LEO FOUNDATION

ANNUAL REPORT 2020

Let’s pave the way for curing skin diseases

LEO Foundation at a glance

WHO WE ARE

The LEO Foundation is one of Denmark's largest commercial foundations. The Foundation is the controlling owner of the pharmaceutical company LEO Pharma and its main objective is to ensure the company's long-term development and success.

ABOUT THE LEO GROUP

The LEO Group consists of the LEO Foundation, LEO Holding A/S and LEO Pharma A/S, including its Danish and international subsidiaries (collectively LEO Pharma Group).

LEO Foundation → LEO Holding A/S → LEO Pharma Group

LEO Foundation
The LEO Foundation was established in 1984. The Foundation is the ultimate controlling shareholder of LEO Pharma and provides philanthropic support to independent research.

LEO Holding
The LEO Foundation's financial assets are held in LEO Holding where all investment activities are carried out.

LEO Pharma Group
LEO Pharma develops, manufactures and markets pharmaceutical drugs for the treatment of skin diseases in more than 130 countries.

How we work

At the LEO Foundation we create sustainable value for people and society through engaged ownership, philanthropy and investments.

ENGAGED OWNERSHIP

We are an **engaged owner of LEO Pharma** and support the company's development as a global leader in dermatology, delivering outstanding results.

INVESTMENTS

DKK 16 billion in financial assets

We grow our financial assets to ensure continued capability to support LEO Pharma's long-term development and provide funds for philanthropic activities.

PHILANTHROPY

25 grants and awards in 2020

A total of DKK 72 million

We support the best international research in skin diseases and aim to make Denmark a global beacon for skin research.

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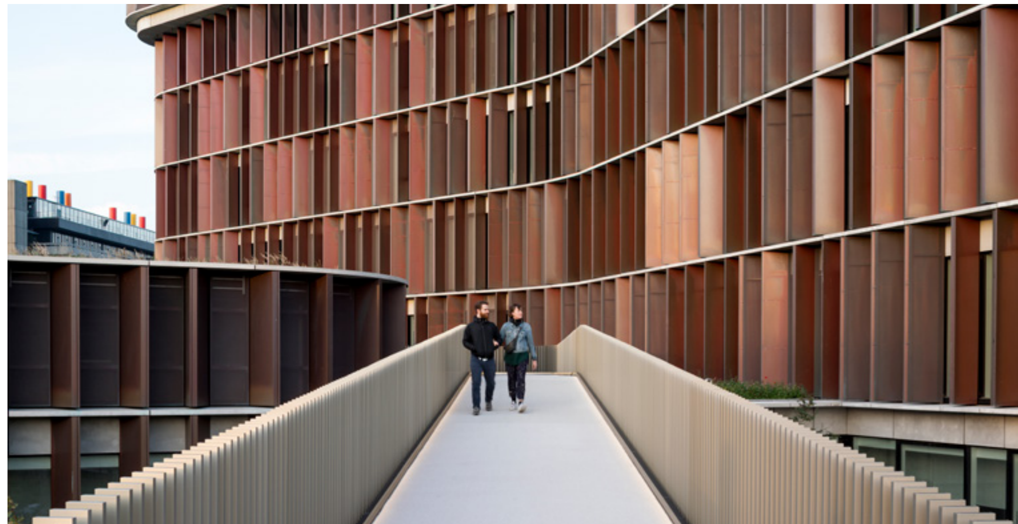
Photo: C.F. Møller Architects / Adam Mørk



Let's pave the way for curing skin diseases

2020 turned out to be a year far from what we had imagined, shaped by the COVID-19 pandemic. It was a challenging year for our company, LEO Pharma, and for our grantees and our investments. Yet, it also proved to be a year of resilience and dedication, and while 2020 saw a new level of uncertainty, the celebration of 400 years of proud LEO history created the LEO Group's own sense of certainty by confirming that we have a unique heritage and a strong foundation on which to build the future.

In 2020, LEO Pharma launched its 2030 strategy with the ambition to be a global leader in medical dermatology, including rare diseases, by building on its unique dermatology heritage and developing a strong pipeline. At the same time, the company managed to convincingly mitigate the effects of the COVID-19 pandemic, thanks to the competent and sustained efforts of LEO Pharma's committed employees. As well as maintaining a stable performance, LEO Pharma made significant progress in further developing its pipeline. An important milestone was the announcement of positive phase 3 trials for tralokinumab meeting all primary and secondary endpoints, enabling the company to prepare for the global launch in 2021 of what is only the second-to-market biologic treatment for atopic dermatitis.

The LEO Foundation was established to ensure the long-term continuance and development of LEO Pharma, and as an engaged owner our all-important aim is to continuously provide the company with the best possible foundation for growth and success. The continuous success of LEO Pharma is not only paramount to the company but also a prerequisite for the Foundation's ability to improve the understanding and treatment of skin diseases through philanthropic research grants to leading scientists around the world.

A key theme, that we carefully and diligently considered throughout the year, was how the Foundation can best fulfill its role as a long-term owner in the most engaged and responsible way – and whether sole ownership of LEO Pharma was providing the company with the best possible platform to deliver on its ambitious 2030 strategy. The company's journey towards becoming a global leader in medical

Lars Olsen
Chairman of the Board of Trustees

Jesper Mailind
CEO

dermatology will require continuous innovation and investments, and while LEO Pharma is well-funded today, it is important for the LEO Foundation to ensure optimal long-term funding flexibility as the company grows.

In August 2020, the LEO Foundation announced an opening for an investor to be part of the ownership of LEO Pharma. The process was completed at the beginning of 2021 with the agreement with Nordic Capital, which acquires a minority stake in the company. Combined with the LEO Foundation's continued controlling ownership of the company, the partnership with Nordic Capital will ensure that LEO Pharma has a strong foundation for future growth and success.

Looking at the LEO Foundation's philanthropic activities in the form of grants dedicated to improving the understanding and treatment of skin diseases, 2020 was an extraordinary year. Our grantees and their research activities were severely affected by restrictions, with laboratories and universities closed for several months. But 2020 also highlighted the important role of science in mitigating the COVID-19 pandemic – and our commitment to support the best international skin research and make Denmark a global beacon for skin research is stronger than ever.

In 2020, we awarded 25 grants totaling DKK 72 million. Further, we did our best to help our grantees mitigate the impact of COVID-19 on their research projects – not least by offering additional funding to cover delays and other impacts. Building on our existing strategy, we will in 2021 review and develop our philanthropic activities to ensure we have the right framework to further increase our grant level over the coming years.

> **In 2020, we awarded 25 grants totaling DKK 72 million. Further, we did our best to help our grantees mitigate the impact of COVID-19 on their research projects.**

The COVID-19 pandemic triggered a highly volatile year on the capital markets. Yet looking at the LEO Foundation's financial investments in isolation, it would be tempting to characterize 2020 as a normal year, in which most asset classes, despite uncertainty and surprises, delivered in line with our targets. Our long-term investment horizon, a diversified portfolio and a well-balanced risk profile provided the basis for a very satisfactory result at year-end, meeting our long-term return targets. Furthermore, we strengthened the ESG profile of the investment portfolio and focused on promoting responsible tax behavior in relation to unlisted investments by subscribing to the Tax Code of Conduct established by four major pension funds.

There is no doubt that 2020 was a remarkable year for the LEO Foundation and for all areas of the LEO Group – a year that turned a new page in the impressive LEO history. The decision to establish a new ownership structure marks another major milestone that further strengthens the foundation on which to build the future.

We have emerged from 2020 more committed than ever to paving the way for curing skin diseases and creating sustainable value for people and society through engaged ownership, philanthropy and investments.

Lars Olsen
Chairman of the Board of Trustees

Jesper Mailind
CEO

Financial review – LEO Group

In 2020, the LEO Group delivered a net result of DKK -410 million and awarded DKK 72 million in independent research grants.

As expected, LEO Pharma's result was negative in 2020 driven by the large investments in development of LEO Pharma's near-term pipeline. Revenues came in lower than expected, due to COVID-19's impact on the markets.

Group profit before tax of DKK 50 million was positively impacted by solid financial results from the LEO Foundation's investment activities.

The LEO Foundation awarded a total of DKK 72 million in grants and awards in 2020, which is slightly less than in 2019 (DKK 79 million).

Operation activities

Revenue at LEO Pharma declined by 6% from DKK 10,805 million in 2019 to DKK 10,133 million in 2020. The decline was primarily due to generic competition and COVID-19's negative impacts on sales.

LEO Pharma continuously invested significantly in R&D to bring new and innovative treatments to the markets. R&D costs was DKK 2,096 million (2019: DKK 2,444 million) equivalent to 21% of sales.

Total Group administration costs amounted to DKK 2,176 million, compared to DKK 1,735 million in 2019. The increase was among other things due to the restructuring plan announced by LEO Pharma in August 2020. The Foundation's own net administration and operational costs amounted to DKK 16 million, on par with 2019.

Operating result (EBIT) in LEO Pharma amounted to a loss of DKK 726 million, compared to a loss of DKK 1,313 million in 2019. The improved result was driven by a one-off income of DKK 1,181 million from a divestment of a portfolio of four non-core products to Cheplapharm, as well as cost reduction measures to contain the financial impact of COVID-19.

Investment activities

The LEO Foundation's return on financial investments ended at a solid DKK 968 million, and the investment strategy showed its strength in a year with highly volatile financial markets. It followed a strong financial investment return in 2019 of DKK 2,311 million.

Net results and grants

Overall, 2020 net result for the Group was a loss of DKK 410 million, compared to a profit of DKK 389 million in 2019.

The LEO Foundation awarded a total of DKK 72 million in grants and awards in 2020, slightly less than in 2019 (DKK 79 million). Outstanding grant liability decreased slightly to DKK 350 million at year-end, versus DKK 365 million in 2019.

Assets

At the end of December 2020, total assets amounted to DKK 38,710 million, compared to DKK 39,195 million in 2019. This includes financial investments of DKK 15,861 million by year-end (2019: DKK 15,226 million).

Intangible asset decreased to DKK 9,228 million as of December 31, 2020, against DKK 10,275 million in 2019. This reflects the combined effect of LEO Pharma's divestment of four non-core products to Cheplapharm and completion of IT projects of DKK 650 million.

Equity

Total equity of the Group at year-end amounted to DKK 26,404 million, a decrease of 2.5%, compared to DKK 27,077 million in 2019.

Cash flow

Total Group cash flow from operating activities was negative in the amount of DKK 1,015 million, compared to negative DKK 240 million in 2019. This development is mainly due to the lower net profit (loss).

Cash flow from investing activities, excluding the purchase and sale of financial assets, amounted to an inflow of DKK 954 million, against and outflow of DKK 6,656 million in 2019. The high cash outflow in 2019 was due to the purchase of a portfolio from Bayer AG, while a small portfolio was divested in 2020 with a cash inflow of DKK 2,943 million.

Outlook

The financial performance of the LEO Group depends upon developments in the commercial activities of LEO Pharma, as well as returns generated by the Foundation's financial investment activities.

COVID-19 will continue to impact LEO Pharma and the financial markets.

In 2021, LEO Pharma will continue to move forward towards realizing its 2030 strategy. Sales are expected to stay on par with 2020, as markets continue to remain impacted by COVID-19, and the continuation of price pressure and generic impacts. LEO Pharma will continue to focus on profitability improvements, while significantly increasing spending on innovative research and development activities, leading to an expected operating loss in 2021 in the range of DKK 2.7-2.9 billion.

Based on the financial strength of the LEO Foundation, the expenditure on grants in the coming years is expected to grow to an annual level of DKK 150 million.

Please refer to section regarding LEO Pharma for further details

Click here

Financial highlights – LEO Group

(DKK million)	2020	2019	2018	2017	2016
Income statement					
Revenue	10,133	10,805	10,410	10,481	9,863
Operating profit/(loss)	(757)	(1,343)	1,577	835	329
Financial items	809	2,045	(674)	941	789
Profit before tax	50	673	892	1,773	1,115
Net profit/(loss) for the year	(410)	389	708	1,383	723
Balance sheet					
Investments in property, plant and equipment	1,164	1,968	480	385	302
Non-current assets	16,710	16,169	10,234	8,216	19,471
Current assets	22,000	23,026	22,715	23,608	17,500
TOTAL ASSETS	**38,709**	**39,195**	**32,949**	**31,824**	**36,971**
EQUITY	**26,404**	**27,077**	**26,921**	**26,519**	**25,094**
Key ratios					
Return on equity	(2%)	1%	3%	7%	4%
Solvency ratio	68%	69%	82%	83%	68%

LEO Pharma – progressing on its strategic ambitions

LEO Pharma is committed to reinforce its global leadership in medical dermatology. The LEO Foundation is the company's controlling shareholder.

In 2020, LEO Pharma progressed on its strategic ambitions and demonstrated business resilience during the global COVID-19 pandemic.

LEO Pharma launched its 2030 strategy with the ambition to be a global leader in medical dermatology. The strategy outlines an ambition to expand the range of treatments covering the full severity spectrum of patients within core medical and rare dermatology through partnerships and acceleration of the company's R&D efforts.

At the same time, the company managed to convincingly mitigate the effects of the COVID-19 pandemic by implementing precautionary cost reductions and a plan to keep employees safe, while keeping production running.

LEO Pharma continued to invest strongly in R&D while also making significant progress in further developing its pipeline. In the important near-term pipeline, a key milestone was the announcement of positive phase 3 results for tralokinumab, enabling the company to prepare for the 2021 global launch of what will potentially be the second biologic treatment for atopic dermatitis available to patients. Further, delgocitinib was granted breakthrough designation by the FDA in the United States, citing the need for new treatment options for chronic hand eczema. Patidegib, an asset developed in partnership with PellePharm, progressed in phase 3, spearheading LEO Pharma's presence in rare diseases.

In addition, LEO Pharma further strengthened its Global Leadership Team with five new members establishing a strong team with a breadth of experience and diverse cultural backgrounds. LEO Pharma also initiated a process of organizational realignment to remain agile, competitive, and ready to achieve its strategic ambition to become a global leader in medical dermatology.

FINANCIAL PERFORMANCE

Revenue

Revenue in 2020 declined by 6% to DKK 10,133 million (2019: DKK 10,805 million), mainly due to increased generic competition and disruptions caused by COVID-19.

Revenue was supported by the first full-year sales of the prescription dermatology products acquired from Bayer. The portfolio was taken over on September 1, 2018 in the US and on July 1, 2019 for the rest of the world. Revenue from the acquired portfolio increased to DKK 1,126 million in 2020 (2019: DKK 728 million). 2020 revenue was also supported by growth for the strategic products Enstilar® and Kyntheum®, with sales up 3% and 40%.

Revenue from Region Europe+ grew marginally by less than 1% compared to 2019, with Enstilar® and Kyntheum® as the drivers of organic growth. However, excluding the impact of the acquired Bayer products, overall sales declined by 7%.

Revenue from Region International declined by DKK 193 million or 6% compared to 2019. Sales from the acquired Bayer portfolio helped to partially offset the decline in revenue as a result of COVID-19. Given the wide diversity of countries and business models within the region, there was a significant difference in the individual countries' performance.

Revenue from Region US amounted to DKK 463 million, a decline of DKK 385 million or 45%. The

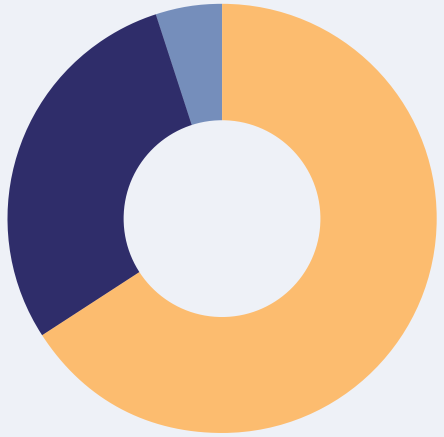
Revenue DKK
10,133
million

21%
of revenue reinvested in R&D

~6,000
employees worldwide

+130
countries where LEO Pharma treatments are available

LEO Pharma revenue by region



10,133 million DKK

Region Europe+ **66%**

Region International **29%**

Region US **5%**

decline reflects the competitive landscape in the US, with increasing net pricing pressures on LEO Pharma's branded and authorized generic portfolios, combined with the COVID-19 impact, Daivobet® Gel patent expiry in January 2020 and the discontinued commercialization of Picato® in Q4 2020. Finacea® foam, acquired from Bayer in 2018, was successfully relaunched in April 2020 after an extended out-of-stock period from 2019.

Operating result

Operating costs rose to DKK 8,674 million (2019: DKK 8,760 million) due to an increase in investments in the innovative portfolio, partly offset by a decline in costs related to the established portfolio.

In response to the impact of COVID-19, LEO Pharma implemented mitigation measures to protect profitability, and initiated strategic initiatives to drive long-term cost and operational efficiency. Savings are estimated at DKK 700 million in 2020.

R&D costs amounted to DKK 2,096 million or 21% of the 2020 revenue (2019: 23%). Significant investments in R&D play an important role in LEO Pharma's progress into the next phase of growth in becoming a world leader in medical dermatology.

A portfolio of four non-core products was divested to Cheplapharm for DKK 2,337 million with effect from December 15, 2020, accounted for as other operating income.

Operating profit before depreciation and amortization (EBITDA) in 2020 ended at DKK 521 million (2019: loss of DKK 131 million). Operating loss (EBIT) was DKK 726 million (2019: loss of DKK 1,313 million). In local currencies and adjusting for one-offs, EBITDA was DKK 163 million (2019: DKK 749 million) and EBIT a loss of DKK 1,090 million (2019: loss of DKK 436 million).

Outlook

In 2021, LEO Pharma will continue to move forward in realizing its 2030 strategy. This entails significant investments in the company's clinical pipeline, especially in the clinical development and post-clinical activities of tralokinumab and delgocitinib.

For 2021, revenue is expected to stay at the 2020 level in local currencies as markets continue to remain impacted by COVID-19, price pressure and generic competition. LEO Pharma will continue to focus on profitability improvements in the established portfolio, while increasing spending on innovative research and development activities after the successful development in the pipeline over the last few years. This is expected to lead to an operating loss (EBIT) in 2021 in the range of DKK 2.7-2.9 billion. Further divestments or write-downs of R&D investments may change the outlook.

For further information about the LEO Pharma Group, please refer to LEO Pharma's Annual Report

Click here

Investments – a roller coaster year

The main objectives of our investments are to ensure continued financial capability to support LEO Pharma's long-term continuation and strategic development, as well as provide funds for the LEO Foundation's philanthropic activities. In line with these objectives, we strive to generate the best possible returns while retaining a sensible, well-balanced risk profile.

The financial markets were on a roller coaster ride in 2020. After a very strong start to the year with global equity returns boosted by a stronger US dollar, markets turned around completely following the global outbreak of COVID-19. In less than a month, global equities were down more than 30%, and credit spreads widened to levels not seen since the financial crisis of 2008-09. COVID-19 continued to be the key theme for the remainder of the year. Huge financial and fiscal support across the world stabilized markets, and a slow recovery started. Risk appetite increased in Q4, following the US presidential election and signs that COVID-19 vaccines would soon be available.

2020 was by no standards a normal year. Yet looking at the LEO Foundation's financial investments in isolation, it would be tempting to characterize 2020 as a normal year, in which most asset classes, despite uncertainty and surprises, delivered returns at year-end in line with long-term return targets.

Strong return despite roller coaster impact
LEO Holding's financial portfolio generated a return of DKK 968 million or 6.5%, with all the main asset classes – equities, credit (including currency hedging), government and mortgage bonds, and alternatives – contributing positively.

Equities contributed almost DKK 800 million and achieved an asset class return of 11.4%. However, returns for individual mandates were between -6% and +45%, highlighting the importance of diversification. Credit contributed DKK 40 million, while the government and mortgage bond portfolio returned 1.6% – a strong return given the negative yields on government bonds. Alternatives generated a return of 4.8% (DKK 100 million), driven by strong hedge fund returns, and negatively impacted by private equity funds being in the early stages of their investment period.

Increased allocation to illiquid alternatives – and a new Tax Code of Conduct
In 2020, LEO Holding continued to execute its long-term strategy of increased allocation to illiquid alternatives. This included commitments to – and investments in – distressed credit, private equity, and real assets. The exposure to real assets increased by almost DKK 600 million,

Asset allocation of the investment portfolio at 31.12.2020

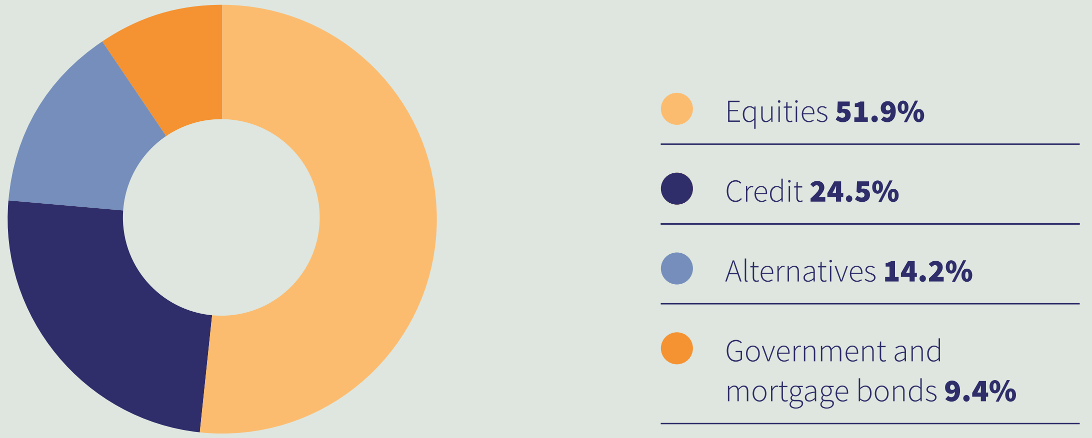


Photo: LEO Pharma

split between real estate and infrastructure. In addition, one investment-grade mandate was terminated and replaced by a mandate on emerging markets debt corporate bonds.

The portfolio continues to comprise both actively managed investments and passive index exposure, with a slight increase in passive exposure due to significant gains on equities in 2020. Major transactions on existing mandates in 2020 included a temporary increase in emerging markets debt hard currency, an increase in allocation to fixed-income hedge funds, adjustments of the equity weighting using equity index futures, and reductions in fixed-income exposure to cover grant and operating payouts of a total of DKK 358 million.

As of January 1, 2021, the LEO Foundation is a signatory to the Tax Code of Conduct established by four major pension funds, and now adopted by 12 pension funds and six major foundations in Denmark. The Tax Code of Conduct outlines principles and recommendations promoting responsible tax behavior in relation to unlisted investments.

Investment strategy 2021

In 2021, we will continue the development from prior years, with further refinements being made to the portfolio by selectively adding more alternative components to enhance returns and portfolio diversification. The level of risk in the portfolio is expected to be kept at the same level as in 2020. The financial portfolio's risk and liquidity will continue to ensure that the LEO Foundation is able to support LEO Pharma.

Investment portfolio

	Market value (DKK million)			Return (%)		
Assets	**31.12.2020**	**31.12.2019**	**31.12.2018**	**2020**	**2019**	**2018**
Government and mortgage bonds	1,499	2,596	3,521	1.6	1.7	0.7
Equities	8,225	7,453	7,210	11.4	26.1	(7.8)
Credit	3,885	3,914	4,968	0.3	9.8	(1.0)
Alternatives	2,252	1,263	1,057	4.8	7.9	(3.2)
Total	**15,861**	**15,226**	**16,756**	**6.9**	**14.9**	**(3.1)**

Grants and awards – an extraordinary year for science and research

In 2020, the LEO Foundation continued to support international skin research with the aim to improve the understanding and treatment of skin diseases.

In 2020, the LEO Foundation awarded **DKK 72 million** to research into the skin and its diseases. Grants were distributed across three main groups:

- A total of 21 researchers around the world had their application for a research grant approved. **DKK 61.1 million** was awarded.
- Three LEO Foundation Awards were presented to promising young talents – one in each of the regions: Americas, EMEA (Europe, Middle East, Africa) and Asia-Pacific. **DKK 1.9 million** was awarded.
- One strategic grant was awarded to support the second phase of the Global Psoriasis Atlas, a long-term project in which the Foundation is the lead funder. The Global Psoriasis Atlas seeks to become the go-to evidence-based resource within the understanding of psoriasis and its effects on people and society all over the world. **DKK 8 million** was awarded.

COVID-19 impact

Early in 2020, it became clear that the global COVID-19 pandemic would have a very significant impact on the Foundation's philanthropic activities. On the lighter side, we were unable to travel and meet with skin researchers around the world. Much more serious was the fact that our grantees' activities were severely affected by restrictions, and by research laboratories and universities being closed for months. Some of our grantees were also deployed as part of the corona emergency response in hospitals.

In March, we reached out directly to our close to 100 grantees with the message that we would stand by them during these difficult times. Our aim was to keep grantees' research ambitions intact by helping them complete their projects. By the end of the year, we had received just over 30 change requests for extended timelines, permission to reallocate funds, or additional funding. We have been in close dialogue with these grantees and, as a result, 30 change requests have so far been accommodated, including requests for additional funding for a total amount of **DKK 1.4 million**.

We will continue to stand by our grantees and strengthening our relations with them.

Quality assurance

The LEO Foundation evaluated a total of 157 applications distributed across the three main groups: 130 applications for research grants, 25 applications for LEO Foundation Awards and two applications for our strategic grants.

The Foundation assesses applications based on accepted international standards. Our two external expert panels – the Scientific Evaluation Committee and the Global Review Panel – comprise international experts from research institutions around the world, guaranteeing a high level of quality in the evaluation processes.

The LEO Foundation Board of Trustees approves all grants and awards, and the Foundation has no intellectual property rights to results from our philanthropic activities. However, we request that the results are published.

Compared to 2019, we saw a small decrease in the number of research grant applications in open competition, and the number of award applicants was more than halved. These decreases are mainly due to COVID-19 disruptions, resulting in curtailed basic and clinical research.

Continued focus on data and results

Toward the end of the year, we conducted our second round of grantee reporting in Researchfish. We use this online reporting system to collect data and assess the effects of our support and as a helpful tool in our ongoing dialogue with grantees. For 2020, we were pleased to see a continued increase in the number of scientific publications from research projects supported by the LEO Foundation.

Research without borders

2020 was a challenging year for science and research, but the challenges also highlighted the important role of science in mitigating the COVID-19 pandemic. And while countries have closed their borders, scientists have been breaking theirs down, creating a global collaboration. Researchers have identified and shared hundreds of viral genome sequences. Clinical trials have been launched, bringing together hospitals and laboratories around the globe. In less than a year, the first vaccines were rolled out.

Great research has no borders, and the LEO Foundation will continue to support the best skin researchers and scientists around the world, who can pave the way for curing skin diseases.

2020 key figures

21 research grants DKK 61.1 million
LEO Foundation research grants are awarded in open competition to support the best dermatology research projects worldwide

1 strategic grant DKK 8 million
LEO Foundation strategic grants are given to build, develop or strengthen excellent dermatology research within specific areas

3 awards DKK 1.9 million
LEO Foundation Awards recognize outstanding young researchers and scientists from around the world whose work represents an extraordinary contribution to skin research and has the potential to pave the way for new and improved treatments for skin diseases. Each award is worth USD 100,000, and three awards are made each year, one in each of the regions: Americas, EMEA (Europe, Middle East, Africa) and Asia-Pacific

COVID-19 contingency support to existing grantees DKK 1.4 million

87 million DKK in total payout

157 applications in total

Active grantees

96 active grantees and awardees

Top 4 research areas

- Basic dermatological research
- Eczema and urticaria
- Skin cancer
- Psoriasis and related diseases

9 of the most-cited researchers worldwide are funded by the LEO Foundation

Source: Clarivate Web of Science™ 2020 list of "Highly cited researchers," which recognizes the true pioneers in their fields over the last decade, as demonstrated by the production of multiple highly cited papers that rank in the top 1% by citations for field and year in the Web of Science™.

LEO Foundation supports research and science all over the world

"Through philanthropic activities, the LEO Foundation aims to support the best international research in skin diseases and make Denmark a global beacon for skin research."

←

Explore all grantees and awardees
Click here

LEO Foundation Awards 2020

Learn more about the LEO Foundation Awards

Click here

Ya-Chieh Hsu
Region Americas

Dr Ya-Chieh Hsu, from Harvard University in the US, received the award for her research achievements in studying cell–cell interactions and how systemic changes in the body influence these interactions in the skin.

Dr Hsu and her team study the skin and its many cell types – different stem cells, nerves, fibroblasts, and immune cells. Together, these protect us from injury and infection, and endow us with a remarkable ability to sense and respond to the world.

The Hsu laboratory aims to understand how communication among these cell types builds a functional skin, how miscommunication occurs under stress and in cancer, and how to rebuild this cellular diversity after injury.

Ning Xu Landén
Region EMEA

Dr Ning Xu Landén, from Karolinska Institutet in Sweden, received the award for her significant contribution to better understanding wound healing.

Wound healing is a fundamental physiological process. If the healing fails, the result is chronic hard-to-heal wounds, a common medical problem that represents an increasing health problem and economic burden to society – and there is a lack of effective treatment.

Dr Landén's research is carried out in an interdisciplinary setting involving strong collaboration with clinical departments and other national and international research groups. One of her research aims is the creation of a high-resolution molecular atlas of human wounds, which may open exciting opportunities for developing more effective wound therapy.

Yumi Matsuoka-Nakamura
Region Asia-Pacific

Dr Yumi Matsuoka-Nakamura, from Osaka University in Japan, received the award for being a diligent hospital dermatologist as well as a creative research scientist.

Dr Matsuoka-Nakamura's research addresses key questions in relation to eczema. Her recent work has advanced our understanding of the role of Staphylococcus aureus in atopic dermatitis – the most common type of eczema, which affects one in every five children.

Staphylococcus aureus is a bacterium that commonly colonizes human skin, and it is a crucial component of the skin barrier function. However, the exact role of Staphylococcus aureus in relation to atopic dermatitis remains unclear, and Dr Matsuoka-Nakamura hopes to unravel this question.

New head of the LEO Foundation Skin Immunology Research Center

Skin immunology research requires a strong connection between basic research and clinical dermatology. To meet this demand, the LEO Foundation Skin Immunology Research Center recruited its new Executive Director in 2020.

The Skin Immunology Research Center (SIC) was established in 2019 with a 10-year grant from the LEO Foundation. In 2020, Professor Liv Eidsmo from Karolinska Institutet in Sweden was recruited as Executive Director of SIC. Her ambition is to tackle the challenges in skin immunology by strengthening the collaboration between the basic and clinical research and thus creating a leading international center for skin research.

Liv Eidsmo transitions into her professorship at University of Copenhagen in 2021 and takes over responsibilities as Executive Director of SIC in September 2021.

Liv Eidsmo said, "SIC offers a seamless combination of basic research, clinical insights and cutting-edge knowledge and techniques that can be used to achieve ground-breaking results and thus contribute to a deeper understanding of the immunological mechanisms that drive human diseases of the skin. SIC brings together a critical mass of scientists tackling the same topic with a range of approaches and perspectives".

Liv Eidsmo began her career as a medical doctor and PhD student at Karolinska Institutet and Karolinska University Hospital. She then moved to a postdoc position at the University of Melbourne in Australia, before returning to Sweden to start up her own laboratory at the Center for Molecular Medicine at Karolinska Institutet in parallel with clinical training in dermatology at Karolinska University Hospital.

Two research groups, led by Professor Anders Woetmann and Professor Charlotte Menné Bonefeld, have been in place at SIC since its inauguration in 2019. A third, headed by Professor Mads Gyrd-Hansen, started in 2020. Mads started his research career at the University of Copenhagen and returns to Denmark with substantial international experience, having led a research group at Oxford University in the UK from 2013.

Liv Eidsmo

Executive Director of SIC

Photo: C.F. Møller Architects / Adam Mørk

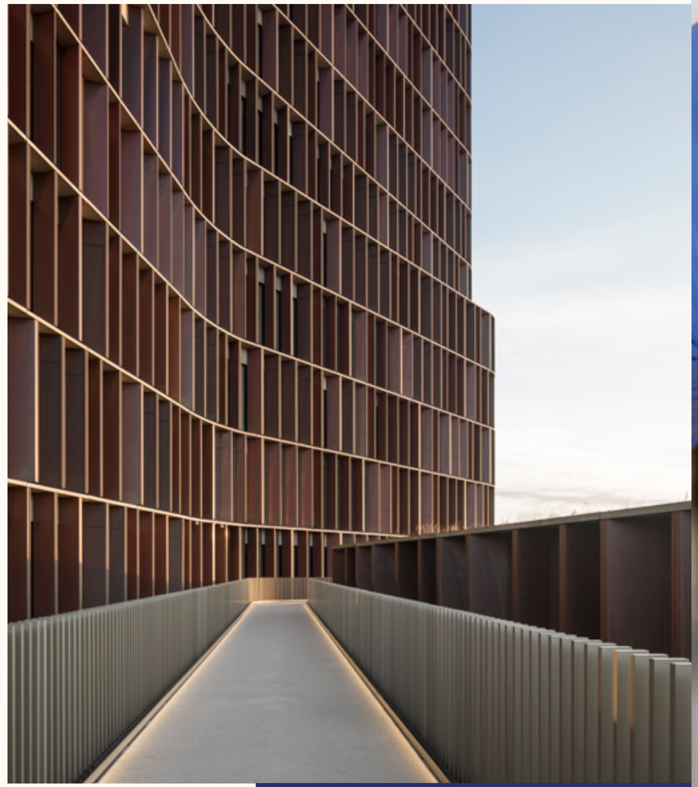
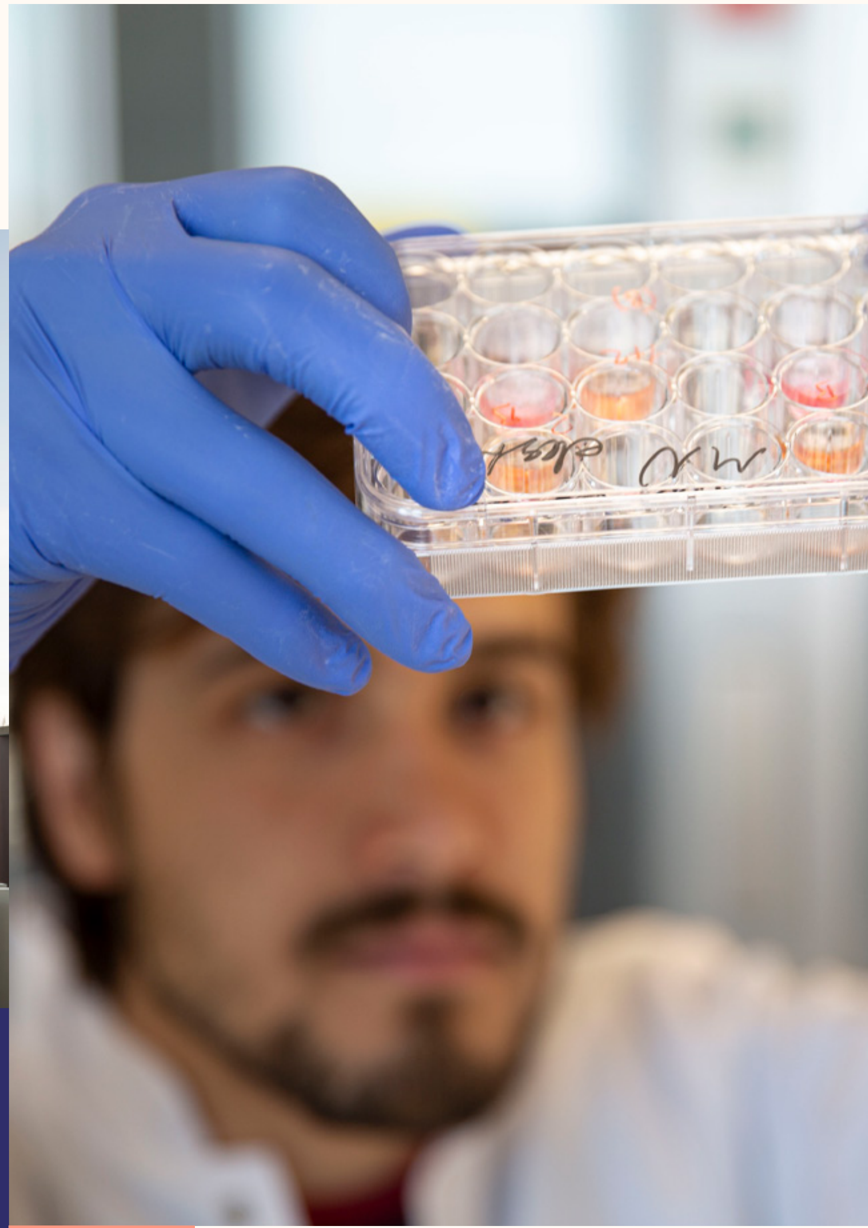


Photo: LEO Foundation Skin Immunology Research Center



Visit the LEO Foundation Skin Immunology Research Center
Click here

←

Governance

The LEO Foundation has established a transparent governance model with clearly defined roles and responsibilities.

As an engaged owner of LEO Pharma and one of Denmark's largest commercial foundations with substantial philanthropic activities and significant financial investments, the LEO Foundation has considerable societal impact in Denmark and beyond. Thus, we have an important obligation and responsibility to operate transparently and with integrity.

Governance recommendations

The LEO Foundation is committed to being transparent and responsible in all of our actions, and we fully support and comply with all the recommendations on foundation governance issued by the Danish Committee on Foundation Governance.

Board of Trustees

The LEO Foundation is governed by a Board of Trustees in collaboration with the management team. The Board of Trustees consists of 11 members. Seven members are appointed in accordance with the Foundation's charter, while four are elected by LEO Pharma employees in accordance with applicable laws. The composition of the Board reflects the qualifications and skills necessary for the LEO Foundation to fulfil the objectives specified in our charter.

The members of the LEO Foundation's Board of Trustees also make up the Board of Directors of LEO Holding A/S. Matters related to overall strategies and the LEO Foundation's grant activities are handled by the LEO Foundation Board of Trustees, while matters related to investments and our engaged ownership of LEO Pharma are handled in the LEO Holding Board of Directors. Both boards meet at least four times a year and, in addition, hold an annual seminar to discuss and review strategies.

The Board has set up two permanent board committees: a Grant Committee (as part of the LEO Foundation) and an Investment Committee (as part of LEO Holding A/S). Both committees meet at regular intervals. In addition, ad hoc committees are established when deemed relevant, to handle specific matters.

As part of the LEO Foundation's continuous board succession, Lars Green, CFO and Executive Vice President of Novozymes A/S, was elected to the Board in March 2020. Lars Green brings in-depth global experience within finance, general management and corporate governance from the life sciences sector. Lars Green replaced John Mehlbye, who had served on the Board since 2008.

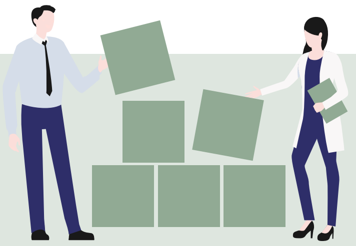
Grant Committee

The Grant Committee supervises all grant and award activities and advises the Board on relevant matters, including grant strategies and policies. The Grant Committee also ensures that all grant and award applications undergo rigorous assessment to ensure alignment with the LEO Foundation's objectives for its philanthropic activities. This includes evaluation of applications by panels of external experts, who, among other things, assess the scientific topic and proposed research, and the applicant's qualifications.

→

For a full overview of the LEO Foundation's compliance with the recommendations please visit leo-foundation.org/governancerecommendations

Click here



Governance structure

LEO Foundation
Board of Trustees

↔

LEO Holding
Board of Directors

Grant Committee

Investment Committee

Management team

Philanthropy
Grants and awards

Engaged ownership

Investments

Committees and panel members must comply with the LEO Foundation's impartiality rules.

The Board of Trustees approves all grants and awards.

Investment Committee
The Investment Committee advises the Board on matters relating to investments and asset management. It prepares and recommends investment strategies and policies to the Board, and ensures their implementation in cooperation with the Executive Management. The Investment Committee also monitors and reviews relevant internal controls, risk management and governance models.

Statutory report on gender diversity
The Board strives to ensure that at least 40% of its charter-appointed members are women and, similarly, that at least 40% are men. The current composition places the Board within the desired range, with three out of seven (43%) of the charter-appointed members being women.

Given the very limited number of employees at the LEO Foundation, no policy has been established for gender diversity at management levels below the Board.

LEO Pharma's current goal is to have at least three female members of the Board of Directors of LEO Pharma A/S elected by the Annual General Meeting in 2021. This is in addition to the employee-elected Board members. By the end of 2020, the number of female Board members was two and the number did not change in 2020 as the board was well-functioning and stable. Women in total represent 44% of management positions at levels below the Board of Directors of LEO Pharma A/S.

For more information on LEO Pharma's governance, please refer to **LEO Pharma's Annual Report**.

Engaged ownership of LEO Pharma
The LEO Foundation's main objective is to ensure the long-term continuation and success of LEO Pharma. We exercise our ownership actively by electing highly qualified professionals to the LEO Pharma Board of Directors and by means of regular interactions with the company's chairmanship and Executive Management.

LEO Pharma issues a quarterly report on the progress and performance of the business, followed by status meetings. In addition, an annual Capital Markets Day is held, during which the strategic progress is reviewed and discussed.

The LEO Foundation has two seats on the company's Board of Directors with direct representation. These seats are currently held by LEO Foundation CEO Jesper Mailind and LEO Foundation board member Cristina Lage.

Board of Trustees

Lars Olsen
Chairman

Born 1965 / M

Doctor of Medicine, MBA

Elected in 2015
(re-elected 2019, end of term 2021)

- Chairman of the Board and member of Investment Committee, LEO Holding A/S

Appointed by authorities: No

Considered independent: No

Competencies
Pharma, general management, R&D, sales and marketing

Eivind Kolding
Vice Chairman

Born 1959 / M

Master of Law, Advanced Management Program

Elected in 2017
(re-elected 2019, end of term 2021)

- Vice Chairman of the Board and member of Investment Committee, LEO Holding A/S
- Chairman of the boards of Danish Ship Finance, CASA Group, Kunstforeningen Gammel Strand, NTG Nordic Transport Group A/S
- Member of the boards of NNIT A/S, Altor Fund Manager AB, Axcelfuture (Advisory board)

Appointed by authorities: No

Considered independent: Yes

Competencies
General management, finance, law

Allan Carsten Dahl
Board member

Born 1967 / M

Principal Professional, LEO Pharma A/S, Master of Science (Chemistry), PhD

Elected in 2015
(re-elected 2018, end of term 2022)

- Employee-elected member of the Board, LEO Holding A/S

Employee-elected
Elected by the employees of LEO Pharma

Anja Boisen
Board member

Born 1967 / F

Professor, DTU Health Technology, Director of the IDUN Centre of Excellence, Master of Science (Physics), PhD, Executive Program

Elected in 2019
(end of term 2021)

- Member of the Board, LEO Holding A/S
- Member of Grant Committee, LEO Foundation
- Member of the boards of The Royal Danish Academy of Sciences and Letters, Villum Foundation, Lightnovo ApS

Appointed by authorities: No

Considered independent: Yes

Competencies
Research, general management, innovation, fundraising

Cristina Lage
Board member

Born 1954 / F

Master of Science (Business)

Elected in 2016
(re-elected 2019, end of term 2021)

- Member of the Board and Chairman of Investment Committee, LEO Holding A/S
- Member of the Board and the Audit Committee, LEO Pharma A/S
- Chairman, Arbejdsmiljørådet
- Member of the boards of Topdanmark A/S, Det Obelske Familiefond, C.L. Davids Fond
- Member of the Audit Committee, Topdanmark A/S

Appointed by authorities: No

Considered independent: Yes

Competencies
General and change management, investment and asset management, financial risk management

Further information about the Board of Trustees

Click here

No members of the Board own shares, options, warrants and similar in the Foundation's subsidiaries and/or associates.

Jannie Kogsbøll
Board member

Born 1962 / F

Operator, LEO Pharma A/S, Higher Commercial Examination

Elected in 1998
(re-elected 2018, end of term 2022)

- Employee-elected member of the boards of LEO Holding A/S, LEO Pharma A/S

Employee-elected
Elected by the employees of LEO Pharma

Karin Jexner Hamberg
Board member

Born 1961 / F

Senior Vice President, Chief Medical Officer, H. Lundbeck A/S, Doctor of Medicine, Executive education

Elected in 2019
(end of term 2021)

- Member of the Board, LEO Holding A/S
- Member of Grant Committee, LEO Foundation
- Member of European College of Neuropharmacology, International Society for CNS Clinical Trials

Appointed by authorities: No

Considered independent: Yes

Competencies
Strategic R&D management, drug development, health economics, regulatory affairs

Lars Green
Board member

Born 1967 / M

CFO and Executive Vice President, Finance, IT & Legal, Novozymes A/S, Master of Science (Business), PED, IMD

Elected in 2020
(end of term 2021)

- Member of the Board, LEO Holding A/S

Appointed by authorities: No

Considered independent: Yes

Competencies
Pharma, finance, general management, corporate governance

Lars Kjøller
Board member

Born 1967 / M

Principal Information Scientist, LEO Pharma A/S, Master of Science (Library & Information Science), PhD (Molecular Biology)

Elected in 2017
(re-elected 2018, end of term 2022)

- Employee-elected member of the Board, LEO Holding A/S

Employee-elected
Elected by the employees of LEO Pharma

Lotte Hjortshøj Larsen
Board member

Born 1971 / F

Executive Assistant, LEO Pharma A/S, Diploma Graduate

Elected in 2018
(end of term 2022)

- Employee-elected member of the Board, LEO Holding A/S

Employee-elected
Elected by the employees of LEO Pharma

Peter Schwarz
Board member

Born 1959 / M

Professor-in-chair, Medical Doctor, Doctor of Medical Science (Dr. med), Specialist in Endocrinology, medicine and clinical Biochemistry, Head of Research, Department of Endocrinology, Rigshospitalet

Elected in 2017
(re-elected 2019, end of term 2021)

- Member of the Board, LEO Holding A/S
- Chairman of Grant Committee, LEO Foundation

Appointed by authorities: No

Considered independent: Yes

Competencies
Basic and clinical research, general management, fundraising

No members of the Board own shares, options, warrants and similar in the Foundation's subsidiaries and/or associates.

Staff at the Foundation

The LEO Foundation organisation is made up by a small and dedicated team of highly competent specialists.

Jesper Mailind
CEO

Ida Brams
Chief Grant Officer

Morten S. Christensen
Chief Investment Officer

Lars Kruse
Scientific Officer

Lars Thørs
Senior Investment Director

Mette Poulsen
Finance Manager

Pernille Mørch-Sørensen
Management Assistant

Peter Kjeldsen Hansen
Director, Legal and Business Development

Signe Krabek
Head of Communication and Public Affairs

Photo: LEO Pharma

Celebrating 400 years of history
In 2020, we celebrated 400 years of history since King Christian IV awarded the Lion Pharmacy its royal license in 1620.
Learn more about the LEO history

Click here

LEO Historical Archives and Museum

The old porter's building at LEO Pharma's headquarters is home to the LEO Historical Archives and Museum, which is run by the LEO Foundation.

The LEO Museum gives LEO employees and stakeholders alike the opportunity to delve into the history of LEO Pharma – from the back rooms of the original "Løveapoteket" pharmacy (Lion Pharmacy) in central Copenhagen, to the present day and LEO Pharma's latest endeavors.

In December 2020, anthropologist Sophie Seebach was appointed the museum's new head. Her appointment launches a new phase in the life of the museum. In 2021, it will establish a new database and start the massive task of cataloguing and digitizing LEO Pharma's extensive archives. Once catalogued and readily available, the state-of-the-art museum database, incorporating everything from the founders' letters to promotional material, photographs, and original packaging, will be a fantastic resource for the company as a whole.

2021 will also see sharper focus on communicating LEO history digitally. The museum will seek new platforms to reach LEO employees both in Denmark and internationally. Stories of the company's pioneering beginnings, ups and downs, expansion and innovation, provide a solid foundation on which to build the future of the company.

Sophie Seebach
Head of LEO Historical Archives and Museum

Arne Mandøe
Senior Historian, LEO Historical Archives and Museum

Corporate social responsibility

The LEO Foundation is committed to creating sustainable value for people and society through engaged ownership, philanthropy and investments, and we base our work and approach to corporate social responsibility on a strong set of values.

As an owner of a global pharmaceutical company, a substantial financial investor and a philanthropic supporter of scientific research around the world, the LEO Foundation plays an active role in society. We recognize our responsibility to uphold high ethical standards and to ensure compliance with applicable laws, ethical codes and regulations.

The LEO Foundation supports and respects the protection of internationally adopted principles on human rights, labor, climate, environment and anti-corruption, and requires grantees and everybody working on the projects we support to be employed under conditions that comply with applicable laws.

The vast majority of the LEO Group's business activities are conducted by LEO Pharma, and CSR is embedded in the company's business and in the behavior of its employees. The Board of Directors of LEO Pharma, on which the Foundation is represented, defines the specific CSR policies for LEO Pharma.

Responsible investment and ESG responsibility

The LEO Foundation has adopted an environmental, social and governance (ESG) policy for our investment activities. This policy is based on adherence to the Ten Principles of the UN Global Compact, which form the basis for ethical human and corporate behavior. By basing our policy on these principles, we aim to address the CSR risks we face as a large financial investor.

As our investments are managed through external investment managers, we work actively with these managers to ensure compliance with the policy. Our investment team reviews the investment managers as an integrated part of the investment process, and managers are required to report yearly on ESG factors and relevant matters such as exited investments, engagement with companies and corrective actions they have carried out.

In 2020, we continued to integrate ESG factors into our investment approach. We receive yearly reports from investment managers to make sure that investments comply with the ESG policy. No environmental, social or governance issues were reported in 2020.

Responsible tax

The LEO Foundation is committed to being transparent and responsible in all of our actions, including how we conduct our tax affairs. As part of this commitment we have developed a set of **key tax principles**. These have been approved by our Board and are reviewed annually. The tax principles apply to the LEO Foundation and our subsidiaries including LEO Holding and LEO Pharma.

As of 1 January 2021, the LEO Foundation is a signatory to the Tax Code of Conduct, which was established by four major pension funds and has now been adopted by 12 pension funds and six major foundations in Denmark. The Tax Code of Conduct outlines principles and recommendations promoting responsible tax behavior regarding unlisted investments.

Environmental responsibility and sustainable development

Given the type of business conducted by the LEO Foundation and with just 11 employees, the Foundation's direct impact on climate and the environment is limited. At LEO Group level, the main impact stems from LEO Pharma's six production facilities.

There is an immediate connection between the LEO Foundation's purpose and philanthropic activities and the UN Sustainable Development Goal (SDG) #3 concerning good health and well-being. However, the Foundation primarily

contributes to achieving the SDGs through LEO Pharma's business activities.

For more information on company-specific policies, activities and results, please refer to **LEO Pharma's Annual Report.**

Responsible business at LEO Pharma

Responsible business at LEO Pharma focuses on how the company operates in an ethical and responsible way to ensure integrity and respect for employees, business partners and the environment.

To consolidate its commitment to responsible business, LEO Pharma is a signatory to the UN Global Compact and adheres to the Ten Principles on human rights, labor, environment and anti-corruption.

For more information about the LEO Foundation and our impact on society

Click here

To deliver on its commitment, LEO Pharma focuses on three impact areas:

- Employees – Diversity & inclusion, employee safety
- Planet – Climate action, waste & water
- Ethics – Anti-corruption, sustainable procurement, animal welfare

LEO Pharma has reported on targets, as well as individual policies in its own annual report.

LEO Pharma highlights

In 2020, LEO Pharma developed a diversity and inclusion strategy and roadmap for the period 2021-2025.

To set LEO Pharma's climate commitment, the company launched its first science-based climate target in 2020. The new climate target aims to reduce the company's emissions in line with the level of decarbonization required to keep global temperature increases to 1.5˚C. In addition, LEO Pharma has focused on improving sustainability data. A significant milestone was the completion of a so-called scope 1, 2 and 3 carbon footprint of the company's global operations.

Thanks to energy-saving measures equivalent to 8,400 GWh, LEO Pharma met its long-term goal to save 12.8 GWh of energy through energy-saving projects by 2020, corresponding to 10% of the 2013 energy levels.

LEO Pharma achieved its 2020 goal for 1) all internal employees and 2) external consultants representing LEO Pharma to be trained in the new Anti-Corruption e-Learning program. The completion rate was 98.7%.

LEO Pharma continued to make progress on its Global Anti-Corruption Program, including by stepping up training and knowledge testing, reporting and monitoring – all with the purpose of ensuring that the company is continuously aligned with global standards and best practice for preventing corruption.

LEO Pharma is committed to continuously improving its approach to embedding human rights practices. In 2020, the company undertook a high-level gap assessment to clarify its current maturity on human rights due diligence, verify its current risks and identify opportunities for improvement. The results of this project will be used to further strengthen, refine and support the embedding of consistent human rights due diligence practice across LEO Pharma.

In the coming years, LEO Pharma will continue to include data and more metrics in its sustainability and CSR reporting. A priority in 2021 is to set an ambition for reducing its scope 3 CO_2 emissions and to continuously refine the roadmaps for meeting the target, as well as monitoring and reporting progress towards the target.

Code of Conduct

Throughout the LEO Group, we are committed to upholding high business standards and promoting good business conduct in our interactions with customers, grantees, healthcare professionals, public officials and other business partners.

Our commitment is set out in the **LEO Code of Conduct**, which ensures consistent actions and attitudes by addressing and resolving ethical and compliance-related issues that may arise in our daily work. It applies to all employees in the Group including LEO Foundation employees and members of our Board of Trustees.

All new employees undergo mandatory training in the Code of Conduct. In 2020, 76.2% of new employees completed the LEO Code of Conduct e-Learning program in a timely manner.

For more information about LEO Pharma's CSR initiatives and policies, please refer to **LEO Pharma's Annual Report and website**.

Risk management

Risk management is a key part of the LEO Foundation's work, allowing it to appropriately manage and mitigate risks and respond to changing circumstances.

The LEO Foundation's main risks relate to value generation and operational risks at LEO Pharma as well as the management of the Foundation's financial assets. The Foundation must ensure that sufficient capital is always available to withstand a severe crisis, including a convergence of several high-impact risk events.

The LEO Foundation applies risk models to simulate the effect of potential high-impact risks to ensure that the Foundation always has sufficient capital available to withstand such crises. These simulations are carried out twice a year and reported to the Board.

In addition, the Foundation is subject to a number of other risks of a more generic nature, including risks related to the Foundation's philanthropic activities as well as political and reputational risks. These are, as far as possible, mitigated through the implementation of policies and procedures.

In 2020, the LEO Foundation continued its work to strengthen the mapping, reporting and mitigation of risks across our areas of operations.

Risk – LEO Pharma

Business and financial risks associated with operations are managed by LEO Pharma, which has defined risk management policies and procedures. 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.

The LEO Pharma Board of Directors has overall responsibility for the company's enterprise risk management, with oversight of the ERM Framework delegated to its Audit Committee.

A separate risk report with a risk heat map of the key enterprise risks relevant to LEO Pharma's strategic ambitions toward 2030, including high-level scenarios and main risk treatment activities for each key risk, is provided to the company's Board of Directors as well as to the Foundation on a biannual basis. In parallel, a biannual worst-case risk report is provided to support financial stress testing and ensure that key internal stakeholders stay vigilant and maintain a balanced level of preparedness for these often low-likelihood but high-consequence risk scenarios.

Risk – Financial portfolio

The financial portfolio is managed according to the investment policy, which is reviewed and approved annually by the Board. The investment policy sets out the strategic asset allocation and the boundaries for each asset class within which tactical asset allocation positions can be taken. Furthermore, the investment policy sets limits on counterparty risk, overall interest rate risk and the liquidity of the financial portfolio. Currency risk is hedged for all fixed-income exposure, while equity investments have full currency exposure but with the option of hedging.

All asset classes, external managers and external investment funds are approved by the Board's Investment Committee prior to any investments. Compliance with the investment policy is verified by the finance department, and investment results are documented in reports to the Investment Committee and the CEO.

Each week, a portfolio performance report is prepared by the Chief Investment Officer and distributed to the CEO and the Chairman of the Investment Committee, followed by a meeting between the CEO and the investment team. A monthly report is issued to the Investment Committee, and an investment update is presented to the full Board by the Chief Investment Officer at all regular Board meetings.

In relation to ESG, the investment team reviews the external investment managers as an integrated part of the investment process. All investment managers report annually on ESG factors and matters, including, where relevant, exited investments, engagement with companies and ESG Committee issues.

Please refer to the Corporate Social Responsibility section for more information about the LEO Foundation's ESG policy.

For more information about risks at LEO Pharma, please refer to LEO Pharma's Annual Report

Click here

Consolidated Financial Statements

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Income statement

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2020**	**2019**
Revenue	2	10,133	10,805
Cost of sales	3, 10, 17	(3,360)	(3,350)
Gross profit		**6,773**	**7,455**
Sales and distribution costs	3, 9, 10	(4,433)	(4,611)
Research and development costs	3, 9, 10	(2,096)	(2,444)
Administrative costs	3, 9, 10, 20	(2,176)	(1,735)
Other operating income	4	1,240	19
Other operating expenses	4	(65)	(27)
Operating profit/(loss)		**(757)**	**(1,343)**
Share of profit/(loss) on investments in associates		(2)	(29)
Financial income	7	1,054	2,327
Financial expenses	7	(245)	(282)
Profit/(loss) before tax		**50**	**673**
Tax on profit for the year	8	(460)	(284)
NET PROFIT/(LOSS) FOR THE YEAR		**(410)**	**389**

Statement of comprehensive income

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2020**	**2019**
Net profit for the year		**(410)**	**389**
Other comprehensive income			
Actuarial gains/(losses)	20	(114)	(147)
Tax on other comprehensive income	8	7	13
Items that will not be reclassified subsequently to the income statement		**(107)**	**(134)**
Exchange rate adjustments on investments in foreign subsidiaries		(103)	2
Cash flow hedges (exchange rate), deferred gains/(losses) incurred during the period		30	(31)
Cash flow hedges (interest rate), deferred gains/(losses) incurred during the period		(6)	4
Tax on other comprehensive income	8	(5)	6
Items that may be reclassified subsequently to the income statement		**(84)**	**(19)**
Other comprehensive income		**(191)**	**(153)**
COMPREHENSIVE INCOME FOR THE YEAR		**(601)**	**236**

Balance sheet at December 31

ASSETS

(DKK million)	Note	2020	2019
Goodwill		192	126
Intellectual property rights		5,262	6,875
Development projects		2,439	2,315
Software		1,335	959
Intangible assets	9	**9,228**	**10,275**
Land and buildings		929	908
Leasehold improvements		58	46
Plant and machinery		898	1,029
Other fixtures and fittings, tools and equipment		149	149
Assets under construction		2,025	1,121
Property, plant and equipment	10	**4,059**	**3,253**
Right-of-use assets	11	465	548
Right-of-use assets		**465**	**548**
Investments in associates		7	9
Other financial assets	15	2,297	1,291
Deferred tax assets	16	645	776
Other receivables	15	15	17
Other non-current assets		**2,964**	**2,093**
Total non-current assets		**16,716**	**16,169**
Inventories	17	2,863	2,305
Trade receivables	13	2,441	3,325
Tax receivables		924	943
Other receivables	12	611	981
Prepayments		797	302
Other securities	15	13,735	14,189
Cash and bank balances	15	629	269
Assets held for sale	18	-	712
Total current assets		**22,000**	**23,026**
TOTAL ASSETS		**38,716**	**39,195**

EQUITY AND LIABILITIES

(DKK million)	Note	2020	2019
Foundation capital	19	98	98
Foreign currency translation reserve		(313)	(210)
Hedging reserve		(26)	(44)
Reserve for future grants		177	124
Retained earnings		26,468	27,109
Equity		**26,404**	**27,077**
Deferred tax liabilities	16	17	1,105
Retirement benefit obligations	20	488	413
Provisions	21	476	405
Loans and credit institutions	15	3,806	3,807
Lease liabilities	11	395	462
Other long-term liabilities		914	90
Total non-current liabilities		**6,096**	**6,282**
Provisions	21	776	794
Credit institutions	15	906	719
Trade payables		1,583	1,794
Lease liabilities	11	100	97
Tax payables		608	62
Other payables	23	2,243	2,370
Total current liabilities		**6,216**	**5,836**
TOTAL EQUITY AND LIABILITIES		**38,716**	**39,195**

Statement of changes in equity

(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Reserve for future grants	Retained earnings	Total
2020						
Equity at January 1, 2020	98	(210)	(44)	124	27,109	27,077
Net profit/(loss) for the year	-	-	-	125	(535)	(410)
Other comprehensive income/(loss)	-	(103)	24	-	(112)	(191)
Total comprehensive income/(loss)	-	(103)	24	125	(647)	(601)
Grants for the year	-	-	-	(72)	-	(72)
EQUITY AT DECEMBER 31, 2020	**99**	**(313)**	**(20)**	**177**	**26,462**	**26,404**

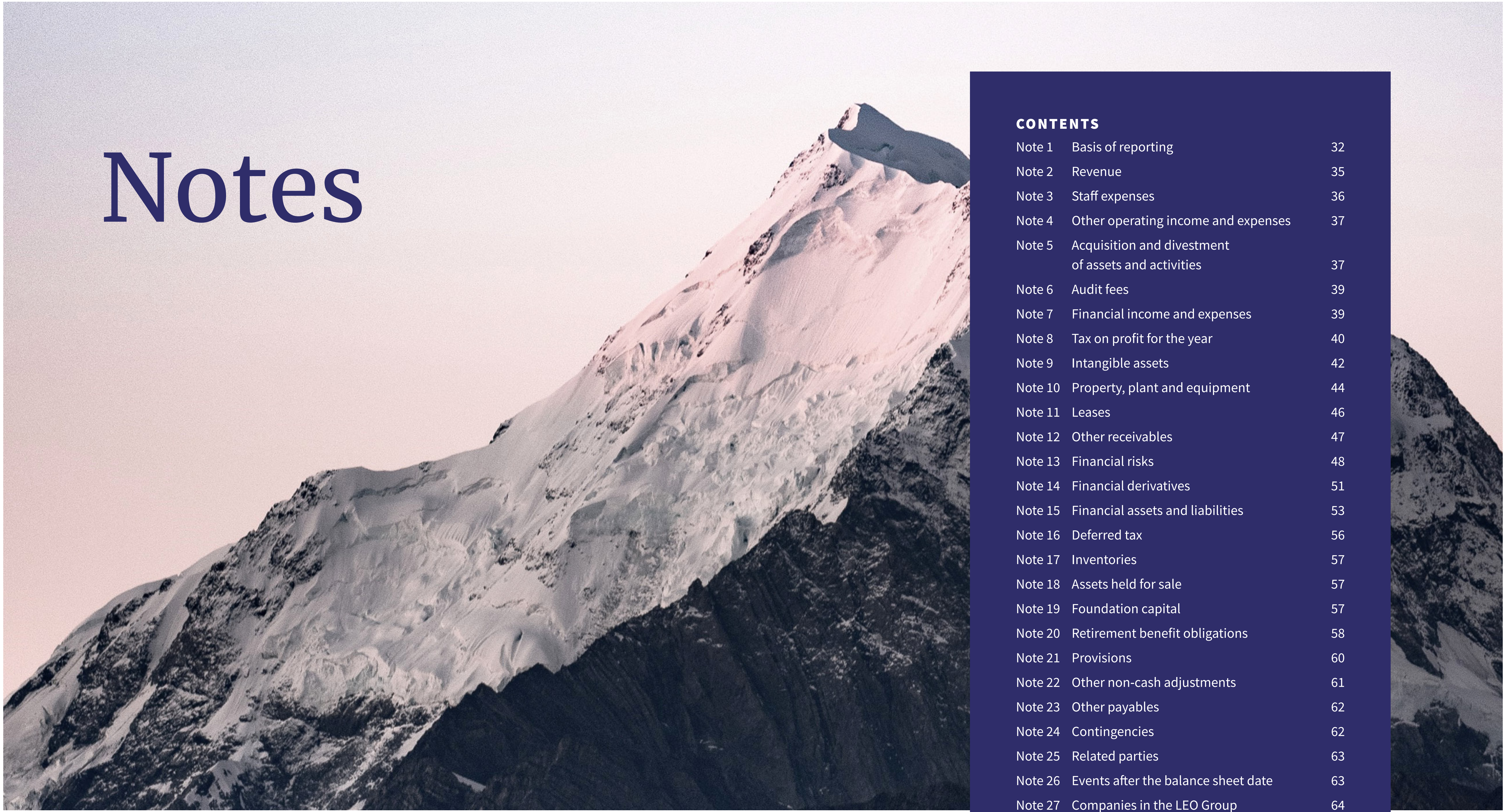
(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Reserve for future grants	Retained earnings	Total
2019						
Equity at January 1, 2019	98	(212)	(23)	104	26,954	26,921
Net profi/(loss) for the year	-	-	-	100	289	389
Other comprehensive income/(loss)	-	2	(21)	-	(134)	(153)
Total comprehensive income/(loss)	-	2	(21)	100	155	236
Grants for the year	-	-	-	(80)	-	(80)
EQUITY AT DECEMBER 31, 2019	**98**	**(210)**	**(44)**	**124**	**27,109**	**27,077**

Cash flow statement

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2020**	**2019**
Operating profit before financial items		**(757)**	**(1,343)**
Adjustment for non-cash operating items			
Amortization, depreciation and impairment losses	9, 10	1,266	1,185
Gain/loss on sale of non-current assets, etc.		(1,178)	-
Change in pension obligations	19	216	114
Change in provisions	20	2	107
Reversal of gain on divestment of assets		-	13
Other non-cash adjustments	22	23	(15)
Change in working capital			
Change in inventories and receivables		233	(553)
Change in trade payables and other payables		(685)	1,122
Income tax paid		30	(711)
Interest received		8	5
Interest paid		(173)	(164)
CASH FLOWS FROM OPERATING ACTIVITIES		**(1,015)**	**(240)**

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2020**	**2019**
Investments in intangible assets	9	(773)	(1,077)
Investments in property, plant and equipment	10	(1,164)	(1,229)
Proceeds from sale of intangible assets and property, plant and equipment		2.943	21
Acquisition of assets and activities, net of cash acquired		(52)	(4,371)
Investments in other securities		(1,684)	(2,803)
Proceeds from sale of other securities		2,104	6,819
Change in investment portfolio cash		35	(99)
Cash flows from investing activities		**1,409**	**(2,739)**
Proceeds from borrowings		1,296	3,809
Repayment of borrowings		(785)	(1,006)
Overdraft		(322)	276
Lease repayment		(112)	(92)
Grants paid out during the year		(87)	(100)
Cash flows from financing activities		**(10)**	**2,887**
Change in cash and cash equivalents		**383**	**(92)**
Cash and cash equivalents at January 1		269	351
Unrealized exchange gains/(losses) on cash and cash equivalents		(23)	10
CASH AND CASH EQUIVALENTS AT DECEMBER 31	13	**629**	**269**

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



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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.

Rounding
In general, rounding may cause variances in sums and percentages in the Annual Report.

COVID-19
The Group delivered a resillient performance in 2020 despite the COVID-19 pandemic. As of December 31, 2020, the Group has updated estimates to asses the recoverability of our asset base. The COVID-19 pandemic was not a triggering event for impairments in 2020. During the COVID-19 pandemic, the Group's priorities have been to safeguard the health of the employees and continue supplying medicine to patients. Manufacturing sites continue to operate, and products are still distributed and made available to patients worldwide. Task force teams were in place, focused on keeping employees safe and production running.

During 2020, the Executive Management have monitored the situation and possible implication on the financial position, activities and cash flows, and seek the appropriate mitigating measures. As of December 31, 2020, we have included updated estimates to assess the recoverability of our asset base, including goodwill, IP rights, development projects, deferred tax assets and trade receivables. The COVID-19 pandemic was not a triggering event for impairments in 2020.

The Group has made use of financial governmental relief packages regarding postponed tax payments etc.

Applying materiality
In the preparation of the Consolidated Financial Statements, the LEO Group aims to focus on information that 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 Consolidated Financial Statements.

Key accounting estimates and judgments
Executive Management has made certain estimates regarding valuation 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.

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

- Note 5 Acquisition of activities: Estimate of purchase price allocation in business conbinations. Judgment in assessing the type of transaction/asset and control
- Note 8 Tax on profit for the year: Estimates regarding provisions for uncertain tax positions
- Note 9 Intangible assets: Estimated useful lives and impairment test. Judgment in assessing type of asset and level of control
- Note 11 Leases: Judgment in determining the lease term
- Note 16 Deferred tax: Estimates of deferred tax assets
- Note 17 Inventories: Estimates of valuation of inventories
- Note 20 Retirement benefit obligations: Estimates of valuation of defined benefit plans
- Note 21 Provisions: Estimates of provision for legal disputes and sales deductions
- Prepayments: Judgment in assessment of upfront payment.

Assessment of upfront payment in a license agreement
In April 2020 LEO Pharma entered into an exclusive license and collaboration agreement with Oneness Biotech Co., Ltd. And Microbio (Shanghai) Co., Ltd. covering the development and commercialization of the novel Atopic Dermatitis (AD) and Allergic Asthma drug candidate FB825. Under the terms of the agreement LEO Pharma has agreed to an upfront payment of DKK 273 million. The upfront payment can potentially cover a repayment for an intangible asset and/or a prepayment for a service related to research and development activities. Since no goods or service has been delivered to LEO Pharma Management assesses that the upfront payment is presented as a prepayment in the Consolidated Financial Statement.

Note 1
Basis of reporting (continued)

General accounting policies

Consolidation

The Consolidated Financial Statements comprise the LEO Foundation and entities in which the LEO Foundation 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 unrealized profits from intercompany transactions. The Financial Statements of all the companies have been prepared according to the same accounting policies as applied by the LEO Group.

Foreign currency translation

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

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates 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 relating to acquisitions and disposals of intangible assets and property, plant and equipment, investments in and proceeds from sale of other investments, as well as net investments in securities.

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

Intragroup business combinations

The aggregation method is used for business combinations where the Parent Company merge with a 100% owned subsidiaries. Comparative figures are restated to reflect that the companies had been merged as from the date on which the Parent Company merged with the subsidiary.

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 not yet paid out: Grants that have been adopted in accordance with the purpose of the Foundation and announced to the recipients, but not yet paid out at the balance sheet date, are deducted from equity and recognized 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. Concurrently with being announced to the recipients, the grant amounts are paid out, transferred to debt or, in rare cases, transferred to provisions relating to grants.

Definition of key figures

Return on equity [1] $\dfrac{\text{Profit before tax}}{\text{Average equity}} \times 100$

Solvency ratio [1] $\dfrac{\text{Equity}}{\text{Assets}} \times 100$

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

Note 1
Basis of reporting (continued)

Implementation of new standards and interpretations
Effective from January 1, 2020, the LEO Group has implemented the following new or changed accounting standards and interpretations.

Their adoption has not had any material impact on the disclosures or the amounts reported in the Consolidated Financial Statements.

Amendments to References to the Conceptual Framework in IFRS Standards. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. The Standards amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32.

Amendments to IFRS 3 Definition of a business. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.

Amendments to IAS 1 and IAS 8 Definition of material. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence.” The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1.

Amendments to IFRS 16. In May 2020, the IASB issued COVID-19 Related Rent Concessions. This introduces a practical expedient to IFRS 16 that helps lessees in accounting for rent concessions occurring as a direct consequence of COVID-19. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. Lessees making this choice shall account for any change in lease payments resulting from the COVID-19-related rent concession in the same way as they would account for the change in applying IFRS 16 if the change were not a lease modification.

New and revised IFRSs issued but not yet effective that are relevant to the LEO Group
The LEO Group has not applied the following standards that have been issued but are not yet effective. The LEO Group does not expect adoption of these standards to have a material impact on the Consolidated Financial Statements in future periods.

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current.
- Amendments to IFRS 3 Reference to the Conceptual Framework.
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018–2020

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 revenues in connection with partnerships. These revenues, except for royalties, are recognized when the performance obligation is satisfied, i.e. when transferred to the customer. For sales-based royalties, revenue is recognized when the subsequent sale occurs. Please refer to note 21 Provisions regarding the accounting policies for sales deductions and returns.

Contract balances
Generally, billing occurs subsequent to revenue recognition, resulting in trade receivables. Payment terms are typically 45-90 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 fulfilment of the contract obligation.

Unsatisfied performance obligations
The Group's remaining performance obligations expected to be recognized at December 31, 2020 are DKK 15 million (2019: DKK 24 million), which will be recognized in 2021. The obligations comprise contracts where the Group has an obligation to deliver goods that has not yet been satisfied.

(DKK million)	2020	2019
Revenue by region		
Europe+	6,732	6,840
International	2,938	3,117
US	463	848
Total	**10,133**	**10,805**
Revenue by therapeutic area		
Psoriasis	3,685	3,988
Eczema/skin infections	3,211	3,220
Thrombosis	2,202	2,219
Actinic keratosis	30	312
Acne/Rosacea	346	321
Other	659	745
Total	**10,133**	**10,805**
Revenue by category		
Products	9,990	10,563
Sales-based royalties	137	212
Other	6	30
Total	**10,133**	**10,805**
Timing of revenue recognition		
Goods transferred at a point in time	10,127	10,791
Services transferred over time	6	14
TOTAL	**10,133**	**10,805**

Note 3
Staff expenses

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

Where the LEO Group 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)	**2020**	**2019**
Wages and salaries[1]	3,967	3,635
Pensions – defined benefit plans	8	7
Pensions – defined contribution plans	302	276
Social security expenses	353	321
Other employee expenses	244	172
Total staff expenses for the year	**4,874**	**4,411**
Capitalized staff expenses	(221)	(198)
TOTAL STAFF EXPENSES IN THE INCOME STATEMENT	**4,653**	**4,213**
Staff expenses included in		
Cost of sales	820	626
Sales and distribution costs	1,967	1,799
Research and development costs	886	831
Administrative costs	980	957
TOTAL	**4,653**	**4,213**
Remuneration to the Executive Board	5	4
Average number of full-time employees	5,965	5,830

[1] Wages and salaries are impacted by DKK 299 million as a consequence of the restructuring of LEO Pharma announced on August 20, 2020. The restructuring costs are recognized in the income statement as follows: Cost of sales DKK 110 million, Sales and distribution costs DKK 111 million, Research and development costs DKK 17 million and Administrative costs DKK 61 million.

Remuneration to the 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 (with the exception of employee-elected members):

(DKK thousand)	**Lars Olsen**	**Eivind D Kolding**	**Anja Boisen**	**Cristina Lage**	**Lars Green**	**John Mehlbye**	**Karin J Hamberg**	**Peter Schwarz**	**Employee- elected**	**Total**
Remuneration period	Full year	Full year	Full year	Full year	11.3-31.12	1.1-11.3	Full year	Full year		
LEO Foundation, Board	750	600	150	150	121	29	150	150	600	**2,700**
LEO Foundation, Committees	-	-	50	-	-	-	50	100	-	**200**
LEO Holding A/S	450	300	150	150	121	29	150	150	600	**2,100**
LEO Holding A/S, Committees	-	-	-	100	-	10	-	-	-	**110**
LEO Pharma A/S	-	-	-	350	-	-	-	-	350	**700**
LEO Pharma A/S, Committees	-	-	-	100	-	-	-	-	-	**100**

The Chairman and Vice Chairman do not receive separate remuneration for committee work.

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 Group's primary activities ,i.e. gains and losses on divestments of intellectual property rights and on sale of property, plant and equipment.

Other operating income and expenses
The increase in Other operating income in 2020 was mainly due to the sale of intellectual property rights for four non-core products to Cheplapharm for DKK 1,166 million.

(DKK million)	2020	2019
Gain on sale of assets	1,181	2
Other operating income	59	17
Other operating income	**1,240**	**19**
Royalty expenses	18	13
Loss on sale of assets	3	14
Other operating expenses	44	-
Other operating expenses	**65**	**27**

Note 5
Acquisition and divestment of assets and activities

Accounting policies
Acquisition of activities is recognized using the acquisition method in accordance with IFRS 3.

The date of acquisition is the date on which the Group 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.

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

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. The fair value of assets held for sale is determined based on negotiated price in an arm's length transaction.

Key accounting estimates and judgments
Assessment of type of transaction and control
In connection with an acquisition, the LEO Group uses judgments to determine whether the transaction is a business combination by applying the definition in IFRS 3 Business combinations. A transaction is determined to be 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.

Purchase price allocation
Applying the acquisition method to business combinations by nature involves using estimates to assess the fair value of identifiable assets and liabilities. Assessment of the 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.

Note 5
Acquisition and divestment of assets and activities (continued)

Acquisitions during 2020
The opening balance for Bayer AG's dermatology business, acquired on July 1, 2019, was finalized in 2020. There have been a few adjustments, which have impacted goodwill by DKK 66 million, of which DKK 38.5 million related to an additional payment to Bayer, DKK 13 million to an adjustment of the fair value of Assets held for sale and DKK 14.5 million to other adjustments.

LEO Pharma has not entered into any significant acquisitions during 2020.

Divestment of four non-core products to Cheplapharm during 2020
On August 31, 2020, LEO Pharma announced the divestment of four non-core products within bone disorders/nephrology, dermatology and gynecology to Cheplapharm for DKK 2,233 milion. The total annual revenue for the products included in the divestment is around DKK 818 million. The transaction was closed on December 15, 2020 after regulatory approval. A gain of DKK 1,166 million has been recognized as Other operating income. Reference is made to note 4.

Acquisitions during 2019
On July 27, 2018, LEO Pharma entered into two separate agreements to purchase 100% of Bayer's global prescription dermatology portfolio. The first agreement was recognized in 2018 and the second in 2019. The second agreement, regarding Bayer's prescription dermatology 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 LEO Pharma obtained control. The acquisition further comprised a factory in Segrate, Italy, and 100% of the shares in the German companies Intendis GmbH, Intraserv Verwaltungs GmbH and Intraserv KG. The acquisition 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 increased its size in key markets such as 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 is not considered final until 12 months after acquisition.

Impact on 2019 financials
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 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.

Divestment of emollients and proctology portfolio to Karo Pharma during 2019
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 the negotiatiated price in the purchase price allocation. The transaction was approved by the authorities on February 20, 2020. The total annual revenue for the products included in the divestment is approximately DKK 110 million.

The divested portfolio was classified as assets held for sale as of December 31, 2019, reference is made to note 18.

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.

Please see the tabel below for further details of the acquisition of Bayer's global prescription dermatology portfolio.

FAIR VALUE AT DATE OF ACQUISITION

(DKK million)	2019
Intangible assets	4,007
Property, plant and equipment	187
Inventories	405
Trade receivables	290
Deferred tax asset	22
Cash and cash equivalents	255
Assets classified as held for sale	712
Total assets	**5,878**
Pensions and similar obligations	62
Trade payables	1,120
Deferred tax liabilities	57
Other payables	139
Total liabilities	**1,378**
Goodwill at acquisition	**126**
Total purchase price	**4,626**
Acquired cash at hand and in bank	**255**
Net outflow of cash from acquisition	**4,371**

Note 6
Audit fees

(DKK million)	2020	2019
Deloitte Statsautoriseret Revisionspartnerselskab		
Statutory audit	7	7
Other assurance services	-	2
Tax advisory services	4	2
Other non-audit services	13	10
TOTAL	**24**	**21**

Note 7
Financial income and expenses

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

(DKK million)	2020	2019
Interest income on bonds (fair value)	-	6
Capital gains, financial assets	1,018	2,313
Foreign exchange gains, net	27	-
Other interest income	1	-
Other financial income	7	8
FINANCIAL INCOME	**1,054**	**2,327**
Interest expenses, banks	(79)	(43)
Capital losses, financial assets	(15)	(2)
Loss arising on financial assets designated at fair value through profit and loss	(1)	-
Exchange rate losses	(45)	(138)
Write-down of financial assets	(3)	(2)
Other financial expenses	(101)	(97)
FINANCIAL EXPENSES	**(245)**	**(282)**

Note 8
Tax on profit for the year

Accounting policies
Tax for the year, which consists of the year's current tax, the change in deferred tax and adjustment in respect of previous years, is 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 taxable income in the LEO Foundation is calculated according to the tax legislation for foundations. When calculating the taxable income, the LEO Foundation may deduct adopted grants and tax provisions for future grants.

No deferred taxes are recognized in the accounts concerning tax provisions for future grants, as the liability is not expected to be realized, given that the LEO Foundation intends to adopt grants of an amount equal to the provisions within the allowed time frame.

Key accounting estimates and judgments
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 considers 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 how the uncertainty will be resolved, and the effects thereof are recognized in Tax receivables/payables and Deferred tax.

The uncertainty associated with the outcome and timing of open tax matters means that the final outcome may differ significantly from the amounts recognized.

(DKK million)	2020	2019
Current tax	1,387	362
Prior-year adjustments, current tax	33	1
Prior-year adjustments, deferred tax	(71)	(18)
Change in deferred tax for the year	(891)	(80)
TOTAL TAX FOR THE YEAR	**458**	**265**
Tax for the year is included in		
Tax on profit/(loss) for the year	460	284
Tax on other comprehensive income	(2)	(19)
TOTAL TAX FOR THE YEAR	**458**	**265**

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

Note 8
Tax on profit for the year (continued)

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

(DKK million)	2020	%
Profit/(loss) before tax	**50**	
Calculated tax, 22%	11	22%
Tax effect of		
Differences between the income tax rates of foreign subsidiaries and the Danish corporate income tax rate	(128)	(256.0%)
Non-deductible expenses/non-taxable income and other permanent differences	19	38.0%
Tax credits	23	46.0%
Change in deferred tax as a result of a change in the income tax rate	(42)	(84.0%)
Change in valuation of net tax assets	612	1,224.0%
Prior-year tax adjustments, etc., total effect on operations	(35)	(70.0%)
EFFECTIVE TAX/TAX RATE FOR THE YEAR	**460**	**919.9%**

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

(DKK million)	2019	%
Profit/(loss) before tax	**673**	
Calculated tax, 22%	148	22.0%
Tax effect of		
Differences between the income tax rates of foreign subsidiaries and the Danish corporate income tax rate	(151)	(22.4%)
Non-deductible expenses/non-taxable income and other permanent differences	(9)	(1.3%)
Tax credits	11	1.6%
Change in deferred tax as a result of a change in the income tax rate	(9)	(1.3%)
Change in valuation of net tax assets	311	46.2%
Prior-year tax adjustments, etc., total effect on operations	(17)	(2.5%)
EFFECTIVE TAX/TAX RATE FOR THE YEAR	**284**	**42.2%**

Note 9
Intangible assets

Accounting policies

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

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

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

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

Research costs are recognized in the income statement as incurred.

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

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

Intellectual property rights and trademarks:	5-15 years
Software:	3-10 years

Impairment testing

Each year, the carrying amounts of the intangible assets are reviewed 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Key accounting estimates and judgments

Estimated useful lives

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

Impairment testing

Irrespective of whether there is an indication of impairment, intangible assets in progress 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 include:

- 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 the 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 Executive Management's expectations of current market conditions and future growth. The key factors used in calculating the value are revenue, cost of goods sold (COGS), operating expenses (OPEX), EBITDA, working capital, capital expenditures (CAPEX) and discount rate.

The LEO Group has identified capitalized software relating to the ERP system as corporate assets. During the year, Executive Management considers the recoverability of the assets and assesses indications of impairment. The expected future performance of core business areas supports the carrying amount of the assets. Futhermore, it is the Group's assessment that the useful life of the current ERP system has changed and it will therefore be amortized over a shorter period than originally expected.

Assessment of type of asset and level of control

When entering into agreements, Executive Management exercises judgment as to the level of control gained by the Group and the substance of the acquired assets, i.e. license agreement, intellectual property rights to be capitalized or prepaid research and development costs to be expensed over the development period.

Note 9
Intangible assets (continued)

(DKK million)	Goodwill	Intellectual property rights	Development projects	Software	Total intangible assets
2020					
Cost at January 1	126	14,176	4,028	1,290	19,620
Exchange rate adjustments	-	(16)	13	-	(3)
Additions during the year	-	-	766 [4]	7	773
Adjustment to opening, related to Business combinations[1]	66	-	-	-	66
Disposals during the year [2]	-	(1,730)	(5)	(25)	(1,760)
Transfers	-	2	(652)	650	-
Cost at December 31	**192**	**12,432**	**4,150**	**1,922**	**18,696**
Amortization and impairment losses at January 1	-	(7,301)	(1,713)	(331)	(9,345)
Exchange rate adjustments	-	1	-	-	1
Reversed impairment	-	26	-	-	26
Amortization for the year	-	(630)	(2)	(241)[3]	(873)
Disposals during the year[2]	-	719	4	-	723
Transfers	-	15	-	(15)	-
Amortization and impairment losses at December 31	**-**	**(7,170)**	**(1,711)**	**(587)**	**(9,468)**
CARRYING AMOUNT AT DECEMBER 31	**192**	**5,262**	**2,439**	**1,335**	**9,228**

[1] Reference is made to note 5.
[2] Primarily related to the divestment of a portfolio of four non-core products to Cheplapharm. Reference is made to note 5.
[3] The LEO Pharma Group is in the process of implementing a new ERP system. In connection with this, the Group has reassessed the lifetime of the current ERP system, which has resulted in an additional amortization of DKK 24 million.
[4] Additions consist of DKK 80 million (2019: 91 million) related to development projects, and DKK 686 million (2019: 538 million) related to the development of IT projects and implementation of a new ERP system.

(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 balance	-	-	(14)	-	(14)
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**

Note 9
Intangible assets (continued)

Impairment 2020
Based on the impairment tests prepared at year-end 2020, it is deemed necessary to reverse part of the impairment of DKK 114 million recognized at December 31, 2019 related to the property rights acquired from Bayer AG in 2018. The competitive landscape has changed, and an updated assessment shows that one specific patient solution has improved significantly. Based on this, the impairment test has led to a partial reversal of DKK 26 million at December 31, 2020. The reversal of impairment has been recognized as Sales and distribution costs in the income statement.

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 negative changes to future cash flows resulted in an impairment loss of DKK 114 million. The recoverable amount of the assets was determined based on value in use.

(DKK million)	2020	2019
Amortization and impairment losses are specified as follows:		
Sales and distribution costs	604	710
Research and development costs	1	-
Administrative costs	242	136
TOTAL	**847**	**846**

Research and development costs
In 2020, Research and development costs recognized in the income statement amounted to DKK 2,096 million (2019: DKK 2,444 million). Research and development costs primarily comprise internal and external costs related to studies, employee costs, materials, depreciation and other directly attributable costs.

Additions
Additions consist of DKK 80 million (2019: DKK 91 million) related to development projects and DKK 686 million (2019: DKK 538 million) related to the development of IT projects and implementation of new IT.

Development projects
Significant development projects comprise of tralokinumab with a carrying amount of DKK 771 million (2019: DKK 771 million) and patidegib with a carrying amount of DKK 435 million (2019: DKK 424 million).

Intellectual property rights
At December 31, 2020, intellectual property rights comprise the Boxster portfolio (mainly Skinoren®, Advantan®, Travocort® and Travogen®) with a carrying amount of DKK 3,770 million (2019: DKK 4,056 million), Protopic® and Pimafucort® with a carrying amount of DKK 1,238 million (2019: DKK 2,554 million), and Kyntheum® with a carrying amount of DKK 229 million (2019: DKK 264 million).

Note 10
Property, plant and equipment

Accounting policies
Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. 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 life. A reassessment is made once a year to ascertain that the depreciation basis reflects the expected useful life and future residual values of the assets. Land is not depreciated.

The expected useful lives are as follows:

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

Impairment testing
The carrying amount of property, plant and equipment is reviewed to determine whether there is any indication of impairment. If the recoverable amount of an asset is estimated to be lower than the carrying amount, an impairment loss is recognized. For 2020, impairment losses of DKK 8 million were recognized (2019: DKK 0 million).

Note 10

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
2020						
Cost at January 1	2,362	93	3,011	529	1,121	7,116
Exchange rate adjustment	(6)	(5)	(8)	(9)	(4)	(32)
Additions during the year	10	26	6	43	1,079	1,164
Disposals during the year	(21)	-	(78)	(19)	-	(118)
Transfers	78	-	84	9	(171)	-
Cost at December 31	**2,423**	**114**	**3,015**	**553**	**2,025**	**8,130**
Depreciation and impairment losses at January 1	(1,454)	(47)	(1,982)	(380)	-	(3,863)
Exchange rate adjustment	4	2	6	6	-	18
Disposals during the year	14	-	40	19	-	73
Depreciation for the year	(55)	(11)	(176)	(49)	-	(291)
Impairment losses for the year	(3)	-	(5)	-	-	(8)
Depreciation and impairment losses at December 31	**(1,494)**	**(56)**	**(2,117)**	**(404)**	**-**	**(4,071)**
CARRYING AMOUNT AT DECEMBER 31	**929**	**58**	**898**	**149**	**2,025**	**4,059**

(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	2,133	80	2,341	500	799	5,853
Exchange rate adjustment	1	2	1	2	2	8
Additions during the year	5	17	29	20	1,070	1,141
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	**2,362**	**93**	**3,011**	**529**	**1,121**	**7,116**
Depreciation and impairment losses at January 1	(1,426)	(42)	(1,845)	(375)	-	(3,688)
Exchange rate adjustment	0	(1)	(1)	(1)	-	(3)
Disposals during the year	11	5	10	36	-	62
Depreciation for the year	(39)	(9)	(146)	(40)	-	(234)
Depreciation and impairment losses at December 31	**(1,454)**	**(47)**	**(1,982)**	**(380)**	**-**	**(3,863)**
CARRYING AMOUNT AT DECEMBER 31	**908**	**46**	**1,029**	**150**	**1,121**	**3,253**

(DKK million)	2020	2019
Depreciation and impairment losses are specified as follows:		
Cost of sales	213	179
Sales and distribution costs	19	19
Research and development costs	20	13
Administrative costs	47	23
TOTAL	**299**	**234**

Note 11
Leases

Accounting policies
The right-of-use asset and corresponding lease liability are recognised at the commencement date, i.e. the date on which the underlying asset is ready for use. Right-of-use assets are measured at cost, corresponding to the lease liability recognized, adjusted for any lease prepayments including dismantling and restoration costs. The lease liabilities are measured at the present value of lease payments to be made over the lease term. The lease payments are discounted using the borrowing rate stated in the contract.

Depreciation follows the straight-line method over the lease term or the useful life of the right-of-use assets, whichever is shortest.

The lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a rate. If the contract holds an option to purchase, extend or terminate a lease and it is reasonably certain to be exercised by the Group, the lease payment will include those elements. The variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The Group applies the short-term lease recognition exemption to lease contracts that, at the commencement date, have a lease term of 12 months or less for all classes of underlying asset, and the exemption for lease contracts for which the underlying asset is of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

For all classes of assets, non-lease components, i.e. the service element, will not be separated from the lease components and will thereby form part of the right-of-use asset and lease liability recognised in the balance sheet.

Lease assets are depreciated as follows:

- Buildings 5-10 years
- Cars 3-5 years

Key accounting judgments
Judgments in determining the lease term
For building leases, lease terms are estimated on the basis of the size of the building and its strategic importance. The lease terms of such agreements are estimated on the basis of 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.

	2020			2019		
(DKK million)	**Buildings**	**Cars**	**Total**	**Buildings**	**Cars**	**Total**
Cost at January 1	541	111	652	-	-	-
Change in accounting policy	-	-	-	492	86	578
Exchange rate adjustment	(26)	(3)	(29)	11	1	12
Additions/remeasurements during the year	18	49	67	38	24	62
Disposals during the year	(1)	(7)	(8)	-	-	-
COSTS AT DECEMBER 31	**532**	**150**	**682**	**541**	**111**	**652**
Depreciation and impairment losses at January 1	(67)	(36)	(103)	-	-	-
Exchange rate adjustment	-	-	-	-	-	-
Disposals during the year	-	7	7	-	-	-
Depreciation for the year	(74)	(47)	(121)	(67)	(36)	(103)
DEPRECIATION AND IMPAIRMENT LOSSES AT DECEMBER 31	**(141)**	**(76)**	**(217)**	**(67)**	**(36)**	**(103)**
CARRYING AMOUNT AT DECEMBER 31	**391**	**74**	**465**	**474**	**75**	**549**

Note 11
Leases (continued)

(DKK million)	2020	2019
Lease liabilities at January 1	563	577
Additions/remeasurement during the year	64	65
Interest expenses	11	12
Lease payments	(113)	(103)
Exchange rate adjustment	(30)	12
Lease liabilities at December 31	**495**	**563**
Non-current liabilities	395	463
Current liabilities	100	100
Lease liabilities at December 31	**495**	**563**

(DKK million)	2020	2019
The following are the amounts recognized in the income statement		
Depreciation expense of right-of-use assets (included in Administrative costs	(121)	(104)
Interest expense on lease liabilities	(11)	(12)
Total amount recognized in the income statement	**(132)**	**(116)**

The amounts recognized impact the operating cash outflow by DKK 11 million (2019: DKK 12 million) as well as the cash outflow from financing activities by DKK 112 million (2019: DKK 91 million).

Note 12
Other receivables

Accounting policies
Other receivables mainly comprise short term loans to third parties, reimbursable taxes, receivables from partners and receivable interest, etc.

(DKK million)	2020	2019
Public authorities (VAT)	407	808
Deposits	58	68
Other	146	104
Total other receivables	**611**	**980**

Note 13
Financial risks

Financial portfolio risks
Financial portfolio risks are managed according to the LEO Holding Investment Policy, which has been approved by LEO Holding's Board of Directors. The Investment Policy states the strategic asset allocation and the boundaries for each asset class within which tactical asset allocation positions can be taken. Furthermore, the policy defines the limits on counterparty risk, overall duration risk and liquidity of the financial portfolio. Currency risk is hedged for all fixed-income exposure, while equity investments generally have full currency exposure.

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

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

The Group's overall risk 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 derivative 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. These objectives and policies are outlined in the internal Treasury Policy, which includes cash flow hedges of highly probable forecast sales and purchase transactions. Furthermore, it comprises the Foreign Exchange Policy, the Investment Policy and 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 currency 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 12 months forward. The majority of LEO Pharma's sales are in EUR, USD, GBP, CAD, JPY, RUB, SAR, CNY and AUD. The EUR exchange risk is considered low, as Denmark is expected to maintain its fixed exchange rate policy.

Foreign currency sensitivity analysis
The sensitivity analysis shows the estimated impact on operating profit of a 5% change in DKK versus the key currencies to which LEO Pharma was exposed to on December 31, 2020. The analysis shows the impact of foreign currency exchange differences on the Group's monetary assets and liabilities and foreign exchange forwards. A similar negative change in exchange rates would have a similar opposite effect on operating profit.

FOREIGN CURRENCY ANALYSIS

	2020			2019	
(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%	(8)	38	(17)	26
GBP	5%	(5)	(11)	(3)	(14)
CAD	5%	1	(16)	1	(21)
JPY	5%	9	(4)	1	1
RUB	5%	(2)	(4)	(1)	(8)
CNY/CNH	5%	-	-	-	(2)
BRL	5%	1	(4)	-	(6)
SAR	5%	-	(3)	-	(6)
AUD	5%	-	(4)	-	(5)

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

(DKK million)	Currency	Expiry of commitment	Fixed/ floating	Weighted avg. effective interest rate %	Amortized cost	Nominal value	Fair value
2020							
Term loan A	DKK	2023	Floating	1.60	1,125	1,125	1,125
Term loan B	DKK	2025	Floating	1.90	1,500	1,500	1,500
Loans RCF A	USD	2025	Floating	1.38	38	38	38
Loans RCF A	DKK	2025	Floating	2.05	862	864	864
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,183	1,200	1212
Other	Various	Uncommitted	Floating	N/A	4	4	4
Total					**4,712**	**4,731**	**4,743**
2019							
Term loan A	DKK	2022	Floating	0.80	1,125	1,125	1,125
Term loan B	DKK	2024	Floating	0.95	1,500	1,500	1,500
Loans RCF A	DKK	2024	Floating	1.15	699	699	699
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,182	1,200	1216
Other	Various	Uncommitted	Floating	N/A	20	20	20
Total					**4,526**	**4,544**	**4,560**

Note 13
Financial risks (continued)

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
2020				
DKK	1,125	-	-	0.03%
DKK	1,500	(6)	(2)	0.10%
TOTAL		**(6)**	**(2)**	
2019				
DKK	1,125	-	-	0.03%
DKK	1,500	3	3	0.10%
TOTAL		**3**	**3**	

At December 31, 2020, a fair value of DKK (2) million has been recognized in Other receivables.
At December 31, 2019, a fair value of DKK 3 million was recognized in Other receivables.

MATURITY ANALYSIS OF TRADE RECEIVABLES

(DKK million)	Not past due	Overdue by 3 months	Overdue by 3-6 months	Overdue by 6-12 months	Overdue by more than 12 months	Factoring	Total
December 31, 2020							
Expected credit loss rate	0%	0%	0%	21%	100%	-	
Trade receivables	2,375	182	37	13	40	(159)	**2,488**
Write-downs	0	0	0	(7)	(40)	-	**(47)**
December 31, 2019							
Expected credit loss rate	0%	0%	0%	21%	100%	-	
Trade receivables	3,021	256	21	34	36	-	3,368
Write-downs	0	0	0	(7)	(36)	-	(43)

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 rates is mitigated by entering into interest rate swaps as hedge instruments where 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 was observedin 2020. The current hedging instruments are shown in the table above on the basis of the average fixed interest rate used.

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 2020 and 2019. However, LEO Pharma has a number of ongoing legal actions nearing completion against customers in receivership and other financial difficulties.

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, but continues to monitor the credit exposure on all customers, both new and existing.

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.

LEO Pharma Group has in 2020 implemented a non-recourse factoring programme for selected global customers to optimize working capital. At year-end, the Group has derecognized trade receivables, without recourse, having due dates after December 31, 2020, amounting to DKK 159 million.

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

To manage credit risk on financial counterparties, LEO Pharma enters into derivative financial instruments and money market deposits only with financial counterparties having a satisfactory long-term credit rating assigned by at least one of the three international credit-rating agencies: Standard and Poor's, Moody's and Fitch.

If a counterparty has a rating below Investment Grade, LEO Pharma minimizes the risk by keeping the lowest possible bank balance or by spreading the risk between several banks. At year-end, the bank balances held with counterparties below Investment Grade were low, and the credit risk is considered low. Furthermore, the credit risk on bond investments is limited, as investments are made in highly liquid bonds with solid credit ratings such as Investment Grade.

Note 13
Financial risks (continued)

Liquidity risk
It is of great importance that the company maintains a financial reserve to cover its 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.

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

Cash resources and financing facilities
LEO Pharma has access to financing facilities of DKK 6,696 million (2019: DKK 3,119 million), of which unused and secured overdraft facilities amounted to DKK 6,017 million (2019: DKK 2,944 million) as of the reporting date. The remaining amount of DKK 679 million (2019: DKK 175 million) primarily consists of cash and cash equivalents. The facilities are subject to financial covenants, and no breaches were encountered during the year.

On May 29, 2020, LEO Pharma amended the loan agreement of April 2019 with five Nordic banks increasing the commitment to DKK 9,700 million. The facility has five years' duration with an option to extend the maturity for up to two additional years.

CASH RESOURCES

(DKK million)	2020	2019
Cash and cash equivalents	629	269
Secured overdraft facilities, banks – amount unused	6,017	2,944
Cash resources, banks	**6,646**	**3,213**
Marketable securities	13,735	13,935
Securities at December 31	**13,735**	**13,935**
CASH RESOURCES, BANKS AND SECURITIES	**20,381**	**17,148**

MATURITY OF CONTRACTUAL CASH FLOWS

(DKK million)	Contractual amount	Less than 1 year	1-3 years	3-5 years	5+ years
2020					
Non-financial derivatives					
Floating-rate bank debt	3,710	955	1,211	1,544	-
Fixed-rate bank debt	1,293	13	76	177	1,027
Trade and other payables	3,709	3,709	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	6	2	3	1	-
Forwards used as hedging instruments	40	40	-	-	-
TOTAL CONTRACTUAL CASH FLOW	**8,758**	**4,719**	**1,290**	**1,722**	**1,027**
2019					
Non-financial derivatives					
Floating-rate bank debt	3,433	44	1,168	2,221	-
Fixed-rate bank debt	1,280	9	19	147	1,105
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	**8,695**	**4,030**	**1,190**	**2,370**	**1,105**

Note 14
Financial derivatives

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, the Group 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 effective as a hedging instrument, in which case the timing of recognition in the income statement depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives held as hedging instruments in respect of foreign currency risk as either fair value hedges or cash flow hedges, and certain derivatives held 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. The cumulative value adjustment of these contracts is transferred from Other comprehensive income to the income statement in the same period and the same line as the hedged item.

It is the LEO Pharma Group's policy to hedge EUR 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 Group's CNY exposure.

Discontinuance of cash flow hedging

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

Currently, net investments in foreign subsidiaries are not hedged.

LEO Pharma has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from the expected future sales transactions that will take place over the next 12 months, at which time the amount deferred in equity will be reclassified as a gain or loss under financial items. No purchase transactions were hedged in 2020. 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 in either Other assets or Other liabilities within the statement of financial position (see note 15 – Financial assets and financial liabilities).

Note 14
Financial derivatives (continued)

FINANCIAL DERIVATIVES – CASH FLOW HEDGES

	2020					2019				
(DKK million)	Average hedge rate	Notional value, foreign currency	Contract value	Carrying amount of the hedging instruments, assets/(liabilities)	Change in fair value recognized in Other comprehensive income	Average hedge rate	Notional value, foreign currency	Contract value	Carrying amount of the hedging instruments, assets/(liabilities)	Change in fair value recognized in Other comprehensive income
Forward exchange contracts										
Bought USD	6.58	124	815	(44)	(44)	6.60	46	303	1/(1)	11
Sold GBP	8.27	26	215	2/(2)	11	8.39	31	263	(11)	(11)
Sold CAD	4.83	67	325	6)	17	4.91	76	375	(12)	(12)
Sold BRL	1.30	65	85	2/(3)	10	1.69	67	112	(12)	(11)
Sold RUB	0.09	885	81	10	20	0.096	1,520	147	(10)	(13)
Sold SAR	1.78	40	71	7	9	1.72	65	111	(3)	5
Sold PLN	1.66	46	76	1	3	1.70	60	103	(2)	(1)
Sold AUD	4.44	17	77	(4)	(2)	4.54	22	100	(2)	(2)
Sold THB	0.21	241	51	2	6	0.21	417	88	(4)	(1)
Sold other currencies	N/A	N/A	905	16/(21)	0	N/A	N/A	744	(10)	4
TOTAL AT DECEMBER 31			**2,701**	**46/(74)**	**30**			**2,346**	**6/(67)**	**(31)**

Note 14
Financial derivatives (continued)

FINANCIAL DERIVATIVES – FAIR VALUE HEDGES

(DKK million)	Contracted amount based on agregate rates	Fair value at year-end	Maturity end date	Contracted amount based on agregate rates	Fair value at year-end	Maturity end date
	2020			2019		
Bought USD	191	(12)	25/01/2021	370	1	07/08/2020
Sold CAD	182	1	10/02/2021	129	(1)	10/09/2020
Sold JPY	160	(4)	16/07/2021	237	3	20/02/2020
Sold RUB	103	2	16/03/2021	244	(7)	18/02/2020
Sold SAR	49	-	15/03/2021	154	-	22/10/2020
Sold CNY	15	-	11/01/2021	2	-	10/09/2020
Sold/bought AUD	19	-	21/01/2021	159	2	28/01/2020
Bought EUR	7,257	2	18/10/2021	5,519	10	12/11/2020
Sold other currencies	430	(1)	04/11/2021	560	(7)	25/09/2020
TOTAL	**8,406**	**(12)**		**7,374**	**1**	

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 is transferred to either Financial income or Financial expences. A loss of DKK 28 million has been deferred for recognition until 2021 (2019: loss of DKK 58 million was deferred until 2020).

Fair value loss of DKK 12 million on forward exchange contracts at the end of 2020 is recognized in the income statement in Financial expenses (2019: loss of DKK 1 million).

Note 15
Financial assets and liabilities

Accounting policies

Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets, except for trade receivables, and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appopiate, on initial recognition.

Financial assets

All recognized financial assets are required to be measured subsequently at amortized cost or fair value on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Other financial securities presented under non-current assets consist of equity investments and bonds.

Investments in bonds that are held within a business model the objective of which is to collect the contractual cash flows are subsequently measured at amortized cost. Investments that are held within a business model the objective of which is both to collect the contractual cash flows and to sell are subsequently measured at fair value through Other comprehensive income.

All other investments, including equity investments, are subsequently measured at fair value through profit and loss.

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

Financial liabilities

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

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 primarily determined based on the present value of expected future cash flows. Where a market price is available, however, this is deemed to be the fair value.

Note 15
Financial assets and liabilities (continued)

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(DKK million)	Carrying amount 2020	Carrying amount 2019	Fair value 2020	Fair value 2019
Carried at amortized cost				
Cash and bank balances	629	269	603	269
Trade and other receivables	2,996	4,277	2,995	4,277
Other financial assets	10	1,308	10	1,308
Other receivables non-current	15	17	15	17
FINANCIAL ASSETS AT AMORTIZED COST	**3,650**	**5,871**	**3,623**	**5,871**
Carried at fair value through profit and loss (FVTPL)				-
Financial assets mandatorily measured at FVTPL	13,735	14,189	13,735	14,189
Derivative instruments in designated hedge relationships	10	20	10	20
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**13,745**	**14,209**	**13,745**	**14,209**
Carried at fair value through other comprehensive income (OCI)				
Derivative instruments in designated hedge relationships	46	9	46	9
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI)	**46**	**9**	**46**	**9**
TOTAL FINANCIAL ASSETS	**17,441**	**20,089**	**17,414**	**20,089**

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(DKK million)	Carrying amount 2020	Carrying amount 2019	Fair value 2020	Fair value 2019
Carried at amortized cost				
Trade and other payables	3,723	4,168	3,723	4,168
Bank loans (both current and non-current)	3,530	3,344	3,531	3,344
Mortgage loans	1,183	1,182	1,212	1,216
Lease liabilities	491	555	518	606
FINANCIAL LIABILITIES AT AMORTIZED COST	**8,436**	**9,249**	**8,466**	**9,334**
Carried at fair value				-
Derivative instruments in designated fair value hedge relationships	22	19	22	19
FINANCIAL LIABILITIES AT FAIR VALUE	**22**	**19**	**22**	**19**
Carried at fair value through other comprehensive income (OCI)				
Derivative instruments in designated hedge relationships	76	67	76	67
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI)	**76**	**67**	**76**	**67**
TOTAL FINANCIAL LIABILITIES	**8,534**	**9,335**	**8,564**	**9,420**

Fair value measurements

The fair value of derivative financial instruments is measured on the basis of quoted market prices of financial instruments traded in active markets (Level 1). If an active market exists, the fair value is based on the most recently observed market price at the end of the reporting period. If a financial instrument is quoted in a market that is not active, the valuation is based 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 and unlisted bonds and shares, is measured according to generally accepted valuation techniques (Level 2). Market-based parameters are used to measure the fair value.

Valuation methods where possible input is not based on observable market data (Level 3 input).

Note 15
Financial assets and liabilities (continued)

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

(DKK million)	Fair value hierarchy at December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Measured at fair value				
Government and mortgage bonds	1,621	-	-	1,621
Equities	8,225	-	-	8,225
Credit	3,048	-	-	3,048
Alternatives	787	779	597	2,163
Other financial assets	-	-	35	35
Derivative instruments	-	56	-	56
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**13,681**	**835**	**632**	**15,148**
Measured at amortized cost, disclosure of fair value				
Bank loans	-	3,530	-	3,530
Mortgage loans	-	1,212	-	1,212
Derivative instruments	-	98	-	98
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**-**	**4,840**	**-**	**4,840**

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

(DKK million)	Fair value hierarchy at December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Measured at fair value				
Government and mortgage bonds	2,822	-	-	2,822
Equities	7,453	-	-	7,453
Credit	3,914	-	-	3,914
Alternatives	621	642	-	1,263
Other financial assets	-	-	-	-
Derivative instruments	-	29	-	29
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**14,810**	**671**	**-**	**15,481**
Measured at amortized cost, disclosure of fair value				
Bank loans	-	2,625	-	2,625
Mortgage loans	-	1,216	-	1,216
Derivative instruments	-	86	-	86
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**-**	**3,927**	**-**	**3,927**

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

Note 16
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 where the temporary difference ascertained at the time of initial recognition affects neither the financial result nor the taxable income.

Provisions for withholding taxes on dividends from subsidiaries are recognized only 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 applicable 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 and judgments
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. This assessment considers the continuous utilization of existing deferred tax assets and creation of new deferred tax assets.

(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
2020						
Intangible assets	(500)	-	2	57	701	**260**
Property, plant and equipment	34	-	1	(48)	431	**417**
Inventories	559	-	(1)	55	(110)	**503**
Provisions	166	-	(7)	12	(35)	**137**
Other items	18	-	-	(5)	93	**105**
Tax loss carryforwards, etc.	-	-	-	-	260	**260**
Assets held for sale	(162)	-	-	1	161	**-**
Valuation allowance	(444)	-	(1)	-	(610)	**(1,054)**
TOTAL TEMPORARY DIFFERENCES	**(329)**	**-**	**(5)**	**72**	**891**	**629**
Deferred tax assets	776	-	(5)	72	(197)	**645**
Deferred tax liabilities	(1,105)	-	-	-	1,088	**(17)**
DEFERRED TAX ASSETS/(LIABILITIES)	**(329)**	**-**	**(5)**	**72**	**891**	**629**
2019						
Intangible assets	51	(874)	(1)	31	293	**(500)**
Property, plant and equipment	45	(7)	-	(30)	26	**34**
Inventories	570	(55)	-	-	44	**559**
Provisions	89	(5)	2	18	62	**166**
Other items	57	6	-	2	(47)	**18**
Tax loss carryforwards, etc.	3	-	-	(3)	-	**-**
Assets held for sale	-	(162)	-	-	-	**(162)**
Valuation allowance	(146)	-	-	-	(298)	**(444)**
TOTAL TEMPORARY DIFFERENCES	**669**	**(1,097)**	**1**	**18**	**80**	**(329)**
Deferred tax assets	673	-	1	18	84	**776**
Deferred tax liabilities	(4)	(1,097)	-	-	(4)	**(1,105)**
DEFERRED TAX ASSETS/(LIABILITIES)	**669**	**(1,097)**	**1**	**18**	**80**	**(329)**

Note 17
Inventories

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

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

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

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

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

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

(DKK million)	2020	2019
Raw materials and consumables	286	452
Work in progress	1,540	915
Finished goods and goods for resale	1,037	938
TOTAL	**2,863**	**2,305**
Write-down for the year	135	20
Cost of goods sold included in Cost of sales	2,565	2,816

Note 18
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 an 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 hightly 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 the classification. Assets classified as held for sale are not subject to depreciation or amortization.

(DKK million)	2020	2019
Intangible assets	-	672
Inventories	-	40
Total assets classified as held for sale	**-**	**712**
TOTAL	**-**	**3,325**

On March 2, 2020, the portfolio of emollients and proctology products was sold at a fair value of DKK 712 million, i.e. no gain or loss was recognized in the Income statement.

At December 31, 2020, no assets are classified as assets 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.

Note 19
Foundation capital

The nominal value of the Foundation capital amounts to DKK 98 million (2019: DKK 98 million).

Note 20
Retirement benefit obligations

Accounting policies
Defined contribution plans
Payments to defined contribution plans are recognized in the income statement in 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 based on assumptions relating to future developments in salary, interest rates, inflation, mortality and other factors. Present value is calculated only for the benefits to which the employees have earned a right through their employment with the Group. Plan assets are recognized to the extent the Group is able to obtain future economic benefits in the form of reimbursement from the pension scheme or reduction of future payments.

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

Any differences between expected developments in plan assets and defined benefit obligations on the one hand and the realized values calculated at the beginning of the year on the other are considered 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 in Ireland, the UK and France. The defined benefit plans expose the Group to actuarial risks, such as longevity, interest rate, salary, market and currency risks.

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

The plan in France is funded and covered by an insurance contract, the assets of which 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 length of service and salary level up to retirement.

Acquisitions in 2019
As a result of LEO Pharma's acquisition of Bayer AG's prescription dermatology business, a net retirement benefit obligation of DKK 54 million was added, relating 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 length of service and salary level up to retirement.

Note 20
Retirement benefit obligations (continued)

(DKK million)	2020	2019
Present value of defined benefit plans		
Present value of defined benefit plans at January 1	2,132	1,628
Effect of exchange rate adjustment	(54)	37
Additions from business combinations	-	176
Current service costs	8	7
Interest costs	31	42
Actuarial (gains)/losses from changes in demographic assumptions	4	8
Actuarial (gains)/losses from changes in financial assumptions	190	301
Actuarial (gains)/losses from changes in experience	(13)	(19)
Benefits paid to employees	(84)	(48)
PRESENT VALUE OF DEFINED BENEFIT PLANS AT DECEMBER 31	**2,214**	**2,132**
Fair value of plan assets		
Fair value of plan assets at January 1	1,719	1,385
Effect of exchange rate adjustment	(46)	32
Additions from business combinations	-	122
Return on plan assets	67	143
Interest income	26	36
Benefits paid to employees	(55)	(46)
Employer contributions	15	47
Fair value of plan assets at December 31	**1,726**	**1,719**
NET RETIREMENT BENEFIT OBLIGATIONS AT DECEMBER 31	**488**	**413**

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 assumptions. 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 110 million.

(DKK million)	2020	2019
Specification of amount recognized in the statement of comprehensive income		
Actuarial (gains)/losses	114	147
TOTAL	**114**	**147**

Note 21
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 made only for liabilities set out in a specific restructuring plan, either by starting to implement the plan or announcing its main components.

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

Key accounting estimates and judgments

Provisions for legal disputes
Provisions for legal disputes consist of various types of provisions linked to ongoing legal disputes. 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. When determining likely outcomes of litigations, etc., Executive Management considers the input of external counsels on each case, as well as known outcomes in case law.

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

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

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

The Group 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 Executive Management as more detailed information becomes available.

Note 21
Provisions (continued)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2020					
Provisions at January 1	491	231	231	245	**1,198**
Additional provisions	1,045	113	504 [1]	79	**1,741**
Used during the year	(1,004)	(87)	(170)	(160)	**(1,421)**
Utilization during the year	(155)	(3)	(7)	(22)	**(187)**
Exchange rate adjustment	(33)	(18)	(17)	(11)	**(79)**
PROVISIONS AT DECEMBER 31	**344**	**236**	**541**	**130**	**1,252**
Provisions are recognized in the balance sheet as					
Non-current liabilities	75	192	142	67	**476**
Current liabilities	269	44	399	64	**776**
PROVISIONS AT DECEMBER 31	**344**	**236**	**541**	**130**	**1,252**

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2019					
Provisions at January 1	609	208	160	99	**1,076**
Additional provisions	1,076	116	220	171	**1,583**
Used during the year	(1,110)	(75)	(104)	(25)	**(1,314)**
Utilization 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**
Provisions are recognized in the balance sheet 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**

[1] Addition of DKK 299 million is primarily related to the restructuring of LEO Pharma announced on August 20, 2020. The majority of the provision is expected to be utilized during 2021.

Note 22
Other non-cash adjustments

(DKK million)	2020	2019
Change in inventory write-down	138	(15)
Change in provision for bad debt	4	(1)
Change in Other [1]	(119)	-
TOTAL OTHER NON-CASH ADJUSTMENTS	**23**	**205**

[1] The change is mainly related to Frozen holiday provision.

Note 23
Other payables

Accounting policies
Other payables comprise accrued expenses, promotion fees, distributor expenses, promotional tax and product listing agreements, etc.

Clinical trials take several years to complete. As such, the Executive Management is required to make estimates based on the progress and costs incurred to date for the ongoing trials. Judgments are made on determining the amount of costs to be expensed during the period or recognized as prepayments or other payables on the balance sheet.

(DKK million)	2020	2019
Accrued clinical trial expenses [1]	236	321
Public authorities (VAT)	107	575
Sales deductions	107	127
Employee related accruals	804	582
Other	989	765
TOTAL OTHER PAYABLES	**2,243**	**2,370**

[1] At December 31, 2020, DKK 236 million is recognized as accrued clinical trial expenses (2019: DKK 320 million) and DKK 317 million as prepayments on the balance sheet (2019: DKK 197 million). In 2020, clinical trial expenses of DKK 508 million were recognized in the Income statement (2019: DKK 896 million).

Note 24
Contingencies

Guarantees and commitments
The total guarantee commitment for the LEO Group amounts to DKK 166 million at December 31, 2020 (2019: DKK 200 million), including a guarantee relating to an associated company of DKK 131 million (2019: DKK 152 million).

Pending lawsuits
At the end of 2020, there were pending patent lawsuits filed by and against LEO Pharma concerning rights related to products in LEO Pharma's portfolio. 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, the Group will from time to time have tax audits and tax discussions with tax authorities in various countries regarding tax issues including transfer pricing and indirect tax issues. Executive Management is of the opinion that current tax audits and tax discussions will have no significant impact on the Group's financial position.

CONTRACTED BUT NOT PROVIDED FOR IN THE FINANCIAL STATEMENTS:

(DKK million)	2020	2019
Intangible assets	4,499	3,292
Property, plant and equipment	645	453
TOTAL	**5,144**	**4,045**

The commitments related to intangible assets comprise milestone payments concerning the development of new products and intellectual property rights from acquisitions. Commercial milestones, royalties and other payments based on a percentage of sales generated from sale of goods following marketing approval are excluded from the contractual commitments because of their contingent nature, related to future sales.

The commitments regarding property, plant and equipment relate primarily to two major expansions of production facilities. The amounts are not risk-adjusted or discounted.

The Group has commitments related to financial investments of DKK 2,014 million (2019: DKK 1,936 million).

Note 25
Related parties

The LEO Group's related parties comprise:
- Its associates, SkinVision B.V. and PellePharm Inc.
- Members of the LEO Foundation's Board of Trustees and Executive Board as well as close relatives of these persons.
- Comapanies in which the Board of Trustees and the Executive Board have a controlling influence.

Transactions and balances with associates were as follows:
- Capital transactions to PellePharm Inc. totaling DKK 0 million (2019: DKK 267 million).

There have been no transactions with the Board of Trustees or Executive Board besides remuneration.

For information on remuneration, please refer to note 3.

Note 26
Events after the balance sheet date

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

On 16 March, 2021, an agreement was signed with Nordic Capital, who upon closing will acquire a minority shareholding in LEO Pharma A/S for an investment of EUR 450 million by issuance of new B-shares in the company. The transaction is expected to close mid-2021, subject to customary regulatory approvals.

Note 27
Companies in the LEO Group

(DKK million)	Country	Share of ownership, %	Activities
Parent Company			
The LEO Foundation	Denmark		Other
Subsidiaries			
SARL LEO Pharma	Algeria	100	Sales services
LEO Pharma Pty Ltd	Australia	100	Sales and distribution
LEO Pharma GmbH	Austria	100	Sales and distribution
LEO Pharma NV	Belgium	100	Sales and distribution
LEO Pharma LTDA.	Brazil	100	Sales and distribution
LEO Pharma Inc.	Canada	100	Sales and distribution
LEO Pharma Consultancy Company Ltd.	China	100	Sales services
LEO Pharma Trading Company Ltd.	China	100	Sales and distribution
LEO Pharma s.r.o.	Czechia	100	Sales services
LEO Holding A/S	Denmark	100	Other
LEO Pharma A/S	Denmark	100	Sales and distribution, Production
LH Capital A/S	Denmark	100	Other
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100	Other
LEO Ventures A/S	Denmark	100	Other
Omhu A/S	Denmark	100	Other
LEO Pharma OY	Finland	100	Sales and distribution
Laboratoires LEO S.A.	France	100	Sales and distribution, Production
LEO Pharma GmbH	Germany	100	Sales and distribution
LEO Pharmaceutical Hellas S.A.	Greece	100	Sales and distribution
DKLEO Pharma Private Limited	India	100	Other
LEO Laboratories Ltd.	Ireland	100	Sales and distribution, Production
Wexport Ltd.	Ireland	100	Production
LEO Pharma Holding Ltd.	Ireland	100	Other
LEO Pharma Manufacturing Italy S.R.L.	Italy	100	Production
LEO Pharma S.p.A.	Italy	100	Sales and distribution
LEO Pharma K.K.	Japan	100	Sales and distribution
LEO Pharmaceuticals, S. de R.L. de C.V.	Mexico	100	Sales services
LEO Pharma LLC	Morocco	100	Sales services
LEO Pharma BV	Netherlands	100	Sales and distribution
LEO Pharma Ltd.	New Zealand	100	Sales and distribution
LEO Pharma AS	Norway	100	Sales and distribution
LEO Pharma Sp. z o.o.	Poland	100	Sales services
LEO Pharma Global Business Service Center Sp. z.o.o.	Poland	100	Other
LEO Farmacêuticos Lda.	Portugal	100	Sales and distribution
LEO Pharmaceutical Products LLC	Russia	100	Sales and distribution
LEO Pharma Asia PTE Ltd.	Singapore	100	Sales services
LEO Pharma Yuhan Hoesa	South Korea	100	Sales and distribution
Laboratorios LEO Pharma S.A.	Spain	100	Sales and distribution
LEO Pharma AB	Sweden	100	Sales and distribution
LEO Pharmaceutical Products Sarath Ltd.	Switzerland	100	Sales and distribution
LEO Pharma SARL	Tunisia	100	Sales services
LEO Pharma İlaç Ticaret A. Ş.i	Turkey	100	Sales and distribution
LEO Laboratories Ltd.	United Kingdom	100	Sales and distribution
LEO Pharma Inc.	USA	100	Sales and distribution
LEO Spiny Merger Sub Inc.	USA	100	Other
LEO US Holding Inc.	USA	100	Other
Associates			
PellePharm Inc.	USA	16.72	
SkinVision B.V.	Netherlands	26.32	

Sales and distribution
Production
Sales services
Other

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Income statement

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2020**	**2019**
Administrative costs	1, 2	(16)	(16)
Operating profit/(loss)		**(16)**	**(16)**
Income from investments in subsidiaries	7	(398)	348
Financial income	3	25	25
Profit/(loss) before tax		**(389)**	**357**
Tax on profit/(loss) for the year	4	-	3
NET PROFIT/(LOSS) FOR THE YEAR	5	**(389)**	**360**

Balance sheet at December 31

ASSETS			
(DKK million)	Note	**2020**	**2019**
Intangible and tangible fixed assets	6	1	1
Investments in subsidiaries	7	25,276	26,325
Receivables from LEO Pharma A/S		1,000	1,000
Total financial fixed assets		**26,276**	**27,325**
Total fixed assets		**26,277**	**27,326**
Receivables from subsidiaries		502	52
Other receivables		1	1
Total receivables		**503**	**53**
Cash at bank and in hand		**25**	**31**
Total current assets		**528**	**84**
TOTAL ASSETS		**26,805**	**27,410**

EQUITY AND LIABILITIES			
(DKK million)	Note	**2020**	**2019**
Foundation capital	8	98	98
Net revaluation, subsidiaries		25,176	26,225
Reserve for future grants		178	125
Retained earnings		997	593
Total equity		**26,449**	**27,041**
Grants payable	10	250	289
Other long-term liabilities		1	-
Total non-current liabilities		**251**	**289**
Grants payable	10	100	76
Other payables		5	4
Total current liabilities		**105**	**80**
TOTAL EQUITY AND LIABILITIES		**26,805**	**27,410**

Statement of changes in equity

(DKK million)	Foundation capital	Net revaluation, subsidiaries	Reserve for future grants	Retained earnings	Total
2020					
Equity at January 1, 2020	98	26,225	125	593	**27,041**
Profit/(loss) in the LEO Foundation	-	(398)	125	(116)	**(389)**
Dividend received	-	(520)	-	520	**-**
Other adjustments in subsidiaries	-	(131)	-	-	**(131)**
Grants for the year	-	-	(72)	-	**(72)**
EQUITY AT DECEMBER 31, 2020	**98**	**25,176**	**178**	**997**	**26,449**

(DKK million)	Foundation capital	Net revaluation, subsidiaries	Reserve for future grants	Retained earnings	Total
2019					
Equity at January 1, 2019	98	26,032	104	681	**26,915**
Profit/(loss) in the LEO Foundation	-	348	100	(88)	**360**
Other adjustments in subsidiaries	-	(155)	-	-	**(155)**
Grants for the year	-	-	(79)	-	**(79)**
EQUITY AT DECEMBER 31, 2019	**98**	**26,225**	**125**	**593**	**27,041**

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Note 1
Audit fees

(DKK thousand)	2020	2019
Fees to auditors appointed at the Board meeting		
Statutory audit	110	110
Other services	4	83
TOTAL	**114**	**193**

Note 2
Staff expenses

(DKK million)	2020	2019
Wages and salaries	10	10
TOTAL	**10**	**10**
Included in		
Administrative costs	10	10
TOTAL	**10**	**10**
Remuneration to the Board of Trustees from other Group companies	3	3

Remuneration to the Board of Trustees amounted to DKK 2.3 million (2019: DKK 2.3 million), and the fee to the administrator, LEO Pharma A/S, amounted to DKK 0.1 million (2019: DKK 0.1 million).

Average number of full-time employees	6	6

For a specification of the remuneration to the Board of Trustees and Executive Board, please refer to note 3 to the Consolidated Financial Statements.

Note 3
Financial income

(DKK million)	2020	2019
Interest income from subsidiaries	25	25
Other financial income	-	-
TOTAL	**25**	**25**

Note 4
Tax on profit/(loss) for the year

(DKK million)	2020	2019
Change in deferred tax	-	3
TOTAL	**-**	**3**

Note 5
Proposed distribution of net profit/(loss) for the year

(DKK million)	2020	2019
Net revaluation for the year	(398)	348
Proposed grant limit for the following year	125	100
Retained earnings	(116)	(88)
TOTAL	**(389)**	**360**

Note 6
Fixed assets

(DKK thousand)	Leasehold improvements	Other fixtures and fittings, tools and equipment	Total tangible assets	Software	Total intangible assets	Total fixed assets
Cost at January 1, 2020	83	1,610	1,693	247	247	**1,940**
Additions during the year	-	27	27	-	-	**27**
Disposals during the year	-	(22)	(22)	-	-	**(22)**
Cost at December 31, 2020	**83**	**1,615**	**1,698**	**247**	**247**	**1,945**
Depreciation and amortization at January 1, 2020	(33)	(481)	(514)	(111)	(111)	**(625)**
Depreciation and amortization for the year	(17)	(254)	(271)	(57)	(57)	**(328)**
Depreciation on disposals	-	21	21	-	-	**21**
Depreciation and amortization at December 31, 2020	**(50)**	**(714)**	**(764)**	**(168)**	**(168)**	**(932)**
CARRYING AMOUNT AT DECEMBER 31, 2020	**33**	**901**	**934**	**79**	**79**	**1,013**

(DKK thousand)						
Cost at January 1, 2019	83	1,266	1,349	247	247	**1,596**
Additions during the year	-	344	344	-	-	**344**
Cost at December 31, 2019	**83**	**1,610**	**1,693**	**247**	**247**	**1,940**
Depreciation and amortization at January 1, 2019	(16)	(232)	(248)	(54)	(54)	**(302)**
Depreciation and amortization for the year	(17)	(249)	(266)	(57)	(57)	**(323)**
Depreciation and amortization at December 31, 2019	**(33)**	**(481)**	**(514)**	**(111)**	**(111)**	**(625)**
CARRYING AMOUNT AT DECEMBER 31, 2019	**50**	**1,129**	**1,179**	**136**	**136**	**1,315**

Note 7
Investments in subsidiaries

(DKK million)	2020	2019
Cost at January 1	100	100
Cost at December 31	**100**	**100**
Value adjustment at January 1	26,225	26,032
Share of profit/(loss) for the year	(398)	348
Dividend paid	(520)	-
Adjustment of financial instruments	24	(27)
Tax on changes in equity	(3)	6
Other movements	(152)	(134)
Value adjustment at December 31	**25,176**	**26,225**
CARRYING AMOUNT AT DECEMBER 31	**25,276**	**26,325**

For a list of all subsidiaries in the LEO Group, please refer to note 27 to the Consolidated Financial Statements.

Note 8
Foundation capital

The nominal value of the Foundation capital is DKK 98 million (2019: DKK 98 million).

Note 9
Deferred tax

(DKK million)	2020	2019
Deferred tax assets/(liabilities) at January 1	-	(3)
Deferred tax on profit/(loss) for the year	-	3
DEFERRED TAX ASSETS/(LIABILITIES) AT DECEMBER 31	**-**	**-**

Note 10
Grants payable

(DKK million)	2020	2019
Grants payable fall due		
Within one year	100	76
Between one and five years	171	177
After more than five years	79	112
GRANTS PAYABLE AT DECEMBER 31	**350**	**365**

Note 11
Contingencies

The LEO Foundation has lease obligations of DKK 2 million (2019: DKK 4 million).

The LEO Foundation has no guarantee commitments or pledges.

Note 12
Related parties

The LEO Foundation's related parties with significant influence comprise the LEO Foundation's Board of Trustees and Executive Board, LEO Holding A/S, and LEO Pharma A/S and its subsidiaries.

For information regarding remuneration to the Board of Trustees and administrative costs, please refer to note 2.

Transactions and balances with LEO Pharma A/S are as follows:

- The LEO Foundation has provided a loan to LEO Pharma A/S of DKK 1,000 million (2019:DKK 1,000 million). The loan was granted on an arm's length basis at an interest rate of 2.45%. The loan will be repaid in 2027.
- Receivables from LEO Pharma A/S of DKK 0.4 million (2019: DKK 0.4 million) and expense of DKK 0.1 million (2019: DKK 0.1 milion).

Transactions and balances with LEO Holding A/S are as follows:

- A short-term loan of DKK 560 million (2019: DKK 50 million) and interest of DKK 0.9 million (2019: DKK 0.1 million).
- Income from LEO Holding A/S of DKK 5.8 million (2019: DKK 5.6 million).

The LEO Foundation has no other transactions with related parties.

Note 13
Events after the balance sheet date

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

On 16 March, 2021, an agreement was signed with Nordic Capital, who upon closing will acquire a minority shareholding in LEO Pharma A/S for an investment of EUR 450 million by issuance of new B-shares in the company. The transaction is expected to close mid-2021, subject to customary regulatory approvals.

Note 14
Accounting policies

Accounting policies
The Financial Statements of the Parent Company, the LEO Foundation, for 2020 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies are unchanged from the previous year.

The Parent Company's accounting policies for recognition and measurement are consistent with the policies of the Consolidated Financial Statements except for IFRS 16 Leases, which has not been implemented 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.

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

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

Management statement

The Executive Board and the Board of Trustees have today considered and adopted the Annual Report of the LEO Foundation for the financial year January 1 – December 31, 2020.

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

In our opinion, the Consolidated Financial Statements and the Financial Statements of the Parent Company give a true and fair view of the financial position as at December 31, 2020 of the Group and the Parent Company, and the results of the Group's and the Parent Company's operations and consolidated cash flows for 2020.

In our opinion, the Management Review gives a true and fair view of the matters addressed in the Review.

Copenhagen, March 24, 2021

EXECUTIVE BOARD

Jesper Mailind
CEO

BOARD OF TRUSTEES

Lars Olsen
Chairman

Eivind Drachmann Kolding
Vice Chairman

Allan Carsten Dahl

Anja Boisen

Cristina Patricia Lage

Jannie Kogsbøll

Karin Jexner Hamberg

Lars Green

Lars Kjøller

Lotte Hjortshøj Larsen

Peter Schwarz

Independent auditor's report

TO THE BOARD OF TRUSTEES OF LEO FONDET

Opinion
We have audited the Consolidated Financial Statements and the Parent Financial Statements for LEO Fondet for the financial year 01.01.2020 - 31.12.2020, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent Financial Statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31.12.2020, and of the results of its operations and cash flows for the financial year 01.01.2020 - 31.12.2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the Parent Financial Statements give a true and fair view of the Parent's financial position at 31.12.2020, and of the results of its operations for the financial year 01.01.2020 - 31.12.2020 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 Review
Management is responsible for the Management Review.

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

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

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

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

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

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

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

they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements and the Parent Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional 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 Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

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

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

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

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

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

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

Copenhagen, March 24, 2021

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Kirsten Aaskov Mikkelsen
State Authorized
Public Accountant
MNE no.21358

Sumit Sudan
State Authorized
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Foundation information

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Financial year: January 1 – December 31

Executive Board
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Board of Trustees
Lars Olsen, Chairman
Eivind Kolding, Vice Chairman
Anja Boisen
Allan Carsten Dahl
Cristina Patricia Lage
Jannie Kogsbøll
Karin Jexner Hamberg
Lars Green
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