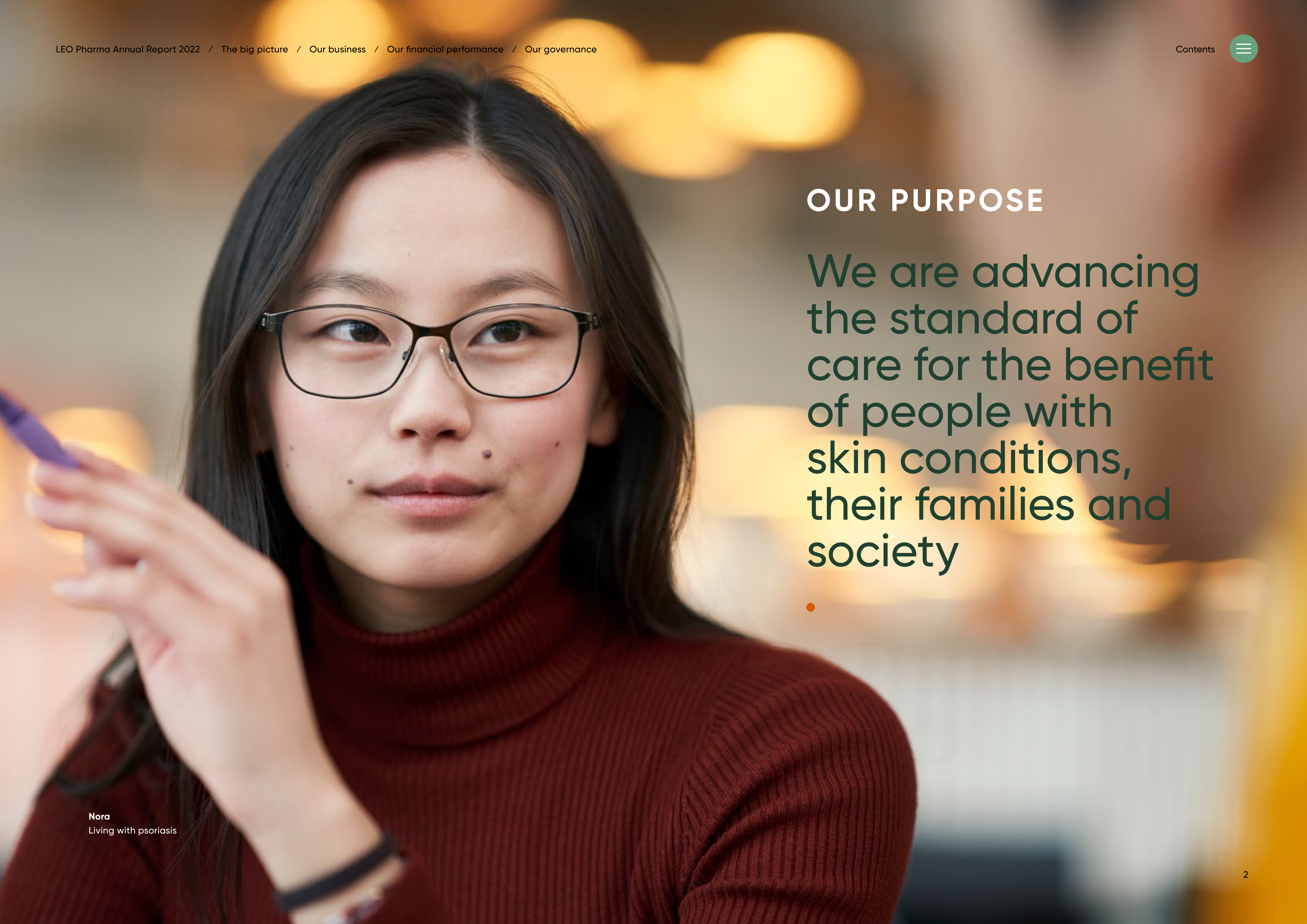
LEO

ANNUAL REPORT 2022

Our journey towards profitability

Dermatology beyond the skin



OUR PURPOSE

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

Nora
Living with psoriasis

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Read more about our ESG performance in our Sustainability Report 2022, 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

Financial turnaround - we are progressing as planned

DURING 2022, we executed our growth strategy, advanced our pipeline and simplified our organization. We are progressing as planned and aim to deliver positive EBITDA in 2023.

Result in 2022 in line with guidance

Our financial result for 2022 was in line with the guidance provided in the Annual Report for 2021 and was driven by revenue growth and lower costs. Revenue grew 7% vs. last year. The revenue growth in constant currency rates was 4%, which is in line with the guidance of 3-5%. In dermatology, the 8% growth in constant currency rates was mainly driven by the launch of Adbry™ in the U.S. and continued launch of Adtralza® in rest of world. The adjusted EBITDA loss of DKK 1,253 million was an improvement of DKK 478 million vs. last year. We are starting to see the impact of the cost reduction measures taken and are expecting full-year impact in 2023. We are progressing as planned and expect to deliver positive EBITDA in 2023.

"I am pleased to see that LEO Pharma has a strong Global Leadership Team, fully focused on executing the strategy. In 2022, we implemented organizational changes and gradually improved the financial discipline. With that, the organization is on track towards becoming a sustainably profitable company."

Jesper Brandgaard
Chair of the
Board of Directors

A year of simplification

Agility and competitive edge through simplification was the key objective of the plan of actions that was announced at the beginning of 2022. A new commercial operating model was introduced with the purpose to simplify market operations and increase profitability. The organization is moving away from a model with many small affiliates and many partners to a discontinuation of our own operations in more than 20 countries and fewer, stronger partners. The refocused commercial set-up increases organizational efficiency and alignment across all commercial functions globally and ensures full focus on the launch of tralokinumab across markets for future growth.

Strengthening the Global Leadership Team

With Christophe Bourdon taking the reins as CEO in April 2022, creating a simpler and leaner Global Leadership Team was a natural next step in the transformation

EBITDA is defined on page 8

of the company. We had the pleasure of welcoming Brian Hilberdink as EVP Region North America, Sven Hauptmann as EVP Technical Development and Supply and Philip Eickhoff as CFO and EVP Global Finance and Business Services. The Global Leadership Team now stands strong with significant international industry competencies, setting us up to achieve our ambitions of growth and executing a financial turnaround.

Reaching important milestones with tralokinumab

On the business side, we continued the global launch of tralokinumab, which is a biologic treatment of moderate-to-severe atopic dermatitis. By the end of 2022, the treatment was available in 13 markets, including major markets such as the U.S., Spain, Germany, UK and France and we received approval from the PMDA in Japan. We received an extended marketing authorization in the EU for Adtralza® to include adolescents aged 12 – 17 with moderate-to-severe atopic dermatitis who are candidates for systemic therapy. We continue to work with the FDA for extended use of tralokinumab in the U.S. In 2022, the European Dermatology Forum updated their treatment guidelines to include Adtralza® as recommended treatment for atopic eczema patients who are candidates for systemic therapy in line with other biologics.

"2022 was a year characterized by growth in our dermatology portfolio across markets and progress in our pipeline. In 2023, we have a razor-sharp focus on delivering positive EBITDA. I would like to thank my Global Leadership Team and all colleagues who are or have been part of getting us to this turning point for the company."

Christophe Bourdon
CEO

Progressing our pipeline

In 2022, we also progressed our pipeline. We received positive topline key results from the first Phase 3 trial with delgocitinib in chronic hand eczema (CHE), which allows us to progress our registration plans. The key results from our anti-IL-22R Phase 2a study showed positive efficacy and safety endpoints demonstrating a new Mode of Action (MoA) for treatment of atopic dermatitis (AD). Across all pipeline assets, we have explored how to maximize the value of our assets by generating more data. The aim is to increase understanding of our assets' usefulness in patients and contribute to scientific exchange through publication. Moreover, additional data has enabled us to investigate opportunities in other indications, both within and outside dermatology, as well as the potential to expand the use of our new products to patients in China and Japan.

On track towards our sustainability targets

Driving our sustainability performance, we made progress towards the targets set out in our sustainability strategy. We continued to build our commitment to sustainable healthcare, driven by our focus on advancing the standard of care for the benefit of people with skin conditions, their families and society. In addition, our targets to reduce our carbon emissions from our own operations by more than 50% from 2019 to 2030 and to ensure that 75% of our suppliers by emissions have set science-based targets by 2026, were validated by the Science Based Target initiative.

2023 - a milestone year

2023 will be a milestone year for LEO Pharma. We are committed to delivering positive EBITDA, which is a first and necessary step towards driving profitable and sustained growth towards 2025 and beyond.

We have designed clear objectives for the 2023-2025 period, which outline our strategic priorities for the coming years. As part of this, we will work to shape our culture, mindset and behaviors to progress business goals. We took another important step towards profitability in early 2023 when we announced an adjustment of our R&D strategy with emphasis on external innovation and partnerships. We also streamlined our Technical Development and Supply and global support functions.

We would like to thank our partners and distributors for the collaboration during 2022, healthcare professionals for helping patients and investigators for helping in the drug development and bringing medicines to patients.

Finally, we would like to thank all colleagues in LEO Pharma who have contributed to our transformation efforts for keeping us on track towards our growth ambitions, our commitment to society and not least to people affected by skin diseases. 2023 will be a year of financial turnaround and adapting our organization to the world around us, but also with the prospect of making LEO Pharma ready for the future.

Christophe Bourdon
CEO

Jesper Brandgaard
Chair of the Board of Directors

Performance highlights

DERMATOLOGY REVENUE GROWTH
(revenue growth in constant currency rates 8%)

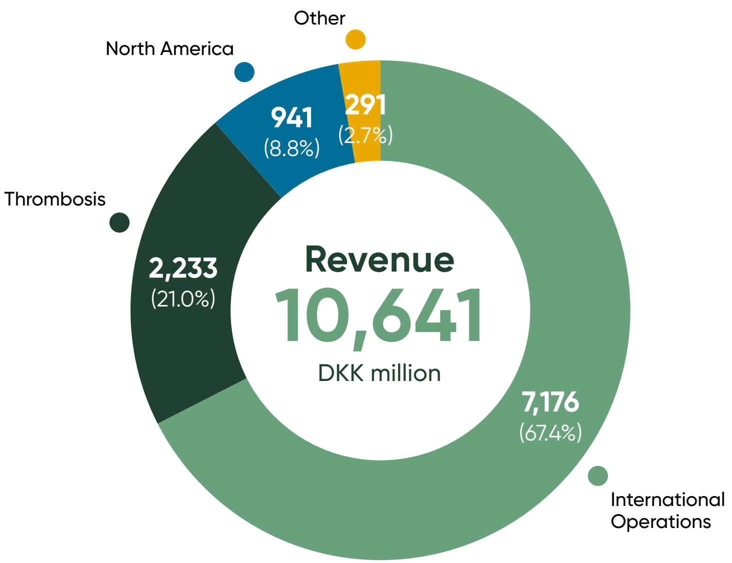
+12%

REVENUE GROWTH
(revenue growth in constant currency rates 4%)

+7%

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

+5%



LAUNCH OF ADTRALZA®/ ADBRY™ IN

13 markets

AVERAGE NUMBER OF EMPLOYEES

5,252

(2021: 5,804)

ESG key figures 2022

We continued to manage ESG risks and opportunities across our global business.

LEO Pharma Sustainability Report 2022

Read more about our ESG performance in our separate Sustainability Report 2022, 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

Environment

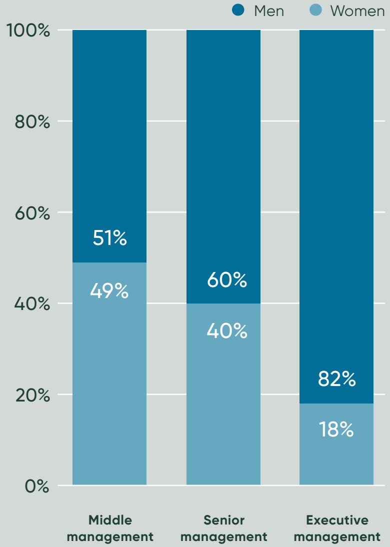
Total Scope 1 and 2 CO_2e emissions

In 2022, our climate targets were validated by the Science Based Target initiative, and our performance remained in line with our 2030 target trajectory.

See pages 15 and 16 in our Sustainability Report for further details on greenhouse gas emissions from our operations.

Social

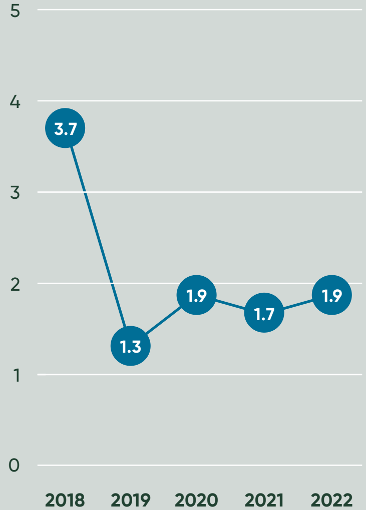
Gender distribution at management levels



Gender diversity in middle and senior management improved in 2022 compared to 2021. For executive management, we are not balanced to the desired level. It will remain a future priority.

See page 17 in our Sustainability Report for other performance data on diversity.

Lost Time Injury (LTI) rate at manufacturing sites

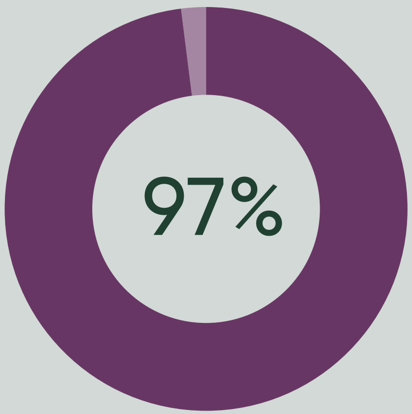


The LTI rate remained stable below 2. For the fourth year in a row, we achieved our global LTI rate goal of < 2.0 at manufacturing sites, incl. support functions.

See pages 18 and 19 in our Sustainability Report for supporting employee safety data.

Governance

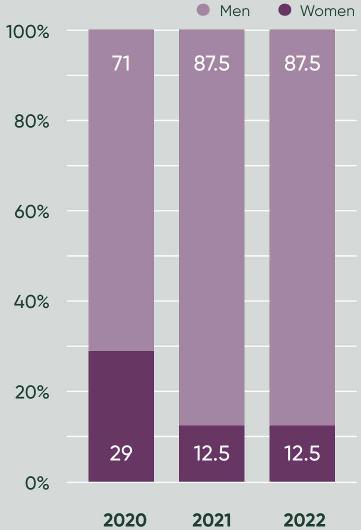
Global Code of Conduct training completion rate



The percentage of employees completing global annual Code of Conduct training went from 96% in 2021 to 97% in 2022.

See pages 20 and 21 in our Sustainability Report for further details on Governance.

Gender diversity at Board level



The replacement of one shareholder-elected Board member in 2022 did not impact the gender diversity at Board level. Moving forward, we will continue to work strategically with gender diversity and remove any bias blockers that can have a negative impact on the gender balance. All candidate searches will involve shortlisting of female candidates.

See page 21 in our Sustainability Report for details on our compliance with Section 99b of the Danish Financial Statements Act.

Key figures 2018–2022

(DKK million)	2022 EUR milion**	2022	2021	2020	2019	2018
Income statement						
Revenue	1,430	10,641	9,957	10,133	10,805	10,410
Adjusted EBITDA****	(168)	(1,253)	(1,731)	820	(130)	2,366
Transformation and restructuring costs	(43)	(321)	(226)	(299)	-	-
Operating profit/(loss) before depreciation and amortization (EBITDA)***	(211)	(1,574)	(1,957)	521	(130)	2,366
Operating profit/(loss) (EBIT)	(445)	(3,311)	(4,156)	(726)	(1,313)	1,605
Net financials	(105)	(782)	(607)	(354)	(363)	(178)
Profit/(loss) before tax	(550)	(4,093)	(4,763)	(1,080)	(1,705)	1,416
Net profit/(loss) for the year	(552)	(4,110)	(4,868)	(951)	(1,287)	1,258
Financial position						
Investments in intangible assets	38	279	1,139	839	4,878	1,516
Investments in property, plant and equipment	79	590	800	1,164	1,328	478
Non-current assets	1,985	14,765	15,110	15,243	15,339	9,321
Current assets	1,098	8,167	8,585	8,610	9,421	6,963
Total assets	3,084	22,932	23,695	23,853	24,760	16,284
Equity	262	1,946	5,537	6,947	8,088	9,528
Cash flow						
Cash flow from operating activities	(306)	(2,274)	(2,498)	(737)	(232)	(101)
Free cash flow	(504)	(3,750)	(3,869)	314	(6,797)	128
Operating net working capital	734	5,456	4,539	3,775	4,122	4,103
Net working capital	317	2,355	1,956	2,689	4,098	2,528
Invested capital*	1,511	11,233	10,405	11,816	10,866	8,168
Net interest-bearing debt	2,021	15,027	11,144	10,144	9,682	2,163

	2022	2021	2020	2019	2018
Key ratios					
Gross Profit (mDKK)	5,985	5,995	6,773	7,455	7,370
Gross margin	56%	60%	67%	69%	71%
Revenue growth	7%	(2%)	(6%)	4%	(1%)
Operating profit margin	(31%)	(42%)	(7%)	(12%)	15%
Adjusted EBITDA margin	(12%)	(17%)	8%	(1%)	23%
EBITDA margin	(15%)	(20%)	5%	(1%)	23%
R&D costs (mDKK)	2,474	3,058	2,020	2,444	1,914
R&D costs (% of revenue)	23%	31%	21%	23%	18%
Cash conversion	91%	79%	(33%)	528%	10%
Invested capital*/Revenue	106%	104%	117%	101%	78%
Effective tax rate	0%	(2%)	12%	25%	11%
People					
Average number of employees	5,252	5,804	5,955	5,820	5,528
Number of patients (thousand)	89,305	84,686	93,262	92,192	76,084

* Excluding intellectual property rights.
** Applied exchange rate for EUR in 2022: 7.4396 (Average) and 7.4365 (End).
*** EBITDA derived from Operating loss/EBIT DKK 3,311m + depreciation and amortization for the period of DKK 1,737m.
**** Adjusted EBITDA derived from EBITDA + transformation and restructuring costs of DKK 321m.

Our business

We focus our business towards becoming a global leader in medical dermatology. This section presents how we strive to fulfill our ambition.

OUR STRATEGY

Building a sustainably profitable business

Our ambition is to provide innovative treatment options to the people who need them. To do this, we must become a sustainably profitable business.

OUR STRATEGY marks the start of a bold strategic transformation to drive innovation in medical dermatology by leveraging our strong legacy and leading topical dermatology portfolio. This reflects our long-standing dedication to improving the quality of life for people suffering from skin diseases.

In 2022, we achieved important milestones with the launch of Adbry™ (tralokinumab) in the U.S. as the second biologic for patients suffering from atopic dermatitis. The launch of Adbry™ represents an inflection point in the transformation, which in the coming years will be crystallized as a return to operating profit and accelerated growth following years of investment in innovation.

Short-term strategic imperative with clear objectives and focus on execution

Organizing and teaming for sustained performance

1

High-performing organization anchored in fit-for-purpose leadership team and a powerful, shared culture – tying us together as one LEO Pharma.

Deliver positive EBITDA in 2023

2

Drive financial turnaround.
Deliver low single-digit positive EBITDA margin in 2023.

Profitable growth by 2025 and beyond

3

Sustain growth journey with innovation.
Deliver above 20% EBITDA margin overall to pave the way for long-term competitiveness.

OUR INNOVATION

Enabling health through innovation

Jörg Möller
Executive Vice President
Global Research & Development

AT LEO PHARMA, our purpose is to advance the standard of care in medical dermatology. With innovative treatments, we improve the quality of life and enable health. In 2022, we made progress towards this ambition by advancing our pipeline and further externalizing our innovation model to benefit from increased flexibility and scaleability as we continue to strenghthen our competitiveness.

2022 R&D milestones
By end-2022, tralokinumab had been approved and launched in 13 markets - in the U.S. under the tradename Adbry™ and with the name Adtralza® in other markets. The most recent key market approval was achieved in Japan on December 23, 2022.

Delgocitinib (LP0133) - a topical pan-JAK inhibitor for the treatment of chronic hand eczema reported key results from its first Phase 3 study, meeting primary and all secondary endpoints. This may allow delgocitinib to become the first novel treatment specifically developed for patients with CHE.

Delgocitinib is also being investigated in frontal fibrosing alopecia in an exploratory trial with expected top-line results in the third quarter of 2023.

The key results from our anti-IL-22R Phase 2a Proof of Concept study showed positive efficacy and safety endpoints, demonstrating a new Mode of Action (MoA) for the treatment of atopic dermatitis (AD). Anti-IL-22R will continue in clinical development in 2023. LEO Pharma has exercised the option to obtain the exclusive license to ARGX-112/anti-IL-22R mAb from argenx.

In August 2022, a Phase 1 First in Human study was completed for IL-17A PPI (LP0200) – an oral compound for the treatment of psoriasis. The study was done in healthy volunteers to assess the safety of the compound. Due to unfavorable properties of the front runner molecule, we have shifted focus to explore opportunities with backup compounds.

A Phase 2b trial combining Proof of Concept and Dose Finding in one study is ongoing for Izuforant (LP0190) – an oral H4R antagonist for the treatment of atopic dermatitis. The first patient was enrolled in 2021. The study is a randomized, double-blinded, placebo-controlled, multi-site trial with 224 patients to evaluate efficacy and safety of the oral histamine 4 receptor (H4R) antagonist in patients with moderate or severe atopic dermatitis.

The final results from the Phase 2a trial for Anti IgE+B cell in atopic dermatitis were available in May 2022. The trial was conducted by our partner Oneness/Microbio Shanghai and results concluded that the primary and secondary objectives of the trial were not met. Oneness/Microbio Shanghai continues to test the asset in a Phase 2a trial in allergic asthma in Taiwan.

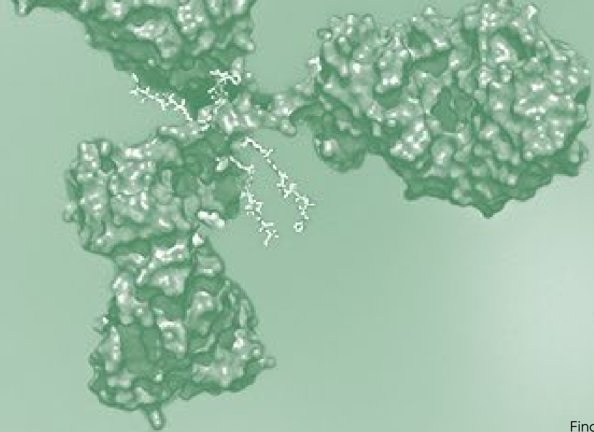
Throughout 2022, we have had a key focus on exploring how to maximize the value of our assets across our pipeline by generating more data. The aim is to increase understanding of our assets' usefulness in patients and contribute to scientific exchange through publication. Moreover, additional data has enabled us to investigate opportunities in other indications, both within and outside dermatology, as well as the potential to expand the use of our new products to patients in China and Japan. Investigating the potential of an asset in China and Japan is now included as default in all our project development plans.

Delivering innovation through partnerships
In early 2023, we announced our move to a more externalized R&D model to further strengthen our ability to source and develop the best available innovation and increase flexibility in delivering therapeutics across orals, topicals and injectables as well as focus our investments.

We embarked on this journey already in 2016 with a platform partnership with Morphosys on monoclonal antibodies, followed by a second platform partnership with Zymeworks on bispecific antibodies. Going forward, we will expand with more partnerships to access both platform technologies and drug molecule assets leading to more innovative treatments across drug modalities.

Delivering innovation through partnerships has been a part of the LEO Pharma DNA throughout the past decade. This approach has resulted in a diverse project pipeline, including development and launch of tralokinumab and Kyntheum®. Other assets – such as delgocitinib and anti-IL-22R – are externally sourced as well.

As a consequence of this approach, we have reduced our early research and development organization. Going forward, in the short term, we will focus on supporting tralokinumab, delgocitinib and anti-IL-22R as well as our ongoing pre-clinical programs. Longer term, we will seek new partnership to keep strengthening our pipeline and secure continued launch of new treatment opportunities in medical dermatology.



Our clinical pipeline

Finalized phase | Current phase

Project	Description	Partners	Pre-clinical	Phase 1	Phase 2	Phase 3	Launch
Adtralza®/Adbry™ LP0162	An IL-13 anti-inflammatory monoclonal antibody under development for adults, adolescents and pediatrics with atopic dermatitis.	AstraZeneca	Finalized phase	Finalized phase	Finalized phase	Finalized phase	Current phase
Delgocitinib LP0133	A topical pan-JAK inhibitor under development for chronic hand eczema.	JT	Finalized phase	Finalized phase	Finalized phase	Current phase	
Delgocitinib LP0133	A topical pan-JAK inhibitor under development for frontal fibrosing alopecia.	JT	Finalized phase	Finalized phase	Current phase		
Anti-LgE+B-cell LP0201	A monoclonal antibody under development for allergic asthma.	ONENESS BIO / MICROBIO	Finalized phase	Finalized phase	Current phase		
Anti-IL-22R LP0145	An anti-inflammatory monoclonal antibody under development for atopic dermatitis.	argenx	Finalized phase	Finalized phase	Current phase		
Izuforant LP0190	A systemic anti-pruritic and anti-inflammatory H4 receptor antagonist under development for atopic dermatitis.	JW	Finalized phase	Finalized phase	Current phase		

OUR FOCUS

Advancing the standard of care for atopic dermatitis patients

In 2022, LEO Pharma achieved several major milestones towards advancing the standard of care for atopic dermatitis (AD) patients worldwide. In February, we officially launched tralokinumab in the U.S. under the tradename Adbry™ for the treatment of moderate-to-severe AD in adults, following approval from the U.S. Food and Drug Administration (FDA) in late December 2021.

Later in the year, we achieved additional regulatory approvals of tralokinumab under the trade name Adtralza® in Switzerland and ended the year with regulatory approval by the Japanese Ministry of Health, Labour and Wealth (MHLW) in December 2022.

"This year's execution of our launch strategy was pivotal to the long-term growth of tralokinumab, which we believe will become a major revenue driver for the company over the next five years. As the first and only biologic treatment that specifically neutralizes IL-13, tralokinumab brings new hope to patients with moderate-to-severe atopic dermatitis."

Becki Morison
Executive Vice President
Global Product Strategy &
International Operations

During the year, Adtralza® was also launched and brought to markets across Europe and the Middle East, ensuring AD patients access to an alternative treatment option. By the end of the year, tralokinumab was available to patients in 13 markets: Germany, the Netherlands, the U.S., Ireland, Canada, United Arabic Emirates, Spain, France, Luxembourg, Switzerland, Italy, the UK and Belgium.

In the fourth quarter of 2022, LEO Pharma obtained approval to expand the indication for tralokinumab to include adolescent patients aged 12-17 in the EU and the UK. This label extension provides a new biologic therapy option for younger patients living with moderate-to-severe AD. LEO Pharma can thus expand its market share in the highly competitive AD space in the course of 2023.

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 U.S., 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, together 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 various 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.

SCAN this QR code to see the videos from the AD Days Around The World campaign.

AD DAYS AROUND THE WORLD

A worldwide awareness initiative in support of the global AD community

FOR PATIENTS living with more severe forms of atopic dermatitis (AD), the consequences of the condition are more than skin deep. In addition to itchy and inflamed skin, patients also struggle with its psychosocial and emotional consequences.

In 2022, LEO Pharma therefore launched AD Days Around the World, a global disease awareness campaign which highlights the experiences of people living with AD – in collaboration with patient advocacy organizations in France, Italy, Germany and Spain.

A wordplay on the classic Jules Verne novel – Around the World in Eighty Days – this campaign sets out to uncover just how much the AD community shares across borders and regions.

Hosted by global patient advocate Ashley Ann Lora, AD Days Around the World is a series of in-depth interviews with four strong women – Marjolaine (France), Laura (Italy), Julia (Germany) and África (Spain) – who share how they cope and live with atopic dermatitis.

> "Never in my life did I think that something that brought me so much pain and suffering growing up would bring me so much purpose today."

Real patient stories, together with educational resources, highlight that regardless of nationality or culture, there is hope to triumph over adversity, despite common everyday challenges. As Ashley Ann Lora herself describes it, after returning to the U.S.:

“Being a part of this campaign, AD Days Around the World, has truly been transformational for me. Never in my life did I think that something that brought me so much pain and suffering growing up, would bring me so much purpose today.”

Visit www.ADDaysAroundTheWorld.com to watch the full video series.

OUR PEOPLE

Supporting our people through transformation

Want to know more about Diversity and Inclusion at LEO Pharma?
Please see our Sustainability Report 2022.

Dennis Schmidt Pedersen
Executive Vice President
Global People

Transparency and dialogue
During LEO Pharma's transformation, which also has impact on positions and people, we continue to have a strong focus on our people to ensure their well-being and engagement. In a year with significant changes, strong leadership and ongoing dialogue between leaders and employees have been more important than ever.

Strengthened leadership forum
A significant step in our efforts has been to reorganize our LEO100 senior leadership forum into a smaller Extended Global Leadership Team, composed of approx. 75 leaders, in order to further simplify and support close collaboration and dialogue between top management and other senior leaders. This team plays an instrumental role in driving the execution of our business objectives and transformation. They will also support the Global Leadership Team in shaping LEO Pharma's strategic direction as well as work to further strengthen leadership communication across the organization.

Learning and development
Leadership development matters as it directly impacts LEO Pharma's ability to execute our strategy. Through the LEO Pharma Academy, 200 new and experienced leaders got the chance to work on their individual leadership development in 2022 in the Fit to LEAD program, which is delivered virtually.

In business areas impacted by substantial changes, we have trained 240 leaders in guiding organizations through ambiguity and change. We believe that a diverse and inclusive culture fosters innovation, engagement and better decision-making. On this basis, we have rolled out dedicated training programs, Lead Inclusively and Ignite Inclusion.

At LEO Pharma learning is something we do every day. We develop by the 70-20-10 learning model which is about combining 70% experience-based learning on the job, 20% relationship-based learning through others and 10% education-based formal learning. It is the mix of activities which is important and the fact that most learning occurs in the context of daily work.

Focus on attracting new talent
During times of change, it is critical for the business to have access to the right capabilities to propel the business forward and to fulfil the need for new competencies required. To strengthen our ability to attract new talent, we have implemented a new Talent Acquisition operating model to enable rapid access to external talent in areas with competence gaps. This function will provide strategic sparring to leaders, while fueling a more competitive approach to recruitment at LEO Pharma.

Employee Share Purchase Plan

LEO Pharma's Share Purchase Plan was introduced in recognition of the key role that the employees at LEO Pharma play in realizing our strategy and driving the company's continued success.

2022 saw the beginning of the investment period for those who joined the Employee Share Purchase Plan in 2021. Just over 2,350 colleagues opted to become co-owners of our company. This corresponds to 44% of those eligible to join.

Our financial performance

This section provides an overview of our financial performance in 2022, reflecting our turnaround journey towards sustainable profitability.

Read more about our ESG performance in our separate Sustainability Report 2022

Financial review and outlook

LEO Pharma made progress on the top line during 2022 with 7% revenue growth and 12% growth within the dermatology portfolio. In 2022, we delivered on the guidance provided for revenue and operating profit and managed to progress the transformation of LEO Pharma towards 2025. However, delivering a significant negative financial result is not satisfactory and must, in line with plans, be turned around to increasing positive operating profit in the years to come, starting with positive EBITDA in 2023.

Philip Eickhoff
Chief Financial Officer and EVP
Global Finance and Business Services

10,641 DKK MILLION

Total revenue for the LEO Pharma Group

Result for 2022
Overall revenue increased by 7% to DKK 10,641 million in 2022. In constant currency rates, revenue increased by 4% compared to 2021.

We delivered for 2022 a significant net loss of DKK 4,110 million vs. a net loss of DKK 4,868 million in 2021. The result for 2022 is impacted by increased raw material, distribution, energy and interest costs vs. 2021. Our operating loss before depreciation and amortization (EBITDA) amounted to DKK 1,574 million in 2022 vs. DKK 1,957 million in 2021. The operating loss for 2022 was impacted by an increase in transformation and restructuring costs from DKK 226 million in 2021 to DKK 321 million in 2022. Adjusted EBITDA amounted to a loss of DKK 1,253 million in 2022, resulted in an improvement of DKK 478 million vs. 2021.

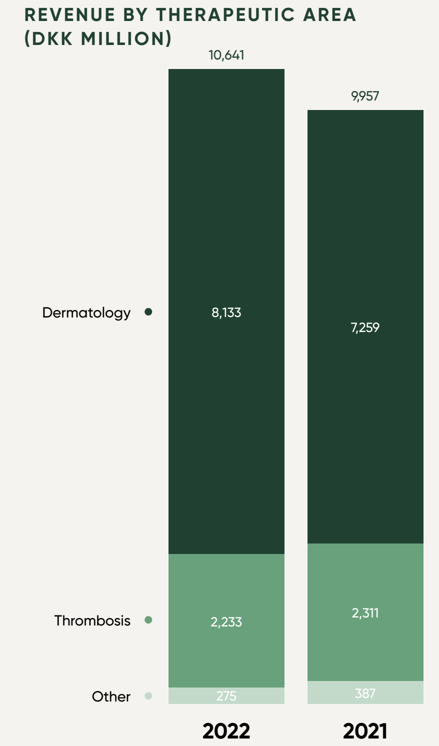
Revenue for the LEO Pharma Group
The increase in revenue for 2022 was primarily driven by our dermatology portfolio, which generated double-digit growth of 12% with a total revenue of DKK 8,133 million in 2022. In constant currency rates the growth was 8%. This growth was driven by skin infection, eczema, other mature dermatology and the continued launch of Adtralza®/Adbry™.

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

Revenue by therapeutic area
Revenue from our psoriasis portfolio amounted to DKK 3,912 million in 2022 which is on par with 2021. The two strategic psoriasis products Enstilar® and Kyntheum® continued to grow. Enstilar® continues to be our best-selling product in our psoriasis portfolio, representing 36% of our psoriasis revenue. Kyntheum® increased by 24% compared to 2021. With revenue of DKK 764 million, Kyntheum® now accounts for 20% of our psoriasis revenue.

Products in our eczema/skin infection portfolio increased by 29% to DKK 3,633 million. Revenue for eczema increased by 45%, driven by Protopic®, Advantan® portfolio and Adtralza®/Adbry™. Skin Infection increased by 14%, mainly driven by the Fucidin® portfolio.

Adtralza®/Adbry™ is now launched in 13 markets and is the biggest growth driver in the dermatology portfolio.



Revenue from our acne/rosacea portfolio amounted to DKK 328 million, which is on par with 2021. Other mature dermatology increased by 26% to DKK 260 million in 2022. In constant currency rates, the development is in line with 2021.

Thrombosis revenue decreased by 3% to DKK 2,233 million from DKK 2,311 million in 2021. The decrease is primarily related to Innohep® declining 5% compared to 2021 due to supply challenges on our production site at the beginning of the year.

Other revenue primarily stems from divested products where we are operating as contract manufacturer. The sales decreased by 29% compared to 2021 to DKK 275 million in 2022, which is in line with plans.

Dermatology revenue

The following subsections provide an overview of our dermatology portfolio by regional segments. During 2022 two regions were established within dermatology. North America consists of the U.S. and Canada and International Operations (Product Strategy and International Operations) is rest of world.

International Operations

Revenue for International Operations increased by 10% in 2022 to DKK 7,176 million, compared to DKK 6,536 million in 2021, and represents 88% of the revenue in dermatology. The increase was driven by increased demand for our established brands and launch of Adtralza® in 11 markets in International Operations. Launch of Adtralza® is progressing as planned.

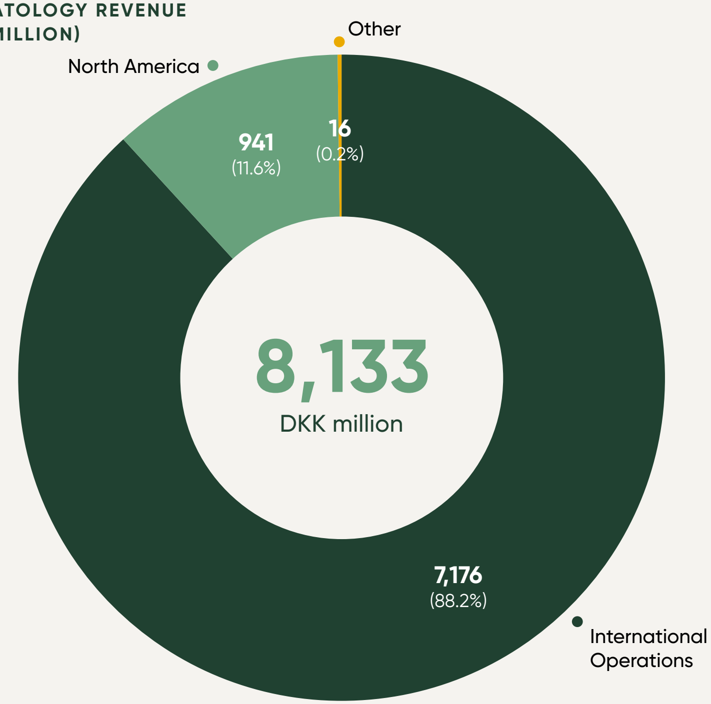
In addition to Adtralza®, Kyntheum® and Enstilar® continue to be the drivers of organic growth.

North America

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

Our authorized generic portfolio decreased by DKK 49 million, with revenue totalling DKK 55 million, reflecting the competitive environment in the generic markets.

DERMATOLOGY REVENUE (DKK MILLION)



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

Costs and profit & loss

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

Cost of sales was DKK 4,656 million in 2022, which is an increase of 18% compared to DKK 3,962 million in 2021. The gross margin was 56% in 2022, compared to 60% in 2021. The key drivers of the decrease in gross margin are the increasing production cost and price increases of raw materials mainly for the thrombosis portfolio.

Adjusted EBITDA amounted to a loss of

1,253 DKK MILLION

Improvement of DKK 478 million vs. 2021

Operating costs amounted to DKK 9,304 million in 2022, compared to DKK 10,146 million in 2021, in line with expectations.

Sales and distributions costs

The sales and distributions costs amounted to DKK 4,736 million in 2022 compared to DKK 4,698 million in 2021. The 2022 costs are impacted by restructuring costs of DKK 65 million in 2022 vs. DKK 156 million in 2021. Adjusting for restructuring costs, sales and distribution costs increased by 3%.

Research and development costs

During 2022, we continued the progress within research and development, including the Phase 3 studies of delgocitinib, a treatment of chronic hand eczema, and Izuforant, a first-in-class oral therapy for patients with moderate-to-severe atopic dermatitis.

The research and development costs amounted to DKK 2,474 million, or 23% of our 2022 revenue, compared to a spend of 31% of revenue in 2021. Adjusted for impairment of development projects and restructuring costs and other one-time expenses, the spend in 2021 amounted to 23% of revenue. Restructuring costs impacted the 2022 costs with DKK 59 million vs. DKK 35 million in 2021.

Administrative costs

Administrative costs decreased from DKK 2,390 million in 2021 to DKK 2,094 million in 2022. The 2022 costs are impacted by restructuring costs and impairment of software development projects of DKK 294 million vs. DKK 186 million in 2021.

Profit and loss

LEO Pharma is in a financial turnaround process and the significant loss for 2022 is not satisfactory, but in line with expectations.

Investments have materialized in 2022 related to the Adtralza®/Adbry™ launch. The operating loss was impacted by restructuring and transformation costs of DKK 321 million and impairment of intellectual property rights and IT development projects, which amounts for DKK 176 million.

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

Financial items

Net financial items showed a loss of DKK 782 million, compared to a loss of DKK 607 million in 2021. This was mainly driven by an increase in interests to credit institutions of DKK 210 million as a result of increasing interest rates and debt.

Balance sheet and cash flow

Balance sheet

Total assets decreased from DKK 23,695 million on December 31, 2021 to DKK 22,932 million on December 31, 2022. Intangible assets decreased by DKK 999 million primarily due to ordinary amortization and impairment of IT development projects.

Equity has decreased by DKK 3,591 million to DKK 1,946 million since the end of 2021. The movements mainly comprised a net loss for the year of DKK 4,110 million and positive exchange rate, reserve for share-based payments and value adjustments of DKK 519 million.

Cash flow

Cash flow from operating activities was negative and amounted to DKK 2,274 million. Cash flow from investment activities was negative with DKK 1,476 million, as a result of investments in production facilities and milestone payments in 2022. Cash flow from financing activities amounted to DKK 3,576 million, mainly related to proceeds from borrowings of DKK 4,451 million and repayments of DKK 900 million.

Outlook

Follow-up on 2022 outlook

Revenue growth in 2022 amounted to 7%. In constant currency rates, the growth was 4% and in line with the guidance of 3-5% provided in our 2021 Annual Report. We expected an operating loss (EBIT) of DKK 3.1-3.3 billion. We delivered an operating loss (EBIT) of DKK 3.3 billion.

LEO Pharma realized a significant loss for 2022. The financial performance in 2022 is in line with our guidance and expectations, however the significant loss is not satisfactory.

2023 outlook

LEO Pharma's key focus is to achieve profitability from operations before depreciation, amortization, restructuring and transformation costs (adjusted EBITDA) in 2023.

To deliver on our expectations, LEO Pharma anticipates revenue growth of 6-10% in 2023, driven by increasing revenue of Adtralza®/Adbry™ and growth in our strategic brands.

We will continue to focus on operating profit by implementing efficiencies, simplification and cost reductions. We expect to deliver a low single-digit positive EBITDA margin*. Taking the ordinary depreciation and amortization into account, we expect an operating loss (EBIT) in 2023. Write-downs of intellectual property rights can change the outlook.

* EBITDA adjusted for transformation and restructuring costs.

This section covers our governance structure, including our legal structure, Board of Directors of LEO Pharma A/S, Board committees, 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 Foundation
Through 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 - through LEO Holding A/S - is the majority owner of LEO Pharma 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 (Char)
IPO Preparedness Committee (Chair)

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

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

Jesper Mailind

Board member since 2018

Nationality: Danish

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

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

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

Education: MBA, Insead

Other board memberships:
- Aidian Oy (Chair)
- RTX A/S (Vice Chair)
- Etac AB
- Contour Design A/S

Jonas Agnblad

Board member since 2021

Nationality: Swedish

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

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

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

Education: MSc Economics, Finance, Stockholm School of Economics

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)

Signe Maria Christensen

Employee-elected Board member since 2018

Nationality: Danish

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

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)

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 (Member of the Board of Trustees)
- LEO Holding A/S

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:
Audit Committee (Chair)
Remuneration & Nomination Committee
Scientific Committee
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:
- World Diabetes Foundation
- House of Denmark

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

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
- LEO Pharma Technicians Club (Vice Chair)

Paul Navarre

Board member since 2022

Nationality: French

Special competencies: Board Leadership, Exec. management in healthcare industry

Board committees, LEO Pharma A/S:
Audit Committee

Career: Professional Chairman & Board Member; Senior advisor BCG and Private Equity funds, CEO of Ferring Inc., President of Allergan International and other leadership roles, Commercial Leadership Country Roles at Procter and Gamble

Education: Insead Corporate Governance Certification. MBA, Institut Superieur Du Commerce in Paris

Other board memberships:
- HTL Biotech (Chair)
- Hallura (Vice-Chair)

Elisabeth Svanberg

Board member since 2022

Nationality: Swedish

Special competencies: Biotech and pharmaceutical industry, product development and medical affairs

Board committees, LEO Pharma A/S:
Scientific Committee

Career: Chief Medical Officer at Kuste Biopharma; Chief Development Officer at Ixaltis SA; Vice President at Janssen Pharmaceuticals

Education: MD, PhD Gothenburg University, Sweden

Other board memberships:
- Egetis AB
- Galapagos
- Amolyt Pharma SAS
- EPICs Therapeutics

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 Biology and PhD in Immunology, University of Nijmegen, the Netherlands

Other board memberships:
- Hookipa Pharma (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 comprises at least three members, two appointed by the shareholders and the remaining members by and among the Board of Directors.

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

The Audit Committee has the following members:


Peter Haahr (Chair)


Lars Green


Paul Navarre


Christian Hedegaard*

* Non-Board member appointed by Nordic Capital

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 appointed by the shareholders and the remaining members by and among the Board of Directors.

The Remuneration and Nomination Committee has the following members:


Jesper Brandgaard (Chair)


Jesper Mailind


Jonas Agnblad


Peter Haahr


Signe Maria Christensen

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 Scientific Committee has the following members:


Jan van de Winkel (Chair)


Jonas Agnblad


Peter Haahr


Elisabeth Svanberg


Signe Maria Christensen

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 at least three members, two appointed by the shareholders and the remaining members by and among the Board of Directors.

The IPO Preparedness Committee has the following members:


Jesper Brandgaard (Chair)


Jonas Agnblad


Jesper Mailind


Peter Haahr

Global Leadership Team

Christophe Bourdon
Chief Executive Officer

Joined: 2022

Nationality: French-German

Career: CEO at Orphazyme A/S. Senior Vice President, General Manager at Amgen. Senior Vice President at EMEAC

Education: MBA at IMD, BA at ISG

Philip Eickhoff
Chief Financial Officer and Executive Vice President Global Finance and Business Services

Joined: 2022

Nationality: Danish

Career: CFO at Topsoe, CFO at Atos Medical, Regional CFO North America & Pacific at Coloplast

Education: M.Sc., Finance & Accounting at Copenhagen Business School

Guillaume Clément
Executive Vice President Thrombosis & Special Projects

Joined: 2009

Nationality: French

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

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

Sven Hauptmann
Executive Vice President Technical Development and Supply

Joined: 2022

Nationality: German

Career: Senior Vice President, Drug Product Manufacturing at Roche. Vice President, Small Molecules Manufacturing at Roche

Education: Ph.D. in chemistry

Brian Hilberdink
Executive Vice President Region North America

Joined: 2022

Nationality: American

Career: Senior Vice President, sales and commercial at Novo Nordisk. President at Novo Nordisk Canada Inc.

Education: BA, Arts & Science at Queen's University

Becki Morison
Executive Vice President Global Product Strategy & International Operations

Joined: 2020

Nationality: American

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

Education: BA, Psychology and Religion at Denison University

Jörg Möller
Executive Vice President Global Research & Development

Joined: 2021

Nationality: German

Career: Executive Vice President, Global Research and Development at Bayer AG. Executive Vice President, Global Clinical Development at Bayer AG

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

Dennis Schmidt Pedersen
Executive Vice President Global People

Joined: 2018

Nationality: Danish

Career: Senior Vice President, 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.

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.

On April 7, 2002, EVP of Global Legal and Compliance Nathalie Joannes left LEO Pharma.

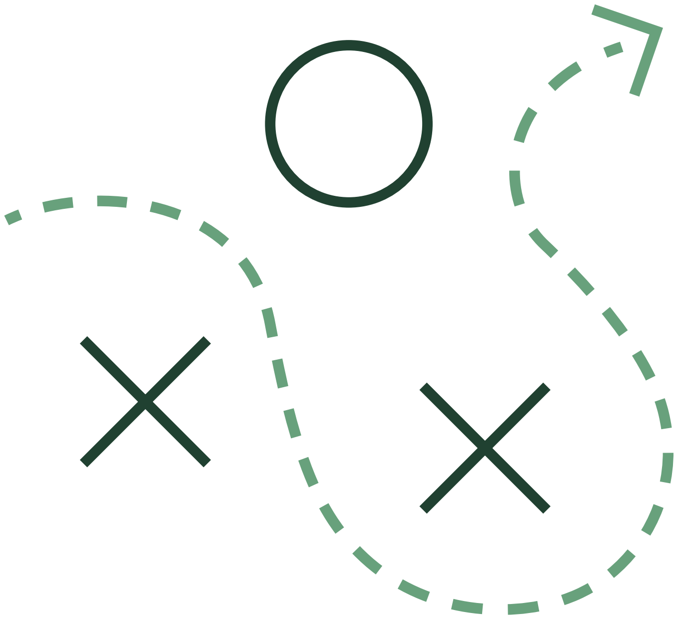
The changes to LEO Pharma's commercial organization announced in June 2022 saw Monica Shaw, former EVP Region Europe+, leave LEO Pharma effective June 30, 2022.

In August, LEO Pharma announced a change of leadership at Global Product Supply when former EVP Rhonda Duffy decided to step down and was succeeded by Sven Hauptmann as new EVP and head of the function effective August 1, 2022.

As per September 15, 2022, Philip Eickhoff was appointed Chief Financial Officer and EVP Global Finance and Business Services following former CFO Anders Kronborg's decision to step down to pursue other opportunities outside LEO Pharma.

Risk management

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

In 2022, the Enterprise Risk team continued to roll out the ERM program across the organization – focusing on periodic reporting of top risks to the Global Leadership Team (GLT) and Audit Committee (AC), raising awareness and conducting risk management training for key stakeholders. A network of risk coordinators has also been established across LEO Pharma to support leadership teams and better anchor the ERM program across the organization.

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 AC.

The CEO and the GLT are responsible for ensuring that the ERM program is implemented and for setting the overall risk management strategy and appetite for top risks. The CEO and the GLT ultimately own and must manage all relevant risks in each business area.

Finally, the Enterprise Risk team in Global Ethics, Risk and Compliance 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 the business areas identify their top risks through a structured process that includes risk interviews and workshops. This process is facilitated by the Enterprise Risk team on a quarterly basis. 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 the identification and evaluation of top risks across the organization, the Enterprise Risk team consolidates and prepares quarterly consolidated top risk profiles for LEO Pharma. The consolidated top risk profiles are shared with the CEO and the GLT and, ultimately, the AC for their respective discussion, review and evaluation. The risk profiles are also shared with the Board of Directors on an annual basis.

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

For leadership teams in each business area, the Enterprise Risk team prepares and maintains a dedicated top risk profile which contains top area-specific risks beyond the risks included in the consolidated top risk profiles prepared for the GLT and AC.

KEY RISKS	Macro-economic	Cyber security	New product launches	Market access and pricing pressure	Supply disruption and financial commitments	Third-party compliance
RISK AREA	While still recovering from the Covid-19 pandemic, the global economy is facing pressures from increasing inflation and interest rates, an energy crisis brought about by the war in Ukraine and stagnating global trade growth. As a result, healthcare budgets in countries are tight and payers remain focused on reducing drug spend by exercising increasing pressure on the pharmaceutical industry. Similarly, patients have become more price sensitive in view of inflation outpacing salary increases.	Remote/flexible work practices and adoption of cloud services are among many factors contributing to a record high number of cyber attacks in 2022. 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 the unfolding energy crisis and growing inflation, healthcare budgets in many countries are 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. Meanwhile, the unfolding global energy crisis and ongoing global supply chain challenges are putting further pressure on our manufacturing operations. Additionally, for certain products, LEO Pharma relies on contract manufacturer organizations (CMO), which increases the risk of exposure to product supply shortages, quality issues and financial commitments on minimum ordering of products for a certain period.	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	Increased cost-consciousness of payers and patients could increase pricing pressures on LEO Pharma's existing products, lead to more challenging negotiations for reimbursement of future products as well as affect the volume of products used. Currently, growing inflation also affects prices of raw materials used in LEO Pharma's products, thereby increasing the overall production costs. As result, expected product sales and profitability could be impacted negatively.	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.	Supply disruptions could lead to LEO Pharma's products being out of stock in certain markets. This would in turn affect LEO Pharma's ability to serve our patients as well as lead to lost sales and profit. Financial commitments of minimum ordering can impact LEO Pharma's operating financial result.	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 monitors the macroeconomic situation and is working closely with payers and other stakeholders to demonstrate the value of our products. Various strategies are being deployed to contain increases in production costs and other costs.	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 compensating for a potential breakdown. Contracts are reviewed continuously to monitor potential breach of minimum ordering clauses with CMOs.	LEO Pharma conducts anti-corruption due diligence for selected types of third-party intermediaries.

Consolidated Financial Statements

Contents

Income statement

January 1 - December 31

(DKK million)	Note	2022	2021
Revenue	2	10,641	9,957
Cost of sales	3, 10, 13	(4,656)	(3,962)
Gross profit		**5,985**	**5,995**
Sales and distribution costs	3, 9, 10	(4,736)	(4,698)
Research and development costs	3, 9, 10	(2,474)	(3,058)
Administrative costs	3, 4, 5, 9, 10, 11, 19	(2,094)	(2,390)
Other operating income	6	73	62
Other operating expenses	6	(65)	(67)
Operating profit/(loss)		**(3,311)**	**(4,156)**
Financial income	7	3	19
Financial expenses	7	(785)	(626)
Profit/(loss) before tax		**(4,093)**	**(4,763)**
Income tax	8	(17)	(105)
Net profit/(loss) for the year		**(4,110)**	**(4,868)**

Statement of comprehensive income

January 1 - December 31

(DKK million)	Note	2022	2021
Net profit/(loss) for the year		(4,110)	(4,868)
Other comprehensive income			
Remeasurement of defined benefit obligations	19	329	195
Tax on other comprehensive income	8	(52)	(10)
Items that will not subsequently be reclassified to the income statement	**18**	**277**	**185**
Foreign exchange adjustments, subsidiaries		137	(9)
Fair value adjustments on hedging instruments	21, 22	61	25
Tax on other comprehensive income	8	(17)	(6)
Items that are or may subsequently be reclassified to the income statement	**18**	**181**	**9**
Total other comprehensive income/(loss) after tax		**458**	**194**
Total comprehensive income/(loss)		**(3,652)**	**(4,674)**

Balance sheet at December 31

Assets

(DKK million)	Note	2022	2021
Goodwill		192	192
Intellectual property rights		5,595	6,155
Software		1,253	1,524
Development projects and software in progress		615	783
Intangible assets	**9**	**7,655**	**8,654**
Land and buildings		938	951
Plant and machinery		899	963
Other fixtures and fittings, tools and equipment		177	176
Assets under construction		2,694	2,373
Property, plant and equipment	**10**	**4,708**	**4,463**
Right-of-use assets		399	463
Right-of-use assets	**11**	**399**	**463**
Deferred tax assets	15	1,809	1,453
Pensions	19	144	-
Other financial assets	23	50	77
Other non-current assets		**2,003**	**1,530**
Non-current assets		**14,765**	**15,110**
Inventories	13	4,580	3,869
Trade receivables	12	2,136	2,254
Tax receivables		234	1,099
Other receivables	14	550	434
Prepaid expenses	16	289	360
Other financial securities	23	108	137
Cash		270	432
Current assets		**8,167**	**8,585**
Assets		**22,932**	**23,695**

Balance sheet at December 31

Equity and liabilities

(DKK million)	Note	2022	2021
Share capital	17	321	320
Reserves		(107)	(314)
Retained earnings		1,732	5,530
Equity		**1,946**	**5,537**
Loans and credit institutions	21, 23	13,764	8,928
Deferred tax liabilities	15	39	7
Pensions	19	71	284
Provisions	20	290	352
Lease liabilities	11, 21	317	381
Tax payables		489	483
Other long-term liabilities		175	322
Non-current liabilities		**15,145**	**10,757**
Loans and credit institutions	21, 23	407	1,341
Trade payables		1,302	1,619
Provisions	20	979	890
Lease liabilities	11, 21	125	121
Tax payables		515	538
Other payables	24	2,513	2,892
Current liabilities		**5,841**	**7,401**
Liabilities		**20,986**	**18,158**
Equity and liabilities		**22,932**	**23,695**

Statement of changes in equity

January 1 - December 31

(DKK million)	Note	2022 Share capital	2022 Reserves: Foreign currency translation reserves	2022 Reserves: Hedging reserves	2022 Reserves: Other capital reserves	2022 Retained earnings	2022 Total	2021 Share capital	2021 Reserves: Foreign currency translation reserves	2021 Reserves: Hedging reserves	2021 Reserves: Other capital reserves	2021 Retained earnings	2021 Total
Equity at January 1		320	(322)	(1)	9	5,530	5,537	250	(313)	(25)	–	7,035	6,947
Comprehensive income for the year:													
Net profit/(loss) for the year		–	–	–	–	(4,110)	(4,110)	–	–	–	–	(4,868)	(4,868)
Other comprehensive income	18	–	137	44	–	277	458	–	(9)	25	–	179	194
Total comprehensive income/(loss) for the year		**-**	**137**	**44**	**-**	**(3,833)**	**(3,652)**	**-**	**(9)**	**25**	**-**	**(4,689)**	**(4,674)**
Transactions with owners:													
Increase of capital	17	1	–	–	–	35	36	70	–	–	–	3,277	3,347
Transaction costs related to capital increase		–	–	–	–	–	–	–	–	–	–	(92)	(92)
Share-based payment	4	–	–	–	25	–	25	–	–	–	9	–	9
Total transactions with owners		**1**	**-**	**-**	**25**	**35**	**61**	**70**	**-**	**-**	**9**	**3,185**	**3,264**
Equity at December 31		**321**	**(184)**	**43**	**34**	**1,732**	**1,946**	**320**	**(322)**	**(1)**	**9**	**5,530**	**5,537**

Cash flow statement

January 1 - December 31

(DKK million)	Note	2022	2021
Operating profit/(loss)		**(3,311)**	**(4,156)**
Non-cash items			
Depreciation, amortization and impairment losses	9, 10, 11	1,737	2,199
Adjustments for non-cash operating items etc.	25	1,668	2,224[2]
Changes in working capital	25	(785)	(543)
Cash items			
Payment of provisions	20	(1,605)	(1,520)
Interests etc., received		37	19
Interests etc., paid		(454)	(556)[2]
Income tax received/paid		439[1]	(165)
Cash flows from operating activities		**(2,274)**	**(2,498)**
Investments in intangible assets	9	(898)	(394)
Investments in property, plant and equipment	10	(597)	(956)
Proceeds from sale of intangible assets		4	-
Proceeds from sale of property, plant and equipment		3	-
Sale of subsidiaries and activities, net of cash received		12	-
Investments in other securities		-	(21)
Cash flows from investing activities		**(1,476)**	**(1,371)**

(DKK million)	Note	2022	2021
Proceeds from loans	21	4,451	10,604
Repayment of loans	21	(900)	(10,094)
Overdraft facilities	21	108	38
Proceeds received from exercise of warrants		-	9
Proceeds from increase of share capital		36	3,347
Transaction costs related to capital increase		-	(92)
Repayment of lease liabilities	11, 21	(119)	(121)
Cash flows from financing activities		**3,576**	**3,691**
Net cash flow for the period		**(174)**	**(177)**
Cash and cash equivalents, January 1		432	603
Foreign exchange rate and value adjustments of cash and cash equivalents		12	6
Cash and cash equivalents, December 31[3]		**270**	**432**

1. The main part of the tax refund in 2022 is the utilization of tax loss 2021 refunded by LEO Holding A/S and the settlement of the APA Agreement 2009-2015 between Denmark and Ireland.

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

3. At December 31, 2022, DKK 21m (2021: DKK 0m) of the cash and cash equivalents were deposited in 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 7, 2023 the Board of Directors and the Executive Management considered and approved the 2022 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 8, 2023.

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 minor variances in sums and percentages in the Annual Report.

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

Similar to last year we see no significant financial impact related to COVID-19, even though lockdowns are still affecting activities in China, Hong Kong and other markets in Asia.

Management continuously assesses the overall supply situation, increasing inflation, increasing interest rates, and the consequences related to the higher geopolitical uncertainties which may have impact on areas with significant accounting estimate and/or judgment.

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

Key accounting estimates and judgments

The 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 Management applies the accounting policies.

Note	Key accounting estimates and judgments	Estimate/ judgment
8 Income tax	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
13 Inventories	Estimates of valuation of inventories	Estimate
15 Deferred tax	Estimates of valuation of deferred tax assets	Estimate
20 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 the result of aggregating large numbers of transactions into classes of similar items, according to their nature or function. 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. 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.

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 date. Exchange differences arising between the rates on the transaction dates and payment dates are recognized in financial items 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 or 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.

Divestments
When LEO Pharma A/S ceases to have control of a subsidiary, the value of any retained investment is remeasured at fair value, and the value adjustment is recognized in the income statement as a gain/loss on the sale of non-current assets.

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, 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, 2022, 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 IFRS 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/Non-GAAP measures

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

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

Adjusted EBITDA
Operating profit/(loss) before transformation and restructuring costs, financial income and expenses, tax, depreciation and amortization.

Transformation and restructuring costs are the non-core and non-recurring costs overseen by the IPO Preparedness Committee to execute the strategic plans and structural profile of LEO Pharma towards delivering sustainable profitability and potential public listing.

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 Group'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 at a point in time – generally, this is when delivery and transfer of risk have taken place. For sales delivered on a consignment basis, control is transferred when the products are sold to the end-customer.

Revenue is measured at fair value, which corresponds to the amount of consideration to which the 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.

Change to revenue segments

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

(DKK million)	2022	2021
Revenue by region[1]		
International Operations	9,266	8,960
North America	1,117	918
Other	258	79
Total	**10,641**	**9,957**
Revenue by therapeutic area		
Dermatology		
Psoriasis	3,912	3,905
Skin infection	1,664	1,460
Eczema	1,969	1,359
Acne/Rosacea	328	328
Other Mature Dermatology	260	207
Total Dermatology	**8,133**	**7,259**
Thrombosis	**2,233**	**2,311**
CMO/Divested	**275**	**387**
Total	**10,641**	**9,957**
Revenue by category		
Products	10,527	9,837
Sales-based royalties	60	103
Other	54	17
Total	**10,641**	**9,957**

1. Revenue by region covers our revenue segments Dermatology, Thrombosis and CMO/Divested.

Timing of revenue recognition

Revenue totaling to DKK 10,641m (2021: DKK 9,957m) comprised goods transferred at a point in time of DKK 10,637m (2021: DKK 9,952m) and services transferred over time of DKK 4m (2021: DKK 5m).

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 fulfillment of the contract obligation.

Unsatisfied performance obligations

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

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)	**2022**	**2021**
Wages and salaries	3,614	3,829
Hereof capitalized staff expenses	(54)	(180)
Pensions – defined benefit plans	8	10
Pensions – defined contribution plans	269	323
Share-based payment	45	16
Social security expenses	349	376
Other employee expenses	253	270
Total staff expenses	**4,484**[1)]	**4,644**[2)]
Staff expenses included in:		
Cost of sales	780	744
Sales and distribution costs	2,050	2,156
Research and development costs	826	849
Administrative costs	828	895
Total staff expenses	**4,484**	**4,644**
Average number of full-time employees	**5,252**	**5,804**

1. Total staff expenses are impacted by DKK 248m as a consequence of the restructuring of LEO Pharma announced on June 2, 2022 and January 12, 2023 due to organzational changes of R&D, commercial and support functions. The restructuring costs are recognized in the income statement and classified as cost of sales DKK 64m, sales and distribution costs DKK 65m, research and development costs DKK 59m and administrative costs DKK 60m.

2. 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.

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)	Salaries	Bonus[1]	Pensions	Share-based payments[2]	Severance payments[3]	Total remuneration
2022						
Registered members of the Executive Management	10	13	1	14	12	50
Other members of Executive Management[4]	29	22	4	13	22	90
Board of Directors	5	-	-	2	-	7
Total	**44**	**35**	**5**	**29**	**34**	**147**
2021						
Registered members of the Executive Management	12	12	2	0	25	51
Other members of Executive Management[4]	26	19	4	8	-	57
Board of Directors	5	-	-	1	-	6
Total	**43**	**31**	**6**	**9**	**25**	**114**

1. Members of the Executive Management participate in short- and long-term incentive programs that provide a bonus for the achievement of predetermined targets.

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

3. The severance payments relate to former Executive Management members who left the company during 2022 and 2021.

4. Reference is made to page 24 "Global Leadership Team". Other members of the Executive Management are current members and former members who have left LEO Pharma during 2022.

Note 4 Share-based payment

Accounting policies

For equity-settled share-based payment arrangements, the warrants and shares are measured at fair value at the grant date and recognized as a staff cost over the vesting period with the balance on equity. On initial recognition, an estimate is made of the number of awards expected to vest. Subsequently, the amount recognized is adjusted to reflect the number of awards for which the service and non-market performance conditions are expected to be met and awards expected to vest.

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

Description of share-based payment arrangements

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

Employee Share Purchase Plan

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

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

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

Reconciliation of outstanding employee awards

	2022	
Number of matching shares	**ESPP (equity settled)**	**EPSPP (cash settled)**
Outstanding January 1	-	-
Granted	861,392	62,920
Forfeited	(120,472)	(17,416)
Outstanding at December 31	**740,920**	**45,504**
Fair value at grant (DKK)	30.40	30.40
Current fair value (DKK)	30.71	30.71

Measurement of fair value of Employee Share Purchase Plan

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

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

Note 4 Share-based payment (continued)

Management Incentive Program (MIP)

Equity-settled share agreements

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

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

Reconciliation of outstanding equity-settled awards

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

Phantom Share Agreement (cash-settled)

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

Reconciliation of outstanding cash-settled awards

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

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 input used in the measurement of the fair values at grant date of the equity-settled share-based payment plans was as follows:

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

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

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

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

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

Financial impact

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

Total expense recognized in 2022 from share-based payment transactions recognized in the income statement amounts to DKK 45m (2021: DKK 16m), of which DKK 25m (2021: DKK 6m) arises from equity-settled share-based payment transactions.

Note 5 Fees to Auditors appointed at the Annual General Meeting

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

Note 6 Other operating income and expenses

Accounting policies

Other operating income and 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)	2022	2021
Gain from sale of assets	14[1]	-
Other operating income	59	62
Other operating income	**73**	**62**
Royalty expenses	52	18
Loss from sale of assets	9[2]	-
Other operating expenses	4	49[3]
Other operating expenses	**65**	**67**

Note 7 Financial income and expenses

Accounting policies

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

(DKK million)	2022	2021
Interest income	3	14
Share of profit on associates	-	4
Other financial income	-	1
Financial income	**3**	**19**
Interest expenses, related parties	233	223
Interest expenses, credit institutions	319	109
Interest expenses, lease liabilities	11	11
Loss arising on financial assets designated at fair value through profit and loss	15	-
Foreign exchange loss, net[4]	69	66
Other financial expenses[5]	138	217
Financial expenses	**785**	**626**

1. Gain from sale of assets mainly relates to the sale of assets to Aqilion AB of DKK 13m.

2. Loss from sale of assets mainly relates to the sale of Studies&Me A/S of DKK 8m.

3. Related to accounting loss on onerous contracts in 2021 of DKK 41m.

4. Foreign exchange gains amount to DKK 700m (2021: DKK 732m) and foreign exchange losses amount to DKK 769m (2021: DKK 798m) for the Group.

5. Other financial expenses primarily comprise commitment fees related to our current Syndicated facility agreement (2021: Bank charges, other fees etc. and a payment of a bank guarantee related to the associated company PellePharm of DKK 131m)

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.

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 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)	2022	2021
Current tax	(421)	(181)
Prior-year adjustments, current tax	13	40
Prior-year adjustments, deferred tax	(87)	(17)
Change in deferred tax	409	37
Total tax income/(expense) for the year	**(86)**	**(121)**
Tax for the year is included in		
Tax on profit/(loss) for the year	(17)	(105)
Tax on other comprehensive income[1]	(69)	(16)
Total tax income/(expense) for the year	**(86)**	**(121)**

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

	2022		2021	
	DKK million	%	DKK million	%
Profit/(loss) before tax	**(4,093)**		**(4,763)**	
Calculated tax, 22%	900	22.0%	1,048	22.0%
Tax effect of:				
Differences in the income tax rates of foreign subsidiaries compared to the Danish corporate income tax rate	232	5.7%	173	3.6%
Non-deductible expenses/ non-taxable income and other permanent differences	(45)	(1.1)%	(25)	(0.5%)
Other taxes	(6)	(0.1)%	(8)	(0.2%)
Change in deferred tax as a result of changes in income tax rates	(13)	(0.3)%	17	0.4%
Change in valuation of net tax assets	(1,011)	(24.7)%	(1,333)	(28.0%)
Prior-year tax adjustments	(74)	(1.8)%	23	0.5%
Effective tax/tax rate for the year	**(17)**	**(0.4)%**	**(105)**	**(2.2%)**

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 losses 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 a development project. Milestone payments related to clinical development projects are capitalized only when payments of milestones become probable and the intention is to manufacture, market or use the project and when it is probable that 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. After marketing approval by a regulatory authority is obtained or considered highly probable, costs are capitalized as intangible assets.

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

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

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

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.

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

Note 9 Intangible assets (continued)

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

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

Impairment in 2021
Based on the impairment tests prepared at year-end 2021, it was deemed necessary to impair DKK 681m. Impairment loss of DKK 517m is 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 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 have 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 116m, 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.

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 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 can constitute the following:
- Changes in patent and license rights
- Changes to expected future cash inflows to the Group
- Research and 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 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, operating expenses, EBITDA, working capital, capital expenditures and discount rate.

The Group has identified capitalized software relating to the ERP system as corporate assets. The 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 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)

2022

(DKK million)	Goodwill	Intellectual property rights	Software	Development projects and software in progress	Total intangible assets
Cost at January 1	192	13,928	2,498	2,629	19,247
Exchange rate adjustment	–	5	–	–	5
Additions during the year	–	143[1]	–	136[2]	279
Disposals during the year	–	–	–	(274)	(274)
Transfers	–	–	96	(111)	(15)
Cost at December 31	**192**	**14,076**	**2,594**	**2,380**	**19,242**
Amortization and impairment losses at January 1	–	(7,772)	(974)	(1,847)	(10,593)
Exchange rate adjustment	–	(1)	–	–	(1)
Amortization for the year	–	(708)	(367)	–	(1,075)
Impairment for the year	–	–	–	(176)[3]	(176)
Disposals during the year	–	–	–	258	258
Transfers	–	–	–	–	–
Amortization and impairment losses at December 31	**–**	**(8,481)**	**(1,341)**	**(1,765)**	**(11,587)**
Carrying amount at December 31	**192**	**5,595**	**1,253**	**615[4]**	**7,655**

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[5]	18	406[2]	1,139
Disposals during the year	–	–	(11)	(548)	(559)
Transfers	–	779[5]	569	(1,379)	(30)
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)
Exchange rate adjustment	–	–	–	–	–
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**

1. Additions consist of capitalized milestone payment from approval of Adtralza® by the Japanese Ministry of Health, Labor and Welfare in December 2022.

2. Additions consist of DKK 41m (2021: DKK 36m) related to R&D development projects and DKK 95m (2021: DKK 370m) related to the development of IT projects.

3. Impairment loss recognized mainly due to IT development projects cancelled during 2022 of DKK 161m.

4. Total development projects and software in progress DKK 615m (2021: DKK 783m) consist of software in progress DKK 323m (2021: DKK 500m), and R&D development projects DKK 292m (2021: DKK 283m).

5. 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.

Note 9 Intangible assets (continued)

Research and development costs
In 2022, research and development costs recognized in the income statement amounted to DKK 2,474m (2021: DKK 3,058m), including impairment charges of DKK 15m (2021: DKK 517m).

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

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

Intellectual property rights
At December 31, 2022, intellectual property rights primarily comprise the dermatology portfolio (mainly Skinoren®, Advantan®, Travocort® and Travogen®) with a carrying amount of DKK 3,081m (2021: DKK 3,345m), Protopic® and Pimafucort® with a carrying amount of DKK 798m (2021: DKK 1,018m), Adtralza®/Adbry™ with a carrying amount of DKK 1,430m (2021: DKK 1,431m), and Kyntheum® with a carrying amount of DKK 157m (2021: DKK 192m).

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

Note 10 Property, plant and equipment

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the acquisition price and other directly attributable costs until the date 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 life 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 life. 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	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 losses.

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

Note 10 Property, plant and equipment (continued)

(DKK million)	2022 Land and buildings	2022 Plant and machinery	2022 Other fixtures and fittings, tools and equipment	2022 Assets under construction[1]	2022 Total property, plant and equipment	2021 Land and buildings	2021 Plant and machinery	2021 Other fixtures and fittings, tools and equipment	2021 Assets under construction[1]	2021 Total property, plant and equipment
Cost at January 1	2,555	3,137	604	2,373	8,669	2,537	3,015	552	2,025	8,129
Exchange rate adjustment	3	1	-	1	5	4	(1)	5	(1)	7
Additions during the year	1	20	33	536	590	7	1	36	756	800
Disposals during the year	(14)	(13)	(24)	-	(51)	(23)	(241)	(33)	-	(297)
Transfers	57	136	37	(216)	14	30	363	44	(407)	30
Cost at December 31	**2,602**	**3,281**	**650**	**2,694**	**9,227**	**2,555**	**3,137**	**604**	**2,373**	**8,669**
Depreciation and impairment losses at January 1	(1,604)	(2,174)	(428)	-	(4,206)	(1,550)	(2,117)	(404)	-	(4,071)
Exchange rate adjustment	(1)	-	(2)	-	(3)	(1)	1	(3)	-	(3)
Disposals during the year	13	13	22	-	48	22	241	33	-	296
Depreciation for the year	(69)	(205)	(61)	-	(335)	(65)	(196)	(54)	-	(315)
Impairment loss for the year	(3)	(16)	(4)	-	(23)	(10)	(103)[3]	-	-	(113)
Depreciation and impairment losses at December 31	**(1,664)**	**(2,382)**	**(473)**	**-**	**(4,519)**	**(1,604)**	**(2,174)**	**(428)**	**-**	**(4,206)**
Carrying amount at December 31	**938**	**899**	**177**	**2,694**	**4,708**[2]	**951**	**963**	**176**	**2,373**	**4,463**[2]

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

1. Fixed assets under construction are mainly related to the construction of a new plant in Denmark with a carrying amount of DKK 1,619m (2021: DKK 1,399m), expansion of an existing plant in Ireland with a carrying amount of DKK 245m (2021: DKK 251m), construction of a new plant in Ireland with a carrying amount of DKK 327m (2021: DKK 199m) and an expansion of an existing plant in France DKK 424m (2021: DKK 314m).

2. Assets pledged as collateral for loans amount to DKK 2,575m (2021: DKK 2,414m)

3. Impairment in 2021 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 asset, 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

Judgments on determining the lease term

For contracts with a rolling term (evergreen leases), the lease term is estimated to five 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

(DKK million)	Land and buildings	Cars etc.	Total
2022			
Cost at January 1	562	155	717
Exchange rate adjustment	10	3	13
Additions/remeasurements during the year	19	34	53
Disposals during the year	(16)	(42)	(58)
Cost at December 31	**575**	**150**	**725**
Depreciation and impairment losses at January 1	(184)	(70)	(254)
Exchange rate adjustment	–	1	1
Depreciation for the year	(73)	(43)	(116)
Impairment for the year	(12)	–	(12)
Disposals during the year	16	39	55
Depreciation and impairment losses at December 31	**(253)**	**(73)**	**(326)**
Carrying amount at December 31	**322**	**77**	**399**

(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**

(DKK million)	2022	2021
Lease liabilities at January 1	502	491
Additions/remeasurements during the year	47	126
Payments	(119)	(110)
Exchange rate adjustments	12	(5)
Lease liabilities at December 31	**442**	**502**
Of which classified as:		
Non-current liabilities	317	381
Current liabilities	125	121
Lease liabilities at December 31	**442**	**502**

(DKK million)	2022	2021
The following are the amounts recognized in the income statement:		
Depreciation expense of right-of-use assets (included in administrative costs)	(116)	(118)
Impairment for the year (included in administrative costs)	(12)	-
Interest expense on lease liabilities	(11)	(11)
Total amount recognized in the income statement	**(139)**	**(129)**

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

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.

(DKK million)	2022	2021
Trade receivables	2,178	2,289
Allowances for expected credit losses	(42)	(35)
Trade receivables at December 31	**2,136**	**2,254**

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

(DKK million)	2022	2021
Carrying amount January 1	35	47
Write-down recognized	32	8
Realized losses	(13)	(13)
Write-down reversals	(12)	(7)
Write-downs at December 31	**42**	**35**

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 customer segments. Historical credit losses are assessed by country of incorporation.

Maturity analysis of Trade receivables

(DKK million)	Expected credit loss rate	Trade receivables	Write-downs	Total
2022				
Not past due date	0%	1,984	0	1,984
Overdue by up to 3 months	3%	98	(3)	95
Overdue by 3-6 months	11%	44	(5)	39
Overdue by 6-12 months	26%	19	(5)	14
Overdue by more than 12 months	89%	33	(29)	4
Trade receivables at December 31		**2,178**	**(42)**	**2,136**
2021				
Not past due date	0%	2,113	0	2,113
Overdue by up to 3 months	1%	76	(1)	75
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
Trade receivables at December 31		**2,289**	**(35)**	**2,254**

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 labor and indirect production costs. Indirect production costs comprise indirect consumables and labor, as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process, and 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 effect the sale, and is determined allowing for marketability, obsolescence and development in expected sales price. Obsolete goods, including slow-moving goods, are written down.

Key accounting estimates

Valuation of inventories

The 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)	2022	2021
Raw materials and consumables	885	331
Work in progress	2,426	2,583
Finished goods and goods for resale	1,269	955
Total	**4,580**	**3,869**
Write-down, provision end of the period	340	327
Cost of goods sold included under cost of sales	3,428	3,196

Note 14 Other receivables

(DKK million)	2022	2021
Receivable VAT & duties	288	278
Deposits	19	45
Financial derivatives	160	29
Other	83	82
Total	**550**	**434**

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 Management's estimate of future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years supports the utilization of the deferred tax assets within the foreseeable future. A forecast period of five years is applied to the estimated utilization of deferred tax assets for LEO Pharma A/S and the companies under the joint taxation.

A significant assumption in the recognized deferred tax asset is both the ability to meet the objectives in the strategy for the next five years, as well as the return from the investment portfolio within the joint taxation group. The return from the investment portfolio is sensitive towards the general market fluctuations.

The recognized deferred tax assets in the Parent company LEO Pharma A/S as of December 31, 2022 was assessed to DKK 785m (2021: DKK 785m). The assessment takes into account the taxable loss in 2022 in joint taxation.

The remaining deferred tax asset in LEO Pharma A/S was subject to valuation allowance of DKK 1,011m in 2022 (2021: DKK 1,333m).

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

Note 15 Deferred tax (continued)

(DKK million)	2022 Balance at January 1	2022 Effect of foreign currency exchange differences	2022 Adjustment of deferred tax at beginning of year	2022 Movements during the year	2022 Balance at December 31	2021 Balance at January 1	2021 Effect of foreign currency exchange differences	2021 Adjustment of deferred tax at beginning of year	2021 Movements during the year	2021 Balance at December 31
Intangible assets	820	(0)	22	229	1,071	260	–	120	440	820
Property, plant and equipment	530	(1)	(109)	13	433	418	–	(175)	287	530
Inventories	463	(2)	–	401	862	501	–	–	(38)	463
Provisions	169	0	(10)	(6)	153	137	8	2	22	169
Other items	101	5	(7)	(38)	61	106	3	(4)	(4)	101
Special tax credits	–	–	25	62	87	–	–	–	–	–
Tax loss carry forwards[1]	965	–	3	759	1,727	260	2	40	663	965
Valuation allowances on deferred tax assets	(1,602)	–	(11)	(1,011)	(2,624)	(269)	–	–	(1,333)	(1,602)
Total temporary differences	**1,446**	**2**	**(87)**[2]	**409**	**1,770**	**1,413**	**13**	**(17)**	**37**	**1,446**
Deferred tax assets	1,453	2	(89)	443	1,809	1,430	13	(17)	27	1,453
Deferred tax liabilities	7	0	(2)	34	39	17	–	–	(10)	7
Deferred tax assets/(tax liabilities)	**1,446**	**2**	**(87)**	**409**	**1,770**	**1,413**	**13**	**(17)**	**37**	**1,446**

1. Driven by loss before tax in LEO Pharma A/S.

2. Prior year adjustments primarily derive from tax return 2021 true up in LEO Pharma A/S, mainly regarding capitalization of minor additions on property, plant and equipment.

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)	2022	2021
Prepaid clinical trials	180	258
Prepaid IT expenses	58	56
Other prepaid expenses	51	46
Total	**289**	**360**

Note 17 Share capital

2022

The share capital comprises 320,885,991 shares for a nominal value of DKK 1. The share capital is divided into 125,000,000 A-shares and 195,885,991 B-shares. Each A-share carries 10 votes, where B-shares carries 1 vote per share.

During 2022, capital increases related to the share-based payments were carried out, increasing the share capital by 740,920 shares, amounting to DKK 36m, including share premium. Please refer to note 4.

No shares or shareholders have any additional special rights.

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 carry 1 vote per share.

Number of shares 2022	A-shares	B-shares	Total
Number of shares at January 1	125,000,000	195,145,071	320,145,071
Capital increase	-	740,920	740,920
Number of shares at December 31	**125,000,000**	**195,885,991**	**320,885,991**

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 Other comprehensive income

	2022				2021			
(DKK million)	**Foreign currency translation reserve**	**Hedging reserve**	**Retained earnings**	**Other comprehensive income**	**Foreign currency translation reserve**	**Hedging reserve**	**Retained earnings**	**Other comprehensive income**
Other comprehensive income								
Items that will not subsequently be reclassified to the income statement:								
Remeasurement of defined benefit pension obligations	–	–	329	329	–	–	195	195
Tax on other comprehensive income	–	–	(52)	(52)	–	–	(10)	(10)
Items that will not subsequently be reclassified to the income statement	**–**	**–**	**277**	**277**	**–**	**–**	**185**	**185**
Items that are or may subsequently be reclassified to the income statement:								
Foreign exchange adjustments subsidiaries	137	–	–	137	(9)	–	–	(9)
Value adjustments of hedging instruments for the year	–	61	–	61	–	25	–	25
Tax on other comprehensive income	–	(17)	–	(17)	–	–	(6)	(6)
Items that are or may subsequently be reclassified to the income statement:	**137**	**44**	**–**	**181**	**(9)**	**25**	**(6)**	**9**
Other comprehensive income/loss for the year	**137**	**44**	**277**	**458**	**(9)**	**25**	**179**	**194**

Note 19 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 pensions.

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

Estimates of valuation of defined benefit plans

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

Defined contribution plans

The Group operates a number of pension plans for certain groups of employees throughout the world. These plans are externally funded through payments of premiums to insurance companies and pension funds that are legally separated from the Group. The Group's responsibility 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 and the UK. The defined benefit plans expose the Group to actuarial risks, such as longevity, interest rate, salary, market and currency risks.

The plans in Ireland and the UK are funded and constituted under a trust 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.

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 discount rate. However, the discount rate will most likely be correlated and consequently result in a different fair value of plan assets as well.

A 0.25% decrease in the discount rate would result in an increase in the net obligation of approximately 3.7% or DKK 50m (2021: 4.6% or DKK 96m).

Note 19 Pensions (continued)

	2022				2021			
(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 January 1	1,026	834	213	2,073	1,073	894	247	2,214
Effect of exchange rate adjustment	(1)	(35)	1	(35)	(1)	59	-	58
Current service costs	-	-	8	8	-	-	10	10
Interest expenses	15	16	2	33	11	11	2	24
Actuarial (gains)/losses from changes in demographic assumptions	-	(0)	1	1	-	-	(15)	(15)
Actuarial (gains)/losses from changes in financial assumptions	(315)	(298)	(52)	(665)	(39)	(52)	(13)	(104)
Actuarial (gains)/losses from experience adjustments	12	0	2	14	8	-	1	9
Benefits paid to employees	(29)	(37)	(17)	(83)	(26)	(78)	(19)	(123)
Present value of defined benefit obligation at December 31	**708**	**480**	**158**	**1,346**	**1,026**	**834**	**213**	**2,073**
Fair value of plan assets:								
Fair value of plan assets at January 1	916	758	115	1,789	880	727	119	1,726
Effect of exchange rate adjustment	(1)	(35)	1	(35)	(1)	50	-	49
Actuarial gains/(losses) from return on plan assets	(186)	(130)	(5)	(321)	49	37	(1)	85
Interest income	13	13	1	27	9	9	1	19
Benefits paid to employees	(29)	(37)	(4)	(70)	(26)	(79)	(4)	(109)
Employer contributions	10	19	-	29	5	14	-	19
Fair value of plan assets at 31 December	**723**	**588**	**108**	**1,419**	**916**	**758**	**115**	**1,789**
Net retirement benefit obligations/(asset) at December 31	**(15)**	**(108)**	**50**	**(73)**	**110**	**76**	**98**	**284**
Recognized as:								
Other non-current assets	15	108	21	144	-	-	-	-
Non-current liabilities	-	-	71	71	110	76	98	284
Net retirement benefit obligations/(asset) at 31 December	**(15)**	**(108)**	**50**	**(73)**	**110**	**76**	**98**	**284**
Specification of amount recognized in the Statement of comprehensive income:								
Actuarial gains and (losses)	117	168	44	329	80	89	26	195
Total	**117**	**168**	**44**	**329**	**80**	**89**	**26**	**195**

1. Other includes Germany, France and Italy

Note 20 Provisions

Accounting policies

Provisions are recognized when the Group has a legal or a constructive obligation as a result of past events, 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 revenue is recognized. Unsettled deductions and returns are recognized as provisions when the timing or amount is uncertain. Where absolute amounts are known, the deductions are recognized as other liabilities.

Staff-related provisions include employee benefits such as long-term incentive programs and long-service awards as well as provisions for restructuring. Provisions for restructuring cost are recognized 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 Management makes judgments and estimates 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 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 U.S. in connection with the U.S. Federal and State Government Healthcare programs, primarily as commercial rebates, Copay programs, Medicare and Medicaid.

The 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 recognized 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 Management, as more detailed information becomes available.

Note 20 Provisions (continued)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2022					
Provisions at January 1	385	173	468	216	1,242
Exchange rate adjustment	16	7	–	1	24
Additions during the year	1,224	57	368[1]	168[3]	1,817
Utilization during the year	(1,151)	(91)	(293)[2]	(70)	(1,605)
Reversals during the year	(21)	(25)	(70)[1]	(93)	(209)
Transfer	–	–	8	(8)	–
Provisions at December 31	**453**	**121**	**481**	**214**	**1,269**
Of which classified as:					
Non-current liabilities	1	54	167	68	290
Current liabilities	452	67	314	146	979
Provisions at December 31	**453**	**121**	**481**	**214**	**1,269**

1. Addition and reversals consist of net DKK 248m related to the restructuring due to organzational changes of R&D, commercial and global support functions. Addition of DKK 70m is related to long-term incentive programs.

2. The restructuring provision utilized amounts to DKK 238m. The remaining part is expected to be utilized during 2023 and 2024.

3. Addition of DKK 69m is related to one onerous contract, recognized as part of cost of goods sold.

(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	133[5]	1,618
Utilization during the year	(1,060)	(103)	(317)	(40)	(1,520)
Reversals during the year	(7)	(44)	(109)	(8)	(168)
Transfer	–	–	21[4]	–	21
Provisions at December 31	**385**	**173**	**468**	**216**	**1,242**
Of which classified as:					
Non-current liabilities	–	60	230	62	352
Current liabilities	385	113	238	154	890
Provisions at December 31	**385**	**173**	**468**	**216**	**1,242**

4. Transferred from other payables.

5. Addition of DKK 111m is related to two onerous contracts, of which DKK 41m is recognized as part of Other operating expenses and the remaining part of DKK 70m is recognized as part of cost of goods sold.

Note 21 Financial risks

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

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

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

Risk management is undertaken by a central finance department, subject to objectives and policies approved by 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 as well as the Policy Regarding Credit Risk on Financial Counterparties and includes a description of the permitted use of financial instruments. The Group only hedges commercial exposures and, consequently, does not enter into derivative transactions for trading or speculative purposes. The Group uses a fully integrated Treasury Management System to manage all financial positions.

Currency risk
As a global company with DKK as its presentation currency, the Group undertakes transactions denominated in foreign currencies, and foreign exchange risk, therefore, has a significant impact on the income statement, balance sheet and cash flow statement. The overall objective of 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, CNY, CAD, GBP, BRL, RUB and AUD either through direct sales to and purchases from third parties or indirect sales through a subsidiary. Currency risk arises due to imbalances between income and costs in each individual currency and because the Group has more assets than liabilities in foreign currencies, in connection with its global operations.

The Group hedges future expected cash flows on an 18-month rolling basis. The Group's forward foreign exchange policy is described in note 22.

Foreign currency sensitivity analysis
The sensitivity analysis below shows the estimated impact on net profit/(loss) of a change in DKK versus the key currencies to which the Group was exposed on December 31, 2022. 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 net profit/(loss).

Foreign currency sensitivity analysis

(DKK million)	2022 Increase in exchange rates	2022 Profit/(loss) for the year	2022 Other comprehensive income[1]	2021 Increase in exchange rates	2021 Profit/(loss) for the year	2021 Other comprehensive income[1]
USD	7.9%	(10)	45	6.0%	(39)	36
GBP	7.6%	(11)	(16)	6.8%	(20)	(14)
CAD	7.7%	5	(28)	7.3%	3	(16)
JPY	10.2%	11	(5)	7.3%	9	(6)
RUB	35.0%	(16)	-	14.4%	(2)	(1)
CNY/CNH	7.5%	12	(26)	6.0%	3	(2)
BRL	18.7%	9	-	17.3%	(1)	(3)
SAR	8.2%	2	(2)	6.4%	-	(1)
AUD	9.4%	2	(7)	6.4%	-	(6)

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

Note 21 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 CAPS and Collars as hedge instruments. 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 2022 or 2021.
The table below shows the current loans with our banking partners.

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

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

	2022						
(DKK million)	**Currency**	**Expiry of commitment**	**Fixed/ floating**	**Weighted avg. effective interest rate %**	**Amortized Cost**	**Nominal value**	**Fair value**
Term loans[1]	DKK	2027	Floating	6.32	2,590	2,625	2,625
Loans RCF	DKK	2027	Floating	6.10	3,902	3,918	3,918
Loans RCF	USD	2027	Floating	6.84	50	50	50
Mortgage loans	DKK	2038	Fixed 4m	1.47	1,185	1,200	1,187
Mortgage loans	DKK	2042	Fixed 4.7y	4.80	1,049	1,065	1,053
Total					**8,776**	**8,858**	**8,833**

	2021						
(DKK million)	**Currency**	**Expiry of commitment**	**Fixed/ floating**	**Weighted avg. effective interest rate %**	**Amortized Cost**	**Nominal value**	**Fair value**
Term loans[1]	DKK	2027	Floating	3.05	2,583	2,625	2,625
Loans RCF	USD	2024	Floating	1.38	63	63	63
Loans RCF	DKK	2027	Floating	3.25	1,278	1,278	1,278
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,183	1,200	1,206
Total					**5,107**	**5,166**	**5,172**

Note 21 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
2022				
CAP - Syndicated facility	1,500	62	65	0.10%
Collar - Syndicated facility	6,000	6	48	1.63% - 3.75%
Total		**68**	**113**	
2021				
CAP on Term Loan A	1,125	-	-	0.03%
CAP on Term Loan B	1,500	5	3	0.10%
Total		**5**	**3**	

At December 31, 2022, the fair value of DKK 113m (2021: DKK 3m) is recognized in other receivables.

Interest rate sensitivity analysis
One percentage point increase in interest rates would reduce profit for the year by DKK 55m (2021: DKK 13m) and increase other comprehensive income by DKK 96m (2021: DKK 24m), based on interest-bearing debt at December 31 with floating rate not hedged and the change in fair value of the interest hedging instruments.

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

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

The Group has no significant concentration of credit risk related to trade receivables, as the exposure is spread over a large number of counterparties and customers. As such, the Group has no significant reliance on any specific customer. The Group continues to monitor the credit exposure on all customers, both new and existing, following principles delineated by the credit policy adopted in December 2020. The COVID-19 pandemic and Ukraine war have 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.

During 2022, the Group further extended the non-recourse factoring program implemented in 2020 for selected global customers to optimize working capital. At year-end, the Group has derecognized Trade receivables, without recourse, having due dates after December 31, amounting to DKK 425m in 2022 (2021: DKK 141m).

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 21 Financial risks (continued)

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

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

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

The nominal value of the new mortgage loans are DKK 1,065m, bringing the total mortgage portfolio up to a nominal value of DKK 2,265m.

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

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

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.

	2022					2021				
(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	4,161	-	-	209	4,370	3,965	-	-	196	4,161
Loan from the LEO Foundation	1,000	-	-	25	1,025	1,000	-	-	-	1,000
Bank and mortgage loans	5,108	4,559	(900)	9	8,776	4,713	10,604	(10,210)	-	5,108
Lease liabilities	502	-	(119)	59[2]	442	491	-	(110)	121[2]	502
Total borrowings	**10,771**	**4,559**	**(1,019)**	**302**	**14,613**	**10,169**	**10,604**	**(10,320)**	**317**	**10,771**
Of which classified as:										
Non-current					14,081					9,309
Current					532					1,462
Total					**14,613**					**10,771**

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

2. New/disposed/remeasured leases.

Note 21 Financial risks (continued)

The below table analyzes 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.

1. Repayment of the loan from LEO Holding A/S is expected to commence in 2030.

Maturity of contractual cash flows

	2022					2021				
(DKK million)	**Contractual amount**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**	**Contractual amount**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Financial liabilities at amortized cost										
Floating interest rate bank debt	7,735	708	528	6,499	–	4,144	1,393	61	61	2,629
Fixed interest rate bank debt	3,158	91	300	296	2,471	1,330	18	162	184	966
Fixed interest rate loan, LEO Holding A/S[1]	6,681	–	–	–	6,681	6,687	–	–	–	6,687
Fixed interest rate loan, the LEO Foundation	1,148	25	49	1,074	–	1,149	25	50	50	1,024
Trade and other payables	3,777	3,777	–	–	–	4,481	4,481	–	–	–
Financial derivatives at fair value										
Interest hedging instruments	(47)	(30)	(17)	–	–	(3)	–	(3)	–	–
Forward contracts used as hedging instruments	50	50	–	–	–	4	3	1	–	–
Total contractual cash flow at December 31	**22,502**	**4,621**	**860**	**7,869**	**9,152**	**17,792**	**5,920**	**271**	**295**	**11,306**

Note 22 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 cash flow hedging instrument. In this 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 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 the forecasted sales and purchase transactions based on gradually reducing the hedge ratio from 80% to 20% during a time horizon of 18 months. 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.

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 23, table 'Financial assets and liabilities by category').

Note 22 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
2022						
Forward foreign exchange contracts						
Bought USD	7.33	97	711	–	40	(49)
Sold USD	7.01	15	105	2	–	2
Sold CAD	5.31	71	378	15	1	23
Sold GBP	8.56	25	214	6	–	10
Sold CNY	1.00	350	350	–	1	3
Sold SAR	1.90	16	30	1	–	1
Sold SEK	0.69	51	35	1	–	1
Sold JPY	0.05	870	44	–	1	(1)
Sold AUD	4.75	15	71	1	–	2
Sold other currencies	N/A	N/A	171	–	3	1
Cash flow hedges at December 31			**2,109**	**26**	**46**	**(7)**
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**

Note 22 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 16m has been deferred for recognition until 2023 (2021: a loss of DKK 9m was deferred until 2022 and 2023). No ineffectiveness was observed in 2022.

The fair value gain on forward foreign exchange contracts of DKK 14m at the end of 2022 is recognized in the income statement under Foreign exchange loss, net (2021: gain of DKK 2m recognized in Foreign exchange loss, net).

Financial derivatives – Fair value hedges

(DKK million)	Contracted amount based on agreed rates	Fair value	Maturity end date
2022			
Forward foreign exchange contracts			
Sold USD	543	8	07/07/2023
Bought GBP	112	(3)	18/01/2023
Sold CAD	54	3	10/03/2023
Sold JPY	185	3	31/08/2023
Sold BRL	28	(1)	22/02/2023
Sold KRW	17	(1)	28/02/2023
Bought EUR	45	4	26/05/2023
Bought/sold other currencies (net)	151	1	19/04/2023
Fair value hedges at December 31	**1,135**	**14**	
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
Bought/sold other currencies (net)	231	1	31/08/2022
Fair value hedges at December 31	**1,003**	**2**	

Note 23 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.

Fair value of 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 23 Financial assets and liabilities by category (continued)

Categories of financial assets and financial liabilities

	Carrying amount	Fair value	Carrying amount	Fair value
(DKK million)	**2022**	**2022**	**2021**	**2021**
Carried at amortized cost				
Cash and bank balances	270	270	432	432
Trade and other receivables	2,528	2,528	2,659	2,659
Other financial assets	50	50	69	69
Financial assets at amortized cost	**2,848**	**2,848**	**3,160**	**3,160**
Carried at fair value through profit/(loss) (FVTPL)				
Financial securities (bonds)	108	108	137	137
Derivative instruments in designated fair value hedging relationships	19	19	8	8
Financial assets at fair value through profit/(loss)	**127**	**127**	**145**	**145**
Carried at fair value through other comprehensive income				
Derivative instruments in designated cash flow hedging relationships	139	139	21	21
Financial assets at fair value through other comprehensive income	**139**	**139**	**21**	**21**
Total financial assets	**3,114**	**3,114**	**3,326**	**3,326**
Carried at amortized cost				
Trade and other payables	3,764	3,764	4,481	4,481
Bank loans (current and non-current)	6,542	6,593	3,924	3,966
Mortgage loans	2,234	2,240	1,183	1,206
Loan from LEO Holding A/S	4,370	3,238	4,161	3,686
Loan from the LEO Foundation	1,025	882	1,000	944
Lease liabilities (current and non-current)	442	454	502	524
Financial liabilities at amortized cost	**18,377**	**17,171**	**15,252**	**14,807**
Carried at fair value through profit/(loss) (FVTPL)				
Derivative instruments in designated fair value hedging relationships	5	5	6	6
Financial liabilities at fair value through profit/(loss) (FVTPL)	**5**	**5**	**6**	**6**
Carried at fair value through other comprehensive income				
Derivative instruments in designated cash flow hedging relationships	46	46	24	24
Financial liabilities at fair value through other comprehensive income	**46**	**46**	**24**	**24**
Total financial liabilities	**18,428**	**17,222**	**15,282**	**14,837**

Note 23 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 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:

2022

(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets:				
Danish mortgage bonds	108	-	-	108
Derivative instruments	-	158	-	158
Total	**108**	**158**	**-**	**266**
Financial liabilities:				
Bank loans	-	6,593	-	6,593
Mortgage loans	-	2,240	-	2,240
Loan from LEO Holding A/S	-	3,238	-	3,238
Loan from the LEO Foundation	-	882	-	882
Lease liabilities	-	-	454	454
Derivative instruments	-	51	-	51
Total	**-**	**13,004**	**454**	**13,458**

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**

Note 24 Other payables

Accounting policies

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

Clinical trials can take several years to complete. Therefore, the 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)	2022	2021
Employee-related accruals	898	878
Accrued milestone payments	143[1]	712[2]
Accrued clinical trial expenses	272	178
Sales deduction accruals	327	157
Accrued promotion fee	69	82
Public authorities (VAT)	47	66
Financial derivatives	50	30
Other	707[3]	789
Total	**2,513**	**2,892**

Note 25 Other cash flow adjustments

(DKK million)	2022	2021
Other non-cash adjustments:		
Gain/loss on sale of non-curent assets etc.	(6)	-
Changes in provisions	1,632	1,471
Change in provision for defined benefit plans	(357)	(213)
Change in inventory write-downs	13	192
Change in provisions for bad debt	7	(12)
Other non-cash adjustments[4]	379	786
Total	**1,668**	**2,224**
Change in Working capital		
Change in inventories	(724)	(1,198)
Change in receivables, prepaid expenses etc.	181	568
Change in current liabilities	(242)	87
Total	**(785)**	**(543)**

1. Accrued milestone payment from approval of Adtralza® by the Japanese Ministry of Health, Labor and Welfare in December 2022.

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

3. Other consists of accrued expenses related to core business activities, contingent consideration such as mandatory deductions typically set by medical or other governmental authorities etc.

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

Note 26 Guarantees, contingencies and commitments

Guarantees
The total guarantee commitments for LEO Pharma amount to DKK 136m at December 31, 2022 (2021: DKK 86m)

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

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

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

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

Pending lawsuits
At the end of 2022, there were pending patent lawsuits filed by and against LEO Pharma concerning rights related to products in LEO Pharma's portfolio. LEO Pharma does not expect these or other pending cases to have any significant effect on the Group's financial position.

LEO Pharma is involved in a number of legal proceedings. In the opinion of Management, the outcome of these proceedings are currently assessed not to 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

Other owners with significant influence:
- Nordic Capital (Through - Cidron Savanna 4 SARL)

Transactions and balances with the LEO Foundation:
- Loan of DKK 1,025m (2021: DKK 1,000m)
- Interest expenses of DKK 25m (2021: DKK 25m)
- Income of DKK 0m (2021: DKK 0m)
- Payables of DKK 0m (2021: Payables of DKK 0m)

Transactions and balances with LEO Holding A/S:
- Tax settlement of DKK 356m (2021: DKK 238m)
- Loan of DKK 4,370m (2021: DKK 4,161m)
- Interest expenses of DKK 208m (2021: DKK 198m)
- Receivables regarding joint taxation of DKK 0m (2021: DKK 370m)

Transactions and balances with Nordic Capital:
- Capital increase of DKK 0m (2021: DKK 3,347m)

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 1m (2021: 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

No significant events after the balance sheet date have occurred.

Note 29 Company overview

	Country	Share of ownership %	Activities			
			Sales and distribution	Production	Marketing & 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				▼
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)

	Country	Share of ownership %	Activities: Sales and distribution	Activities: Production	Activities: Marketing & services	Activities: 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 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	17				▼
SkinVision B.V	Netherlands	22				▼

1. Under liquidation

During 2022, LEO Pharma has divested the subsidiaries Omhu A/S and Studies&Me A/S.

LEO Pharma İlaç Ticaret A.Ş (Turkey) has been liquidated during 2022.

Parent Company Financial Statements

Contents

Income statement

January 1 - December 31

(DKK million)	Note	2022	2021
Revenue	2	12,935	9,963
Cost of sales	3, 11	(9,525)	(8,360)
Gross profit		**3,410**	**1,603**
Sales and distribution costs	3, 10, 11	(3,929)	(3,137)
Research and development costs	3, 10, 11	(2,328)	(2,892)
Administrative costs	3, 4, 5, 10, 11, 17	(1,751)	(1,882)
Other operating income	6	60	17
Other operating expenses	6	(76)	(61)
Operating profit/(loss)		**(4,614)**	**(6,352)**
Income from investment in subsidiaries	12	1,189	1,733
Financial income	7	41	39
Financial expenses	7	(777)	(607)
Profit/(loss) before tax		**(4,161)**	**(5,188)**
Income tax	8	13	308
Net profit/(loss) for the year		**(4,148)**	**(4,880)**

Balance sheet at December 31

Assets

(DKK million)	Note	2022	2021
Goodwill		149	162
Intellectual property rights		5,471	6,026
Software		1,253	1,524
Development projects and software in progress		609	761
Intangible assets	**10**	**7,482**	**8,473**
Land and buildings		493	509
Plant and machinery		448	493
Other fixtures and fittings, tools and equipment		122	130
Assets under construction		1,641	1,494
Property, plant and equipment	**11**	**2,704**	**2,626**
Investment in subsidiaries	12	11,030	9,476
Deferred tax assets	13	785	785
Pensions	17	21	-
Other financial assets		50	78
Other non-current assets		**11,886**	**10,338**
Non-current assets		**22,072**	**21,437**
Inventories	15	2,952	2,326
Trade receivables		522	527
Loans to subsidiaries		1,487	570
Receivables from subsidiaries		1,994	2,087
Tax receivables		27	391
Other receivables	14	332	259
Prepaid expenses	16	245	332
Other financial securities		108	136
Cash		4	83
Current assets		**7,671**	**6,711**
Assets		**29,743**	**28,148**

Balance sheet at December 31

Equity and liabilities

(DKK million)	Note	2022	2021
Share capital		321	320
Net revaluation, subsidiaries		9,659	7,881
Reserves		1,232	1,571
Retained earnings		(9,270)	(4,153)
Equity		**1,942**	**5,619**
Loans and credit institutions	19	13,764	8,928
Pensions	17	-	7
Provisions	18	101	56
Tax payables		489	496
Other long-term liabilities		175	322
Total non-current liabilities		**14,529**	**9,809**
Loans and credit institutions	19	369	1,181
Trade payables		752	1,083
Provisions	18	285	217
Loans from subsidiaries		7,036	5,829
Payables to subsidiaries		3,133	2,247
Tax payables		447	453
Other payables	20	1,250	1,710
Current liabilities		**13,272**	**12,720**
Liabilities		**27,801**	**22,529**
Equity and liabilities		**29,743**	**28,148**

Statement of changes in equity January 1 - December 31

(DKK million)	Share capital	Net revaluation, subsidiaries	Reserves: Reserve for currency hedging	Reserves: Other Capital reserve	Reserves: Reserve for development projects	Retained earnings	Total
2022							
Equity at January 1	320	7,881	(1)	9	1,563	(4,153)	5,619
Net profit/(loss) for the year	-	1,189	-	-	-	(5,337)	(4,148)
Foreign exchange rate adjustment, subsidiaries	-	137	-	-	-	-	137
Other movements on subsidiaries[1]	-	200	-	-	-	(248)	(48)
Capitalized development costs, net	-	-	-	-	(408)	408	-
Value adjustments of hedging instruments	-	-	61	-	-	-	61
Remeasurement of defined benefit pension obligations	-	302	-	-	-	27	329
Tax on changes in equity	-	(50)	(17)	-	-	(2)	(69)
Transactions with owners							
Increase of capital[2]	1	-	-	-	-	35	36
Share-based payments	-	-	-	25	-	-	25
Total transactions with owners	**1**	**-**	**-**	**25**	**-**	**35**	**61**
Equity at December 31	**321**	**9,659**	**43**	**34**	**1,155**	**(9,270)**	**1,942**
2021							
Equity at January 1	250	6,106	(25)	-	1,568	(881)	7,017
Net 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	-
Foreign exchange rate adjustment, 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
Transaction 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**

The Company's total share capital of 320,885,992 is divided into 125.000.000 A-shares and 195,885,992 B-shares of DKK 1 each. Each A-share carries 10 votes, where B-shares carries 1 vote per share. Reference is made to note 17 in the consolidated financial statements.

1. Reference is made to note 12.

2. Reference is made to note 17 in the consolidated financial statements.

Notes - Parent Company

NOTES TO THE INCOME STATEMENT

NOTES TO THE BALANCE SHEET

NOTES - ADDITIONAL INFORMATION

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.

The accounting policies of the Parent company are consistent with the accounting policies of the Group, except for IFRS16 leases and the treatment of goodwill. In addition, the policies described below are implemented for the Parent company.

Royalty income relates to the primary activities and is recognized as revenue. Comparatives for 2021 have been restated as royalty income was recognized as other operating income in previous years. Beside this change, the accounting policies remain unchanged from the previous year.

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.

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 unrealized 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 internal 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)	2022	2021
Revenue by market		
International Operations	10,100	9,118
North America	2,581	773
Other	254	72
Total	**12,935**	**9,963**

(DKK million)	2022	2021
Revenue by category		
Products	12,514	9,513
Sales-based royalties	421	445[1]
Other	–	5
Total	**12,935**	**9,963**

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

Note 3 Staff expenses

(DKK million)	2022	2021
Wages and salaries	1,596	1,696
Hereof capitalized staff expenses	(42)	(136)
Pensions	141	173
Share-based payment[2]	29	16
Social security expenses	19	22
Other employee expenses	59	61
Total staff expenses	**1,802**[3]	**1,832**[4]
Staff expenses included in:		
Cost of sales	326	311
Sales and distribution costs	243	252
Research and development costs	633	619
Administrative costs	600	650
Total staff expenses	**1,802**	**1,832**
Average number of full-time employees	**1,897**	**2,145**

For a description of the Parent company's remuneration to the Executive Management and the Board of Directors, please refer to note 3 of the consolidated financial statements.

1. Royality income of DKK 357m has been reclassified in 2021 from other operating income to revenue as the income is related to primary activities.

2. Reference is made to note 4.

3. Total staff expenses are impacted by DKK 164m as a consequence of the restructuring of LEO Pharma announced on June 2, 2022 and January 12, 2023 due to organzational changes of R&D, commercial and support functions. The restructuring costs are recognized in the income statement and classified as cost of sales DKK 37m, sales and distribution costs DKK 50m, research and development costs DKK 48m and administrative costs DKK 29m.

4. 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 sales and distribution costs DKK 20m, research and development costs DKK 18m and administrative costs DKK 5m.

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 employee awards

	2022	
Number of matching shares	**ESPP (equity settled)**	**EPSPP (cash settled)**
Outstanding January 1	-	-
Granted	555,296	15,832
Forfeited	(90,280)	(4,512)
Outstanding at December 31	**465,016**	**11,320**
Fair value at grant (DKK)	30.40	30.40
Current fair value (DKK)	30.71	30.71

Reconciliation of outstanding equity-settled awards

In number of warrants	**Total 2021**	**Total 2022**
Outstanding at January 1	-	2,815,973
Granted during the year	2,815,973	1,153,104
Forfeited during the year	-	(25,763)
Outstanding at December 31	**2,815,973**	**3,943,314**
Exercisable at December 31	**-**	**-**
Fair value at grant	7.14	7.58
Average exercise share price	47.72	47.72

Reconciliation of outstanding cash-settled awards

Number of phantom shares	**Phantom Share Agreement 2021**	**Phantom Share Agreement 2022**
Outstandig at January 1	-	2,141,750
Instruments granted	2,141,750	2,063,864
Forfeited during the year	-	(311,532)
Outstanding at December 31	**2,141,750**	**3,894,082**
Fair value at grant date (DKK)	7.38	7.58
Initial expected total cost (DKK)	**25,848,797**	**29,142,862**
Instruments for which it is expected to vest	2,141,750	3,894,082
Current fair value (DKK)	7.38	7.97
Total expected settlement	**25,848,797**	**31,035,834**
Liability at December 31, 2022 (DKK)	**9,668,856**	**23,060,322**

Financial impact

At December 31, 2022, the total carrying amounts of liabilities arising from the share-based payment transactions amounts to DKK 23m (2021: DKK 10m). The intrinsic value at December 31, 2022 of liability related to vested phantom shares was DKK 12m (2021: DKK 5m).

Total expense recognized in 2022 from share-based payment transactions recognized in the income statement amounts to DKK 29m (2021: DKK 16m), of which DKK 15m (2021: DKK 6m) arises from equity-settled share-based payment transactions.

Note 5 Fees to Auditors appointed at the Annual General Meeting

(DKK million)	2022	2021
Statutory audit	5	4
Non-audit services	2	7
Total	**7**	**11**

Note 6 Other operating income and expenses

(DKK million)	2022	2021
Gain from sale of assets	14[1]	-
Other operating income	46	17
Other operating income[2]	**60**	**17**
Royalty expenses	52	18
Loss from sale of assets	9[3]	-
Other operating expenses	15	43[4]
Other operating expenses	**76**	**61**

Note 7 Financial income and expenses

(DKK million)	2022	2021
Interest income, related parties	40	20
Other interest income	1	1
Share of profit on associates	-	4
Other financial income	-	14
Total financial income	**41**	**39**
Interest expenses, related parties	246	223
Interest expenses, credit institutions	310	106
Other interest	-	3
Foreign exchange rate losses, net[5]	53	69
Financial assets write-down	15	-
Other financial expenses[6]	153	206
Total financial expenses	**777**	**607**

1. Gain from sale of assets mainly relates to the sale of assets to Aqilion AB of DKK 13m.

2. Royality income of DKK 357m has been reclassified in 2021 from other operating income to revenue as the income is related to primary activities.

3. Loss from sale of assets mainly relates to the sale of Studies&Me A/S of DKK 8m.

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

5. Foreign exchange gains amount to DKK 705m (2021: DKK 717m) and foreign exchange losses amount to DKK 758m (2021: DKK 786m).

6. Other financial expenses primarily comprise of commitment fees related to our current Syndicated facility agreement (2021: bank charges, other fees etc. and a payment of a bank guarantee related to the associated company PellePharm of DKK 131m)

Note 8 Income tax

(DKK million)	2022	2021
Current tax	(15)	296
Prior-year adjustments, current tax	9	5
Prior-year adjustments, deferred tax	(76)	(17)
Change in deferred tax	76	17
Total tax income/(expense) for the year	**(6)**	**301**
Tax on profit/(loss) for the year	13	308
Tax on changes in equity	(19)	(7)
Total tax income/(expense) for the year	**(6)**	**301**

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

(DKK million)	2022	2021
Net revaluation, subsidiaries	1,189	1,733
Retained earnings	(5,337)	(6,613)
Total	**(4,148)**	**(4,880)**

Note 10 Intangible assets

(DKK million)	2022 Goodwill	2022 Intellectual property rights	2022 Software	2022 Development projects and software in progress	2022 Total intangible assets	2021 Goodwill	2021 Intellectual property rights	2021 Software	2021 Development projects and software in progress	2021 Total intangible assets
Cost at January 1	192	13,769	2,498	879	17,338	192	12,276	1,922	2,388	16,778
Additions during the year	-	143[1]	-	136[2]	279	-	712[5]	18	393[2]	1,123
Disposals during the year	-	-	-	(250)	(250)	-	-	(11)	(524)	(535)
Transfers	-	-	96	(110)	(14)	-	781[5]	569	(1,378)	(28)
Cost at December 31	**192**	**13,912**	**2,594**	**655**	**17,353**	**192**	**13,769**	**2,498**	**879**	**17,338**
Amortization and impairment losses at January 1	(30)	(7,743)	(974)	(118)	(8,865)	(17)	(7,155)	(587)	(21)	(7,780)
Amortization for the year	(13)	(698)	(367)	-	(1,078)	(13)	(575)	(381)	-	(969)
Impairment for the year	-	-	-	(178)[3]	(178)	-	(13)	(8)	(624)	(645)[3]
Disposals during the year	-	-	-	250	250	-	-	11	518	529
Transfer	-	-	-	-	-	-	-	(9)	9	-
Amortization and impairment losses at December 31	**(43)**	**(8,441)**	**(1,341)**	**(46)**	**(9,871)**	**(30)**	**(7,743)**	**(974)**	**(118)**	**(8,865)**
Carrying amount at December 31	**149**	**5,471**	**1,253**	**609[4]**	**7,482**	**162**	**6,026**	**1,524**	**761[4]**	**8,473**

(DKK million)	2022	2021
Amortization and impairment losses are specified as follows:		
Cost of sales	-	2
Sales and distribution costs	652	542
Research and development costs	63	563
Administrative costs	541	507
Total	**1,256**	**1,614**

1. Additions consist of capitalized milestone payment from approval of Adtralza® by the Japanese Ministry of Health, Labor and Welfare in December 2022.

2. Additions consist of DKK 41m (2021: DKK 38m) related to R&D development projects, and DKK 95m (2021: DKK 355m) related to the development of IT projects.

3. Impairment for the year consists of impairment of IT projects of DKK 161m and impairment of development projects of DKK 17m (2021: Impairment of Patidegib DKK 435m, termination of a development agreement with an external partner DKK 82m, and impairment of IT projects DKK 128m)

4. Total development projects and software in progress DKK 609m (2021: DKK 761m) consist of software in progress DKK 316m (2021: DKK 493m), and R&D development projects DKK 293m (2021: DKK 268m).

5. 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.

Note 11 Property, plant and equipment

(DKK million)	2022 Land and buildings	2022 Plant and machinery	2022 Other fixtures and fittings, tools and equipment	2022 Assets under construction[1]	2022 Total property, plant and equipment	2021 Land and buildings	2021 Plant and machinery	2021 Other fixtures and fittings, tools and equipment	2021 Assets under construction[1]	2021 Total property, plant and equipment
Cost at January 1	1,204	1,471	465	1,494	4,634	1,185	1,472	430	1,260	4,347
Exchange rate adjustment	-	-	(2)	1	(1)	1	0	1	-	2
Additions during the year	-	-	20	244	264	-	0	22	467	490
Disposals during the year	(1)	(12)	(13)	-	(26)	(4)	(206)	(23)	-	(232)
Transfers	14	81	19	(98)	16	22	204	34	(233)	28
Cost at December 31	**1,217**	**1,540**	**489**	**1,641**	**4,887**	**1,204**	**1,471**	**465**	**1,494**	**4,634**
Depreciation and impairment losses at January 1	(695)	(978)	(335)	-	(2,008)	(668)	(990)	(317)	-	(1,975)
Exchange rate adjustment	-	(1)	1	-	-	(0)	-	(1)	-	(2)
Disposals during the year	1	12	11	-	24	4	206	22	-	232
Depreciation for the year	(28)	(113)	(40)	-	(181)	(26)	(101)	(39)	-	(165)
Impairment loss for the year	(2)	(12)	(4)	-	(18)	(5)	(93)[3]	(0)	-	(98)
Depreciation and impairment at December 31	**(724)**	**(1,092)**	**(367)**	**-**	**(2,183)**	**(695)**	**(978)**	**(335)**	**-**	**(2,008)**
Carrying amount at December 31	**493**	**448**	**122**	**1,641**	**2,704**[2]	**509**	**493**	**130**	**1,494**	**2,626**[2]

1. Fixed assets under construction are mainly related to the construction of a new plant with a carrying amount of DKK 1,619m (2021: DKK 1,399m). The new plant is expected to start production in 2024.

2. Assets pledged as collateral for loans amount to DKK 2,522m (2021: DKK 2,358m)

3. Impairment in 2021 of a production line related to two onerous contracts.

(DKK million)	2022	2021
Depreciation and impairment losses are specified as follows:		
Cost of sales	135	205
Sales and distribution costs	2	2
Research and development costs	20	18
Administrative costs	42	38
Total	**199**	**263**

Note 12 Investment in subsidiaries

(DKK million)	2022	2021
Cost at January 1	1,595	1,583
Additions during the year	1	12
Disposals during the year	(232)	-
Other movements	7	-
Cost at December 31	**1,371**	**1,595**
Value adjustment at January 1	7,881	6,106
Exchange rate adjustment	137	11
Share of profit/(loss) for the year	1,189	1,733
Dividend	(32)	(149)
Disposals during the year	173	-
Other movements	311	180
Value adjustment at December 31	**9,659**	**7,881**
Carrying amount at December 31	**11,030**	**9,476**

Reference is made to Note 29 in the consolidated financial statements.

Note 13 Deferred tax

(DKK million)	2022	2021
Deferred tax assets/(liabilities) at January 1	785	785
Adjustment relating to previous years	(76)	(17)
Deferred tax on equity	(19)	(7)
Deferred tax on profit for the year	95	24
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)	2022	2021
Receivable VAT & duties	133	168
Deposits	2	3
Financial derivatives	160	29
Other	37	59
Total	**332**	**259**

Note 15 Inventories

(DKK million)	2022	2021
Raw materials and consumables	653	131
Work in progress	1,358	1,282
Finished goods and goods for resale	941	913
Total	**2,952**	**2,326**

Note 16 Prepaid expenses

(DKK million)	2022	2021
Prepaid clinical trials	180	258
Prepaid IT expenses	58	56
Other prepaid expenses	7	18
Total	**245**	**332**

Note 17 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 separated 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)	2022	2021
Present value of defined benefit plans:		
Present value of defined benefit plans at January 1	123	142
Exchange rate adjustments	(2)	-
Interest expenses	1	1
Actuarial (gains)/losses from changes in financial assumptions	(34)	(6)
Actuarial (gains)/losses from experience adjustments	2	1
Payments from the plan	(4)	(15)
Present value of defined benefit plans at December 31	**86**	**123**
Fair value of plan assets		
Present value of plan assets at January 1	116	120
Effect of exchange rate adjustment	(1)	-
Actuarial gains/(losses) from return on plan assets	(5)	(1)
Interest income	1	1
Benefits paid to employees	(4)	(4)
Fair value of plan assets at December 31	**107**	**116**
Net retirement benefit obligations/(assets) at December 31	**(21)**	**7**
Recognized as:		
Financial assets	21	-
Non-current liabilities	-	7
Net retirement benefit obligations/(assets) at December 31	**(21)**	**7**
Specification of amount recognized in the Equity		
Actuarial (gains)/losses	(27)	(4)
Total	**(27)**	**(4)**

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 3.0% or DKK 3m (2021: 4.0% or DKK 5m).

Note 18 Provisions

(DKK million)	Staff-related provisions	Other provisions	Sales deductions	Total
2022				
Provisions at January 1	130	135	8	273
Exchange rate adjustment	1	-	-	1
Additions during the year	221[1]	167[3]	2	390
Utilization during the year	(124)[2]	(70)	(5)	(199)
Reversals during the year	(28)[1]	(48)	(3)	(79)
Provisions at December 31	**200**	**184**	**2**	**386**
Of which classified as:				
Non-current liabilities	62	39	-	101
Current liabilities	138	145	2	285
Provisions at December 31	**200**	**184**	**2**	**386**

1. Addition and reversals consist of net DKK 164m related to restructuring due to organzational changes of R&D and commercial and global support functions. Addition of DKK 28m is related to long-term incentive programs.

2. The restructuring provision utilized amounts to DKK 109m. The remaining part is expected to be utilized during 2023 and 2024.

3. Addition of DKK 69m is related to one onerous contract, recognized as a part of cost of goods sold.

(DKK million)	Staff-related provisions	Other provisions	Sales deductions	Total
2021				
Provisions at January 1	229	43	11	283
Exchange rate adjustment	0	0	-	0
Additions during the year	88	122[4]	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**

4. Addition of DKK 111m is related to two onerous contracts, of which DKK 41m is recognized as part of Other operating expenses (reference is made to note 6), and the remaining part of DKK 70m is recognized as part of Cost of goods sold.

Note 19 Loans and credit institutions

(DKK million)	2022	2021
Mortgage loans	2,234	1,183
Bank loans	6,505	3,765
Debt to related parties	5,394	5,161
Total	**14,133**	**10,109**
Falling due in:		
Less than one year	369	1,181
Between one and five years	7,487	295
After five years	6,277	8,633
Total	**14,133**	**10,109**

Cash resources and financing facilities

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

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

Note 20 Other payables

(DKK million)	2022	2021
Employee related accruals	404	457
Accrued milestone payments	143[1)]	712[2)]
Accrued clinical trials expenses	272	178
Sales deductions accruals	128	71
Financial derivatives	50	30
Other	253	262
Total	**1,250**	**1,710**

1. Accrued milestone payment from approval of Adtralza® by the Japanese Ministry of Health, Labor and Welfare in December 2022.

2. 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 35m (2021: DKK 48m) of which DKK 23m is related to lease for office premise from subsidiary (2021: DKK 22m).

Note 22 Guarantees, contingencies and commitments

Guarantees
The total guarantee commitment for the Parent company amounts to DKK 476m (2021: DKK 438m) at December 31, 2022.

As of December 31, 2022, LEO Pharma has issued guarantees to subsidiaries of DKK 357m (2021: DKK 363m), of which DKK 252m (2021: DKK 265m) is related to pension obligations. In addition to the guarantees for subsidiaries, the Parent company has issued guarantees related to various commercial activities.

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

(DKK million)	2022	2021
Intangible assets	333	2,119
Property, plant and equipment	60	162
Total	**393**	**2,281**

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

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

Pending lawsuits
At the end of 2022, 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 21 in the consolidated financial statements.

For related party transactions, please refer to note 27 in the consolidated financial statements.

For disclosures on assets measured at fair value, please refer to note 23 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 Management 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, 2022.

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's financial statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the Parent company's financial statements give a true and fair view of the financial position of the Group and the Parent company at December 31, 2022, and of the results of the Group's and the Parent company's operations and the consolidated cash flows for 2022.

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 7, 2023

Executive Management:

Christophe Bourdon
CEO

Philip Eickhoff
CFO

Board of Directors:

Jesper Brandgaard
Chair

Jesper Mailind
Vice Chair

Jonas Agnblad

Karin Attermann

Signe Maria Christensen

Lars Green

Peter Haahr

Jannie Kogsbøll

Franck Maréno

Paul Navarre

Elisabeth Svanberg

Jan van de Winkel

Independent Auditor's Report

To the shareholders of LEO Pharma A/S

Opinion
We have audited the consolidated financial statements and the Parent company's financial statements of LEO Pharma A/S for the financial year January 1, 2022 - December 31, 2022, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as the Parent company. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent company's financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at December 31, 2022, and of the results of its operations and cash flows for the financial year January 1, 2022 - December 31, 2022, in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Furthermore, in our opinion, the Parent company's financial statements give a true and fair view of the Parent's financial position at December 31, 2022, and of the results of its operations for the financial year January 1, 2022 - December 31, 2022 in accordance with the Danish Financial Statements Act.

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

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's 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's 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's financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's Responsibilities for the consolidated financial statements and the Parent company's financial statements
Management is responsible for the preparation of the 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 the Parent company's 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 the consolidated financial statements and the Parent company's financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the Parent company's 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's 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's financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the Parent company's 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 these Parent company's financial statements.

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

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

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

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the Parent company's financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the Parent company's 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's financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the Parent company's financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

Copenhagen, March 7, 2023

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