Annual Report 2020

Dermatology beyond the skin

LEO

Annual Report 2020

OUR BUSINESS MODEL

A leading independent medical dermatology player

We are committed to becoming a global leader in medical dermatology. Our purpose is to advance the standard of care for people with skin diseases and enable them to live better lives. We develop and deliver medical treatments to address unmet medical needs, and help treat people suffering from thrombosis.

Revenue

DKK **10,133** million

EUR **1,359** million

21%
of revenue reinvested in R&D

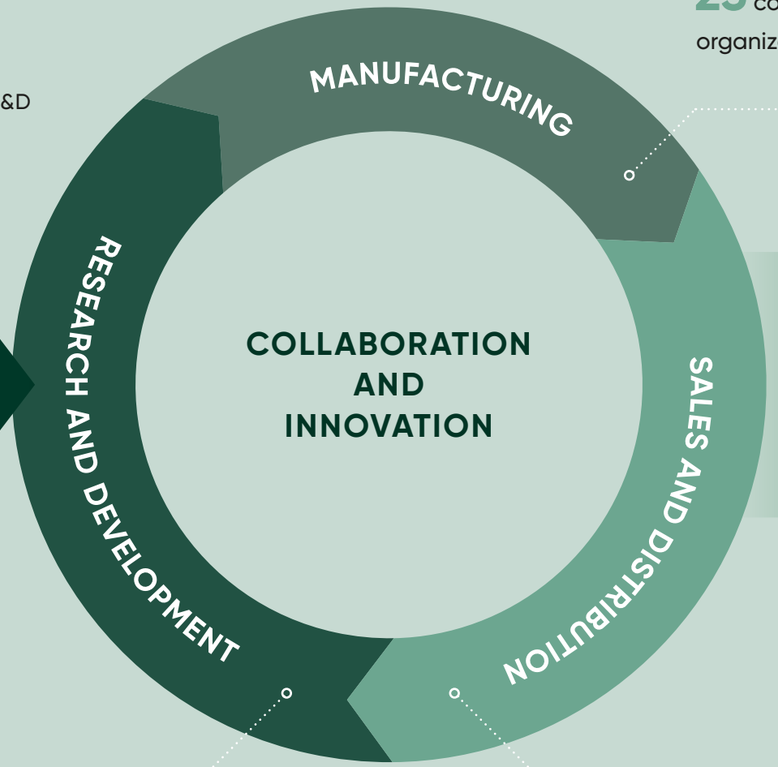
6 manufacturing sites and **23** contract manufacturing organizations globally

Novel treatments across modalities

Topicals Orals Injectables

THE RESOURCES WE DEPEND ON

- Innovation, technology and science →
- Facilities and infrastructure →
- Raw materials, water and energy →
- ~ 6,000 talented and dedicated employees →



THE VALUE WE BRING TO SOCIETY

- + Improved quality of life for patients
- + Job creation and competence building
- + Scientific progress, innovation and partnerships

We partner with **50+** academic institutions, **10+** research alliances and **16** strategic alliances

6 projects in our clinical pipeline

93 million
We help 93 million patients globally

+130
countries where LEO Pharma treatments are available

LETTER FROM THE CHAIR

Bold ambitions for the future

DERMATOLOGY is changing. Recent scientific advances such as in immunology, biologics or gene therapies are increasingly helping to create new options for patients who, in the past, had little or no remedies for their condition. Skin conditions can be very severe and chronic, so this development is a boon for the people who suffer from them. It also makes dermatology one of the fastest growing therapeutic areas, with a strong market outlook. LEO Pharma is well-positioned to play a significant role in helping people living with skin diseases and we made very good progress during the past year.

LEO Pharma launched its 2030 strategy, which defines the path to becoming a global leader in medical dermatology, building on its unique heritage and developing a strong pipeline. Our ambition for 2030 is to diversify into new indications with a range of treatments covering the full spectrum of patients within core and rare dermatology. We aim to launch an innovative new treatment that is either first-in-class or best-in-class, every second or third year, through partnerships and by accelerating our own R&D activities.

To deliver on our ambitions, we are stepping up our focus on operational excellence, efficiency and governance. In 2020, we set up a new organization, strengthened our governance structures and introduced policies with clear accountability. Recent changes in the executive leadership team further support the new direction. LEO Pharma can build on a highly engaged and talented workforce that is dedicated to driving progress for patients. During the pandemic, our workforce reacted quickly to meet previously unknown challenges and keep up supply, clinical development and strategic projects.

2020 was affected by new challenges, as we were all confronted by the global COVID-19 pandemic. Thanks to the competent and persistent efforts of LEO Pharma's committed employees, the company has proven to be resilient in the face of these disruptions.

We are very pleased with the progress made at LEO Pharma during a very unusual year. Despite the pandemic, all strategic projects continued as planned and even though sales declined, our key products gained market share and cost containment meant we delivered on our bottom line. This performance demonstrates that LEO Pharma is on the right track in its ambitious journey to be recognized as a global leader in medical dermatology.

Olivier Bohuon
Chair, Board of Directors

COMMUNICATION ON PROGRESS
UN GLOBAL COMPACT
This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.
We welcome feedback on its contents.

LETTER FROM THE CEO

Significant progress

At LEO Pharma, we work tirelessly to advance the standard of care in medical dermatology and help people with skin diseases live better lives. Thanks to the dedication of everyone at LEO Pharma, we have demonstrated resilience in the face of the coronavirus pandemic during 2020. We kept our promise to patients by maintaining business continuity, delivered on our strategic projects to develop new medicines, and made significant progress on shaping LEO Pharma for future success.

Despite the pandemic, our strategic psoriasis products Enstilar® and Kyntheum® continued to grow and gain market share, as did the prescription portfolio recently acquired from Bayer. Overall sales declined 6% to DKK 10.1 billion and we continued to invest heavily in our R&D pipeline, although effective cost control helped us to meet our profitability targets. EBITDA increased to DKK 521 million and we recorded an EBIT loss of DKK 726 million.

We made significant progress in the development of our R&D pipeline. Published pivotal phase 3 results for tralokinumab in atopic dermatitis enable us to prepare for its global launch. We announced positive results of a phase 2b dose-finding study with delgocitinib cream in adult patients with mild-to-severe chronic hand eczema. We also continued our partnership development with PellePharm in rare diseases and initiated a new partnership with Oneness Biotech and Microbio Shanghai for atopic dermatitis and asthma.

LEO Pharma's 2030 strategy positions us for long-term growth driven by innovation. We introduced this strategy in 2020 and successfully aligned our organization with its ambitions. To thrive in a global environment with dynamic competition, we are building an agile and efficient organization with a strong performance mindset.

As a global company that relies on bringing together the most talented people, we know that teams from diverse backgrounds are the most innovative and successful. Therefore, we emphasize the creation of an inclusive culture. In 2020, we welcomed new members to our executive management, to form a Global Leadership Team that is highly diverse in culture and in professional experience.

Our goal is to advance the standard of care in medical dermatology and improve people's quality of life. And we want to do so responsibly, with integrity, and with respect for the society and environment around us. This commitment is reflected in our Sustainability Policy. We support the achievement of the UN Sustainable Development Goals and, as a signatory to the UN Global Compact, LEO Pharma is committed to upholding its 10 principles, covering the areas of human rights, labor, the environment and anti-corruption.

We accomplished a lot in 2020, delivering a strong start to our journey towards 2030, setting the course for long-term profitable growth and creating new options for patients. Thanks to the hard work, passion and commitment of our 6,000 employees, we are well on our way.

Catherine Mazzacco
President & CEO

THE LEO100 SUMMIT was among several global events conducted digitally to respect COVID-19 restrictions and ensure business continuity.

2020 highlights

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

Revenue DKK

10,133

million

Met EBIT target for 2020

In 2020, our operating loss (EBIT) ended at DKK (726) million, which is a significant achievement compared to the anticipated operating loss of DKK 1.8–2.0 billion.

Excluding the net gain from the portfolio divested to Cheplapharma, our EBIT was still above target, supported by the mitigation measures to contain the financial impact of the COVID-19 pandemic.

Secured business continuity

In response to the COVID-19 pandemic, we successfully implemented a plan to keep our employees safe, while keeping LEO Pharma's production running, to secure continuity of supply. Production and distribution of our products continued with minimal disruption. A rapid transition to online engagements with HCPs, as well as an acceleration of existing tools for virtual patient and physician consultations, enabled clinical trials to continue uninterrupted.

Established business remains the backbone, with continued growth and improved profitability

While overall sales in the psoriasis treatment area declined by 7% due to generic competition and disruptions caused by COVID-19, our established portfolio continued to provide us with a strong foundation for growth. Enstilar® continued to gain market share in 2020 and, together with Kyntheum®, drove the growth of our psoriasis business. Growth of 3% in our eczema and skin infection treatment areas is largely due to the acquisition of the Bayer portfolio, finalized in 2019, which helped to offset some of the impact of COVID-19.

Setting LEO Pharma up for long-term success

In 2020, LEO Pharma introduced its 2030 strategy with the clear purpose of advancing the standard of care in medical dermatology. The strategy is built on three strategic pillars of which the aim is to: A) Capture the full value of the established portfolio, B) Maximize the commercial value of in-market and close-to-market innovative assets, and C) Focus R&D on high-potential, early-stage assets.

In 2020, we also set a new direction for LEO Pharma's sustainability efforts, with the launch of our 2030 sustainability strategy. We are committed to running and growing our business in a sustainable manner. The sustainability strategy is focused on two main pillars: Enabling Health and Responsible Business - and sets the foundation for leveraging LEO Pharma's core business, to contribute to the agenda of improving access to healthcare. We are also committed to limiting the impacts of our business on climate change and we set a science-based climate target, in alignment with the Paris Agreement.

Significant advancement across the pipeline

The LEO Pharma 2030 strategy has a strong focus on accelerating our R&D efforts to expand and diversify our portfolio for a range of dermatological indications, including rare diseases. We made significant investments for the development of innovative new treatments within atopic dermatitis, eczema, psoriasis and Gorlin Syndrome. Tralokinumab progressed as planned, with the publication of pivotal phase 3 data and submission for regulatory approval in the US and Europe. We announced positive results of a phase 2b dose-finding study with delgocitinib cream in adult patients with mild-to-severe chronic hand eczema. A new partnership with Oneness Biotech was initiated for a phase 2 compound for atopic dermatitis. Under our partnership with PellePharm, patidegib, a phase 3 asset in rare diseases is being developed. LEO Pharma has an option to acquire PellePharm.

New leadership to guide our journey to 2030

With our new Global Leadership Team we have the organizational structure in place to achieve our strategic ambition to become a global leader in medical dermatology. We created a Global Legal & Compliance function reporting to the CEO, underlining our sustained commitment to business integrity and compliance. We welcomed five new members to the executive leadership team, establishing a strong team with a breadth of experience, diverse cultural backgrounds, mindset, and critical thinking to foster a culture of inclusion and build a team united in global ways of working. We also initiated a process of organizational realignment, to remain agile, competitive and ready for our journey to 2030.

OUR FINANCIAL AND NON-FINANCIAL PERFORMANCE

Key figures 2016–2020

(DKK million)	2020 EUR m**	2020	2019	2018	2017	2016
Income statement						
Revenue	1,359	10,133	10,805	10,410	10,481	9,863
Established portfolio	1,297	9,666	10,472	10,268	10,467	-
Innovative portfolio	63	467	333	142	14	-
Operating profit/(loss) before depreciation and amortization (EBITDA)	70	521	(130)	2,366	2,005	1,343
Operating profit/(loss) (EBIT)	(97)	(726)	(1,313)	1,605	852	338
Net financials	(47)	(352)	(363)	(178)	934	789
Profit/(loss) before tax	(145)	(1,080)	(1,705)	1,416	1,783	1,124
Net profit/(loss) for the year	**(128)**	**(951)**	**(1,287)**	**1,258**	**1,381**	**744**
Financial position						
Investments in intangible assets	113	839	4,878	1,516	479	6.115
Investments in property, plant and equipment	156	1,164	1,328	478	385	302
Non-current assets	2,049	15,243	15,339	9,321	8,222	19,490
Current assets	1,157	8,610	9,421	6,963	6,371	17,494
Total assets	3,206	23,853	24,760	16,284	14,593	36,984
Equity	934	6,947	8,088	9,528	8,277	25,175
Cash flow						
Cash flow from operating activities	(99)	(737)	(232)	(101)	720	2,661
Free cash flow	42	314	(6,797)	128	5,555	(3,080)
Operating working capital	507	3,775	4,122	4,103	3,677	3,503
Net working capital	361	2,689	4,098	2,528	2,318	1,231
Invested capital*	1,588	11,816	10,866	8,168	6,454	27,429
Net interest-bearing debt	1,363	10,144	9,682	2,163	2,169	6,781
Key ratios						
Gross margin		67%	69%	71%	72%	72%
Revenue growth		(6%)	4%	(1%)	6%	17%
Operating profit margin		(7%)	(12%)	15%	8%	3%
EBITDA margin		5%	(1%)	23%	19%	14%
R&D costs (% of revenue)		21%	23%	18%	15%	13%
Cash conversion		(31%)	528%	10%	402%	(414%)
Invested capital*/Revenue		117%	101%	78%	62%	278%
Effective tax rate		12%	25%	11%	23%	34%
Operational metrics						
Average number of employees		5,955	5,820	5,528	5,251	5,170
Number of patients		93,262	92,192	76,084	80,056	73,052

** Excluding intellectual property rights. ** Applied exchange rate for Euro at December 31, 2020: 7.4548 (Average) and 7.4409 (End).*

ESG key figures 2019–2020

Metric	2020	2019
Environment		
*Total CO_2e (scope 1 and 2, tonnes)	30,657	38,771
*CO_2e scope 1 (tonnes)	24,471	24,047
*CO_2e scope 2 (tonnes, market based)	6,186	14,742
*CO_2e scope 2 (tonnes, location based)	9,870	10,405
Energy consumption (GWh)	144	119
*Share of renewable electricity (%)	54	11
*Water usage (m^3)	374,600	348,781
*Waste (total) (tonnes)	87,938	68,209
Social		
Gender diversity in management		
Executive management		
Women (%)	50	25
Men (%)	50	75
Senior management		
Women (%)	33	31
Men (%)	67	69
Middle management		
Women (%)	47	50
Men (%)	53	50
All managers		
Women (%)	44	45
Men (%)	56	55
*Employee turnover rate (%)	13.7	16.5
Sustainable engagement score (%)	78	78
Lost Time Injury (LTI) rate	1.9	1.3
Number of lost days (no.)	448	97
*Number of social and/or EHS supplier audits performed (no.)	0	3
*% of key suppliers with a high risk rating (%)	17	Data not available
Governance		
Gender diversity at board level		
Women (%)	29	25
Men (%)	71	75
*New employees completing Code of Conduct e-Learning campaign (%)	76.2	Data not available
*New employees completing anti-corruption e-Learning campaign (%)	61.4	Data not available

** Indicates that metric and related data is introduced for the first time in the 2020 report. ** For explanations, see ESG data and progress overviews on pages 38–43, as well as our statutory report on gender diversity at board level on page 57.*

01.

Our business

LEO Pharma has the ambition to be a global leader in medical dermatology. This section covers the steps we are taking to achieve our ambition. It gives an overview of our corporate 2030 strategy and direction for enabling health, our pipeline, therapeutic areas, and how we want to grow our business responsibly.

OUR 2030 STRATEGY

Focused strategy to advance the standard of care in medical dermatology

LEO Pharma's 2030 strategy outlines an ambition to expand our range of treatments covering the full severity spectrum of patients within core medical and rare dermatology. The strategy supports our purpose to advance the standard of care in medical dermatology and will guide our growth journey to 2030.

Our strategic pillars

A

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

B

Maximize the commercial value of in-market and close-to-market **innovative assets**

C

Focus R&D on **high-potential, early-stage assets**

ADVANCING THE STANDARD OF CARE

Towards 2030, we will:

- Deliver double-digit growth
- Launch an innovative product every 2–3 years
- Pioneer first-in-class and best-in-class therapies
- Build a leading portfolio
- Rank as a top-five company within medical dermatology

Great potential within medical dermatology, driven by unmet medical needs

10%

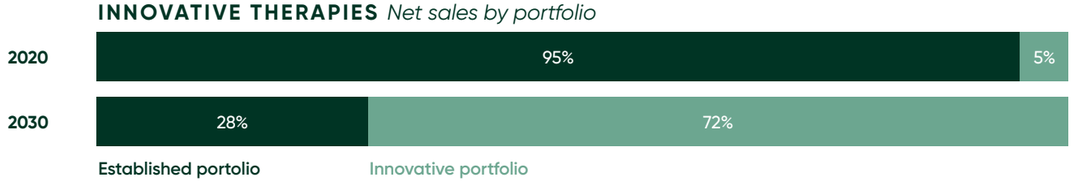
p.a. market growth (2025–2030)

We use the latest scientific advances to create **first- or best-in-class** treatments and aspire to improve the experience of patients and healthcare providers.

Pivoting to innovation

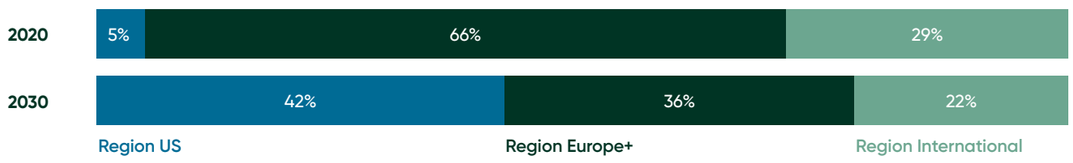
As a market leader within topical treatments for psoriasis and atopic dermatitis, we are building on our deep understanding of the science of dermatology to execute on our 2030 strategy and drive growth at or above the market rate. Over the last 3–4 years, LEO Pharma has focused on maximizing the potential of our established portfolio, while making significant investments in R&D.

INNOVATIVE THERAPIES *Net sales by portfolio*



Towards 2030, we will scale up our presence in high-growth treatment areas and achieve a more balanced geographic footprint, with the US accounting for the biggest contribution.

GLOBAL FOOTPRINT *Net sales by region*



OUR 2030 SUSTAINABILITY STRATEGY

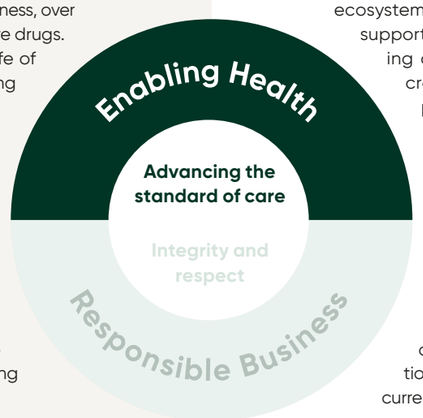
Enabling better health outcomes

LEO Pharma is committed to helping people with skin diseases lead better lives. As part of our sustainability strategy, we focus on improving the quality of life of people living with dermatological conditions.

OUR 2030 SUSTAINABILITY STRATEGY IS FOCUSED ON TWO MAIN PILLARS:
Enabling Health and Responsible Business.

Enabling Health contributes to long-term value creation for patients, society and our business, over and beyond the development of effective drugs. The goal is to improve the quality of life of people living with skin disease by building access to innovative new products and strengthening adherence to treatments.

Responsible Business sustains our license to operate, ensuring that environmental and societal concerns are included in key business decisions. It demonstrates our commitment to grow our business by creating a working environment where our employees can grow and thrive, by maintaining the highest ethical standards, and minimizing our impact on the environment.



ENABLING HEALTH supports our corporate strategy and helps us achieve our ambition to become a global leader in medical dermatology. It sustains our license to operate and provides a framework for strengthening relations with the healthcare ecosystem. Our approach to enabling health supports enterprise thinking by strengthening our overall purpose and facilitating cross-company exchanges of good practice, to enhance value from ongoing and new activities.

Globally, millions of people are living with dermatological conditions that impact their quality of life. Healthcare systems are struggling with a growing burden of chronic diseases and related comorbidities, such as cardiovascular disease or depression. Leadership and collaboration are needed to help find solutions to current and future global health challenges.

With the cross-functional Enabling Health strategy, LEO Pharma is responding to the call to action to rethink healthcare and help more people living with skin conditions to lead better lives, with an impact on both healthcare systems and society.

In 2021, LEO Pharma will expand the Enabling Health framework with objectives and activities to allow continuous monitoring and disclosure of progress in relation to KPIs.

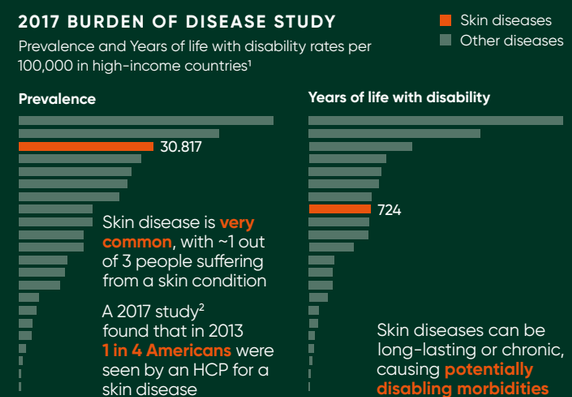
We are determined to deliver positive health outcomes and improved quality of life for more people living with skin diseases, in support of the UN Sustainable Development Goals.

3 – Good Health and Well-Being

ADVANCING THE STANDARD OF CARE

Skin diseases are common and can be long-lasting or chronic, causing potentially disabling morbidities that impact quality of life.

2017 BURDEN OF DISEASE STUDY
Prevalence and Years of life with disability rates per 100,000 in high-income countries[1]



1. Global Burden of Disease Study 2017 (GBD 2017) Results. Seattle, United States: Institute for Health Metrics and Evaluation (IHME), 2018. Available from http://ghdx.healthdata.org/gbd-results-tool. Skin Conditions as categorized by BOD study [dermato-oncology is neoplasms] **2.** doi:10.1016/j.jaad.2016.12.043

Our clinical pipeline

Finalized phase Current phase

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

* Project compounds in our pipeline are investigational only and have not been approved by any regulatory authority.

Tralokinumab

Tralokinumab is a fully human anti-IL-13 monoclonal antibody under regulatory review for the treatment of atopic dermatitis (AD). In the past 3 years, LEO Pharma has been running an extensive phase 3 clinical program to evaluate the efficacy and safety of tralokinumab in patients with moderate-to-severe AD.

Delgocitinib

Delgocitinib is a pan-JAK inhibitor in development for the treatment of chronic hand eczema (CHE) and AD. Delgocitinib has been granted Fast Track designation by the FDA for CHE. In addition to CHE and AD, delgocitinib will be explored in additional inflammatory diseases.

Anti IgE+B-cell

Anti-IgE is a first-in-class IgG1 humanized monoclonal antibody for the treatment of atopic dermatitis and allergic asthma with the potential to provide good efficacy for patients with AD with less frequent dosing than the current standard of care.

Anti IL-22R

Anti-IL-22R is a first-in-class monoclonal antibody which aims to be the next generation mAb for the treatment of moderate-to-severe atopic dermatitis and other anti-inflammatory indications through its unique mode of action and personalized approach (precision medicine).

H4R antagonist

H4R antagonist is a first-in-class oral therapy in development for atopic dermatitis with the potential to provide a well-tolerated systemic treatment for atopic dermatitis. The H4R antagonist provides additional potential across multiple immunologic conditions.

IL-17A PPI

IL-17A PPI is a first-in-class oral therapy which aims to be the new standard of care in psoriasis, providing similarly good efficacy and safety to modern biologic treatments in a tablet based regimen.

Our therapeutic areas

Building on our deep understanding of science, LEO Pharma has devoted decades of research to developing and delivering treatments that address unmet medical needs.

PSORIASIS

Psoriasis is a chronic systemic inflammatory disease typically affecting 2–3% of the population[1,2], with the majority remaining undiagnosed or underserved[3]. There are still many psoriasis patients with unaddressed needs who may also suffer from comorbidities. The psychosocial impact on their quality of life is high, with high rates of depression and anxiety, and with an impact on work, interpersonal relations and intimacy. A National Psoriasis Council survey reported that 88% of psoriasis patients were affected on emotional well-being and 82% reported that psoriasis adversely affected their enjoyment of life.[4]

KYNTHEUM®

A monoclonal antibody in a subcutaneous injection for the treatment of moderate-to-severe plaque psoriasis in adult patients who are candidates for systemic therapy.

ENSTILAR®

Cutaneous foam for the topical treatment of psoriasis vulgaris in adults. In the US, Enstilar® is also available for adolescents from 12 years of age and older.

DAIVOBET®

Gel for topical treatment of scalp psoriasis in adults and of mild-to-moderate non-scalp psoriasis vulgaris. Daivobet® is also available as an ointment for topical treatment of psoriasis vulgaris.

DAIVONEX®

Ointment, cream and solution for topical treatment of psoriasis vulgaris.

ACTINIC KERATOSIS

Actinic keratosis (AK) manifests as scaly patches that appear on sun-damaged areas of the skin. AK is considered to be an early form of squamous cell carcinoma, which is a variant of non-melanoma skin cancer. Patients with AK have an increased risk of developing skin cancers and should be treated for their AK, including the surrounding skin, and monitored over time.

PICATO®

Gel for cutaneous treatment of actinic keratosis in adults.

See Financial review and outlook on page 33 for further information.

ECZEMA

Eczema is the name of a group of conditions that cause the skin to become red, itchy and inflamed. There are several types of eczema: atopic dermatitis, contact dermatitis, dyshidrotic eczema, nummular eczema, seborrheic dermatitis and stasis dermatitis.

The chronic skin disease of atopic dermatitis, also known as atopic eczema, affects both children and adults and takes a heavy toll on patients, due to the intense itching it can produce. As a high-burden disease with few treatment options, there is an elevated risk of psychological comorbidities such as anxiety and depression.

PROTOPIC®

Non-steroidal topical (ointment) calcineurin inhibitor that is indicated for moderate-to-severe atopic dermatitis for adults (0.1%) and patients of two years of age and older (0.03%).

FUCIDIN®H

Cream indicated for short-term treatment of eczema and dermatitis infected with bacteria susceptible to fucidic acid.

FUCICORT®

Cream and lipid cream – both indicated for short-term treatment of eczematous dermatoses infected with bacteria susceptible to fucidic acid, including atopic dermatitis.

ADVANTAN®

Potent topical steroid indicated for the treatment of atopic dermatitis and other forms of eczema, e.g. contact dermatitis, for adults, children and infants from 4 months*. Available in five formulations – cream, ointment, fatty ointment, cutaneous emulsion and cutaneous solution.
*4-month indication varies across the globe.

LOCOID®

Mid-potent topical steroid indicated for the treatment of inflammatory skin disorders not caused by microorganisms (AD and psoriasis) and the maintenance treatment of conditions responsive to topical corticosteroids, (eczema, dermatitis and psoriasis) for adults, children and infants. Available in five formulations – ointment, cream, lipocream, crelo and scalp lotion.

See Financial review and outlook on page 35 for further information.

1. National Psoriasis Council https://www.psoriasis.org/content/statistics. **2.** Parisi R, Symmons DPM, Griffiths CEM, Ashcroft DM. Global Epidemiology of Psoriasis: A Systematic Review. J Invest Dermatol 2013; 133 (2): 377–85. **3.** Strober BE, van der Walt JM, Armstrong AW, Bourcier M, Carvalho AVE, Chouela E, Cohen AD, de la Cruz C, Ellis CN, Finlay AY, Gottlieb AB, Gudjonsson JE, Iversen L, Kleyn CE, Leonardi CL, Lynde CW, Ryan C, Theng CT, Valenzuela F, Vender R, Wu JJ, Young HS, Kimball AB. Clinical Goals and Barriers to Effective Psoriasis Care. Dermatol Ther 2019; 9(1) 5–18. **4.** Kolli SS, Amin SD, Pona A, Cline A, Feldman SR. Psychosocial Impact of Psoriasis: A Review for Dermatology Residents. Cutis 2018; 102 (5S): 21–25.

ROSACEA

Rosacea is a chronic inflammatory skin disease that can cause flushing and redness, typically on the face, as well as bumps and spider veins. Over time, flare-ups can progress and the skin may take on a roughened, orange peel texture. Due to its highly visible nature, rosacea imposes a particularly heavy burden on patients.

FINACEA®

Foam and gel for the topical treatment of the inflammatory papules (raised spots) and pustules (pimple-like bumps) of mild-to-moderate rosacea.

SKIN INFECTIONS

Bacterial skin infections

Bacterial skin infections usually occur at places where the skin barrier has been compromised, giving the pathogen a chance to penetrate deeper layers of the skin. Many bacteria types, ranging from gram-positive to gram-negative, can lead to bacterial skin infections, with *Staphylococcus aureus* as the major cause. In atopic dermatitis, *Staphylococcus aureus* is more prevalent on the skin surface, and is commonly involved in skin infections in these patients.

FUCIDIN®

Cream and ointment for cutaneous treatment of skin infections caused by sensitive strains of *Staphylococcus aureus*, *Streptococcus spp* and *Corynebacterium minutissimum*. Fucidin® is also available as a suspension and as tablets.

Fungal skin infections

Fungal skin infections, or dermatomycoses, are associated with a broad range of pathogens. The most common pathogens relevant to superficial fungal infections are estimated to affect more than 20–25%[5] of the world's population. Inflammation plays an important role in dermatomycoses, displaying a close association between frequent inflammation and reduced, skin-related quality of life.

TRAVOCORT®

Cream indicated for initial or interim treatment of inflamed superficial fungal skin infections.

TRAVOGEN®

Cream, spray and solution indicated for superficial fungal skin infections.

ACNE

Acne is a skin condition affecting the sebaceous glands and hair follicles, characterized by the presence of noninflammatory lesions (comedones), inflammatory lesions (papules and pustules), and, in severe cases, nodules and cysts. It is a disease that imposes a particularly high burden on patients, since it manifests on the visible, sensitive skin on the face, upper back, chest and shoulders.

SKINOREN®

Gel and cream for topical treatment of acne vulgaris.

ZINERYT®

Powder and solvent for cutaneous solution for topical treatment of acne vulgaris in children and adults and the elderly.

See Financial review and outlook on page 35 for further information.

RARE SKIN DISEASES

In November 2018, LEO Pharma entered a rare disease partnership with PellePharm, in line with our strategic intent. PellePharm initiated and fully enrolled the phase 3 trial of the first potential therapy that targets Gorlin Syndrome, a severe rare skin disease for which there are currently no approved therapies.

THROMBOSIS

Deep vein thrombosis is a blood clot that forms within a deep vein, usually in the leg. If untreated, part of the clot can break off and travel to the lungs, blocking the blood flow. This is called a pulmonary embolism and can be fatal if not detected and treated early. The term venous thromboembolism is a collective term for deep vein thrombosis and pulmonary embolism. A blood clot associated with cancer disease or cancer treatment is called cancer-associated thrombosis. 9.2%[6] of cancer patients are at risk of dying from cancer-associated thrombosis. Other circumstances with an increased risk of venous thromboembolism include pregnancy, surgery and immobilization.

INNOHEP®

Subcutaneous treatment of venous thromboembolism and deep vein thrombosis (DVT) in adults and for the prevention of recurrences in adults with active cancer. Other LEO Pharma products indicated for the treatment of thrombosis are Heparin LEO and Protamine Sulphate (indicated for heparin overdose).

5. Havlickova B, Czaika VA, Friedrich M. Epidemiological trends in skin mycoses worldwide. Mycoses. 2008;51:2–15. **6.** Khorana AA, Francis CW, Culakova E, Kuderer NM, Lyman GH. Thromboembolism is a leading cause of death in cancer patients receiving outpatient chemotherapy. J Thromb Haemost 2007;5: 632–4.

RESPONSIBLE BUSINESS

Growing our business responsibly

Responsible business practices are the foundation for our sustainability approach. We aim to operate and grow our business responsibly, while helping to protect the planet and contributing to building a sustainable future.

RESPONSIBLE BUSINESS focuses on how we operate in an ethical and responsible way to ensure integrity and respect for employees, business partners and the environment. Our approach to Responsible Business is cross-functional and aims to prioritize the sustainability issues that matter most to our business and the pharmaceutical sector. Embedding these principles into how we do business, and taking action to address material issues and manage sustainability related risks, supports and enables LEO Pharma's growth journey.

Keeping our Responsible Business practices aligned with the evolving needs of the business and emerging societal challenges is critical to ensuring that our strategy remains relevant and continues to support integrity and respect across everything we do at LEO Pharma. To ensure that our approach stays relevant and up to date, we continuously review emerging sustainability trends and evaluate their relevance to our business operations. To support achieving this commitment we are a signatory to the UN Global Compact and adhere to the 10 principles on human rights, labor, environment and anti-corruption.

To deliver on our Responsible Business commitment, we focus on three impact areas:

- Employees – creating a safe, inclusive and diverse workplace
- Planet – minimizing our environmental impacts
- Ethics – operating with integrity

2020 highlights:

- To strengthen our strategic approach, we have reviewed our priority issues within each of the three impact areas, to ensure continued alignment with the business. This also includes defining goals and roadmaps. This work will be completed in early 2021.
- To set LEO Pharma's climate commitment, this year we launched LEO Pharma's first science-based climate target.
- To define a strategic approach for Diversity & Inclusion, we have developed a roadmap and set the direction for how we work to ensure an inclusive and diverse workplace at LEO Pharma.

Our reporting focus for Responsible Business

Within each of our impact areas we strive to report progress on the material issues which matter most to our key stakeholders and are important for the long-term success of our business. Within each of our impact areas, these issues are:

- Employees – Diversity & Inclusion, Employee safety
- Planet – Climate action, Waste & Water
- Ethics – Anti-corruption, Sustainable procurement, animal welfare

In 2020, we focused on improving our sustainability data. Data is critical for understanding our sustainability impacts, measuring progress and communicating transparently. A significant milestone was the completion of a scope 1, 2 and 3 carbon footprint of our global operations. Our footprint analysis guides us to where we should focus our emission reducing efforts across our value chain, for maximum impact. Our work on improving our sustainability data does not stop here, and in the coming years we will continue to include more metrics in our reporting.

EMPLOYEES | PLANET | ETHICS

A talented, skilled and diverse workforce

Innovation is a key factor in the future development of our business. To promote innovation, we need talented people and a diverse workforce.

EMPLOYEES are our greatest asset and to achieve our business goals we depend on a talented, skilled and diverse workforce. We believe that people are essential to the success of our 2030 strategy, and that it is imperative that we nurture the right organizational culture required to succeed. We need to be ready to adapt to an evolving external environment and prepare our workforce to meet the needs of tomorrow. The COVID-19 pandemic has brought this challenge to light and tested our ability to adjust to change and navigate an ever-changing world.

Building an inclusive culture of continuous learning and growth

We believe that we grow our business by growing our people, and that sustained development of capabilities depends upon an inclusive culture of trust, curiosity, collaboration and continuous learning. Organizations characterized by high-impact learning cultures attract and retain talent better, are more productive and adapt faster to change.

To act on LEO Pharma's 2030 strategy, we need to develop the capabilities of our employees and foster an inclusive learning culture that constantly keeps us ahead of changing needs.

With increased focus on innovative treatments for patients, LEO Pharma is facing a new market with bigger and fiercer competitors. We therefore need to match the skill level of our competitors, learn and develop capabilities faster to make up for our smaller size, and be more agile and adaptable to change at high speed. This requires us to support learning in a holistic sense. We acknowledge that traditional classroom training and courses are not sufficient to support LEO Pharma in the midst of a massive transformation. We need to enable experience and relationship based learning and embed continuous learning in our flow of work. As an organization, we have an obligation to encourage people to be curious, to take time to learn and to take ownership of their own development, and we need to reward learning behavior.

We have a long journey ahead of us, but with the launch of the LEO Pharma Academy, we have taken the early steps towards becoming a modern global learning organization.

Social learning events during a global pandemic

Most of our learning happens in social contexts. During COVID-19, we have all been challenged to find new ways of engaging with colleagues to share knowledge across business areas and borders. In 2020, the LEO Pharma Academy encouraged a collaborative social learning culture by hosting virtual social learning sessions at which internal and external experts were invited to share best practices and good cases on key projects and strategic topics. In total, 2,865 attendees participated in 30 social learning events. On top of this, we launched fully virtual leadership development and change enablement programs in 2020. ●

Preparing us for the future

OUR COMPANY CULTURE

Build

- A clear external orientation
- A performance mindset with strong accountability
- Cross-functional enterprise thinking

Nurture our strengths

- Strong employee engagement
- Long-standing relationships with stakeholders
- Deep understanding of the science of dermatology

OUR ORGANIZATION

SIMPLE

AGILE

EFFICIENT

An inclusive culture

At LEO Pharma, we see diversity and inclusion as a key enabler of our 2030 strategy. We know from research that a diverse and inclusive culture fosters innovation, drives better decision making and grows engagement. To support the roll-out of our 2030 strategy and strengthen our performance, we want to foster a truly inclusive culture where everybody – regardless of tenure, title or personal background – can thrive, share their ideas and opinions, and be their true selves.

In 2020, we have focused on creating the best foundation for an ambitious, systematic and data driven Diversity & Inclusion strategy. We have combined solid external research and best practice with internal data to accurately identify and understand challenges, as well as success stories specific to LEO Pharma.

On this basis, we are developing a five year strategy and roadmap for how to work with diversity and inclusion, while also setting ambitious targets to ensure focus on the right interventions, measure progress over time, build on successes and rethink initiatives that do not lead to quantifiable results.

Driving strategy execution

In 2020, we launched ***Fit to LEAD*** – a fully virtual, flexible and personalized development path for all LEO Pharma leaders, built around learning exercises such as videos, online sessions and inspirational tools. The program is designed to support senior, first level and new leaders to demonstrate the LEO Leader Behaviors, which are critical to executing the 2030 strategy and enabling cultural change in a competitive marketplace.

The program consists of fixed topics, together with electives to support our leaders' individual development journey. For example, virtual leadership training is offered to leaders to help them lead remotely during the global pandemic. Anticipated benefits and outcomes of Fit to LEAD will be tracked over time. We expect the program to help accelerate the delivery of the 2030 strategy, as well as strengthening the learning culture at LEO Pharma.

Leading change

Becoming a more simple, agile and efficient organization requires us to work differently and to adjust to change. Our ***Leading Change*** program provides the necessary tools and skills for managers to understand and process change themselves and to enable them to lead their teams through change across departments and functions. During 2020, 136 managers participated in Leading Change training. In addition, 96 change professionals and project managers participated in our Introduction course to Change Management, which provides participants with the skills needed to work directly or indirectly with change projects. LEO Pharma's Change Professional Community of 140+ professionals connect quarterly to share best practice.

EMPLOYEES | PLANET | ETHICS

Our path to climate action

At LEO Pharma, we believe that business has a key role to play in tackling climate change. In 2020, we took an important step on the path to climate action, by setting our first climate target based on science.

AT LEO PHARMA, we firmly believe that addressing climate change is a business imperative, and that high ambitions and clear targets are key to addressing this pressing challenge. The evidence is clear, and we all have a joint responsibility to act now to restrict global temperature increases to 1.5°C by the end of the century and limit the damage to our planet. As a healthcare company, we also recognize that climate change will have a direct and often devastating impact on human health. In 2020, our climate efforts and ambitions took a significant step forward when our Global Leadership Team committed LEO Pharma to an ambitious new climate target and the efforts required to meet it. Our new climate target aims to reduce our scope 1 and 2 emissions in line with the level of decarbonization required to keep global temperature increases to 1.5°C.

The first step in setting our climate target was to establish a cross-functional steering committee to help guide our efforts. We then calculated the carbon footprint of LEO Pharma's global operations, in accordance with the GHG protocol. For this, we chose 2019 as our baseline year and included scope 1 and 2 emissions from our six manufacturing sites and our global car fleet. For target setting, we chose to take a market-based approach, with 2030 as the target year. We then modelled our target options using the latest methodology from the Science-Based Targets Initiative. To complement the target modelling, we undertook a feasibility study in order to evaluate the likelihood of being able to meet the target and to provide an estimated investment for meeting the target.

Our climate work builds on a solid foundation of energy projects and certification across our manufacturing sites. These programs have been instrumental in helping us understand the viability and ambition levels appropriate for our manufacturing sites when setting a climate target. Our target will be met by strengthening our energy reduction programs and by committing to large-scale projects, such as switching to sustainable heating and cooling at our largest site in Ballerup, DK.

To meet our 1.5°C commitment, we plan to take the following steps:

- Move to 100% renewable electricity at our manufacturing sites and HQ
- Electrify 50% of our car fleet
- Expand energy projects at our manufacturing sites and offices
- Improve energy monitoring at all sites
- Move to lower-carbon forms of heating
- Engage and collaborate with employees

What is next for our climate program?
With our scope 3 footprint completed, our priority in 2021 is to set an ambition for reducing our scope 3 emissions in line with the requirements of the Science-Based Targets Initiative. We will also establish priority programs for reducing key scope 3 emissions. We will continuously refine our roadmaps for meeting our scope 1 and 2 target, as well as monitoring and reporting progress towards the target.

Minimizing our environmental impact

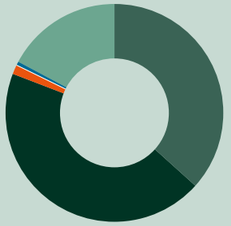
PROTECTING OUR PLANET and ensuring that we manage our use of its resources responsibly remains a pressing societal challenge. At LEO Pharma we seek to minimize our energy use and emissions, and proactively manage the impacts of our operations on the environment. We are continuously seeking to further our understanding of the environmental impacts of producing our medicines and getting them to patients. This includes reviewing any emerging environmental impacts and regulation, and their potential impact on our operations and supply chain.

Our 2019 baseline

CO_2 emissions by scope

- Scope 1 : **6%**
- Scope 2: **4%**
- Scope 3: **90%**

Emissions by source



- Natural gas: **44.3%**
- Electricity (market-based): **36.8%**
- Car fleet: **17.1%**
- District heating: **1.2%**
- Fugitive emissions: **0.5%**
- Fuels: **0.1%**

2030 TARGET

Reduce (scope 1 and 2) CO_2 emissions by **50%** compared to 2019

EMPLOYEES | PLANET | **ETHICS**

Acting with integrity

Unethical business behavior involving corruption, bribery and poor supply chain management processes erodes our stakeholders' trust in us and can have serious consequences for our reputation and long-term business viability.

"Acting with integrity, ensuring that our business is guided by fairness and transparency, is vital to ensuring the trust of patients and business partners."

Nathalie Joannes
Executive Vice President
Global Legal & Compliance

AT LEO PHARMA we are committed to operating our business to the highest ethical standards and ensuring that our company values underpin and reinforce this commitment. To support this, in 2020 LEO Pharma appointed Nathalie Joannes to lead our newly created Global Legal & Compliance function.

As our business grows, we are likely to face new and evolving ethical issues that can potentially undermine our efforts. Our latest materiality analysis showed that ethics and compliance, as well as innovation and digitalization, are issues that are of increasing importance to both internal stakeholders and our sector in general. As such, it is vital that we continue to strengthen our approach to risk management and due diligence, in preparation for the ethical challenges presented by increased digitalization in the pharmaceutical sector.

Our approach to compliance risk management

All businesses face risks from internal and external sources, which may adversely impact our operations and our ability to achieve our ambitious growth journey. We ensure that risk management is an integral aspect of key business decisions and organizational projects. When working with business partners we employ a screening process aligned with LEO Pharma's Third Party Compliance Code, which covers business ethics, human and labor rights, health and safety, and the environment, to ensure that they live up to our standards.

Third party risk assessment

Third parties with whom we collaborate represent LEO Pharma in critical relationships, and consequently have the potential to expose the company to liability and reputational risks if they do not follow the same high ethical standards as LEO Pharma. Third parties include any vendors such as contract research organizations, contract manufacturing organizations, advertising agencies and consultants, as well as customers, including wholesalers, hospitals, pharmacies and distributors.

Our Code of Conduct is built on our five values – integrity, innovation, adaptability, customer focus and passion. It is approved by our Global Leadership Team and applies to all employees. It defines the ethical principles we integrate into everything we do and provides a framework for how we conduct ourselves at LEO Pharma. New employees attend mandatory training in the Code of Conduct shortly after joining the company. The LEO Pharma Code of Conduct is available in 20 languages on our website.

In 2020, we strengthened our approach to managing the very different risks that relationships with third parties may entail. This was achieved by formalizing the due diligence workflow for customers and successfully running pilot projects, thereby preparing for launch in 2021.

Responsible digital transformation

The rapid changes and continued progress within digital health, artificial intelligence (AI), and machine learning is a key trend impacting the healthcare sector. New technologies offer world-changing benefits in terms of health, connectedness, efficiency and productivity, transparency and access. They also present fundamental questions about identity, privacy and security.

All businesses face risks from internal and external sources, which may adversely impact our operations and our ability to achieve our ambitious growth journey.

At LEO Pharma, we have a great opportunity to optimize the use of our vast data sets to foster innovation and achieve our goal to advance the standard of care for people living with skin disease. Our data can be used beyond the need to meet regulatory requirements. They can be analyzed to find new ways to best support our R&D activities, and reused throughout the lifecycle of our treatments, to better meet the needs of patients and healthcare practitioners. But we must do so responsibly, especially in cases where we use personal data.

In 2020, we worked across the organization to build a data platform that will enable faster and better decisions, while providing a comprehensive safeguarding mechanism to minimize the compliance and ethical risks associated with the management of large data sets. Next year, we will conduct a self-assessment of our practices for data management and data use, against the seven requirements outlined in the Ethics Guidelines for Trustworthy Artificial Intelligence, presented by the High-Level Expert Group on AI to the European Commission.

02.

Our performance

In 2020, LEO Pharma's revenue ended at DKK 10,133 million, which is a decline of 6%, compared to 2019. This section provides an overview of our financial performance in 2020, how we plan to accelerate our R&D efforts, as well as our ESG data within the areas of Employees, Planet and Ethics.

OUR FINANCIAL PERFORMANCE

Financial review and outlook

In 2020, LEO Pharma made progress on achieving our strategic ambitions and showed resilience. Despite the negative impact of the global COVID-19 pandemic, sales of our strategic products continued to grow, as did the prescription portfolio recently acquired from Bayer. This was offset by the impact of coronavirus lockdowns, generics in Europe and further price pressure in the US, so that total revenue declined by 6% to DKK 10,133 million. In response to the pandemic, we successfully implemented a plan to ensure safety and corporate responsibility, continuity of supply, and continuity of strategic projects. Effective cost control and a gain from the sale of non-core products helped us to meet our profitability targets, even though revenue declined and we continued to invest significantly in our R&D pipeline. LEO Pharma's R&D pipeline progressed and we achieved several important milestones that form the basis for future growth.

Revenue for the LEO Pharma Group

Revenue was impacted by the COVID-19 pandemic, but recovered during the year. Overall, it declined by 6% to DKK 10,133 million. Of the total revenue, our Established portfolio contributed DKK 9,666 million, while revenue from the Innovative portfolio amounted to DKK 467 million[1].

Our revenue was supported by the dermatology prescription portfolio we recently acquired from Bayer, which contributed the first full-year sales. The portfolio was taken over on September 1, 2018 in the US and on July 1, 2019 for the rest of the world. Revenue from the acquired portfolio increased from DKK 729 million in 2019 to DKK 1,127 million in 2020. Sales excluding acquired products declined by 11%, to DKK 9,006 million.

2020 revenue was also supported by growth in our strategic products Enstilar® and Kyntheum®, which gained market shares and partly offset the decline in other psoriasis products targeted by generics. Sales for Enstilar® grew by 3% to DKK 1,125 million and sales for Kyntheum® grew by 40% to DKK 467 million, thereby making a strong contribution to revenue during a challenging year.

In local currencies, revenue amounted to DKK 10,298 million, a decline of 5% compared to 2019.

Revenue by therapeutic area

Despite the pandemic, the strategic psoriasis products Enstilar® and Kyntheum® continued to grow and gain market share. This was offset by the impact of lockdowns, generics in Europe and further price pressure in the US. Total psoriasis sales amounted to DKK 3,685 million in 2020, a decline of 8% compared to 2019. Enstilar® continues to be our best-selling product in our psoriasis portfolio, representing 31% of our Psoriasis revenue. Kyntheum® gained 40% in sales compared to 2019. With revenue of DKK 467 million, Kyntheum® now accounts for 13% of our Psoriasis revenue, even though it is only marketed in Europe. Countries with significant growth in Kyntheum® sales include Italy, France, Spain and Germany. In all regions, the Daivobet® and Daivonex® range is under ongoing pressure from generic alternatives, and in 2020 from the pandemic.

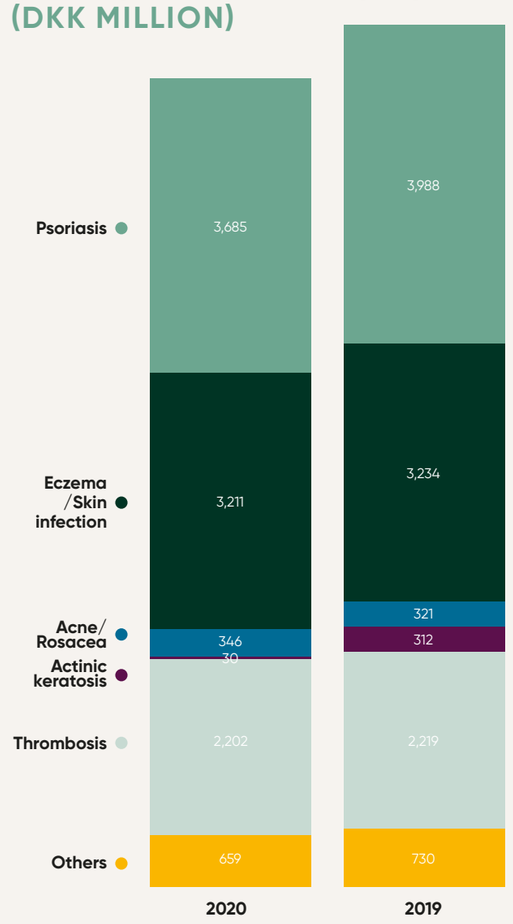
Products in our eczema/Skin infection range were supported by the full-year effect of the products acquired from Bayer, achieving sales of DKK 3,211 million, a 1% decrease compared to 2019. Sales excluding acquired products declined by 13% in 2020. Advantan® grew strongest, with DKK 428 million in sales, an increase of DKK 183 million in 2020, mainly in Europe. It currently accounts for a revenue share of around 13% within LEO Pharma's Eczema/Skin Infection portfolio. Sales for the Fucidin® range and Protopic® declined by 11% and 12%, respectively.

Acne/Rosacea increased sales due to the products recently acquired from Bayer, reaching DKK 346 million in sales, a growth of 8% compared to 2019. Within the therapeutic area, Skinoren® was the primary growth driver, with sales growth of 66% and reaching DKK 150 million in sales, mainly from Latin America, the Middle East, Germany and Poland.

Thrombosis sales were steady at DKK 2,202 million, compared to DKK 2,219 million in 2019. Within the area, innohep® sales declined, while sales of Heparin and Protamine Sulphate increased. While we overcame the supply constraints that impacted innohep® sales in the previous year, 2020 sales were affected by restrictions on hospital stays and lower levels of chemotherapy treatment during the pandemic.

During 2020, we permanently phased out Picato® gel, our product for treatment of actinic keratosis, based on an overall business assessment. Picato® generated sales of DKK 312 million in 2019, and contributed DKK 30 million to 2020 sales.

REVENUE BY THERAPEUTIC AREA (DKK MILLION)



Revenue by region

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

Region Europe+

In 2020, sales for Region Europe+ grew 1% to DKK 4,212 million. Excluding the impact of the portfolio acquired from Bayer, sales declined by 7%. This was driven by the impact of the COVID-19 pandemic and the phasing-out of Picato® (see above).
Kyntheum® and Enstilar® continue to be the drivers of organic growth. Sales of Kyntheum® increased to DKK 467 million, representing growth of 40% compared to 2019, while Enstilar® continued the strong performance in the topical psoriasis area, with sales growth totaling 10% in the region, increasing to DKK 969 million despite a decline in the overall topical market. The market share of Enstilar® in the topical psoriasis segment increased by 3% to 23.5%, with an estimated 1.2 million patients being treated with Enstilar® by the end of 2020.

1. Our Innovative portfolio includes Kyntheum®, while the other patient solutions are part of the Established portfolio.

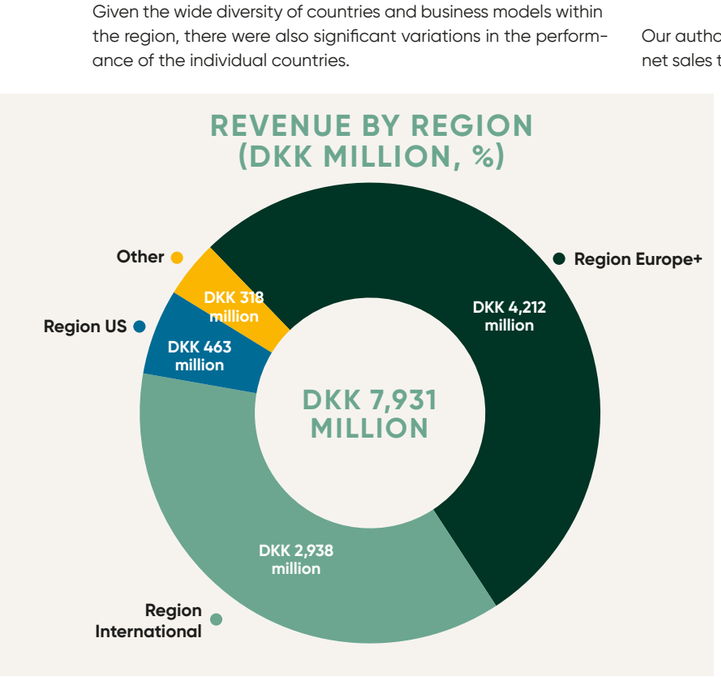
Despite the strong growth of Kyntheum® and Enstilar®, revenue for the overall psoriasis portfolio in Region Europe+ was flat compared to 2019. The psoriasis portfolio within the region was impacted by patients switching from Daivobet® Gel to Enstilar® and continued generic competition faced by Daivobet® Ointment.

Sales of the Fucidin® range declined by 14%, as treatments for non-chronic diseases were more severely affected by the impact of COVID-19. On the other hand, Protopic® only declined by 5% compared to 2019, as supply recovered after the phasing-out of stock in the first half of 2019.

Region International

In 2020, Region International's revenue ended at DKK 2,938 million, a 6% decrease of DKK 193 million compared to 2019. Sales from the acquired Bayer portfolio increased by 31% to DKK 455 million in 2020, due to the first full year of sales, and helped to partially offset the decline in revenue as a consequence of the COVID-19 restrictions.

Given the wide diversity of countries and business models within the region, there were also significant variations in the performance of the individual countries.



In China, net sales decreased by DKK 73 million compared to 2019. The pandemic has led to new ways of interacting with customers in China, with the online channel growing by 77% and accounting for 21% of sales, thereby offsetting some of the decline seen in the hospital channel.

Amongst other markets, revenue for Brazil, Mexico, Japan and Korea saw an increase compared to 2019, with full-year sales from the acquired portfolio making up for the COVID-19 impact. Sales in Turkey, the Middle East and GCC (Gulf Cooperation Council) countries were lower compared to 2019, driven by the impact of the pandemic and the resulting tender and shipment cancellations.

Region US

2020 sales for the US amounted to DKK 463 million, a decline of DKK 385 million or 45%. This decline reflects the competitive landscape in the US, with increasing net pricing pressures on our branded and authorized generic portfolios, combined with the COVID-19 impact, the Daivobet® Gel patent expiry in January 2020 and the discontinued commercialization of Picato® in Q4 2020. The US will be a key growth driver for LEO Pharma in the coming years, with the expected launch of tralokinumab in 2021.

Finacea® foam, acquired from Bayer in 2018, was successfully relaunched in April 2020 after an extended out-of-stock period from 2019, with 2020 net sales of DKK 59 million.

Our authorized generic portfolio declined by DKK 33 million, with net sales totaling DKK 170 million, reflecting the competitive environment in the generic markets.

Enstilar® sales ended at DKK 119 million, which is 37% lower than for 2019. This reflects lower in-market demand as a consequence of COVID-19, coupled with expansion of gross to net deductions associated with increased co-pay utilization.

Costs and profit

In 2020, total costs amounted to DKK 12,034 million, after declining by 1%, from DKK 12,110 million in 2019.

In 2020, cost of sales was DKK 3,360 million and remained at the same level as in 2019. The gross margin was 67% in 2020, against 69% in 2019. Cost of sales was impacted by higher raw material costs for the Thrombosis range, costs related to technology transfer for acquired and divested product ranges, and investments for future product launches, as well as scrapping costs incurred due to the phasing-out of Picato®.

Operating costs amounted to DKK 8,674 million in 2020, compared to DKK 8,760 million in 2019. As the potential impact of the COVID-19 pandemic became clearer, LEO Pharma implemented swift mitigation measures to protect profitability, and took strategic initiatives to reduce long-term costs and increase operational efficiency. As a result, operating costs declined by 1% in 2020. Costs relating to the restructuring program announced in August 2020 are included in operating costs.

Research and development costs

Despite the short-term impact of the global pandemic, we continued to invest strongly in our future. During 2020, our R&D expenditure amounted to DKK 2,096 million, or 21% of our 2020 revenue, against a spend amounting to 23% of revenue in 2019.

We submitted the Biologics License Application (BLA) and marketing authorization applications (MAA) for tralokinumab in the US and in the EU simultaneously in Q2 2020. The review process with both the FDA and EMA is progressing according to plan. In 2020, the investments in tralokinumab continued to be high, due to the ongoing clinical studies.

The two phase 2b studies for our novel topical pan-JAK inhibitor, delgocitinib, had positive read-outs and we have been preparing for the phase 3 program.

Other operating income and expenses

During the year, we divested a portfolio of four non-core products to Cheplapharm – One-Alpha©, Locoid©, Pimafucin© and Zineryt© – for a consideration of DKK 2,337 million. The net gain from the divestment amounted to DKK 1,166 million. The transaction was closed on December 15, 2020 and the gain is recognized as Other operating income. In 2020, the divested portfolio added DKK 672 million to our revenue, compared to revenue of DKK 833 million in 2019.

Profit and loss

Our 2020 operating profit before depreciation and amortization (EBITDA) ended at DKK 521 million. Operating loss (EBIT) ended at DKK (726) million, which was better than our outlook (see below). In local currencies and adjusted for one-time effects, our EBITDA ended at DKK 163 million and EBIT at DKK (1,090) million. In 2019, comparable EBITDA amounted to DKK 749 million and EBIT was DKK (436) million. The decline was driven by a combination of increased investments in our Innovative portfolio and lower sales because of the COVID-19 pandemic.

For the Established portfolio, EBITDA ended at DKK 3,208 million (DKK 185 million below 2019), with EBIT of DKK 1,981 million (DKK 254 million below 2019). For the Innovative portfolio, EBITDA ended at DKK (3,045) million (DKK 401 million below 2019), while EBIT was DKK (3,072) million (DKK 401 million below 2019). These figures are in local currencies and adjusted for one-time effects.

These results are in line with our expectations as we continue the transformation of LEO Pharma, to become a global leader in medical dermatology, and as we invest in the next phase of LEO Pharma's growth journey.

Financial items

Net financial items showed a loss of DKK 352 million, compared to a loss of DKK 363 million in 2019. This was mainly due to exchange rate gains, offset by an increase in interest expenses. Interest expenses of DKK 195 million were incurred for a EUR 500 million loan from LEO Holding A/S and a DKK 1,000 million loan from the LEO Foundation. In addition, the interest expenses related to the syndicated loan facility from a banking group increased in 2020, as the syndicated facility was refinanced and increased by DKK 3,350 million in loan amount, as well as a margin increase.

Balance sheet and cash flow

Balance sheet

Total assets decreased from DKK 24.8 billion at December 31, 2019, to DKK 23.9 billion at December 31, 2020. The decrease was mainly driven by the divestment of four non-core products to Cheplapharm and the divestment of the Emollients and Proctology Portfolio to Karo Pharma, partly offset by investments in intangible assets and property, plant and equipment.

Cash flow

Cash flow from operating activities was DKK (737) million. Cash flow from investing activities was DKK 1,051 million, mainly as a consequence of the divestment of the dermatology portfolio to Karo Pharma and Cheplapharm, offset by investments in IT systems and production facilities. Cash flow from financing activities was DKK 77 million related to proceeds from borrowings, and repayments of borrowings and lease liabilities.

Follow-up on 2020 outlook

In the outlook section of our 2019 Annual Report, LEO Pharma expected 2020 revenue of DKK 11.0–11.4 billion, indicating expected revenue growth of 2–5%. Due to the impact of the COVID-19 pandemic, this target could not be reached, and our revenue fell short by DKK 870–1,270 million, as compared to the outlook.

We expected an operating loss (EBIT) of DKK 1.8–2.0 billion. We delivered an operating loss (EBIT) of DKK 726 million. The improved result was driven by the divestment of the non-core portfolio to Cheplapharm, as well as cost reduction measures. This was partly offset by costs related to the restructuring exercise announced in August 2020.

2021 outlook

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

During 2021, we expect sales to stay at the 2020 level in local currencies, as our markets continue to remain impacted by the COVID-19 pandemic, and the continuation of price pressure and generic impacts. LEO Pharma will continue to focus on profitability improvements for the established portfolio, while significantly increasing spending on innovative research and development activities after the successful development in the pipeline over the last few years. LEO Pharma expects this to lead to an operating loss (EBIT) in 2021 of DKK 2.7–2.9 billion. Further divestments or write-downs of IP rights can change the outlook.

OUR R&D PIPELINE

Accelerating our R&D efforts

Medical dermatology is a rapidly growing therapeutic area, with both a high disease burden and high unmet medical needs. At LEO Pharma, we are relentlessly committed to changing this by advancing the standard of care with the continuous launch of new therapeutic options.

IN THE COMING YEARS, LEO Pharma will accelerate R&D efforts to rapidly expand the portfolio – both in a range of dermatological indications, including rare skin diseases, and new technology platforms. R&D plays a crucial role in LEO Pharma's journey in achieving our ambitious 2030 strategy. Building on our strong legacy and deep understanding of the science in dermatology, we have great potential to bring innovative new treatments forward to the market and the patients, as well as advancing the standard of care for patients with skin diseases. In 2020, LEO Pharma progressed a strong pipeline of first-in-class small molecules and biological treatments for inflammatory skin diseases, including a special focus on atopic dermatitis (AD) and psoriasis. Together with partners, LEO Pharma also initiated the journey of developing novel treatments for rare and life-altering skin diseases.

Building on our strong legacy and deep understanding of the science in dermatology, we have great potential to bringing innovative new treatments forward

Continuous substantial investment in R&D clinical pipeline

In 2020, LEO Pharma continued its substantial investment in R&D, including the completion of the extensive phase 3 clinical program for tralokinumab. Tralokinumab is a monoclonal antibody targeting the IL-13 cytokine, a key driver of the underlying chronic inflammation in AD. Key results from the pivotal ECZTRA 1, 2 and 3 trials were published in The British Journal of Dermatology (BJD), as the first published phase 3 trials for AD with an investigational medicine that selectively targets IL-13.

The clinical trials of ECZTRA 1 and 2 investigated overall safety with tralokinumab comparable to placebo, as well as efficacy over 52 weeks. In ECZTRA 3, tralokinumab was administered in combination with topical corticosteroids.

Based on the results from the pivotal trials, a biologics license application (BLA) and marketing authorization applications (MAA) were submitted, to the FDA and EMA, respectively, in 2020 and we are now preparing for the launch in the US and the EU.

In 2020, LEO Pharma completed the phase 2b studies of delgocitinib for chronic hand eczema and AD. Delgocitinib is a topical pan-Janus kinase (JAK) inhibitor that inhibits activation of the JAK-STAT pathway, which plays a key role in the immune system by driving the pathophysiology of chronic inflammatory skin diseases. Based on the results from the clinical trials in CHE and AD, the compound is now progressing towards phase 3.

In addition, Delgocitinib was granted Fast Track designation by the FDA for the potential treatment of adults with moderate-to-severe chronic hand eczema, showing that there is a high unmet need that is not adequately met with existing therapies.

Together with our partner, PellePharm, we are progressing the development of patidegib, a topical formulated hedgehog inhibitor, for treatment of basal cell carcinoma (BCC) in patients suffering from Gorlin Syndrome and High Frequency Basal Cell Carcinoma (hfBCC). The phase 3 study for Gorlin Syndrome is progressing according to plan, while the phase 2 study for hfBCC is ongoing and expected to be completed in 2021.

In 2020, LEO Pharma entered into collaboration with Oneness Biotech from Taiwan and Microbio Shanghai from China for the development of a first-in-class monoclonal antibody targeting IgE +B-cell. Clinical phase 2a testing has been initiated for both atopic dermatitis and allergic asthma.

Furthermore, our clinical pipeline includes an anti-IL-22R monoclonal antibody and a small molecule histamine 4 receptor antagonist (H4R). The IL-22R mAb is currently in phase 1b clinical testing for AD, while phase 1 was recently completed for the H4R antagonist.

As a consequence of prioritization, all activities with PDE4 inhibitors have been terminated and divested to UNION Therapeutics.

With tralokinumab in registration, patidegib in phase 3 and delgocitinib entering phase 3, as well as anti-IgE+B-cell in phase 2a, and anti-IL-22R and H4R in phase 1, our clinical pipeline holds great promise to expand LEO Pharma's range of treatments significantly within the coming years.

Turning the future pipeline into first-in-class drug development

LEO Pharma continued its transformation journey of research to develop first-in-class treatments which have the potential to revolutionize dermatology. Deep biological disease understanding, and excellence in both medicinal and synthetic chemistry, are crucial capabilities to fulfil our ambitions.

Small molecules and biologicals are our main platforms, but in our early research activities we are continuing to break new ground. During 2020, our small molecule research advanced its focus on Protein-Protein Interaction (PPI) modulators. This cross-over format between biologicals and small molecules holds great potential to deliver highly efficacious tablet based treatments for oral administration.

One of our pioneering PPI modulators, IL-17A PPI, completed the safety toxicity studies showing a promising safety profile and is now progressing towards clinical phase 1 testing. During 2020, we continued further exploration of other new medicinal chemistry approaches, such as protein degraders and synthetic peptides, to deliver better oral medicines.

Therapeutic antibodies are our other main drug format. Through our partnerships we have access to strong monoclonal and bispecific antibody platforms that we leverage to obtain first-in-class antibodies. In late 2020, we were able to select a novel antibody drug candidate which will now move into Chemistry, Manufacturing and Control (CMC) upscaling and Investigational New Drug (IND) enabling pre-clinical development.

The field of advanced medicine is moving rapidly and to build for the future, we have started to explore regenerative medicine platform technologies with curative potential, e.g. via oligo treatments or gene-editing technologies. These activities are all built around strong partnerships in both academia and the industry.

Through our own research programs and global partnerships we continuously explore new dermatological indications, as well as new formulations. Overall, our pipeline holds the potential for LEO Pharma to become a global leader in medical dermatology by driving science towards novel breakthrough innovations, as well as setting new standards within treatments for people living with life altering skin conditions. ●

ADVANCING THE STANDARD OF CARE

Through our PPI platform, we aim to develop molecules which obtain the same action as biologics, but with a small molecule, to enable oral delivery.

ESG data and progress overview

EMPLOYEES | PLANET | ETHICS

Diversity and inclusion

WHY IS THIS IMPORTANT?
A diverse and inclusive culture is a key enabler of our 2030 strategy as it fosters innovation, drives better decision-making and grows engagement across the organization.

OUR APPROACH
We strive to treat everybody in LEO Pharma with fairness, dignity and respect, regardless of gender, race, nationality, age, education, sexual orientation and other forms of diversity.

OUR PROGRESS IN 2020
- The proportion of women at executive management level increased significantly from 25% in 2019 to 50% in 2020. There is an equal distribution between line of business and support functions.
- The proportion of women in middle management remained stable at around 50% (50% in 2019, 47% in 2020). The proportion of women in senior management increased slightly from 31% in 2019 to 33% in 2020.
- Development of 2021–2025 diversity and inclusion strategy and roadmap.
- Our approach comprises a broad set of behavioral and structural inclusion interventions, including Inclusive Leadership training, review of key people processes to avoid bias, and flexibility for all to ease different life phases and address bias.
- New KPIs and targets for gender diversity across all job bands in the management path.

POLICIES
- LEO Pharma Sustainability Policy
- LEO Pharma Diversity & Inclusion Policy

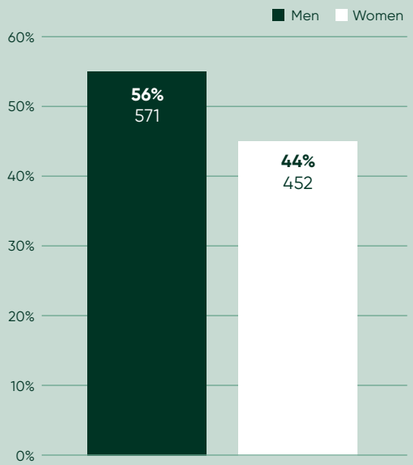
GOVERNANCE
- LEO Pharma Sustainability Board

METRIC
- Gender diversity in management (middle, senior, executive management) (%)

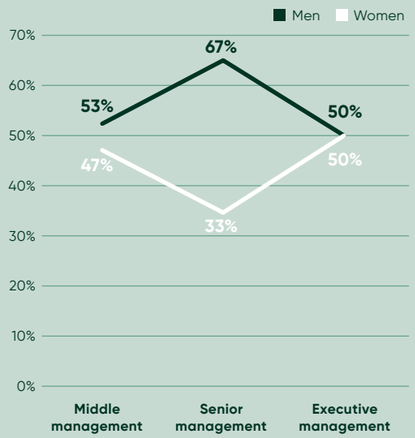
SDG CONTRIBUTION
- 5 – Gender Equality

DATA AND GRAPHS:

Gender distribution among managers



Gender distribution at different management levels



2023 targets:
- 50/50 gender distribution in middle management
- 40/60 gender distribution in senior management
- 50/50 gender distribution in executive management

Employee safety

WHY IS THIS IMPORTANT?
Enabling a safe working environment where our employees have proper knowledge to perform their work in a safe manner prevents and manages the risk of physical injuries. A strong safety culture also prevents disruptions to our operations caused by workplace accidents.

OUR APPROACH
We strive to provide a safe and healthy working environment for employees and visitors. This is achieved by implementing an Occupational Health and Safety Management System (OHS) in accordance with applicable laws and international standards, and our focus is to continuously improve our health and safety performance.

- All of our manufacturing sites hold ISO 45001 certification.

OUR PROGRESS IN 2020
- Achieved our global goal of keeping our global lost time injury (LTI) rate below 2. In 2020, we reached an LTI rate of 1.9, which is a slight increase from 1.3 in 2019.
- An LTI rate close to 2019 levels as a result of focus on safety in major construction projects, despite the increase in the number of employees after integrating a new manufacturing site in Italy.
- Global LTIs accounted for 448 lost days. The large number of lost days is due to two injuries after which the employees concerned are still absent. We do not expect the injuries to cause any permanent disabilities.
- Various initiatives were completed to support our safety journey, including an increased focus on systematic follow up on reported incidents, to ensure that any hazards are managed. Knowledge sharing between sites when we have an injury or serious safety hazard has also been improved.

POLICIES
- LEO Pharma Sustainability Policy
- LEO Pharma Occupational Health and Safety Policy, part of the LEO Pharma Code of Conduct

GOVERNANCE
- Governed by selected members of LEO Pharma's Global Leadership Team as part of the EHS Management Review.

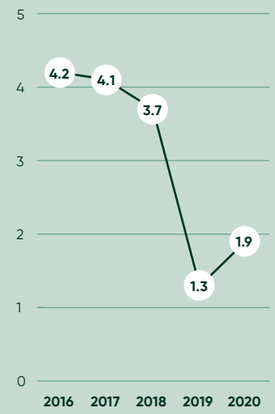
METRICS
- Lost Time Injury (LTI) rate
- Number of lost days (no.)

SDG CONTRIBUTION
- 8 – Decent Work and Economic Growth

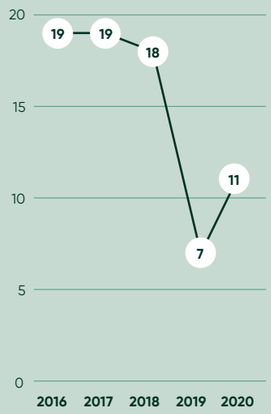
DATA AND GRAPHS:

Safety performance at LEO Pharma manufacturing sites

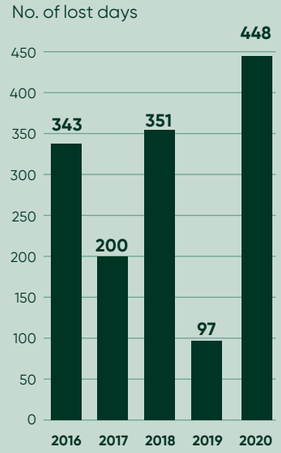
LTI rate



No. of global LTIs



No. of lost days



ESG data and progress overview

EMPLOYEES | PLANET | ETHICS

Climate action

WHY IS THIS IMPORTANT?

Climate change is one of the most pressing issues of our times. We recognize that if we fail to reduce the CO_2 emissions from our operations there is a serious risk of business and supply chain disruption.

OUR APPROACH

We are committed to reducing our global carbon emissions in line with the reductions required to keep global temperature increases to 1.5°C above pre-industrial levels. We work to reduce our CO_2 emissions through energy efficiency projects and improved energy management at our sites, as well as by sourcing renewable electricity where available.

- Goal: To reduce our scope 1 and 2 CO_2 emissions by 50% by 2030 compared to 2019 levels
- All manufacturing sites except Vernouillet (FR) hold ISO 50001 certification
- All manufacturing sites hold ISO 14001 certification

OUR PROGRESS IN 2020

- Set a science-based carbon reduction target for our scope 1 and 2 emissions.
- Reduced total CO_2 emissions (scope 1 and 2) by 21%, compared to 2019. This is mainly due to Ballerup (DK) and Esbjerg (DK) switching to 100% renewable energy from April 2020.
- Met our long-term reduction goal of saving 12.8 GWh of energy through energy savings projects by 2020, corresponding to 10% of our 2013 energy levels.
- Installed energy savings measures equivalent to 8.4 GWh. Our energy projects for 2020 include:
  - Replaced inefficient steam boilers at our Dublin site (IE). Not only are the new boilers more efficient, they also have increased capacity. This will reduce our natural gas consumption by 3,294 MWh/year, and CO_2 emissions by 658.8 tonnes.
  - Changed six air handling units at our Ballerup site (DK). The new air handling units are equipped with heat recovery from exhaust air and with demand control. This upgrade will reduce our natural gas consumption by 1,148 Mwh/year, and CO_2 emissions by 229.6 tonnes.
  - Replaced several motors and fans at our Ballerup site (DK), which will reduce our electricity consumption by 126 MWh/year.

POLICIES

- LEO Pharma Sustainability Policy
- LEO Pharma Environment, Climate and Energy Policy, part of the LEO Pharma Code of Conduct

GOVERNANCE

- Climate Steering Committee
- LEO Pharma Sustainability Board

METRICS

- CO_2 total (scope 1 & 2, tonnes)
- CO_2 scope 1 (tonnes)
- CO_2 scope 2 (tonnes) – market and location based
- Energy consumption (GWh)
- Share of renewable electricity (%)

SDG CONTRIBUTION

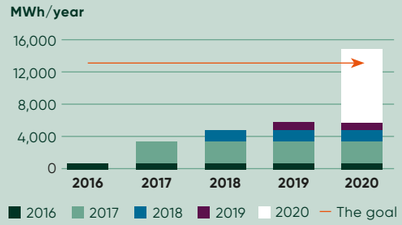
- 7 – Affordable and Clean Energy
- 13 – Climate Action

DATA AND GRAPHS:

Total energy consumption at our manufacturing sites

Year	2013	2015	2016	2017	2018	2019	2020
MWh	129,000	123,901	127,373	126,345	117,572	126,397	144,000

Energy savings achieved vs 2020 goals



Metric	2020	2019
CO_2 emissions		
Total CO_2e (scope 1 and 2, tonnes)	30,657	38,771
CO_2e scope 1 (tonnes)	24,471	24,047
CO_2e scope 2 (tonnes, market based)	6,186	14,742
CO_2e scope 2 (tonnes, location based)	9,870	10,405
Share of renewable electricity (%)	54	11

Water and waste

WHY IS THIS IMPORTANT?

We use water to develop and manufacture LEO Pharma treatments. Some of our manufacturing sites are situated in water stressed areas, which increases the risk of business disruption or impact on local communities. Managing our water use and the waste created by our processes is critical to reducing our environmental impact and protecting natural resources.

OUR APPROACH

- We work to assess our environmental risks and implement suitable mitigation measures. We seek to manage the adverse impacts of our operations on water and employ robust waste management processes.
- All manufacturing sites hold ISO 14001 certification.

OUR PROGRESS IN 2020

- Water usage increased to 374,600 m^3, compared to 348,781 m^3 in 2019. Waste increased to 87,938 tonnes, compared to 68,209 tonnes in 2019. This is mainly due to the integration of our manufacturing site in Segrate (IT) and an increased production volume at our Esbjerg site (DK).
- Ballerup site (DK) contracted a new waste management partner, Stena Recyling, which will serve as a partner to LEO Pharma and support us in identifying opportunities to optimize our waste processes for recycling and reuse of materials.
- Stena Recycling will help us improve our environmental data by providing a waste data dashboard. From 2021 this will include our CO_2 emissions from waste.
- Commenced a 2-year project to investigate circular economy alternatives for treating waste solvents used in production, while at present these solvents are sent for incineration.

POLICIES

- LEO Pharma Sustainability Policy
- LEO Pharma Environment, Climate and Energy Policy, part of the LEO Pharma Code of Conduct

GOVERNANCE

- Governed by selected members of LEO Pharma's Global Leadership Team as part of the EHS Management Review.

METRICS

- Water usage (m^3)
- Waste (total) (tonnes)

SDG CONTRIBUTION

- 12 – Responsible Consumption and Production

DATA

Metric	2020	2019
Water and waste		
Water usage (m^3)	374,600	348,781
Waste (total) (tonnes)	87,938	68,209

ESG data and progress overview

EMPLOYEES | PLANET | ETHICS

Anti-corruption and Code of Conduct

WHY IS THIS IMPORTANT?

Unethical business practices such as corruption represent a significant threat to the global healthcare ecosystem and society in general. LEO Pharma operates in countries with a high inherent risk of corruption, according to Transparency International's Corruption Perceptions Index and there is an increased risk of corruption in our interactions with healthcare professionals and public officials.

OUR APPROACH

We uphold high ethical business standards and promote good business conduct with customers, healthcare professionals, public officials, and other business partners. We implement procedures to prevent and detect corruption in our business.

OUR PROGRESS IN 2020

ANTI-CORRUPTION:

- Achieved our 2020 goals for 1) all internal employees and 2) external consultants, who represent LEO Pharma, to be trained in the new Anti-Corruption e-Learning campaign. The campaign ran from November 20, 2019, with a completion date of February 20, 2020 for all employees. The completion rate for this campaign was 98.7%.
- All new employees undergo mandatory training in the Anti-Corruption and Bribery Policy shortly after joining LEO Pharma. In 2020, 61.4% of new employees completed the Anti-Corruption e-Learning campaign in due time[1]. The training comes in three different risk-based versions, varying in difficulty and length, to ensure that employees receive adequate training and testing according to the risk level of their job function.
- Continued progress on our Global Anti-Corruption Program, including strengthening training and knowledge testing, reporting and monitoring – all with the purpose of ensuring that we are continuously aligned with global standards and best practices for preventing corruption.

CODE OF CONDUCT:

- All new employees undergo mandatory training in the LEO Pharma Code of Conduct shortly after joining LEO Pharma. In 2020, 76.2% of new employees completed the LEO Pharma Code of Conduct e-Learning campaign in due time[2].

POLICIES

- LEO Pharma Sustainability Policy
- LEO Pharma Anti-Corruption and Bribery Policy, part of the LEO Pharma Code of Conduct
- Our Code of Conduct, including our Anti-Corruption and Bribery Policy, are supported by LEO Pharma's WhistleBlower Hotline, where internal employees and external stakeholders can report concerns on a secure and confidential basis

GOVERNANCE

- LEO Pharma Risk & Compliance Board

METRICS

- New employees completing Anti-Corruption e-Learning campaign (%)
- New employees completing Code of Conduct e-Learning campaign (%)

SDG CONTRIBUTION

- 16 – Peace, Justice and Strong Institutions

1. The total percentage of new employees that have completed the Anti-Corruption e-Learning campaign was 73% in 2020.
2. The total percentage of new employees that have completed the LEO Pharma Code of Conduct e-Learning campaign was 87.3% in 2020.

Animal welfare

WHY IS THIS IMPORTANT?

Animal experimentation is a prerequisite for drug development in order to evaluate the efficacy, safety and pharmacodynamics of our drug candidates. We believe that a high standard of animal welfare results in higher scientific quality and better research data.

OUR APPROACH

Our approach to animal welfare focuses on the EU Directive on the protection of animals used for scientific purposes and the 3Rs (Replacement, Refinement and Reduction), as outlined in LEO Pharma's Position on Animal Welfare.

OUR PROGRESS IN 2020

- In 2020, we had the goal to seek to engage with collaboration partners that can be given full approval for all species, and to inspire existing collaboration partners to heighten their animal welfare standards.
- Strengthened our animal welfare governance structure, which emphasizes the importance of engaging with collaboration partners in compliance with our standards for all species of laboratory animals and operationalizes the principles in LEO Pharma's Position on Animal Welfare.
- Continued to focus on the 3Rs in all in vivo activities, by driving refinement, reduction and replacement in our drug discovery and development projects.
- By focusing on a culture of care and harm-benefit assessment before initiating in vivo studies, our animal welfare procedures support our continued focus on implementing the 3Rs.

POLICIES

- LEO Pharma's Position on Animal Welfare

Sustainable procurement

WHY IS THIS IMPORTANT?

To maintain the trust of our customers and partners, we aim to promote responsible business practices in our supply chain and to limit the risks of supply chain disruption.

OUR APPROACH

We promote responsible business practices and reduce adverse social and environmental impacts in our supply chain. We conduct due diligence and assess the risk level of our suppliers.

OUR PROGRESS IN 2020

- The outbreak of COVID-19 prevented audits from taking place. No social/or EHS supplier audits were conducted. All social site visits were postponed in order to respect recommendations from the World Health Organization, as well as national and local public authorities.
- Ongoing dialogue with supplier to follow up on 2019 site visit, in order to work through identified corrective action plans in accordance with the Pharmaceutical Supply Chain Initiative's (PSCI) audit framework.
- Screened 1,459 suppliers and we selected 143 suppliers for self-assessment through our self-assessment questionnaire. 72 suppliers have been identified as high-risk suppliers in accordance with our scoring criteria, which consider the segmentation of suppliers (dependency), as well as supplier category, country of production and spend.
- Improved screening and monitoring, and namely the supplier sanctions list and adverse media screenings of new suppliers.
- Updated the LEO Pharma Third Party Compliance Code in accordance with the 2019 update of the PSCI Principles. The name of the code was changed to Sustainability Standards for LEO Pharma Business Partners (SSBP).

POLICIES

- LEO Pharma Sustainability Policy
- LEO Pharma Position on Responsible Supply Chain Management
- LEO Pharma Third Party Compliance Code

GOVERNANCE

- LEO Pharma Risk & Compliance Board

METRICS

- Number of social and/or EHS supplier audits performed (no.)
- % of key suppliers with a high risk rating (%)

SDG CONTRIBUTION

- 8 – Decent Work and Economic Growth
- 12 – Responsible Consumption and Production

Human rights

We recognize our responsibility to respect the human rights of all stakeholders across our value chain, including employees, business partners and patients. As a member of the UN Global Compact, LEO Pharma is committed to respecting all human rights, as described in the Universal Declaration of Human Rights, the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

RESPECT for human rights provides the foundation for many of our key business and sustainability focus areas, such as attracting and retaining the right talent, ensuring a safe and healthy workforce, implementing a strong ethical business culture, creating a workplace that embraces diversity and ensuring responsible supply chain practices. Therefore, we are committed to continuously improving our approach to embedding human rights practices across our business.

Strengthening our approach

In 2020, we undertook a high-level gap assessment in order to clarify our current maturity on human rights due diligence, verify our current risks and identify opportunities for improvement. The results of this project will be used to further strengthen, refine and support the embedding of a consistent human rights due diligence practice across LEO Pharma.

This high-level analysis was conducted as a review of over 40 key documents and interviews from stakeholders across LEO Pharma. The project also defines an action plan for where and how we should prioritize our actions on human rights to further strengthen our processes. The assessment was conducted from a framework based on the five core elements of human rights due diligence: policy commitment, risk assessment, integration & embedding, monitoring & reporting and grievance mechanisms.

The preliminary results of the assessment show that we have potential to build on our current key policies on human rights, to strengthen our risk assessment processes and ensure a more consistent approach across key functions, and also to expand our engagement and knowledge sharing of human rights risks.

Due diligence approach and key human rights policies

We recognize the importance of continuously monitoring our potential human rights impacts through our due diligence process, including LEO Pharma's WhistleBlower Hotline. Our human rights due diligence approach and responsibility is integrated into relevant function level processes, to ensure that risks are identified and managed close to the business. The WhistleBlower Hotline, coupled with additional grievance reporting directed to line managers, gives employees and others associated with LEO Pharma the opportunity to report unethical behavior and serious concerns on a confidential basis.

We have several policies and statements relating to how we work with human rights, reflecting the cross-functional and complex nature of this topic. Our key human rights policies and statements include (but are not limited to):

- LEO Pharma Human Rights Policy
- LEO Pharma Code of Conduct
- Protection of Personal Data Policy
- Occupational Health and Safety Policy
- LEO Pharma Third Party Compliance Code
- Patient Safety (GXP Policy)
- Helsinki Declaration

Human rights related risks

VALUE CHAIN LEVEL	HUMAN RIGHTS RISK AREA	RIGHTS HOLDERS
LEO Pharma corporate level	Potential impact of investments/product portfolio/countries of operation on human rights	• Employees • Business partners • Communities/society
R&D	Right to health Right to privacy	• Patients • Business partners
Sourcing	Working conditions	• Business partners
Manufacturing and logistics	Working conditions Impacts on local communities	• Employees • Business partners • Local communities
Distribution, sales and marketing	Right to health Right to privacy Behavior of local distributors/sales agents	• Business partners • Patients • Customers
Recycling and disposal	Environmental health impacts of unregulated waste disposal	• Communities

Sustainability reporting approach

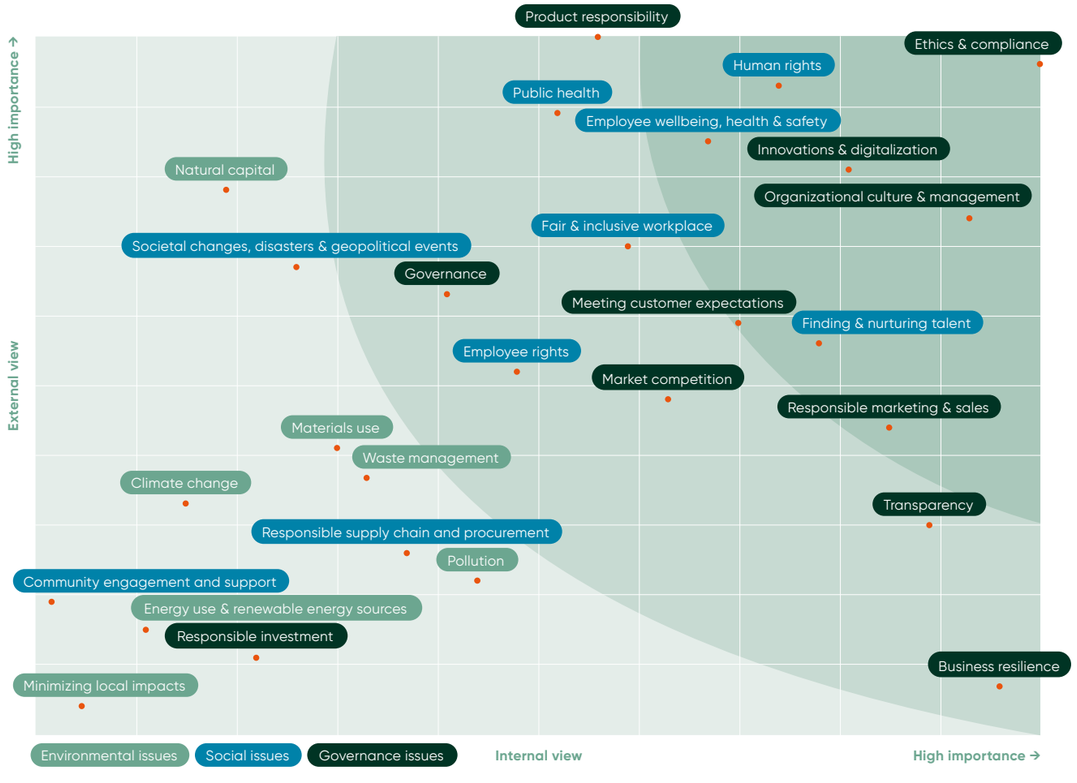
Scope of our non-financial reporting

THE NON-FINANCIAL reporting related to sustainability reporting represents LEO Pharma's compliance with Sections 99a and 99b of the Danish Financial Statements Act. Our non-financial reporting gives an overview of our approach, progress in 2020, and policies and governance within the issues identified as material to LEO Pharma's sustainability work for the financial year January 1 – December 31, 2020.

Sustainability materiality

IN 2020, we updated our approach to materiality – the process of determining the environmental, social and governance issues that have the greatest impact on the long-term success of LEO Pharma. We used a data driven approach to prepare the materiality matrix, powered by Datamaran. Datamaran's automated approach reviews millions of data points from corporate reports, mandatory and voluntary regulations, news and social media, combined with input from our internal stakeholders provided through a survey.

Our materiality assessment serves as a guide for defining on which issues it is most relevant to report in our annual report, and as a guiding process for prioritizing and enhancing our approach to managing potential sustainability risks and processes. In coming years, we plan to incorporate the views of external stakeholders into the materiality assessment, so that we can better capture their needs and expectations. →



Defining key material topics

Ethics & compliance	Fair, moral and transparent business conduct, including the ethics of clinical trials
Innovation & digitalization	Technological development and use of new products, services and business models, and innovation as a process
Organizational culture & management	The work culture, workforce management and employee satisfaction
Human rights	The protection of basic human needs such as freedom from slavery, civil liberties, right to privacy and right to health
Employee wellbeing, health & safety	Social, economic, psychological, health, safety and physical conditions of employees at their workplace
Meeting customer expectations	Ensuring that the requirements of customers are met, including expectations on animal welfare and corporate reputation
Finding & nurturing talent	Hiring, managing, developing and retaining the right people with the right skills
Responsible marketing & sales	Practices for fair marketing, responsible selling and appropriate pricing of products. Practices for fair marketing, responsible selling and ensuring that pricing of products is fair, transparent and non-discriminatory
Fair & inclusive workplace	Growing and maintaining diversity in the workforce and ensuring equal opportunities and equal-pay-for-equal-work for all employees
Market competition	Competition based on factors of price, quality, service and access to markets and measures to protect IP
Public health	Risks to public health from diseases and lack of care, as well as patient centric approaches to health and access to healthcare and medicines
Transparency	Clear and honest reporting, communication and analysis of corporate performance and management
Product responsibility	Managing the environmental, social, health and safety impacts of a product across its lifecycle

Sustainability accounting principles

Boundary setting

Data related to employee safety, energy, waste and water covers LEO Pharma manufacturing sites in Ballerup and Esbjerg in Denmark, Dublin and Cork in Ireland, Segrate in Italy and Vernouillet in France. The site in Segrate was acquired in July 2019 and thus 2020 is the first year for which data from Segrate is included. LEO Pharma headquarters are located at the manufacturing site in Ballerup.

Data collection period

Data was collected from January 1 – December 31, 2020.

METRIC	UNIT	ACCOUNTING PRINCIPLE
CO_2 scope 1	Tonnes	We follow the Greenhouse Gas (GHG) protocol for calculating our CO_2 emissions.
CO_2 scope 2	Tonnes	We follow the Greenhouse Gas (GHG) protocol for calculating our CO_2 emissions, and for our scope 2 report on both our market and location based emissions.
Energy consumption	GWh	Energy consumption is measured as the consumption of electricity, natural gas, heat, steam and fuels used at our six manufacturing sites. Data is based on meter readings and invoices.
Share of renewable electricity	%	Share of renewable electricity consumption is calculated according to the Greenhouse Gas (GHG) Protocol Scope 2 Guidelines.
Water usage	m^3	Water usage is measured as the sum of water used at our manufacturing sites, based on meter readings.
Waste (total)	Tonnes	Waste is measured on the basis of the sum of waste disposed of at our manufacturing sites and is based on data provided by waste management contractors.
Gender diversity in management	%	Gender diversity is calculated using global employee data. Executive management is defined as all employees (people managers) in bands A and B. Senior management is defined as all employees (people managers) in bands C and D. Middle management is defined as employees (people managers) in band E and below. We define managers as those with minimum one internal direct report and on a management job path.
Employee turnover rate	%	Employee turnover rate is calculated as: $\frac{\text{Number of leavers in period (voluntary + involuntary)}}{\text{Average permanent headcount in period}} \times 100$
Sustainable engagement score	%	Our sustainable engagement score is measured through our global LEO Voice Survey.
Lost Time Injury (LTI) rate	LTI rate	Global LTI rate per million working hours calculated as: $\frac{\text{(Number of injuries with more than one day absent from work x 1,000,000 working hours)}}{\text{Total number of working hours based on local standard working hours}}$
Number of lost days	No.	Lost days due to global LTIs are tracked by each of our sites.
Number of social and/or EHS supplier audits performed	No.	Annual sum of social and EHS supplier audits performed by LEO Pharma or a contracted auditor.
% of key suppliers with a high risk rating	%	Measured by number of suppliers marked with a high risk rating in our supplier management system.
Gender diversity at board level	%	Measured by reviewing the gender representation of LEO Pharma's Board of Directors.

METRIC	UNIT	ACCOUNTING PRINCIPLE
New employees completing Code of Conduct e-Learning campaign	%	Measured as number of new employees completing Code of Conduct e-Learning in due time and is an annual overview.
New employees completing anti-corruption e-Learning campaign	%	Measured as number of new employees completing anti-corruption e-Learning in due time and is an annual overview.

AREA	10 PRINCIPLES OF THE UN GLOBAL COMPACT	HOW WE WORK WITH THE PRINCIPLES
Human rights	**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and **Principle 2:** make sure that they are not complicit in human rights abuses.	See pages 22 and 44–45
Labor	**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; **Principle 4:** the elimination of all forms of forced and compulsory labour **Principle 5:** the effective abolition of child labour; and **Principle 6:** the elimination of discrimination in respect of employment and occupation.	See pages 22–25 and 38–39
Environment	**Principle 7:** Businesses should support a precautionary approach to environmental challenges; **Principle 8:** undertake initiatives to promote greater environmental responsibility; and **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.	See pages 22–23, 26–27 and 40–41
Anti-corruption	**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.	See pages 22, 28–29 and 42

03.

Our governance

Throughout 2020, LEO Pharma was wholly owned by the LEO Foundation. This section covers our governance structure, including our legal structure, Global Leadership Team, Board of Directors of LEO Pharma A/S, committees and boards, as well as an overview of our key risks and how we mitigate them.

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 wholly owned subsidiary of:

LEO Foundation
Lautrupsgade 7, 5th floor
DK-2100 Copenhagen Ø, Denmark.

Foundation ownership

The LEO Foundation is the owner of LEO Pharma. 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

Legal structure

LEO Foundation
100%
LEO Holding A/S
100%
LEO Pharma Group*

** LEO Pharma Group comprises LEO Pharma A/S and its Danish and international subsidiaries.*

Board of Directors
LEO Pharma A/S

Olivier Bohuon
Chair, Board member since 2018

Anders Ekblom
Vice Chair, Board member since 2018

Jesper Høiland
Board member since 2016

Cristina Patricia Lage
Board member since 2017

Jan van de Winkel
Board member since 2017

Jesper Mailind
Board member since 2018

Birgitta Stymne Göransson
Board member since 2019

Signe Maria Christensen
Employee-elected Board member since 2018

Franck Maréno
Employee-elected Board member since 2018

Jannie Kogsbøll
Employee-elected Board member since 1998

Karin Attermann
Employee-elected Board member since 2007

See the full bios of the Board of Directors of LEO Pharma A/S on pages 56–57.

Global Leadership Team

Catherine Mazzacco

President and CEO

Joined LEO Pharma in: 2019

Nationality: French/Italian

Management boards, LEO Pharma A/S:
- Development Board
- Portfolio Board

Career: SVP, Global Commercial Operations at GE Healthcare. VP/General Manager at Abbott.

Education: BSE, Engineering, Option Biotechnology at Université de Technologie de Compiègne

Anders Kronborg

Chief Financial Officer

Joined LEO Pharma in: 2015

Nationality: Danish

Management boards, LEO Pharma A/S:
- Development Board
- Portfolio Board
- Sustainability Board

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

Education: Economist at Copenhagen University

Guillaume Clément

Executive Vice President
Region International & GBU Thrombosis

Joined LEO Pharma in: 2009

Nationality: French

Management boards, LEO Pharma A/S:
- Marketed Portfolio Board (Chair)
- Portfolio Board

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

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

Chris Posner

Executive Vice President
Region US

Joined LEO Pharma in: 2017

Nationality: American

Management boards, LEO Pharma A/S:
- Portfolio Board

Career: Head of Worldwide Commercial Operations at R-Pharm U.S. LLC. VP at Bristol-Myers Squibb.

Education: MBA at Duke University – The Fuqua School of Business. BA, Economics at Villanova University

Monica Shaw

Executive Vice President
Region Europe+

Joined LEO Pharma in: 2020

Nationality: British

Management boards, LEO Pharma A/S:
- Marketed Portfolio Board
- Portfolio Board

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

Education: MBBS, Medicine at University of Oxford

Becki Morison

Executive Vice President
Global Therapeutic & Value Strategy

Joined LEO Pharma in: 2020

Nationality: American

Management boards, LEO Pharma A/S:
- Development Board
- Portfolio Board (Co-Chair)

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

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

Jörg Möller

Executive Vice President
Global Research & Development

Joined LEO Pharma in: 2021

Nationality: German

Management boards, LEO Pharma A/S:
- Development Board (Chair)
- Portfolio Board (Co-Chair)

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

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

Rhonda Duffy

Executive Vice President
Global Product Supply

Joined LEO Pharma in: 1993

Nationality: Irish

Management boards, LEO Pharma A/S:
- CAPEX Investment Board
- Development Board
- Marketed Portfolio Board
- Portfolio Board
- Sustainability Board

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

Education: Ph.D., Pharmacy at Trinity College Dublin

Nathalie Joannes

Executive Vice President
Global Legal & Compliance

Joined LEO Pharma in: 2020

Nationality: Belgian

Management boards, LEO Pharma A/S:
- Risk & Compliance Board
- Sustainability Board

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

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

Dennis Schmidt Pedersen

Executive Vice President
Global People & Communications

Joined LEO Pharma in: 2018

Nationality: Danish

Management boards, LEO Pharma A/S:
- Sustainability Board (Chair)

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

Education: Royal Danish Officers Academy

Board of Directors
LEO Pharma A/S

Chair
Olivier Bohuon

Board member since 2018

Nationality: French

Special competencies: Pharmaceutical industry, executive management

Board committees, LEO Pharma A/S: Remuneration and Nomination Committee (Chair)

Career: CEO Smith and Nephew plc (UK). CEO Pierre Fabre. Corporate EVP and President Abbott Laboratories Pharmaceutical division.

Education: MBA HEC Paris, France/Doctorate in Pharmacy, University of Paris XI, France

Other board memberships:
- Takeda plc.
- Smiths Group plc.
- Virbac plc.

Vice Chair
Anders Ekblom

Board member since 2018

Nationality: Swedish

Special competencies: Executive management, biopharmaceutical industry, project and change management

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

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

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

Other board memberships:
- Alligator Bioscience AB
- AnaMar, AB
- Elypta AB (Chair)
- Mereo Biopharma Group Plc (Director)

Jesper Høiland

Board member since 2016

Nationality: Danish

Special competencies: Executive management in life sciences, biopharmaceutical industry and US market

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

Career: CCO, Ascendis Pharma A/S. President & CEO, Radius Health. President/EVP USA, Novo Nordisk A/S.

Education: MSc Copenhagen Business School

Other board memberships:
- CoNCERT Pharmaceutical, Inc.

Jesper Mailind

Board member since 2018

Nationality: Danish

Special competencies: Executive management in healthcare, medical devices and industry

Board committees, LEO Pharma A/S: Remuneration and Nomination Committee (member)

Career: CEO, LEO Foundation, CEO GN Resound, RTX and SVP in Nycomed (Takeda).

Education: MBA, Insead

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

Jannie Kogsbøll

Employee-elected Board member since 1998

Nationality: Danish

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

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

Karin Attermann

Employee-elected Board member since 2008

Nationality: Danish

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

Career: 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)

Jan van de Winkel

Board member since 2017

Nationality: Dutch

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

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

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

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

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

Cristina Patricia Lage

Board member since 2017

Nationality: Danish

Special competencies: Finance, M&A, asset management, CSR, executive management

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

Career: CEO Unipension, Nordea Invest, Nordea Life&Pension, TV2/Danmark, Louisiana Museum, ISS Finans A/S and AVP in Privatbanken (IPOs and M&A).

Education: MSc Copenhagen Business School

Other board memberships:
- Arbejdsmiljørådet (Chair)
- LEO Foundation
- LEO Holding
- Det Obelske Familiefond
- CWO Fondet
- C. L. Davids Fond

Birgitta Stymne Göransson

Board member since 2019

Nationality: Swedish

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

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

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

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

Other board memberships:
- Elekta AB (Director)
- Pandora A/S (Director)
- Enea AB (Director)
- MAG Interactive AB (Chair)

Franck Maréno

Employee-elected Board member since 2018

Nationality: Danish

Career: Principal Technician, Fucidin API Fermentation and Vice Chair, the Technicians Club at LEO Pharma. Joined LEO Pharma in 2008.

Education: AP Graduate Laboratory and Biotechnology "Technonome"

Signe Maria Christensen

Employee-elected Board member since 2018

Nationality: Danish

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

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

Other board memberships:
- Vice Chair of the LEO Pharma Academics Association

Statutory report on gender diversity, pursuant to Section 99b of the Danish Financial Statements Act.

LEO Pharma's current goal is to have at least three female members of the Board of Directors of LEO Pharma A/S elected by the Annual General Meeting in 2021. This is in addition to the employee-elected Board members.

- By the end of 2020, the number of female Board members was two and the number did not change in 2020 as the Board was well-functioning and stable.
- During Q4 2020, the Board of Directors reviewed and updated the corporate governance setup with a review of the composition of the Board of Directors, which was not completed by the end of 2020.
- Women in total represent 44% of management positions at levels below the Board of Directors of LEO Pharma A/S*.

* *See page 11 and page 38 for an overview of gender representation at executive, senior and middle management level.*

Committees and boards

Sub-committees of the Board of Directors

Audit Committee

The Board of Directors has established an Audit Committee to assist the Board of Directors in overseeing aspects related to financial reporting, auditing, risk management, currency and investment policies, and compliance. The Audit Committee meets when required, but at least four times a year. The Audit Committee comprises three members, all of whom are members of the Board of Directors.
The members possess the relevant qualifications specified in the Rules of Procedure of the Audit Committee.
The Board of Directors has elected the following Board members to the Audit Committee: Birgitta Stymne Göransson (Chair), Cristina Patricia Lage and Karin Attermann.

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 three members, two of whom are members of the Board of Directors and one of whom is appointed by the LEO Foundation.
The Board of Directors has elected the following Board members to the Remuneration and Nomination Committee: Olivier Bohuon (Chair) and Anders Ekblom. The LEO Foundation has appointed Jesper Mailind.

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 three members, all of whom are members of the Board of Directors.
The Board of Directors has elected the following Board members to the Scientific Committee: Jan van de Winkel (Chair), Jesper Høiland and Anders Ekblom. Signe Maria Christensen participates, but without the right to vote.

Management boards

CAPEX Investment Board
LEO Pharma's Global Leadership Team has established the CAPEX Investment Board (CIB) to ensure alignment between investments in physical and IT assets, the pipeline projects and the corporate strategy. The CIB is a cross-functional board with members from Global IT, Finance, Global Therapeutic & Value Strategy, Global Product Supply, and Global Procurement.
Chair: Jannie Holm, SVP Finance.

Development Board
LEO Pharma's Global Leadership Team has established the Development Board to ensure strategic alignment and to maximize the value of the portfolio of projects in development, from the first clinical studies until launch. The Development Board is a cross-functional board with members from Global Development, Global Product Supply, Global Therapeutic & Value Strategy, Global Finance and Global BusinessDevelopment, Global Regulatory Affairs, R&D Portfolio and Program Leadership, Global Research, Global Pricing & Market Access, Medical Science, and the CEO of LEO Pharma.
Chair: Jörg Möller, Executive Vice President, Global Research & Development.

Marketed Portfolio Board
LEO Pharma's Global Leadership Team has created the Marketed Portfolio Board to ensure strategic alignment, to maximize value and to ensure compliance for LEO Pharma's marketed solutions. The Marketed Portfolio Board is a cross-functional board with members from Global Regulatory Affairs, Global Product Supply, Medical Sciences, Region Europe+, Global Quality, Global Marketing, CMC Design & Development and Global Finance.
Chair: Guillaume Clement, Executive Vice President, Region International & BU Thrombosis.

Portfolio Board
LEO Pharma's Global Leadership Team has established the Portfolio Board to set clear portfolio priorities and allocate resources in alignment with the Corporate Strategy to the Research Project Board, Development Board and Marketed Portfolio Board to execute on. The Portfolio Board is a cross-functional board with members from Global Research & Development, Global Product Supply, Global Therapeutic & Value Strategy, Region US, Region International, Region Europe+, Global Finance and Global Business evelopment, Corporate Strategy, Global Business Development, R&D Portfolio and Program Leadership, and the CEO of LEO Pharma.
Co-Chair: Becki Morison, Executive Vice President, Global Therapeutic & Value Strategy.
Jörg Möller, Executive Vice President, Global Research & Development.

Research Project Board
LEO Pharma's Global Leadership Team has established the Research Project Board to ensure alignment on managing the research projects, from initiation until the decision to start clinical testing. The Research Project Board is a cross-functional board with members from Research, Global Development, Head of R&D and Global Therapeutic & Value Strategy.
Chair: Thorsten Thormann, Vice President, Research.

Risk & Compliance Board
The Risk & Compliance Board is an initiative of LEO Pharma's Global Leadership Team. The purpose is to provide strong focus on LEO Pharma's enterprise risk management via a cross-functional direction and oversight in all of the day-to-day activities, as well as our key projects. A further purpose is to establish an overall second and third line of defense and to promote a proactive risk and compliance mindset throughout the organization. The Risk & Compliance Board is a cross-functional board with members from Global Legal and Compliance, Internal Audit, Finance, Global People, US General Counsel, and Global Therapeutic & Value Strategy.
Chair: Compliance Officer, Global Compliance & Risk.

Sustainability Board
LEO Pharma's Global Leadership Team has established the Sustainability Board to ensure accountability for sustainability performance and cross-functional alignment on the implementation of the sustainability strategy. The Sustainability Board meets when required, and at least twice a year. The Board is an executive level board, comprising the Executive Vice President Global People & Communication, Chief Financial Officer, Executive Vice President Global Product Supply, Chief of Staff, and Executive Vice President Legal and Compliance & General Counsel.
Chair: Dennis Schmidt Pedersen, Executive Vice President, Global People & Communications.

Risk management

Risk management framework
LEO Pharma's successful transformation into a biopharmaceutical company requires systematic and rigorous risk management to become an integral part of all business activities. To facilitate a sustained repeatable approach to risk management, an Enterprise Risk Management Framework ("ERM Framework") is being implemented globally, primarily based on the ISO 31000 International Risk Management Standard. This includes standardized risk assessment and risk treatment, and a risk reporting methodology and cycle.

Risk management governance
The Board of Directors holds the overall responsibility for enterprise risk management, with the role of oversight of the ERM Framework being delegated to the Audit Committee.

Risk assessment & risk treatment
Risks are primarily assessed in terms of their potential financial loss, as well as consequences for people, patients and reputation. Relevant enterprise risks are identified through a combination of frontline input obtained via an extensive number of risk assessment sessions held with key business areas and functions throughout the year, as well as input provided by Executive Management (GLT), and external risk intelligence. All key risks are assigned to a designated internal risk owner responsible for establishing and maintaining a risk treatment plan, in close alignment with the relevant local area management team.

Risk reporting
The Audit Committee is informed on an ongoing basis of enhancements to the ERM Framework. A separate risk report with a risk heat map of the key enterprise risks relevant to LEO Pharma's strategic ambitions towards 2030, including high level scenarios and main risk treatment activities for each key risk, is provided to the Board of Directors on a biannual basis. In parallel, a biannual worst case risk report is provided, to support financial stress testing, besides ensuring that key internal stakeholders stay vigilant and maintain a balanced level of readiness towards these often low-likelihood, high-consequence risk scenarios. Furthermore, the Executive Management (GLT) receive regular reports on the status and progression of key local area risks.

Key risks (2020–2025)

RISK AREA	COVID-19 business impact	Information security	New product launches	Market access restrictions &/or pricing pressure	Single source supply
	COVID-19 pandemic-related disruptions is a new risk in 2020. In the healthcare sectors, the resources and focus were repurposed to critical care, and access to hospitals and healthcare practices were to a high degree restricted, with less or no planned surgeries. The pandemic has led to negative growth in the global economy and the economic outlook is uncertain, and with the high demand for available vaccines. In this environment, LEO Pharma would be able to maintain productivity at the manufacturing sites. However, the COVID-19 pandemic may cause further disruptions to clinical trials, and face-to-face product promotion, and declining product demand.	Throughout 2020, numerous high-profile organizations have fallen victim to some form of cyber-attack, including Twitter, Garmin, Honda, EasyJet and Marriott Hotels Group. In a continuing trend from previous years, it is evident that no matter what size or what industry sector an organization operates in, anyone can fall victim to a cyber-attack. Any type of information security risk event may happen anywhere along the global LEO Pharma value chain and across locations.	The success of a new product launch depends on many factors. They include, but are not limited to, labels and timing of regulatory approvals of indications or devices, payer's price and reimbursement approvals, profiles of competitors still in development, competitors' strategies, activities and investment levels, inability for in-person launch communication; and single source supply failure for drug substance (active ingredient), syringe filling or packaging.	Market access restrictions &/or pricing pressure driven by both private and public payers demanding increasingly higher price deductions, discounts and rebates, alongside restricting reimbursement and access to both new and established products, whether topicals or systemics.	At LEO Pharma, due to the uniqueness of the manufacturing lines, there may be a reduced flexibility to move products from one line to another. Also, there could be a limited possibility to supply the same product from various lines. This creates an increased vulnerability to e.g., major breakdowns or quality problems. However, operating with a dual source supply strategy is very costly due to sites/lines validation processes and product registration updates. For this reason, it has been decided to establish dual sourcing solely for key products.
POTENTIAL CONSEQUENCES	Negative impact on expected sales and profits. Patients not benefitting from innovative new treatments.	Negative impact on expected sales and profits. Patients and caregivers not having access to LEO Pharma's products. Reputational damage, combined with fines and other sanctions imposed by the authorities.	Negative impact on expected sales and profits. Patients not benefitting from innovative new treatments.	Negative impact on expected sales and profits. Patients not benefitting from innovative new treatments.	Inability to supply markets and negative impact on expected sales and profits.
KEY RISK TREATMENT MEASURES	Mitigating actions protecting the bottom line are executed. Site measures are implemented to minimize the impact on affected employees, while defining new ways of working to maximize productivity and minimize on-site presence. Customer engagement and channel mix are moving to digital with a commercial digitalization model. Full supply chain has been mapped and various risks are being addressed. Clinical trial model switch to hybrid will be piloted in 2021.	LEO Pharma is focused on ensuring that its Information Security program is adequate through a number of key initiatives over the next few years, namely: Information Security Awareness and Training, Identity and Access Management, Endpoint Security, Application and Data Protection. Underpinning these initiatives are enhancement of LEO Pharma's current governance model and policies, implementation of world-class network security capabilities and ensuring the business is able to withstand large-scale cyber-attacks through business continuity planning and testing.	To secure market approvals and reimbursement of any new product, the design of pivotal clinical trials remains a key factor of success. The conduct of such trials in full GMP compliance is a requirement. Investments in commercial infrastructure and field force must be done. Dual source supply needs to be secured as early as possible.	Close monitoring of market access/pricing developments and requirements in key markets, while working actively with payers and advocacy groups to document and reinforce the value of our products, e.g. through clinical trial data and/or real-world evidence.	Strategies for increasing internal capability or sourcing API externally are being evaluated. Capital investments to secure near-term capacity are being made.

Contents

Consolidated Financial Statements

Income statement
January 1 - December 31

(DKK million)	Note	2020	2019
Revenue	2	10,133	10,805
Cost of sales	3, 7, 12	(3,360)	(3,350)
Gross profit		**6,773**	**7,455**
Sales and distribution costs	3, 6, 7	(4,433)	(4,611)
Research and development costs	3, 6, 7	(2,096)	(2,444)
Administrative costs	3, 6, 7, 19	(2,145)	(1,705)
Other operating income	4	1,240	19
Other operating expenses	4	(65)	(27)
Operating profit/(loss)		**(726)**	**(1,313)**
Share of profit/(loss) on investment in associates		(2)	(29)
Financial income	21	28	12
Financial expenses	21	(380)	(375)
Profit/(loss) before tax		**(1,080)**	**(1,705)**
Tax on profit/(loss) for the year	10	129	418
Net profit/(loss) for the year		**(951)**	**(1,287)**

Statement of comprehensive income
January 1 - December 31

(DKK million)	Note	2020	2019
Net profit/(loss) for the year		(951)	(1,287)
Other comprehensive income			
Items that will not subsequently be reclassified to the Income statement:			
Remeasurement of defined obligations	19	(114)	(147)
Tax on Other comprehensive income	10	7	13
Items that will not subsequently be reclassified to the Income statement		**(107)**	**(134)**
Items that may subsequently be reclassified to the Income statement:			
Exchange rate adjustments on investments in foreign subsidiaries		(103)	2
Value adjustment of hedging instruments:			
Cash flow hedges (exchange rate), deferred gains/(losses) incurred during the period	15	30	(31)
Cash flow hedges (interest rate), deferred gains/(losses) incurred during the period	14	(6)	4
Tax on Other comprehensive income	10	(5)	6
Items that may subsequently be reclassified to the Income statement		**(84)**	**(19)**
Total Other comprehensive income/(loss)		**(191)**	**(153)**
Comprehensive income/(loss) for the year		**(1,142)**	**(1,440)**

Balance sheet at December 31
Assets

(DKK million)	Note	2020	2019
Goodwill		192	126
Intellectual property rights		5,262	6,875
Software		1,335	959
Development projects and software in progress		2,439	2,315
Intangible assets	6	**9,228**	**10,275**
Land and buildings		929	908
Leasehold improvements		58	46
Plant and machinery		898	1,029
Other fixtures and fittings, tools and equipment		148	148
Assets under construction		2,025	1,121
Property, plant and equipment	7	**4,058**	**3,252**
Right-of-use assets		460	544
Right-of-use assets	8	**460**	**544**
Investment in associates		7	9
Other financial assets		45	23
Deferred tax assets	11	1,430	1,219
Other receivables	16	15	17
Other non-current assets		**1,497**	**1,268**
Total non-current assets		**15,243**	**15,339**
Inventories	12	2,863	2,305
Trade receivables	14, 16	2,441	3,325
Tax receivables		1,171	1,342
Other receivables	13, 16	610	980
Prepayments		796	301
Other financial securities	16	126	226
Cash and cash equivalents	16	603	230
Total current assets		**8,610**	**8,709**
Assets classified as held for sale		-	712
Assets classified as held for sale	18	**-**	**712**
Total assets		**23,853**	**24,760**

Balance sheet at December 31
Equity and liabilities

(DKK million)	Note	2020	2019
Share capital	23	250	250
Reserves		(338)	(260)
Retained earnings		7,035	8,098
Equity		**6,947**	**8,088**
Deferred tax liabilities	11	17	1,105
Retirement benefit obligations	19	488	413
Provisions	9	475	404
Loans and credit institutions	14, 16	8,772	8,613
Lease liabilities	8, 16	392	459
Other long-term liabilities		664	91
Total non-current liabilities		**10,808**	**11,085**
Provisions	9	776	794
Credit institutions	14, 16	906	719
Trade payables	16	1,576	1,546
Lease liabilities	8, 16	99	99
Tax payables		608	62
Other payables	16, 17	2,133	2,367
Total current liabilities		**6,098**	**5,587**
Total equity and liabilities		**23,853**	**24,760**

Statement of changes in equity
January 1 - December 31

(DKK million)	Share capital	Reserves: Foreign currency translation reserve	Reserves: Hedging reserve	Retained earnings	Total
2020					
Equity at January 1	250	(210)	(50)	8,098	8,088
Comprehensive income for the year					
Net profit/(loss) for the year				(951)	(951)
Other comprehensive income					
Items that will not subsequently be reclassified in the Income statement:					
Remeasurement of defined benefit pension obligations				(114)	(114)
Tax on Other comprehensive income				7	7
Items that will not subsequently be reclassified to the Income statement				**(107)**	**(107)**
Items that are or may subsequently be reclassified to the Income statement:					
Value adjustments of hedging instruments for the year			24		24
Tax on items that are or may be reclassified to the Income statement				(5)	(5)
Foreign exchange adjustments, subsidiaries		(103)			(103)
Items that are or may subsequently be reclassified to the Income statement		**(103)**	**24**	**(5)**	**(84)**
Total other comprehensive income/(loss) for the year		(103)	24	(1,063)	(1,142)
Equity at December 31	**250**	**(313)**	**(25)**	**7,035**	**6,947**
2019					
Equity at January 1	250	(212)	(23)	9,513	9,528
Comprehensive income for the year					
Net profit/(loss) for the year				(1,287)	(1,287)
Other comprehensive income					
Items that will not subsequently be reclassified in the Income statement:					
Remeasurement of defined benefit pension obliations				(147)	(147)
Tax on Other comprehensive income				13	13
Items that will not subsequently be reclassified in the Income statement:				**(134)**	**(134)**
Items that are or may subsequently be reclassified to the Income statement:					
Value adjustments of hedging instruments for the year			(27)		(27)
Tax on items that are or may be reclassified to the Income statement				6	6
Foreign exchange adjustments, subsidiaries		2			2
Items that are or may subsequently be reclassified to the Income statement		**2**	**(27)**	**6**	**(19)**
Total other comprehensive income/(loss) for the year		2	(27)	(1,415)	(1,440)
Equity at December 31	**250**	**(210)**	**(50)**	**8,098**	**8,088**

Cash flow statement
January 1 - December 31

(DKK million)	Note	2020	2019
Operating profit/(loss)		**(726)**	**(1,313)**
Non-cash items			
Depreciation, amortization and impairment losses, net	6, 7, 8	1,266	1,185
Gain/loss on sale of non-current assets, etc., net		(1,178)	13
Change in pension obligations and other provisions		216	221
Other non-cash adjustments	22	23	(16)
Change in working capital			
Change in inventories and receivables		233	(552)
Change in trade payables and other payables		(411)	1,122
Interest etc., received		8	5
Interest etc., paid		(198)	(186)
Income tax received/paid		29	(711)
Cash flows from operating activities		**(737)**	**(232)**
Investments in intangible assets	6	(773)	(1,077)
Investments in property, plant and equipment	7	(1,164)	(1,224)
Proceeds from sale of intangible assets[2]	6	2,899	21
Proceeds from sale of property, plant and equipment	7	44	0
Acquisition of business and activities, net of cash acquired[1]	5	(52)	(4,371)
Investments in other securities		(3)	0
Proceeds from sale of other securities		100	86
Cash flows from investing activities		**1,051**	**(6,565)**
Proceeds from borrowings	14	1,296	7,539
Repayment of borrowings	14	(785)	(1,006)
Overdraft		(322)	276
Repayment of lease liabilities	8	(112)	(91)
Cash flows from financing activities		**77**	**6,718**
Net cash flow for the period		**391**	**(79)**
Cash and cash equivalents, January 1		230	299
Currency translation effect on cash and cash equivalents		(18)	10
Cash and cash equivalents, December 31[3]	**14**	**603**	**230**

1. 2020: Additional payment to Bayer of DKK 38.5 million and transaction cost of DKK 13 million. 2019: Total consideration of acquisition of business and activities of DKK 4,626 million for the purchase price of Bayer's Rest of World is deducted by DKK 255 million for acquired cash and cash equivalents. Reference is made to note 5.
2. Proceeds from sale of intangible assets DKK 712 million relates to cashflows from Assets held for sale. Reference is made to note 5.
3. At December 31, 2020 DKK 13 million (2019: DKK 29 million) of the cash and cash equivalents was deposited on restricted bank accounts.

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

Notes - Group

Note 1 Basis of reporting

Basis of preparation

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

On February 25, 2021 the Board of Directors and the Executive Management Board considered and approved the 2020 Annual Report of LEO Pharma A/S. The Annual Report will be presented to the shareholders of LEO Pharma A/S for approval at the ordinary Annual General Meeting on March 16, 2021.

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

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

Rounding

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

COVID-19

The Group delivered a resilient performance in 2020 despite the COVID-19 pandemic.

During the COVID-19 pandemic, the Group's priorities have been to safeguard the health of the employees and continue supplying medicine to patients. Manufacturing sites continue to operate, and products are still distributed and made available to patients worldwide. Task force teams were in place, focused on keeping employees safe and production running.

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

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

Throughout the year, the Group maintained close communication with customers on measures taken within the organization to prevent impact on production and delivery.

Application of materiality

In the preparation of the Consolidated Financial Statements, LEO Pharma A/S aims to focus on information which is considered to be material and relevant to the users of the Consolidated Financial Statements.

Key accounting estimates and judgments

The Executive Management has made certain estimates and judgments that affect the accounting policies and the amounts reported in the Consolidated Financial Statements. Estimates are based on historical experience and assumptions that are reasonable under the circumstances and current situation.

Therefore, the actual amounts may differ from the estimated amounts, as more detailed information becomes available. Judgments are made when Executive Management apply the accounting policies.

Note	Key accounting estimates and judgments	Estimate/judgment
5 Acquisition of activities	Purchase price allocation in business combination	Estimate
5 Acquisition of activities	Assessments of type of transaction/asset and control	Judgment
6 Intangible assets	Estimated useful lives and impairment test	Estimate
6 Intangible assets	Assessments of type of asset and level of control	Judgment
8 Leases	Determining lease term	Judgment
9 Provisions	Estimates of provisions for legal disputes and sales deductions	Estimate
10 Tax on profit/loss for the year	Estimates regarding provisions for uncertain tax positions	Estimate
11 Deferred tax	Estimates of valuation of deferred tax assets	Estimate
12 Inventories	Estimates of valuation of inventories	Estimate
19 Retirement benefit plan	Estimates of valuation of defined benefit plans	Estimate
Prepayments	Assessment of upfront payment	Judgment

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

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

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

Assessment of upfront payment in a license agreement

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

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 unrealised profits from intercompany transactions. The Financial Statements of all companies have been prepared by applying the Group's accounting policies.

Foreign currency translation

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

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

On consolidation of foreign subsidiaries with a functional currency other than DKK, income statements are translated into DKK at the average exchange rates for the period, and balance sheet items are translated at the exchange rates on the balance sheet date. The effects of the translation of the opening equity of foreign subsidiaries at the exchange rates on the balance sheet date and the translation of the Statement of comprehensive income from average exchange rates to the exchange rates on the balance sheet date are recognized in Other comprehensive income.

Cash flow statement

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

Cash flows from investing activities comprise payments 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.

Intragroup business combinations

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

Implementation of new standards and interpretations

Effective from January 1, 2020, LEO Pharma has implemented the following new or changed accounting standards and interpretations. Their adoption has not had any material impact on the disclosures or the amounts reported in the Group Financial Statements; Amendments to References to the Conceptual Framework in IFRS Standards. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

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

Note 1 Basis of reporting (continued)

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

Amendment to IFRS 16. In May 2020, the IASB issued Covid-19-Related Rent Concessions that provide practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession in the same way as it would account for the change by applying IFRS 16 if the change were not a lease modification.

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

LEO Pharma has not applied the following standards that have been issued but are not yet effective. LEO Pharma does not expect that the adoption of these standards will have a material impact on the Consolidated Financial Statements in future periods.

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

Definition of key figures

Ratios - formulas

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

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

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

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

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

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

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

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

Note 2 Revenue

Accounting policies

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

Revenue is measured at 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. Please refer to note 9 Provisions regarding the accounting policies for sales deductions and returns.

(DKK million)	2020	2019
Revenue by region		
Europe+	6,732	6,840
International	2,938	3,117
US	463	848
Total	**10,133**	**10,805**
Revenue by therapeutic area		
Psoriasis	3,685	3,988
Eczema/Skin infections	3,211	3,220
Thrombosis	2,202	2,219
Actinic keratosis	30	312
Acne/Rosacea	346	321
Other	659	745
Total	**10,133**	**10,805**
Revenue by category		
Products	9,990	10,563
Sales-based royalties	137	212
Other	6	30
Total	**10,133**	**10,805**

Timing of revenue recognition
Revenue totaling DKK 10,133 million comprises goods transferred at a point in time of DKK 10,127 million (2019: DKK 10,791 million) and services transferred over time of DKK 6 million (2019: DKK 14 million).

Note 2 Revenue (continued)

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

Unsatisfied performance obligations:
The Group's remaining performance obligation expected to be recognized as of December 31, 2020 is DKK 15 million (2019: DKK 24 million), which will be recognized in 2021. The obligations comprises contracts where the Group has an obligation to deliver goods 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 LEO Pharma.

Where LEO Pharma provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

(DKK million)	2020	2019
Wages and salaries[1]	3,948	3,615
Capitalized staff expenses	(221)	(198)
Pensions – defined benefit plans	8	7
Pensions – defined contribution plans	301	275
Social security expenses	353	321
Other employee expenses	244	172
Total staff expenses in the Income statement	**4,633**	**4,192**
Staff expenses included in:		
Cost of sales	820	626
Sales and distribution costs	1,967	1,799
Research and development costs	886	831
Administrative costs	960	936
Total	**4,633**	**4,192**
Average number of full-time employees	**5,955**	**5,820**

1. Total staff expenses are impacted by DKK 299 million (2019: DKK 0 million) as a consequence of the restructuring of LEO Pharma announced at August 20, 2020. The restructuring costs are recognized in the Income statement as follows; Cost of sales DKK 110 million, Sales and distribution costs DKK 111 million, Research and development costs DKK 17 million and Administrative costs DKK 61 million.

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

Remuneration to the Executive Management and Board of Directors

(DKK million)	Salary	Bonus[1]	Pension	Severance payments	Total remuneration
2020					
Registered members of the Executive Management[2]	10	14	1	-	25
Other members of Executive Management[2, 3]	23	23	5	8	59
Board of Directors	6	-	-	-	6
Total	**39**	**37**	**6**	**8**	**90**
2019					
Registered members of the Executive Management[2, 4]	12	15	1	39	67
Other members of the Executive Management[2, 3]	23	20	5	-	48
Board of Directors	6	-	-	-	6
Total	**41**	**35**	**6**	**39**	**121**

1. Members of the Executive Management participate in short- and long-term incentive programs that provide a bonus for the achievement of predetermined targets. In addition, a retention bonus agreement is included for selected members of the Executive Management.
2. LEO Pharma may pay a compensation to the CEO and other members of the Executive Management, as a result of differences between foreign and Danish private income taxation.
3. Other members of the Executive Management comprise Guillaume Clément (Executive Vice President, Region International & BU Thrombosis), Christopher Posner (Executive Vice President, Region United States), Monica Shaw (Executive Vice President, Region Europe+), Becki Morison (Executive Vice President, Global Therapeutic & Value Strategy), Rhonda Duffy (Executive Vice President, Global Product Supply), Nathalie Joannes (Executive Vice Preseident, Legal and Compliance), Dennis Schmidt Pedersen (Executive Vice President, Global People & Communications), Kim Kjøller (Executive Vice President, Global Research & Development, resigned December 2020) and former members Mette Vestergaard Jakobsen (former Executive Vice President, Global People and Business Transformation, resigned August 2020), Jørgen Damsbo Andersen (former Executive Vice President, Region International, resigned June 2020) and Patrice Baudry (Executive Vice President, Global Marketing, Market Access and Market Affairs, stepped down September 2020).
4. In 2019, the remuneration to the Executive Management includes remuneration paid to former President & CEO Gitte P. Aabo, who stepped down at the end of June 2019.

Note 4 Other operating income and expenses

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

(DKK million)	2020	2019
Gain from sale of assets[1]	1,181	2
Other operating income	59	17
Other operating income	**1,240**	**19**
Royalty expenses	18	13
Loss from sale of assets	3	14
Other operating expenses	44	0
Other operating expenses	**65**	**27**

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

Note 5 Acquisition and divestment of business and activities

Accounting policies

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

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

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

Key accounting judgments

Assessment of type of transaction

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

Key accounting estimates

Purchase price allocations

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

Acquisitions and divestments
Acquisitions in 2020

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

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

Divestment of Emollients and Proctology Portfolio

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

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

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

Acquisitions in 2019

On July 27, 2018, the LEO Pharma Group entered into two separate agreements to purchase 100% of Bayer's global prescription dermatology portfolio, of which the first agreement was recognized in 2018 and the second in 2019.

The second agreement, which concerned Bayer's prescription dermatology business for the Rest of the World, including the intellectual property rights and takeover of sales and marketing organizations, was recognized on July 1, 2019, when the LEO Pharma Group gained control. The acquisition furthermore comprised a factory in Segrate, Italy and 100% of the shares in the German companies Intendis GmbH, Intraserv GmbH and Intraserv KG, and is in line with the Group's growth strategy within the areas of acne, fungal skin infections and rosacea, as well as LEO Pharma's range of topical steroids.

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

By completing the final part of the acquisition, the Group enhanced its size in key markets such as Brazil, Austria, and South Africa – underlining the ambition to become a world leader in medical dermatology.

The fair value of the assets and liabilities acquired is not considered to be final until 12 months after the acquisition.

Divestment of Emollients and Proctology Portfolio to Karo Pharma

As part of the Bayer Rest of the World acquisition, an emollients and proctology portfolio was included. On December 23, 2019, LEO Pharma announced the sale of 10 products to Karo Pharma AB for DKK 712 million. The divested portfolio is non-core to LEO Pharma's business, and was part of the portfolio acquired from Bayer in July 2019. As a consequence of the divestment, the assets were valued on the basis of negotiated price in the purchase price allocation. The transaction is subject to the competition authority's approval, but is expected to be effective by the end of March 2020.
The divested portfolio was classified as assets held for sale as of December 31, 2019, reference is made to note 18.

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

1. Intangible assets mainly comprise of intellectual property rights.

From the acquisition date to December 31, 2019, the Rest of the World business contributed revenue of DKK 752 million. If the acquisition had taken place on January 1, 2019, the Group's revenue would have been DKK 11,601 million. Disclosure of net profit/loss for the period is impracticable as the required information is not available from the seller of the acquired company. A cash consideration of DKK 4,626 million was paid in 2019. Goodwill of DKK 126 million was recognized as part of the transaction, primarily related to deferred tax assets and liabilities that arose due to the fair value adjustments of assets acquired in the share deal.

Transaction costs relating to the acquisition amounted to DKK 45 million and were recognized as administrative costs in the Income statement.

Note 6 Intangible assets

Accounting policies

Intellectual property rights are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the expected useful lives of the assets. Amortization of intellectual property rights is mainly recognized in Sales and distribution costs.

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

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

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

Research costs are recognized in the Income statement as incurred.

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

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

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

Impairment testing

During the year, the Group reviews the carrying amounts of the intangible assets in order to determine whether there is any indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

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

The recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

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

Impairment in 2019
At the end of 2019, LEO Pharma identified indications of impairment relating to the intellectual property rights acquired from Bayer AG in 2018 and which impacted the long-term sales projections. The impairment is a result of changes in the competitive landscape and an updated assessment of the expected outcome of a specific patient solution.

The negative changes in the future cash flows have resulted in an impairment loss of DKK 114 million, which is recorded as Sales and distribution costs in the Income statement.

The recoverable amount of the assets has been determined on the basis of value in use.

Note 6 Intangible assets (continued)

Key accounting estimates

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

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

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

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

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

Futhermore, it is the Group's assessment, that the useful life of the current ERP system has changed and will therefore be amortized over a shorter period than originally expected.

Key accounting judgments

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

Note 6 Intangible assets (continued)

(DKK million)	Goodwill	Intellectual property rights	Software	Development projects and software in progress	Total intangible assets
2020					
Cost at January 1	126	14,176	1,290	4,028	19,620
Adjustment to opening, related to Business combinations[1]	66	-	-	-	66
Exchange rate adjustment	-	(16)	-	13	(3)
Additions during the year	-	-	7	766[4]	773
Disposals during the year[2]	-	(1,730)	(25)	(5)	(1,760)
Transfers	-	2	650	(652)	-
Cost at December 31	**192**	**12,432**	**1,922**	**4,150**	**18,696**
Amortization and impairment losses at January 1	-	(7,301)	(331)	(1,713)	(9,345)
Reversal of impairment	-	26	-	-	26
Amortization for the year	-	(630)	(241)[3]	(2)	(873)
Disposals during the year[2]	-	719	-	4	723
Transfers	-	15	(15)	-	-
Amortization and impairment losses at December 31	**-**	**(7,170)**	**(587)**	**(1,711)**	**(9,468)**
Carrying amount at December 31	**192**	**5,262**	**1,335**	**2,439**	**9,228**
2019					
Cost at January 1	-	10,105	858	3,803	14,766
Adjustment to opening	-	-	-	(14)	(14)
Additions during the year	-	64	52	629	745
Additions from business combinations[1]	126	4,007	-	-	4,133
Disposals during the year	-	-	(1)	(9)	(10)
Transfers	-	-	381	(381)	-
Cost at December 31	**126**	**14,176**	**1,290**	**4,028**	**19,620**
Amortization and impairment losses at January 1	-	(6,591)	(204)	(1,704)	(8,499)
Amortization for the year	-	(596)	(127)	-	(723)
Impairment losses for the year	-	(114)	-	(9)	(123)
Amortization and impairment losses at December 31	**-**	**(7,301)**	**(331)**	**(1,713)**	**(9,345)**
Carrying amount at December 31	**126**	**6,875**	**959**	**2,315**	**10,275**

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

Note 6 Intangible assets (continued)

Research and development costs

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

Development projects

Significant development projects comprise of Tralokinumab with a carrying amount of DKK 771 million (2019: DKK 771 million), and Patidegib with a carrying amount of DKK 435 million (2019: DKK 424 million).

Intellectual property rights

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

(DKK million)	2020	2019
Amortization and impairment losses are specified as follows:		
Sales and distribution costs	604	710
Research and development costs	1	0
Administrative costs	242	136
Total	**847**	**846**

Note 7 Property, plant and equipment

Accounting policies

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

Depreciation is provided on a straight-line basis from the date of acquisition, or from when the asset is available for use, over the expected useful lives. Reassessment is performed once a year to ascertain that the depreciation basis 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
Leasehold improvements	Up to 10 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-10 years

Impairment testing

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

(DKK million)	Land and buildings	Leasehold improve-ments	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction[1]	Total property, plant and equipment
2020						
Cost at January 1	2,362	93	3,011	528	1,121	7,115
Exchange rate adjustment	(6)	(5)	(8)	(9)	(4)	(32)
Additions during the year	10	26	6	43	1,079	1,164
Disposals during the year	(21)	-	(78)	(19)	-	(118)
Transfers	78	-	84	9	(171)	-
Cost at December 31	**2,423**	**114**	**3,015**	**552**	**2,025**	**8,129**
Depreciation and impairment losses at January 1	(1,454)	(47)	(1,982)	(380)	-	(3,863)
Exchange rate adjustment	4	2	6	6	-	18
Disposals during the year	14	-	40	19	-	73
Depreciation for the year	(55)	(11)	(176)	(49)	-	(291)
Impairment loss for the year	(3)	-	(5)	-	-	(8)
Depreciation and impairment losses at December 31	**(1,494)**	**(56)**	**(2,117)**	**(404)**	**-**	**(4,071)**
Carrying amount at December 31	**929**	**58**	**898**	**148**	**2,025**	**4,058**

1. Fixed assets under construction are mainly related to the construction of a new plant in Denmark with a carrying amount of DKK 970 million (2019: DKK 488 million), and expansion of an existing plant in Ireland with a carrying amount of DKK 249 million (2019: DKK 113 million). The new plant is expected to start production in 2022.

Note 7 Property, plant and equipment (continued)

(DKK million)	Land and buildings[1]	Leasehold improve-ments	Plant and machinery	Other fixtures and fittings, tools and equipment[1]	Fixed assets under construction	Total property, plant and equipment
2019						
Cost at January 1	2,133	80	2,341	499	799	5,852
Exchange rate adjustment	1	2	1	2	2	8
Additions during the year	5	17	29	20	1,070	1,141
Additions from business combinations	109	-	56	22	-	187
Disposals during the year	(14)	(6)	(15)	(38)	-	(73)
Transfers	128	-	599	23	(750)	-
Cost at December 31	**2,362**	**93**	**3,011**	**528**	**1,121**	**7,115**
Depreciation and impairment losses at January 1	(1,426)	(42)	(1,845)	(375)	-	(3,688)
Exchange rate adjustment	0	(1)	(1)	(1)	-	(3)
Disposals during the year	11	5	10	36	-	62
Depreciation for the year	(39)	(9)	(146)	(40)	-	(234)
Depreciation and impairment losses at December 31	**(1,454)**	**(47)**	**(1,982)**	**(380)**	**-**	**(3,863)**
Carrying amount at December 31[1]	**908**	**46**	**1,029**	**148**	**1,121**	**3,252**

1. Right-of-use assets have been reclassified to note 8 Leases, and are presented on a separate line item in the Balance sheet.

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

Note 8 Leases

Accounting policies

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

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

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

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

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

Lease assets are depreciated as follows:

Buildings	5-10 years
Cars	3-5 years

Key accounting judgments

Judgments on determining the lease term

For building leases, lease terms are estimated on the basis of the size of the building and its strategic importance. The lease terms of such agreements are estimated on the basis of the strategic importance of the buildings and the estimated time frame necessary to vacate the premises. The estimated lease term is reassessed at each reporting date.

Note 8 Leases (continued)

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

(DKK million)	Buildings	Cars	Total
2020			
Cost at January 1	535	111	647
Exchange rate adjustment	(26)	(3)	(29)
Additions/remeasurements during the year	18	49	67
Disposals during the year	(1)	(7)	(8)
Cost at December 31	**526**	**150**	**676**
Depreciation and impairment losses at January 1	(67)	(36)	(103)
Depreciation for the year	(73)	(47)	(120)
Disposals during the year	-	7	7
Depreciation and impairment losses at December 31	**(140)**	**(76)**	**(216)**
Carrying amount at December 31	**386**	**74**	**460**
2019			
Cost at January 1	-	-	-
Change in accounting policy	486	86	572
Exchange rate adjustment	11	1	12
Additions/remeasurements during the year	38	24	62
Cost at December 31	**535**	**111**	**647**
Depreciation and impairment losses at January 1	-	-	-
Depreciation for the year	(67)	(36)	(103)
Depreciation and impairment losses at December 31	**(67)**	**(36)**	**(103)**
Carrying amount at December 31	**468**	**75**	**544**

Note 8 Leases (continued)

Set out below are the carrying amounts of the lease liabilities and the movements during the period.

(DKK million)	2020	2019
Lease liabilities at January 1	558	572
Additions/remeasurements during the year	64	65
Interest expenses	11	12
Lease payments	(112)	(103)
Exchange rate adjustments	(30)	12
Lease liabilities at December 31	**491**	**558**
Non-current liabilities	392	459
Current liabilities	99	99
Lease liabilities at December 31	**491**	**558**

(DKK million)	2020	2019
The following are the amounts recognised in the Income statement		
Depreciation expense of right-of-use assets (included in administrative costs)	(120)	(103)
Interest expense on lease liabilities	(11)	(12)
Total amount recognised in the Income statement	**(131)**	**(115)**

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

Note 9 Provisions

Accounting policies

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

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

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

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

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

Key accounting estimates

Provisions for legal disputes

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

Provisions for sales deductions

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

The Executive Management's estimate of sales discounts and rebates is based on a calculation which 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 nine months later.

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

Note 9 Provisions (continued)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2020					
Provisions at January 1	491	231	231	245	1,198
Additions during the year	1,045	113	504[1]	79	1,741
Utilization during the year	(1,004)	(87)	(170)	(160)	(1,421)
Reversals during the year	(155)	(3)	(7)	(22)	(187)
Exchange rate adjustment	(33)	(18)	(17)	(12)	(80)
Provisions at December 31	**344**	**236**	**541**	**130**	**1,251**
Of which classified as:					
Non-current liabilities	75	192	142	66	475
Current liabilities	269	44	399	64	776
Provisions at December 31	**344**	**236**	**541**	**130**	**1,251**
2019					
Provisions at January 1	609	208	160	99	1,076
Additions during the year	1,076	116	220	171	1,583
Utilization during the year	(1,110)	(75)	(104)	(25)	(1,314)
Reversals during the year	(95)	(20)	(19)	(15)	(149)
Exchange rate adjustment	11	2	(26)	15	2
Provisions at December 31	**491**	**231**	**231**	**245**	**1,198**
Of which classified as:					
Non-current liabilities	13	172	92	127	404
Current liabilities	478	59	139	118	794
Provisions at December 31	**491**	**231**	**231**	**245**	**1,198**

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

Note 10 Tax on profit/loss for the year

Accounting policies

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

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

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

Key accounting estimates

Uncertain tax positions

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

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

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

(DKK million)	2020	2019
Current tax	(1,141)	46
Prior-year adjustments, current tax	(32)	(1)
Prior-year adjustments, deferred tax	71	18
Change in deferred tax	1,233	374
Total tax for the year	**131**	**437**
Tax for the year is included in		
Tax on profit/(loss) for the year	129	418
Tax on Other comprehensive income[1]	2	19
Total tax for the year	**131**	**437**

1. For a specification of tax on Other comprehensive income, please see the Statement of comprehensive income.

Note 10 Tax on profit/loss for the year (continued)

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

	DKK million	%
2020		
Profit/(loss) before tax	**(1,080)**	
Calculated tax, 22%	238	22.0%
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries compared to the Danish corporate income tax rate	127	11.9%
Non-deductible expenses/non-taxable income and other permanent differences	(20)	(1.9%)
Other taxes	(23)	(2.2%)
Change in deferred tax as a result of changes in income tax rates	42	3.9%
Change in valuation of net tax assets	(271)	(25.1%)
Prior-year tax adjustments, etc., total effect on operations	36	3.3%
Effective tax/tax rate for the year	**129**	**11.9%**
2019		
Profit/(loss) before tax	**(1,705)**	
Calculated tax, 22%	375	22.0%
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries compared to the Danish corporate income tax rate	152	8.9%
Non-deductible expenses/non-taxable income and other permanent differences	(110)	(6.5%)
Other taxes	(12)	(0.7%)
Change in deferred tax as a result of changes in income tax rates	9	0.6%
Change in valuation of net tax assets	(13)	(0.8%)
Prior-year tax adjustments, etc., total effect on operations	17	1.0%
Effective tax/tax rate for the year	**418**	**24.5%**

Note 11 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.

Provisions for withholding taxes on dividends from subsidiaries are only recognized if the distribution of the dividends had been planned or approved by the management of the subsidiary by no later than the balance sheet date.

Deferred tax is measured on the basis of the income tax rates and tax rules enacted in the respective countries at the balance sheet date. The effect of exchange rate differences on deferred tax is recognized in the balance sheet as part of the movement in deferred tax.

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

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

Key accounting estimates

Valuation of deferred tax assets

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

The valuation risk is mainly related to deferred tax assets recognized in LEO Pharma A/S. The recognized deferred tax assets in LEO Pharma A/S as of December 31, 2020 amount to DKK 785 million (2019: DKK 443 million).

For estimates regarding provisions for uncertain tax positions, please refer to note 10.

Note 11 Deferred tax (continued)

(DKK million)	Balance at January 1	Deferred tax assets/ (liabilities) related to acquisitions	Effect of foreign currency exchange differences	Adjustment of deferred tax at beginning of year	Movements during the year	Balance at December 31
2020						
Intangible assets	(499)	-	2	56	701	260
Property, plant and equipment	34	-	1	(48)	431	418
Inventories	558	-	(1)	55	(111)	501
Provisions	166	-	(7)	12	(34)	137
Other items	18	-	-	(5)	93	106
Tax loss carry forwards, etc.	-	-	-	0	260	260
Assets held for sale	(163)	-	-	1	162	-
Valuation allowances on deferred tax assets	-	-	-	-	(269)	(269)
Total temporary differences	**114**	**-**	**(5)**	**71**	**1,233**	**1,413**
Deferred tax assets	1,219	-	(5)	9	207	1,430
Deferred tax liabilities	(1,105)	-	-	62	1,026	(17)
Deferred tax assets/(tax liabilities)	**114**	**-**	**(5)**	**71**	**1,233**	**1,413**
2019						
Intangible assets	50	(874)	-	31	294	(499)
Property, plant and equipment	45	(7)	-	(30)	26	34
Inventories	570	(56)	-	-	44	558
Provisions	89	(4)	1	18	62	166
Other items	61	7	-	2	(52)	18
Tax loss carry forwards, etc.	3	-	-	(3)	-	-
Assets classified as held for sale	-	(163)	-	-	-	(163)
Total temporary differences	**818**	**(1,097)**	**1**	**18**	**374**	**114**
Deferred tax assets	819	-	1	18	381	1,219
Deferred tax liabilities	(1)	(1,097)	-	-	(7)	(1,105)
Deferred tax assets/(tax liabilities)	**818**	**(1,097)**	**1**	**18**	**374**	**114**

Note 12 Inventories

Accounting policies

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

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

The net realizable value of inventories is calculated as the sales price less the costs of completion and the expenses incurred to 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 Executive Management performs a yearly assessment of whether the standard cost of inventories is at approximately the same level as the actual costs. The standard cost is adjusted if there are significant deviations.

Indirect production overheads are calculated on the basis of relevant assumptions concerning capacity utilization, production time and other relevant factors, and allocated on the basis of the normal production capacity.

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

Note 13 Other receivables

(DKK million)	2020	2019
Public authorities (VAT)	407	805
Deposits	57	71
Other[1]	146	104
Total	**610**	**980**

1. Other comprises short term loans to third parties, reimbursable taxes, receivables from partners and receivable interest, etc.

Note 14 Financial risks

Financial risks

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

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

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

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

Currency risk

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

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

The Group hedges future expected cash flows on a 12-month rolling basis. The majority of the Group's sales are in EUR, USD, GBP, CAD, JPY, RUB, SAR and CNY. Preparation for Tralokinumab launch activities will result in an expected net outflow of USD in 2021. The EUR currency risk is considered to be low, as the Executive Management believe that Denmark will maintain its fixed-exchange-rate policy.

Foreign currency sensitivity analysis

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

Foreign currency analysis

		2020		2019	
(DKK million)	Increase in exchange rates	Profit/(loss) for the year	Other comprehensive income[1]	Profit/(loss) for the year	Other comprehensive income[1]
USD	5.0%	(8)	38	(17)	26
GBP	5.0%	(5)	(11)	(3)	(14)
CAD	5.0%	1	(16)	1	(21)
JPY	5.0%	9	(4)	1	1
RUB	5.0%	(2)	(4)	(1)	(8)
CNY/CNH	5.0%	-	-	-	(2)
BRL	5.0%	1	(4)	-	(6)
SAR	5.0%	-	(3)	-	(6)
AUD	5.0%	-	(4)	-	(5)

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

Note 14 Financial risks (continued)

Interest rate risk

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

The current loans with our banking partners at December 31, 2020 are:

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

	2019						
(DKK million)	Currency	Expiry of commitment	Fixed/ floating	Weighted avg. effective interest rate %	Amortized Cost	Nominal value	Fair value
Term loan A	DKK	2022	Floating	0.80	1,125	1,125	1,125
Term loan B	DKK	2024	Floating	0.95	1,500	1,500	1,500
Loans RCF A	DKK	2024	Floating	1.15	699	699	699
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,182	1,200	1,216
Other	Various	Uncommitted	Floating	N/A	20	20	20
Total					**4,526**	**4,544**	**4,560**

Note 14 Financial risks (continued)

(DKK million)	Notional principal value	Change in fair value recognized in other comprehensive income	Fair value assets (liabilities)	Average fixed interest rate
2020				
DKK	1,125	-	-	0.03%
DKK	1,500	(6)	(2)	0.10%
Total		**(6)**	**(2)**	
2019				
DKK	1,125	-	-	0.03%
DKK	1,500	4	3	0.10%
Total		**4**	**3**	

At December 31, 2020, the fair value of DKK (2) million was recognized in other payables. At December 31, 2019, the fair value of DKK 3 million was recognized in other receivables.

Credit risk

The Group's products are primarily sold to pharmacies, wholesalers and hospitals. Historically, realized losses sustained on trade receivables have been insignificant, which was also the case in both 2020 and 2019. However, LEO Pharma Group has a number of ongoing legal actions against customers in receivership and other financial difficulties that are nearing completion.

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

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

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

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

To manage credit risk on financial counterparties, the Group only enters into derivative financial instruments and money market deposits 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 14 Financial risks (continued)

Maturity analysis of Trade receivables

(DKK million)	Expected credit loss rate	Trade receivables	Write-downs	Total
2020				
Not past due date	0%	2,375	-	2,375
Overdue by 3 months	0%	182	-	182
Overdue by 3-6 months	0%	37	-	37
Overdue by 6-12 months	54%	13	(7)	6
Overdue by more than 12 months	100%	40	(40)	0
Factoring	-	(159)	-	(159)
Trade receivables at December 31		**2,488**	**(47)**	**2,441**

(DKK million)	Expected credit loss rate	Trade receivables	Write-downs	Total
2019				
Not past due date	0%	3,021	-	3,021
Overdue by 3 months	0%	256	-	256
Overdue by 3-6 months	0%	21	-	21
Overdue by 6-12 months	21%	34	(7)	27
Overdue by more than 12 months	100%	36	(36)	0
Trade receivables at December 31		**3,368**	**(43)**	**3,325**

Liquidity risk

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

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

Cash resources and financing facilities

On May 29, 2020, the Group amended the loan agreement from April 2019 with 5 Nordic banks increasing the commitment to DKK 9,700 million.

The Group has access to financing facilities of DKK 6,696 million (2019: DKK 3,119 million) of which unused and secured overdraft facilities amounted to DKK 6,017 million (2019: DKK 2,944 million) as at the reporting date.

The remaining amount of DKK 679 million (2019: DKK 175 million) primarily consists of cash and cash equivalents. The facilities are subject to financial covenants and no breaches were encountered during the year.

Conditions for Term loans A and B remained unchanged, with the option to extend the maturity of Term loan B by one year. Revolving facility A has five years' duration and revolving facility B has two years' duration, both with an option to extend the maturity by one year.

In addition to the cash resources, the Parent company has pledged bonds and cash with a carrying amount of DKK 126 million (2019: DKK 254 million) as security for pension liabilities primarily in Ireland.

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

Note 14 Financial risks (continued)

2020

(DKK million)	Borrowings January 1	Proceeds from borrowings	Repayments of borrowings	Other non-cash items[1]	Borrowings December 31
Loan from LEO Holding A/S	3,806	-	-	159	3,965
Loan from the LEO Foundation	1,000	-	-	-	1,000
Banks and other credit institutions	4,526	1,296	(1,107)	(2)	4,713
Total borrowings	**9,332**	**1,296**	**(1,107)**	**157**	**9,678**
Of which:					
Classified as non-current	8,613				8,772
Classified as current	719				906

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

2019

(DKK million)	Borrowings January 1	Proceeds from borrowings	Repayments of borrowings	Other non-cash items[1]	Borrowings December 31
Loan from LEO Holding A/S	-	3,732	-	74	3,806
Loan from the LEO Foundation	1,000	-	-	-	1,000
Banks and other credit institutions	1,450	4,083	(1,006)	(1)	4,526
Total borrowings	**2,450**	**7,815**	**(1,006)**	**73**	**9,332**
Of which:					
Classified as non-current	1,536				8,613
Classified as current	914				719

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

Note 14 Financial risks (continued)

The table below analyses the Group's financial liabilities in relevant maturity groupings, based on their contractual maturities for all non-derivative financial liabilities, and derivative financial instruments for which the contractual maturities are essential for the understanding of the timing of the cash flows.

Maturity of contractual cash flows

(DKK million)	Contractual amount	Less than 1 year	2-3 years	4-5 years	More than 5 years
2020					
Non-financial interest derivatives					
Floating interest rate bank debt	3,710	955	1,211	1,544	-
Fixed interest rate bank debt	1,293	13	76	177	1,027
Fixed interest rate loan, LEO Holding A/S[1]	6,347	-	-	-	6,347
Fixed interest rate loan, the LEO Foundation	1,174	25	50	50	1,049
Trade and other payables	3,709	3,709	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	6	2	3	1	-
Forward contracts used as hedging instruments	40	40	-	-	-
Total contractual cash flow as at December 31	**16,279**	**4,744**	**1,340**	**1,772**	**8,423**
2019					
Non-financial interest derivatives					
Floating interest rate bank debt	3,433	44	1,168	2,221	-
Fixed interest rate bank debt	1,280	9	19	147	1,105
Fixed interest rate loan, LEO Holding A/S[1]	5,176	-	-	-	5,176
Fixed interest rate loan, the LEO Foundation	1,199	25	50	50	1,074
Trade and other payables	3,912	3,912	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	7	2	3	2	-
Forward contracts used as hedging instruments	60	60	-	-	-
Total contractual cash flow as at December 31	**15,067**	**4,052**	**1,240**	**2,420**	**7,355**

1. Repayments related to the loan from LEO Holding A/S will commence in 2029.

Note 15 Derivatives - hedge accounting

Accounting policies

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

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

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

LEO Pharma's policy is to hedge EUR even though the exchange rate risks are considered low. In addition, the Chinese yuan traded offshore (CNH) is used as a proxy when hedging the 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 minimum 80% of the forecast sale and purchase transactions for the coming 12 months, and to hedge recognized assets and liabilities. Concerning the hedging of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying value) of the forward foreign exchange contracts and their corresponding hedged items are the same, LEO Pharma makes a qualitative assessment of effectiveness. It is expected that the value of the forward contracts and the value of the corresponding hedged items will change systematically in opposite directions in response to movements in the underlying exchange rates. The Executive Management has chosen to classify the result of cash flow hedging activities as part of financial items and not in the same line as the hedged item.

Currently, net investments in foreign subsidiaries are not hedged.

LEO Pharma has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from the expected future sales transactions that will take place during the next 12 months, at which time the amount deferred in equity will be reclassified to a gain or loss under financial items. During 2020, no purchase transactions where hedged. 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 assets or as other liabilities in the statement of financial position (see the table, Categories of financial assets and financial liabilities):

Note 15 Derivatives - hedge accounting (continued)

Financial derivatives – Cash flow hedges

	2020					
(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
Forward foreign exchange contracts						
Bought USD	6.58	124	815	-	44	(44)
Sold CAD	4.83	67	325	6	-	17
Sold GBP	8.27	26	215	2	2	11
Sold BRL	1.30	65	85	2	3	10
Sold RUB	0.09	885	81	10	-	20
Sold SAR	1.78	40	71	7	-	9
Sold PLN	1.66	46	76	1	-	3
Sold AUD	4.44	17	77	-	4	(2)
Sold THB	0.21	241	51	2	-	6
Sold other currencies	N/A	N/A	905	16	21	0
Cash flow hedges at December 31			**2,701**	**46**	**74**	**30**

The financial contracts are expected to impact the Income statement for the next 12 months when the cash flow hedges mature and the fair value is transferred to either financial income or financial expenses. A loss of DKK 28 million has been deferred for recognition until 2021 (2019: a loss of DKK 58 million was deferred until 2020).

	2019					
(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
Forward foreign exchange contracts						
Bought USD	6.60	46	303	1	1	11
Sold GBP	8.39	31	263	0	11	(11)
Sold CAD	4.91	76	375	0	12	(12)
Sold BRL	1.69	67	112	0	12	(11)
Sold RUB	0.096	1,520	147	0	10	(13)
Sold SAR	1.72	65	111	0	3	5
Sold PLN	1.70	60	103	0	2	(1)
Sold AUD	4.54	22	100	0	2	(2)
Sold THB	0.21	417	88	0	4	(1)
Sold other currencies	N/A	N/A	744	5	10	4
Cash flow hedges at December 31			**2,346**	**6**	**67**	**(31)**

Note 15 Derivatives - hedge accounting (continued)

Financial derivatives – Fair value hedges

	2020			2019		
(DKK million)	Contracted amount based on agreed rates	Fair value	Maturity end date	Contracted amount based on agreed rates	Fair value	Maturity end date
Forward foreign exchange contracts						
Bought USD	191	(12)	25/01/2021	370	1	07/08/2020
Sold CAD	182	1	10/02/2021	129	(1)	10/09/2020
Sold JPY	160	(4)	16/07/2021	237	3	20/02/2020
Sold RUB	103	2	16/03/2021	244	(7)	18/02/2020
Sold SAR	49	0	15/03/2021	154	-	22/10/2020
Sold CNY	15	0	11/01/2021	2	-	10/09/2020
Sold AUD / Bought AUD	19	0	21/01/2021	159	2	28/01/2020
Bought EUR	7,257	2	18/10/2021	5,519	10	12/11/2020
Sold other currencies	430	(1)	04/11/2021	560	(7)	25/09/2020
Fair value hedges at December 31	**8,406**	**(12)**		**7,374**	**1**	

The fair value loss on forward foreign exchange contracts of DKK 12 million at the end of 2020 is recognized in the Income statement under Financial expenses (2019: gain of DKK 1 million recognized in Financial income).

Note 16 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. Other financial securities consist of equity investments and bonds. Investments in bonds that are held within a business model of which the objective is to collect the contractual cash flows are subsequently measured at amortized cost. Investments that are held within a business model of which the objective is both to collect the contractual cash flows and to sell are subsequently measured at fair value through Other comprehensive income. All other investments, including equity investments, are subsequently measured at fair value through profit and loss. Other securities, which comprise listed bonds and shares, are classified as current assets and measured at fair value through profit and loss. Securities that are subsequently measured at amortized cost or at fair value through Other comprehensive income are subject to impairment.

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

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

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

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

Note 16 Financial assets and liabilities by category (continued)

Categories of financial assets and financial liabilities

(DKK million)	Carrying amount 2020	Fair value 2020	Carrying amount 2019	Fair value 2019
Carried at amortized cost				
Cash and bank balances	603	603	230	230
Trade and other receivables	2,995	2,995	4,276	4,276
Other financial assets	10	10	9	9
Other receivables - non current	15	15	17	17
Financial assets at amortized cost	**3,623**	**3,623**	**4,532**	**4,532**
Carried at fair value through profit/loss (FVTPL)				
Financial securities (bonds)	126	126	226	226
Derivative instruments in designated hedging relationships	10	10	20	20
Financial assets at fair value through profit/loss	**136**	**136**	**246**	**246**
Carried at fair value through other comprehensive income				
Derivative instruments in designated hedging relationships	46	46	9	9
Financial assets at fair value through other comprehensive income	**46**	**46**	**9**	**9**
Total financial assets	**3,805**	**3,805**	**4,787**	**4,787**
Carried at amortized cost				
Trade and other payables	3,611	3,611	3,827	3,827
Bank loans (both current and non-current)	3,530	3,531	3,344	3,344
Mortgage loans	1,183	1,212	1,182	1,216
Loan from LEO Holding A/S	3,965	4,063	3,806	3,806
Loan from the LEO Foundation	1,000	1,015	1,000	1,070
Lease liabilities (both current and non-current)	491	518	558	609
Financial liabilities at amortized cost	**13,780**	**13,950**	**13,717**	**13,872**
Carried at fair value through profit/loss (FVTPL)				
Derivative instruments in designated fair value hedging relationships	22	22	19	19
Financial liabilities at fair value	**22**	**22**	**19**	**19**
Carried at fair value through other comprehensive income				
Derivative instruments in designated hedging relationships	76	76	67	67
Financial liabilities at fair value through Other comprehensive income	**76**	**76**	**67**	**67**
Total financial liabilities	**13,878**	**14,048**	**13,803**	**13,958**

Note 16 Financial assets and liabilities by category (continued)

Fair value measurements

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

If an active market does not exist, the fair value of standard and simple financial instruments, such as forward foreign exchange contracts, interest rate swaps, currency swaps and unlisted bonds and shares, 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 financial liabilities measured or disclosed at fair value

Fair value hierarchy at December 31, 2020

(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets - Measured at fair value:				
Danish mortgage bonds	126	-	-	126
Other financial assets	-	-	35	35
Derivative instruments	-	56	-	56
Total	**126**	**56**	**35**	**217**
Financial liabilities - Amortized cost, disclosure of fair value:				
Bank loans	-	3,531	-	3,531
Mortgage loans	-	1,212	-	1,212
Loan from LEO Holding A/S	-	4,063	-	4,063
Loan from the LEO Foundation	-	1,015	-	1,015
Measured at fair value:				
Derivative instruments	-	98	-	98
Total	**-**	**9,919**	**-**	**9,919**

Fair value hierarchy at December 31, 2019

(DKK million)	Level 1	Level 2	Level 3	Total
Financial assets - Measured at fair value:				
Danish mortgage bonds	226	-	-	226
Other financial assets	-	-	20	20
Derivative instruments	-	29	-	29
Total	**226**	**29**	**20**	**275**
Financial liabilities - Amortized cost, disclosure of fair value:				
Bank loans	-	3,344	-	3,344
Mortgage loans	-	1,216	-	1,216
Loan from LEO Holding A/S	-	3,806	-	3,806
Loan from the LEO Foundation	-	1,070	-	1,070
Measured at fair value:				
Derivative instruments	-	86	-	86
Total	**-**	**9,522**	**-**	**9,522**

Note 17 Other payables

Accounting policies

Other payables comprise accrued expenses, promotion fees, distributor expenses, promotional tax and product listing agreements, etc.
Clinical trials take several years to complete. As such, the Executive Management is required to make estimates based on the progress and costs incurred to date for the ongoing trials. Judgments are made on determining the amount of costs to be expensed during the period or recognized as prepayments or other payables on the balance sheet.

(DKK million)	2020	2019
Accrued clinical trial expenses[1]	236	320
Public authorities (VAT)	107	577
Sales deductions	107	129
Employee related accruals	796	639
Other	887	702
Total	**2,133**	**2,367**

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

Note 18 Assets classified as held for sale

Accounting policies

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value, less selling costs. The fair value is determined on the basis of the negotiated price in an arm's length transaction. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. No depreciation or amortization is effected for assets as from the time of classification as 'held for sale'.

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

At December 31, 2020 no assets are classified as assets held for sale.

2019
At December 31, 2019, assets classified as held for sale comprise the divested portfolio of emollients and proctology products. Reference is made to note 5.

The table below shows assets which have been classified as held for sale and which are therefore not expected to contribute to LEO Pharma Group's future earnings.

(DKK million)	2020	2019
Intangible assets	-	672
Inventory	-	40
Total	**-**	**712**

Note 19 Retirement benefit obligations

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 in Other payables in the Balance sheet.

Defined benefit plans
Where defined benefit plans are concerned, an annual actuarial calculation is made of the present value of future payments under the scheme. The present value is calculated 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.

Any differences between the expected development in plan assets and defined benefit obligations on the one hand, and the realized values calculated at the beginning of the year on the other, are considered to be actuarial gains or losses. Actuarial gains and losses are recognized in Other comprehensive income. Past service costs are recognized in the Income statement as incurred.

Key accounting estimates

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

Defined contribution plans

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

Defined benefit plans

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

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

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

Note 19 Retirement benefit obligations (continued)

(DKK million)	2020	2019
Present value of defined benefit plans:		
Present value of defined benefit plans at January 1	2,132	1,628
Effect of exchange rate adjustment	(54)	37
Additions from business combinations[1]	-	176
Current service costs	8	7
Interest expenses	31	42
Actuarial (gains)/losses from changes in demographic assumptions	4	8
Actuarial (gains)/losses from changes in financial assumptions	190	301
Actuarial (gains)/losses from changes in experience	(13)	(19)
Payments from the plan	(84)	(48)
Present value of defined benefit plans at December 31	**2,214**	**2,132**
Fair value of plan assets:		
Fair value of plan assets at January 1	1,719	1,385
Effect of exchange rate adjustment	(46)	32
Additions from business combinations[1]	-	122
Return on plan assets	67	143
Interest income	26	36
Payments from the plan	(55)	(46)
Employer contributions	15	47
Fair value of plan assets at December 31	**1,726**	**1,719**
Net retirement benefit obligations at December 31	**488**	**413**
Specification of amount recognized in the Statement of comprehensive income		
Actuarial (gains)/losses	114	147
Total	**114**	**147**

1. Reference is made to note 5.

Sensitivity analysis

The discount rate is the most significant assumption used in the calculation of the obligation concerning defined benefit plans. The sensitivity analysis indicates what the development in the obligation would be on any change in the individual assumption. However, the assumptions will most likely be correlated and consequently result in a different obligation.
A 0.25% decrease in the discount rate would result in an increase in the obligation of approximately 5% or DKK 110 million.

Note 20 Fees to Auditors appointed at the Annual General Meeting

(DKK million)	2020	2019
Statutory audit	7	7
Other assurance services	0	2
Tax and VAT advisory services	4	2
Other non-audit services	13	10
Total	**25**	**21**

Note 21 Financial income and expenses

Accounting policies

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

(DKK million)	2020	2019
Interest income on bonds	0	5
Foreign exchange gains, net[1]	20	-
Other interest income	1	-
Other financial income	7	7
Financial income	**28**	**12**
Interest expenses, loan from LEO Holding A/S	(171)	(75)
Interest expenses, loan from the LEO Foundation	(25)	(25)
Interest expenses, banks	(79)	(43)
Loss arising on financial assets designated at fair value through profit and loss	(1)	-
Foreign exchange losses, net[1]	-	(134)
Financial assets write-down	(3)	(2)
Other financial expenses[2]	(101)	(96)
Financial expenses	**(380)**	**(375)**

1. Foreign exchange gains amount to DKK 684 million (2019: DKK 598 million) and foreign exchange losses amount to DKK 664 million (2019: DKK 732 million) for the Group.
2. Other financial expenses comprise interests on lease liabilities, other interest, bank charges, fees etc.

Note 22 Other cash flow adjustments

(DKK million)	2020	2019
Other non-cash adjustments:		
Change in inventory write-downs	138	(15)
Change in provision for bad debt	4	(1)
Change in Other[1]	(119)	0
Total other non-cash adjustments	**23**	**(16)**

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

Note 23 Share capital and distribution to shareholders

The share capital comprises 250 shares for a nominal value of DKK 1 million. The share capital is divided into 170 A shares and 80 B shares. Holders of A shares have pre-emption rights if the share capital is increased. Holders of B shares can only vote in connection with amendments to the articles of association, cf. Section 107 of the Danish Companies Act.

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

Note 24 Guarantees, contingencies and commitments

Guarantees

The total guarantee commitments for LEO Pharma amount to DKK 166 million at December 31, 2020 (2019: DKK 200 million), including a guarantee relating to an associated company of DKK 131 million (2019: DKK 152 million).

Contractual obligations and commitments

Contracted, but not provided for, in the financial statements

(DKK million)	2020	2019
Intangible assets	4,499	3,292
Property, plant and equipment	645	753
Total	**5,144**	**4,045**

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

The commitments regarding property, plant and equipment relate primarily to two major expansions of production facilities. 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 2020, there were pending patent lawsuits filed by and against LEO Pharma concerning rights related to products in LEO Pharma's portfolio. LEO Pharma does not expect these and other pending cases to have any significant effect on the Group's financial position. LEO Pharma is involved in a number of legal proceedings. In the opinion of Management, the outcome of these proceedings will not have a material impact on the financial position or cash flows. Such proceedings will, however, develop over time, and new proceedings may occur which could have a material impact on LEO Pharma's financial position and/or cash flows.

Tax

As a global business, LEO Pharma will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues, including transfer pricing and indirect taxes. Please refer to the description of uncertain tax positions in note 10.

Note 25 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 associates, Skinvision B.V. and PellePharm Inc.
- 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

There were the following transactions and balances with the LEO Foundation:

- Loan of DKK 1,000 million (2019: DKK 1,000 million)
- Interest expenses of DKK 24.5 million (2019: DKK 24.5 million)
- Income of DKK 0.1 million (2019: DKK 0.1 million)
- Payables of DKK 0.4 million (2019: Payables of DKK 0.4 million)

There were the following transactions and balances with LEO Holding A/S:

- Tax settlement of DKK 399.2 million (2019: DKK 125.7 million)
- Loan of DKK 3,965.0 million (2019: DKK 3,806.0 million)
- Interest expenses of DKK 171.1 million (2019: DKK 74.7 million)
- Receivables regarding joint taxation of DKK 247.3 million (2019: DKK 401.8 million)

There were the following transactions and balances with associates:

- Capital contributions to PellePharm Inc. totaling DKK 0 million (2019: DKK 267.0 million)

There were no transactions with the Board of Directors or the Executive Management 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 26 Events after the balance sheet date

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

Note 27 - Company overview

(DKK million)	Country	Share of ownership %	Activities: Sales and distribution	Production	Sales & services	Other
Parent Company						
LEO Pharma A/S	Denmark		●	▲	◆	▼
Subsidiaries						
SARL LEO Pharma	Algeria	100			◆	
LEO Pharma Pty Ltd	Australia	100	●			
LEO Pharma GmbH	Austria	100	●			
LEO Pharma N.V.	Belgium	100	●			
LEO Pharma LTDA	Brazil	100	●			
LEO Pharma Inc.	Canada	100	●			
LEO Pharma Consultancy Company Ltd.	China	100			◆	
LEO Pharma Trading Company Ltd.	China	100	●			
LEO Pharma s.r.o.	Czech Republic	100			◆	
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100				▼
LEO Ventures A/S[1]	Denmark	100				▼
Omhu A/S[1]	Denmark	100				▼
Studies&Me A/S[1]	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[1]	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	●			
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.[1]	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	Tunisia	100			◆	
LEO Pharma İlaç Ticaret A.Ş.	Turkey	100	●			
LEO Laboratories Ltd.	United Kingdom	100	●			
LEO Pharma Inc.	USA	100	●			
LEO Spiny Merger Sub. Inc.	USA	100				▼
LEO US Holding Inc.	USA	100				▼
Associates						
PellePharm Inc.	USA	16.72				▼
SkinVision B.V	Netherlands	26.32				▼

1. Established during 2020.

Contents

Parent Company Financial Statements

Income statement
January 1 - December 31

(DKK million)	Note	2020	2019
Revenue	1	8,284	8,125
Cost of sales	3, 8	(6,575)	(5,626)
Gross profit		**1,709**	**2,499**
Sales and distribution costs	3, 7, 8	(2,834)	(3,052)
Research and development costs	3, 7, 8	(1,775)	(2,119)
Administrative costs	2, 3, 7, 8	(1,809)	(1,220)
Other operating income		1,690	430
Other operating expenses		(27)	(50)
Operating profit/(loss)		**(3,046)**	**(3,512)**
Income from investment in subsidiaries	9	1,951	1,822
Share of profit/(loss) on investment in associates	10	(2)	(29)
Financial income	4	62	26
Financial expenses	4	(355)	(366)
Profit/(loss) before tax		**(1,390)**	**(2,059)**
Tax on profit/(loss) for the year	5	459	740
Net profit/(loss) for the year	6	**(931)**	**(1,319)**

Balance sheet at December 31

Assets

(DKK million)	Note	2020	2019
Goodwill		175	122
Intellectual property rights		5,121	7,305
Software		1,335	959
Development projects and software in progress		2,367	2,314
Intangible assets	7	**8,998**	**10,700**
Land and buildings		513	460
Leasehold improvements		4	5
Plant and machinery		482	548
Other fixtures and fittings, tools and equipment		113	116
Fixed assets under construction		1,260	703
Property, plant and equipment	8	**2,372**	**1,832**
Investment in subsidiaries	9	7,689	5,809
Investment in associates	10	7	9
Other financial securities		45	23
Deferred tax assets	11	785	443
Other receivables		15	17
Financial assets		**8,541**	**6,301**
Total non-current assets		**19,911**	**18,833**
Raw materials and consumables		85	236
Work in progress		532	589
Finished goods and goods for resale		717	393
Inventories		**1,335**	**1,218**
Trade receivables		677	1,285
Loans to subsidiaries		876	2,965
Receivables from subsidiaries		692	658
Tax receivables		338	576
Other receivables	12	419	734
Prepayments	13	756	251
Receivables		**3,757**	**6,469**
Other securities		**125**	**225**
Cash at bank and in hand		**188**	**32**
Total current assets		**5,405**	**7,944**
Total assets		**25,317**	**26,777**

Balance sheet at December 31

Equity and liabilities

(DKK million)	Note	2020	2019
Share capital	20	250	250
Net revaluation, subsidiaries		6,106	4,455
Reserve for development projects		1,568	1,729
Retained earnings		(907)	1,644
Equity		**7,017**	**8,078**
Provision	14	283	276
Retirement benefit obligations	17	22	37
Deferred tax liabilities	11	-	1,007
Provision		**305**	**1,320**
Loans and credit institutions		8,772	8,614
Other long-term liabilities		663	87
Total non-current liabilities	15	**9,435**	**8,701**
Credit institutions		846	638
Trade payables		1,126	975
Loans from subsidiaries		3,825	5,292
Payables to subsidiaries		1,264	960
Tax payables		503	0
Other payables	16	997	813
Total current liabilities		**8,560**	**8,678**
Total equity and liabilities		**25,317**	**26,777**

Statement of changes in equity January 1 - December 31

(DKK million)	Share capital	Net revaluation, subsidiaries	Reserve for development projects	Retained earnings	Total
2020					
Equity at January 1	250	4,455	1,729	1,644	8,078
Net profit/(loss) for the year	-	1,951	-	(2,882)	(931)
Capitalized development costs, net	-	-	(161)	161	-
Deferred gains/losses on financial instruments	-	-	-	24	24
Dividend received from subsidiaries	-	(67)	-	67	-
Exchange rate adjustment of foreign subsidiaries	-	(77)	-	-	(77)
Other movements	-	(156)	-	82	(74)
Tax on changes in equity	-	-	-	(3)	(3)
Equity at December 31	**250**	**6,106**	**1,568**	**(907)**	**7,017**
2019					
Equity at January 1	250	4,284	1,211	3,807	9,552
Net profit/(loss) for the year	-	1,822	-	(3,141)	(1,319)
Capitalized development costs, net	-	-	518	(518)	-
Deferred gains/losses on financial instruments	-	-	-	(27)	(27)
Dividend received from subsidiaries	-	(1,496)	-	1,496	-
Exchange rate adjustment of foreign subsidiaries	-	(17)	-	-	(17)
Other movements	-	(138)	-	21	(117)
Tax on changes in equity	-	-	-	6	6
Equity at December 31	**250**	**4,455**	**1,729**	**1,644**	**8,078**

Notes - Parent Company

Note 1 Revenue

(DKK million)	2020	2019
Revenue by region		
Europe+	5,999	5,457
International	1,890	1,990
US	395	678
Total	**8,284**	**8,125**

(DKK million)	2020	2019
Revenue by category		
Products	8,138	7,857
Sales-based royalties	140	261
Other	6	7
Total	**8,284**	**8,125**

Note 2 Fees to Auditors appointed at the Annual General Meeting

(DKK million)	2020	2019
Statutory audit	4	5
Tax and VAT advisory services	1	1
Other non-audit services	13	9
Total	**18**	**15**

Note 3 Staff expenses

(DKK million)	2020	2019
Wages and salaries[1]	1,833	1,775
Capitalized staff expenses	(183)	(159)
Pensions	170	159
Social security expenses	24	21
Other employee expenses	60	39
Total staff expenses in the income statement	**1,904**	**1,835**
Staff expenses included in:		
Cost of sales	309	307
Sales and distribution costs	266	249
Research and development costs	663	624
Administrative costs	666	655
Total	**1,904**	**1,835**
Average number of full-time employees	**2,394**	**2,388**

1. Total staff expenses are impacted by DKK 84 million (2019: DKK 0 million) as a consequence of the restructuring of LEO Pharma announced on August 20, 2020. The restructuring costs are recognized in the Income statement as follows; Cost of sales DKK 31 million, Sales and distribution costs DKK 31 million, Research and development costs DKK 5 million and Administrative costs DKK 17 million.

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

Note 4 Financial income and expenses

(DKK million)	2020	2019
Interest income on bonds	0	5
Interest income from subsidiaries	12	12
Foreign exchange gains, net[1]	43	-
Other financial income	7	9
Total financial income	**62**	**26**
Interest expenses, loan from LEO Holding A/S	(171)	(75)
Interest expenses, loan from the LEO Foundation	(25)	(25)
Interest expenses, subsidiaries	-	(6)
Interest expenses, bank	(77)	(43)
Loss on financial assets measured at cost	(1)	-
Foreign exchange rate losses, net[1]	-	(167)
Financial assets write-down	(3)	(2)
Other financial expenses	(78)	(48)
Total financial expenses	**(355)**	**(366)**

1. Foreign exchange gains amount to DKK 658 million (2019: DKK 547 million) and foreign exchange losses amount to DKK 615 million (2019: DKK 714 million).

Note 5 Tax on profit/loss for the year

(DKK million)	2020	2019
Current tax	(903)	415
Prior-year adjustments, current tax	12	6
Prior-year adjustments, deferred tax	25	(1)
Change in deferred tax	1,322	326
Total	**456**	**746**
Tax on profit/loss for the year	459	740
Tax on changes in equity	(3)	6
Total	**456**	**746**

Note 6 Proposed distribution of net profit/loss for the year

(DKK million)	2020	2019
Net revaluation for the year	1,951	1,822
Retained earnings	(2,882)	(3,141)
Total	**(931)**	**(1,319)**

Note 7 Intangible assets

(DKK million)	Goodwill	Intellectual property rights	Software	Development projects and software in progress	Total intangible assets
2020					
Cost at January 1	126	14,622	1,290	2,338	18,376
Additions during the year	-	-	7	705[2]	712
Adjustments related to business combinations[5]	66	-	-	-	66
Disposals during the year	-	(2,347)[1]	(25)	(4)	(2,376)
Transfers	-	2	650	(652)	-
Cost at December 31	**192**	**12,276**	**1,922**	**2,388**	**16,778**
Amortization and impairment losses at January 1	(4)	(7,317)	(331)	(24)	(7,676)
Amortization for the year	(13)	(619)	(241)[4]	-	(873)
Disposals during the year	-	740[1]	-	3	743
Reversal of impairment[3]	-	26	-	-	26
Transfer	-	15	(15)	-	-
Amortization and impairment losses at December 31	**(17)**	**(7,155)**	**(587)**	**(21)**	**(7,780)**
Carrying amount at December 31	**175**	**5,121**	**1,335**	**2,367**	**8,998**
2019					
Cost at January 1	-	10,105	858	2,111	13,074
Adjustment to opening	-	-	-	(14)	(14)
Additions from business combinations[5]	126	4,280	-	-	4,406
Additions during the year	-	237	51	629	917
Disposals during the year	-	-	-	(7)	(7)
Transfers	-	-	381	(381)	-
Cost at December 31	**126**	**14,622**	**1,290**	**2,338**	**18,376**
Amortization and impairment losses at January 1	-	(6,591)	(204)	(16)	(6,811)
Amortization for the year	(4)	(612)	(127)	-	(743)
Impairment losses for the year[3]	-	(114)	-	(8)	(122)
Amortization and impairment losses at December 31	**(4)**	**(7,317)**	**(331)**	**(24)**	**(7,676)**
Carrying amount at December 31	**122**	**7,305**	**959**	**2,314**	**10,700**

1. Primarily related to the divestment of a portfolio of four non-core products to Cheplapharm and the divestment of the emollients and proctology portfolio to Karo Pharma AB. Reference is made to notes 5 and 6 in the Consolidated Financial Statements.
2. Additions consist of DKK 80 million (2019: 91 million) related to development projects, and DKK 625 million (2019: 538 million) related to the development of IT projects and implementation of a new ERP system.
3. For a specification of the impairment, reference is made to note 6 in the Consolidated Financial Statements.
4. The Group is in the process of implementing a new ERP system. In connection with this, the Parent Company has reassessed the lifetime of the current ERP system, which has resulted in an additional amortization of DKK 24 million.
5. Related to the Bayer acquisition, reference is made to the Consolidated Financial Statement.

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

(DKK million)	2020	2019
Amortization and impairment losses are specified as follows:		
Sales and distribution costs	606	730
Research and development costs	1	0
Administrative costs	240	135
Total	**847**	**865**

Note 8 Property, plant and equipment

(DKK million)	Land and buildings	Leasehold improvements	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction[1]	Total property, plant and equipment
2020						
Cost at January 1	1,104	9	1,452	418	703	3,686
Additions during the year	3	-	2	20	697	722
Disposals during the year	(7)	-	(36)	(18)	-	(61)
Transfers	76	-	54	10	(140)	-
Cost at December 31	**1,176**	**9**	**1,472**	**430**	**1,260**	**4,347**
Depreciation and impairment losses at January 1	(644)	(4)	(904)	(302)	-	(1,854)
Disposals during the year	4	-	(2)	17	-	19
Depreciation for the year	(23)	(1)	(84)	(32)	-	(140)
Depreciation at December 31	**(663)**	**(5)**	**(990)**	**(317)**	**-**	**(1,975)**
Carrying amount at December 31	**513**	**4**	**482**	**113**	**1,260**	**2,372**
2019						
Cost at January 1	996	7	1,113	397	493	3,006
Adjustment to opening	2	2	(2)	(4)	-	(2)
Additions during the year	-	-	3	28	695	726
Disposals during the year	(14)	-	(9)	(21)	-	(44)
Transfers	120	-	347	18	(485)	-
Cost at December 31	**1,104**	**9**	**1,452**	**418**	**703**	**3,686**
Depreciation and impairment losses at January 1	(635)	(1)	(838)	(301)	-	(1,775)
Adjustment to opening	(2)	(2)	3	5	-	4
Disposals during the year	11	-	7	21	-	39
Depreciation for the year	(18)	(1)	(76)	(27)	-	(122)
Depreciation at December 31	**(644)**	**(4)**	**(904)**	**(302)**	**-**	**(1,854)**
Carrying amount at December 31	**460**	**5**	**548**	**116**	**703**	**1,832**

1. Fixed assets under construction are mainly related to the construction of a new plant with a carrying amount of DKK 970 million (2019: DKK 488 million). The new plant is expected to start production in 2022.

(DKK million)	2020	2019
Depreciation and impairment losses are specified as follows:		
Cost of sales	96	92
Sales and distribution costs	3	2
Research and development costs	17	12
Administrative costs	24	16
Total	**140**	**122**

Note 9 Investment in subsidiaries

(DKK million)	2020	2019
Cost at January 1	1,354	1,128
Addition related to business combinations	-	201
Additions during the year	229	25
Cost at December 31	**1,583**	**1,354**
Value adjustment at January 1	4,455	4,284
Share of profit/(loss) for the year	1,951	1,822
Dividend	(67)	(1,496)
Exchange rate adjustment	(77)	(18)
Other movements	(48)	(138)
Disposal through liquidation	(108)	-
Value adjustment at December 31	**6,106**	**4,455**
Carrying amount at December 31	**7,689**	**5,809**

Note 10 Investment in associates

(DKK million)	2020	2019
Cost at January 1	37	46
Additions/divestment during the year	-	(9)
Cost at December 31	**37**	**37**
Value adjustment at January 1	(28)	(11)
Share of profit/(loss) for the year	(2)	(29)
Other movements/divestment	-	12
Value adjustment at December 31	**(30)**	**(28)**
Carrying amount at December 31	**7**	**9**

Note 11 Deferred tax

(DKK million)	2020	2019
Deferred tax assets/(liabilities) at January 1	(564)	146
Additions related to business combinations	-	(1,036)
Adjustment relating to previous years	25	(1)
Deferred tax on equity	(2)	1
Deferred tax on profit for the year	1,326	326
Deferred tax assets/(tax liabilities) at December 31	**785**	**(564)**

For description of basis for recognition of deferred tax assets, see note 11 to the Consolidated Financial Statements.

Deferred tax assets	785	443
Deferred tax liabilities	-	(1,007)
Deferred tax assets/(tax liabilities)	**785**	**(564)**

Note 12 Other receivables

(DKK million)	2020	2019
Public authorities (VAT)	295	650
Deposits	3	5
Other	121	79
Total	**419**	**734**

Note 13 Prepayments

Prepayments primarily consist of prepaid clinical trials and prepayments related to collaboration agreements.

Note 14 Provisions

(DKK million)	2020	2019
Staff-related provisions[1]	229	120
Sales deductions	11	7
Other provisions	43	149
Total	**283**	**276**
Provisions fall due		
Within one year	232	189
Between one and five years	51	87
Total	**283**	**276**

1. Addition DKK 84 million is primarily related to the restructuring of LEO Pharma announced on August 20, 2020. The majority of the provision is expected to be utilized during 2021.

Note 15 Non-current liabilities

(DKK million)	2020	2019
Non-current liabilities fall due		
Between one and five years	3,498	7,701
After five years	5,937	1,000
Total	**9,435**	**8,701**

Note 16 Other payables

(DKK million)	2020	2019
Accrued clinical trials expenses	236	320
Sales deductions	49	85
Employee related accruals	311	234
Other	401	174
Total	**997**	**813**

Note 17 Retirement benefit obligations

Defined benefit plans

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

(DKK million)	2020	2019
Present value of defined benefit plans:		
Present value of defined benefit plans at January 1	159	-
Additions related to business combinations[1]	-	159
Current service costs	2	1
Interest expenses	2	1
Actuarial (gains)/losses from changes in financial assumptions	11	-
Actuarial (gains)/losses from experience adjustments	(3)	0
Payments from the plan	(29)	(2)
Present value of defined benefit plans at December 31	**142**	**159**
Fair value of plan assets		
Fair value of plan assets at January 1	122	-
Additions related to business combinations[1]	-	122
Return on plan assets	(4)	(1)
Interest income	2	1
Fair value of plan assets at December 31	**120**	**122**
Net retirement benefit obligations at December 31	**22**	**37**
Specification of amount recognised in the Equity		
Actuarial (gains)/losses	12	1
Total	**12**	**1**

1. Reference is made to note 5 of the Consolidated financial statements.

Sensitivity analysis

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

A 0.25% decrease in the discount rate would result in an increase in the obligation of approximately 4% or DKK 6 million.

Note 18 Contractual obligations

Operating lease obligations
The Parent company has lease obligations of DKK 53 million (2019: DKK 42 million) of which DKK 22 million is related to leases for office premises with subsidiaries (2019: DKK 22 million).

Note 19 Guarantees, contingencies and commitments

Guarantees
The total guarantee commitment for the Parent company amounts to DKK 413 million at December 31, 2020 (2019: DKK 200 million), including a gurantee related to an associated company of DKK 131 million (2019: DKK 152 million).

LEO Pharma A/S has issued guarantees to subsidiaries for pension obligations of DKK 248 million.

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

(DKK million)	2020	2019
Intangible assets	4,499	3,292
Property, plant and equipment	296	602
Total	**4,795**	**3,894**

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

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

Pending lawsuits
At the end of 2020, 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 10 in the Consolidated financial statements.

Note 20 Other notes

For Financial risks, please see note 14 to the Consolidated Financial Statements.

For disclosures on assets measured at fair value, please see note 16 to the Consolidated Financial Statements.

For Share capital and distribution to shareholders, please see note 23 to the Consolidated Financial Statements.

For Related parties, please see note 25 to the Consolidated Financial Statements.

For Events after the balance sheet date, please see note 26 to the Consolidated Financial Statements.

Note 21 Accounting policies

The Financial Statements of the Parent company, LEO Pharma A/S, for 2020 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises in reporting class C. The accounting policies remain unchanged from the previous year.

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

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

Cash flow statement
In accordance with the exemption clause in Section 86(4) of the Danish Financial Statements Act, no separate cash flow statement has been prepared for the Parent company.

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

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

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

The total net revaluation of investments in subsidiaries is transferred to "Reserve for net revaluation under the equity method" under equity.

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

Goodwill
Goodwill is amortized over the expected useful life (15 years).

Management's Statement

The Executive Board and the Board of Directors have today considered and adopted the Annual Report of LEO Pharma A/S for the financial year January 1 – December 31, 2020.

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

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

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, February 25, 2021

Executive Board:

Catherine Mazzacco
President & CEO

Anders Kronborg
CFO

Board of Directors:

Olivier Bohuon
Chair

Anders Ekblom
Vice Chair

Jesper Høiland

Cristina Patricia Lage

Jan van de Winkel

Jesper Mailind

Birgitta Stymne Göransson

Signe Maria Christensen

Franck Maréno

Jannie Kogsbøll

Karin Attermann

Independent Auditor's Report

To the shareholder of LEO Pharma A/S

Opinion
We have audited the Consolidated Financial Statements and the Parent Company Financial Statements for the financial year January 1, 2020 - December 31, 2020, which comprise the Income statement, Balance sheet, Statement of changes in equity and Notes, including a summary of significant accounting policies, for the Group as well as the Parent company, and the Statement of comprehensive income and the Cash flow statement of the Group. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent Company Financial Statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at December 31, 2020 and of the results of its operations and cash flows for the financial year January 1, 2020 - December 31, 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent's financial position at December 31, 2020 and of the results of its operations for the financial year January 1, 2020 - December 31, 2020 in accordance with the Danish Financial Statements Act.

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

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

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

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

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

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

Management's Responsibilities for the Consolidated Financial Statements and the Parent Company Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the Parent Company Financial Statements

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

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

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

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

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

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

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

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

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

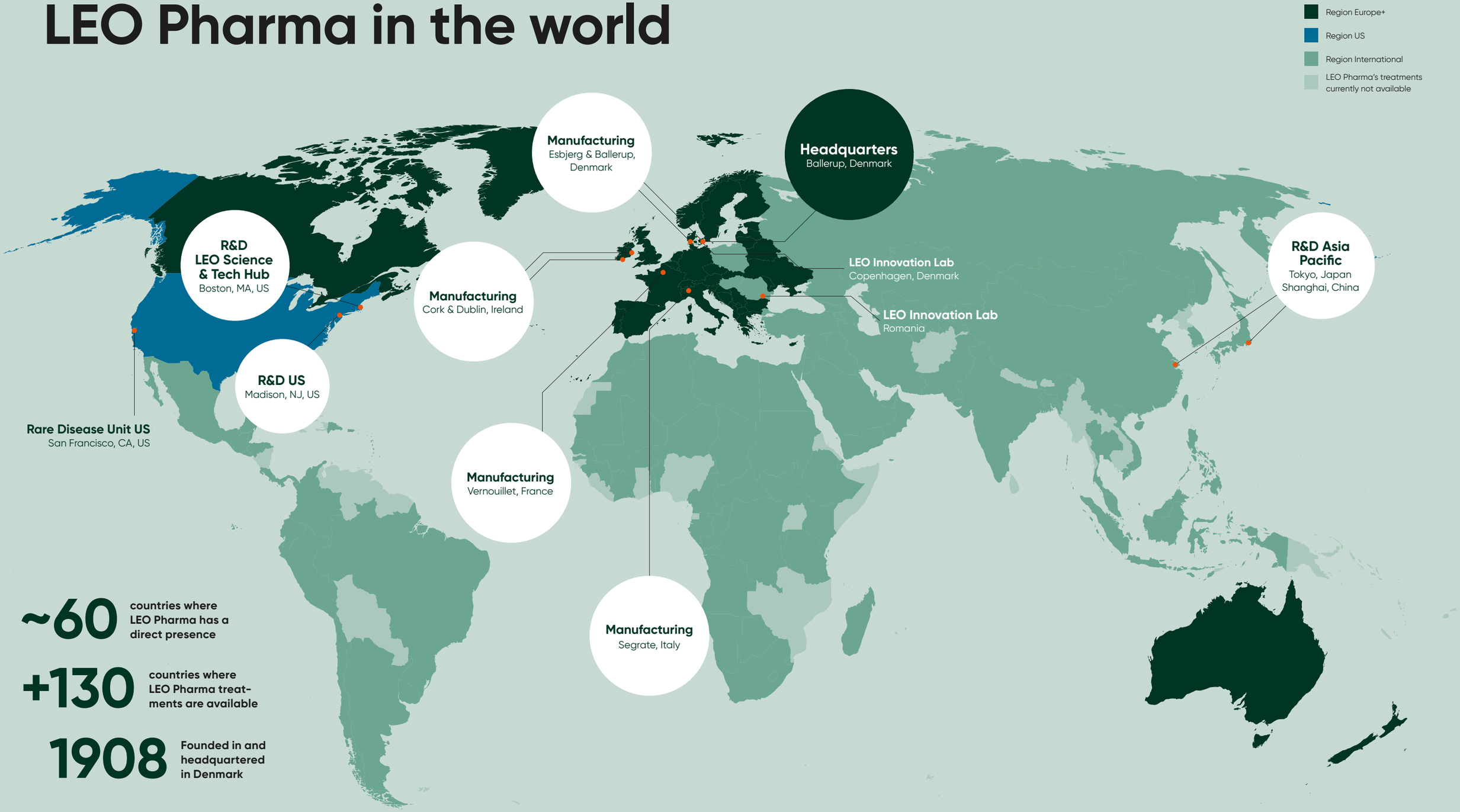
Copenhagen, February 25, 2021

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

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

Sumit Sudan
State-Authorized Public Accountant
MNE no. 33716

LEO Pharma in the world



~60 countries where LEO Pharma has a direct presence

+130 countries where LEO Pharma treatments are available

1908 Founded in and headquartered in Denmark

LEO Pharma A/S
Industriparken 55
2750 Ballerup
Denmark

Phone +45 4494 5888
CVR no. 56759514
www.leo-pharma.com

This report represents LEO Pharma's compliance with Sections 99a and 99b of the Danish Financial Statements Act.

The LEO Pharma logo is a registered trademark of LEO Pharma A/S.
© March 2021 LEO Pharma A/S