



LEO FONDET
EST. 1984

ANNUAL REPORT 2016 LEO FOUNDATION

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Presented and adopted at the Board meeting on 30 March 2017.
CVR no. 11 62 33 36

This Annual Report is an extract of the Foundation’s statutory annual report pursuant to Section 149 of the Danish Financial Statements Act. The statutory annual report will be submitted to the Danish Business Authority, and a copy may be obtained via the Authority’s website www.cvr.dk.



MANAGEMENT'S STATEMENT

The Board of Trustees has today considered and adopted the Annual Report of the LEO Foundation for the financial year 1 January – 31 December 2016.

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

In our opinion, the financial statements of the Foundation give a true and fair view of the financial position of the Foundation

as at 31 December 2016 and of the results of the Foundation's operations for 2016.

In our opinion, Management's Review gives a true and fair account of the matters addressed in the Review. We recommend that the Annual Report be adopted at the Board meeting.

Ballerup, 30 March 2017

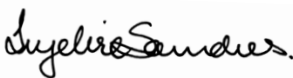
BOARD OF TRUSTEES:



Lars Olsen
Chairman



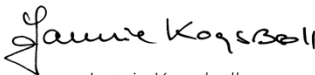
Jens Bo Olesen
Vice Chairman



Ingelise Saunders



Jens Holm



Jannie Kogsbøll



John Møhlbye



Per Håkon Schmidt



Gorm M. Thamsborg



Allan Carsten Dahl



Cristina Lage

FOUNDATION INFORMATION

The LEO Foundation

LEO Fondet
Industriparken 55
2750 Ballerup
Denmark

CVR no.: 11 62 33 36
Reg. office: Ballerup

Financial year:
1 January – 31 December

Board of Trustees

Lars Olsen, Chairman
Jens Bo Olesen, Vice Chairman
Ingelise Saunders
John Mehlbye
Per Håkon Schmidt
Gorm Milan Thamsborg
Jannie Kogsbøll
Jens Holm
Allan Carsten Dahl
Cristina Lage

Auditors

PricewaterhouseCoopers
Statsautoriseret
Revisionspartnerselskab

Strandvejen 44
2900 Hellerup
Denmark

FINANCIAL HIGHLIGHTS

(DKK million)	2016	2015 *	2014†	2013†	2012†
Income statement					
Operating profit	-9	-4	-4	-4	-4
Income from investments in affiliates after tax	743	713	1,544	1,175	663
Financial items	0	1	2	2	1
Profit before tax	734	710	1,542	1,173	658
Net profit for the year	722	713	1,544	1,175	657
Balance sheet					
Fixed assets	25,212	24,751	24,523	23,136	21,990
Current assets	67	98	114	120	127
Total assets	25,279	24,849	24,637	23,256	22,117
Equity	25,131	24,820	24,622	23,239	22,096
Ratios					
Return on equity	3%	3%	6%	5%	3%
Solvency ratio	99%	100%	100%	100%	100%

* These figures have been restated to reflect adoption of the new Danish Financial Statements Act. For a description of the effect of the transition to the amended Danish Financial Statements Act, please refer to note 12.
† In accordance with section 101 of the Danish Financial Statements Act, the Foundation has chosen not to restate the comparative figures for 2014, 2013 and 2012.

MANAGEMENT'S REVIEW

About the LEO Foundation

The LEO Foundation is an active commercial foundation. It was established in 1984 by the former owner of LEO Pharma.

The LEO Foundation owns all the shares in LEO Pharma A/S which, in the course of its more than 100-year history, has grown into a global healthcare company dedicated to helping people achieve healthy skin.

As stated in its charter, the LEO Foundation is to retain full ownership of LEO Pharma. The LEO Foundation is independent of heirs, outside shareholders and other interests.

Our mission

The LEO Foundation's mission is to ensure the ongoing development of LEO Pharma as an independent, competitive and research-based healthcare company.

Our strategy

The LEO Foundation exercises active and ambitious ownership of LEO Pharma as part of its efforts to ensure the Company's ongoing development as an independent, competitive and research-based healthcare company.

As part of this active ownership, the LEO Foundation:

- Sets the overall framework, direction and long-term performance targets for LEO Pharma
- Elects the Board of Directors of LEO Pharma
- Maintains open communication and strong collaboration with LEO Pharma's Board of Directors
- Safeguards LEO Pharma's assets in order to ensure the short- and long-term independence of LEO Pharma.

In addition, the LEO Foundation supports research within the fields of medicine, chemistry and pharmacy. The LEO Foundation particularly supports international dermatological research projects and activities that address issues in disease understanding, disease treatment, disease awareness and patient well-being.

The Board of Trustees

The Board of Trustees consists of 10 members: seven members are elected according to the charter and three are employee-elected representatives. The composition of the Board of Trustees serves to ensure that the LEO Foundation fulfils its objectives, as specified in the charter.

The LEO Foundation's Board of Trustees appointed Lars Olsen, former Executive Vice President of Global Sales & Marketing at LEO Pharma, as Chairman of the LEO Foundation as of 1 January 2016.

Ingelise Saunders joined the Board of Trustees as an independent member as of 1 January 2016. Cristina Lage joined the Board as an independent member as of 31 March 2016. This brings the LEO Foundation closer to its goal for female members to make up at least 40% of the Board of Trustees by 31 March 2020. Today, three out of 10 members of the Board of Trustees are women.

Governance statement

The Danish Committee on Foundation Governance has issued a set of governance recommendations, effective as from and including 2015.

The LEO Foundation supports and complies with these recommendations. Further information is available on the LEO Foundation's website, where the mandatory report concerning gender representation on the Board of Trustees can also be found.

www.leo-foundation.org/governancerecommendations



Board of Trustees

In accordance with the governance recommendations issued by the Danish Committee on Foundation Governance, the LEO Foundation discloses the following information about the Board of Trustees:

	Lars Olsen	Jens Bo Olesen	Ingelise Saunders	John Mehlbye		Per Håkon Schmidt	Gorm M. Thamsborg	Cristina Lage	Jens Holm	Jannie Kogsbøll	Allan Carsten Dahl
Position	Chairman	Vice Chairman	Board member	Board member		Board member	Board member	Board member	Employee-elected Board member	Employee-elected Board member	Employee-elected Board member
Born	1965	1951	1949	1950		1953	1951	1954	1956	1962	1967
Gender	Male	Male	Female	Male		Male	Male	Female	Male	Female	Male
Joined the Board of Trustees	2015	2007	2015	2008		2001	1999	2016	2010	1998	2015
Re-elected	No	Yes	No	Yes		Yes	Yes	No	Yes	Yes	No
Term expires	2017	2017	2017	2017		2017	2017	2017	2018	2018	2018
Member’s special skills	General management, R&D, sales and marketing	General management, sales and marketing	General management, biotech, Big Pharma sales and marketing, business development, drug development	General management, product supply		Law	Medicine	General and change management, investment and asset management, financial risk management	Auditor, risk management, insurance	Production, processes	Organic process R&D, CMC development
Other management positions	LEO Pharma Research Foundation, Chairman	LEO Pharma A/S, Board member LEO Pharma Research Foundation, Board member	Acesion Pharma ApS, Chairman MinervaX Aps, Chairman LEO Pharma A/S, Board member LEO Pharma Research Foundation, Board member	LEO Pharma Research Foundation, Board member Østagergaard, Board member		Den 7. himmel, Chairman LEO Pharma Research Foundation, Board member	LEO Pharma Research Foundation, Board member	Det Obelske Familiefond, Board member SEB Pension DK, Board member, and Chairman of audit committee Alm. Brand Invest, Vice Chairman Den Berlingske Fond, Board member		LEO Pharma A/S, employee-elected Board member	Union of Academic Employees at LEO Pharma A/S, Chairman
Appointed by the authorities	No	No	No	No		No	No	No	No	No	No
Member considered independent?	No	No	Yes	No		No	No	Yes	No	No	No



PERFORMANCE AND ACTIVITIES IN 2016

Financial results – LEO Foundation

The LEO Foundation generated a net profit of DKK 722 million in 2016 compared to DKK 713 million in 2015. Income from investments in affiliates after tax was DKK 743 million in 2016 compared to DKK 713 million in 2015.

The LEO Foundation achieved a 3% return on equity (2015: 3%) and equity of DKK 25,131 million at the end of the year (2015: DKK 24,820 million). Based on these results, the LEO Foundation entered 2016 with a solvency ratio of 99% (2015: 100%).

The LEO Foundation considers the result for 2016 satisfactory. In 2017, the LEO Foundation expects operating profit to be in line with previous years.

Financial results – LEO Pharma

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

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

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

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

The result for 2016 is considered satisfactory.

Our donations

The LEO Foundation supports international dermatological research projects and activities that address issues in disease understanding, disease treatment, disease awareness and patient well-being. Typical projects and activities are international studies, scientific symposia, science-based knowledge dissemination and awareness campaigns.

In 2016, the LEO Foundation issued grants to 25 projects and activities for a total of DKK 85.3 million. The majority of the grants were issued to projects and activities with an international scope related to dermatology.

The LEO Foundation awarded the single largest grant in its history, DKK 40 million over 10 years, to the creation of the LEO Foundation Center for Cutaneous Drug Delivery at the University of Copenhagen, Denmark. The centre will explore the physical-chemical interaction between topical treatments and the skin. The research is expected to contribute to the development of better treatment for people with skin diseases.

Additional key grants include DKK 13.1 million to a team of researchers who aim to identify the molecular mechanisms impacting the association between psoriasis and cardiovascular diseases. The team is led by Joel Dudley, Director of Biomedical Informatics at Icahn School of Medicine at Mount Sinai, New York, US, and Peter Riis Hansen, Department of Cardiology, Gentofte Hospital, University of Copenhagen, Denmark. The team will employ an array of modern high-throughput technologies to bring together information about genetics, immunology, local gene expression, microbiomes and more standard clinical measures to develop an unprecedented map of factors impacting cardiovascular health in psoriatic patients.

Also worth highlighting is a grant of DKK 11.5 million to a study on atopic dermatitis in children led by Dr Emma Guttman, Icahn School of Medicine at Mount Sinai, New York, US. The research will explore the differences in biomarkers between adults and children with atopic dermatitis and aims to clarify when children transition to the adult biomarker pattern. Correlating the validity of biomarkers in adults with atopic dermatitis versus different age groups of children and adolescents with the skin disease is a critical step before engaging in large-scale clinical trials.

PROJECT PORTFOLIO OVERVIEW

(DKK million)	Grants awarded before 2016	Grants awarded in 2016	Total grants awarded	Paid out before 2016	Paid out in 2016	Pending payments
Skin cancer screening education study	6.2	1.7	7.9	5.3	1.2	1.4
LEO Foundation Center for Cutaneous Drug Delivery	0.0	40.0	40.0	0.0	0.0	40.0
International project on the global epidemiology of psoriasis: development of the Global Psoriasis Atlas	0.0	6.4	6.4	0.0	0.0	6.4
Development and validation of a physiologically-based pharmacokinetic model for dermal absorption	0.0	3.6	3.6	0.0	1.2	2.4
The International Eczema Council	0.0	0.3	0.3	0.0	0.3	0.0
Integrative genomic understanding of atopic dermatitis and hand dermatitis in adults	0.0	11.1	11.1	0.0	2.8	8.3
Multiscale biology of cardiovascular risk in psoriasis	0.0	13.1	13.1	0.0	3.5	9.6
Influence of microbes on development of skin diseases	0.0	5.0	5.0	0.0	0.0	5.0
The Human Skin Immune Atlas	0.0	0.7	0.7	0.0	0.0	0.7
Skin and blood biomarkers of atopic dermatitis in different pediatric age groups	0.0	11.5	11.5	0.0	1.7	9.8
Skin barrier dysfunction and thymus size during the first year of life as predictors for atopic dermatitis	0.0	2.6	2.6	0.0	0.4	2.2
Full thickness skin models from human pluripotent stem cells for identification and testing effectiveness of personalized therapies in atopic dermatitis	0.0	10.0	10.0	0.0	0.0	10.0
A longitudinal investigation of skin barrier development from birth and the validation of early predictors of AD risk: the Skin Testing for Atopic dermatitis Risk (STAR) trial	0.0	2.1	2.1	0.0	0.0	2.1
Skin barrier function is first line of defense – Epidermal T cells' dynamic, interplay and function	0.0	2.4	2.4	0.0	0.4	2.0
Analysis of epigenetic control of IL-23 expression in keratinocytes	0.0	2.1	2.1	0.0	0.0	2.1
Cytosolic genome DNA fragments as a trigger of keratinocyte proliferation in psoriasis	0.0	0.5	0.5	0.0	0.2	0.2
Defining the epigenetics of rosacea	0.0	0.3	0.3	0.0	0.0	0.3
Serum transcriptomics in melanoma patients	0.0	0.3	0.3	0.0	0.0	0.3
ICR agonists as novel therapeutics for psoriasis treatment	0.0	1.0	1.0	0.0	0.5	0.5
Chemiexcitation in human disease	0.0	0.3	0.3	0.0	0.3	0.0
Protease-induced PAR2 activation and corneodesmosome dysfunction in human and mouse skin: defining a common pathway leading to atopic dermatitis	0.0	3.8	3.8	0.0	0.9	3.0

(DKK million)	Grants awarded before 2016	Grants awarded in 2016	Total grants awarded	Paid out before 2016	Paid out in 2016	Pending payments
Mitochondria in chronic wounds: experimental and translational studies	0.0	3.6	3.6	0.0	1.0	2.6
LEO Foundation spark grants at Stanford	0.0	4.5	4.5	0.0	0.0	4.5
Big Bang 2017-2019	0.0	2.0	2.0	0.0	0.0	2.0
Japanese Society for Investigative Dermatology (JSID)	0.0	0.8	0.8	0.0	0.0	0.8
Total grants before 2016	37.6	0.0	37.6	21.7	7.6	8.3
Total grant letters issued	43.8	129.7	173.5	27.0	22.0	124.5
Melanocyte stress response pathways and their role in the onset of vitiligo	0.0	5.0	5.0	0.0	0.0	5.0
Development and validation of scoring systems for outcome measures of vitiligo: an international cooperative initiative	0.0	0.7	0.7	0.0	0.0	0.7
Epithelial differentiation and keritanization – Gordon Research Conference (GRC) and Gordon Research Seminar (GRS)	0.0	0.2	0.2	0.0	0.0	0.2
Total grant letters not issued	0.0	5.9	5.9	0.0	0.0	5.9
Transfer of grant letters not issued from 2015	50.3	-50.3	0.0	0.0	0.0	0.0
Total committed grants	94.1	85.3	179.4	27.0	22.0	130.4
Transfer of non-committed grants from 2015	0.0	-5.9	0.0	0.0	0.0	0.0
Non-committed grants (transferred to next year)	5.9	0.6	0.6	0.0	0.0	0.6
Total grant limit	100.0	80.0	180.0	27.0	22.0	131.0

For more information about the projects and activities that the LEO Foundation supports, including beneficiaries and the LEO Foundation's grant policy, please visit: www.leo-foundation.org





LEO FOUNDATION FINANCIAL STATEMENTS

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INCOME STATEMENT

(DKK million)	Note	2016	2015
Administrative costs	(1, 2)	-9	-4
Operating profit		-9	-4
Income from investments in affiliates after tax	(6)	743	713
Financial income	(3)	0	1
Profit before tax		734	710
Tax on profit for the year	(4)	-12	3
Net profit for the year	(5)	722	713

BALANCE SHEET AT 31 DECEMBER

ASSETS

(DKK million)	Note	2016	2015
Investments in affiliates	(6)	25,212	24,751
Total financial fixed assets		25,212	24,751
Total fixed assets		25,212	24,751
Receivables from affiliates		61	90
Other receivables		0	1
Total receivables		61	91
Cash at bank and in hand		6	7
Total current assets		67	98
TOTAL ASSETS		25,279	24,849

EQUITY AND LIABILITIES

(DKK million)	Note	2016	2015
Foundation capital	(7)	52	52
Net revaluation, affiliates		24,643	24,182
Grant limit		47	56
Retained earnings		389	530
Total equity		25,131	24,820
Deferred tax	(8)	19	7
Total provisions		19	7
Grants payable	(9)	79	6
Total non-current liabilities		79	6
Grants payable	(9)	45	11
Other payables		5	5
Total current liabilities		50	16
TOTAL EQUITY AND LIABILITIES		25,279	24,849

CASH FLOW STATEMENT

(DKK million)	2016	2015
Profit before tax	734	710
Income from investments in affiliates after tax	-743	-713
Change in working capital		
Change in receivables	30	9
CASH FLOWS FROM OPERATING ACTIVITIES	21	6
Grants paid out during the year	-22	-13
CASH FLOWS FROM FINANCING ACTIVITIES	-22	-13
TOTAL CHANGE IN CASH AND CASH EQUIVALENTS	-1	-7
Cash and cash equivalents at 1 January	7	14
Cash and cash equivalents at 31 December	6	7

The figures in the cash flow statement cannot be directly derived from the figures in the financial statements.

STATEMENT OF EQUITY

(DKK million)	Foundation capital	Net revaluations, affiliates	Grant limit	Retained earnings	Total
Equity at 1 January 2016	52	24,182	56	530	24,820
Profit from affiliates after tax	0	743	0	0	743
Profit/loss in LEO Foundation	0	0	0	-21	-21
Adjustment of financial instruments	0	8	0	0	8
Exchange rate adjustment	0	-108	0	0	-108
Proposed grant limit for the year	0	0	40	-40	0
Transferred to grant limit	0	0	80	-80	0
Grants for the year	0	0	-79	0	-79
Grants regarding previous years	0	0	-50	0	-50
Other movements	0	-182	0	0	-182
Equity at 31 December 2016	52	24,643	47	389	25,131

(DKK million)	Foundation capital	Net revaluations, affiliates	Grant limit	Retained earnings	Total
Equity at 1 January 2015	52	23,954	46	570	24,622
Adjustment of opening balance	0	-719	0	0	-719
Equity at 1 January 2015	52	23,235	46	570	23,903
Profit from affiliates after tax	0	713	0	0	713
Adjustment of financial instruments	0	85	0	0	85
Exchange rate adjustment	0	46	0	0	46
Transferred to grant limit	0	0	40	-40	0
Grants for the year	0	0	-10	0	-10
Grants regarding previous years	0	0	-20	0	-20
Other movements	0	103	0	0	103
Equity at 31 December 2015	52	24,182	56	530	24,820



LEO FOUNDATION NOTES

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NOTES

Note 1 – Other external expenses

Fees to auditors appointed at the Board meeting
In 2016, the LEO Foundation paid DKK 65 thousand for statutory audit (2015: DKK 81 thousand) and DKK 547 thousand for other services (2015: DKK 31 thousand).

(DKK million)

Note 2 – Staff expenses	2016	2015
Wages and salaries	4	3
Total	4	3
Included in		
Administrative costs	4	3
Total	4	3
Average number of full-time employees	0	0
Remuneration to the Board of Trustees from other Group companies	1	1

Remuneration to the Board of Trustees amounted to DKK 4 million (2015: DKK 3 million) and the fee to administrator amounted to DKK 1.9 million (2015: DKK 0.6 million).

In accordance with the governance recommendations issued by the Danish Committee on Foundation Governance, the LEO Foundation discloses the following information about the Board of Trustees (with the exception of employee-elected members):

(DKK thousand)

	Lars Olsen	Jens Bo Olesen	John Mehlbye	Per Håkon Schmidt	Gorm M. Thamsborg	Ingelise Saunders	Cristina Lage	Employee-elected	Total
Remuneration to the Board of Trustees, LEO Fondet	900	600	300	300	300	300	225	900	3,825
Remuneration to the Board of Directors, LEO Pharma A/S	-	350	-	-	-	350	-	350	1,050

(DKK million)

Note 3 – Financial income	2016	2015
Interest income from affiliates	0	1
Total	0	1

(DKK million)

Note 4 – Tax on profit for the year	2016	2015
Change in deferred tax	-12	3
Total	-12	3

NOTES

(DKK million)

Note 5 – Proposed distribution of net profit for the year	2016	2015
Net revaluation for the year	743	713
Grants for the year	80	40
Proposed grant limit for the year	40	0
Retained earnings	-141	-40
	722	713

Note 6 – Investment in affiliates	2016	2015
Cost at 1 January	569	569
Cost at 31 December	569	569
Value adjustment at 1 January	24,182	23,235
Share of profit/loss for the year	743	713
Exchange rate adjustment	-108	46
Adjustment of financial instruments	8	85
Tax on changes in equity	32	-20
Other adjustments	-214	123
Value adjustment at 31 December	24,643	24,182
Carrying amount at 31 December	25,212	24,751

The LEO Foundation owns 100% of the shares in LEO Pharma A/S. The share capital in LEO Pharma A/S is DKK 250 million and the registered office is in Denmark. For a list of all affiliates in the LEO Foundation, please refer to note 22 in LEO Pharma A/S's Annual Report 2016.

Note 7 – Share capital

The nominal value of the foundation capital amounts to DKK 52 million.

(DKK million)

Note 8 – Deferred tax	2016	2015
Deferred tax at 1 January	-7	-10
Deferred tax on profit/loss for the year	-12	3
Deferred tax	-19	-7

(DKK million)

Note 9 – Grants payable	2016	2015
Grants payable fall due		
< 1 year	45	11
1-5 years	59	6
> 5 years	20	0
Grants payable	124	17

NOTES

Note 10 – Contingencies
The LEO Foundation has no guarantee commitments, lease obligations or pledges.
Note 11 – Related parties
The LEO Foundation's related parties with significant influence comprise the LEO Foundation's Board of Trustees, and LEO Pharma A/S and its affiliates.
For information regarding remuneration to the Board of Trustees and administrative costs, please refer to note 2.
The LEO Foundation has a receivable from LEO Pharma A/S of DKK 61 million (2015: DKK 90 million), on which it receives interest at market-equivalent rates. Please refer to note 3 for information regarding interest.
The LEO Foundation has no other transactions with related parties.

Note 12 – Accounting policies

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

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

The transition to the amended Danish Financial Statements Act has entailed changes to recognition and measurement in LEO Pharma A/S, primarily related to changes in recognition of actuarial gains and losses. For a detailed description of the changes, please refer to note 23 in LEO Pharma A/S's Annual Report 2016. Since LEO Pharma A/S is wholly owned by the LEO Foundation, the changes in accounting policies have affected the LEO Foundation as follows:

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

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

Except for the above, the accounting policies applied for the LEO Foundation are unchanged from last year.

Recognition and measurement

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

amounts that have previously been recognised in the income statement. Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Foundation and the value of the asset can be measured reliably.

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

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

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

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

The measurement currency is Danish kroner (DKK). All other currencies are regarded as foreign currencies. The financial statements for 2016 are presented in DKK (million).

Foreign currency translation

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

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates at the balance sheet date. Any

NOTES

Note 12 – Accounting policies (continued)

differences between the exchange rates at the balance sheet date and the rate at the time when the receivable or payable arises, or on recognition in the most recent financial statements, are recognised in financial income and expenses in the income statement.

Administrative costs

Administrative costs comprise expenses incurred for management and administration.

Financial income and expenses

Financial income comprises interest.

Tax on profit/loss for the year

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

Investments in affiliates

Investments in affiliates are measured under the equity method. This means that the affiliates are measured in the balance sheet at the proportionate share of their net asset value. The share of the profit for the year from affiliates is recognised in the income statement less unrealised intercompany profits.

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

Receivables

Receivables are measured at amortised cost.

Equity

The Foundation's equity consists of foundation capital, net revaluation, grant limit and retained earnings.

GRANTS

Grants paid out

Grants that have been adopted and paid out in accordance with the purpose of the Foundation at the balance sheet date are deducted from equity.

Grants payable

Grants that have been adopted in accordance with the purpose of the Foundation at the balance sheet date, and have been announced to the recipients but not yet been paid out, are deducted from equity and recognised as debt.

Grant limit

At the meeting of the Board of Trustees at which the Annual Report is adopted, the Board of Trustees lays down a grant limit in respect of the amount expected to be granted. This amount is transferred from

retained earnings to the grant limit. Concurrent with when they are announced to the recipients, the grant amounts are paid out or transferred to debt or, in rare cases, to provisions relating to grants.

Other payables

Other payables are measured at amortised cost.

Tax

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

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

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

Definition of key figures

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

Cash flow statement

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

Cash flows from operating activities are calculated as profit for the year before extraordinary items and tax, adjusted for non-cash operating items and changes in working capital.

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

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

Consolidated Financial Statements

In accordance with the exemption clause in section 111(3) of the Danish Financial Statements Act, no consolidated financial statements have been prepared for the LEO Foundation.

INDEPENDENT AUDITOR’S REPORT

TO THE BOARD OF TRUSTEES OF LEO FONDET

Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Foundation at 31 December 2016, and of the results of the Foundation's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the financial statements of LEO Fondet for the financial year 1 January – 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity, cash flow and notes, including a summary of significant accounting policies.

Basis for Opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

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

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

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

Management's Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Hellerup, 30 March 2017
PricewaterhouseCoopers, Statsautoriseret Revisionspartnerselskab
CVR No.: 33 77 12 31


Kim Fuchsel
State Authorised
Public Accountant


Allan Knudsen
State Authorised
Public Accountant



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