LEO FOUNDATION

ANNUAL REPORT 2021

Let’s pave the way for curing skin diseases

Contents

The cover photo *shows the hallway of the Maersk Tower at the University of Copenhagen, where the LEO Foundation Skin Immunology Research Center is based. A landmark in Copenhagen, the Maersk Tower is a research building that provides the optimum setting for world-class health research. Photo: C.F. Møller Architects/Adam Mørk*

MANAGEMENT REVIEW

FINANCIAL STATEMENTS

MANAGEMENT STATEMENT AND AUDITOR'S REPORT

LEO Foundation at a glance

The LEO Foundation is one of Denmark's largest commercial foundations and an **engaged owner of the pharmaceutical company LEO Pharma**. The Foundation's main objective is to ensure the company's long-term development and success as a global leader in dermatology, delivering outstanding results.

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

In addition, the Foundation manages **financial assets of around DKK 17 billion**. These assets are invested to ensure continued capability to support LEO Pharma's long-term development and provide funds for philanthropic activities.

>75%

Controlling owner of LEO Pharma A/S

Engaged ownership

Controlling owner of LEO Pharma since 1986

Philanthropy

Philanthropic support for scientific purposes

Investments

Financial assets of around DKK 17bn

DKK 163m

Grants and awards to independent **skin research** in 2021

The LEO Group

The LEO Group consists of the LEO Foundation, LEO Holding A/S and LEO Pharma A/S, including its Danish and international subsidiaries (collectively LEO Pharma Group).

LEO Foundation

100%

LEO Holding A/S

Controlling ownership >75 %

LEO Pharma Group

LEO Foundation
The LEO Foundation was established in 1984. The Foundation is the ultimate controlling shareholder of LEO Pharma and provides philanthropic support for independent research.

LEO Holding
The LEO Foundation's financial assets are held in LEO Holding, where all investment activities are carried out.

LEO Pharma Group
LEO Pharma develops, manufactures and markets pharmaceutical drugs for the treatment of skin diseases in more than 130 countries.

Lars Olsen (right)
Chairman of the Board of Trustees

Peter Haahr (left)
CEO

Reaching milestones that shape the future

A year characterized by several remarkable milestones and bold steps throughout the LEO Group.

Another year has gone by in the LEO Group's long and prosperous history, with notable milestones that have set us up well for 2022. The LEO Foundation established a new ownership structure for LEO Pharma by welcoming Nordic Capital as a partner and minority shareholder of the company. LEO Pharma took bold steps to deliver on its 2030 strategy and, importantly, received approval for tralokinumab in the EU and the US, bringing a new treatment to people suffering from moderate-to-severe atopic dermatitis. The Foundation's philanthropic support for skin research increased considerably to DKK 163 million, well supported by a solid return on financial investments of 13.6%.

Engaged ownership

The LEO Foundation was established to ensure the continuance and development of LEO Pharma and, as an engaged owner, we aim to provide the company with the best possible platform for long-term growth and success. The continuous development of LEO Pharma is not only paramount to ensuring a sustainable and successful company, but also a prerequisite for the Foundation to successfully pursue our purpose of paving the way for curing skin diseases.

Over the past years, we have carefully considered how to best support LEO Pharma's long-term objectives and ambitious growth strategy. This led to the decision to expand LEO Pharma's shareholder base, to fuel its growth and gain additional long-term funding flexibility as the company grows. In July 2021, a transaction was concluded with Nordic Capital, one of the most active and experienced investors in healthcare globally, which invested EUR 450 million for a minority stake in the company. Combined with the LEO Foundation's continued controlling ownership of LEO Pharma, the partnership with Nordic Capital will ensure that LEO Pharma has a strong foundation for future growth and success.

LEO Pharma

In 2021, LEO Pharma continued its transformation toward becoming a global leader in medical dermatology. A major milestone was reached with the approval of tralokinumab in the EU and in the United Kingdom in June, and in the US in December. Tralokinumab was launched in three European markets. The approval and launch is an important driver for LEO Pharma's development in the years to come, alongside the implementation of a new operating model and change program to increase competitiveness, simplify operations and increase profitability.

To drive and support this development, Jesper Brandgaard was appointed Chairman of the Board of Directors of LEO Pharma in August 2021, succeeding Olivier Bohuon, who decided to step down from the position earlier in the year.

The year resulted in sales performance broadly in line with the plan, while the operating result was negatively impacted by the impairment of intellectual property and development projects as well as one-time costs related to the introduction of the new operating model and change program. LEO Pharma made significant progress in developing its pipeline, firstly with delgocitinib, targeting chronic hand eczema, which moved into Phase 3 and, secondly, with the company's IL-22 inhibitor, targeting atopic dermatitis, which progressed to Phase 2. Finally, the internally developed oral IL-17A PPI modulator, targeting psoriasis, moved into Phase 1.

In November, it was announced that, by mutual agreement with the Board of Directors of LEO Pharma, Catherine Mazzacco would be stepping down as President and CEO of the company. The current CFO, Anders Kronborg, will be the acting CEO until Christophe Bourdon takes up the position on 1 April 2022.

In 2022, LEO Pharma will continue its significant investments in progressing the clinical pipeline and launching tralokinumab. While this will lead to another year of financial loss, we consider it to be a sound investment toward becoming a global leader in medical dermatology. Looking further ahead, the company's financial performance is expected to improve significantly and reach industry level.

Grants and awards

Looking at the LEO Foundation's philanthropic activities, 2021 focused on further advancing the Foundation's long-term ambition and commitment to support skin research of the highest quality, in order to discover more about the skin, skin diseases and skin health.

In 2021, we awarded 27 grants totaling DKK 163 million, compared to 25 grants totaling DKK 72 million in 2020, while continuing to support our existing grantees in mitigating the impact of COVID-19 on their research.

A dedicated strategy process was conducted, building on our efforts to make a strong contribution to research that improves the lives of people

living with skin diseases. Between now and 2025, the Foundation will increase its annual grant level to around DKK 250 million. Existing engagement within skin immunology, inflammatory skin diseases, skin physiology and drug delivery will be strengthened, as will support for research that may hold the key to curing skin diseases.

In addition to funding much-needed research into the skin and skin diseases, we aim to use the Foundation's independence and expertise as one of the world's largest private funders of dermatology research to support a thriving skin ecosystem as a platform for creating global impact for people living with skin diseases.

Investments

The capital markets developed favorably during 2021, despite some volatility toward the end of the year. Yet, looking at the Foundation's financial investments, our long-term investment horizon, a diversified portfolio and a well-balanced risk profile provided the basis for a very satisfactory investment return of 13.6% in 2021, which is ahead of the benchmark and exceeds our long-term return targets.

Furthermore, we strengthened the ESG profile of our financial portfolio by adding an ESG-screened mandate – with a particular focus on human rights – on Emerging Markets Debt. We continued our focus on promoting responsible tax behavior by subscribing to the Tax Code of Conduct established by four major Danish pension funds and now adopted by several pension funds and major foundations in Denmark. The Tax Code of Conduct outlines principles and recommendations promoting responsible tax behavior for unlisted investments.

In 2022, further additions of alternative components are expected to enhance return and portfolio diversification. The level of the risk and liquidity of the financial portfolio will ensure continued financial capability to support LEO Pharma, as well as provide funds for the Foundation's philanthropic activities.

Moving forward

We want to take this opportunity to thank Jesper Mailind, who decided to stand down as the LEO Foundation's CEO in September. The LEO Foundation has undergone a significant transformation with Jesper Mailind at the helm. His experience and competencies have been vital in strengthening the engaged ownership of LEO Pharma and in ensuring a solid platform for providing philanthropic research grants to benefit people and society.

There are many facets to the LEO Foundation: the company we own, the research we support, the financial investments we make, our cultural and historical activities at the LEO Historical Archives and Museum, and our values and commitment to thinking long term and creating sustainable value in the areas in which we engage. Overall, and looking ahead, the LEO Foundation is entering an exciting phase as we stand ready to fulfill our obligations to ensure LEO Pharma's long-term development and improve the understanding and treatment of skin diseases.

Thank you to all LEO Group colleagues and board members, members of the skin research community who sit on our scientific funding committees, and to everyone whose work was supported this year by the LEO Foundation. It is your dedication that paves the way for curing skin diseases.

Events after the reporting period

The LEO Group has limited business and investment exposure to Ukraine and Russia, and Russia's invasion of Ukraine is thus expected to have only limited financial impact. LEO Pharma continues the supply of products to patients in both Ukraine and Russia. Indirect impact from issues with shipping, payment and currency fluctuations can be expected. LEO Holding has minimal exposure to Russia in the investment portfolio through index mandates which will be divested by the external managers when possible. We are committed to adhering to sanctions imposed by the European Union and other international bodies.

Lars Olsen
Chairman of the Board of Trustees

Peter Haahr
CEO

Financial review – LEO Group

The LEO Group's financial result in 2021 reflected the significant changes and investments made with the objective of realizing LEO Pharma's strategic ambitions. The return on the LEO Foundation's financial investments contributed positively to the result.

In 2021, the LEO Group delivered a net loss of DKK 2,831 million. Revenue at LEO Pharma decreased by 1.7%, mainly as a result of the divestment of four non-core products in 2020.

The Group result was positively impacted by a significant return of DKK 2,131 million on LEO Foundation's investing activities, leading to an aggregate Group net loss before tax of DKK 2,362 million.

The LEO Foundation awarded 27 grants totaling DKK 163 million in 2021, a significant increase compared to 25 grants totaling DKK 72 million in 2020.

Operating activities

Revenue at LEO Pharma decreased by 1.7% from DKK 10,133 million in 2020 to DKK 9,957 million in 2021. The lower revenue was the result of the divestment of four non-core products in December 2020. Excluding the divested products, revenue grew by 5%.

Total costs at LEO Pharma grew by 17% from DKK 12,034 million in 2020 to DKK 14,108 million in 2021. The main reason for the increase in costs was the impact of the impairment of development and software projects, together with the financial impact of the implementation of a new operating model for LEO Pharma and a change program to increase competitiveness, simplify operations and increase profitability.

LEO Pharma continued to invest strongly in R&D to bring new and innovative treatments to market. R&D costs were DKK 3,058 million (2020: DKK 2,096 million), equivalent to 31% of revenue, against a spend amounting to 21% of revenue in 2020. Adjusted for the impairment of development projects and other one-time expenses, the R&D spend in 2021 amounted to 23% of revenue.

Total Group administrative costs amounted to DKK 2,429 million, compared to DKK 2,176 million in 2020. The increase was partly due to one-time costs related to the introduction of LEO Pharma's new operating model and the impairment of software development projects. The Foundation's own net administrative and operational costs amounted to DKK 22 million, which is an increase of 32% compared with 2020, mainly caused by the increase in activity and one-off costs.

The operating result (EBIT) at LEO Pharma amounted to a loss of DKK 4,156 million, compared to a loss of DKK 726 million in 2020. The operating loss was a result of significant costs related to the upcoming launch of tralokinumab, together with the impairment of intellectual property rights and development projects, the primary effect of which was the decision not to utilize the acquisition option related to PellePharm, which accounted for DKK 435 million. The introduction of a new operating model and a change program to simplify operations, increase profitability and fund the ambitious growth strategy impacted the results negatively by DKK 226 million.

Investing activities

The LEO Foundation's financial investments generated a return of DKK 2,131 million (2020: DKK 968 million) in a year where the capital markets developed favorably, despite some volatility toward the end of the year with the emergence of new COVID-19 variants. The long-term investment horizon, a diversified portfolio and a well-balanced risk profile provided the basis for an investment return of 13.6%, which exceeds both the benchmark and the Foundation's long-term return targets.

Net results and grants

Overall, the net result for the Group in 2021 was a loss of DKK 2,831 million, compared to a loss of DKK 410 million in 2020.

The LEO Foundation awarded 27 grants totaling DKK 163 million in 2021, compared to 25 grants totaling DKK 72 million in 2020. The outstanding grant liability increased to DKK 396 million at year-end, versus DKK 350 million in 2020.

Assets

At the end of December 2021, total assets amounted to DKK 40,249 million, compared to DKK 38,716 million in 2020. This includes financial investments of DKK 18,745 million at year-end (2020: DKK 15,861 million).

Intangible assets decreased to DKK 8,654 million as of 31 December 2021, against DKK 9,228

million in 2020, mainly due to impairments of development projects, IT projects and intellectual property rights totaling DKK 681 million.

Equity

The Group's total equity at year-end amounted to DKK 26,870 million – an increase of 1.7% – compared to DKK 26,404 million in 2020, due to LEO Pharma's capital increase of DKK 3,347 million, partly offset by the negative result in 2021.

Cash flow

Total Group cash flow from operating activities was a negative DKK 2,754 million, compared to a negative DKK 1,015 million in 2020. This development is mainly due to the lower operating result.

Cash flow from investing activities, excluding the purchase and sale of financial assets, amounted to an outflow of DKK 1,350 million, against an inflow of DKK 954 million in 2020, when the cash flow was impacted by the sale of intangible assets.

Cash flow from financing activities resulted in an inflow of DKK 3,575 million, the majority of which derives from the proceeds of the increase in LEO Pharma's share capital as a result of the transaction with the new minority shareholder Nordic Capital.

Outlook

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

In 2022, LEO Pharma will continue to move forward with the realization of its 2030 strategy. Sales are expected to grow by 3-5% to DKK 10.2-10.4 billion in 2022, driven by the launch of tralokinumab and the growth in strategic products. LEO Pharma will continue to focus on profitability improvements and to invest significantly in innovative research and development activities. Furthermore, costs related to product launches will increase significantly in 2022, leading to an expected operating loss (EBIT) of approx. DKK 3.1-3.3 billion.

Based on the financial strength of the LEO Foundation and its vision of making a strong contribution to research that improves the lives of people living with skin diseases, the Foundation expects a grant level of DKK 115-130 million in 2022, growing to an annual level of DKK 250 million by 2025.

Financial highlights – LEO Group

(DKK million)	2021	2020	2019	2018	2017
Income statement					
Revenue	9,957	10,133	10,805	10,410	10,481
Operating profit/(loss)	(4,194)	(757)	(1,343)	1,577	835
Financial items	1,833	809	2,045	(674)	941
Profit/(loss) before tax	(2,362)	50	673	892	1,773
Net profit/(loss) for the year	(2,831)	(410)	389	708	1,383
Balance sheet					
Investments in property, plant and equipment	800	1,164	1,968	480	385
Non-current assets	17,832	16,716	16,169	10,234	8,216
Current assets	22,418	22,000	23,026	22,715	23,608
TOTAL ASSETS	**40,249**	**38,716**	**39,195**	**32,949**	**31,824**
EQUITY	**26,870**	**26,404**	**27,077**	**26,921**	**26,519**
Key ratios					
Return on equity	(11%)	(2%)	1%	3%	7%
Solvency ratio	67%	68%	69%	82%	83%

LEO Pharma – taking bold steps toward a bright future

The LEO Foundation is the controlling shareholder of LEO Pharma. As an engaged owner, we aim to provide the company with the best possible platform for long-term development and success. In 2021, LEO Pharma took bold steps toward becoming a global leader in medical dermatology.

Medical dermatology is one of the most attractive and fastest-growing therapeutic areas worldwide. The market is expected to double by 2030, reaching a value of more than EUR 50 billion. It is within this market context that LEO Pharma aspires to become a global leader and a top-five player by 2030.

2021 was an eventful year for LEO Pharma in many ways, as the company continued to deliver on its 2030 strategy. A major milestone was reached with the approval of tralokinumab in the EU and the United Kingdom in June, and in the US in December, bringing a new treatment to people suffering from moderate-to-severe atopic dermatitis (AD). This will accelerate the company's transformation into a world-leading medical dermatology care partner.

In addition to bringing tralokinumab to market, LEO Pharma progressed its pipeline significantly in 2021. Delgocitinib, targeting chronic hand eczema, progressed to Phase 3, with a launch planned for Europe and Canada from 2024. The IL-22R inhibitor moved to Phase 2. This candidate could be the company's next strong biological asset after tralokinumab within AD and is the only IL-22R inhibitor in clinical development. IL-17A PPI modulator, an oral candidate targeting psoriasis, moved to Phase 1. This candidate, which comes from LEO Pharma's own research group and has produced promising results to date, has the potential to become one of the first oral treatments to provide an alternative to injections.

LEO Pharma discontinued its collaboration with rare disease partner PellePharm, as Phase 3 studies of patidegib, a potential therapy for Gorlin Syndrome, did not deliver the intended profile.

LEO Pharma maintained its strong focus on increasing its competitiveness and profitability by creating a simpler, leaner and more agile company. Compared with its benchmark, LEO Pharma still needs to improve its competitiveness. This will continue to be a strong focus in 2022 and will require the organization to transform as announced in January 2022.

2021 resulted in sales performance broadly in line with the plan as the portfolio of dermatology products grew by 8%, driven by the strategic products Kyntheum® and Enstilar®, which continued to win market shares.

In March, the LEO Foundation announced a partnership deal with Nordic Capital, which invested EUR 450 million in return for an associated non-controlling stake in LEO Pharma A/S. The new ownership structure, with the LEO Foundation remaining the majority owner of LEO Pharma, is a key milestone toward realizing LEO Pharma's 2030 growth ambitions. The transaction between the LEO Foundation and Nordic Capital was concluded in July.

FINANCIAL PERFORMANCE

Revenue

Overall revenue in 2021 decreased by 1.7% to DKK 9,957 million (2020: DKK 10,133 million). The reduced revenue was the result of the divestment of four non-core products in December 2020. Excluding the divested products, revenue grew by 5%, driven by both the Dermatology portfolio and Thrombosis. Of the total revenue, the established portfolio contributed DKK 9,314 million, while revenue from the innovative portfolio amounted to DKK 643 million.

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

Revenue DKK
9,957 million

23% of revenue reinvested in R&D

~6,000 employees worldwide

130+ countries where LEO Pharma treatments are available

LEO Pharma growth by therapeutic area/brand*

DERMATOLOGY

+32%
Kyntheum®

+15%
Enstilar®

+11%
Protopic®

+36%
Skinoren®

THROMBOSIS

+5%

*2021 growth vs 2020. Growth in value (DKK million)

Thrombosis revenue

Revenue for LEO Pharma's thrombosis portfolio increased by 5% to DKK 2,311 million (2020: DKK 2,202 million). Within the area, innohep® and Protamine Sulphate sales grew 5% and 67%, respectively, while sales of Heparin decreased 5%. Sales in 2021 were still affected by restrictions on hospital stays and lower levels of chemotherapy treatment post COVID-19.

Dermatology revenue by region

Below is an overview of LEO Pharma's Dermatology portfolio revenue by region, excluding the divested products. Revenue for non-dermatology products (Thrombosis) is described above.

Revenue from Region Europe+ grew by 8% to DKK 4,193 million, driven by the lifting of COVID-19 restrictions as well as the continued strong growth of Enstilar® and Kyntheum®.

Revenue from Region International grew by 9% to DKK 2,806 million. Given the wide diversity of countries and business models within the region, the performance of the individual countries varied significantly. However, China was a key growth driver.

2021 revenue for the US decreased by 34% to DKK 282 million. This decrease reflects the competitive landscape in the US, with increasing net pricing pressures on LEO Pharma's branded and authorized generic portfolios. The US will be a key growth driver for the company in the coming years, with the launch of tralokinumab in 2022.

Costs and profit & loss

In 2021, total costs increased by 17% to DKK 14,108 million (2020: DKK 12,034 million). The main reason for the increase in costs was the impairment of development projects, together with the financial impact of the implementation of a new operating model for LEO Pharma and a change program to increase the company's competitiveness, simplify operations and increase profitability.

Operating costs amounted to DKK 10,146 million (2020: DKK 8,674 million).

R&D costs rose to DKK 3,058 million, or 31% of the 2021 revenue (2020: 21%), primarily due to continued investments in bringing tralokinumab to market, as well as increased activities within Eczema, including Phase 3 studies for delgocitinib, for the treatment of chronic hand eczema, and Phase 2 studies for H4R antagonist, a first-in-class oral therapy. Adjusted for the impairment of development projects and other one-time expenses, the R&D spend in 2021 amounted to 23% of revenue.

Operating loss before depreciation and amortization (EBITDA) was DKK 1,957 million (2020: profit of DKK 521 million). Operating loss before interest and taxes (EBIT) was DKK 4,156 million (2020: loss of DKK 726 million). The operating loss was a result of significant costs related to the upcoming launch of tralokinumab, together with the impairment of intellectual property and development projects.

Outlook

In 2022, LEO Pharma will continue to move toward realization of its 2030 strategy. This entails significant investments in the clinical pipeline, especially in the clinical development of and post-clinical activities for tralokinumab and delgocitinib.

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

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

Click here

Investments – almost a return to normal

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

The LEO Foundation holds financial assets worth approximately DKK 17 billion. Funds are invested to generate the best possible returns while retaining a sensible, well-balanced risk profile, which enables the Foundation to be a stable and supportive owner of LEO Pharma and to enhance its philanthropic support for scientific purposes.

As in previous years, the focus in 2021 was on the steady build-up of a diversified portfolio of illiquid alternatives. This meant new commitments – totaling almost DKK 1 billion – to a real estate fund, a direct lending fund and two private equity funds.

During 2021, return and capital calls meant that the allocation to illiquid alternatives increased by more than DKK 1.1 billion, which is equivalent to an increase of 5.5% of the financial portfolio. On the listed side, two index mandates were terminated – low-volatility equities and emerging markets debt local currency – while a new mandate on ESG-screened emerging markets debt hard currency was introduced.

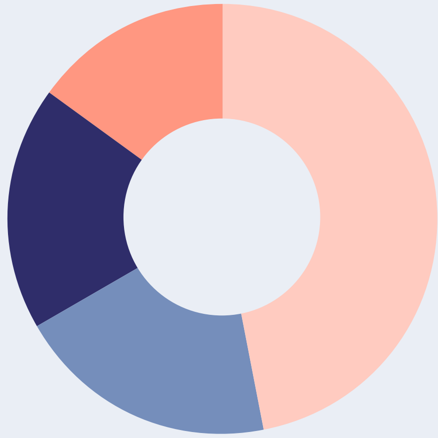
Major transactions on existing mandates in 2021 included an increased allocation to fixed-income hedge funds, adjustments to the equity weight using equity index futures and ETFs as well as a reduction in fixed-income exposure to cover investments in alternatives plus the Foundation's grants and costs.

Strong equity markets – weak fixed-income markets

The roll-out of COVID-19 vaccines enabled financial markets to focus on economic data and monetary policy and thus a return to near-normality following a year with little visibility about the future in 2020. Not even the emergence of the Delta and Omicron variants could derail the strong positive momentum on the equity markets. Key drivers for financial markets in 2021 were solid economic growth, strong business confidence indicators, high corporate earnings, and increasing inflation, which turned out to be more persistent than initially expected.

Equity markets saw consistent gains throughout 2021, albeit with some minor corrections in January, September and November. Returns

Asset allocation of the investment portfolio at 31.12.2021



Equities **47%**

Alternatives **20%**

Credit **18%**

Government and mortgage bonds **15%**

Photo: LEO Foundation Skin Immunology Center

were, however, widely divergent across regions, with US and European equities gaining around 36% and 25% respectively and Japanese and Emerging Markets equities lagging substantially. Part of the strong return on US equities was due to a 7% appreciation in USD versus DKK. On the fixed-income side, the focus was on monetary policy and the rising inflation rate. With a world on its way back to normal, the need for very strong monetary stimuli diminished, and central banks slowly changed their rhetoric and started preparing markets for tighter monetary policy (or the removal of the "emergency" stimuli introduced at the start of the pandemic). Yields thus ended significantly higher than at the start of the year – albeit not at year-highs.

LEO Holding's financial portfolio generated a return of DKK 2,131 million, or 13.6%, with equities, alternatives, credit and overlay strategies contributing positively, and government and mortgage bonds being the only detractor.

Equities contributed almost DKK 1.83 billion and had an asset class return of 24.7%. However, returns for individual mandates were between 6.4% and 31.1%, highlighting again this year the importance of diversification. Alternatives contributed DKK 315 million with a return of 11.9% – with private equity in particular contributing positively and fixed-income hedge funds detracting. The government and mortgage bond portfolio had a return of -2.5%, or a negative DKK 58 million, while credit and overlay strategies contributed DKK 23 million and DKK 15 million respectively.

Investment strategy 2022

In 2022, further additions of alternative components are expected in order to enhance return and portfolio diversification. The level of risk in the portfolio is expected to be kept at the same level as in 2021, and the risk and liquidity of the financial portfolio will continue to ensure that the LEO Foundation is able to support LEO Pharma.

Investment portfolio

	Market value (DKK million)			Return (%)		
Assets	**31.12.2021**	**31.12.2020**	**31.12.2019**	**2021**	**2020**	**2019**
Government and mortgage bonds	2,641	1,499	2,596	(2.5)	1.6	1.7
Equities	8,330	8,225	7,453	24.7	11.4	26.1
Credit	3,221	3,885	3,914	0.9	0.3	9.8
Alternatives	3,500	2,252	1,263	11.9	4.8	7.9
Total	**17,692**	**15,861**	**15,226**	**13.6**	**6.9**	**14.9**

Grants and awards – a strategic year with lots of online interactions

Through philanthropic activities, the LEO Foundation aims to support the best international research in skin diseases and make Denmark a global beacon for skin research.

In 2021, the LEO Foundation continued to support international skin research of the highest quality to improve the understanding and treatment of skin diseases. The Foundation awarded DKK 163 million for research into the skin and its diseases. Grants were distributed across four main groups:

- Four **strategic grants** were given as additional support to the LEO Foundation Skin Immunology Research Center and the LEO Foundation Center for Cutaneous Drug Delivery, both at the University of Copenhagen, Denmark. DKK 113 million was awarded.
- A total of 13 researchers around the world had their applications for a **research grant** approved. DKK 42 million was awarded.
- Four **education and awareness** grants were given to Psoriasisforeningen, Astra's Young Scientists ("Unge Forskere") and Big Bang Conference, and the Bloom Festival – all in Denmark. Moreover, three education and awareness grants were given to the Societies for Investigative Dermatology in Europe, Japan and the US. DKK 3.9 million was awarded.
- Three **LEO Foundation Awards** were presented to promising young talents – one in each of the regions: Americas, EMEA (Europe, Middle East, Africa) and Asia-Pacific. DKK 1.9 million was awarded.

The LEO Foundation has no intellectual property rights to results from our philanthropic activities. However, we request that the results are published.

COVID-19 response

Throughout 2021, the global COVID-19 pandemic continued to impact the Foundation's philanthropic activities as researchers were affected by restrictions and laboratories and universities were closed. In response, we provided our grantees with contingency support to help ensure that researchers could continue their projects and keep their research ambitions intact. In 2021, the Foundation granted DKK 1.4 million in COVID-19 contingency support to existing grantees.

Approximately 50 change requests have been processed since the beginning of the pandemic, reflecting the fact that close to half of our grantees have reached out to us. All requests for extended timelines or permission to reallocate funds have been approved, and 10 grantees have received additional funding.

Expert evaluation

The LEO Foundation has established a working procedure and an approval process to ensure that all applications are thoroughly reviewed. In 2021, we assessed 130 grant and award applications based on accepted international standards. Two external expert panels – the Scientific Evaluation Committee and the Global Review Panel – are made up of international experts from research institutions around the world, ensuring a high level of quality in the evaluation processes. The Board of Trustees of the LEO Foundation makes the final decision on all grants and awards.

Continued focus on data and results

The LEO Foundation wants to ensure that we can demonstrate the impact and value of the research supported – and that grants are given in a way that ensures optimal benefit for the research community and for society in general.

That is why we ask all grantees and awardees to report on their research at least annually.

Reporting of output, outcome and impact is carried out through two web-based tools, Researchfish and Foundgood, which are used to collect data, assess the effects of our support and facilitate our dialogue with grantees.

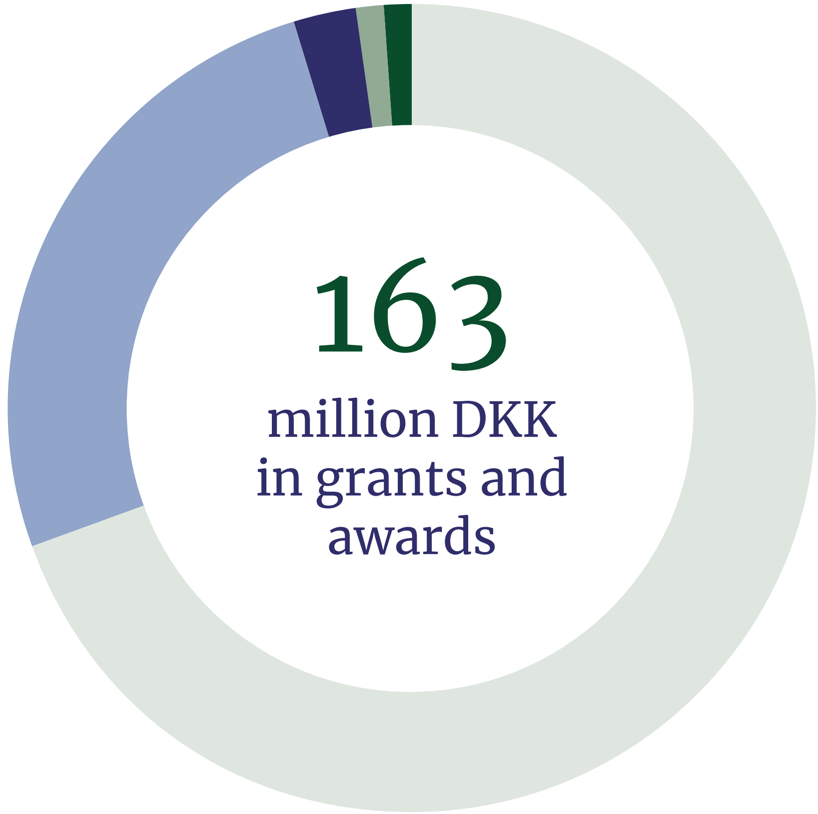
Toward the end of the year, we received the third round of grantee reporting in Researchfish. We were pleased to see a continued increase in the number of scientific publications as well as in other output from the research projects supported by the LEO Foundation.

Looking toward the future

During the year, the LEO Foundation further advanced its long-term ambition and commitment to support skin research of the highest quality, in order to discover more about the skin, skin diseases and skin health. A dedicated strategy process was conducted involving the Board of Trustees of the Foundation, with helpful input and feedback from a broad range of external experts and stakeholders, including grantees, host institutions, members of the Foundation's Evaluation Committee and other foundations.

The strategy builds on our vision of making a strong contribution to research that improves the lives of people living with skin diseases. Thus, the Foundation will increase the grant level in the coming years and continue to support the best skin researchers and scientists around the world. Toward 2025, existing engagement within skin immunology, inflammatory skin diseases, skin physiology and drug delivery will be strengthened, as will support for research that may hold the key to curing skin diseases.

2021 key figures



116
million DKK
in total payout

142
applications
in total

4 strategic grants, DKK 113 million
LEO Foundation strategic grants are given to build, develop or strengthen excellent dermatology research within specific areas.

13 research grants, DKK 42 million
LEO Foundation research grants are awarded in open competition to support the best dermatology research projects worldwide.

7 education and awareness grants, DKK 3.9 million
LEO Foundation education and awareness grants are given to support activities that strengthen the pipeline of future researchers within the fields of medicine, chemistry and pharmacy, and raise awareness about the skin and skin diseases.

3 awards, DKK 1.9 million
LEO Foundation Awards recognize outstanding young researchers and scientists from around the world whose work represents an extraordinary contribution to skin research and has the potential to pave the way for new and improved treatments for skin diseases. Each award is worth USD 100,000, and three awards are made each year, one in each of the three regions: Americas, EMEA (Europe, Middle East, Africa) and Asia-Pacific.

COVID-19 contingency support to existing grantees, DKK 1.4 million

The LEO Foundation aims to support the best international research in skin diseases and make Denmark a global beacon for skin research.

Click to learn more

Motivating young scientists to pursue a career in skin research

The LEO Foundation aims to motivate young scientists to pursue a career in skin research. Therefore, the Foundation supports activities for young skin researchers under the auspices of the US Society for Investigative Dermatology (SID), the European Society for Dermatological Research (ESDR) and the Japanese Society for Investigative Dermatology (JSID).

SID:
Mentoring and Networking Circles Program

The program includes the creation of "Circles" with 6-8 young scientists and an SID faculty mentor, to strengthen camaraderie, support and networking. The program runs over six months with more than 100 participants, including mentors.

ESDR:
10th Future Leaders Academy in Dermatology

The academy supports future dermatology leaders via scientific sessions, mentoring sessions and networking, during which ideas and experiences are exchanged. The academy is held over two days with more than 30 participants, including mentors.

JSID:
12th Young Academician-Fostering Seminar

The seminar aims to motivate young researchers through intensive educational discussions and opportunities to interact with other researchers. The seminar is held over two days with more than 30 participants, including mentors.

Biobank with skin tissue and blood samples from 3,000 patients

LEO Foundation Skin Immunology Research Center at the University of Copenhagen. Photo: C.F. Møller Architects / Adam Mørk

With a strategic grant from the Foundation, Herlev and Gentofte Hospital, together with LEO Foundation Skin Immunology Research Center at the University of Copenhagen, Denmark, in 2021 embarked on establishing a new research program and biobank with skin tissue and blood samples from 3,000 patients with skin conditions such as psoriasis and eczema.

Close collaboration between clinical and basic researchers across the hospital and the university is at the core of the research program. Together with close contact with patients through patient associations, the interdisciplinary collaboration will ensure the relevance and impact of the research for the patients.

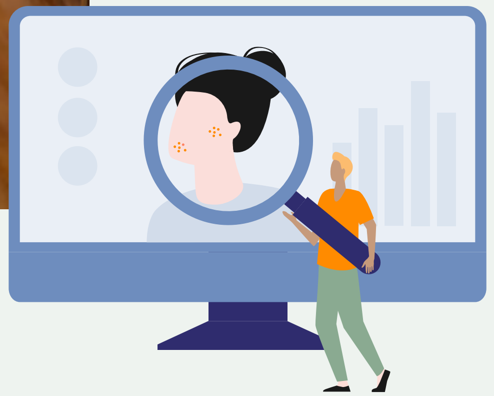
With significant support from the LEO Foundation and co-financing from Herlev and Gentofte Hospital and the LEO Foundation Skin Immunology Research Center, the establishment of the new research program and biobank shows that the Skin Immunology Research Center is becoming a world-class skin research center. The center will be both a base for leading researchers in skin diseases and able to support the collaboration between basic research and the clinical environments at the hospital.

The biobank is the first of its kind and will, in the long term, make data and knowledge available for researchers around the world.

Overcoming the skin barrier to enhance the uptake of drugs into the skin

With a strategic grant from the Foundation, the LEO Foundation Center for Cutaneous Drug Delivery at the Department of Pharmacy, University of Copenhagen, Denmark, will be able to further strengthen its research on how drug permeation into and through the skin can be enhanced for improved treatment outcomes.

Seven new PhD projects will focus on physicochemical approaches and on addressing the biological consequences of improved skin uptake. The aim is to provide knowledge that can be used to develop products that can contribute to combating severe infections or dampen or prevent recurring inflammation, which characterizes both psoriasis and eczema and makes living with these conditions difficult for patients.



Governance

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

Click here

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

As an engaged owner of LEO Pharma and one of Denmark's largest commercial foundations with substantial philanthropic activities and significant financial investments, the LEO Foundation has considerable societal impact in Denmark and internationally. Thus, we have an important obligation and responsibility to operate transparently and with integrity.

Governance recommendations

The LEO Foundation is committed to being transparent and responsible in all of our actions, and we fully support and comply with all the recommendations on foundation governance issued by the Danish Committee on Foundation Governance.

Board of Trustees

The LEO Foundation is governed by a Board of Trustees in collaboration with the management team. The Board of Trustees consists of 11 members. Seven members are appointed in accordance with the Foundation's charter, while four are elected by LEO Pharma employees in accordance with applicable laws.

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

The members of the LEO Foundation's Board of Trustees also make up the Board of Directors of LEO Holding A/S.

Matters related to overall strategies and the LEO Foundation's grant activities are handled by the Board of Trustees of the LEO Foundation, while matters related to investments and our engaged ownership of LEO Pharma are handled by the Board of Directors of LEO Holding. Both boards meet at least four times a year and, in addition, hold an annual seminar to discuss and review strategies.

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

Grant governance

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

The Grant Committee supervises all grant and award activities and advises the Board on relevant matters, including grant strategies and policies. The Grant Committee also ensures that all grant and award applications undergo rigorous assessment to ensure alignment with the LEO Foundation's objectives for its philanthropic activities. This includes evaluation of applications by panels of external experts from research institutions around the world who, among other things, assess the scientific topic, the proposed research and the applicant's qualifications.

Committees and panel members must comply with the LEO Foundation's impartiality rules.

The Board makes the final decision on all grants and awards.

Investment governance

The Investment Committee advises the Board on matters relating to investments and asset management. It prepares and recommends investment strategies and policies to the Board, and ensures their implementation in cooperation with the Executive Management.

The Investment Committee also monitors and reviews relevant internal controls, risk management and governance models.

The Board maintains overall responsibility for the investments.

Engaged ownership of LEO Pharma

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

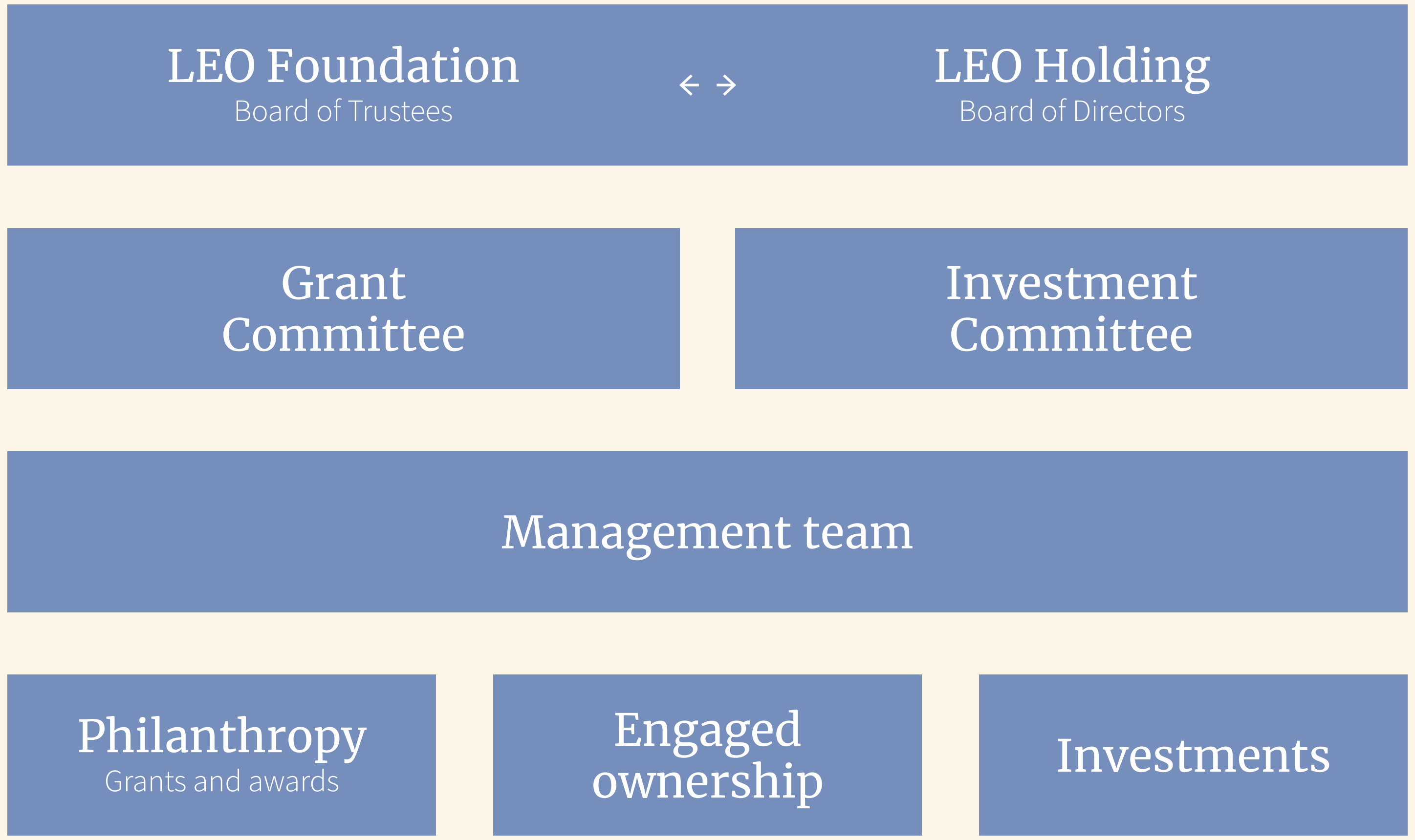
LEO Pharma issues monthly reports on the progress and performance of the business, followed by status meetings with the shareholders. In addition, an annual Capital Markets Day is held, during which the strategic progress is reviewed and discussed.

The LEO Foundation has two seats on the company's Board of Directors with direct representation. These seats are currently held by LEO Foundation CEO Peter Haahr and LEO Foundation board member Lars Green.

For more information on LEO Pharma's governance, please refer to the LEO Pharma Annual Report 2021 and the LEO Pharma Sustainability Report 2021.

Click here

Governance structure



Board of Trustees

Lars Olsen
Chairman

Born 1965 / M

Doctor of Medicine, MBA

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

Additional positions
- Chairman of the Board and member of the Investment Committee, LEO Holding A/S

Appointed by authorities: No

Considered independent: No

Competencies
Pharma, general management, R&D, sales and marketing

Eivind Kolding
Vice Chairman

Born 1959 / M

Master of Law, Advanced Management Program

Elected in 2017
(re-elected 2021, end of term 2023)

Additional positions
- Vice Chairman of the Board and member of Investment Committee, LEO Holding A/S
- Chairman of the boards of Danish Ship Finance, Kunstforeningen Gammel Strand, NTG Nordic Transport Group A/S
- Member of the boards of NNIT A/S, Altor Fund Manager AB, Axcelfuture (Advisory board)

Appointed by authorities: No

Considered independent: Yes

Competencies
General management, finance, law

Allan Carsten Dahl
Board member

Born 1967 / M

Principal Professional, LEO Pharma A/S, Master of Science (Chemistry), PhD

Elected in 2015
(re-elected 2018, end of term 2022)

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

Appointed by authorities: No

Considered independent: No

Employee-elected
Elected by the employees of LEO Pharma

Anja Boisen
Board member

Born 1967 / F

Professor, DTU Health Technology, Director of the IDUN Centre of Excellence, Master of Science (Physics), PhD, Executive Program

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

Additional positions
- Member of the Board, LEO Holding A/S
- Member of the Grant Committee, LEO Foundation
- Member of the boards of The Royal Danish Academy of Sciences and Letters, Villum Foundation, Lightnovo ApS

Appointed by authorities: No

Considered independent: Yes

Competencies
Research, general management, innovation, fundraising

Cristina Lage
Board member

Born 1954 / F

Master of Science (Business)

Elected in 2016
(re-elected 2021, end of term 2023)

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

Appointed by authorities: No

Considered independent: Yes

Competencies
General and change management, investment and asset management, financial risk management

Further information about the Board of Trustees
Click here

No members of the Board own shares, options, warrants and similar in the Foundation's subsidiaries and/or associates.

Franck Maréno
Board member

Born 1977 / M

Principal Technician, AP Graduate Laboratory and Biotechnology "Technonome"

Elected in 2021
(end of term 2022)

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

Appointed by authorities: No

Considered independent: No

Employee-elected
Elected by the employees of LEO Pharma

Jannie Kogsbøll
Board member

Born 1962 / F

Operator, LEO Pharma A/S, Higher Commercial Examination

Elected in 1998
(re-elected 2018, end of term 2022)

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

Appointed by authorities: No

Considered independent: No

Employee-elected
Elected by the employees of LEO Pharma

Karin Jexner Hamberg
Board member

Born 1961 / F

Senior Vice President, Chief Medical Officer, H. Lundbeck A/S, Doctor of Medicine, Executive education

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

Additional positions
- Member of the Board, LEO Holding A/S
- Member of the Grant Committee, LEO Foundation
- Member of European College of Neuropharmacology, International Society for CNS Clinical Trials

Appointed by authorities: No

Considered independent: Yes

Competencies
Strategic R&D management, drug development, clinical development, pharmacovigilance, compliance, health economics, regulatory affairs

Lars Green
Board member

Born 1967 / M

CFO and Executive Vice President, Finance, IT & Legal, Novozymes A/S, Master of Science (Business), PED, IMD

Elected in 2020
(re-elected 2021, end of term 2023)

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

Appointed by authorities: No

Considered independent: Yes

Competencies
Pharma, finance, general management, corporate governance

Lotte Hjortshøj
Board member

Born 1971 / F

Executive Assistant, LEO Pharma A/S, Diploma Graduate

Elected in 2018
(end of term 2022)

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

Appointed by authorities: No

Considered independent: No

Employee-elected
Elected by the employees of LEO Pharma

Peter Schwarz
Board member

Born 1959 / M

Professor-in-chair, Medical Doctor, Doctor of Medical Science (dr. med), Specialist in Endocrinology, Medicine and Clinical Biochemistry, Head of Research, Department of Endocrinology, Rigshospitalet

Elected in 2017
(re-elected 2021, end of term 2023)

Additional positions
- Member of the Board, LEO Holding A/S
- Chairman of the Grant Committee, LEO Foundation

Appointed by authorities: No

Considered independent: Yes

Competencies
Basic and clinical research, general management, fundraising

No members of the Board own shares, options, warrants and similar in the Foundation's subsidiaries and/or associates.

Staff at the Foundation

The LEO Foundation organization is made up of a small and dedicated team of highly competent specialists.

Peter Haahr
CEO

Ida Brams
Chief Grant Officer

Morten S. Christensen
Chief Investment Officer

Lars Kruse
Scientific Officer

Lars Thørs
Senior Investment Director

Pernille Mørch-Sørensen
Management Assistant

Peter Kjeldsen Hansen
Director, Legal and Business Development

Signe Krabek
Head of Communication and Public Affairs

Stine Wolf Larsen
Finance Manager

Nicholas Skirl
Student assistant

Further information about the Foundation team
Click here

Photo: LEO Pharma

Learn more about the history of LEO

Click here

LEO Historical Archives and Museum

The old porter's building at LEO Pharma's headquarters is home to the LEO Historical Archives and Museum, which is run by the LEO Foundation. The LEO Museum gives LEO employees and stakeholders alike the opportunity to delve into the history of LEO Pharma – from the back rooms of the original "Løveapoteket" pharmacy (Lion Pharmacy) in central Copenhagen, to the present day and LEO Pharma's latest endeavors.

Sophie Seebach
Head of LEO Historical Archives and Museum

Arne Mandøe
Senior Historian

Berit Glasser Heede
Historian

Sustainable value for people and society

At the LEO Foundation, we strive to create sustainable value for people and society through engaged ownership, philanthropy and investments, and to have a positive impact on our surroundings.

Social responsibility is an inherent part of the LEO Foundation's purpose and way of doing business. In line with our charter, the Foundation was created with a non-selfish purpose and our core mission is anchored in a strong set of values and a commitment to support and benefit people and society and to make a sustained difference within the areas in which we engage.

The Foundation has three main objectives: to ensure and support the continued development and success of LEO Pharma, to support international research improving the understanding and treatment of skin diseases, and, finally, to make investments to ensure the long-term financial capability to support LEO Pharma as well as funds for grant activities, all with the overall aim of improving the lives of people living with skin diseases.

We strive to uphold high ethical standards and to ensure compliance with applicable laws, ethical codes and regulations in all operations carried out by the Foundation itself as well as when working with partners and stakeholders.

The LEO Foundation supports and respects the protection of internationally adopted principles on human rights, labor, climate, environment and anti-corruption, and requires grantees and everybody working on the projects we support to be employed under conditions that comply with applicable laws.

The LEO Foundation has progressively embedded responsibility into its functions and operations and has adopted several policies in relation to corporate social responsibility (CSR). Combined, the policies form a set of principles for the Foundation's way of working.

Please find below highlights of the year related to the Foundation's operations, engaged ownership, grant activities and investments – and highlights from LEO Pharma, including company-specific policies, activities and results for 2021.

FOUNDATION PRACTICE

Whistleblower

The LEO Foundation prioritizes transparency and set up a whistleblower hotline in 2021 to provide employees, applicants, grantees, collaborators, business partners and others related to the LEO Foundation with a safe and anonymous way of voicing any suspicions of serious irregularities or unlawful behavior within the LEO Foundation or in connection with the Foundation's activities. The whistleblower hotline is a voluntary alternative to other communication channels.

Code of Conduct

Throughout the LEO Group, we are committed to upholding high business standards and promoting good business conduct in our interactions with customers, grantees, healthcare professionals, public officials and other business partners.

Our commitment is set out in the LEO Code of Conduct, which ensures consistent actions and attitudes by addressing and resolving ethical and compliance-related issues that may arise in our daily work. It applies to all Group employees, including LEO Foundation employees and members of our Board of Trustees.

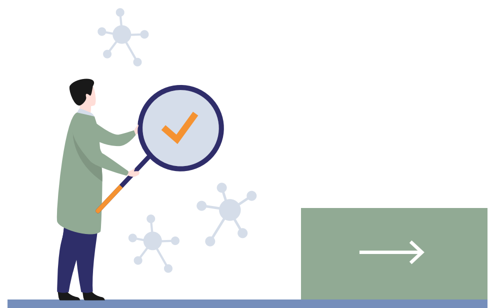
Responsible tax

The LEO Foundation is committed to being transparent and responsible in all of our actions, including how we conduct our tax affairs.

As part of this commitment, we have developed a set of key tax principles. These have been approved by our Board and are reviewed annually. The tax principles apply to the LEO Foundation and our subsidiaries, including LEO Holding and LEO Pharma.

Statutory report on gender diversity

The Board strives to ensure that at least 40% of its charter-appointed members are women and, similarly, that at least 40% are men. The current composition places the Board within the desired range, with three out of seven



Learn more about LEO Foundation's CSR initiatives and policies

Click here

(43%) of the charter-appointed members being women.

With just 13 employees at the LEO Foundation, no policy has been established for gender diversity at management levels below the Board. The LEO Foundation strives to be a responsible and inclusive workplace that recruits and develops its employees based on their competencies and in a way that supports diversity. The current gender distribution for all Foundation employees is equal.

Statutory report on data ethics

The LEO Foundation's commitment to creating sustainable value for people and society is reflected in the way we collect, process and use data. The Foundation complies with all applicable legal requirements, but we acknowledge and respect the fact that certain ethical and sustainable dimensions of data are not covered by legislation.

Acting responsibly and transparently is central to our data handling. We are transparent about the purpose and interest of our data-processing activities, and we treat data with due respect for the data owners, i.e. our grantees, business partners and employees. We acknowledge our obligation to think carefully every time we receive, collect, handle and store data, to make sure that data are used in ways that are consistent with our intentions and with respect for the individual.

We use and develop new means of improving business procedures and decision-making on an ongoing basis. When new technologies are adopted, our considerations include the type of data we are processing, as the risk and benefit must correspond to the sensitivity of the data being processed.

Several policies and initiatives relate to how the LEO Foundation works with data. These include our Privacy policy, Guide to reporting requirements and usage of data in Researchfish and Whistleblower hotline.

The vast majority of the LEO Group's data usage is conducted by LEO Pharma. The approach LEO Pharma takes to data ethics is embedded in the company's Data Ethics Policy. Please find more information below.

ENGAGED OWNERSHIP

The vast majority of the LEO Group's business activities are conducted by LEO Pharma, and CSR is embedded in the company's business and in the behavior of its employees.

The Board of Directors of LEO Pharma, on which the Foundation is represented, defines the specific CSR policies for LEO Pharma. Through Board representation, the Foundation seeks to influence the strategic direction and contribute to creating sustainable growth at LEO Pharma.

GRANTS AND AWARDS

COVID-19 response

Throughout 2021, the global COVID-19 pandemic continued to impact the Foundation's philanthropic activities, as researchers were affected by restrictions and laboratories and universities were closed. In response, the LEO Foundation provided its grantees with contingency support to help ensure that researchers could continue their projects and keep their research ambitions intact.

In 2021, the Foundation granted DKK 1.4 million in COVID-19 contingency support to existing grantees. We will continue to stand by our grantees and strengthen relations with them.

INVESTMENTS

Tax Code of Conduct

On 1 January 2021, the LEO Foundation became a signatory to the Tax Code of Conduct, which was established by four major Danish pension funds and has now been adopted by several pension funds and major foundations in Denmark. The Tax Code of Conduct outlines principles and recommendations promoting responsible tax behavior for unlisted investments.

ESG policy

The LEO Foundation has adopted an environmental, social and governance (ESG) policy for its investment activities. This policy is based on adherence to the Ten Principles of the UN Global Compact, which form the basis for ethical human and corporate behavior. By basing our policy on these principles, we aim to address the CSR risks we face as a large financial investor.

As our investments are managed through external investment managers, we work closely with these managers to ensure compliance with the ESG policy. Our investment team reviews the investment managers as an integrated part of the investment process, and managers are required to report annually on ESG factors and relevant matters, such as exited investments, engagement with companies and corrective actions they have carried out.

In the yearly reporting from external managers, no breaches of the ESG policy were reported in 2021. During the year, we continued to integrate ESG factors into our investment approach by adding an ESG-screened mandate – with a particular focus on human rights – on Emerging Markets Debt. In the coming year, one priority is to ensure that the last outstanding credit index mandate will be replaced by a mandate with ESG screening.

LEO PHARMA – HIGHLIGHTS

LEO Pharma is committed to growing the company responsibly, as reflected in the company's Sustainability Policy.

To consolidate its commitment to responsible business, LEO Pharma is a signatory to the UN Global Compact and upholds its Ten Principles, covering the areas of human rights, labor, the environment and anti-corruption. The company supports the achievement of the UN Sustainable Development Goals.

By switching to electricity from 100% renewable sources, LEO Pharma reduced its total direct (Scope 1) and indirect (Scope 2) carbon emissions by 25.7% compared with 2020.

To indicate LEO Pharma's climate commitment, the company submitted climate targets to the Science Based Targets initiative. The ambition is to reduce emissions in line with the level of decarbonization required to keep global temperature increases to 1.5˚C. This means reducing LEO Pharma's Scope 1 and 2 carbon emissions by more than 50% between 2019 and 2030. For associated emissions (Scope 3), LEO Pharma's target is to ensure that 75% of suppliers with emissions have set science-based targets by 2026.

Furthermore, LEO Pharma refinanced its loan facilities, linking a DKK 11.2 billion loan to the sustainability targets. The loan aligns borrowing costs with LEO Pharma's performance measured against agreed sustainability performance targets.

LEO Pharma does not tolerate any form of corruption and has implemented procedures to prevent and detect corruption in its operations. In 2021, LEO Pharma relaunched the LEO Code of Conduct, including the Anti-Corruption and Bribery Policy, and implemented a new system for its Speak Up Line, replacing the Whistleblower Hotline.

In 2021, LEO Pharma established a new working group with the aim of strengthening the approach to human rights and supporting the embedding of a consistent human rights due diligence practice. The working group reviewed current approaches to risk assessment within the organization and defined the requirements to ensure alignment with the UN Guiding Principles. Several policies and statements relate to how LEO Pharma works with human rights. These include (but are not limited to): Human Rights Policy, Code of Conduct, Protection of Personal Data Policy, etc.

In line with LEO Pharma's overall commitment to drive agility and efficiency, and as a step toward ensuring that the company remains an attractive workplace for current and future employees, the company introduced a global flexible working policy to enable smarter work practices and support the needs of a modern company and workforce post COVID-19. On diversity and inclusion the company promotes a workplace where employees are treated with fairness, dignity and respect, regardless of gender, race, nationality, age, education, sexual orientation and other forms of diversity. In 2021, LEO Pharma launched the diversity and inclusion manifesto "Curiosity beyond" and the first wave of "Ignite Inclusion" social learning events for employees.

Statutory report on gender diversity

LEO Pharma's goal was 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 was in addition to the employee-elected Board members. This goal was not achieved. At the end of 2021, only one of the eight shareholder-elected Board members was a woman.

At the Annual General Meeting in 2022, LEO will propose a new goal for gender diversity at Board level. By the Annual General Meeting in 2024, at least three of the Board members elected should be the underrepresented gender (currently women). All candidate searches will involve shortlisting female candidates.

Overall, women represent 45% of management positions at levels below the Board of Directors of LEO Pharma A/S.

Statutory report on data ethics

LEO Pharma relies on large quantities of data to develop innovative new solutions for the benefit of patients and society. Principles of accountability, autonomy, transparency, data quality, fairness and non-discrimination, ethics by design, responsible data sharing and data security guide the approach to ethical data use. In 2021, a Data Ethics Policy was developed to adhere to and guide the use of data in a responsible manner. In addition, AI Ethical Principles were introduced.

FUTURE EXPECTATIONS

At the LEO Foundation, we recognize that working responsibly and sustainably is an evolving process. That is why we continue to strengthen our commitment to creating sustainable value in all aspects of how we do business, and to integrate sustainability into our engaged ownership practices, grant activity practices and investment practices.

In 2022, one priority will be the development of a standalone LEO Foundation Code of Conduct for people associated with the Foundation and organizations collaborating with the Foundation.

For more information about LEO Pharma's CSR initiatives, policies and performance, please refer to LEO Pharma's Sustainability Report 2021 and website.

Click here

Risk management

Risk management is a key part of the LEO Foundation's work, allowing it to appropriately manage and mitigate risks and respond to changing circumstances.

The LEO Foundation's main risks relate to value generation and operational risks at LEO Pharma, as well as the management of the Foundation's financial assets. The Foundation must ensure that sufficient capital is always available to withstand a severe crisis, including a convergence of several high-impact risk events.

The LEO Foundation applies risk models to simulate the effect of potential high-impact risks, to ensure that the Foundation always has sufficient capital available to withstand such crises. These simulations are carried out annually and reported to the Board.

In addition, the Foundation is subject to a number of other risks of a more generic nature, including risks related to the Foundation's philanthropic activities as well as political and reputational risks. These are, as far as possible, mitigated through the implementation of policies and procedures.

In 2021, the LEO Foundation initiated a project together with LEO Pharma to further refine the company's risk reporting, thereby strengthening the Foundation's consolidated risk management framework.

Risk – LEO Pharma

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

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

The Board of Directors of LEO Pharma has overall responsibility for the company's enterprise risk management, with oversight of the ERM Framework delegated to its Audit Committee.

A separate risk report with a risk heat map of the key enterprise risks relevant to LEO Pharma's strategic ambitions toward 2030, including high-level scenarios and main risk treatment activities for each key risk, is provided at least annually to the company's Board of Directors as well as to the Foundation. Alongside this, a worst-case risk report is provided to support financial stress testing and ensure that key internal stakeholders remain vigilant and maintain a balanced level of preparedness for these often low-likelihood but high-consequence risk scenarios.

Risk – financial portfolio

The financial portfolio is managed according to the Investment Policy, which is reviewed and approved annually by the Board. The Investment Policy sets out the strategic asset allocation and the boundaries for each asset class within which tactical asset allocation positions can be taken.

Furthermore, the Investment Policy sets limits on counterparty risk, overall interest rate risk and the liquidity of the financial portfolio. Currency risk is hedged for all fixed-income exposure, while equity investments have full currency exposure but with the option of hedging.

All asset classes, external managers and external investment funds are approved by the Board's Investment Committee prior to any investments. Compliance with the Investment Policy is verified by the finance department, and investment results are documented in reports to the Investment Committee and the CEO.

Each week, a portfolio performance report is prepared by the Chief Investment Officer and distributed to the CEO and the Chairman of the Investment Committee, followed by a meeting between the CEO and the investment team. A monthly report is issued to the Investment Committee, and an investment update is presented to the full Board by the Chief Investment Officer at all regular Board meetings.

In relation to ESG, the investment team reviews the external investment managers as an integrated part of the investment process. All investment managers report annually on ESG factors and matters, including, where relevant, exited investments, engagement with companies and ESG Committee issues.

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

Click here

For more information about LEO Foundation's ESG policy, please refer to the Corporate Social Responsibility section

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Consolidated Financial Statements

CONTENTS

Income statement

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2021**	**2020**
Revenue	2	9,957	10,133
Cost of sales	3, 11, 20	(3,962)	(3,360)
Gross profit		**5,995**	**6,773**
Sales and distribution costs	3, 10, 11	(4,698)	(4,433)
Research and development costs	3, 10, 11	(3,058)	(2,096)
Administrative costs	3, 4, 10, 11, 12 22	(2,429)	(2,176)
Other operating income	5	62	1,240
Other operating expenses	5	(67)	(65)
Operating profit/(loss)		**(4,194)**	**(757)**
Financial income	8	2,340	1,054
Financial expenses	8	(508)	(247)
Profit/(loss) before tax		**(2,362)**	**50**
Tax on profit for the year	9	(469)	(460)
NET PROFIT/(LOSS) FOR THE YEAR		**(2,831)**	**(410)**
Attributable to:			
LEO Foundation		(2,246)	(410)
Non-controlling interests	28	(584)	-
		(2,831)	**(410)**

Statement of comprehensive income

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2021**	**2020**
Net profit/(loss) for the year		**(2,831)**	**(410)**
Other comprehensive income			
Actuarial gains/(losses)	22	195	(114)
Tax on other comprehensive income	9	(10)	7
Items that will not be reclassified subsequently to the income statement		**185**	**(107)**
Exchange rate adjustments on investments in foreign subsidiaries		(9)	(103)
Cash flow hedges (exchange rate), deferred gains/(losses) incurred during the period		20	3
Cash flow hedges (interest rate), deferred gains/(losses) incurred during the period		5	(6)
Tax on other comprehensive income	9	(6)	(5)
Items that may be reclassified subsequently to the income statement		**9**	**(84)**
Other comprehensive income		**194**	**(191)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(2,636)**	**(601)**
Attributable to:			
LEO Foundation		(2,094)	(601)
Non-controlling interests	28	(542)	-
		(2,636)	**(601)**

Balance sheet at December 31

ASSETS

(DKK million)	Note	2021	2020
Goodwill		192	192
Intellectual property rights		6,155	5,262
Development projects and software in progress		783	2,439
Software		1,524	1,335
Intangible assets	10	**8,654**	**9,228**
Land and buildings		951	987
Plant and machinery		963	898
Other fixtures and fittings, tools and equipment		177	149
Assets under construction		2,373	2,025
Property, plant and equipment	11	**4,465**	**4,059**
Right-of-use assets	12	463	465
Right-of-use assets		**463**	**465**
Investments in associates		8	7
Other financial assets	18	3,561	2,297
Deferred tax assets	19	668	645
Other receivables		13	15
Other non-current assets		**4,250**	**2,964**
Total non-current assets		**17,832**	**16,716**
Inventories	20	3,869	2,863
Trade receivables	13	2,254	2,441
Tax receivables		698	924
Other receivables	14	439	611
Prepaid expenses	15	361	797
Other financial securities	18	14,321	13,735
Cash and bank balances		476	629
Total current assets		**22,418**	**22,000**
TOTAL ASSETS		**40,249**	**38,716**

EQUITY AND LIABILITIES

(DKK million)	Note	2021	2020
Foundation capital	21	98	98
Foreign currency translation reserve		(320)	(313)
Hedging reserve		(5)	(26)
Share-based payments		7	-
Reserve for future grants		141	177
Retained earnings		25,721	26,468
Equity attributable to the LEO Foundation		**25,641**	**26,404**
Non-controlling interests	28	1,229	-
Total equity		**26,870**	**26,404**
Deferred tax liabilities	19	7	17
Pensions	22	284	488
Provisions	23	352	476
Loans and credit institutions	16, 18	3,766	3,806
Lease liabilities	12	381	395
Other non-current liabilities		1,072	914
Total non-current liabilities		**5,683**	**6,096**
Provisions	23	890	776
Loans and credit institutions	16, 18	1,341	906
Trade payables		1,625	1,583
Lease liabilities	12	121	100
Tax payables		506	608
Other payables		3,033	2,243
Total current liabilities		**7,516**	**6,216**
TOTAL EQUITY AND LIABILITIES		**40,249**	**38,716**

Statement of changes in equity

(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Share-based payments	Reserve for future grants	Retained earnings	Total	Non-controlling interests	Total equity
2021									
Equity at January 1, 2021	98	(313)	(20)	-	177	26,462	26,404	-	26,404
Net profit/(loss) for the year	-	-	-	-	125	(2,371)	(2,246)	(584)	(2,831)
Other comprehensive income/(loss)		(7)	15	-	-	144	152	43	194
Total comprehensive income/(loss)	-	(7)	15	-	125	(2,227)	(2,094)	(542)	(2,636)
Capital raise in LEO Pharma A/S [1]	-	-	-	-	-	1,558	1,558	1,789	3,347
Transaction costs related to capital raise	-	-	-	-	-	(72)	(72)	(20)	(92)
Share-based payments	-	-	-	7	-	-	7	2	9
Grants for the year	-	-	-	-	(162)	-	(162)	-	(162)
EQUITY AT DECEMBER 31, 2021	**98**	**(320)**	**(5)**	**7**	**141**	**25,721**	**25,641**	**1,229**	**26,870**

1. Reference is made to note 28 Non-controlling interests.

(DKK million)	Foundation capital	Foreign currency translation reserve	Hedging reserve	Reserve for future grants	Retained earnings	Total
2020						
Equity at January 1, 2020	98	(210)	(44)	124	27,109	27,077
Net profit/(loss) for the year	-	-	-	125	(535)	(410)
Other comprehensive income/(loss)	-	(103)	24	-	(112)	(191)
Total comprehensive income/(loss)	-	(103)	24	125	(647)	(601)
Grants for the year	-	-	-	(72)	-	(72)
EQUITY AT DECEMBER 31, 2020	**99**	**(313)**	**(20)**	**177**	**26,462**	**26,404**

Cash flow statement

JANUARY 1 - DECEMBER 31

(DKK million)	Note	2021	2020
Operating profit before financial items		**(4,195)**	**(757)**
Amortization, depreciation and impairment losses	10, 11, 12	2,199	1,266
Gain/loss on sale of non-current assets, etc.		-	(1,178)
Adjustment for non-cash operating items, etc.	24	2,086	1,662
Change in working capital	24	(782)	(178)
Payment of other provisions		(1,520)	(1,421)
Income tax paid		(165)	(244)
Interest received		-	8
Interest paid		(378)	(173)
CASH FLOWS FROM OPERATING ACTIVITIES		**(2,754)**	**(1,015)**

JANUARY 1 - DECEMBER 31

(DKK million)	Note	2021	2020
Investments in intangible assets	10	(394)	(773)
Investments in property, plant and equipment	11	(956)	(1,164)
Proceeds from sale of intangible assets and property, plant and equipment		-	2,943
Acquisition of assets and activities, net of cash acquired		-	(52)
Investments in other securities		(2,432)	(1,684)
Proceeds from sale of other securities		3,436	2,104
Change in investment portfolio cash		(635)	35
Cash flows from investing activities		**(981)**	**1,409**
Proceeds from borrowings		10,604	1,296
Repayment of borrowings		(10,094)	(785)
Overdraft		38	(322)
Proceeds received from exercise of warrants		9	-
Proceeds from capital raise in LEO Pharma A/S		3,347	-
Transaction cost related to capital raise		(92)	-
Lease repayment		(121)	(112)
Grants paid out during the year		(116)	(87)
Cash flows from financing activities		**3,575**	**(10)**
Change in cash and cash equivalents		**(160)**	**383**
Cash and cash equivalents at January 1		629	269
Unrealized exchange gains/(losses) on cash and cash equivalents		7	(23)
CASH AND CASH EQUIVALENTS AT DECEMBER 31	16	**476**	**629**

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

Notes

CONTENTS

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.

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

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

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

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

Executive Management of LEO Pharma monitored the situation and possible implications for the financial position, activities and cash flows, and sought out the appropriate mitigating measures. As of December 31, 2021, estimates have been updated to assess the recoverability of the asset base, including goodwill, IP rights, development projects, deferred tax assets and trade receivables. The COVID-19 pandemic was not a triggering event for impairments in 2021.

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

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

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

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

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

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

- Note 4 Share-based payments: Estimates and judgments regarding expected life and Management's expectation about the timing of an initial public offering
- Note 6 Acquisition of activities: Estimate of purchase price allocation in business combinations. Judgment in assessing the type of transaction/asset and control
- Note 9 Tax on profit for the year: Estimates regarding provisions for uncertain tax positions
- Note 10 Intangible assets: Estimated useful lives and impairment test. Judgment in assessing type of asset and level of control
- Note 12 Leases: Judgment in determining the lease term
- Note 15 Prepaid expenses: Judgment in assessment of upfront payment.
- Note 19 Deferred tax: Estimates of deferred tax assets
- Note 20 Inventories: Estimates of valuation of inventories
- Note 22 Pensions: Estimates of valuation of defined benefit plans
- Note 23 Provisions: Estimates of provision for legal disputes and sales deductions.

Note 1
Basis of reporting (continued)

General accounting policies

Consolidation

The Consolidated Financial Statements comprise the LEO Foundation and entities in which the LEO Foundation directly holds more than 50% of the votes or otherwise exercises control (its subsidiaries).

The Consolidated Financial Statements are prepared by combining the Financial Statements of the Parent Company and all subsidiaries with subsequent elimination of intercompany transactions, intercompany shareholdings and balances, as well as unrealized profits from intercompany transactions. The Financial Statements of all 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 rate differences arising between the rates on the transaction and payment dates are recognized in Financial income and Financial expenses in the income statement.

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

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

Cash flow statement

The cash flow statement is prepared according to the indirect method based on operating profit. 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 relating to acquisitions and disposals of intangible assets and property, plant and equipment, investments in and proceeds from sale of other investments, as well as net investments in securities.

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

Intragroup business combinations

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

Non-controlling interests

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

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

Grants

Grants paid out: Grants that have been adopted and paid out in accordance with the purpose of the Foundation at the balance sheet date are deducted from equity.

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

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

Definitions of key figures[1]

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

$$\text{Solvency ratio} = \frac{\text{Equity}}{\text{Assets}} \times 100$$

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

Implementation of new standards and interpretations

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

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

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

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 which the LEO 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 outlicensed products as well as milestone payments and other revenues in connection with partnerships. These revenues, except for royalties, are recognized when the performance obligation is satisfied, i.e. when transferred to the customer. For sales-based royalties, revenue is recognized when the subsequent sale occurs. Please refer to note 23 Provisions regarding the accounting policies for sales deductions and returns.

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

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

Unsatisfied performance obligations
The LEO Group's remaining performance obligations expected to be recognized were DKK 26 million at December 31, 2021 (2020: DKK 15 million), which will be recognized in 2022. The obligations comprise contracts where the Group has an obligation to deliver goods that has not yet been satisfied.

(DKK million)	2021	2020
Revenue by region		
Europe+	6,669	6,732
International	3,005	2,938
US	283	463
Total	**9,957**	**10,133**
Revenue by therapeutic area		
Psoriasis	3,905	3,685
Skin infections	1,460	1,475
Eczema	1,359	1,197
Acne/rosacea	328	271
Other Mature Dermatology	207	278
Thrombosis	2,311	2,202
CMO/Divested	387	1,026
Total	**9,957**	**10,133**
Revenue by category		
Products	9,837	9,990
Sales-based royalties	103	137
Other	17	6
Total	**9,957**	**10,133**
Timing of revenue recognition		
Goods transferred at a point in time	9,952	10,127
Services delivered over time	5	6
TOTAL	**9,957**	**10,133**

Note 3
Staff expenses

Accounting policies
Wages, salaries, social security expenses, annual leave and sick leave, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by employees of the LEO Group.

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

The average number of employees is calculated as the average of the number of permanent employees at the end of each month.

(DKK million)	2021	2020
Wages and salaries	3,852	3,967
Pensions – defined benefit plans	10	8
Pensions – defined contribution plans	324	302
Share-based payments	16	-
Social security expenses	376	353
Other employee expenses	270	244
Total staff expenses for the year	**4,848**	**4,874**
Capitalized staff expenses	(180)	(221)
TOTAL STAFF EXPENSES IN THE INCOME STATEMENT	**4,668**[1]	**4,653**[2]
Staff expenses included in		
Cost of sales	744	820
Sales and distribution costs	2,156	1,967
Research and development costs	849	886
Administrative costs	919	980
TOTAL	**4,668**	**4,653**
Remuneration to the Board of Trustees	5	5
Average number of full-time employees	5,814	5,965

1. Total staff expenses have been impacted by DKK 226 million as a consequence of the restructuring of LEO Pharma announced to the public on January 19, 2022. The restructuring costs have been recognized in the income statement and classified as: Sales and distribution costs DKK 156 million, Research and development costs DKK 35 million and Administrative costs DKK 35 million.
2. Total staff expenses have been impacted by DKK 299 million as a consequence of the restructuring of LEO Pharma announced on August 20, 2020. The restructuring costs are recognized in the income statement and classified as: Cost of sales DKK 110 million, Sales and distribution costs DKK 111 million, Research and development costs DKK 17 million and Administrative costs DKK 61 million.

Remuneration to the Board of Trustees
In accordance with the governance recommendations issued by the Danish Committee on Foundation Governance, the LEO Foundation discloses the following information about the Board of Trustees (with the exception of employee-elected members):

(DKK thousand)	Lars Olsen	Eivind D Kolding	Anja Boisen	Cristina Lage	Lars Green	Karin J Hamberg	Peter Schwarz	Employee-elected	Total
Remuneration period	Full year	Full year	Full year	Full year	Full year	Full year	Full year		
LEO Foundation, Board	450	300	150	150	150	150	150	600	**2,100**
LEO Foundation, Committees			60			60	120		**240**
LEO Holding A/S, Board	600	400	200	200	200	200	200	800	**2,800**
LEO Holding A/S, Committees				120					**120**
LEO Pharma A/S, Board				73[1]	276[2]			700	**1,049**
LEO Pharma A/S, Committees				21[1]	102[2]				**123**

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

1. Remuneration period 1.1-16.3.
2. Remuneration period 16.3-31.12.

Note 4
Share-based payments

Accounting policies

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

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

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

Key accounting estimates and judgments

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

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

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

Description of share-based payment arrangements

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

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

Management Incentive Program (equity-settled)

In July 2021, the Group granted warrants free of charge to key management personnel that give the warrant holders the right to buy a specific number of shares in LEO Pharma A/S at a predetermined price subject to a successful listing.

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

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

In the event of a listing, 50 percent of the vested warrants may be exercised. The remaining 50 percent may be exercised 12 months after the listing. In the event of non-listing, the warrants vest after seven years and can be exercised at that time.

The maximum term of the program is seven years.

In addition, members of the Board of Directors have been granted the opportunity to purchase warrants at their calculated fair value. Warrants purchased by the Board of Directors have the same terms and conditions as the Management Incentive Program, except for the following: The warrants can be exercised only upon a listing and can only be settled in shares, and the warrants vest unconditionally after two years or in connection with an IPO, if earlier, subject to the warrant holder still being a member of the Board. Members forfeit all unexercised warrants on resignation. The warrants lapse after seven years if not exercised. Further, the Chairman has been granted warrants free of charge, identical to the warrants granted under the Management Incentive Program, except that these warrants vest over two years.

Phantom Share Agreement (cash-settled)

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

Note 4
Share-based payments (continued)

Reconciliation of outstanding equity-settled awards

Management Incentive Program

The number of weighted-average exercise prices of warrants was as follows.

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

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

Reconciliation of outstanding cash-settled awards

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

Measurement of fair value

Equity-settled share-based payment arrangements

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

	Management Incentive Program
Fair value at grant date	47.72
Exercise price	47.72
Expected volatility (weighted average)	26.4%
Expected life (weighted average)	4.4 years
Expected dividend	0
Risk-free interest rate (based on government bonds)	(0.57%)-0.08%

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

Cash-settled share-based payment arrangements

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

	Grant date December 1, 2021	Measurement date December 31, 2021
Fair value at grant date (DKK)	47.72	47.72
Exercise price	47.72	47.72
Expected volatility (weighted average)	26.4%	26.4%
Expected life (weighted average)	4.4 years	4.3 years
Expected dividend	0	0
Risk-free interest rate (based on government bonds)	(0,57%)-0,08%	(0,57%)-0,08%

Note 4
Share-based payments (continued)

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

At December 31, 2021, the total carrying amount of liabilities arising from the share-based payment transactions amounted to DKK 10 million. The intrinsic value of the liabilities at December 31, 2021 was DKK 0.

Total expenses for share-based payment transactions in 2021 recognized in the income statement amounted to DKK 16 million, of which DKK 6 million related to equity-settled share-based payment transactions.

Note 5
Other operating income and expenses

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

Other operating income and expenses
The gain from sale of assets in 2020 related mainly to the sale of intellectual property rights for four non-core products to Cheplapharm for DKK 1,166 million.

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

Note 6
Acquisition of assets and activities

Accounting policies

Acquisition of activities is recognized using the acquisition method in accordance with IFRS 3.

The date of acquisition is the date on which the LEO Group 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 where they are recognized 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, the LEO Group uses 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

Applying the acquisition method for business combinations by nature involves judgment in assessing the fair value of identifiable assets and liabilities. The assessment of fair value of intellectual property rights is based on a number of estimates regarding WACC and expected cash flows that have a significant impact on the fair value.

Acquisitions and divestments in 2021

LEO Pharma did not enter into any significant acquisitions or divestments in 2021.

Acquisitions in 2020

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

LEO Pharma did not enter into any significant acquisitions in 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 the 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 was approximately DKK 818 million. The transaction was closed on December 15, 2020, after regulatory approvals. A gain of DKK 1,166 million was recognized as Other operating income. Reference is made to note 5.

Note 7
Audit fees

(DKK million)	2021	2020
Deloitte Statsautoriseret Revisionspartnerselskab		
Statutory audit	8	7
Tax advisory services	1	4
Other non-audit services	8	13
TOTAL	**17**	**24**

Note 8
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 classified as effective cash flow hedges are presented as Financial income and expenses.

(DKK million)	2021	2020
Interest income on bonds (amortized cost)	1	-
Capital gains, financial assets	2,252	1,018
Foreign exchange gains, net	70	27
Share of profit/(loss) on investment in associates	4	-
Other interest income	13	1
Other financial income	-	7
FINANCIAL INCOME	**2,340**	**1,054**
Interest expenses, banks	(111)	(79)
Capital losses, financial assets	(74)	(15)
Loss arising on financial assets designated at fair value through profit and loss	-	(1)
Other interest	(4)	(20)
Interest expenses on lease liabilities	(11)	(11)
Foreign exchange loss, net	(95)	(45)
Write-down of financial assets	-	(3)
Other financial expenses [1]	(213)	(70)
FINANCIAL EXPENSES	**(508)**	**(245)**

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

Note 9
Tax on profit for the year

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

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

The taxable income in the LEO Foundation is calculated according to the tax legislation for foundations. When calculating the taxable income, the LEO Foundation may deduct adopted grants and tax provisions for future grants.

No deferred taxes are recognized in the accounts concerning tax provisions for future grants, as the liability is not expected to be realized, given that the LEO Foundation intends to adopt grants of an amount equal to the provisions within the allowed time frame.

Key accounting estimates and judgments
Uncertain tax positions
As a global company, LEO Pharma will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues within transfer pricing and indirect taxes. Executive Management considers that appropriate estimates have been made in the financial statements for current tax audits and exposures related to uncertain tax positions.

The estimates are based on expected value or the most likely amount, whichever method best predicts how the uncertainty will be resolved, and the effects thereof are recognized in Tax receivables/payables and Deferred tax.

The uncertainty associated with the outcome and timing of open tax matters means that the final outcome may differ significantly from the amounts recognized.

(DKK million)	2021	2020
Current tax	554	1,387
Prior-year adjustments, current tax	(49)	33
Prior-year adjustments, deferred tax	17	(71)
Change in deferred tax for the year	(37)	(891)
TOTAL TAX FOR THE YEAR	**485**	**458**
Tax for the year is included in		
Tax on profit/(loss) for the year	469	460
Tax on other comprehensive income	16	(2)
TOTAL TAX FOR THE YEAR	**485**	**458**

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

Note 9
Tax on profit for the year (continued)

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

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

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

(DKK million)	2020	%
Profit/(loss) before tax	**50**	
Calculated tax, 22%	11	22%
Tax effect of		
Differences between the income tax rates of foreign subsidiaries and the Danish corporate income tax rate	(128)	(256.0%)
Non-deductible expenses/non-taxable income and other permanent differences	19	38.0%
Other taxes	23	46.0%
Change in deferred tax as a result of a change in the income tax rate	(42)	(84.0%)
Change in valuation of net tax assets	612	1,224.0%
Prior-year tax adjustments, etc., total effect on operations	(35)	(70.0%)
EFFECTIVE TAX/TAX RATE FOR THE YEAR	**460**	**919.9%**

Note 10
Intangible assets

Accounting policies

Goodwill

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

Intellectual property rights

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

Software

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

Development projects and software in progress

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

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

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

Development projects are assessed on an ongoing basis with due account of development progress, expected approvals and commercial utilization.

Development projects are not amortized, as the assets are not available for use.

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

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

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

Impairment testing

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

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

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

Key accounting estimates and judgments

Estimated useful lives

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

Impairment testing

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

Indications of impairment include the following:

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

To determine the value in use, the discounted cash flow approach is applied. The expected future cash flows are based on budgets and target plans for the patent period or other applicable period for marketable products (up to 15 years for licenses). The budgets and target plans are based on Executive Management's expectations of current market conditions and future growth. The key factors used in calculating the value are revenue, cost of goods sold (COGS), operating expenses (OPEX), EBITDA, working capital, capital expenditures (CAPEX) and discount rate. The Group has identified capitalized software relating to the ERP system as corporate assets. Executive Management has considered the recoverability of the assets. The expected future performance in core business areas supports the carrying value of the assets.

Assessment of type of asset and level of control

When entering into agreements, 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 10
Intangible assets (continued)

(DKK million)	Goodwill	Intellectual property rights	Development projects and software in progress	Software	Total intangible assets
2021					
Cost at January 1	192	12,432	4,150	1,922	18,696
Exchange rate adjustments	-	2	-	-	2
Additions during the year	-	715[1]	406[2]	18	1,139
Disposals during the year	-	-	(548)	(11)	(559)
Transfers	-	779[1]	(1,379)	569	(30)[3]
Cost at December 31	**192**	**13,928**	**2,629**	**2,498**	**19,247**
Amortization and impairment losses at January 1	-	(7,170)	(1,711)	(587)	(9,468)
Amortization for the year	-	(589)	(1)	(381)	(971)
Disposals during the year	-	-	518	11	5,285
Impairment losses for the year	-	(13)	(661)	(8)	(681)
Transfers	-	-	9	(9)	-
Amortization and impairment losses at December 31	**-**	**(7,772)**	**(1,847)**	**(974)**	**(10,593)**
CARRYING AMOUNT AT DECEMBER 31	**192**	**6,155**	**783[4]**	**1,524**	**8,654**

(DKK million)	Goodwill	Intellectual property rights	Development projects and software in progres	Software	Total intangible assets
2020					
Cost at January 1	126	14,176	4,028	1,290	19,620
Exchange rate adjustments	-	(16)	13	-	(3)
Additions during the year	-	-	766[2]	7	773
Adjustment to opening, related to business combinations[5]	66	-	-	-	66
Disposals during the year[6]	-	(1,730)	(5)	(25)	(1,760)
Transfers	-	2	(652)	650	-
Cost at December 31	**192**	**12,432**	**4,150**	**1,922**	**18,696**
Amortization and impairment losses at January 1	-	(7,301)	(1,713)	(331)	(9,345)
Exchange rate adjustments	-	1	-	-	1
Reversed impairment	-	26	-	-	26
Amortization for the year	-	(630)	(2)	(241)[7]	(873)
Disposals during the year[6]	-	719	4	-	723
Transfers	-	15	-	(15)	-
Amortization and impairment losses at December 31	**-**	**(7,170)**	**(1,711)**	**(587)**	**(9,468)**
CARRYING AMOUNT AT DECEMBER 31	**192**	**5,262**	**2,4394**	**1,335**	**9,228**

1. Adtralza® was launched in Germany in July 2021, and FDA approval for Adbry™ was received in December 2021. As a result, milestone payments of DKK 712 million have been accrued.
2. Additions consist of DKK 36 million (2020: DKK 80 million) related to development projects and DKK 370 million (2020: DKK 686 million) related to the development of IT projects and a new ERP system.
3. Transferred to Property, plant and equipment.
4. Total development projects and software in progress of DKK 783 million (2020: DKK 2,439 million) consist of Software in progress DKK 500 million (2020: DKK 876 million) and Development projects DKK 283 million (2020: DKK 1,563 million).
5. Reference is made to note 5.
6. Primarily related to the divestment of a portfolio of four non-core products to Cheplapharm. Reference is made to note 6.
7. The Group is in the process of developing a new ERP system. In connection with this, the Group reassessed the useful life of the current ERP system, resulting in additional amortization of DKK 24 million.

Note 10
Intangible assets (continued)

Impairment 2021
Based on the impairment tests prepared at year-end 2021, it was deemed necessary to impair intangible assets by DKK 681 million. Impairment losses were recognized under Research and development costs (DKK 517 million), Administrative costs (DKK 151 million) and Sales and distribution costs (DKK 13 million). No impairment losses for prior periods were reversed in 2021.

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

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

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

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

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

Research and development costs
In 2021, Research and development costs recognized in the income statement amounted to DKK 3,058 million (2020: DKK 2,096 million).

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

Development projects
At December 31, 2021, development projects comprised of H4R antagonist DKK 109 million (2020: DKK 109 million), delgocitinib DKK 66 million (2020: DKK 36 million) and other minor development projects DKK 108 million (2020: DKK 122 million). In 2020, development projects also included tralokinumab (DKK 779 million), which was transferred to intellectual property rights in July 2021, as well as patidegib (DKK 435 million) and other development projects (DKK 82 million), which were impaired during 2021.

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

Note 11
Property, plant and equipment

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

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

The expected useful lives are as follows:

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

Impairment testing
The carrying amount of property, plant and equipment is reviewed to determine whether there is any indication of impairment. If the recoverable amount of an asset is estimated to be lower than the carrying amount, an impairment loss is recognized. For 2021, impairment losses of DKK 113 million were recognized (2020: DKK 8 million).

Note 11

Property, plant and equipment (continued)

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

1. Fixed assets under construction are mainly related to the construction of a new plant in Denmark with a carrying amount of DKK 1,399 million (2020: DKK 970 million), expansion of an existing plant in Ireland with a carrying amount of DKK 251 million (2020: DKK 249 milllion), construction of a new plant in Ireland with a carrying amount of DKK 199 million (2020: DKK 77 million) and expansion of an existing plant in France with a carrying amount of DKK 314 million (2020: DKK 258 million).
2. The Group reassessed the lifetime of the current plant in Denmark, resulting in additional depreciation in 2021 of DKK 18 million. The reassessment was triggered by the construction of a new plant in Denmark, which is expected to start production in 2023.
3. Transferred from Intangible assets.
4. Impairment of a production line related to two onerous contracts.

(DKK million)	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction[1]	Total property, plant and equipment
2020					
Cost at January 1	2,455	3,011	529	1,121	7,116
Exchange rate adjustments	(11)	(8)	(9)	(4)	(32)
Additions during the year	36	6	43	1,079	1,164
Disposals during the year	(21)	(78)	(19)	-	(118)
Transfers	78	84	9	(171)	-
Cost at December 31	**2,537**	**3,015**	**553**	**2,025**	**8,130**
Depreciation and impairment losses at January 1	(1,501)	(1,982)	(380)	-	(3,863)
Exchange rate adjustments	6	6	6	-	18
Disposals during the year	14	40	19	-	73
Depreciation for the year	(66)	(176)	(49)	-	(291)
Impairment losses for the year	(3)	(5)	-	-	(8)
Depreciation and impairment losses at December 31	**(1,550)**	**(2,117)**	**(404)**	**-**	**(4,071)**
CARRYING AMOUNT AT DECEMBER 31	**987**	**898**	**149**	**2,025**	**4,059**

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

Note 12
Leases

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

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

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

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

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

Lease assets are depreciated as follows:

- Buildings 5-10 years
- Cars 3-5 years

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

(DKK million)	2021 Land and buildings	2021 Cars	2021 Total	2020 Land and buildings	2020 Cars	2020 Total
Cost at January 1	532	150	682	541	111	652
Change in accounting policy				-	-	-
Exchange rate adjustments	22	1	23	(26)	(3)	(29)
Additions/remeasurements during the year	64	56	120	18	49	67
Disposals during the year	(56)	(52)	(108)	(1)	(7)	(8)
Cost at December 31	**562**	**155**	**717**	**532**	**150**	**682**
Depreciation and impairment losses at January 1	(141)	(76)	(217)	(67)	(36)	(103)
Exchange rate adjustments	(1)	(1)	(2)	-	-	-
Disposals during the year	32	50	82	-	7	7
Depreciation for the year	(74)	(43)	(117)	(74)	(47)	(121)
Depreciation and impairment losses at December 31	**(184)**	**(70)**	**(254)**	**(141)**	**(76)**	**(217)**
CARRYING AMOUNT AT DECEMBER 31	**378**	**85**	**463**	**391**	**74**	**465**

Note 12
Leases (continued)

(DKK million)	2021	2020
Lease liabilities at January 1	495	563
Additions/remeasurements during the year	122	64
Interest expenses	11	11
Lease payments	(121)	(113)
Exchange rate adjustments	(5)	(30)
Lease liabilities at December 31	**502**	**495**
Non-current liabilities	381	395
Current liabilities	121	100
Lease liabilities at December 31	**502**	**495**

(DKK million)	2021	2020
The following are the amounts recognized in the income statement		
Depreciation expense on right-of-use assets (included in Administrative costs)	(118)	(121)
Interest expense on lease liabilities	(11)	(11)
Total amount recognized in the income statement	**(129)**	**(132)**

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

Note 13
Trade receivables

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

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

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

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

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

Note 13
Trade receivables (continued)

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

MATURITY ANALYSIS OF TRADE RECEIVABLES

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

Note 14
Other receivables

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

(DKK million)	2021	2020
Public authorities (VAT)	278	407
Deposits	46	58
Financial derivatives	29	56
Other[1]	86	90
Total other receivables	**439**	**611**

1. Other comprises of receivable interests DKK 31m (2020: DKK 20m), receivables from partners DKK 13m (2020: DKK 12m) and Other DKK 42m (2020: DKK 58m).

Note 15
Prepaid expenses

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

Other receivables comprise mainly VAT to public authorities and deposits.

(DKK million)	2021	2020
License and collaboration agreement	-	273
Prepaid clinical trials	258	317
Prepaid IT expenses	56	50
Other prepaid expenses	46	156
Total	**360**	**796**

In April 2020, LEO Pharma entered into an exclusive license and collaboration agreement with Oneness Biotech Co., Ltd. and Microbio (Shanghai) Co., Ltd. covering the development and commercialization of the novel atopic dermatitis (AD) and allergic asthma drug candidate FB825.

Under the terms of the agreement, LEO Pharma has agreed to an upfront payment of DKK 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 services have been delivered to LEO Pharma, Management assesses that the upfront payment should be presented as a prepayment in the Consolidated Financial Statements.

Based on future commercial expectations, the prepayment of DKK 273 million has been written off. The write-off has been recognized as Reasearch and development costs in the income statement.

Note 16
Financial risks

Financial portfolio risks
Financial portfolio risks are managed according to the LEO Holding Investment Policy, which has been approved by LEO Holding's Board of Directors. The Investment Policy states the strategic asset allocation and the boundaries for each asset class within which tactical asset allocation positions can be taken. Furthermore, the policy defines the limits on counterparty risk, overall duration risk and liquidity of the financial portfolio. Currency risk is hedged for all fixed-income exposure, while equity investments generally have full currency exposure.

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

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

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

Risk management is undertaken by a central finance department, subject to objectives and policies approved by Executive Management. These objectives and policies are outlined in the internal Treasury Policy, which includes cash flow hedges of highly probable forecast sales and purchase transactions. Furthermore, it comprises the Foreign Exchange Policy, 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 currency risk management is to reduce the short-term negative impact of exchange rate fluctuations on earnings and cash flow.

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

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

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

Note 16
Financial risks (continued)

FOREIGN CURRENCY ANALYSIS

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

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

(DKK million)	Currency	Expiry of commitment	Fixed/ floating	Weighted avg. effective interest rate %	Amortized cost	Nominal value	Fair value
2021							
Term loan A[1]	DKK	2027	Floating	3.05	1,107	1,125	1,125
Term loan B[1]	DKK	2027	Floating	3.05	1,476	1,500	1,500
Loans RCF	USD	2024	Floating	1.38	63	63	63
Loans RCF	DKK	2027	Floating	3.25	1,278	1,278	1,278
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,183	1,200	1,206
Total					**5,107**	**5,166**	**5,172**
2020							
Term loan A[1]	DKK	2023	Floating	1.60	1,125	1,125	1,125
Term loan B[1]	DKK	2025	Floating	1.90	1,500	1,500	1,500
Loans RCF A	USD	2025	Floating	1.38	38	38	38
Loans RCF A	DKK	2025	Floating	2.05	862	864	864
Mortgage loans	DKK	2038	Fixed 5Y	0.23	1,183	1,200	1212
Other	Various	Uncommitted	Floating	N/A	4	4	4
Total					**4,712**	**4,731**	**4,743**

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

Note 16
Financial risks (continued)

OUTSTANDING RECEIVABLE FLOATING-RATE FIXED CONTRACTS

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

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

Interest rate risk

Interest rate risk is the risk of interest rate fluctuations resulting in changed costs related to floating-rate loans. Long-term funding at floating rates is mitigated by entering into interest rate swaps as hedge instruments where the Group pays a fixed rate of interest and receives interest at floating rates. Hedging of interest rate risk is approved by Executive Management, and hedge effectiveness is assessed on a regular basis. No ineffectiveness was observed in 2021 or 2020. The current hedging instruments are shown in the table above on the basis of the average fixed interest rate used.

A 1 percentage point increase in the interest rate would reduce profit for the year by DKK 13 million (2020: DKK 9 million) and increase other comprehensive income by DKK 24 million (2020: DKK 11 million) based on interest-bearing debt at December 31 with floating rate not hedged and the change in fair value of the CAPS hedging instruments.

The calculation method applied in the sensitivity analysis is based on the current duration of floating interest-bearing debt at December 31, 2021 not hedged and the change in fair value of the CAPS hedging instruments.

Credit risk

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

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

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

In 2020, the Group implemented a non-recourse factoring program for selected global customers to optimize working capital. At year-end, the Group derecognized trade receivables, without recourse, having due dates after December 31, amounting to DKK 141 million in 2021 (2020: DKK 159 million). Reference is made to note 13.

To manage credit risk on financial counterparties, the Group only enters into derivative financial instruments with financial counterparties possessing a satisfactory long-term credit rating assigned by at least one of the three international credit-rating agencies: Standard and Poor's, Moody's and Fitch.

If a counterparty has a rating below Investment Grade, the Group minimizes the risk by keeping the lowest possible bank balance or by spreading the risk between several banks. At year-end, the bank balances with a rating below Investment Grade were low, and therefore the credit risk is considered to be low. Furthermore, the credit risk on bond investments is limited, as investments are made in highly liquid bonds with solid credit ratings such as Investment Grade.

Note 16
Financial risks (continued)

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

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

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

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

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

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

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

(DKK million)	Borrowings January 1	Proceeds from borrowings	Repayments of borrowings	Other non-cash items	Borrowings December 31
2021					
Banks and other credit institutions	4,713	10,604	(10,210)	-	5,107
Lease liabilities	491	-	(110)	121	502
Total borrowings	**5,204**	**10,604**	**(10,320)**	**121**	**5,609**
Of which:					
Classified as non-current	-				4,147
Classified as current	-				1,462
2020					
Banks and other credit institutions	4,526	1,296	(1,107)	(2)	4,713
Lease liabilities	558	-	(101)	34	491
Total borrowings	**5,084**	**1,296**	**(1,208)**	**32**	**5,204**
Of which:					
Classified as non-current	-				4,199
Classified as current	-				1,005

Note 16
Financial risks (continued)

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

MATURITY OF CONTRACTUAL CASH FLOWS

(DKK million)	Contractual amount	Less than 1 year	1-3 years	3-5 years	5+ years
2021					
Non-financial derivatives					
Floating-rate bank debt	4,144	1,393	61	61	2,629
Fixed-rate bank debt	1,330	18	162	184	966
Trade and other payables	4,658	4,658	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	(3)	-	(3)	-	-
Forwards used as hedging instruments	4	3	1	-	-
TOTAL CONTRACTUAL CASH FLOW	**10,133**	**6,072**	**221**	**245**	**3,595**
2020					
Non-financial derivatives					
Floating-rate bank debt	3,710	955	1,211	1,544	-
Fixed-rate bank debt	1,293	13	76	177	1,027
Trade and other payables	3,709	3,709	-	-	-
Financial derivatives					
Interest rate swaps used as hedging instruments	6	2	3	1	-
Forwards used as hedging instruments	40	40	-	-	-
TOTAL CONTRACTUAL CASH FLOW	**8,758**	**4,719**	**1,290**	**1,722**	**1,027**

Note 17
Financial derivatives

Accounting policies

Derivative financial instruments

Derivative financial instruments are used to manage the exposure to interest rate and foreign exchange rate risk. None of the derivative financial instruments are held for trading. On initiation of the contract, the Group designates each derivative financial contract as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or as a hedge of a future transaction (cash flow hedge). All contracts are initially recognized at fair value and subsequently remeasured at fair value at the end of the reporting period. The resulting gain or loss is recognized in the income statement immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in the income statement depends on the nature of the hedge relationship.

Hedge accounting

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

The fair value adjustment on qualifying hedging instruments is recognized in the income statement in the same line as the hedged item when the hedging instrument is designated as a fair value hedge.

Value adjustments of the effective part of cash flow hedges are recognized in equity through Other comprehensive income. The cumulative value adjustment of these contracts is transferred from Other comprehensive income to the income statement in the same period and the same line as the hedged item.

In general the Group does not hedge EUR positions as Executive Management expects the official Danish fixed-rate policy vis-à-vis the EUR to continue. In addition, the Chinese yuan traded offshore (CNH) is used as a proxy when hedging the Group's CNY exposure.

Discontinuance of cash flow hedging

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

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

Forward exchange rate contracts

It is the policy of the Group to enter into either forward foreign exchange contracts or currency options to hedge up to 80% of the forecast sales and purchase transactions for the coming 18 months and to hedge recognized assets and liabilities. Concerning the hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, maturity and underlying value) of the forward foreign exchange contracts and their corresponding hedged items are the same, the Group makes a qualitative assessment of effectiveness. It is expected that the value of the forward contracts and the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying exchange rates. 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.

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

Note 17
Financial derivatives (continued)

FINANCIAL DERIVATIVES – CASH FLOW HEDGES

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

Note 17
Financial derivatives (continued)

FINANCIAL DERIVATIVES – FAIR VALUE HEDGES

(DKK million)	Contracted amount based on aggregate rates	Fair value at year-end	Maturity end date	Contracted amount based on aggregate rates	Fair value at year-end	Maturity end date
	2021			2020		
Bought USD	331	-	30/06/2022	191	(12)	25/01/2021
Sold GBP	17	1	21/01/2022	-	-	-
Sold CAD	153	1	07/10/2022	182	1	10/02/2021
Sold JPY	144	(2)	29/12/2022	160	(4)	16/07/2021
Sold RUB	-	-	-	103	2	16/03/2021
Sold SAR	24	-	24/02/2022	49	-	15/03/2021
Sold CNY	103	1	10/03/2022	15	-	11/01/2021
Sold/bought AUD	-	-	-	19	-	21/01/2021
Bought EUR	671	3	16/03/2022	7,257	2	18/10/2021
Sold other currencies	231	1	31/08/2022	430	(1)	04/11/2021
TOTAL	**1,674**	**5**		**8,406**	**(12)**	

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

The fair value gain on forward exchange contracts of DKK 2 million at the end of 2021 was recognized in the income statement under Foreign exchange losses, net (2020: loss of DKK 12 million recognized in Foreign exchange gains, net).

Note 18
Financial assets and liabilities

Accounting policies

Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets, except for trade receivables, and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropiate, on initial recognition.

Financial assets

All recognized financial assets are required to be measured subsequently at amortized cost or fair value on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Other financial securities presented under non-current assets consist of equity investments and bonds.

Investments in bonds that are held within a business model the objective of which is to collect the contractual cash flows are subsequently measured at amortized cost. Investments that are held within a business model the objective of which is both to collect the contractual cash flows and to sell are subsequently measured at fair value through other comprehensive income.

All other investments, including equity investments, are subsequently measured at fair value through profit and loss.

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

Financial liabilities

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

Financial instruments measured at fair value

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices)

Level 3 – Inputs for assets or liabilities that are not based on observable market data.

Financial instruments carried at amortized cost

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

Note 18

Financial assets and liabilities (continued)

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(DKK million)	Carrying amount		Fair value	
	2021	**2020**	**2021**	**2020**
Carried at amortized cost				
Cash and bank balances	476	629	476	603
Trade and other receivables	2,673	2,996	2,673	2,995
Other financial assets	69	10	69	10
Other receivables, non-current	-	15	-	15
FINANCIAL ASSETS AT AMORTIZED COST	**3,218**	**3,650**	**3,218**	**3,623**
Carried at fair value through profit and loss (FVTPL)				
Financial assets mandatorily measured at FVTPL	17,118	13,735	17,118	13,735
Derivative instruments in designated hedge relationships	8	10	8	10
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**17,126**	**13,745**	**17,126**	**13,745**
Carried at fair value through other comprehensive income (FVTOCI)				
Derivative instruments in designated hedge relationships	21	46	21	46
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)	**21**	**46**	**21**	**46**
TOTAL FINANCIAL ASSETS	**20,365**	**17,441**	**20,365**	**17,414**

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(DKK million)	Carrying amount		Fair value	
	2021	**2020**	**2021**	**2020**
Carried at amortized cost				
Trade and other payables	4,625	3,723	4,625	3,723
Bank loans (both current and non-current)	3,924	3,530	3,966	3,531
Mortgage loans	1,183	1,183	1,206	1,212
Lease liabilities	502	491	524	518
FINANCIAL LIABILITIES AT AMORTIZED COST	**9,732**	**8,927**	**9,797**	**8,984**
Carried at fair value				
Derivative instruments in designated fair value hedge relationships	6	22	6	22
FINANCIAL LIABILITIES AT FAIR VALUE	**6**	**22**	**6**	**22**
Carried at fair value through other comprehensive income (FVTOCI)				
Derivative instruments in designated hedge relationships	24	76	24	76
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)	**24**	**76**	**24**	**76**
TOTAL FINANCIAL LIABILITIES	**9,762**	**9,025**	**9,827**	**9,082**

Note 18
Financial assets and liabilities (continued)

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

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

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

(DKK million)	Fair value hierarchy at December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Measured at fair value				
Government and mortgage bonds	1,549	-	-	1,549
Equities	8,225	-	-	8,225
Credit	3,048	-	-	3,048
Alternatives	787	779	597	2,163
Investment cash	72	-	-	72
Other financial assets	-	-	35	35
Derivative instruments	-	56	-	56
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**13,681**	**835**	**632**	**15,148**
Measured at amortized cost, disclosure of fair value				
Bank loans	-	3,530	-	3,530
Mortgage loans	-	1,212	-	1,212
Derivative instruments	-	98	-	98
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**-**	**4,840**	**-**	**4,840**

Items with a carrying amount corresponding to fair value are not included in the fair value hierarchy above.

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

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

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

Note 19
Deferred tax

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

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

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

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

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

Key accounting estimates and judgments
Valuation of deferred tax assets
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 five years is applied for estimated utilization of deferred tax assets. This assessment considers the continuous utilization of existing deferred tax assets and creation of new deferred tax assets.

(DKK million)	Balance at January 1	Effect of foreign currency exchange differences	Adjustment of deferred tax at beginning of year	Movements during the year	Balance at December 31
2021					
Intangible assets	260	-	120	440	**820**
Property, plant and equipment	417	(1)	(174)	287	**530**
Inventories	503	-	-	(38)	**465**
Provisions	137	8	2	22	**170**
Other items	105	3	(4)	(4)	**100**
Tax loss carryforwards, etc.	260	2	40	663	**964**
Valuation allowance	(1,054)	-	-	(1,333)	**(2,388)**
TOTAL TEMPORARY DIFFERENCES	**629**	**13**	**(16)**	**36**	**661**
Deferred tax assets	645	13	(16)	26	**668**
Deferred tax liabilities	(17)	-	-	10	**(7)**
DEFERRED TAX ASSETS/(LIABILITIES)	**629**	**13**	**(16)**	**36**	**661**
2020					
Intangible assets	(500)	2	57	701	**260**
Property, plant and equipment	34	1	(48)	431	**417**
Inventories	559	(1)	55	(110)	**503**
Provisions	166	(7)	12	(35)	**137**
Other items	18	-	(5)	93	**105**
Tax loss carryforwards, etc.	-	-	-	260	**260**
Assets held for sale	(162)	-	1	161	**-**
Valuation allowance	(444)	(1)	-	(610)	**(1,054)**
TOTAL TEMPORARY DIFFERENCES	**(329)**	**(5)**	**72**	**891**	**629**
Deferred tax assets	776	(5)	72	(197)	**645**
Deferred tax liabilities	(1,105)	-	-	1,088	**(17)**
DEFERRED TAX ASSETS/(LIABILITIES)	**(329)**	**(5)**	**72**	**891**	**629**

Note 20
Inventories

Accounting policies
Inventories are measured at the lower of standard cost under the first-in-first-out basis and net realizable value.

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

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

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

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

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

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

Note 21
Foundation capital

The nominal value of the Foundation capital amounts to DKK 98 million (2020: DKK 98 million).

Note 22
Pensions

Accounting policies

Defined contribution plans

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

Defined benefit plans

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

The present value is calculated on the basis of assumptions relating to future developments in salary, interest rates, inflation, mortality and other factors. The present value is calculated solely for the benefits to which the employees have earned a right through their employment with the Group. Plan assets are recognized to the extent the Group is able to obtain future economic benefits in the form of reimbursement from the pension scheme or reduction of future payments.

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

Any differences between expected developments 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 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 and judgments

Estimates of valuation of defined benefit plans

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

Defined contribution plans

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

Defined benefit plans

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

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

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 length of service and salary level up to retirement.

Note 22
Pensions (continued)

(DKK million)	2021	2020
Present value of defined benefit plans		
Present value of defined benefit plans at January 1	2,214	2,132
Effect of exchange rate adjustments	58	(54)
Current service costs	10	8
Interest costs	24	31
Actuarial (gains)/losses from changes in demographic assumptions	(15)	4
Actuarial (gains)/losses from changes in financial assumptions	(104)	190
Actuarial (gains)/losses from changes in experience	9	(13)
Benefits paid to employees	(123)	(84)
PRESENT VALUE OF DEFINED BENEFIT PLANS AT DECEMBER 31	**2,073**	**2,214**
Fair value of plan assets		
Fair value of plan assets at January 1	1,726	1,719
Effect of exchange rate adjustments	49	(46)
Return on plan assets	85	67
Interest income	19	26
Benefits paid to employees	(109)	(55)
Employer contributions	19	15
Fair value of plan assets at December 31	**1,789**	**1,726**
NET RETIREMENT BENEFIT OBLIGATIONS AT DECEMBER 31	**284**	**488**

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 assumptions. However, the assumptions will most likely be correlated and consequently result in a different obligation.

A 0.25% decrease in the discount rate would result in an increase in the obligation of approximately 4.6% or DKK 96 million (2020: 5.1% or DKK 110 million).

(DKK million)	2021	2020
Specification of amount recognized in the statement of comprehensive income		
Actuarial (gains)/losses	195	114
TOTAL	**195**	**114**

Note 23
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 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 costs. Provisions for restructuring costs are recognized when a detailed, formal restructuring plan has been announced to those affected no later than at the reporting date.

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

Key accounting estimates and judgments

Provisions for legal disputes

Provisions for legal disputes consist of various types of provisions linked to ongoing legal disputes. 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. When determining likely outcomes of litigations, etc., Executive Management considers the input of external counsels on 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 commercial rebates, Copay schemes, Medicare and Medicaid.

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

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

Note 23
Provisions (continued)

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2021					
Provisions at January 1	344	236	541	130	**1,251**
Additions during the year	20	17	2	1	**40**
Utilization during the year	1,088	67	330[1]	133[3]	**1,618**
Reversals during the year	(1,060)	(103)	(317)	(40)	**(1,520)**
Exchange rate adjustments	(7)	(44)	(109)	(8)	**(168)**
Transfer	-	-	21[2]	-	**21**
PROVISIONS AT DECEMBER 31	**385**	**173**	**468**	**216**	**1,242**
Provisions are recognized in the balance sheet as					
Non-current liabilities	-	60	230	62	**352**
Current liabilities	385	113	238	154	**890**
PROVISIONS AT DECEMBER 31	**385**	**173**	**468**	**216**	**1,242**

(DKK million)	Sales deductions	Product returns	Staff-related provisions	Other provisions	Total
2020					
Provisions at January 1	491	231	231	245	**1,198**
Additional provisions	1,045	113	504[4]	79	**1,741**
Utilization during the year	(1,004)	(87)	(170)	(160)	**(1,421)**
Reversals during the year	(155)	(3)	(7)	(22)	**(187)**
Exchange rate adjustments	(33)	(18)	(17)	(11)	**(79)**
PROVISIONS AT DECEMBER 31	**344**	**236**	**541**	**130**	**1,252**
Provisions are recognized in the balance sheet as					
Non-current liabilities	75	192	142	67	**476**
Current liabilities	269	44	399	64	**776**
PROVISIONS AT DECEMBER 31	**344**	**236**	**541**	**130**	**1,252**

1. Addition of DKK 330 million comprises of DKK 226 million related to the restructuring of LEO Pharma announced to the public on January 19, 2022. Half of the provision is expected to be utilized during 2022. The rest of the addition relates to long-term incentive programs.
2. Transferred from Other payables.
3. Addition of DKK 111 million relates to two onerous contracts; reference is made to note 6.
4. Addition of DKK 299 million relates to the restructuring of LEO Pharma announced on August 20, 2020. The rest of the addition relates to long-term incentive programs.

Note 24
Other cash flow adjustments

(DKK million)	2021	2020
Other non-cash adjustments:		
Change in other provisions	1,471	1,556
Change in provisions for defined benefit plans	(213)	83
Change in inventory write-down	192	138
Change in provision for bad debt	(12)	4
Other non-cash adjustments	648	(119)
TOTAL OTHER NON-CASH ADJUSTMENTS	**2,086**	**1,662**
Change in working capital:		
Change in inventories	(1,198)	(696)
Change in receivables	330	929
Change in current liabilities	86	(411)
TOTAL CHANGE IN WORKING CAPITAL	**(782)**	**(178)**

Note 25
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, 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)	2021	2020
Employee-related accruals	886	804
Accrued milestone payments	712	-
Accrued clinical trial expenses [1]	178	236
Sales deductions	157	107
Accrued promotion fee	82	71
Public authorities (VAT)	66	107
Financial derivatives	30	98
Other	922	820
TOTAL OTHER PAYABLES	**3,033**	**2,243**

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

Note 26
Contingencies

Guarantees and commitments
The total guarantee commitment for the LEO Group at December 31, 2021 amounted to DKK 86 million. In April 2021, the guarantee of DKK 131 million relating to the associate PellePharm was paid.

At December 31, 2020, the total guarantee commitments amounted to DKK 166 million, including the guarantee of DKK 131 million relating to the associate PellePharm.

In July 2021 the shareholder base in LEO Pharma was expanded by a transaction, where Nordic Capital became a minority shareholder. The transaction includes an option for Nordic Capital to sell back the shares under certain conditions, which are assessed unlikely and hence considered non-material by Management.

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

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

Tax
As a global business, the Group will from time to time have tax audits and discussions with tax authorities in various countries regarding tax issues, including transfer pricing and indirect tax issues. Please refer to the description of uncertain tax positions in note 9.

CONTRACTED BUT NOT PROVIDED FOR IN THE FINANCIAL STATEMENTS

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

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

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

The Group has commitments related to financial investments of DKK 2,216 million (2020: DKK 2,014 million).

Note 27
Related parties

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

Owner with significant influence:
- Nordic Capital

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

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

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

Note 28
Non-controlling interests

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

The transaction was conducted as a capital increase in LEO Pharma, where new B-shares were issued and subscribed for by Nordic Capital, and thereby LEO Holding A/S's ownership of LEO Pharma was reduced to 78,09%.

The transaction resulted in a dilution gain of DKK 1,487 million, which has been recognized directly into equity.

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

	Non-controlling interests	Percentage of votes	Registered office
LEO Pharma A/S	21.91%	4.85%	Ballerup

(DKK million)	2021	2020
Income statement:		
Revenue	9,957	-
Profit/(loss) for the year	(4,868)	-
Total comprehensive income	(4,674)	-
Total comprehensive income attributable to non-controlling interests	(542)	-
Balance sheet:		
Non-current assets	15,110	-
Current assets	8,585	-
Non-current liabilities	10,757	-
Current liabilities	7,401	-
Non-controlling interests share of equity	1,229	-
Statement of cash flow:		
Cash flow from operating activities	(2,498)	-
Cash flow from investing activities	(1,371)	-
Cash flow from financing activities	3,691	-

Note 29
Events after the balance sheet date

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

On February 22, 2022, LEO Pharma A/S sold the shares in Omhu A/S to Medable Inc. for DKK 37 million. Cash in the divested company amounted to DKK 22 million, and accordingly the liquidity effect is DKK 15 million.

Note 30
Companies in the LEO Group

(DKK million)	Country	Share of ownership, %	Activities
Parent Company			
The LEO Foundation	Denmark		Other
Subsidiaries			
SARL LEO Pharma	Algeria	100	Sales services
LEO Pharma Pty Ltd	Australia	100	Sales and distribution
LEO Pharma GmbH	Austria	100	Sales and distribution
LEO Pharma NV	Belgium	100	Sales and distribution
LEO Pharma LTDA.	Brazil	100	Sales and distribution
LEO Pharma Inc.	Canada	100	Sales and distribution
LEO Pharma Consultancy Company Ltd.	China	100	Sales services
LEO Pharma Trading Company Ltd.	China	100	Sales and distribution
LEO Pharma s.r.o.	Czechia	100	Sales services
LEO Holding A/S	Denmark	100	Other
LEO Pharma A/S	Denmark	100	Sales and distribution, Production
LH Capital A/S	Denmark	100	Other
Løvens Kemiske Fabriks Handelsaktieselskab	Denmark	100	Other
LEO Ventures A/S	Denmark	100	Other
Omhu A/S	Denmark	100	Other
Studies&Me A/S	Denmark	100	Other
LEO Pharma OY	Finland	100	Sales and distribution
Laboratoires LEO S.A.	France	100	Sales and distribution, Production
LEO Pharma GmbH	Germany	100	Sales and distribution
LEO Pharmaceutical Hellas S.A.	Greece	100	Sales and distribution
DKLEO Pharma Private Limited	India	100	Other
LEO Laboratories Ltd.	Ireland	100	Sales and distribution, Production
Wexport Ltd.	Ireland	100	Production
LEO Pharma Holding Ltd.	Ireland	100	Other

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

Sales and distribution
Production
Sales services
Other

Financial Statements

CONTENTS

Income statement

JANUARY 1 - DECEMBER 31			
(DKK million)	Note	**2021**	**2020**
Administrative costs	1, 2	(22)	(16)
Operating profit/(loss)		**(22)**	**(16)**
Result from investments in subsidiaries	6	(2,250)	(398)
Financial income	3	25	25
Profit/(loss) before tax		**(2,246)**	**(389)**
Tax on profit/(loss) for the year		-	-
NET PROFIT/(LOSS) FOR THE YEAR	4	**(2,246)**	**(389)**

Balance sheet at December 31

ASSETS			
(DKK million)	Note	**2021**	**2020**
Intangible and tangible fixed assets	5	1	1
Investments in subsidiaries	6	24,665	25,276
Receivables from LEO Pharma A/S		1,000	1,000
Total financial fixed assets		**25,665**	**26,276**
Total fixed assets		**25,666**	**26,277**
Receivables from subsidiaries		384	502
Other receivables		2	1
Total receivables		**386**	**503**
Cash at bank and in hand		**33**	**25**
Total current assets		**419**	**528**
TOTAL ASSETS		**26,085**	**26,805**

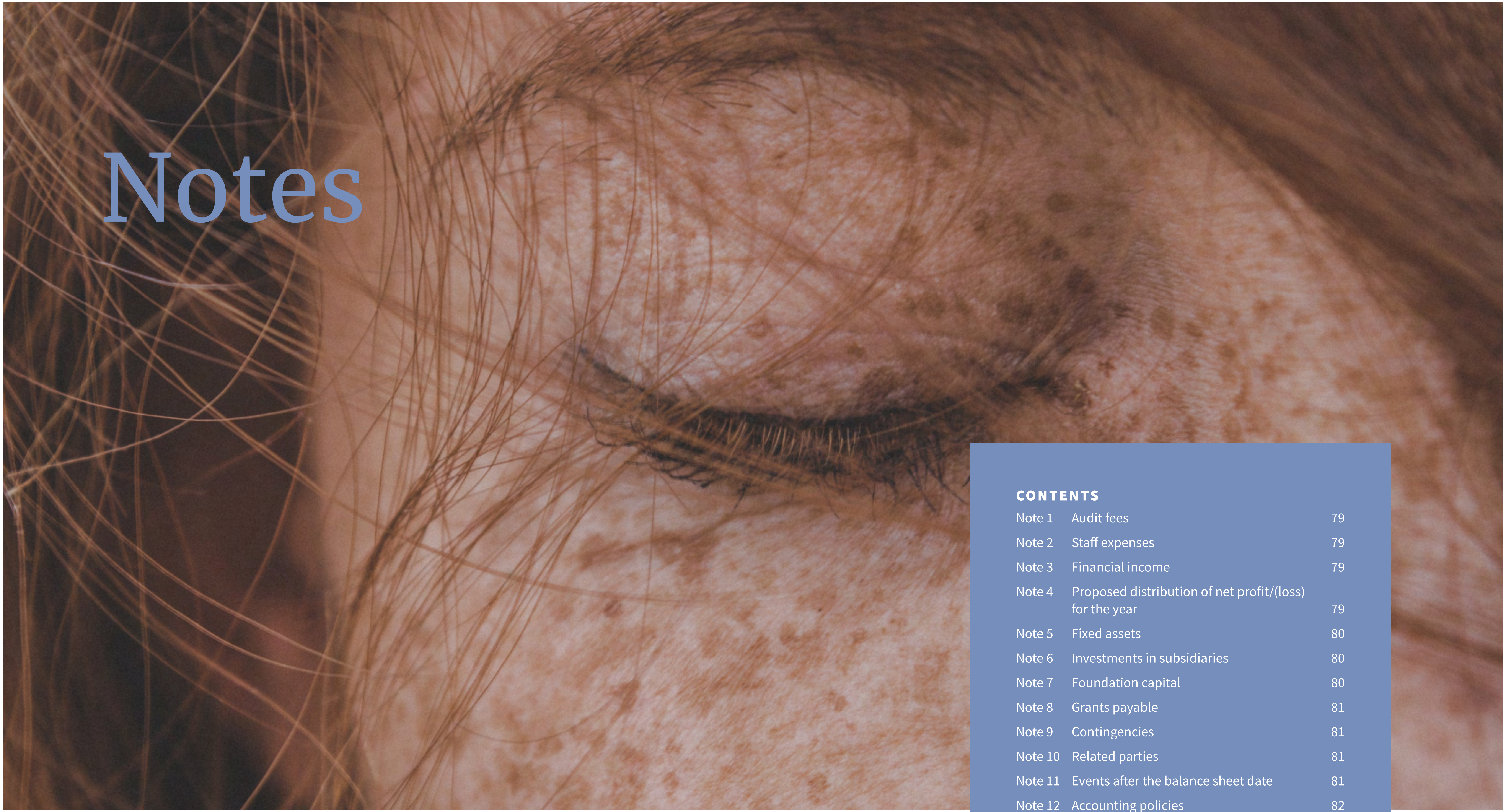
EQUITY AND LIABILITIES			
(DKK million)	Note	**2021**	**2020**
Foundation capital	7	98	98
Net revaluation, subsidiaries		24,565	25,176
Reserve for future grants		141	178
Retained earnings		876	997
Total equity		**25,680**	**26,449**
Grants payable	8	267	250
Other non-current liabilities		1	1
Total non-current liabilities		**268**	**251**
Grants payable	8	130	100
Other payables		8	5
Total current liabilities		**138**	**105**
TOTAL EQUITY AND LIABILITIES		**26,085**	**26,805**

Statement of changes in equity

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

1. Reference is made to note 6 Investment in subsidiaries

(DKK million)	Foundation capital	Net revaluation, subsidiaries	Reserve for future grants	Retained earnings	Total
2020					
Equity at January 1, 2020	98	26,225	125	593	**27,041**
Profit/(loss) in the LEO Foundation	-	(398)	125	(116)	**(389)**
Dividend received	-	(520)	-	520	**-**
Other adjustments in subsidiaries	-	(131)	-	-	**(131)**
Grants for the year	-	-	(72)	-	**(72)**
EQUITY AT DECEMBER 31, 2020	**98**	**25,176**	**178**	**997**	**26,449**



Notes

CONTENTS

Note 1
Audit fees

(DKK thousand)	2021	2020
Fees to auditors appointed at the Board meeting		
Statutory audit	129	110
Other services	19	4
TOTAL	**148**	**114**

Note 2
Staff expenses

(DKK million)	2021	2020
Wages and salaries	15	10
TOTAL	**15**	**10**
Included in		
Administrative costs	15	10
TOTAL	**15**	**10**
Remuneration to the Board of Trustees from other Group companies	3	3

Remuneration to the Board of Trustees amounted to DKK 2.3 million (2020: DKK 2.3 million), and the fee to the administrator, LEO Pharma A/S, amounted to DKK 0.1 million (2020: DKK 0.1 million).

	2021	2020
Average number of full-time employees	8	6

For a specification of the remuneration to the Board of Trustees and Executive Board, please refer to note 3 to the Consolidated Financial Statements.

Note 3
Financial income

(DKK million)	2021	2020
Interest income from subsidiaries	25	25
TOTAL	**25**	**25**

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

(DKK million)	2021	2020
Net revaluation subsidiaries	(2,250)	(398)
Proposed grant limit for the following year	125	125
Retained earnings	(121)	(116)
TOTAL	**(2,246)**	**(389)**

Note 5
Fixed assets

(DKK thousand)	Leasehold improvements	Other fixtures and fittings, tools and equipment	Total tangible assets	Software	Total intangible assets	Total fixed assets
Cost at January 1, 2021	83	1,615	1,698	247	247	**1,945**
Additions during the year	-	284	284	-	-	**284**
Cost at December 31, 2021	**83**	**1,899**	**1,982**	**247**	**247**	**2,229**
Depreciation and amortization at January 1, 2021	(50)	(174)	(764)	(168)	(168)	**(932)**
Depreciation and amortization for the year	(17)	(200)	(217)	(39)	(39)	**(257)**
Depreciation and amortization at December 31, 2021	**(67)**	**(914)**	**(981)**	**(207)**	**(207)**	**(1,189)**
CARRYING AMOUNT AT DECEMBER 31, 2021	**16**	**985**	**1,001**	**40**	**40**	**1,040**
Cost at January 1, 2020	83	1,610	1,693	247	247	**1,940**
Additions during the year	-	27	27	-	-	**27**
Disposals during the year	-	(22)	(22)	-	-	**(22)**
Cost at December 31, 2020	**83**	**1,615**	**1,698**	**247**	**247**	**1,945**
Depreciation and amortization at January 1, 2020	(33)	(481)	(514)	(111)	(111)	**(625)**
Depreciation and amortization for the year	(17)	(254)	(271)	(57)	(57)	**(328)**
Depreciation on disposals	-	21	21	-	-	**21**
Depreciation and amortization at December 31, 2020	**(50)**	**(714)**	**(764)**	**(168)**	**(168)**	**(932)**
CARRYING AMOUNT AT DECEMBER 31, 2020	**33**	**901**	**934**	**79**	**79**	**1,013**

Note 6
Investments in subsidiaries

(DKK million)	2021	2020
Cost at January 1	100	100
Cost at December 31	**100**	**100**
Value adjustment at January 1	25,176	26,225
Share of profit/(loss) for the year	(2,250)	(398)
Dividend paid	-	(520)
Dilution gain from capital increase in subsidiary	1,487	-
Adjustment of financial instruments	20	24
Tax on changes in equity	(12)	(3)
Other movements	144	(152)
Value adjustment at December 31	**24,565**	**25,176**
CARRYING AMOUNT AT DECEMBER 31	**24,665**	**25,276**

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

Note 7
Foundation capital

The nominal value of the Foundation capital is DKK 98 million (2020: DKK 98 million).

Note 8
Grants payable

(DKK million)	2021	2020
Grants payable fall due		
Within one year	130	100
Between one and five years	216	171
After more than five years	51	79
GRANTS PAYABLE AT DECEMBER 31	**396**	**350**

Note 9
Contingencies

LEO Foundation has lease obligations of DKK 1 million (2020: DKK 2 million).

LEO Foundation has no guarantee commitments or pledges.

Note 10
Related parties

The LEO Foundation's related parties with significant influence comprise the LEO Foundation's Board of Trustees and Executive Board, LEO Holding A/S, and LEO Pharma A/S and its subsidiaries.

For information regarding remuneration to the Board of Trustees and administrative costs, please refer to note 2.

Transactions and balances with LEO Pharma A/S in 2021 were as follows:

- The LEO Foundation provided a loan to LEO Pharma A/S of DKK 1,000 million (2020: DKK 1,000 million). The loan was granted on an arm's length basis at an interest rate of 2.45%. It will be repaid in 2027.
- Receivables from LEO Pharma A/S of DKK 0.4 million (2020: DKK 0.4 million) and expenses of DKK 0.1 million (2020: DKK 0.1 million).

Transactions and balances with LEO Holding A/S in 2021 were as follows:

- A short-term loan of DKK 380 million (2020: DKK 560 million) and interest of DKK 1.0 million (2020: DKK 0.9 million).
- Income from LEO Holding A/S of DKK 7 million (2020: DKK 5.8 million).

The LEO Foundation had no other transactions with related parties.

Note 11
Events after the balance sheet date

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

Note 12
Accounting policies

Accounting policies

The Financial Statements of the Parent Company, the LEO Foundation, for 2021 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies are unchanged from the previous year.

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

Cash flow statement

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

Investments in subsidiaries

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

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

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

Management statement

The Executive Board and the Board of Trustees have today considered and adopted the Annual Report of the LEO Foundation for the financial year January 1 – December 31, 2021.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU, and the Financial Statements of the Parent Company and the Management review have been prepared in accordance with the Danish Financial Statements Act.

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

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

Copenhagen, March 25, 2022

EXECUTIVE BOARD

Peter Haahr
CEO

BOARD OF TRUSTEES

Lars Olsen
Chairman

Eivind Drachmann Kolding
Vice Chairman

Allan Carsten Dahl

Anja Boisen

Cristina Patricia Lage

Franck Maréno

Jannie Kogsbøll

Karin Jexner Hamberg

Lars Green

Lotte Hjortshøj

Peter Schwarz

Independent auditor's report

TO THE BOARD OF TRUSTEES OF LEO FONDET

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements and the Parent Financial Statements, including the disclosures in the notes, and whether the Consolidated Financial Statements and the Parent Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

Copenhagen, March 25, 2022

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Kirsten Aaskov Mikkelsen
State Authorized
Public Accountant
MNE no.21358

Sumit Sudan
State Authorized
Public Accountant
MNE no. 33716

Foundation information

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Financial year: January 1 – December 31

Executive Board
Peter Haahr, CEO

Board of Trustees

Auditors
Deloitte
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