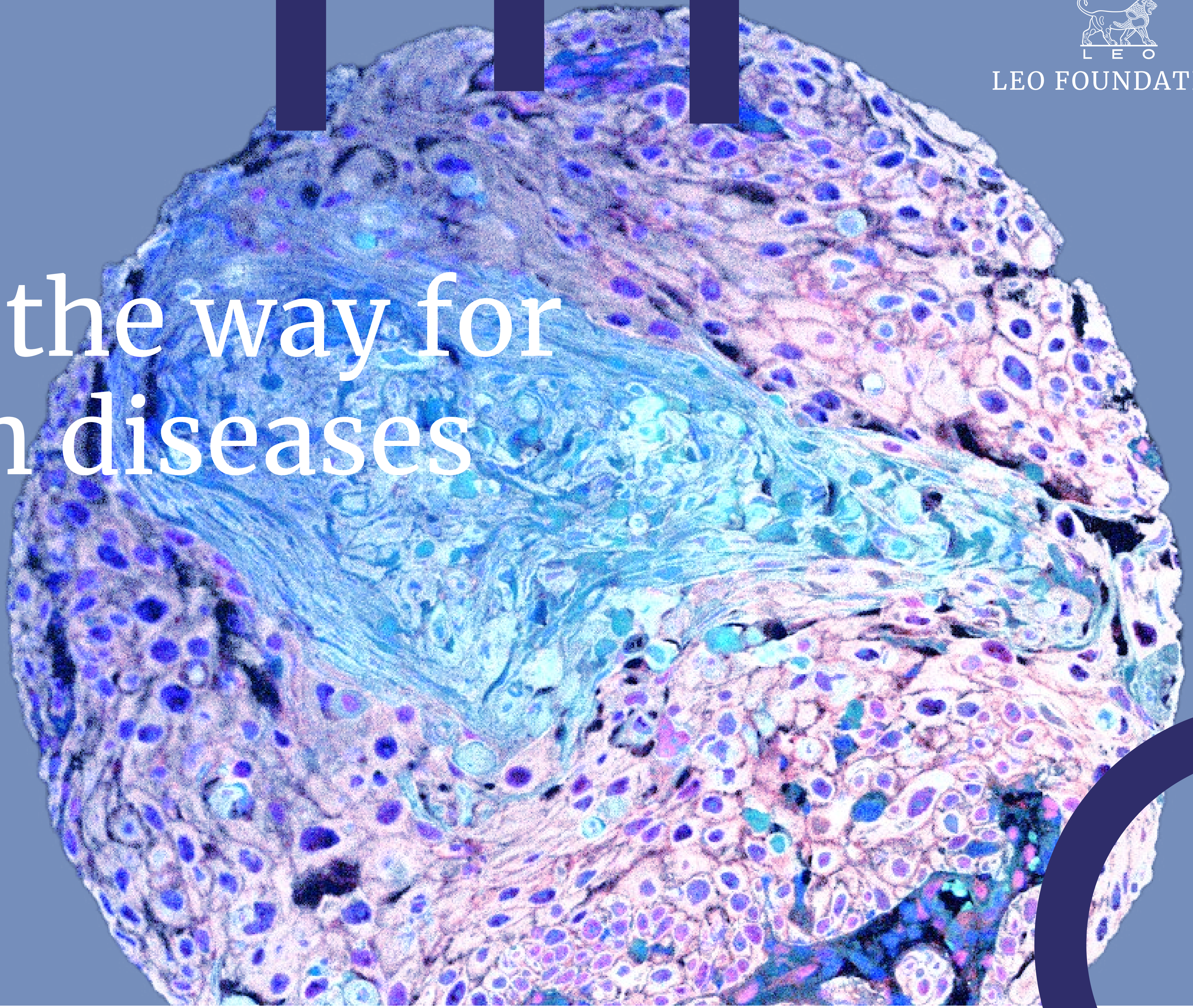
LEO FOUNDATION

ANNUAL REPORT 2022

Let's pave the way for curing skin diseases



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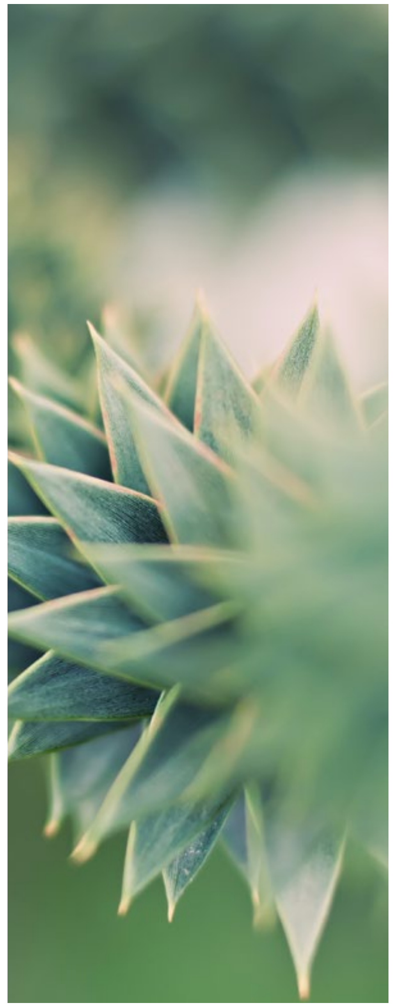
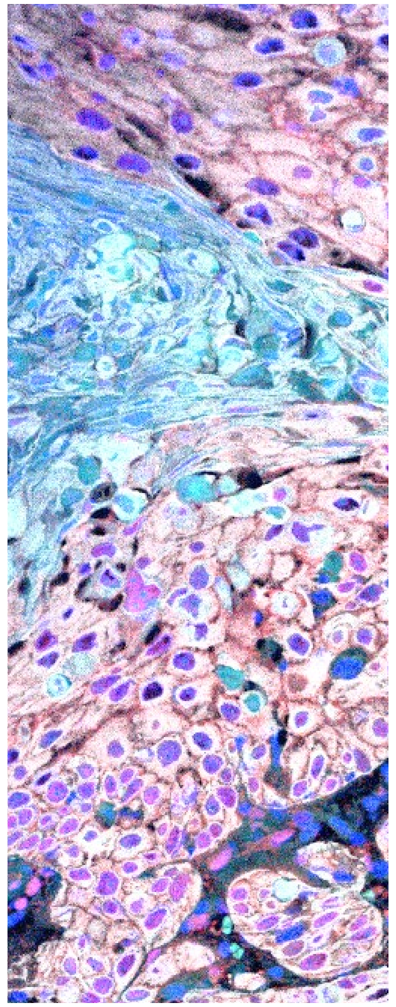
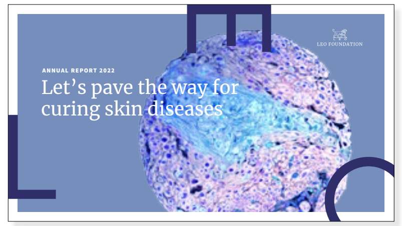
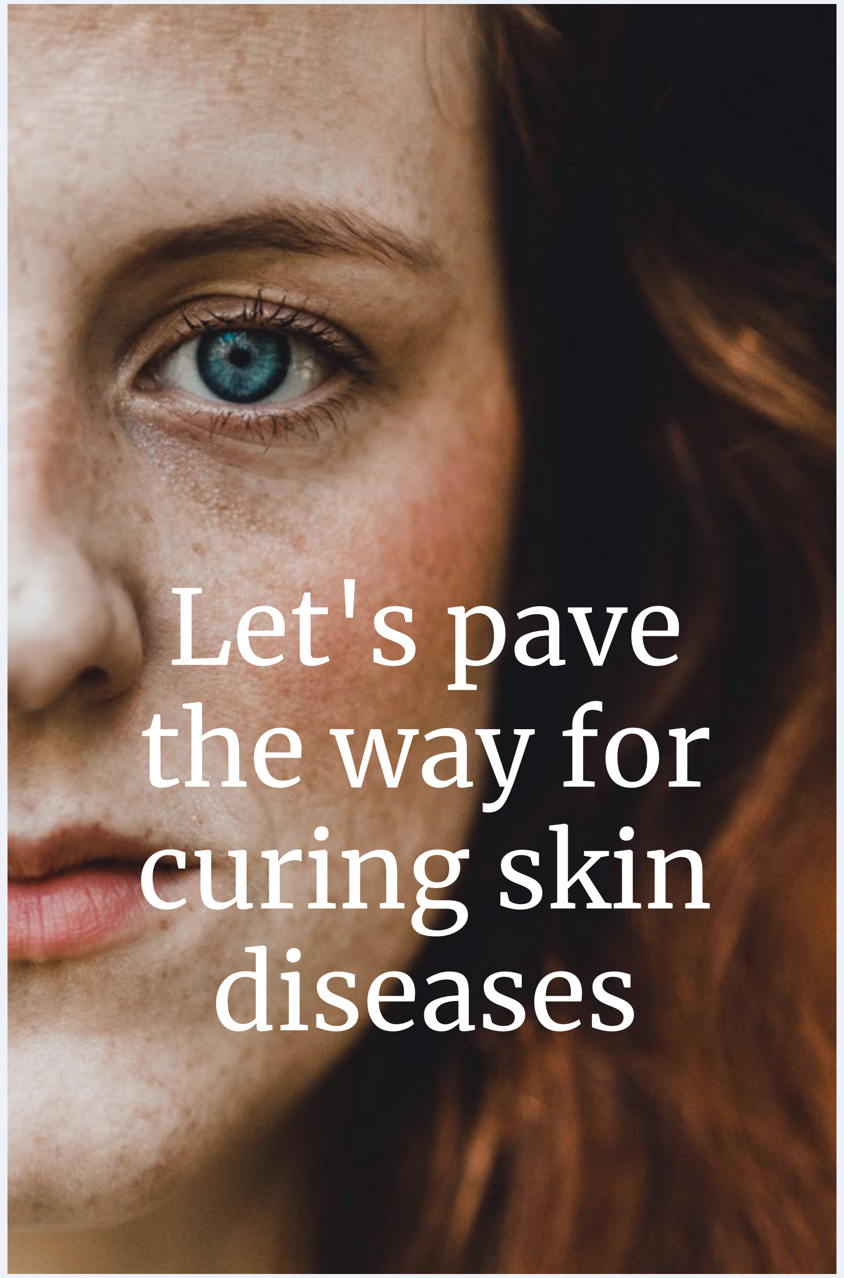






The beauty of the skin. *The cover photo shows a section of a human cutaneous squamous cell carcinoma (SCC) biopsy from a tumor microarray. This beautiful "laboratory art" was created by the Lichtenberger Lab at the Medical University of Vienna, Austria. The lab is led by Dr Beate Lichtenberger, who was the winner of the LEO Foundation Award 2021 in Region EMEA.*

LEO Foundation at a glance



Engaged ownership

Controlling owner of LEO Pharma since 1986

The LEO Foundation is one of Denmark’s largest commercial foundations and an engaged owner of the pharmaceutical company LEO Pharma.

The Foundation’s main objective is to ensure the company’s long-term development and success as a global leader in dermatology, delivering outstanding results.

>75%

Controlling owner of LEO Pharma A/S

Philanthropy

Philanthropic support for scientific purposes

Besides the ownership, the LEO Foundation provides philanthropic grants with the aim to support the best international research in skin diseases and make Denmark a global beacon for skin research.

DKK 125m

Grants and awards to independent **skin research** in 2022

Investments

Financial assets of around DKK 16bn

The LEO Foundation manages financial assets of around DKK 16 billion. These assets are invested to ensure continued capability to support LEO Pharma’s long-term development and provide funds for philanthropic activities.

DKK 16bn

in **financial** assets

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

100%

LEO Holding A/S

Controlling ownership >75%

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 for 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.

Lars Olsen (right)
Chairman of the Board of Trustees

Peter Haahr (left)
CEO

A year of transition across the LEO Foundation

2022 was a year of transition across the activities of the LEO Foundation: the research we support, the company we own, the financial investments we make, and our cultural and historical endeavors.

Our philanthropic activities continued the transition in line with our ambitious new grant strategy, which supports science to improve our understanding of the skin and its diseases; our financial investments evolved in line with macroeconomic and geopolitical changes; and transition efforts at LEO Pharma kept the company on track to deliver on its growth ambitions. Adapting our activities to a changing world and taking action to fulfill our commitment to improve the lives of people living with skin diseases were at the very core of the transition.

The LEO Foundation is the majority owner of the global pharmaceutical company LEO Pharma and was established to ensure the company's continuance and development. Over the past year, our focus as engaged owner has been on supporting the company in executing its growth strategy, advancing its pipeline and simplifying the organization.

Engaged ownership

LEO Pharma's financial results for 2022 were in line with guidance provided in the Annual Report 2021, driven by revenue growth and lower costs. With Christophe Bourdon taking the reins as CEO in April 2022, a simpler and leaner leadership team was created, and organizational changes and improved financial discipline over the past year mean LEO Pharma is well positioned to become a sustainable, profitable company.

LEO Pharma continued the global launch of tralokinumab, a biologic treatment for patients with moderate-to-severe atopic dermatitis. By the end of 2022, the treatment was available in 13 markets, including major markets such as the US, Germany, Spain, the UK and France. Progress in the pipeline included positive topline results from the first Phase 3 trial with delgocitinib in chronic hand eczema and progress on registration plans. The key results from the IL-22R Phase 2a study showed positive efficacy and safety endpoints, demonstrating a new mode of action for treating atopic dermatitis.

Philanthropy

Looking at the LEO Foundation's philanthropic activities, we continued to support independent research to transform our understanding of the skin and its diseases. In 2022, we awarded a total of DKK 125 million across 36 grants focusing on very different aspects of the skin and its diseases. During the year, research grants and awards were given in line with recent years – but new grant instruments will evolve as we move toward 2025, with a focus not only on funding excellent skin research but also on catalyzing and strengthening the ecosystem in and around skin and skin disease research and on helping Denmark become a global spearhead in skin research. Hence, 2022 also saw a focus on improving the framework for the Foundation's grant activities by 2025, and the transition to our ambitious new grant strategy continued. To lead and further develop our growing grant activities, we have expanded the grants team with two recruitments, including a new Chief Scientific Officer, Anne-Marie Engel, bringing valuable experience to the Foundation.

Investments

Meanwhile, transition was also a key word for the global economy with pressures and challenges from an increasingly difficult macroeconomic and geopolitical environment, including the impact of the war in Ukraine, rising tensions in global trade, and the continuing fallout from COVID-19. Our financial investments portfolio was not immune to market moves and generated a negative return of DKK 1,626 million or -9%, with equities, credit, and government and mortgage bonds being detractors, while alternatives and overlay strategies contributed positively. In 2022, we followed the path laid out in previous years and in our investment strategy toward 2025, steadily building up a diversified portfolio of illiquid alternatives. From an environmental, social and governance (ESG) perspective, all illiquid alternatives are evaluated during due diligence and through subsequent asset management and, on the publicly listed side, all mandates, including index mandates, are now subject to ESG screening.

Looking ahead

As we begin 2023, and look back on what was achieved in 2022, the LEO Foundation and the LEO Group are making clear progress by taking further action to improve the lives of people living with skin diseases. In early 2023, LEO Pharma took an important step toward profitability, announcing an adjustment to the R&D strategy to emphasize external innovation and partnerships. 2023 will be a milestone year for LEO Pharma, with a goal of delivering positive EBITDA as an important step in driving profitable and sustained growth toward 2025 and beyond.

Where our philanthropic activities are concerned, new grant instruments are evolving and will be launched during 2023, as we expect to increase our grant giving compared to 2022. Regarding our financial investments, further additions of alternative components are expected to enhance returns and portfolio diversification, albeit at a slower pace, as the relative size of alternatives has grown more than anticipated in 2022. This year will also see the development of a dedicated strategy toward 2030 across the Foundation's various activities.

At the LEO Foundation, we are looking forward to – and are well prepared for – continuing to improve how we work as an owner, philanthropist and financial investor to deepen our impact and remain committed to improving the lives of people living with skin diseases. We are proud to join forces in that endeavor with all LEO Group colleagues and board members, our co-owner Nordic Capital, scientific committees and grantees around the world. It is your contributions and dedication that help pave the way for curing skin diseases. Thank you.

Lars Olsen
Chairman of the Board of Trustees

Peter Haahr
CEO

Financial review – LEO Group

The LEO Group's financial result in 2022 reflected both the significant changes and investments made to realize LEO Pharma's strategic ambitions, and a difficult macroeconomic and geopolitical environment.

In 2022, the Group result was negatively impacted by a loss of DKK 1,626 million on the LEO Foundation's investing activities as well as a net loss at LEO Pharma of DKK 4,110 million. These were the key reasons for an aggregate Group net loss before tax of DKK 5,551 million.

Operating activities

Revenue at LEO Pharma increased by 7% from DKK 9,957 million in 2021 to DKK 10,641 million in 2022, and by 4% at constant currency rates compared to 2021. The increase in revenue can primarily be attributed to the dermatology portfolio, with growth driven by skin infection, eczema, other mature dermatology and the continued launch of Adtralza®/ Adbry™.

Total costs at LEO Pharma decreased slightly from DKK 14,175 million in 2021 to DKK 14,025 million in 2022. Costs were impacted by substantial investments in the launch of Adtralza®/Adbry™, and transformation and restructuring costs related to the ongoing transformation of LEO Pharma into a profitable business.

LEO Pharma's R&D costs were DKK 2,474 million, or 23% of revenue in 2022, compared to a spend of 31% in 2021. Adjusted for impairment of development projects, restructuring costs and other one-time expenses, the R&D spend in 2021 amounted to 23% of revenue. Restructuring costs impacted the 2022 costs by DKK 59 million against DKK 35 million in 2021.

Total Group administrative costs amounted to DKK 2,133 million, compared to DKK 2,429 million in 2021. The 2022 costs were impacted by restructuring costs and impairment of software development projects of DKK 294 million against DKK 186 million in 2021. The Foundation's own net administrative and operational costs amounted to DKK 22 million, which is in line with 2021.

The operating result (EBIT) at LEO Pharma amounted to a loss of DKK 3,311 million, compared to a loss of DKK 4,156 million in 2021. The operating loss was impacted by transformation and restructuring costs of DKK 321 million and impairment of intellectual property rights and IT development projects of DKK 176 million.

Philanthropic activities

The LEO Foundation awarded 36 grants totaling DKK 125 million in 2022, compared to 27 grants totaling DKK 163 million in 2021.

Investing activities

The LEO Foundation's financial investments generated a negative return of DKK 1,626 million, compared to a positive return of DKK 2,131 million in 2021. The global economy was impacted by an increasingly difficult macroeconomic and geopolitical environment, including the war in Ukraine, rising tensions in global trade and the continuing fallout from COVID-19. The LEO Foundation's financial portfolio was not immune to market moves and generated a negative return of 9%, with equities, credit, and government and mortgage bonds being detractors, while alternatives and overlay strategies contributed positively.

Net results and grants

Overall, the net result for the Group in 2022 was a loss of DKK 5,253 million, compared to a loss of DKK 2,831 million in 2021.

The LEO Foundation awarded 36 grants totaling DKK 125 million in 2022, compared to 27 grants totaling DKK 163 million in 2021. The outstanding grant liability increased to DKK 440 million at year-end, versus DKK 396 million in 2021.

Assets

At 31 December 2022, total assets amounted to DKK 38,146 million, compared to DKK 40,249 million in 2021. This includes financial investments of DKK 15,819 million at year-end, compared to DKK 18,745 million at year-end 2021.

Intangible assets decreased to DKK 7,655 million as of 31 December 2022, against DKK 8,654 million in 2021, primarily due to ordinary amortization and impairment of IT development projects.

Equity

The Group's total equity at year-end decreased by 20% from DKK 24,693 million in 2021 to DKK 19,837 million because of the negative result in 2022.

Cash flow

Total Group cash flow from operating activities was a negative DKK 2,693 million, compared to a

negative DKK 2,754 million in 2021. This development was mainly due to the lower operating result.

Cash flow from investing activities, excluding the purchase and sale of financial assets, was an outflow of DKK 1,479 million, against an outflow of DKK 1,350 million in 2021.

Cash flow from financing activities resulted in an inflow of DKK 3,520 million, the majority of which derived from proceeds from loans, while the 2021 cash flow from financing activities amounted to DKK 3,575 million.

Outlook
The financial performance of the LEO Group depends on developments in LEO Pharma's commercial activities as well as the returns generated by the Foundation's investing activities.

In 2023, LEO Pharma anticipates revenue growth of 6-10%, driven by increasing revenue from Adtralza®/Adbry™ and growth in the strategic brands. LEO Pharma will continue to focus on generating operating profit by implementing efficiencies, simplifications and cost reductions. LEO Pharma expects to deliver a low-single-digit positive EBITDA margin*. Ordinary depreciation and amortization are expected to result in an operating loss (EBIT) in 2023. Write-down of intellectual property rights may change the outlook.

Based on the financial strength of the LEO Foundation and its vision of making a strong contribution to research that improves the lives of people living with skin diseases, the Foundation expects a grant level of around DKK 200 million in 2023, growing to an annual level of DKK 250 million by 2025.

** EBITDA adjusted for transformation and restructuring costs.*

Financial highlights – LEO Group

(DKK million)	2022	2021	2020	2019	2018
Income statement					
Revenue	10,641	9,957	10,133	10,805	10,410
Operating profit/(loss)	(3,351)	(4,194)	(757)	(1,343)	1,577
Financial items	(2,201)	1,833	809	2,045	(674)
Profit/(loss) before tax	(5,551)	(2,362)	50	673	892
Net profit/(loss) for the year	(5,253)	(2,831)	(410)	389	708
Balance sheet					
Investments in property, plant and equipment	590	800	1,164	1,968	480
Non-current assets	18,421	17,832	16,716	16,169	10,234
Current assets	19,726	22,418	22,000	23,026	22,715
TOTAL ASSETS	**38,146**	**40,249**	**38,716**	**39,195**	**32,949**
EQUITY	**19,837**	**26,870**	**26,404**	**27,077**	**26,921**
Key ratios					
Return on equity	(23%)	(11%)	(2%)	1%	3%
Solvency ratio	52%	67%	68%	69%	82%

LEO Pharma – building a sustainably profitable business

The LEO Foundation is the controlling shareholder of LEO Pharma. As an engaged owner, we aim to provide the company with the best possible platform for long-term development and success. In 2022, LEO Pharma continued to execute its growth strategy, advanced the pipeline and simplified the organization.

In 2022, LEO Pharma continued to make progress on its strategic ambitions, with a strong focus on improving its agility and competitive edge. The company continued the global launch of tralokinumab (marketed as Adbry™ in the US and as Adtralza® in rest of world), which is a biologic treatment for moderate-to-severe atopic dermatitis. By the end of 2022, the treatment was available in 13 markets, including major markets such as the US, Germany, Spain, the UK and France, with marketing approval also being granted in Japan in December. The launch of tralokinumab represents a pivotal moment in the company's transformation which, in the coming years, will crystallize into a return to operating profit and accelerated growth following years of investment in innovation.

A new commercial operating model was introduced to simplify market operations and increase profitability. The organization is moving away from a model with multiple small affiliates and partners toward the discontinuation of its own operations in more than 20 countries and fewer but stronger partners. The refocused commercial setup is increasing organizational efficiency and alignment across commercial functions globally and ensuring full focus on the launch of tralokinumab in all markets for future growth.

LEO Pharma also progressed its pipeline in 2022. The company received positive topline results from the first Phase 3 trial with delgocitinib in chronic hand eczema and is progressing its registration plans. The key results from its IL-22R Phase 2a study showed positive efficacy and safety endpoints, demonstrating a new mode of action for treating atopic dermatitis. Across the pipeline, LEO Pharma explored how to maximize the value of its assets by generating more data for publication purposes, investigating potential in other indications, both within and outside dermatology, as well as expanding into China and Japan.

LEO Pharma's financial results for 2022 were in line with the guidance provided in the Annual Report 2021, driven by revenue growth and lower costs. Revenue grew 7% on the previous year. The revenue growth at constant currency rates was 4%, which is in line with the guidance of 3-5%. In dermatology, the 8% growth at constant currency rates was mainly driven by the launch of Adbry™ in the US and the continued launch of Adtralza® in rest of world. The adjusted EBITDA loss of DKK 1,253 million was an improvement of DKK 478 million on the previous year. LEO Pharma is starting to see the impact of the cost reduction measures taken and is expecting full-year impact in 2023, when the company expects to deliver a positive EBITDA*.

Performance highlights

** EBITDA adjusted for transformation and restructuring costs.*

DERMATOLOGY REVENUE GROWTH
(revenue growth at constant currency rates 8%)
+12%

REVENUE GROWTH
(revenue growth at constant currency rates 4%)
+7%

EBITDA MARGIN IMPROVEMENT
(EBITDA margin -15% compared to -20% in 2021)
+5%

AVERAGE NUMBER OF EMPLOYEES
(2021: 5,804)
5,252

For further information about the LEO Pharma Group, please refer to LEO Pharma's annual report.
Click here

FINANCIAL PERFORMANCE

Revenue

Overall revenue increased by 7% to DKK 10,641 million in 2022. At constant currency rates, revenue increased by 4% compared to 2021. The increase was primarily driven by the dermatology portfolio, which generated double-digit growth of 12%, with total revenue of DKK 8,133 million in 2022. At constant currency rates, growth was 8%, driven by skin infection, eczema, other mature dermatology and the continued launch of Adtralza®/Adbry™.

Geographically, the increase in revenue at constant currency rates was driven by high growth in the US (31%), China (13%), Germany (17%) and Iberia (13%).

Revenue by therapeutic area

Revenue from LEO Pharma's psoriasis portfolio amounted to DKK 3,912 million in 2022, which is on par with 2021. Products in the eczema/skin infection portfolio increased by 29% to DKK 3,633 million. Revenue from the acne/rosacea portfolio amounted to DKK 328 million, which is on par with 2021. Other mature dermatology increased by 26% to DKK 260 million, while the thrombosis portfolio decreased by 3% to DKK 2,233 million. Other revenue (primarily divested products where LEO Pharma operates as the contract manufacturer) decreased by 29% compared to 2021, which was in line with the plans.

Dermatology revenue by region

The following comprises an overview of LEO Pharma's dermatology portfolio revenue by region. Revenue for non-dermatology products (thrombosis) is described above. During 2022, two regions were established within dermatology: North America consists of the US and Canada, and International Operations (Product Strategy and International Operations) is rest of world.

Revenue for International Operations increased by 10% in 2022 to DKK 7,176 million (2021: DKK 6,536 million), and represents 88% of the revenue in dermatology. The increase was driven by higher demand for our established brands and the launch of Adtralza® in 11 markets in International Operations. Kyntheum® and Enstilar® continued to be the drivers of organic growth.

Revenue for North America reached DKK 941 million in 2022 (2021: DKK 745 million). The higher revenue was driven by robust growth in the US and a favorable exchange rate impact. At constant currency rates, North America revenue increased by 13%, primarily as a result of the launch of Adtralza®/Adbry™ in 2022.

Costs and profit & loss

Total costs amounted to DKK 14,025 million in 2022 (2021: DKK 14,175 million). Costs were impacted by substantial investments in the launch of Adtralza®/Adbry™, and transformation and restructuring costs related to the ongoing transformation of LEO Pharma into a profitable business.

Research and development costs amounted to DKK 2,474 million, or 23% of revenue in 2022, compared to a spend of 31% of revenue in 2021. Adjusted for impairment of development projects, restructuring costs and other one-time expenses, the spend in 2021 amounted to 23% of revenue. Restructuring costs impacted the 2022 costs by DKK 59 million (2021: DKK 35 million).

The 2022 operating loss before interest, tax, depreciation and amortization (EBITDA) amounted to DKK 1,574 million (2021: DKK 1,957 million). Operating loss before interest and tax (EBIT) closed at DKK 3,311 million (2021: loss of DKK 4,156 million), which was in line with expectations.

Outlook

LEO Pharma's key focus in 2023 is to achieve profitability from operations before depreciation, amortization, restructuring and transformation costs (adjusted EBITDA). To deliver on these expectations, LEO Pharma anticipates revenue growth of 6-10% in 2023, driven by increasing revenue from Adtralza®/Adbry™ and growth in the strategic brands.

LEO Pharma will continue to focus on generating operating profit by implementing efficiencies, simplifications and cost reductions. The company expects to deliver a low-single-digit positive EBITDA margin*. Ordinary depreciation and amortization are expected to result in an operating loss (EBIT) in 2023. Write-downs of intellectual property rights may change the outlook.

* *EBITDA adjusted for transformation and restructuring costs.*

Investment activities – in a time of uncertainty

The main objectives of our financial investments are to ensure continued financial capability to support LEO Pharma's long-term continuation and strategic development, as well as provide funds for philanthropic activities.

The LEO Foundation holds financial assets worth approximately DKK 16 billion. Funds are invested to generate the best possible returns while retaining a sensible, well-balanced risk profile, which enables the Foundation to be a stable and supportive owner of LEO Pharma and to enhance its philanthropic support for scientific purposes.

2022 followed the path laid out in previous years and in the investment strategy for 2022, with a steady build-up of a diversified portfolio of illiquid alternatives. In 2022, this meant five new commitments – totaling more than DKK 1.7 billion – to a real estate fund and four private equity funds. Returns and capital calls during 2022 meant that the allocation to illiquid alternatives increased by more than DKK 900 million, which is equivalent to an increase of 7.7% of the financial portfolio. On the listed side, an emerging markets debt hard currency index mandate was terminated and, importantly, all listed mandates, including index mandates, are now subject to ESG screening.

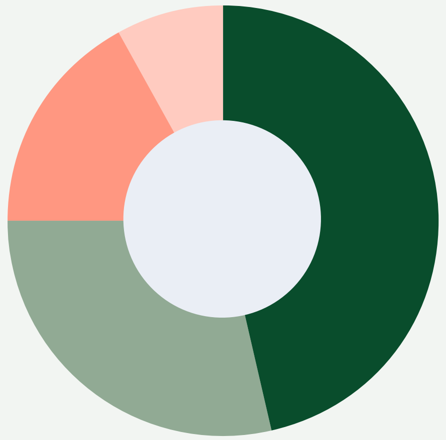
Major transactions on existing mandates in 2022 included adjustments of the equity weighting using equity index futures and ETFs as well as a reduction in fixed-income exposure to cover investments in alternatives plus grants and costs.

Strong returns for illiquid alternatives – but no place to hide on listed markets

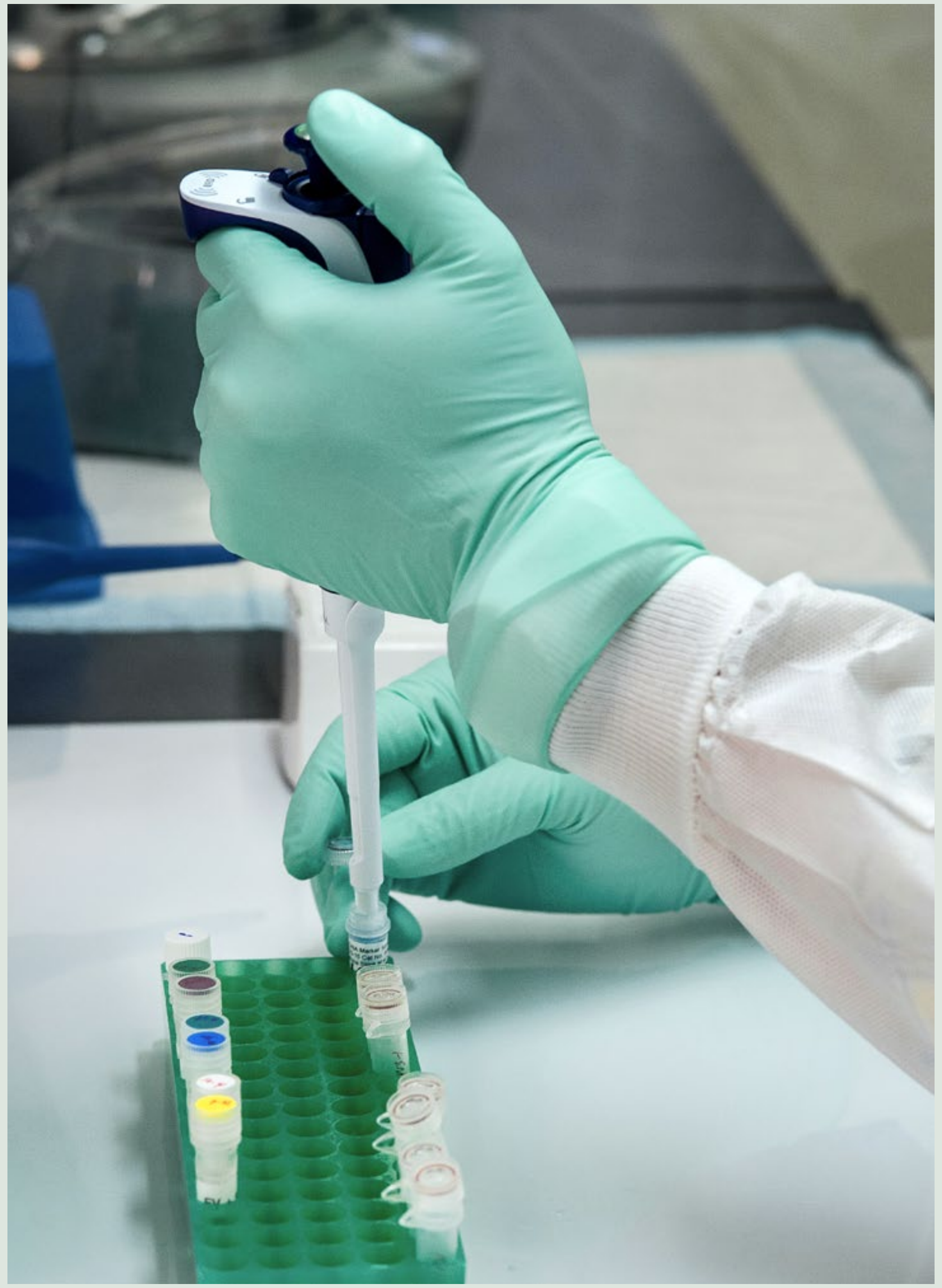
Just as the global economy was preparing for a return to normal following two years of COVID-19, the financial markets and wider economy were dealt several blows: the Russian war against Ukraine, significant energy price rises, continued strong and persistent inflation, and tightening of monetary policy at a historically high pace. Rampant inflation – rising to above 10% in Europe year-over-year – took its toll on consumers, with consumer confidence dropping to historic lows, despite unemployment rates also being at record lows on both sides of the Atlantic. The erosion of purchasing power coupled with a significant rise in interest rates has laid the foundation for an upcoming recession in 2023, as also witnessed in business confidence indicators – and the impact on financial markets has been significant.

Equity markets saw consistent losses through 2022, although markets had a little bounce in

Asset allocation of the investment portfolio at 31.12.2022



- Equities **47%**
- Alternatives **29%**
- Credit **17%**
- Government and mortgage bonds **8%**



Q4, thus ending the year somewhat above the lows for the year. Returns were, as usual, widely dispersed across regions with US and European equities losing around 19% and 11% respectively, while emerging markets equities were down 20%. Adjusting for a USD appreciation of more than 6% brought returns more in line – but still with Europe as the best-performing region. On the fixed-income side, central banks were very quick to adapt to the surprisingly high and persistent inflation. Monetary policy was tightened throughout the year, with consistent guidance on the need for rates to stay higher and for longer. Government bond yields thus saw historically high yearly increases, with US and German 2-year yields increasing by around 3.5% and 10-year yields by around 2.5%.

Our financial portfolio was not immune to the market moves and generated a negative return of DKK 1,626 million or -9.2%, with equities, credit, and government and mortgage bonds being detractors, while alternatives and overlay strategies contributed positively.

Equities detracted DKK 1.2 billion and had an asset class return of -14.2%. However, returns for individual mandates were between -1.8% and -30.5% – once again highlighting the importance of diversification. Alternatives contributed DKK 132 million with a return of 3.5%, with private equity and infrastructure in particular contributing positively, while fixed-income hedge funds detracted. The government and mortgage bond portfolio had a return of -9.9%, detracting a total of DKK 120 million. Credit detracted a total of DKK 423 million with a return of -12.2%, while overlay strategies contributed DKK 62 million.

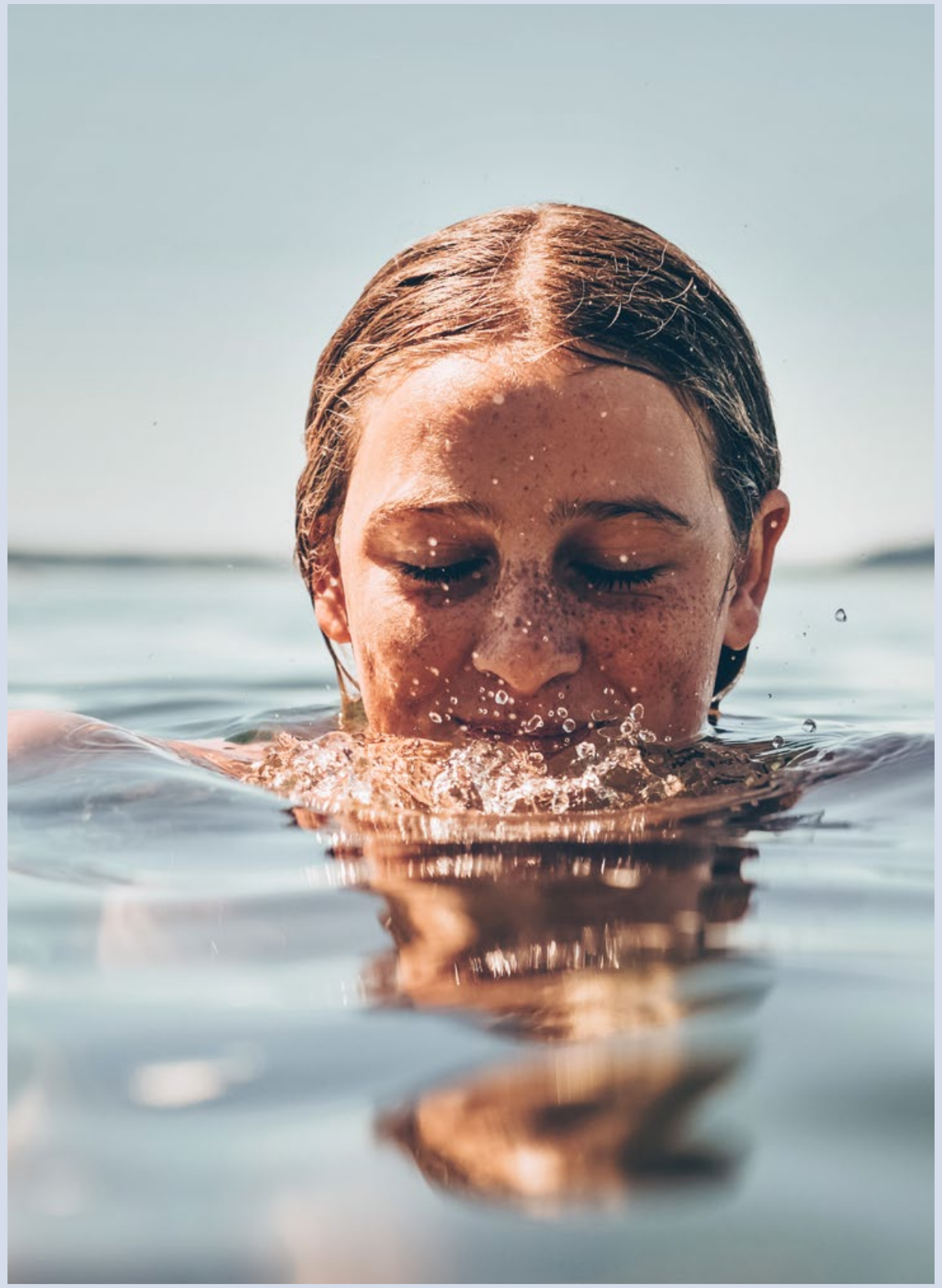
Outlook

In 2023, further additions of alternative components are expected to enhance returns and portfolio diversification. However, commitments to alternatives are expected to be deployed at a slower pace, as the relative size of alternatives has grown more than anticipated in 2022. The level of risk in the portfolio is expected to rise slightly, as the increased allocation to alternatives is being funded from fixed income and credit. The risk and liquidity of the financial portfolio will continue to ensure that the LEO Foundation is able to support LEO Pharma, in line with the Foundation's charter.

Investment portfolio

	Market value (DKK million)			Return (%)		
Assets	**31.12.2022**	**31.12.2021**	**31.12.2020**	**2022**	**2021**	**2020**
Government and mortgage bonds	1,185	2,641	1,499	(9.9)	(2.5)	1.6
Equities	7,400	8,330	8,225	(14.2)	24.7	11.4
Credit	2,602	3,221	3,885	(12.2)	0.9	0.3
Alternatives	4,469	3,500	2,252	3.5	11.9	4.8
Total	**15,655**	**17,692**	**15,861**	**(9.2)**	**13.6**	**6.9**

Philanthropic activities – supporting science to transform our understanding of the skin and its diseases



Through philanthropic activities – grants and awards – we support free and independent skin research of the highest quality and focus on contributing to a strong skin research ecosystem and on helping Denmark become a global spearhead of skin research – all with the overall aim of improving the lives of people living with skin diseases.

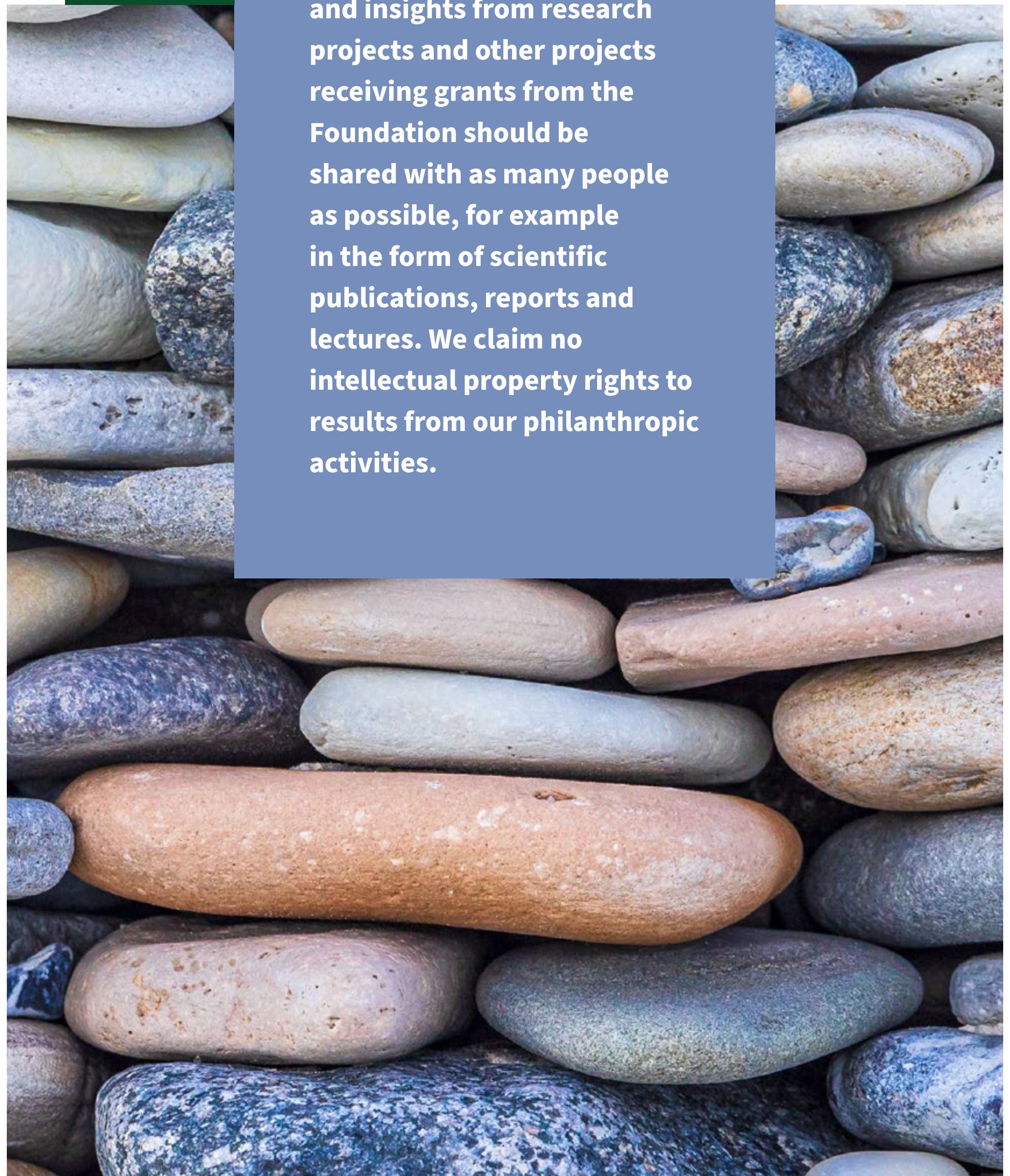
At the LEO Foundation, we are committed to improving the lives of people living with skin diseases by funding and progressing excellent research focused on the skin and its diseases. Alongside our support for excellent research, we focus on catalyzing and strengthening the ecosystem in and around skin and skin disease research, and on helping Denmark become a global spearhead of skin research. Furthermore, we support education and awareness activities that strengthen the talent base for the next generation of researchers and promote and communicate science to the public.

Having conducted a dedicated strategy process in 2021, 2022 saw a focus on improving the framework for our grant activities, and the transition to our ambitious new grant strategy continued.

During the year, research support and awards were given in line with recent years. In 2022, we awarded a total of DKK 125 million, with 36 grants based on 117 applications. Grants were given within four categories:

- 25 researchers from 10 different countries, applying for **research grants in open competition,** received funding totaling DKK 79.3 million. This scheme continues on a rolling cycle, with three rounds of funding each year.
- Three **standalone grants** within our strategic focus areas, totaling DKK 28.4 million. Two grants consisted of additional support for the

Principles of the freedom of research and the independence of researchers underpin all parts of our grant strategy. So does the expectation that results and insights from research projects and other projects receiving grants from the Foundation should be shared with as many people as possible, for example in the form of scientific publications, reports and lectures. We claim no intellectual property rights to results from our philanthropic activities.



LEO Foundation Skin Immunology Research Center at the University of Copenhagen: one grant was to continue the center's springtime school initiative and one grant was for a PhD program. The third grant was an infrastructure grant to the core facility within Flow Cytometry and Single Cell Analysis at the Faculty of Health and Medical Sciences at the University of Copenhagen.
- Three **education and awareness grants,** totaling DKK 14.7 million, were awarded to ensure the continuation of the activities of Astra, the Bloom Festival and lex.dk – all in Denmark. Moreover, two supplementary education and awareness grants with a total value of DKK 0.3 million were given to the societies for investigative dermatology in Europe and the Americas in connection with the LEO Foundation Awards 2022 which were awarded in the two regions.
- Three **LEO Foundation Awards** were presented to promising young skin researchers – one in each of the regions: Americas, EMEA (Europe, Middle East, Africa) and Asia-Pacific, making a total of DKK 2 million.

Grants and awards are made following the advice of our external peer review panels: the Scientific Evaluation Committee reviews applications for research grants in open competition and the Global Review Panel reviews nominations for the LEO Foundation Awards. Each panel is made up of independent experts from research institutions around the world. In 2022, a total of 108 grant applications and award nominations were peer-reviewed and evaluated by the panels.

Stakeholder engagement and focus on evaluation and impact

One main focus during the year was stakeholder involvement and dialogue. The LEO Foundation is an independent foundation, but we do not work in isolation. Receiving feedback from and engaging with stakeholders and evaluating funding instruments and initiatives are essential parts of our ongoing strategic work.

We initiated the first international review of the LEO Foundation Skin Immunology Research Center at the University of Copenhagen, where a panel of experts from around the world undertook a site visit including thorough interviews with leadership and senior and junior staff at the center.

The year marked the end of COVID-19 restrictions on meetings and travel across most of the world, allowing us to meet grantees and other stakeholders on various occasions as well as to resume face-to-face dialogue and gather first-hand impressions of how our funding and support enable research and knowledge dissemination.

We are continuously working on approaches to track the short-, medium- and long-term value creation of our philanthropic activities, including what can ultimately be seen as societal impact. In 2022, we initiated an internal project on how to define and name measurements of the societal impact of supported projects and initiatives going forward. This work will be finalized in early 2023 and will lay the ground for how we work to track and document such impact going forward.

Outlook – evolving funding scheme

During the year, research support and awards were given in line with recent years – but new grant instruments will evolve as we move toward 2025 and increase the annual grant level to around DKK 250 million to pursue three long-term objectives for philanthropic activities: to advance basic skin research, to strengthen translation and clinical skin research and to explore the potential of systems medicine in dermatology.

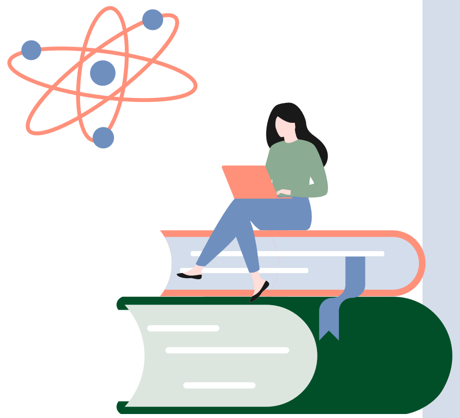
We focus our work on four research areas: skin immunology and inflammatory skin diseases; skin physiology and drug delivery; advanced therapeutics research; and systems medicine in dermatology. We already support the first two research areas. The last two are novel areas that are essential to fulfill the overall purpose of paving the way for curing skin diseases. As we approach 2025, existing engagement within skin immunology, inflammatory skin diseases, skin physiology and drug delivery will be strengthened and supplemented with new initiatives to support research into advanced therapeutics research and systems medicine in dermatology.

Guided by the three long-term objectives and the Foundation's purpose: "Let's pave the way for curing skin diseases," we have a focus not only on funding excellent research but also on catalyzing and strengthening the ecosystem in and around skin and skin disease research and on helping Denmark to become a global spearhead of skin research. This entails the development of existing grant instruments and the introduction of new ones to support researchers at all career levels, to encourage and facilitate international collaborations with clear links to Denmark and to fund ecosystem "enablers" focusing on talent development, network activities, science education as well as support for broad communication of science, research results and the impact of research on people's lives.

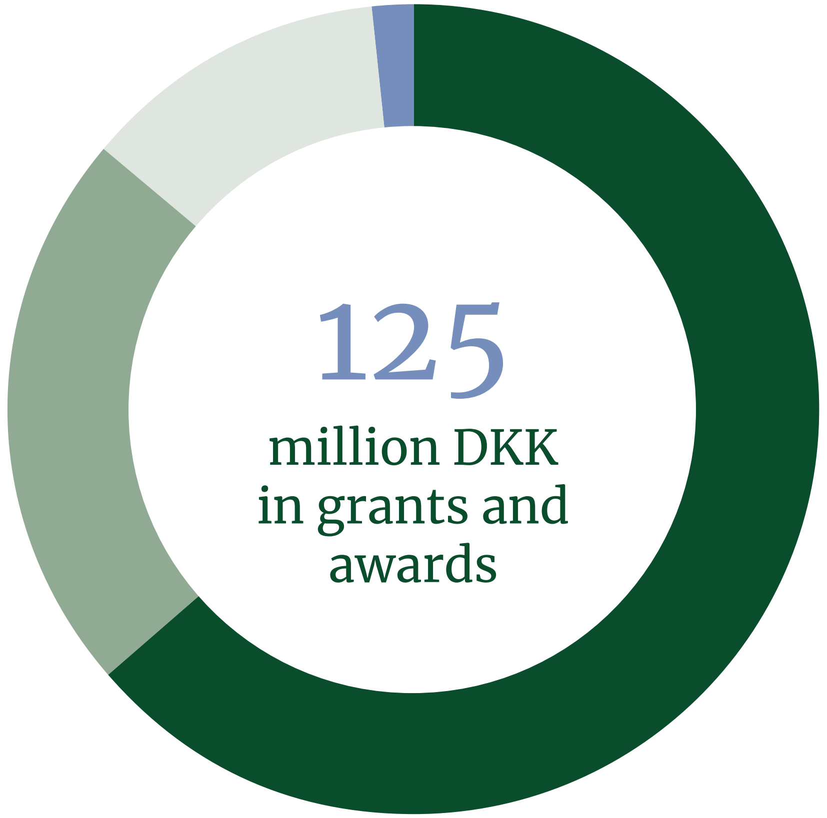
In 2023, we intend to roll out two new grant instruments. One is aimed at supporting early career researchers within skin and skin disease research who are ready to develop their research identity and who have the potential to deliver shifts in understanding of the skin and its diseases. In 2023, we expect to allocate a total of around DKK 40-48 million to the program, shared among two grants on the theme "skin immunology and inflammatory skin diseases" and two grants on the theme "skin physiology and drug delivery." We expect to repeat the program in 2024 with a focus on "advanced therapeutics research" and "systems medicine."

The other new instrument, serendipity grants, will support three to four existing LEO Foundation grantees, who will be invited to apply for funding to help explore new and potentially groundbreaking ideas developed during their existing research projects.

From 2023, we will further implement a rolling cycle for our existing education and awareness grants, with three rounds of funding each year. Through our education and awareness grants, we are committed to ensuring a strong pipeline of future skin researchers and to supporting activities that promote and communicate science to the public.



2022 key figures



- **25 research grants in open competition, DKK 79 million**
- **Three standalone grants, DKK 28 million**
- **Five education and awareness grants, DKK 15 million**
- **Three LEO Foundation Awards, DKK 2 million**

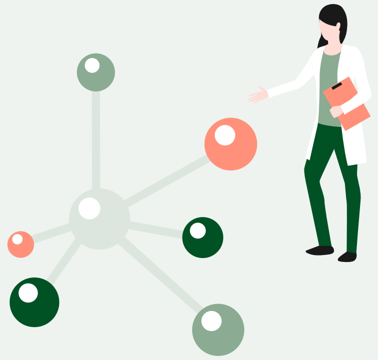
81
million DKK in total payout

36
grants and awards in total

117
applications in total

In 2022, the LEO Foundation received a total of 82 applications for research grants in open competition. A total of 25 applicants were awarded a grant, showing a success rate of 30%.

Grantee	**Grant**
Asolina Braun	DKK 4 million



Research grants in open competition – to support the best skin research projects worldwide

First Australian resident to receive a research grant in seven years.

The LEO Foundation research grants in open competition are at the center of our philanthropic activities. Since 2016, more than 700 applications requesting more than DKK 2 billion in funding have come our way. **In 2022, we received 82 applications, which resulted in 25 grants.** One of these grants was awarded to Senior Research Fellow Asolina Braun from Monash University, Australia, making her the first Australian resident to receive a research grant since 2015.

Dr Braun and her team aim to investigate the potential link between a specific antigen-presenting molecule which is overrepresented in psoriasis patients and the subsequent activation of disease-causing auto-reactive T-cells. They will do so by identifying the specific antigens (peptides, small fragments of proteins) bound to the molecule and presented to the disease-causing T-cells and, hopefully, elucidating their origin. Their hypothesis is that the antigens stem from a specific strain of pathogenic bacteria, *Streptococcus pyogenes*, which has previously been linked to the disease.

If successful, the project could identify novel targets for future immunotherapy for psoriasis. We wish Dr Braun and her team the best of luck with their project.

Standalone grants – to strengthen excellent skin research

A must-attend event.

The LEO Foundation Skin Immunology Research Center (SIC) at the University of Copenhagen represents the LEO Foundation's largest grant to date. The center was inaugurated in 2019 on the 12th floor of the Maersk Tower at the Faculty of Health and Medical Sciences, University of Copenhagen.

The center originally comprised two basic research groups and a clinical arm located at Herlev and Gentofte Hospital, but has since grown to five basic research groups and a large translational research program, including a major biobank initiative at Herlev and Gentofte Hospital.

The center has already developed a substantial educational portfolio, including a course on skin immunology within the Master of Immunology course, a PhD program, visits from high schools and – not least – the annual Springtime School, which was first held in 2021 and was an instant international success.

The three-day event comprises keynote presentations by highly esteemed senior researchers, oral and poster presentations by the attendees and more mentor-type activities, such as "Meet the Professor" fireside conversations.

In 2022, more than 90 scientists and SIC staff attended the Springtime School. In a recent external review of the center, this was described as a "must-attend" event. The LEO Foundation is proud to be providing funding for an additional six years of **SIC Springtime Schools.**

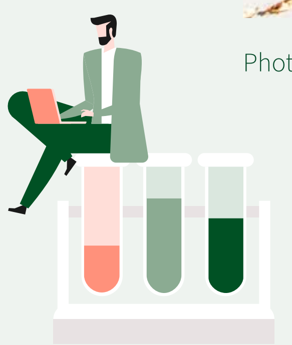


Photo: SIC Springtime School

Grantee

The LEO Foundation Skin Immunology Research Center

Grant

DKK 4.3 million

Awardees 2022

- **Shawn Demehri,** Massachusetts General Hospital, US
- **Esther Hoste,** VIB-UGent, Belgium
- **Takashi Sakai,** Oita University, Japan

Award

The award is worth USD 100,000, and three awards are made each year, one in each of the three regions: Americas, EMEA (Europe, Middle East, Africa) and Asia-Pacific.

LEO Foundation Awards – for outstanding young skin researchers

The regional LEO Foundation Awards mature.

The LEO Foundation Awards have existed since 2008 and were originally intended for young Scandinavian researchers. In 2012, the awards were expanded to the rest of Europe through a collaboration with the European Society for Dermatological Research (ESDR). In 2018, for the first time, awards were presented on a global scale at the International Investigative Dermatology (IID) 2018 meeting in Orlando, Florida, US. The following year, it was decided to split the award into three regional awards, to improve the global reach and impact of the awards.

The most recent regional awardee is **Dr Takashi Sakai** of Oita University, Japan. He received the award – worth USD 100,000 – in recognition of his visionary scientific approach to understanding the triggers and complications of atopic dermatitis. Atopic dermatitis is a debilitating skin condition that causes inflammation of the skin and affects nearly 20% of people at some point in their life.

The overarching goal of Dr Sakai's research is to understand the biology of atopic dermatitis. In his opinion, the LEO Foundation Award plays an important role in leveraging his research and its potential impact:

"I hope my research will contribute to solutions improving the lives of the many people around the globe suffering from atopic dermatitis on an everyday basis. Receiving the LEO Foundation Award means a lot to me, both in terms of international recognition and the financial support it provides to strengthen my research."

Earlier in 2022, the LEO Foundation Award – Region Americas was awarded to **Associate Professor Shawn Demehri** of Massachusetts General Hospital, US, for his work on the interplay between skin immune cells and early-stage cancers. The award was presented to him in May, at the annual meeting of the Society for Investigative Dermatology (SID) in Portland, Oregon, US. The Region EMEA award was presented to **Assistant Professor Esther Hoste** in Amsterdam, the Netherlands, in September, during the annual meeting of the ESDR, in recognition of her contribution to understanding the mechanisms behind wound healing and skin regeneration, among other things.

In 2023, all three regional awards will be presented at the first International Society for Investigative Dermatology (ISID) meeting in May in Tokyo, Japan, marking the fifth anniversary of the award's regional format.

Education and awareness grants – to strengthen the pipeline of future skin researchers

13,000 curated articles on health and disease available to everyone.

Through our education and awareness grants, we are committed to ensuring a strong pipeline of future skin researchers and to supporting activities that promote and communicate science to the public. One of our approaches is to support STEM (science, technology, engineering and mathematics) activities.

In 2022, we performed a comprehensive mapping of major STEM-related initiatives in Denmark and identified five key areas of activity:

- Science education – for pupils, students and teachers
- Inspirational activities to promote and communicate science to the general public
- Digital dissemination of science and research
- Nurturing children's and young people's interest and engagement in science
- Curated and authoritative information on science to the general public

We already support the first two types of activities through our support for the **Bloom festival** and **Astra activities.** In 2022, we entered a new area to provide "curated and authoritative information on science to the general public" by joining forces with several other Danish foundations to enable a major expansion of health-related articles on the large online encyclopedia platform lex.dk.

lex.dk is a major expert-validated information repository which is free of charge and currently includes content from 13 individual encyclopedias widely used by the public. It is often used as the point of reference in major high-school assignments. The platform has more than 1.2 million users, and 3 million articles are read each month.

In collaboration with the Norwegian "Store Norske Leksikon," and thanks to the efforts of more than 100 researchers, 13,000+ articles on health and disease will be added to the database over the next two years. The idea for this unprecedented addition of information came out of the COVID-19 pandemic, which highlighted the need for knowledge and facts about health. As Editor-in-Chief and Head of Development Erik Henz Kjeldsen stated when the funding was announced:

"Disease and health are important to everyone, but it may be difficult to distinguish between what is true and false. The interest in health is clearly substantial, but when you google or search on social media, it's surprisingly difficult to find credible information. We aim to counter this [through this initiative]."

Grantee	Grant
lex.dk	DKK 1 million

Governance

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

→

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

Click here

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 internationally. Thus, we have an important obligation and responsibility to operate transparently and with high 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.

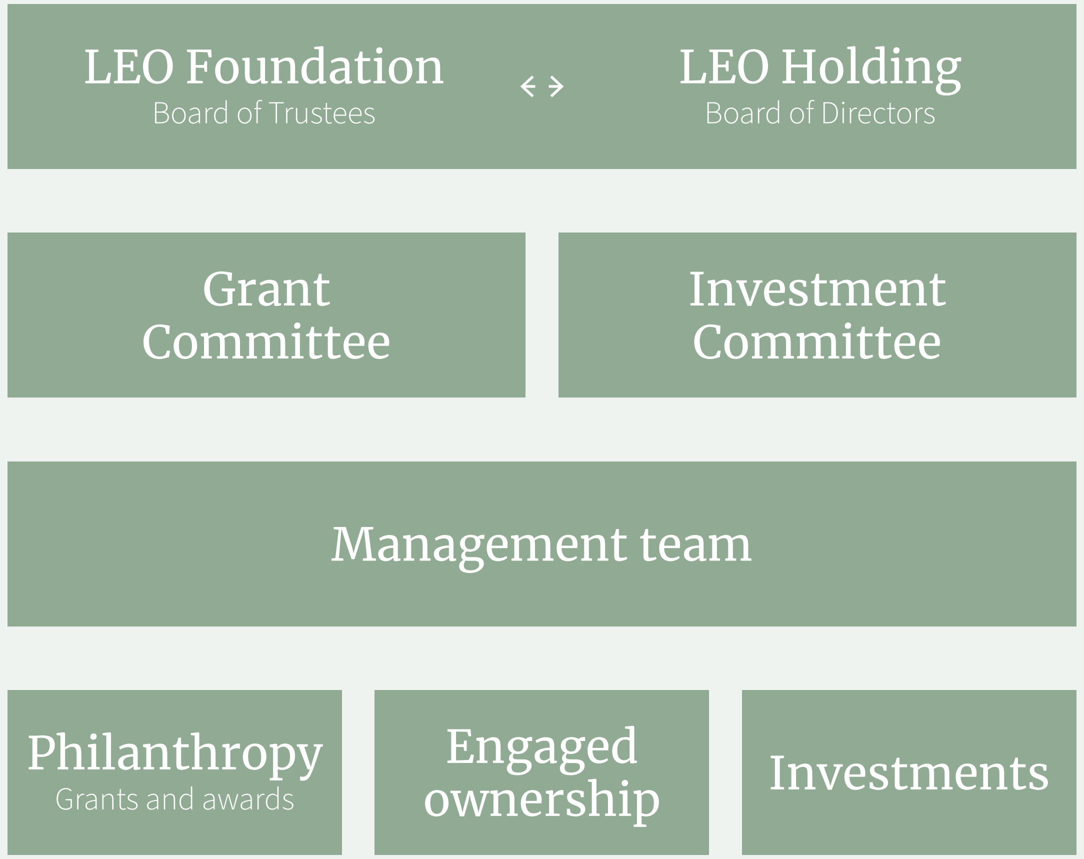
The composition of the Board reflects the qualifications and skills necessary for the LEO Foundation to fulfill the objectives specified in our charter.

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 Board of Trustees of the LEO Foundation, while matters related to investments and our engaged ownership of LEO Pharma are handled by the Board of Directors of LEO Holding A/S. 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). Both committees meet at regular intervals. In addition, ad hoc committees are established when deemed relevant, to handle specific matters.

Governance structure



Grant governance

The LEO Foundation has established a working procedure and an approval process based on accepted international standards, to ensure that all grant applications are thoroughly reviewed.

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 from research institutions around the world who, among other things, assess the scientific topic, the proposed research and the applicant's qualifications.

Committees and panel members must be impartial and comply with the LEO Foundation's conflict of interest policy.

Based on the recommendations from the external review panels, the Board makes the final decision on all grants and awards.

Investment governance

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 management team.

The Investment Committee also monitors and reviews relevant internal controls, risk management and governance models. The Board maintains overall responsibility for the investments.

Engaged ownership of LEO Pharma

The LEO Foundation's main objective is to ensure the long-term continuation and success of LEO Pharma. As the controlling shareholder of LEO Pharma, we exercise engaged ownership by electing highly qualified professionals to the Board of Directors of LEO Pharma and by means of regular interactions with the company's chairmanship, Executive Management and non-controlling co-shareholder Nordic Capital.

LEO Pharma issues monthly reports on the progress and performance of the business, followed by status meetings with the shareholders. 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 Peter Haahr and LEO Foundation board member Lars Green.

For more information about LEO Pharma's governance, please refer to the LEO Pharma Annual Report and the LEO Pharma Sustainability Report.

Click here

Our engaged ownership is based on three main principles that guide our actions and behavior:

Dedicated

We take a long-term strategic view of the business and are strongly committed to ensuring the successful development of LEO Pharma.

- We facilitate and contribute to constructive shareholder interactions, to ensure alignment on the long-term strategic direction of the company.
- We assess, challenge and support the company's strategic development and performance.

Responsible

We want to make a sustained difference, and consider sustainability and integrity prerequisites for LEO Pharma's long-term success.

- We uphold and protect the company's fundamental values and promote a culture of integrity and positive corporate behavior.
- We work to promote responsible business practices throughout the company.

Ambitious

We set the bar high and support LEO Pharma in reaching its full potential and advancing the standards of care for patients around the world.

- We encourage the company to be at the forefront of scientific discovery and drive continuous innovation.
- We work to ensure a strong focus on competitive operations and financial performance.

Board of Trustees

Lars Olsen

Chairman

Born 1965 / M

Doctor of Medicine, MBA

Elected in 2015
(re-elected 2021, end of term 2023)

Additional positions

- Chair of the Board and member of the 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 2021, end of term 2023)

Additional positions

- Vice Chair of the Board and member of the Investment Committee, LEO Holding A/S
- Chairman of the boards of DAFA Group A/S, Danish Ship Finance, Kunstforeningen Gammel Strand, MFT Energy A/S, 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 2022, end of term 2026)

Additional positions

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

Appointed by authorities: No

Considered independent: No

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
(re-elected 2021, end of term 2023)

Additional positions

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

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 2021, end of term 2023)

Additional positions

- Member of the Board and Chair of the Investment Committee, LEO Holding A/S
- Chair, Arbejdsmiljørådet
- Member of the boards of Topdanmark A/S, Det Obelske Familiefond, C.L. Davids Fond, OK-Fonden (Vice Chairman)
- 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

For 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.

Franck Maréno

Board member

Born 1977 / M

Principal Technician, AP Graduate Laboratory and Biotechnology "Technonome"

Elected in 2021
(re-elected 2022, end of term 2026)

Additional positions

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

Appointed by authorities: No

Considered independent: No

Employee-elected

Elected by the employees of LEO Pharma

Jannie Kogsbøll

Board member

Born 1962 / F

Operator, LEO Pharma A/S, Higher Commercial Examination

Elected in 1998
(re-elected 2022, end of term 2026)

Additional positions

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

Appointed by authorities: No

Considered independent: No

Employee-elected

Elected by the employees of LEO Pharma

Karin Jexner Hamberg

Board member

Born 1961 / F

Senior Vice President, Chief Medical Officer, Head of R&D - Japan, H. Lundbeck A/S, Doctor of Medicine, Executive education

Elected in 2019
(re-elected 2021, end of term 2023)

Additional positions

- Member of the Board, LEO Holding A/S
- Member of the 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
(re-elected 2021, end of term 2023)

Additional positions

- Member of the Board, LEO Holding A/S
- Member of the Board and the Audit Committee, LEO Pharma A/S

Appointed by authorities: No

Considered independent: Yes

Competencies

Pharma, finance, general management, corporate governance

Lotte Hjortshøj

Board member

Born 1971 / F

Executive Assistant, LEO Pharma A/S, Diploma Graduate

Elected in 2018
(re-elected 2022, end of term 2026)

Additional positions

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

Appointed by authorities: No

Considered independent: No

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 2021, end of term 2023)

Additional positions

- Member of the Board, LEO Holding A/S
- Chair of the 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 LEO Foundation's subsidiaries and/or associates.

Staff at the Foundation

Peter Haahr
CEO

Anne-Marie Engel
Chief Scientific Officer

Morten S. Christensen
Chief Investment Officer

The LEO Foundation organization comprises a dedicated team of highly competent specialists.

Anton Kieler Saietz
Senior Associate

Lars Kruse
Senior Scientific Officer

Lars Thørs
Senior Investment Director

Nicholas Skirl
Student Assistant

Pernille Mørch-Sørensen
Management Assistant

Peter Kjeldsen Hansen
Director, Legal and Business Development

Signe Krabek
Head of Communication and Public Affairs

Signe Rømer Holm
Scientific Officer

Stine Wolf Larsen
Finance Manager

Uffe Frandsen
Communication Manager

For further information about the Foundation team
Click here

Photo: LEO Pharma

Learn more about the history of LEO

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.

Sophie Seebach
Head of LEO Historical Archives and Museum

Arne Mandøe
Senior Historian

Berit Glasser Heede
Historian

Vibeke K. Svenningsen
Museum Assistant

Sustainable value for people and society

Creating sustainable value for people and society is an inherent part of the LEO Foundation's purpose and way of doing business.

As outlined in our charter, the LEO Foundation was created in 1984 with a non-selfish purpose, and our ambitions as a commercial foundation, owner, philanthropist and investor are anchored in a strong set of values and a commitment to support and benefit people and society, and to have a positive impact on our surroundings.

We have progressively embedded sustainable practices and good governance into our functions and operations and have adopted several policies and initiatives to support and promote responsible business practices. Throughout 2022, we worked to further advance our understanding and approach to sustainability, covering all of our various areas of activity – from commercial to philanthropic activities. This work included alignment with key global trends and changes in our external environment as well as mapping the material environmental, social and governance dimensions relevant for the LEO Foundation. On this basis, we identified four pertinent themes supporting sustainable development.

Leveraging our core strengths to drive change to defeat skin diseases and contribute to good health and well-being represents the most important theme of our sustainability efforts, with a strong link to our charter, purpose and strategy. Moreover, we take responsibility for promoting responsible practices related to governance and transparency, diversity and inclusion, and climate change, ensuring that good environmental, social and governance (ESG) practices are the foundation for our sustainability approach.

FOUNDATION PRACTICE

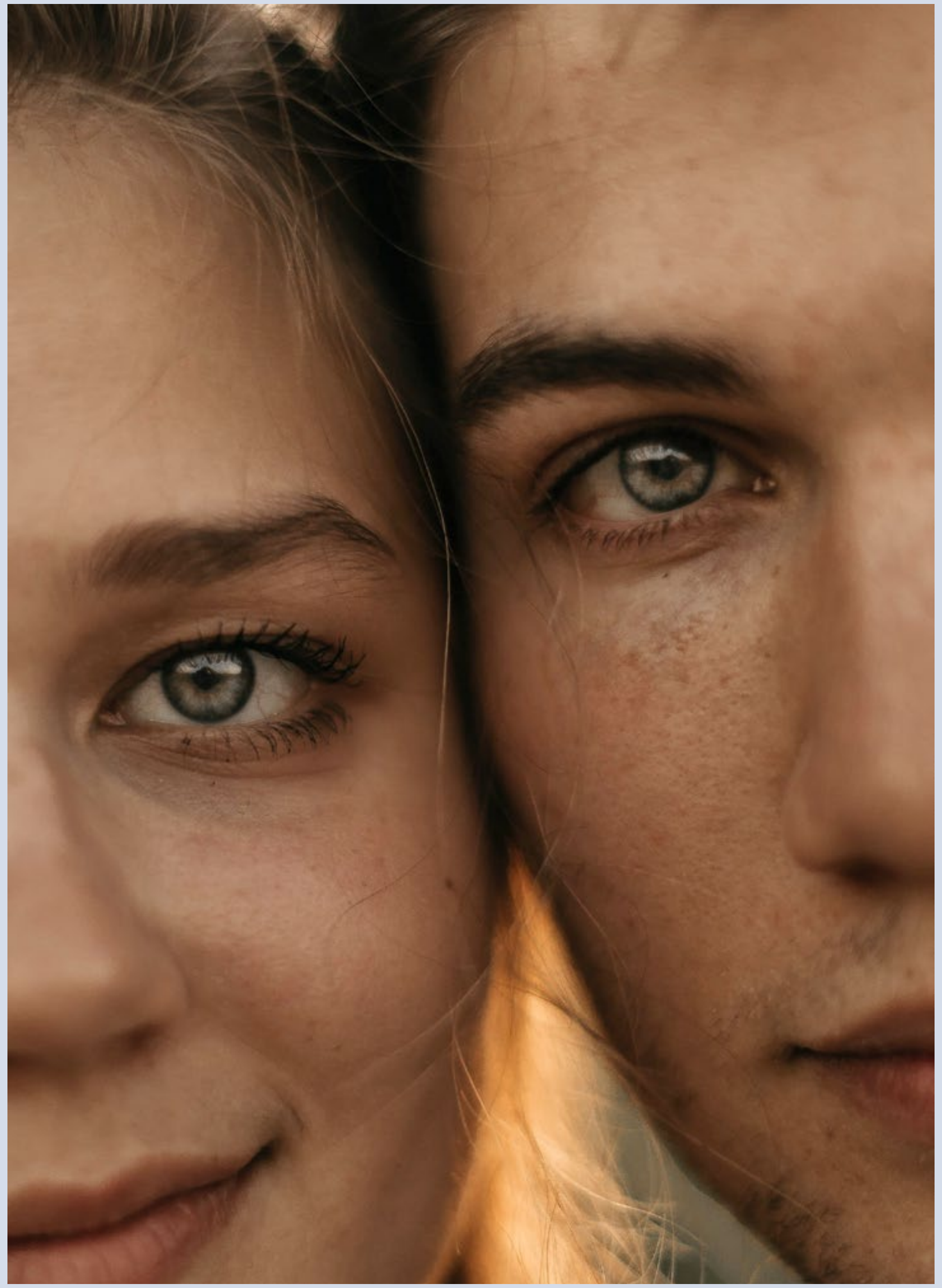
LEO Foundation Code of Conduct

In support of our commitment to uphold high ethical standards and promote good business conduct, a dedicated LEO Foundation Code of Conduct was developed in 2022. The Code of Conduct is aimed at employees of the LEO Foundation, as well as the Foundation's board members, external committee members, suppliers, grantees and personnel funded by Foundation grants. The Code of Conduct presents 10 guiding principles for desired ethical behavior in such critical areas as human and labor rights, climate and environment, anti-corruption, and diversity and inclusion. It reflects our values of integrity, dedication and ambition, and clarifies the standards defining how people affiliated with the LEO Foundation are expected to behave and act.

The new Code of Conduct underlines, among other things, that we support and respect human rights, including the elimination of any type of child or forced labor, and that we do not tolerate any form of corruption, money laundering, bribery, extortion, embezzlement or improper gifts given to unduly influence business decisions. In terms of our own operations in relation to human rights, we consider this to be one of the most important topics, along with

Identifying and managing sustainability risks

We consider risk identification and management important and integral parts of how we operate and oversee activities related to the LEO Foundation. We report on risks and mitigations identified for sustainability matters in the Risk management section of this report.



ensuring a safe working environment and keeping personal data protected. Anti-corruption has been and is still a critical element of our operations that we have also incorporated into our business and financial processes, and in relation to which we have not identified any issues.

Furthermore, the Code of Conduct includes expectations of us and our partners in terms of good environmental behavior. Despite the Foundation's internal operations having a limited footprint, we consciously consider our behavior and strive to operate in an environmentally responsible and efficient manner, for example by incorporating sustainability and climate considerations into procurement processes and prioritizing public transportation where possible.

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. With 17 employees at the LEO Foundation, no policy or formal targets have yet been established for gender diversity at management levels below Board level. We strive to be a responsible and inclusive workplace that recruits and supports the development of employees based on competencies and in a way that supports diversity. During 2022, all recruiting processes took gender and cultural diversity into consideration, and we hired two women and two men. The current gender distribution for all Foundation employees is almost equal, with 47% being women.

LEO Pharma has defined targets for gender diversity at Board and management level and reports on targets, as well as on policies concerning gender diversity, in the company's annual report and sustainability report.

Statutory report on data ethics

We comply with all applicable legal requirements, we are transparent about the purpose and interest of our data-processing activities, and we treat data with due respect for the data owners, i.e. our grantees, business partners and employees. We do not currently have a data ethics policy, but several policies and initiatives relate to how the LEO Foundation works responsibly and ethically with data. These include our Privacy policy, our Guide to reporting requirements and usage of data in Researchfish and the Whistleblower hotline.

ENGAGED OWNERSHIP

Principles for engaged ownership

During the year, one main focus was to develop a set of principles for engaged ownership of LEO Pharma. We are dedicated, responsible and ambitious, among other things, reflecting our commitment to promoting good governance, transparency and sustainability throughout the company. See our website or the Governance section of this report for a full overview of the principles. As an engaged owner, we support LEO Pharma via Board representation, to promote good governance and transparency and to make sustainability one of the focus areas linked to executive incentives.

Climate and environment

As we promote sustainable practices from a climate perspective, the most important considerations from an impact perspective relate to the ownership of LEO Pharma, which conducts the majority of the LEO Group's business activities. As an engaged owner of LEO Pharma, we support LEO Pharma's commitment to aligning commercial activities in the company with the UN Paris Agreement. In 2022, the company's climate targets were approved by the Science Based Targets initiative, and greenhouse gas emissions from operations were in line with the target trajectory.

PHILANTHROPY

Diversity and inclusion

We work to support an increasingly diverse, equal and inclusive skin research ecosystem, and we integrate this into our funding practices to ensure fair and equal treatment and opportunities across our activities. In 2022, we continued to monitor diversity, focusing on gender diversity, in review panels and committees and among grantees as well as in funding practices. Moreover, we prepared a catalog of ideas for initiatives to address our support for a more gender-balanced scientific community. In 2022, the gender distribution within our research grant program was 44% female grantees and 56% male grantees.

Transparency
A key focus in 2022 was stakeholder engagement, evaluation and impact as important elements in strengthening transparency. Our communication efforts on digital channels reached more than 5,000 followers across the global skin research community, helping to keep the community informed of the latest funding and activities. We initiated the first international review of the LEO Foundation Skin Immunology Research Center at the University of Copenhagen, and we traveled to academic centers to gather first-hand impressions of how our support enables research and knowledge dissemination.

INVESTMENTS
Responsible investments and ESG policy
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 ESG risks we face as a large financial investor.

As per our investment strategy, we do not engage in direct company investments but instead allocate capital through index funds or manager mandates. Therefore, we rely on external parties to invest on our behalf. In this context, the investment managers' ethical governance and transparency standards are reviewed as part of the initial – and ongoing – due diligence. During 2022, we continued to integrate ESG factors into our investment approach, and ensured that all listed mandates, including index mandates, are now subject to ESG screening.

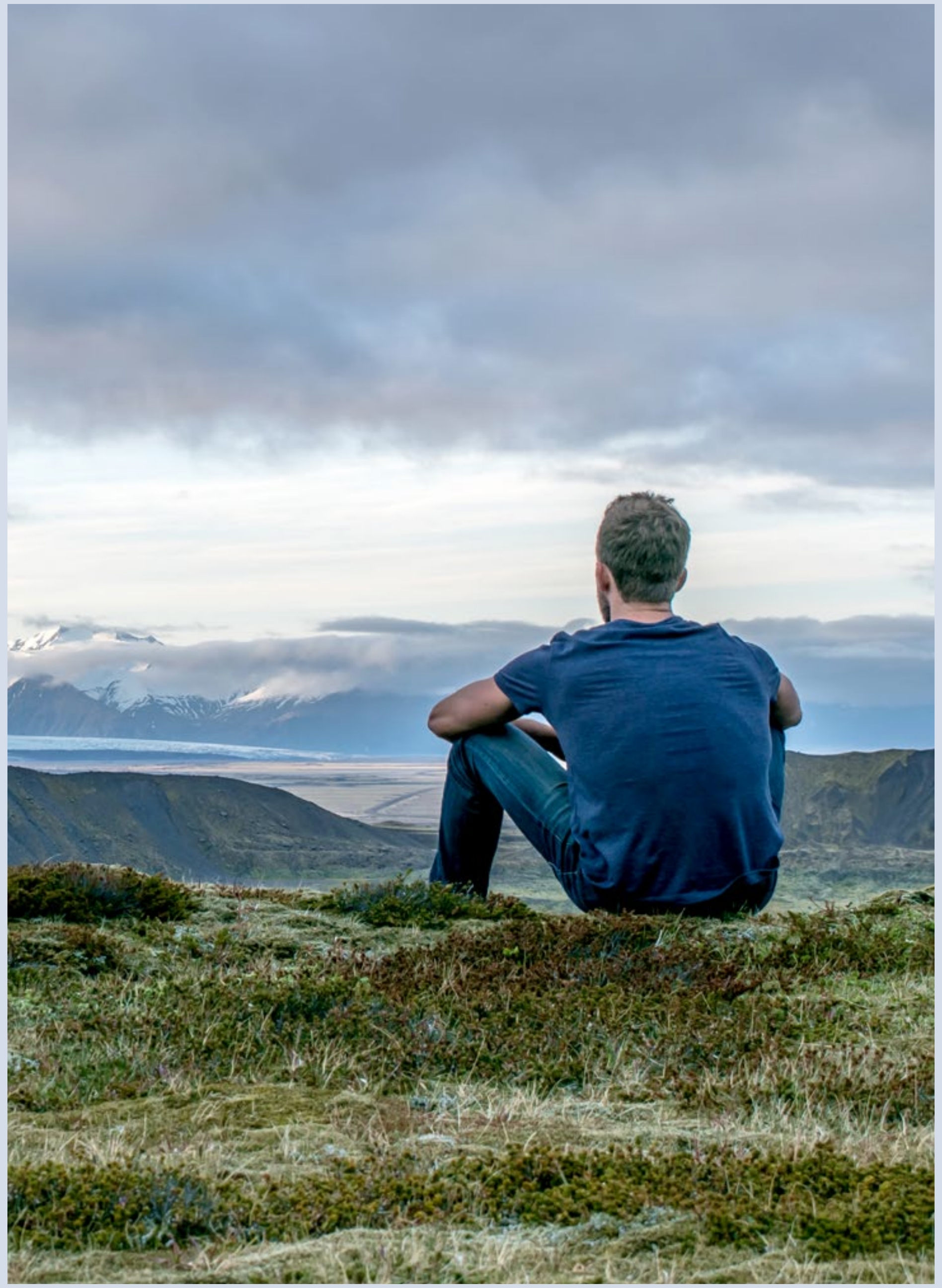
From a climate perspective, all our investments are anchored in our ESG policy, and the financial portfolio is subject to defined norm screening through the UN Global Compact and subsequent sector screening by the investment managers. This implies, for example, that companies involved in unconventional fossil fuel extraction methods are excluded from the passive index funds and from the active managers' portfolio. We seek to build a well-diversified global portfolio with no specific investment themes. Consequently, the portfolio does not have climate as a specific investment theme, but it is indirectly addressed through our investment philosophy, in that we recognize climate change as a high-level risk to our investments.

Tax Code of Conduct
The LEO Foundation is a signatory to the Tax Code of Conduct, which was established by four major Danish pension funds and has now been adopted by several pension funds and major foundations in Denmark. The Tax Code of Conduct outlines principles and recommendations promoting responsible tax behavior for unlisted investments. By signing the Tax Code of Conduct, we are joining forces with other large investors to establish – and adhere to – tax practices that are in accordance with the OECD tax initiatives.

Future expectations
At the LEO Foundation, we recognize that working sustainably and responsibly is an evolving process, and we will continue to strengthen our approach and understanding of sustainability during 2023, including our commitments within the four above-mentioned key sustainability themes.

In 2023, we will continue to integrate environmentally responsible and efficient practices at the Foundation, for example by incorporating sustainability and climate considerations into procurement processes, and we will continue to discuss and evaluate the role of the Foundation and how we can further contribute to climate actions. On diversity and inclusion, we plan to further develop how we work, including through a formalized policy on diversity and inclusion. Furthermore, we will continue to implement the new Code of Conduct internally and with regard to stakeholders.

Recognizing that we can still do more to participate in developing a sustainable future for people and society, we look forward to further advancing our sustainability agenda in 2023 and in the years to come.



Risk management

Risk management is an integral part of how the LEO Foundation works, 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 and, to a lesser extent, the management of the Foundation's philanthropic activities.

In 2022, the LEO Foundation further strengthened the risk management setup by implementing an Enterprise Risk Management (ERM) process, unifying identified relevant risks across the Foundation's activities into one common risk management program.

The purpose of the ERM process is to ensure that the Foundation is well prepared to respond to changing circumstances, with the objective of ensuring that sufficient capital is always available to withstand a severe crisis, including a convergence of several high-impact risk events.

The comprehensive ERM process is conducted annually, presenting the Board with specific identified individual risks and mitigations as well as an overall assessment of the risks related to the LEO Foundation's activities. Alongside this, a worst-case risk scenario is presented and discussed as a means of identifying mitigations related to such a low-likelihood but high-consequence risk scenario.

Risks related to the Foundation

Risk management is an integral part of how we manage our financial portfolio, both from a strategic and an operational perspective.

During 2022, a financial plan looking toward 2025 was developed for the Foundation, including setting deliberate long-term strategic risk tolerances for the management of the financial

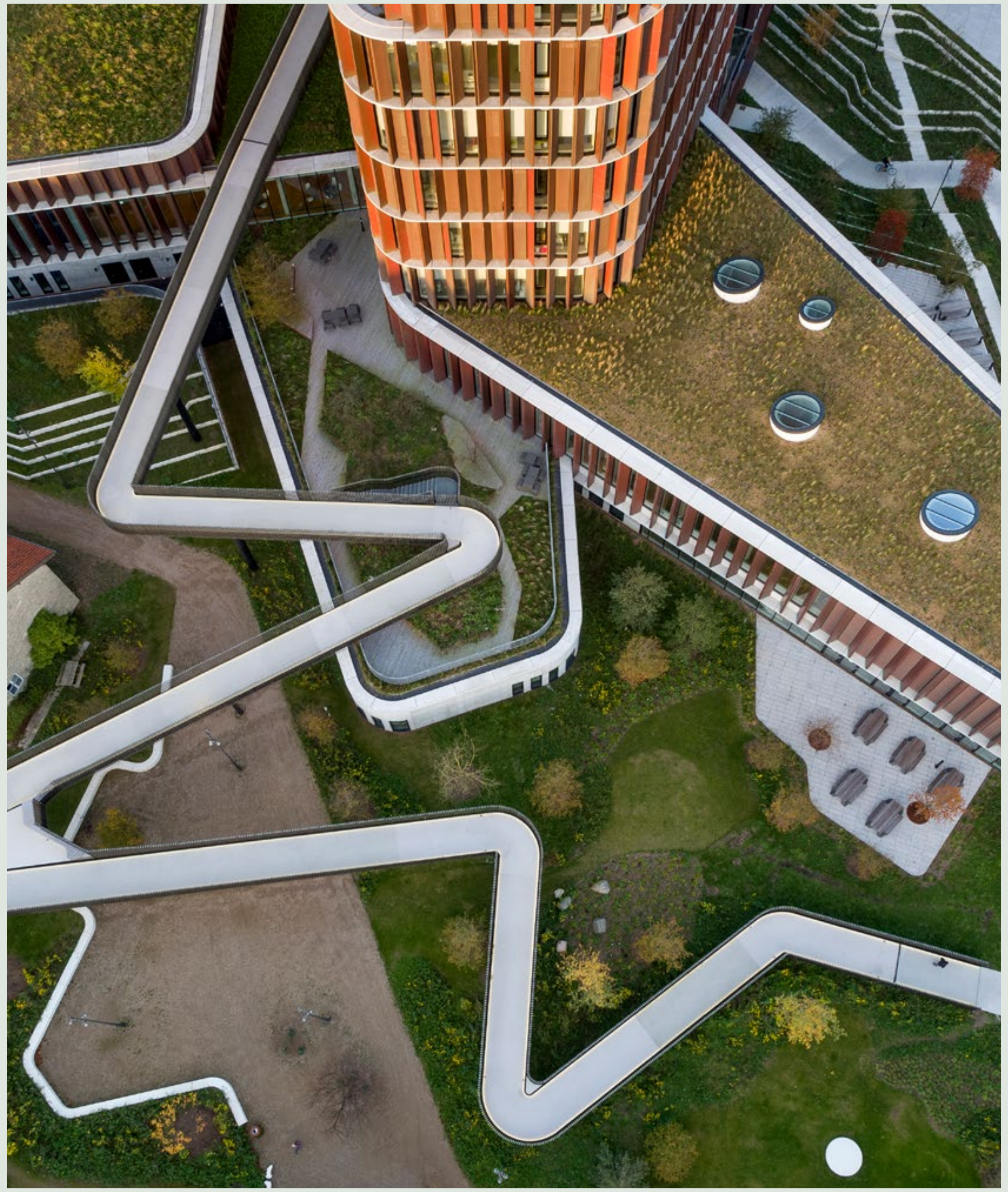
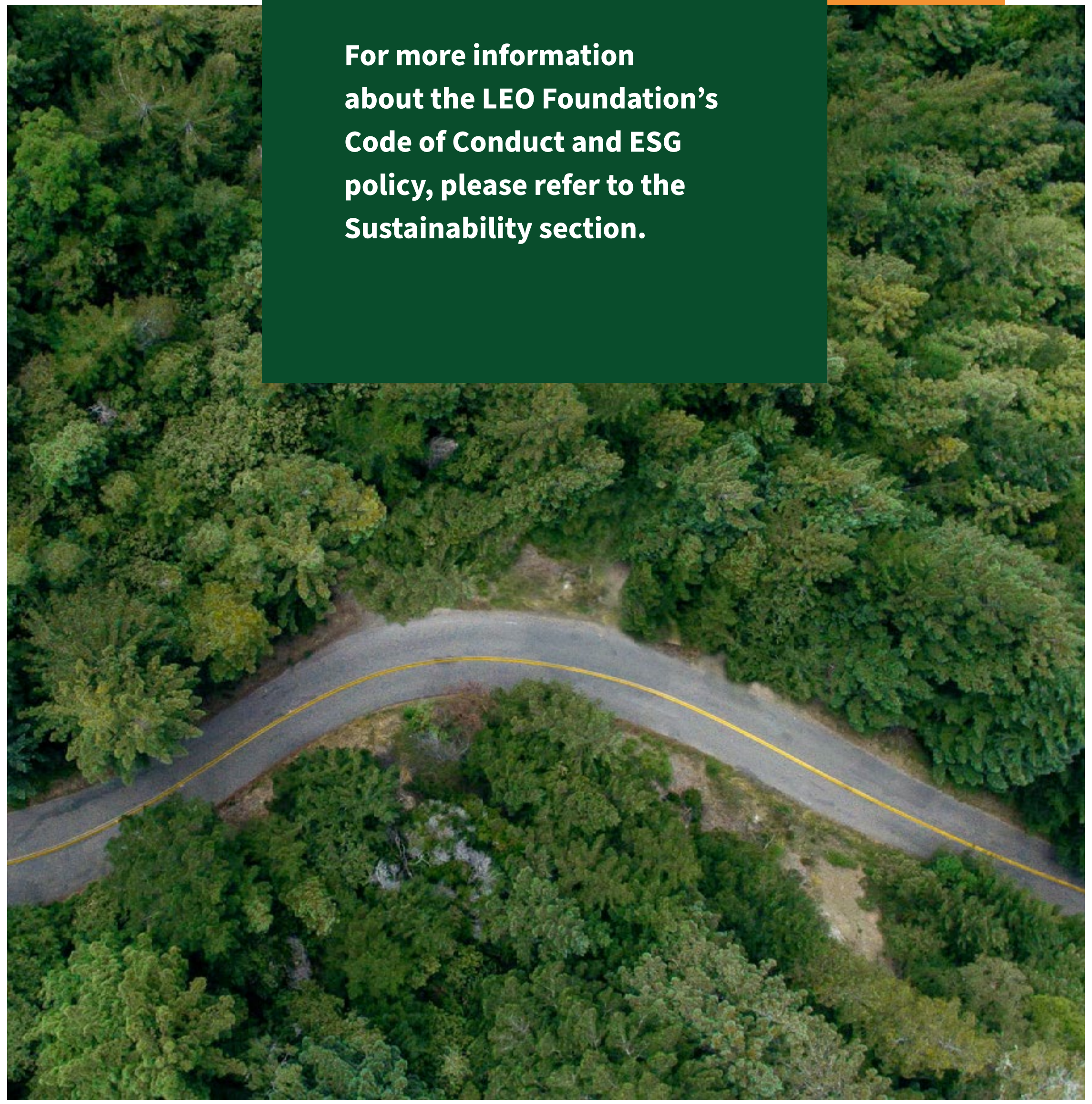


Photo: C.F. Møller Architects / Adam Mørk

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

Click here

For more information about the LEO Foundation's Code of Conduct and ESG policy, please refer to the Sustainability section.



portfolio. More specifically, capital is to be allocated with a view to 1) a maximum loss on the financial portfolio in exceptionally negative market conditions, 2) the ability to grow the capital available for philanthropic activities and, most importantly, 3) ensuring that the Foundation is able to liquidate assets, at any given time, without incurring losses from forced disposals, at a defined value based on the worst-case risk scenario developed as part of the ERM process in addition to committed grant payout obligations.

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. Furthermore, at each Board meeting the Board is presented with an updated analysis of risk measures related to the strategically set risk tolerance levels of the financial portfolio.

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.

In addition to risks associated with the financial portfolio, 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 assessed and mitigated through the implementation of policies and procedures and an annual assessment of specific identified risks conducted as part of the ERM process. In support of this, a dedicated LEO Foundation Code of Conduct was developed, with implementation starting in 2022.

Risk related to LEO Pharma

Business and financial risks associated with operations are managed by LEO Pharma, which has defined risk management policies and implemented an ERM program to enable the structured, methodological and effective management of top risks across its value chain.

In 2022, as part of further enhancing and implementing the program, a dedicated team of enterprise risk specialists was established to support business areas across the global value chain in identifying, evaluating and monitoring top risks across LEO Pharma, and to better anchor the ERM program across the organization.

The Board of Directors of LEO Pharma has overall responsibility for the company's enterprise risk management, with oversight of the ERM program 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, including high-level scenarios and main risk treatment activities for each key risk, is provided at least annually to the company's Board of Directors as well as to the Foundation.

Identifying and managing business and sustainability risks

We consider risk identification and management important and integral parts of how we operate and oversee activities related to the LEO Foundation, and have in place our LEO Foundation Code of Conduct as a governing mitigating action as well as a dedicated Enterprise Risk Management (ERM) process described separately above.

At the same time, as a relatively small organization, we often observe that the most significant risks relate to the global operations of LEO Pharma, where an ERM program is in place to manage risks across the global value chain. LEO Pharma reports on business and sustainability risks in its annual and sustainability reports. In addition to risks concerning LEO Pharma, we identify and manage risks related to our own operations, grant activities and investment activities. The following risks and mitigations focus on actions within the direct control of the LEO Foundation.

Business risk area	Key risks	Mitigating actions
Operational **Incl. financial processes and IT security**	• Breaches of processes or IT security could lead to loss of capital and disruption of our business. • Unauthorized access to systems and data could impact confidentiality, integrity, and availability of systems and data.	• Our Code of Conduct and dedicated financial policies and processes with annual external assessment. • IT policy (including security practices and requirements). • Systems and operations outsourced to a professional third party with solid firewalls and backup systems.
Financial **Incl. capital market downturn and regulatory changes**	• Significant capital market downturn could have a sizeable negative impact on our ability to support LEO Pharma and to develop grant activities. • Changes in rules and regulations set by regulatory authorities may change the ambitions and operations set for the Foundation.	• Long-term investment strategy sustainable through investment cycles, complemented by monitoring of specific risk measures to be able to promptly respond to market developments. • Key processes and policies developed to ensure compliance with laws and regulations, complemented by participation in industry associations and networks to monitor regulatory environment.
Reputational **Incl. third-party compliance and leak of confidential information**	• Undesired behavior by grantees, managers of or companies in our financial portfolio, employees or other stakeholders could impact our reputation. • Leak of confidential information could impact our businesses negatively.	• Our Code of Conduct, Employee handbook, and an open and honest culture. • Grants are subject to a set of general terms and conditions governing the use of research grants awarded. • Due diligence on investment activities includes attention to the ethics of the asset managers, as reflected in our ESG policy. • Employees undertake a duty of confidentiality in connection with employment and must adhere to e.g. our IT policy and our Code of Conduct.
Sustainability risk area	**Key risks**	**Mitigating actions**
Environment **Incl. climate, pollution and circularity**	• Our own footprint, while minimal, impacts the environment. • Footprint of grant activities and of the financial portfolio.	• Our own footprint is managed through our daily awareness of reducing negative impacts. • Grant activities are required to adhere to regulations and encouraged to reduce/reuse/recycle. • Investments are managed through the ESG policy.
Social **Incl. employee matters and human rights**	• Not being able to attract and retain the right talent. • Failing to ensure diversity and inclusion, or tolerating discrimination in our own operations and grant activities. • Failing to ensure adequate data privacy and protection in our own operations and grant activities. • Violations of human rights by managers of or companies in our financial portfolio.	• Benchmarking remuneration and flexible workplace conditions as part of attracting and retaining employees. • Our Code of Conduct, Employee handbook, and an open and honest culture. • Going forward, grants and awards will be made subject to the recipients' acknowledgement of our Code of Conduct. • Investments are managed through the ESG policy.
Governance **Incl. anti-corruption, fraud and competitive practices**	• Bribery or kickbacks for personal gain in our own operations and grant activities. • Misuse of grant funds, e.g. in the form of embezzlement, theft, or false claims and statements. • Corrupt behavior by managers of or companies in our financial portfolio.	• Our Code of Conduct, financial controls, and an open and honest culture. • Going forward, grants and awards will be made subject to the recipients' acknowledgement of our Code of Conduct. • Investments are managed through the ESG policy.

LEO GROUP

Consolidated Financial Statements

Photo: LEO Foundation Skin Immunology Research Center. C.F. Møller Architects / Adam Mørk

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Income statement

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2022**	**2021**
Revenue	2	10,641	9,957
Cost of sales	3, 10, 13	(4,656)	(3,962)
Gross profit		**5,985**	**5,995**
Sales and distribution costs	3, 9, 13	(4,736)	(4,698)
Research and development costs	3, 9, 13	(2,474)	(3,058)
Administrative costs	3, 4, 9, 10, 11 18	(2,133)	(2,429)
Other operating income	5	73	62
Other operating expenses	5	(65)	(67)
Operating profit/(loss)		**(3,351)**	**(4,194)**
Financial income	7	389	2,340
Financial expenses	7	(2,590)	(508)
Profit/(loss) before tax		**(5,551)**	**(2,362)**
Tax on profit/(loss) for the year	8	298	(469)
NET PROFIT/(LOSS) FOR THE YEAR		**(5,253)**	**(2,831)**
Attributable to:			
LEO Foundation		(4,345)	(2,246)
Non-controlling interests	27	(908)	(584)
		(5,253)	**(2,831)**

Statement of comprehensive income

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2022**	**2021**
Net profit/(loss) for the year		**(5,253)**	**(2,831)**
Other comprehensive income			
Actuarial gains/(losses)	18	329	195
Tax on other comprehensive income	8	(52)	(10)
Items that will not subsequently be reclassified to the income statement		**277**	**185**
Fair value adjustments on hedging instruments		137	25
Foreign exchange adjustments, subsidiaries		61	(9)
Tax on other comprehensive income	8	(17)	(6)
Items that are or may subsequently be reclassified to the income statement		**181**	**9**
Total other comprehensive income/(loss) after tax		**458**	**194**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(4,795)**	**(2,636)**
Attributable to:			
LEO Foundation		(3,988)	(2,094)
Non-controlling interests	27	(807)	(542)
		(4,795)	**(2,636)**

Balance sheet at December 31

ASSETS			
(DKK million)	Note	**2022**	**2021**
Goodwill		192	192
Intellectual property rights		5,595	6,155
Software		1,253	1,524
Development projects and software in progress		615	783
Intangible assets	9	**7,655**	**8,654**
Land and buildings		938	951
Plant and machinery		899	963
Other fixtures and fittings, tools and equipment		178	177
Assets under construction		2,694	2,373
Property, plant and equipment	10	**4,710**	**4,465**
Right-of-use assets	11	399	463
Right-of-use assets		**399**	**463**
Investments in associates		-	8
Other financial assets	22	4,179	3,561
Deferred tax assets	15	1,327	668
Pensions	18	144	-
Other receivables		8	13
Other non-current assets		**5,658**	**4,250**
Non-current assets		**18,421**	**17,832**
Inventories	13	4,580	3,869
Trade receivables	12	2,136	2,254
Tax receivables		238	698
Other receivables	14	556	439
Prepaid expenses	16	290	361
Other financial securities	22	11,640	14,321
Cash and bank balances		286	476
Current assets		**19,726**	**22,418**
ASSETS		**38,146**	**40,249**

EQUITY AND LIABILITIES			
(DKK million)	Note	**2022**	**2021**
Foundation capital	17	98	98
Reserves		72	(178)
Retained earnings		19,232	23,544
Equity attributable to the LEO Foundation		**19,401**	**23,464**
Non-controlling interests	27	436	1,229
Equity		**19,837**	**24,693**
Loans and credit institutions	20, 22	8,394	3,766
Deferred tax liabilities	15	39	7
Pensions	18	71	284
Provisions	19	290	352
Lease liabilities	11	317	381
Tax payables		489	483
Other long-term liabilities		2,697	2,766
Non-current liabilities		**12,297**	**8,040**
Loans and credit institutions	20, 22	382	1,341
Trade payables		1,303	1,625
Provisions	19	979	890
Lease liabilities	11	125	121
Tax payables		510	506
Other payables		2,713	3,033
Current liabilities		**6,012**	**7,516**
EQUITY AND LIABILITIES		**38,146**	**40,249**

Statement of changes in equity

(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Share-based payments	Reserve for future grants	Retained earnings	Total	Non-controlling interests	Total equity
2022									
Equity at January 1	98	(320)	(5)	7	141	23,544	23,464	1,229	24,693
Comprehensive income for the year:									
Net profit/(loss) for the year	-	-	-	-	200	(4,545)	(4,345)	(908)	(5,253)
Other comprehensive income/(loss) for the year	-	107	48	-	-	205	360	100	461
Total comprehensive income/(loss)	**-**	**107**	**48**	**-**	**200**	**(4,340)**	**(3,985)**	**(807)**	**(4,792)**
Capital raise in LEO Pharma A/S [1]	-	-	-	-	-	28	28	8	36
Share-based payments	-	-	-	19	-	-	19	6	25
Grants for the year	-	-	-	-	(125)	-	(125)	-	(125)
EQUITY AT DECEMBER 31	**98**	**(213)**	**42**	**26**	**216**	**19,232**	**19,401**	**436**	**19,837**

1. Reference is made to note 27 Non-controlling interests.

(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Share-based payments	Reserve for future grants	Retained earnings	Total	Non-controlling interests	Total equity
2021									
Equity at January 1	98	(313)	(20)	-	177	26,462	26,404	-	26,404
Comprehensive income for the year:									
Net profit/(loss) for the year	-	-	-	-	125	(2,371)	(2,246)	(584)	(2,831)
Other comprehensive income/(loss)		(7)	15	-	-	144	152	43	194
Total comprehensive income/(loss) for the year	**-**	**(7)**	**15**	**-**	**125**	**(2,227)**	**(2,094)**	**(542)**	**(2,636)**
Net adjustment from sale of shares in LEO Pharma A/S [1]	-	-	-	-	-	(619)	(619)	1,789	1,170
Transaction costs related to capital raise	-	-	-	-	-	(72)	(72)	(20)	(92)
Share-based payments	-	-	-	7	-	-	7	2	9
Grants for the year	-	-	-	-	(162)	-	(162)	-	(162)
EQUITY AT DECEMBER 31	**98**	**(320)**	**(5)**	**7**	**141**	**23,544**	**23,464**	**1,229**	**24,693**

1. Reference is made to note 1 Basis of reporting and note 27 Non-controlling interests.

Cash flow statement

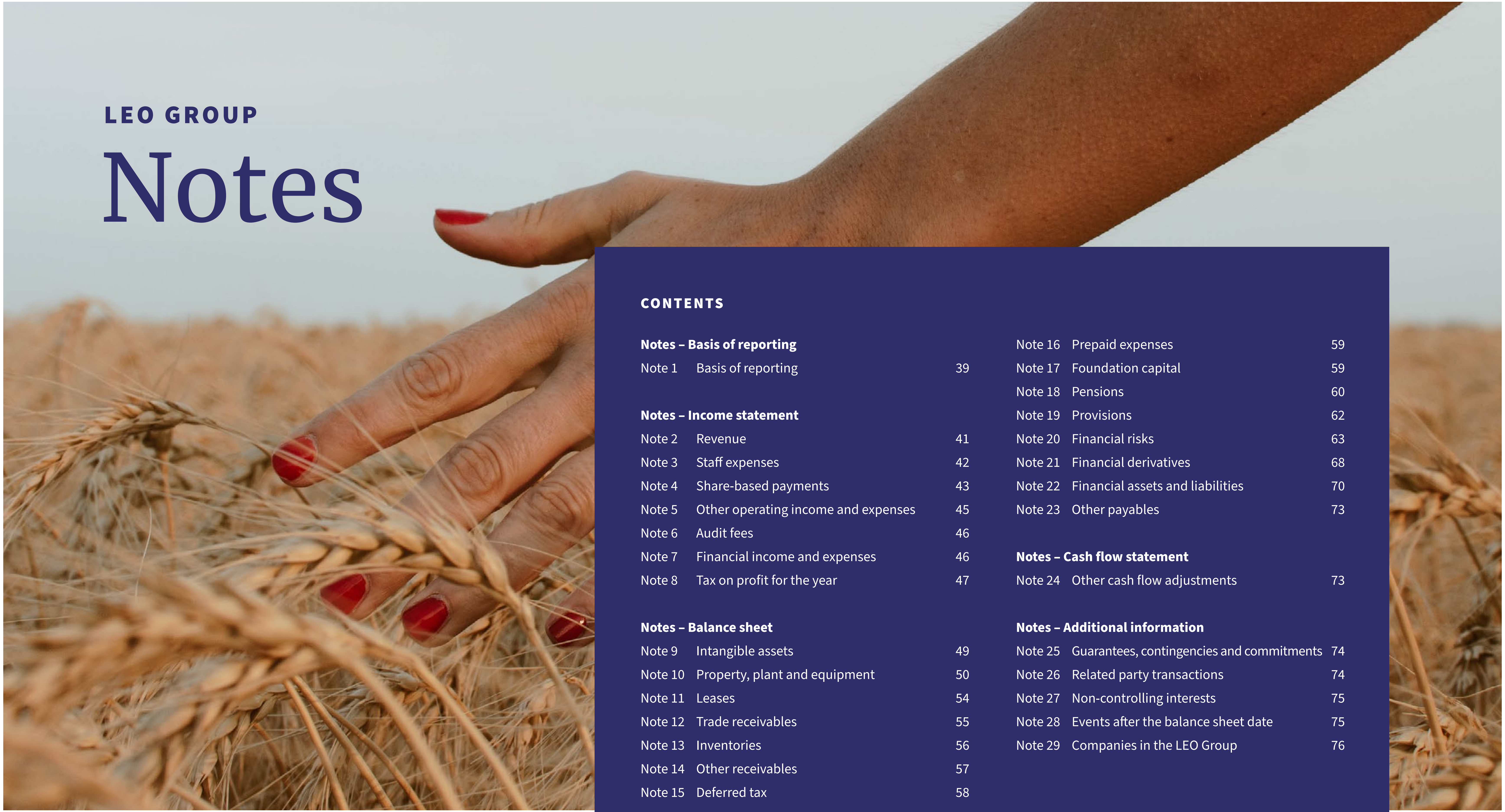
JANUARY 1 - DECEMBER 31			
(DKK million)	Note	2022	2021
Operating profit/(loss) before financial items		**(3,351)**	**(4,195)**
Depreciation, amortization and impairment losses, net	9, 10, 11	1,737	2,199
Adjustment for non-cash operating items, etc.	24	1,728	2,224[1]
Change in working capital	24	(868)	(782)
Payment of other provisions		(1,605)	(1,520)
Interest received		37	-
Interest paid		(455)	(516)[1]
Income tax received/paid		84	(165)
Cash flows from operating activities		**(2,693)**	**(2,754)**

1. During 2022, the classification of realized exchange rate adjustments was changed from other non-cash adjustments to interest paid. The comparative figures for 2021 were restated accordingly (DKK 138 million).

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	2022	2021
Investments in intangible assets	9	(898)	(394)
Investments in property, plant and equipment	10	(597)	(956)
Proceeds from sale of intangible assets		4	-
Sale of business and activities, net of cash received		12	-
Investments in other securities	22	(1,187)	(2,432)
Proceeds from sale of other securities	22	1,145	3,436
Change in investment portfolio cash	22	493	(635)
Cash flows from investing activities		**(1,028)**	**(981)**
Proceeds from loans	20	4,451	10,604
Repayment of loans	20	(900)	(10,094)
Overdraft facilities	20	108	38
Proceeds received from exercise of warrants		25	9
Proceeds from capital raise in LEO Pharma A/S		36	3,347
Transaction cost related to capital raise		-	(92)
Payment of lease liabilities	11, 20	(119)	(121)
Grants paid out during the year		(81)	(116)
Cash flows from financing activities		**3,520**	**3,575**
Net cash flow for the period		**(201)**	**(160)**
Cash and cash equivalents, January 1		476	629
Foreign exchange rate and value adjustments of cash and cash equivalents		11	7
CASH AND CASH EQUIVALENTS, DECEMBER 31		**286**	**476**

At December 31, 2022, DKK 21 million (2021: DKK 0 million) of the cash and cash equivalents was deposited in restricted bank accounts.

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



LEO GROUP

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Notes – Basis of reporting

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 for large Class C companies.

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

The accounting policies set out below and in the notes have been applied consistently in respect of the financial year and for comparative figures, except for Adjustment to prior year stated below.

Adjustment to prior year

An updated assessment of the accounting treatment of the sale of shares in LEO Pharma A/S in 2021, based on the contractual terms, has resulted in the recognition of a financial liability that represents the discounted obligation from the embedded derivative, impacting the following financial statement line items:

- Retained earnings within Equity has decreased from DKK 25,721 million to DKK 23,544 million.
- Other long-term liabilities has increased from DKK 1,072 million to DKK 2,766 million.

Rounding

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

Global market uncertainties

The war in Ukraine has not had a significant impact on LEO Pharma's activities. Revenue from Russia, Ukraine and Belarus amounted to 2% of the total revenue in 2022. All revenues from these countries respect the sanctions imposed, on Russia in particular.

Similar to 2021, we do not see a significant financial impact related to COVID-19, even though lockdowns are still affecting activities in China, Hong Kong and other markets in Asia.

Management continuously assesses the overall supply situation, increasing inflation, rising interest rates, and the consequences of greater geopolitical uncertainty, which may impact areas with significant accounting estimates and/or judgments.

As of December 31, 2022, Management estimates have been updated to assess the recoverability of the asset base, including goodwill, intellectual property rights, development projects, deferred tax assets and trade receivables. The indirect effects of the geopolitical uncertainties were not a triggering event for impairments in 2022.

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

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 and current situation. Therefore, the actual amounts may differ from the estimated amounts, as more detailed information becomes available. Judgments are made when Management applies the accounting policies.

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

- 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 13 Inventories: Estimates of valuation of inventories
- Note 15 Deferred tax: Estimates of valuation of deferred tax assets
- Note 19 Provisions: Estimates of provision for legal disputes and sales deductions
- Note 22 Financial assets and liabilities: Estimates of fair value of unlisted investments
- Note 27 Non-controlling interests: Judgment in determining accounting treatment of the sale of shares in LEO Pharma A/S

Reference is made to the specific notes for further information on key accounting estimates and judgments.

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 by applying the LEO Group's accounting policies.

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/(loss). 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/(loss), 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.

Non-controlling interests

On initial recognition, non-controlling interests are measured at the non-controlling interests' proportionate share of the acquired company's identifiable assets, liabilities and contingent liabilities measured at fair value.

The gross obligation under issued put option on non-controlling interests are presented as a reduction of the Group's equity attributable to the LEO Foundation.

Increases and reductions of non-controlling interests are accounted for as transactions with shareholders, in their capacity as shareholders. Thus, any differences between adjustment to the carrying amount of non-controlling interests and the fair value of the consideration received or paid are recognized directly in equity.

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.

Definitions of key figures[1]

Return on equity $\dfrac{\text{Profit/loss before tax}}{\text{Average equity}} \times 100$

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

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

Implementation of new standards and interpretations

Effective January 1, 2022, the LEO Group implemented all the new or changed accounting standards and interpretations. The adoption had no material impact on the disclosures or the amounts reported in the Consolidated Financial Statements.

New and revised IFRS issued, but not yet effective, that are relevant to the LEO Group

IASB has issued new or amended accounting standards and interpretations that have not yet become effective. The LEO Group expects to adopt the IFRS standards and interpretations when they become mandatory. The LEO Group does not expect adoption of these standards to have a material impact on the Consolidated Financial Statements in future periods.

Notes – Income statement
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 at a point in time – 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 fair value, which corresponds to the amount of consideration to which the LEO Group expects to be entitled 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 outlicensed products as well as milestone payments and other revenues in connection with partnerships. These revenues, except for royalties, are recognized when the performance obligation is satisfied, i.e. when transferred to the customer. For sales-based royalties, revenue is recognized when the subsequent sale occurs.

Change to revenue segments
As part of the commercial reorganization, the segment structure by region has changed. The segments have been changed to Product Strategy & International Operations ("PSIO"), "North America" and "Other", to support our strategic focus on simplifying our operating model. The comparative figures for 2021 have been restated accordingly.

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 fulfillment of the contract obligation.

Unsatisfied performance obligations
The LEO Group's remaining performance obligations expected to be recognized in subsequent years as of December 31, 2022 were DKK 33 million (2021: DKK 26 million), which will be recognized in 2023. The obligations comprise contracts where the Group has an obligation to deliver goods and services that has not yet been satisfied.

(DKK million)	2022	2021
Revenue by region		
Internal operations	9,266	8,960
North America	1,117	918
Other	258	80
Total	**10,641**	**9,957**
Revenue by therapeutic area		
Dermatology		
Psoriasis	3,912	3,905
Skin infections	1,664	1,460
Eczema	1,969	1,359
Acne/rosacea	328	328
Other Mature Dermatology	260	207
Total Dermatology	**8,133**	**7,259**
Thrombosis	2,233	2,311
CMO/divested	275	387
Total	**10,641**	**9,957**
Revenue by category		
Products	10,527	9,837
Sales-based royalties	60	103
Other	54	17
Total	**10,641**	**9,957**
Timing of revenue recognition		
Goods transferred at a point in time	10,637	9,952
Services delivered over time	4	5
TOTAL	**10,641**	**9,957**

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)	2022	2021
Wages and salaries	3,638	3,852
Pensions – defined benefit plans	8	10
Pensions – defined contribution plans	270	324
Share-based payments	45	16
Social security expenses	349	376
Other employee expenses	253	270
Total staff expenses for the year	**4,563**	**4,848**
Capitalized staff expenses	(54)	(180)
TOTAL STAFF EXPENSES IN THE INCOME STATEMENT	**4,509** [1]	**4,668** [2]
Staff expenses included in		
Cost of sales	780	744
Sales and distribution costs	2,050	2,156
Research and development costs	826	849
Administrative costs	853	919
TOTAL STAFF EXPENSES	**4,509**	**4,668**
Remuneration to the Executive Board	6	5
Average number of full-time employees	5,262	5,814

1. Total staff expenses have been impacted by DKK 248 million as a consequence of the restructuring of LEO Pharma announced on June 2, 2022 and January 12, 2023 due to organizational changes of R&D, commercial and support functions. The restructuring costs are recognized in the income statement and classified as cost of sales DKK 64 million, sales and distribution costs DKK 65 million, research and development costs DKK 59 million and administrative costs DKK 60 million.
2. Total staff expenses are impacted by DKK 226 million as a consequence of the restructuring of LEO Pharma announced to the public on January 19, 2022. The restructuring costs are recognized in the income statement and classified as sales and distribution costs DKK 156 million, research and development costs DKK 35 million and administrative costs DKK 35 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	Karin J Hamberg	Peter Schwarz	Employee-elected	Total
Remuneration period	Full year	Full year	Full year	Full year	Full year	Full year	Full year	Full year	
LEO Foundation, Board	450	300	150	150	150	150	150	600	**2,100**
LEO Foundation, Committees			60			60	120		**240**
LEO Holding A/S, Board	600	400	200	200	200	200	200	800	**2,800**
LEO Holding A/S, Committees				120					**120**
LEO Pharma A/S, Board					350			700	**1,050**
LEO Pharma A/S, Committees					100				**100**

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

Note 4
Share-based payments

Accounting policies
For equity-settled share-based payment arrangements, the warrants and shares are measured at fair value at the grant date and recognized as staff costs in the income statement over the vesting period, with the balancing entry being recognized directly in equity. On initial recognition, an estimate is made of the number of awards expected to vest.

Subsequently, the amount recognized as a cost is adjusted to reflect the number of awards for which the service and non-market performance conditions are expected to be met, and awards expected to vest.

For cash-settled share-based payment arrangements, the awards are measured at fair value at the grant date and recognized as staff costs in the income statement over the vesting period, with the balancing entry being recognized as a liability. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share-based payment arrangement. Any changes in the liability are recognized in profit or loss.

Description of share-based payment arrangements
To incentivize management and employees in realizing the strategy and drive LEO Pharma's continued success, share-based payment incentive plans have been established. At December 31, 2022, the LEO Pharma Group had the following share-based payment arrangements.

Employee Share Purchase Plan
In 2022, the LEO Pharma Group launched a voluntary employee share-based program (ESPP). The program have given employees the opportunity to buy shares ("Employee shares") as part of their gross salary. Each quarter during 2022, LEO Pharma A/S executed a capital increase and enrolled employees as shareholders based on a market valuation of LEO Pharma.

For every share purchased, the employee receives a right to an additional matching share, of which 50% vest after three years and 50% vest in the event of a potential listing. To achieve this, the employee must remain employed by LEO Pharma (or resign as a good leaver) until exercise of the matching shares, and the fair value of LEO Pharma must increase to at least 1.5 times the subscription price.

The program also exists in a cash-settled phantom version (EPSPP – employee phantom share purchase plan). The details below relate only to the matching share program.

Reconciliation of outstanding employee awards

Number of matching shares	ESPP (equity settled)	EPSPP (cash settled)
Outstanding at January 1	-	-
Granted	861,392	62,920
Forfeited	(120,472)	(17,416)
Outstanding at December 31	**740,920**	**45,504**
Fair value at grant (DKK)	30.40	30.40
Current fair value (DKK)	30.71	30.71

Measurement of fair value of Employee Share Purchase Plan
The fair value of granted awards is estimated using a bionomial valuation model of market conditions considering the terms and conditions upon which the awards were granted. The inputs used in the measurement of the fair values at grant date of the share-based payment plans were as follows:

	ESPP (equity settled) Grant date January 1, 2022	EPSPP (cash settled) Measurement date December 31, 2022
Fair value of shares at grant date	47.72	47.72
Expected volatility (weighted average)	26.4%	26.5%
Expected life (weighted average)	4.9	3.9
Expected dividend	-	-
Risk-free interest rate (based on government bonds)	(0.57%) to 0.08%	2.39% to 2.56%
Current fair value (DKK)	30.71	30.71

Note 4
Share-based payments (continued)

Management Incentive Program (MIP)

Equity-settled share agreements

Executive Management of LEO Pharma receives warrants as part of its long-term incentive program. The warrants vest in four or five equal tranches. The first tranche vests on the grant date and the remaining vest over four years. All warrants vest upon a successful listing or other exit. The members of Executive Management must remain employed by the Group until the vesting date. Furthermore, exercise of the warrants is subject to a fair value increase in LEO Pharma shares of at least 1.5 times the subscription price and an exercise cap of three times the subscription value. In the event of a listing, 50% of warrants can be exercised. The remaining 50% can be exercised 12 months after the listing. In the event of non-listing, the warrants become exercisable after seven years and will be cash settled.

In addition, members of the Board of Directors of LEO Pharma have been granted the opportunity to purchase warrants on the same terms and conditions as the MIP, except for the following: The warrants can be exercised only upon a listing and can only be settled in shares. The warrants vest unconditionally after two years or in connection with an IPO, if earlier, subject to the warrant holder still being a member of the Board. Further, the Chair has been granted warrants free of charge, identical to the warrants granted under the MIP, except that these warrants vest over two years.

Reconciliation of outstanding equity-settled awards

Number of warrants	Total 2022	Total 2021
Outstanding at January 1	3,010,678	-
Granted during the year	2,031,923	3,010,678
Forfeited during the year	(25,763)	-
Outstanding at December 31	**5,016,838**	**3,010,678**
Exercisable at December 31	**-**	**-**
Fair value at grant	7.58	7.14
Average exercise share price	47.72	47.72

Phantom Share Agreement (cash settled)

The Phantom Share Agreement follows the same terms and conditions as the Management Incentive Program but is pre-determined to be settled in cash.

Reconciliation of outstanding cash-settled awards

Number of phantom shares	Phantom Share Agreement 2022	Phantom Share Agreement 2021
Outstanding at January 1	3,504,684	-
Instruments granted	2,063,864	3,504,684
Forfeited during the year	(467,298,00)	-
Outstanding at December 31	5,101,250	3,504,684
Fair value at grant date (DKK)	7.58	7.38
Initial expected total costs (DKK)	38,046,330	25,848,797
Instruments which are expected to vest	5,101,250	3,504,684
Current fair value (DKK)	7.97	7.38
Total expected settlement	40,634,290	25,848,797
Liability at 31 December (DKK)	30,415,227	9,668,856

Measurement of fair value

Equity-settled share-based payment arrangements

The fair value of granted awards is estimated using a bionomial valuation model of market conditions, taking into account the terms and conditions upon which the awards were granted. The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

Expected volatility has been based on an evaluation of the historical volatility of comparable companies' share prices. This was based on a standard deviation of weekly returns over a five-year period. The expected term of the instruments has been based on projected exit date and their probabilities and estimates assessed by Management.

	Grant date July 8, 2022	Grant date December 1, 2021
Fair value of shares at grant date (DKK)	47.72	47.72
Expected volatility (weighted average)	26.0%	26.4%
Expected life (weighted average)	4.2 years	4.4 years
Expected dividend	-	-
Risk-free interest rate (based on government bonds)	(0.88%) to 1.43%	(0.57%) to 0.08%

Note 4
Share-based payments (continued)

Cash-settled share-based payment arrangements
The inputs used in the measurement of the fair values at grant date of the cash-settled share-based payment plans were as follows:

	Grant date July 8, 2022	Grant date December 1, 2021
Fair value of shares at grant date (DKK)	47.72	47.72
Expected volatility (weighted average)	26.0%	26.4%
Expected life (weighted average)	4.2 years	4.4 years
Expected dividend	-	-
Risk-free interest rate (based on government bonds)	(0.88%) to 1.43%	(0.57%) to 0.08%

	Measurement date December 31, 2022	Measurement date December 31, 2021
Fair value of shares at grant date (DKK)	47.72	47.72
Expected volatility (weighted average)	26.5%	26.4%
Expected life (weighted average)	3.7 years	4.3 years
Expected dividend	-	-
Risk-free interest rate (based on government bonds)	2.43% to 2.56%	(0.57%) to 0.08%

Financial impact
At December 31, 2022, the total carrying amount of liabilities arising from the share-based payment transactions amounted to DKK 31 million (2021: DKK 10 million). The intrinsic value at December 31, 2022 of the liability related to vested phantom shares was DKK 16 million (2021: DKK 5 million).

The total expense recognized in 2022 from share-based payment transactions recognized in the income statement amounted to DKK 45 million (2021: DKK 16 million), of which DKK 25 million (2021: DKK 6 million) arose from equity-settled share-based payment transactions.

Note 5
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.

(DKK million)	2022	2021
Gain on sale of assets	14 [1]	-
Other operating income	59	62
OTHER OPERATING INCOME	**73**	**62**
Royalty expenses	52	18
Loss on sale of assets	9 [2]	-
Other operating expenses	4	49 [3]
OTHER OPERATING EXPENSES [2]	**65**	**67**

1. Gain from sale of assets mainly relates to the sale of assets to Aqilion AB of DKK 13 million.
2. Loss from sale of assets relates to the sale of Studies&Me A/S of DKK 8 million.
3. Related to accounting loss on an onerous contract in 2021 of DKK 41 million.

Note 6
Audit fees

(DKK million)	2022	2021
Deloitte Statsautoriseret Revisionspartnerselskab		
Statutory audit	9	8
Tax and VAT advice	2	1
Non-audit services	2	8
TOTAL	**13**	**17**

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 entered into for hedging purposes are presented as financial income and expenses.

(DKK million)	2022	2021
Interest income	4	14
Capital gains, financial assets	297	2,252
Foreign exchange gains, net	89	70
Share of profit/(loss) on investment in associates	-	4
FINANCIAL INCOME	**389**	**2,340**
Interest expenses, credit institutions	(320)	(111)
Interest expenses, lease liabilities	(11)	(11)
Capital losses, financial assets	(1,906)	(74)
Foreign exchange losses, net	(123)	(95)
Other financial expenses [1]	(231)	(217)
FINANCIAL EXPENSES	**(2,590)**	**(508)**

1. Other financial expenses primarily comprise the commitment fee related to LEO Pharma's current syndicated facility agreement (2021: Bank charges, other fees, etc., and payment of a bank guarantee related to the associate PellePharm DKK 131 million).

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 adjustments 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 financial statements 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 direct and indirect taxes. In the opinion of Management 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)	2022	2021
Current tax	421	554
Prior-year adjustments, current tax	(26)	(49)
Prior-year adjustments, deferred tax	180	17
Change in deferred tax for the year	(804)	(37)
TOTAL TAX INCOME/(EXPENSE) FOR THE YEAR	**(229)**	**485**
Tax for the year is included in		
Tax on profit/(loss) for the year	(298)	469
Tax on other comprehensive income	69	16
TOTAL TAX INCOME/(EXPENSE) FOR THE YEAR	**(229)**	**485**

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)	2022	%
Profit/(loss) before tax	**(5,459)**	
Calculated tax, 22%	(1,201)	22%
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries compared to the Danish corporate income tax rate	(232)	4.2%
Non-deductible expenses/non-taxable income and other permanent differences	45	(0.8%)
Other taxes	6	(0.1%)
Change in deferred tax as a result of a change in the income tax rate	12	(0.2%)
Change in valuation of net tax assets	918	(16.8%)
Prior-year tax and other adjustments	154	(2.8%)
EFFECTIVE TAX/TAX RATE FOR THE YEAR	**(298)**	**5.4%**

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

(DKK million)	2021	%
Profit/(loss) before tax	**(2,362)**	
Calculated tax, 22%	(520)	22%
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries compared to the Danish corporate income tax rate	(173)	7.3%
Non-deductible expenses/non-taxable income and other permanent differences	(130)	5.5%
Other taxes	8	(0.4%)
Change in deferred tax as a result of a change in income tax rates	(17)	0.7%
Change in valuation of net tax assets	1,332	(56.4%)
Prior-year tax and other adjustments	(33)	1.4%
EFFECTIVE TAX/TAX RATE FOR THE YEAR	**469**	**(19.9%)**

Notes - Balance sheet
Note 9
Intangible assets

Accounting policies

Goodwill

At initial recognition, goodwill is recognized in the balance sheet at cost. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

Intellectual property rights

Intellectual property rights are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the expected useful lives of the assets. Amortization of intellectual property rights is recognized in Sales and distribution costs and Research and development costs. Costs relating to the maintenance of patents, etc. are expensed in the income statement as incurred.

Software

Software purchased or internally developed is measured at cost less accumulated amortization and impairment losses. 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.

Development projects and software in progress

Development projects and software in progress are recognized as Intangible assets if the recognition criteria are met:

- The projects are clearly defined and identifiable
- The Group intends to use the projects once completed
- The future earnings from the projects are expected to cover the development and administrative costs
- The cost can be reliably measured.

The costs of development projects include direct salaries, materials and other direct costs attributable to the development project. Milestone payments related to clinical development projects are capitalized only when payment of milestones becomes probable and the intention is to manufacture, market or use the project and when it is probable that the future earnings can cover production, sales and distribution costs, administrative costs and development costs. Other development costs are recognized in the income statement as incurred.

Development projects are assessed on an ongoing basis with due account of development progress, expected approvals and commercial utilization. Development projects are not amortized, as the assets are not available for use.

In line with industry practice, internal and subcontracted development costs are expensed as they are incurred, due to significant regulatory uncertainties and other uncertainties inherent in the development of new products. Once marketing approval by a regulatory authority is obtained or considered highly probable, costs are capitalized as intangible assets.

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

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

Impairment testing

Goodwill and intangible assets under construction are tested for impairment annually or whenever there is an indication of impairment. Intangible assets with definite lives measured at cost are assessed if there is an indication of impairment. If a write-down is required, the carrying amount is written down to the higher of net selling price and value in use.

When 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.

The Group has conducted an analysis of the sensitivity of changes in the key assumptions in the impairment test. Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount to exceed the recoverable amount of goodwill.

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 or brought into use. 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 the following:

- Changes in patent and license rights
- Changes to future cash inflows to the Group
- Research & development 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 budgets 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 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 Group has identified capitalized software relating to the ERP system as corporate assets. Management has considered the recoverability of the assets. The expected future performance in core business areas supports the carrying amount of the assets.

Assessment of type of asset and level of control

When entering into agreements, 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 and software in progress	Software	Total intangible assets
2022					
Cost at January 1	192	13,928	2,629	2,498	19,247
Exchange rate adjustments	-	5	-	-	5
Additions during the year	-	143 [1]	136 [2]	-	279
Disposals during the year	-	-	(274)	-	(274)
Transfers	-	-	(111)	96	(15)
Cost at December 31	**192**	**14,076**	**2,380**	**2,594**	**19,241**
Amortization and impairment losses at January 1	-	(7,772)	(1,847)	(974)	(10,593)
Amortization for the year	-	(708)	-	(367)	(1,075)
Impairment losses for the year	-	-	(176) [3]	-	(176)
Disposals during the year	-	-	258	-	258
Transfers	-	-	-	-	-
Amortization and impairment losses at December 31	**-**	**(8,480)**	**(1,765)**	**(1,341)**	**(11,586)**
CARRYING AMOUNT AT DECEMBER 31	**192**	**5,595**	**615** [4]	**1,253**	**7,655**

(DKK million)	Goodwill	Intellectual property rights	Development projects and software in progress	Software	Total intangible assets
2021					
Cost at January 1	192	12,432	4,150	1,922	18,696
Exchange rate adjustments	-	2	-	-	2
Additions during the year	-	715 [5]	406 [2]	18	1,139
Disposals during the year	-	-	(548)	(11)	(559)
Transfers	-	779 [5]	(1,379)	569	(30)
Cost at December 31	**192**	**13,928**	**2,629**	**2,498**	**19,247**
Amortization and impairment losses at January 1	-	(7,170)	(1,711)	(587)	(9,468)
Amortization for the year	-	(589)	(1)	(381)	(971)
Impairment losses for the year	-	(13)	(661)	(8)	(681)
Disposals during the year	-	-	518	11	528
Transfers	-	-	9	(9)	-
Amortization and impairment losses at December 31	**-**	**(7,772)**	**(1,847)**	**(974)**	**(10,593)**
CARRYING AMOUNT AT DECEMBER 31	**192**	**6,155**	**783** [4]	**1,524**	**8,654**

1. Additions consist of a capitalized milestone payment from approval of Adtralza® by the Japanese Ministry of Health, Labor and Welfare in December 2022.
2. Additions consist of DKK 41 million (2021: DKK 36 million) related to R&D development projects and DKK 95 million (2021: DKK 370 million) related to the development of IT projects.
3. Impairment loss recognized mainly due to IT development projects canceled during 2022 of DKK 161 million.
4. Total development projects and software in progress DKK 615 million (2021: DKK 783 million) consist of software in progress DKK 323 million (2021: DKK 500 million), and R&D development projects DKK 292 million (2021: DKK 283 million).
5. In 2021, Adtralza® was launched in Germany in July, and FDA approval was received for Adbry™ in December, i.e. milestone payments of DKK 712 million have been accrued.

Note 9
Intangible assets (continued)

Impairment 2022
Impairment losses of DKK 15 million have been recognized under research and development costs and impairment losses of DKK 161 million have been recognized under administration costs. No reversals of impairment losses from prior periods were reversed in 2022.

The impairment recognized under administration costs of DKK 161 million comprises several individual software development projects which have been cancelled during 2022. Consequently, the recoverable amount is determined at DKK 0 million.

Impairment 2021
Based on the impairment test prepared at year-end 2021, it was deemed necessary to impair intangible assets by DKK 681 million. Impairment losses were recognized under research and development costs (DKK 517 million), administrative costs (DKK 151 million) and sales and distribution costs (DKK 13 million).

The impairment recognized under research and development costs comprised two individual development projects: Patidegib DKK 435 million and other DKK 82 million, where the projects have not shown the expected commercial result to continue the development. Consequently, the recoverable amount was determined at DKK 0 million.

The impairment recognized under administrative costs comprised several individual software development assets. Impairment of DKK 35 million related to assets where the recoverable amount is determined by fair value less costs to sell. For the remaining impairment of DKK 116 million, the recoverable amount was determined at DKK 0 million based on future outlook for the development assets.

The impairment recognized under sales and distribution costs comprised an intellectual property right where the recoverable amount is determined by value in use, which resulted in an impairment loss of DKK 13 million.

(DKK million)	2022	2021
Specification of amortization and impairment losses is as follows:		
Cost of sales	-	2
Sales and distribution costs	564	554
Research and development costs	161	564
Administrative costs	526	533
TOTAL	**1,251**	**1,653**

Research and development costs
In 2022, research and development costs recognized in the income statement amounted to DKK 2,474 million (2021: DKK 3,058 million), including impairment charges of DKK 15 million (2021: DKK 517 million). Research and development costs primarily comprise internal and external costs related to studies, employee costs, materials, depreciation, impairment losses and other directly attributable costs.

R&D development projects
At December 31, 2022, R&D development projects comprise H4R antagonist DKK 109 million (2021: DKK 109 million), delgocitinib DKK 66 million (2021: DKK 66 million) and other minor development projects DKK 117 million (2021: DKK 108 million).

Intellectual property rights
At December 31, 2022, intellectual property rights primarily comprise the dermatology portfolio (mainly Skinoren®, Advantan®, Travocort® and Travogen®) with a carrying amount of DKK 3,081 million (2021: DKK 3,345 million), Protopic® and Pimafucort® with a carrying amount of DKK 798 million (2021: DKK 1,018 million), Adtralza®/Adbry™ with a carrying amount of DKK 1,430 million (2021: DKK 1,431 million), and Kyntheum® with a carrying amount of DKK 157 million (2021: DKK 192 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 lives and future residual values of the assets. Land is not depreciated.

The expected useful lives are as follows:

• Land and buildings	10-50 years
• Plant and machinery	5-10 years
• Other fixtures and fittings, tools and equipment	3-10 years
• Leasehold improvements	Depreciated over the term of the lease

Impairment testing

The carrying amount of property, plant and equipment is reviewed to determine whether there is any indication of impairment loss.

If the recoverable amount of an asset is estimated to be lower than the carrying amount, an impairment loss is recognized. For 2022, impairment losses of DKK 23 million have been recognized (2021: DKK 113 million).

Note 10

Property, plant and equipment (continued)

(DKK million)	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction[1]	Total property, plant and equipment
2022					
Cost at January 1	2,555	3,137	605	2,373	8,670
Exchange rate adjustments	3	1	-	1	5
Additions during the year	1	20	33	536	590
Disposals during the year	(14)	(13)	(24)	-	(51)
Transfers	57	136	37	(216)	14
Cost at December 31	**2,602**	**3,281**	**651**	**2,694**	**9,228**
Depreciation and impairment losses at January 1	(1,604)	(2,174)	(429)	-	(4,207)
Exchange rate adjustments	(1)	-	(2)	-	(3)
Disposals during the year	13	13	22	-	48
Depreciation for the year	(69)	(205)	(61)	-	(335)
Impairment losses for the year	(3)	(16)	(4)	-	(23)
Depreciation and impairment losses at December 31	**(1,664)**	**(2,382)**	**(473)**	**-**	**(4,519)**
CARRYING AMOUNT AT DECEMBER 31	**938**	**899**	**178**	**2,694**	**4,710** [2]

(DKK million)	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction[1]	Total property, plant and equipment
2021					
Cost at January 1	2,537	3,015	553	2,025	8,130
Exchange rate adjustments	4	(1)	5	(1)	7
Additions during the year	7	1	36	756	800
Disposals during the year	(23)	(241)	(33)	-	(297)
Transfers	30	363	44	(407)	30
Cost at December 31	**2,555**	**3,137**	**605**	**2,373**	**8,670**
Depreciation and impairment losses at January 1	(1,550)	(2,117)	(404)	-	(4,071)
Exchange rate adjustments	(1)	1	(3)	-	(3)
Disposals during the year	22	241	33	-	296
Depreciation for the year	(65)	(196)	(55)	-	(316)
Impairment losses for the year	(10)	(103) [3]	-	-	(113)
Depreciation and impairment losses at December 31	**(1,604)**	**(2,174)**	**(429)**	**-**	**(4,207)**
CARRYING AMOUNT AT DECEMBER 31	**951**	**963**	**177**	**2,373**	**4,464** [2]

1. Fixed assets under construction mainly relate to the construction of a new plant in Denmark with a carrying amount of DKK 1,619 million (2021: DKK 1,399 million), expansion of an existing plant in Ireland with a carrying amount of DKK 245 million (2021: DKK 251 million), construction of a new plant in Ireland with a carrying amount of DKK 327 million (2021: DKK 199 million), and expansion of an existing plant in France with a carrying amount of DKK 424 million (2021: DKK 314 million).
2. Assets pledged as collateral for loans amounted to DKK 2,575 million (2021: DKK 2,414 million).
3. Impairment in 2021 of a production line related to two onerous contracts.

(DKK million)	2022	2021
Depreciation and impairment losses are specified as follows:		
Cost of sales	248	331
Sales and distribution costs	14	14
Research and development costs	26	24
Administrative costs	70	59
TOTAL	**358**	**428**

Note 11
Leases

Accounting policies
The right-of-use asset and corresponding lease liability are recognized 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 shorter.

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 includes 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 recognized 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 assets, 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 recognized as expenses on a straight-line basis over the lease term.

For land and buildings, the non-lease component, i.e. the service element, is not separated from the lease components and thereby forms part of the right-of-use asset and lease liability recognized in the balance sheet.

Lease assets are depreciated as follows:
- Buildings 5-10 years
- Cars 3-5 years

Judgments in determining the lease term
For contracts with a rolling term (evergreen leases), the lease term is estimated at five years. Buildings of strategic importance are estimated based on the time frame necessary to vacate the premises. The estimated lease term is reassessed at each reporting date.

	2022			2021		
(DKK million)	**Land and buildings**	**Cars**	**Total**	**Land and buildings**	**Cars**	**Total**
Cost at January 1	562	155	717	532	150	682
Exchange rate adjustments	10	3	13	22	1	23
Additions/remeasurements during the year	19	34	53	64	56	120
Disposals during the year	(16)	(42)	(58)	(56)	(52)	(108)
Cost at December 31	**575**	**150**	**725**	**562**	**155**	**717**
Depreciation and impairment losses at January 1	(184)	(70)	(254)	(141)	(76)	(217)
Exchange rate adjustments	-	1	1	(1)	(1)	(2)
Depreciation for the year	(73)	(43)	(116)	(74)	(43)	(117)
Impairment for the year	(12)	-	(12)	-	-	-
Disposals during the year	16	39	55	32	50	82
Depreciation and impairment losses at December 31	**(253)**	**(73)**	**(326)**	**(184)**	**(70)**	**(254)**
CARRYING AMOUNT AT DECEMBER 31	**322**	**77**	**399**	**378**	**85**	**463**

Note 11
Leases (continued)

(DKK million)	2022	2021
Lease liabilities at January 1	502	495
Additions/remeasurements during the year	47	122
Payments	(119)	(110)
Exchange rate adjustments	12	(5)
LEASE LIABILITIES AT DECEMBER 31	**442**	**502**
Of which classified as:		
Non-current liabilities	317	381
Current liabilities	125	121
LEASE LIABILITIES AT DECEMBER 31	**442**	**502**

(DKK million)	2022	2021
The following are the amounts recognized in the income statement		
Depreciation expense on right-of-use assets (included in Administrative costs)	(116)	(118)
Impairment losses on right-of-use assets (included in Administrative costs)	(12)	-
Interest expense on lease liabilities	(11)	(11)
TOTAL AMOUNT RECOGNIZED IN THE INCOME STATEMENT	**(139)**	**(129)**

The amounts recognized impacted the cash outflow from operating activities by DKK 11 million (2021: DKK 11 million) as well as the cash outflow from financing activities by DKK 119 million (2021: DKK 121 million).

Note 12
Trade receivables

Accounting policies
Trade receivables expected to be realized within 12 months from the balance sheet date are classified as trade receivables and presented as current assets.

On initial recognition, trade receivables are measured at transaction price, and subsequently at amortized cost, which usually corresponds to the nominal value less write-downs to counter the risk of losses. Write-downs are calculated using the full-lifetime expected credit loss method, whereby the likelihood of non-fulfilment throughout the lifetime of the financial asset is taken into consideration. Derivative financial instruments included in Other receivables are measured at fair value.

(DKK million)	2022	2021
Trade receivables	2,178	2,289
Allowances for expected credit losses	(42)	(35)
TOTAL	**2,136**	**2,254**

MOVEMENTS IN WRITE-DOWNS, WHICH ARE INCLUDED IN TRADE RECEIVABLES

(DKK million)	2022	2021
Carrying amount at January 1	35	47
Exchange rate adjustments	-	1
Utilized	(12)	(26)
Net movement, recognized in the income statement	19	13
WRITE-DOWNS AT DECEMBER 31	**42**	**35**

Note 12
Trade receivables (continued)

The following table details the risk profile for trade receivables based on the Group's historical credit losses do not show different patterns for different customer segments or characteristics but for country of incorporation.

MATURITY ANALYSIS OF TRADE RECEIVABLES

(DKK million)	Not past due	Overdue by up to 3 months	Overdue by 3-6 months	Overdue by 6-12 months	Overdue by more than 12 months	Total
December 31, 2022						
Expected credit loss rate	0%	3%	11%	26%	89%	
Trade receivables	1,984	98	44	19	33	**2,178**
Write-downs	0	(3)	(5)	(5)	(29)	**(42)**
December 31, 2021						
Expected credit loss rate	0%	1%	1%	12%	83%	-
Trade receivables	2,113	76	43	26	31	**2,289**
Write-downs	0	(1)	0	(3)	(31)	**(35)**

Note 13
Inventories

Accounting policies
Inventories are measured at the lower of standard cost under the first-in-first-out 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
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)	2022	2021
Raw materials and consumables	885	331
Work in progress	2,426	2,583
Finished goods and goods for resale	1,269	955
TOTAL	**4,580**	**3,869**
Write-down for the year	340	327
Cost of goods sold included in Cost of sales	3,428	3,196

Note 14
Other receivables

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

(DKK million)	2022	2021
Receivable VAT & duties	288	278
Deposits	20	46
Financial derivatives	160	29
Other	88	86
TOTAL	**556**	**439**

Note 15
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 at 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 carryforwards, 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
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 five 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.

Significant assumptions in the recognized deferred tax assets are the ability to achieve the objectives in the strategy for the next five years and well as the return from the investment portfolio. The return from the investment portfolio is sensitive to general market fluctuations.

The unused tax loss carried forward does not expire.

(DKK million)	Balance at January 1	Effect of foreign currency exchange differences	Adjustment of deferred tax at beginning of year	Movements during the year	Balance at December 31
2022					
Intangible assets	820	-	23	229	**1,071**
Property, plant and equipment	530	-	(109)	12	**433**
Inventories	465	(1)	-	401	**864**
Provisions	170	1	(10)	(6)	**154**
Other items	100	5	(9)	(36)	**60**
Special tax credits	-	-	25	62	**87**
Tax loss carryforwards, etc.	964	-	3	1,061	**2,028**
Valuation allowance	(2,388)	-	(103)	(918)	**(3,410)**
TOTAL TEMPORARY DIFFERENCES	**661**	**4**	**(180)**	**803**	**1,288**
Deferred tax assets	668	4	(180)	838	**1,327**
Deferred tax liabilities	(7)	-	-	(32)	**(39)**
DEFERRED TAX ASSETS/(LIABILITIES)	**661**	**4**	**(180)**	**803**	**1,288**
2021					
Intangible assets	260	-	120	440	**820**
Property, plant and equipment	417	(1)	(174)	287	**530**
Inventories	503	-	-	(38)	**465**
Provisions	137	8	2	22	**170**
Other items	105	3	(4)	(4)	**100**
Tax loss carryforwards, etc.	260	2	40	663	**964**
Valuation allowance on deferred tax assets	(1,054)	-	-	(1,333)	**(2,388)**
TOTAL TEMPORARY DIFFERENCES	**629**	**13**	**(16)**	**36**	**661**
Deferred tax assets	645	13	(16)	26	**668**
Deferred tax liabilities	(17)	-	-	10	**(7)**
DEFERRED TAX ASSETS/(LIABILITIES)	**629**	**13**	**(16)**	**36**	**661**

Note 16
Prepaid expenses

Accounting policies
Receivables are recognized at amortized cost less expected credit losses and are believed to be equal to or close to fair value.

Other receivables comprise mainly VAT to public authorities and deposits.

(DKK million)	2022	2021
Prepaid clinical trials	180	258
Prepaid IT expenses	58	56
Other prepaid expenses	52	46
TOTAL	**290**	**360**

Note 17
Foundation capital

The nominal value of the Foundation capital amounts to DKK 98 million (2021: DKK 98 million).

Note 18
Pensions

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
In defined benefit plans, the Group has an obligation to pay a defined benefit on retirement. The actuarially calculated present value less the fair value of any plan assets is recognized in the balance sheet under Pensions.

The present value is calculated on the basis of assumptions relating to future developments in salary, interest rates, inflation, mortality and other factors. The present value is calculated solely for the benefits to which the employees have earned a right through their employment 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.

Actuarial gains and losses are recognized in other comprehensive income. Past service costs are recognized in the income statement as incurred.

Estimates of valuation of defined benefit plans
The value of the defined benefit plans is based on valuations from external actuaries. The valuation is based on a number of actuarial assumptions, including discount rates, expected return on plan assets, expected growth in wages and salaries, mortality and retirement benefits. The discount rate is the most significant assumption used in the calculation of the obligation concerning defined benefit plans.

Defined contribution plans
The Group operates a number of pension plans for certain groups of employees throughout the world. These plans are externally funded through payments of premiums to insurance companies and pension funds that are legally separated from the Group. The Group's responsibility toward current or former employees is limited to the payment of the premiums.

Defined benefit plans
In a few countries, the Group operates defined benefit plans. In defined benefit plans, the Group is under an obligation to pay a defined benefit on retirement. The most significant of these are in Ireland and the UK. 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 the assets of which are legally separated from those of the Group. Under the scheme-funding regime introduced by the UK Pensions Act 2004, trustees of the UK plan are required to undertake regular scheme-funding valuations for the plans and to 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.

Note 18
Pensions (continued)

(DKK million)	2022	2021
Present value of defined benefit plans		
Present value of defined benefit plans at January 1	2,073	2,214
Effect of exchange rate adjustments	(35)	58
Current service costs	8	10
Interest expenses	33	24
Actuarial (gains)/losses from changes in demographic assumptions	1	(15)
Actuarial (gains)/losses from changes in financial assumptions	(665)	(104)
Actuarial (gains)/losses from changes in experience	14	9
Benefits paid to employees	(83)	(123)
PRESENT VALUE OF DEFINED BENEFIT PLANS AT DECEMBER 31	**1,346**	**2,073**
Fair value of plan assets		
Fair value of plan assets at January 1	1,789	1,726
Effect of exchange rate adjustments	(35)	49
Return on plan assets	(321)	85
Interest income	27	19
Benefits paid to employees (incl. prior-period adjustments)	(70)	(109)
Employer contributions	29	19
Fair value of plan assets at December 31	**1,419**	**1,789**
NET RETIREMENT BENEFIT OBLIGATIONS AT DECEMBER 31	**(73)**	**284**
Of which classified as		
Other non-current assets	144	-
Non-current liabilities	71	284
	(73)	**284**

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 discount rate. However, the discount rate would 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 3.7% or DKK 50 million (2021: 4.6% or DKK 96 million).

(DKK million)	2022	2021
Specification of amount recognized in the statement of comprehensive income		
Actuarial (gains)/losses	329	195
TOTAL	**329**	**195**

Note 19
Provisions

Accounting policies

Provisions are recognized when 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 revenue is 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 costs. Provisions for restructuring costs are recognized when a constructive obligation exists, when detailed restructuring plans are in place and when a valid expectation of those affected has been raised.

Other provisions consist of different types of other provisions, including provisions for legal disputes, onerous contracts and other restructuring provisions. A provision for onerous contracts is recognized when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

Key accounting estimates and judgments

Provisions for legal disputes

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

Provisions for sales deductions

Sales discounts and rebates are predominantly issued in the U.S. in connection with the U.S. Federal and State Government Healthcare programs, primarily commercial rebates, Copay schemes, Medicare and Medicaid.

Management's estimate of sales discounts and rebates is based on a calculation that includes a combination of historical utilization data and expectations in relation to the development in sales and utilization. Furthermore, specific circumstances regarding the different programs are also considered. The obligations concerning sales discounts and rebates are incurred at the time the sale is recorded. However, the actual discount or rebate related to a specific sale may be invoiced six to twelve 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 Management as more detailed information becomes available.

Note 19
Provisions (continued)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2022					
Provisions at January 1	385	173	468	216	**1,242**
Exchange rate adjustments	16	7	-	1	**24**
Additions during the year	1,224	57	368 [1]	168 [3]	**1,817**
Utilization during the year	(1,151)	(91)	(293) [2]	(70)	**(1,605)**
Reversals during the year	(21)	(25)	(70) [1]	(93)	**(209)**
Transfer	-	-	8	(8)	-
PROVISIONS AT DECEMBER 31	**453**	**121**	**481**	**214**	**1,269**
Of which classified as:					
Non-current liabilities	1	54	169	68	**290**
Current liabilities	452	67	314	146	**979**
PROVISIONS AT DECEMBER 31	**453**	**121**	**481**	**214**	**1,269**

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2021					
Provisions at January 1	344	236	541	130	**1,251**
Exchange rate adjustments	(7)	(44)	(109)	(8)	**(168)**
Additions during the year	20	17	2	1	**40**
Utilization during the year	1,088	67	330	133 [5]	**1,618**
Reversals during the year	(1,060)	(103)	(317)	(40)	**(1,520)**
Transfer	-	-	21 [4]	-	**21**
PROVISIONS AT DECEMBER 31	**385**	**173**	**468**	**216**	**1,242**
Of which classified as:					
Non-current liabilities	-	60	230	62	**352**
Current liabilities	385	113	238	154	**890**
PROVISIONS AT DECEMBER 31	**385**	**173**	**468**	**216**	**1,242**

1. Additions and reversals consist of net DKK 248 million related to the restructuring due to organzational changes of R&D, commercial and global support functions in LEO Pharma. An addition of DKK 70 million relates to long-term incentive programs.
2. The restructuring provision utilized amounted to DKK 238 million. The remaining part is expected to be utilized during 2023 and 2024.
3. An addition of DKK 69 million relates to one onerous contract, recognized as a part of cost of goods sold.
4. Transferred from Other payables.
5. An addition of DKK 111 million is related to two onerous contracts, of which DKK 41 million is recognized as part of Other operating expenses and the remaining part of DKK 70 million is recognized as part of cost of goods sold.

Note 20
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 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 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. It further comprises the Foreign Exchange Policy and the Investment Policy as well as the Policy Regarding Credit Risk on Financial Counterparties, and includes a description of the permitted use of financial instruments. The Group only hedges commercial exposures and, consequently, does not enter into derivative transactions for trading or speculative purposes. The Group uses a fully integrated Treasury Management System to manage all financial positions.

Currency risk
As a global company with DKK as its presentation currency, the Group 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.

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

The Group hedges future expected cash flows on an 18-month roliing basis.

Foreign currency sensitivity analysis
The sensitivity analysis shows the estimated impact on operating profit of a change in DKK versus the key currencies to which the Group was exposed on December 31, 2022. The analysis shows the impact of foreign currency exchange differences on the Group's monetary assets and liabilities and foreign exchange forward contracts at the end of the year. A similar negative change in exchange rates would have a similar opposite effect on operating profit.

Note 20
Financial risks (continued)

FOREIGN CURRENCY ANALYSIS

(DKK million)	2022 Increase in exchange rates	2022 Profit/loss for the year	2022 Other comprehensive income[1]	2021 Profit/loss for the year	2021 Other comprehensive income[1]
USD	7.9%	(10)	45	(39)	36
GBP	7.6%	(11)	(16)	(20)	(14)
CAD	7.7%	5	(28)	3	(16)
JPY	10.2%	11	(5)	9	(6)
RUB	35.0%	(16)	-	(2)	(1)
CNY/CNH	7.5%	12	(26)	3	(2)
BRL	18.7%	9	-	(1)	(3)
SAR	8.2%	2	(2)	-	(1)
AUD	9.4%	2	(7)	-	(6)

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

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 caps and collars as hedge instruments. Hedging of interest rate risk is approved by Executive Management, and hedge effectiveness is assessed on a regular basis. No ineffectiveness was observed in 2022 or 2021. The table below shows the current loans with our banking partners.

Interest rate sensitivity analysis

A 1 percentage point increase in the interest rate would reduce profit for the year by DKK 55 million (2021: DKK 13 million) and increase other comprehensive income by DKK 96 million (2021: DKK 24 million) based on unhedged floating interest-bearing debt at December 31 and the change in fair value of the interest hedging instruments.

The calculation method applied in the sensitivity analysis is based on the current duration of unhedged floating interest-bearing debt as of December 31 and the change in fair value of the CAPS hedging instruments.

CURRENT LOANS WITH BANKING PARTNERS

(DKK million)	Currency	Expiry of commitment	Fixed/ floating	Weighted avg. effective interest rate %	Amortized cost	Nominal value	Fair value
2022							
Term loans[1]	DKK	2027	Floating	6.32	2,590	2,625	2,625
Loans RCF	DKK	2027	Floating	6.10	3,902	3,918	3,918
Loans RCF	USD	2027	Floating	6.84	50	50	50
Mortgage loans	DKK	2038	Fixed 4M	1.47	1,185	1,200	1,187
Mortgage loans	DKK	2042	Fixed 4.7Y	4.80	1,049	1,065	1,053
TOTAL					**8,776**	**8,858**	**8,833**
2021							
Term loans[1]	DKK	2027	Floating	3.05	2,583	2,625	2,625
Loans RCF	USD	2024	Floating	1.38	63	63	63
Loans RCF	DKK	2027	Floating	3.25	1,278	1,278	1,278
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,183	1,200	1,206
TOTAL					**5,107**	**5,166**	**5,172**

1. Floating rate is currently fixed via cap and collar hedging instruments. Reference is made to the table on the following page, disclosing the current hedging instruments.

Note 20
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
2022				
Cap – Syndicated facility	1,500	62	65	0.10%
Collar – Syndicated facility	6,000	6	48	1.63% - 3.75%
TOTAL		**68**	**113**	
2021				
Cap on Term loan A	1,125	-	-	0.03%
Cap on Term loan B	1,500	5	3	0.10%
TOTAL		**5**	**3**	

At December 31, 2022, the fair value of DKK 113 million (2021: DKK 3 million) has been recognized in Other receivables.

Credit risk

The Group's products are primarily sold to pharmacies, wholesalers and hospitals. Historically, realized losses sustained on trade receivables have been insignificant, which was also the case in both 2022 and 2021; see note 12.

The Group 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, the Group has no significant reliance on any specific customer. The Group continues to monitor the credit exposure on all customers, both new and existing, following principles delineated by the Credit policy adopted in December 2020. The COVID-19 pandemic and the war in Ukraine has not significantly impacted the Group's trade receivables, with only a few singular cases of delayed payments, mainly in the Middle East.

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

During 2022, the Group further extended the non-recourse factoring program implemented in 2020 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, amounting to DKK 425 million in 2022 (2021: DKK 141 million).

To manage credit risk on financial counterparties, the Group only enters into derivative financial instruments with financial counterparties possessing 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, the Group minimizes the risk by keeping the lowest possible bank balance or by spreading the risk between several banks. At year-end, the bank balances with a rating below Investment Grade were low, and therefore the credit risk is considered to be 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 20
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.

Cash resources and financing facilities
The Group established new mortgage loans in the fourth quarter of 2022. These are linked to the premises in Ballerup, Denmark, and in particular to the final stage of completing a new plant for Fucidin® production.

The nominal amount of the new mortgage loans is DKK 1,065 million, bringing the total mortgage portfolio up to a nominal amount of DKK 2,265 million.

Loan covenants are included in the Group's financial agreements and consist of a mix of financial and ESG requirements. No financial covenant breaches were encountered during the year.

The Group has access to financing facilities of DKK 4,783 million (2021: DKK 7,687 million), of which unused and secured overdraft facilities amounted to DKK 4,505 million (2021: DKK 7,162 million) as of the reporting date. The remaining amount of DKK 278 million (2021: DKK 525 million) primarily consists of cash and cash equivalents.

Other obligations are met from operating cash flows and proceeds from maturing financial assets.

The following table discloses cash as well as non-cash changes in borrowings.

(DKK million)	Borrowings at January 1	Proceeds from borrowings	Repayments of borrowings	Other non-cash items [1]	Borrowings at December 31
2022					
Banks and other credit institutions	5,108	4,559	(900)	9	8,776
Lease liabilities	502	-	(119)	59 [2]	442
TOTAL BORROWINGS	**5,610**	**4,559**	**(1,019)**	**68**	**9,218**
Of which classified as:					
Non-current	4,148				8,711
Current	1,462				507
2021					
Banks and other credit institutions	4,713	10,604	(10,210)	-	5,107
Lease liabilities	491	-	(110)	121	502
TOTAL BORROWINGS	**5,204**	**10,604**	**(10,320)**	**121**	**5,609**
Of which classified as:					
Non-current	4,199				4,147
Current	1,005				1,462

1. Other non-cash items mainly comprise interest expenses and exchange rate adjustments.
2. New/disposed of/remeasured leases.

Note 20
Financial risks (continued)

The table below discloses the Group's financial liabilities based on their contractual maturities for all non-derivative financial liabilities, as well as derivative financial instruments where the contractual maturities are essential for an understanding of the timing of the cash flows.

MATURITY OF CONTRACTUAL CASH FLOWS

(DKK million)	Contractual amount	Less than 1 year	2-3 years	3-5 years	5+ years
2022					
Non-financial derivatives					
Floating-rate bank debt	7,735	708	528	6,499	-
Fixed-rate bank debt	3,158	91	300	296	2,471
Trade and other payables	3,963	3,963	-	-	-
Other liabilities	2,677	-	-	-	2,677
Financial derivatives					
Interest rate swaps used as hedging instruments	(47)	(30)	(17)	-	-
Forwards used as hedging instruments	50	50	-	-	-
TOTAL CONTRACTUAL CASH FLOW	**17,536**	**4,782**	**811**	**6,795**	**5,148**
2021					
Non-financial derivatives					
Floating-rate bank debt	4,144	1,393	61	61	2,629
Fixed-rate bank debt	1,330	18	162	184	966
Trade and other payables	4,658	4,658	-	-	-
Other liabilities	2,677	-	-	-	2,677
Financial derivatives					
Interest rate swaps used as hedging instruments	(3)	-	(3)	-	-
Forwards used as hedging instruments	4	3	1	-	-
TOTAL CONTRACTUAL CASH FLOW	**12,809**	**6,071**	**221**	**245**	**6,272**

Note 21
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 cash flow hedging instrument. In this 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.

In general, the Group does not hedge EUR positions as Executive Management expects the official Danish fixed-rate policy vis-à-vis the EUR to continue. 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

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

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

Forward exchange rate contracts

It is the policy of LEO Pharma to enter into either forward foreign exchange contracts or currency options in order to hedge the forecast sales and purchase transactions based on gradually reducing the hedge ratio from 80% to 20% over a time horizon of 18 months. Where the hedging of highly probable forecast sales and purchases is concerned, as the critical terms (i.e. the notional amount, life and underlying value) of the forward foreign exchange contracts and their corresponding hedged items are the same, LEO Pharma makes a qualitative assessment of effectiveness. It is expected that the value of the forward contracts and the value of the corresponding hedged items will change systematically in opposite directions in response to movements in the underlying exchange rates. 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.

LEO Pharma has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from the expected future sales transactions that will take place during the next 18 months, at which time the amount deferred in equity will be reclassified to a gain or loss under financial items. The following table shows the outstanding forward contracts classified as cash flow hedges at the end of the year. Forward foreign exchange contract assets and liabilities are presented as either Other receivables or as Other payables in the balance sheet (cf. the table "Financial assets and liabilities" in note 22).

Note 21
Financial derivatives (continued)

FINANCIAL DERIVATIVES – CASH FLOW HEDGES

	2022					2021				
(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	7.33	97	711	(40)	(49)	6.40	90	573	15/(1)	55
Sold USD	7.01	15	105	2	2	-	-	-	-	-
Sold CAD	5.31	71	378	15/(1)	23	4.96	43	214	(8)	(14)
Sold GBP	8.56	25	214	6	10	8.61	22	193	(5)	(5)
Sold CNY	1.00	350	350	(1)	3	0.92	34	31	(3)	(7)
Sold SAR	1.90	16	30	1	1	-	-	-	-	-
Sold SEK	0.69	51	35	1	1	-	-	-	-	-
Sold JPY	0.05	870	44	(1)	(1)	-	-	-	-	-
Sold AUD	4.75	15	71	1	2	4.64	14	66	(2)	3
Sold BRL	-	-	-	-	-	1.06	14	14	(1)	-
Sold RUB	-	-	-	-	-	0.08	84	7	(1)	(11)
Sold PLN	-	-	-	-	-	1.61	17	27	-	(1)
Sold THB	-	-	-	-	-	0.20	53	11	-	(2)
Sold other currencies	N/A	N/A	171	(3)	1	N/A	N/A	191	3/(3)	2
TOTAL AT DECEMBER 31			**2,113**	**26/(46)**	**(7)**			**1,327**	**18/(24)**	**20**

Note 21
Financial derivatives (continued)

FINANCIAL DERIVATIVES – FAIR VALUE HEDGES						
(DKK million)	Contracted amount based on aggregate rates	Fair value at year-end	Maturity end date	Contracted amount based on aggregate rates	Fair value at year-end	Maturity end date
	2022			2021		
Sold USD/bought USD	543	8	07/07/2023	331	-	30/06/2022
Bought GBP/sold GBP	112	(3)	18/01/2023	17	1	21/01/2022
Sold CAD	54	3	10/03/2023	153	1	07/10/2022
Sold JPY	185	3	31/08/2023	144	(2)	29/12/2022
Sold BRL	28	(1)	22/02/2023	-	-	-
Sold KRW	17	(1)	28/02/2023	-	-	-
Bought EUR	45	4	26/05/2023	671	3	16/03/2022-
Sold SAR	-	-	-	24	-	24/02/2022
Sold CNY	-	-	-	103	1	10/03/2022
Bought/sold other currencies (net)	151	1	19/04/2023	231	1	31/08/2022
TOTAL	**1,135**	**14**		**1,674**	**5**	

The financial contracts are expected to impact the Income statement for the next 18 months until the cash flow hedges mature and the fair value is transferred to either Financial income or Financial expenses. A loss of DKK 16 million has been deferred for recognition until 2023 (2021: a loss of DKK 9 million was deferred until 2022 and 2023). No ineffectiveness was observed in 2022.

The fair value gain on forward foreign exchange contracts of DKK 14 million at the end of 2022 has been recognized in the income statement under foreign exchange losses, net (2021: gain of DKK 2 million recognized in foreign exchange gains, net).

Note 22
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 appropiate, 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 22
Financial assets and liabilities (continued)

Key accounting estimates and judgments
Estimate of fair value of unlisted investments
Uncertainty exist on assessing fair value of investments not based on observable market data. For investments in alternatives (level 3), fair value is based on latest reported NAV adjusted for capital calls, capital returns and pricing development (if relevant).

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(DKK million)	Carrying amount		Fair value	
	2022	**2021**	**2022**	**2021**
Carried at amortized cost				
Cash and bank balances	286	476	286	476
Trade and other receivables	2,528	2,673	2,528	2,673
Other financial assets	50	69	50	69
Financial assets at amortized cost	**2,864**	**3,218**	**2,864**	**3,218**
Carried at fair value through profit/(loss) (FVTPL)				
Financial assets mandatorily measured at FVTPL	15,777	17,118	15,777	17,118
Derivative instruments in designated hedge relationships	19	8	19	8
Financial assets at fair value through profit/(loss)	**15,796**	**17,126**	**15,796**	**17,126**
Carried at fair value through other comprehensive income (FVTOCI)				
Derivative instruments in designated cash flow-hedging relationships	139	21	139	21
Financial assets at fair value through other comprehensive income (FVTOCI)	**139**	**21**	**139**	**21**
TOTAL FINANCIAL ASSETS	**18,799**	**20,365**	**18,799**	**20,365**

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(DKK million)	Carrying amount		Fair value	
	2022	**2021**	**2022**	**2021**
Carried at amortized cost				
Trade and other payables	3,963	4,625	3,963	4,625
Bank loans (current and non-current)	6,542	3,924	6,593	3,966
Mortgage loans	2,234	1,183	2,240	1,206
Lease liabilities (current and non-current)	442	502	454	524
Other liabilities (non-current)	2,270	2,177	2,270	2,177
Financial liabilities at amortized cost	**15,451**	**12,412**	**15,520**	**12,499**
Carried at fair value				
Derivative instruments in designated fair value hedge relationships	5	6	5	6
Financial liabilities at fair value	**5**	**6**	**5**	**6**
Carried at fair value through other comprehensive income (FVTOCI)				
Derivative instruments in designated cash flow-hedging relationships	46	24	46	24
Financial liabilities at fair value through other comprehensive income (FVTOCI)	**46**	**24**	**46**	**24**
TOTAL FINANCIAL LIABILITIES	**15,502**	**12,442**	**15,571**	**12,529**

Note 22
Financial assets and liabilities (continued)

FINANCIAL ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE AT DECEMBER 31

(DKK million)	Fair value hierarchy at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Measured at fair value				
Government and mortgage bonds	1,073	-	-	1,073
Equities	7,749	-	-	7,749
Credit	2,603	-	-	2,603
Alternatives	580	1,908	1,649	4,137
Investment cash	214	-	-	214
Derivative instruments	-	158	-	158
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**12,220**	**2,066**	**1,649**	**15,935**
Measured at amortized cost, disclosure of fair value				
Bank loans	-	6,593	-	6,593
Mortgage loans	-	2,240	-	2,240
Lease liabilities	-	-	454	454
Derivative instruments	-	51	-	51
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	-	**8,884**	**454**	**9,338**

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

(DKK million)	Fair value hierarchy at December 31, 2021			
	Level 1	Level 2	Level 3	Total
Measured at fair value				
Government and mortgage bonds	2,065	-	-	2,065
Equities	8,678	-	-	8,678
Credit	3,221	-	-	3,221
Alternatives	531	1,293	1,329	3,153
Investment cash	707	-	-	707
Derivative instruments	-	29	-	29
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**15,203**	**1,322**	**1,329**	**17,854**
Measured at amortized cost, disclosure of fair value				
Bank loans	-	3,966	-	3,966
Mortgage loans	-	1,206	-	1,206
Lease liabilities	-	-	524	524
Derivative instruments	-	30	-	30
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE		**5,202**	**524**	**5,726**

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.

If an active market does not exist, the fair value is measured according to generally accepted valuation techniques (Level 3 input).

The valuation for alternatives is based one latest reported NAV adjusted for capital calls, capital returns and pricing development (if relevant).

FINANCIAL ASSETS MEASURED AT FAIR VALUE - LEVEL 3

(DKK million)	2022	2021
Carrying amount at January 1	1.329	597
Additions	258	588
Distributions	(26)	-
Gains/(losses) through profit/(loss)	88	144
GAINS/(LOSSES) THROUGH PROFIT/(LOSS)	**1,649**	**1,329**

Note 23
Other payables

Accounting policies
Other payables comprise amounts owed to employees, including wages, salaries and holiday pay, salary-/wage-related items, amounts owed in connection with purchase of development projects, amounts owed related to clinical trials, amounts owed related to sales deductions and promotion fee, amounts owed to public authorities, such as VAT, accrued derivatives and other payables such as distributor expenses, promotional tax and product listing agreements.

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

(DKK million)	2022	2021
Employee-related accruals	900	886
Accrued milestone payments	143 [1]	712 [2]
Accrued clinical trial expenses [1]	272	178
Sales deductions	327	157
Accrued promotion fee	69	82
Public authorities (VAT)	47	66
Financial derivatives	50	30
Other	905 [3]	922
TOTAL OTHER PAYABLES	**2,713**	**3,033**

1. Accrued milestone payment arising from approval of Adtralza® by the Japanese Ministry of Health, Labor and Welfare in December 2022.
2. Accrued milestone payments are related to EMA and FDA approval of Adtralza®/Adbry™.
3. Other consists of accrued expenses related to core business activities, contingent considerations such as mandatory deductions typically set by medical or other governmental authorities, etc.

Notes - Cash flow statement
Note 24
Other cash flow adjustments

(DKK million)	2022	2021
Other non-cash adjustments:		
Change in other provisions	1,632	1,471
Change in provisions for defined benefit plans	(357)	(213)
Change in inventory write-down	13	192
Change in provision for bad debt	7	(12)
Other non-cash adjustments [1]	433	783
TOTAL OTHER NON-CASH ADJUSTMENTS	**1,728**	**2,224**
Change in working capital:		
Change in inventories	(724)	(1,198)
Change in receivables	81	330
Change in current liabilities	(225)	86
TOTAL CHANGE IN WORKING CAPITAL	**(868)**	**(782)**

1. Other non-cash adjustments primarily consist of remeasurement of defined benefit obligations of DKK 329 million (2021: write-off of prepayment of DKK 273 million and remeasurement of defined benefit obligation of DKK 195 million).

Notes – Additional information

Note 25
Guarantees, contingencies and commitments

Guarantees and commitments
The total guarantee commitments for the LEO Group amount to DKK 136 million at December 31, 2022 (2021: DKK 86 million).

Contractual obligations and commitments
The table below shows contractual obligations not recognized in the consolidated financial statements.

CONTRACTED BUT NOT PROVIDED FOR IN THE FINANCIAL STATEMENTS

(DKK million)	2022	2021
Intangible assets	333	2,119
Property, plant and equipment	137	334
TOTAL	**470**	**2,453**

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. One project relates to the construction of a new plant in Denmark, while the other project relates to the expansion of an existing plant in Ireland. The amounts are not risk-adjusted or discounted.

The Group has commitments related to financial investments of DKK 3,596 million (2021: DKK 2,216 million).

Pending lawsuits
At the end of 2022, 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 these or other 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 Executive 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 that 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 discussions with tax authorities in various countries regarding tax issues, including transfer pricing and indirect tax issues. Please refer to the description of uncertain tax positions in note 8.

Note 26
Related party transactions

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

Owner with significant influence:
- Nordic Capital (through Cidron Savanna 4 SARL).

Transactions and balances with Nordic Capital:
- Capital increase in LEO Pharma of DKK 0 million (2021: DKK 3,347 million).

There were the following transactions and balances with members of the Board of Directors or Executive Management of LEO Pharma:
- Selected members of the Board of Directors have purchased warrants as part of the Management Incentive Program, totaling DKK 1 million (2021: DKK 3 million).

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

Note 27
Non-controlling interests

In July 2021, the shareholder base of LEO Pharma was expanded by a transaction where Nordic Capital invested EUR 450 million, equivalent to DKK 3,347 million, for a minority stake in LEO Pharma. The expansion of the shareholder base was initiated to support the long-term objectives and ambitious growth strategy of LEO Pharma.

The transaction was conducted as a capital increase in LEO Pharma, where new B-shares were issued and subscribed for by Nordic Capital. LEO Holding A/S's ownership of LEO Pharma was thereby reduced to 78.09%.

The transaction resulted in a dilution gain of DKK 1,487 million, which, net of the financial liability of DKK 2,177 million (see note 1), has been recognized in retained earnings in equity at an amount of DKK 691 million.

During 2022 capital increases in LEO Pharma A/S related to the share-based payments in LEO Pharma were carried out, changing the non-controlling interests' share of LEO Pharma A/S to 22.09% (2021: 21.91%).

The LEO Group's subsidiaries with significant non-controlling interests:

	Non-controlling interests	Percentage of votes	Registered office
LEO Pharma A/S	22.09%	4.9%	Ballerup

(DKK million)	2022	2021
Income statement:		
Revenue	10,641	9,957
Profit/(loss) for the year	(4,110)	(4,868)
Total comprehensive income	(3,652)	(4,674)
Total comprehensive income attributable to non-controlling interests	(800)	(542)
Balance sheet:		
Non-current assets	14,765	15,110
Current assets	8,167	8,585
Non-current liabilities	15,145	10,757
Current liabilities	5,841	7,401
Non-controlling interests' share of equity	470	1,229
Statement of cash flow:		
Cash flow from operating activities	(2,274)	(2,498)
Cash flow from investing activities	(1,476)	(1,371)
Cash flow from financing activities	3,576	3,691

Note 28
Events after the balance sheet date

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

Note 29
Companies in the LEO Group

(DKK million)	Country	Share of ownership, %	Activities
Parent Company			
The LEO Foundation	Denmark		Other
Subsidiaries of LEO Foundation			
LEO Pharma A/S	Denmark	78	Sales and distribution, Production
LEO Holding A/S, including	Denmark	100	Other
– LH Capital A/S	Denmark	100	Other
Subsidiaries of LEO Pharma A/S			
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
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100	Other
LEO Ventures 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 and distribution
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 and distribution
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 ● Sales services
● Production ● Other

LEO FOUNDATION

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Income statement

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2022**	**2021**
Administrative costs	1, 2	(22)	(22)
Operating profit/(loss)		**(22)**	**(22)**
Result from investments in subsidiaries	6	(4,290)	(2,250)
Financial income	3	29	25
Profit/(loss) before tax		**(4,283)**	**(2,246)**
Tax on profit/(loss) for the year		-	-
NET PROFIT/(LOSS) FOR THE YEAR	4	**(4,283)**	**(2,246)**

Balance sheet at December 31

ASSETS			
(DKK million)	Note	2022	2021
Intangible and tangible fixed assets	5	1	1
Investments in subsidiaries	6	20,222	24,665
Receivables from LEO Pharma A/S		1,000	1,000
Total financial fixed assets		**21,222**	**25,665**
Total fixed assets		**21,223**	**25,666**
Receivables from subsidiaries		1,030	384
Other receivables		1	2
Total receivables		**1,031**	**386**
Cash at bank and in hand		**9**	**33**
Total current assets		**1,040**	**419**
TOTAL ASSETS		**22,263**	**26,085**

EQUITY AND LIABILITIES			
(DKK million)	Note	2022	2021
Foundation capital	7	98	98
Net revaluation, subsidiaries		20,122	24,565
Reserve for future grants		216	141
Retained earnings		1,383	876
Total equity		**21,819**	**25,680**
Grants payable	8	252	267
Other non-current liabilities		-	1
Total non-current liabilities		**252**	**268**
Grants payable	8	188	130
Other payables		4	8
Total current liabilities		**192**	**138**
TOTAL EQUITY AND LIABILITIES		**22,263**	**26,085**

Statement of changes in equity

(DKK million)	Foundation capital	Net revaluation, subsidiaries	Reserve for future grants	Retained earnings	Total
2022					
Equity at January 1, 2022	98	24,565	141	876	**25,680**
Profit/(loss) in the LEO Foundation	-	(4,290)	200	(193)	**(4,283)**
Dividend received	-	(700)	-	700	**-**
Other adjustments in subsidiaries	-	547	-	-	**547**
Grants for the year	-	-	(125)	-	**(125)**
EQUITY AT DECEMBER 31, 2022	**98**	**20,122**	**216**	**1,383**	**21,819**

(DKK million)	Foundation capital	Net revaluation, subsidiaries	Reserve for future grants	Retained earnings	Total
2021					
Equity at January 1, 2021	98	25,176	178	997	**26,449**
Profit/(loss) in the LEO Foundation	-	(2,250)	125	(121)	**(2,246)**
Dilution gain from capital increase in subsidiary [1]	-	1,487	-	-	**1,487**
Other adjustments in subsidiaries	-	152	-	-	**152**
Grants for the year	-	-	(162)	-	**(162)**
EQUITY AT DECEMBER 31, 2021	**98**	**24,565**	**141**	**876**	**25,680**

1. Reference is made to note 6 Investments in subsidiaries.

LEO FOUNDATION

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Note 1
Audit fees

(DKK thousand)	2022	2021
Fees to auditors appointed at the Board meeting		
Statutory audit	151	129
Other services	133	19
TOTAL	**284**	**148**

Note 2
Staff expenses

(DKK million)	2022	2021
Wages and salaries	12	15
TOTAL	**12**	**15**
Included in		
Administrative costs	12	15
TOTAL	**12**	**15**
Remuneration to the Board of Trustees from other Group companies	4	3

Remuneration to the Board of Trustees amounted to DKK 2.3 million (2021: DKK 2.3 million), and the fee to the administrator, LEO Pharma A/S, amounted to DKK 0.1 million (2021: DKK 0.1 million).

Average number of full-time employees	10	8

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)	2022	2021
Interest income from subsidiaries	29	25
TOTAL	**29**	**25**

Note 4
Proposed distribution of net profit/(loss) for the year

(DKK million)	2022	2021
Net revaluation of subsidiaries	(4,290)	(2,250)
Proposed grant limit for the following year	200	125
Retained earnings	(193)	(121)
TOTAL	**(4,283)**	**(2,246)**

Note 5
Fixed assets

(DKK thousand)	Leasehold improvements	Other fixtures and fittings, tools and equipment	Total tangible assets	Software	Total intangible assets	Total fixed assets
2022						
Cost at January 1	83	1,899	1,982	247	247	**2,229**
Additions during the year	-	71	71	-	-	**71**
Cost at December 31	**83**	**1,970**	**2,053**	**247**	**247**	**2,300**
Depreciation and amortization at January 1	(67)	(914)	(981)	(207)	(207)	**(1,189)**
Depreciation and amortization for the year	(16)	(240)	(256)	(39)	(39)	**(295)**
Depreciation and amortization at December 31	**(83)**	**(1,154)**	**(1,237)**	**(247)**	**(247)**	**(1,484)**
CARRYING AMOUNT AT DECEMBER 31	**-**	**816**	**816**	**-**	**-**	**816**
2021						
Cost at January 1	83	1,615	1,698	247	247	**1,945**
Additions during the year	-	284	284	-	-	**284**
Cost at December 31	**83**	**1,899**	**1,982**	**247**	**247**	**2,229**
Depreciation and amortization at January 1	(50)	(174)	(764)	(168)	(168)	**(932)**
Depreciation and amortization for the year	(17)	(200)	(217)	(39)	(39)	**(257)**
Depreciation and amortization at December 31	**(67)**	**(914)**	**(981)**	**(207)**	**(207)**	**(1,189)**
CARRYING AMOUNT AT DECEMBER 31	**16**	**985**	**1,001**	**40**	**40**	**1,040**

Note 6
Investments in subsidiaries

(DKK million)	2022	2021
Cost at January 1	100	100
Cost at December 31	**100**	**100**
Value adjustment at January 1	24,565	25,176
Share of profit/(loss) for the year	(4,290)	(2,250)
Dividend paid	(700)	-
Dilution gain from capital increase in subsidiary	-	1,487
Adjustment of financial instruments	48	20
Tax on changes in equity	(54)	(12)
Other movements	553	144
Value adjustment at December 31	**20,122**	**24,565**
CARRYING AMOUNT AT DECEMBER 31	**20,222**	**24,665**

For a list of all subsidiaries in the LEO Group, please refer to note 29 to the Consolidated Financial Statements.

Note 7
Foundation capital

The nominal value of the Foundation capital is DKK 98 million (2021: DKK 98 million).

Note 8
Grants payable

(DKK million)	2022	2021
Grants payable fall due		
Within one year	188	130
Between one and five years	226	216
After more than five years	26	51
GRANTS PAYABLE AT DECEMBER 31	**440**	**396**

Note 9
Contingencies

The LEO Foundation has lease obligations of DKK 1 million (2021: DKK 1 million).

The LEO Foundation has no guarantee commitments or pledges.

Note 10
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 were as follows:

- The LEO Foundation has provided a loan to LEO Pharma A/S with a balance of DKK 1,000 million (2021: DKK 1,000 million). The loan was granted on an arm's length basis at an interest rate of 2.45% and will be repaid in 2027.
- Interest receivable from LEO Pharma A/S of DKK 24.5 million (2021: VAT receivable DKK 0.6 million) and expenses of DKK 0.1 million (2021: DKK 0.1 million).

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

- A short-term loan of DKK 1,000 million (2021: DKK 380 million) and interest of DKK 4.9 million (2021: DKK 1.0 million).
- Income from LEO Holding A/S of DKK 6.8 million (2021: DKK 7.0 million).

The LEO Foundation had no other transactions with related parties.

Note 11
Events after the balance sheet date

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

Note 12
Accounting policies

Accounting policies

The Financial Statements of the Parent Company, the LEO Foundation, for 2022 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.

Dilution gain or loss recognized from change in ownership of investments in subsidiaries is recognized directly in equity.

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, 2022.

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, 2022 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 2022.

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

Copenhagen, March 17, 2023

EXECUTIVE BOARD

Peter Haahr
CEO

BOARD OF TRUSTEES

Lars Olsen
Chairman

Eivind Drachmann Kolding
Vice Chairman

Allan Carsten Dahl

Anja Boisen

Cristina Patricia Lage

Franck Maréno

Jannie Kogsbøll

Karin Jexner Hamberg

Lars Green

Lotte Hjortshøj

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 January 1, 2022 – December 31, 2022, 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 December 31, 2022, and of the results of its operations and cash flows for the financial year January 1, 2022 – December 31, 2022 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 December 31, 2022, and of the results of its operations for the financial year January 1, 2022 – December 31, 2022 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.

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 scepticism 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.

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.

Copenhagen, March 17, 2023

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Kirsten Aaskov Mikkelsen
State Authorized
Public Accountant
MNE no.21358

Sumit Sudan
State Authorized
Public Accountant
MNE no. 33716

Foundation information

LEO Foundation
LEO Fondet
Lautrupsgade 7, 5
2100 Copenhagen Ø
Denmark

CVR no.: 11 62 33 36
Financial year: January 1 – December 31

Executive Board
Peter Haahr, CEO

Board of Trustees

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6
2300 Copenhagen S
Denmark

Design KIRK & HOLM

Proofreading Borella projects

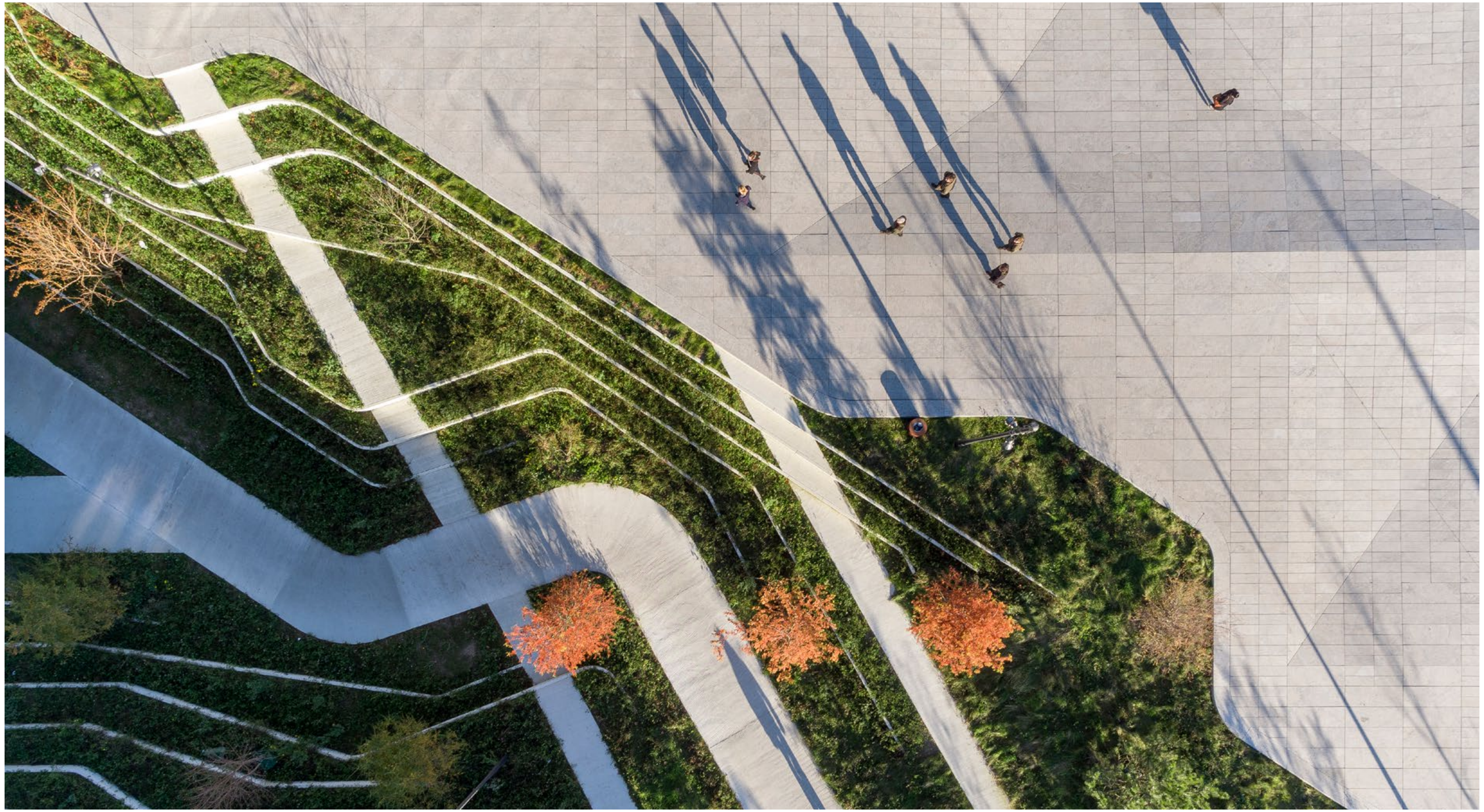

Photo: C.F. Møller Architects / Adam Mørk