ANNUAL REPORT 2021

Bold steps for a bright future

Dermatology beyond the skin

Ashley, USA
Living with atopic dermatitis

OUR PURPOSE

We are advancing the standard of care for the benefit of people with skin conditions, their families and society

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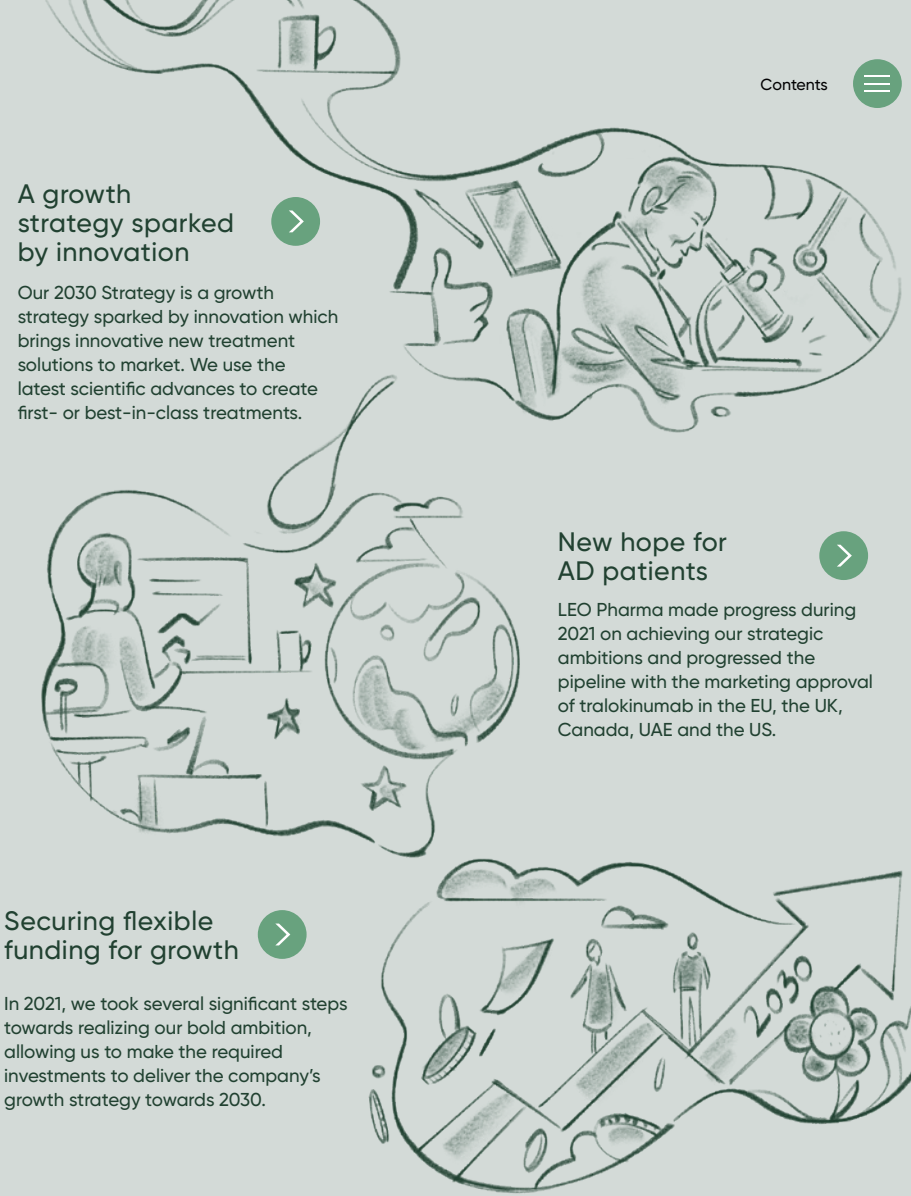


A growth strategy sparked by innovation

Our 2030 Strategy is a growth strategy sparked by innovation which brings innovative new treatment solutions to market. We use the latest scientific advances to create first- or best-in-class treatments.

New hope for AD patients

LEO Pharma made progress during 2021 on achieving our strategic ambitions and progressed the pipeline with the marketing approval of tralokinumab in the EU, the UK, Canada, UAE and the US.

Securing flexible funding for growth

In 2021, we took several significant steps towards realizing our bold ambition, allowing us to make the required investments to deliver the company's growth strategy towards 2030.

LEO Pharma Sustainability Report 2021

Read more about our ESG performance in our separate Sustainability Report 2021, in which LEO Pharma A/S' compliance with Sections 99a, 99b and 99d of the Danish Financial Statements Act is reported. The report is available here

LETTER FROM THE CHAIR AND THE CEO

Taking bold steps towards a bright future

LEO PHARMA is taking bold and historic steps towards a bright future within medical dermatology. A future in which we create hope by advancing the standard of care for the benefit of people suffering from skin conditions, their families and society. This is our purpose and what fuels our ambitions.

2021 was an eventful year for LEO Pharma in many ways, as we focused on implementing our 2030 Strategy. We reached some very important milestones with the approval of tralokinumab in the EU and the UK in June, and in the US in December, bringing a new treatment to people suffering from moderate-to-severe atopic dermatitis. This will accelerate our transformation into a globally leading medical dermatology care partner.

In addition to bringing tralokinumab to market, we progressed our pipeline in order to advance the standard of care in medical dermatology. Delgocitinib, targeting chronic hand eczema, moved to Phase 3, with launch planned for Europe and Canada from 2024. IL-22R Inhibitor moved to Phase 2. This candidate could be our next strong biological asset after tralokinumab within atopic dermatitis (AD) and is the only IL-22R inhibitor in clinical development. Our H4R antagonist program also progressed further in 2021, with the start of a Phase 2b trial within AD. IL-17A PPI modulator, an oral candidate targeting psoriasis, moved to Phase 1. This candidate comes from our research group, and the results so far look promising. It has the potential to become one of the first oral treatments providing an alternative to injections for patients with psoriasis.

Medical dermatology is one of the most attractive and fastest-growing therapeutic areas worldwide. By 2030, the market is expected to double, reaching a value of more than EUR 50 billion. It is within this market context that we aspire to become a global leader and a top-five player by 2030. Our 2030 Strategy is our roadmap in pursuit of these ambitions.

2021 resulted in sales performance broadly in line with plan. Revenue for the year ended at DKK 9,957 million, a decline by 1.7% compared to last year. Excluding the products divested in 2020, however, revenue grew by 5%. It is highly encouraging that our portfolio of dermatology products grew by 5%, driven by our strategic products Kyntheum® and Enstilar®, which continued to win market shares. Our more mature products, such as Protopic®, Fucidin® and our Thrombosis portfolio, performed well.

Our 2021 operating loss before interest, tax, depreciation and amortization (EBITDA) ended at DKK 1,957 million, while the operating loss before interest and tax (EBIT) ended at DKK 4,156 million, which was below expectations. This reflects a significant loss that was related in particular to the high planned investment in the launch of tralokinumab, as well as impairment of intellectual property and continued high investment in R&D activities.

We have a continued strong focus on increasing our competitiveness and profitability. During the year, we diligently managed to implement a wide range of initiatives under our efficiency program, which is aimed at creating a more simple, agile and lean company. Compared to benchmarks, we still need to improve our competitiveness and this will continue to be a strong focus in 2022 and require a transformation of the organization, as announced in January 2022.

In November 2021, it was announced that, by mutual agreement with the Board of Directors, Catherine Mazzacco would leave the position as President and CEO of LEO Pharma. On an interim basis, she was replaced by CFO Anders Kronborg as acting CEO, until Christophe Bourdon takes up the position as new President and CEO when he joins LEO Pharma on April 1, 2022.

Our commitment to provide first- and best-in-class treatments, whether developed in-house or acquired from a partner, requires substantial investments. Hence, we were very pleased to welcome private equity company Nordic Capital as a minority owner of LEO Pharma in 2021. Together, the LEO Foundation, as our majority owner, and Nordic Capital form a strong financial platform.

In an environment still affected by the global pandemic, we managed to progress and develop our company throughout the year, delivering on our promises to patients, healthcare providers and owners. We would like to extend our sincere thanks to all employees of LEO Pharma who made this possible, often under tough conditions. It was a pleasure for us to recognize this high level of engagement by inviting all colleagues to take part in our new Employee Share Purchase Plan at the end of the year.

The future looks promising for LEO Pharma. In 2021, we took bold steps in pursuit of our 2030 Strategy. We will continue this work diligently in the coming years, in order to position LEO Pharma as a global leader in medical dermatology.

Jesper Brandgaard,
Chair, Board of Directors

Anders Kronborg,
Acting CEO

2021 highlights

MARCH

Improved efficiency
Under our LEAP program, we took further steps to enhance efficiency, in particular by reshaping the set-up for our global product supply and establishing a Global Business Service Center in Gdansk, Poland, to consolidate business support processes.

New ownership structure fuels our 2030 Strategy
In March, the LEO Foundation announced that it would sell a minority interest in LEO Pharma A/S to Nordic Capital. The new ownership structure, with the LEO Foundation remaining the majority owner of LEO Pharma, is a key milestone towards realizing our 2030 growth ambitions. The deal was closed in July.

Discontinuation of project within rare disease
In March, after evaluating the data from the patidegib Phase 3 trial, LEO Pharma decided not to exercise its option to acquire PellePharm. Based on the study, we concluded that the treatment profile which the study exhibited unfortunately did not align with the profile we had hoped to offer patients suffering from Gorlin syndrome.

MAY

Delgocitinib moves to Phase 3
In May, we initiated the first pivotal Phase 3 clinical trial with delgocitinib cream for the treatment of adults with moderate-to-severe chronic hand eczema (CHE) in Europe and Canada.

JUNE

Phase 1 'first-in-man' trial with an oral IL-17A PPI
In June, the first subject was dosed in a new Phase 1 'first-in-man' trial with an oral IL-17A PPI modulator. The objective is initially to develop this as a potential first-in-class treatment for psoriasis that could offer a patient-preferred oral option with biologic-like efficacy.

Approval of tralokinumab in Europe
We advanced significantly towards bringing tralokinumab to patients with moderate-to-severe atopic dermatitis in 2021, when we achieved regulatory approval by the European Union, covering all EU member states, as well as Iceland, Liechtenstein and Norway, and by the Medicines & Healthcare products Regulatory Agency in the UK, under the brand name of Adtralza®.

NOVEMBER

Change of President & CEO
In November, it was announced that Catherine Mazzacco would leave the position as President and CEO of LEO Pharma by mutual agreement with the Board of Directors. CFO Anders Kronborg was appointed acting CEO and Jesper Brandgaard was appointed Executive Chairman until the appointment of a successor to lead the next phase of LEO Pharma's strategic transformation.

New R&D strategy
To deliver on our growth and leadership ambitions, we continued our sustained drive to enhance our competitiveness and optimize our R&D efforts. This included a new R&D strategy aimed at maximizing our pipeline assets, reducing submission deadlines, focusing our internal drug discovery on small molecules and exploring in-licensing opportunities.

AUGUST

New Chair of the Board
Jesper Brandgaard was appointed Chair of the Board of Directors of LEO Pharma as of August 2021, succeeding Olivier Bohuon, who decided to step down from the position earlier in the year.

JULY

IL-22R inhibitor moves to Phase 2a
July saw the initiation of a Phase 2a trial with a novel IL-22R inhibitor – an investigational medicine with the potential to become a first-in-class treatment for moderate-to-severe atopic dermatitis (AD).

DECEMBER

Employee share purchase plan launched
LEO Pharma employees worldwide were offered to invest in LEO Pharma shares under a new Employee Share Purchase Plan, in recognition of their key role in moving the company forward.

H4R antagonist moves to Phase 2b
Further supporting our focus on AD, we enrolled the first patient in a Phase 2b dose-ranging clinical trial of our investigational oral histamine receptor 4 (H4R) antagonist for the potential treatment of adults with moderate-to-severe AD.

New direction for Enabling Health
We defined the direction for our global Enabling Health strategy. We aim to improve patients' quality of life by increasing the accessibility of treatment and care in countries where we operate.

Approval of tralokinumab in the US
We advanced significantly towards bringing tralokinumab to patients with moderate-to-severe atopic dermatitis in 2021, when we achieved regulatory approval in the US under the brand name of Adbry™.

Performance highlights

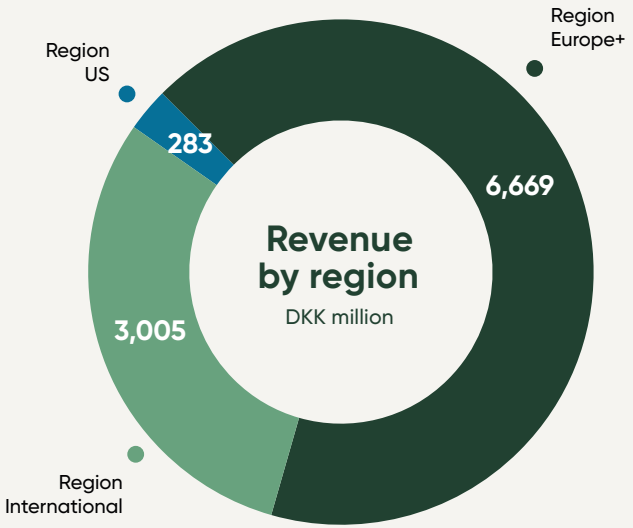
REVENUE (DKK MILLION)

9,957

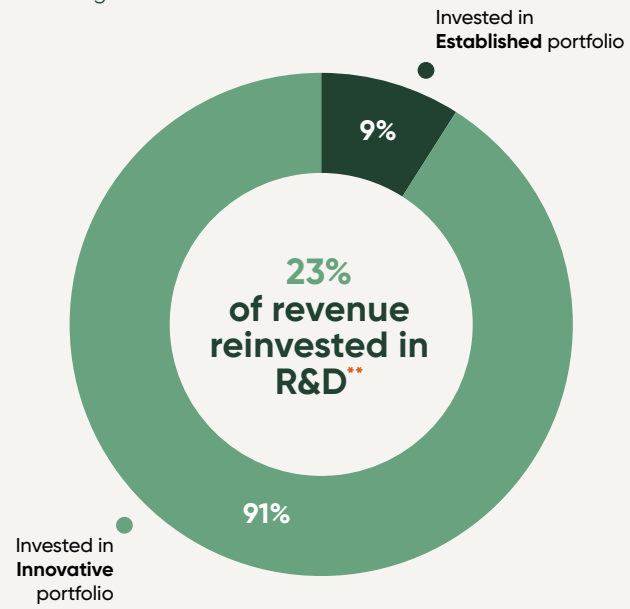
REVENUE GROWTH COMPARED TO 2020 (EXCL. DIVESTED PRODUCTS)*

+5%

Revenue by region (DKK million)



Percentage of revenue reinvested in R&D



Growth by theraputic area/brand***

DERMATOLOGY

Kyntheum®	+32%
Enstilar®	+15%
Protopic®	+11%
Skinoren®	+36%

THROMBOSIS +5%

* Total revenue growth in 2021 compared to 2020: (1.7%).
** Excluding impairment of development projects and other one-time costs.
*** 2021 growth vs 2020. Growth in value (DKK million).

ESG key figures 2021

Measuring our ESG performance helps us identify risks and opportunities for value creation across our global business.

LEO Pharma Sustainability Report 2021

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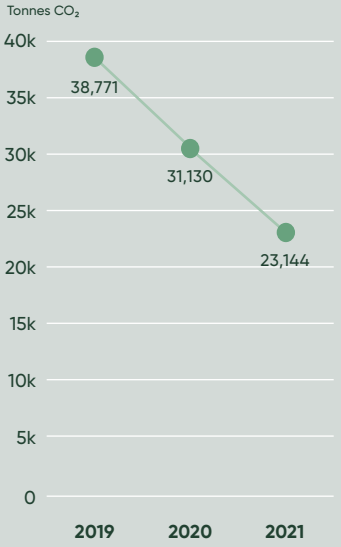
Environment

Total Scope 1 and 2 CO_2e emissions

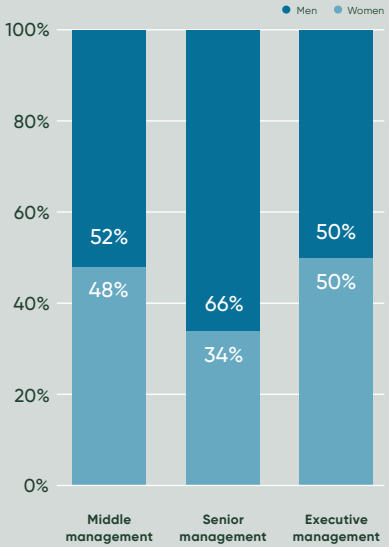


Reduced total CO_2e Scope 1 and 2 by 25.7% compared to 2020, and by 40.3% compared to our 2019 baseline.

See pages 15 and 17 in our Sustainability Report for further details of carbon emissions.

Social

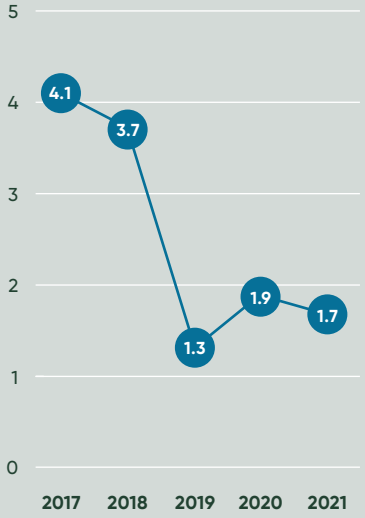
Gender distribution at management levels



Gender diversity in executive, senior and middle management remained stable compared to 2020. With a gender split of 34% women/66% men in senior management, there is a risk that we will not meet our 40/60 gender split target in 2023.

See pages 18 and 20 in our Sustainability Report for other performance data on diversity.

Lost Time Injury (LTI) rate at manufacturing sites

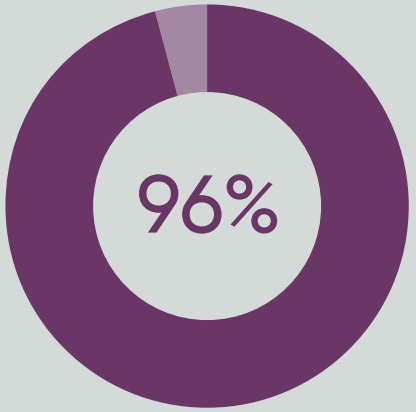


The LTI rate remained stable below 2. For the third year in a row, we achieved our global LTI rate goal of < 2.0 at manufacturing sites, incl. support functions.

See pages 19 and 20 in our Sustainability Report for supporting employee safety data.

Governance

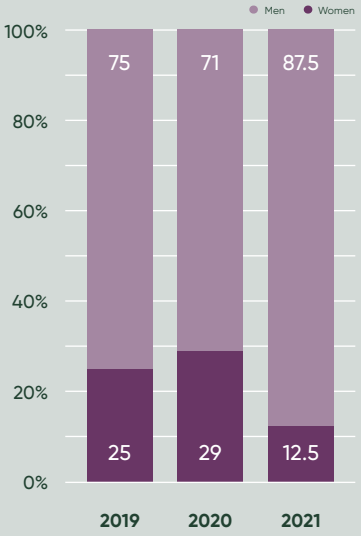
Global Code of Conduct training completion rate



Code of Conduct training for all employees was relaunched in 2021. The global completion rate was 96%.

See pages 21 and 22 in our Sustainability Report for data related to Code of Conduct and anti-corruption training concerning new employees.

Gender diversity at Board level



Since one female member left the Board of Directors in 2021, the percentage of female Board members decreased to 12.5% compared to 29% in 2020.

See page 22 in our Sustainability Report for details of our compliance with Section 99b of the Danish Financial Statements Act.

Key figures 2017-2021

(DKK million)	2021 EUR milion**	2021	2020	2019	2018	2017
Income statement						
Revenue	1,339	9,957	10,133	10,805	10,410	10,481
Established portfolio	1,252	9,314	9,666	10,472	10,268	10,467
Innovative portfolio	86	643	467	333	142	14
Operating profit/(loss) before depreciation and amortization (EBITDA)	(263)	(1,957)	521	(130)	2,366	2,005
Operating profit/(loss) (EBIT)	(559)	(4,156)	(726)	(1,313)	1,605	852
Net financials	(82)	(607)	(354)	(363)	(178)	934
Profit/(loss) before tax	(640)	(4,763)	(1,080)	(1,705)	1,416	1,783
Net profit/(loss) for the year	(655)	(4,868)	(951)	(1,287)	1,258	1,381
Financial position						
Investments in intangible assets	153	1,139	839	4,878	1,516	479
Investments in property, plant and equipment	108	800	1,164	1,328	478	385
Non-current assets	2,032	15,110	15,243	15,339	9,321	8,222
Current assets	1,154	8,585	8,610	9,421	6,963	6,371
Total assets	3,186	23,695	23,853	24,760	16,284	14,593
Equity	745	5,537	6,947	8,088	9,528	8,277
Cash flow						
Cash flow from operating activities	(326)	(2,498)	(737)	(232)	(101)	720
Free cash flow	(520)	(3,869)	314	(6,797)	128	5,555
Operating working capital	610	4,539	3,775	4,122	4,103	3,677
Net working capital	263	1,956	2,689	4,098	2,528	2,318
Invested capital*	1,399	10,405	11,816	10,866	8,168	6,454
Net interest-bearing debt	1,499	11,144	10,144	9,682	2,163	2,169

	2021	2020	2019	2018	2017
Key ratios					
Gross margin	60%	67%	69%	71%	72%
Revenue growth	(2%)	(6%)	4%	(1%)	6%
Operating profit margin	(42%)	(7%)	(12%)	15%	8%
EBITDA margin	(20%)	5%	(1%)	23%	19%
R&D costs (% of revenue)	31%	21%	23%	18%	15%
Cash conversion	79%	(33%)	528%	10%	402%
Invested capital*/Revenue	104%	117%	101%	78%	62%
Effective tax rate	(2%)	12%	25%	11%	23%
Operational metrics					
Average number of employees	5,804	5,955	5,820	5,528	5,251
Number of patients	84,686	93,262	92,192	76,084	80,056

* Excluding intellectual property rights.
** Applied exchange rate for EUR at December 31, 2021: 7.436800 (Average) and 7.436400 (End).

Our business

We are focusing our business towards becoming a global leader in medical dermatology and a top-five player by 2030. This section presents how we strive to fulfill our ambition.

OUR STRATEGY TOWARDS 2030

Bold steps towards a bright future

We aspire to become a global leader in medical dermatology and a top-five player by 2030.

UNDER LEO PHARMA'S ambitious 2030 Strategy, we continue to take bold steps towards a bright future within medical dermatology, one of the most attractive and fastest-growing therapeutic areas worldwide. Our ambition remains unchanged: to become a global leader and take a place among the top five in this field by 2030.

Our 2030 Strategy is a growth strategy sparked by innovation and our commitment to bring innovative new treatment solutions to patients. Our ambition is to deliver first- or best-in-class treatments to patients with unmet medical needs and a high burden of disease. This goes hand-in-hand with our goal to deliver double-digit annual growth in revenue towards 2030. At the same time, we will improve our profitability with the aim of an EBITDA margin of 25% in 2025 in order to create a sustainable financial model.

To achieve this, we will launch an innovative new product or enter a new indication every 2-3 years – through partnerships and by strengthening our R&D pipeline initiatives with a focus on skin diseases from mild through moderate to severe.

Three strategic pillars help us prioritize and act:

A **Capture the full value of our established portfolio**

B **Maximize the commercial value of our in-market and late-stage innovative assets**

C **Build a balanced R&D pipeline through internal R&D and business development activities**

Our journey towards global leadership in medical dermatology by 2030 is based on four key aspirations:

Double digit annual growth in revenue

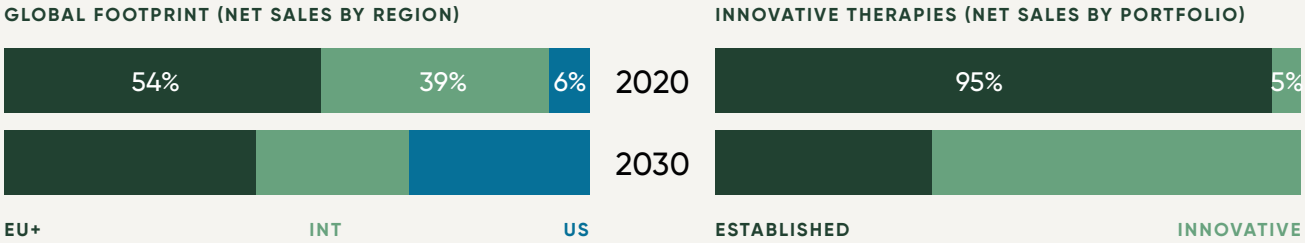
Launch new asset or enter a new indication every 2-3 years

EBITDA margin at 25% in 2025

Deliver first- or best-in-class treatments of highly prevalent diseases with unmet medical needs and a high burden of disease

Pivoting to innovation

Towards 2030, we will scale up our presence in high-growth treatment areas and achieve a more balanced geographical footprint.



Paving the way for growth

In 2021, LEO Pharma announced the successful refinancing of the company's syndicated loan facilities. This also marks LEO Pharma's inaugural sustainability-linked credit facility.

IN NOVEMBER 2021, LEO Pharma announced the successful refinancing of the company's syndicated loan facilities comprising loans of DKK 11.2 billion, which will provide access to flexible funding, allowing LEO Pharma to make the required investments to deliver the company's growth strategy towards 2030.

The facility agreement expands the timeline for LEO Pharma's total syndicated loan facilities to 2026 and allows access to an additional DKK 1.5 billion and a total of up to DKK 11.2 billion, comprising a combination of loans and revolving credit facilities.

Linking financing to sustainability targets

The refinancing marks LEO Pharma's inaugural partly sustainability-linked credit facility. Sustainability-linked loans align the cost of borrowing with the borrower's performance measured against prescribed sustainability performance targets. In this way, the refinancing supports LEO Pharma's purpose of advancing the standard of care in medical dermatology and improving the quality of life for patients with skin diseases.

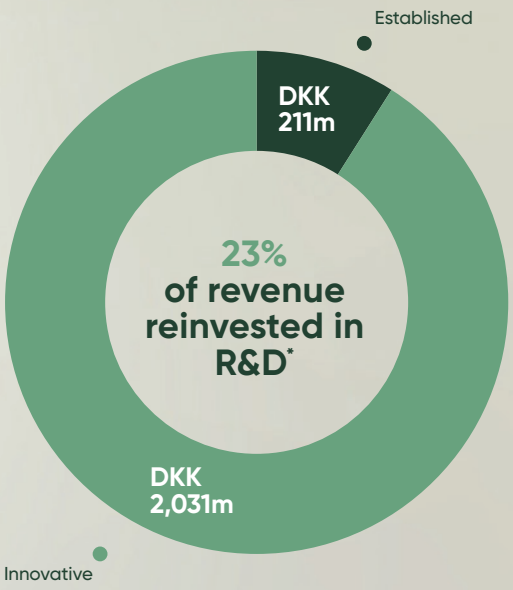
The new facility has an interest rate mechanism which links borrowing costs to LEO Pharma's progress in achieving defined sustainability targets. Depending on the degree to which LEO Pharma meets the targets, the interest rate of the loan will increase or decrease. This entails growing the company in medical dermatology with integrity and respect for employees, partners and society, and that the targets applying to the loan are linked to LEO Pharma's defined targets for carbon reduction and for gender diversity in management.

Read more about the targets in the LEO Pharma Sustainability Report 2021

Strengthening the ownership structure

In March 2021, the LEO Foundation announced the closing of Nordic Capital's investment in LEO Pharma. Nordic Capital is a leading private equity investor with vast experience in healthcare globally. The aim of the partnership is to further support LEO Pharma's ambitious growth strategy and to strengthen the company's position in medical dermatology.

As part of the transaction, Nordic Capital has invested EUR 450 million in LEO Pharma and become a minority shareholder and partner to the LEO Foundation. Moving forward, the focus will be on preparing the company for a potential stock-exchange listing within a four- to five-year time horizon. As an element of this, all employees in LEO Pharma have been offered the opportunity to become co-owners by signing up for the Employee Share Purchase Plan.



* Excluding impairment of development projects and other one-time costs.

OUR INNOVATION STRATEGY

A growth story sparked by innovation

EVERY DAY, every hour and every minute, people around the world are suffering from skin conditions, which are often severe and chronically impair their quality of life. At LEO Pharma, we are striving to change the standard of care with innovative medical treatments to improve the quality of life and enable health, and we are working relentlessly in our laboratories, offices and in the field every day to make this happen.

We are well underway with the launch of tralokinumab and a range of other promising innovative assets in our clinical pipeline. Innovation is the beating heart of LEO Pharma. Innovation enables us to make a difference for patients, and it has the potential to give us the competitive edge we need to meet our ambition to launch a new asset – or expand an asset to a new indication – every 2-3 years.

In late 2021, we revised our internal research efforts to focus our current capabilities on small molecule-based technologies, such as protein-protein interaction modulators, targeted protein degraders, and RNA targeting with small molecules. The ambition is to foster a sustainable pipeline with a stable feed of internally developed clinical candidates. To support this, LEO Pharma will continue to invest in new partnerships and build internal competencies to increase our potential to bring first- or best-in-class treatment to patients.

When it comes to future in-licensing opportunities, LEO Pharma aims to have a much broader scope than the areas within small molecules, and competencies to assess other targets, e.g. antibody targets.

Positive pipeline progress throughout the year

2021 has been a year with many milestones achieved, which have progressed our pipeline.

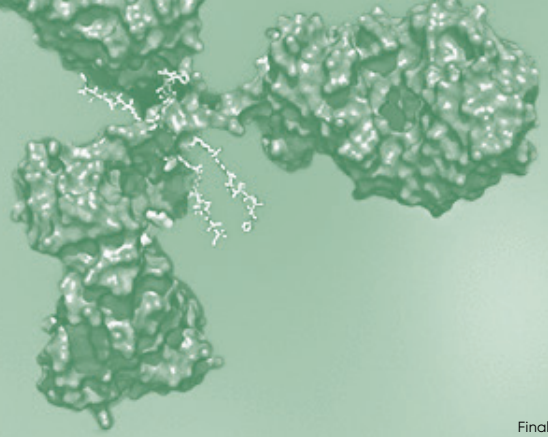
- In May, we initiated Phase 3 clinical trials with delgocitinib cream, our investigational topical pan-Janus kinase (JAK)-inhibitor for the potential treatment of adult patients with moderate-to-severe chronic hand eczema (CHE) in the EU and Canada.
- In June, the European Commission (EC) approved Adtralza® (tralokinumab) for the treatment of moderate-to-severe atopic dermatitis (AD) in adult patients who are candidates for systemic therapy.
- In June, we initiated a Phase 1 first-in-man study with our internally developed oral IL-17A PPI modulator.
- In August, the first patient was dosed with an IL-22R inhibitor in a Phase 2a proof-of-concept trial to evaluate efficacy and safety in adults with moderate-to-severe AD.
- In December, we enrolled the first patient in our Phase 2b dose-ranging clinical trial with our investigational oral histamine receptor 4 (H4R) antagonist for the potential treatment of adults with moderate-to-severe AD.
- In December, the FDA in the US approved Adbry™ (tralokinumab) for the treatment of moderate-to-severe AD in adult patients who are candidates for systemic therapy.

Pipeline exits

Despite the positive progress of our pipeline in 2021, we did also experience some pipeline setbacks.

- Collaboration with rare disease partner PellePharm was discontinued, as Phase 3 studies of patidegib, a potential therapy for Gorlin syndrome did not deliver the intended profile.
- Moreover, in December, we successfully divested our Phase-1-ready oral JAK-1 candidate to Aqilion. The JAK-1 candidate is aimed at addressing unmet needs in inflammatory diseases, such as eosinophilic esophagitis, and was not likely to achieve therapeutic indications within medical dermatology. Through the deal, LEO Pharma will become a shareholder of Aqilion.

Our clinical pipeline



Finalized phase Current phase

Project	Description	Partners	Pre-clinical	Phase 1	Phase 2	Phase 3	Registration
DERMATOLOGY							
Tralokinumab LP0162	An IL-13 anti-inflammatory monoclonal antibody under development for atopic dermatitis.	AstraZeneca					
Delgocitinib LP0133	A topical pan-JAK inhibitor under development for chronic hand eczema and atopic dermatitis.	JT					
Anti IgE+B-cell* LP0201	A monoclonal antibody under development for atopic dermatitis and allergic asthma.	ONENESS BIO / MICROBIO					
Anti IL-22R LP0145	An anti-inflammatory monoclonal antibody under development for atopic dermatitis.	argenx					
H4R antagonist LP0190	A systemic anti-pruritic and anti-inflammatory H4 receptor antagonist under development for atopic dermatitis.	JW					
IL-17A PPI LP0200	An IL-17 small-molecule modulator under development for psoriasis.						

Project compounds in our pipeline are investigational only and have not been approved by any regulatory authority.
* For a management assessment of the development project please see note 16 to the Financial Statements.

Advancing the standard of care for AD patients

IN 2021, LEO Pharma achieved several major breakthroughs in our aspiration to advance the standard of care for atopic dermatitis (AD) patients: In June, tralokinumab was approved under the name of Adtralza® by the European Commission for adults with moderate-to-severe AD in all EU member states, as well as Iceland, Liechtenstein and Norway, and by the Medicines & Healthcare products Regulatory Agency in the UK. Tralokinumab is a fully human, high-affinity, monoclonal antibody developed to specifically neutralize IL-13, which plays a key role in the immune process underlying AD signs and symptoms.

Shortly thereafter, in July, we were able to launch the treatment in Germany as the first to market in the world. Following the commercial availability of Adtralza in Germany, tralokinumab received multiple approvals indicated for the treatment of moderate-to-severe AD, which included Health Canada in October, followed by the Ministry of Health & Prevention (MOHAP) in the United Arab Emirates in November.

As our first biologic in the US, tralokinumab targets a specific pathway, IL-13, within the immune system to treat an underlying driver of atopic dermatitis. This breakthrough signifies important progress in our standard of care in medical dermatology.

Anders Kronborg,
Acting CEO.

The most recent milestone was reached in December, when the US FDA approved tralokinumab under the name of Adbry™, representing the fifth regulatory approval of tralokinumab in 2021.

Additional regulatory filings are underway with other health authorities worldwide, including Switzerland and other health authorities in Region International. Furthermore, LEO Pharma is working with the Japanese Health Authority to bring tralokinumab to Japanese AD patients. By the end of 2021, LEO Pharma completed the local clinical trial required by the Japanese Health Authority.

Ashley, USA
Living with atopic dermatitis

About tralokinumab
Tralokinumab is a new biologic to treat adults with moderate-to-severe atopic dermatitis (AD). It is the first high affinity, fully human monoclonal antibody developed to specifically bind to and inhibit the IL-13 cytokine in adults with uncontrolled moderate-to-severe AD.

About interleukin (IL-13) cytokine:
The interleukin 13 cytokine is a key driver of atopic dermatitis signs and symptoms and therefore an important target. Too much IL-13 in AD skin induces inflammation and itch, and weakens the skin barrier, which can lead to skin infections.

About atopic dermatitis (AD):
Atopic dermatitis is the most common, chronic inflammatory skin condition in the developed world. It affects up to **5%** of adults across the US, Canada, Europe and Japan. An estimated **4.4%** of adults in the EU live with AD. Symptoms of AD can lead to physical pain and discomfort, along with emotional effects.

The severity of AD is often measured by physical symptoms and the amount of body surface area involved. The location of the rash, and the impact on sleep and quality of life, are also taken into account. AD has different levels of severity:

Mild: Areas of dry skin, infrequent itching, with or without small areas of redness.

Moderate: Areas of dry skin, frequent itching and redness with or without broken skin or localized skin thickening.

Severe: Widespread areas of dry skin, incessant itching and redness with or without broken skin, extensive skin thickening, bleeding, oozing, cracking and alteration of pigmentation.

OUR PEOPLE STRATEGY

Unlocking our organizational potential

We call our people strategy our 'People Promise' as it is about far more than just priorities and goals. For us it is about commitment. It is about making a difference. And it is about taking pride in striving to become an employer and partner of choice in improving the lives of patients.

Dennis Schmidt Pedersen,
EVP Global People & Communications

OVER THE COMING YEARS, LEO Pharma will transform into a company that is built on innovation and growth to advance to the top five within medical dermatology. We need to prepare ourselves for how this journey will require LEO Pharma to change, build new capabilities and introduce new ways of working in order to achieve our ambitions.

On that journey, a new people strategy, the People Promise, was introduced in 2021. The overall aspiration is to position LEO Pharma as an employer and partner of choice in improving the lives of people with skin diseases. We will achieve this by unlocking our organizational potential as a global team and ensuring the development of the capabilities, skillsets and behaviors needed to succeed in a new market reality.

Supporting the transformation
Employee engagement is key during the ongoing transformation of LEO Pharma. To support this process we have introduced a plan for the stepwise development of our organization. For the coming two years, we will focus on four priorities:

- Lead performance & learning culture
- Reinforce our company reputation
- Drive a consistent people experience
- Advance our organizational capabilities

As part of nurturing employee engagement and driving performance, 45% of all managers completed our *Fit to LEAD* management training during 2021, a program dedicated to equipping managers to lead people through change. In addition, we launched an Employee Share Purchase Plan to invite our people to take part in the future value creation of LEO Pharma.

The LEO Voice employee survey tool has been adjusted to provide a more dialogue-based platform to capture rapid feedback from the organization on various elements of the transformation and invite everyone to play an active role in strengthening the journey. This will be implemented during first quarter of 2022.

Our People Promise is founded on three core goals:

1.
Position LEO Pharma as a leader in advancing care for patients among our external stakeholders and partners

2.
Build a responsible and healthy organization with a clear purpose and priority, dedicated to developing people and attracting talents

3.
Foster a culture which sets high, yet realistic expectations, while empowering people to deliver superior results

Want to know more about our people initiatives in 2021?

LEO Pharma launched a number of people initiatives, which are described in our Sustainability Report 2021, including:

Operating responsibly
We are committed to operating with integrity and respect for our employees, the environment and our partners. Read more here

Diversity & Inclusion
A diverse and inclusive organization fosters innovation, drives better decision making, and leaves a positive impact on people engagement. Read more here

Flexible working
With COVID-19, working remotely and virtually has become the new normal. In 2021, we introduced our global flexible working policy. Read more here

Human rights
We recognize our corporate responsibility to respect human rights. We are committed to identifying and addressing any adverse human rights impacts resulting from our own operations or business relationships. Read more here

Keeping employees safe during a pandemic
With the pandemic present throughout 2021, we continued to take necessary precautions to safeguard the health of our employees and ensure a continued supply of medicine to patients without disruption. Read more here

Employee data
Our Sustainability Report covers a number of social data points, including for diversity or employee safety. Read more about our ESG data and progress overview here

Our financial performance

This section provides an overview of our financial performance in 2021 reflecting the significant changes and investments made with the objective of achieving our strategic ambitions

Read more about our ESG performance in our separate Sustainability Report 2021

Financial review and outlook

LEO Pharma made progress during 2021 on achieving our strategic ambitions and progressed the pipeline with the launch of Adtralza® in Germany in July. Within Dermatology, our strategic brands saw double-digit growth, compared to last year, and gained market share. Divestment of non-core products in 2020, competition from generic products in Europe and further price pressure in the US impacted the revenue negatively, which overall led to a decrease in revenue compared to 2020.

9,957 DKK MILLION

Total revenue for the LEO Pharma Group

Revenue for the LEO Pharma Group

Overall revenue decreased by 1.7% to DKK 9,957 million. The lower revenue was driven by the divestment of four non-core products as of December 2020. Excluding the divested products, revenue grew by 5%. The growth was driven by both the Dermatology portfolio and Thrombosis. Of the total revenue, our Established portfolio contributed DKK 9,314 million, while revenue from the Innovative portfolio amounted to DKK 643 million.

The growth was supported by growth in our strategic products Enstilar® and Kyntheum®, which gained market share, although partly offset by the decrease in other psoriasis products targeted by generics. Revenue for Enstilar® grew by 15% to DKK 1,292 million and sales for Kyntheum® grew by 32% to DKK 615 million, thereby making a strong contribution to revenue during a challenging year.

Adjusted for currency, revenue decreased by 0.9% compared to 2020. Excluding the divested products, revenue grew by 6%.

In December 2020, LEO Pharma divested four non-core products to Cheplapharm. These products, for which LEO Pharma now acts as a contract manufacturer for an interim period, generated revenue of DKK 183 million in 2021, compared to DKK 672 million in 2020, when LEO Pharma recorded the full sales revenue of the four products.

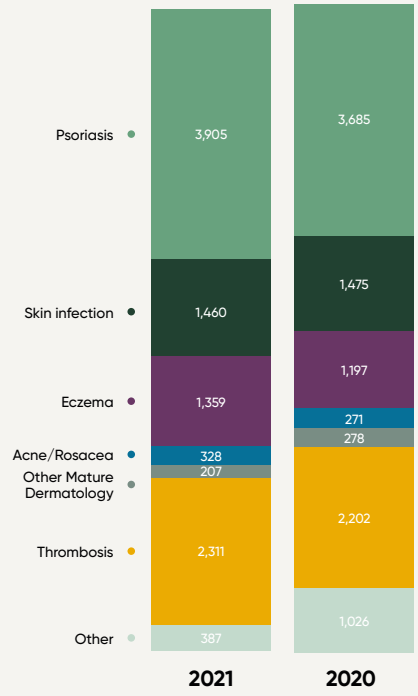
Revenue by therapeutic area

The two strategic psoriasis products Enstilar® and Kyntheum® continued to grow and gain market share. In general, revenue in the psoriasis area grew compared to 2020 due to post COVID-19 rebound. Total psoriasis revenue amounted to DKK 3,905 million in 2021, an increase of 6% compared to 2020. Enstilar® continues to be our best-selling product in our psoriasis portfolio, representing 33% of our Psoriasis revenue. Kyntheum® grew by 32% compared to 2020. With revenue of DKK 615 million, Kyntheum® now accounts for 16% of our Psoriasis revenue, even though it is only marketed in Europe.

Products in our Eczema/Skin infection range grew 6% to DKK 2,819 million. Revenue for Eczema grew 14%, driven by Protopic® and our Advantan® portfolio growing by 11% and 12%, respectively. Skin Infection decreased by 1%.

During 2021, the Group launched Adtralza® in three European markets, reaching DKK 28 million.

REVENUE BY THERAPEUTIC AREA (DKK MILLION)



Acne/Rosacea increased revenue, reaching DKK 328 million, growing 21% compared to 2020. The therapeutic area, Skinoren® was the primary growth driver, with sales growth of 36% and reaching DKK 198 million in revenue.

Thrombosis revenue increased by 5% to DKK 2,311 million, compared to DKK 2,202 million in 2020. Within the area, innohep® and Protamine Sulphate sales grew 5% and 67%, respectively, while sales of Heparin decreased 5%. Sales in 2021 were still affected by restrictions on hospital stays and lower levels of chemotherapy treatment post COVID-19.

Revenue by region

The following paragraphs provide an overview of our Dermatology portfolio by region, excluding the divested products. Revenue for non-derma products (Thrombosis) is described under Revenue by therapeutic area.

Region Europe+
In 2021, sales for Region Europe+ grew 8% to DKK 4,193 million, driven by the lifting of restrictions due the COVID-19 pandemic.

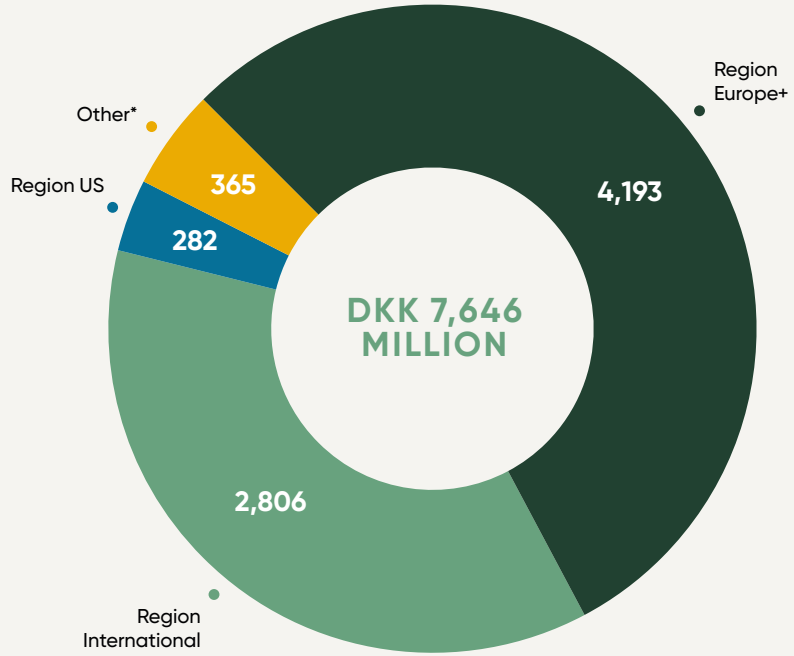
Kyntheum® and Enstilar® continue to be the drivers of organic growth. Sales of Kyntheum® increased to DKK 615 million, representing growth of 32% compared to 2020, while Enstilar® continued the strong performance in the topical psoriasis area, with revenue growth of 13% in the region, increasing to DKK 1,095 million. The market share of Enstilar® in the topical psoriasis segment increased by 1.9% to 22.1%, with an estimated 1.3 million patients being treated with Enstilar® by the end of 2021.

As a result of the strong growth of Kyntheum® and Enstilar®, combined with the overall topical psoriasis market rebound from COVID-19 lockdowns, the revenue for the overall psoriasis portfolio in Region Europe+ grew 8% or DKK 183 million compared to 2020.

Region International
In 2021, revenue in Region International ended at DKK 2,806 million, corresponding to growth of 9% or DKK 233 million, compared to 2020. Given the wide diversity of countries and business models within the region, there were significant variations in the performance of the individual countries.

The key growth driver was China, where net sales increased by DKK 208 million compared to 2020, mainly driven by recovery and normalization of the sales channels after COVID-19 in 2020, but also the positive exchange-rate impact.

DERMATOLOGY REVENUE BY REGION (DKK MILLION)



* Other mainly covers revenue where LEO Pharma acts as a contract manufacturer.

Region US
2021 sales for the US amounted to DKK 282 million, a decrease of DKK 145 million or 34%. This decrease reflects the competitive landscape in the US, with increasing net pricing pressure on our branded and authorized generic portfolios. The US will be a key growth driver for LEO Pharma in the coming years, with the launch of Adbry™ in 2022.

Our authorized generic portfolio decreased by DKK 71 million, with net sales totalling DKK 83 million, reflecting the competitive environment in the generic markets.

Enstilar® sales ended at DKK 81 million, which is 32% lower than for 2020. This reflects higher in-market demand, offset by increased co-pay utilization.

Finacea Foam® sales ended at DKK 69 million and grew by 17% driven by full-year impact, as a result of the relaunch in April 2020.

Costs and profit & loss

In 2021, total costs amounted to DKK 14,108 million, after growing by 17%, from DKK 12,034 million in 2020. The main reason for the increase in costs is the impact from impairment of development projects, together with the introduction of a new operating model for LEO Pharma and a change program to increase our competitiveness, simplify operations and increase profitability.

In 2021, cost of sales was DKK 3,962 million, which is an increase of 18% compared to DKK 3,360 million in 2020. The gross margin was 60% in 2021, against 67% in 2020. The key drivers of the decrease in gross margin are the divestment of four non-core products in December 2020, for which LEO Pharma for a limited time serves as a contract manufacturing organization, as well as higher raw material costs for the Thrombosis portfolio.

Operating costs amounted to DKK 10,146 million in 2021, compared to DKK 8,674 million in 2020.

Research and development costs
During 2021, we continued to invest strongly in our future, and our research and development costs amounted to DKK 3,058 million, or 31% of our 2021 rev-

Research and development expenditure amounted to DKK 3,058 million, or 31% of our 2021 revenue, against a spend amounting to 21% of revenue in 2020.

enue, against a spend amounting to 21% of revenue in 2020. Adjusted for impairment of development projects and other one-time expenses, the spend in 2021 amounted to 23% of revenue.

The key drivers of the increases in research and development costs were the continued investments in bringing tralokinumab to market. Furthermore, LEO Pharma increased the activities within Eczema, including Phase 3 studies of delgocitinib for treatment of chronic hand eczema and Phase 2 studies of H4R antagonist, a first-in-class oral therapy.

Administrative costs
The increase in administrative costs from DKK 2,145 million in 2020 to DKK 2,390 million in 2021 reflects one-off costs relating to the introduction of the new operating model for LEO Pharma and the impairment of software development projects.

Profit and loss
Our 2021 operating loss before interest, tax, depreciation and amortization (EBITDA) ended at DKK 1,957 million, compared to DKK 521 million in 2020. Operating loss before interest and tax (EBIT) ended at DKK 4,156 million, compared to a loss of DKK 726 million in 2020, which was significantly below expectations.

The operating loss is a result of significant costs related to the upcoming launch of tralokinumab, together with impairment of intellectual property and development projects, where the primary effect was the decision not to utilize the acquisition option related to patidegib, which accounts for DKK 435 million. We have also introduced a new operating model and change program to simplify operations, increase profitability and fund our ambitious growth strategy, which impacted the results negatively at DKK 226 million.

As we continue the transformation of LEO Pharma to become a global leader in medical dermatology, a negative result was expected, as we invest in the next phase of LEO Pharma's growth journey.

Financial items
Net financial items showed a loss of DKK 607 million, compared to a loss of DKK 354 million in 2020. This was mainly driven by exchange rate losses, pay-out of a bank guarantee in relation to an abandoned rare disease development project and increased interest expenses related to the syndicated loan facility from a banking group, as well as from LEO Holding A/S.

Balance sheet and cash flow

Balance sheet
Total assets decreased from DKK 23,853 million at December 31, 2020 to DKK 23,695 million at December 31, 2021. The decrease was mainly driven by impairment of development projects and software in progress, offset by increased inventory volumes mainly related to the upcoming launch of Adbry™/Adtralza® (tralokinumab) in the US and selected markets in Europe.

Cash flow
Cash flow from operating activities was DKK (2,498) million. Cash flow from investing activities was DKK (1,371) million, partly offset by investments in production facilities and IT systems. Cash flow from financing activities was DKK 3,691 million related to proceeds from borrowings, a share capital increase and repayments of borrowings and lease liabilities.

Outlook

Follow-up on 2021 outlook
In the outlook section of our 2020 Annual Report, LEO Pharma expected 2021 revenue to end at the same level as 2020 (DKK 10,133 million). Revenue in 2021 ended at DKK 9,957 million and therefore 1.7% below expectations. The lower revenue compared to our outlook was driven by the delay in the approval of tralokinumab in the US.

We expected an operating loss (EBIT) of DKK 2.7-2.9 billion. We delivered an operating loss (EBIT) of DKK 4.2 billion. The lower result was driven by a combination of impairment of our development projects and software in progress, as well as production facilities related to the divested portfolio and costs concerning the aforementioned introduction of the new operating model and change program.

2022 outlook
In 2022, LEO Pharma will continue to move forward towards realizing our 2030 Strategy. This entails significant investments in our clinical pipeline, especially in the clinical development and post-clinical activities of tralokinumab and delgocitinib.

LEO Pharma anticipates annual revenue growth of 3-5% to DKK 10.2-10.4 billion in 2022, driven by the launch of tralokinumab and growth in our strategic products. We will continue to focus on profitability improvements for the established portfolio and investing significantly in innovative research and development activities. Furthermore, costs related to product launches will increase significantly in 2022. LEO Pharma expects this to lead to an operating loss (EBIT) of DKK 3.1-3.3 billion in 2022. Further divestments or write-downs of intellectual property rights can change the outlook.

This section covers our governance structure, including our legal structure, Board of Directors of LEO Pharma A/S, Board committes, Global Leadership Team and an overview of our key risks and how we mitigate them.

Our governance

Company information

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

OWNERSHIP STRUCTURE

LEO Pharma A/S

LEO Pharma A/S is a co-owned subsidiary of:

LEO Holding A/S
Lautrupsgade 7, 5th floor
2100 Copenhagen Ø, Denmark

Nordic Capital
Through Cidron Savanna 4 SARL
8 rue Lou Hemmer
1748 Luxembourg

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

Board of Directors

Chair

Jesper Brandgaard

Board member since 2021

Nationality: Danish

Special competencies: Board Leadership, exec. management in biopharmaceutical industry

Board committees, LEO Pharma A/S: Remuneration & Nomination Committee (Chair), IPO Preparedness Committee (Chair)

Career: Professional Board Member; EVP Biopharm & Legal Affairs; CFO & EVP, Finance, Legal & IR; SVP Corp. Finance, Novo Nordisk A/S (1999-2019). Chair of Board of Directors, Simcorp A/S (2008-2019). COO & CFO, EAC Nutrition (1996-1999).

Education: MBA, MSc Economics & Auditing, BSc Economics & Business Administration, CBS

Other board memberships:
- Chr. Hansen (Vice Chair)
- WilliamDemant Invest (Vice Chair)
- WilliamDemant Foundation
- VækstPartner Kapital Advisory Board

Vice Chair

Anders Ekblom

Board member since 2018

Nationality: Swedish

Special competencies: Exec. management, biopharmaceutical industry, project and change management

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

Career: Professional board member. EVP Global Medicines Development at AstraZeneca Plc. CEO AstraZeneca AB

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

Other board memberships:
- Alligator Bioscience AB (Chair)
- Xspray Pharma AB (Chair)
- AnaMa AB
- Elypta AB (Chair)
- Mereo Biopharma Group Plc

Jan van de Winkel

Board member since 2017

Nationality: Dutch

Special competencies: Therapeutic antibody creation and development, biotechnology industry, exec. management

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

Career: Co-founder, President & CEO of Genmab A/S. VP and Scientific Director of Medarex Europe. Professor in Immunotherapy at Utrecht University

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

Other board memberships:
- Hookipa Pharma (Chair)
- Omega Alpha SPAC

Jesper Mailind

Board member since 2018

Nationality: Danish

Special competencies: Exec. management in healthcare, medical devices and industry

Career: Professional Board Member; CEO, LEO Foundation, CEO GN Resound, RTX and SVP in Nycomed A/S (Takeda)

Education: MBA, Insead

Other board memberships:
- RTX A/S (Vice Chair)
- Sonion A/S
- Etac AB

Birgitta Stymne Göransson

Board member since 2019

Nationality: Swedish

Special competencies: Exec. management in med-tech, healthcare, consumer goods and IT/SW applications

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

Career: Professional Board member. CEO Memira Group AB and Semantix AB, COO/CFO Telefos, McKinsey management consultant

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

Other board memberships:
- Elekta AB
- Pandora A/S
- Enea AB
- MinDoktor AB (Chair)
- Industrifonden (Chair)

Lars Green

Board member since 2021

Nationality: Danish

Special competencies: Exec. finance and business management in healthcare and industrial enzymes

Board committees, LEO Pharma A/S: Audit Committee

Career: CFO & EVP, Finance, IT & Legal, Novozymes A/S; EVP Business Services & Compliance; SVP & Regional CFO, North America; SVP Finance, Novo Nordisk A/S

Education: MSc Business Administration, Aarhus School of Business, Denmark

Other board memberships:
- LEO Foundation and LEO Holding (Member of Board of Trustees)

Jonas Agnblad

Board member since 2021

Nationality: Swedish

Special competencies: Corporate finance (M&A) and private equity investments

Board committees, LEO Pharma A/S: Audit Committee, Remuneration & Nomination Committee, Scientific Committee (observer), IPO Preparedness Committee

Career: Partner and Co-lead of Healthcare, Nordic Capital

Education: MSc Economics, Finance, Stockholm School of Economics.

Peter Haahr

Board member since 2021

Nationality: Danish

Special competencies: Strategy and operations in life science industry, financial management and capital markets

Board committees, LEO Pharma A/S: Remuneration & Nomination Committee, Scientific Committee (observer), IPO Preparedness Committee

Career: CEO, LEO Foundation; CFO, Novo Holdings; Several national and international leadership positions, Novo Nordisk A/S; Equity Analyst, various financial institutions.

Education: EMBA, IMD, Switzerland. MSc Finance & Accounting, Aarhus University

Other board memberships:
- NNIT (Vice Chair)
- House of Denmark (Chair)

Jannie Kogsbøll

Employee-elected Board member since 1998

Nationality: Danish

Career: Process assistant, Production Ballerup. Joined LEO Pharma in 1985

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

Karin Attermann

Employee-elected Board member since 2008

Nationality: Danish

Career: Sr. Compliance Manager Business Ethics, Global Risk & Compliance; Regional Compliance Manager, Region Europe+. Joined LEO Pharma in 1988

Education: BA in English and German

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

Franck Maréno

Employee-elected Board member since 2018

Nationality: Danish

Career: Principal Technician, Fucidin API Fermentation and FAR Project. Joined LEO Pharma in 2008

Education: AP Graduate Laboratory and Biotechnology "Technonome"

Other board memberships:
- LEO Foundation
- LEO Holding A/S
- Vice Chair, the Technicians Club at LEO Pharma.

Signe Maria Christensen

Employee-elected Board member since 2018

Nationality: Danish

Career: Sr. Strategic Alliance Manager, R&D Project and Alliance management. Joined LEO Pharma in 2011

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

Other board memberships:
- LEO Pharma Academics Association (Vice Chair)

Board committees

Audit Committee

The Board of Directors has established an Audit Committee to assist the Board of Directors in overseeing aspects related to financial reporting, auditing, risk management, currency and investment policies and compliance. The Audit Committee meets when required, but at least four times a year. The Audit Committee comprises at least three members appointed by the Board of Directors.

The members possess the relevant qualifications specified in the Rules of Procedure of the Audit Committee.

The Board of Directors has elected the following Board members to the Audit Committee:

Birgitta Stymne Göransson
(Chair)

Lars Green

Jonas Agnblad

Remuneration and Nomination Committee

The Board of Directors has established a Remuneration and Nomination Committee to assist the Board of Directors in aspects related to remuneration, assessment and nomination. The Remuneration and Nomination Committee meets when required, but at least four times a year. The Remuneration and Nomination Committee comprises at least three members, two of whom have to be members of the Board of Directors.

The Board of Directors has elected the following Board members to the Remuneration and Nomination Committee:

Jesper Brandgaard
(Chair)

Anders Ekblom

Jonas Agnblad

Peter Haahr

Scientific Committee

The Board of Directors has established a Scientific Committee to assist the Board of Directors in overseeing the Research and Development Strategy and the R&D pipeline. The Scientific Committee meets when required, but at least four times a year. The Scientific Committee comprises at least two members appointed by the Board of Directors.

The Board of Directors has elected the following Board members to the Scientific Committee:

Jan van de Winkel
(Chair)

Anders Ekblom

IPO Preparedness Committee

The Board of Directors has established an IPO Preparedness Committee. The committee oversees the development and execution of plans to secure that the financial and structural profile of LEO Pharma matches peer benchmarks, preparing the company for a public listing.

The IPO Preparedness Committee comprises three members, including shareholder representation.

The Board of Directors has elected the following Board members to the IPO Preparedness Committee:

Jesper Brandgaard
(Chair)

Jonas Agnblad

Peter Haahr

Global Leadership Team

Anders Kronborg
Acting CEO and
Chief Financial Officer

Joined LEO Pharma in: 2015

Nationality: Danish

Career: COO at Kinnevik Investment AB. CFO at Metro International, TV2 Denmark and Berlingske Media.

Education: Economist at Copenhagen University

Guillaume Clément
Executive Vice President
Region International & GBU Thrombosis

Joined LEO Pharma in: 2009

Nationality: French

Career: President at Polepharma. General Manager at Cephalon Inc.

Education: Master, Chemical engineering at Chimie ParisTech – PSL. MBA at INSEAD. Executive MBA, Business Administration and Management at IMD

Becki Morison
Executive Vice President
Global Therapeutic & Value Strategy and interim EVP Region US

Joined LEO Pharma in: 2020

Nationality: American

Career: Vice President/General Manager at Eli Lilly and Company. Director at First Health.

Education: B.A, Psychology and Religion at Denison University

Jörg Möller
Executive Vice President
Global Research & Development

Joined LEO Pharma in: 2021

Nationality: German

Career: EVP, Head of Global Research and Development and Member of Executive Committee at Bayer AG. SVP and VP at Bayer HealthCare Pharmaceuticals. Board member at BlueRock Therapeutics and Casebia Therapeutics.

Education: MD, Medicine at Ruhr-Universität Bochum, Medical School. Management at IESE Business School - University of Navarra

Monica Shaw
Executive Vice President
Region Europe+

Joined LEO Pharma in: 2020

Nationality: British

Career: VP and General Manager at GSK. Medical Director at Novartis.

Education: MBBS, Medicine at University of Oxford

Rhonda Duffy
Executive Vice President
Global Product Supply

Joined LEO Pharma in: 1993

Nationality: Irish

Career: Various VP roles at all manufacturing sites and Global Product Supply functions at LEO Pharma.

Education: PhD, Pharmacy at Trinity College Dublin

Nathalie Joannes
Executive Vice President
Global Legal & Compliance

Joined LEO Pharma in: 2020

Nationality: Belgian

Career: General Counsel at Roquette, Ipsen and Serono. SVP and Chief European Counsel at Genzyme.

Education: Master of Laws at University of Pennsylvania Law School, JD at University of Liège

Dennis Schmidt Pedersen
Executive Vice President
Global People & Communications

Joined LEO Pharma in: 2018

Nationality: Danish

Career: SVP, Human Resources at Sobi. Director at Takeda and Sanofi Genzyme.

Education: Royal Danish Officers Academy

Changes in 2022
On January 31, 2022, LEO Pharma announced the appointment of Christophe Bourdon as new Chief Executive Officer as of April 1, 2022. He was previously CEO of Orphazyme A/S and brings 25 years of experience from the pharmaceutical industry across three continents.
On February 17, 2022, LEO Pharma announced the appointment of Brian Hilberdink as new EVP and President of LEO Pharma Inc. effective March 14, 2022. Brian Hilberdink joins LEO Pharma from Novo Nordisk, Inc., in the U.S. where he served as Senior Vice President of Sales.

Changes in 2021
In November 2021, it was announced that Catherine Mazzacco would leave the position as President and CEO of LEO Pharma based on a mutual agreement with the Board of Directors. CFO Anders Kronborg was appointed acting CEO and Jesper Brandgaard was appointed Executive Chair until Christophe Bourdon joins the company.

2021 saw two further leadership changes when Jörg Möller joined LEO Pharma in January as Executive Vice President of Global Research & Development, while Chris Posner, Executive Vice President in charge of Region US, left the company in November to pursue an external career opportunity.

Risk management

Through our operations, we are continuously exposed to a broad array of risks. Therefore an Enterprise Risk Management program is being implemented to enable the structured, methodological and effective management of top risks across our value chain.

Risk management program
As a global pharmaceutical company, LEO Pharma operates in a highly complex business environment. Through our operations, we are continuously exposed to a broad array of risks. These risks may have a significant impact on our business if not properly identified, evaluated, managed and monitored. Therefore an Enterprise Risk Management (ERM) program is being implemented to enable the structured, methodological and effective management of top risks across our value chain.

In 2021, as an element of further enhancing and implementing the program, a principle procedure and standard operating procedure were developed to strengthen the governance, roles and responsibilities around ERM, as well as to standardize the enterprise risk assessment process and tools. A dedicated team of enterprise risk specialists was also established to support business areas across the global value chain in identifying, evaluating and monitoring top risks across LEO Pharma.

Risk management governance
At LEO Pharma, the Board of Directors holds the overall responsibility for ERM, with delegation of the role of oversight of the ERM program to the Audit Committee.

The CEO and the Global Leadership Team are responsible for ensuring that the ERM program is implemented, as well as for setting the overall risk management strategy and appetite for top risks. The CEO and the Global Leadership Team also ultimately own and have to manage all relevant risks in each business area.

The Risk and Compliance Committee oversees and supports the execution of the ERM process and key activities across the organization.

Finally, the Global Risk and Compliance team drives the implementation and maintenance of the ERM program and execution of the ERM process, and also supports leadership teams across the organization in fulfilling their ERM-related roles and responsibilities.

Risk identification and evaluation
Leadership teams in business areas identify their top risks through a structured process, which includes risk interviews and workshops. This process is facilitated by the Global Risk and Compliance team on an annual basis in Q4. Identified risks are evaluated in terms of impact (financial and reputational) and likelihood. For each top risk, a clear scenario, a set of assumptions and an overview of implemented mitigating measures are developed.

Risk monitoring and reporting
Following identification and evaluation of top risks across the organization, the Global Risk and Compliance team consolidates and prepares an annual top-10 risk profile for LEO Pharma. The risk profile is shared with the Risk and Compliance Committee for discussion, review and approval prior to submission to the CEO and the Global Leadership Team and, ultimately, the Audit Committee for their respective discussion, review and approval.

The approach fosters transparency around top risks and exposure across LEO Pharma's entire global value chain and also creates a solid foundation for prioritization of resources and execution of risk mitigation activities.

The Global Risk and Compliance team works closely with the relevant leadership teams to monitor risks included in the top 10-risk profile and provides quarterly updates to the Risk and Compliance Committee, the CEO, the Global Leadership Team as well as to the Audit Committee.

KEY RISKS	COVID-19 business impact	Cyber security	New product launches	Market access and pricing pressure	Supply disruption	Third-party compliance
RISK AREA	The global COVID-19 pandemic continues to evolve and is contributing to disruptions in the healthcare sector, manufacturing and supply chains. Moreover, the continuation of the pandemic may cause further disruptions to clinical trials and face-to-face promotion and lead to a decline in product demand.	Remote work practices and adoption of cloud services are among many factors contributing to a record-high number of cyber attacks in 2021. Numerous high-profile organizations have fallen victim to some form of cyber attack, severely affecting their IT infrastructure, production and distribution. Any form of cyber security breach may happen anywhere along the global LEO Pharma value chain and across all locations.	The success of a new product launch depends on many factors, some of which are beyond our control. Events such as authorities requesting additional clinical trial data or delays at the manufacturing sites can have serious consequences for regulatory approval processes and subsequent product launches. Moreover, results of reimbursement negotiations are crucial to successful product commercialization.	Achieving an acceptable pricing and reimbursement level for our products is essential to our ability to launch new innovative treatments and commercialize our existing portfolio. This depends on various factors, such as competition, discount demands from private and public payers as well as negotiations with national health authorities. Meanwhile, due to COVID-19, healthcare budgets in many countries have come under tremendous pressure, which has translated into health authorities and payers seeking more aggressive price concessions from drug manufacturers.	LEO Pharma's manufacturing lines are unique. This leads to limited flexibility to move products between manufacturing lines, and in turn an increased vulnerability to disruptions in supply caused by natural disasters or other adverse events. Additionally, for certain products, LEO Pharma relies on contract manufacturer organizations (CMOs), which increases the risk of exposure to product supply shortages or quality issues.	As part of its global business activities, LEO Pharma engages with a broad range of third-party intermediaries, with a significant number of interactions taking place in countries that have high perceived levels of corruption and weak law enforcement. Under local and global anti-corruption laws, LEO Pharma can be held liable for corrupt acts committed by our intermediaries.
IMPACT	Decline in product demand can have a negative impact on sales and profits. Disruptions in manufacturing can negatively impact the progress of clinical trials and regulatory approvals.	Being targeted by a cyber attack can result in significant business disruption, financial losses and fines imposed by authorities. This can have a negative impact on expected sales and profits and limit patients' access to LEO Pharma's products.	Delay in marketing authorization or non-approval of a new product can have a negative impact on expected sales and profits, and also limit or delay patients' access to new innovative treatments.	Not achieving acceptable reimbursement and pricing levels would limit LEO Pharma's ability to launch and commercialize our products. This could have a negative impact on expected sales and the possibility for patients to benefit from new innovative treatments.	Delay in marketing authorization or non-approval of a new product can have a negative impact on expected sales and profits, leading to patients not having access to new innovative treatments.	Wrongdoings of the third-party intermediaries acting on LEO Pharma's behalf can expose us to financial loss and reputational damage.
MITIGATING ACTIONS	LEO Pharma has established a COVID-19 task force and a COVID-19 Crisis Management team to closely monitor the COVID-19 situation and implement measures to mitigate the impact on our business. LEO Pharma has defined new ways of working to maximize productivity and minimize on-site presence. Customer engagements are moving to digital channels with a commercial digitalization model.	LEO Pharma has implemented several mitigating measures to manage exposure from cyber security threats – including, but not limited to, conducting information security awareness training as well as improving our technical capabilities to prevent, detect and respond to attempted attacks.	LEO Pharma works closely with regulatory authorities to be able to promptly respond to their requests.	LEO Pharma closely monitors market access and pricing developments and requirements in key markets, while working actively with payers, advocacy groups and authorities to sufficiently document the value of our products (e.g. through clinical trial data).	Strategies for increased internal capability or external sourcing are continuously evaluated and include monitoring as well as upgrading manufacturing lines. Furthermore, safety stock is kept to compensate for a potential breakdown.	LEO Pharma conducts anti-corruption due diligence for selected types of third-party intermediaries. In 2021, a dedicated team was established in Global Risk and Compliance to develop and implement a tailored Third-Party Compliance Management program across the company.

Consolidated Financial Statements

Contents

Income statement

January 1 - December 31

(DKK million)	Note	2021	2020
Revenue	2	9,957	10,133
Cost of sales	3, 10, 13	(3,962)	(3,360)
Gross profit		**5,995**	**6,773**
Sales and distribution costs	3, 9, 10	(4,698)	(4,433)
Research and development costs	3, 9, 10	(3,058)	(2,096)
Administrative costs	3, 4, 5, 9, 10, 11, 18	(2,390)	(2,145)
Other operating income	6	62	1,240
Other operating expenses	6	(67)	(65)
Operating profit/(loss)		**(4,156)**	**(726)**
Financial income	7	19	28
Financial expenses	7	(626)	(382)
Profit/(loss) before tax		**(4,763)**	**(1,080)**
Income tax	8	(105)	129
Net profit/(loss) for the year		**(4,868)**	**(951)**

Statement of comprehensive income

January 1 - December 31

(DKK million)	Note	2021	2020
Net profit/(loss) for the year		(4,868)	(951)
Other comprehensive income Items that will not subsequently be reclassified to the Income statement:			
Remeasurement of defined benefit obligations	18	195	(114)
Tax on items that will not be reclassified to the Income statement	8	(10)	7
Items that will not subsequently be reclassified to the Income statement		**185**	**(107)**
Items that are, or may subsequently be reclassified to the Income statement:			
Cash flow hedges (exchange rate), deferred gains/(losses) incurred during the period	21	20	30
Cash flow hedges (interest rate), deferred gains/(losses) incurred during the period	20	5	(6)
Foreign exchange adjustments, subsidiaries		(9)	(103)
Tax on items that are or may be recalssified to the Income statement	8	(6)	(5)
Items that are or may subsequently be reclassified to the Income statement		**9**	**(84)**
Total Other comprehensive income/(loss) after tax		**194**	**(191)**
Total comprehensive income/(loss)		**(4,674)**	**(1,142)**

Balance sheet at December 31

Assets

(DKK million)	Note	2021	2020
Goodwill		192	192
Intellectual property rights		6,155	5,262
Software		1,524	1,335
Development projects and software in progress		783	2,439
Intangible assets	**9**	**8,654**	**9,228**
Land and buildings		951	987
Plant and machinery		963	898
Other fixtures and fittings, tools and equipment		176	148
Assets under construction		2,373	2,025
Property, plant and equipment	**10**	**4,463**	**4,058**
Right-of-use assets		463	460
Right-of-use assets	**11**	**463**	**460**
Other financial assets	22	77	67
Deferred tax assets	15	1,453	1,430
Other non-current assets		**1,530**	**1,497**
Non-current assets		**15,110**	**15,243**
Inventories	13	3,869	2,863
Trade receivables	12	2,254	2,441
Tax receivables		1,099	1,171
Other receivables	14	434	610
Prepaid expenses	16	360	796
Other financial securities	22	137	126
Cash		432	603
Current assets		**8,585**	**8,610**
Assets		**23,695**	**23,853**

Balance sheet at December 31

Equity and liabilities

(DKK million)	Note	2021	2020
Share capital	17	320	250
Reserves		(314)	(338)
Retained earnings		5,530	7,035
Equity		**5,537**	**6,947**
Loans and credit institutions	20, 22	8,928	8,772
Deferred tax liabilities	15	7	17
Pensions	18	284	488
Provisions	19	352	475
Lease liabilities	11	381	392
Other long-term liabilities		805	664
Non-current liabilities		**10,757**	**10,808**
Loans and credit institutions	20, 22	1,341	906
Trade payables		1,619	1,576
Provisions	19	890	776
Lease liabilities	11	121	99
Tax payables		538	608
Other payables	23	2,892	2,133
Current liabilities		**7,401**	**6,098**
Liabilities		**18,158**	**16,906**
Equity and liabilities		**23,695**	**23,853**

Statement of changes in equity

January 1 - December 31

(DKK million)	Share capital	Reserves: Foreign currency translation reserve	Reserves: Hedging reserve	Reserves: Other Capital reserve	Retained earnings	Total
2021						
Equity at January 1	250	(313)	(25)	-	7,035	6,947
Comprehensive income for the year						
Net profit/(loss) for the year					(4,868)	(4,868)
Other comprehensive income						
Items that will not subsequently be reclassified in the Income statement:						
Remeasurement of defined benefit pension obligations					195	195
Tax on items that will not be reclassified to the Income statement					(10)	(10)
Items that will not subsequently be reclassified to the Income statement	**-**	**-**	**-**	**-**	**185**	**185**
Items that are or may subsequently be reclassified to the Income statement:						
Cash flow hedges (exchange rate), deferred gains/(losses) incurred during the period			20			20
Cash flow hedges (interest rate), deferred gains/(losses) incurred during the period			5			5
Foreign exchange rate adjustments, subsidiaries		(9)				(9)
Tax on items that are or may be recalssified to the Income statement					(6)	(6)
Items that are or may subsequently be reclassified to the Income statement	**-**	**(9)**	**25**	**-**	**(6)**	**9**
Total other comprehensive income/(loss) for the year	**-**	**(9)**	**25**	**-**	**179**	**194**
Total comprehensive income/(loss) for the year	**-**	**(9)**	**25**	**-**	**(4,689)**	**(4,674)**
Transactions with owners:						
Increase of Capital	70				3,277	3,347
Transaction cost related to capital increase					(92)	(92)
Share-based payment				9		9
Total transactions with owners	**70**	**-**	**-**	**9**	**3,185**	**3,264**
Equity at December 31	**320**	**(322)**	**(1)**	**9**	**5,530**	**5,537**

(DKK million)	Share capital	Reserves: Foreign currency translation reserve	Reserves: Hedging reserve	Retained earnings	Total
2020					
Equity at January 1	250	(210)	(50)	8,098	8,088
Comprehensive income for the year					
Net profit/(loss) for the year				(951)	(951)
Other comprehensive income					
Items that will not subsequently be reclassified in the Income statement:					
Remeasurement of defined benefit pension obligations				(114)	(114)
Tax on items that will not be reclassified to the Income statement				7	7
Items that will not subsequently be reclassified to the Income statement	**-**	**-**	**-**	**(107)**	**(107)**
Items that are or may subsequently be reclassified to the Income statement:					
Cash flow hedges (exchange rate), deferred gains/(losses) incurred during the period			30		30
Cash flow hedges (interest rate), deferred gains/(losses) incurred during the period			(6)		(6)
Foreign exchange rate adjustments, subsidiaries		(103)			(103)
Tax on items that are or may be recalssified to the Income statement				(5)	(5)
Items that are or may subsequently be reclassified to the Income statement	**-**	**(103)**	**24**	**(5)**	**(84)**
Total other comprehensive income/(loss) for the year	**-**	**(103)**	**24**	**(112)**	**(191)**
Total comprehensive income/(loss) for the year	**-**	**(103)**	**24**	**(1,063)**	**(1,142)**
Equity at December 31	**250**	**(313)**	**(25)**	**7,035**	**6,947**

Cash flow statement

January 1 - December 31

(DKK million)	Note	2021	2020
Operating profit/(loss)		**(4,156)**	**(726)**
Depreciation, amortization and impairment losses, net	9, 10, 11	2,199	1,266
Gain/loss on sale of non-current assets, etc., net		0	(1,178)
Adjustments for non-cash operating items etc.	24	2,086	1,660
Change in working capital	24	(543)	(178)
Payment of other provisions	19	(1,520)	(1,421)
Interest etc., received		19	8
Interest etc., paid		(418)	(198)
Income tax received/paid		(165)	29
Cash flows from operating activities		**(2,498)**	**(737)**
Investments in intangible assets	9	(394)	(773)
Investments in property, plant and equipment	10	(956)	(1,164)
Proceeds from sale of intangible assets		-	2,899[1]
Proceeds from sale of property, plant and equipment		-	44
Acquisition of business and activities, net of cash acquired	25	-	(52)
Investments in other securities		(21)	(3)
Proceeds from sale of other securities		-	100
Cash flows from investing activities		**(1,371)**	**1,051**

(DKK million)	Note	2021	2020
Proceeds from loans	20	10,604	1,296
Repayment of loans	20	(10,094)	(785)
Overdraft facilities		38	(322)
Proceeds received from exercise of warrants		9	-
Proceeds from increase of Share capital		3,347	-
Transaction cost related to Capital increase		(92)	-
Payment of lease liabilities	11	(121)	(112)
Cash flows from financing activities		**3,691**	**77**
Net cash flow for the period		**(177)**	**391**
Cash and cash equivalents, January 1		603	230
Foreign exchange rate and value adjustments of cash and cash equivalents		6	(18)
Cash and cash equivalents, December 31[2]		**432**	**603**

The figures in the Cash flow statement cannot be directly derived from the figures in the Balance sheet.

1. Proceeds from sale of intangible assets DKK 712m relates to Cash flows from Assets held for sale. Reference is made to note 25.

2. At December 31, 2021 DKK 0m (2020: DKK 13m) of the Cash and cash equivalents was deposited on restricted bank accounts.

Notes – Group

NOTES TO THE INCOME STATEMENT

NOTES TO THE BALANCE SHEET

NOTES TO THE CASH FLOW STATEMENT

NOTES - ADDITIONAL INFORMATION

Note 1 Basis of reporting

Basis of preparation

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

On March 11, 2022 the Board of Directors and the Executive Management Board considered and approved the 2021 Annual Report of LEO Pharma A/S. The Annual Report will be presented to the shareholders of LEO Pharma A/S for approval at the ordinary Annual General Meeting on March 16, 2022.

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

The accounting policies set out below and in the notes have been applied consistently in respect of the financial year and for comparative figures.

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

COVID-19
During 2021, the COVID-19 pandemic continued to evolve differently across the world. The Group continued to deliver a resilient performance in 2021 despite the COVID-19 pandemic. During 2021, the Group's priorities have been to continue safeguarding the health of the employees and continue supplying medicine to patients. Manufacturing sites continue to operate, and products are still distributed and made available to patients worldwide. Task force teams were in place during 2021, focusing on keeping employees safe and production running.

The Executive Management monitored the situation and possible implication on the financial position, activities and cash flows, and sought out the appropriate mitigating measures. As of December 31, 2021, estimates have been updated to assess the recoverability of the asset base, including goodwill, IP rights, development projects, deferred tax assets and trade receivables.

The COVID-19 pandemic was not a triggering event for impairments in 2021.

The Group made use of financial governmental relief packages regarding postponed tax payments, etc. Throughout the year, the Group maintained close communication with customers on measures taken within the Group to prevent impact on production and delivery.

Key accounting estimates and judgments

The Executive Management has made certain estimates and judgments that affect the accounting policies and the amounts reported in the Consolidated Financial Statements. Estimates are based on historical experience and assumptions that are reasonable under the circumstances and current situation. Therefore, the actual amounts may differ from the estimated amounts, as more detailed information becomes available. Judgments are made when Executive Management applies the accounting policies.

Note	Key accounting estimates and judgments	Estimate/ judgment
4 Share-based payment	Estimates and judgments regarding expected life and Management's expectation about the timing of an initial public offering	Estimate and judgment
8 Tax on profit/loss for the year	Estimates regarding provisions for uncetain tax positions	Estimate
9 Intangible assets	Estimated useful lives and impairment test	Estimate
9 Intangible assets	Assessments of type of asset and level of control	Judgment
11 Leases	Determining lease term	Judgment
13 Inventories	Estimates of valuation of inventories	Estimate
15 Deferred tax	Estimates of valuation of deferred tax assets	Estimate
16 Prepaid expenses	Assessment of upfront payment	Judgment
18 Pensions	Estimates of valuation of defined benefit plans	Estimate
19 Provisions	Estimates of provisions for legal disputes and sales deductions	Estimate

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

Note 1 Basis of reporting (continued)

Application of materiality
In the preparation of the Consolidated Financial Statements, LEO Pharma aims to focus on information that is considered to be material and relevant to the users of the Consolidated Financial Statements.

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

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

General accounting policies

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

The Consolidated Financial Statements are prepared by combining the Financial Statements of the Parent company and all subsidiaries, with subsequent elimination of intercompany transactions, intercompany shareholdings and balances, as well as unrealized profits from intercompany transactions. The Financial Statements of all companies have been prepared by applying the Group's accounting policies.

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

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

On consolidation of foreign subsidiaries with 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 on the balance sheet date. The effects of the translation of the opening equity of foreign subsidiaries at the exchange rates on the balance sheet date and the translation of the Statement of comprehensive income from average exchange rates to the exchange rates on the balance sheet date are recognized in Other comprehensive income.

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

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

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

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

Implementation of new standards and interpretations
Effective from January 1, 2021, LEO Pharma implemented all new or changed accounting standards and interpretations. The adoption had no material impact on the disclosures or the amounts reported in the Consolidated Financial Statements.

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

Note 1 Basis of reporting (continued)

Definitions

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

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

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

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

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

Invested capital
Total assets excluding intellectual property rights, interest-bearing assets and minority investments less interest-bearing liabilities

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

Average number of full-time employees
The average number of employees is calculated as the average of the number of permanent employees at the end of each month.

Note 2 Revenue

Accounting policies

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

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

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

(DKK million)	2021	2020
Revenue by region		
Europe+	6,669	6,539
International	3,005	3,131
US	283	463
Total	**9,957**	**10,133**
Revenue by therapeutic area		
Psoriasis	3,905	3,685
Skin infection	1,460	1,475
Eczema	1,359	1,197
Acne/Rosacea	328	271
Other Mature Dermatology	207	278
Thrombosis	2,311	2,202
CMO/Divested	387	1,026
Total	**9,957**	**10,133**
Revenue by category		
Products	9,837	9,990
Sales-based royalties	103	137
Other	17	6
Total	**9,957**	**10,133**

Timing of revenue recognition

Revenue totaling to DKK 9,957m (2020: DKK 10,133m) comprised goods transferred at a point in time of DKK 9,952m (2020: DKK 10,127m) and services transferred over time of DKK 5m (2020: DKK 6m).

Note 2 Revenue (continued)

Contract balances

Generally, billing occurs subsequent to revenue recognition, resulting in trade receivables. The Group's payment terms are typically between 45 - 90 days. However, the Group sometimes receives upfront payments related to various sales and distribution rights, where the upfront payments are recognized over time, resulting in contract liabilities. Contract liabilities are recognized as revenue in line with fullfillment of the contract obligation.

Unsatisfied performance obligations

The Group's remaining performance obligation expected to be recognized in subsequent year as of December 31, 2021 is DKK 26m (2020: DKK 15m), which will be recognized in 2022. The obligations comprises contracts, where the Group has an obligation to deliver goods and services that has not yet been satisfied.

Note 3 Staff expenses and remuneration to the Executive Management and Board of Directors

Accounting policies

Wages, salaries, social security expenses, annual leave and sick leave, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by employees of the Group. Where the Group provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

(DKK million)	2021	2020
Wages and salaries	3,829	3,948
Hereof capitalized staff expenses	(180)	(221)
Pensions – defined benefit plans	10	8
Pensions – defined contribution plans	323	301
Share-based payment, reference is made to note 4	16	-
Social security expenses	376	353
Other employee expenses	270	244
Total staff expenses	**4,644**[1]	**4,633**[2]
Staff expenses included in:		
Cost of sales	744	820
Sales and distribution costs	2,156	1,967
Research and development costs	849	886
Administrative costs	895	960
Total staff expenses	**4,644**	**4,633**
Average number of full-time employees	**5,804**	**5,955**

1. Total staff expenses are impacted by DKK 226m as a consequence of the restructuring of LEO Pharma announced to the Public on January 19, 2022. The restructuring costs are recognized in the Income statement and classified as; Sales and distribution costs DKK 156m, Research and development costs DKK 35m and Administrative costs DKK 35m.

2. Total staff expenses are impacted by DKK 299m as a consequence of the restructuring of LEO Pharma announced on August 20, 2020. The restructuring costs are recognized in the Income statement and classified as; Cost of sales DKK 110m, Sales and distribution costs DKK 111m, Research and development costs DKK 17m and Administrative costs DKK 61m.

Note 3 Staff expenses and remuneration to the Executive Management and Board of Directors (continued)

Remuneration to the Executive Management and Board of Directors

(DKK million)	Salary	Bonus[1]	Pension	Share-based payment[2]	Severance payments[3]	Total remuneration
2021						
Registered members of the Executive Management[4]	12	12	2	0	25	51
Other members of Executive Management[4] [5]	26	19	4	8	-	57
Board of Directors	5	-	-	1	-	6
Total	**43**	**31**	**6**	**9**	**25**	**114**
2020						
Registered members of the Executive Management[4]	10	14	1	-	-	25
Other members of Executive Management[4] [5]	23	23	5	-	8	59
Board of Directors	6	-	-	-	-	6
Total	**39**	**37**	**6**	**-**	**8**	**90**

1. Members of the Executive Management participate in short- and long-term incentive programs that provide a bonus for the achievement of predetermined targets. In addition, a retention bonus agreement is included for selected members of the Executive Management.

2. Reference is made to note 4 for detailed information on the Group's share-based payments.

3. The severance payments to Executive Management includes remuneration paid to former President & CEO Catherine Mazzacco, who stepped down end of November 2021.

4. LEO Pharma may pay a compensation to the CEO and other members of the Executive Management, as a result of differences between foreign and Danish private income taxation.

5. Other members of the Executive Management comprise Guillaume Clément (Executive Vice President, Region International & BU Thrombosis), Christopher Posner (Executive Vice President, Region United States, resigned November 2021), Monica Shaw (Executive Vice President, Region Europe+), Becki Morison (Executive Vice President, Global Therapeutic & Value Strategy), Rhonda Duffy (Executive Vice President, Global Product Supply), Nathalie Joannes (Executive Vice Preseident, Legal and Compliance), Dennis Schmidt Pedersen (Executive Vice President, Global People & Communications), Jörg Möller (Executive Vice President, Global Resarch & Development), Kim Kjøller (Executive Vice President, Global Research & Development, resigned December 2020) and former members Mette Vestergaard Jakobsen (former Executive Vice President, Global People and Business Transformation, resigned August 2020), Jørgen Damsbo Andersen (former Executive Vice President, Region International, resigned June 2020) and Patrice Baudry (Executive Vice President, Global Marketing, Market Access and Market Affairs, stepped down September 2020).

Note 4 Share-based payment

Accounting policies

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

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

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

Key accounting estimates and judgments

The risk-free interest rate is based on Danish government bonds of the relevant maturity. The expected life is based on exercise at the end of the vesting period. The volatility is based on the volatility over the past five years for a group of peer pharmaceutical companies with similar business model.

The requirement that the employee has to save in order to purchase shares under the share purchase plan has been incorporated into the fair value at grant date by applying a discount to the valuation obtained. The discount has been determined by estimating the probability that the employee will stop saving based on historical behaviour.

The vesting period is determined based on Management's expectation about the timing of an initial public offering.

Description of share-based payment arrangements

To incentivise employees in preparation for the potential listing of the Group, share-based payment incentive plans have been established for members of the Board and Executive Management and employees. The plans are equity-settled and/or cash-settled subject to a successful listing. If a listing is not obtained by 2028, all plans are cash-settled. Due to local regulations, some grants to employees are cash-settleable only.

At December 31, 2021, the Group had the following share-based payment arrangements.

Management Incentive Program (equity-settled)

During July 2021, the Group has granted warrants free of charge to key management personnel which give the warrant holders right to buy a specific number of shares in LEO Pharma A/S at a pre-determined price subject to a successful listing.

The program is classified as equity-settled based on an expectation to list LEO Pharma within the term of the program. In the event that LEO Pharma is not listed within 7 years, the program will become cash-settled.

The key terms and conditions related to vesting of the grant under this program are as follows; the granted warrants vest in five equal tranches. The first tranche vests on grant date. The remaining tranches vest over 4 years from grant date, however, all warrants vest upon a successful listing or other exit event. As a vesting condition the warrant holder must remain employed by the Group until the vesting date. Further, exercise of the warrants is subject to a fair value increase in LEO Pharma shares of at least 1.5 times the subscription price and an exercise cap of 3 times the subscription value.

In case of a listing, 50 percent of the vested warrants may be exercised. The remaining 50 per cent may be exercised 12 months after the listing. In case of non-listing, the warrants become exerciseable after 7 years and can be exercised at that time.

The maximum term of the program is 7 years.

Note 4 Share-based payment (continued)

In addition, members of the Board of Directors have been granted the opportunity to purchase warrants at their calculated fair value. The Board of Directors purchased warrants that have the same terms and conditions as the Management Incentive Program, except for the following: The warrants can be exercised only upon a listing and can only be settled in shares. The warrants vest unconditionally after two years or in connection with an IPO, if earlier, subject to the warrant holder still being a member of the Board. For Board members who are not re-elected during the vesting period, the Company shall acquire warrants at fair market value of the underlying shares, deducted by the total subscription for all the warrants. The warrants lapse after 7 years, if not exercised. Further, the chairman has been granted warrants free of charge, identical to the warrants granted under the Management Incentive Program, except that these warrants vest over 2 years.

Phantom Share Agreement (cash-settled)

Follows the same terms and conditions as the Management Incentive Program but is predetermined to be settled in cash.

Reconciliation of outstanding equity-settled awards

Management Incentive Program

The number and weighted average exercise prices of warrants were as follows.

In number of warrants	Board of Directors	Members of the Executive Board	Key management personnel	Total	Fair value at grant (DKK)	Average exercise price (DKK)
Outstanding at January 1, 2021	-	-	-	-	-	-
Granted during the year	907,866	545,172	1,557,640	3,010,678	7.14	47.72
Outstanding at December 31, 2021	**907,866**	**545,172**	**1,557,640**	**3,010,678**	**-**	**47.72**
Exercisable at December 31, 2021	**-**	**-**	**-**	**-**	**-**	**-**

For warrants outstanding at the end of the year, the remaining contractual life is 6 years and 11 months.

Reconciliation of outstanding cash-settled awards

In number of phantom shares	Phantom Share Agreement
Instruments granted	3,504,684
Fair value at grant date (DKK)	7.38
Initial expected total cost (DKK)	**25,848,797**
Instruments for which it is expected to vest	3,504,684
Current fair value (DKK)	7.38
Total expected settlement	**25,848,797**
Liability at December 31, 2021 (DKK)	**9,668,856**

Note 4 Share-based payment (continued)

Measurement of fair value

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

Management Incentive Program

	December 31, 2021
Fair value of shares at grant date (DKK)	47.72
Exercise price	47.72
Expected volatility (weighted-average)	26.4%
Expected life (weighted-average)	4.4 years
Expected dividend	0
Risk-free interest rate (based on government bonds)	-0.57% - 0.08%

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

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

	Grant date 1 December 2021	Measurement date 31 December 2021
Fair value of shares at grant date (DKK)	47.72	47.72
Exercise price	47.72	47.72
Expected volatility (weighted-average)	26.4%	26.4%
Expected life (weighted-average)	4.4 years	4.3 years
Expected dividend	0	0
Risk-free interest rate (based on government bonds)	-0.57% - 0.08%	-0.57% - 0.08%

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

At December 31, 2021, the total carrying amount of liabilities arising from the share-based payment transactions amount to DKK 10m. The intrinsic value at December 31, 2021 of liability related to vested phantom shares of DKK 5m amounts to DKK 0m.

Total expense recognized in 2021 from share-based payment transactions recognized in the income statement amounts to DKK 16m, of which DKK 6m arises from equity-settled share-based payment transactions.

Note 5 Fees to Auditors appointed at the Annual General Meeting

(DKK million)	2021	2020
Statutory audit	8	7
Tax and VAT advice	1	4
Non-audit services	8	13
Total	**17**	**25**

Note 6 Other operating income and expenses

Accounting policies

Other operating income and Other operating expenses comprise items of a secondary nature to the Group's primary activities, i.e. gains and losses on divestments of intellectual property rights and on sale of property, plant and equipment.

(DKK million)	2021	2020
Gain from sale of assets	-	1,181[1]
Other operating income	62	59
Other operating income	**62**	**1,240**
Royalty expenses	18	18
Loss from sale of assets	-	3
Other operating expenses	49[2]	44
Other operating expenses	**67**	**65**

Note 7 Financial income and expenses

Accounting policies

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

(DKK million)	2021	2020
Interest income on bonds	1	0
Foreign exchange gains, net[3]	-	20
Share of profit/ (loss) on investment in associates	4	-
Other financial income	14	8
Financial income	**19**	**28**
Interest expenses, loan from LEO Holding A/S	198	171
Interest expenses, loan from the LEO Foundation	25	25
Interest expenses, banks	109	79
Other Interest	4	20
Interest expenses on Lease liabilities, reference is made to note 10	11	11
Foreign exchange loss, net[3]	66	-
Loss arising on financial assets designated at fair value through profit and loss	-	1
Financial assets write-down	-	3
Share of profit/ (loss) on investment in associates	-	2
Other financial expenses[4]	213	70
Financial expenses	**626**	**382**

1. Gain from sale of assets relates mainly to the sale of intellectual property rights of four non-core products to Cheplapharm of DKK 1,166m.

2. Related to accounting loss on an onerous contract, DKK 41m.

3. Foreign exchange gains amount to DKK 732m (2020: DKK 684m) and foreign exchange losses amount to DKK 798m (2020: DKK 664m) for the Group.

4. Other financial expenses primarily comprise of bank charges, other fees etc., a payment of a bank guarantee related to the associated company PellePharm DKK 131m (2020: DKK 0m). Reference is made to note 26.

Note 8 Income tax

Accounting policies

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

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

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

Key accounting estimates

Uncertain tax positions

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

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

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

(DKK million)	2021	2020
Current tax	(181)	(1,141)
Prior-year adjustments, current tax	40	(32)
Prior-year adjustments, deferred tax	(17)	71
Change in deferred tax	37	1,233
Total tax income/(expense) for the year	**(121)**	**131**
Tax for the year is included in		
Tax on profit/(loss) for the year	(105)	129
Tax on Other comprehensive income[1]	(16)	2
Total tax income/(expense) for the year	**(121)**	**131**

1. For a specification of tax on Other comprehensive income, reference is made to the Statement of comprehensive income.

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

	2021		2020	
	DKK million	%	DKK million	%
Profit/(loss) before tax	**(4,763)**		**(1,080)**	
Calculated tax, 22%	1,048	22.0%	238	22.0%
Tax effect of:				
Differences in the income tax rates of foreign subsidiaries compared to the Danish corporate income tax rate	173	3.6%	127	11.9%
Non-deductible expenses/ non-taxable income and other permanent differences	(25)	(0.5%)	(20)	(1.9%)
Other taxes	(8)	(0.2%)	(23)	(2.2%)
Change in deferred tax as a result of changes in income tax rates	17	0.4%	42	3.9%
Change in valuation of net tax assets	(1,333)	(28.0%)	(271)	(25.1%)
Prior-year tax adjustments, etc., total effect on operations	23	0.5%	36	3.3%
Effective tax/tax rate for the year	**(105)**	**(2.2%)**	**129**	**11.9%**

Note 9 Intangible assets

Accounting policies

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

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

Software
IT software purchased or internally developed is measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the expected useful lives. Amortization and impairment are recognized in the Income statement as Administrative costs.

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

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

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

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

In line with industry practice, internal and subcontracted development costs are expensed as they are incurred, due to significant regulatory uncertainties and other uncertainties inherent in the development of new products. This means that they do not qualify for capitalization as intangible assets until marketing approval by a regulatory authority is obtained or considered highly probable.

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

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

Impairment testing
Goodwill is tested for impairment annually or whenever there is an indication of impairment, while the carrying amount of intangible assets with finite lives measured at cost or are assessed if there is an indication of impairment.

If a write-down is required, the carrying amount is written down to the higher of net selling price and value in use.

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

Note 9 Intangible assets (continued)

Impairment in 2021
Based on the impairment tests prepared at year-end 2021, it has been deemed necessary to impair DKK 681m. Impairment loss of DKK 517m are recognized under Research and development costs, impairment loss of DKK 151m is recognized under administration costs and impairment loss of DKK 13m is recognized as sales and distribution costs. No impairment reversals of impairment losses from prior periods have been recorded in 2021.

The impairment recognized under research and development costs comprises two individual development projects; Patidegib DKK 435m and other DKK 82m, where the projects has not shown the expected commercial result to continue the development. Consequently, the recoverable amount is determined at DKK 0m.

The impairment recognized under administration cost comprises several individual software development assets. Impairment of DKK 35m relates to assets where the recoverable amount is determined by fair value less cost to sell. For the remaining impairment of DKK 116 million, the recoverable amount has been determined at DKK 0m based on future outlooks for the development assets.

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

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

Key accounting estimates

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

Impairment test and valuation
Irrespective of whether there is an indication of impairment, intangible assets in progress and goodwill are tested for impairment annually. Intangible assets in use with definite useful lives are tested for impairment if there is any indication of impairment.

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

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

The Group has identified capitalized software relating to the ERP system as corporate assets. The Executive Management has considered the recoverability of the assets. The expected future performance in core business areas supports the carrying value of the assets.

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

Note 9 Intangible assets (continued)

	2021				
(DKK million)	**Goodwill**	**Intellectual property rights**	**Software**	**Development projects and software in progress**	**Total intangible assets**
Cost at January 1	192	12,432	1,922	4,150	18,696
Exchange rate adjustment	-	2	-	-	2
Additions during the year	-	715[1]	18	406[2]	1,139
Disposals during the year	-	-	(11)	(548)	(559)
Transfers	-	779[1]	569	(1,379)	(30)[3]
Cost at December 31	**192**	**13,928**	**2,498**	**2,629**	**19,247**
Amortization and impairment losses at January 1	-	(7,170)	(587)	(1,711)	(9,468)
Amortization for the year	-	(589)	(381)	(1)	(971)
Impairment for the year	-	(13)	(8)	(661)	(681)
Disposals during the year	-	-	11	518	528
Transfers	-	-	(9)	9	-
Amortization and impairment losses at December 31	**-**	**(7,772)**	**(974)**	**(1,847)**	**(10,593)**
Carrying amount at December 31	**192**	**6,155**	**1,524**	**783**[4]	**8,654**

	2020				
(DKK million)	**Goodwill**	**Intellectual property rights**	**Software**	**Development projects and software in progress**	**Total intangible assets**
Cost at January 1	126	14,176	1,290	4,028	19,620
Adjustment to opening, related to Business combinations[5]	66	-	-	-	66
Exchange rate adjustment	-	(16)	-	13	(3)
Additions during the year	-	-	7	766[2]	773
Disposals during the year[6]	-	(1,730)	(25)	(5)	(1,760)
Transfers	-	2	650	(652)	-
Cost at December 31	**192**	**12,432**	**1,922**	**4,150**	**18,696**
Amortization and impairment losses at January 1	-	(7,301)	(331)	(1,713)	(9,345)
Reversal of impairment	-	26	-	-	26
Amortization for the year	-	(630)	(241)[7]	(2)	(873)
Disposals during the year[6]	-	719	-	4	723
Transfers	-	15	(15)	-	-
Amortization and impairment losses at December 31	**-**	**(7,170)**	**(587)**	**(1,711)**	**(9,468)**
Carrying amount at December 31	**192**	**5,262**	**1,335**	**2,439**[4]	**9,228**

1. In July 2021 Adtralza® was launched in Germany and in December the FDA approval was received for Adbry™ i.e. subsequent milestone payments of DKK 712m have been accrued.

2. Additions consist of DKK 36m (2020: DKK 80m) related to development projects, and DKK 370m (2020: DKK 686m) related to the development of IT projects and a new ERP system.

3. Transferred to Property, plant and equipment.

4. Total development projects and software in progress DKK 783m (2020: DKK 2,439m) consist of Software in progress DKK 500m (2020: DKK 876m), and Development projects DKK 283m (2020: DKK 1,563m).

5. Reference is made to Note 25.

6. Primarily related to the divestment of a portfolio of four non-core products to Cheplapharm. Reference is made to note 25.

7. The Group is in the process of developing a new ERP system. In connection with this, the Group has reassessed the useful lifetime of the current ERP system, resulting in additional amortization of DKK 24m.

Note 9 Intangible assets (continued)

Research and development costs
In 2021, research and development costs recognized in the Income statement amounted to DKK 3,058m (2020: DKK 2,096m), including impairment charges of DKK 517m (2020: DKK 0m).

Research and development costs primarily comprise internal and external costs related to studies, employee costs, materials, depreciation, impairment and other directly attributable costs.

Development projects
At December 31, 2021, development projects comprise of H4R antagonist DKK 109m (2020: DKK 109m), delgocitinib DKK 66m (2020: DKK 36m) and other minor development projects DKK 108m (2020: DKK 122m). In 2020, Development projects also included Adtralza®/Adbry™ DKK 779m which in July 2021 was transferred to Intellectual property rights as well as patidegib DKK 435m and other development projects DKK 82m which were impaired during 2021.

Intellectual property rights
At December 31, 2021, intellectual property rights comprise the dermatology portfolio (mainly Skinoren®, Advantan®, Travocort® and Travogen®) with a carrying amount of DKK 3,345m (2020: DKK 3,770m), Protopic® and Pimafucort® with a carrying amount of DKK 1,018m (2020: DKK 1,238m), Adtralza®/Adbry™ with a carrying amount of DKK 1,431m (2020: DKK 0), and Kyntheum® with a carrying amount of DKK 192m (2020: DKK 229m).

(DKK million)	2021	2020
Amortization and impairment losses are specified as follows:		
Cost of sales	2	-
Sales and distribution costs	554	604
Research and development costs	564	1
Administrative costs	533	242
Total	**1,653**	**847**

Note 10 Property, plant and equipment

Accounting policies

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Cost comprises the acquisition price and other directly attributable costs until the date on which the asset is available for use. For self-constructed assets, cost comprises the direct costs of materials, subsuppliers 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 date of acquisition, or from when the asset is available for use, over the expected useful lives. Reassessment is performed once a year to ascertain that the depreciation profile reflects the expected useful lives and future residual values of the assets. Land is not depreciated.

The expected useful lives are as follows:

Buildings	10-50 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	Max depreciated over the term of lease

Impairment testing

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

If the recoverable amount of an asset is estimated to be less than the carrying amount, an impairment loss is recognized. For 2021, impairment losses of DKK 113m were recognized (2020: DKK 8m).

Note 10 Property, plant and equipment (continued)

	2021					2020				
(DKK million)	**Land and buildings**	**Plant and machinery**	**Other fixtures and fittings, tools and equipment**	**Assets under construction[1]**	**Total property, plant and equipment**	**Land and buildings**	**Plant and machinery**	**Other fixtures and fittings, tools and equipment**	**Assets under construction[1]**	**Total property, plant and equipment**
Cost at January 1	2,537	3,015	552	2,025	8,129	2,455	3,011	528	1,121	7,115
Exchange rate adjustment	4	(1)	5	(1)	7	(11)	(8)	(9)	(4)	(32)
Additions during the year	7	1	36	756	800	36	6	43	1,079	1,164
Disposals during the year	(23)	(241)	(33)	-	(297)	(21)	(78)	(19)	-	(118)
Transfers	30	363	44	(407)	30[3]	78	84	9	(171)	-
Cost at December 31	**2,555**	**3,137**	**604**	**2,373**	**8,669**	**2,537**	**3,015**	**552**	**2,025**	**8,129**
Depreciation and impairment losses at January 1	(1,550)	(2,117)	(404)	-	(4,071)	(1,501)	(1,982)	(380)	-	(3,863)
Exchange rate adjustment	(1)	1	(3)	-	(3)	6	6	6	-	18
Disposals during the year	22	241	33	-	296	14	40	19	-	73
Depreciation for the year	(65)	(196)[2]	(54)	-	(315)	(66)	(176)	(49)	-	(291)
Impairment loss for the year	(10)	(103)[4]	-	-	(113)	(3)	(5)	-	-	(8)
Depreciation and impairment losses at December 31	**(1,604)**	**(2,174)**	**(428)**	**-**	**(4,206)**	**(1,550)**	**(2,117)**	**(404)**	**-**	**(4,071)**
Carrying amount at December 31	**951**	**963**	**176**	**2,373**	**4,463**	**987**	**898**	**148**	**2,025**	**4,058**

(DKK million)	**2021**	**2020**
Depreciation and impairment losses are specified as follows:		
Cost of sales	331	213
Sales and distribution costs	14	19
Research and development costs	24	20
Administrative costs	59	47
Total	**428**	**299**

1. Fixed assets under construction are mainly related to the construction of a new plant in Denmark with a carrying amount of DKK 1,399m (2020: DKK 970m), expansion of an existing plant in Ireland with a carrying amount of DKK 251m (2020: DKK 249m), construction of a new plant in Ireland with a carrying amount of DKK 199m (2020: DKK 77m) and an expansion of an existing plant in France DKK 314m (2020: DKK 258m).

2. The Group has reassessed the lifetime of the current plant in Denmark, which has resulted in an additional depreciation in 2021 of DKK 18m. The reassessment is caused by the construction of a new plant in Denmark, which is expected to start production in 2023.

3. Transferred from Intangible assets.

4. Impairment of a production line related to two onerous contracts.

Note 11 Leases

Accounting policies

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

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

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

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

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

Lease assets are depreciated over the lease term which are:

Buildings	5-10 years
Cars etc.	3-5 years

Key accounting judgments

Judgments on determining the lease term

For contracts with a rolling term (evergreen leases) the lease term are estimated to 5 years. Buildings of a strategic importance are estimated based on the time frame necessary to vacate the premises. The estimated lease term is reassessed at each reporting date.

Note 11 Leases

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period.

(DKK million)	Land and buildings	Cars etc.	Total
2021			
Cost at January 1	526	150	676
Exchange rate adjustment	22	1	23
Additions/remeasurements during the year	70	56	126
Disposals during the year	(56)	(52)	(108)
Cost at December 31	**562**	**155**	**717**
Depreciation and impairment losses at January 1	(140)	(76)	(216)
Exchange rate adjustment	(1)	(1)	(2)
Depreciation for the year	(75)	(43)	(118)
Disposals during the year	32	50	82
Depreciation and impairment losses at December 31	**(184)**	**(70)**	**(254)**
Carrying amount at December 31	**378**	**85**	**463**
2020			
Cost at January 1	535	111	647
Exchange rate adjustment	(26)	(3)	(29)
Additions/remeasurements during the year	18	49	67
Disposals during the year	(1)	(7)	(8)
Cost at December 31	**526**	**150**	**676**
Depreciation and impairment losses at January 1	(67)	(36)	(103)
Depreciation for the year	(73)	(47)	(120)
Disposals during the year	-	7	7
Depreciation and impairment losses at December 31	**(140)**	**(76)**	**(216)**
Carrying amount at December 31	**386**	**74**	**460**

(DKK million)	2021	2020
Lease liabilities at January 1	491	558
Additions/remeasurements during the year	126	64
Payments	(110)	(101)
Exchange rate adjustments	(5)	(30)
Lease liabilities at December 31	**502**	**491**
Of which classified as:		
Non-current liabilities	381	392
Current liabilities	121	99
Lease liabilities at December 31	**502**	**491**

(DKK million)	2021	2020
The following are the amounts recognized in the Income statement:		
Depreciation expense of right-of-use assets (included in Administrative costs)	(118)	(120)
Interest expense on lease liabilities	(11)	(11)
Total amount recognized in the Income statement	**(129)**	**(131)**

The amounts recognized impact the operating cash outflow by DKK 11m (2020: DKK 11m) as well as the cash outflow from financing activities by DKK 121m (2020: DKK 112m).

Note 12 Trade receivables

Accounting policies

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

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

(DKK million)	2021	2020
Trade receivables	2,289	2,488
Allowances for expected credit losses	(35)	(47)
Trade receivables at December 31	**2,254**	**2,441**

Movements in write-downs, which is included in Trade receivables

(DKK million)	2021	2020
Carrying amount January 1	47	43
Exchange rate adjustment	1	1
Utilized	(26)	(3)
Net movement, recognized in the Income statement	13	6
Write-downs at December 31	**35**	**47**

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

Maturity analysis of Trade receivables

(DKK million)	Expected credit loss rate	Trade receivables	Write-downs	Total
2021				
Not past due date	0%	2,220	0	2,220
Overdue by 3 months	1%	110	(1)	109
Overdue by 3-6 months	1%	43	(0)	43
Overdue by 6-12 months	12%	26	(3)	23
Overdue by more than 12 months	83%	31	(31)	0
Factoring		(141)	-	(141)
Trade receivables at December 31		**2,289**	**(35)**	**2,254**
2020				
Not past due date	0%	2,375	0	2,375
Overdue by 3 months	0%	182	0	182
Overdue by 3-6 months	0%	37	0	37
Overdue by 6-12 months	54%	13	(7)	6
Overdue by more than 12 months	100%	40	(40)	0
Factoring		(159)	-	(159)
Trade receivables at December 31		**2,488**	**(47)**	**2,441**

Note 13 Inventories

Accounting policies

Inventories are measured at the lower of costs under the first-in-first-out basis and net realizable value.

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

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

Key accounting estimates

Valuation of inventories

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 concerning capacity utilization, production time and other relevant factors, and allocated on the basis of the normal production capacity.

(DKK million)	2021	2020
Raw materials and consumables	331	286
Work in progress	2,583	1,540
Finished goods and goods for resale	955	1,037
Total	**3,869**	**2,863**
Write-down, provision end of the period	327	135
Cost of goods sold included under Cost of sales	3,196	2,565

Note 14 Other receivables

(DKK million)	2021	2020
Public authorities (VAT)	278	407
Deposits	45	57
Financial derivatives	29	56
Other[1)]	82	90
Total	**434**	**610**

1. Other comprises of receivable interests DKK 31m (2020: DKK 20m), receivables from partners DKK 13m (2020: DKK 12m) and Other DKK 38m (2020: DKK 58m).

Note 15 Deferred tax

Accounting policies

Deferred tax is recognized on all temporary differences between the carrying amounts of assets and liabilities and their tax bases, except for temporary differences arising on initial recognition of a transaction that is not a business combination, and with the temporary difference ascertained at the time of 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 enacted in the respective countries at the balance sheet date. The effect of exchange rate differences on deferred tax is recognized in the balance sheet as part of the movement in deferred tax.

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

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

Key accounting estimates

Valuation of deferred tax assets

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

In this assessment, the continuous utilization of existing deferred tax assets and the creation of new deferred tax assets was considered and resultet in recognition of a valuation allowance of DKK 1,333m (2020: DKK 269m). This is mainly due to the assessment of utilization of deferred tax assets in LEO Pharma A/S.

The recognized deferred tax assets in LEO Pharma A/S as of December 31, 2021 was capped to DKK 785m (2020: DKK 785m).

The unused tax loss carried forward, mainly related to LEO Pharma A/S, does not expire.

For estimates regarding provisions for uncertain tax positions, please refer to note 8.

Note 15 Deferred tax (continued)

	2021					2020				
(DKK million)	**Balance at January 1**	**Effect of foreign currency exchange differences**	**Adjustment of deferred tax at beginning of year**	**Movements during the year**	**Balance at December 31**	**Balance at January 1**	**Effect of foreign currency exchange differences**	**Adjustment of deferred tax at beginning of year**	**Movements during the year**	**Balance at December 31**
Intangible assets	260	-	120	440	820	(499)	2	56	701	260
Property, plant and equipment	418	-	(175)	287	530	34	1	(48)	431	418
Inventories	501	-	-	(38)	463	558	(1)	55	(111)	501
Provisions	137	8	2	22	169	166	(7)	12	(34)	137
Other items	106	3	(4)	(4)	101	18	-	(5)	93	106
Tax loss carry forwards, etc.[1]	260	2	40	663	965	-	-	0	260	260
Assets held for sale	-	-	-	-	-	(163)	-	1	162	-
Valuation allowances on deferred tax assets	(269)	-	-	(1,333)	(1,602)	-	-	-	(269)	(269)
Total temporary differences	**1,413**	**13**	**(17)**	**37**	**1,446**	**114**	**(5)**	**71**	**1,233**	**1,413**
Deferred tax assets	1,430	13	(17)	27	1,453	1,219	(5)	9	207	1,430
Deferred tax liabilities	17	-	-	(10)	7	1,105	-	(62)	(1,026)	17
Deferred tax assets/(tax liabilities)	**1,413**	**13**	**(17)**	**37**	**1,446**	**114**	**(5)**	**71**	**1,233**	**1,413**

1. Mainly driven by the loss before tax in LEO Pharma A/S in 2021.

Note 16 Prepaid expenses

Accounting policies

Prepaid expenses include advance payments made to vendors that will be incurred and expensed in subsequent financial reporting periods. When the period for full expense recognition is longer than one year from the balance sheet date, the portion to be expensed subsequent to one year is classified as non-current.

(DKK million)	2021	2020
License and collaboration agreement	-	273
Prepaid clinical trials	258	362
Prepaid IT expenses	56	50
Other prepaid expenses	46	111
Total	**360**	**796**

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

Based on future commercial expectations, a write-off of the prepayment of DKK 273m has been made. The write-off has been recognized as Research and development costs in the Income statement in 2021.

Note 17 Share capital

2021

With effect as of July 13, 2021, a share split of LEO Pharma shares with a ratio 1:1,000,000 and a capital increase of 70,145,071 shares was carried out. Consequently, each share of nominally DKK 1,000,000 was split into one million new shares of nominally DKK 1.

The share capital comprises 320,145,071 shares. The share capital is divided into 125,000,000 A shares and 195,145,071 B shares. Each A share carries 10 votes, where B shares carries 1 vote per share.

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

2020

The share capital comprises 250 shares for a nominal value of DKK 1m. The share capital is divided into 170 A shares and 80 B shares. Holders of A shares have pre-emption rights if the share capital is increased. Holders of B shares can only vote in connection with amendments to the articles of association, cf. Section 107 of the Danish Companies Act. The total share capital is owned by LEO Holding A/S, which is ultimately owned by the LEO Foundation. No shares or shareholders have any additional special rights.

Number of shares 2021	A-shares	B-shares	Total
Number of shares at January 1	170	80	250
Share split	124,999,830	124,999,920	249,999,750
Total after split	**125,000,000**	**125,000,000**	**250,000,000**
Capital increase	-	70,145,071	70,145,071
Number of shares at December 31	**125,000,000**	**195,145,071**	**320,145,071**

Note 18 Pensions

Accounting policies

Defined contribution plans
Payments to defined contribution plans are recognized in the Income statement for the period to which they relate, and any amounts payable are recognized as Other payables under Current liabilities in the Balance sheet.

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

The present value is calculated on the basis of assumptions relating to future developments in salary, interest rates, inflation, mortality and other factors. The present value is calculated solely for the benefits to which the employees have earned a right through their employment by the Group. Plan assets are recognized to the extent that the Group is able to obtain future economic benefits in the form of reimbursement from the pension scheme or reduction of future payments. Pension costs for the year are recognized in the Income statement on the basis of actuarial estimates and financial expectations at the beginning of the year. Actuarial gains and losses are recognized in Other comprehensive income. Past service costs are recognized in the Income statement as incurred.

Key accounting estimates

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

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

Defined benefit plans
In a few countries, the Group operates defined benefit plans. In defined benefit plans, the Group is under an obligation to pay a defined benefit on retirement. The most significant of these are in Ireland, the UK, Denmark (Intendis Germany) and France. The defined benefit plans expose the Group to actuarial risks, such as longevity, interest rate, salary, market and currency risks.

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

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

Note 18 Pensions (continued)

	2021				2020			
(DKK million)	**Ireland**	**UK**	**Other[1)]**	**Total**	**Ireland**	**UK**	**Other[1)]**	**Total**
Present value of defined benefit plans:								
Present value of defined benefit plans at 1 January	1,073	894	247	2,214	1,030	843	259	2,132
Effect of exchange rate adjustment	(1)	59	-	58	(4)	(49)	(1)	(54)
Current service costs	-	-	10	10	-	-	8	8
Interest expenses	11	11	2	24	13	15	3	31
Actuarial (gains)/losses from changes in demographic assumptions	-	-	(15)	(15)	-	4	-	4
Actuarial (gains)/losses from changes in financial assumptions	(39)	(52)	(13)	(104)	70	109	11	190
Actuarial (gains)/losses from experience adjustments	8	-	1	9	(2)	(8)	(3)	(13)
Benefits paid to employees	(26)	(78)	(19)	(123)	(34)	(20)	(30)	(84)
Present value of defined benefit obligation at 31 December	**1,026**	**834**	**213**	**2,073**	**1,073**	**894**	**247**	**2,214**
Fair value of plan assets:								
Fair value of plan assets at 1 January	880	727	119	1,726	874	723	122	1,719
Effect of exchange rate adjustment	(1)	50	-	49	(4)	(42)	-	(46)
Actuarial (gains)/losses from return on plan assets	49	37	(1)	85	32	38	(3)	67
Interest income	9	9	1	19	12	13	1	26
Benefits paid to employees (incl. adjustment prior periods)	(26)	(79)	(4)	(109)	(34)	(20)	(1)	(55)
Employer contributions	5	14	-	19	-	15	-	15
Fair value of plan assets at 31 December	**916**	**758**	**115**	**1,789**	**880**	**727**	**119**	**1,726**
Net retirement benefit obligations at 31 December	**110**	**76**	**98**	**284**	**193**	**167**	**128**	**488**
Specification of amount recognized in the Statement of comprehensive income:								
Actuarial gains and (losses)	80	89	26	195	(36)	(67)	(11)	(114)
Total	**80**	**89**	**26**	**195**	**(36)**	**(67)**	**(11)**	**(114)**

1. Other include Denmark, France and Italy

Sensitivity analysis

The discount rate is the most significant assumption used in the calculation of the obligation concerning defined benefit plans. The sensitivity analysis indicates what the development in the obligation would be on any 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 4.6% or DKK 96m (2020: 5.1% or DKK 110m).

Note 19 Provisions

Accounting policies

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

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

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

Staff-related provisions include employee benefits such as long-term incentive programs and long-service awards, as well as provisions for restructuring. Provisions for restructuring cost are recognised when a constructive obligation exist when detailed restructuring plans are in place and when a valid expectation of those affected has been raised.

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

Key accounting estimates

Provisions for legal disputes

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

Provisions for sales deductions

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

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

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

Note 19 Provisions (continued)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2021					
Provisions at January 1	344	236	541	130	1,251
Exchange rate adjustment	20	17	2	1	40
Additions during the year	1,088	67	330[1)]	133[3)]	1,618
Utilization during the year	(1,060)	(103)	(317)	(40)	(1,520)
Reversals during the year	(7)	(44)	(109)	(8)	(168)
Transfer	-	-	21[2)]	-	21
Provisions at December 31	**385**	**173**	**468**	**216**	**1,242**
Of which classified as:					
Non-current liabilities	-	60	230	62	352
Current liabilities	385	113	238	154	890
Provisions at December 31	**385**	**173**	**468**	**216**	**1,242**
2020					
Provisions at January 1	491	231	231	245	1,198
Exchange rate adjustment	(33)	(18)	(17)	(12)	(80)
Additions during the year	1,045	113	504[4)]	79	1,741
Utilization during the year	(1,004)	(87)	(170)	(160)	(1,421)
Reversals during the year	(155)	(3)	(7)	(22)	(187)
Provisions at December 31	**344**	**236**	**541**	**130**	**1,251**
Of which classified as:					
Non-current liabilities	75	192	142	66	475
Current liabilities	269	44	399	64	776
Provisions at December 31	**344**	**236**	**541**	**130**	**1,251**

1. Addition of DKK 330m consist of DKK 226m related to the restructuring of LEO Pharma announced to the public on January 19, 2022. Half of the provision is expected to be utilized during 2022 and the remaining part in 2023. Addition of DKK 104m is related to long-term incentive programs.

2. Transferred from Other payables.

3. Addition of DKK 111m is related to two onerous contracts, whereoff DKK 41m is recognised as part of Other operating expenses and the remaining part of DKK 70m is recognised as part of Cost of goods sold, reference is made to note 6.

4. Addition of DKK 299m is related to the restructuring of LEO Pharma announced on August 20, 2020. Remaining addition is related to long-term incentive programs.

Note 20 Financial risks

Financial risks
As a consequence of the Groups operations, investments and financing, the Group is exposed to a variety of financial risks:

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

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

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

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

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

The Group hedges future expected cash flows on an 18-month rolling basis. The majority of the Group's sales are in EUR, USD, GBP, CAD, JPY, RUB, SAR and CNY.

Foreign currency sensitivity analysis
The sensitivity analysis below shows the estimated impact on operating profit of a change in DKK versus the key currencies to which the Group was exposed on December 31, 2021. The increase in exchange rates is based on the observed 12 months implied volatility. The analysis shows the impact of foreign currency exchange differences on the Group's monetary assets and liabilities and foreign exchange forward contracts at the end of the year. A similar negative change in exchange rates would have an equivalent opposite effect on operating profit.

Foreign currency analysis

	2021			2020		
(DKK million)	Increase in exchange rates	Profit/(loss) for the year	Other comprehensive income[1]	Increase in exchange rates	Profit/(loss) for the year	Other comprehensive income[1]
USD	6.0%	(39)	36	5.0%	(8)	38
GBP	6.8%	(20)	(14)	5.0%	(5)	(11)
CAD	7.3%	3	(16)	5.0%	1	(16)
JPY	7.3%	9	(6)	5.0%	9	(4)
RUB	14.4%	(2)	(1)	5.0%	(2)	(4)
CNY/CNH	6.0%	3	(2)	5.0%	-	-
BRL	17.3%	(1)	(3)	5.0%	1	(4)
SAR	6.4%	-	(1)	5.0%	-	(3)
AUD	6.4%	-	(6)	5.0%	-	(4)

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

Note 20 Financial risks (continued)

Interest rate risk

Interest rate risk is the risk of interest rate fluctuations resulting in changed costs related to floating-rate loans. Long-term funding at floating interest rates is mitigated by entering into interest rate swaps as hedge instruments whereby the Group pays a fixed rate of interest and receives interest at floating rates. Hedging of interest rate risk is approved by the Executive Management, and hedge effectiveness is assessed on a regular basis. No ineffectiveness was observed in 2021 or 2020. In the table below, the current loans with our banking partners.

The current loans with our banking partners at December 31, are:

				2021			
(DKK million)	Currency	Expiry of commitment	Fixed/ floating	Weighted avg. effective interest rate %	Amortized Cost	Nominal value	Fair value
Term loan A[1)]	DKK	2027	Floating	3.05	1,107	1,125	1,125
Term loan B[1)]	DKK	2027	Floating	3.05	1,476	1,500	1,500
Loans RCF	USD	2024	Floating	1.38	63	63	63
Loans RCF	DKK	2027	Floating	3.25	1,278	1,278	1,278
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,183	1,200	1,206
Total					**5,107**	**5,166**	**5,172**

1. Floating rate is currently fixed via CAPS hedging instruments. Reference is made to the tabel below, the following page, disclosing the current hedging instruments.

				2020			
(DKK million)	Currency	Expiry of commitment	Fixed/ floating	Weighted avg. effective interest rate %	Amortized Cost	Nominal value	Fair value
Term loan A[1)]	DKK	2023	Floating	1.60	1,125	1,125	1,125
Term loan B[1)]	DKK	2025	Floating	1.90	1,500	1,500	1,500
Loans RCF A	USD	2025	Floating	1.38	38	38	38
Loans RCF A	DKK	2025	Floating	2.05	862	864	864
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,183	1,200	1,212
Other	Various	Uncommitted	Floating	N/A	5	5	4
Total					**4,713**	**4,732**	**4,743**

Note 20 Financial risks (continued)

In the below table, the current hedging instruments are presented on the basis of the average fixed interest rate used.

(DKK million)	Notional principal value	Change in fair value recognized in other comprehensive income	Fair value assets (liabilities)	Average fixed interest rate
2021				
CAP on Term Loan A	1,125	-	-	0.03%
CAP on Term Loan B	1,500	5	3	0.10%
Total		**5**	**3**	
2020				
CAP on Term Loan A	1,125	-	-	0.03%
CAP on Term Loan B	1,500	(6)	(2)	0.10%
Total		**(6)**	**(2)**	

At December 31, 2021, the fair value of DKK 3m was recognized in other receivables (2020: DKK (2)m in other payables).

One percentage point increase in interest rates would reduce profit for the year by DKK 13m (2020: DKK 9m) and increase other comprehensive income by DKK 24m (2020: DKK 11m), based on interest-bearing debt at 31 December with floating rate not hedged and the change in fair value of the CAPS hedging instruments.

The calculation method applied in the sensitivity analysis is based on the current duration of floating interest-bearing debt December 2021 not hedged and the change in fair value of the CAPS hedging instruments.

Credit risk

The Group's products are primarily sold to pharmacies, wholesalers and hospitals. Historically, realized losses sustained on trade receivables have been insignificant, which was also the case in both 2021 and 2020. However, LEO Pharma Group has a number of ongoing legal actions against customers in receivership and other financial difficulties that are nearing completion.

The Group has no significant concentration of credit risk related to trade receivables, as the exposure is spread over a large number of counterparties and customers. As such, the Group has no significant reliance on any specific customer. The Group continues to monitor the credit exposure on all customers, both new and existing, following principles delineated by the credit policy adopted in December 2020. The COVID-19 pandemic has not significantly impacted the Group's trade receivables, with only a few singular cases of delayed payments, mainly in the Middle East.

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

The Group implemented in 2020 a non-recourse factoring programme for selected global customers to optimize working capital. At year-end, the Group has derecognized Trade receivables, without recourse, having due dates after December 31, amounting to DKK 141m in 2021 (2020: DKK 159m). Reference is made to Note 12.

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

Note 20 Financial risks (continued)

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

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

Cash resources and financing facilities
On November 9, 2021, the Group refinanced the syndicated loan agreement from April 2019 with 5 Nordic banks, repaying the old syndicated loans. Changes include an increased commitment off DKK 11,200m, extended maturity to 1 January 2027, sustainability-linking the facilities and updated financial covenants. The syndicated loan agreement continues consisting of two term loans while the two revolving facilities have been combined into a single revolving facility. The syndicated facilities remain subject to financial covenants. No breaches were encountered during the year.

The Group has access to financing facilities of DKK 7,687m (2020: DKK 6,696m) of which unused and secured overdraft facilities amounted to DKK 7,162m (2020: DKK 6,017m) as of the reporting date. The remaining amount of DKK 525m (2020: DKK 679m) primarily consists of cash and cash equivalents.

In addition to the cash resources, the Parent company has pledged bonds and cash with a carrying amount of DKK 136m (2020: DKK 126m) as security for pension liabilities primarily in Ireland.

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

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

	2021					2020				
(DKK million)	**Borrowings January 1**	**Proceeds from borrowings**	**Repayments of borrowings**	**Other non-cash items[1)]**	**Borrowings December 31**	**Borrowings January 1**	**Proceeds from borrowings**	**Repayments of borrowings**	**Other non-cash items[1)]**	**Borrowings December 31**
Loan from LEO Holding A/S	3,965			196	4,161	3,806	-	-	159	3,965
Loan from the LEO Foundation	1,000				1,000	1,000	-	-	-	1,000
Banks and other credit institutions	4,713	10,604	(10,210)		5,108	4,526	1,296	(1,107)	(2)	4,713
Lease liabilities	491		(110)	121[2)]	502	558		(101)	34[2)]	491
Total borrowings	**10,169**	**10,604**	**(10,320)**	**317**	**10,771**	**9,890**	**1,296**	**(1,208)**	**191**	**10,169**
Of which classified as:						**Of which classified as:**				
Non-current					9,309	Non-current				9,164
Current					1,462	Current				1,005
Total					**10,771**	**Total**				**10,169**

1. Other non-cash items mainly comprises interest expenses and exchange rate adjustments.

2. New/disposed/remeasured leases.

Note 20 Financial risks (continued)

The below table analyses the Group's financial liabilities in relevant maturity groupings, based on their contractual maturities for all financial liabilities at amortized cost, and financial derivatives at fair value for which the contractual maturities are essential for the understanding of the timing of the cash flows.

Maturity of contractual cash flows

	2021					2020				
(DKK million)	**Contractual amount**	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**	**Contractual amount**	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Financial liabilities at amortized cost										
Floating interest rate bank debt	4,144	1,393	61	61	2,629	3,710	955	1,211	1,544	-
Fixed interest rate bank debt	1,330	18	162	184	966	1,293	13	76	177	1,027
Fixed interest rate loan, LEO Holding A/S[1)]	6,687	-	-	-	6,687	6,347	-	-	-	6,347
Fixed interest rate loan, the LEO Foundation	1,149	25	50	50	1,024	1,174	25	50	50	1,049
Trade and other payables	4,481	4,481	-	-	-	3,611	3,611	-	-	-
Financial derivatives at fair value										
Interest rate swaps used as hedging instruments	(3)	-	(3)	-	-	6	2	3	1	-
Forward contracts used as hedging instruments	4	3	1	-	-	40	40	-	-	-
Total contractual cash flow at December 31	**17,792**	**5,920**	**271**	**295**	**11,306**	**16,181**	**4,646**	**1,340**	**1,772**	**8,423**

1. Repayments related to the loan from LEO Holding A/S is now expected to commence in 2030.

In December 2020 the repayment was expected to commence in 2029.

Note 21 Derivatives - hedge accounting

Accounting policies

Derivative financial instruments

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

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

Hedge accounting

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

In general, LEO Pharma does not hedge EUR positions as Executive Management expects that the official Danish fixed exchange-rate policy against the EUR will continue. In addition, the Chinese yuan traded offshore (CNH) is used as a proxy when hedging the CNY currency exposure of the Group.

Discontinuance of cash flow hedging

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

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

Forward foreign exchange contracts

It is the policy of LEO Pharma to enter into either forward foreign exchange contracts or currency options in order to hedge up to 80% of the forecast sale and purchase transactions for the coming 18 months, and to hedge recognized assets and liabilities. Concerning the hedging of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying value) of the forward foreign exchange contracts and their corresponding hedged items are the same, LEO Pharma makes a qualitative assessment of effectiveness. It is expected that the value of the forward contracts and the value of the corresponding hedged items will change systematically in opposite directions in response to movements in the underlying exchange rates. The Executive Management has chosen to classify the result of cash flow hedging activities as part of financial items and not in the same line as the hedged item. Currently, net investments in foreign subsidiaries are not hedged.

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

Note 21 Derivatives - hedge accounting (continued)

Financial derivatives – Cash flow hedges

(DKK million)	Average hedge rate	Notional value in foreign currency	Contract value DKK	Carrying amount of the hedging instrument assets	Carrying amount of the hedging instrument liabilities	Fair value adjustment recognized in other comprehensive income
2021						
Forward foreign exchange contracts						
Bought USD	6.40	90	573	15	1	55
Sold CAD	4.96	43	214	-	8	(14)
Sold GBP	8.61	22	193	-	5	(5)
Sold CNY	0.92	34	31	-	3	(7)
Sold BRL	1.06	14	14	-	1	-
Sold RUB	0.08	84	7	-	1	(11)
Sold PLN	1.61	17	27	-	-	(1)
Sold AUD	4.64	14	66	-	2	3
Sold THB	0.20	53	11	-	-	(2)
Sold other currencies	N/A	N/A	191	3	3	2
Cash flow hedges at December 31			**1,327**	**18**	**24**	**20**
2020						
Forward foreign exchange contracts						
Bought USD	6.58	124	815	-	44	(44)
Sold CAD	4.83	67	325	6	-	17
Sold GBP	8.27	26	215	2	2	11
Sold BRL	1.30	65	85	2	3	10
Sold RUB	0.09	885	81	10	-	20
Sold SAR	1.78	40	71	7	-	9
Sold PLN	1.66	46	76	1	-	3
Sold AUD	4.44	17	77	-	4	(2)
Sold THB	0.21	241	51	2	-	6
Sold other currencies	N/A	N/A	905	16	21	0
Cash flow hedges at December 31			**2,701**	**46**	**74**	**30**

Note 21 Derivatives - hedge accounting (continued)

The financial contracts are expected to impact the Income statement for the next 18 months when the cash flow hedges mature and the fair value is transferred to either financial income or financial expenses. A loss of DKK 9m has been deferred for recognition until 2022 and 2023 (2020: a loss of DKK 28m was deferred until 2021). No ineffectiveness was observed in 2021.

The fair value gain on forward foreign exchange contracts of DKK 2m at the end of 2021 is recognized in the Income statement under Foreign exchange loss, net (2020: loss of DKK 12m recognized in Foreign exchange gain, net).

Financial derivatives – Fair value hedges

(DKK million)	Contracted amount based on agreed rates	Fair value	Maturity end date
2021			
Forward foreign exchange contracts			
Bought USD	331	-	30/06/2022
Sold GBP	17	1	21/01/2022
Sold CAD	153	1	07/10/2022
Sold JPY	144	(2)	29/12/2022
Sold SAR	24	-	24/02/2022
Sold CNY	103	1	10/03/2022
Sold other currencies	231	1	31/08/2022
Fair value hedges at December 31	**1,003**	**2**	
2020			
Forward foreign exchange contracts			
Bought USD	191	(12)	25/01/2021
Sold CAD	182	1	10/02/2021
Sold JPY	160	(4)	16/07/2021
Sold RUB	103	2	16/03/2021
Sold SAR	49	-	15/03/2021
Sold CNY	15	-	11/01/2021
Sold AUD / Bought AUD	19	-	21/01/2021
Bought EUR	7,257	2	18/10/2021
Sold other currencies	430	(1)	04/11/2021
Fair value hedges at December 31	**8,406**	**(12)**	

Note 22 Financial assets and liabilities by category

Accounting policies

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

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

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

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

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

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

Note 22 Financial assets and liabilities by category (continued)

Categories of financial assets and financial liabilities

(DKK million)	Carrying amount 2021	Fair value 2021	Carrying amount 2020	Fair value 2020
Carried at amortized cost				
Cash and bank balances	432	432	603	603
Trade and other receivables	2,659	2,659	2,995	2,995
Other financial assets	69	69	60	60
Financial assets at amortized cost	**3,160**	**3,160**	**3,658**	**3,658**
Carried at fair value through profit/loss (FVTPL)				
Financial securities (bonds)	137	137	126	126
Derivative instruments in designated fair value hedging relationships	8	8	10	10
Financial assets at fair value through profit/loss	**145**	**145**	**136**	**136**
Carried at fair value through other comprehensive income				
Derivative instruments in designated cash flow hedging relationships	21	21	46	46
Financial assets at fair value through other comprehensive income	**21**	**21**	**46**	**46**
Total financial assets	**3,326**	**3,326**	**3,840**	**3,840**
Carried at amortized cost				
Trade and other payables	4,481	4,481	3,611	3,611
Bank loans (current and non-current)	3,924	3,966	3,530	3,531
Mortgage loans	1,183	1,206	1,183	1,212
Loan from LEO Holding A/S	4,161	3,686	3,965	4,063
Loan from the LEO Foundation	1,000	944	1,000	1,015
Lease liabilities (current and non-current)	502	524	491	518
Financial liabilities at amortized cost	**15,252**	**14,807**	**13,780**	**13,950**
Carried at fair value through profit/loss (FVTPL)				
Derivative instruments in designated fair value hedging relationships	6	6	22	22
Financial liabilities at fair value	**6**	**6**	**22**	**22**
Carried at fair value through other comprehensive income				
Derivative instruments in designated cash flow hedging relationships	24	24	76	76
Financial liabilities at fair value through Other comprehensive income	**24**	**24**	**76**	**76**
Total financial liabilities	**15,282**	**14,837**	**13,878**	**14,048**

Note 22 Financial assets and liabilities by category (continued)

Fair value measurements

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

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

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

Fair value hierarchy of financial assets and - liabilities measured or disclosed at fair value at December 31:

2021

(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets:				
Danish mortgage bonds	137			137
Derivative instruments		29		29
Total	**137**	**29**	**-**	**166**
Financial liabilities:				
Bank loans		3,966		3,966
Mortgage loans		1,206		1,206
Loan from LEO Holding A/S		3,686		3,686
Loan from the LEO Foundation		944		944
Lease liabilities			524	524
Derivative instruments		30		30
Total	**-**	**9,832**	**524**	**10,356**

2020

(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets:				
Danish mortgage bonds	126			126
Derivative instruments		56		56
Total	**126**	**56**	**-**	**182**
Financial liabilities:				
Bank loans		3,531		3,531
Mortgage loans		1,212		1,212
Loan from LEO Holding A/S		4,063		4,063
Loan from the LEO Foundation		1,015		1,015
Lease liabilities			518	518
Derivative instruments		98		98
Total	**-**	**9,919**	**518**	**10,437**

Note 23 Other payables

Accounting policies

Other payables comprise amounts owed to employees, including wages, salaries, holiday pay, salary/wages relating items etc; amounts owed in connection of purhchase of development projects; amounts owed related to clinical trials and promotion fees; amounts owed related to sales deduction and promotion fee; amounts owed to the public authorities such as VAT etc.; accrued derrivatives and Other such as distributor expenses, promotional tax and product listing agreements, etc.

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

(DKK million)	2021	2020
Employee-related accruals	878	796
Accrued milestone payments	712[1]	-
Accrued clinical trial expenses	178	236
Sales deduction accruals	157	107
Accrued promotion fee	82	71
Public authorities (VAT)	66	107
Financial derivatives	30	98
Other	789	718
Total	**2,892**	**2,133**

Note 24 Other cash flow adjustments

(DKK million)	2021	2020
Other non-cash adjustments:		
Change in other provisions	1,471	1,554
Change in provision for defined benefit plans	(213)	83
Change in inventory write-downs	192	138
Change in provisions for bad debt	(12)	4
Other non-cash adjustments	648	(119)[2]
Total other non-cash adjustments	**2,086**	**1,660**
Change in Working capital		
Change in inventories	(1,198)	(696)
Change in receivables, prepaid expenses etc.	568	929
Change in current liabilities	87	(411)
Total	**(543)**	**(178)**

1. Accrued milestone payments are related to the EMA and FDA approval of Adtralza®/Adbry™.

2. The change is mainly related to the write down of an upfront payment of DKK 273m, reference is made to note 16.

Note 25 Acquisition and divestment of business and activities

Accounting policies

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

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

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

Key accounting judgments

Assessment of type of transaction

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

Key accounting estimates

Purchase price allocations

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

Acquisitions and divestments in 2021

LEO Pharma have not entered into any acquisitions or divestments during 2021.

Acquisitions in 2020

The opening balances for Bayer's dermatology business, acquired July 1, 2019, were finalized in 2020. There have been a few adjustments which have impacted Goodwill by DKK 66m, of which DKK 38.5m is related to an additional payment to Bayer, DKK 13m is related to an adjustment of the fair value of acquired assets held for sale and DKK 14.5m other adjustment.

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

Divestment of Emollients and Proctology Portfolio

On March 2, 2020, LEO Pharma announced the divestment of its emollients and proctology portfolio to Karo Pharma AB for DKK 712m. The initial agreement with Karo Pharma was announced on December 23, 2019 and approved by relevant competition authorities on February 20, 2020. The total annual revenue for the products included in the divestment is approximately DKK 110m. The divested portfolio was classified as Assets held for sale at December 31, 2019, at a fair value of DKK 712m.

Divestment of a portfolio of four non-core products to Cheplapharm

On August 31, 2020, LEO Pharma announced the divestment of a portfolio of four non-core products within bone disorders/nephrology, dermatology and gynecology to Cheplapharm for DKK 2,233m. The total annual revenue for the products included in the divestment is approximately DKK 818m. The transaction was closed on December 15, 2020, after regulatory approvals. A gain of DKK 1,166m has been recognized as Other operating income. Reference is made to note 6.

Note 26 Guarantees, contingencies and commitments

Guarantees
The total guarantee commitments for LEO Pharma amounts to DKK 86m at December 31, 2021. In April 2021, the guarantee related to the associated company PellePharm of DKK 131m was paid.

In 2020 the total guarantee commitments amount to DKK 166m including the guarantee related to the associated company PellePharm of DKK 131m.

Contractual obligations and commitments
Contracted, but not provided for, in the Consolidated Financial Statements

(DKK million)	2021	2020
Intangible assets	2,119	4,499
Property, plant and equipment	334	645
Total	**2,453**	**5,144**

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

The commitments regarding property, plant and equipment relates primarily to two major expansions of production facilities. One project relates to the construction of a new plant in Denmark, while the other project relates to the expansion of an existing plant in Ireland. The amounts are not risk-adjusted or discounted.

Pending lawsuits
At the end of 2021, there were pending patent lawsuits filed by and against LEO Pharma concerning rights related to products in LEO Pharma's portfolio. LEO Pharma does not expect these and other pending cases to have any significant effect on the Group's financial position.

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

Tax
As a global business, LEO Pharma will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues, including transfer pricing and indirect taxes. Please refer to the description of uncertain tax positions in note 8.

Note 27 Related party transactions

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

Owner with significant influence:
- Nordic Capital

There were the following transactions and balances with the LEO Foundation:
- Loan of DKK 1,000m (2020: DKK 1,000m)
- Interest expenses of DKK 25m (2020: DKK 25m)
- Income of DKK 0m (2020: DKK 0m)
- Payables of DKK 0m (2020: Payables of DKK 0m)

There were the following transactions and balances with LEO Holding A/S:
- Tax settlement of DKK 238m (2020: DKK 399m)
- Loan of DKK 4,161m (2020: DKK 3,965m)
- Interest expenses of DKK 198m (2020: DKK 171m)
- Receivables regarding joint taxation of DKK 370m (2020: DKK 247m)

There were the following transactions and balances with Nordic Capital:
- Capital increase of DKK 3,347m (2020: DKK 0m)

There were the following transactions and balances with the members of the Board of Directors or the Executive Management:
Selected members of the Board of Directors have purchased warrants as part of the Management Incentive Program, totaling DKK 3m.

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

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

Note 28 Events after the balance sheet date

On January 1, 2022, the LEO Pharma offered all employees in the Group the opportunity to participate in an Employee Share Purchase Plan. To participate in the plan, the employees are required to invest 3 per cent of their base salary over 12 months into shares and will receive matching shares at vesting.

LEO Pharma A/S has on February 2, 2022 sold the shares in Omhu A/S to Medable Inc. for DKK 37m. Cash in the divested company amounts to DKK 22m, and accordingly the liquidity effect are DKK 15m.

Note 29 Company overview

			Activities			
(DKK million)	Country	Share of ownership %	Sales and distribution	Production	Sales & services	Other
Parent Company						
LEO Pharma A/S	Denmark		●	▲	◆	▼
Subsidiaries						
SARL LEO Pharma	Algeria	100			◆	
LEO Pharma Pty Ltd	Australia	100	●			
LEO Pharma GmbH	Austria	100	●			
LEO Pharma N.V.	Belgium	100	●			
LEO Pharma LTDA	Brazil	100	●			
LEO Pharma Inc.	Canada	100	●			
LEO Pharma Consultancy Company Ltd.	China	100			◆	
LEO Pharma Trading Company Ltd.	China	100	●			
LEO Pharma s.r.o.	Czech Republic	100			◆	
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100				▼
LEO Ventures A/S	Denmark	100				▼
Omhu A/S	Denmark	100				▼
Studies&Me A/S	Denmark	100				▼
LEO Pharma OY	Finland	100	●			
Laboratoires LEO S.A.S	France	100	●	▲		
LEO Pharma GmbH	Germany	100	●			
LEO Pharmaceutical Hellas S.A.	Greece	100	●			
DKLEO Pharma Private Limited	India	100				▼
LEO Laboratories Ltd.	Ireland	100	●	▲		
Wexport Ltd.	Ireland	100		▲		
LEO Pharma Holding Ltd.	Ireland	100				▼
LEO Pharma Manufacturring Italy S.R.L.	Italy	100		▲		
LEO Pharma S.p.A.	Italy	100	●			

Note 29 Company overview (continued)

			Activities			
(DKK million)	Country	Share of ownership %	Sales and distribution	Production	Marketing & services	Other
LEO Pharma K.K.	Japan	100	●			
LEO Pharmaceuticals, S. de R.L. de C.V.	Mexico	100	●			
LEO Pharma LLC	Morocco	100			◆	
LEO Pharma BV	Netherlands	100	●			
LEO Pharma Ltd.	New Zealand	100	●			
LEO Pharma AS	Norway	100	●			
LEO Pharma Sp. z o.o.	Poland	100			◆	
LEO Pharma Global Business Service Center Sp. z o.o.	Poland	100				▼
LEO Farmacêuticos Lda.	Portugal	100	●			
LEO Pharmaceutical Products LLC	Russia	100	●			
LEO Pharma Asia PTE Ltd.	Singapore	100			◆	
LEO Pharma Yuhan Hoesa	South Korea	100	●			
Laboratorios LEO Pharma S.A.	Spain	100	●			
LEO Pharma AB	Sweden	100	●			
LEO Pharmaceutical Products Sarath Ltd.	Switzerland	100	●			
LEO Pharma SARL[1)]	Tunisia	100	●			
LEO Pharma İlaç Ticaret A.Ş[1)]	Turkey	100	●			
LEO Laboratories Ltd.	United Kingdom	100	●			
LEO Pharma Inc.	USA	100	●			
LEO Spiny Merger Sub. Inc.	USA	100				▼
LEO US Holding Inc.	USA	100				▼
Associates						
PellePharm Inc.	USA	16.72				▼
SkinVision B.V	Netherlands	26.32				▼

1. Under liquidation

Parent Company Financial Statements

Contents

Income statement

January 1 - December 31

(DKK million)	Note	2021	2020
Revenue	2	9,606	8,284
Cost of sales	3, 11	(8,360)	(6,575)
Gross profit		**1,246**	**1,709**
Sales and distribution costs	3, 10, 11	(3,137)	(2,834)
Research and development costs	3, 10, 11	(2,892)	(1,775)
Administrative costs	3, 4, 5, 10, 11, 18	(1,882)	(1,809)
Other operating income	6	374	1,690
Other operating expenses	6	(61)	(27)
Operating profit/(loss)		**(6,352)**	**(3,046)**
Income from investment in subsidiaries	12	1,733	1,951
Financial income	7	39	62
Financial expenses	7	(607)	(357)
Profit/(loss) before tax		**(5,188)**	**(1,390)**
Income Tax	8	308	459
Net loss for the year		**(4,880)**	**(931)**

Balance sheet at December 31

Assets

(DKK million)	Note	2021	2020
Goodwill		162	175
Intellectual property rights		6,026	5,121
Software		1,524	1,335
Development projects and software in progress		761	2,367
Intangible assets	**10**	**8,473**	**8,998**
Land and buildings		509	517
Plant and machinery		493	482
Other fixtures and fittings, tools and equipment		130	113
Assets under construction		1,494	1,260
Property, plant and equipment	**11**	**2,626**	**2,372**
Investment in subsidiaries	12	9,476	7,689
Deferred tax assets	13	785	785
Other financial assets		78	67
Other non-current assets		**10,338**	**8,541**
Non-current assets		**21,437**	**19,911**
Inventories	15	2,326	1,335
Trade receivables		527	677
Loans to subsidiaries		570	876
Receivables from subsidiaries		2,087	692
Tax receivables		391	338
Other receivables	14	259	419
Prepaid expenses	16	332	756
Other financial securities		136	125
Cash		83	188
Current assets		**6,711**	**5,405**
Assets		**28,148**	**25,317**

Balance sheet at December 31

Equity and liabilities

(DKK million)	Note	2021	2020
Share capital		320	250
Net revaluation, subsidiaries		7,881	6,106
Reserve for development projects		1,571	1,568
Retained earnings		(4,153)	(907)
Equity		**5,619**	**7,017**
Loans and credit institutions	19	8,928	8,772
Provisions	17	56	51
Pensions	18	7	22
Other long-term liabilities		818	663
Total non-current liabilities		**9,809**	**9,508**
Loans and credit institutions	19	1,181	846
Provisions	17	217	232
Trade payables		1,083	1,125
Loans from subsidiaries		5,829	3,825
Payables to subsidiaries		2,247	1,264
Tax payables		453	503
Other payables	20	1,710	997
Current liabilities		**12,720**	**8,792**
Liabilities		**22,529**	**18,300**
Equity and liabilities		**28,148**	**25,317**

Statement of changes in equity January 1 - December 31

		Reserves					
(DKK million)	Share capital	Net revaluation, subsidiaries	Reserve for currency hedging	Other Capital reserve	Reserve for development projects	Retained earnings	Total
2021							
Equity at January 1	250	6,106	(25)	-	1,568	(881)	7,017
Profit/(loss) for the year	-	1,733	-	-	-	(6,613)	(4,880)
Capitalized development costs, net	-	-	-	-	(5)	5	-
Deferred gains/losses on financial instruments	-	-	25	-	-	5	30
Dividend received from subsidiaries	-	(149)	-	-	-	149	-
Exchange rate adjustment of foreign subsidiaries	-	51	-	-	-	-	51
Other movements	-	141	-	-	-	2	143
Tax on changes in equity	-	-	(1)	-	-	(6)	(7)
Transactions with owners							
Increase of Capital[1]	70	-	-	-	-	3,277	3,347
Cost related to Capital increase	-	-	-	-	-	(92)	(92)
Share-based payments	-	-	-	9	-	-	9
Total transactions with owners	**70**	**-**	**-**	**9**	**-**	**3,185**	**3,264**
Equity at December 31	**320**	**7,881**	**(1)**	**9**	**1,563**	**(4,153)**	**5,619**
2020							
Equity at January 1	250	4,455	(50)	-	1,729	1,694	8,078
Profit/(loss) for the year	-	1,951	-	-	-	(2,882)	(931)
Capitalized development costs, net	-	-	-	-	(161)	161	-
Deferred gains/losses on financial instruments	-	-	24	-	-	-	24
Dividend received from subsidiaries	-	(67)	-	-	-	67	-
Exchange rate adjustment of foreign subsidiaries	-	(77)	-	-	-	-	(77)
Other movements	-	(156)	-	-	-	82	(74)
Tax on changes in equity	-	-	-	-	-	(3)	(3)
Equity at December 31	**250**	**6,106**	**(25)**	**-**	**1,568**	**(881)**	**7,017**

1. Reference is made to note 17 in The Consolidated Financial Statements.

The Company's total share capital of 320,145,071 is divided into 125.000.000 A shares and 195,145,071 B shares of DKK 1 each. Each A shares carries 10 votes, where B shares carries 1 vote per share. Reference is made to note 17 in the Consolidated Financial Statements.

Notes – Parent Company

Note 1 Accounting policies

The Parent company's Financial statements are presented in accordance with the Danish Financial Statements Act for companies in reporting class large C. From 2021 the Balance sheet is presented in accordance with the Danish Financial Statements Act, appendix 2, no. 2, "Skema for balance i kontoform - opdeling i lang- og kortfristede aktiver og passiver". Comparative numbers have been updated accordingly.

The accounting policies of the Parent company are the same as those of the Group, but with the addition of the policies described below and except for IFRS 16 - Leases, which is not implemented for the Parent company, and the treatment of goodwill.

The accounting policies remain unchanged from the previous year.

Intragroup business combinations
The Parent company merged with the 100% owned subsidiary Intendis GmbH with effect from January 1, 2020. Intendis GmbH was originally acquired by the Parent company at July 1, 2019. Assets and liabilities from Intendis GmbH have been recognized in the Financial statements for LEO Pharma A/S at carrying amount as of January 1, 2020. The comparative figures for 2020 were restated accordingly to reflect the merger of the companies on July 1, 2019, which was the date where LEO Pharma A/S obtained control of Intendis GmbH.

General Information
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.

Share-based payments
For equity-settled share-based payment arrangements, the warrants and shares are measured at the grant date fair value and recognized in the Income statement as a staff cost for employees in LEO Pharma A/S over the vesting period with the balancing entry being recognized directly in equity. Awards granted by Leo Pharma A/S to employees in subsidaries are recognized as addition to investments in subsidiaries with the balancing entry being recognized directly in equity. On initial recognition, an estimate is made of the number of awards expected to vest.

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

For cash-settled share-based payment arrangements awarded by LEO Pharma A/S, the awards are measured at the grant date fair value and recognised in the Income statement as a staff cost over the vesting period for employees of LEO Pharma A/S and as an addition to investments in subsidiaries for employees of subsidiaries with the balancing entry being recognised as a liability. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share-based payment arrangement. Any changes in the liability are recognized in profit or loss.

Goodwill
Goodwill is measured at cost less accumulated amortization and impairment. Amortization is calculated using the straight-line method over the expected useful life, estimated at 15 years. This estimate was made on the basis of estimated useful lives of the other assets acquired in the transaction.

Investments in subsidiaries
In the Parent company's Financial statements, investments in subsidiaries and associates are recognized according to the equity method. The share of the results of subsidiaries less unrealised intra-group gains is recognized in the Parent company's Income statement. Net revaluation of investments in subsidiaries and associates exceeding the dividend declared by such companies is recognized in equity as reserve for net revaluation according to the equity method.

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

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

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

Note 2 Revenue

(DKK million)	2021	2020
Revenue by region		
Europe+	7,072	5,999
International	2,240	1,890
US	294	395
Total	**9,606**	**8,284**

(DKK million)	2021	2020
Revenue by category		
Products	9,513	8,138
Sales-based royalties	88	140
Other	5	6
Total	**9,606**	**8,284**

Note 3 Staff expenses

(DKK million)	2021	2020
Wages and salaries	1,696	1,833
Hereof capitalized staff expenses	(136)	(183)
Pensions	173	170
Share-based payment[1)]	16	-
Social security expenses	22	24
Other employee expenses	61	60
Total staff expenses in the income statement	**1,832**[2)]	**1,904**[3)]
Staff expenses included in:		
Cost of sales	311	309
Sales and distribution costs	252	266
Research and development costs	619	663
Administrative costs	650	666
Total	**1,832**	**1,904**
Average number of full-time employees	**2,145**	**2,394**

Reference is made to note 3 of the Consolidated Financial Statements for a description of the Parent company's remuneration to the Executive Management and the Board of Directors, as these are the same for the Parent company and the Group.

1. Reference is made to note 4.

2. Total staff expenses are impacted by DKK 43m as a consequence of the restructuring of LEO Pharma announced to the public on January 19, 2022. The restructuring costs are recognized in the Income statement and classified as follows; Sales and distribution costs DKK 20m, Research and development costs DKK 18m and Administrative costs DKK 5m.

3. Total staff expenses are impacted by DKK 84m as a consequence of the restructuring of LEO Pharma announced on August 20, 2020. The restructuring costs are recognized in the Income statement and classified as follows; Cost of sales DKK 31m, Sales and distribution costs DKK 31m, Research and development costs DKK 5m and Administrative costs DKK 17m.

Note 4 Share-based payment

Description of share-based payment arrangements
Terms and conditions, measurement of grant date fair value etc. for share-based payment arrangements in LEO Pharma A/S are the same as for the Group. We refer to note 4 in the Consolidated financial statements.

Reconciliation of outstanding equity-settled awards

Management Incentive Program
The number and weighted average-exercise prices of warrants were as follows.

In number of warrants	Board of Directors	Members of the Executive Board	Key management personnel	Total	Fair value at grant (DKK)	Average exercise price (DKK)
Outstanding at January 1, 2021	-	-	-	-	-	-
Granted during the year	907,866	545,172	1,557,640	3,010,678	7.14	47.72
Outstanding at December 31, 2021	**907,866**	**545,172**	**1,557,640**	**3,010,678**	**-**	**47.72**
Exercisable at December 31, 2021	**-**	**-**	**-**	**-**	**-**	**-**

For warrants outstanding at the end of the year, the remaining contractual life is 6 years and 11 months.

Reconciliation of outstanding cash-settled awards

In number of phantom shares	Phantom Share Agreement
Instruments granted	3,504,684
Fair value at grant date (DKK)	7.38
Initial expected total cost (DKK)	**25,848,797**
Instruments for which it is expected to vest	3,504,684
Current fair value (DKK)	7.38
Total expected settlement (DKK)	**25,848,797**
Liability at December 31, 2021 (DKK)	**9,668,856**

At December 31, 2021, the total carrying amount of liabilities arising from the share-based payment transactions amount to DKK 10m. The intrinsic value at December 31, 2021 of liability related to vested phantom shares of DKK 5m amounts to DKK 0m.

Total expense recognised in 2021 from share-based payment transactions recognised in the income statement amounts to DKK 16m, of which DKK 6m arises from equity-settled share-based payment transactions.

Note 5 Fees to Auditors appointed at the Annual General Meeting

(DKK million)	2021	2020
Statutory audit	4	4
Tax and VAT advice	0	1
Non-audit services	7	13
Total	**11**	**18**

Note 6 Other operating income and expenses

(DKK million)	2021	2020
Gain from sale of assets	-	1,281[1]
Other operating income	1	50
Royalty income	373	359
Other operating income	**374**	**1,690**
Royalty expenses	18	18
Loss from sale of assets	-	4
Other operating expenses	43[2]	5
Other operating expenses	**61**	**27**

Note 7 Financial income and expenses

(DKK million)	2021	2020
Interest income on bonds	1	0
Interest income from subsidiaries	20	12
Share of profit/ (loss) on associates	4	-
Foreign exchange gains, net[3]	-	43
Other financial income	14	7
Total financial income	**39**	**62**
Interest expenses, loan from LEO Holding A/S	198	171
Interest expenses, loan from the LEO Foundation	25	25
Interest expenses, bank	106	77
Other interest	3	-
Loss on financial assets measured at cost	-	1
Foreign exchange rate losses, net[3]	69	0
Financial assets write-down	-	3
Share of profit/ (loss) on associates	-	2
Other financial expenses[4]	206	78
Total financial expenses	**607**	**357**

1. Gain from sale of assets relates mainly to the sale of intellectual property rights of four non-core products to Cheplapharm of DKK 1,166m and sale of assets to Omhu A/S and Studies&Me A/S of DKK 100m.

2. Related to accounting loss on an onerous contract, DKK 41m.

3. Foreign exchange gains amount to DKK 717m (2020: DKK 658m) and foreign exchange losses amount to DKK 786m (2020: DKK 615m).

4. Other financial expenses comprise, bank charges, other fees etc and a payment of a bank guarantee related to the associated company PellePharm DKK 131m (2020: DKK 0m). Reference is made to note 22.

Note 8 Income Tax

(DKK million)	2021	2020
Current tax	296	(903)
Prior-year adjustments, current tax	5	12
Prior-year adjustments, deferred tax	(17)	25
Change in deferred tax	17	1,322
Total tax income/(expense) for the year	**301**	**456**
Tax on profit/loss for the year	308	459
Tax on changes in equity	(7)	(3)
Total tax income/(expense) for the year	**301**	**456**

Note 9 Proposed distribution of net profit/loss for the year

(DKK million)	2021	2020
Net revaluation for the year	1,733	1,951
Retained earnings	(6,613)	(2,882)
Total	**(4,880)**	**(931)**

Note 10 Intangible assets

(DKK million)	Goodwill	Intellectual property rights	Software	Development projects and software in progress	Total intangible assets
2021					
Cost at January 1	192	12,276	1,922	2,388	16,778
Additions during the year	-	712[1]	18	393[2]	1,123
Disposals during the year	-	-	(11)	(524)	(535)
Transfers	-	781[1]	569	(1,378)	(28)[3]
Cost at December 31	**192**	**13,769**	**2,498**	**879**	**17,338**
Amortization and impairment losses at January 1	(17)	(7,155)	(587)	(21)	(7,780)
Amortization for the year	(13)	(575)	(381)	-	(969)
Impairment for the year	-	(13)	(8)	(624)	(645)[4]
Disposals during the year	-	-	11	518	529
Reversal of impairment	-	-	-	-	-
Transfer	-	-	(9)	9	-
Amortization and impairment losses at December 31	**(30)**	**(7,743)**	**(974)**	**(118)**	**(8,865)**
Carrying amount at December 31	**162**	**6,026**	**1,524**	**761**[5]	**8,473**

(DKK million)	Goodwill	Intellectual property rights	Software	Development projects and software in progress	Total intangible assets
2020					
Cost at January 1	126	14,622	1,290	2,338	18,376
Additions during the year	-	-	7	705[2]	712
Adjustment to opening, related to Business combinations[6]	66	-	-	-	66
Disposals during the year[7]	-	(2,347)	(25)	(4)	(2,376)
Transfers	-	2	650	(652)	-
Cost at December 31	**192**	**12,276**	**1,922**	**2,388**	**16,778**
Amortization and impairment losses at January 1	(4)	(7,317)	(331)	(24)	(7,676)
Amortization for the year	(13)	(619)	(241)[8]	-	(873)
Disposals during the year[7]	-	740	-	3	743
Reversal of impairment[9]	-	26	-	-	26
Transfer	-	15	(15)	-	-
Amortization and impairment losses at December 31	**(17)**	**(7,155)**	**(587)**	**(21)**	**(7,780)**
Carrying amount at December 31	**175**	**5,121**	**1,335**	**2,367**[5]	**8,998**

Capitalized costs for development projects and software in progress primarily consist of licenses in relation to research and development projects and internally developed software. Acquired development projects are undergoing the clinical stages towards regulatory approval and launch.

(DKK million)	2021	2020
Amortization and impairment losses are specified as follows:		
Cost of sales	2	-
Sales and distribution costs	542	606
Research and development costs	563	1
Administrative costs	507	240
Total	**1,614**	**847**

1. In July 2021 Adtralza® was launched in Germany and in December the FDA approval was received for Adbry™ i.e. subsequent milestone payments of DKK 712m have been accrued.

2. Additions consist of DKK 38m (2020: DKK 80m) related to development projects, and DKK 355m (2020: DKK 625m) related to the development of IT projects and a new ERP system.

3. Transferred to Property, plant and equipment.

4. Impairment for the year consists of impairment of Patidegib DKK 435m, termination of a development agreement with an external partner DKK 82m, and impairment of IT projects DKK 128m.

5. Total development projects and software in progress DKK 761m (2020: DKK 2,367m) consist of Software in progress DKK 493m (2020: DKK 851m), and Development projects DKK 268m (2020: DKK 1,516m).

6. Related to Bayer acquisition, reference is made to note 25 in the Consolidated Financial Statements.

7. Reference is made to note 25 in the Consolidated Financial Statements.

8. The Group is in the process of developing a new ERP system. In connection with this, the Group has reassessed the lifetime of the current ERP system, which has resulted in an additional amortization of DKK 24 million.

9. For a specification of the impairment, reference is made to note 9 in the Consolidated Financial Statements.

Note 11 Property, plant and equipment

	2021					2020				
(DKK million)	**Land and buildings**	**Plant and machinery**	**Other fixtures and fittings, tools and equipment**	**Assets under construction[1]**	**Total property, plant and equipment**	**Land and buildings**	**Plant and machinery**	**Other fixtures and fittings, tools and equipment**	**Assets under construction[1]**	**Total property, plant and equipment**
Cost at January 1	1,185	1,472	430	1,260	4,347	1,113	1,452	418	703	3,686
Exchange rate adjustment	1	0	1	-	2	-	-	-	-	-
Additions during the year	-	0	22	467	490	3	2	20	697	722
Disposals during the year	(4)	(206)	(23)	-	(232)	(7)	(36)	(18)	-	(61)
Transfers	22	204	34	(233)	28[2]	76	54	10	(140)	-
Cost at December 31	**1,204**	**1,471**	**465**	**1,494**	**4,634**	**1,185**	**1,472**	**430**	**1,260**	**4,347**
Depreciation and impairment losses at January 1	(668)	(990)	(317)	-	(1,975)	(648)	(904)	(302)	-	(1,854)
Exchange rate adjustment	(0)	-	(1)	-	(2)	-	-	-	-	-
Disposals during the year	4	206	22	-	232	4	(2)	17	-	19
Depreciation for the year	(26)	(101)[3]	(39)	-	(165)	(24)	(84)	(32)	-	(140)
Impairment loss for the year	(5)	(93)[4]	(0)	-	(98)	-	-	-	-	-
Depreciation at December 31	**(695)**	**(978)**	**(335)**	**-**	**(2,008)**	**(668)**	**(990)**	**(317)**	**-**	**(1,975)**
Carrying amount at December 31	**509**	**493**	**130**	**1,494**	**2,626**	**517**	**482**	**113**	**1,260**	**2,372**

(DKK million)	**2021**	**2020**
Depreciation and impairment losses are specified as follows:		
Cost of sales	205	96
Sales and distribution costs	2	3
Research and development costs	18	17
Administrative costs	38	24
Total	**263**	**140**

1. Fixed assets under construction are mainly related to the construction of a new plant with a carrying amount of DKK 1,399m (2020: DKK 970m). The new plant is expected to start production in 2023.

2. Transferred from Intangible assets

3. The Group has reassessed the lifetime of the current plant in Denmark, which has resulted in an additional depreciation in 2021 of DKK 18m. The reassessment is caused by the construction of a new plant in Denmark, which is expected to start production in 2023.

4. Impairment of a production line related to two onerous contracts.

Note 12 Investment in subsidiaries

(DKK million)	2021	2020
Cost at January 1	1,583	1,354
Additions during the year	12	229
Cost at December 31	**1,595**	**1,583**
Value adjustment at January 1	6,106	4,455
Exchange rate adjustment	11	(77)
Share of profit/(loss) for the year	1,733	1,951
Dividend	(149)	(67)
Other movements	180	(48)
Disposal through liquidation	-	(108)
Value adjustment at December 31	**7,881**	**6,106**
Carrying amount at December 31	**9,476**	**7,689**

Reference is made to Note 29 in the Consolidated Financial Statement.

Note 13 Deferred tax

(DKK million)	2021	2020
Deferred tax assets/(liabilities) at January 1	785	(564)
Adjustment relating to previous years	(17)	25
Deferred tax on equity	(7)	(2)
Deferred tax on profit for the year	24	1,326
Deferred tax assets/(tax liabilities) at December 31	**785**	**785**

For description of basis for recognition of deferred tax assets, reference is made to note 15 in the Consolidated Financial Statements.

Classified as follows:

Deferred tax assets	785	785
Deferred tax liabilities	-	-
Deferred tax assets/(tax liabilities)	**785**	**785**

Note 14 Other receivables

(DKK million)	2021	2020
Public authorities (VAT)	168	295
Deposits	3	3
Financial derivatives	29	56
Other[1)]	59	65
Total	**259**	**419**

1. Other primarily comprises of receivable interests DKK 31m (2020: DKK 20m).

Note 15 Inventories

(DKK million)	2021	2020
Raw materials and consumables	131	85
Work in progress	1,282	532
Finished goods and goods for resale	913	717
Total	**2,326**	**1,335**

Note 16 Prepaid expenses

(DKK million)	2021	2020
License and collaboration agreement	-	273
Prepaid clinical trials	258	362
Prepaid IT expenses	56	50
Other prepaid expenses	18	71
Total	**332**	**756**

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

Based on future commercial expectations a write off of the prepayment of DKK 273 million has been made. The write off has been recognized as Research and Development cost in the Income statement in 2021.

Note 17 Provisions

(DKK million)	Staff-related provisions	Other provisions	Sales deductions	Total
2021				
January 1	229	43	11	283
Exchange rate adjustment	0	0	-	0
Addition during the year	88[1)]	122[2)]	7	217
Utilization during the year	(150)	(30)	(8)	(188)
Reversals during the year	(33)	-	(2)	(35)
Transfer	(4)	-	-	(4)
Provisions at December 31	**130**	**135**	**8**	**273**
Of which classified as:				
Non-current liabilities	41	15	-	56
Current liabilities	89	120	8	217
Provisions at December 31	**130**	**135**	**8**	**273**
2020				
January 1	120	149	7	276
Exchange rate adjustment	(2)	0	-	(2)
Addition during the year	227[3)]	42	19	288
Utilization during the year	(114)	(138)	(15)	(267)
Reversals during the year	(2)	(10)	-	(12)
Provisions at December 31	**229**	**43**	**11**	**283**
Of which classified as:				
Non-current liabilities	32	19	-	51
Current liabilities	197	24	11	232
Provisions at December 31	**229**	**43**	**11**	**283**

1. Addition of DKK 88m consist of DKK 43m related to the restructuring of LEO Pharma announced to the public on January 19, 2022. The majority of the provision is expected to be utilized during 2022 and the remaining part in 2023. Addition of DKK 45m is related to long-term incentive programs.

2. Addition of DKK 111m is related to two onerous contracts, whereoff DKK 41m is recognised as part of Other operating expenses and the remaining part of DKK 70m is recognised as part of Cost of goods sold, reference is made to note 6.

3. Addition of DKK 84m is primarily related to the restructuring of LEO Pharma announced on August 20, 2020. Remaining addition is related to long-term incentive programs.

Note 18 Pensions

Defined benefit plans

LEO Pharma A/S aquired a defined benefit plan in Germany through the acquisition of Bayer's prescription dermatology business on July 1, 2019. The plan is funded and covered under a contractual trust agreement ("Metzler") whose assets are legally seperated from those of LEO Pharma A/S. The plans are defined by different work council agreements and entitle the employees to an annual pension on retirement based on the service and salary level upon retirement.

(DKK million)	2021	2020
Present value of defined benefit plans:		
Present value of defined benefit plans at January 1	142	159
Current service costs	-	2
Interest expenses	1	2
Actuarial (gains)/losses from changes in financial assumptions	(6)	11
Actuarial (gains)/losses from experience adjustments	1	(3)
Payments from the plan	(15)	(29)
Present value of defined benefit plans at December 31	**123**	**142**
Fair value of plan assets		
Fair value of plan assets at January 1	120	122
Actuarial gains/(losses) from return on plan assets	(1)	(4)
Interest income	1	2
Benefits paid to employees	(4)	-
Fair value of plan assets at December 31	**116**	**120**
Net retirement benefit obligations at December 31	**7**	**22**
Specification of amount recognized in the Equity		
Actuarial (gains)/losses	(4)	12
Total	**(4)**	**12**

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 4% or DKK 5m (2020: 4% or DKK 6m).

Note 19 Loans and credit institutions

(DKK million)	2021	2020
Mortgage loans	1,183	2,029
Bank loans	3,765	2,622
Debt related to parties	5,161	4,966
Total	**10,109**	**9,618**
Falling due in:		
Less than one year	1,181	846
Between one and five years	295	3,167
After five years	8,633	5,605
Total	**10,109**	**9,618**

Cash resources and financing facilities

On November 9, 2021 the Group refinanced the syndicated loan agreement from April 2019 with 5 Nordic banks. Changes include an increased commitment to DKK 11,200m, extended maturity to January 1, 2027, sustainability-linking the facilities and updated financial covenants. The syndicated loan agreement continues consisting of two term loans while the two revolving facilities have been combined into a single revolving facility.

Note 20 Other payables

(DKK million)	2021	2020
Employee related accruals	457	311
Accrued Milestone payments[1]	712	-
Accrued clinical trials expenses	178	236
Sales deductions accruals	71	49
Financial derivatives	30	98
Other	262	303
Total	**1,710**	**997**

1. Accrued Milestone payments are related to the EMA and FDA approval of Adtralza®/Adbry™.

Note 21 Contractual obligations

Operating lease obligations

The Parent company has lease obligations of DKK 48m (2020: DKK 53m) of which DKK 22m is related to lease for office premise with subsidiary (2020: DKK 22m).

Note 22 Guarantees, contingencies and commitments

Guarantees
The total guarantee commitment for the Parent company amounts to DKK 340m at December 31, 2021. In April 2021, a guarantee related to the assoicated company PellePharm of DKK 131m was paid.

In 2020 the total guarantee commitments amount to DKK 413m including the guarantee related to the associated company PellePharm of DKK 131m.

As of December 31, 2021, LEO Pharma A/S has issued guarantees to subsidiaries for pension obligations of DKK 265m (2020: DKK 248m).

Contractual obligations and commitments
Contracted for but not provided in the financial statements:

(DKK million)	2021	2020
Intangible assets	2,119	4,499
Property, plant and equipment	162	296
Total	**2,281**	**4,795**

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

The commitments regarding property, plant and equipment relates primarily to the construction of a new plant in Denmark. The amounts are not risk-adjusted or discounted.

Pending lawsuits
At the end of 2021, there were pending patent lawsuits filed by and against LEO Pharma A/S concerning rights related to products in LEO Pharma's portfolio. LEO Pharma A/S does not expect the pending cases to have any significant effect on the Parent company's financial position. LEO Pharma A/S is involved in a number of legal proceedings. In the opinion of Management, the outcome of these proceedings will not have a material impact on the financial position or cash flows. Such proceedings will, however, develop over time, and new proceedings may occur which could have a material impact on LEO Pharma's financial position and/or cash flows.

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

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

As a global business, LEO Pharma will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues, including transfer pricing and indirect taxes issues. Please refer to the description of uncertain tax positions in note 8 in the Consolidated financial statements.

Note 23 Other notes

For Financial risks, please refer to Note 20 in the Consolidated Financial Statements.

For Related parties, please refer to Note 27 in the Consolidated Financial Statements.

For disclosures on assets measured at fair value, please refer to Note 22 in the Consolidated Financial Statements.

For Events after the balance sheet date, please refer to Note 28 in the Consolidated Financial Statements.

Management's Statement

The Executive Board and the Board of Directors have today considered and adopted the Annual Report of LEO Pharma A/S for the financial year January 1 – December 31, 2021.

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

In our opinion, the Consolidated Financial Statements and the Parent company Financial Statements give a true and fair view of the financial position of the Group and the Parent company at December 31, 2021, and of the results of the Group's and the Parent company's operations and the consolidated cash flows for 2021.

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

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

Ballerup, March 11, 2022

Executive Board:

Anders Kronborg
Acting CEO and Chief Financial Officer

Board of Directors:

Jesper Brandgaard Chair	Anders Ekblom Vice Chair	Jesper Mailind	Peter Haahr	Franck Maréno	Jannie Kogsbøll
Jan van de Winkel	Lars Green	Birgitta Stymne Göransson	Jonas Agnblad	Karin Attermann	Signe Maria Christensen

Independent Auditor's Report

To the shareholders of LEO Pharma A/S

Opinion
We have audited the Consolidated Financial Statements and the Parent Company Financial Statements for the financial year January 1, 2021 - December 31, 2021, which comprise the Income statement, Balance sheet, Statement of changes in equity and Notes, including a summary of significant accounting policies, for the Group as well as the Parent company, and the Statement of comprehensive income and the Cash flow statement of the Group. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent Company Financial Statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at December 31, 2021 and of the results of its operations and cash flows for the financial year January 1, 2021 - December 31, 2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent's financial position at December 31, 2021 and of the results of its operations for the financial year January 1, 2021 - December 31, 2021 in accordance with the Danish Financial Statements Act.

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

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

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

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

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

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

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

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

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

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

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

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

Statement on the Management's review
Management is responsible for the Management's Review.

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

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

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

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

Copenhagen, March 11, 2022

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

Kirsten Aaskov Mikkelsen
State-Authorized Public Accountant
MNE no. 21358

Sumit Sudan
State-Authorized Public Accountant
MNE no. 33716

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- Annual Sustainability Report 2021
- Annual ESG Data Summary 2021

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