LEO FONDET

LEO Foundation Annual Report 2017

Presented and adopted at the
Board meeting on 28 February 2018.
Chairman: Peter Kjeldsen Hansen

LEO Foundation
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About LEO Foundation

About LEO Foundation

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The LEO Foundation was established in 1984 by the former owner of LEO Pharma, Knud E. Abildgaard. The LEO Foundation's primary purpose is to ensure the ongoing development of LEO Pharma as an independent, competitive and research-based pharmaceutical company. The LEO Foundation is the ultimate sole owner of LEO Pharma.

The LEO Foundation pursues the philanthropic purpose of supporting international dermatological research projects and activities that address issues in disease understanding, disease treatment, disease awareness and patient well-being.

The LEO Foundation is independent of heirs, outside shareholders and other interests, and is among Denmark's largest commercial foundations.

About LEO Group

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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 Group legal structure

The LEO Foundation team, from left: Jesper Mailind, CEO; Arne Mandøe, Head of LEO Historical Archives and Museum; Peter Kjeldsen Hansen, Director, Legal & Business Development; Ida Brams, Chief Grant Officer; Morten Stampe Christensen, Chief Investment Officer; Charlotte Bugge Thers, PA; Lars Kruse, Scientific Officer; and Mette Poulsen, Finance Manager.

2017 grants

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In 2017, the LEO Foundation gave out grants and awards with a total value of DKK 38.3 million.
The total amount was divided almost equally between grants to Danish and international researchers.

About LEO Pharma

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LEO Pharma develops, manufactures and markets pharmaceutical drugs for dermatologic and thrombotic patients in more than 100 countries globally. In 2017, LEO Pharma had revenue of DKK 10,481 million and an EBIT of DKK 852 million, and employed more than 5,000 people worldwide.

Total assets

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The LEO Foundation's assets consist of its ultimate sole ownership of LEO Pharma, with a book value of DKK 8.4 billion and financial assets valued at DKK 18.2 billion.

Management review

2017 represented a significant milestone for the LEO Foundation. During the year, the Foundation took several steps to develop the LEO Group, including the LEO Foundation and LEO Pharma, in order to have a more modern governance structure similar to that of other large Danish commercial foundations. As we enter 2018, the LEO Foundation is fully operational, with its own independent organisation, processes and systems.

The new structure and governance model enables the LEO Foundation to exert active ownership of LEO Pharma, manage its financial assets and develop its grant activities to increase impact. A new organisation has been built to manage the Foundation's activities. Jesper Mailind assumed the position of CEO on 1 April 2017, and the organisation has since developed, with the addition of relevant competences within investments, grants, finance, legal and business development. By year-end, the organisation had reached a level where it is fully capable of independently handling its future role.

Substantial efforts have been made to define the scope of the Foundation's active ownership of LEO Pharma. A mandate has been issued to LEO Pharma's Board of Directors, long-term performance targets for the company have been agreed and a new capital structure has been implemented in the LEO Group. All efforts have been made with the objective of ensuring LEO Pharma's continued success as a research-based pharmaceutical company delivering innovative solutions to patients.

In 2017, two major structural changes were made to ensure a modern and future-proof corporate structure for the LEO Group.

The first and most significant change was the establishment of a wholly owned holding company, LEO Holding A/S, which now holds all the shares in LEO Pharma. In connection with this, the accumulated capital reserves in LEO Pharma amounting to DKK 17.2 billion were transferred to LEO Holding A/S, where all asset management activities will reside.

The second change was the consolidation of the LEO Pharma Research Foundation and the LEO Foundation. As a result, the LEO Foundation has taken over all the activities previously carried out by the LEO Pharma Research Foundation.

At the Annual General Meeting in March 2017, the LEO Foundation Board of Trustees was strengthened with the election of Eivind Kolding and Peter Schwarz as new members. Eivind Kolding and Peter Schwarz bring strong competences and insight to the Board of Trustees within general management, finance, science and grants.

In terms of grants, 2017 represented a transitional year. Following a grant level in 2016 of DKK 85 million, the LEO Foundation Board of Trustees decided to temporarily lower the grant level in 2017 to allow for sufficient focus on implementing the new structure and governance model and building a new grant organisation, including relevant processes and systems.

A key event in 2017 was the inauguration on 15 June of the LEO Foundation Center for Cutaneous Drug Delivery (LFCCDD) at the University of Copenhagen, Denmark. The LFCCDD is a strategic initiative which the LEO Foundation hopes will develop into a global excellence centre enabling new discoveries with the potential to lead to better and more effective treatments for people living with skin diseases. The LEO Foundation's 2017 grants and awards supported basic and translational dermatology research.

Towards the end of 2017, the LEO Foundation began updating its strategies with the objective of outlining the future scope and activities of the Foundation. The strategies are prepared with the active involvement of members of the Board of Trustees. With a clear strategy, a strong organisation and efficient processes in place, the LEO Foundation will be able to substantially increase its grant level and subsequent impact in the coming years.

Going forward, the LEO Foundation is fully dedicated to fulfilling its role as an active owner of LEO Pharma, generating attractive returns from its financial investments and promoting leading research projects within the dermatological field worldwide.

From left: Jesper Mailind, CEO, and Lars Olsen, Chairman of the Board of Trustees.

LEO Pharma headquarters
LEO Pharma develops, manufactures and markets pharmaceutical drugs for dermatologic and thrombotic patients in more than 100 countries globally. LEO Pharma has its own sales forces in 61 countries and employs more than 5,000 employees worldwide. The company is headquartered in Ballerup, Denmark.

LEO Pharma

Key events

2017 was a significant year for LEO Pharma as revenue exceeded DKK 10 billion for the first time in LEO Pharma's more than 100-year history.

In 2017, LEO Pharma took significant steps towards helping more people with biologic treatments. In May, phase 3 clinical studies were initiated for tralokinumab – a biologic compound under development for the treatment of moderate-to-severe atopic dermatitis. In September, the company launched Kyntheum® (brodalumab), a new biologic treatment for people with moderate-to-severe plaque psoriasis.

In March, LEO Pharma started construction of a new R&D hub in Shanghai, China, to increase its presence and capabilities on the Chinese market. The company's ambition is to be the preferred partner and leading dermatology company in China by 2020.

Furthermore, the company joined forces with Almirall by entering into a collaboration to advance science in dermatology by setting a new standard for skin sampling. The aim is to develop and clinically validate a painless, minimally invasive skin sampling method.

Revenue

LEO Pharma's revenue in 2017 increased by DKK 618 million, or 8%, compared to 2016, to DKK 10,481 million in local currencies. Of this growth, DKK 440 million related to the full-year effect of the new LEO portfolio acquired from Astellas in 2016. Adjusted for this, organic growth was 3%.

Revenue by region

Region Europe+ grew by DKK 297 million, or 6% in local currencies to DKK 6,379 million. The full-year impact of the new LEO portfolio acquired from Astellas contributed DKK 194 million. Excluding this effect, Region Europe+ grew by 4% in local currencies in 2017.

Region US grew by DKK 132 million, or 13% in local currencies to DKK 1,357 million. The topical psoriasis market in the US is dominated by generic solutions due to the continued focus on higher rebates combined with increased patient payment.

Region International grew by DKK 189 million, or 8% in local currencies to DKK 2,745 million. Excluding the full-year impact of the new LEO portfolio acquired from Astellas, sales grew by 2%. The new LEO portfolio grew by 6%, driven by LAMEA and Asia, particularly China.

Operating profit

Operating profit before depreciation and amortisation increased from DKK 1,343 million to DKK 2,005 million. Operating profit rose from DKK 338 million to DKK 852 million in 2017 – an increase of more than 100%.

The increase in operating profit was predominantly driven by realised cost savings from the efficiency projects launched in 2016, and the total impact of these projects was DKK 325 million in 2017. The efficiency projects will continue, and an additional impact is expected in 2018 from optimised processes, IT infrastructure and product portfolio.

In December, LEO Pharma announced its decision to discontinue its ingenol disoxate pipeline project. Ingenol disoxate was intended to be produced at LEO Pharma's production site at Southport, Australia, and the site will be shut down during 2018. A write-down of DKK 170 million was made in December 2017 for impairment of assets and to cover expected shutdown costs.

Research and development costs increased from DKK 1,290 million to DKK 1,602 million. The plan is to gradually increase R&D investments towards 2025. In 2017, LEO Pharma sucessfully progressed its pipeline within biologic and systemic treatments. This led to increased investments in the R&D portfolio, such as the development of Kyntheum® (brodalumab) and the initiation of phase 3 studies for tralokinumab.

Shaping dermatology

All over the world, skin diseases are a burden for individuals, families and societies. A strong focus on addressing high unmet needs lies at the heart of LEO Pharma's corporate strategy.

Dermatology is changing due to scientific progress and the application of new technologies such as immunologic approaches. LEO Pharma is determined to play a key part in driving this development and is recognised for having made significant and bold advances in dermatology.

A strong and expanding pipeline

In 2017, LEO Pharma successfully progressed its pipeline within biologic and systemic treatments. The pipeline represents a strong mix of projects aimed at topical, oral and injectable treatments. The clinical stage part of LEO Pharma's pipeline includes tralokinumab, an IL-13 antibody for the systemic treatment of atopic dermatitis (phase 3a), and Kyntheum® (brodalumab), an IL-17R antibody for the systemic treatment of moderate-to-severe psoriasis (launched in Europe in 2017).

The pipeline also includes a novel JAK (Janus kinase) inhibitor (phase 2b) and a SEGRA (selective glucocorticoid receptor antagonist) molecule (explorative clinical testing), both candidates for the non-steroidal topical treatment of inflammatory skin conditions. Finally, the pipeline includes an orally bioavailable PDE4 (phosphodiesterase 4) inhibitor for psoriasis (phase 2b) and an injectable anti-IL-22R antibody for the systemic treatment of severe eczema (phase 1).

Furthermore, LEO Pharma has taken its first steps towards developing new medicines for rare skin diseases to help the many people whose treatment needs are currently unmet.

Innovation ecosystem

In 2017, LEO Pharma continued its efforts to pursue innovation for healthy skin through its own R&D capabilities, its global partnerships, the LEO Science & Tech Hub, LEO Innovation Lab and the LEO Pharma Open Innovation platform. With the LEO Science & Tech Hub in Boston, US, LEO Pharma has key people precisely where some of the most significant innovation is taking place, and in 2017 this led to new collaborations and partnerships with several innovative start-up companies and leading US academic institutions.

Through the company's LEO Innovation Lab, digital technologies are successfully being explored and implemented to optimise the interaction between patients and physicians, improve patients' individual awareness and treatment, and provide new data and insights.

Via the LEO Pharma Open Innovation platform, any external partner can have their compound tested – confidentially and for free – for its potential to treat dermatological diseases. A key principle of LEO Pharma's Open Innovation initiative is trust between the parties.

Outlook

In 2018, growth at LEO Pharma is expected to come primarily from the continued launches of Enstilar® and Kyntheum® as well as Daivobet® in Japan, leading to annual revenue in the DKK 10-10.5 billion range. The financial result will be challenged by continued pressure for price reductions in the US and the risk of increased generic competition for Daivobet® Ointment and Protopic® in Europe.

LEO Pharma will significantly increase its spending on research and development, including spending related to the phase 3 studies with tralokinumab. Combined with modest growth in sales, LEO Pharma expects this to lead to an operating profit around break-even.

LEO Pharma's 2025 strategy focuses on addressing high unmet needs with the aim of helping 125 million people in 2025. To achieve this goal, the company plans to make further acquisitions and invest significantly in innovation within new biologic, systemic and topical treatments.

Elements of uncertainty

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

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

Imagine is a mobile app to track and analyse skin condition over time using advanced image analysis.

Imagine is one of the products developed by LEO Innovation Lab, which looks at every aspect of everyday life and develops digital solutions that can help people living with skin conditions.

Read more here: https://getimagine.io/

Investment report

2017 proved – like 2016 – to be a good year for global financial assets, with synchronised global growth providing support for risky assets. Furthermore, an accommodative monetary policy from the European Central Bank and only three interest rate increases from the US Federal Reserve not only kept longer-term yields fairly unchanged but also made investors continue their search for yield, thereby compressing credit spreads even further.

A satisfactory portfolio return

The return on the LEO Group's financial portfolio was 4.7% in 2017, with positive contributions from all asset classes. In light of the fairly low portfolio risk, this is considered satisfactory. The portfolio return stems from four sources: listed global equities, European corporate investment-grade bonds, Danish and European covered bonds and, finally, Danish mortgage bonds. The first three asset classes were managed externally, whereas the last was managed by LEO Pharma A/S.

Listed global equities saw a return of 12.1%. As the equity portfolio had hedged its currency exposure, there was no negative impact from the declining USD. Part of the equities portfolio was indexed, while the rest followed a low-volatility strategy, which, in 2017, underperformed its benchmark.

The return on European corporate investment-grade bonds was 3.4%. The return was primarily driven by tightening of credit spreads, but also by external managers outperforming.

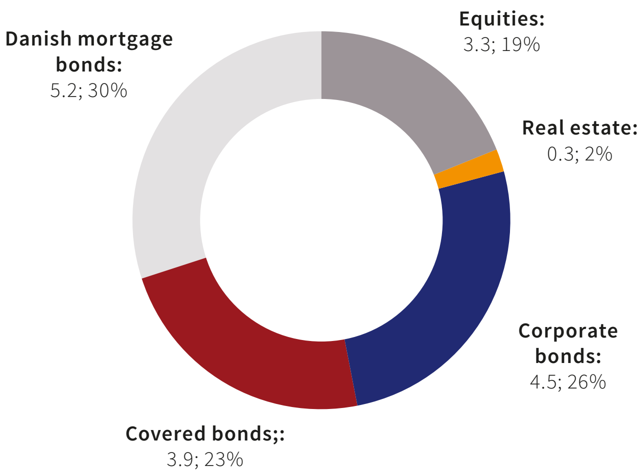
The Danish and European covered bonds managed to return only 1.4%. Seen in the light of negative short-term rates, this return is nevertheless satisfactory.

Finally, the Danish mortgage bonds saw a return of 4.0%. The return was primarily driven by a repricing of Danish mortgage bonds, as very high demand from foreign investors made mortgage spreads on government bonds tighten significantly.

Investment strategy going forward

Due to the very special market conditions in the fixed income markets, with negative yields for short- and medium -term government bonds in Denmark and the eurozone, and very tight credit spreads on corporate credit bonds, the portfolio will be more diversified across asset classes in 2018. As a result, more credit components and alternatives will be introduced into the portfolio, and the allocation will be tilted towards more equities.

Financial investment market value on 31 December 2017, DKK 17.2 billion



DKK billion; % of total

Grant activities

Grants and awards

2017 represented a transitional year for the LEO Foundation in terms of grants and awards. The Board of Trustees decided on a grant level of DKK 40 million, which was significantly lower than the total grant sum of DKK 85 million in 2016. This decision was taken to allow sufficient focus on implementing the new structure and building the organisation, including relevant processes and systems.

3,000 different skin diseases

At any point in time, an estimated one in four people worldwide are living with a skin disease, making skin diseases some of the most prevalent diseases. There are approximately 3,000 different skin diseases – all of which carry a psychosocial burden and most of which have associated comorbidities. Yet skin diseases continue to receive little attention in global health and, as a result, the burden of disease remains high.

By supporting the best research projects and activities within dermatology on a global scale, the LEO Foundation aims to make an impact that will ultimately mean significantly improved quality of life for those living with a skin disease.

16 research projects supported in 2017

A total of 16 research projects were supported in 2017, of which 8 were in Denmark. Approximately half of the total grant sum was awarded to the Danish projects, while the remainder was given to international projects. Most of the 2017 projects were focused on atopic dermatitis and skin cancer, and were basic research projects.

Two projects that received LEO Foundation grants in 2017 are highlighted here, and more details about all 16 projects can be found on www.leo-foundation.org.

Malignant melanoma has the highest mortality rate among skin cancers, and developing new therapeutic targets is extremely important. Professor Francesco Cecconi from the Danish Cancer Society Research Center received DKK 3.8 million to further investigate the AMBRA1 gene in melanoma as one possible route towards using the body's own defence against diseases such as cancer.

Professor Cecconi was the first to identify the AMBRA1 gene and has been unravelling its multiple functions for the past 10 years. He has already demonstrated that AMBRA1 plays a role as a tumour suppressor *in vivo*, and preliminary data indicate the gene's potential role as a therapeutic target in cancer. Intriguingly, most AMBRA1 gene mutations were found in melanoma patients.

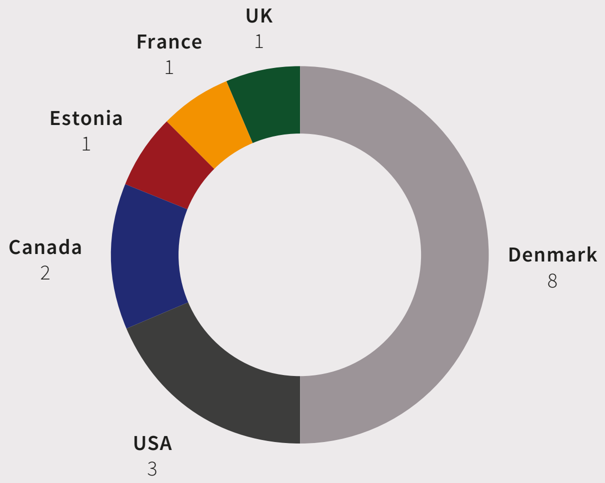
Furthermore, psoriasis research was granted support, with DKK 3 million being given to a team of researchers in Boston, US, led by Associate Professor Markus Frank from Harvard Medical School, Boston Children's Hospital, and Assistant Professor Christine G. Lian and Professor George F. Murphy, both from Harvard Medical School, Brigham and Women's Hospital. Their work represents a new, targeted therapeutic approach designed to cure psoriasis, since, despite decades of research, the root cause of psoriasis remains unknown and targeted approaches to cure psoriasis have been elusive.

The team in Boston has proposed a novel hypothesis that psoriasis is driven by immune-mediated dysregulation of stem cells within the epidermal and dermal compartments. In this project, the team will test their hypothesis with a highly focused goal of defining the primary event(s) in lesion formation.

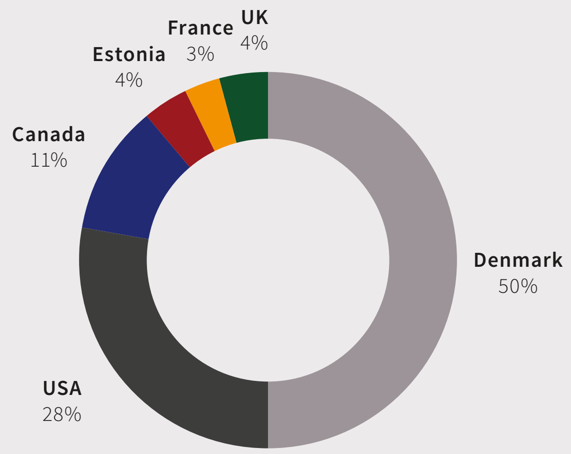
LEO Foundation Center for Cutaneous Drug Delivery

On 15 June 2017, the inauguration of the LEO Foundation Center for Cutaneous Drug Delivery (LFCCDD) at the University of Copenhagen was celebrated, following a strategic grant of DKK 40 million over 10 years awarded in 2016. Headed by Professor Martin Malmsten, the centre will conduct research into what happens in and on the skin when

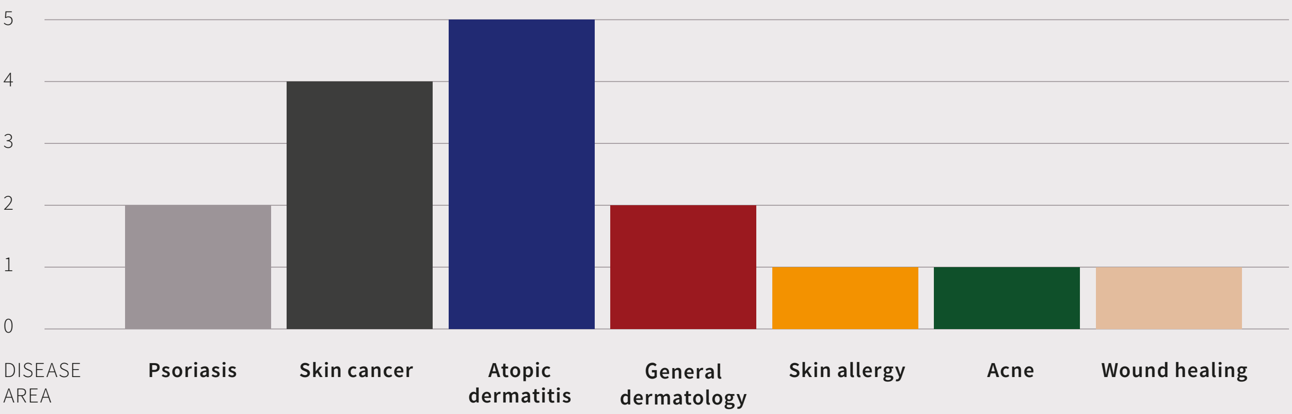
Number of grants per country; 16 grants in total



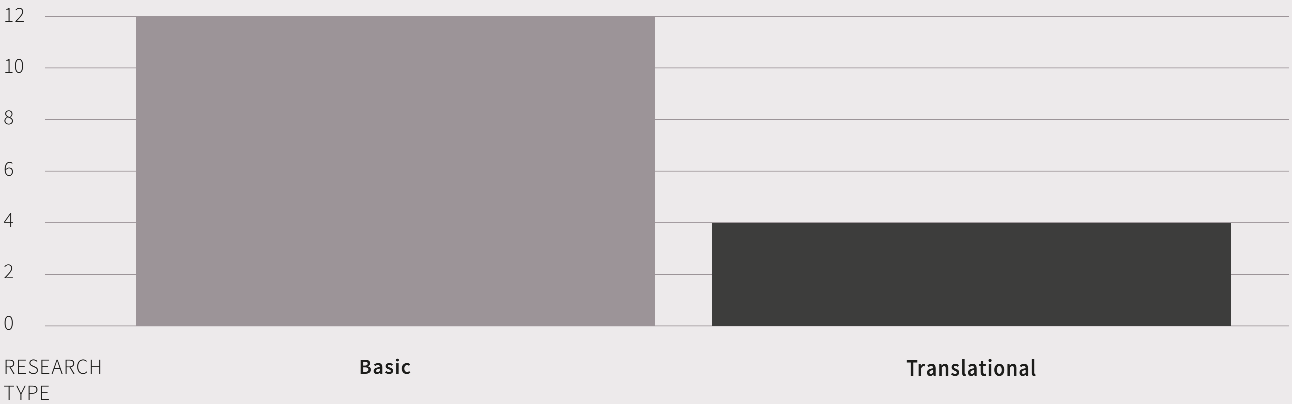
Grant amount per country; DKK 38.3 million in total



Number of grants per disease area



Number of grants per research type



drugs are applied. The focus will be on the physical–chemical aspects of the interaction between skin and drugs, which is important for the development of new drugs. Following the inauguration, a strong team of outstanding researchers was enrolled, which provides a strong basis for conducting research and gaining knowledge that will help improve our understanding of what goes on when drugs are applied through the skin.

Other key events in 2017

On 28 September, at the annual meeting of the European Society for Dermatological Research in Salzburg, Austria, the LEO Foundation Gold Award of DKK 1 million was presented to Dr Maria Kasper, Karolinska Institute, Sweden, and the LEO Foundation Silver Award of DKK 500,000 was presented to Professor Christoph Schlapbach, University of Bern, Switzerland. The LEO Foundation Gold and Silver Awards are presented annually to two young scientists whose work represents extraordinary contributions to medical research.

On 26 October, LEO Foundation Day was held at the “Black Diamond” in Copenhagen, Denmark. Selected projects that had received funding were presented by the grantees to an audience of approximately 100 people from academia, industry and other foundations and institutions.

Focus on results

The LEO Foundation aims to maximise the impact of its grants. In 2017, we thus initiated a significant strengthening of our grant application evaluation process – and similarly, we have increased our focus on impact.

The grant recipient and/or their host institution retain(s) all intellectual property rights derived from LEO Foundation grants. The LEO Foundation must be properly recognised, e.g. under "acknowledgements", in scientific publications.

Looking ahead

The LEO Foundation has started work on its grant strategy to meet its ambition of making an impact for patients and society by supporting the best dermatological research worldwide. With a clear strategy, a strong organisation and efficient processes in place, the LEO Foundation will be able to increase its grant level and subsequent impact substantially in the coming years.

The proposed grant limit for 2018 is DKK 80 million.

Inaugurated on 15 June, 2017 the LEO Foundation Center for Cutaneous Drug Delivery at the University of Copenhagen is poised to become a global lighthouse with some of the strongest research profiles in dermatology.

"I believe that the centre has the potential to be a creative space dedicated to innovative research methods and new analytical technologies. And that it will be able to generate knowledge that can and will benefit patients as well as society in general."

– Lars Olsen, Chairman of the LEO Foundation.

Project portfolio overview

(DKK million)	Grants awar-ded before 2017	Grants awarded in 2017	Total grants awarded	Paid out before 2017	Paid out in 2017	Pending payments
Prashiela Manga, New York University School of Medicine, US *Melanocyte stress response pathways and their role in the onset of vitiligo*	0.0	5.0	5.0	0.0	0.9	4.1
Nanja van Geel, Ghent University Hospital, Belgium *Development and validation of scoring systems for outcome measures of vitiligo*	0.0	0.7	0.7	0.0	0.2	0.5
Catharina Maria Niessen, CECAD Cologne, Germany *Epithelial Differentiation and Keratinization, Gordon Research Conference (GRC) and Gordon Research Seminar (GRS)*	0.0	0.2	0.2	0.0	0.2	0.0
Transfer of grant letters not issued from 2016	**5.9**	**(5.9)**				
Emma Guttman, Icahn School of Medicine at Mount Sinai, NYC, US *Towards a personalized medicine approach for atopic dermatitis*	0.0	4.7	4.7	0.0	0.7	4.0
Elena Papaleo, Danish Cancer Society Research Center, Copenhagen *P14-ARF in familiar melanoma: a promising target that acts as melanocytes guardian*	0.0	1.3	1.3	0.0	0.5	0.8
Carsten Geisler, University of Copenhagen *GLP-1R signaling in T cells in relation to psoriasis*	0.0	2.0	2.0	0.0	0.6	1.4
Markus Frank, Christine G. Lian and George Murphy, Harvard Medical School, US *Epidermal and Dermal Stem Cells in Psoriasis*	0.0	3.0	3.0	0.0	0.0	3.0
Peter R Hull, Dalhousie University, Canada *Replicating Peeling Skin Diseases in a Living Skin Model*	0.0	2.2	2.2	0.0	0.4	1.8
Francesco Cecconi, Danish Cancer Society Research Center, Copenhagen *The pro-autophagic tumor suppressor AMBRA1 as a novel therapeutic target for melanoma*	0.0	3.8	3.8	0.0	0.0	3.8
Richard D. Granstein & George W. Hambrick, Weill Cornell Medical College, NY, US *Regulation of immunity by Calcitonin Gene-related Peptide through effects on endothelial cells*	0.0	3.3	3.3	0.0	0.0	3.3
Dany Nassar, Université Paris, France *Functional analysis of the genomic abnormalities of non UV-induced skin squamous cell carcinomas*	0.0	1.0	1.0	0.0	0.0	1.0
Stephan Sylvest Keller, DTU Nanotech, Denmark *Instantaneous monitoring of allergic reactions in the skin*	0.0	0.6	0.6	0.0	0.0	0.6

(DKK million)	Grants awarded before 2017	Grants awarded in 2017	Total grants awarded	Paid out before 2017	Paid out in 2017	Pending payments
Ana Rebane, University of Tartu, Estonia *The function and therapeutic potential of miR-146 family in the suppression of Type-2-cell-promoting environment in atopic dermatitis*	0.0	1.7	1.7	0.0	0.0	1.7
Martin Petkovich, Cancer Research Institute Queen's University, Canada *Determining the role of retinoic acid metabolism in acne treatment: Genetic and small molecule blockade of CYP26 in the Rhino mouse model of cystic acne*	0.0	2.2	2.2	0.0	0.0	2.2
Jacob Pontoppidan Thyssen, Herlev and Gentofte Hospital, Denmark *Investigation of atopic dermatitis in Greenland; distinct genotypes, phenotypes and immunotypes*	0.0	5.1	5.1	0.0	0.0	5.1
Carsten Geisler, University of Copenhagen *Regulation of IL-22 secretion by vitamin D in relation to Atopic Dermatitis*	0.0	2.8	2.8	0.0	0.0	2.8
Andrea Heinz, University of Copenhagen *Development of elastin-based biomaterials for wound healing*	0.0	1.5	1.5	0.0	0.0	1.5
Thomas Bjarnsholt, University of Copenhagen *The spatial composition and distribution of the cutaneous microbiota in atopic dermatitis and healthy skin*	0.0	2.9	2.9	0.0	0.0	2.9
Girish Patel, Cardiff University, UK *Elucidating the stem cell basis for skin field cancerisation*	0.0	1.7	1.7	0.0	0.0	1.7
Maria Kasper, Karolinska Institute, Sweden *LEO Foundation Gold Award*	0.0	1.0	1.0	0.0	1.0	0.0
Christoph Schlapbach, University of Bern, Switzerland *LEO Foundation Silver Award*	0.0	0.5	0.5	0.0	0.5	0.0
Total grants before 2017	173.5	0.0	173.5	49.0	30.0	94.7
Roundings	0.0	(0.3)	(0.3)	0.0	(0.1)	(0.4)
Total grant letters issued	**179.4**	**41.0**	**220.4**	**49.0**	**34.9**	**136.5**
Returned funds from completed projects	0.0	(2.7)	(2.7)		(2.7)	
Total committed grants	**179.4**	**38.3**	**217.7**	**49.0**	**32.2**	**136.5**
Transfer of non-committed grants from 2016	0.0	(0.6)	0.0			
Non-committed grants (transferred to next year)	0.6	2.3	2.3			
Total grant limit	**180.0**	**40.0**	**220.0**	**49.0**	**32.2**	**136.5**

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

Governance

As the ultimate sole owner of LEO Pharma and as a large Danish commercial foundation with increasing philanthro pic activities in the form of grants and awards, the LEO Foundation has considerable societal influence in Denmark and beyond. Thus, we have an important obligation to operate transparently and with integrity, and we fully support and comply with all the recommendations of the Danish Committee on Foundation Governance. For further information, please visit www.leo-foundation.org/governancerecommendations.

The members of the Board of Trustees of the LEO Foundation also make up 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.

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

The LEO Foundation Board of Trustees consists of 10 members. Seven members are appointed in accordance with the Foundation's charter, while three members are elected by LEO Pharma employees. The composition of the Board reflects the qualifications and skills necessary for the LEO Foundation to fulfil the objectives specified in its charter. In 2017, Eivind Kolding and Peter Schwarz were appointed as new members, contributing solid skills and experience within general management, finance, science and grants to the Board of Trustees.

Statutory Report on Gender Diversity

The Board strives to ensure that, by 2020, at least 40% of charter-appointed members are female and, similarly, that at least 40% of its members appointed according to the charter are male. At the end of 2017, 30% of the charter-appointed members were women.

In 2015, LEO Pharma set the goal to have at least two female members on its Board of Directors (in addition to the employee-elected members) by 2019. With the appointment of one additional female board member in 2017, this goal was achieved. A new goal will be set by the company at the beginning of 2018. On average, both genders are equally represented (by at least 40%) at management levels below the Board of Directors of LEO Pharma A/S.

Active ownership of LEO Pharma

The LEO Foundation's primary objective is to ensure the long-term success of LEO Pharma. We exert our ownership actively by electing highly qualified professionals to the LEO Pharma Board of Directors and by:

- Issuing a mandate to LEO Pharma's Board of Directors specifying the fundamental values, frame and scope of the company
- Approving the long-term performance targets and capital structure of the company
- Endorsing the strategy proposed by LEO Pharma's Board of Directors.

LEO Pharma issues a quarterly report on the progress and performance of the business, followed by status meetings. In addition, an annual "Capital Market Day" is held, during which the strategic progress is reviewed and discussed. LEO Holding A/S holds two ordinary seats on the company's Board of Directors.

Grant Committee and grant work

Our grant activities aim to support the best international dermatological research. The Grant Committee supervises the grant activities and advises the Board of Trustees on grant-related matters, including strategies and policies.

A Scientific Evaluation Committee with external members has been set up to assist the Grant Committee in evaluating all research grant applications. The applications are assessed in a consistent manner based on the scientific quality of the project, the qualifications of the applicant and the academic standard of the host institution. The final decisions to award grants are made by the Board of Trustees.

Investment Committee

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

Board of Trustees

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

	Lars Olsen	**Jens Bo Olesen**	**Ingelise Saunders**	**John Mehlbye**
Position	Chairman	Vice Chairman	Board member	Board member
				
Born	1965	1951	1949	1950
Gender	Male	Male	Female	Male
Joined the Board of Trustees	2015	2007	2016	2008
Re-elected	Yes	Yes	Yes	Yes
Term expires	2019	2019	2019	2019
Member's special skills	Pharma, general management, R&D, sales and marketing	Pharma, general management, sales and marketing	Pharma, general management, biotech, sales and marketing, business development, drug development	Pharma, general management, product supply
Other management positions	LEO Holding A/S, Chairman LEO Foundation, Grant committee member	LEO Holding A/S, Board member LEO Foundation, Grant committee member	LEO Holding A/S, Board member LEO Pharma A/S, Board member Acesion Pharma ApS, Chairman MinervaX Aps, Chairman	LEO Holding A/S, Board member LEO Holding A/S, Investment committee member Østagergaard, Board member
Appointed by the authorities	No	No	No	No
Member considered independent?	No	No	Yes	No

Eivind Kolding	**Peter Schwarz**	**Cristina Lage**	**Lars Kjøller**	**Jannie Kogsbøll**	**Allan Carsten Dahl**
Board member	Board member	Board member	Employee-elected Board member	Employee-elected Board member	Employee-elected Board member
					
1959	1959	1954	1967	1962	1967
Male	Male	Female	Male	Female	Male
2017	2017	2016	2017	1998	2015
No	No	Yes	No	Yes	No
2019	2019	2019	2018	2018	2018
General management, finance, law	Endocrinology, medicine and clinical biochemistry	General and change management, investment and asset management, financial risk management	R&D information search and analysis, scientific competitive intelligence	Production, processes	Organic process R&D, CMC development
LEO Holding A/S, Board member LEO Holding A/S, Investment committee member Danish Ship Finance, Chairman CASA Group, Chairman NNIT, Board member Axcelfuture, Advisory Board member Kunstforeningen Gl Strand, Chairman BiQ ApS, Board member	LEO Holding A/S, Board member LEO Foundation, Grant committee Chairman	LEO Holding A/S, Board member LEO Pharma A/S, Board member LEO Holding A/S, Investment Committee, Chairman Arbejdsmarkedets Erhvervssikring, Chairman Det Obelske Familiefond, Board member SEB Pension DK, Vice Chairman and Chairman of audit committee Den Berlingske Fond, Board member C.L. Davids Fond, Board member Nykredit, member of Board of Representatives	LEO Holding A/S, employee-elected Board member	LEO Holding A/S, employee-elected Board member LEO Pharma A/S, employee-elected Board member	LEO Holding A/S, employee-elected Board member
No	No	No	No	No	No
Yes	Yes	Yes	No	No	No

Corporate Social Responsibility

The LEO Foundation plays an active role in society through our substantial grants to science and research both in Denmark and abroad. Please refer to the Grant activities section above for further details about projects and beneficiaries.

Transparency, integrity and social responsibility are key values throughout our organisation. The LEO Foundation has not defined its own detailed policies for CSR, environmental and climate impact, or human rights, as the vast majority of the LEO Group's business and activities is carried out in LEO Pharma, which has comprehensive policies and procedures in place within all three areas.

To support its ambition of taking CSR efforts to the next level, LEO Pharma has chosen right to health, right to privacy, mental well-being at work, anti-corruption and responsible supply chain management as focus areas for 2018-2020. For the next three years, the company will work actively to achieve the KPIs set within each of these areas. Specific action plans have been developed to drive progress within the CSR focus areas. The LEO Foundation fully supports and encourages these efforts through our active ownership of the company. For further description of the activities implementing the LEO Pharma CSR policy and the 2017 performance and results, please refer to LEO Pharma's annual report and the CSR report available at www.leo-pharma.com/home/leo-pharma/business-ethics

Given the type of business conducted in the LEO Foundation, our direct impact on climate end environment is limited. On LEO Group level, the main impact stems from LEO Pharma's six production facilities. Protecting and preserving the environment is an integral part of LEO Pharma's daily business, and the company works actively to minimize its impact. One of the goals achieved by LEO Pharma in 2017 was the establishment of a carbon footprint baseline for the thrombosis product, innohep®. A product carbon footprints provides an overview of the negative environmental impact of a product and makes it possible to prioritise efforts to protect the climate.

The LEO Foundation supports and respects the protection of internationally adopted human rights. On LEO Group level one of the key focus areas is supplier assessment and management, ensuring that suppliers respect and protect human rights when supplying their goods and services. The vast majority of the LEO Group's supplier relationships tie into LEO Pharma which has implemented supplier risk assessment procedures inspired by the UN Guiding Principles for Business and Human Rights. An important result in 2017 was the completion of an update of LEO Pharma's third party compliance procedure. Through close collaboration between relevant internal stakeholders, the existing procedure for third party compliance was replaced by a procedure for sustainable procurement.

Risk management

LEO Pharma

Business and financial risks associated with operations are managed by LEO Pharma, which has defined risk management policies and procedures. LEO Pharma works continuously to ensure a reasonable balance between risk exposure and value creation. The LEO Foundation is kept updated about relevant risks through regular reporting from LEO Pharma's Management and via our two seats on LEO Pharma's Board of Directors.

Financial portfolio risks

In December 2017, the financial portfolio was transferred from LEO Pharma to the newly established holding company, LEO Holding A/S. Going forward, the portfolio will be managed in accordance with LEO Holding's Investment Policy issued annually 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 decisions can be made. Furthermore, the Investment 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 are generally with full currency exposure. 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 our finance department, and investment results are documented in reports to the Investment Committee and the CEO.

Financial highlights

(DKK million)	2017	2016	2015	2014	2013
Income statement					
Operating profit	835	329	759	758	671
Financial items	941	789	179	1,290	1,002
Profit before tax	1,773	1,115	925	2,048	1,673
Net profit for the year	1,383	723	713	1,544	1,175
Balance sheet					
Non-current assets	8,216	19,471	14,895	17,357	22,681
Current assets	23,608	17,500	17,333	14,284	10,474
Total assets	**31,824**	**36,971**	**32,228**	**31,641**	**33,155**
Equity	**26,519**	**25,094**	**24,804**	**24,622**	**23,239**
Ratios					
Return on equity	7%	4%	4%	9%	7%
Solvency ratio	83%	68%	77%	78%	70%

The figures for 2017 and 2016 as well as the balance sheet items and ratios for 2015 have been prepared in accordance with IFRS. All other figures have been prepared in accordance with the Danish Financial Statements Act.

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Income statement

1 JANUARY – 31 DECEMBER

(DKK million)	Note	2017	2016
Revenue	3	10,481	9,863
Cost of sales	4, 9, 12	(2,938)	(2,720)
Gross profit		**7,543**	**7,143**
Sales and distribution costs	4, 8, 9	(3,378)	(4,098)
Research and development costs	4, 8, 9	(1,602)	(1,290)
Administrative costs	4, 5, 8, 9	(1,841)	(1,456)
Other operating income		145	47
Other operating expenses		(32)	(17)
Operating profit		**835**	**329**
Share of profit/(loss) on investment in associate		(3)	(3)
Financial income	6	1,094	943
Financial expenses	6	(153)	(154)
Profit before tax		**1,773**	**1,115**
Tax on profit for the year	8	(390)	(392)
Net profit for the year		**1,383**	**723**

Statement of comprehensive income

1 JANUARY – 31 DECEMBER

(DKK million)	Note	2017	2016
Net profit for the year		1,383	723
Other comprehensive income			
Actuarial gains/(losses)	15	131	(214)
Tax	7	(48)	34
Items that will not be reclassified subsequently to the income statement		**83**	**(180)**
Exchange rate adjustments on investments in foreign subsidiaries		(64)	(108)
Deferred exchange gains/(losses) on hedging instruments designated at fair value through Other comprehensive income		5	(8)
Gain/(losses) on cash flow hedges recycled to financial items		-	(4)
Other adjustments		17	(2)
Tax	7	(1)	(2)
Items that may be reclassified subsequently to the income statement		**(43)**	**(124)**
Other comprehensive income		**40**	**(304)**
Comprehensive income for the year		**1,423**	**419**

Balance sheet at 31 December

ASSETS

(DKK million)	Note	2017	2016	1.1.2016
Intellectual property rights		3,992	4,527	133
Trademarks		-	-	5
Development projects		1,159	1,081	336
Software		497	389	107
Intangible assets	8	**5,648**	**5,997**	**581**
Land and buildings		691	760	824
Leasehold improvements		39	70	81
Plant and machinery		434	492	593
Other fixtures and fittings, tools and equipment		96	83	70
Assets under construction		551	406	256
Property, plant and equipment	9	**1,811**	**1,811**	**1,824**
Investment in associate		3	3	5
Other financial securities	10	27	10,539	11,519
Deferred tax assets	11	667	1,038	966
Other receivables		60	83	-
Financial assets		**757**	**11,663**	**12,490**
Total non-current assets		**8,216**	**19,471**	**14,895**
Inventories	12	1,719	1,730	1,663
Trade receivables	13	2,644	2,515	2,036
Tax receivables		656	573	1,226
Other receivables		381	182	375
Prepayments		162	81	121
Other securities	10	17,618	12,269	11,531
Cash and bank balances	10	428	150	381
Total current assets		**23,608**	**17,500**	**17,333**
TOTAL ASSETS		**31,824**	**36,971**	**32,228**

Balance sheet at 31 December

EQUITY AND LIABILITIES

(DKK million)	Note	2017	2016	1.1.2016
Foundation capital	14	98	52	52
Foreign currency translation reserve		(172)	(108)	4
Hedging reserve		(3)	(8)	-
Retained earnings		26,596	25,158	24,748
Equity		**26,519**	**25,094**	**24,804**
Deferred tax liabilities	11	20	-	39
Retirement benefit obligations	15	355	780	627
Provisions	16	170	254	184
Credit institutions	11	1,006	1,569	-
Contract liabilities	3	14	45	49
Other long-term liabilities		22	132	6
Total non-current liabilities		**1,587**	**2,780**	**905**
Provisions	16	673	700	425
Credit institutions	11	482	5,258	4,023
Trade payables		1,733	2,375	1,383
Tax payables		70	138	175
Contract liabilities	3	30	30	21
Other payables		730	596	492
Total current liabilities		**3,718**	**9,097**	**6,519**
TOTAL EQUITY AND LIABILITIES		**31,824**	**36,971**	**32,228**

Statement of changes in equity

(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Reserve for future grants	Retained earnings	Total
2017						
Equity at 1 January 2017	52	(108)	(8)	47	25,111	25,094
Net profit for the year	-	-	-	80	1,303	1,383
Other comprehensive income for the year	-	(64)	5	-	99	40
Total other comprehensive income for the year	-	(64)	5	80	1,402	1,423
Additions	46	-	-		-	46
Grants for the year	-	-	-	(44)	-	(44)
Equity at 31 December 2017	**98**	**(172)**	**(3)**	**83**	**26,513**	**26,519**
2016						
Equity at 1 January 2016	52	-	4	56	24,692	24,804
Net profit for the year	-	-	-	120	603	723
Other comprehensive income for the year	-	(108)	(12)	-	(184)	(304)
Total other comprehensive income for the year	-	(108)	(12)	120	419	419
Grants for the year	-	-	-	(79)	-	(79)
Grants regarding previous years	-	-	-	(50)	-	(50)
Equity at 31 December 2016	**52**	**(108)**	**(8)**	**47**	**25,111**	**25,094**

Cash flow statement

1 JANUARY – 31 DECEMBER

(DKK million)	Note	2017	2016
Operating profit		**835**	**329**
Adjustment for non-cash operating items			
Amortisation, depreciation and impairment losses	8, 9	1,143	1,005
Change in retirement benefit obligations	15	(420)	(44)
Change in provisions	16	(21)	326
Other adjustments	17	50	(239)
Change in working capital			
Change in inventories and receivables		(340)	(273)
Change in trade payables and other payables		(537)	931
Corporation tax paid		(161)	359
Interest paid		(32)	(29)
Interest received		256	287
Cash flows from operating activities		**773**	**2,652**
Investments in intangible assets	8	(479)	(6,115)
Investments in property, plant and equipment	9	(385)	(302)
Proceeds from sale of intangible assets and property, plant and equipment		45	14
Investments in other securities		-	(3,275)
Proceeds from sale of other securities		5,698	3,937
Cash flows from investing activities		**4,879**	**(5,741)**
Proceeds from raising loans		-	3,262
Repayment of bank debt		(5,325)	(375)
Grants paid out during the year		(32)	(22)
Cash flows from financing activities		**(5,357)**	**2,865**
Change in cash and cash equivalents		**295**	**(224)**
Cash and cash equivalents at 1 January		150	381
Unrealised exchange gains/(losses) on cash and cash equivalents		(17)	(7)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**428**	**150**

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

Notes
— LEO Group

NOTE 1 BASIS OF REPORTING

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

As set out in note 2, these are the Group's first Consolidated Financial Statements prepared in accordance with IFRS.

LEO Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs in advance of their effective dates. Details of IFRS 9 requirements and their impact on the Consolidated Financial Statements are described in note 10. IFRS 9 has been applied in accordance with the transition provisions set out in the standard and IFRS 1 First-time adoption of IFRS.

Furthermore, the LEO Group has applied IFRS 15 Revenue from Contracts with Customers. The early application of IFRS 15 has had no impact on the Consolidated Financial Statements other than the extended disclosure requirements.

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

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

APPLYING MATERIALITY
In the preparation of the Consolidated Financial Statements, the LEO Group aims to focus on information which is considered to be material and relevant to the users of the Consolidated Financial Statements.

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

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

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS
The Executive Management has made certain estimates regarding valuation and judgements that affect the accounting policies and the reported amounts in the Consolidated Financial Statements. Estimates are based on historical experience and assumptions reasonable under the circumstances. They are based on whatever information is currently available. Therefore the actual amounts may differ from the estimated amounts.

Below are listed the key accounting estimates and judgements relevant to the specific notes:
- Note 8 Intangible assets: Estimated useful lives, impairment test and judgement on acquisition of intangible assets
- Note 10 Financial instruments: Judgement on measurement of fair value, classifications and assessment of credit risk
- Note 11 Deferred tax: Estimates of deferred tax assets
- Note 12 Inventories: Estimates of valuation of inventories
- Note 16 Provisions: Estimates of provision for legal disputes and sales deductions

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

NOTE 1 BASIS OF REPORTING (CONTINUED)

unrealised profits from intercompany transactions. The Financial Statements of all companies have been prepared according to the same accounting policies as applied by the LEO Group.

Foreign currency translation
On initial recognition, transactions in foreign currencies are translated at the exchange rates at the transaction dates. Exchange differences arising between the rates on the transaction and payment dates are recognised 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 recognised 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 recognised in Other comprehensive income.

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

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

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

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 the equity.

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

Grant limit : At the meeting of the Board of Trustees at which the Annual Report is adopted, the Board of Trustees lays down a grant limit in respect of the amount expected to be granted. This amount is transferred from retained earnings to the grant limit. Concurrently with being announced to the recipients, the grant amounts are paid out, or they are transferred to debt or, in rare cases, to provisions relating to grants.

DEFINITION OF KEY FIGURES

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

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

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

NOTE 1 BASIS OF REPORTING (CONTINUED)

NEW AND REVISED IFRSs ISSUED BUT NOT YET EFFECTIVE THAT ARE RELEVANT TO THE LEO GROUP
The LEO Group has not applied the following standards that have been issued but are not yet effective:

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, with earlier application permitted)
  In January 2016, IASB issued IFRS 16 Leases, which is effective from 1 January 2019. LEO Group will adopt the new standard from the effective date. The changed lease accounting will have an impact, as the major part of the leases will be recognised in the balance sheet as right-of-use assets with a related lease liability at the present value of future lease payments. The income statement will also be affected, as the lease costs will be split between depreciation of the right-of-use asset recognised in operating costs and interest on the lease liabilities recognised in Financial expenses. The impact of implementing the standard in the LEO Group is expected to be low.

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
  The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. IASB has deferred the effective date of these amendments. The LEO Group will apply these amendments when they become effective.

- Annual Improvement Cycle – 2014-2016
  - IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters (effective from 1 January 2018). The amendment is not applicable to the LEO Group, as IFRS has been first-time adopted on 1 January 2017.
  - IAS 28 Investment in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective from 1 January 2018). These amendments are not applicable to the LEO Group.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related assets, expense or income on derecognition of a non-monetary asset or a non-monetary liability relating to advance consideration, the transaction date is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration (effective from 1 January 2018). The LEO Group does not expect any effect from this interpretation.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019, but certain transition reliefs are available)
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty affecting the application of IAS 12 and does not apply to taxes and levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The LEO Group will apply the interpretation from its effective date and perform the necessary procedures to ensure implementation in a timely manner.

NOTE 2 CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements, for the year ended 31 December 2017, are the first Consolidated Financial Statements that the LEO Group has prepared. The Consolidated Financial Statements for 2017 are prepared in accordance with IFRS as adopted by the EU. For periods up to and including the year ended 31 December 2016, the LEO Foundation prepared its Financial Statements in accordance with the Danish Financial Statements Act applying to large enterprises of reporting class C, and in accordance with the exemption clause in section 111(3), no Consolidated Financial Statements were prepared for the LEO Foundation.

The LEO Pharma Group has prepared its Consolidated Financial Statements in accordance with IFRS for the first time for the year ended 31 December 2017.

NOTE 3 REVENUE

ACCOUNTING POLICIES

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

Revenue is measured at the amount of consideration which the Group expects to be entitled to in exchange for transferring the goods. Revenue is recognised exclusive of VAT and net of sales deductions, including product returns as well as discounts and rebates.

Revenue includes licence 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 recognised when the performance obligation is satisfied, when transferred to the customer. For sales-based royalties, revenue is recognised when the subsequent sale occurs. Please refer to note 16 Provisions regarding the accounting policies for sales deductions and returns.

(DKK million)	2017	2016
Revenue by region		
Europe+	6,379	6,082
International	2,745	2,556
US	1,357	1,225
Total	**10,481**	**9,863**
Revenue by therapeutic area		
Psoriasis	3,587	3,445
Actinic keratosis	369	362
Eczema/skin infections	3,015	2,547
Thrombosis	2,488	2,462
Other	1,022	1,047
Total	**10,481**	**9,863**
Revenue by category		
Products	10,083	9,466
Sales-based royalties	377	376
Other	21	21
Total	**10,481**	**9,863**
Timing of revenue recognition		
Goods transferred at a point in time	10,449	9,837
Services transferred over time	32	26
Total	**10,481**	**9,863**

NOTE 3 REVENUE (CONTINUED)

Contract balances

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

(DKK million)	2017	2016
Contract liabilities (non-current)	14	45
Contract liabilities (current)	30	30
Total contract liabilities	**44**	**75**
Revenue recognised in the period from		
Amounts included in contract liabilities at the begnning of the period	32	26

Unsatisfied performance obligations

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

The transaction price not yet recognised as Revenue is:

(DKK million)	2018	2019	Total
Remaining performance obligations expected to be recognised as of 31 December 2017	53	14	**67**

The Group applies the practical expedient in paragraph C5(c) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations or when the Group expects to recognise that amount as revenue for the year ended 31 December 2016.

NOTE 4 STAFF EXPENSES

(DKK million)	2017	2016
Wages and salaries	2,734	2,902
Pensions – defined benefit plans	7	9
Pensions – defined contribution plans	211	236
Social security expenses	271	270
Other employee expenses	219	191
Total staff expenses for the year	**3,442**	**3,608**
Capitalised staff expenses	(63)	(36)
Total staff expenses in the income statement	**3,379**	**3,572**
Staff expenses included in		
Cost of sales	603	614
Sales and distribution costs	1,625	1,780
Research and development costs	658	526
Administrative costs	493	652
Total	**3,379**	**3,572**
Remuneration to the Executive Board	3	-
Average number of full-time employees	5,253	5,170

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	Jens Bo Olesen	Ingelise Saunders	John Mehlbye	Cristina Lage	Peter Schwarz	Eivind D Kolding	Per Håkon Schmidt	Gorm Milan Thamborg	Employee-elected	Total
Remuneration period	Full year	Full year	Full year	Full year	Full year	30.3 - 31.12 2017	30.3 - 31.12 2017	1.1 - 30.3 2017	1.1 - 30.3 2017		
LEO Foundation, Board	900	600	300	300	300	225	225	75	75	900	3,900
LEO Foundation, Committees	-	-	-	38	75	75	38	-	-	-	225
LEO Holding A/S	-	-	-	-	-	-	-	-	-	-	-
LEO Pharma A/S	-	-	350	-	350	-	-	-	-	350	1,050
LEO Pharma A/S, Committees	-	-	38	-	13	-	-	-	-	-	51

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

NOTE 5 AUDIT FEES

(DKK million)	2017	2016
Fees to auditors appointed at the Board meeting[1]		
Statutory audit	5	6
Tax advisory services	-	10
Other services	3	2
Total	**8**	**18**

1. For 2017, Deloitte Statsautoriseret Revisionspartnerselskab is the elected auditor. For 2016, the elected auditor was PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab.

NOTE 6 FINANCIAL INCOME AND EXPENSES

ACCOUNTING POLICIES
Financial income and expenses comprise interest, realised and unrealised exchange rate adjustments and market value adjustments of financial assets.

(DKK million)	2017	2016
Interest income on bonds (amortised cost)	188	282
Interest income on bonds (fair value)	28	-
Capital gains, financial assets	582	621
Gain arising on reclassification of financial assets from amortised cost at fair value through profit and loss	252	-
Gain arising on interest rate swaps designated as hedging instruments of floating-rate debt reclassified from equity to the income statement	-	23
Other financial income	44	17
Financial income	**1,094**	**943**
Loss arising from financial assets measured at amortised cost	(10)	(17)
Exchange rate losses	(43)	(48)
Write-down financial assets	(48)	(55)
Other financial expenses	(52)	(34)
Financial expenses	**(153)**	**(154)**

NOTE 7 TAX ON PROFIT FOR THE YEAR

ACCOUNTING POLICIES

Tax for the year, which consists of the year's current tax, the change in deferred tax and adjustment in respect of previous years, is recognised in the income statement at the amount that can be attributed to the net 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 effect of foreign currency exchange differences on deferred tax is recognised in the balance sheet as part of the movement in deferred tax.

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

(DKK million)	2017	2016
Current tax	75	193
Prior-year adjustments, current tax	(19)	(7)
Prior-year adjustments, deferred tax	17	15
Change in deferred tax for the year	366	159
Total tax for the year	**439**	**360**
Tax for the year is included in		
Tax on profit/(loss) for the year	390	392
Tax on other comprehensive income	49	(32)
Total tax for the year	**439**	**360**

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

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

(DKK million)		%
2017		
Profit/(loss) before tax	**1,773**	
Calculated tax, 22%	390	22.0%
Tax effect of		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	(86)	-4.8%
Non-deductible expenses/non-taxable income and other permanent differences	18	1,0%
Tax credits	(3)	-0.2%
Change in deferred tax as a result of changed income tax rate	56	3.2%
Change in valuation of net tax assets	16	0.9%
Prior-year tax adjustments, etc., total effects on operations	(1)	-0.1%
Effective tax/tax rate for the year	**390**	**22.0%**

NOTE 7 TAX ON PROFIT FOR THE YEAR (CONTINUED)

(DKK million)		%
2016		
Profit/(loss) before tax	**1,115**	
Calculated tax, 22%	245	22.0%
Tax effect of		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	(49)	-4.4%
Non-deductible expenses/non-taxable income and other permanent differences	76	6.8%
Tax credits	(13)	-1.2%
Tax effect on changed tax rate	108	9.7%
Change in deferred tax as a result of changed income tax rates	18	1.6%
Prior-year tax adjustments, etc., total effects on operations	7	0.6%
Effective tax/tax rate for the year	**392**	**35.2%**

NOTE 8 INTANGIBLE ASSETS

ACCOUNTING POLICIES

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

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

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

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

Research costs are recognised in the income statement as incurred.

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

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

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

NOTE 8 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT
At the end of each reporting period, the carrying amounts of the intangible assets are reviewed to determine whether there is any indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

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

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

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS
To determine the value in use, the expected cash flow approach is applied. The expected future cash flows are based on the budget and target plans for the next five years for marketable products and up to 15 years for licences where products have not yet been launched. Useful life is estimated individually in each case. In addition, the budgets and target plans are based on the Executive Management's expectations of current market conditions and future growth expectations. The key factors used in calculating the value are revenue, EBIT, working capital and discount rate.

The LEO Pharma Group has identified capitalised software relating to the ERP system (GLOBE) as corporate assets. During the year, the Executive Management considers the recoverability of the assets and assesses indications of impairment.

Useful lives are initially assessed when the assets are acquired. The Executive Management assesses intangible assets for changes in useful lives and impairment on an annual basis. The assessment of the value may involve judgement and inherent uncertainties, as there is often no active market for the intangible assets.

IMPAIRMENT TESTING
Irrespective of whether there is an indication of impairment, intangible assets not yet available for use are tested for impairment annually. Intangible assets in use with definite useful lives are tested for impairment if there is any indication of impairment.
Indications of impairment are the following:

- Changes in patent and licence rights
- Changes to future cash inflows in the Group
- R&D results
- Technological changes
- Development of competing products

Assessment of acquisitions
On initial recognition of investments in intellectual property rights, the Executive Management assesses whether the acquisition comprises a business combination or solely an intangible asset. In making this judgement, the Executive Management assesses key issues relating to each case, as the distinction can be uncertain.

NOTE 8 INTANGIBLE ASSETS (CONTINUED)

(DKK million)	Intellectual property rights	Trademarks	Development projects	Software	Total intangible assets
2017					
Cost at 1 January 2017	10,150	30	2,846	475	13,501
Additions during the year	125	-	297	57	479
Disposals during the year	(117)	-	-	-	(117)
Transfers	134	-	(219)	85	-
Cost at 31 December 2017	**10,292**	**30**	**2,924**	**617**	**13,863**
Amortisation and impairment losses at 1 January 2017	(5,623)	(30)	(1,765)	(86)	(7,504)
Amortisation for the year	(758)	-	-	(34)	(792)
Disposals during the year	81	-	-	-	81
Amortisation and impairment losses at 31 December 2017	**(6,300)**	**(30)**	**(1,765)**	**(120)**	**(8,215)**
CARRYING AMOUNT AT 31 DECEMBER 2017	**3,992**	**-**	**1,159**	**497**	**5,648**
2016					
Cost at 1 January 2016	5,138	30	2,064	154	7,386
Exchange rate adjustment	(1)	-	1	-	-
Additions during the year	5,013	-	984	118	6,115
Disposals during the year	-	-	(203)	203	-
Cost at 31 December 2016	**10,150**	**30**	**2,846**	**475**	**13,501**
Amortisation and impairment losses at 1 January 2016	(5,005)	(25)	(1,728)	(47)	(6,805)
Exchange rate adjustment	(1)	-	-	-	(1)
Amortisation for the year	(585)	(5)	(37)	(39)	(666)
Impairment losses for the year	(32)	-	-	-	(32)
Depreciation and impairment losses at 31 December 2016	**(5,623)**	**(30)**	**(1,765)**	**(86)**	**(7,504)**
CARRYING AMOUNT AT 31 DECEMBER 2016	**4,527**	**-**	**1,081**	**389**	**5,997**

NOTE 8 INTANGIBLE ASSETS (CONTINUED)

In 2017, research and development costs recognised in the income statement amounted to DKK 1,602 million (2016: DKK 1,290 million). Research and development costs primarily comprise internal and external costs related to studies, employee costs, materials, depreciation and other directly attributable costs.

The value of intellectual property rights acquired from Astellas amounted to DKK 5,013 million when purchased in 2016. The carrying amount at 31 December 2017 was DKK 3,760 million (2016: DKK 4,473 million). The remaining amortisation period is six years (seven years in 2016).

The value of intellectual property rights of Kyntheum® amounted to DKK 136 million when purchased in 2016. The carrying amount was DKK 253 million at 31 December 2017 (2016: DKK 136 million). Amortisation started in August 2017 and the remaining amortisation period is 10 years.

(DKK million)	**2017**	**2016**
Amortisation and impairment losses are specified as follow:		
Sales and distribution costs	714	552
Administrative costs	78	146
Total	**792**	**698**

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

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

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

The expected useful lives are as follows:

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

IMPAIRMENT TESTING

The carrying amount of property, plant and equipment is reviewed to determine whether there is any indication of impairment loss. If the recoverable amount of an asset is estimated to be less than the carrying amount, an impairment loss is recognised.

For 2017, the impairment test resulted in an impairment loss of DKK 147 million on the production facilities in Southport, Australia, where production of ingenol disoxate was planned. Based on results from phase 3 studies, ingenol disoxate was deemed not commercially viable for LEO Pharma. The impairment loss has been recognised in Cost of sales in the income statement.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(DKK million)	Land and buildings	Leasehold improve-ments	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	Total property, plant and equipment
2017						
Cost at 1 January 2017	2,198	158	2,446	465	406	5,673
Exchange rate adjustment	1	(9)	(2)	(4)	-	(14)
Additions during the year	-	8	3	34	340	385
Disposals during the year	(121)	(9)	(261)	(47)	-	(438)
Transfers	7	-	62	4	(73)	-
Cost at 31 December 2017	**2,085**	**148**	**2,248**	**452**	**673**	**5,606**
Depreciation and impairment losses at 1 January 2017	(1,438)	(88)	(1,954)	(382)	-	(3,862)
Exchange rate adjustment	(1)	4	2	2	-	7
Disposals during the year	121	9	244	47	-	421
Impairment for the year	-	(20)	(5)	-	(122)	(147)
Depreciation for the year	(76)	(14)	(101)	(23)	-	(214)
Depreciation and impairment losses at 31 December 2017	**(1,394)**	**(109)**	**(1,814)**	**(356)**	**(122)**	**(3,795)**
CARRYING AMOUNT AT 31 DECEMBER 2017	**691**	**39**	**434**	**96**	**551**	**1,811**
2016						
Cost at 1 January 2016	2,160	144	2,398	459	256	5,417
Exchange rate adjustment	(1)	-	(1)	-	-	(2)
Additions during the year	-	26	1	25	250	302
Disposals during the year	(1)	(12)	(1)	(29)	(1)	(44)
Transfers	40	-	49	10	(99)	-
Cost at 31 December 2016	**2,198**	**158**	**2,446**	**465**	**406**	**5,673**
Depreciation and impairment losses at 1 January 2016	(1,336)	(63)	(1,805)	(389)	-	(3,593)
Exchange rate adjustment	-	-	(1)	-	-	(1)
Disposals during the year	1	10	1	27	-	39
Depreciation for the year	(103)	(35)	(149)	(20)	-	(307)
Depreciation and impairment losses at 31 December 2016	**(1,438)**	**(88)**	**(1,954)**	**(382)**	**-**	**(3,862)**
CARRYING AMOUNT AT 31 DECEMBER 2016	**760**	**70**	**492**	**83**	**406**	**1,811**

NOTE 9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(DKK million)	2017	2016
Depreciation and impairment losses are specified as follow:		
Cost of sales	326	276
Sales and distribution costs	15	13
Research and development costs	10	11
Administrative costs	10	7
Total	**361**	**307**

NOTE 10 FINANCIAL INSTRUMENTS

ACCOUNTING POLICIES

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets except for trade receivables are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropiate, on intitial recognition.

Financial assets
All recognised financial assets are required to be measured subsequently at amortised cost or fair value on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Other financial securities consist of equity investments and bonds.

Investments in bonds that are held within a business model which objective is to collect the contractual cash flows are subsequently measured at amortised cost. Investments that are held within a business model which objective is both to collect the contractual cash flows and to sell are subsequently measured at fair value through Other comprehensive income. All other investments including equity investments, are subsequently measured at fair value through profit and loss.

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

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

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 recognised asset or liability (fair value hedge) or as a hedge of a future transaction (cash flow hedge). All contracts are initially recognised at fair value and subsequently remeasured at fair value at the end of the reporting period. The resulting gain or loss is recognised in profit and loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

Hedge accounting
The Group designates certain derivatives as hedging instruments in respect of foreign currency risk as fair value hedges, and certain derivatives as hedging instruments in respect of interest rate risk as cash flow hedges.

NOTE 10 FINANCIAL INSTRUMENTS (CONTINUED)

The fair value adjustment on qualifying hedging instruments is recognised in profit and loss in the same line as the hedged item when the hedging instrument is designated as fair value hedge.

Value adjustments of the effective part of cash flow hedges are recognised 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.

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 recognised when the forecast transaction is ultimately recognised in the income statement. If 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.

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The application of IFRS 9 and IFRS 13 requires significant judgements including:
- Judgement on measurement of fair value
- Classification of financial assets and assessment of business model within which the assets are held
- Assessment of credit risks on financial assets and impairment within IFRS 9

FINANCIAL RISKS

Financial Portfolio risks
Financial portfolio risks are managed according to the LEO Holding Investment Policy, which is approved by the LEO Holding 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 made. 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 are generally with full currency exposure.

OPERATIONAL FINANCIAL RISKS

Operational financial risks are managed by LEO Pharma Group, which has centralised risk management. The overall objectives and policies for LEO Pharma Group's financial risk management are outlined in an internal Treasury Policy, which has been approved by the LEO Pharma Board of Directors. The Treasury Policy consists of the Foreign Exchange Policy, the Investment Policy and the Policy regarding Credit Risk on Financial Counterparties, and includes a description of permitted use of financial instruments. LEO Pharma Group hedges only commercial exposures and consequently does not enter into derivative transactions for trading or speculative purposes. LEO Pharma Group uses a fully integrated Treasury Management System to manage all financial positions. The LEO Pharma Group may use forward exchange contracts and currency options to hedge the recognised assets and liabilities. Currently, net investments in foreign subsidiaries are not hedged.

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

NOTE 10 FINANCIAL INSTRUMENTS (CONTINUED)

CREDIT RISK

LEO Pharma's products are sold primarily to pharmacies, wholesalers and hospitals. Historically, realised losses sustained on debtors have been insignificant, which was also the case both in 2017 and 2016. However, the LEO Pharma Group has a number of ongoing legal actions against customers in receivership and other financial difficulties that are nearing completion.
The LEO Pharma 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 LEO Pharma Group has no significant reliance on any specific customer, but continues to monitor the credit exposure on all customers, both new and existing. Thus, the risk of significant loss is minimised, and is at an acceptable level.

FOREIGN EXCHANGE RISK

As a global company, the LEO Pharma Group undertakes transactions denominated in foreign currencies and therefore foreign exchange risk has a significant impact on the income statement, balance sheet and cash flow statement. The overall objective of foreign exchange risk management is to reduce the short-term negative impact of exchange rate fluctuations on net profit before tax by entering into fair value hedges using forward exchange contracts. The LEO Pharma Group's policy is to hedge minimum 80% of the recognised assets and liabilities.

MONETARY ASSETS AND MONETARY LIABILITIES FOR THE MAJOR CURRENCIES AT 31 DECEMBER

LEO Pharma is mainly exposed to USD, GBP, CAD, JPY, RUB and CNY, either through direct sales to third parties or indirect sales through a subsidiary. The foreign currency-denominated monetary assets and liabilities located in Ireland and Denmark that were hedged at the end of the reporting period can be seen in the following table. The monetary assets and liabilities are not divided into EUR and DKK because of the narrow band between the two currencies.

(DKK million)	Monetary assets		Monetary liabilities	
	2017	2016	2017	2016
USD	1,251	881	1,000	2,033
GBP	280	315	350	601
CAD	183	52	10	36
JPY	112	129	46	40
RUB	111	10	0	0
SAR	97	100	0	0
CNY	77	195	38	69
AUD	43	52	241	141

Monetary assets and monetary liabilities include trade receivables, other receivables, securities, cash, trade payables and other payables.

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The sensitivity analysis below shows the estimated impact on operating profit of a 5% change in DKK versus the key currencies. The analysis shows the impact of foreign currency exchange differences on the Group's monetary assets and liabilities and foreign exchange forwards. A similar negative change in exchange rates would have a similar opposite effect on operating profit.

ESTIMATED IMPACT ON PROFIT/(LOSS) FOR THE YEAR AND EQUITY FROM A 5% INCREASE IN YEAR-END EXCHANGE RATES OF THE MAJOR CURRENCIES

(DKK million)	CAD	CNY	GBP	JPY	USD	RUB
2017						
Profit/(loss) for the year/Equity	-	2	(4)	1	(2)	1
2016						
Profit/(loss) for the year/Equity	-	(1)	(6)	(1)	(19)	1

NOTE 10 FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL DERIVATIVES – FAIR VALUE HEDGES

Forward exchange contracts (against DKK) (DKK million)	Contract value	Fair value at year-end	Maturity end date	Contract value	Fair value at year-end	Maturity end date
	2017			2016		
Sold CAD	178	(1)	12/03/2018	35	-	10/01/2017
Sold CNY[1]	-	-	N/A	135	(1)	28/07/2017
Bought GBP	-	-	N/A	156	-	31/01/2017
Sold JPY	43	-	28/03/2018	100	3	15/03/2017
Sold SAR	98	-	11/06/2018	89	(3)	09/05/2017
Sold RUB	100	-	21/03/2018	10	-	23/01/2017
Sold USD 2017 / Bought USD 2016	299	5	31/07/2018	779	4	20/01/2017
Bought AUD	41	-	29/01/2018	-	-	09/05/2017
Bought EUR[2]	1,845	1	28/06/2018	1,862	-	01/08/2017
Sold other currencies	461	(1)	15/06/2018	473	(2)	01/08/2017
Total	**3,065**	**4**		**3,639**	**1**	

1. Chinese yuan traded offshore (CNH) is used as a proxy when hedging the CNY currency exposure of the Group.
2. Even though the exchange rate risk of EUR is considered low, EUR is still hedged.

The fair value gain of the forward exchange contracts of DKK 4 million at the end of 2017 is recognised in the income statement in Financial income (2016: DKK 1 million).

INTEREST RATE RISK

The Group is exposed to interest rate risk if entities in the Group borrow funds at floating interest rates. The Group manages the risk by choosing to pay fixed rate on this financing by entering into interest rate swaps as hedging instruments and paying fixed and receiving floating rates (CIBOR 12M). Hedging of interest rate risk is approved by the Executive Management and hedge effectiveness is assessed on a regular basis. No ineffectiveness has been observed so far. The current hedging instruments are shown in the table below.

Outstanding receivable floating-rate fixed contracts (DKK million)	Notional principal value	Change in fair value recognised in Other comprehensive income	Fair value assets (liabilities)	Average fixed interest rate	Maturity end date
2017					
DKK	100	-	-	0.325%	28/03/2018
DKK	400	2	(1)	0.386%	29/03/2019
DKK	370	3	(2)	0.445%	30/12/2019
Total		**5**	**(3)**		
2016					
DKK	400	-	-	0.325%	28/03/2018
DKK	400	(3)	(3)	0.386%	29/03/2019
DKK	370	(5)	(5)	0.445%	30/12/2019
Total		**(8)**	**(8)**		

At 31 December 2017, the fair value of DKK 3 million has been recognised in Other payables. At 31 December 2016, the fair value of DKK 8 million was recognised in Other payables.

NOTE 10 FINANCIAL INSTRUMENTS (CONTINUED)

LIQUIDITY RISK
The LEO Group manages liquidity risk by maintaining adequate bank credit facilities and by continuously monitoring forecast and actual cash flows. The table below outlines the details of the current cash resources and undrawn credit facilities that the Group has at its disposal.

CASH RESOURCES
Cash and cash equivalents and securities consist of cash at bank and in hand offset by any drawn overdraft facilities plus marketable securities, both current and non-current financial assets.

(DKK million)	**2017**	**2016**
Cash and cash equivalents	428	150
Secured overdraft facilities, banks – amount unused	791	67
Cash resources, banks	**1,219**	**217**
Hold-to-collect bonds[1]	-	4,394
Marketable securities[2]	17,618	12,269
Securities at 31 December	**17,618**	**16,663**
CASH RESOURCES, BANK AND SECURITIES	**18,837**	**16,880**

1. Amortised cost. The portfolio consists of Danish mortgage bonds with a limited credit risk.
2. Fair value consists of Danish mortgage bonds with a limited credit risk and low-volatility shares, covered bonds and corporate bonds with investment-grade rating.

In addition to the cash resources, at the end of 2017, LEO Parma had pledged bonds with a carrying amount of DKK 309 million as security for pension liabilities in Ireland and the UK. In 2016, LEO Pharma had pledged bonds at a carrying amount of DKK 6,145 million as security for bank loans, overdraft facilities and established guarantee commitments.

RECLASSIFICATION OF FINANCIAL ASSETS
During 2017, the LEO Group introduced a new structure and governance model. As a part of the new structure, LEO Pharma paid a dividend of DKK 18,169 million to LEO Holding A/S and the LEO Foundation. As a consequence the business model of the portfolio of securities has changed. Going forward, management reporting and evaluation is prepared on a fair value basis. Consequently, the portfolio of bonds previously measured at amortised cost has been reclassified as marketable securities measured at fair value. The amount reclassified from amortised cost at 31 October 2017 is DKK 9,007 million, corresponding to a fair value measurement of DKK 9,259 million. The gain of DKK 252 million is recognised in Financial income.

NOTE 10 FINANCIAL INSTRUMENTS (CONTINUED)

BANK DEBT (DENOMINATED IN DKK AND FLOATING-RATE CIBOR 12M)

(DKK million)	2017	2016
Maturing within the following periods from the balance sheet date without interest		
Within one year	482	5,258
Between one and two years	470	563
Between two and three years	480	470
Between three and four years	56	480
After more than four years	-	56
Total	**1,488**	**6,827**
Bank debt is recognised in the balance sheet as		
Non-current liabilities	1,006	1,569
Current liabilities	482	5,258
Total	**1,488**	**6,827**

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(DKK million)	Carrying amount		Fair value	
	2017	2016	2017	2016
Financial assets				
Amortised cost				
Cash and bank balances	428	150	428	150
Trade and other receivables	3,025	2,697	3,025	2,697
Other financial assets	87	10,622	87	10,777
Total	**3,540**	**13,469**	**3,540**	**13,624**
Fair value through profit and loss (FVTPL)				
Financial assets mandatorily measured at FVTPL	17,618	12,269		
Derivative instruments in designated hedge relationships	9	10		
Total	**17,627**	**12,279**		

NOTE 10 FINANCIAL INSTRUMENTS (CONTINUED)

(DKK million)	Carrying amount		Fair value	
	2017	**2016**	**2017**	**2016**
Financial liabilities				
Amortised cost				
Trade and other payables	2,463	2,971	2,463	2,971
Collaterised loans	-	4,833	-	4,833
Bank loans (both current and non-current)	1,488	1,994	1,503	2,013
Total	**3,951**	**9,798**	**3,966**	**9,817**
Fair value through profit and loss				
Derivative instruments in designated fair value hedge relationships	5	9		
Total	**5**	**9**		
Fair value through other comprehensive income				
Derivative instruments in designated hedge-accounting relationships	3	8		
Total	**3**	**8**		

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, LEO Pharma bases its valuation on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar financial instruments assumed to be motivated by normal business considerations.

If an active market does not exist, the fair value of standard and simple financial instruments, such as foreign exchange forward contracts, interest rate swaps, currency 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.

NOTE 10 FINANCIAL INSTRUMENTS (CONTINUED)

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

(DKK million)				Fair value hierarchy as at 31.12.17
	Level 1	Level 2	Level 3	Total
Financial assets				
Measured at fair value through profit and loss				
Securities	17,618	-	-	17,618
Other financial assets	-	87	-	87
Derivative instruments	-	9	-	9
Total	**17,618**	**96**	**-**	**17,714**
Financial liabilities				
Amortised cost, disclosure of fair value				
Bank loans	-	1,503	-	1,503
Measured at fair value				
Derivative instruments	-	8	-	8
Total	**-**	**1,511**	**-**	**1,511**

(DKK million)				Fair value hierarchy as at 31.12.16
	Level 1	Level 2	Level 3	Total
Financial assets				
Amortised cost, disclosure of fair value				
Other financial securities	10,694	83	-	10,777
Measured at fair value				
Other financial assets	12,269	-	-	12,269
Derivative instruments	-	10	-	10
Total	**22,963**	**93**	**-**	**23,056**
Financial liabilities				
Amortised cost, disclosure of fair value				
Bank loans	-	2,013	-	2,013
Measured at fair value				
Derivative instruments	-	17	-	17
Total	**-**	**2,030**	**-**	**2,030**

NOTE 11 DEFERRED TAX

ACCOUNTING POLICIES

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

Deferred tax is measured on the basis of the income tax rates and tax rules in force in the respective countries on the balance sheet date. Change in deferred tax as a result of changed income tax rates or tax rules is recognised in the income statement.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised in the balance sheet at the value at which the assets are expected to be realised.

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The Executive Management's estimate of future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years supports the utilisation of the deferred tax assets within the foreseeable future.

The Group operates in a multinational tax environment. Complying with tax rules can be complex, as the interpretation of legislation and case law may not always be clear or may change over time. Transfer pricing disputes with the tax authorities may occur. Executive Management judgement is applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties.

NOTE 11 DEFERRED TAX (CONTINUED)

(DKK million)	Balance at 1 January	Reclassification	Effect of foreign currency exchange differences	Adjustment of deferred tax at beginning of year	Movements during the year	Balance at 31 December
2017						
Intangible assets	29	-	-	(1)	148	176
Property, plant and equipment	(2)	-	-	(1)	21	18
Inventories	599	-	(1)	-	(55)	543
Provisions	98	-	-	-	(301)	(203)
Other items	314	-	(6)	(15)	(188)	105
Tax loss carryforwards, etc.	-	-	(1)	-	9	8
Deferred tax assets/ (liabilities)	**1,038**	**-**	**(8)**	**(17)**	**(366)**	**647**
Deferred tax assets	1,038	-	(8)	(17)	(346)	667
Deferred tax liabilities	-	-	-	-	(20)	(20)
Deferred tax assets/ (liabilities)	**1,038**	**-**	**(8)**	**(17)**	**(366)**	**647**
2016						
Intangible assets	94	-	-	(1)	(64)	29
Property, plant and equipment	(26)	-	-	(1)	25	(2)
Inventories	455	284	-	-	(140)	599
Provisions	103	-	1	1	(7)	98
Other items	260	-	-	(14)	68	314
Tax loss carryforwards, etc.	41	-	-	-	(41)	-
Deferred tax assets/ (liabilities)	**927**	**284**	**1**	**(15)**	**(159)**	**1,038**
Deferred tax assets	966	284	1	(15)	(198)	1,038
Deferred tax liabilities	(39)	-	-	-	39	-
Deferred tax assets/ (liabilities)	**927**	**284**	**1**	**(15)**	**(159)**	**1,038**

NOTE 12 INVENTORIES

ACCOUNTING POLICIES

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

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

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

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

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(DKK million)	2017	2016	1.1.2016
Raw materials and consumables	166	151	214
Work in progress	932	951	936
Finished goods and goods for resale	621	628	513
Total	**1,719**	**1,730**	**1,663**
Write-down for the year	76	133	
Cost of goods sold included in Cost of sales	2,201	2,081	

NOTE 13 TRADE RECEIVABLES

ACCOUNTING POLICIES
Trade receivables are recognised initially at their transaction price and subsequently measured at amortised cost, which usually corresponds to the nominal value less lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix with reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the market in which the debtor operates. The Group recognises 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 amount of write-downs is recognised in the Income statement under Sales and distribution costs. Subsequent recoveries of amounts previously written down are credited against sales and distribution costs.

(DKK million)	2017	2016	1.1.2016
Trade receivables	2,716	2,600	2,225
Write-downs	(72)	(85)	(189)
Total	**2,644**	**2,515**	**2,036**

Write-downs have decreased by DKK 13 million compared to 2016, mainly related to changes in Greece. Due to improvement in the Greek economy, Greece is now aligned with the Group's policy for write-downs, instead of sales to public customers being accrued at the time of sale. This means a reversal of previous bad debt provisions.

The following table details the risk profile of trade receivables based on the Group's provision matrix. The Group's historical credit losses do not show different patterns for different customer segments.

(DKK million)	Not past due	Overdue by 3 months	Overdue by 3-6 months	Overdue by 6-12 months	Overdue by more than 12 months	Total
31 December 2017						
Expected credit loss rate	0%	2%	4%	75%	61%	
Trade receivables	2,257	269	90	8	92	2,716
Lifetime expected credit losses	1	5	4	6	56	72
31 December 2016						
Expected credit loss rate	1%	2%	31%	21%	98%	
Trade receivables	2,139	310	13	95	43	2,600
Lifetime expected credit losses	15	5	4	19	42	85

NOTE 14 FOUNDATION CAPITAL

The nominal value of the Foundation capital amounts to DKK 98 million (2016: DKK 52 million).

In December 2017, the LEO Pharma Research Foundation was consolidated with the LEO Foundation with financial effect from 1 January 2017. As a result of the consolidation, LEO Foundation's registered capital increased by DKK 46 million.

NOTE 15 RETIREMENT BENEFIT OBLIGATIONS

ACCOUNTING POLICIES

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

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

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

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

DEFINED CONTRIBUTION PLANS

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

DEFINED BENEFIT PLANS

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

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

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

ENHANCED TRANSFER VALUE IN IRELAND

In 2017, the employees in Ireland were offered an enhanced transfer value (ETV), which was exercised and carried out during the year. The ETV resulted in a net settlement gain of DKK 98 million, recognised under Other operating income. As of 31 December 2017, the net retirement benefit obligation in Ireland amounted to DKK 164 million (2016: DKK 535 million).

NOTE 15 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(DKK million)	2017	2016
Present value of defined benefit plans		
Present value of defined benefit plans at 1 January	2,374	2,149
Effect of exchange rate adjustment	(24)	(111)
Current service costs	7	9
(Gains)/losses on settlements	(111)	-
Interest costs	50	60
Actuarial (gains)/losses from changes in demographic assumptions	(1)	(1)
Actuarial (gains)/losses from changes in financial assumptions	(38)	374
Experience adjustments	(30)	(27)
Settlement payments from plan assets	(251)	-
Settlement payments from employer	(117)	-
Benefits paid to employees	(70)	(79)
Other	(16)	-
Present value of defined benefit plans at 31 December	**1,773**	**2,374**
Fair value of plan assets		
Fait value of plan assets at 1 January	1,594	1,522
Effect of exchange rate adjustment	(19)	(94)
Return on plan assets	62	132
Interest income	35	44
Benefits paid to employees	(70)	(76)
Settlement payments from plan assets	(251)	-
Employer contributions	67	66
Fair value of plan assets at 31 December	**1,418**	**1,594**
Net retirement benefit obligations at 31 December	**355**	**780**

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

A 0.25% decrease in the discount rate would result in an increase in the obligation of approximately DKK 3 million in France and DKK 51 million in Ireland and vice versa. A 0.1% decrease in the discount rate would result in an increase of approximately DKK 14 million in the UK and vice versa.

(DKK million)	2017	2016
Specification of amount recognised in the statement of comprehensive income		
Actuarial (gains)/losses	(131)	214
Total	**(131)**	**214**

NOTE 16 PROVISIONS

ACCOUNTING POLICIES

Provisions are recognised when, as a result of events before or at the balance sheet date, the Group has a legal or a constructive obligation, 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 recognised at the time the related revenues are recognised. Unsettled deductions and returns are recognised as Provisions when the timing or amount is uncertain. Where absolute amounts are known, the deductions are recognised as Other liabilities.

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

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

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

Provisions for legal disputes

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

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

Provisions for sales deductions

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

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

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

NOTE 16 PROVISIONS (CONTINUED)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2017					
Provisions at 1 January 2017	460	208	237	49	954
Exchange rate adjustment	(48)	(21)	(5)	(1)	(75)
Additional provisions	1,123	88	60	34	1,305
Used during the year	(929)	(109)	(116)	(5)	(1,159)
Reversed during the year	(154)	(4)	(24)	-	(182)
Provisions at 31 December 2017	**452**	**162**	**152**	**77**	**843**
Provisions are recognised in the balance sheet as					
Non-current liabilities	-	121	36	13	170
Current liabilities	452	41	116	64	673
Provisions at 31 December 2017	**452**	**162**	**152**	**77**	**843**
2016					
Provisions at 1 January 2016	351	148	67	43	609
Exchange rate adjustment	9	5	1	1	16
Additional provisions	1,049	98	174	8	1,329
Used during the year	(872)	(112)	(5)	(1)	(990)
Reversed during the year	(77)	69	-	(2)	(10)
Provisions at 31 December 2016	**460**	**208**	**237**	**49**	**954**
Provisions are recognised in the balance sheet as					
Non-current liabilities	12	173	52	17	254
Current liabilities	448	35	185	32	700
Provisions at 31 December 2016	**460**	**208**	**237**	**49**	**954**

NOTE 17 OTHER ADJUSTMENTS

(DKK million)	2017	2016
Inventory write-down	(20)	(164)
Provision for bad debt	(14)	(104)
Other	84	29
Total	**50**	**(239)**

NOTE 18 CONTRACTUAL OBLIGATIONS

OPERATING LEASE OBLIGATION

The Group has operating lease obligations of DKK 328 million (2016: DKK 358 million). The obligations are primarily related to company cars and office premises.

(DKK million)	2017	2016
Minimum operating lease payments are as follows		
Within one year	110	107
Between one and five years	170	204
After five years	48	47
Total	**328**	**358**
Rental and lease expenses recognised in the income statement	148	167

MILESTONE PAYMENTS

The LEO Group has entered into a number of licence agreements relating to development of new products. These agreements contain certain milestone payments which LEO Group is committed to paying upon achievement. The total potential future milestone payments are DKK 1,432 million at 31 December 2017 (2016: DKK 1,678 million). In addition, there are certain commercial milestone payments that depend on future sales.

NOTE 19 CONTINGENCIES

GUARANTEES AND COMMITMENTS

The total guarantee commitment for the LEO Group amounts to DKK 471 million at 31 December 2017 (2016: DKK 1,039 million).

At 31 December 2017, the guarantee commitment comprises mainly guarantees relating to pension commitments of DKK 309 million (2016: DKK 728 million) and guarantees related to tender sales contracts of DKK 73 million (2016: DKK 77 million).

PENDING LAWSUITS

At the end of 2017, there were pending patent lawsuits filed by and against the LEO Group concerning rights related to products in the LEO Group's psoriasis portfolio in both the US and Europe. The LEO Group does not expect the pending cases to have any significant effect on the LEO Group's financial position.

TAX

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

NOTE 20 RELATED PARTIES

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 Executive Board execise controlling influence

There have been the following transactions and balances with associates in 2017:
- Loan provided of DKK 9,3 million (2016: DKK 0) with an interest rate of 6%

There have been no transactions with the Board of Trustees or Executive Board besides remuneration. For information on remuneration, please refer to note 4.

NOTE 21 EVENTS AFTER THE BALANCE SHEET DATE

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

● Sales and distribution ● Sales Services
● Production ● Other

NOTE 22 COMPANIES IN THE LEO GROUP

(DKK million)	Country	Share of ownership, %	Activities
Parent Company			
The LEO Foundation	Denmark		Other
Subsidiaries			
SARL LEO Pharma	Algeria	100	Sales Services
LEO Pharma Southport Pty Ltd	Australia	100	Production
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.	Czech Republic	100	Sales Services
LEO Holding A/S	Denmark	100	Other
LEO Pharma A/S	Denmark	100	Sales and distribution, Production
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100	Other
HelloSkin 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
LEO Laboratories Ltd.	Ireland	100	Sales and distribution, Production
Wexport Ltd.	Ireland	100	Production
LEO Pharma Holding Ltd.	Ireland	100	Other
LEO Pharma S.p.A.	Italy	100	Sales and distribution
LEO Pharma K.K.	Japan	100	Sales and distribution
LEO Pharmaceuticals, S. de R.L. de C.V.	Mexico	100	Sales Services
LEO Pharma LLC	Morocco	100	Sales Services
LEO Pharma BV	Netherlands	100	Sales and distribution
LEO Pharma Ltd.	New Zealand	100	Sales and distribution

NOTE 22 COMPANIES IN THE LEO GROUP (CONTINUED)

LEO Pharma AS	Norway	100	●		
LEO Pharma Sp. z o.o.	Poland	100		●	
LEO Farmacêuticos Lda.	Portugal	100	●		
LEO Pharmaceutical Products LLC	Russia	100	●		
LEO Pharma Asia PTE Ltd.	Singapore	100		●	
LEO Pharma Ltd	South Korea	100	●		
Laboratorios LEO Pharma S.A.	Spain	100	●		
LEO Pharma AB	Sweden	100	●		
LEO Pharmaceutical Products Sarath Ltd.	Switzerland	100	●		
LEO Pharma SARL	Tunisia	100		●	
LEO Pharma İlaç Ticaret Anonim Şirketi	Turkey	100	●		
LEO Laboratories Ltd.	United Kingdom	100	●		
HelloSkin Ltd.	United Kingdom	100			●
LEO Pharma Inc.	USA	100	●		

Associate

SkinVision B.V.	Netherlands	26.32

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Financial Statements

Notes

Income statement

(DKK million)	Note	2017	2016
Administrative costs	1, 2	(17)	(9)
Operating profit		**(17)**	**(9)**
Income from investments in subsidiaries	6	1,383	725
Financial income	3	4	-
Profit before tax		**1,370**	**716**
Tax on profit for the year	4	13	(12)
Net profit for the year	5	**1,383**	**704**

Balance sheet at 31 december

ASSETS

(DKK million)	Note	2017	2016
Investments in subsidiaries	6	25,467	25,194
Receivables from LEO Pharma A/S		1,002	-
Total financial fixed assets		**26,469**	**25,194**
Total fixed assets		**26,469**	**25,194**
Receivables from subsidiaries		148	61
Other receivables		2	-
Total receivables		**150**	**61**
Cash at bank and in hand		**67**	**6**
Total current assets		**217**	**67**
TOTAL ASSETS		**26,686**	**25,261**

EQUITY AND LIABILITIES

(DKK million)	Note	2017	2016
Foundation capital	7	98	52
Net revaluation, subsidiaries		25,367	24,625
Reserve for future grants		83	47
Retained earnings		990	389
Total equity		**26,538**	**25,113**
Deferred tax liabilities	8	6	19
Total provisions		**6**	**19**
Grants payable	9	77	79
Total non-current liabilities		**77**	**79**
Grants payable	9	59	45
Other payables		6	5
Total current liabilities		**65**	**50**
TOTAL EQUITY AND LIABILITIES		**26,686**	**25,261**

Statement of changes in equity

(DKK million)	Foundation capital	Net revaluations, subsidiaries	Reserve for future grants	Retained earnings	Total
2017					
Equity at 1 January 2017	52	24,625	47	389	25,113
Profit/(loss) in the LEO Foundation	-	233	80	1,070	1,383
Additions	46	-	-	-	46
Other adjustments in subsidaries	-	509	-	(469)	40
Grants for the year	-		(44)	-	(44)
Equity at 31 December 2017	**98**	**25,367**	**83**	**990**	**26,538**

2016					
Equity at 1 January 2016	52	24,182	56	530	24,820
Profit/(loss) in the LEO Foundation	-	725	120	(141)	704
Other adjustments in subsidaries	-	(282)	-		(282)
Grants for the year	-	-	(79)	-	(79)
Grants regarding previous years	-	-	(50)	-	(50)
Equity at 31 December 2016	**52**	**24,625**	**47**	**389**	**25,113**

Notes
– LEO Foundation

NOTE 1 AUDIT FEES

(DKK thousand)	2017	2016
Fees to auditors appointed at the Board meeting[1]		
Statutory audit	110	65
Other services	307	547
Total	**417**	**612**

1. For 2017, Deloitte Statsautoriseret Revisionspartnerselskab is the elected auditor. For 2016, the elected auditor was PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab.

NOTE 2 STAFF EXPENSES

(DKK million)	2017	2016
Wages and salaries	8	4
Total	**8**	**4**
Included in		
Administrative costs	8	4
Total	**8**	**4**
Remuneration to the Board of Trustees from other Group companies	1	1

Remuneration to the Board of Trustees amounted to DKK 4.1 million (2016: DKK 4 million) and the fee to the administrator, LEO Pharma A/S, amounted to DKK 2.1 million (2016: DKK 1.9 million).

Average number of full-time employees	2	-

For a specification of the remuneration to the Board of Trustees and Executive Board, refer to note 4 to the Consolidated Financial Statements.

NOTE 3 FINANCIAL INCOME

(DKK million)	2017	2016
Interest income from subsidiaries	2	-
Other financial income	2	-
Total	**4**	**-**

NOTE 4 TAX ON PROFIT FOR THE YEAR

(DKK million)	2017	2016
Change in deferred tax	13	(12)
Total	**13**	**(12)**

NOTE 5 PROPOSED DISTRIBUTION OF NET PROFIT FOR THE YEAR

(DKK million)	2017	2016
Net revaluation for the year	233	725
Transferred to grant reserve	-	80
Proposed grant limit for the following year	80	40
Retained earnings	1,070	(141)
Total	**1,383**	**704**

NOTE 6 INVESTMENT IN SUBSIDIARIES

(DKK million)	2017	2016
Cost at 1 January	569	569
Divestments	(569)	-
Additions	100	-
Cost at 31 December	**100**	**569**
Value adjustment at 1 January	24,625	24,182
Share of profit/(loss) for the year	1,383	725
Dividend	(1,150)	-
Exchange rate adjustment	(64)	(108)
Adjustment of financial instruments	5	8
Tax on changes in equity	(49)	32
Other movements	617	(214)
Value adjustment at 31 December	**25,367**	**24,625**
Carrying amount at 31 December	**25,467**	**25,194**

In 2017, LEO Holding A/S was established which is wholly owned by the LEO Foundation. LEO Holding A/S now holds all the shares in LEO Pharma A/S. For a list of all subsidiaries in the LEO Group, please refer to note 22 to the Consolidated Financial Statements.

NOTE 7 FOUNDATION CAPITAL

The nominal value of the Foundation capital is DKK 98 million (2016: DKK 52 million).

In December 2017, the LEO Pharma Research Foundation was consolidated with the LEO Foundation with financial effect from 1 January 2017. As a result of the consolidation, the LEO Foundation’s registered capital was increased by DKK 46 million.

NOTE 8 DEFERRED TAX

(DKK million)	2017	2016
Deferred tax assets/(liabilities) at 1 January	19	7
Deferred tax on profit/(loss) for the year	(13)	12
Deferred tax assets/(liabilities) at 31 December	**6**	**19**

NOTE 9 GRANTS PAYABLE

(DKK million)	2017	2016
Grants payable fall due		
Within one year	59	45
Between one and five years	65	59
After more than five years	12	20
Grants payable	**136**	**124**

NOTE 10 CONTINGENCIES

The LEO Foundation has lease obligations of DKK 7 million (2016: DKK 0 million).

The LEO Foundation has no guarantee commitments or pledges.

NOTE 11 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.

The LEO Foundation has provided a loan to LEO Pharma A/S of DKK 1,000 million (2016: DKK 0 million). The loan is granted on an arm's length basis with an interest percentage of 2.45 and will be repaid in 2027.

Balances with LEO Pharma A/S comprises receivables of DKK 148 million (2016: receivables of DKK 61 million). The LEO Foundation has no other transactions with related parties.

NOTE 12 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 13 ACCOUNTING POLICIES

ACCOUNTING POLICIES
The Financial Statements of the Parent Company, the LEO Foundation, for 2017 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Parent Company's accounting policies for recognition and measurement are consistent with the policies of the Consolidated Financial Statements with the exceptions stated below.

LEO Pharma has made restatements to its 2016 figures relating to uncertain tax positions. Since LEO Pharma is ultimately owned by the LEO Foundation, the restatements have affected the comparative figures in equity and income from investments in subsidiaries of the LEO Foundation with DKK 18 million respectively. For a detailed description of the changes, please refer to note 2 in LEO Pharma A/S' Annual Report 2017.

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

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

Management Statement

The Executive Board and the Board of Trustees have today considered and adopted the Annual Report of the LEO Foundation for the financial year 1 January – 31 December 2017.

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as endorsed by the EU, and the Financial Statements of the Parent Company and 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 31 December 2017 of the Group and the Parent Company, and the results of the Group and the Parent Company's operations and consolidated cash flows for 2017.

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

Copenhagen, 28 February 2018

EXECUTIVE BOARD:

Jesper Mailind
CEO

BOARD OF TRUSTEES:

Lars Olsen
Chairman

Jens Bo Olesen
Vice Chairman

Ingelise Saunders

Lars Kjøller

Jannie Kogsbøll

John Carsten Mehlbye

Eivind Drachmann Kolding

Peter Schwarz

Allan Carsten Dahl

Cristina Lage

Independent auditor's report

TO THE BOARD OF TRUSTEES OF LEO FONDET

Opinion
We have audited the Consolidated Financial Statements and the Parent Financial Statements for LEO Fondet for the financial year 01.01.2017 - 31.12.2017, 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 are 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 are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31.12.2017, and of the results of its operations and cash flows for the financial year 01.01.2017 - 31.12.2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the Parent Financial Statements give a true and fair view of the Parent's financial position at 31.12.2017, and of the results of its operations for the financial year 01.01.2017 - 31.12.2017 in accordance with the Danish Financial Statements Act.

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

Statement on the Management Review
Management is responsible for the Management Review.

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

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

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

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

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

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

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement 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.

Copenhagen, 28 February 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Erik Holst Jørgensen

State Authorised
Public Accountant
MNE no. 9943

Kirsten Aaskov Mikkelsen
State Authorised
Public Accountant
MNE no. 21358

Foundation information

LEO Foundation
LEO Fondet
Lautrupsgade 7, 5.
DK-2100 Copenhagen
Denmark

CVR no.: 11 62 33 36

Financial year:
1 January – 31 December

Executive Board
Jesper Mailind, CEO

Board of Trustees
Lars Olsen, Chairman
Jens Bo Olesen, Vice Chairman
Ingelise Saunders
John Carsten Mehlbye
Eivind Drachmann Kolding
Peter Schwarz
Lars Kjøller
Jannie Kogsbøll
Allan Carsten Dahl
Cristina Lage

Auditors
Deloitte
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Revisionspartnerselskab

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