillet (FR).

Cash flow from operating activities totaled DKK -232 million, compared to DKK -101 million in 2018. The development is in line with our expectations set out in the Annual Report for 2018 and relates primarily to lower net profit/(loss), higher tax payments and the timing of rebate payments in the US. Cash flow from financing activities is up by DKK 6,718 million compared to 2018 due to financing of acquisitions in 2019.

Follow-up on 2019 outlook

In the outlook in the Annual Report for 2018, LEO Pharma expected revenue of DKK 10.8-11 billion. Despite a sales shortfall of DKK 400 million due to supply issues, revenue amounted to DKK 10.8 billion, which was in line with expectations. The operating profit was expected to be a loss of up to DKK 750 million. The operating loss for the Group ended at DKK 1.3 billion and the deviation was mainly explained by higher operating expenses due to an increase in costs related to the integration of the Bayer portfolio, as well as an impairment loss.

2020 outlook

In 2020, LEO Pharma will continue to move forward towards its strategic 2025 goals. This entails significant investments in our pipeline, especially in the clinical development and post-clinical activities of tralokinumab and delgocitinib.

LEO Pharma anticipates that annual revenue will grow by 2-5% to DKK 11.0-11.4 billion in 2020. LEO Pharma will continue to focus on profitability improvements in the established portfolio, while also significantly increasing spending on research and development activities after the successful development in the pipeline in 2019 to continue the transformation into an innovation-driven growth company. LEO Pharma expects this to lead to an operating loss in 2020 of DKK 1.8-2.0 billion. Further divestments or write-downs of R&D investments can change the outlook.

02.

Our business

LEO Pharma's ambition is to help 125 million patients in 2025. This section covers the steps we are taking to achieve our ambition. It gives an overview of our corporate strategy, R&D innovation ecosystem and pipeline, as well as our current commitment to Corporate Social Responsibility (CSR), our approach to human rights and our direction for sustainability towards 2030.

Expanding options for patients

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

AT LEO PHARMA, our ambition is to be a key driver of this change by introducing innovative medicines and broadening the reach of our existing treatments. Many skin diseases have a spectrum of severity grades which require targeted approaches. Our aim is to provide solutions for all of them and to enter new disease areas that as yet are untreated – thereby building a more diverse portfolio that enables us to fulfill our aspiration of helping 125 million patients by 2025.

Creating new options for people living with skin diseases

Our longstanding dedication to dermatology gives us a competitive advantage. Our deep understanding of skin diseases enables us to develop treatments that are more efficacious and convenient to use for patients. Patients with more severe skin diseases typically have fewer or no treatment choices today and there are many skin diseases with no options at all. Recent advances, for example in immunology, are enabling us to address the often systemic nature of these conditions. Similarly, treatments for highly debilitating rare skin diseases are within reach.

Since the launch of our 2025 strategy in 2017, we have taken big steps in changing the treatment landscape and have a strong R&D pipeline. We successfully launched Kyntheum® in Europe, our first biologic for the treatment of moderate-to-severe psoriasis. We are preparing to submit marketing authorization applications for tralokinumab for the treatment of adult patients with moderate-to-severe AD to regulatory agencies in 2020. With delgocitinib, we have a topical JAK-inhibitor for eczema in phase 2 of clinical development. We have partnered with PellePharm to develop patidegib, a topical hedgehog inhibitor to treat the rare skin disease, Gorlin Syndrome, which is in clinical phase 3.

Our success is based on understanding the needs of patients, physicians and payers, and on mastering

↖ Nora Hansen (DK) (in the middle) together with her freinds. Nora has psoriasis.

science and technology to develop new solutions. To expand our knowledge and capabilities, we invest in new technologies and partnerships, so that we can improve the way our medicines are applied and developed. Examples of this are our collaboration with Portal Instruments on an innovative needle-free drug delivery system, and our work on wearable skin sensors together with Epicore.

Growing our footprint

LEO Pharma has a longstanding heritage in dermatology and a strong portfolio of topical treatments. These treatments are a mainstay of dermatologic therapy, and we continue to grow and innovate in this area. In 2019, we successfully integrated Bayer's prescription dermatology business, which helped us gain critical mass in key countries and underlines LEO Pharma's leadership in the category. Enstilar®, for psoriasis, continues to outperform our expectations, and with delgocitinib we have a next-generation topical treatment in development.

We also continue to strengthen our thrombosis franchise, with an emphasis on optimizing the supply chain to meet increasing demand for innohep®, our treatment for thrombosis and cancer-associated thrombosis.

Growth for the benefit of patients

Towards 2025, we aim to significantly grow our revenue through the introduction of new products and growth of the existing portfolio. Continuing R&D investments, partnerships to develop new assets, and a focus on commercial excellence, will expand our company in order to help many more patients in the US, Europe, Japan, China and other parts of the world.

Our therapeutic areas

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

Psoriasis

Psoriasis is a chronic systemic inflammatory disease typically affecting 2-3% of the population[1,2], with the majority remaining undiagnosed or underserved[3]. There are still many psoriasis patients with unaddressed needs who may also suffer from comorbidities. The psychosocial impact on their quality of life is high, with high rates of depression and anxiety, and with an impact on work, interpersonal relations and intimacy. A National Psoriasis Council survey reported that 88% of psoriasis patient were affected on emotional well-being and 82% reported adversely affected their enjoyment of life.[4]

KYNTHEUM®

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

ENSTILAR®

Cutaneous foam for the topical treatment of psoriasis vulgaris in adults. In the US, Enstilar® is also available for adolescents from 12 years of age and higher.

DAIVOBET®

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

DAIVONEX®

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

Actinic keratosis

Actinic keratosis (AK) manifests as scaly patches that appear on sun-damaged areas of the skin. AK is considered to be an early form of squamous cell carcinoma, which is a variant of non-melanoma skin cancer. Patients with AK have an increased risk of developing skin cancers and should be treated for their AK, including the surrounding skin, and monitored over time.

PICATO®

Gel for cutaneous treatment of actinic keratosis in adults.

Eczema

Eczema is the name of a group of conditions that cause the skin to become red, itchy and inflamed. There are several types of eczema: atopic dermatitis, contact dermatitis, dyshidrotic eczema, nummular eczema, seborrheic dermatitis and stasis dermatitis.

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

PROTOPIC®

Non-steroidal topical (ointment) calcineurin inhibitor that is indicated for moderate-to-severe atopic dermatitis for adults (0.1%) and patients of two years of age and above (0.03%).

FUCIDIN®H

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

FUCICORT®

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

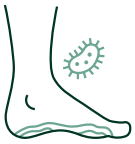
ADVANTAN®

Potent topical steroid indicated for the treatment of atopic dermatitis and other forms of eczema, e.g. contact dermatitis, for adults, children and infants from 4 months*. Available in five formulations – cream, ointment, fatty ointment, cutaneous emulsion and cutaneous solution. *4-month indication varies across the globe.

LOCOID®

Mid-potent topical steroid indicated for the treatment of inflammatory skin disorders not caused by microorganisms (AD and psoriasis) and the maintenance treatment of conditions responsive to topical corticosteroids, (eczema, dermatitis and psoriasis) for adults, children and infants. Available in five formulations – ointment, cream, lipocream, crelo and scalp lotion.

1 National Psoriasis Council https://www.psoriasis.org/content/statistics. 2 Parisi R, Symmons DPM, Griffiths CEM, Ashcroft DM. Global Epidemiology of Psoriasis: A Systematic Review. J Invest Dermatol 2013; 133 (2): 377-85. 3 Strober BE, van der Walt JM, Armstrong AW, Bourcier M, Carvalho AVE, Chouela E, Cohen AD, de la Cruz C, Ellis CN, Finlay AY, Gottlieb AB, Gudjonsson JE, Iversen L, Kleyn CE, Leonardi CL, Lynde CW, Ryan C, Theng CT, Valenzuela F, Vender R, Wu JJ, Young HS, Kimball AB. Clinical Goals and Barriers to Effective Psoriasis Care. Dermatol Ther 2019; 9(1) 5-18. 4 Kolli SS, Amin SD, Pona A, Cline A, Feldman SR. Psychosocial Impact of Psoriasis: A Review for Dermatology Residents. Cutis 2018; 102 (5S): 21-25.



Skin infections

Bacterial skin infections

Bacterial skin infections usually occur at places where the skin barrier has been compromised, giving the pathogen a chance to penetrate deeper layers of the skin. Many bacteria types, ranging from gram-positive to gram-negative, can lead to bacterial skin infections, with *Staphylococcus aureus* as the major cause. In atopic dermatitis, *Staphylococcus aureus* is more prevalent on the skin surface, and is commonly involved in skin infections in these patients.

FUCIDIN®

Cream and ointment for cutaneous treatment of skin infections caused by sensitive strains of *Staphylococcus aureus*, *Streptococcus spp* and *Corynebacterium minutissimum*. Fucidin® is also available as a suspension and as tablets.

Fungal skin infections

Fungal skin infections, or dermatomycoses, are associated with a broad range of pathogens. The most common pathogens relevant to superficial fungal infections are estimated to affect more than 20–25%[5] of the world's population. Inflammation plays an important role in dermatomycoses, displaying a close association between frequent inflammation and reduced, skin-related quality of life.

TRAVOCORT®

Cream indicated for initial or interim treatment of inflamed superficial fungal skin infections.

TRAVOGEN®

Cream, spray and solution indicated for superficial fungal skin infections.

Rosacea

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

FINACEA®

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

Acne

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

SKINOREN®

Gel and creme for topical treatment of acne vulgaris.

ZINERYT®

Powder and solvent for cutaneous solution for topical treatment of acne vulgaris in children and adults and the elderly.

Rare skin diseases

In November 2018, LEO Pharma entered a rare disease partnership with PellePharm, in line with our strategic intent. PellePharm initiated and fully enrolled the phase 3 trial of the first potential therapy that targets Gorlin Syndrome, a severe rare skin disease for which there are currently no approved therapies.

Thrombosis

Deep vein thrombosis is a blood clot that forms within a deep vein, usually in the leg. If untreated, part of the clot can break off and travel to the lungs, blocking the blood flow. This is called a pulmonary embolism and can be fatal if not detected and treated early. The term venous thromboembolism is a collective term for deep vein thrombosis and pulmonary embolism. A blood clot associated with cancer disease or cancer treatment is called cancer-associated thrombosis. 9.2%[6] of cancer patients are at risk of dying from cancer-associated thrombosis. Other circumstances with an increased risk of venous thromboembolism include pregnancy, surgery and immobilization.

INNOHEP®

Subcutaneous treatment of venous thromboembolism and deep vein thrombosis (DVT) in adults and for the prevention of recurrences in adults with active cancer. Other LEO Pharma products indicated for the treatment of thrombosis are Heparin LEO and Protamine Sulphate (indicated for heparin overdose).

5 Havlickova B, Czaika VA, Friedrich M. Epidemiological trends in skin mycoses worldwide. Mycoses. 2008;51:2–15. **6** Khorana AA, Francis CW, Culakova E, Kuderer NM, Lyman GH. Thromboembolism is a leading cause of death in cancer patients receiving outpatient chemotherapy. J Thromb Haemost 2007;5: 632–4.

Pushing the limits of dermatology

Enabled by science and technology, a new era in dermatology with completely new types of treatments is advancing rapidly. Based on LEO Pharma's rich dermatology knowledge, we advance science in dermatology by leveraging external innovation and partnerships to create pioneering solutions which will fundamentally change the lives of millions of people who do not have the right treatment options for their skin diseases today.

LEO Pharma Partnerships

LEO Pharma's commitment to research and development includes extensive collaborations between us and more than 400 academic and institutional research centers, industry partners and patient organizations worldwide, making the world our laboratory. By collaborating with excellent scientific experts globally, LEO Pharma aims to enhance science and our knowledge of skin diseases, and explore potential new life-changing treatments. Our partners are key in our transformation to deliver first-in-class treatments, breaking new ground and being the leader within medical dermatology. In our efforts to take dermatology to new levels, we proactively seek collaboration with like-minded people. In pursuit of our ambition to make a true difference for people living with skin diseases, the drug development projects in our pipeline are proof of our collaborative mindset. Here, we have formed strategic alliances and partnerships with AstraZeneca, Bausch-Health, PellePharm, Japan Tobacco, JW Pharmaceuticals, argenx, MorphoSys and Zymeworks.

LEO Pharma Research and Development

LEO PHARMA has set out to be a global leader in medical dermatology. Besides building a world-class pipeline, we invest in early research and development and pursue scientific innovation in a broad sense to bring new solutions to people living with skin conditions.

To meet our strategic ambitions, we have transformed our R&D organization during the last couple of years. In 2019, we strengthened our global R&D footprint, especially in the US. Key drug development capabilities are now anchored in Madison, New Jersey, to build synergy with our LEO Pharma US organization in developing the US market as the key market for our innovative new treatments. Furthermore, our R&D Hub in Boston has been strengthened with key capabilities in business development and translational medicine, in order to tap into the world-class science and vibrant environment in Boston, which is the number one life science hub in the world. Building for future growth in Asia, we have established a new R&D Asia-Pacific Hub, headed out of Japan, in order to be able to explore the rapidly developing opportunities in the Asia-Pacific area – especially Japan, China and South Korea.

LEO Pharma is transitioning into developing first-in-class treatments with the potential to revolutionize dermatology. To succeed with this transition, we need to excel in understanding dermatological diseases. Therefore, in 2019 our R&D organization strengthened our capabilities in Translational Medicine, i.e. to develop the link between basic research, cellular based assays and animal models and outcomes from clinical dermatology, in order to facilitate early testing and prediction of which breakthrough treatments are likely to have value for people living with a skin condition. Furthermore, we have established a new Regenerative Medicine unit to pioneer dermatological research by exploring innovative drug modalities with the vision of curing disease in close collaboration with external partners and the larger R&D innovation ecosystem.

The focus of our transformed R&D innovation ecosystem is to push the limits of medical dermatology by leveraging science and technology and looking beyond, in order to constantly improve and extend what is possible, for the benefit of patients. We want to understand patients, skin and dermatological diseases better than anyone else, to pave the way towards precision medicine, prevention and, eventually, curing skin diseases. →

... continued

LEO Pharma Open Innovation

LEO PHARMA OPEN INNOVATION is exploring and driving scientific collaborations. Our program allows anyone to test their molecules unconditionally, using LEO Pharma research resources. We invite partners from academia, the pharmaceutical industry, start-ups and the biotech world to send us molecules that our scientists test for disease-modifying effects in the proprietary biological assays LEO Pharma has developed over decades of research. Our partnership model is based on trust, respect, transparency and mutual benefit. We do not ask our partners to disclose information about their molecules, and they own the data that our scientists generate. There are no binding business commitments, and our partners are free to use the data as they wish. If a molecule shows disease-modifying effects in the assays, we reach out to the partner to discuss further opportunities for collaboration.

FACTS ABOUT LEO PHARMA OPEN INNOVATION

- 108 partners
- 1,083 molecules tested
- 26 countries
- Average submission is 10 molecules
- Approximately 10% of molecules produce interesting results (biological effect without significant toxicity)
- Educational programs with two universities

LEO Pharma Partnerships continued...

EXAMPLES OF NEW STRATEGIC COLLABORATIONS IN 2019

BIOMAP (Biomarkers in Atopic Dermatitis and Psoriasis) is a consortium of pharma companies, academic institutions and patient organizations. BIOMAP kicked off its activities in April 2019 with the aim of generating disease understanding to improve the lives of patients affected by the two most common inflammatory skin conditions, atopic dermatitis and psoriasis. BIOMAP is funded by the Innovative Medicines Initiative 2 Joint Undertaking under Grant Agreement No. 821511 and the in-kind contributions of the participating pharma companies.

TO DEVELOP unique new treatment opportunities in oligonucleotide based therapeutics for Vitiligo and rare diseases, a collaboration with world-leading scientists at the University of Massachusetts, USA, started in June 2019.

IN DECEMBER 2019, LEO Pharma A/S and Portal Instruments entered into a global collaboration and license agreement to develop Portal's innovative needle-free drug delivery system for use in combination with LEO Pharma's portfolio of investigational and approved medicines.

LEO Innovation Lab

LEO INNOVATION LAB builds digital platforms and solutions to improve the lives of people living with chronic health conditions. Our work is centered around two key strategies. The first is leveraging machine-learning technology to diagnose skin conditions to a high degree of accuracy. By supporting healthcare professionals with artificial intelligence, we can assist doctors in providing the best possible support for patients. The second is digitalizing treatment development across all phases, from drug discovery to clinical trials. We hope to democratize the clinical trials process, making it available to all who can benefit, and shortening the time to market for new treatments.

EXAMPLES FROM LEO INNOVATION LAB

- We experience that our digital solutions can be used for additional cases that also have a social and sustainable component to them. We are therefore looking at how can we reuse our technology and know-how to create impact beyond the current reach. Our "Intellectual Property for purpose" initiative aims to create positive impact by reusing our intellectual property for projects and partnerships with small organizations that support the UN Global Sustainable Development Goals.

- Our current diagnostic capabilities based on the imagine platform may hold the future potential to provide for optimized interaction between dermatologists, general practitioners and people living with a skin condition. This will help to offset the future shortfall forecast by the WHO and the UN in healthcare professionals to provide healthcare for a growing global population.

LEO Science and Tech Hub

LEO SCIENCE & TECH HUB is the R&D innovation unit of LEO Pharma based in Boston and Tokyo. We explore cutting-edge science and technology opportunities that have the potential to enable precision medicine within dermatology. By partnering with renowned start-ups, and public and private institutions in the world's leading life science clusters in the US and Asia Pacific, LEO Science & Tech Hub acts as a catalyst to transform early-stage innovations and technologies into solutions that will improve the quality of life for people with skin diseases.

COLLABORATION WITH KEY ACADEMIC PARTNERS IN 2019

- LEO Science & Tech Hub extended the collaboration with the Anderson Lab at Massachusetts General Hospital in Boston after initial successful results proved that a novel microbiopsy device can be used for minimally invasive skin sampling followed by mRNA analysis. The next phase will be to confirm the preclinical results in atopic dermatitis (AD) patients and to optimize the device to enable repeated clinical sampling, leaving no scar.

- LEO Science & Tech Hub expanded the partnership with Epicore Biosystems to develop a patch for measuring disease state in sweat. After positive results from measuring cytokines in sweat, the collaboration is moving to a clinical trial to measure specific cytokines that are directly linked to AD biomarkers. The clinical trial will be performed with John Rogers' laboratory at Northwestern University.

- LEO Science & Tech Hub moved the collaboration further with Massachusetts Institute of Technology (MIT) and the Katabi Lab to use wireless technology to measure scratching as an objective measure of itch and sleep behavior. The next phase is a clinical trial in AD patients with Brian Kim Lab, a leading research lab in the sensation of itch.

A pipeline which pioneers medical dermatology

At LEO Pharma, we are dedicated to helping people living with skin conditions. R&D plays an important role in LEO Pharma's future growth and transformation towards serving the whole spectrum of severity grades – from mild through moderate-to-severe – in a broad range of therapeutic areas within dermatology.

IN RECENT YEARS, LEO Pharma has taken giant leaps in strengthening our position at the forefront of medical dermatology and now progresses a strong clinical pipeline of small molecules and biological treatments for atopic dermatitis and psoriasis, as well as innovative therapies for people living with rare and life-altering skin diseases. We run our own research programs with the potential for new first-in-class treatments and have long-term strategic partnerships with some of the best pharma companies, biotech companies and technology companies around the globe. We constantly and proactively seek new partners worldwide, with the aim of delivering innovative new treatments which answer unmet medical needs, and treatments with scale and affordable access across dermatological indications. Overall, LEO Pharma's strong clinical pipeline and diverse early research activities reflect a high level of innovation and growth potential.

Investing significantly in R&D

In 2019, LEO Pharma invested heavily in R&D, including an extensive phase 3 clinical program with 8 studies to evaluate the efficacy and safety of tralokinumab. Tralokinumab is an investigational, fully-human, monoclonal selective IL-13 antibody for the treatment of moderate-to-severe atopic dermatitis. Key results from the three pivotal phase 3 clinical studies were finalized and we are now preparing for registration worldwide.

Working together with the US-based rare disease pioneer, PellePharm, we will advance innovative therapies for patients with rare and life-changing skin diseases for which there are no approved treatments, such as Gorlin Syndrome and High Frequency Basal Cell Carcinoma (HF BCC), two distinct and rare forms of skin cancer. The phase 3 study for patidegib topical gel has finalized recruitment.

Our clinical pipeline also includes ARGX-112, a monoclonal antibody that is presently progressing the phase 1 clinical trial in collaboration with argenx. ARGX-112 is intended for patients with moderate-to-severe atopic dermatitis. Furthermore, in 2019, we administered our first human dose of an oral histamine 4 receptor (H4R) antagonist, in collaboration with JW Pharmaceuticals. In early testing, the H4R antagonist has shown anti-pruritic and anti-inflammatory potential and thus offers an oral treatment for people with moderate-to-severe atopic dermatitis.

In 2019, we decided to discontinue two development projects in phase 1, due to portfolio prioritization.

With tralokinumab and patidegib in phase 3, delgocitinib (a novel pan-JAK inhibitor for non-steroidal topical treatment of inflammatory skin diseases) in phase 2b, as well as ARGX-112 and H4R in phase 1, our clinical pipeline holds great promise to expand LEO Pharma's range of treatments significantly within the coming years. This will turn LEO Pharma into the key driver of medical dermatology and allow us to offer new solutions in areas with a high level of unmet needs in existing and new indications within biologics and orals, as well as innovative new topical treatments. This will build a foundation for remarkably improving the quality of life for people living with moderate-to-severe skin conditions.

Transforming our research

During recent years, LEO Pharma has transitioned into developing first-in-class treatments which have the potential to revolutionize dermatology. A transformation of our own research capabilities, while building strong strategic partnerships, is key to succeeding with this transformation.

In our own research programs we now focus on delivering first-in-class drug treatments for patients suffering from a wide range of skin diseases at all severity levels. Deep biological disease understanding, and excellence in both medicinal and synthetic chemistry, are crucial capabilities to meet our ambitions. Small molecules and biologicals have been our main platforms, but in our early research activities we are now breaking new ground. During 2019, our small-molecule research focused on Protein-Protein Interaction pathways (mainly cytokine/cytokine receptors) that are either clinically validated, or in late stage clinical studies, with injectable biologics. One of our pioneering Protein-Protein Interaction modulator projects has delivered a small-molecule drug candidate that will be developed as an orally administered treatment for psoriasis, while potentially achieving efficacy and safety at the level of an antibody. The next phase is to test this molecule in further safety studies, prior to starting human trials in 2021.

During 2019, we also initiated exploration of other new medicinal chemistry approaches, such as protein degraders and synthetic peptides, to deliver better oral medicines. With regard to biologics, through our partnerships we have access to strong monoclonal and bispecific antibody platforms that we leverage to obtain first-in-class antibodies. We also embarked on the journey of other regenerative medicine platform technologies with curative potential. This could be via oligo treatments or gene-editing technologies. All in all, we have a broad range of early research activities that will lead to an even stronger research project pipeline during the coming years and which holds the potential for LEO Pharma to not only be at the forefront of medical dermatology, but to really move the needle and set new standards within treatments for people living with life-altering skin conditions.

Broadening our treatment range

On top of our ambition to push the limits of medical dermatology, we also want to ensure better access to existing treatments for people living with skin conditions around the world. Supplementing our strong established portfolio of topical treatments for skin infections and diseases such as psoriasis, eczema and acne, the acquisition of the global product rights for Bayer's global prescription dermatology business (with the exception of Afghanistan and Pakistan) was finalized in 2019. With the strong prescription dermatology brands and the new colleagues from Bayer, we have broadened our treatment range within the areas of acne, fungal skin infections and rosacea, as well as our range of topical steroids. This advances us significantly towards our goal of helping 125 million patients by 2025. From an R&D perspective, the focus in 2019 has been on ensuring a seamless handover from Bayer and securing continued access to the products for people all over the world.

Through our own research programs and global partnerships we continuously explore new dermatological indications, as well as new formulations. Overall, our pipeline holds the potential for LEO Pharma to become true world leaders in medical dermatology by driving science towards novel breakthrough innovations, as well as delivering affordable solutions across the world.

NUMBERS AND FACTS

946

scientists and specialists work globally in research and development

Number of active patients in 2019:

4,533

patients in trials

* Hay RJ, Johns NE, Williams HC et al. The global burden of skin disease in 2010: An analysis of the prevalence and impact of skin conditions. J. Invest. Dermatol.134(6), 1527–1534 (2014).

Our clinical pipeline

Project	Description	Partners
DERMATOLOGY		
Tralokinumab LP0162	An IL-13 anti-inflammatory monoclonal antibody under development for people with atopic dermatitis.	AstraZeneca
Oral PDE4i LP0058	An oral anti-inflammatory compound under development for treatment of psoriasis.	
Delgocitinib LP0133	A topical treatment for inflammatory skin diseases using a pan-JAK inhibitor.	JT
ARGX-112 LP0145	An anti-inflammatory monoclonal antibody for the treatment of atopic dermatitis.	argenx
Oral H4R antagonist LP0190	A systemic anti-pruritic and anti-inflammatory H4 receptor antagonist, intended to offer an oral treatment for people with atopic dermatitis.	JW
IL-17A PPI LP0200	An IL-17 small-molecule modulator under development for people with psoriasis.	

Tralokinumab

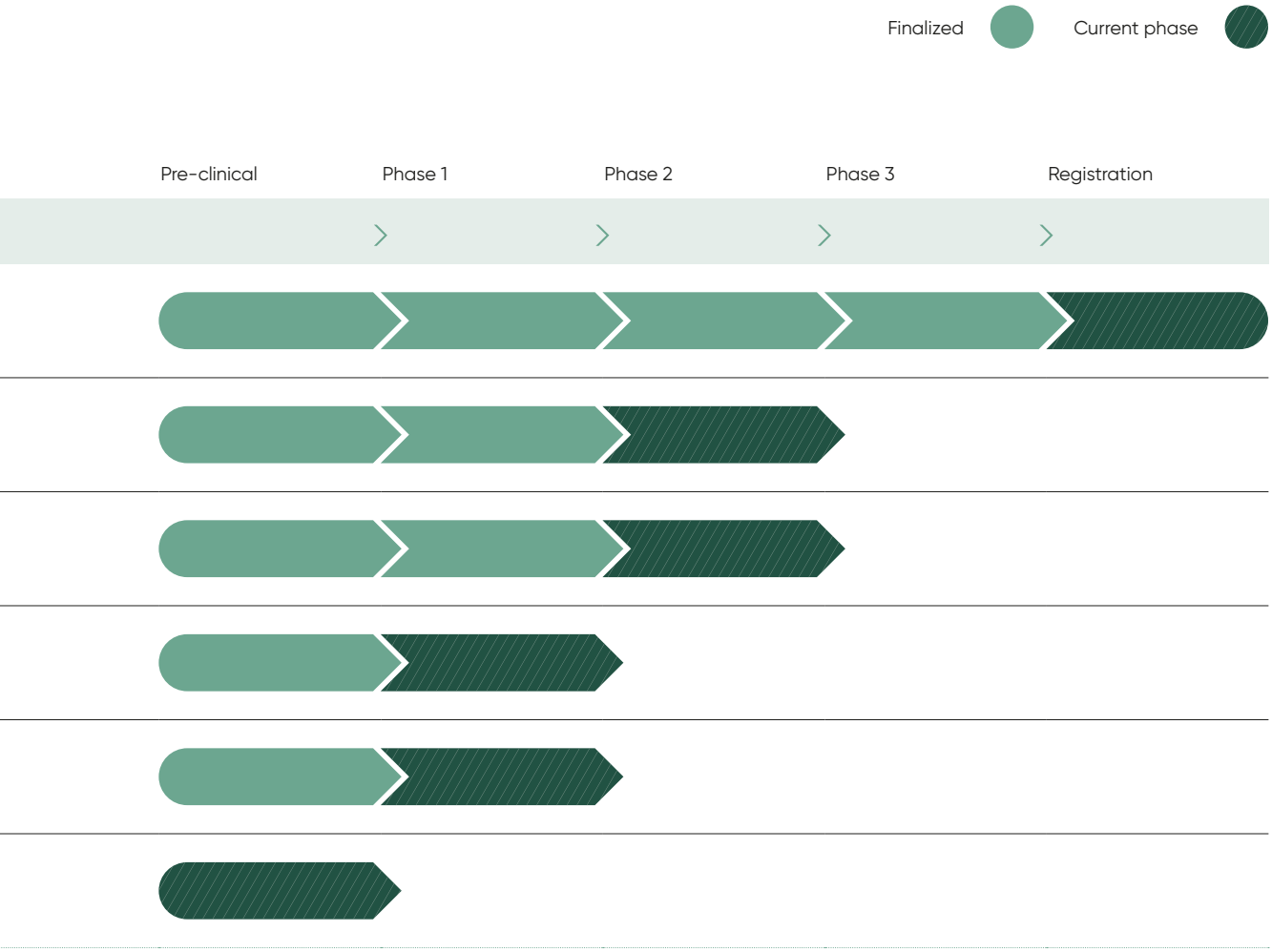
Tralokinumab is a novel monoclonal antibody that targets IL-13, which is considered to be the primary effector cytokine in atopic dermatitis. LEO Pharma is running an extensive phase 3 clinical program to evaluate the efficacy and safety of tralokinumab in patients with moderate-to-severe atopic dermatitis,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

Oral PDE4i

A systemic anti-inflammatory compound intended to offer a long-term oral treatment option for people with psoriasis. In 2019, LEO Pharma completed a phase 1 study trial to evaluate the safety, tolerability and pharmacokinetics of the compound.

Delgocitinib

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



ARGX-112

In 2015, LEO Pharma and argenx entered into collaboration on the development of ARGX-112, an anti-IL22R mAb for the treatment of moderate-to-severe atopic dermatitis. LEO Pharma is conducting a phase 1 study to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics in healthy subjects and in subjects with moderate-to-severe atopic dermatitis.

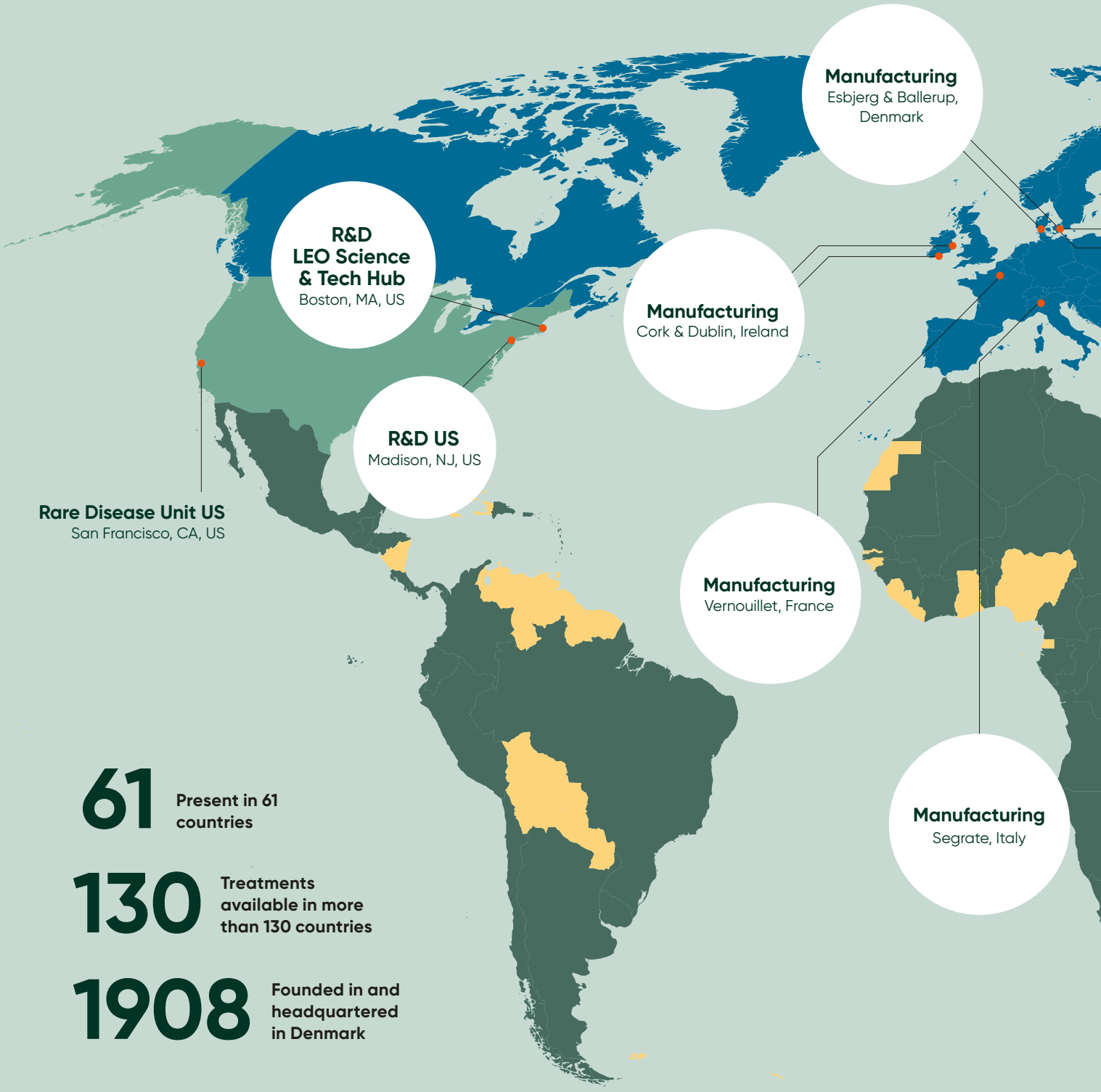
Oral H4R antagonist

Oral H4R antagonist is a systemic anti-pruritic and anti-inflammatory histamine 4 receptor intended to offer an oral treatment for people with moderate-to-severe atopic dermatitis. Together with our partner, JW Pharmaceutical, a phase 1 study has been initiated to evaluate the safety and tolerability of oral H4R antagonist in healthy volunteers.

IL-17A PPI

IL-17A PPI is a modulator with a novel way of achieving the same action as IL-17A antibodies, but with a small molecule to enable oral delivery. A candidate was selected in 2019 and the next phase is to test the molecule in further safety studies.

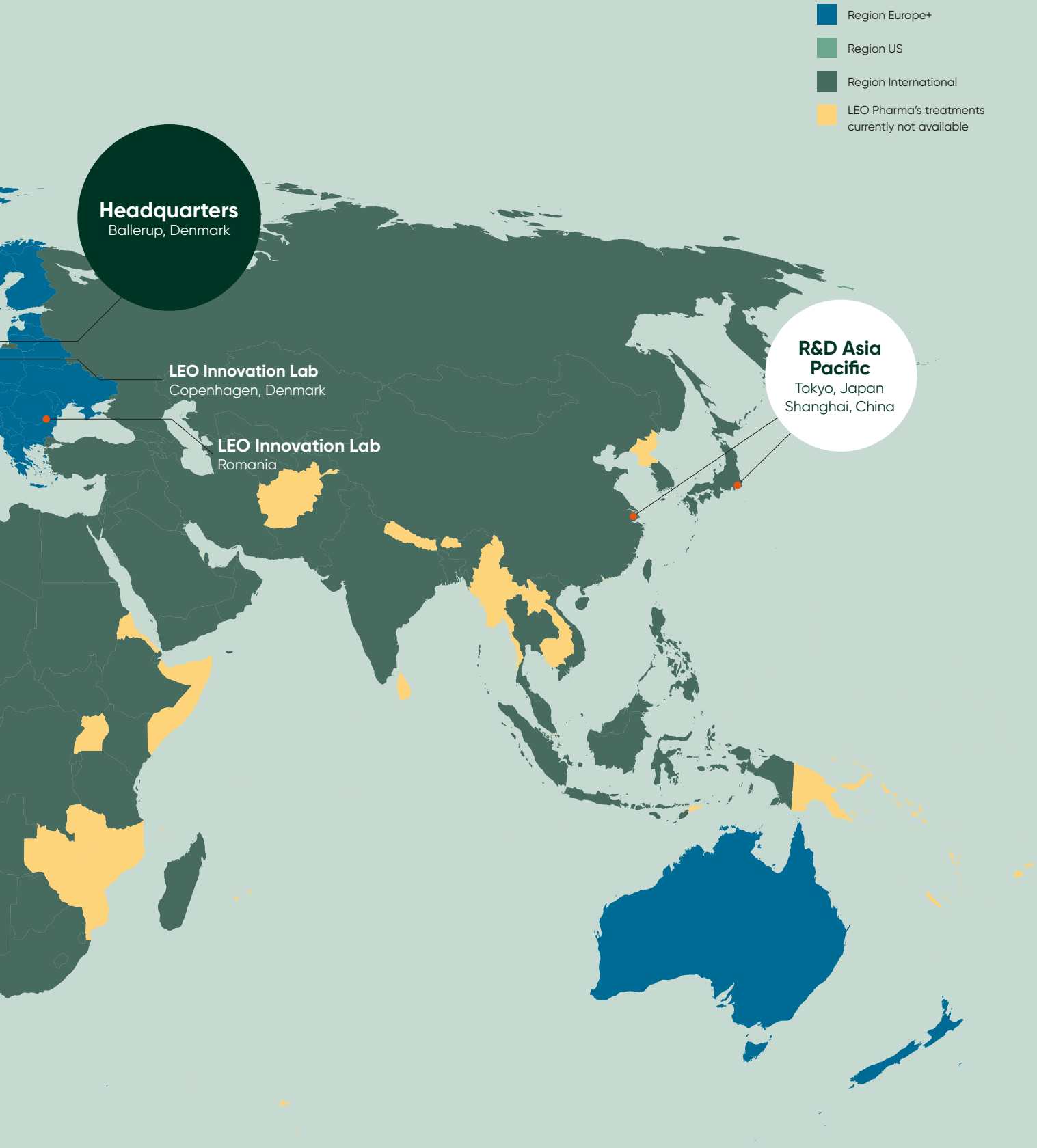
LEO Pharma in the world



61 Present in 61 countries

130 Treatments available in more than 130 countries

1908 Founded in and headquartered in Denmark


Region Europe+
Region US
Region International
LEO Pharma's treatments currently not available
Headquarters
Ballerup, Denmark
LEO Innovation Lab
Copenhagen, Denmark
LEO Innovation Lab
Romania
R&D Asia Pacific
Tokyo, Japan
Shanghai, China

Our CSR Commitment 2018–2020

We address the issues for which our impact on society and our business is the most significant.

As a global pharmaceutical company that innovates, researches, produces and distributes medicines to patients, our business performs many functions that have an impact on society. Through dialogue with internal and external stakeholders, such as employees, patient organizations, policy makers, healthcare professionals, payers and NGOs, we work to understand this impact.

Our CSR Commitment 2018–2020 sets the framework for working on the CSR issues which are most important to our stakeholders and our business. This commitment is built on three pillars →

"At LEO Pharma, we acknowledge our economic, social and environmental responsibility, and promote the Ten Principles of the United Nations Global Compact, which cover the areas of human and labor rights, environment and anti-corruption."

Catherine Mazzacco, President & CEO

Towards the UN Sustainable Development Goals

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

Our CSR Commitment 2018–2020 defines the programs in which we take action to contribute to the SDGs via specific targets.

Pillar

Empowering patients

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

Sustainable operations

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

Business integrity

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

Issue	Our program	SUSTAINABLE DEVELOPMENT GOALS
Unmet medical needs Address unmet medical needs of people with skin disease through continuous development of medicines, and minimize the risk to patients' safety through robust clinical trials and data transparency.	EXPANDING DERMATOLOGICAL SOLUTIONS	**SDG 3** – Target 3.4 **SDG 17** – Target 17.17
Barriers to healthcare Improve the accessibility, quality and affordability of the health services available to dermatology patients.	REMOVING BARRIERS TO HEALTHCARE	**SDG 3** – Target 3.8 **SDG 17** – Target 17.17
Patient voice in healthcare policies and decisions Increase patients' influence on policies, guidelines and disease management.	STRENGTHENING PATIENT VOICE	**SDG 3** – Target 3.8 **SDG 17** – Target 17.17
Resource use and climate change Manage the impact of our operations on climate change and the environment by reducing energy consumption and CO_2 emissions throughout our value chain.	CLIMATE CHANGE, ENVIRONMENT AND ENERGY	**SDG 7** – Target 7.3 **SDG 13** – Target 31.1
Sustainable working life Foster a positive working environment and enhance mental well-being at work.	MENTAL WELL-BEING AT WORK	**SDG 8** – Target 8.8
A capable and motivated workforce Ensure that we are able to attract, develop and retain people with the right competences.	PEOPLE DEVELOPMENT	
Workplace safety Protect the health and safety of our employees.	EMPLOYEE SAFETY	**SDG 8** – Target 8.8
Corruption and unethical business practices Work against corruption and bribery in all its forms, with attention to high-risk countries, relevant internal functions such as sales and marketing, procurement, legal and finance, and interaction with public officials, healthcare professionals and business partners.	ANTI-CORRUPTION	**SDG 16** – Target 16.5
Privacy protection Protect the privacy of clinical trialists (patients), health-care professionals, our employees and other stakehold-ers in our global operations.	PERSONAL DATA PROTECTION	
Animal welfare in research Reduce the number of animals used in experiments and refine the use of animals.	ANIMAL WELFARE	
Responsible conduct of suppliers Conduct CSR due diligence and promote the responsible business conduct of suppliers.	RESPONSIBLE SUPPLY CHAIN MANAGEMENT	**SDG 8** – Target 8.7 **SDG 12** – Target 12.4 **SDG 12** – Target 12.5 **SDG 12** – Target 12.6

↖ *Søren Schaumann (DK) together with his daugther. Søren has psoriasis.*

Empowering patients

We address unmet medical needs and support patients by helping to remove barriers to healthcare and to promote patients' voice in healthcare decisions.

An estimated one in four people worldwide lives with a skin disease, making these diseases some of the most prevalent worldwide. At LEO Pharma, we want to empower these people to live better lives. We therefore have the ambition to drive medical dermatology and develop medical treatments that help people with skin disease to improve their quality of life. We do this by constantly improving our understanding of patient needs and the barriers to treatment which they face.

"LEO Pharma is dedicated to helping people with skin diseases by providing innovative solutions and treatments. We are committed to delivering on SDG 3 – to ensure healthy lives and promote well-being for everyone at all ages."

Catherine Mazzacco, President & CEO

At the core of this are our R&D activities. LEO Pharma offers a broad range of important standard treatments, as well as innovative new solutions for skin diseases.

Patients also face significant barriers to healthcare because skin diseases are often overlooked and underrepresented in the training of healthcare professionals. This leads to long periods in which treatable conditions go undiagnosed or untreated, imposing a great burden on patients, healthcare systems and society. LEO Pharma is working with healthcare professionals and patient organizations to address this awareness gap. Our educational and training programs help patients to prepare for their consultation with their healthcare professional. Moreover, LEO Innovation Lab is building digital solutions to improve the diagnosis of skin diseases and to help patients and physicians to monitor the progress of treatment. Patients with skin diseases deserve a stronger voice in society. A key challenge for access to healthcare for psoriasis and eczema is the low priority given to these diseases in healthcare systems around the world. LEO Pharma is committed to raising awareness of skin conditions and supporting patient organizations in advocating their cause, so that patients have access to the healthcare services and treatments they need.

LEO Pharma's programs to achieve our strategy towards 2025

EXPANDING DERMATOLOGICAL SOLUTIONS

REMOVING BARRIERS TO HEALTHCARE

STRENGTHENING PATIENT VOICE

SDG 3 – Good health and well-being
SDG 17 – Partnerships for the goals

Our business also belongs to patients

EXPANDING DERMATOLOGICAL SOLUTIONS

As a research-based pharmaceutical company, we understand that our business also belongs to patients and that our success is directly linked to their treatment.

RARE DISEASES within medical dermatology can be devastating, both for the people living with them and for their families. The most rare dermatological diseases currently have few or no effective, well-tolerated treatment options. LEO Pharma is committed to helping people with rare skin diseases live better lives by discovering and developing new treatment options.

"LEO Pharma is committed to discovering and developing new treatment options that can help people with rare skin diseases."

Thorsten Thormann, Vice President, Research

Guided by patients

Since people living with diseases are the ultimate disease experience experts, a 'Nothing About You Without You' mantra shapes our work with rare diseases. We collaborate with patient leaders and their communities at the very early stages of the R&D process and rely on their advice and guidance to inform our choices and decisions, and we proactively keep them updated on our progress.

Our close collaboration with patient leaders led to our partnership agreement with PellePharm at the end of 2018, marking our official entry into rare diseases. Our collaboration with PellePharm is aimed at developing the first topical treatment to reduce the burden of frequent basal cell carcinoma (BCC) for people affected by Gorlin Syndrome, a rare genetic disorder characterized by mutations in a tumor suppressor gene. This may lead to people developing hundreds of BCCs, especially on sun-exposed areas such as the face. In addition, people with Gorlin Syndrome may suffer from comorbidities such as skeletal anomalies and lympho-mesenteric cysts.

With no FDA-approved treatments available, the current standard of care remains surgical removal of the BCCs as they appear. People with severe Gorlin Syndrome may need to endure more than 30 surgical procedures per year, which is both emotionally and physically scarring.

In 2019, we collaborated closely with patient organizations to establish the first dedicated ICD-11 code* for Gorlin Syndrome. This achievement will pave the way for a more formalized and structured approach to researching, diagnosing, treating and managing the disease.

* International Classification of Disease, Eleventh Revision (ICD-11), is a medical system coding created by the World Health Organization.

AMBITION

Have world class science in our dermatology research and development programs.

2019 GOALS	STATUS
Invest in research and development globally, to ensure world class science within dermatology.	✓ Achieved
Continue to develop the projects in our pipeline, and expand our dermatological treatments by both developing internal projects and looking for external opportunities including academic collaborations.	✓ Achieved

PROGRESS IN 2019

To expand our dermatological solutions, we achieved:

- Selection of a drug candidate for LEO Pharma's first developed mAb.
- Clinical phase 1 results for two new candidates and one line-extension project.
- In collaboration with JW Pharmaceuticals, initiation and dosage of oral H4R antagonist in humans.
- Dosing of first patient for anti-IL22R mAb.
- Support to our partner, PellePharm, in recruitment of patients for the clinical trials concerning Gorlin Syndrome.
- Preparation for phase 3 results and for registration of tralokinumab.
- Creation of a dedicated Regenerative Disease Unit for the purpose of building a disease understanding of rare indications with a high unmet need, identifying and exploring drug modalities that can deliver curative treatments, and establishing collaboration with experts in academia and biotechnology around the world.

POLICIES AND GOVERNANCE

We are committed to complying with relevant regulations such as Good Clinical Practice (GCP), Good Manufacturing Practice (GMP), and Good Laboratory Practice (GLP).

Our commitment to clinical trial transparency applies to all interventional clinical trials conducted by LEO Pharma. Our transparency framework meets, and in some cases exceeds, existing requirements from regulatory authorities and major industry associations regarding the disclosure of clinical trial information.

In 2019, we relaunched the digital platform on which we communicate results for all our trials, to enhance user experience and searchability of the database.

Our R&D work is governed by the Board of Directors' Scientific Committee, as well as LEO Pharma's Research Project Board for early projects and Development Board for clinical development projects.

SDG 3 – Target 3.4
SDG 17 – Target 17.17

Care beyond treatment

REMOVING BARRIERS TO HEALTHCARE

We seek to support people with skin diseases in getting access to the care they need by addressing the barriers to accessing dermatological healthcare. We do this through disease awareness, training of healthcare professionals, and digital innovation to improve the speed and accuracy of diagnosis and improve access to dermatological services.

Strengthening communication between doctors and patients

Improving consultations and dialogue between patients and their healthcare provider is key to better treatment adherence. Informed and committed patients stand a better chance of managing their skin disease effectively, while improved patient outcomes also mean happier patients, who experience a better quality of life and are increasingly satisfied with their healthcare professionals.

The aim of the LEO Pharma Skin Inflammation Academy is to improve communication between patients and healthcare professionals. Overall, the program provides communication strategies to support the empowerment of patients to take control of their disease.

With the purpose of making patients feel that they are heard and understood, the Academy explored motivational interviewing as a key discipline in 2019. Evidence shows that motivational interviewing works[1] – for two reasons. Firstly, it favors patient commitment to treatment decisions, because the healthcare professional's role is to support the patient. Secondly, it helps patients to talk about the change needed themselves, which improves their motivation. The positive outcomes of motivational interviewing are numerous. The technique can save time during consultations, foster collaboration between patients and their doctors, and improve adherence to treatment and the acquisition of healthier habits.

The outcomes show that effective healthcare goes way beyond prescribing treatment.

About the Skin Inflammation Academy
The LEO Pharma Skin Inflammation Academy is an educational and train-the-trainers initiative that offers a unique global program to improve the consultation dialogue between patients and their healthcare providers.

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

Expanding the capabilities of the healthcare system

One in four people develop a skin disease over the course of their lives, but misdiagnosis, long waiting times, inadequate treatments and limited access to dermatologists are prevailing drivers of low health outcomes. Health systems worldwide are under pressure from a growing shortage of healthcare professionals. By 2035, the WHO predicts a lack of 12.9 million healthcare profession-

1 Motivational Interviewing in Dermatology. P. Lusilla-Palacios, E. Masferrer. 2016.

als globally[2]. LEO Innovation Lab can expand the capabilities of the healthcare system with digital solutions based on artificial intelligence (AI). This allows for better triage of patients, supports better and faster diagnosis and treatment, and gives doctors more time for severely ill patients.

In 2019, LEO Innovation Lab developed *Hudpilot* - a digital decision-support platform for healthcare professionals in primary care. It supports healthcare professionals in diagnosing skin lesions in the clinic by providing the doctor with a diagnosis suggestion over time via instant AI feedback to aid diagnosis. By facilitating an instant diagnosis, we can expand doctors' capabilities, enabling them to treat a greater volume of patients within a shorter time, and with the same or often better quality. This reduces the likelihood that the healthcare professional will need to refer the patient to a specialist, which has the potential to reduce waiting time for dermatologists (now between 3 and 6 months).

In 2019, together with AMGEN, LEO Innovation Lab developed the digital platform *Skincoach*, to help patients with terminal cancer to manage the skin toxicity reactions commonly associated with immunotherapy treatments (EGFRi - Epidermal Growth Factor inhibitor) which affect more than 90% of all cancer patients. By providing advice, support and expert evaluation by dedicated dermatologists 24/7, the platform supports patients in between their consultations, in order to engage them at the start of their therapy, enable rapid detection of changes in skin condition, and assist with the prevention and management of skin toxicity side-effects. Two pilots have been running at two hospitals in France and Spain, respectively. The pilots have involved 16 late-stage colon-cancer patients receiving a life-prolonging immunotherapy treatment and using the Skincoach solution for periods of one and a half months.

In Spain, the solution has been highly recommended by patients for quality of life improvement and by physicians for reinforcing good practice in terms of the management of skin toxicity, especially when the nursing team has reduced capacity. In France, technology was a barrier due to an elderly rural patient population, while the younger patients (aged below 50) appear to have fully adopted the solution as a partner in the management of the treatment of skin toxicity. AMGEN and LEO Innovation Lab are currently evaluating scenarios for the broader distribution of Skincoach.

2 Source: https://www.who.int/mediacentre/news/releases/2013/health-workforce-shortage/en/

AMBITION

Support patients in getting access to the dermatological care they need.

2019 GOALS	STATUS
Develop narrative through our sustainability strategy that outlines our position on access to health and well-being for dermatological patients with outcome-based targets.	✓ Achieved
Explore the possibility to expand our program to a new disease area and work with our partners to develop an "Eczema Academy", which will support disease awareness.	✓ Partly achieved
Expand our patient understanding by initiating a validation study in order to measure patient impact of participating in our Academy.	✓ Achieved
Extend the outreach of the Academy to include dermatology nursing staff in our sessions and consolidate our patient outreach by increasing the ease and accessibility of the Academy website, and optimizing healthcare professional/patient interaction with the prospective introduction of our chatbot.	→ Postponed

PROGRESS IN 2019

To develop our approach to removing barriers in healthcare, we:

- Initiated a validation study, 'Patient Profile Index' enabling us to measure the patient impact of the Academy's work, before we decide on how to extend the outreach of the Academy.
- Developed our 2030 Sustainability Strategy with focus on patient health outcomes based on a new materiality process. This includes the initiation of a new Patient Engagement strategy. The defining of goals and outcome-based targets has been delayed so that these can be developed in alignment with the corporate priorities for 2030.
- Renamed the Psoriasis Academy as the Skin Inflammation Academy, to align with our corporate strategy and include new disease areas.

POLICIES AND GOVERNANCE

When engaging with healthcare professionals, we follow our policy on Interaction with Healthcare Professionals in Relation to Pharmaceuticals, which is part of our Code of Conduct.

Our work on removing barriers to healthcare is governed by LEO Pharma's Sustainability Board.

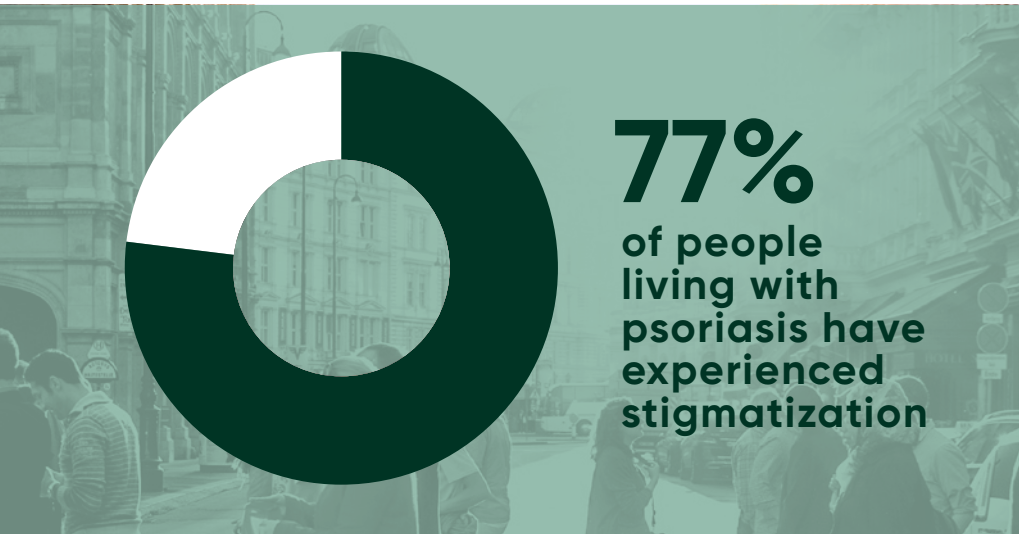
SDG 3 – Target 3.4
SDG 17 – Target 17.17

Fighting stigma to create better access to healthcare

STRENGTHENING PATIENT VOICE

Visible skin diseases are structurally stigmatized and discriminated against to an extent that denies patients access to healthcare. LEO Pharma is fighting stigma in order to improve the health and well-being of people living with skin diseases.

PEOPLE LIVING with a chronic visible skin disease like psoriasis often experience significant stigma in the structures surrounding them, or in the perception of skin disease as contagious, leading to discrimination. Discrimination against patients can directly affect their ability to access appropriate healthcare. Lack of knowledge, leading to misconceptions and lack of awareness among the general population and among healthcare professionals, is among the key problems documented in the World Health Organization's (WHO) Global Report on Psoriasis from 2016.



The stigmatization and discrimination of visible chronic skin diseases are a major impediment for public healthcare. Lack of timely access to early diagnosis, and timely treatment and care, are barriers to improving the health of people living with skin diseases such as psoriasis.

Stigmatization is a global problem

Stigma is also a global priority, due to the UN's Resolution on Psoriasis from 2014, which encourages member states to engage in advocacy efforts to raise awareness of psoriasis and fight the stigmatization of people living with psoriasis. Though the focus on psoriasis, stigmatization is considered to be a major problem for chronic visible skin diseases in general, such as atopic dermatitis.

LEO Pharma's ambition is to help 125 million patients in 2025. As we want to be a leader in medical dermatology, we cannot turn a blind eye to the obstacle that stigmatization represents for improving public health. Due to the scale of the problem, we reach out to global patient leaders, leading healthcare professionals and experts, with the overall purpose of co-creating new means and ways to eliminate societal stigmatization as a barrier for access to timely treatment.

In 2019, LEO Pharma connected with global patient leaders, leading dermatologists and other stakeholders to test our ambition, find a way forward and define a shared approach to fulfill this ambition. Together with these stakeholders, we have achieved a shared understanding of what stigmatization is and the impact of stigmatization in skin diseases - in other

words, a map of stigmatization. In 2019, we scoped the basis for a partnership with the International Federation of Psoriasis Associations (IFPA), Global SKIN and global experts in dermatology, based on a shared belief that we need to work together on this important agenda. In 2020, we will begin the co-creation of solutions to eliminate stigmatization of people living with skin diseases, thereby helping them to get timely access to diagnosis, treatment and care.

Facts about stigmatization

- People living with psoriasis experience significant social stigmatization** (77 % of people living with psoriasis have experienced stigmatization*).
- Physical symptoms, social reactions and psychological impact in combination lead to avoidance, limitation, hiding and isolation among psoriasis patients***.
- Approximately 95 % of psoriasis patients want to get better skin quickly/to be healed of all skin defects**.

World Psoriasis Day 2019: LEO Pharma affiliates join forces in the battle against stigmatization

For a week around October 29, the 15th annual World Psoriasis Day, LEO Pharma affiliates across the world worked together to highlight the need to change the view of psoriasis, in order to reduce the stigmatization of people living with the disease. The campaign was based on the core belief that psoriasis itself does not cause exclusion, but society's reaction to it does, and builds on the hope that this can change.

The campaign reached nearly 27 million people in 25 countries. Using the hashtag #ChangeTheView, and tools such as film and infographics, the aim was to help people better understand psoriasis and its implications for patients by providing new perspectives on the root causes of exclusion and stigma.

* Psoriasis Healthcare and Facts in Europe – For decisionmakers and stakeholders", 1st edition, 2018, PsONET: M.Augustin, M.A. Alexander Radtke, J. Augustin.

** "Global report on Psoriasis", WHO, 2016.

*** "Identifying individual psychosocial and adherence support needs in patients with PSO: A multinational two-stage qualitative and quantitative study"; A.Bewley, D.M. Burrage, S.J. Ersser, M.Hansen, C. Ward, Journal of European Academy of Dermatology and Venereology, 2013.

AMBITION

Advocate for the increased inclusion of patient voice in healthcare policies and decisions.

2019 GOALS	STATUS
Continue our pursuit to roll out the WHO resolution on psoriasis at national level.	✓ Achieved
Continue partnering with patients and policymakers to further strengthen the patient voice and further develop our close partnerships with patient advocacy groups.	✓ Achieved

PROGRESS IN 2019

In order to raise awareness of skin diseases on the global health agenda and the importance of inclusion of patient voice, we:

- Focused strategically on patients as partners in changing health policy framework conditions, through engagement with patient leaders at events such as Global SKIN, IFPA Global Psoriasis Coalition, the UN General Assembly and EADV.
- Initiated a partnership against the stigmatization of people living with chronic visible skin disease using the UN Resolution on Psoriasis as leverage for all chronic visible skin diseases.

POLICIES AND GOVERNANCE

We follow the guidance of LEO Pharma's Code of Conduct and comply with applicable laws, legislation and industry codes on relationships between the pharmaceutical industry and patient organizations, including our policy on Interaction with Healthcare Professionals in Relation to Pharmaceuticals. Our work in this area is governed by LEO Pharma's Sustainability Board.

SDG 3 – Target 3.4
SDG 17 – Target 17.17

Sustainable operations

At LEO Pharma, we aim to grow our business sustainably. We want to foster a workplace where employees can thrive and manage our environmental footprint to promote a healthy planet.

To achieve the goals and ambitions set in our 2025 strategy, we depend on a talented, motivated and diverse workforce. We want to increase our employees' satisfaction and motivation by creating a good and healthy working environment that fosters a culture of curiosity, collaboration and innovation, and supports their well-being at work.

We have a responsibility to minimize the environmental impact of our business and to strengthen the environmental performance of our operations. This includes maintaining sound environmental practices to help shape a sustainable future for generations to come.

LEO Pharma's programs to achieve our strategy towards 2025

- **CLIMATE CHANGE, ENVIRONMENT AND ENERGY**
- **MENTAL WELL-BEING AT WORK**
- **PEOPLE DEVELOPMENT**

SDG 7 – Affordable and clean energy
SDG 8 – Decent work and economic growth
SDG 13 – Climate action

Investing in energy efficient solutions and certifications

CLIMATE CHANGE, ENVIRONMENT AND ENERGY

AMBITION

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

WHY IS THIS IMPORTANT?

As a global company, we have a responsibility to minimize the negative environmental impact of our operations. We recognize the potential risk to our business and for supply disruption if such impacts are not sufficiently managed. We therefore assess environmental risks and implement suitable mitigation measures. We want to reduce energy consumption at our manufacturing sites and offices. We are therefore implementing energy savings and optimization projects across our sites and aim for all our manufacturing sites to meet the energy management requirements in the international ISO 50001 standard.

2019 GOALS	STATUS
Use data from the carbon footprint analysis to increase our understanding of our major climate change contributors and develop a plan for working with climate change mitigation and resilience.	X Not achieved
Set 2025 goals according to climate change KPIs and define local, site-specific climate change KPIs.	X Not achieved
Aim to reduce 6,000 MWh by saving energy in ventilation, pumps, heating, lighting and compressed air, and by installing solar panels.	X Not achieved

PROGRESS IN 2019

Climate change and goal setting:

- We have identified climate action as a priority area in the new 2030 Sustainability Strategy. 2025 goal setting has therefore been postponed, so as to be part of the strategy process. Our 2025 Environment, Health and Safety strategy has climate and energy as one of its focus areas.

Reducing energy consumption:

- We have set a 2020 goal to save an amount of energy corresponding to 10% of our energy consumption in 2013 via energy savings. This is equivalent to reducing our energy consumption by 12,900 MWh.
- In 2019, we implemented several energy projects which will contribute to an energy reduction of 1,2 GWh/year. We achieved this reduction by installing circulation pumps, replacing lamps for conventional lighting units with LED, and improving ventilation and cooling across our manufacturing sites. In Vernouillet (FR), for example, a heat pump was installed in 2019 in conjunction with a new filling line project and will be in use in 2020. In Dublin, we are in the process of replacing and upgrading the boilers, compressed air and chillers in conjunction with a major energy program. In Cork (IE), we achieved a 5% gas reduction by replacing valves.
- We also installed PV solar systems on buildings at our site in Ballerup (DK), to generate 112 MWh/year for our own use.

ISO certification:

- In 2019, ISO 50001 energy certification audits were conducted at our sites in Ballerup (DK), Esbjerg (DK) and Cork (IE). The audits went as planned and the certificates will be issued in Q1 2020. Our sites in Dublin (IE) And Segrate (IT) are already certified.
- All our manufacturing sites are ISO 14001 certified.
- We follow the 'Plan – Do – Check – Act' due diligence model on which these ISO standards are based.

Reducing our carbon footprint from transport:

- In 2019, we simplified the transportation of our products from our manufacturing sites to our customers. Reducing air freight and establishing sea or road as our standard modes of transportation have enabled us to significantly reduce our transport CO_2 emissions.

POLICIES AND GOVERNANCE

Our work with climate change, the environment and energy is guided by LEO Pharma's Environment, Climate and Energy policy. It is part of the LEO Pharma Code of Conduct and acknowledges our adherence to international conventions and applicable laws and regulations. The policy also describes the responsibility of our employees to consider environmental and energy performance in new projects and in their day-to-day work.

Our performance in this area is governed by selected members of LEO Pharma's Global Leadership Team.

SDG 7 – Target 7.3
SDG 13 – Target 13.1

New plant designed to minimize environmental impacts

We continuously invest in new technologies to help us reduce the environmental impact of our operations.

Our new Fucidin® API Plant in Ballerup (DK), which is currently under construction, is designed to reduce our environmental impact from production. In the design phase, our project team has systematically worked to optimize the ventilation systems, while still adhering to Good Manufacturing Practices (GMP) and related air change requirements. Risk assessments showed that air changes in some areas can be reduced by 40% compared to LEO Pharma's traditional air change standards. All in all, this will minimize energy consumption.

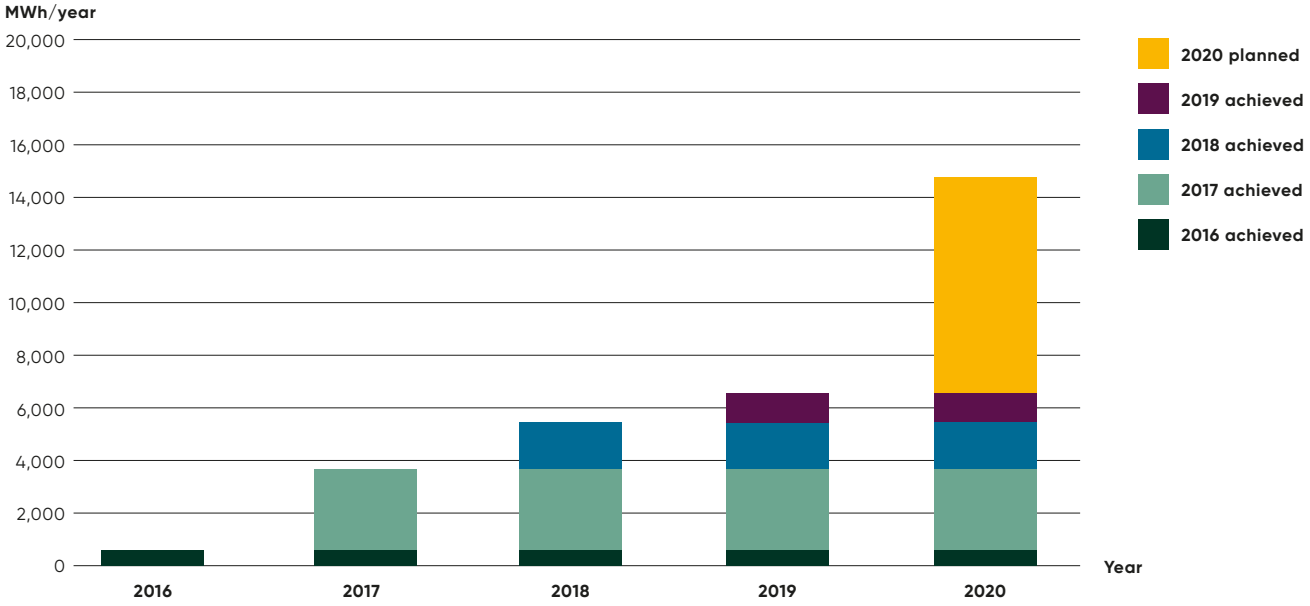
The new plant will have solar panels on roof spaces, totaling 800 m². The solar panels will produce 103 MWh/year. All electricity produced will be used by the plant itself, however. The output from the panels will be equivalent to what is needed for agitation in one and a half of the five main fermenters.

All tanks and pipes for solvents will be above ground and the new plant will also have an onsite wastewater treatment plant, which removes e.g. fusidic acid from the wastewater before it leaves the site. Both initiatives will contribute to better prevention of the contamination of soil and groundwater. Furthermore, a new Volatile Organic Compound (VOC) system will remove 99.97% of solvent vapors before the remainder is led off above the roof. Additionally, the odor from the media sterilization process, which has caused adverse odors over the years, will be reduced as a consequence of the new process.

Total energy consumption at our manufacturing sites

Year	2013	2015	2016	2017	2018	2019
MWh	128,705	123,901	127,373	126,345	117,572	126,397

Energy savings vs 2020 goal



We have set a 2020 goal to save 12.9 GWh energy, corresponding to 10% of our energy consumption in 2013, via energy saving projects. So far, we have implemented energy efficiency solutions that provide 6.4 GWh/year in energy savings. For 2020 we have energy efficiency projects planned with an expected reduction of 8 GWh/year. However, the savings will first be realized from 2021 meaning that we are likely to fall short of our goal for 2020.

Enhancing the mental well-being of our employees

MENTAL WELL-BEING AT WORK

AMBITION

Enhancing mental well-being at work within LEO Pharma, to build an even better and more attractive workplace for present and future employees.

Mental well-being at work is determined by the interaction between the working environment, the nature of the work and the individual employee.

WHY IS THIS IMPORTANT?

To foster an environment of innovation that drives our business forward, we rely on highly skilled and motivated employees, who thrive in their work. We recognize that a productive and dedicated working life is based on a healthy working life. We acknowledge that working conditions have a significant influence on our employees' mental well-being and thereby also absence due to illness, employee turnover and the ability to innovate. We want to foster a sustainable working environment that encompasses good physical and mental well-being. We therefore take preventive measures to address and mitigate mental well-being issues at work , such as work-related stress and other psychosocial hazards. We build organizational knowledge and competences through training and awareness campaigns, and we have policies and procedures in place to reduce and manage psychosocial risks and to promote the mental well-being of our employees.

2019 GOALS	STATUS
Roll out the LEO Pharma position on mental well-being at work throughout the organization.	✓ Achieved
Collect data on mental well-being issues to create a baseline.	✓ Achieved
Continue to conduct employee engagement surveys throughout the year, in order to monitor the current status.	✓ Achieved

PROGRESS IN 2019

Rolling out our position on mental well-being at work:

- All of our managers received LEO Pharma's position on mental well-being at work to read, understand and sign off. In addition, the position was part of an internal awareness campaign on mental well-being at work for our global organization, launched on World Mental Health Day.

Collecting data:

- Data on stress was collected globally through our employee engagement survey, LEO Voice, in October 2019.
- Stress-prevention courses for managers have been held in Denmark since 2015 on a yearly basis, and from 2020 will be held for all managers across our global organization.
- Data on bullying and harassment and on general mental health is collected in Denmark via our workplace assessment (APV) program. In 2019, data was collected from around 500 employees in our Global Product Supply organization in Denmark.

Conducting engagement surveys:

- Our employee engagement survey, LEO Voice, was conducted three times in 2019, in order to monitor the status of employee engagement, the psychosocial working environment and stress levels, enabling us to take preventive action.

POLICIES AND GOVERNANCE

Our Code of Conduct includes our Occupational Health and Safety Policy, which acknowledges our responsibility to ensure a safe and healthy working environment that complies with applicable laws, regulations and industry codes. Our approach to mental well-being is anchored in our Position on Mental Well-being at Work.

Mental well-being at work is governed by LEO Pharma's Sustainability Board.

SDG 8 – Target 8.8

Empowering people to grow

PEOPLE DEVELOPMENT

AMBITION

To give our employees a place to grow and learn, so that they gain new skills and embrace challenge together.

WHY IS THIS IMPORTANT?

The success of LEO Pharma lies in our employees. A competent and highly engaged workforce, together with strong leadership, are prerequisites for executing LEO Pharma's 2025 strategy.

2019 GOALS	STATUS
Follow the continued implementation of LEO GROW closely.	✓ Achieved
Implement the leadership development strategy, starting with new leaders and senior leaders.	– In progress
Implement the talent development framework created in 2018, which focuses on how we accelerate the development of talents for key leadership positions.	– In progress
Continue to closely follow the engagement of our people through three surveys per year.	✓ Achieved
Build on the Employer Value Proposition developed in 2018 and start to move from reactive recruiting to proactive sourcing by creating increased awareness about LEO Pharma as an employer, and building relationships with prospective future employees.	✓ Partly achieved

PROGRESS IN 2019

Empowering employees to grow:

- In December 2018, we launched LEO GROW – a global process to enable managers and employees to set clear goals and to support ongoing conversations about performance and development. In 2019, we conducted an adaptation survey of close to 10% of our managers and employees, to collect feedback on the implementation of the new process: 82% of all our employees had completed goal setting on time and 97% had goals in place, so that all employees were clear about their goals and priorities. In addition, 81% answered that, as part of LEO GROW, they had regular conversations about performance and development.

Developing leaders:

- In 2019, we began the roll-out of our new global leadership development program for new leaders and senior leaders. 69 new leaders and 110 senior leaders were enrolled in 2019. These programs focus on developing the leadership behaviors most critical for executing on our 2025 strategy. Among others these include "We keep patients at the heart of what we do" and "We innovate and improve".

Attracting new employees:

- In 2018, we developed a global Employer Value Proposition (EVP), to give LEO Pharma a consistent voice when communicating as an employer. The launch planned for June 2019 was slightly delayed and will continue into 2020. However, we have prioritized some key markets and critical positions for which we will develop sourcing strategies for current vacancies and our candidate pipeline.

Developing talents:

- To improve our leadership and succession pipeline, we want to take a structured approach to talent development. In 2019, we began to implement our talent development framework as part of our organizational review.

Employee engagement:

- In 2019, we conducted three employee engagement surveys to monitor the level of engagement in our global organization – as one annual and two mini-surveys. In the annual survey conducted in October 2019, we achieved an overall sustainable engagement score of 84%, which is 1% point higher than last year. This confirms that our employees are highly motivated and committed.

DIVERSITY

At LEO Pharma, we are convinced that diversity and inclusion across the organization – from entry level to executive management – foster innovation, grow engagement and drive better decision making. We believe that if we are to reap the value that diversity brings us, we must create a workplace that embraces and leverages these differences. This is why we seek to treat everyone at LEO Pharma with fairness, integrity, respect and dignity, irrespective of gender, race, nationality, age, education, sexual orientation and other forms of diversity.

Gender diversity in management:

- In 2018, we set the goal to have at least three female members of the Board of Directors of LEO Pharma A/S (in addition to the employee-elected Board members) by 2021.
- Currently two of the eight Board members are women.
- Following the resignation of a female Board member in 2018, we had one female Board member for most of 2019. In November 2019, a female Board member was elected to a vacant seat on the Board of Directors. A seat for a third female Board member was not up for election in 2019.
- Women in total represent 45% of management positions at levels below the Board of Directors of LEO Pharma A/S*.
- Women represent 25% in executive management, 31% in senior management, and 50% in middle management*.

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

* See graph on page 71.

LEO Pharma Code of Conduct

Our Code of Conduct is built on our five values – Integrity, Innovation, Adaptability, Customer focus and Passion. It is approved by our Global Leadership Team and applies to all our employees, as a framework for how we conduct ourselves at LEO Pharma. New employees undergo mandatory training in the Code of Conduct shortly after joining the company. The LEO Pharma Code of Conduct is available in 20 languages on our website.

Business integrity

As we advance the standards of care, we want to be valued not only for our treatments, but also for how we work. Integrity is our core value.

At LEO Pharma, we are committed to acting responsibly in all our business operations. Whether this is finding technological alternatives to animal experiments for our research, protecting the personal data of our employees and patients, or living our zero-tolerance approach to corruption and bribery, we apply high standards of ethical practice throughout our business and supply chain.

Integrity also defines how we collaborate with our stakeholders, including our suppliers. We engage in dialogue and build capacity to constantly improve the way we collaborate. To build and maintain trust with our stakeholders, in our CSR Commitment 2018–2020 we work with a number of programs that are focused on integrity.

Our approach to responsible business practice is guided by international frameworks. This includes compliance with the Ten Principles of the UN Global Compact, as well as international conventions such as the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights.

We also work continuously to comply with national legislation, including non-financial reporting under Danish law, the UK Bribery Act, the US Foreign Corrupt Practices Act, the UK Modern Slavery Act, and the EU's General Data Protection Regulation (GDPR).

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

- **EMPLOYEE SAFETY**
- **ANTI-CORRUPTION**
- **PERSONAL DATA PROTECTION**
- **ANIMAL WELFARE**
- **RESPONSIBLE SUPPLY CHAIN MANAGEMENT**

SDG 8 – Decent work and economic growth
SDG 12 – Responsible consumption and production
SDG 16 – Peace, justice and strong institutions

Continuously improving our safety performance

EMPLOYEE SAFETY

AMBITION

Have a safety performance that is the best in our industry by 2020.

WHY IS THIS IMPORTANT?

At LEO Pharma, we believe that a safe working environment is characterized by a workplace which prevents and manages physical injuries and also ensures that employees have the proper knowledge to perform their work in a safe manner. At the same time, having a safe working environment will also prevent disruptions to our operations caused by workplace accidents.

2019 GOALS

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

STATUS

✓ Achieved

PROGRESS IN 2019

Lost-time injury rate:

- We measure our progress using the global lost-time injury (LTI) rate (see page 71), which includes work-related incidents resulting in more than one day's absence from work. We saw a drop in the LTI rate at our manufacturing sites from 3.7 in 2018 to 1.3 in 2019.
- Greater focus on safety behavior, proactive safety risk assessments and induction training at our production sites are the main drivers behind this decrease.
- Our site in Vernouillet (FR) has implemented new safety initiatives, so that safety is now part of morning briefings, the EHS organization is more visible on the shop floor and the new site layout project has a dedicated EHS resource to ensure safety during the project. This has significantly reduced the number of global LTIs at the site from 9 in 2018 to 2 in 2019.
- Even though the LTI rate has improved, we still have near-misses* and injuries without absence that could have the potential to be more serious. We investigate the root causes of these incidents in order to develop and implement actions to prevent recurrence.

Safety first in large construction projects:

- Employee and contractor safety are a key priority in the design and construction phase of new buildings. In 2019, we conducted major construction projects at several of our manufacturing sites, including the groundbreaking for a new production facility in Cork (IE) to standardize the manufacturing of API for Heparin® and innohep®, and a new bulk manufacturing suite and several utility system upgrades to support an increase in site capacity and sustainability in Dublin (IE). In Ballerup (DK), the construction of our new Fucidin® API plant took off in May. One of the design criteria for all projects was to ensure the safety of our employees by having more closed processes, minimizing heavy lifting and optimizing ergonomic design.

Assessing the quality of our data system:

- We conducted a user survey of our data collection system to get input on how to improve and simplify the system, enabling us to increase the accuracy of safety data and work more proactively on the investigation of reported incidents.

ISO 45001

All of our manufacturing sites hold either OHSAS 18001 or ISO 45001 certification. We follow the 'Plan – Do – Check – Act' due diligence model upon which these standards are based.

POLICIES AND GOVERNANCE

Our approach to employee safety is anchored in our Occupational Health and Safety Policy, which is part of the LEO Pharma Code of Conduct and is reflected in internal procedures. Our safety work is governed by selected members of LEO Pharma's Global Leadership Team as part of the EHS Management Review.

SDG 8 – Target 8.8

* A near-miss is a work-related incident during which injury, ill health, a fatality or a negative environmental event could have occurred, but did not actually occur.

Working to prevent all forms of corruption

ANTI-CORRUPTION

AMBITION

To prevent all forms of corruption, to uphold high business standards and to promote good business conduct globally in our interactions with customers, healthcare professionals, public officials and other business partners.

WHY IS THIS IMPORTANT?

Corruption presents a significant threat to the global healthcare ecosystem and society in general. As a global healthcare company, we have a responsibility to promote responsible and ethical business practices across our operations. LEO Pharma operates in countries with a high inherent risk of corruption, according to Transparency International's Corruption Perceptions Index. There is also an increased risk of corruption in our interactions with healthcare professionals, healthcare organizations and public officials. This makes it vital that we have adequate procedures in place to prevent and detect corruption in our business.

2019 GOALS	STATUS
Implement the new Anti-Corruption Program across the business and train all employees.	✓ Partly achieved
Train external business partners whose employees represent LEO Pharma, by the end of 2019.	✓ Partly achieved

PROGRESS IN 2019

Strengthening our Anti-Corruption Program:

- Throughout 2019, we worked to strengthen our global Anti-Corruption Program, in order to improve the prevention and early detection of corruption. We have strengthened our processes within elements of the program, such as risk assessment, training and knowledge testing, due diligence, reporting and monitoring – all with the purpose of ensuring that we are continuously aligned with global standards and best practices for preventing corruption. We also increased our efforts within third-party compliance, such as by implementing new screening tools, and we dedicated resources to compliance investigations and enhanced our framework within this area.
- The Anti-Corruption Program is supported by LEO Pharma's Whistleblower Hotline, where employees and external stakeholders can report serious concerns on a secure and confidential basis. In 2019, a new governance structure for the Whistleblower Hotline was implemented, assigning the high-level oversight of the whistleblower process to the Audit Committee and establishing a Whistleblower Committee to ensure fair and equal treatment throughout the organization.

Risk-based training and testing:

- All of our employees receive training in our Anti-Corruption and Bribery Policy. The training comes in different risk-based versions, varying in difficulty and length, to ensure that employees receive adequate training and testing according to the risk level of their job function. Job functions identified as being at high risk of exposure to corruption receive the most extensive training and testing. New employees undergo mandatory training in anti-corruption shortly after joining the company.
- New mandatory, risk-based anti-corruption training, available in 18 languages, was launched in November 2019 for all of LEO Pharma's employees globally, to be completed by February 2020.
- Under our Anti-Corruption and Bribery Policy, we also train external business partners whose employees represent LEO Pharma. In December 2019, we launched new training for around 1,200 external consultants.

POLICIES AND GOVERNANCE

Our commitment to promote ethical business practices is set out in our Anti-Corruption and Bribery Policy, which is part of the LEO Pharma Code of Conduct. Our Code of Conduct is based on our values and approved by our Global Leadership Team. It is available in 20 languages.

Our work to prevent and detect corruption is governed by LEO Pharma's Risk & Compliance Board.

SDG 16 – Target 16.5

Safeguarding your personal data

PERSONAL DATA PROTECTION

AMBITION

To protect the privacy of our employees, and the patients and healthcare professionals with whom we engage, and to protect their personal data by applying the highest data protection standard, the EU's General Data Protection Regulation (GDPR) principles, across our global operations.

WHY IS THIS IMPORTANT?

- To develop new treatments for people with skin diseases, LEO Pharma depends on large amounts of data from patients and healthcare professionals. Much of this data contains personal information. In a rapidly evolving digital world, handling personal data responsibly is becoming increasingly complex and important. At the end of the day, this is about people, however. This is why we adhere to the highest data protection standard, GDPR, across our global operations.
- Under the EU Charter on Human Rights from 2009, the right to data protection is regarded as a fundamental right of the same legal value as the constitutional treaties within the EU.

2019 GOALS	STATUS
Keep strengthening the data protection culture internally through ongoing training of the remaining LEO Pharma employees and through awareness-raising activities.	✓ Achieved
Build collaboration with external stakeholders regarding data privacy and establish a global privacy framework for stakeholder dialogue and collaboration.	✓ Partly achieved

PROGRESS IN 2019

To promote our work on the responsible handling of personal data, we initiated action for improvement in the following areas:

Raising awareness across LEO Pharma:

- We continued to roll out our internal training program and awareness campaign to ensure that employees know how to handle personal data. In 2019, around 1,700 employees in total received this training and 1,493 received online training. To safeguard patients' personal data during clinical trials, we conducted in-person training for our employees in Clinical Operations. Across our global operations, around 200 employees received in-person training. We also attended management meetings and conducted manager surveys to identify possible factors for resistance to change and to engage in dialogue with our own employees.

Establishing our global privacy framework:

- As part of our commitment to the responsible handling of personal data, we are developing a global privacy framework for our contract research organizations (CROs) and investigators who handle sensitive information on our behalf in our clinical trials. We expect our partners to handle personal data to the same high standards as we do at LEO Pharma and have devoted a lot of work to ensuring that these partners apply these standards, irrespective of their location. First and foremost, this has been an exercise in negotiating the right contracts and informed consent forms for patients, taking the time to explain the need for data privacy regulations, and training our clinical research associates (CRAs) who are closest to the CROs and investigators. In our planned work, we will provide guidelines and training materials in connection with clinical trials, in order to further underline the importance of the secure and correct handling of personal data.
- People who participate in our clinical trials must be able to trust us to handle their personal data responsibly. The regulations do not permit us to communicate our data privacy practices directly to patients, so that we rely on our CROs and investigators to help build that trust.

POLICIES AND GOVERNANCE

Our personal data protection work is guided by LEO Pharma's Policy on Protection of Personal Data and the Human and Labor Rights Policy in the LEO Pharma Code of Conduct.

Our work in this area is governed by LEO Pharma's Sustainability Board and Risk & Compliance Board.

LEO PHARMA'S FRAMEWORK FOR DATA PROTECTION

LEO Pharma has adopted the principles of the EU General Data Protection Regulation (GDPR) globally in internally binding policies. Applying these principles in combination with locally applicable data protection legislation provides a very high privacy protection standard across all countries where we operate, including those with less stringent data privacy legislation.

Global application of the principles is a first step in applying to use the Binding Corporate Rules (BCR) mechanism. BCR is a European authority-approved mechanism for data transfer within LEO Pharma. When we apply the EU's General Data Protection Regulation (GDPR) principles globally, the EU data protection authorities allow – upon approval – the free transfer of personal data out of the European Economic Union, thereby permitting the use of global functions and IT systems.

Focusing on the 3Rs in our animal research

ANIMAL WELFARE

AMBITION

Adhere to the highest standards in animal research, based on the 3Rs (replace, reduce, refine) and the EU Directive on the protection of animals used for scientific purposes.

WHY IS THIS IMPORTANT?

Animal experimentation is a prerequisite for drug development. It plays an invaluable role in assessing the potential and safety of new drug candidates. We believe that greater animal welfare, and performing studies on non-stressed animals under good housing conditions, results in higher scientific quality and thereby better research data. We therefore want our animal facility and those of our collaborating partners to adhere to the highest standards in animal research.

2019 GOALS	STATUS
Continue to focus on capacity building among our partners, to increase their general animal welfare standards.	In progress

PROGRESS IN 2019

Reducing the number of animals used in research activities:

- At LEO Pharma, we work actively with the 3Rs to ensure that we explore how to replace, reduce and refine the work with laboratory animals. We only use animals if there are no alternatives, and in such cases we use as few animals as possible.
- Since 2018, we have registered the numbers of animals, including species, used per project, with the aim of identifying both reduction and replacement options within our drug development projects.

Refining animal research methods:

- We are also innovative in finding new refinement methods, in order to minimize the negative impact on the animals. In 2019, we implemented new working methods, such as collecting urine via LabSand instead of housing the animals in metabolism cages, treats for the animals after dosing of test compound, micro-samples instead of larger blood samples, and modified larger cages for our rats.

Improving general animal welfare standards:

- With around 70% of our animal research being performed externally, we require our contract research organizations (CROs) that undertake animal research on our behalf to comply with the standards set by EU legislation, as well as our internal standards, regardless of where the experiments take place.
- In 2019, we increased internal awareness of the importance of engaging with collaboration partners whereby the welfare of all species and all animals can be approved. We also inspired collaboration partners to heighten their animal welfare standards.

POLICIES AND GOVERNANCE

Our approach to animal welfare focuses on the 3Rs and the EU Directive on the protection of animals used for scientific purposes, as outlined in LEO Pharma's Position on Animal Welfare. Animal welfare is governed by the line of business, as well as by LEO Pharma's Sustainability Board.

Collaborating to develop a responsible supply chain

RESPONSIBLE SUPPLY CHAIN MANAGEMENT

AMBITION

Continuously improve our responsible supply chain management program.

WHY IS THIS IMPORTANT?

- To maintain the trust of our customers and partners, we aim to actively ensure a responsible supply chain and to limit the risks of supply chain disruption.
- Each year, LEO Pharma purchases goods and services from a wide range of suppliers globally, which has social and environmental impacts. Through our responsible supply chain management program, we work to minimize adverse impacts from these suppliers in relation to labor and human rights, the environment and anti-corruption.

2019 GOALS	STATUS
Plan to conduct site visits to key suppliers, using recommendations from the OECD guidelines and the Pharmaceutical Supply Chain Initiative (PSCI) audit framework.	✓ Achieved
Perform one site visit and upload one site assessment to the PSCI Platform.	✓ Achieved
Train employees in supplier due diligence.	✓ Achieved

PROGRESS IN 2019

In order to continuously improve our procedures for managing social and environmental risks in our supply chains, in 2019 we focused on:

Strengthening supplier due diligence:

- In 2019, we introduced a new supplier due diligence platform and established a new streamlined process for supplier risk management. This enables us to screen suppliers more effectively and to gain a better overview of our high-risk suppliers.
- By implementing the new supplier due diligence platform, we have also implemented a new way of scoring suppliers in relation to risk (high, medium, low). In developing the scoring criteria, we have aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, with focus on policies and due diligence procedures. Supplier risk level is based on the following criteria: category, country, spend and dependency.
- For high-risk suppliers, we conduct more detailed assessments such as self-assessment questionnaires and mitigation plans. Identified high-risk suppliers include contract manufacturing organizations (CMOs), with which we work to ensure that neither people in our supply chain nor the environment are exposed to hazardous chemicals. To work proactively to mitigate this risk, we conduct EHS audits.
- In 2019, we undertook the first site visit in accordance with the Pharmaceutical Supply Chain Initiative (PSCI) audit framework. This covers environmental, health and safety and social requirements, as outlined in the PSCI Principles. By adhering to the PSCI audit framework, we can share the audit with other member companies and thereby facilitate that suppliers are audited less and have more time to work on improvements.

Internal training:

- To help promote awareness of international sustainability frameworks and standards, in 2019 we trained our global procurement organization in relation to the LEO Pharma Third Party Compliance Code, with specific focus on modern slavery and Sustainable Development Goals (SDGs).

Influencing supply chains on a larger scale:

- To promote the responsible practices of our suppliers at industry level, since 2018 we have been a member of the PSCI. Under the PSCI principles, we aim to set, establish and promote a set of common standards, focusing on ethics, human and labor rights, health and safety, the environment and management systems for suppliers. Our membership of the PSCI gives us the opportunity to collaborate with our peers on multiple projects, for example as part of the PSCI's audit committee working group, which was valuable when preparing for our first PSCI site visit.

LEO Pharma supplier due diligence process

LEO Pharma systematically screens all new suppliers based on parameters aligned with the LEO Pharma Third Party Compliance Code, which includes business ethics, human and labor rights, health and safety, the environment, subcontractors and management systems, as well as the Ten Principles of the UN Global Compact. We prioritize suppliers for further assessment according to a risk-based approach.

Facts about our suppliers

In 2019, we used around 5,980 active suppliers globally. They cover a spend of EUR 909.5 million.

In 2019, we:

- Conducted a total of 1,481 assessments and sent our self-assessment questionnaire (SAQ) to 178 suppliers.
- Evaluated more suppliers than in previous years through our responsible supply chain management program. The increase in suppliers was due to the acquisition of our new manufacturing site in Segrate (IT) and the construction of our new Fucidin® API plant. The new suppliers were evaluated according to our new supplier due diligence process.
- Invited 89 suppliers to take part in our sustainability survey. Response rate: 68%.

Our memberships

DIEH Dansk Initiativ for Etisk Handel

PSCI Pharmaceutical Supply Chain Initiative – Building responsible supply chains

- In 2019, we participated in the PSCI's human and labor rights working group. The working group developed a webinar training that outlines the risks of modern slavery in the pharmaceutical supply chain and provides recommendations on mitigation actions for pharmaceutical companies. The webinar was promoted via the PSCI and live-streamed to 52 people (including suppliers and PSCI member companies) and is now available on the PSCI website. Material from the webinar is included in the internal training of the global procurement organization.
- In 2019, LEO Pharma conducted a sustainability survey of selected suppliers, as an initiative coordinated through the PSCI. This project helps us to measure energy, waste and water performance, as well as the environmental maturity level of our priority suppliers. The suppliers were selected by segmentation according to their importance to production. We will use the data to identify environmental performance actions in relation to selected suppliers. The sustainability survey will be repeated in the coming years, to facilitate comparison of our suppliers' performance.

POLICIES AND GOVERNANCE

Our LEO Pharma Position on Responsible Supply Chain Management and LEO Pharma Third Party Compliance Code outline how we expect our suppliers to operate in compliance with applicable laws, rules and regulations, and to work to high quality and ethical standards.

Our work on responsible supply chain management is governed by LEO Pharma's Sustainability Board.

SDG 8 – Target 8.7
SDG 12 – Target 12.4, 12.5, 12.6

Human rights at LEO Pharma

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

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

To support our capacity building efforts, we participate in two multi-stakeholder human rights business networks: The Human Rights Working Group of the UN Global Compact Network Denmark, and the Human Rights Impact Assessment Network (HRIA) of the Danish Initiative for Ethical Trade (DIEH).

New Human Rights Policy

In 2019, we developed a stand-alone Human Rights Policy in order to strengthen our basis for embedding the responsibility to respect human rights throughout all business functions. Our commitment to respecting and protecting human rights applies to all LEO Pharma's locations and business operations worldwide. We recognize that human rights due diligence is a continuous process, and we will continuously review our processes, and our training and monitoring systems in place to foster the development of in-house learning, management capacity and leadership on human rights issues.

RIGHTS HOLDER	EMPLOYEES	PATIENTS	BUSINESS PARTNERS
Business activity	• Our business operations	• Research and development • Clinical trials • Digital solutions • Distribution of medicines	• Sourcing of materials
Human rights focus area	• Working conditions	• Right to health • Right to privacy	• Working conditions • Intellectual property rights
Key issues	• Working hours • Remuneration and pay • Leave and vacation • Health and safety • Non-discrimination • Freedom from harassment • Freedom of association • Privacy of personal data	• Patient safety • Freedom of consent in clinical trials • Privacy of personal data • Responsible lobbying, sales and distribution of medicines	• Working hours • Remuneration and pay • Leave and vacation • Health and safety • Non-discrimination • Freedom from harassment • Freedom of association • Privacy of personal data
Policies and documents to manage our human rights issues	• LEO Pharma Code of Conduct • Human Rights Policy • Protection of Personal Data Policy • Position on Mental Well-being at Work • Occupational Health and Safety Policy • Bullying and Harassment Policy • SOP for Job Descriptions • Global Redundancy Policy • Employee contracts	• LEO Pharma Code of Conduct • Human Rights Policy • Helsinki Declaration • Patient safety (GXP Quality Policy) • Protection of Personal Data Policy	• LEO Pharma Third Party Compliance Code • Position on Responsible Supply Chain Management
Program	• Employee safety • Mental well-being at work • Personal data protection	• Expanding dermatological solutions • Personal data protection	• Responsible supply chain management • Personal data protection
Access to remedy	We recognize the importance of continuously monitoring our potential human rights risks through our due diligence process and whistleblower hotline. This remediation channel gives LEO Pharma people, and others associated with LEO Pharma, the opportunity to report unethical behavior and serious concerns in a secure and confidential way. In 2019, no reports regarding serious impacts on human rights were received through the LEO Pharma Whistleblower Hotline.		

In our operations

We expect each LEO Pharma employee to act lawfully towards other employees, colleagues, business partners and members of local communities, as outlined in our Code of Conduct and other related enterprise-wide policies. We ensure protection of LEO Pharma employee rights through policies and procedures established by the global Human Resources and Legal functions. All new and current employees are required to complete training in our Code of Conduct that covers human rights topics.

In the supply chain

We expect our suppliers to share our commitment to respect human rights. All suppliers must comply with our Third Party Compliance Code, which sets out our expectations concerning human rights in business practices. We are also strengthening due diligence processes in order to assess and monitor our suppliers' compliance with the labor, employment and business ethics provisions of the standards.

Sustainability towards 2030

As a pharmaceutical company, we want to leverage our core business to contribute to the global agenda of improving access to healthcare. We are committed to operating in a way that recognizes the interconnection between business growth, the needs of society and the limitations of our planet.

STARTING WITH the implementation of our CSR Commitment 2018–2020, we have embarked on a long-term journey to mature our approach to sustainability. Through this commitment, we have succeeded in strengthening our approach to managing some of the key potential impacts of our business on society. We also recognize that we still need to make a deliberate effort to bring our sustainability work up to par with industry good practice. In 2019, we took further steps along this journey and conducted a new materiality assessment and also set a new strategic direction for our sustainability at LEO Pharma.

Our future priorities for 2020–2030

To ensure that our sustainability strategy will support business growth towards 2030, we need a comprehensive understanding of current and future sustainability priorities that are material to the pharmaceutical sector. This includes incorporating an understanding of global trends and the pace of change affecting society. Our goal is to grow our business responsibility and demonstrate improved health outcomes for patients. To do that, we need resilient business operations and an understanding of the most important issues for our business and our stakeholders. This will help to ensure that our strategy is designed so as to drive our effective response and impacts.

Our 2030 approach to sustainability focuses on our commitment to improving the lives of people living with skin diseases. This is underpinned by a responsible business culture centered on measuring and managing our impacts on society and the planet.

In 2019, we completed a new sustainability materiality assessment to help identify the priorities that would shape our new sustainability strategy towards 2030. Materiality is the principle of defining the social, environmental and governance issues that matter most to our business and our stakeholders.

The assessment process identified 15 sustainability issues for LEO Pharma to prioritize. These became the basis for benchmarking analysis, engagement with external and internal stakeholders, and an evaluation of our performance on these issues against international standards.

Our sustainability vision for 2030

To achieve long-term success, we aim to deliver our business strategy in a way that delivers wider value to society and the planet. To do this, we focus on maintaining ethics and integrity in everything we do, increasing access to healthcare for more people and minimizing the environmental impact of our business operations.

Our new strategic vision has been endorsed by our Global Leadership Team. In 2020, we will work to bring the strategy to life, identifying our key intervention areas and setting goals to chart our progress.

Materiality assessment process

The following three steps provide an overview of the process we undertook to identify our material issues.

Business landscape assessment

We started our materiality process by surveying the current business landscape and the mega-trends that are likely to be most relevant to our business in a 2030 perspective. This included a robust review of expectations of our business, as set out in sustainability frameworks, and review of the sustainability performance of industry peers to identify key issues for our sector. We started our materiality analysis process with a long-list of over 50 issues.

Identify and categorize key issues

Through a process of continuous internal and external stakeholder engagement, we conducted a first prioritization based on the importance of issues to key stakeholders in our sector and their relevance to our specific business operations. This review of stakeholder priorities was used together with a Future-Fit Health Check. The Future-Fit Benchmark sets out the performance companies must achieve to ensure a socially just, economically inclusive, and environmentally restorative society. In this step, we prioritized 29 issues which we categorized by health, employees, plant and ethics.

Material issues – strategic to LEO Pharma

Our final prioritization of issues was based on an analysis of each issue's potential risk to our business performance and to societal impact. This included alignment of key issues with the UN SDGs. The process identified 15 issues that are most critical to LEO Pharma. Four issues were identified in the health category and are the basis of the Enabling Health pillar of the new strategy. 11 issues were identified in the employee (4), planet (3), and ethics (4) categories, and together comprise our approach to responsible business. The outcome of our materiality assessment was validated by the members of the Sustainability Board.

Enabling Health

The Enabling Health pillar is the primary focus of our sustainability strategy. It is our commitment to help more people with skin diseases to have earlier and better access to improved treatments and solutions that enable them to live better lives. It focuses on how LEO Pharma can deliver improved patient health outcomes and quality of life by going beyond the discovery, trialing, development and marketing of drugs to treat skin diseases, to include activities that aim at strengthening health systems and patient empowerment. It builds on the principle of 'patient centricity', implying a stepped-up effort to ensure that the patient perspective informs our business.

ISSUES:
- **Affordability**
- **Availability**
- **Barriers to healthcare**
- **Patient voice**

Responsible Business

The Responsible Business pillar of our sustainability strategy is the foundation for our commitment to responsible, resilient business practices that promote fair and equal opportunities for all people, respect and protect the integrity of all partners and minimize environmental impacts. It addresses our material issues:

EMPLOYEES:
- **Diversity & inclusion**
- **Future of work**
- **Mental well-being**
- **Employee safety**

PLANET:
- **Climate action**
- **Waste management**
- **Water management**

ETHICS:
- **Anti-corruption**
- **Data privacy**
- **Animal welfare**
- **Sustainable procurement**

03.

Our governance

LEO Pharma is wholly owned by the LEO Foundation. This section covers our governance structure, including an overview of our key risks and how we mitigate them, and our legal structure, Global Leadership Team, Board of Directors of LEO Pharma A/S, and committees and boards.

Risk management

Risk management framework

LEO Pharma's successful transformation into a biopharmaceutical company requires systematic and rigorous risk management to become an integral part of all business activities. To facilitate a sustained repeatable approach to risk management, an Enterprise Risk Management Framework ("ERM Framework") is being implemented globally, primarily based on the ISO 31000 International Risk Management Standard. This includes standardized risk assessment and risk treatment, and a risk reporting methodology and cycle.

Risk management governance

The Board of Directors holds the overall responsibility for enterprise risk management, with the role of oversight of the ERM Framework being delegated to the Audit Committee.

Key risks (2020–2025)	Product pipeline delay &/or failure	Market access restrictions &/or pricing pressure	Changed competition dynamics	Early loss of exclusivity
RISK AREA	Product pipeline delay &/or failure are inherent risks in pharmaceutical research & development. This also includes potential development delay and/or failure of one or more of our key product development pipeline assets.	Market access restrictions &/or pricing pressure driven by both private and public payers demanding increasingly higher price deductions, discounts and rebates, besides restricting reimbursement and access to both new and established products, whether topicals or systemics.	Changed competition dynamics caused by new market players emerging and/or existing market players changing their commercial strategy.	Early loss of exclusivity relates to the patents, data exclusivity and trademarks related to LEO Pharma's product pipeline candidates and marketed products. The validity of these intellectual property rights might successfully be challenged by our competitors or other external parties, undermining our ability to sustain and/or secure a strong market position.
POTENTIAL CONSEQUENCES	Negative impact on expected sales and profits. Patients not benefiting from innovative new treatments.	Negative impact on expected sales and profits. Patients not benefiting from innovative new treatments.	Negative impact on our ability to maintain and/or grow market shares of established products, sustain the product launch trajectory of recently launched products, and successfully commercialize our development pipeline assets. Potentially also affecting our ability to partner with the right investigators and study sites for our clinical trials.	Negative impacts on expected sales and profits. Patients not benefiting from innovative new treatment.
KEY RISK TREATMENT MEASURES	A rigorous product development stage gate model in place, including diligent project, program and portfolio management. This will ensure that product candidates being progressed through the pipeline have a clear fit with patient needs, as well as commercial viability, in addition to meeting predefined quality, safety and efficacy criteria.	Close monitoring of market access/pricing developments and requirements in key markets, while working actively with payers and advocacy groups to document and reinforce the value of our payers e.g. through clinical trial data and/or real world evidence.	Systematic business intelligence across key markets, alongside integrated launch plans for new products in place, as well as life cycle management programs for established products implemented. This includes clinical data to demonstrate the benefit of LEO Pharma products, as well as real-world evidence to demonstrate health economic advantages.	Systematic process in place for drafting, filing, and prosecuting patent applications, as well as processes in place to reduce our exposure to invalidity actions. A dedicated trademark function responsible for managing trademark applications, inventory, maintenance, and disputes with externals. Close collaboration with key regulatory agencies.

Risk assessment & risk treatment

Risks are primarily assessed in terms of their potential financial loss, as well as consequences for people, patients and reputation. Relevant enterprise risks are identified through a combination of frontline input obtained via an extensive number of risk assessment sessions held with key business areas and functions throughout the year, as well as input provided by Executive Management (GLT), and external risk intelligence. All key risks are assigned to a designated internal risk owner responsible for establishing and maintaining a risk treatment plan in close alignment with the relevant local area management team.

Risk reporting

The Audit Committee is informed on an ongoing basis of enhancements to the ERM Framework. A separate risk report with a risk heat map of the key enterprise risks relevant to LEO Pharma's strategic ambitions towards 2025, including high level scenarios and main risk treatment activities for each key risk, is provided to the Board of Directors on a biannual basis. In parallel, a biannual worst case risk report is provided, to support financial stress testing besides ensuring that key internal stakeholders stay vigilant and maintain a balanced level of readiness towards these often low-likelihood, high-consequence risk scenarios. Furthermore, Executive Management (GLT) receive regular reports on the status and progression of key local area risks.

Information security breaches

Information security breaches caused by e.g. malware attacks, industrial espionage/sabotage and other intruders, as well as by accidents, can occur anywhere along the global LEO Pharma value chain and across locations.

Negative impact on expected sales and profits. Patients and caregivers not having access to LEO Pharma's products.

Data breaches might result in permanent critical data loss, as well as in fines and other sanctions imposed by the authorities, alongside reputational damage, e.g. if sensitive personal data is leaked to the public.

A wide range of physical and IT security controls, including policies and procedures, as well as internal awareness and training activities, are in place to prevent, detect and treat potential information security breaches. This also includes technical filters, cyber attack testing, and business continuity plans, as well as access management related controls.

Breach of external legislation, regulations & industry codes, as well as the LEO Pharma Code of Conduct

Breach of external legislation, regulations & industry codes, as well as the LEO Pharma Code of Conduct, is a significant risk for LEO Pharma when operating on a global scale in a tightly and increasingly regulated industry. This can occur either in our internal operations or in connection with external business interactions, including business partners and healthcare providers.

Investigations by external authorities and lawsuits filed against LEO Pharma might have both financial and reputational implications, while also negatively impacting the individuals involved.

Financial fraud poses a potential direct negative cash flow and profit consequence for LEO Pharma.

Code of Conduct training and knowledge testing, as well as a comprehensive control framework for key individual compliance risk areas, are established.

A systematic third party due diligence process and compliance code are implemented, committing third parties to observe LEO Pharma's legal and ethical standards in the course of their business.

Supply disruptions

Supply disruptions relate to to delays or failures throughout our global supply chain. This may be caused by breakdowns in our own internal or in external partners' supply processes, leading to either product defects and/or shortage of supply.

Patients not being able to receive critical treatment.

Negative impact on expected LEO Pharma sales and profits, as well as reputational implications.

Rigorously monitored and regularly audited product supply management systems and facilities, including policies and procedures.

Dual sourcing and supplier strategies, as well as significant safety stocks of key products, are planned for.

Patient safety issues

Patient safety issues might arise either if product quality is compromised or if adverse events that were not discovered during the product development phase become apparent when the product has been used by a wider patient population and/or for a longer period of time.

Negative impacts on the health of the patients might arise if potential patient safety issues are not managed diligently.

Sanctions by the authorities, including loss of our license to operate, as well as product liability lawsuits, might ensue.

Comprehensive pharmaceutical and drug device quality management systems in place. This includes the establishment of extensive global pharmacovigilance processes and systems, as well as robust product quality monitoring and recall processes.

Tax disputes & exchange rate fluctuations

Tax disputes & exchange rate fluctuations can affect LEO Pharma at any time, including changes in tax legislation, transfer pricing disputes, and impacts from currency devaluations. LEO Pharma's exchange rate risk is most significant in USD, CAD, CNY and JPY.

Both LEO Pharma's cash flow and profit might be impacted by either a tax dispute or exchange rate fluctuations.

Monitoring of relevant external developments, including geopolitical events, as well as key local changes in tax legislation.

Constant vigilance concerning financial exposure, combined with balanced hedging by the Treasury function.

Company information

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

Ownership structure
LEO Pharma A/S

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

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

Foundation ownership
The LEO Foundation is the owner of LEO Pharma. The main objective of the foundation is to ensure the long-term continuation and success of LEO Pharma as a global, research-based pharmaceutical company. The LEO Foundation also provides philanthropic support to some of the world's leading scientists within skin research.
www.leo-foundation.org

Legal structure

LEO Foundation
100%
LEO Holding A/S
100%
LEO Pharma Group*

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

Board of Directors
LEO Pharma A/S

Olivier Bohuon
Chairman, Board member since 2018

Anders Ekblom
Vice Chairman, Board member since 2018

Patrik Oluf Dahlén
Board member since 2015

Jesper Høiland
Board member since 2016

Cristina Patricia Lage
Board member since 2017

Jan van de Winkel
Board member since 2017

Jesper Mailind
Board member since 2018

Birgitta Stymne Göransson
Board member since 2019

Signe Maria Christensen
Employee-elected Board member since 2018

Franck Maréno
Employee-elected Board member since 2018

Jannie Kogsbøll
Employee-elected Board member since 1998

Karin Attermann
Employee elected Board member since 2008

See full bios of LEO Pharma Board of Directors on pages 66–67.

Global Leadership Team

Catherine Mazzacco
President & CEO

Anders Kronborg
Executive Vice President
Global Finance & Business Services

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

Guillaume Clément
Executive Vice President
Region Europe+

Jørgen Damsbo Andersen
Executive Vice President
Region International

Kim Kjøller
Executive Vice President
Global Research & Development

Mette Vestergaard
Executive Vice President
Global People & Business Transformation

Rhonda Duffy
Executive Vice President
Global Product Supply

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

Board of Directors LEO Pharma A/S

Chairman
Olivier Bohuon

Board member since 2018

Nationality: French

Special competencies: Pharmaceutical industry

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

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

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

Other board memberships:
- Takeda plc.
- Smiths Group plc.
- Virbac plc.

Vice Chairman
Anders Ekblom

Board member since 2018

Nationality: Swedish

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

Board committees, LEO Pharma A/S: Remuneration and Nomination Committee (member), Scientific Committee (member)

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

Education: MD, PhD, DDS Karolinska Institutet, Stockholm, Sweden

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

Patrik Oluf Dahlén

Board member since 2015

Nationality: Finnish

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

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

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

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

Other board memberships:
- VisioPharm A/S (Chairman)
- AdvaLight A/S (Chairman)
- Immudex A/S

Jesper Høiland

Board member since 2016

Nationality: Danish

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

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

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

Education: MSc Copenhagen Business School

Other board memberships:
- Radius Health, Inc.
- CoNCERT Pharmaceutical, Inc.

Cristina Patricia Lage

Board member since 2017

Nationality: Danish

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

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

Career: CEO, finance industry (investments, pension) and other industries, including the media. Now professional board member

Education: MSc Economics, CBS Copenhagen

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

Jan van de Winkel

Board member since 2017

Nationality: Dutch

Special competencies: Extensive antibody creation and development expertise, broad knowledge of the biotechnology industry and executive management skills

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

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

Education: MSc in Biology and PhD in Immunology from the University of Nijmegen, the Netherlands

Other board memberships:
- Hookipa Pharma (Chairman)
- Celdara Medical

Jesper Mailind

Board member since 2018

Nationality: Danish

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

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

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

Education: MBA, Insead

Other board memberships:
- RTX A/S (Deputy Chairman)
- Sonion A/S
- Etac AB

Birgitta Stymne Göransson

Board member since 2019

Nationality: Swedish

Special competencies: More than 25 years of broad management experience from Nordic and global companies within life science, medtech and healthcare, as well as consumer goods and IT/SW applications

Career: Former CEO of Memira Group and Semantix, COO/CFO of Telefos Group, before that C-level positions in medtech and retail and senior consultant with McKinsey. Now professional Board member

Education: MSc in Chemical Engineering and Biotechnology from the Royal Institute of Technology in Stockholm. MBA from Harvard Business School in Cambridge MA, USA

Other board memberships:
- Elekta AB (Director)
- Pandora AS (Director)
- Enea AB (Director)
- MAG Interactive AB (Chairman)

Signe Maria Christensen

Employee-elected Board member since 2018

Nationality: Danish

Career: Strategic Alliance manager. Has been with LEO Pharma for 9 years in different roles in research and development

Education: MSc in chemical engineering and PhD in organic chemistry from The Technical University of Denmark

Franck Maréno

Employee elected Board member since 2018

Nationality: Danish

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

Education: AP Graduate Laboratory and Biotechnology "Technonome"

Jannie Kogsbøll

Employee elected Board member since 1998

Nationality: Danish

Career: Has been with LEO Pharma since 1985

Other board memberships:
- A/B Stenrosen (Chairman)
- LEO Foundation
- LEO Holding A/S

Karin Attermann

Employee elected Board member since 2008

Nationality: Danish

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

Career: 31 years with LEO Pharma A/S in various roles within the commercial organization, since 2012 with focus on compliance

Education: BA in English and German

Other board memberships:
- LEO Pharma Social Club "Personaleforeningen LEO" (Chairman)

Committees and boards

Board of Directors sub-committees

Audit Committee

The Board of Directors has established an Audit Committee to assist the Board of Directors in overseeing aspects related to financial reporting, auditing, risk management, currency and investment policies and compliance. The Audit Committee meets when required, but at least four times a year. The Audit Committee comprises three members, all of whom are members of the Board of Directors.
The members possess the relevant qualifications specified in the Rules of Procedure of the Audit Committee.
The Board of Directors has elected the following Board members to the Audit Committee: Patrik Olof Dahlén (Chairman), Cristina Patricia Lage and Karin Attermann.

Remuneration and Nomination Committee

The Board of Directors has established a Remuneration and Nomination Committee to assist the Board of Directors in aspects related to remuneration, assessment and nomination. The Remuneration and Nomination Committee meets when required, but at least twice a year. The Remuneration and Nomination Committee comprises three members, two of whom are members of the Board of Directors and one of whom is appointed by the LEO Foundation.
The Board of Directors has elected the following Board members to the Remuneration and Nomination Committee: Olivier Bohuon (Chairman), Anders Ekblom and Jesper Mailind (The LEO Foundation).

Scientific Committee

The Board of Directors has established a Scientific Committee to assist the Board of Directors in overseeing the Research and Development Strategy and the R&D pipeline. The Scientific Committee meets when required, but at least four times a year. The Scientific Committee comprises three members, all of whom are members of the Board of Directors.
The Board of Directors has elected the following Board members to the Scientific Committee: Jan van de Winkel (Chairman), Jesper Høiland and Anders Ekblom.

Management boards

Development Board
LEO Pharma's Global Leadership Team has established the Development Board to ensure strategic alignment and to maximize the value of the portfolio of projects in development, from first clinical studies until launch. The Development Board is a cross-functional board with members from Global Research & Development, Global Product Supply, Global Marketing, Market Access and Medical Affairs, Region US, Global Finance and Global Business Development, as well as the CEO of LEO Pharma.
Chairman: Kim Kjøller, Executive Vice President, Global Research & Development.

Established Portfolio Board
LEO Pharma's Global Leadership Team has created the Established Portfolio Board to ensure strategic alignment, to maximize the value and to ensure compliance for LEO Pharma's marketed solutions.
The Established Portfolio Board is a cross-functional board with members from Global Research & Development, Global Product Supply, Global Marketing & Sales Regions and Global Finance.
Chairman: Jørgen Damsbo Andersen, Executive Vice President, Region International.

LEO Innovation Lab Board
Established by LEO Pharma's Global Leadership Team. Advisory board to LEO Innovation Lab in setting the strategic direction. The LEO Innovation Lab Board consists of the Head of LEO Innovation Lab, the President & CEO of LEO Pharma, the Executive Vice President Global People & Business Transformation, as well as Justin Ko, Chief Dermatologist, Stanford Health Care, and Joel Dudley, Associate Professor, Mount Sinai & entrepreneur.
Chairman: Kim Kjøller, Executive Vice President, Global Research & Development.

Research Project Board
LEO Pharma's Global Leadership Team has established the Research Project Board to ensure alignment on managing the research projects, from initiation until the decision to start clinical testing. The Research Project Board is a cross-functional board with members from the wider areas of R&D, including Research, Medical Science and Pharmaceutical Design & Development.
Chairman: Thorsten Thormann, Vice President, Research.

Risk & Compliance Board
The Risk & Compliance Board is an initiative of LEO Pharma's Global Leadership Team. The purpose is to provide global 2nd and 3rd line of defense cross-functional direction and oversight, alongside enhancement of associated initiatives and activities. A further purpose is to establish an overall 2nd and 3rd line of defense community to promote a proactive risk and compliance (including quality and audit ready) management mindset throughout the organization.
The Risk & Compliance Board is a cross-functional board with members from Global Compliance & Risk, Internal Audit, Global Quality and Global Legal.
Chairman: Mette Vestergaard, Executive Vice President, Global People & Business Transformation.

Sustainability Board
The Sustainability Board is an initiative of LEO Pharma's Global Leadership Team. The Sustainability Board sets the strategic direction for sustainability at LEO Pharma and supports implementation. The Board discusses and approves high-level sustainability initiatives, approves annual sustainability reporting and acts as spokespersons, supporting internal and external sustainability communication. The Board also formally appoints Sustainability Drivers based on recommendations from the Global Sustainability team. The President & CEO of LEO Pharma appoints the members of the Sustainability Board.
The Sustainability Board is a cross-functional board with members from the following functions: Global Procurement, Global Communications, Public Affairs and Sustainability, Research, Dermatology Value Stream and Cluster Europe (North), Australia & New Zealand.
Chairman: Mette Vestergaard, Executive Vice President, Global People & Business Transformation.

Reporting approach – non-financial data

The non-financial reporting related to our CSR Commitment 2018–2020 represents LEO Pharma's compliance with Sections 99a and 99b of the Danish Financial Statements Act.

Scope of the non-financial reporting

Our non-financial reporting gives an overview of our ambitions, 2019 goals, progress in 2019, policies and governance within the three CSR pillars: *Empowering patients, Sustainable operations* and *Business integrity* for the financial year January 1 – December 31, 2019.

OVERVIEW OF HOW OUR CSR REPORTING RESPONDS TO THE UN GLOBAL COMPACT PRINCIPLES

Area	UN Global Compact's 10 Principles	How we work with the principles
Human rights	**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and	See pages 49, 52 and 54-57
	Principle 2: make sure that they are not complicit in human rights abuses.	
Labor	**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	See pages 43, 46-47, 49-50 and 54-55
	Principle 4: the elimination of all forms of forced and compulsory labour	
	Principle 5: the effective abolition of child labour; and	
	Principle 6: the elimination of discrimination in respect of employment and occupation.	
Environment	**Principle 7:** Businesses should support a precautionary approach to environmental challenges;	See pages 43-45
	Principle 8: undertake initiatives to promote greater environmental responsibility; and	
	Principle 9: encourage the development and diffusion of environmentally friendly technologies.	
Anti-corruption	**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.	See pages 49 and 51

Boundary setting

Our data related to energy and safety covers our manufacturing sites in Ballerup and Esbjerg in Denmark, Dublin and Cork in Ireland and Vernouillet in France. LEO Pharma acquired the manufacturing site in Segrate (IT) from Bayer on July 1, 2019. Hence, our environmental and social impact for this site is only valid from July 1, 2019 and energy and safety data will be included as from 2020.

Data collection period

Data on energy and safety was collected from January 1 to December 31, 2019.

Safety parameters

Lost Time Injury (LTI) rate

We regard our LTI rate as an indicator of our safety performance. LTI rate per million working hours calculated as:

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

SAFETY PERFORMANCE AT LEO PHARMA MANUFACTURING SITES

Year	2015	2016	2017	2018	2019
LTI rate	4.3	4.2	4.1	3.7	1.3
No. of global LTIs	18	19	19	18	7
No. of lost days	298	343	200	351	97

Local standard working hours 2015-2019

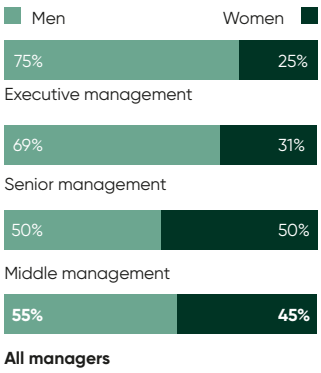
	NO OF EMPLOYEES (FTES)					
	2015	**2016**	**2017**	**2018**	**2019**	**No. of working hours/ employee/year**
Ballerup (DK)	1,632.3	1,798.6	1,866.2	1,947.7	2,101.5	1,665
Esbjerg (DK)	10	12	10.4	10.3	10.8	1,665
Vernouillet (FR)	346.54	381.9	365.7	352.3	358.5	1,645
Cork (IE)	46.3	47.6	45.8	44.4	43.8	1,755
Dublin (IE)	440	394.7	472.5	569.1	579.2	1,755

Gender diversity in management

The following data criteria are used:

All managers with minimum one direct report (both management job path and professional job path)
Management is divided into three groups to give a true and fair view

- Executive management (bands A + B)
- Senior management (bands C + D)
- Middle management (band E and below)



Consolidated Financial Statements

Income statement
January 1 - December 31

(DKK million)	Note	2019	2018
Revenue	2	10,805	10,410
Cost of sales	3, 7, 12	(3,350)	(3,040)
Gross profit		**7,455**	**7,370**
Sales and distribution costs	3, 6, 7	(4,611)	(3,946)
Research and development costs	3, 6, 7	(2,444)	(1,914)
Administrative costs	3, 6, 7, 17	(1,705)	(1,302)
Other operating income	4	19	1,612
Other operating expenses	4	(27)	(215)
Operating profit/(loss)		**(1,313)**	**1,605**
Share of profit/(loss) on investment in associates		(29)	(11)
Financial income	19	12	24
Financial expenses	19	(375)	(202)
Profit/(loss) before tax		**(1,705)**	**1,416**
Tax on profit/(loss) for the year	10	418	(158)
Net profit/(loss) for the year		**(1,287)**	**1,258**

Statement of comprehensive income
January 1 - December 31

(DKK million)	Note	2019	2018
Net profit/(loss) for the year		(1,287)	1,258
Other comprehensive income			
Actuarial gains/(losses) on defined benefit pension plans, etc.	17	(147)	59
Tax on other comprehensive income	10	13	(6)
Items that will not be reclassified subsequently to the income statement		**(134)**	**53**
Exchange rate adjustments on investments in foreign subsidiaries		2	(40)
Value adjustment of hedging instruments:			
Cash flow hedges (exchange rate), deferred gains/(losses) incurred during the period	14	(31)	(27)
Cash flow hedges (interest rate), deferred gains/(losses) incurred during the period	14	4	2
Tax on other comprehensive income	10	6	5
Items that may be reclassified subsequently to the income statement		**(19)**	**(60)**
Other comprehensive income/(loss)		**(153)**	**(7)**
Comprehensive income/(loss) for the year		**(1,440)**	**1,251**

Balance sheet at December 31
Assets

(DKK million)	Note	2019	2018
Goodwill		126	-
Intellectual property rights		6,875	3,514
Development projects		2,315	2,099
Software		959	654
Intangible assets	6	**10,275**	**6,267**
Land and buildings		1,377	707
Leasehold improvements		46	38
Plant and machinery		1,029	496
Other fixtures and fittings, tools and equipment		223	124
Assets under construction		1,121	799
Property, plant and equipment	7	**3,796**	**2,164**
Investment in associates		9	35
Other financial securities	15	23	19
Deferred tax assets	11	1,219	819
Other receivables	15	17	17
Financial assets		**1,268**	**890**
Total non-current assets		**15,339**	**9,321**
Inventories	12	2,305	1,729
Trade receivables	13	3,325	3,229
Tax receivables		1,342	689
Other receivables		980	499
Prepayments		301	207
Other securities	15	226	311
Cash and cash equivalents	15	230	299
Assets held for sale	16	712	-
Total current assets		**9,421**	**6,963**
Total assets		**24,760**	**16,284**

Balance sheet at December 31
Equity and liabilities

(DKK million)	Note	2019	2018
Share capital	21	250	250
Foreign currency translation reserve		(210)	(212)
Hedging reserve		(50)	(23)
Retained earnings		8,098	9,513
Equity		**8,088**	**9,528**
Deferred tax liabilities	11	1,105	1
Retirement benefit obligations	17	413	243
Provisions	8	404	234
Credit institutions	15	3,807	536
Loan from the LEO Foundation	15	1,000	1,000
Loan from LEO Holding A/S	15	3,806	-
Lease liabilities	9	459	-
Other long-term liabilities		91	3
Total non-current liabilities		**11,085**	**2,017**
Provisions	8	794	842
Credit institutions	15	719	914
Trade payables		1,546	899
Lease liabilities	9	96	-
Tax payables		62	184
Contract liabilities	2	-	15
Other payables		2,370	1,885
Total current liabilities		**5,587**	**4,739**
Total equity and liabilities		**24,760**	**16,284**

Statement of changes in equity

(DKK million)	Share capital	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total
2019					
Equity at January 1	250	(212)	(23)	9,513	9,528
Net profit/(loss) for the year	-	-	-	(1,287)	(1,287)
Other comprehensive income/(loss) for the year	-	2	(21)	(134)	(153)
Total other comprehensive income/(loss) for the year	-	2	(21)	(1,421)	(1,440)
Equity at December 31	**250**	**(210)**	**(44)**	**8,092**	**8,088**
2018					
Equity at January 1	250	(172)	(3)	8,202	8,277
Net profit/(loss) for the year	-	-	-	1,258	1,258
Other comprehensive income/(loss) for the year	-	(40)	(20)	53	(7)
Total other comprehensive income/(loss) for the year	-	(40)	(20)	1,311	1,251
Equity at December 31	**250**	**(212)**	**(23)**	**9,513**	**9,528**

Cash flow statement
January 1 - December 31

(DKK million)	Note	2019	2018
Operating profit/(loss) before financial items		**(1,313)**	**1,605**
Non-cash items			
Depreciation, amortization and impairment losses, net	6, 7	1,185	760
Gain/loss on sale of non-current assets, etc., net		13	(1,593)
Change in pension obligations	17	114	(112)
Change in provisions	8	107	203
Other non-cash adjustments	20	(16)	(66)
Change in working capital			
Change in inventories and receivables		(552)	(643)
Change in trade payables and other payables		1,122	110
Interest etc., received		5	18
Interest etc., paid		(186)	(143)
Income tax paid		(711)	(240)
Cash flows from operating activities		**(232)**	**(101)**
Purchase of intangible assets		(1,077)	(878)
Purchase of property, plant and equipment	7	(1,224)	(478)
Proceeds from sale of intangible assets and property, plant and equipment	6, 7	21	1,858
Acquisition of subsidiaries and activities, net of cash acquired[1]	5	(4,371)	(436)
Investments in other securities		0	(30)
Proceeds from sale of other securities		86	193
Cash flows from investing activities		**(6,565)**	**229**
Proceeds from borrowings	13	7,539	-
Repayment of borrowings	13	(1,006)	(474)
Overdraft		276	443
Dividend distributed to the LEO Foundation		-	(150)
Lease repayment	9	(91)	-
Cash flows from financing activities		**6,718**	**(181)**
Net cash flow for the period		**(79)**	**(53)**
Cash and cash equivalents, January 1		299	357
Currency translation effect on cash and cash equivalents		10	(5)
Cash and cash equivalents, December 31	**13**	**230**	**299**

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

1. Total consideration of acquisition of subsidiaries and activities of DKK 4,626 million for the purchase price of Bayer's Rest of World is deducted by DKK 255 million for acquired cash and bank. Please refer to note 5.

Notes – Group

Contents

Note 1 Basis of reporting

Basis of preparation

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

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

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

Application of materiality

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

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

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

Key accounting estimates and judgments

Executive Management has made certain estimates and judgments that affect the accounting policies and the reported amounts in the Consolidated Financial Statements. Estimates are based on historical experience and assumptions reasonable under the circumstances.

They are based on whatever information is currently available. Therefore, the actual amounts may differ from the estimated amounts.

Note	Key accounting estimates and judgments	Estimate/judgment
5 Acquisition of activities	Purchase price allocation in business combination	Estimate
5 Acquisition of activities	Assessments of type of transaction/asset and control	Judgment
6 Intangible assets	Estimated useful lives and impairment test	Estimate
6 Intangible assets	Assessments of type of asset and level of control	Judgment
8 Provisions	Estimates of provisions for legal disputes and sales deductions	Estimate
9 Leases	Determining lease term	Judgment
10 Tax on profit/loss for the year	Estimates regarding provisions for uncertain tax positions	Estimate
11 Deferred tax	Estimates regarding deferred tax assets	Estimate
12 Inventories	Estimates of valuation of inventories	Estimate

In 2018, the useful lives of intangible assets were reassessed. Based on the review, the useful lives of some intellectual property rights increased. The change in accounting estimates resulted in a decrease in depreciations of DKK 166 million in 2018, which was recognized in the income statement according to IAS 8. Certain liabilities of total DKK 1,164 million in 2018 have been reclassified to other payables, whereas they were previous presented as trade payables.

Note 1 Basis of reporting (continued)

General accounting policies

Consolidation

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

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

Foreign currency translation

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

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

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

Cash flow statement

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

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

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

Note 1 Basis of reporting (continued)

Implementation of new standards and interpretations
The Group has adopted the following new and revised standards issued by IASB, which are effective for the current period that starts January 1, 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

The implemented IFRS 16 resulted in the changes described below. The implementation of IFRIC 23 has not had any impact on the financial statements. Other new and revised standards have been assessed, but they have not had a material impact on the accounting policies or disclosures for the year.

IFRS 16 Leases is implemented on January 1, 2019 and replaces IAS 17 and IFRIC 4. LEO Pharma uses the relief from restating comparative figures (modified retrospective method). Therefore, the comparative figures are prepared and presented in accordance with IAS 17 and IFRIC 4.

The implementation of IFRS 16 has resulted in the following changes:
- Lease assets and lease liabilities are recognized in the balance sheet
- Lease expenses are recognized as depreciation of lease assets instead of operating costs as under IAS 17
- Interest elements regarding lease liabilities are recognized as financial expenses
- Lease debt repayments are classified as cash flows from financing activities. Under IAS 17, all lease payments were classified as cash flows from operating activities.

As permitted when applying IFRS 16 for the first time, LEO Pharma has used the following practical expedients:
- Assessed a lease with a remaining lease term of less than 12 months as of January 1, 2019 as a short-term lease
- Applied a single discount rate to a portfolio of assets with similar characteristics.

(DKK million)	**December 31, 2019**	**January 1, 2019**
Carrying amount of lease assets is recognized in:		
Right of use assets	543	572
Non-current lease liabilities	459	476
Current lease liabilities	96	96

The following table shows a reconciliation from operating lease commitments as of December 31, 2018 to lease liabilities as of January 1, 2019

(DKK million)	**January 1, 2019**
Operating lease commitments at December 31, 2018	435
Discounted using the Group incremental borrowing rates as of January 1, 2019	(37)
Adjustment for useful life	174
Lease liabilities recognized at January 1, 2019	572

Note 1 Basis of reporting (continued)

Definition of key figures

Ratios - formulas

Gross margin	Gross profit/(loss) / Revenue	x 100
Revenue growth	Revenue year 1 - Revenue year 0 / Revenue year 0	x 100
Operating profit margin	Operating profit/(loss) (EBIT) / Revenue	x 100
EBITDA margin	EBITDA / Revenue	x 100
R&D costs (of revenue)	R&D costs / Revenue	x 100
Cash conversion	Free cash flow / Net profit/(loss) for the year	x 100
Invested Capital*/Revenue	Invested capital / Revenue	x 100
Effective tax rate	Tax on profit/(loss) for the year / Profit/(loss) before tax	x 100

Definitions

EBITDA
Operating profit/(loss) before financial income and expenses, tax, depreciation, and amortization

Free cash flow
Cash flow from operating activities less cash flow from investing activities

Operating working capital
Inventories and trade receivables (before provision for bad debt) less trade payables

Net working capital
Current assets less current liabilities used in, or necessary for, the company's operations

Invested capital*
Total assets excluding interest-bearing assets and minority investments less interest-bearing liabilities

Net interest-bearing debt
The market value of interest-bearing liabilities (financial liabilities) less the market value of cash at bank and in hand and other easily convertible interest-bearing current assets

** Excluding intellectual property rights*

Note 2 Revenue

Accounting policies

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

Revenue is measured at the amount of consideration which the Group expects to be entitled to in exchange for transferring the goods.

Revenue is recognized exclusive of VAT and net of sales deductions, including product returns, as well as discounts and rebates.

Revenue includes license income and sales-based royalties from out licensed products, as well as milestone payments and other revenue in connection with partnerships. These revenues, except for royalties, are recognized when the performance obligation is satisfied, i.e. when transferred to the customer. For sales-based royalties, revenue is recognized when the subsequent sale occurs. Please refer to note 8 Provisions regarding the accounting policies for sales deductions and returns.

(DKK million)	2019	2018
Revenue by region		
Europe+	6,840	6,530
International	3,117	2,795
US	848	1,085
Total	**10,805**	**10,410**
Revenue by therapeutic area		
Psoriasis	3,988	3,837
Eczema/Skin infections	3,220	2,598
Thrombosis	2,219	2,396
Actinic keratosis	312	374
Other	1,066	1,205
Total	**10,805**	**10,410**
Revenue by category		
Products	10,563	10,164
Sales-based royalties	212	225
Other	30	21
Total	**10,805**	**10,410**
Timing of revenue recognition		
Goods transferred at a point in time	10,791	10,380
Services transferred over time	14	30
Total	**10,805**	**10,410**

Note 2 Revenue (continued)

Contract balances:

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

(DKK million)	2019	2018	2017
Contract liabilities (non-current)	-	-	14
Contract liabilities (current)	0	15	30
Total contract liabilities	**0**	**15**	**44**
Revenue recognized in the period from:			
Amounts included in contract liabilities at the beginning of the period	15	30	32

Unsatisfied performance obligations:

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

The transaction price not yet recognized as revenue is:

(DKK million)	2020	2021	Total
Remaining performance obligations expected to be recognized as of December 31, 2019	24	-	**24**

Note 3 Staff expenses

Accounting policies

Wages, salaries, social security expenses, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the associated services are rendered by employees of LEO Pharma.

Where LEO Pharma provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

The average number of employees is calculated as the average of the number of permanent employees at the end of each month.

(DKK million)	**2019**	**2018**
Wages and salaries	3,615	3,068
Pensions – defined benefit plans	7	6
Pensions – defined contribution plans	275	256
Social security expenses	321	292
Other employee expenses	172	213
Total	**4,390**	**3,835**
Capitalized staff expenses	(198)	(137)
Total staff expenses in the income statement	**4,192**	**3,698**
Staff expenses included in:		
Cost of sales	626	656
Sales and distribution costs	1,799	1,701
Research and development costs	831	709
Administrative costs	936	632
Total	**4,192**	**3,698**
Average number of full-time employees	**5,820**	**5,528**

Note 3 Staff expenses (continued)

Remuneration to the Executive Management and Board of Directors

(DKK million)	Salary	Bonus[2]	Pension	Severance payments	Total remuneration
2019					
Registered members of the Executive Management[3, 4]	12	14	1	39	66
Other members of Executive Management[1, 4]	23	17	5	-	45
Board of Directors	6	-	-	-	6
Total	**41**	**31**	**6**	**39**	**117**
2018					
Registered members of the Executive Management	13	12	1	-	26
Other members of the Executive Management[1]	23	14	4	-	41
Board of Directors	6	-	-	-	6
Total	**42**	**26**	**5**	**-**	**73**

1. Other members of the Executive Management comprise Kim Kjøller (Executive Vice President, Global Research & Development), Guillaume Clément (Executive Vice President, Region Europe+), Jørgen Damsbo Andersen (Executive Vice President, Region International), Christopher Posner (Executive Vice President, Region US), Patrice Baudry (Executive Vice President, Global Marketing, Market Access and Market Affairs), Rhonda Duffy (Executive Vice President, Global Product Supply) and Mette Vestergaard (Executive Vice President, Global People and Business Transformation).

2. Members of the Executive Management participate in short- and long-term incentive programs that provide a bonus for the achievement of predetermined targets.

3. The remuneration to Executive Management includes remuneration paid to former President & CEO Gitte P. Aabo, who stepped down end of June 2019.

4. LEO Pharma may pay a compensation to the CEO and other members of the Executive Management, as a result of differences between foreign and Danish private income taxation. The salaries for 2019 includes tax compensations of DKK 1 million.

Note 4 Other operating income and expenses

Accounting policies

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

Other operating income and expenses

The decrease in other operating income in 2019 was mainly the result of a realized gain from sale of intellectual property rights to Karo Pharma AB in 2018 of DKK 1,566 million.

The decrease in other operating expenses of DKK 188 million in 2019, relates mainly to the compensation to Karo Pharma AB for a share of the net profit from sales under the intellectual property rights, in an intermediate period in 2018 where LEO Pharma continued to be responsible for the sales to the customers.

Note 5 Acquisition of activities

Accounting policies

Acquisitions of activities are recognized using the acquisition method in accordance with IFRS 3. The date of acquisition is the date on which LEO Pharma obtains control of the company.

Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the date of acquisition by applying relevant valuation methods. Identifiable intangible assets are recognized if they are separable or arise from a contractual right. Deferred tax is recognized for identifiable tax benefits existing at the date of acquisition and from the perspective of the new combined Group in compliance with local tax legislation. Acquirees are recognized in the Consolidated Financial Statements from the date of acquisition.

The fair value of intangible assets is determined using an income approach where they are valued at present value based on the expected cash flow they can generate. Inventory is valuated at estimated sales price less cost of sales. The fair values of property, plant and equipment and other assets and liabilities are valued using the approach we find most relevant for the individual item, which can be either a comparative market approach or a cost approach.

Key accounting judgments

Assessment of type of transaction
In connection with an acquisition, LEO Pharma uses judgments to determine whether the transaction is a business combination by applying the definition in IFRS 3 Business combinations. A transaction is determined as a business combination when the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. If the assets acquired do not constitute a business, the transaction is recognized as a purchase of individual assets.

Key accounting estimates

Purchase price allocations
When LEO Pharma applies the acquisition method to business combinations, by its nature this involves estimates in assessing the fair value of identifiable assets and liabilities. The assessment of fair value of intellectual property rights is based on a number of estimates regarding WACC and expected cash flows which have a significant impact on the fair value.

Acquisitions during 2019

On July 27, 2018, the LEO Pharma Group entered into two separate agreements to purchase 100% of Bayer's global prescription dermatology portfolio.

The first agreement relating to the US business was recognized in the Consolidated Financial Statements at the closing date, September 4, 2018.

The second agreement regarding Bayer's prescription dermatolog business for the Rest of the World, including the intellectual property rights and taking over sales and marketing organizations was recognized on July 1, 2019, when the LEO Pharma Group gained control. The acquisition further comprosed a factory in Segrate, Italy and 100% of the shares in the German companies Intendis GmbH, Intraserv GmbH and Intraserv KG and is in line with the Group's growth strategy within the areas of acne, fungal skin infections and rosacea, as well as LEO Pharma's range of topical steroids.

By completing the final part of the acquisition, the Group enhanced its size in key markets like Brazil, Austria, and South Africa – underlining the ambition to become a world leader in medical dermatology.

The fair value of the assets and liabilities acquired are not considered final until 12 months after acquisition.

Divestment of Emollients and Proctology Portfolio to Karo Pharma

As part of the Bayer Row acquisition, an emollients and proctology portfolio was included. On December 23, 2019 LEO Pharma announced the sale of 10 products to Karo Pharma AB for DKK 712 million. The divested portfolio is non-core to LEO Pharma's business, and was part of the portfolio acquired from Bayer in July 2019. As a consequence of the divestment, the assets have been valued based on negotiatiated price in the purchase price allocation. The transaction is subject to the competition authority's approval, but is expected to be effective by the end of March 2020.

The divested portfolio is classified as assets held for sale, cf. note 16.

Note 5 Acquisition of activities (continued)

(DKK million)	**2019**
Fair value at date of acquisition	
Intangible assets [1]	4,007
Property, plant and equipment	187
Inventories	405
Trade receivables, etc.	290
Deferred tax assets	22
Cash and bank balances	255
Assets held for sale	712
Total assets	**5,878**
Trade payables	62
Deferred tax liabilities	1,120
Pensions and similar obligations	57
Other payables, etc.	139
Total liabilities	**1,378**
Net assets acquired	**4,500**
Goodwill	**126**
Purchase Price (Enterprise value)	**4,626**

1. Intangible assets mainly comprise of intellectual property rights.

From the acquisition date to December 31, 2019, the Rest of the World business contributed revenue of DKK 752 million. If the acquisition had taken place on January 1, 2019 the Group's revenue would have been DKK 11,601 million. Disclosure of net profit/loss for the period is impracticable as the required information is not available from the seller of the acquired company. A cash consideration of DKK 4,626 million was paid in 2019. Goodwill of DKK 126 million was recognized as part of the transaction, primarily related to deferred tax assets and liabilities that arose due to the fair value adjustments of assets acquired in the share deal.

Transaction costs relating to the acquisition amounted to DKK 45 million and were recognized as administrative costs in the income statement.

US acquisition in 2018

Cash consideration of DKK 436 million was paid in 2018. Based on a purchase price allocation, intellectual property rights were valued at DKK 331 million and inventory at DKK 105 million. No goodwill was recognized as a part of the transaction. Transaction costs of DKK 27 million was recognized as administrative costs.

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

Note 6 Intangible assets

Accounting policies

Intellectual property rights are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the expected useful lives of the assets. Amortization of intellectual property rights is mainly recognized in Sales and distribution cost and Administrative costs.

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

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

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

Research costs are recognized in the income statement as incurred.

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

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

Intellectual property rights	3-15 years
Software	3-10 years

Impairment testing

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

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

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

Impairment 2019

At the end of 2019, LEO Pharma identified indications of impairment relating to the intellectual property rights acquired from Bayer AG in 2018 which impacted the long-term sales projections. The impairment is a result of changes in the competitive landscape and an updated assessment of the expected outcome of a specific patient solution.

The negative changes to the future cash flows have resulted in an impairment loss of DKK 114 million, which has been recorded as Sales and distribution costs in the income statement.

The recoverable amount of the assets has been determined on the basis of value in use.

Note 6 Intangible assets (continued)

Key accounting estimates

Estimated useful lives
Useful life is estimated individually in each case and is initially assessed when the assets are acquired. The Executive Management assesses intangible assets for changes in useful lives and impairment on an annual basis.

Impairment test and valuation
Irrespective of whether there is an indication of impairment, intangible assets not yet available for use and goodwill are tested for impairment annually. Intangible assets in use with definite useful lives are tested for impairment if there is any indication of impairment.

Indications of impairment are the following:
- Changes in patent and license rights
- Changes to future cash inflows in the Group
- R&D results
- Technological changes
- Development of competing products

To determine the value in use, the discounted cash flow approach is applied. The expected future cash flows are based on budget and target plans for the patent period or other applicable period for marketable products (up to 15 years for licenses). The budgets and target plans are based on the Executive Management's expectations of current market conditions and future growth expectations. The key factors used in calculating the value are revenue, costs of goods sold (COGS), operating expenses (OPEX), EBITDA, working capital, capital expenditures (CAPEX) and discount rate.

LEO Pharma has identified capitalized software relating to the ERP system (GLOBE) as corporate assets. Executive Management have considered the recoverability of the assets. The expected future performance on core business areas supports the carrying value of the assets.

Key accounting judgments

Assessment of type of asset and level of control
On entering into the agreement with PellePharm Inc. in 2018, Executive Management exercised judgment on the level of control gained by LEO Pharma and whether they should account for the investment as a subsidiary, an investment in an associate or as another type of investment. Furthermore, Executive Management assessed whether the arrangement was in substance an acquisition of the shares and intellectual property rights to be capitalized, or prepaid research and development costs to be expensed over the development period. Executive Management has assessed that the investment is an associate, and that up-front payments and milestone payments relating to the development projects with PellePharm Inc. are accounted for as prepaid development project.

Note 6 Intangible assets (continued)

(DKK million)	Goodwill	Intellectual property rights	Development projects	Software	Total intangible assets
2019					
Cost at January 1	-	10,105	3,803	858	14,766
Adjustment to opening	-	-	(14)	-	(14)
Exchange rate adjustment	-	-	-	-	-
Additions during the year	-	64	629	52	745
Additions from business combinations	126	4,007	-	-	4,133
Disposals during the year	-	-	(9)	(1)	(10)
Transfers	-	-	(381)	381	-
Cost at December 31	**126**	**14,176**	**4,028**	**1,290**	**19,620**
Amortization and impairment losses at January 1	-	(6,591)	(1,704)	(204)	(8,499)
Amortization for the year	-	(596)	-	(127)	(723)
Impairment losses for the year	-	(114)	(9)	-	(123)
Amortization and impairment losses at December 31	**-**	**(7,301)**	**(1,713)**	**(331)**	**(9,345)**
Carrying amount at December 31	**126**	**6,875**	**2,315**	**959**	**10,275**
2018					
Cost at January 1	-	10,292	2,924	617	13,833
Adjustments to opening	-	24	(64)	-	(40)
Additions during the year	-	331	1,058	127	1,516
Disposals during the year	-	(542)	(1)	-	(543)
Transfers	-	-	(114)	114	-
Cost at December 31	**-**	**10,105**	**3,803**	**858**	**14,766**
Amortization and impairment losses at January 1	-	(6,300)	(1,765)	(120)	(8,185)
Adjustments to opening	-	(24)	64	-	40
Amortization for the year	-	(462)	-	(76)	(538)
Disposals during the year	-	195	1	-	196
Impairment losses for the year	-	-	(4)	(8)	(12)
Amortization and impairment losses at December 31	**-**	**(6,591)**	**(1,704)**	**(204)**	**(8,499)**
Carrying amount at December 31	**-**	**3,514**	**2,099**	**654**	**6,267**

Note 6 Intangible assets (continued)

Research and development costs

In 2019, research and development costs recognized in the income statement amounted to DKK 2,444 million (2018: DKK 1,914 million). Research and development costs primarily comprise internal and external costs related to studies, employee costs, materials, depreciation, impairment and other directly attributable costs.

Additions

Additions during 2019 mainly comprises intellectual property rights acquired from Bayer AG, Kyntheum® sub-license agreement and a development project with Portal Instruments.

The carrying amount of intellectual property rights acquired from Bayer AG in 2019 was DKK 3,873 million at December 31, 2019.

Significant intellectual property

At December 31, 2019, other individually significant intellectual property rights comprise assets acquired from Astellas with a carrying amount of DKK 2,554 million, the Tralokinumab development project with a carrying amount of DKK 773 million, and Kyntheum® with a carrying amount of DKK 262 million.

(DKK million)	**2019**	**2018**
Amortization and impairment losses are specified as follows:		
Sales and distribution costs	710	446
Research and development costs	0	4
Administrative costs	136	100
Total	**846**	**550**

Note 7 Property, plant and equipment

Accounting policies

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

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

The expected useful lives are as follows:

Buildings	10-50 years
Leasehold improvements	Up to 10 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-10 years

Impairment testing

The carrying amount of property, plant and equipment is reviewed in order to determine whether there is any indication of impairment loss.
If the recoverable amount of an asset is estimated to be less than the carrying amount, an impairment loss is recognized. For 2019 and 2018 the review resulted in no impairment losses.

(DKK million)	Land and buildings	Leasehold improve-ments	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construc-tion	Total property, plant and equipment
2019						
Cost at January 1	2,133	80	2,341	499	799	5,852
Exchange rate adjustment	12	2	1	3	2	20
Additions during the year	530	17	29	130	1,070	1,776
Additions from business combinations	109	-	56	22	-	187
Disposals during the year	(14)	(6)	(15)	(38)	-	(73)
Transfers	128	-	599	23	(750)	-
Cost at December 31	**2,898**	**93**	**3,011**	**639**	**1,121**	**7,762**
Depreciation and impairment losses at January 1	(1,426)	(42)	(1,845)	(375)	-	(3,688)
Exchange rate adjustment	-	(1)	(1)	(1)	-	(3)
Disposals during the year	11	5	10	36	-	62
Depreciation for the year	(106)	(9)	(146)	(76)	-	(337)
Depreciation and impairment loss at December 31	**(1,521)**	**(47)**	**(1,982)**	**(416)**	**-**	**(3,966)**
Carrying amount at December 31	**1,377**	**46**	**1,029**	**223**	**1,121**	**3,796**

Note 7 Property, plant and equipment (continued)

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

(DKK million)	2019	2018
Depreciation and impairment losses are specified as follow:		
Cost of sales	178	176
Sales and distribution costs	21	13
Research and development costs	13	10
Administrative costs	125	12
Total	**337**	**211**

Note 8 Provisions

Accounting policies

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

Provisions are measured as the best estimate of the costs required to settle the liabilities at the balance sheet date.

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

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

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

Key accounting estimates

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

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

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

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

Note 8 Provisions (continued)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2019					
Provisions at January 1	609	208	160	99	1,076
Additions during the year	1,076	116	220	171	1,583
Utilization during the year	(1,110)	(75)	(104)	(25)	(1,314)
Reversals during the year	(95)	(20)	(19)	(15)	(149)
Exchange rate adjustment	11	2	(26)	15	2
Provisions at December 31	**491**	**231**	**231**	**245**	**1,198**
Of which classified as:					
Non-current liabilities	13	172	92	127	404
Current liabilities	478	59	139	118	794
Provisions at December 31	**491**	**231**	**231**	**245**	**1,198**
2018					
Provisions at January 1	452	162	152	77	843
Additions during the year	1,547	126	130	66	1,869
Utilization during the year	(1,315)	(73)	(110)	(26)	(1,524)
Reversals during the year	(92)	(12)	(7)	(21)	(132)
Exchange rate adjustment	17	5	(5)	3	20
Provisions at December 31	**609**	**208**	**160**	**99**	**1,076**
Of which classified as:					
Non-current liabilities	-	112	40	82	234
Current liabilities	609	96	120	17	842
Provisions at December 31	**609**	**208**	**160**	**99**	**1,076**

Note 9 Leases

Accounting policies

Lease assets
Lease assets are 'right-of-use assets' from lease agreements. If, at inception, it is assessed that a contract contains a lease, a lease asset is recognized. Lease assets are initially measured at the present value of future lease payments, plus the cost of obligations to refurbish the asset. Payments include fixed payments, variable lease payments depending on an index or a rate, and the exercise price of purchase options that are reasonably certain to be exercised. The lease assets are depreciated using the straight-line method over the shorter of the expected lease term and the useful life of the underlying asset. The lease assets are tested for impairment whenever there is an indication that the assets may be impaired.

Lease assets are presented as part of the Property, plant and equipments in note 7.

Lease assets are depreciated as follows:

Buildings	10-50 years
Leasehold improvements	Up to 10 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-10 years

Short-term leases and low-value leases of low value are recognized as expenses in the income statement on a straight-line basis over the lease term.

LEO Pharma's portfolio of leases primarily covers leases of buildings and other equipment such as cars.

Lease liabilities
Lease liabilities are initially recognized at the present value of future lease payments, including payments from extension or purchase options that are considered reasonably certain to be exercised. The lease liability is measured using the implicit borrowing rate in the contracts. If a lease contract is modified, the lease liability is remeasured.

Key accounting judgments

Judgments in determining the lease term
For building leases, lease terms are estimated taking the size of the building and its strategic importance into consideration. LEO Pharma entered several open-ended building leases and building leases with extension options. The lease terms of such agreements are estimated based on the strategic importance of the buildings and the estimated time frame necessary to vacate the premises. The estimated lease term is reassessed at each reporting date.

Note 9 Leases (continued)

(DKK million)	Land and buildings	Other fixtures and fittings, tools and equipment	Total property and equipment
Right-of-use assets			
Carrying amount at January 1, 2019	486	86	572
Additions during the year	38	24	62
Depreciation for the year	(67)	(36)	(103)
Exchange rate adjustments	11	1	12
Carrying at December 31, 2019	**468**	**75**	**543**
Lease liabilities at January 1, 2019			
Balance at January 1, 2019	486	86	572
Additions during the year	38	24	62
Interest expenses	10	2	12
Lease payments	(66)	(37)	(103)
Exchange rate adjustments	11	1	12
Lease liabilities at December 31, 2019	**479**	**76**	**555**
Non-current liabilities	418	41	459
Current liabilities	61	35	96
Lease liabilities at December 31, 2019	**479**	**76**	**555**

Depreciation and interest costs related to leases are recognized in the income statement under Administrative costs and Financial expenses respectively. The amounts recognized impact the operating cash flow as well as the cash flow from financing activities as shown in below table. The figures in the cash flow statement cannot be directly derived as they are presented combined with other cash movements.

(DKK million)	Land and buildings	Other fixtures and fittings, tools and equipment	Total property and equipment
Interest paid, etc.	(10)	(2)	(12)
Cash flow from operating activities	**(10)**	**(2)**	**(12)**
Repayment of lease liabilities	(55)	(36)	(91)
Cash flow from financing activities	**(55)**	**(36)**	**(91)**

Note 10 Tax on profit/loss for the year

Accounting policies

Tax for the year, which consists of the year's current tax, the change in deferred tax and adjustment in respect of previous years, is recognized in the income statement at the amount that can be attributed to the profit or loss for the year, and in other comprehensive income at the amount that can be attributed to items in other comprehensive income. The change in deferred tax as a result of changed income tax rates or tax rules is recognized in the income statement. Interest on tax cases that are ongoing or have been settled during the year is reported under financial items.

Current tax for the year is calculated based on the income tax rates and rules applicable at the balance sheet date.

The Parent Company, Danish subsidiaries and LEO Holding A/S are jointly taxed.

As a global company, LEO Pharma wil from time to time have tax audits and tax discussions with tax authorities in various countries regarding tax issues within transfer pricing and indirect taxes. The Executive Management has the opinion that appropriate estimates have been made in the financial statements for current tax audits and exposures related to uncertain tax positions.

The estimates are based on expected value or the most likely amount, whichever method best predicts the resolution of the uncertainty, and the effects hereof are recognized as part of tax receivables/payables and deferred tax.

Due to uncertainty associated with the outcome and timing, it will be possibile that, on conclusionof open tax matters at a future date, the final outcome may differ significantly from the amounts recognized.

Key accounting estimates

Uncertain tax positions

As a global company, LEO Pharma will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues within transfer pricing and indirect taxes. Executive Management has the opinion that appropriate estimates have been made in the financial statements for current tax audits and exposures related to uncertain tax positions.

The estimates are based on expected value or the most likely amount, whichever method best predicts the resolution of the uncertainty, and the effects thereof are recognized as part of tax receivables/payables and deferred tax.

Due to the uncertainty associated with the outcome and timing, it will be possible that, on the conclusion of open tax matters at a future date, the final outcome may differ significantly from the amounts recognized.

(DKK million)	**2019**	**2018**
Current tax	46	(336)
Prior-year adjustments, current tax	(1)	14
Prior-year adjustments, deferred tax	18	(30)
Change in deferred tax for the year	374	193
Total tax for the year	**437**	**(159)**
Tax for the year is included in		
Tax on profit/(loss) for the year	418	(158)
Tax on other comprehensive income	19	(1)
Total tax for the year	**437**	**(159)**

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

Note 10 Tax on profit/loss for the year (continued)

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

	DKK million	%
2019		
Profit/(loss) before tax	**(1,705)**	
Calculated tax, 22%	375	22,0%
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries compared to the Danish corporate income tax rate	152	8,9%
Non-deductible expenses/non-taxable income and other permanent differences	(110)	(6,5%)
Other taxes	(12)	(0,7%)
Change in deferred tax as a result of changes in income tax rates	9	0,6%
Change in valuation of net tax assets	(13)	(0,8%)
Prior-year tax adjustments, etc., total effect on operations	17	1,0%
Effective tax/tax rate for the year	**418**	**24,5%**

2018		
Profit/(loss) before tax	**1,416**	
Calculated tax, 22%	(312)	22,0%
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries compared to the Danish corporate income tax rate	150	(10,6%)
Non-deductible expenses/non-taxable income and other permanent differences	(4)	0,3%
Change in deferred tax as a result of changes in income tax rates	24	(1,7%)
Prior-year tax adjustments, etc., total effect on operations	(16)	1,1%
Effective tax/tax rate for the year	**(158)**	**11,1%**

Note 11 Deferred tax

Accounting policies

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

Provisions for withholding taxes on dividends from subsidiaries is only recognized if the distribution of the dividends had been planned or approved by the management of the subsidiary no later than the balance sheet date.

Deferred tax is measured on the basis of the income tax rates and tax rules applying in the respective countries at the balance sheet date. The effect of exchange rate differences on deferred tax is recognized in the balance sheet as part of the movement in deferred tax.

Deferred tax assets, including the tax assets on tax loss carry forwards, are recognized in the balance sheet at the value at which the assets are expected to be utilized.

Deferred tax assets and liabilities are offset if the Group has a legal right to offset these and intends to settle these on a net basis or to realize the assets and settle the liabilities, simultaneously.

Key accounting estimates

Valuation of deferred tax assets

The Executive Management's estimate of future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years supports the utilization of the deferred tax assets within the foreseeable future. A forecast period of 5 years is applied for estimated utilization of deferred tax assets. In this assessment, the continuous utilization of existing deferred tax assets and creation of new deferred tax assets are considered.

The valuation risk is mainly related to deferred tax assets recognized in LEO Pharma A/S. The recognized deferred tax assets in LEO Pharma A/S as of December 31, 2019 is DKK 443 million (2018: DKK 146 million).

For estimates regarding provisions for uncertain tax positions, please refer to note 10.

Note 11 Deferred tax (continued)

(DKK million)	Balance at January 1	Deferred tax assets/ (liabilities) related to acquisitions	Effect of foreign currency exchange differences	Adjustment of deferred tax at beginning of year	Movements during the year	Balance at December 31
2019						
Intangible assets	50	(874)	-	31	294	(499)
Property, plant and equipment	45	(7)	-	(30)	26	34
Inventories	570	(56)	-	-	44	558
Provisions	89	(4)	1	18	62	166
Other items	61	7	-	2	(52)	18
Tax loss carry forwards, etc.	3	-	-	(3)	-	-
Assets held for sale	-	(163)	-	-	-	(163)
Total temporary differences	**818**	**(1,097)**	**1**	**18**	**374**	**114**
Deferred tax assets	819	-	1	18	381	1,219
Deferred tax liabilities	(1)	(1,097)	-	-	(7)	(1,105)
Deferred tax assets/(tax liabilities)	**818**	**(1,097)**	**1**	**18**	**374**	**114**
2018						
Intangible assets	176	-	1	(1)	(126)	50
Property, plant and equipment	18	-	1	4	22	45
Inventories	543	-	-	-	27	570
Provisions	(203)	-	2	(12)	302	89
Other items	113	-	(2)	(21)	(29)	61
Tax loss carry forwards, etc.	6	-	0	-	(3)	3
Total temporary differences	**653**	**-**	**2**	**(30)**	**193**	**818**
Deferred tax assets	673	-	2	(30)	174	819
Deferred tax liabilities	(20)	-	-	-	19	(1)
Deferred tax assets/(tax liabilities)	**653**	**-**	**2**	**(30)**	**193**	**818**

Note 12 Inventories

Accounting policies

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

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

The net realizable value of inventories is calculated as the sales price less the costs of completion and the expenses incurred to affect the sale, and is determined allowing for marketability, obsolescence and development in expected sales price. Obsolete goods, including slow-moving goods, are written down.

Key accounting estimates

Valuation of inventories

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

Indirect production overheads are calculated on the basis of relevant assumptions concerning capacity utilization, production time and other relevant factors, and allocated on the basis of the normal production capacity.

(DKK million)	**2019**	**2018**
Raw materials and consumables	452	169
Work in progress	915	864
Finished goods and goods for resale	938	696
Total	**2,305**	**1,729**
Write-down for the year	20	72
Cost of goods sold included in cost of sales	2,816	2,466

Note 13 Financial risks

Financial risks

As a consequence of its operations, investments and financing, LEO Pharma is exposed to a variety of financial risks:

- Market risks, i.e. currency risk, interest rate risks, etc.
- Credit risk
- Liquidity risk

The Group's overall management programs focus on the unpredictability of financial markets, and seek to minimize the potential adverse effects on the Group's performance. The Group uses derivatives financial instruments to hedge certain risk exposures.

Risk management is undertaken by a central finance department, subject to objectives and policies approved by the Executive Management. Those objectives and policies are outlined in the internal Treasury Policy, which incorporates cash flow hedges of highly probable forecasted sales and purchase transactions. Furthermore, it consists of the Foreign Exchange Policy and the Investment Policy, the Policy Regarding Credit Risk on Financial Counterparties, and includes a description of the permitted use of financial instruments. LEO Pharma only hedges commercial exposures and consequently, does not enter into derivative transactions for trading or speculative purposes. LEO Pharma uses a fully integrated Treasury Management System to manage all financial positions.

Currency risk

As a global company with DKK as its presentation currency, LEO Pharma undertakes transactions denominated in foreign currencies, and foreign exchange risk therefore has a significant impact on the income statement, balance sheet and cash flow statement. The overall objective of foreign exchange risk management is to reduce the short-term negative impact of exchange rate fluctuations on earnings and cash flow.

LEO Pharma is mainly exposed to USD, GBP, CAD, JPY, RUB, SAR, CNY and AUD either through direct sales to third parties or indirect sales through a subsidiary. Currency risk arises due to imbalances between income and costs in each individual currency and because LEO Pharma has more assets than liabilities in foreign currencies in connection with its global operations.

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

Foreign currency sensitivity analysis

The sensitivity analysis below shows the estimated impact on operating profit of a 5% change in DKK versus the key currencies to which LEO Pharma was exposed on December 31, 2019. The analysis shows the impact of foreign currency exchange differences on the Group's monetary assets and liabilities, and foreign exchange forwards at the end of the year. A similar negative change in exchange rates would have a similar opposite effect on operating profit.

Foreign currency analysis

		2019		2018	
(DKK million)	Increase in exchange rates	Profit/(loss) for the year	Other comprehensive income[1]	Profit/(loss) for the year	Other comprehensive income[1]
USD	5.0%	(17)	26	14	(12)
GBP	5.0%	(3)	(14)	(13)	(13)
CAD	5.0%	1	(21)	(1)	(18)
JPY	5.0%	1	1	-	-
RUB	5.0%	(1)	(8)	-	(5)
CNY	5.0%	-	(2)	3	-
BRL	5.0%	-	(6)	-	-
SAR	5.0%	-	(6)	-	(5)
AUD	5.0%	-	(5)	-	(2)

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

Note 13 Financial risks (continued)

Interest rate risk

Interest rate risk is the risk of interest rate fluctuations resulting in changed costs related to floating-rate loans. Long-term funding at floating interest rates is mitigated by entering into interest rate swaps as hedge instruments whereby the Group pays a fixed rate of interest and receives interest at floating rates. Hedging of interest rate risk is approved by the Executive Management, and hedge effectiveness is assessed on a regular basis. No ineffectiveness has been observed so far. The current hedging instruments are shown in the next table on the basis of the average fixed interest rate used.

Outstanding receivable floating-rate fixed contracts (DKK million)	Notional principal value	Change in fair value recognized in other comprehensive income	Fair value assets (liabilities)	Average fixed interest rate
2019				
DKK	1,125	-	-	0.03%
DKK	1,500	3	3	0.10%
Total		**3**	**3**	
2018				
DKK	100	1	-	0.39%
DKK	370	1	(1)	0.45%
Total		**2**	**(1)**	

At December 31, 2019, the fair value of DKK 3 million was recognized in other receivables. At December 31, 2018, the fair value of DKK 1 million was recognized in other payables.

Credit risk

LEO Pharma's products are primarily sold to pharmacies, wholesalers and hospitals. Historically, realized losses sustained on debtors have been insignificant, which was also the case in both 2019 and 2018. However, LEO Pharma has a number of ongoing legal actions against customers in receivership and other financial difficulties that are nearing completion.

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

LEO Pharma recognizes a loss allowance for expected credit losses and writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. The write-down amount is recognized in the income statement under sales and distribution costs. Subsequent recovery of amounts previously written down is credited against sales and distribution costs.

The following table details the risk profile for trade receivables based on the Group's provision matrix. No allowance for expected credit loss has been made for trade receivables overdue less than 6 months based on historical credit loss experience. The Group's historical credit losses do not show different patterns for different customer segments.

Note 13 Financial risks (continued)

Maturity analysis of Trade receivables

(DKK million)	Expected credit loss rate	Trade receivables	Write -downs	Total
2019				
Not past due date	0%	3,021	-	3,021
Overdue by 3 months	0%	256	-	256
Overdue by 3-6 months	0%	21	-	21
Overdue by 6-12 months	21%	34	(7)	27
Overdue by more than 12 months	100%	36	(36)	0
Trade receivables at December 31		3,368	(43)	3,325

(DKK million)	Expected credit loss rate	Trade receivables	Write -downs	Total
2018				
Not past due date	0%	2,899	-	2,899
Overdue by 3 months	0%	204	-	204
Overdue by 3-6 months	0%	89	-	89
Overdue by 6-12 months	36%	30	(11)	41
Overdue by more than 12 months	66%	51	(33)	84
Trade receivables at December 31		3,273	(44)	3,229

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

Liquidity risk

It is of great importance that the company maintains a financial reserve to cover the company's obligations and investment opportunities and to provide the capital necessary to offset changes in the company's liquidity due to changes in the cash flow from operating activities.

LEO Pharma manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Cash resources and financing facilities

LEO Pharma has access to financing facilities of DKK 3,119 million (2018: DKK 831 million) of which unused and secured overdraft facilities amounted to DKK 2,944 million (2018: DKK 532 million) as of the reporting date. The remaining amount of DKK 175 million (2018: DKK 299 million) consists primarily of cash and cash equivalents. The facilities are subject financial covenants and no breaches were encountered during the year.

On April 26, 2019 LEO Pharma entered into a loan agreement with 5 Nordic Banks of DKK 6,350 million. The facility has five years duration with an option to extend the maturity for up to two addional years.

In addition to the cash resources, the Parent Company has pledged bonds and cash with a carrying amount of DKK 254 million (2018: DKK 311 million) as securities for pension liabilities primarily in the UK. Other obligations are met from operating cash flows and proceeds from maturing financial assets.

Note 13 Financial risks (continued)

(DKK million)	Borrowings December 31, 2018	Proceeds from borrowings	Repayments of borrowings	Other non-cash items[1]	Borrowings December 31, 2019
Loan from LEO Holding A/S	-	3,732	-	74	3,806
Banks and other credit institutions	1,450	4,083	(1,006)	(1)	4,526
Loan from the LEO Foundation	1,000	-	-	-	1,000
Total borrowings	**2,450**	**7,815**	**(1,006)**	**73**	**9,332**
Of which:					
Classified as non-current	1,536				8,613
Classified as current	914				719

1. Others non-cash items comprises mainly interests expenses and exchange rate adjustments

Maturity of contractual cash flows

(DKK million)	Contractual amount	Less than 1 year	1-3 years	4-5 years	More than 5 years
2019					
Non-financial interest derivatives					
Floating interest rate bank debt	3,433	44	1,168	2,221	-
Fixed interest rate bank debt	1,280	9	19	147	1,105
Fixed interest rate loan, LEO Holding A/S[1]	5,176	-	-	-	5,176
Fixed interest rate loan, the LEO Foundation[2]	1,199	25	50	50	1,074
Trade and other payables	3,915	3,915	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	7	2	3	2	-
Forwards used as hedging instruments	60	60	-	-	-
Total contractual cash flow as of December 31	**15,070**	**4,055**	**1,240**	**2,420**	**7,355**
2018					
Non-financial interest derivatives					
Floating interest rate bank debt	471	471	-	-	-
Fixed interest rate bank debt	543	4	539	-	-
Fixed interest rate loan, the LEO Foundation[2]	1,219	25	49	49	1,096
Trade and other payables	2,543	2,543	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	1	1	-	-	-
Forwards used as hedging instruments	60	60	-	-	-
Total contractual cash flow as of December 31	**4,837**	**3,104**	**588**	**49**	**1,096**

1. Repayments related to the loan from LEO Holding A/S will commence in 2023.
2. No interests will be paid out to the LEO Foundation until the end of the loan term.

Note 14 Derivatives - hedge accounting

Accounting policies

Derivative financial instruments

Derivative financial instruments are used to manage the exposure to interest rate and foreign exchange rate risk. None of the derivative financial instruments are held for trading. On initiation of the contract, LEO Pharma designates each derivative financial contract as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or as a hedge of a future transaction (cash flow hedge).

All contracts are initially recognized at fair value and subsequently remeasured at fair value at the end of the reporting period. The resulting gain or loss is recognized in the income statement immediately, unless the derivative is designated and effected as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Hedge accounting

LEO Pharma designates certain derivatives as hedging instruments in respect of foreign currency risk as fair value hedges, and certain derivatives as hedging instruments in respect of interest rate risk as cash flow hedges. The fair value adjustment on qualifying hedging instruments is recognized in the income statement in the same line as the hedged item when the hedging instrument is designated as a fair value hedge. Value adjustments of the effective part of cash flow hedges are recognized in equity through Other comprehensive income (OCI). The cumulative value adjustment of these contracts is transferred from Other comprehensive income (OCI) to the income statement in the same period and the same line as the hedged item.

LEO Pharma's pocily is to hedge EUR currency even though the exchange rate risks are considered low. In addition, the chinese yuan traded offshore (CNH) is used as a proxy when hedging the CNY currency exposure of the Group.

Discontinuance of cash flow hedging

When a hedging instrument expires or is sold, but the hedge still meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement under Financial income or Financial expenses.

Forward exchange rate contracts

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

Currently, net investments in foreign subsidiaries are not hedged.

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

Note 14 Derivatives - hedge accounting (continued)

Financial derivatives – Cash flow hedges

	2019					
(DKK million)	Average hedge rate	Notional value in foreign currency	Contract value DKK	Carrying amount of the hedging instrument assets	Carrying amount of the hedging instrument liabilities	Change in fair value recognized in other comprehensive income
Forward foreign exchange contracts						
Bought USD	6.60	46	303	1	1	-
Sold GBP	8.39	31	263	0	11	(11)
Sold CAD	4.91	76	375	0	12	(11)
Sold BRL	1.69	67	112	0	12	(11)
Sold RUB	0.096	1,520	147	0	10	(10)
Sold SAR	1.72	65	111	0	3	(2)
Sold PLN	1.70	60	103	0	2	(2)
Sold AUD	4.54	22	100	0	2	(2)
Sold THB	0.21	417	88	0	4	(4)
Sold other currencies	N/A	N/A	744	5	10	(5)
Cash flow hedges at December 31			**2,346**	**6**	**67**	**(58)**

The financial contracts are expected to impact the income statement for the next 12 months when the cash flow hedges mature and the fair value will be transferred to either financial income or financial expenses. A loss of DKK 58 million has been deferred for recognition until 2020 (2018: a loss of DKK 27 million was deferred until 2019). At the end of December 2019, LEO Pharma has classified the above contracts as fair value hedges. The result of the fair value hedging activities is presented under of financial items.

	2018					
(DKK million)	Average hedge rate	Notional value in foreign currency	Contract value	Carrying amount of the hedging instrument assets	Carrying amount of the hedging instrument liabilities	Change in fair value recognized in other comprehensive income
Forward foreign exchange contracts						
Sold USD	6.16	38	234	0	11	(11)
Sold GBP	8.31	31	258	1	1	-
Sold CAD	4.75	74	352	4	3	1
Sold SAR	1.62	64	104	0	7	(7)
Sold RUB	0.093	1,060	99	3	0	3
Sold PLN	1.71	51	87	0	1	(1)
Sold THB	0.19	278	53	0	3	(3)
Sold other currencies	N/A	N/A	521	4	14	(9)
Cash flow hedges at December 31			**1,708**	**12**	**40**	**(27)**

Note 14 Derivatives - hedge accounting (continued)

	2019			2018		
(DKK million)	Contracted amount based on agreed rates	Fair value at Dec 31	Maturity end date	Contracted amount based on agreed rates	Fair value at Dec 31	Maturity end date
Forward foreign exchange contracts						
Bought USD/Sold USD	370	1	07/08/2020	475	-	15/02/2019
Sold GBP	-	-	-	34	-	04/01/2019
Sold CAD	129	(1)	10/09/2020	63	1	29/03/2019
Sold JPY	237	3	20/02/2020	263	(6)	29/03/2019
Sold RUB	244	(7)	18/02/2020	108	2	22/03/2019
Sold SAR	154	-	22/10/2020	140	-	28/03/2019
Sold CNY	2	-	10/09/2020	25	-	10/01/2019
Bought AUD	159	2	28/01/2020	174	(6)	15/03/2019
Bought EUR	5,519	10	12/11/2020	1,533	1	22/02/2019
Sold other currencies	560	(7)	25/09/2020	406	(3)	08/08/2019
Fair value hedges at December 31	**7,374**	**1**		**3.221**	**(11)**	

The fair value loss on forward foreign exchange contracts of DKK 1 million at the end of 2019 is recognized in the income statement under financial expenses (2018: loss of DKK 11 million recognized in financial expenses).

Note 15 Financial assets and liabilities per category

Accounting policies

Financial instruments

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

Financial assets

All recognized financial assets are required to be measured subsequently at amortized cost or fair value on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Other financial securities consist of equity investments and bonds. Investments in bonds that are held within a business model of which the objective is to collect the contractual cash flows are subsequently measured at amortized cost. Investments that are held within a business model of which the objective is both to collect the contractual cash flows and to sell are subsequently measured at fair value through Other comprehensive income. All other investments, including equity investments, are subsequently measured at fair value through profit and loss. Other securities, which comprise listed bonds and shares, are classified as current assets and measured at fair value through profit and loss. Securities that are subsequently measured at amortized cost or at fair value through Other comprehensive income is subject to impairment.

Financial liabilities

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

Financial instruments measured at fair value

Financial instruments measured at fair value can be divided into three categories:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);
Level 3 - Inputs for assets or liabilities that are not based on observable market data.

Financial instruments carried at amortized cost

The fair value of the short-term financial assets and other financial liabilities carried at amortized cost is not materially different from the carrying amount. In general, fair value is determined primarily on the basis of the present value of expected future cash flows. Where the market price is available, however, this is deemed to be the fair value.

Note 15 Financial assets and liabilities per category (continued)

Categories of financial assets and financial liabilities

(DKK million)	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Carried at amortized cost				
Cash and bank balances	230	230	299	299
Trade and other receivables	4,305	4,305	3,728	3,728
Other financial assets	9	9	36	36
Financial assets at amortized cost	**4,544**	**4,544**	**4,063**	**4,063**
Carried at fair value through profit/loss (FVTPL)				
Financial assets mandatorily measured at FVTPL	225	225	311	311
Derivative instruments in designated hedging relationships	20	20	10	10
Financial assets at fair value through profit/loss	**245**	**245**	**321**	**321**
Carried at fair value through other comprehensive income				
Derivative instruments in designated hedging relationships	9	9	12	12
Financial assets at fair value through other comprehensive income	**9**	**9**	**12**	**12**
Total financial assets	**4,798**	**4,798**	**4,396**	**4,396**
Carried at amortized cost				
Trade and other payables	3,916	3,916	2,784	2,784
Bank loans (both current and non-current)	3,344	3,344	1,450	1,458
Mortgage loans	1,182	1,216	-	-
Loan from LEO Holding A/S	3,806	3,806	-	-
Loan from the LEO Foundation	1,000	1,070	1,000	1,000
Financial liabilities at amortized cost	**13,248**	**13,352**	**5,234**	**5,242**
Carried at fair value through profit/loss (FVTPL)				
Derivative instruments in designated fair value hedging relationships	19	-	22	-
Financial liabilities at fair value	**19**	**-**	**22**	**-**
Carried at fair value through other comprehensive income				
Derivative instruments in designated hedging relationships	67	-	39	-
Financial liabilities at fair value through other comprehensive income (OCI)	**67**	**-**	**39**	**-**
Total financial liabilities	**13,334**	**13,352**	**5,295**	**5,242**

Note 15 Financial assets and liabilities per category (continued)

Fair value measurements

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

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

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

Fair value hierarchy at December 31, 2019

(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets - Measured at fair value				
Danish mortgage bonds	226	-	-	226
Derivative instruments	-	29	-	29
Total	**226**	**29**	**-**	**255**
Financial liabilities - Amortized cost, disclosure of fair value				
Bank loans	-	2,625	-	2,625
Mortgage loans	-	1,216	-	1,216
Loan from LEO Holding A/S	-	3,853	-	3,853
Loan from the LEO Foundation	-	1,070	-	1,070
Measured at fair value				
Derivative instruments	-	86	-	86
Total	**-**	**8,850**	**-**	**8,850**

Fair value hierarchy at December 31, 2018

(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets - Measured at fair value				
Danish mortgage bonds	311	-	-	311
Derivative instruments	-	22	-	22
Total	**311**	**22**	**-**	**333**
Financial liabilities - Amortized cost, disclosure of fair value				
Bank loans	-	1,014	-	1,014
Loan from the LEO Foundation	-	1,000	-	1,000
Measured at fair value				
Derivative instruments	-	61	-	61
Total	**-**	**2,075**		**2,075**

Note 16 Assets held for sale

Accounting policies
Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. The fair value is determined based on negotiated price in arm's length transaction. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. No depreciation or amortization is effected on assets from the time of classification as "held for sale"

At December 31, 2019, assets classified as held for sale comprise the divested portfolio of emollients and proctology products, please see note 5. The table below shows assets which have been classified as held for sale and therefore not expected to contribute to LEO Pharma's future earnings.

(DKK million)	2019	2018
Intangible assets	672	-
Inventory	40	-
Total assets classified as held for sale	**712**	**-**

Note 17 Retirement benefit obligations

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

Defined benefit plans
Where defined benefit plans are concerned, an annual actuarial calculation is made of the present value of future payments under the scheme. The present value is calculated on the basis of assumptions relating to future developments in salary, interest rates, inflation, mortality and other factors. The present value is calculated solely for the benefits to which the employees have earned a right through their employment by the Group. Plan assets are recognized to the extent that 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 recognized in the income statement based on actuarial estimates and financial expectations at the beginning of the year.

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

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

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

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

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

Note 17 Retirement benefit obligations (continued)

Acquisitions in 2019

As a result of the acquisition of Bayer's prescription dermatology business a net retirement benefit obligation of DKK 54 million was added, which mainly is related to defined benefit plans in Germany.

The plans in Germany are funded and covered under a contractual trust agreement ("Metzler") whose assets are legally separated from those of the Group. The plans are defined by different work council agreements and entitle the employees to an annual pension on retirement based on the service and salary level up to retirement.

(DKK million)	2019	2018
Present value of defined benefit plans:		
Present value of defined benefit plans at January 1	1,628	1,773
Effect of exchange rate adjustment	37	0
Additions from business combinations	176	-
Current service costs	7	6
Interest expenses	42	39
Actuarial (gains)/losses from changes in demographic assumptions	8	(4)
Actuarial (gains)/losses from changes in financial assumptions	301	(126)
Experience adjustments	(19)	(12)
Benefits paid to employees	(48)	(51)
Past service costs	-	3
Present value of defined benefit plans at December 31	**2,132**	**1,628**
Fair value of plan assets		
Fair value of plan assets at January 1	1,385	1,418
Effect of exchange rate adjustment	32	0
Additions from business combinations	122	-
Return on plan assets	143	(82)
Interest income	36	33
Benefits paid to employees	(46)	(51)
Employer contributions	47	67
Fair value of plan assets at December 31	**1,719**	**1,385**
Net retirement benefit obligations at December 31	**413**	**243**
Specification of amount recognized in the statement of comprehensive income		
Actuarial (gains)/losses	147	(59)
Total	**147**	**(59)**

Sensitivity analysis

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

A 0.25% decrease in the discount rate would result in an increase in the obligation of approximately 5% or DKK 100 million.

Note 18 Audit fees

(DKK million)	2019	2018
Deloitte Statsautoriseret Revisionspartnerselskab		
Statutory audit	5	7
Other assurance services	2	-
Tax and VAT advisory services	2	2
Other non-audit services	10	6
Total	**19**	**15**

Note 19 Financial income and expenses

Accounting policies

Financial income and expenses comprise interest, realized and unrealized exchange rate adjustments, and market value adjustments of financial assets. Market value adjustments of currency derivatives that have not been entered into for hedging purposes are presented as financial income and expenses.

(DKK million)	2019	2018
Interest income on bonds (amortized cost)	5	8
Other interest income	-	3
Other financial income	7	13
Financial income	**12**	**24**
Interest expenses, loan from LEO Holding A/S	(75)	0
Interest expenses, loan from the LEO Foundation	(25)	(24)
Interest expenses, banks	(43)	(19)
Loss arising on financial assets designated at fair value through profit and loss	-	(2)
Exchange rate losses	(134)	(73)
Financial assets write-down	(2)	(67)
Other financial expenses	(96)	(17)
Financial expenses	**(375)**	**(202)**

Note 20 Other adjustments

(DKK million)	**2019**	**2018**
Inventory write-down	(15)	(43)
Provision for bad debt	(1)	(27)
Other	0	4
Total	**(16)**	**(66)**

Note 21 Share capital and distribution to shareholders

The share capital comprises 250 shares for 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 amendments to the articles of association, cf. Section 107 of the Danish Companies Act.

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

Note 22 Contingencies and commitments

Guarantees

The total guarantee commitments for LEO Pharma amounts to DKK 200 million at December 31, 2019 (2018: DKK 1,896 million).

At December 31, 2019, the guarantee commitments mainly comprises guarantees relating to associated company and pending litigations of DKK 152 million (2018: DKK 1,271 million). Guarantees in 2018 related mainly to acquisitions.

LEO Pharma has pledged bonds and cash for pension schemes in the UK, please refer to note 13. Buildings in Ballerup, Denmark are pledged for loans.

Contractual obligations and commitments

Contracted for but not provided in the financial statements

(DKK million)	2019	2018
Intangible assets	3,292	6,283
Property, plant and equipment	753	456
Other current assets	0	373
Total	**4,045**	**7,112**

The commitments related to intangible assets comprise milestone payments relating to development of new products and intellectual property rights from acquisitions. The remaining commitments of DKK 753 million relate to fixed contractual obligations. The amounts are not risk-adjusted or discounted.

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

Pending lawsuits

At the end of 2019, 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. LEO Pharma is involved in a number of legal proceedings. In the opinion of Management, the outcome of these proceedings will not have a material impact on the financial position or cash flows. Such proceedings will, however, develop over time, and new proceedings may occur which could have a material impact on LEO Pharma's financial position and/or cash flows.

Tax

As a global business, LEO Pharma will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues including transfer pricing and indirect taxes. Please refer to description of uncertain tax positions in note 10.

Note 23 Related parties

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

There were the following transactions and balances with the LEO Foundation:
- Loan of DKK 1,000 million (2018: DKK 1,000 million)
- Interest expenses of DKK 25 million (2018: DKK 24 million)
- Payables of DKK 0.4 million (2018: Payables of DKK 0.2 million)

There were the following transactions and balances with LEO Holding A/S:
- Tax settlement of DKK 125,7 million (2018: DKK 0 million)
- Payables of DKK 3,806 million (2018: DKK 0 million)
- Receivables regarding joint taxation of DKK 401,8 million (2018: DKK 0 million)

There were the following transactions and balances with associates in 2019:
- Capital contributions to PellePharm Inc. of total DKK 267 million (2018: DKK 144 million)

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

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

Note 24 Events after the balance sheet date

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

Note 25 - Companies in the LEO Pharma Group

			Activities			
(DKK million)	Country	Share of ownership %	Sales and distribu-tion	Produc-tion	Sales & services	Other
Parent Company						
LEO Pharma A/S	Denmark		●	▲	◆	▼
Subsidiaries						
SARL LEO Pharma	Algeria	100			◆	
LEO Pharma Southport Pty Ltd	Australia	100		▲		
LEO Pharma Pty Ltd	Australia	100	●			
LEO Pharma GmbH	Austria	100	●			
LEO Pharma N.V.	Belgium	100	●			
LEO Pharma LTDA	Brazil	100	●			
LEO Pharma Inc.	Canada	100	●			
LEO Pharma Consultancy Company Ltd.	China	100			◆	
LEO Pharma Trading Company Ltd.	China	100	●			
LEO Pharma s.r.o.	Czech Republic	100			◆	
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100				▼
LEO Pharma OY	Finland	100	●			
Laboratoires LEO S.A.S	France	100	●	▲		
Intendis GmbH	Germany	100	●		◆	
IntraservVerwaltungs GmbH	Germany	100				▼
LEO Pharma GmbH	Germany	100	●			
LEO Pharmaceutical Hellas S.A.	Greece	100	●			
LEO Laboratories Ltd.	Ireland	100	●	▲		
Wexport Ltd.	Ireland	100		▲		
LEO Pharma Holding Ltd.	Ireland	100				▼
LEO Pharma Manufacturring	Italy	100		▲		
LEO Pharma S.p.A.	Italy	100	●			
LEO Pharma K.K.	Japan	100	●			
LEO Pharmaceuticals, S. de R.L. de C.V.	Mexico	100			◆	
LEO Pharma LLC	Morocco	100			◆	
LEO Pharma BV	Netherlands	100	●			
LEO Pharma Ltd.	New Zealand	100	●			
LEO Pharma AS	Norway	100	●			
LEO Pharma Sp. z o.o.	Poland	100			◆	
LEO Farmacêuticos Lda.	Portugal	100	●			
LEO Pharmaceutical Products LLC	Russia	100	●			
LEO Pharma Asia PTE Ltd.	Singapore	100			◆	
LEO Pharma Yuhan Hoesa	South Korea	100	●			
Laboratorios LEO Pharma S.A.	Spain	100	●			
LEO Pharma AB	Sweden	100	●			
LEO Pharmaceutical Products Sarath Ltd.	Switzerland	100	●			
LEO Pharma SARL	Tunisia	100			◆	
LEO Pharma İlaç Ticaret Anonim Şirketi	Turkey	100	●			
LEO Laboratories Ltd.	United Kingdom	100	●			
LEO Pharma Inc.	USA	100	●			
LEO Spiny Merger Sub. Inc.	USA	100				▼
LEO US Holding Inc.	USA	100				▼
Associates						
PellePharm Inc.	USA	16.75				▼
SkinVision B.V	Netherlands	26.32				▼

Financial Statements – Parent Company

Income statement
January 1 - December 31

		Parent Company	
(DKK million)	Note	**2019**	**2018**
Revenue	1	7,856	7,608
Cost of sales	3,9	(5,503)	(5,029)
Gross profit		**2,353**	**2,579**
Sales and distribution costs	3,8,9	(2,903)	(2,389)
Research and development costs	3,8,9	(2,119)	(1,573)
Administrative costs	2,3,8,9	(1,159)	(967)
Other operating income		430	2,016
Other operating expenses		(51)	(193)
Operating profit/(loss)		**(3,449)**	**(527)**
Income from investments in subsidiaries	10	1,760	1,863
Share of profit/(loss) on investment in associates	11	(29)	(11)
Financial income	4	23	26
Financial expenses	5	(364)	(188)
Profit/(loss) before tax		**(2,059)**	**1,163**
Tax on profit/(loss) for the year	6	740	94
Net profit/(loss) for the year	7	**(1,319)**	**1,257**

Balance sheet at December 31

Assets		**Parent Company**	
(DKK million)	Note	**2019**	**2018**
Intellectual property rights		3,170	3,514
Development projects		2,314	2,095
Software		959	654
Intangible assets	8	**6,443**	**6,263**
Land and buildings		460	361
Leasehold improvements		5	6
Plant and machinery		548	275
Other fixtures and fittings, tools and equipment		116	96
Fixed assets under construction		703	493
Property, plant and equipment	9	**1,832**	**1,231**
Investments in subsidiaries	10	9,454	5,412
Investment in associates	11	9	35
Other financial securities		23	19
Deferred tax assets	12	443	146
Other receivables	13	17	17
Financial assets		**9,946**	**5,629**
Total non-current assets		**18,221**	**13,123**
Raw materials and consumables		147	26
Work in progress		589	599
Finished goods and goods for resale		393	319
Inventories		**1,129**	**944**
Trade receivables		1,208	1,151
Loans to subsidiaries		2,860	727
Receivables from subsidiaries		465	715
Tax receivables		520	64
Other receivables	13	733	303
Prepayments	14	251	151
Receivables		**6,037**	**3,111**
Other securities		**225**	**311**
Cash at bank and in hand		**29**	**34**
Total current assets		**7,420**	**4,400**
Total assets		**25,641**	**17,523**

Balance sheet at December 31

Equity and liabilities		Parent Company	
(DKK million)	Note	**2019**	**2018**
Share capital	19	250	250
Net revaluation, subsidiaries		4,412	4,284
Reserve for development projects		1,729	1,211
Retained earnings		1,687	3,807
Equity		**8,078**	**9,552**
Provisions	15	272	164
Provisions		**272**	**164**
Credit institutions		3,807	536
Loan from the LEO Foundation		1,000	1,000
Loan from LEO Holding A/S		3,806	-
Other long-term liabilities		87	-
Total non-current liabilities	16	**8,700**	**1,536**
Credit institutions		638	876
Trade payables		926	1,200
Loans from subsidiaries		5,292	2,761
Payables to subsidiaries		932	1,051
Tax payables		0	123
Other payables		803	260
Total Current liabilities		**8,591**	**6,271**
Total equity and liabilities		**25,641**	**17,523**

Statement of changes in equity

(DKK million)	Share capital	Net revaluation, subsidiaries	Reserve for development projects	Retained earnings	Total
2019					
Equity at January 1	250	4,284	1,211	3,807	9,552
Profit/(loss)	-	1,760	-	(3,079)	(1,319)
Capitalized development costs, net	-	-	518	(518)	-
Deferred gains/losses on financial instruments	-	-	-	(27)	(27)
Dividend received from subsidiaries	-	(1,496)	-	1,496	-
Exchange rate adjustment of foreign subsidiaries	-	2	-	-	2
Other movements	-	(138)	-	2	(136)
Tax on changes in equity	-	-	-	6	6
Equity at December 31	**250**	**4,412**	**1,729**	**1,687**	**8,078**
2018					
Equity at January 1	250	3,909	367	3,771	8,297
Profit/(loss)	-	1,863	-	(606)	1,257
Capitalized development costs, net	-	-	844	(844)	-
Deferred gains/losses on financial instruments	-	-	-	(25)	(25)
Dividend received from subsidiaries	-	(1,506)	-	1,506	-
Exchange rate adjustment of foreign subsidiaries	-	(41)	-	-	(41)
Other movements	-	59	-	-	59
Tax on changes in equity	-	-	-	5	5
Equity at December 31	**250**	**4,284**	**1,211**	**3,807**	**9,552**

Notes
– Parent Company

Note 1 Revenue

(DKK million)	2019	2018
Revenue by region		
Europe+	5,250	4,908
International	1,928	1,802
US	678	898
Total	**7,856**	**7,608**

(DKK million)	2019	2018
Revenue by category		
Products	7,639	7,362
Sales-based royalties	210	225
Other	7	21
Total	**7,856**	**7,608**

Note 2 Audit fees

(DKK million)	2019	2018
Deloitte Statsautoriseret Revisionspartnerselskab		
Statutory audit	4	3
Tax advisory services	1	1
Other services	9	6
Total	**14**	**10**

Note 3 Staff expenses

(DKK million)	2019	2018
Wages and salaries	1,761	1,475
Pensions	159	144
Social security expenses	21	14
Other employee expenses	39	42
Total	**1,980**	**1,675**
Capitalized staff expenses	(159)	(119)
Total staff expenses in the income statement	**1,821**	**1,556**
Staff expenses included in:		
Cost of sales	307	324
Sales and distribution costs	249	228
Research and development costs	624	580
Administrative costs	641	424
Total	**1,821**	**1,556**
Remuneration to registered members of the Executive Management	66	26
Remuneration to the Board of Directors	6	6

For a specification of the remuneration by category, see note 3 to the Consolidated Financial Statements.

Average number of full-time employees	2,372	2,220

Note 4 Financial income

(DKK million)	2019	2018
Interest income on bonds	6	8
Interest income from subsidiaries	12	4
Other financial income	5	14
Total	**23**	**26**

Note 5 Financial expenses

(DKK million)	2019	2018
Interest expenses, loan from the LEO Foundation and LEO Holding A/S	(99)	(25)
Interest expenses, subsidiaries	(6)	(2)
Interest expenses, bank	(43)	(18)
Loss on financial assets measured at cost	-	(2)
Exchange rate losses	(166)	(73)
Write-down of financial assets	(2)	(67)
Other financial expenses	(48)	(1)
Total	**(364)**	**(188)**

Note 6 Tax on profit/loss for the year

(DKK million)	2019	2018
Current tax for the year	(443)	(94)
Prior-year adjustments, current tax	(6)	27
Prior-year adjustments, deferred tax	1	11
Change in deferred tax	(298)	155
Total	**(746)**	**99**
Tax on profit/loss for the year	(740)	94
Tax on changes in equity	(6)	5
Total	**(746)**	**99**

Note 7 Proposed distribution of net profit/loss for the year

(DKK million)	2019	2018
Net revaluation for the year	1,760	1,863
Retained earnings	(3,079)	(606)
Total	**(1,319)**	**1,257**

Note 8 Intangible assets

(DKK million)	Intellectual property rights	Development projects	Software	Total intangible assets
2019				
Cost at January 1	10,105	2,111	858	13,074
Adjustment to opening	-	(14)	-	(14)
Additions during the year	237	629	51	917
Disposals during the year	-	(7)	0	(7)
Transfers	-	(381)	381	-
Cost at December 31	**10,342**	**2,338**	**1,290**	**13,970**
Amortization and impairment losses at January 1	(6,591)	(16)	(204)	(6,811)
Amortization for the year	(467)	-	(127)	(594)
Disposals during the year	-	-	-	-
Impairment losses for the year[1]	(114)	(8)	-	(122)
Amortization and impairment losses at December 31	**(7,172)**	**(24)**	**(331)**	**(7,527)**
Carrying amount at December 31	**3,170**	**2,314**	**959**	**6,443**
2018				
Cost at January 1	10,292	1,236	617	12,145
Adjustment to opening	24	(64)	-	(40)
Additions during the year	331	1,054	127	1,512
Disposals during the year	(542)	(1)	-	(543)
Transfers	-	(114)	114	-
Cost at December 31	**10,105**	**2,111**	**858**	**13,074**
Amortization and impairment losses at January 1	(6,300)	(77)	(120)	(6,497)
Adjustment to opening	(24)	64	-	40
Amortization for the year	(462)	-	(76)	(538)
Disposals during the year	195	1	-	196
Impairment losses for the year	-	(4)	(8)	(12)
Amortization and impairment losses at December 31	**(6,591)**	**(16)**	**(204)**	**(6,811)**
Carrying amount at December 31	**3,514**	**2,095**	**654**	**6,263**

1. For a specification of the impairment, please refer to note 6 to the Consolidated Financial Statements.

Development projects amounted to DKK 2,314 million (2018: DKK 2,095 million). Capitalized costs for development projects primarily consist of licenses in relation to research and development projects and internally developed software. Acquired development projects are undergoinng the clinical stages towards regulatory approval and launching.

(DKK million)	2019	2018
Amortization and impairment losses are specified as follows:		
Sales and distribution costs	581	446
Research and development costs	0	4
Administrative costs	135	100
Total	**716**	**550**

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
2019						
Cost at January 1	996	7	1,113	397	493	3,006
Adjustment to opening	2	2	(2)	(4)	-	(2)
Additions during the year	-	-	3	28	695	726
Disposals during the year	(14)	-	(9)	(21)	-	(44)
Transfers	120	-	347	18	(485)	-
Cost at December 31	**1,104**	**9**	**1,452**	**418**	**703**	**3,686**
Depreciation and impairment losses at January 1	(635)	(1)	(838)	(301)	-	(1,775)
Adjustment to opening	(2)	(2)	3	5	-	4
Disposals during the year	11	-	7	21	-	39
Depreciation for the year	(18)	(1)	(76)	(27)	-	(122)
Depreciation at December 31	**(644)**	**(4)**	**(904)**	**(302)**	**-**	**(1,854)**
Carrying amount at December 31	**460**	**5**	**548**	**116**	**703**	**1,832**
2018						
Cost at January 1	949	6	1,035	355	352	2,697
Additions during the year	-	1	1	41	328	371
Disposals during the year	(3)	-	(22)	(16)	(21)	(62)
Transfers	50	-	99	17	(166)	-
Cost at December 31	**996**	**7**	**1,113**	**397**	**493**	**3,006**
Depreciation and impairment losses at January 1	(598)	-	(805)	(290)	-	(1,693)
Disposals during the year	-	-	21	12	-	33
Depreciation for the year	(37)	(1)	(54)	(23)	-	(115)
Depreciation and impairment losses at December 31	**(635)**	**(1)**	**(838)**	**(301)**	**-**	**(1,775)**
Carrying amount at December 31	**361**	**6**	**275**	**96**	**493**	**1,231**

(DKK million)	2019	2018
Depreciation and impairment losses are specified as follows:		
Cost of sales	92	98
Sales and distribution costs	2	2
Research and development costs	12	10
Administrative costs	16	5
Total	**122**	**115**

Note 10 Investment in subsidiaries

(DKK million)	2019	2018
Cost at January 1	1,128	1,106
Additions during the year	3,914	23
Divestment during the year	-	(1)
Cost at December 31	**5,042**	**1,128**
Value adjustment at January 1	4,284	3,909
Share of profit/(loss) for the year[1]	1,760	1,863
Dividend	(1,496)	(1,506)
Exchange rate adjustment	2	(41)
Other movements	(138)	59
Value adjustment at December 31	**4,412**	**4,284**
Carrying amount at December 31	**9,454**	**5,412**

1. The share of profit/(loss) for the year includes amortization of goodwill of DKK 4 million. The carrying amount of goodwill at December 31, 2019 is DKK 122 million.

Note 11 Investment in associates

(DKK million)	2019	2018
Cost at January 1	46	9
Additions/divestment during the year	(9)	37
Cost at December 31	**37**	**46**
value adjustment at January 1	(11)	-
Share of profit/(loss) for the year	(29)	(11)
Other movements/divestment	12	-
Value adjustment at December 31	**(28)**	**(11)**
Carrying amount at December 31	**9**	**35**

Note 12 Deferred tax

(DKK million)	2019	2018
Deferred tax assets/(liabilities) at January 1	146	(20)
Adjustment relating to previous years	(1)	11
Deferred tax on profit for the year	298	155
Deferred tax assets/(tax liabilities) at December 31	**443**	**146**

For description of basis for recognition of deferred tax assets, please see note 11 to the Consolidated Financial Statements.

Note 13 Other receivables

Other receivables relate to VAT and other receivables.

Note 14 Prepayments

Prepayments primarily consist of royalty payments relating to license agreements.

Note 15 Provisions

(DKK million)	2019	2018
Staff-related provisions	120	82
Sales deductions	7	10
Other provisions	145	72
Total	**272**	**164**
Other provisions fall due		
Within one year	189	58
Between one and five years	83	106
After five years	-	-
Total	**272**	**164**

Note 16 Non-current liabilities

(DKK million)	2019	2018
Other long-term liabilities fall due		
Between one and five years	7,701	536
After five years	1,000	1,000
Total	**8,701**	**1,536**

Note 17 Contractual obligations

Operating lease obligations

The Parent Company has lease obligations of DKK 42 million (2018: DKK 52 million) of which DKK 22 million is related to leases for office premises with subsidiaries (2018: DKK 22 million).

Note 18 Contingencies and commitments

The total guarantee commitment for the Parent Company amounts to DKK 200 million at December 31, 2019 (2018: DKK 1,896 million).

At December 31, 2019, the guarantee commitments mainly comprises guarantees relating to associated company and pending litigations of DKK 152 million (2018: DKK 1,271 million). Guarantees in 2018 related mainly to acquisitions.

LEO Pharma A/S has pledged bonds and cash for pension schemes in the UK, please refer to note 13 to the Consolidated Financial Statements. Buildings in Ballerup, Denmark are pledged for loans.

Contractual obligations and commitments

Contracted for but not provided in the financial statements:

(DKK million)	**2019**	**2018**
Intangible assets	3,292	6,283
Property, plant and equipment	602	456
Other current assets	-	373
Total	**3,894**	**7,112**

The commitments related to intangible assets comprise milestone payments relating to development of new products and intellectual property rights from acquisitions. The remaining commitments of DKK 753 million relate to fixed contractual obligations. The amounts are not risk-adjusted or discounted.

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

Pending lawsuits

At the end of 2019, 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 Parent Company's financial position. LEO Pharma is involved in a number of legal proceedings. In the opinion of Management, the outcome of these proceedings will not have a material impact on the financial position or cash flows. Such proceedings will, however, develop over time, and new proceedings may occur which could have a material impact on LEO Pharma's financial position and/or cash flows.

Tax

The Parent Company is jointly taxed with all its Danish subsidiaries and its owner LEO Holding A/S. The Parent Company is jointly and severally liable with the other companies in the joint taxation scheme for Danish corporate taxes and withholding taxes on dividends, interest and royalties within the joint taxation scheme.

LEO Pharma A/S is jointly registered for VAT purpose with LEO Holding A/S, Løvens Kemiske Fabriks Handelsaktieselskabet A/S and is jointly liable for the payment thereof.

As a global business, LEO Pharma will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues including transfer pricing and indirect taxes issues. Please refer to description of uncertain tax positions in note 10 in the Group financial statements.

Note 19 Other notes

For Financial risks, please see note 13 to the Consolidated Financial Statements.

For disclosures on assets measured at fair value, see note 14 to the Consolidated Financial Statements.

For Share capital and distribution to shareholders, please see note 21 to the Consolidated Financial Statements.

For Related parties, please see note 23 to the Consolidated Financial Statements.

For Events after the balance sheet date, please see note 24 to the Consolidated Financial Statements.

Note 20 Accounting policies

The Financial Statements of the Parent Company, LEO Pharma A/S, for 2019 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises in reporting class C.

The accounting policies remain unchanged from the previous year.

The Parent Company's accounting policies for recognition and measurement are consistent with the policies for the Consolidated Financial Statements except for IFRS 16 - Leases, which is not implemented for the Parent Company and the treatment of goodwill. Goodwill is amortized over the expected useful life in the Financial Statements for The Parent Company.

Cash flow statement

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

Tax

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

Equity

Reserve for development costs

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

Investments in subsidiaries

Investment in subsidiaries are measured under the equity method. This means that the subsidiaries are measured in the balance sheet at the proportional share of their net asset value, with deduction or addition of unrealized intercompany profits or losses, and addition of any remaining value of positive differences (goodwill). The Parent Company's share of the subsidiaries' profit for the year is recognized in the income statement less unrealized intercompany profits. Goodwill is amortized over the expected useful life (fifteen years).

The total net revaluation of investments in subsidiaries is transferred to "Reserve for net revaluation under the equity method" under equity.

The reserve is reduced by dividends distributed to the Parent Company.

Management's Statement

The Executive Board and the Board of Directors have today considered and adopted the Annual Report of LEO Pharma A/S for the financial year January 1 – December 31, 2019.

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

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at December 31, 2019, and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for 2019.

We believe that the Management's Review includes a fair review of developments in the Group's and the Parent Company's activities and finances, results for the year and the Group's and the Parent Company's financial position in general, as well as a description of the most significant risks and uncertainties to which the Group and the Parent Company are exposed.

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

Ballerup, February 25, 2020

Executive Board:

Catherine Mazzacco
President & CEO

Anders Kronborg
CFO

Board of Directors:

Olivier Bohuon
Chairman

Anders Ekblom
Vice Chairman

Patrik Oluf Dahlén

Jesper Høiland

Cristina Patricia Lage

Jan van de Winkel

Jesper Mailind

Birgitta Stymne Göransson

Signe Maria Christensen

Franck Maréno

Jannie Kogsbøll

Karin Attermann

Independent Auditor's Report

To the shareholder of LEO Pharma A/S

Opinion

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements for the financial year January 1, 2019 - December 31, 2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent Company, and the statement of comprehensive income and the cash flow statement of the Group. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent Company Financial Statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at December 31, 2019 and of the results of its operations and cash flows for the financial year January 1, 2019 - December 31, 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent's financial position at December 31, 2019 and of the results of its operations for the financial year January 1, 2019 - December 31, 2019 in accordance with the Danish Financial Statements Act.

Basis for Opinion

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

Statement on the Management's review

Management is responsible for the Management's Review.

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

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

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

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

Management's Responsibilities for the Consolidated Financial Statements and the Parent Company Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, as well as the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Consolidated Financial Statements and the Parent Company Financial Statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements and the Parent Company Financial Statements, including the disclosures in the notes, and whether the Consolidated Financial Statements and the Parent Company Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Copenhagen, February 25, 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

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State-Authorized Public Accountant
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This report represents LEO Pharma's compliance with Sections 99a and 99b of the Danish Financial Statements Act.

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