Annual Report

2019

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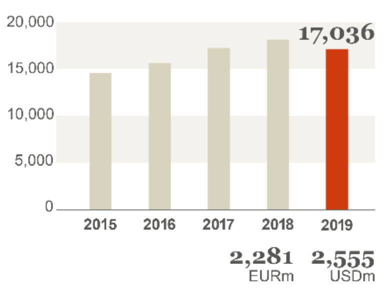

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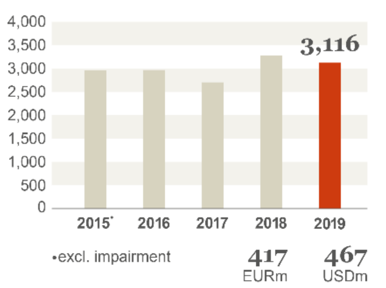

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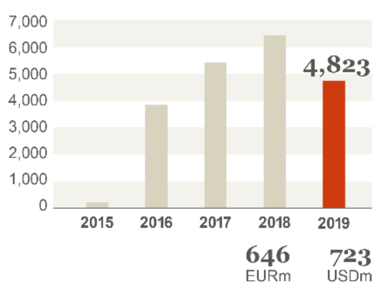

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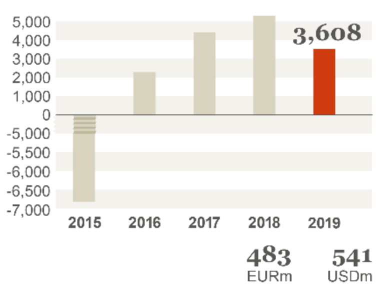

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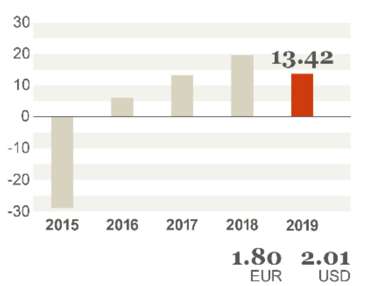

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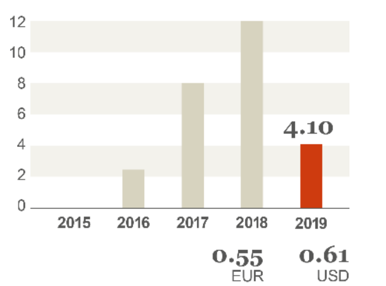

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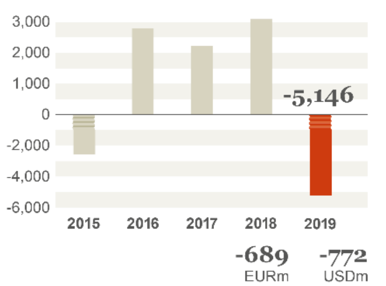

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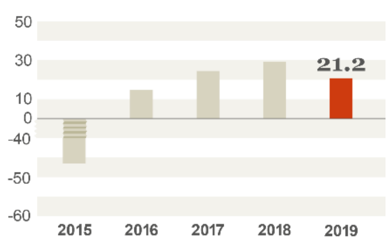

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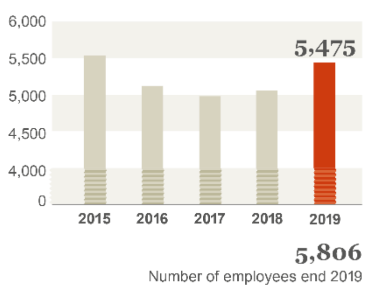


* Currency conversion is based on average exchange rates for 2019

PREFACE

It is a great pleasure to present our Annual Report for 2019. This year we announced our strategy, Expand and Invest to Grow to craft the path forward to ensure we can deliver long term sustainable growth and value for Lundbeck and our stakeholders. We are delighted to report good progress made against the strategic imperatives of our strategy.

Our purpose is clear: We are dedicated to restoring brain health so that every person can be their best. During 2019, our medicines have helped improve the lives of millions of people around the world living with brain disease. It is truly rewarding to be part of making a difference for these people.

2019 was a year of strong performance for Lundbeck. Our strategic brands have delivered strong growth and momentum driven by excellent commercial execution globally as well as some important, country-specific growth initiatives. We have delivered on our financial guidance and maintained our cost discipline. Finally, we have made great progress against the strategic imperatives, expanding our operating space and rebuilding our pipeline to drive future growth.

Our commitment to patients
People living with brain disease need the commitment of the neuroscience community to fulfil their aspiration to restore their brain health. While nearly 10 companies have scaled back their R&D investments or even left the space in less than a decade, we remain steadfast in our commitment. During 2019, we made the decision to increase our investments in R&D. We also made strategic moves to expand the range of brain diseases where our medicines can help people living with brain disease foresee a better future for themselves.

Our commitment to providing lifechanging medicines is based on our strong neuroscience expertise. The innovation we see in our own labs and those of the external neuroscience community give us great optimism for the future of brain health.

To continue our neuroscience achievements, we have pruned projects that were not strong enough to advance, investing instead behind only the most promising internal candidates. We expanded to new areas of neuroscience research and development by accessing innovation externally. Through both the acquisitions of Abide Therapeutics, Inc. and Alder Biopharmaceuticals, Inc., and the progress in our internal discovery research, we have been able to add seven new compounds to our pipeline. Our portfolio is broader and more balanced as we close 2019 than at its start.

Contributing to society
Brain diseases are not only a huge burden for people living with them, but also represent an alarmingly high and increasing burden for society. At Lundbeck we are strongly committed to supporting the UN Sustainable Development Goals and contributing to the societies in which we operate.

Lundbeck has been supporting UN Global Compact since 2009, working alongside public and private partners to help solve some of the world's biggest challenges. As such, we continue to promote initiatives that are working towards building a more sustainable footprint in our sector.

Driving innovation and growth through people and diversity
Across Lundbeck, our people are the source of the creativity, perspective, and passion required to develop transformative medicines. Our business demands countless capabilities and discipline on all levels of the organization, across the value chain.

This year, we strengthened the executive management team by welcoming three new members. In doing so, we have created a more diverse leadership team to grow Lundbeck's reach and improve the lives of people living with brain disease.

We firmly believe that diversity and inclusion are key to being successful and achieving our purpose of restoring brain health. By fostering an inclusive work environment that integrates and empowers people of different backgrounds, skills and perspectives, we ignite innovation and high performance across Lundbeck.

Competitive return to shareholders
Our strong financial performance over the past years has made it possible to invest in growth opportunities without lowering our standards for expected commercial return. We will continue to

aspire to enhance profitability while also ensuring the flexibility needed to grow the top line and continue to invest in our business for long term sustainability.

We commit to working tirelessly to contribute to the accomplishment of the Sustainable Development Goals so that our business benefits both the health of people and the wellbeing of populations and our planet. Through these actions we are committed to delivering competitive returns to our shareholders.

On behalf of Lundbeck's Board of Directors, Executive Management and employees, we would like to thank all shareholders, patient communities, customers, and business partners for the trust you place in our company. Throughout 2019, we have been heartened by the strong interest in our work as we continue this important journey to diminish the massive impact of brain disease in our world.

Lars Søren Rasmussen
Chairman of the Board

Deborah Dunsire
President and CEO

2019 PERFORMANCE AND 2020 OUTLOOK

In 2019, Lundbeck saw continued solid growth of our strategic brands across all regions and strong revenue growth in International Markets and in Europe, which mitigated the expected impact from the generic erosion of products such as Onfi®.

We made good progress on our Expand and Invest to Grow strategy and strengthened our pipeline.

Management review of the parent company is available in note 1 in the financial statements of the parent company

We experienced strong growth in sales of our strategic products; Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Northera® (symptomatic neurogenic orthostatic hypotension) and Rexulti®/Rxulti® (depression/schizophrenia).

Overall, our 2019 revenue came in at the high end of the financial guidance provided in February 2019 and further raised in November 2019 as a result of generally solid product sales.

For the year, Lundbeck's total revenue reached DKK 17,036 million and operating profit (EBIT) reached DKK 3,608 million. This is in line with the expectations communicated in the financial statements for the first nine months in November 2019. Net profit ended at DKK 2,667 million for the year.

Brintellix®/Trintellix® was approved in Japan in September 2019. This represents a new chapter in Lundbeck's commercial expansion as we for the first time will have our own commercial organization behind a launch in Japan. The launch will be conducted in collaboration with our partner Takeda Pharmaceutical Company Limited.

In January 2019, Dr. Johan Luthman was appointed new Executive Vice President of Research & Development. Executive Management was further expanded in March 2019 with the appointment of Keld Flintholm Jørgensen as Executive Vice President of Corporate Strategy & Business Development, and in August 2019 with the appointment of Elise Hauge as Executive Vice President of People & Communication.

We saw a significant strengthening of Lundbeck's pipeline in 2019. Through the acquisition of Abide Therapeutics, Inc., Lundbeck gained access to Lu AG06466 as treatment for people living with Tourette Syndrome (clinical phase II) and neuropatic pain (clinical phase I). Through the acquisition of Alder BioPharmaceuticals, Inc., we gained access to two compounds both for the treatment of migraine; eptinezumab (under registration in the US) and Lu AG09222 (clinical phase I).

Further, Lu AF11167 was moved into clinical phase II to confirm its potential as treatment for people living with schizophrenia who are experiencing persistent negative symptoms. Additionally, Lu AF87908 was moved into clinical phase I as treatment of Alzheimer's disease, Lu AF88434 was moved into clinical phase I as treatment of cognitive dysfunction, and finally Lu AF95245 as treatment of neuronal hyperexcitability.

Finally, three compounds did not meet expectations: The efficacy of brexpiprazole for the acute treatment of manic episodes in bipolar I disorder did not meet the primary endpoint. Also, Lu AF20513 and Lu AF76432, were discontinued in clinical phase I.

TOTAL REVENUE 2019

DKKm	2019	2018	Growth	Growth in local currencies
Abilify Maintena®	1,961	1,595	23%	20%
Brintellix®/Trintellix®	2,826	2,182	30%	26%
Northera®	2,328	1,806	29%	22%
Rexulti®/Rxulti®	2,270	1,723	32%	25%
Revenue strategic brands	**9,385**	**7,306**	**28%**	**24%**
Cipralex®/Lexapro®	2,314	2,257	3%	1%
Onfi®	1,052	3,165	(67%)	(69%)
Sabril®	847	1,342	(37%)	(40%)
Other pharmaceuticals	3,100	3,143	(1%)	(3%)
Other revenue	660	662	-	(1%)
Effects from hedging	(322)	242	-	-
Total revenue	**17,036**	**18,117**	**(6%)**	**(6%)**

2019 PRODUCT PORTFOLIO

Our strategic brands are Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Northera® (symptomatic neurogenic orthostatic hypotension), and Rexulti®/Rxulti® (depression/schizophrenia).

Our product portfolio also includes Azilect® (Parkinson's disease), Cipralex®/Lexapro® (depression), Ebixa® (Alzheimer's disease), Onfi® (Lennox-Gastaut syndrome), Sabril® (epilepsy) and Xenazine® (chorea associated with Huntington's disease) as well as other mature products.

2019 FINANCIAL PERFORMANCE

Sales performance

Revenue in 2019 reached DKK 17,036 million, compared to DKK 18,117 million in 2018. This is a decrease of 6% (6% in local currencies), which is primarily driven by the loss of exclusivity of Onfi® (Lennox Gastaux Syndrome (LGS)) and only partly compensated by the strong growth of our strategic brands of 28% in 2019.

North America

Revenue from North America reached DKK 9,583 million in 2019, which is a decrease of 11% (15% in local currencies), compared to DKK 10,743 million in 2018. This was driven by the uptake of Abilify Maintena®, Brintellix®/Trintellix®, Northera® and Rexulti®/Rxulti®, partly offsetting the decline in sales of Onfi® (LGS) and Sabril® (epilepsy).

North America constituted 58% of revenue (excl. effects from hedging and 'Other revenue'), compared to 63% in 2018.

Abilify Maintena® revenue grew 21% (16% in local currencies) for the period and reached DKK 845 million, which represents Lundbeck's share of total net sales. In the US it has a volume market share of 19.6% and in Canada it reached 30.5%, by November 2019. The value market share was 19.9% and 27.4%, respectively (source: IQVIA).

Brintellix®/Trintellix® sales reached DKK 1,579 million for Lundbeck following a growth of 27% (21% in local currencies). The volume market share in the US and Canada was 0.9% and 1.1% of the total anti-depressant market, respectively by November 2019. The value market share of the total anti-depressant market in the US was 22.6% and in Canada it was 6.1% (source: IQVIA).

Northera® sales reached DKK 2,328 million in 2019, representing growth of 29% (22% in local currency).

Onfi® reached revenue of DKK 1,052 million. In October 2018, the US FDA approved several versions of generic clobazam; both oral and suspension formulations and generic clobazam has taken some 80% of the market in volume (source: Symphony Health cf. Bloomberg).

Lundbeck's share of **Rexulti®/Rxulti®** revenue reached DKK 2,219 million following a growth of 30% (23% in local currencies). In the US, it achieved market shares of 2.12% and 10.47% by November 2019 in volume and value, respectively (source: IQVIA). In Canada, the product has reached 1.89% volume share and a value share of 3.08%. Patient data suggests that more than 75% of prescriptions in the US are prescribed for MDD.

Sabril® revenue for the period was DKK 847 million. In September 2017, the first generic vigabatrin (oral solution) was introduced, and in January 2019 the first generic tablet was approved. By the end of Q3 2019, generic vigabatrin was 58% of total vigabatrin compared to 52% at the end of the Q2. We have observed a more unfavorable payer mix post loss of exclusivity, which has impacted the average selling price negatively.

REVENUE – NORTH AMERICA

DKKm	2019	2018	Growth	Growth in local currencies
Abilify Maintena®	845	695	21%	16%
Brintellix®/Trintellix®	1,579	1,239	27%	21%
Northera®	2,328	1,806	29%	22%
Onfi®	1,052	3,165	(67%)	(69%)
Rexulti®/Rxulti®	2,219	1,702	30%	23%
Sabril®	847	1,342	(37%)	(40%)
Other pharmaceuticals	713	794	(10%)	(14%)
Total revenue	**9,583**	**10,743**	**(11%)**	**(15%)**

International Markets
Revenue from International Markets, which comprise all of Lundbeck's markets outside of Europe and North America, reached DKK 3,892 million in 2019, compared to DKK 3,500 million in 2018. In local currencies, sales were up 11% primarily driven by growth of Abilify Maintena® and Brintellix®/Trintellix®.

International Markets constituted 23% of revenue (excl. effects from hedging and 'Other revenue'), compared to 20% in 2018.

Abilify Maintena® reached DKK 165 million in revenue in 2019, representing a growth of 27% (28% in local currencies). Sales are mainly derived from Australia where it shows solid momentum and has achieved a volume share of 26.3% and a value share of 25.8% by November 2019 (Source: IQVIA). Countries such as Kuwait, Saudi Arabia and U.A.E. also impacted positively to sales.

Brintellix®/Trintellix® reached DKK 517 million in revenue, an increase of 31% (33% in local currencies). Brintellix®/Trintellix® realized solid growth across several markets. Brazil, China, Mexico, South Korea and Turkey are the largest markets for Brintellix®/Trintellix® in the region.

Cipralex®/Lexapro® generated revenue of DKK 1,638 million, compared to DKK 1,552 million in 2018.

Rexulti®/Rxulti® reached DKK 40 million in revenue for the period. The product is predominantly sold in Australia, where it was approved for the treatment of schizophrenia in June 2017. In Australia, Rexulti®/Rxulti® has achieved an increase in market share to 1.89% and 2.78% in volume and value, respectively (source: IQVIA). Furthermore, it has been launched in Chile (Q2 2019), Mexico (Q1 2019) and Saudi Arabia (Q4 2018). Additionally, Rexulti®/Rxulti® has been submitted for approval in countries such as Brazil, Malaysia and South Africa.

Other pharmaceuticals generated revenue of DKK 1,532 million. This represents a growth of 9% (9% in local currencies), primarily driven by products such as Azilect®, Deanxit® and Ebixa®.

REVENUE – INTERNATIONAL MARKETS

DKKm	2019	2018	Growth	Growth in local currencies
Abilify Maintena®	165	130	27%	28%
Brintellix®/Trintellix®	517	396	31%	33%
Cipralex®/Lexapro®	1,638	1,552	6%	4%
Rexulti®/Rxulti®	40	21	91%	90%
Other pharmaceuticals	1,532	1,401	9%	9%
Total revenue	**3,892**	**3,500**	**11%**	**11%**

Europe

Revenue from Europe reached DKK 3,223 million in 2019, which is an increase of 9% (8% in local currencies), compared to DKK 2,970 million in 2018. Abilify Maintena® and Brintellix®/Trintellix® both experienced solid growth rates of 24% and 34%, respectively. This growth is partly off-set by the decline of the mature products portfolio.

Europe constituted 19% of revenue (excl. effects from hedging and 'Other revenue'), compared to 17% in 2018.

Abilify Maintena® has been launched in all major markets in Europe and is Lundbeck's largest product in Europe. Sales uptake of Abilify Maintena® was solid, with sales reaching DKK 951 million. In Europe, the penetration of long-acting atypical antipsychotics is generally higher than seen in the US (volume). Driven by increasing demand from patients, sales of Abilify Maintena® are growing across Europe and the product has achieved a market share (value) of 20% or more in all major markets. In some markets, the product has reached or is approaching 30%. Abilify Maintena® is the second most prescribed long-acting injectable treatment for patients with schizophrenia in many markets. Spain, France and Italy are the largest European markets for Abilify Maintena®.

Brintellix®/Trintellix® reached revenue of DKK 730 million. It is Lundbeck's second largest product in Europe and realized solid growth across many markets and in a number of countries such as France, Italy and Spain, where the product achieved value market shares of 10.2%, 9.1% and 8.2%, respectively by November 2019 (source: IQVIA). The volume shares are 3.0%, 3.5% and 2.8%, respectively (source: IQVIA). Spain, Italy and France are the largest European markets for Brintellix®/Trintellix®.

Since Lundbeck and Otsuka Pharmaceutical Co., Ltd. in July 2018 announced the European Commission's approval of **Rexulti®/Rxulti®** (brexpiprazole) for the treatment of schizophrenia in adults, we have started launching the product in European countries. The product is being branded as Rxulti® in countries within the European Union and has so far has been launched in Denmark, Finland, Netherlands, Norway and Switzerland.

Cipralex®/Lexapro® generated revenue of DKK 538 million, compared to DKK 572 million in 2018.

Revenue from **Other pharmaceuticals** was DKK 993 million, a decline of 8% compared to 2018, following continued generic erosion of mature products.

REVENUE – EUROPE

DKKm	2019	2018	Growth	Growth in local currencies
Abilify Maintena®	951	770	24%	23%
Brintellix®/Trintellix®	730	547	34%	33%
Cipralex®/Lexapro®	538	572	(6%)	(6%)
Rexulti®/Rxulti®	11	-	-	-
Other pharmaceuticals	993	1,081	(8%)	(9%)
Total revenue	**3,223**	**2,970**	**9%**	**8%**

* For additional information on the acquisitions' impact on the financial statements for 2019, see note 4 *Business combinations* in the consolidated financial statements

** For definition of the measure "Core EBIT" and "Core EBIT margin", see page 102 *Core reconciliation*

*** Please find Lundbeck's tax policy on https://www.lundbeck.com/global/sustainability/society/tax-policy

Costs and profits
Total costs for 2019 were DKK 12,914 million, compared to DKK 12,772 million in 2018. Cost of sales decreased 2% to DKK 3,385 million in 2019. This corresponds to 19.9% of total revenue, compared to 19.1% in 2018.

Sales and distribution costs were DKK 5,514 million in 2019, compared to DKK 5,277 million in 2018. The increase is due to investments in the commercial organization in China and Japan. Sales and distribution costs correspond to 32.3% of revenue, compared to 29.1% in 2018. Administrative expenses were DKK 899 million, corresponding to 5.3% of total revenue in 2019. SG&A costs were DKK 6,413 million, compared to DKK 6,039 million in 2018. The SG&A ratio for 2019 was 37.6%, compared to 33.3% in 2018. The increase in the SG&A ratio is mainly due to the revenue decline after the loss of exclusivity for Onfi®. The R&D costs declined 5%, leading to an R&D ratio of 18.3% in 2019, which is the same level as in 2018.

Other operating items, net amounted to an expense of DKK 514 million for 2019 as a consequence of acquisition and integration costs related to the Alder BioPharmaceuticals, Inc. transaction in 2019*. In 2018, other operating items, net amounted to an expense of DKK 44 million.

Core EBIT** for 2019 reached DKK 4,976 million, compared to DKK 6,158 million in 2018, which is a decline of 19%. The core EBIT margin increased significantly to 29.2% in 2019. **EBIT** for 2019 reached DKK 3,608 million, compared to DKK 5,301 million in 2018. The EBIT margin decreased to 21.2% in 2019, compared to 29.3% in 2018.

EBIT and core EBIT are negatively impacted by the expected generic erosion of mature products, especially Onfi®, and hedging losses of DKK 322 million in 2019, compared to a gain of DKK 242 million in 2018. Acquisition and integration costs were DKK 514 million in 2019.

Tax***
The effective tax rate for 2019 was 23.4% compared to 26.1% in 2018. The tax rate is positively impacted by a tax benefit realized following the integration of Alder BioPharmaceuticals, Inc.

Net profit and EPS
Net profit for 2019 reached DKK 2,667 million, compared to DKK 3,907 million in 2018. Net profit for 2019 corresponds to an EPS of DKK 13.42 per share versus an EPS of DKK 19.66 per share in 2018.

Balance sheet
Lundbeck's total assets have increased significantly from DKK 23,011 million in 2018 to DKK 35,757 million in 2019*. This is mainly due to the recognition of product rights and goodwill related to the acquisitions of Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc.

The acquisition of Alder BioPharmaceuticals, Inc. has been funded through existing cash resources and bank financing. Lundbeck has interest-bearing debt of DKK 9,578 million at 31 December 2019, compared to 0 in 2018.

Cash flow
Cash flows from operating activities amounted to DKK 2,609 million, compared to DKK 5,981 million in 2018. The lower level in 2019 is mainly driven by the declining revenue as well as the acquisition and integration costs related to the Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc. transactions.

Lundbeck's net cash flow from investing activities was an outflow of DKK 7,755 million compared to an outflow of DKK 2,907 million in 2018. In 2019, the cash flow was impacted by the acquisition of Abide Therapeutics, Inc. in May 2019, Alder BioPharmaceuticals, Inc. in October 2019 as well as gain of sale of securities. In comparison the net cash flow for 2018 was

DISCLAIMER

Forward-looking statements are subject to risks, uncertainties and inaccurate assumptions. This may cause actual results to differ materially from expectations. Various factors may affect future results, incl. interest rates and exchange rate fluctuations, delay or failure of development projects, production problems, unexpected contract breaches or terminations, governance-mandated or market-driven price decreases for products, introduction of competing products, Lundbeck's ability to successfully market both new and existing products, exposure to product liability and other lawsuits, changes in reimbursement rules and governmental laws, and unexpected growth in expenses.

impacted by the acquisition of Prexton Therapeutics BV in March 2018. The free cash flow reached an outflow of DKK 5,146 million for 2019 compared to an inflow of DKK 3,074 million for 2018.

In 2019, the net cash outflow reached DKK 598 million compared to an inflow of DKK 1,467 million for 2018. The net cash flow is additionally impacted by dividend payout of DKK 2,384 million which was approved at the Annual General Meeting in March 2019.

At 31 December 2019, Lundbeck had net debt of DKK 6,566 million, compared to net cash of DKK 6,635 million at 31 December 2018.

DIVIDEND

The Board of Directors proposes a dividend of 31% of net profit for 2019, in line with our payout policy of 30-60%. This corresponds to DKK 4.10 per share. The dividend payout is subject to approval at the Annual General Meeting on 24 March 2020.

GUIDANCE 2020

Lundbeck's financial results for 2020 are expected to be driven by the continued strong growth of Abilify Maintena®, Brintellix®/Trintellix®, Northera®, and Rexulti®/Rxulti® and the expected strong growth of eptinezumab in the US.

Lundbeck's total revenue is expected to reach between DKK 17.4 - 18.0 billion in 2020, and EBIT is expected to be in the range between DKK 2.2 - 2.7 billion.
Lundbeck's main currencies are the USD, JPY, CNY and CAD. The financial guidance is based on currency levels as per end-January 2020 and includes an expected hedging loss of around DKK 200 - 250 million.

FINANCIAL GUIDANCE 2020

DKK	FY 2019 actual	FY 2020 guidance
Revenue	17,036 m	17.4 – 18.0 bn
EBITDA	4,823 m	3.9 – 4.4 bn
Profit from operation (EBIT)	3,608 m	2.2 – 2.7 bn
Core EBIT	4,976 m	3.5 – 4.0 bn
Tax rate	*23.4%*	*22-24%*

EVENTS AND MILESTONES 2019

January

- Lundbeck initiated clinical phase II study of potential new treatment of schizophrenia
- Dr. Johan Luthman was appointed new Executive Vice President and Head of Research & Development at Lundbeck

February

- Lundbeck and Otsuka Pharmaceutical Co., Ltd. reported clinical phase III data evaluating brexpiprazole for the treatment of manic episodes associated with bipolar I disorder

March

- Keld Flintholm Jørgensen was appointed Executive Vice President and Head of Corporate Strategy & Business Development at Lundbeck
- Lundbeck held its Annual General Meeting

April

- Lundbeck communicated the acquisition of Abide Therapeutics, Inc. and hereby added a unique discovery platform and a lead compound in an exploratory clinical phase IIa program for Tourette Syndrome

May

- Lundbeck completed the acquisition of Abide Therapeutics, Inc., now Lundbeck La Jolla Research Center, Inc.

August

- Elise Hauge was appointed Executive Vice President and Head of People & Communication at Lundbeck

September

- Lundbeck communicated the acquisition of Alder BioPharmaceuticals, Inc. and hereby added two migraine treatment and prevention compounds to its pipeline
- Lundbeck and Takeda Pharmaceutical Company Limited announced the Ministry of Health, Labour and Welfare's (MHLW) approval of Brintellix®/Trintellix® in Japan

October

- Lundbeck completed the acquisition of Alder BioPharmaceuticals, Inc., now Lundbeck Seattle BioPharmaceuticals, Inc.

STRATEGY REVIEW

In 2019 we announced our new strategy Expand and Invest to Grow. During the year we have diligently executed on the strategy and made great progress in our efforts to invigorate future growth.

EXPAND AND INVEST TO GROW

Lundbeck's Expand and Invest to Grow strategy is designed to deliver sustainable growth for Lundbeck both near and long term in order to create value for all of our stakeholders. The strategy builds on Lundbeck's heritage of delivering essential medicines for brain diseases, leveraging our broad neuroscience expertise to expand the scope of brain diseases we are pursuing for the benefit of patients.

At the same time, we are focused on accelerating our internal innovation in a variety of ways – for example, building our pipeline through current and new technologies, leveraging advances in artificial intelligence, and focus on the underlying biology as a way to create a paradigm shift in our understanding of brain diseases.

Equally important, we are opportunistically adding to the future growth drivers in our pipeline by accessing external innovation that fits our capabilities and growth strategy.

Our success in creating transformative therapies for patients facing brain diseases will drive sustained growth for Lundbeck long term, allowing us to deliver a competitive return to our shareholders while making a strong contribution to society.

During 2019 we have harnessed the passion and capabilities of our talented employees and leveraged our strong financial position to take important steps towards these goals. People living with brain diseases need the commitment of the neuroscience community to enable them to restore their brain health. As the number of people living with brain diseases grows, the need to achieve new generations of breakthroughs has never been more urgent.

Restoring brain health, so every person can be their best

It is estimated that more than 700 million people worldwide live with brain diseases. These diseases are the leading global cause of disability and account for 37% of healthy life years lost from non-communicable diseases. With the projected growth and aging of the world's population, brain diseases will become even greater contributors to premature death and disability. Despite great leaps in our understanding of the brain, there remain significant challenges to advancing new therapies for psychiatric and neurological diseases.

Undeterred, Lundbeck remains steadfast in our commitment to deliver innovation that patients need. Over the past year, we reaffirmed our dedication to delivering transformational therapies and making a meaningful impact on people affected by brain diseases. While nearly 10 companies have scaled back their R&D investments or even left the space altogether in less than a decade, this past year we increased our investments and made strategic moves to ensure that people living with brain diseases foresee a better future for themselves. Ultimately, we will measure Lundbeck's success by our ability to provide life-changing therapies that restore people's brain health, so they can be their best.

Contributing to the societies we operate in

Lundbeck is strongly committed to supporting the UN Sustainable Development Goals.

Brain diseases represent not only a huge burden for people living with brain disease, but also an alarmingly high and increasing burden for society. A study by World Economic Forum* estimates that the total cost of mental illness is expected to increase to 6 trillion USD in 2030, more than double the total cost of cancer, diabetes and cardiovascular diseases combined.

* The Global Economic Burden of Non-Communicable Diseases - A report by the World Economic Forum and the Harvard School of Public Health, September 2011

Lundbeck contributes to SDG 3 “Good health and well-being” through the innovative treatments we discover, develop and make available to patients. We go much further than this through working with policy makers, physicians, patients and communities to drive awareness of the burden of brain disease and mental illness, to drive parity of care and to reduce stigma.

Lundbeck has been supporting UN Global Compact since 2009 and we continue to promote initiatives that demonstrate our commitment to building an ever more sustainable footprint, having reduced our carbon emissions 67% since 2006 and working to continue to drive reductions. Lundbeck’s sustainability framework holds our external partners to the same high standards of compliance that we hold ourselves to. We also strive to develop a workforce capitalizing on diverse talents within an inclusive workplace culture.

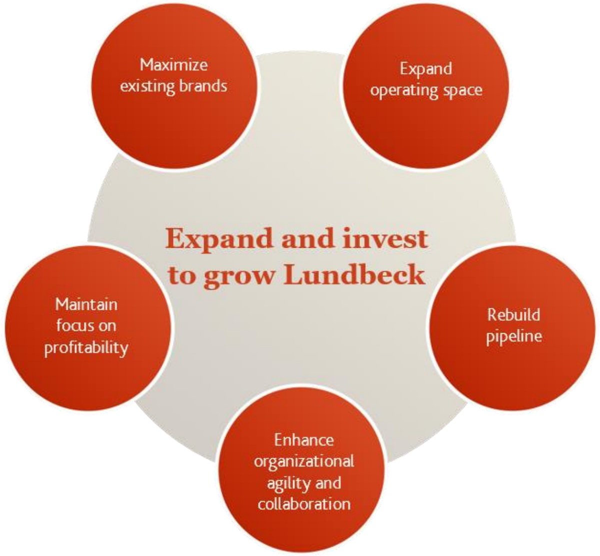
Our business activities are conducted in a way that mitigates the related significant risks and supports the UN Global Compact Principles and the relevant UN Sustainable Development Goals (SDG).

Further information about these activities can be found in the sustainability section in this annual report and in the progress report to the UN Global Compact on www.lundbeck.com*.

Delivering a competitive return to our shareholders
Lundbeck’s strong financial performance has provided the strategic flexibility to invest in growth opportunities without lowering our standards for the expected return on investments we make. We will continue to aspire to high profitability while also ensuring we allow flexibility to invest in our business and in growing the top-line – always with the aim of delivering a competitive return to our shareholders.

FIVE STRATEGIC IMPERATIVES

There are five strategic imperatives at the core of Lundbeck’s strategy.



* Please find our progress report to the UN Global Compact on https://www.lundbeck.com/global/sustainability/ethics

Maximizing performance of existing brands

Lundbeck has a broad portfolio of therapies including four strategic brands Abilify Maintena®, Brintellix®/Trintellix®, Rexulti®/Rxulti® and Northera®. We have a clear focus on realizing the full potential of these assets throughout the product lifecycle, including ongoing evaluation of opportunities to improve the value for patients through geographical expansion, the launch of new indications or through improved formulations.

In 2019 our strategic brands grew 28% and represented 55% of Lundbeck's total revenue. We implemented multiple country-specific growth initiatives that have resulted in strong growth for our brands across all geographies. We achieved key milestones: Brintellix®/Trintellix® was approved and launched in Japan, Rexulti®/Rxulti® was successfully launched in several markets in Europe, and new studies were initiated with brexpiprazole for the treatment of Post-Traumatic Stress Disorder (PTSD) and Borderline Personality Disorder (BPD), all significant initiatives that will strengthen the growth outlook of our strategic brands in the years to come.

In 2020 we expect to launch eptinezumab in the US for the prevention of migraine and will have five strategic brands contributing significantly to Lundbeck's revenue growth in the years to come.

Expanding our operating space

In Lundbeck's strategy, a key to unlocking future growth opportunities is to expand our operating space in brain diseases. We have strategically defined the therapeutic areas for consideration based on diseases with a clear unmet medical need, an attractive commercial potential and a strategic fit with our commercial capabilities and neuroscience expertise.

In May 2019 Lundbeck expanded its operating space with the acquisition of Abide Therapeutics, Inc., including a first-in-class inhibitor of monoacylglycerol lipase (MAGL) in early clinical development for Tourette Syndrome and neuropathic pain, and with multiple future therapeutic possibilities.

Through the acquisition Lundbeck has also gained access to a world-class discovery platform with the potential to deliver unprecedented compounds across a broad range of brain disease indications.

In September 2019 Lundbeck acquired Alder BioPharmaceuticals, Inc. The acquisition enhances Lundbeck's leading portfolio of brain disease therapies with a highly complementary intravenous (IV) therapy for migraine prevention, eptinezumab, along with other projects and expertise that will help establish Lundbeck as an emerging leader in migraine and other pain syndromes.

In 2020 we will look further into how we best capture opportunities, utilizing cutting edge neuroscience insights, digitalization and other novel technologies. These technologies will enable us to collect the fingerprint of defined patient populations and increase the use of biomarkers that are challenging to identify in neuroscience. Our aim is to achieve a higher rate of success in identifying promising new targets and bringing them forward for the right target patients. Our goal is to offer novel therapies that redefine the standard of care and address functional outcomes that matter most to patients.

Rebuilding our pipeline

During 2019 we refreshed our pipeline by pruning projects that were not strong enough to advance. We invested to advance the most promising internal candidates, and accelerated efforts to acquire external innovation. As a result, Lundbeck discontinued three projects, added seven new compounds to our development program, and closed out a highly productive year with a broader and more balanced portfolio consisting of eleven novel compounds.

We expect our clear focus on strengthening and refining our pipeline to yield several important pipeline milestones in 2020 and beyond.

Maintaining focus on profitability

While we seek to grow our business for the long term, our strategy is also focused on growing profitably. We will continue to run our business efficiently and maintain focus on the company's profitability while allowing flexibility to invest in growing the topline. The acquisitions of Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc. are good examples of our strategy in action. Both deals have the potential to contribute significantly to Lundbeck's long-term value creation. The latter is Lundbeck's largest investment to date and is expected to be accretive to core EPS in 2023.

In 2020 we will focus on securing the efficiency in the investments we make to drive the growth of the company.

Enhancing our organizational agility and collaboration

Innovation is core to our goal of creating transformative medicines for brain diseases – and it is our people, across our entire enterprise, who are the source of the creativity, perspective and passion required to be successful. Our business demands a myriad of capabilities and disciplines that come together to enable the discovery, development and delivery of new medicines; none can operate in isolation. Exceptional organizational performance is only possible if we create a collaborative environment and nurture an agile mindset that empowers our people to respond swiftly and creatively to both challenges and opportunities.

We saw strong examples of collaboration and agility in action in 2019. With the aim of strengthening organizational performance, we established a Portfolio Management Board, streamlining processes and simplifying decision making regarding our product portfolio. The due diligence and subsequent integration of Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc. showcase Lundbeck's agility and cross-company collaboration to ensure we capture the value of these high-potential growth opportunities.

Attracting and retaining the very best talent and creating the environment for them to flourish is crucial for success. Further to strengthening our talent and our organizational effectiveness, in 2020 we will establish a Diversity & Inclusion Forum to accelerate our diversity and inclusion efforts. Fostering an inclusive work environment that integrates varied backgrounds and perspectives creates a workplace where talent can flourish and strengthens our culture and ability to bring forth novel and meaningful therapies for people with brain diseases.

In today's rapidly evolving healthcare landscape, only those organizations that make a sincere commitment to supporting agile talent, practices and processes will thrive. In the years to come, we will continue to focus on sustaining a high-performance culture activated through a nimble workforce but governed by organizational discipline. Through these efforts, we will continue to attract and retain engaged employees who have the expertise, passion and commitment to execute on our strategy and deliver on our purpose of restoring brain health, so every person can be their best.

RESEARCH AND DEVELOPMENT

Through our extensive research, we are developing new pharmaceutical innovations which target the underlying mechanisms of different brain diseases.

Over the years, Lundbeck has built a broad and robust platform within psychiatry and neuro-degeneration. We use small molecules, antibodies and vaccines to develop new medicines that treat symptoms more effectively and can alter the course of such conditions. We couple our comprehensive research in the biology and mechanisms of these diseases with a clear understanding of research targets and clinical outcomes.

DEVELOPMENT PIPELINE

Lundbeck's pipeline was significantly strengthened in 2019. Seven new compounds were added: eptinezumab (under registration in the US), Lu AF11167 (clinical phase II), Lu AG06466 (clinical phase II and I), Lu AG09222 (clinical phase I), Lu AF87908 (clinical phase I), Lu AF88434 (clinical phase I) and Lu AF95245 (clinical phase I). Another three projects were discontinued: brexpiprazole in bipolar disorder as well as Lu AF20513 and Lu AF76432 both in Alzheimer's disease.

PROJECTS UNDER REGULATORY REVIEW

Eptinezumab for migraine prevention

Submitted for approval to the US FDA in February 2019

Eptinezumab is an investigational monoclonal antibody (mAb), administered as an IV infusion. It has been developed for immediate and complete bioavailability with high specificity and strong binding for suppression of calcitonin gene-related peptide (CGRP) - a neuropeptide believed to play a key role in mediating and initiating migraines.

Alder BioPharmaceuticals, Inc. (now Lundbeck Seattle BioPharmaceuticals, Inc.) submitted a Biologics License Application (BLA) for the drug to the US Food and Drug Administration (FDA) in February 2019, for which the FDA has set a Prescription Drug User Fee Act (PDUFA) with an action date of 21 February 2020. If approved by the US FDA, it will be the first IV CGRP therapy for migraine prevention. We expect to submit eptinezumab for approval to European Union regulatory authorities by the end of 2020. Submissions for approval in other regions will follow, including China and Japan.

PIVOTAL PROGRAMS (CLINICAL PHASE III)

Brexpiprazole for agitation in Alzheimer's disease (AAD)

Commenced in May 2018

In 2013, Lundbeck, in partnership with Otsuka Pharmaceutical Co., Ltd., began two pivotal brexpiprazole studies to treat agitation in patients with Alzheimer's type (AAD) dementia. We communicated top-line results in May 2017.

In both studies, patients treated with brexpiprazole showed improvements in agitation symptoms relative to placebo. However, the data was not enough to support a regulatory submission. In May 2018, Lundbeck and Otsuka Pharmaceutical Co., Ltd. initiated a new clinical phase III study to generate sufficient data. The US FDA has granted Fast Track designation for this program.

Brexpiprazole for Post-Traumatic Stress Disorder (PTSD)

Commenced in October 2019

Subsequent to a clinical end-of-phase II meeting with the US FDA in May 2019, Lundbeck and Otsuka Pharmaceutical Co., Ltd. have initiated a pivotal clinical phase III program for Post-Traumatic Stress Disorder (PTSD). The study investigates the use of brexpiprazole, in combination with sertraline, in the treatment of PTSD.

PTSD is a psychiatric disorder that can develop as a response to traumatic events, such as interpersonal violence, combat, life-threatening accidents or natural disasters. Symptoms can include re-experiencing phenomena (e.g. flashbacks; nightmares), avoidance behavior, numbing (e.g. amnesia; anhedonia; withdrawal; negativism) and increased arousal (e.g. insomnia; irritability; poor concentration; hypervigilance). Psychiatric co-morbidities are common. PTSD sufferers can also develop substance abuse issues, mood and other anxiety disorders, impulsive and dangerous behavior and/or self-harm.

In November 2018, Lundbeck and Otsuka Pharmaceutical Co., Ltd. reported positive clinical phase II data for the combination of brexpiprazole and sertraline in treating PTSD.

PROOF OF CONCEPT STUDIES (CLINICAL PHASE II)

Brexpiprazole for Borderline Personality Disorder (BPD)

Commenced in October 2019

Subsequent to our Type B meeting with the FDA in May 2019, Lundbeck and Otsuka Pharmaceutical Co., Ltd. initiated a proof-of-concept study investigating the use of brexpiprazole in the treatment of Borderline Personality Disorder (BPD). The condition is characterized by a pervasive pattern of instability in affect regulation, impulse control, interpersonal relationships, and self-image.

The clinical signs include emotional dysregulation, impulsive aggression, repeated self-injury and chronic suicidal tendencies. There is currently no approved medication, and in October 2019, the US FDA initiated a Fast Track program to investigate brexpiprazole as a viable treatment.

Foliglurax for Parkinson’s disease

Commenced in July 2017

This ongoing clinical phase IIa study of foliglurax was initiated for the symptomatic treatment of ‘off-time’ in Parkinson’s disease and Levodopa Induced Dyskinesia (LID) – a longer-term development of Parkinson’s disease which further restricts bodily movement.

Foliglurax works by stimulating a specific glutamatergic target (mGluR4). This activates a compensatory neuronal system in the brain which is largely unaffected in Parkinson’s disease. The aim is to treat the motor symptoms of Parkinson’s disease, such as resting tremor, muscle rigidity and the uncontrolled movements caused by dyskinesia. Animal models have demonstrated convincing positive effects.

Lu AF11167 for schizophrenia

Commenced in January 2019

Lundbeck initiated a clinical phase II study with Lu AF11167, its own in-house developed compound. Lu AF11167 in mono-therapy represents a new approach to treat negative symptoms of schizophrenia. It works by inhibiting the activity of the PDE10 enzyme in the brain. This affects the signaling of the neurotransmitter dopamine to specifically improve negative symptoms, while maintaining and managing the beneficial positive symptoms.

Lu AF11167 is a potent and selective inhibitor of the PDE10A enzyme. It is in clinical phase II development as a monotherapy treatment of negative symptoms in clinically stable (positive symptom controlled) patients living with schizophrenia. The compound presents a potentially significant breakthrough in the treatment of schizophrenia’s negative symptoms. Within the current developments of antipsychotic therapy, patients living with schizophrenia continue to be socially withdrawn, amotivated or emotionless. This limits their capacity for human interaction, often preventing them from managing everyday situations and diminishes their quality of life.

Lu AG06466 for Tourette Syndrome (TS)

Commenced in October 2018

Lu AG06466 is a first-in-class investigational monoacylglycerol lipase (MAGL) inhibitor for the treatment of Tourette Syndrome (TS) and is currently investigated in a clinical phase IIa study. TS is a neurodevelopmental disorder characterized by sudden, involuntary movements and vocal tics.

Lu AG06466 is an oral, potent, and selective MAGL inhibitor being evaluated for its potential to treat a broad range of brain diseases by regulating neurotransmitter release. Inhibition of MAGL by Lu AG06466 can modulate the endocannabinoid system selectively in areas where circuits are activated.

FIRST IN HUMANS (CLINICAL PHASE I)

Lu AF87908 for tauopathies

Commenced in September 2019

Lu AF87908 is a humanized antibody which targets the pathological form of the protein tau - believed to be pivotal in the development and progression of Alzheimer’s disease and other neurodegenerative disorders.

By targeting pathological tau with an antibody that inhibits aggregation and potentially clears pathological tau from the brain, the project aims to delay disease progression with a therapeutic effect on disease burden and function. Developing a treatment that will change the course of the disease will be a fundamental improvement to current symptomatic treatments.

Lu AF88434 for cognitive dysfunction
Commenced in August 2019
Lu AF88434 is an inhibitor of the phosphodiesterase type 1 (PDE1) enzyme. It is naturally present in the human brain and plays an important role in the communication between brain cells. Inhibiting the enzyme increases the presence of a chemical messenger within the cells that improves communication and cognitive function. The compound is being investigated for the treatment of cognitive dysfunction.

The clinical phase I study is designed to provide information about safety and tolerability, general pharmacokinetic characteristics, and to identify the maximum tolerated dose.

Aripiprazole once-monthly, 2 months, for schizophrenia
Commenced in May 2017
Aripiprazole once-monthly is an intramuscular injection indicated for the treatment of schizophrenia once-monthly. It is currently in development as a potential 2 months' treatment of schizophrenia.

Lu AG09222 for migraine
Commenced in October 2019
Lu AG09222 is an investigational monoclonal antibody (mAb) designed to inhibit Pituitary Adenylate Cyclase-Activating Polypeptide (PACAP) for migraine prevention. PACAP has emerged as an important signaling molecule in the pathophysiology of migraine and represents an attractive novel target for treating migraine.

Lu AG09222 may hold potential as a migraine prevention treatment for those who have an inadequate response to other therapies and could provide another mechanism-specific therapeutic option for migraine patients and their physicians.

Lu AF28996 for Parkinson's disease
Commenced in June 2018
Lu AF28996 is a D_1/D_2 agonist currently in development, targeting moderate-to-advanced Parkinson's disease patients with motor fluctuations.

Lu AF82422 for synucleinopathies
Commenced in July 2018
Lu AF82422 is a human IgG1 mAb that recognizes all major species of alpha-synuclein. Extracellular alpha-synuclein is believed to play a major role in the pathology and progression of opathies.

Lu AG06466 for neuropathic pain
Commenced in October 2018
Lu AG06466 is a first-in-class investigational monoacylglycerol lipase (MAGL) inhibitor, for the treatment of neuropathic pain.

Lu AG06466 is an oral, potent, and selective MAGL inhibitor being evaluated for its potential to treat a broad range of brain diseases by regulating neurotransmitter release. Inhibition of MAGL by Lu AG06466 can modulate the endocannabinoid system selectively in areas where circuits are activated.

Lu AF95245 for neuropsychiatric disorders
Commenced in January 2020
Lu AF95245 is a potent and selective Kv7. 2-5 channels activator. Activation of the Kv7. 2-5 channels dampens neuronal repetitive or burst firing.

The clinical phase I study is designed to provide information about safety and tolerability, general pharmacokinetic characteristics as well as to explore the pharmacodynamic properties.

PIPELINE*

PROJECT	AREA	PHASE I	PHASE II	PHASE III	FILING
Eptinezumab (anti-CGRP mAb)	Migraine prevention				★
Brexpiprazole*	Agitation in Alzheimer's disease			★	
Brexpiprazole*	Post-Traumatic Stress Disorder			★	
Brexpiprazole*	Borderline Personality Disorder		★		
Foliglurax (mGluR4 PAM)	Parkinson's disease		★		
Lu AF11167 (PDE10 inhibitor)	Schizophrenia		★		
Lu AG06466 (MAGLi)	Tourette syndrome		★		
Lu AF87908 (tau mAb)	Tauopathies	★			
Lu AF88434 (PDE1B inhibitor)	Cognitive dysfunction	★			
Aripiprazole** 2-month	Schizophrenia	★			
Lu AG09222 (PACAP mAb)	Migraine	★			
Lu AF28996 (D_1/D_2 agonist)	Parkinson's disease	★			
Lu AF82422 (alpha-synuclein mAb)	Synucleinopathies	★			
Lu AG06466 (MAGLi)	Neuropathic pain	★			
Lu AF95245 (Kv7)	Neuropsychiatric disorders	★			

** Most advanced stage shown*
*** In partnership with Otsuka Pharmaceutical Development & Commercialization, Inc.*
CGRP: Calcitonin Gene-Related Peptide
mGluR4 PAM: Positive Allosteric Modulator of metabotropic Glutamate Receptor 4
PDE: Phosphodiesterases
MAGLi: MonoAcylGlycerol Lipase inhibitor (MAGLipase)
PACAP: Pituitary Adenylate Cyclase-Activating Peptide

PRODUCTS

PRODUCT	TOTAL REVENUE (DKKM)	% OF TOTAL REVENUE	GROWTH	COMMENT
Abilify Maintena® (aripiprazole once-monthly)	1,961	11%	23%	Once-monthly intramuscular injection indicated for the treatment of schizophrenia. Lundbeck markets Abilify Maintena® in Europe and the US in collaboration with Otsuka Pharmaceutical Co., Ltd. First launched in the US in 2013, hereafter launched in close to 40 countries.
Brintellix®/Trintellix® (vortioxetine)	2,826	17%	30%	Indicated for the treatment of Major Depressive Disorder (MDD). Lundbeck markets Brintellix®/Trintellix® in Europe and International Markets. In the US, Takeda Pharmaceutical Company Limited is our co-promotion partner. Launched in the first markets in 2014 and now available in approximately 60 countries.
Cipralex®/Lexapro® (escitalopram)	2,314	14%	3%	Indicated for the treatment of depression. First launched in 2002 and today available in more than 100 countries around the world.
Northera® (droxidopa)	2,328	14%	29%	Indicated for the treatment of symptomatic neurogenic orthostatic hypotension in adult patients. Northera® is the only US FDA-approved therapy for this condition. Lundbeck markets Northera® in the US and launched the product in 2014.
Onfi® (clobazam)	1,052	6%	(67%)	Indicated as adjunctive treatment of Lennox-Gastaut syndrome for people aged two years or older. Launched in the US in 2012.
Rexulti®/Rxulti® (brexpiprazole)	2,270	13%	32%	Indicated for adjunctive therapy for the treatment of adults with Major Depressive Disorder (MDD) and as a treatment for adults with schizophrenia. Launched in the US in 2015 in collaboration with Otsuka Pharmaceutical Co., Ltd. hereafter in a number of other countries.
Sabril® (vigabatrine)	847	5%	(37%)	Indicated the treatment of refractory complex partial seizures (rCPS) and infantile spasms (IS). Launched in the US in 2009.

RISK MANAGEMENT

Lundbeck's risk management processes ensure close monitoring, systematic risk assessment and the ability to identify, manage and report external risks and opportunities in a changing environment.

RISK MANAGEMENT GOVERNANCE STRUCTURE

Lundbeck is exposed to risks throughout the value chain, from the initial stages of developing innovative pharmaceuticals in our in-house facilities to the proven pharmaceuticals reaching the patients. Lundbeck's risk management processes are continually updated and adapted to match internal and external requirements, where risks related to trends, global economic developments, geopolitics and long-term forecasts are assessed as part of Lundbeck's long-term strategic planning. With this understanding of the wider context and an accurate and complete overview of Lundbeck's activities and resources, Executive Management has a clear basis for decision-making on our overall risk-exposure and resulting opportunities.

The overall responsibility of risk management lies with the Board of Directors. Oversight of compliance within the established enterprise risk management framework is delegated to the Audit Committee.

RISK MANAGEMENT FRAMEWORKS

Enterprise risk management in Lundbeck is considered an integral part of doing business, which is reflected in the risk management process.

The process starts in the decentralized teams within Business Units and Corporate Functions, which have detailed and extensive knowledge of the risks within their areas of responsibility. They systemically identify, quantify, respond to and monitor risks. They are ideally placed to mitigate our risk exposure in the first instance.

Business Units and Corporate Functions report to the central Risk Office on a semi-annual basis. The central Risk Office provides the risk framework and conducts interviews and workshops with management from Business Units and Corporate Functions, risk contributors and risk responsible individuals. This represents an integral part in the alignment of risks reported to the Risk Office.

The Risk Office in corporation with the Business Units and Corporate Functions assess the likelihood of an event occurring and the potential impact on the Group in terms of financial loss. The key risk overview is presented to Executive Management for their assessment and approval, before it is reported to the Audit Committee and approved by the Board of Directors.

The corporate risk register kept by the Risk Office provides a consolidated overview of our risk exposure by detailing each risk, risk category and type. The risk descriptions provide details on the event, its current status, the status of the response and the likelihood and potential impact. Our reporting process defines six risk categories:

- Research and Development
- Market, Commercial, and Strategy
- Supply, Quality and Product Safety
- IT security
- Legal and Compliance
- Finance

Lundbeck has developed a streamlined process covering day-to-day risk identification, monitoring, mitigation and reporting within Business Units and Corporate Functions, all the way to the final reporting to Executive Management. This process puts Executive Management in a position to control Lundbeck's risk appetite when deciding strategy and practice, and when making day-to-day decisions
.

KEY RISKS

RISK AREA	DESCRIPTION	POTENTIAL CONSEQUENCES	MITIGATING ACTIONS
RESEARCH AND DEVELOPMENT RISKS	• Exposure to delays incl. regulatory approval or failure in the development of new and innovative medicines • Increased regulatory requirements for clinical trials • Data requirements from production of non-clinical studies and clinical studies	• Delays or failure of new products could impact patients who cannot benefit from these products and decrease earnings for shareholders • Delay in regulatory approval may impact the patients' drug access and the respective underlying business case • Issues with data integrity can lead to delays in studies and production – ultimately leading to withdrawals and failure to gain approval	• Clinical trials are run and evaluated throughout the research and development phase • Ongoing evaluation of the product pipeline, regulatory requirements and product benefit • Robust quality management system is in place to ensure consistent quality, data integrity and the compliance of clinical trials and clinical safety activities
MARKET, COMMERCIAL AND STRATEGY RISKS	• Market risks arising from price pressure, new legislation, regulation of reimbursement and healthcare reforms in key markets, etc. • M&A activities, product delays or business integration setbacks	• Market restrictions could impact patients' access to Lundbeck products • Changes in market conditions and health care reforms could affect the pricing landscape as well as rebates and discounts. These changes in the pharma environment could impact Lundbeck´s results.	• Understanding the price development in main markets • Working with healthcare authorities around the world to document the value of our pharmaceuticals • Monitor political developments and requirements
SUPPLY, QUALITY AND PRODUCT SAFETY RISKS	• Disruption of production or supply • Loss of licenses to manufacture or sell pharmaceuticals • Defects in product quality or safety	• It is crucial for patients always to have access to the pharmaceuticals they require. Disruptions could lead to product shortage	• Systems, policies and procedures are in place to ensure product supply, quality and safety • Dual sourcing strategy and high level of safety stock of key products • Robust pharmacovigilance system
IT SECURITY RISKS	• Cyber-attacks and cyber fraud • System down-time	• Disruption or compromise of IT security could affect all parts of Lundbeck's operations and product supply to patients • Data loss	• IT policies and procedures are in place to safeguard processes and data • Cyber-attack testing is being performed on a regular basis • Annual testing of IT disaster recovery plan
LEGAL AND COMPLIANCE RISKS*	• Intellectual property rights • Non-compliance with laws, industry standards, regulations and our Code of Conduct • Exposure to legal claims or investigations	• Infringement of intellectual property rights could decrease earnings for shareholders • Loss, expiration or invalidation of intellectual property rights could decrease earnings for shareholders • Non-compliance with laws, industry standards, regulations, or our Code of Conduct could affect our 'license to operate' and impact our reputation and earnings for shareholders	• Policies are in place to safeguard intellectual property rights • The Code of Conduct is pivotal to sustaining our compliance culture. Annual training is provided to all employees • Third parties are committed to observe our legal and ethical standards in mutually binding agreements and are subjected to monitoring
FINANCIAL RISKS	• Fluctuations in exchange rates incl. impact from currency devaluations	• Lundbeck's cash flow and earnings could be impacted in cases of fluctuations in main currencies	• Treasury policy • Monitoring the financial exposure and hedging a significant part of Lundbeck's currency risk up to 18 months in advance

*For further information about Legal and Compliance Risks, see note 11 *Contingent assets and contingent liabilities*

SUSTAINABILITY

Lundbeck's sustainability activities aim to mitigate risks and adverse impacts related to our business activities and contribute to solving societal challenges where we can.

We remain committed to the UN Global Compact Principles and contribute to addressing six of the Sustainable Development Goals. The table provides an overview of our ambitions, initiatives and targets. More detailed information about our sustainability policies, efforts and results is available on www.lundbeck.com.*

*Our mandatory annual statutory report on sustainability and the gender diversity of management is available in our Communication on Progress report to the UN Global Compact on www.lundbeck.com**. This report highlights important actions we have taken in 2019 to support six of the Sustainable Development Goals.*

SUSTAINABLE DEVELOPMENT GOALS (SDG)		LUNDBECK'S SUSTAINABILITY 2020 TARGETS
SDG 3	Good health and well-being	• Engage all Lundbeck offices in local World Mental Health Day activities • Establish a product donation partnership
SDG 5	Gender equality	• Strive to maintain an overall equal gender split for people managers globally
SDG 8	Decent work and economic growth	• Reduce lost time accident frequency ≤ 5
SDG 12	Responsible consumption and production	• Recycle 55% of the solvents used in chemical production • Zero environmental incidents
SDG 13	Climate action	• Reduce CO_2 emission by 4% in 2020 compared to 2019 • Obtain 'Science Based Targets initiative (SBTi)' approval of new climate target
SDG 16	Peace, justice and strong institutions	• Annual Code of Conduct training completed by all employees at work globally • Work to increase proportion of healthcare professionals supporting disclosure of collaborations compared to the previous reporting year

*https://www.lundbeck.com/global/sustainability
**http://www.lundbeck.com/upload/global/files/pdf/sustainability/COP/COP_2019.pdf

BUSINESS ETHICS AND CODE OF CONDUCT

Lundbeck has established a business ethics compliance structure consisting of the elements needed to ensure that we are doing the right thing, we continually improve processes and sustain a compliance culture. The four active elements are documents, training, monitoring and governance.

Code of Conduct
As the top-level document, the Code of Conduct conveys Lundbeck's commitments and the expectations to our employees for areas that are critical to the pharmaceutical industry.

The global and local procedures below the Code of Conduct contain more operational requirements and good practices. Lundbeck maintains a GxP (concept of good practice) quality management system in relevant areas to control risks, continually improve processes and meet regulatory expectations.

Lundbeck wants to make sure that the requirements are understood, and people know how to act. Managers and employees who have specific responsibilities to perform receive relevant training. All employees are annually requested to complete the corporate Code of Conduct training. To support the training, we continuously communicate through internal campaigns to maintain awareness and engage our employees.

Our audits and monitoring efforts aim to validate the understanding of the requirements and capture suggestions for improvements of processes and controls. Lundbeck's auditors provide feedback with corrective and preventive actions to ensure local management ownership and follow-up.

Lundbeck's Code of Conduct Compliance Committee represents Executive Management and relevant business functions. They meet regularly to maintain oversight and once yearly perform the Code of Conduct risk management review to initiate needed improvements. Further, the Chief Compliance Officer provides relevant updates at meetings in the Board of Directors' Audit Committee.

Compliance culture build on an open dialogue
We encourage everyone to have ongoing dialogue on compliance and ethics with their colleagues and manager. However, we realize that some questions, dilemmas or concerns might not be discussed openly.

People who are uncertain of how to act or concerned that a matter is not being properly addressed are encouraged to seek advice in our Corporate Functions, e.g. HR, Finance, Legal or Compliance.

Anyone within or outside Lundbeck can always report serious compliance concerns in full confidentiality to Lundbeck's Compliance Hotline*. Concerns raised in good faith are protected by Lundbeck's non-retaliation policy.

All reported concerns will be investigated by Lundbeck experts. The reporter can anonymously communicate with the investigator through the Compliance Hotline. Concerns that end up being substantiated are followed by proportionate corrective and preventive actions.

*https://www.lundbeck.com/global/compliance-hotline

CORPORATE GOVERNANCE

Corporate governance concerns the way Lundbeck is managed and controlled, while creating value for both the company and our stakeholders. More information on the mandatory annual corporate governance report is disclosed on www.lundbeck.com.*

Lundbeck has a two-tier board structure consisting of the Board of Directors and the Executive Management. The two bodies are separated, and no person serves as a member of both.

The Board of Directors has nine members of which six are elected at the Annual General Meeting for a one-year term and three are elected by Lundbeck's employees for a four-year term. The current members of the Board of Directors** bring deep industry knowledge and solid top management experience to Lundbeck, which are essential for the Board of Directors to perform its tasks.

Lundbeck's Board of Directors is responsible for approving the corporate strategy and its implementation, setting goals for Executive Management, and for ensuring that members of Executive Management and other senior managers have the right qualifications. The Board of Directors also evaluates management performance and management remuneration. Furthermore, the Board of Directors has the overall responsibility for ensuring that adequate internal and external controls are in place, and for identifying and addressing any relevant risks. These responsibilities are defined in the Danish Companies Act and stipulated in the rules of procedures for the Board of Directors.

The Board of Directors regularly evaluates our strategy, the business, our performance, the financial strategies and policies, and ensures that day-to-day management is carried out in accordance with such policies.

The Board of Directors has established a self-evaluation procedure covering, among other things, board composition, contribution and results, board agenda and discussions, cooperation between the Board of Directors and Executive Management, committee work and structure.

All members of the Board of Directors and Executive Management participates in the evaluation, which in 2019 was conducted with support from an external provider.

Key conclusions from the 2019 evaluation were high satisfaction with the collaboration and interaction between the Board of Directors and Executive Management, which is described as open, transparent, constructive and involving.

In the past couple of years competencies and knowledge that are highly relevant for setting the path for the future have been added not only to the Board of Directors but also to the Executive Management to the benefit of both the company and its strategy, as well as the work in the Board of Directors and its sub-committees.

More details regarding the work performed by the Board of Directors, the evaluation procedure and results hereof can be found at www.lundbeck.com***. Also, the remuneration of Lundbeck's Executive Management and Board of Directors can be found at www.lundbeck.com****.

* https://www.lundbeck.com/upload/global/files/pdf/corporate_governance/2019/corporate_governance_report.pdf

** Detailed description of the Board members and their competencies and qualifications can be found on https://www.lundbeck.com/global/about-us/corporate-governance/board-of-directors/board-members

*** Detailed description of the Board of Directors' work, evaluation procedure and results can be found on https://www.lundbeck.com/global/about-us/corporate-governance/board-of-directors/board-tasks

**** Detailed description of the remuneration can be found on https://www.lundbeck.com/global/about-us/corporate-governance/remuneration

EXECUTIVE MANAGEMENT *

DEBORAH DUNSIRE
President and CEO

- Born 1962
- Joined Lundbeck in 2018

Directorships
- Alexion Pharmaceuticals Inc. (M)
- Ultragenyx Pharmaceutical Inc. (M)

Holding of shares
- 3,500

PETER ANASTASIOU **
Executive Vice President, North America

- Born 1970
- Joined Lundbeck in 2009

Directorships
- Healthcare Businesswomen's Association (M)
- PhRMA (Pharmaceutical Research and Manufacturers of America) (M)
- President's Council of ChildServ (M)

Holding of shares
- None

LARS BANG
Executive Vice President, Product Development & Supply

- Born 1962
- Joined Lundbeck in 1988

Directorships
- Claudio Bidco A/S (M)
- Claudio Holdco A/S (M)
- Fertin Pharma A/S (M)
- O.B. Holding Aps (M)

Holding of shares
- 35,102

ANDERS GÖTZSCHE
Executive Vice President, CFO

- Born 1967
- Joined Lundbeck in 2007

Directorships
- DFDS (M)
- Rosborg Møbler A/S (C)
- Veloxis Pharmaceuticals A/S (M)

Holding of shares
- 42,796

Per 31.12 2019

C = Chairman, DC = Deputy Chairman, M = Member

* For more information about Executive Management and their competencies, please visit https://www.lundbeck.com/global/about-us/corporate-governance/executive-management

** Peter Anastasiou (Executive Vice President for North America), Elise Hauge (Executive Vice President, People & Communication) and Keld Flintholm Jørgensen (Executive Vice President, Corporate Strategy & Business Development) participate in the Executive Management in their respective roles but are not members of the Executive Management as registered with the Danish Business Authority

ELISE HAUGE **
Executive Vice President, People & Communication

- Born 1967
- Joined Lundbeck in 2019

Directorships
- CBS Executive Fonden (M)
- Mangaard & Partners ApS (M)

Holding of shares
- 1,225

KELD FLINTHOLM JØRGENSEN **
Executive Vice President, Corporate Strategy & Business Development

- Born 1971
- Joined Lundbeck in 2019

Directorships
- None

Holding of shares
- None

PER JOHAN LUTHMAN
Executive Vice President, Research & Development

- Born 1959
- Joined Lundbeck in 2019

Directorships
- None

Holding of shares
- None

JACOB TOLSTRUP
Executive Vice President, Commercial Operations

- Born 1972
- Joined Lundbeck in 1999

Directorships
- Pharmacosmos A/S (C)

Holding of shares
- 403

Per 31.12 2019

C = Chairman, DC = Deputy Chairman, M = Member

** Peter Anastasiou (Executive Vice President for North America), Elise Hauge (Executive Vice President, People & Communication) and Keld Flintholm Jørgensen (Executive Vice President, Corporate Strategy & Business Development) participate in the Executive Management in their respective roles but are not members of the Executive Management as registered with the Danish Business Authority

BOARD OF DIRECTORS *

Per 31.12 2019

C = Chairman, DC = Deputy Chairman, M = Member

* For more information about the Board of Directors and their competencies, please visit https://www.lundbeck.com/global/about-us/corporate-governance/board-of-directors/board-members

LARS SØREN RASMUSSEN
Chairman

- Born 1959
- Elected at the 2013 Annual General Meeting
- Considered independent

Lundbeck Committees
- Audit Committee (M)
- Remuneration & Nomination Committee (C)

Directorships
- AMBU A/S (C)
- Coloplast A/S (C)
- Igenomix S.L. (C)
- William Demant Holding A/S (M)

Holding of shares
- 20,000

LENE SKOLE-SØRENSEN
Deputy Chairman

- Born 1959
- CEO, Lundbeck Foundation and directorships in two subsidiaries
- Elected at the 2015 Annual General Meeting
- Considered dependent

Lundbeck Committees
- Remuneration & Nomination Committee (M)
- Scientific Committee (M)

Directorships
- ALK-Abelló A/S (DC)
- Falck A/S (DC)
- Tryg A/S (M)
- Tryg Forsikring A/S (M)
- Ørsted A/S (DC)

Holding of shares
- 8,808

HENRIK ANDERSEN

- Born 1967
- Group President and CEO, Vestas Wind Systems A/S
- Elected at the 2018 Annual General Meeting
- Considered independent

Lundbeck Committees
- Audit Committee (C)

Directorships
- The Investment Committee of Maj Invest Equity 4 K/S (M)
- The Investment Committee of Maj Invest Equity 5 K/S (M)

Holding of shares
- 3,500

JEFFREY BERKOWITZ

- Born 1966
- CEO, Real Endpoints
- Elected at the 2018 Annual General Meeting
- Considered independent

Lundbeck Committees
- Remuneration & Nomination Committee (M)
- Scientific Committee (M)

Directorships
- Esperion Therapeutics, Inc. (M)
- Infinity Pharmaceuticals, Inc.(M)
- Zealand Pharma A/S (M)

Holding of shares
- None

Per 31.12 2019

C = Chairman, DC = Deputy Chairman, M = Member

LARS ERIK HOLMQVIST

- Born 1959
- Elected at the 2015 Annual General Meeting
- Considered dependent

Lundbeck Committees
- Audit Committee (M)

Directorships
- ALK-Abelló A/S (M)
- Biovica International AB (C)
- Lundbeck Foundation (M)
- Naka UK topco Ltd. (M)
- Tecan AG (M)
- Vitrolife AB (M)

Holding of shares
- 15,000

JEREMY MAX LEVIN

- Born 1953
- CEO and chairman, Ovid Therapeutics
- Elected at the 2017 Annual General Meeting
- Considered independent

Lundbeck Committees
- Scientific Committee (C)

Directorships
- BioCon (M)
- BIO (Biotechnology Innovation Organization in the US) (C)
- Ovid Therapeutics Inc. (C)

Holding of shares
- None

RIKKE KRUSE ANDREASEN

- Born 1971
- Senior Laboratory Technician
- Elected by employees in 2018

Holding of shares
- 5

HENRIK SINDAL JENSEN

- Born 1969
- Director, Corporate Business Development & Licensing
- Elected by employees in 2018

Holding of shares
- None

LUDOVIC TRANHOLM OTTERBEIN

- Born 1973
- Director, Research Informatics & Operations
- Elected by employees in 2018

Directorships
- Lundbeck Foundation (M)

Holding of shares
- None

THE LUNDBECK SHARE

2019 was a very eventful year for Lundbeck with solid financial results, strategic initiatives and pipeline progression.

The Lundbeck share price began the year at DKK 285.40 (closing price end 2018), reached a year high of DKK 306.90 (2 April), recorded a year low of DKK 217.20 (2 October) and ended the year at DKK 254.40. This is a decrease of 10.9% for the year. In comparison, the Danish OMXC25 index increased by 26.0%, while the MSCI European Pharmaceutical Index increased by 23.0%.

TURNOVER

Total trading in Lundbeck shares amounted to DKK 22.3 billion in 2019, while the average daily turnover was DKK 90.0 million, a decrease of 36% compared to 2018. A total of 84.4 billion shares were traded in 2019, equivalent to 340,394 shares per day, a decrease of 15% compared to 2018.

Lundbeck has an American Depository Receipt (ADR) Level 1 program. The ADR volume increased slightly during 2019. At the end of 2019, 357,538 ADRs were outstanding, representing 0.2% of the total shares or 0.5% of the free float.

SHARE CAPITAL

The Lundbeck share is listed on the Copenhagen Stock Exchange, Nasdaq Copenhagen. All shares belong to the same class and rank equally. The shares are negotiable and there are no restrictions on their transferability. Each share has a nominal value of DKK 5 and carries one vote. At the end of 2019, Lundbeck's total share capital amounted to DKK 995,683,625, which is equivalent to 199,136,725 shares.

COMPOSITION OF SHAREHOLDERS

According to the Lundbeck share register, the company had approximately 32,300 shareholders at the end of 2019, representing approximately 98.7% of the outstanding shares. The Lundbeck Foundation (Lundbeckfond Invest A/S) is the company's largest shareholder, holding 137,351,918 shares at the end of 2019, which equals 69% of the share capital and voting rights. The Lundbeck Foundation is the only shareholder to report a holding in excess of 5% of the share capital. At the end of 2019, investors in North America held 45% of the free float compared to 48% in 2018; European (excl. Danish) investors held 31% compared to 27% in 2018; Danish investors held 7% compared to 5% in 2018; rest of the world held 4%, compared to 3% in 2018, and other investors, incl. private, held 13% compared to 17% in 2018.

In order to fund our long-term share-based incentive programs, Lundbeck acquired treasury shares in 2019 at a value of DKK 20 million (DKK 25 million in 2018), corresponding to 69,000 shares (87,000 shares in 2018).

At the end of 2019, Lundbeck's Board of Directors and Executive Management held a total of 130,339 Lundbeck shares compared to 122,665 Lundbeck shares by the end of 2018. The total number of shares in 2019 corresponds to 0.07% of the total shares outstanding in 2019.

LUNDBECK AND THE EQUITY MARKET

Through our Investor Relations function, Lundbeck aspires to provide a fair and accurate view of its activities by providing ongoing communications with prospective and existing shareholders and equity analysts. Through regular meetings and dialogue, we convey relevant information about our vision and goals, business areas and financial development.

In 2019, Lundbeck's Investor Relations team held more than 350 meetings, primarily in North America, Europe and Japan, and presented at 12 investor conferences.

Lundbeck is currently covered by 19 sell-side analysts, incl. the major global investment banks that regularly produce research reports on Lundbeck. A list of analysts covering Lundbeck is available on www.lundbeck.com*.

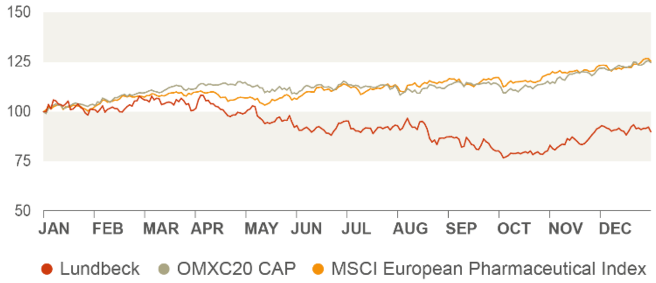
After the announcement of our interim and full-year reports, members of Lundbeck's Executive Management and Investor Relations team always conduct roadshows to inform investors and analysts about the company's latest developments. Our investor presentations are available for download on www.lundbeck.com**.

* https://investor.lundbeck.com/share/analysts
** https://investor.lundbeck.com/download-center

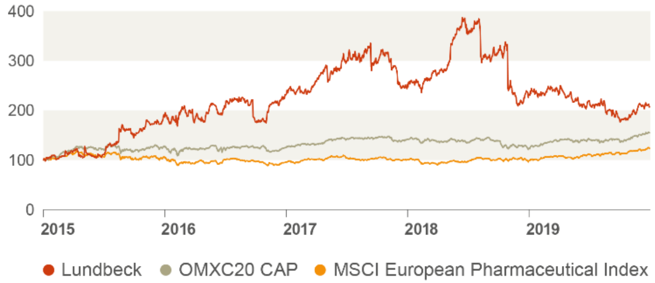
FINANCIAL CALENDAR 2020

24 March 2020	Annual General Meeting
27 March 2020	Dividends for 2019 at the disposal of shareholders
12 May 2020	Financial statements for the first three months of 2020
13 August 2020	Financial statements for the first six months of 2020
3 November 2020	Financial statements for the first nine months of 2020

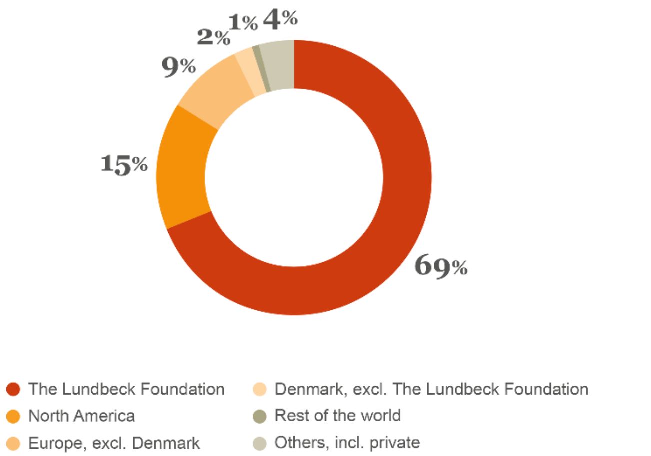
STOCK PERFORMANCE 2019



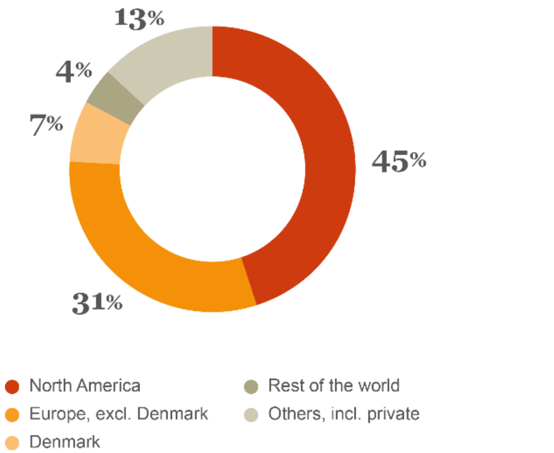
STOCK PERFORMANCE 2015-2019



COMPOSITION OF OWNERSHIP, END 2019



COMPOSITION OF FREE FLOAT, END 2019



SHARE RATIOS

	2019	2018	2017	2016
Earnings per share, basic (EPS) (DKK)	13.42	19.66	13.28	6.11
Earnings per share, diluted (DEPS) (DKK)	13.42	19.66	13.26	6.11
Cash flow from operating activities per share, diluted (DKK)	13.13	30.10	20.44	15.77
Net asset value per share, diluted (DKK)	73.24	71.69	61.27	48.86
Proposed dividend per share (DKK)	4.10	12.00	8.00	2.45
Dividend payout ratio (%)	31	61	61	40
Dividend yield (%)	1.6	4.2	2.5	0.9
Share price, year-end (DKK)	254.4	285.4	315.0	287.3
Share price, high (DKK)	306.9	475.9	411.8	287.3
Share price, low (DKK)	217.2	257.0	315.0	206.9
Price/Earnings, diluted (DKK)	18.95	14.52	23.75	47.04
Price/Cash flow, diluted (DKK)	19.38	9.48	15.41	18.22
Price/Net asset value, diluted (DKK)	3.47	3.98	5.14	5.88
Market capitalization, year-end (DKKbn)	50.66	56.82	62.70	56.78
Annual trading, million shares	84.4	99.2	107.7	81.0
Average trading per trading day, thousands of shares	340.4	400.1	429.2	321.7

SHARE FACTS

Number of shares, year-end	199,136,725
Share capital, year-end (DKK)	995,683,625
Nominal value per share (DKK)	5
Holding of treasury shares	435,019
Free float (%)	31
IPO	18 June 1999
Stock exchange	Nasdaq Copenhagen
ISIN code	DK0010287234
Ticker	LUN.CO (Reuters), LUN DC (Bloomberg)
ADR program	Sponsored level 1 program
ADR trading code	HLUYY

SUMMARY FOR THE GROUP 2015-2019

Income statement (DKKm)	2019	2018	2017	2016	2015
Revenue	17,036	18,117	17,234	15,634	14,594
Research and development costs	3,116	3,277	2,705	2,967	8,149
Operating profit before depreciation and amortization (EBITDA)	4,823	6,436	5,424	3,846	210
Profit/(loss) from operations (EBIT)	3,608	5,301	4,408	2,292	(6,816)
Net financials	(127)	(12)	(131)	(135)	(190)
Profit/(loss) before tax	3,481	5,289	4,277	2,157	(7,006)
Profit/(loss) for the year	2,667	3,907	2,624	1,211	(5,694)

Assets (DKKm)	2019	2018	2017	2016	2015
Non-current assets	26,719	11,362	10,912	12,686	13,665
Inventories	2,204	1,753	1,376	1,528	2,217
Receivables	3,822	3,261	3,791	3,779	3,922
Cash, bank balances and securities	3,012	6,635	3,677	2,217	1,521
Total assets	**35,757**	**23,011**	**19,756**	**20,210**	**21,325**

Equity and liabilities (DKKm)	2019	2018	2017	2016	2015
Equity	14,554	14,251	12,181	9,694	8,785
Non-current liabilities	10,923	1,184	1,096	2,740	4,792
Current liabilities	10,280	7,576	6,479	7,776	7,748
Total equity and liabilities	**35,757**	**23,011**	**19,756**	**20,210**	**21,325**

Cash flow statement (DKKm)	2019	2018	2017	2016	2015
Cash flows from operating activities	2,609	5,981	4,045	3,126	197
Cash flows from investing activities	(7,755)	(2,907)	(1,830)	(337)	(2,842)
Cash flows from operating and investing activities (free cash flow)	(5,146)	3,074	2,215	2,789	(2,645)
Cash flows from financing activities	4,548	(1,607)	(2,235)	(2,006)	501
Interest-bearing debt, cash, bank balances and securities, net, year-end – net cash/(net debt)	(6,566)	6,635	3,677	326	(2,249)

SUMMARY FOR THE GROUP 2015-2019

CONTINUED

Key figures	2019	2018	2017	2016	2015
EBIT margin (%)	21.2	29.3	25.6	14.7	(46.7)
Research and development ratio (%)	18.3	18.1	15.7	19.0	55.8
Return on equity (%)	18.5	29.6	24.0	13.1	(51.1)
Equity ratio (%)	40.7	61.9	61.7	48.0	41.2
Invested capital (DKKm)	21,120	7,616	8,504	9,368	11,034
Net debt/EBITDA	1.4	(1.0)	(0.7)	(0.1)	10.7
Effective tax rate (%)	23.4	26.1	38.7	43.9	18.7
Purchase of intangible assets, gross (DKKm)	88	1,149	480	104	2,719
Purchase of property, plant and equipment, gross (DKKm)	356	300	245	238	237
Purchase of financial assets, gross (DKKm)	18	1,524	1,509	16	9
Average number of employees	5,475	5,060	4,980	5,120	5,534

Share data[1]	2019	2018	2017	2016	2015
Number of shares for the calculation of EPS (millions)	198.7	198.7	197.5	197.2	196.5
Earnings per share, basic (EPS) (DKK)[2]	13.42	19.66	13.28	6.11	(28.83)
Earnings per share, diluted (DEPS) (DKK)[2]	13.42	19.66	13.26	6.11	(28.83)
Proposed dividend per share (DKK)	4.10	12.00	8.00	2.45	0.00
Cash flow from operating activities per share, diluted (DKK)[2]	13.13	30.10	20.44	15.77	1.00
Net asset value per share, diluted (DKK)[2]	73.24	71.69	61.27	48.86	44.23
Market capitalization (DKKm)	50,660	56,825	62,700	56,776	46,445
Price/Earnings, diluted (DKK)[2]	18.95	14.52	23.75	47.04	n/a
Price/Cash flow, diluted (DKK)[2]	19.38	9.48	15.41	18.22	236.17
Price/Net asset value, diluted (DKK)[2]	3.47	3.98	5.14	5.88	5.32

1) The calculation is based on a share denomination of DKK 5.
2) Comparative figures have been restated using a factor 0.9999 for the effect of employees' exercise of warrants.

SUMMARY FOR THE GROUP 2015-2019

CONTINUED

Definitions

Interest-bearing net cash	Cash, bank balances and securities less interest-bearing debt
EBIT margin[1]	Profit from operations as a percentage of revenue
EBITDA	Profit before interest, tax, depreciation, amortization and gain on divestment of properties
Return on equity[1]	Net profit/(loss) for the year as a percentage of shareholders' equity (average)
Equity ratio[1]	Shareholders' equity, year-end, as a percentage of total assets
Invested capital	Shareholders' equity, year-end, plus net interest-bearing debt
Net debt/EBITDA[1]	Net interest-bearing debt divided by EBITDA
Earnings per share, basic (EPS)[1]	Net profit/(loss) for the year divided by average number of shares, excl. treasury shares
Earnings per share, diluted (DEPS)[1]	Net profit/(loss) for the year divided by average number of shares, excl. treasury shares, incl. warrants, fully diluted
Cash flow from operating activities per share, diluted[1]	Cash flow from operating activities divided by average number of shares, excl. treasury shares, incl. warrants, fully diluted
Net asset value per share, diluted	Shareholder's equity, year-end, divided by number of shares, year-end, excl. treasury shares, incl. warrants, fully diluted
Market capitalization[1]	Total number of shares, year-end, multiplied by the official price quoted on Nasdaq Copenhagen, year-end
Price/Earnings, diluted[1]	The official price quoted on Nasdaq Copenhagen, year-end, divided by earnings per share, diluted
Price/Cash flow, diluted[1]	The official price quoted on Nasdaq Copenhagen, year-end, divided by cash flow from operating activities per share, diluted
Price/Net asset value, diluted	The official price quoted on Nasdaq Copenhagen, year-end, divided by net asset value per share, diluted

1) Definitions according to the Danish Finance Society's *Recommendations & Financial Ratios*.

EBITDA calculation (DKKm)	2019	2018	2017	2016	2015
EBIT	3,608	5,301	4,408	2,292	(6,816)
+ Depreciation, amortization and impairment losses	1,215	1,183	1,258	1,554	7,026
- Gain on divestment of properties recognized in other operating items, net	-	(48)	(242)	-	-
EBITDA	**4,823**	**6,436**	**5,424**	**3,846**	**210**

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

PRIMARY NOTES

SECONDARY NOTES

OTHER NOTES

INCOME STATEMENT

1 January – 31 December 2019

	Notes	2019 DKKm	2018 DKKm
Revenue	3	17,036	18,117
Cost of sales	8, 20, 27	3,385	3,456
Gross profit		**13,651**	**14,661**
Sales and distribution costs	8, 20	5,514	5,277
Administrative expenses	8, 20, 23	899	762
Research and development costs	8, 20	3,116	3,277
Other operating items, net	12	(514)	(44)
Profit from operations (EBIT)		**3,608**	**5,301**
Financial income	24	74	84
Financial expenses	24	201	96
Profit before tax		**3,481**	**5,289**
Tax on profit for the year	14	814	1,382
Profit for the year	16	**2,667**	**3,907**
Earnings per share, basic (EPS) (DKK)	25	13.42	19.66
Earnings per share, diluted (DEPS) (DKK)	25	13.42	19.66

STATEMENT OF COMPREHENSIVE INCOME

1 January – 31 December 2019

	Notes	2019 DKKm	2018 DKKm
Profit for the year		**2,667**	**3,907**
Actuarial gains/losses	29	(61)	15
Tax	14	6	(2)
Items that will not be reclassified subsequently to profit or loss		**(55)**	**13**
Exchange rate gains/losses on investments in foreign subsidiaries		135	287
Exchange rate gains/losses on additions to net investments in foreign subsidiaries		(136)	(151)
Hedging of net investments in foreign subsidiaries	30	62	-
Deferred exchange gains/losses, hedging	30	(337)	(319)
Deferred fair value of interest rate swaps	30	8	-
Exchange gains/losses, hedging (transferred to revenue)	30	322	(242)
Exchange gains/losses, hedging (transferred to intangible assets)	30	(17)	-
Tax	14	22	157
Items that may be reclassified subsequently to profit or loss		**59**	**(268)**
Other comprehensive income	26	**4**	**(255)**
Comprehensive income		**2,671**	**3,652**

BALANCE SHEET – ASSETS

At 31 December 2019

	Notes	2019 DKKm	2018 DKKm
Goodwill	5, 6	5,278	4,300
Product rights	5, 6	17,876	3,496
Other rights	5, 6	114	111
Projects in progress	5, 6	131	116
Intangible assets		**23,399**	**8,023**
Land and buildings	6, 19	1,205	1,226
Plant and machinery	6, 19	438	364
Other fixtures and fittings, tools and equipment	6, 19	136	105
Prepayments and assets under construction	6, 19	419	323
Right-of-use assets	6, 21	476	-
Property, plant and equipment		**2,674**	**2,018**
Other financial assets		60	70
Other receivables		101	86
Deferred tax assets	15	485	1,165
Financial assets		**646**	**1,321**
Non-current assets		**26,719**	**11,362**
Inventories	27	**2,204**	**1,753**
Trade receivables	17	2,768	2,764
Income taxes receivable		464	110
Other receivables	17	388	242
Prepayments		202	145
Receivables		**3,822**	**3,261**
Securities	18	**4**	**3,030**
Cash and bank balances	18	**3,008**	**3,605**
Current assets		**9,038**	**11,649**
Assets		**35,757**	**23,011**

BALANCE SHEET – EQUITY AND LIABILITIES

At 31 December 2019

	Notes	2019 DKKm	2018 DKKm
Share capital	28	996	996
Foreign currency translation reserve		882	804
Hedging reserve	30	(75)	(56)
Retained earnings		12,751	12,507
Equity		**14,554**	**14,251**
Retirement benefit obligations	29	295	235
Deferred tax liabilities	15	1,684	472
Provisions	10	258	405
Bank debt	7	7,062	-
Contingent consideration		1,128	-
Lease liabilities	21	437	-
Other debt		59	72
Non-current liabilities		**10,923**	**1,184**
Provisions	10	1,008	442
Bank debt	7	2,000	-
Contingent consideration		96	-
Lease liabilities	21	79	-
Trade payables		3,933	4,078
Income taxes payable		551	72
Other payables	9	2,613	2,984
Current liabilities		**10,280**	**7,576**
Liabilities		**21,203**	**8,760**
Equity and liabilities		**35,757**	**23,011**

STATEMENT OF CHANGES IN EQUITY

1 January – 31 December 2019

	Notes	Share capital DKKm	Foreign currency translation reserve DKKm	Hedging reserve DKKm	Retained earnings DKKm	Equity DKKm
2019						
Equity at 1 January		**996**	**804**	**(56)**	**12,507**	**14,251**
Profit for the year		-	-	-	2,667	2,667
Other comprehensive income	26	-	78	(19)	(55)	4
Comprehensive income		**-**	**78**	**(19)**	**2,612**	**2,671**
Distributed dividends, gross	16	-	-	-	(2,389)	(2,389)
Dividends received, treasury shares		-	-	-	5	5
Capital increase through exercise of warrants	28	-	-	-	4	4
Buyback of treasury shares	28	-	-	-	(20)	(20)
Incentive programs	13	-	-	-	33	33
Tax on other transactions in equity	14	-	-	-	(1)	(1)
Other transactions		**-**	**-**	**-**	**(2,368)**	**(2,368)**
Equity at 31 December		**996**	**882**	**(75)**	**12,751**	**14,554**
2018						
Equity at 1 January		**995**	**634**	**382**	**10,170**	**12,181**
Profit for the year		-	-	-	3,907	3,907
Other comprehensive income	26	-	170	(438)	13	(255)
Comprehensive income		**-**	**170**	**(438)**	**3,920**	**3,652**
Distributed dividends, gross		-	-	-	(1,592)	(1,592)
Dividends received, treasury shares		-	-	-	3	3
Capital increase through exercise of warrants	28	1	-	-	6	7
Buyback of treasury shares	28	-	-	-	(25)	(25)
Incentive programs	13	-	-	-	25	25
Other transactions		**1**	**-**	**-**	**(1,583)**	**(1,582)**
Equity at 31 December		**996**	**804**	**(56)**	**12,507**	**14,251**

CASH FLOW STATEMENT

1 January – 31 December 2019

	Notes	2019 DKKm	2018 DKKm
Profit from operations (EBIT)		3,608	5,301
Adjustment for non-cash operating items etc.		1,075	1,243
Change in working capital		(1,394)	563
Cash flows from operations before financial receipts and payments		**3,289**	**7,107**
Financial receipts		5	62
Financial payments		(15)	(56)
Cash flows from ordinary activities		**3,279**	**7,113**
Income taxes paid		(670)	(1,132)
Cash flows from operating activities		**2,609**	**5,981**
Acquisition of businesses	4	(10,496)	-
Acquisition of subsidiary[1]	5	-	(745)
Purchase of intangible assets	5	(88)	(404)
Purchase of property, plant and equipment	19	(356)	(300)
Sale of property, plant and equipment		4	66
Purchase of securities and other financial assets		(18)	(1,524)
Sale of securities and other financial assets		3,199	-
Cash flows from investing activities		**(7,755)**	**(2,907)**
Cash flows from operating and investing activities (free cash flow)		**(5,146)**	**3,074**
Loan proceeds	7	11,095	-
Repayment of bank loans and borrowings	7	(4,080)	-
Repayment of lease liabilities	21	(67)	-
Buyback of treasury shares	28	(20)	(25)
Capital increase through exercise of warrants	28	4	7
Dividends paid in the financial year, net		(2,384)	(1,589)
Cash flows from financing activities		**4,548**	**(1,607)**
Net cash flow for the year		**(598)**	**1,467**
Cash and bank balances at 1 January		3,605	2,155
Unrealized exchange gains/losses on cash and bank balances		1	(17)
Net cash flow for the year		(598)	1,467
Cash and bank balances at 31 December	18	**3,008**	**3,605**

	Notes	2019 DKKm	2018 DKKm
Interest-bearing debt, cash, bank balances and securities, net, is composed as follows:			
Cash and bank balances	18	3,008	3,605
Securities	18	4	3,030
Interest bearing debt	7, 21	(9,578)	-
Interest-bearing debt, cash, bank balances and securities, net, at 31 December – net cash/(net debt)		**(6,566)**	**6,635**

1) In 2018, Lundbeck acquired Prexton Therapeutics BV. The acquisition was considered a purchase of assets and consisted of the foliglurax product rights valued at DKK 712 million, tax assets of DKK 39 million and net liabilities totaling DKK 6 million at the time of purchase.

The cash flow statement is compiled using the indirect method. As a result, the individual amounts in the cash flow statement cannot be reconciled directly to the income statement and the balance sheet.

NOTES 1-2

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act, including the Danish Statutory Order on Adoption of IFRS.

The consolidated financial statements have been prepared to give a true and fair view of the Group's financial position at 31 December 2019 and financial performance for the year. Management believes that the following accounting policies are significant to the financial statements. The general accounting policies are described in note 33.

Application of materiality and relevance
In the preparation of the consolidated financial statements, Lundbeck aims to focus on information which is considered to be material and thus relevant to the users of the consolidated financial statements. This applies both to the accounting policies and the information provided in the notes in general.

Based upon events which have taken place during the year and the financial position at year-end, Management has assessed which information is material to the users. For this purpose, Lundbeck operates with internal guidelines for the application of materiality and relevance.

When assessing materiality and relevance, due consideration is given to ensuring adherence to the International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act and ensuring that the consolidated financial statements give a true and fair view of the Group's financial position at the balance sheet date and the operations and cash flows for the financial year.

Licensing income, royalties and income from research collaborations
Sales-based licensing and royalty income from out-licensed products are recognized in the income statement under revenue when the Group obtains the right to the licensing and royalty payments, which is at the point in time the subsequent sales occur.

Non-refundable downpayments and milestone payments relating to research collaborations are recognized in the income statement under revenue when the following criteria have been met:
- The payment relates to research results already obtained.
- The buyer has gained access to and possession of the research results.
- The revenue from each deliverable in an overall agreement can be clearly separated and calculated reliably at fair value.
- It is probable that Lundbeck will receive payment.
- Lundbeck has no further delivery obligations in respect of the downpayment or milestone payment.

Development costs
Development costs are recognized in the income statement as they are incurred unless the criteria for capitalization are deemed to have been met and if it is found to be probable that future earnings will cover the development costs. Due to a very long development period and the significant uncertainties inherent in the development of new products, in the opinion of Lundbeck, development costs should not normally be capitalized.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing the consolidated financial statements, Management has made estimates and judgments that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of estimates are recognized prospectively.

Management believes that the following accounting estimates, assumptions and judgments are significant to the consolidated financial statements.

Sales deductions in the US
The most significant sales deductions in the US are given in connection with sales under the US Federal and State Government Healthcare programs, primarily Medicaid.

Management's estimate of sales discounts and rebates is based on a calculation which includes a combination of historical product/population utilization mix, price increases, program/market growth and state-specific information. Further, the calculation of rebates involves legal interpretation of relevant regulations and is subject to changes in interpretive guidance from governmental authorities. The obligations for discounts and rebates are incurred at the time the sale is recorded; however, the actual rebate related to a specific sale may be invoiced by the authorities six to nine months later. In addition to this billing time lag, there is no statute of limitations for states to submit rebate claims; thus, rebate adjustments in any particular period may relate to sales from a prior period. Moreover, when a product loses exclusivity, shifts in payer mix may cause Medicaid claims/estimates to be more volatile.

At 31 December 2019, the obligation relating to sales discounts and rebates in the US amounted to DKK 1,057 million (DKK 1,493 million in 2018).

NOTE 2

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS – CONTINUED

Acquisition of a business or an individual asset
In connection with an acquisition, Lundbeck uses judgments 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.

Valuation of intangible assets
Goodwill and product rights represent a significant part of the Group's total assets. The major part of the value of these assets has arisen through acquisition of businesses or rights. On acquisition of businesses, the individual assets and liabilities are re-assessed to ensure that all assets and liabilities, whether recognized or unrecognized in the financial statements of the acquiree, are measured at fair value. Especially for intangible assets, for which there is often no active market, the calculation of fair value involves estimates.

At 31 December 2019, the carrying amounts of goodwill and product rights amounted to DKK 5,278 million (DKK 4,300 million in 2018) and DKK 17,876 million (DKK 3,496 million in 2018), respectively.

Impairment testing
Goodwill and intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually or when there is indication of impairment, while the carrying amount of intangible assets with finite lives and property, plant and equipment is tested if there is indication of impairment. Prior impairment losses not relating to goodwill are reviewed for possible reversal at each reporting date. Impairment losses are reversed only if the assumptions and estimates underlying the impairment calculation have changed.

Due to indications of impairment reversal identified for an intangible asset impaired in 2015, an updated impairment test was performed. Due to significant uncertainties pertaining to key assumptions and due to limited increases in expected earnings from the impaired asset, no impairment reversal was performed.

In the impairment test, significant assumptions and estimates are applied to the discounted expected future cash flows (value in use) from the cash-generating unit (CGU), which are compared with the carrying amounts of the relevant assets. Based on Management's judgment, the impairment test has been performed taking into account that Lundbeck consists of one single CGU.

At 31 December 2019, the carrying amount of goodwill and product rights tested for impairment amounted to DKK 23,154 million (DKK 7,796 million in 2018).

Deferred tax assets and deferred tax liabilities
Management's estimate of future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years supports the recognition of deferred tax assets. When forecasting the utilization of tax assets, the Group applies the same assumptions as for impairment testing. See note 6 *Impairment* for more information.

Accordingly, at 31 December 2019 all deferred tax assets relating to tax losses carried forward in Denmark from 2015, 2016 and 2018 were capitalized in the amount of DKK 820 million (DKK 885 million in 2018). US tax losses and tax credits stemming from the acquisition of Alder BioPharmaceuticals, Inc. have been recognized at an amount of DKK 761 million, equaling the expected utilization within a foreseeable future, whereas an amount of DKK 454 million has not been recognized in the balance sheet.

Income taxes receivable and income taxes payable
The Group operates in a multinational tax environment. Complying with tax rules can be complex as the interpretation of legislation and case law may not always be clear or may change over time. In addition, transfer pricing disputes with tax authorities may occur. Management's judgments are applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties. The net accrual for uncertain tax positions not yet settled with local authorities amounts to DKK 385 million (DKK 368 million in 2018). Management believes that the accrual is adequate. However, the actual obligation may differ from the accrual made and depends on the outcome of litigations and settlements with the relevant tax authorities.

Pending legal proceedings
In connection with recognition of provisions for pending legal proceedings, Management assesses the probable outcome of pending and potential future lawsuits, which are inherently subject to uncertainty with respect to future events. When Management determines the outcome of lawsuits and similar factors, it relies on assessments made by external advisers who are familiar with the specific cases and the existing legal practice in the area.

Provisions for pending legal proceedings in acquired businesses are recognized at fair value at the acquisition date. This may result in the recognition of obligations even if Management believes that the likelihood of an unfavorable outcome is low.

At 31 December 2019, other provisions that include provisions for pending legal proceedings amounted to DKK 1,020 million (DKK 401 million in 2018).

NOTES 2-3

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS – CONTINUED

Contingent consideration recognized in acquisition of businesses
Upon acquisition of businesses, contingent consideration is recognized at fair value. The calculation of the fair value is based on the discounted cash flow method (DCF method) which comprises significant assumptions and estimates. Key inputs are expected timing of payment (using a specific discount rate) and probability of success. The fair value of contingent consideration will be assessed at each reporting date, and the effect of any adjustments relating to the timing of payment and the probability of success will be recognized under net financials.

At 31 December 2019, the fair value of contingent consideration amounted to DKK 1,224 million (DKK 0 million in 2018).

3. SEGMENT INFORMATION

The Group is engaged in research, development, production and sale of pharmaceuticals for the treatment of psychiatric and neurological disorders, which is the Group's single business segment. The business segment reflects the way in which Management makes decisions and assesses the business performance. The tables below show the Group's revenue broken down by key products and geographical regions.

2019	Europe DKKm	North America DKKm	International Markets DKKm	Group DKKm
Abilify Maintena®	951	845	165	1,961
Brintellix®/Trintellix®	730	1,579	517	2,826
Cipralex®/Lexapro®	538	138	1,638	2,314
Northera®	-	2,328	-	2,328
Onfi®	-	1,052	-	1,052
Rexulti®/Rxulti®	11	2,219	40	2,270
Sabril®	-	847	-	847
Other pharmaceuticals	993	575	1,532	3,100
Other revenue				660
Effect from hedging				(322)
Total revenue	**3,223**	**9,583**	**3,892**	**17,036**

Of this amount:	
Royalty	888
Downpayments and milestone payments	74

Of total revenue, DKK 29 million derived from sales in Denmark, and DKK 8,804 million derived from sales in the US.

For information on trade receivables and major customers, see note 17 *Trade receivables and other receivables*.

2018	Europe DKKm	North America DKKm	International Markets DKKm	Group DKKm
Abilify Maintena®	770	695	130	1,595
Brintellix®/Trintellix®	547	1,239	396	2,182
Cipralex®/Lexapro®	572	133	1,552	2,257
Northera®	-	1,806	-	1,806
Onfi®	-	3,165	-	3,165
Rexulti®/Rxulti®	-	1,702	21	1,723
Sabril®	-	1,342	-	1,342
Other pharmaceuticals	1,081	661	1,401	3,143
Other revenue				662
Effect from hedging				242
Total revenue	**2,970**	**10,743**	**3,500**	**18,117**

Of this amount:	
Royalty	733

Of total revenue, DKK 27 million derived from sales in Denmark, and DKK 10,112 million derived from sales in the US.

Intangible assets and property, plant and equipment[1]	2019 DKKm	2018 DKKm
Denmark	7,264	3,254
USA	16,557	4,822
Other countries	2,252	1,965
Total	**26,073**	**10,041**

1) For 2019, the amounts include right-of-use assets.

The increase in intangible assets and property, plant and equipment derives from the acquisitions of Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc. See note 4 *Business combinations*.

NOTE 4

4. BUSINESS COMBINATIONS

In 2019, Lundbeck made the acquisitions described below. The acquisitions are aligned with Lundbeck's ambition to remain among the world's foremost pharmaceutical companies in the treatment of brain diseases.

Abide Therapeutics, Inc.
On 29 May 2019, Lundbeck acquired Abide Therapeutics, Inc., a US company, by acquiring all its shares. The company has subsequently changed its name to Lundbeck La Jolla Research Center, Inc.

Lundbeck has acquired a company with a unique discovery platform and employees with specialist knowledge as well as a portfolio of compounds, including the product rights to ABX-1431; a first-in-class, small-molecule inhibitor of monoacylglycerol lipase (MGLL) currently being investigated in clinical trials for the treatment of neurological disorders, including the treatment of Tourette's Syndrome, as well as various compounds in the pre-clinical phase. The entity will continue as a drug discovery company, and the acquisition is consequently considered a business combination in accordance with IFRS 3 *Business Combinations*. In compliance with the requirements of IFRS 3 *Business Combinations*, the following information is disclosed:

Name:	Lundbeck La Jolla Research Center, Inc.
Principal activity:	Development of pharmaceuticals
Ownership interest acquired:	100%
Voting share acquired:	100%

Lundbeck made a net upfront payment of approximately USD 250 million (DKK 1,649 million) to the former owners of Abide Therapeutics, Inc. In addition, Lundbeck is required to pay up to USD 150 million in future development and sales milestones. The development milestone will be triggered when statistically significant results in a phase II clinical trial in Tourette's Syndrome have been obtained or the first patient has been enrolled in a phase III clinical trial in Tourette's Syndrome, in each case for a MGLL product that contains the lead compound. The sales milestones will be triggered at the first commercial sale and when product revenue reaches a certain threshold. Future milestone payments may consequently be in the range USD 0-150 million. At the time of acquisition, the fair value of the contingent consideration was USD 20 million (DKK 137 million).

Future development and sales milestones were recognized as a contingent consideration at fair value at the acquisition date. Key inputs to the fair value are the milestone payments, probability of success weighted by the possible outcomes and Lundbeck's weighted average cost of capital (WACC). The probability of success used for the calculation of the fair value of milestones is based on the BIO/MedTracker 2016 publication.

The acquisition price paid for Abide Therapeutics, Inc. exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, and accordingly the positive difference of DKK 230 million has been recognized as goodwill. The goodwill is primarily explained by the acquisition of the unique discovery platform and the specialist knowledge and networks of the employees. Goodwill is not tax-deductible.

Lundbeck has changed the initial purchase price allocation relating to the acquisition of Abide Therapeutics, Inc. This has resulted in a decrease of goodwill and deferred tax liability in the amount of DKK 185 million mainly related to a change in the state tax rate applied and a larger than expected net operating loss (NOL).

Lundbeck La Jolla Research Center, Inc. has not contributed any revenue in 2019 and is recognized in the consolidated income statement for 2019 at a loss of DKK 91 million. Had the company been acquired as of 1 January 2019, the consolidated net profit for 2019 would have been approximately DKK 2,612 million.

Transaction costs relating to the acquisition of Abide Therapeutics, Inc. amount to approximately DKK 6 million and are recognized in the income statement under administrative expenses.

Alder BioPharmaceuticals, Inc.
On 22 October 2019, Lundbeck acquired Alder BioPharmaceuticals, Inc., a US company, by acquiring all its shares. The company has subsequently changed its name to Lundbeck Seattle BioPharmaceuticals, Inc.

Lundbeck has acquired a clinical-stage biopharmaceutical company that discovers, develops and seeks to commercialize therapeutic antibodies. It has active ongoing research activities and early-stage commercial activities. The assets acquired mainly comprise the lead compound eptinezumab, other research candidates and inventories. The company has an experienced organization structured to pursue the objective of successfully discovering, developing and commercializing drugs. Following the expected launch of eptinezumab, the company may be able to generate profit for Lundbeck, and the acquisition is consequently considered a business combination in accordance with IFRS 3 *Business combinations*. In compliance with the requirements in IFRS 3 *Business Combinations*, the following information is disclosed:

Name:	Lundbeck Seattle BioPharmaceuticals, Inc.
Principal activity:	Development of pharmaceuticals
Ownership interest acquired:	100%
Voting share acquired:	100%

Lundbeck acquired Alder BioPharmaceuticals, Inc. for an upfront consideration of USD 18.00 per share along with one non-tradeable Contingent Value Right (CVR) of USD 2.00 per share. This corresponds to a cash consideration of USD 1,668 million on a fully diluted basis (DKK 11,188 million) and a contingent consideration of USD 236 million at nominal amount, representing USD 160 million at fair value (DKK 1,583

NOTE 4

4. BUSINESS COMBINATIONS – CONTINUED

million, representing DKK 1,076 million at fair value). The cash consideration paid, net, amounted to USD 1,319 million on a fully diluted basis (DKK 8,847 million). The CVR amount is payable upon approval of eptinezumab by the European Medicines Agency (EMA).

The CVR was recognized as a contingent consideration at fair value at the acquisition date. Key inputs to the fair value of the CVR are the promise to pay a fixed price per share acquired, probability of success weighted by the possible outcomes and Lundbeck's WACC. The probability of success used for calculating the fair value of the CVR is based on the BIO/MedTracker 2016 publication.

Lundbeck Seattle BioPharmaceuticals, Inc. is developing eptinezumab for the preventive treatment of migraine in adults. Eptinezumab is an investigational monoclonal antibody (mAb) that is administered as a quarterly 30-minute IV infusion. Eptinezumab was designed for immediate and complete bioavailability with high specificity and strong binding for suppression of calcitonin gene-related peptide (CGRP), a neuropeptide believed to play a key role in mediating and initiating migraines. The company submitted a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) for eptinezumab in February 2019, and the FDA has set a Prescription Drug User Fee Act (PDUFA) action date of 21 February 2020. If approved by the FDA, it will be the first IV CGRP therapy for migraine prevention.

Lundbeck expects to submit eptinezumab for approval to regulatory authorities in the European Union during 2020, followed by submissions for approval in other regions around the world, including China and Japan.

The acquisition price paid for Alder BioPharmaceuticals, Inc. exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, and accordingly the positive difference of DKK 679 million has been recognized as goodwill. The recognized goodwill represents employees who will continue in Lundbeck after the acquisition and the synergies Lundbeck expects to realize by exploiting existing product launch opportunities. Goodwill is not tax-deductible.

Lundbeck Seattle BioPharmaceuticals, Inc. has not contributed any revenue in 2019 and is recognized at a loss of DKK 249 million in the consolidated financial statements for 2019. Had the company been acquired at 1 January 2019, the consolidated net profit for 2019 would have been approximately DKK 2,221 million.

Transaction costs relating to the acquisition of Alder BioPharmaceuticals, Inc. amount to approximately DKK 168 million, which are recognized in the income statement under other operating items, net.

The amounts in the table represent the purchase price allocation to the identifiable assets, liabilities and contingent consideration and consequently also to goodwill at the acquisition date.

Purchase price allocation	Lundbeck La Jolla Research Center, Inc. DKKm	Lundbeck Seattle BioPharmaceuticals, Inc. DKKm	Total DKKm
Product rights	1,853	13,421	15,274
Property, plant and equipment, including right-of-use assets	22	76	98
Non-current assets	**1,875**	**13,497**	**15,372**
Inventories	-	668	668
Other receivables	9	55	64
Securities	-	152	152
Cash	80	2,341	2,421
Current assets	**89**	**3,216**	**3,305**
Total assets	**1,964**	**16,713**	**18,677**
Deferred tax liabilities	299	1,611	1,910
Lease liabilities	10	27	37
Non-current liabilities	**309**	**1,638**	**1,947**
Provisions	-	462	462
Borrowings	-	2,053	2,053
Lease liabilities	5	9	14
Trade payables	12	280	292
Other payables	2	686	688
Current liabilities	**19**	**3,490**	**3,509**
Total liabilitites	**328**	**5,128**	**5,456**
Net assets	**1,636**	**11,585**	**13,221**
Goodwill on acquisition	230	679	909
Adjustment, cash	(80)	(2,341)	(2,421)
Total consideration, net	**1,786**	**9,923**	**11,709**
Contingent consideration	(137)	(1,076)	(1,213)
Cash consideration paid, net, at 31 December 2019	**1,649**	**8,847**	**10,496**

NOTE 5

5. INTANGIBLE ASSETS

Intangible assets	Goodwill DKKm	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
2019					
Cost at 1 January	4,300	16,239	1,759	136	22,434
Effect of foreign exchange differences	69	97	3	-	169
Additions through acquisitions	909	15,274	-	-	16,183
Transfers	-	-	58	(58)	-
Additions	-	-	15	73	88
Disposals	-	-	(9)	(17)	(26)
Cost at 31 December	**5,278**	**31,610**	**1,826**	**134**	**38,848**
Amortization and impairment losses at 1 January	-	12,743	1,648	20	14,411
Effect of foreign exchange differences	-	137	3	-	140
Amortization	-	854	68	-	922
Disposals	-	-	(7)	(17)	(24)
Amortization and impairment losses at 31 December	**-**	**13,734**	**1,712**	**3**	**15,449**
Carrying amount at 31 December	**5,278**	**17,876**	**114**	**131**	**23,399**

Intangible assets	Goodwill DKKm	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
2018					
Cost at 1 January	4,124	15,089	1,731	115	21,059
Effect of foreign exchange differences	176	280	4	1	461
Transfers	-	-	57	(57)	-
Additions	-	1,066	6	77	1,149
Disposals	-	(196)	(39)	-	(235)
Cost at 31 December	**4,300**	**16,239**	**1,759**	**136**	**22,434**
Amortization and impairment losses at 1 January	-	11,868	1,606	20	13,494
Effect of foreign exchange differences	-	220	4	-	224
Amortization	-	813	68	-	881
Impairment losses	-	38	4	-	42
Disposals	-	(196)	(34)	-	(230)
Amortization and impairment losses at 31 December	**-**	**12,743**	**1,648**	**20**	**14,411**
Carrying amount at 31 December	**4,300**	**3,496**	**111**	**116**	**8,023**

1) In 2019, product rights not yet commercialized amounted to DKK 15,956 million (DKK 1,066 million in 2018).
2) Other rights and projects in progress include items such as the IT system SAP. The amounts include directly attributable internal expenses.

NOTES 5-6

5. INTANGIBLE ASSETS – CONTINUED

In October 2019, Lundbeck acquired Alder BioPharmaceuticals, Inc. (the name has subsequently been changed to Lundbeck Seattle BioPharmaceuticals, Inc.). The acquisition is considered a business combination in accordance with IFRS 3 *Business Combinations*. As part of the acquisition, Lundbeck acquired the product rights to eptinezumab which is an investigational monoclonal antibody (mAb) for migraine prevention targeting the calcitonin gene-related peptide (CGRP). The value of the product rights was DKK 13,421 million at the time of acquisition. The carrying amount of DKK 13,340 million at 31 December 2019 was affected by developments in the USD/DKK exchange rate.

In May 2019, Lundbeck acquired Abide Therapeutics, Inc. (the name has subsequently been changed to Lundbeck La Jolla Research Center, Inc.). The acquisition is considered a business combination in accordance with IFRS 3 *Business Combinations*. As part of the acquisition, Lundbeck acquired a portfolio of compounds, including the product rights to ABX-1431; a first-in-class, small-molecule inhibitor of monoacylglycerol lipase (MGLL) currently being investigated in clinical trials for the treatment of neurological disorders, and various compounds in the pre-clinical phase. The value of the portfolio of compounds recognized as product rights was DKK 1,853 million at the time of acquisition. The carrying amount of DKK 1,840 million at 31 December 2019 was affected by developments in the USD/DKK exchange rate.

In March 2018, Lundbeck purchased the foliglurax product rights by acquiring all shares in Prexton Therapeutics BV. The purchase was considered a purchase of assets, i.e. not a business combination. The value of the product rights was DKK 712 million at the time of purchase. The carrying amount of DKK 776 million at 31 December 2019 was affected by developments in the CHF/DKK exchange rate.

6. IMPAIRMENT

All subsidiaries are considered part of one single cash-generating unit (CGU) as that is the way in which Management makes decisions and assesses business performance. All subsidiaries are considered fully integrated into the Group as no entity has significant independent or separately identifiable inflows of cash. Most cash inflows are based on the output from research and development activities performed by headquarters on behalf of the entire Group. Accordingly, an impairment test was performed based on Lundbeck having one single CGU.

In addition to the impairment test of the CGU, an updated impairment test was performed of an intangible asset impaired in 2015 as indications of impairment reversal were identified. Due to significant uncertainties pertaining to key assumptions and due to limited increases in expected earnings from the impaired asset, no impairment reversal was performed.

Methodology

In the impairment test, the discounted expected future cash flows (value in use) for the CGU and the specific asset tested are compared with the carrying amounts of goodwill and other assets. The expected future cash flows are based on a forecast period of nine years, which is the period used by Management for decision making, with due consideration of patent expiry. The assumptions used in the impairment test are based on benchmarked external data and historical trends. The key parameters in the calculation of the value in use are revenue, earnings, working capital, discount rate and the preconditions for the terminal period.

Negative growth of 5% is projected in the terminal period due to patent expiry. In addition, the four category elements in the table below are taken into consideration when determining the key parameters.

NOTES 6-7

6. IMPAIRMENT – CONTINUED

Financial elements	Market elements
Prices	Healthcare reforms
Rebates	Price reforms
Quantities	Market access
Patient population	Pharma restrictions
Market shares	Launch success
Competition	Product positioning
Fill rates	Competing pharmaceuticals
Prescription rates	Generics on the market
Lundbeck costs	

R&D elements	Other elements
R&D spend	Supply chain effectiveness
Collaborations	Reputation
Pipeline success rate	Strength and abilities of partners
Product labelling	
Liaison with regulatory bodies	

The calculation of the value in use for the Group is based on a discount rate after tax of 7.93% (7.97% in 2018).

2019 testing outcome
The impairment tests performed in 2019 did not result in any recognition of impairment losses or reversal of prior impairment losses.

2018 testing outcome
The impairment test performed in 2018 did not result in any recognition of impairment losses or reversal of prior impairment losses.

Impact of possible changes in key assumptions
If the budgeted revenue had been 5% lower than Management's estimates, the safety margin would continue to be positive. If the discount rate after tax applied to cash flow had been 1% higher, the safety margin would continue to be positive.

7. BANK DEBT AND BORROWINGS

	2019 DKKm
Bank debt maturing within the following periods from the balance sheet date:	
Within one year (current)	2,000
Between three and four years (non-current)	7,062
Bank debt at 31 December	**9,062**

	Currency	Expiry of commitment	Fixed/ floating	Weighted average effective interest rate %	Amortized cost DKKm	Nominal value DKKm	Fair value DKKm
2019							
Bank loan	DKK	2020	Floating	0.65	2,000	2,000	2,000
Bank loan	USD	2023	Floating	2.80	3,326	3,326	3,326
Bank loan	EUR	2023	Floating	0.55	3,736	3,736	3,736
Total					**9,062**	**9,062**	**9,062**

The DKK loan has been swapped into USD by cross-currency swaps with a one-year tenor and an average fixed interest rate of 2.58%. Of the USD loan (totaling USD 500 million), USD 450 million has been swapped into fixed interest by interest rate swaps with a four year tenor and an average fixed interest rate of 1.56%.

Amortized cost is calculated as the proceeds received less instalments paid, plus or minus amortization of capital gains or losses.

Development in bank debt and borrowings

	Balance at 1 January DKKm	Additions through acquisitions DKKm	Cash inflow DKKm	Cash outflow DKKm	Non-cash flow DKKm	Balance at 31 December DKKm
2019						
Bank loans	-	-	11,095	(2,010)	(23)	9,062
Borrowings	-	2,053	-	(2,070)	17	-
Total bank debt	**-**	**2,053**	**11,095**	**(4,080)**	**(6)**	**9,062**

2018

At 31 December 2018, there were no bank debt or borrowings, and no overdraft facilities were utilized.

NOTE 8

8. STAFF COSTS

Wages and salaries etc.

	2019 DKKm	2018 DKKm
The year's staff costs are specified as follows:		
Cost of sales	593	563
Sales and distribution costs	2,344	2,086
Administrative expenses	561	433
Research and development costs	985	872
Total	**4,483**	**3,954**

Registered Executive Management

The members of the registered Executive Management participate in a short-term incentive program that provides an annual bonus for the achievement of pre-determined targets. The CEO is entitled to receive a maximum of 14 months' worth of fixed salary in bonus in case of exceptional performance. The other members of the registered Executive Management may receive up to six months' base salary as a bonus on condition of achievement of exceptional performance. See further details in the Remuneration Report available on www.lundbeck.com.

	Salary DKKm	Cash bonus DKKm	Pension DKKm	Other benefits DKKm	Equity- and cash-settled incentive programs DKKm	Total DKKm	Tax equali-zation[1] DKKm	Total after tax equali-zation DKKm
2019								
Deborah Dunsire, President and CEO	9.4	9.0	-	0.1	2.7	21.2	36.0	57.2
Lars Bang, Executive Vice President, Product Development & Supply	4.0	1.8	1.0	0.2	1.9	8.9	-	8.9
Anders Götzsche, Executive Vice President, CFO	4.9	2.3	1.3	0.2	1.5	10.2	-	10.2
Per Johan Luthman[2], Executive Vice President, Research & Development	3.2	1.6	0.8	0.1	0.5	6.2	-	6.2
Jacob Tolstrup, Executive Vice President, Commercial Operations	3.8	1.8	1.0	0.2	1.5	8.3	-	8.3
Total	**25.3**	**16.5**	**4.1**	**0.8**	**8.1**	**54.8**	**36.0**	**90.8**

	Salary DKKm	Cash bonus DKKm	Pension DKKm	Other benefits DKKm	Equity- and cash-settled incentive programs DKKm	Retirement package DKKm	Total DKKm
2018							
Deborah Dunsire[1,3], President and CEO	3.4	3.3	-	-	0.2	-	6.9
Lars Bang, Executive Vice President, Product Development & Supply	3.8	1.8	1.0	0.2	1.7	-	8.5
Anders Götzsche[4], Executive Vice President, CFO	5.9	3.8	1.5	0.2	0.9	-	12.3
Jacob Tolstrup, Executive Vice President, Commercial Operations	3.7	1.8	1.0	0.2	1.1	-	7.8
Anders Gersel Pedersen, Executive Vice President, R&D	4.3	2.0	1.1	0.2	(0.4)	9.8	17.0
Total	**21.1**	**12.7**	**4.6**	**0.8**	**3.5**	**9.8**	**52.5**

1) According to the employment agreement with Deborah Dunsire, Lundbeck will pay the difference in taxation on investment return from personal assets between the US and Denmark.
2) Per Johan Luthman joined H. Lundbeck A/S in February 2019.
3) Deborah Dunsire joined H. Lundbeck A/S in September 2018.
4) Anders Götzsche was interim CEO until the end of August 2018.

Executives[1]

	2019 DKKm	2018 DKKm
Short-term staff benefits	85	81
Retirement benefits	11	10
Other social security costs	1	1
Equity- and cash-settled incentive programs	10	10
Total	**107**	**102**

1) Executives are persons who report directly to the registered Executive Management.

NOTES 8-10

8. STAFF COSTS – CONTINUED

Board of Directors

The total remuneration of the Board of Directors for 2019 amounted to DKK 6.8 million (DKK 6.0 million in 2018). The amount includes fees for participation in the Audit Committee of DKK 0.7 million (DKK 0.7 million in 2018), the Remuneration Committee of DKK 0.7 million (DKK 0.5 million in 2018), the Scientific Committee of DKK 0.7 million (DKK 0.7 million in 2018) and travel allowances of DKK 0.5 million (DKK 0 million in 2018) for board members with permanent residence outside of Europe. The remuneration for 2019 is consistent with the remuneration presented at the Annual General Meeting held on 26 March 2019.

The members of the Board of Directors held a total of 47,313 Lundbeck shares at 31 December 2019 (43,813 shares in 2018).

The total remuneration of the chairman of the Board of Directors amounted to DKK 1.6 million (DKK 1.6 million in 2018). The total remuneration of the deputy chairman of the Board of Directors amounted to DKK 1.1 million (DKK 1.1 million in 2018). These amounts include fees for participation in Board committees.

Number of employees

	2019	2018
Average number of full-time employees in the financial year	**5,475**	**5,060**
Number of full-time employees at 31 December		
In Denmark	1,786	1,718
In other countries	4,020	3,425
Total	**5,806**	**5,143**

The number of employees has increased following the acquisitions of Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc. and as a result of growth initiatives in the commercial organization, primarily in China and Japan.

9. OTHER PAYABLES

Other payables amounted to DKK 2,613 million at 31 December 2019 (DKK 2,984 million in 2018). Of this amount, DKK 1,057 million (DKK 1,493 million in 2018) relates to sales discounts and rebates in the US. The remaining amount relates mainly to VAT, employee-related obligations, the fair value of derivatives and legal settlements.

10. PROVISIONS

	Product returns DKKm	Other provisions DKKm	Total DKKm
2019			
Provisions at 1 January	446	401	847
Effect of foreign exchange differences	10	(2)	8
Additions through acquisitions	-	462	462
Provisions charged	13	342	355
Provisions used	(23)	(163)	(186)
Unused provisions reversed	(200)	(20)	(220)
Provisions at 31 December	**246**	**1,020**	**1,266**
Provisions break down as follows:			
Non-current provisions	144	114	258
Current provisions	102	906	1,008
Provisions at 31 December	**246**	**1,020**	**1,266**

	Product returns DKKm	Other provisions DKKm	Total DKKm
2018			
Provisions at 1 January	314	454	768
Effect of foreign exchange differences	14	4	18
Provisions charged	141	93	234
Provisions used	(20)	(130)	(150)
Unused provisions reversed	(3)	(20)	(23)
Provisions at 31 December	**446**	**401**	**847**
Provisions break down as follows:			
Non-current provisions	290	115	405
Current provisions	156	286	442
Provisions at 31 December	**446**	**401**	**847**

Of other provisions at 31 December 2019, DKK 337 million (DKK 243 million in 2018) related to restructuring programs.

In addition, other provisions comprise liabilities such as legal disputes.

NOTE 11

11. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent consideration
In addition to the upfront payment made in connection with the acquisition of Abide Therapeutics, Inc., Lundbeck is required to pay up to USD 150 million in future development and sales milestones dependent on predefined milestones being reached. The fair value of the contingent consideration has been recognized as a liability in the purchase price allocation in the amount of USD 20 million, equivalent to DKK 137 million.

In addition to the upfront payments made in connection with the acquisition of Alder BioPharmaceuticals, Inc., Lundbeck is required to pay a contingent value right (CVR) of USD 2.00 per share upon European approval of eptinezumab. The CVR has a value of up to USD 236 million. The fair value of the CVR has been recognized as a liability in the purchase price allocation in the amount of USD 160 million, equivalent to DKK 1,076 million.

Joint taxation
H. Lundbeck A/S and Danish subsidiaries are part of a Danish joint taxation scheme with Lundbeckfonden (Lundbeckfond Invest A/S including subsidiaries of Lundbeckfond Invest A/S), according to which the company has partly a joint and several liability and partly a secondary liability with respect to corporate income taxes etc. for the jointly-taxed companies. In addition, H. Lundbeck A/S has partly a joint and several liability and partly a secondary liability with respect to any obligations to withhold tax on interest, royalties and dividends for these companies. However, in both cases the secondary liability is capped at an amount equal to the share of the capital of the company directly or indirectly owned by the ultimate parent company. The total tax obligation under the joint taxation scheme is shown in the financial statements of Lundbeckfond Invest A/S.

Pending legal proceedings
The Group is involved in a number of legal proceedings, including patent disputes, the most significant of which are described below. In the opinion of Management, the outcome of these proceedings will not have a material impact on the Group's financial position or cash flows beyond the amount already provided for in the financial statements, or it is too uncertain to make a reliable provision. Such proceedings will, however, develop over time, and new proceedings may occur which could have a material impact on the Group's financial position and/or cash flows.

In June 2013, Lundbeck received the European Commission's decision that the company's agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining Lundbeck EUR 93.8 million (approximately DKK 700 million). In September 2016, Lundbeck announced that the General Court of the European Union had delivered its judgment concerning Lundbeck's appeal against the European Commission's 2013 decision. Lundbeck's appeal was rejected by the General Court. Lundbeck has appealed the judgment to the European Court of Justice. Lundbeck paid and expensed the fine in the third quarter of 2013. An oral hearing was conducted by the European Court of Justice in January 2019. The Advocate General is expected to deliver her opinion to the European Court in March 2020, and a final judgment is expected during 2020 after the delivery of the opinion. So-called "follow-on claims" for reimbursement of alleged losses, resulting from alleged violation of competition law, often arise when decisions and fines issued by the European Commission are upheld by the European Court of Justice. Health authorities in the UK and The Netherlands have taken formal protective steps against Lundbeck with the principal purpose of preventing potential claims from being time-barred under the applicable statutes of limitation. Lundbeck expects no further material development in these matters until after the European Court of Justice has issued its final judgment.

In Canada, H. Lundbeck A/S and its subsidiary Lundbeck Canada Inc. are involved in three product liability class-action lawsuits relating to Cipralex®/Celexa® (two cases alleging various Celexa®-induced birth defects and one case against several SSRI manufacturers (incl. Lundbeck) alleging that SSRI (Celexa®/Lexapro®) induces autism birth defect); two relating to Abilify Maintena® (alleging i.a. failure to warn about compulsive behavior side effects); and one relating to Rexulti® (also alleging i.a. failure to warn about compulsive behavior side effects). The cases are in the preliminary stages and as such there is significant uncertainty as to how these lawsuits will be resolved. Lundbeck strongly disagrees with the claims raised.

In 2018, the Group entered into settlements with three of the four generic companies involved in an Australian federal court case, in which Lundbeck was pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. Lundbeck received AUD 51.7 million (DKK 242 million) in 2018. In Lundbeck's case against the final generic company, Sandoz Pty Ltd, the Federal Court found that Sandoz Pty Ltd had infringed Lundbeck's escitalopram patent between 2009 and 2012 and awarded Lundbeck AUD 26.3 million in damages. Sandoz' appeal of the decision was heard on 8-10 May 2019 and a decision is expected in the first half of 2020. In the meantime, the Australian Patent Office has issued a license to exploit the patent to Sandoz for the entire period of infringement. The license may potentially remove the damages awarded to Lundbeck. Lundbeck has appealed this license decision.

Together with Takeda, Lundbeck has instituted patent infringement proceedings against 16 generic companies that have applied for marketing authorization for generic versions of Trintellix® in the US. Two opponents have now withdrawn and the cases against the remaining 14 opponents continue. Decisions are expected shortly before the end of March 2021. Lundbeck has strong confidence in its vortioxetine patents. The FDA cannot grant marketing authorization to the generic companies unless they receive a decision in their favor. The compound patent, including patent term extensions, will expire in the US on 17 December 2026. Lundbeck has other patents relating to vortioxetine with expiry in the period until 2032.

NOTES 11-13

11. CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

Together with Otsuka, Lundbeck has instituted patent infringement proceedings against several generic companies that have applied for marketing authorization for generic versions of Rexulti® in the US. Lundbeck has strong confidence in the Rexulti® patents. The FDA cannot grant marketing authorization in the US to the generic companies before the patents expire unless the generic companies receive decisions in their favor.

In February 2019, Alder BioPharmaceuticals, Inc. (now a wholly owned subsidiary of Lundbeck LLC and since renamed Lundbeck Seattle BioPharmaceuticals, Inc. (Alder)) terminated a Development and Manufacturing Services Agreement (DMSA) with Lonza Ltd. (Lonza), based on material breaches of that agreement by Lonza. In April 2019, Lonza filed a claim for arbitration with the American Arbitration Association (AAA), asserting claims for breach of contract and declaratory judgment arising from the termination. Lonza disputed the material breaches asserted by Alder, denying that Alder is entitled to terminate the DMSA without further payment, and is seeking monetary damages representing Lonza's calculation of the fee due upon termination for convenience. In May 2019, Alder filed an answer to Lonza's claim with the AAA, in which Alder disputed Lonza's claims and asserted counterclaims arising from Lonza's breach of the DMSA. In June 2019, Lonza filed its reply to the counterclaims. The arbitration hearing is scheduled for September 2020.

In June 2018, Lundbeck announced that its US subsidiary Lundbeck LLC had reached an agreement in principle to resolve the US Department of Justice (DOJ) investigation related to Lundbeck LLC's relationship with and donations to independent patient assistance charitable foundations, which called for a payment of USD 52.6 million. In April 2019, Lundbeck finalized this settlement, executed a Settlement Agreement and made a payment of USD 52.6 million. Lundbeck LLC is pleased to have reached a final resolution that will allow the company to put this matter behind it. The Settlement Agreement does not include any admission by Lundbeck LLC that it violated any law. The resolution of this matter will allow Lundbeck LLC to continue its focus on providing innovative medications to patients.

Product return obligations
The Group has product return obligations normal for the industry. Management does not expect any major losses from these obligations apart from the amount already recognized.

12. OTHER OPERATING ITEMS, NET

In 2019, other operating items, net, amounted to an expense of DKK 514 million relating to integration, retention and transaction costs in connection with the acquisition of Alder BioPharmaceuticals, Inc.

In 2018, other operating items, net, amounted to an expense of DKK 44 million deriving from a gain on divestment of office facilities in Denmark of DKK 48 million, income from legal settlements in Australia of DKK 242 million and expenses of DKK 334 million relating to legal settlements in the US.

13. INCENTIVE PROGRAMS

Incentive programs
In order to attract, retain and motivate key employees and align their interests with those of its shareholders, Lundbeck has established a number of incentive programs. Lundbeck uses equity- and cash-settled programs.

Equity-settled programs
In 2019, equity-settled incentive programs consisted of warrants and restricted share units (RSUs) granted in the years 2011-2019.

In February 2019, as part of Lundbeck's recurring long-term incentive program, Lundbeck established an RSU program for Lundbeck's registered Executive Management and key employees. Four members of the registered Executive Management and 135 key employees employed with H. Lundbeck A/S or a Lundbeck subsidiary were granted RSUs. The participants were selected on the basis of job level. All the RSUs vest three years after grant. Vesting is subject to the Board of Directors' decision, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The calculation of the fair value of the RSUs is based on a share price of DKK 286.56 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the grant was DKK 269.71 per RSU.

In February 2018, as part of Lundbeck's recurring long-term incentive program, Lundbeck made an initial grant offering members of Lundbeck's registered Executive Management and key employees to participate in an RSU program. Four members of the registered Executive Management and 129 key employees employed with H. Lundbeck A/S or a Lundbeck subsidiary were offered to participate in the program. The participants were primarily selected on the basis of job level. The RSUs were finally granted after the publication of the Annual Report for 2018 and will vest three years after final grant. Vesting is subject to the Board of Directors' decision, to Lundbeck achieving certain strategic and financial targets specified by the

NOTE 13

13. INCENTIVE PROGRAMS – CONTINUED

Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The fair value of the RSUs was calculated on the basis of a share price of DKK 315.52 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the initial grant was DKK 291.03 per RSU.

No RSUs vested in 2019. The RSUs granted to key employees in 2015 vested in 2018.

At 31 December 2019, 26,985 warrants (64,523 warrants in 2018) were exercisable. The weighted average exercise price was DKK 113.00 (DKK 114.19 in 2018).

In 2019, the following number of warrants were exercised: 0 from the 2010 grant which expired in 2018 (1,377 in 2018), 3,795 from the 2011 grant (22,631 in 2018) and 27,934 from the 2012 grant (33,180 in 2018). The weighted average share price of the warrants exercised was DKK 271.77 (DKK 383.72 in 2018).

Warrant programs	**2010**	**2010**	**2011**	**2012**
Number of persons included in the program	101	16	112	102
Total number of warrants granted	765,979	24,971	849,085	692,003
Number of warrants granted to the registered Executive Management	507,885	-	381,224	-
Vesting date	16.03.13	16.03.13	31.03.14	31.03.15
Exercise period begins	16.03.13	16.03.13	01.04.14	01.04.15
Exercise period ends	15.03.18	15.03.18	31.03.19	31.03.20
Exercise price, DKK	97.00	97.00	121.00	113.00
Fair value at the date of grant, DKK	29.86	24.30	30.10	24.11

RSU programs	**2015**	**2016**	**2017**	**2018**	**2019**
Number of persons included in the program	129	126	127	133	139
Total number of RSUs granted	130,777	120,549	131,516	107,321	127,899
Number of RSUs granted to the registered Executive Management	-	20,484	47,911	24,783	28,128
Vesting date	01.12.18	01.02.20	01.02.21	01.02.22	01.02.22
Fair value at the date of grant, DKK	202.78	237.56	268.65	291.03	269.71

Warrants	**Registered Executive Management** Number	**Executives** Number	**Other** Number	**Total** Number	**Average exercise price** DKK
2019					
1 January	23,741	3,458	37,324	64,523	114.19
Exercised	(23,741)	-	(7,988)	(31,729)	113.96
Expired	-	-	(5,809)	(5,809)	121.00
31 December	**-**	**3,458**	**23,527**	**26,985**	113.00
2018					
1 January	23,741	29,318	83,000	136,059	113.05
Exercised	-	(25,860)	(31,328)	(57,188)	115.78
Expired	-	-	(14,348)	(14,348)	97.00
31 December	**23,741**	**3,458**	**37,324**	**64,523**	114.19

Cash-settled programs

The cash-settled programs consist of restricted cash units (RCUs) and stock appreciation rights (SARs) granted during the years 2011-2019.

The cash-settled programs cannot be converted into shares because the value of the programs is distributed as a cash amount.

NOTES 13-14

13. INCENTIVE PROGRAMS – CONTINUED

In February 2019, Lundbeck established an RCU program for the Chief Executive Officer (CEO) and a few key employees in the US subsidiaries. The terms and conditions are similar to those applying to the RSU program granted in February 2019. The RCUs granted to the CEO, a total of 27,917, and the RCUs granted to the key employees, a total of 1,323, will vest three years after grant. Vesting is subject to the Board of Directors' decision, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The size of the amount depends on the value of the Lundbeck share on the vesting date. The fair value at the time of grant was DKK 269.71 per RCU.

In February 2018, Lundbeck made an initial grant offering a few key employees in the US subsidiaries to participate in an RCU program on terms and conditions similar to those applying to the RSU program initially granted in February 2018. The RCUs, a total of 1,073, were finally granted after the publication of the Annual Report for 2018 and will vest three years after final grant. Vesting is subject to the Board of Directors' decision, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The size of the amount depends on the value of the Lundbeck share on the vesting date. The fair value at the time of the initial grant was DKK 291.03 per RCU.

In September 2018, Lundbeck made an initial grant offering the Chief Executive Officer (CEO), Deborah Dunsire, to participate in the 2018 RCU program on the same terms and conditions as offered to the other participants in February 2018. A total of 9,175 RCUs were granted, calculated proportionally to the period of time the CEO had been with Lundbeck. The RCUs will vest on 1 February 2022. Vesting is subject to the Board of Directors' decision and to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors. The fair value at the time of the initial grant was DKK 291.03 per RCU.

No RCUs vested in 2019. The RCUs granted in 2015 vested in 2018, after which time the program was settled.

Fair value, liability and expense recognized in the income statement
The warrants and RSUs granted are recognized in the income statement for 2019 at an expense corresponding to the fair value at the time of grant for the part of the vesting period that concerns 2019. The total expense recognized in respect of equity-settled programs amounted to DKK 33 million (DKK 25 million in 2018). At 31 December 2019, the fair value of the remaining equity-settled programs was DKK 103 million (DKK 102 million in 2018).

The RCUs granted are recognized in the income statement at an expense corresponding to the value adjustment for the year based on the performance of the Lundbeck share. The SARs granted were recognized in the income statement at an expense corresponding to the value adjustment for the year based on the Black-Scholes method. No SARs were outstanding at 31 December 2019. The total expense recognized in respect of cash-settled programs amounted to DKK 3 million (DKK 1 million in 2018) and covers all cash-settled programs in force in 2019. At 31 December 2019, the total liability in respect of cash-settled programs was DKK 4 million (DKK 3 million in 2018) and covers all cash-settled programs in force at 31 December 2019.

The total expense recognized in the income statement for all incentive programs amounted to DKK 36 million in 2019 (DKK 26 million in 2018).

14. TAX ON PROFIT FOR THE YEAR

	2019 DKKm	**2018** DKKm
Current tax	402	1,233
Prior-year adjustments, current tax	385	(60)
Prior-year adjustments, deferred tax	(403)	86
Change in deferred tax for the year	404	(29)
Change in deferred tax as a result of changed income tax rates	(1)	(3)
Total tax for the year	**787**	**1,227**
Tax for the year is composed of:		
Tax on profit for the year	814	1,382
Tax on other comprehensive income	(28)	(155)
Tax on other transactions in equity	1	-
Total tax for the year	**787**	**1,227**

For a specification of tax on other comprehensive income, see note 26 *Other comprehensive income*.

NOTE 14

14. TAX ON PROFIT FOR THE YEAR – CONTINUED

Explanation of the Group's effective tax rate relative to the Danish corporate income tax rate	DKKm	%
2019		
Profit before tax	**3,481**	
Calculated tax, 22%	766	22.0
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	62	1.8
Non-deductible expenses/non-taxable income and other permanent differences	79	2.2
Research and development incentives	(13)	(0.4)
Foreign-derived intangible income benefit	(140)	(4.0)
Non-deductible amortization of product rights	103	3.0
Change in valuation of net tax assets	(24)	(0.7)
Change in deferred tax as a result of changed income tax rates	(1)	-
Prior-year tax adjustments etc., total effect on operations	(18)	(0.5)
Effective tax/tax rate for the year	**814**	**23.4**

Explanation of the Group's effective tax rate relative to the Danish corporate income tax rate	DKKm	%
2018		
Profit before tax	**5,289**	
Calculated tax, 22%	1,163	22.0
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	85	1.6
Non-deductible expenses/non-taxable income and other permanent differences	63	1.2
Research and development incentives	(26)	(0.5)
Non-deductible amortization of product rights	97	1.8
Change in valuation of net tax assets	(23)	(0.4)
Change in deferred tax as a result of changed income tax rates	(3)	(0.1)
Prior-year tax adjustments etc., total effect on operations	26	0.5
Effective tax/tax rate for the year	**1,382**	**26.1**

NOTE 15

15. DEFERRED TAX

Temporary differences between assets and liabilities as stated in the consolidated financial statements and in the tax base	Balance at 1 January DKKm	Effect of foreign exchange differences DKKm	Adjustment of deferred tax at beginning of year[3] DKKm	Additions through acquisitions DKKm	Movements during the year DKKm	Balance at 31 December DKKm
2019						
Intangible assets	1,109	(298)	10	15,274	(3,243)	12,852
Property, plant and equipment	283	(39)	202	98	209	753
Inventories	(116)	(3)	22	668	26	597
Provisions	(1,452)	(57)	(61)	(462)	387	(1,645)
Other items[1]	1,867	(116)	(1,937)	(51)	(309)	(546)
Tax loss carryforwards etc.	(4,365)	47	(124)	(7,229)	4,480	(7,191)
Total temporary differences	**(2,674)**	**(466)**	**(1,888)**	**8,298**	**1,550**	**4,820**
Deferred (tax assets)/tax liabilities	(620)	(16)	(403)	1,910	332	1,203
Research and development incentives	(73)	(2)	-	-	71	(4)
Deferred (tax assets)/tax liabilities	**(693)**	**(18)**	**(403)**	**1,910**	**403**	**1,199**
2018						
Intangible assets	405	11	-	-	693	1,109
Property, plant and equipment	294	2	(54)	-	41	283
Inventories	(127)	12	(11)	-	10	(116)
Provisions	(944)	2	56	-	(566)	(1,452)
Other items[1]	959	(34)	389	-	553	1,867
Tax loss carryforwards etc.[2]	(3,588)	(3)	484	-	(1,258)	(4,365)
Total temporary differences	**(3,001)**	**(10)**	**864**	**-**	**(527)**	**(2,674)**
Deferred (tax assets)/tax liabilities[2]	(609)	-	86	-	(97)	(620)
Research and development incentives	(90)	(9)	-	-	26	(73)
Deferred (tax assets)/tax liabilities	**(699)**	**(9)**	**86**	**-**	**(71)**	**(693)**

1) Movements during the year include DKK 0 million (DKK 0 million in 2018) recognized in other comprehensive income and DKK 1 million (DKK 0 million in 2018) recognized in equity.
2) In 2018, movements during the year included an addition from the acquisition of Prexton Therapeutics B.V. of DKK 39 million not recognized in the income statement. The acquisition was considered a purchase of assets.
3) In accordance with IFRIC 23 *Uncertainty over Income Tax Treatments*, movements in Other items includes a reclassification to income taxes payable of DKK 1,672 million (tax value DKK 368 million) relating to provisions for uncertain tax positions.

NOTE 15

15. DEFERRED TAX – CONTINUED

Deferred (tax assets)/tax liabilities	2019 Deferred tax assets DKKm	2019 Deferred tax liabilities DKKm	2019 Net DKKm	2018 Deferred tax assets DKKm	2018 Deferred tax liabilities DKKm	2018 Net DKKm
Intangible assets	(35)	3,162	3,127	(31)	343	312
Property, plant and equipment	(9)	183	174	(2)	66	64
Inventories	(70)	207	137	(77)	37	(40)
Provisions	(396)	-	(396)	(356)	-	(356)
Other items	(197)	53	(144)	(75)	450	375
Tax loss carryforwards etc.	(1,695)	-	(1,695)	(975)	-	(975)
Research and development incentives	(4)	-	(4)	(73)	-	(73)
Deferred (tax assets)/tax liabilities	**(2,406)**	**3,605**	**1,199**	**(1,589)**	**896**	**(693)**
Set off within legal tax entities and jurisdictions	1,921	(1,921)	-	424	(424)	-
Total net deferred (tax assets)/tax liabilities	**(485)**	**1,684**	**1,199**	**(1,165)**	**472**	**(693)**

Of the recognized deferred tax assets, DKK 1,699 million (DKK 1,048 million in 2018) relates to tax losses and research and development incentives to be carried forward. The utilization of tax loss carryforwards is subject to Lundbeck generating future positive taxable income against which the losses may be offset. The recognition of tax losses is based on estimates of the expected taxable income in loss-making entities, supported by reports from external analysts when available.

Unrecognized deferred tax assets	2019 DKKm	2018 DKKm
Unrecognized deferred tax assets at 1 January	77	100
Additions through acquisitions	454	-
Prior-year adjustments	(24)	-
Additions	3	24
Utilized	(3)	(47)
Unrecognized deferred tax assets at 31 December	**507**	**77**

Unrecognized deferred tax assets primarily relate to net operating losses and tax credits not expected to be utilized within a foreseeable future.

NOTES 16-17

16. DISTRIBUTION OF PROFIT

The Board of Directors is proposing distribution of dividends for 2019 of 31% (61% in 2018) of the net profit for the year allocated to the shareholders, equivalent to DKK 4.10 per share (DKK 12.00 per share in 2018) or DKK 816 million (DKK 2,389 million in 2018), inclusive of dividends on treasury shares. Total dividends are based on the current share capital.

The Board of Directors proposes that if warrants are exercised during the period from the Board of Directors' approval of the consolidated financial statements until approval by the Annual General Meeting, total dividends be increased to maintain the proposed dividends per share of DKK 4.10. The total number of exercisable warrants was 26,985 at 31 December 2019.

17. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables

	2019 DKKm	2018 DKKm	2017 DKKm
Receivables	2,797	2,794	2,942
Writedowns	(29)	(30)	(24)
Trade receivables, net	**2,768**	**2,764**	**2,918**

Other receivables

Other receivables amounted to DKK 388 million (DKK 242 million in 2018 and DKK 546 million in 2017), the greater part of which was not yet due and related to the fair value of derivatives and VAT refunds. No writedowns were made as no losses are expected on other receivables.

Credit risks

Lundbeck's products are sold primarily to distributors of pharmaceuticals, pharmacies and hospitals. The payment conditions for the customers, including credit periods and any payment of interest in case of non-payment, vary, but are always based on industry practice in the relevant market. As a result of special trading conditions in specific markets, the credit period may be up to approximately 200 days. The weighted average credit period is approximately 60 days.

Changes to the Group's customer portfolio are limited. When collaboration is established with a new customer, credit assessment is done either by Lundbeck or an external credit rating agency. At the time of revenue recognition, Lundbeck assesses the full lifetime expected credit losses. In addition, undue and due receivables are analyzed in an ongoing process. Based on the credit assessment, receivables analysis, historical experience and industry experience, it is estimated whether the receivables are recoverable or writedowns are needed. Historically, losses on debtors have been insignificant. This was also the case in 2019.

The Group has one customer in the US contributing approximately DKK 1.7 billion (DKK 2.0 billion in 2018) to total revenue. No other single customer contributed 10% or more to total revenue. The Group has no significant reliance on specific customers.

Fluctuations in foreign exchange rates, including the impact from currency devaluations, represent an inherent risk as Lundbeck also operates in volatile economies. Lundbeck monitors and takes action to mitigate risks associated with receivables.

Market risks

The pharmaceutical market is characterized by the aim of authorities to reduce or cap healthcare costs in general. Market changes such as price reductions and ever-earlier launch of generics may have a considerable impact on the earnings potential of pharmaceuticals.

Moreover, the growing number of market access hurdles set up by local authorities is impairing the earnings potential of Lundbeck's new generation of pharmaceuticals in the finite period of exclusivity. Lundbeck expects that these conditions will prevail going forward.

NOTE 18

18. CASH RESOURCES

	2019 DKKm	2018 DKKm
Cash and bank balances	3,008	3,605
Securities with a maturity of more than three months[1]	4	3,030
Cash, bank balances and securities at 31 December	**3,012**	**6,635**

1) The securities portfolio is classified as financial assets measured at fair value through profit or loss.

Liquidity risk and capital management
The credit risk on cash and derivatives (forward exchange contracts, currency options and interest rate swaps) is limited as Lundbeck deals only with banks with a solid credit rating. To further limit the risk of loss, internal limits have been defined for the credit exposure accepted towards the banks with which Lundbeck collaborates. Credit lines are part of the Treasury Policy.

The securities portfolio consists of individual Danish mortgage bonds. The credit risk is considered limited as the securites portfolio consists of Danish mortgage bonds with a solid credit rating. The majority of the bonds have a credit rating of AAA.

The Treasury Policy covers financial resources, foreign currency exposure, interest rate risk, securities and loan portfolios as well as capitalization of subsidiaries. It is presented to the Audit Committee annually for subsequent approval by the Board of Directors. In addition, the Board of Directors approves the framework for selecting financial collaboration partners and the credit lines and types of transactions allowed.

Pursuant to its Treasury Policy, Lundbeck must ensure that a minimum of DKK 1.0 billion is held in cash or cash equivalents. If this amount is not available in cash, fixed-term deposits or bonds, Lundbeck will enter into committed credit facilities with its banking partners.

Lundbeck entered into two new loan agreements with its strategic banks in 2019; a revolving credit facility (RCF) of EUR 1.5 billion and a one-year term loan of DKK 2 billion. The RCF has a four-year duration with an option, at the lenders' discretion, to extend the maturity for up to three additional years. Both facilities are subject to covenants and no breaches were encountered during the year. At 31 December 2019, Lundbeck had unutilized committed credit facilities of DKK 4.1 billion.

In addition, Lundbeck has a number of uncommitted credit facilities to cover its day-to-day operations. At 31 December 2019 and 31 December 2018, these credit facilities were unutilized.

When managing its capital structure, Lundbeck's main objective is to support the Expand and Invest to Grow strategy; use capital resources for required research and development and for investments to realize the strategy; and to generate long-term attractive return for the shareholders. Lundbeck also wishes to be a strong financial counterparty to debt providers and other stakeholders by acting as a company with an investment grade credit rating.

To maintain or adjust its capital structure, Lundbeck may adjust dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets to reduce debt or increase debt. To minimize its refinancing risk, Lundbeck strives to have diversified funding, both in terms of duration and source.

Lundbeck defines capital as equity (comprising share capital, foreign currency translation reserve, hedging reserve and retained earnings) and net interest-bearing debt (disclosed in notes 7 *Bank debt and borrowings* and 21 *Right-of-use assets and lease liabilities* and after deducting cash resources disclosed in note 18 *Cash resources*). At 31 December 2019, total equity amounted to DKK 14,554 million compared with DKK 14,251 million at 31 December 2018. Net interest-bearing debt amounted to DKK 6,566 million at 31 December 2019 compared with a net interest-bearing cash position of DKK 6,635 million at 31 December 2018. The change in net interest-bearing cash/debt is due to the acquisitions of Abide Therapeutics, Inc. in May 2019 and Alder BioPharmaceuticals, Inc. in October 2019.

Lundbeck has unfunded obligations relating to defined benefit plans amounting to DKK 262 million at 31 December 2019 (DKK 208 million in 2018).

Lundbeck's subsidiary, Lundbeck Insurance A/S, is governed by The Danish Financial Supervisory Authority (Finanstilsynet) and must have investment assets that cover technical liabilities net of reinsurance. In 2019 and 2018, this requirement was fulfilled.

In 2019, a few minor operational changes were made to the Group's Treasury Policy.

NOTES 19-20

19. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Land and buildings[1] DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment DKKm	Prepay-ments and assets under construction DKKm	Total property, plant and equipment DKKm
2019					
Cost at 1 January	3,309	1,765	813	333	6,220
Effect of foreign exchange differences	1	-	3	-	4
Additions through acquisitions	-	17	32	-	49
Transfers	60	89	11	(160)	-
Additions	17	55	28	256	356
Disposals	(6)	(20)	(34)	(10)	(70)
Cost at 31 December	**3,381**	**1,906**	**853**	**419**	**6,559**
Depreciation and impairment losses at 1 January	2,083	1,401	708	10	4,202
Effect of foreign exchange differences	1	-	3	-	4
Depreciation	97	87	36	-	220
Impairment losses	1	-	-	-	1
Disposals	(6)	(20)	(30)	(10)	(66)
Depreciation and impairment losses at 31 December	**2,176**	**1,468**	**717**	**-**	**4,361**
Carrying amount at 31 December	**1,205**	**438**	**136**	**419**	**2,198**

1) No land and buildings were mortgaged at 31 December 2019 and at 31 December 2018.

Property, plant and equipment	Land and buildings[1] DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment DKKm	Prepay-ments and assets under construction DKKm	Total property, plant and equipment DKKm
2018					
Cost at 1 January	3,323	1,763	819	245	6,150
Effect of foreign exchange differences	-	2	(2)	-	-
Transfers	61	36	12	(109)	-
Additions	41	32	30	197	300
Disposals	(116)	(68)	(46)	-	(230)
Cost at 31 December	**3,309**	**1,765**	**813**	**333**	**6,220**
Depreciation and impairment losses at 1 January	2,077	1,362	715	6	4,160
Effect of foreign exchange differences	-	1	(2)	-	(1)
Depreciation	95	96	35	-	226
Impairment losses	9	9	4	4	26
Disposals	(98)	(67)	(44)	-	(209)
Depreciation and impairment losses at 31 December	**2,083**	**1,401**	**708**	**10**	**4,202**
Carrying amount at 31 December	**1,226**	**364**	**105**	**323**	**2,018**

20. AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortization, depreciation and impairment losses	2019 DKKm	2018 DKKm
Cost of sales	1,024	1,002
Sales and distribution costs	89	42
Administrative expenses	26	24
Research and development costs	76	115
Total	**1,215**	**1,183**

NOTES 21-22

21. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Lundbeck implemented IFRS 16 *Leases* from 1 January 2019 and recognizes material lease agreements, which include lease agreements relating to office leases and similar, in accordance with the standard.

Amounts recognized in the income statement	DKKm
2019	
Expenses relating to short-term leases, not capitalized	4
Depreciation of right-of-use assets, land and buildings	70
Interest expenses relating to lease liabilities	7

Right-of-use assets	**Land and buildings** DKKm
2019	
Carrying amount at 1 January	441
Additions, including additions through acquisitions	76
Carrying amount at 31 December	476

Development in lease liabilities	**Balance at 1 January** DKKm	**Cash outflow** DKKm	**Non-cash flow** DKKm	**Balance at 31 December** DKKm
2019				
Lease liabilities	472	(67)	111	516
Total lease liabilities	**472**	**(67)**	**111**	**516**

The total cash outflow from lease agreements relating to office leases and similar amounted to DKK 74 million and includes repayment of lease liabilities and interest.

The maturity analysis of lease liabilities is provided in the table ‘Classification of and maturity dates for financial assets and financial liabilities’ in note 30 *Financial instruments*.

The differences between the impact of IFRS 16 *Leases* at 1 January 2019 on total assets and total liabilities (DKK 439 million cf. note 33 *General accounting policies*) and the opening balance of right-of-use assets (DKK 441 million) and lease liabilities (DKK 472 million), respectively, are due to assets and liabilities related to lease agreements already recognized in the balance sheet at 31 December 2018.

The table below shows reconciliation of the contractual obligations relating to rental of land and buildings and leasing of operating equipment at 31 December 2018 and the discounted value of lease liabilities relating to office leases and similar at 1 January 2019.

	DKKm
Future rental and lease payments at 31 December 2018	452
Future lease payments relating to operating equipment	(109)
Relief option for short-term leases	(4)
Value of reasonably certain extensions	182
Service components	(18)
Other	(6)
Lease liabilities before discounting at 1 January 2019	**497**
Effect from discounting	(25)
Lease liabilities at 1 January 2019	**472**

22. CONTRACTUAL OBLIGATIONS

Rental and lease obligations

Lundbeck implemented IFRS 16 *Leases* from 1 January 2019 and office leases and similar are considered material lease agreements and are recognized as leases. For further details, see note 21 *Right-of-use assets and lease liabilities.*

In 2018, obligations amounting to DKK 452 million related to rentals of land and buildings and leasing of operating equipment.

NOTES 22-24

22. CONTRACTUAL OBLIGATIONS – CONTINUED

Future rental and lease payments	**Land and buildings** DKKm	**Operating equipment** DKKm	**Total** DKKm
2018			
Within one year	76	49	125
Between one and five years	201	60	261
After five years	66	-	66
Total	**343**	**109**	**452**

In 2018, rental payments relating to office leases and similar and lease payments relating to operating equipment amounted to DKK 177 million.

Research and development milestones and collaborations
The Group has entered into a number of agreements relating to research and development. According to the agreements, Lundbeck is committed to pay certain milestones. At 31 December 2019, potential future milestone payments covering the coming ten-year period totalled up to approximately DKK 1,750 million (approximately DKK 1,700 million in 2018). In addition, the Group is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 10 million (DKK 31 million in 2018).

Sales milestones
Lundbeck is committed to pay certain commercial sales milestones. The amount depends on future sales.

Other purchase obligations
The Group has undertaken purchase obligations in the amount of DKK 1,828 million (DKK 300 million in 2018), the majority of which relate to service contracts. In addition, the Group has undertaken purchase obligations relating to property, plant and equipment in the amount of DKK 138 million (DKK 95 million in 2018). Furthermore, the Group has entered into service agreements amounting to DKK 290 million (DKK 255 million in 2018).

Contingent consideration
See note 11 *Contingent assets and contingent liabilities* for details on the obligations relating to contingent consideration.

23. AUDIT FEES

Deloitte Statsautoriseret Revisionspartnerselskab	**2019** DKKm	**2018** DKKm
Statutory audit	6	5
Other opinions	4	3
Tax consulting	1	1
Other services	9	2
Total	**20**	**11**

A few minor foreign subsidiaries are not audited by the parent company's auditor, a foreign business partner of the auditor, or by a recognized, international auditing firm.

The fee for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab, Denmark amounted to DKK 8 million (DKK 1 million in 2018) and consisted of assistance relating to M&A, finance and IT strategy projects and workshops, ERP system analysis, other auditor's reports on various statements for public authorities, and other accounting and tax advisory services.

24. NET FINANCIALS

	2019 DKKm	**2018** DKKm
Net interest income/(expenses) from financial assets and financial liabilities measured at amortized cost	(17)	29
Interest expenses relating to lease liabilities	(7)	-
Net gains/(losses) on securities and other financial assets measured at fair value through profit or loss, incl. dividends	(5)	(13)
Fair value adjustment of contingent consideration	(20)	-
Net exchange gains/(losses)	(55)	(24)
Net income/(expenses), other financial items	(23)	(4)
Net financials	**(127)**	**(12)**

Interest income from financial assets measured at amortized cost amounted to DKK 39 million (DKK 52 million in 2018), and interest expenses on financial assets and financial liabilities measured at amortized cost amounted to DKK 56 million (DKK 23 million in 2018).

NOTES 25-26

25. EARNINGS PER SHARE

	2019	2018
Profit for the year (DKKm)	**2,667**	**3,907**
Average number of shares ('000 shares)	199,120	199,066
Average number of treasury shares ('000 shares)	(427)	(391)
Average number of shares, excl. treasury shares ('000 shares)	**198,693**	**198,675**
Average number of warrants, fully diluted ('000 warrants)	22	61
Average number of shares, fully diluted ('000 shares)	**198,715**	**198,736**
Earnings per share, basic (EPS) (DKK)	**13.42**	**19.66**
Earnings per share, diluted (DEPS) (DKK)	**13.42**	**19.66**

Warrants not in the money are not included in the calculation of earnings per share, diluted (DEPS). Longer term, the warrants may have a dilutive effect on earnings per share, basic, and on earnings per share, diluted.

For additional information on incentive programs, see note 13 *Incentive programs*.

26. OTHER COMPREHENSIVE INCOME

	Before tax DKKm	Tax DKKm	After tax DKKm
2019			
Other comprehensive income recognized under foreign currency translation reserve in equity			
Exchange rate gains/losses on investments in foreign subsidiaries	135	-	135
Exchange rate gains/losses on additions to net investments in foreign subsidiaries	(136)	30	(106)
Hedging of net investments in foreign subsidiaries	62	(13)	49
Total	**61**	**17**	**78**
Other comprehensive income recognized under hedging reserve in equity			
Deferred exchange gains/losses, hedging	(337)	74	(263)
Deferred fair value of interest rate swaps	8	(2)	6
Exchange gains/losses, hedging (transferred to revenue)	322	(71)	251
Exchange gains/losses, hedging (transferred to intangible assets)	(17)	4	(13)
Total	**(24)**	**5**	**(19)**
Other comprehensive income recognized under retained earnings in equity			
Actuarial gains/losses	(61)	6	(55)
Total	**(61)**	**6**	**(55)**
Recognized in other comprehensive income	**(24)**	**28**	**4**

Exchange rate gains/losses on investments in foreign subsidiaries, a gain of DKK 135 million (DKK 287 million in 2018), and exchange rate gains/losses on additions to net investments in foreign subsidiaries, a loss of DKK 136 million (DKK 151 million in 2018), are primarily driven by developments in USD/DKK and GBP/DKK exchange rates.

NOTES 26-28

26. OTHER COMPREHENSIVE INCOME – CONTINUED

	Before tax DKKm	Tax DKKm	After tax DKKm
2018			
Other comprehensive income recognized under foreign currency translation reserve in equity			
Exchange rate gains/losses on investments in foreign subsidiaries	287	-	287
Exchange rate gains/losses on additions to net investments in foreign subsidiaries	(151)	34	(117)
Total	**136**	**34**	**170**
Other comprehensive income recognized under hedging reserve in equity			
Deferred exchange gains/losses, hedging	(319)	70	(249)
Exchange gains/losses, hedging (transferred to revenue)	(242)	53	(189)
Total	**(561)**	**123**	**(438)**
Other comprehensive income recognized under retained earnings in equity			
Actuarial gains/losses	15	(2)	13
Total	**15**	**(2)**	**13**
Recognized in other comprehensive income	**(410)**	**155**	**(255)**

27. INVENTORIES

	2019 DKKm	2018 DKKm
Raw materials and consumables	233	236
Work in progress	1,084	384
Finished goods and goods for resale	887	1,133
Total	**2,204**	**1,753**
Indirect costs of production	594	293
Writedown for the year, net	25	10
Inventories calculated at net realizable value	7	4

The total cost of goods sold included in cost of sales amounted to DKK 2,531 million (DKK 2,642 million in 2018).

Inventories of DKK 749 million (DKK 136 million in 2018) are expected to be utilized after more than 12 months.

28. SHARE CAPITAL

The share capital of DKK 996 million at 31 December 2019 is divided into 199,136,725 shares at a nominal value of DKK 5 each.

Share capital	2019 DKKm	2018 DKKm	2017 DKKm	2016 DKKm	2015 DKKm
At 1 January	996	995	988	987	982
Capital increase through exercise of warrants	-	1	7	1	5
At 31 December	**996**	**996**	**995**	**988**	**987**

Issued shares	2019 Number	2018 Number
At 1 January	199,104,996	199,047,808
Capital increase through exercise of warrants	31,729	57,188
At 31 December	**199,136,725**	**199,104,996**

NOTES 28-29

28. SHARE CAPITAL – CONTINUED

Treasury shares	Shares of DKK 5 nom. Number	Nominal value DKKm	Proportion of share capital %	Cost DKKm
2019				
Shareholding at 1 January	366,019	2	0.18	115
Share buyback	69,000	-	0.04	20
Shareholding at 31 December	**435,019**	**2**	**0.22**	**135**
2018				
Shareholding at 1 January	388,327	2	0.20	118
Share buyback	87,000	1	0.04	25
Shares used for funding incentive programs	(109,308)	(1)	(0.06)	(28)
Shareholding at 31 December	**366,019**	**2**	**0.18**	**115**

The parent company has only one class of shares, and all shares rank equally. The shares are negotiable instruments with no restrictions on their transferability.

In 2019, the parent company acquired treasury shares at a value of DKK 20 million (DKK 25 million in 2018), corresponding to 69,000 shares (87,000 shares in 2018). The shares were acquired to fund Lundbeck's long-term share-based incentive programs. No shares were used for this purpose in 2019 (109,308 in 2018).

The Board of Directors is authorized to issue new shares and raise the share capital of the parent company as set out in article 4 of the parent company's Articles of Association.

The share capital is in compliance with the capital requirements of the Danish Companies Act and the rules of Nasdaq Copenhagen.

In 2019, employees exercised warrants totaling DKK 4 million (DKK 7 million in 2018). The share premium in this connection was DKK 4 million (DKK 6 million in 2018).

29. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Defined contribution plans

The major defined contribution plans cover employees in Australia, Canada, Denmark, Finland, South Korea, Sweden, the UK and the US. The cost of defined contribution plans, representing contributions to the plans, amounted to DKK 231 million in 2019 (DKK 214 million in 2018).

Defined benefit plans

The Group has defined benefit plans in a few countries. The most important plans comprise current and former employees in Germany and the UK.

The defined benefit plan in Germany is unfunded and administered by Lundbeck Germany. The defined benefit plan in the UK is funded and constituted under a trust, whose assets are legally separated from the Group. Both plans entitle the employees to an annual pension on retirement based on the service and salary level until retirement.

Retirement benefit obligations and similar obligations	2019 DKKm	2018 DKKm
Present value of defined benefit plans	537	455
Fair value of plan assets	(275)	(247)
Defined benefit plans at 31 December	**262**	**208**
Other obligations of a retirement benefit nature	33	27
Retirement benefit obligations and similar obligations at 31 December (non-current)	**295**	**235**

NOTE 29

29. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

Assumptions for the most important plans	2019 %	2018 %
Discount rate	0.65-2.00	1.70-3.00
Inflation rate	1.75-1.85	1.75-2.10
Pay rate increase	0.00-2.50	0.00-2.80
Pension increase	1.75-2.75	1.75-3.00
Age-weighted staff resignation rate	0-8	0-8
Expected return on plan assets	2.00	3.00

The most significant assumptions used in the calculation of the obligation for defined benefit plans are discount rate and inflation rate. An increase in the discount rate of 0.25 of a percentage point would result in a decrease in the obligation of approximately DKK 22 million (DKK 19 million in 2018) and vice versa. An increase in the inflation rate of 0.25 of a percentage point would result in an increase in the obligation of approximately DKK 8 million (DKK 7 million in 2018) and vice versa. The sensitivity analysis indicates how a change in the individual assumptions would change the obligation. However, the assumptions will most likely be correlated and consequently result in a different obligation.

Fair value of the plan assets	2019 DKKm	2018 DKKm
Shares	52	53
Bonds	46	40
Property	17	15
Insurance contracts	147	132
Other assets	13	7
Total	**275**	**247**

Shares and bonds are measured at fair value based on quoted prices in an active market. Property, insurance contracts and other assets are not based on quoted prices in an active market.

Change in present value of defined benefit plans	2019 DKKm	2018 DKKm
Present value of defined benefit plans at 1 January	455	481
Effect of foreign exchange differences	13	2
Past service costs	-	1
Pension expenses	6	6
Interest expenses relating to the obligations	10	10
Experience adjustments	14	1
Adjustments relating to financial assumptions	75	(12)
Adjustments relating to demographic assumptions	(18)	1
Benefits paid	(16)	(34)
Employee contributions	1	1
Settlements	-	(2)
Curtailments	(3)	-
Present value of defined benefit plans at 31 December	**537**	**455**

Change in fair value of plan assets	2019 DKKm	2018 DKKm
Fair value of plan assets at 1 January	247	256
Effect of foreign exchange differences	13	1
Interest income on plan assets	7	6
Experience adjustments	10	5
Administration fees	(1)	(1)
Contributions	8	8
Benefits paid	(10)	(27)
Employee contributions	1	1
Settlements	-	(2)
Fair value of plan assets at 31 December	**275**	**247**

NOTES 29-30

29. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

Expenses recognized in the income statement	2019 DKKm	2018 DKKm
Past service costs	-	1
Pension expenses	6	6
Curtailments	(3)	-
Finance costs	3	4
Administration fees	1	1
Total	**7**	**12**

Amount recognized in the statement of comprehensive income	2019 DKKm	2018 DKKm
Actuarial (gains)/losses	61	(15)
Total	**61**	**(15)**
Realized return on plan assets	**17**	**11**

The benefit under unfunded defined benefit plans is paid directly by the Group. In some countries, the future contribution to funded defined benefit plans depends on the development in salaries, administrative fees and regular premiums, and in other countries on the surplus/deficit according to local requirements. The weighted average duration of the obligation is 16 years (15 years in 2018). The expected contribution to defined benefit plans for 2020 is DKK 16 million (DKK 15 million for 2019).

Other obligations of a retirement benefit nature

An obligation of DKK 33 million (DKK 27 million in 2018) was recognized at Group level to cover other obligations of a retirement benefit nature, which primarily include termination benefits in a number of subsidiaries. These benefit payments are conditional upon specified requirements being met.

30. FINANCIAL INSTRUMENTS

Foreign currency risks

Foreign currency management is handled centrally by the parent company. Currency management focuses on risk mitigation and is carried out in conformity with the Group's Treasury Policy, as approved by the Board of Directors.

The parent company hedges a part of the Group's anticipated revenue in selected currencies for a period of 12-18 months using forward exchange contracts and in some cases currency options. Hedging is performed on a rolling basis each month. The forward exchange contracts and currency options are classified as hedging instruments when meeting the accounting criteria for hedge accounting according to IFRS 9 *Financial Instruments*. Unhedged cash flows are sold spot. Changes in the fair value of all instruments meeting the criteria for hedge accounting are recognized in other comprehensive income as they arise. At maturity of the hedge contracts, the final effect is transferred from other comprehensive income and recognized in the income statement or balance sheet together with the hedged item.

Forward exchange contracts and currency options that do not meet the hedge accounting criteria are classified as trading contracts, and changes in the fair value are recognized under net financials as they arise.

Cash flow timing is the main source for evaluating the risk of hedge ineffectiveness. Lundbeck did not have any hedge ineffectiveness in 2019 and 2018.

NOTE 30

30. FINANCIAL INSTRUMENTS – CONTINUED

Net foreign exchange contracts, hedging of cash flows

Forward exchange contracts (against DKK)	Contract amount according to hedge accounting DKKm	Fair value at year-end recognized in other comprehen-sive income/ other receivables DKKm	Fair value at year-end recognized in other comprehen-sive income/ other payables DKKm	Realized exchange gains/losses for the year recognized in the income statement/ balance sheet DKKm	Average hedge prices of existing forward exchange contracts DKK	Maturity
2019						
CAD	300	-	(9)	(17)	492.68	Oct. 2020
CNY	289	1	(3)	(25)	93.79	Oct. 2020
JPY	344	4	(2)	(17)	6.15	Nov. 2020
USD	2,594	2	(74)	(210)	640.47	Oct. 2020
Other currencies	1,364	3	(25)	(31)		Dec. 2020
Total		**10**	**(113)**	**(300)**		
2018						
CAD	355	7	-	2	482.16	Nov. 2019
CNY	390	-	(10)	(8)	91.10	Sep. 2019
JPY	282	-	(9)	8	5.74	Oct. 2019
USD	4,411	28	(88)	237	632.01	Jan. 2020
Other currencies	1,039	12	(16)	3		Dec. 2019
Total		**47**	**(123)**	**242**		

Currency option contracts (against DKK)	Contract amount according to hedge accounting DKKm	Fair value at year-end recognized in other comprehen-sive income/ other receivables DKKm	Fair value at year-end recognized in other comprehen-sive income/ other payables DKKm	Realized exchange gains/losses for the year recognized in the income statement/ balance sheet DKKm	Average hedge prices of existing option contracts DKK	Maturity
2019						
USD	-	-	-	(5)	-	-
2018						
USD	656	7	(2)	-	655.75	May 2019

Net foreign exchange contracts, trading

In 2019, Lundbeck realized a trading loss of DKK 70 million, primarily due to the exchange of DKK and EUR to USD to pay for the acquisition of Alder Biopharmaceuticals, Inc. in October 2019.

There were no outstanding forward exchange contracts relating to trading in December 2019. There were no material forward exchange contracts relating to trading in 2018.

NOTE 30

30. FINANCIAL INSTRUMENTS – CONTINUED

Monetary assets and monetary liabilities for the main currencies at 31 December

	2019 DKKm	2018 DKKm
Monetary assets		
CAD	78	50
CNY	111	261
EUR	330	245
GBP	18	27
USD	595	564
Monetary liabilities		
CAD	-	1
CNY	-	-
EUR	3,866	62
GBP	81	45
USD	5,486	42

Monetary assets and monetary liabilities include trade receivables, other receivables, securities, cash, bank debt (including interest rate swaps), lease liabilities, trade payables, other payables, deferred taxes and income taxes. The balances exclude all intra-group balances, and from 2019 Lundbeck also excludes monetary assets and monetary liabilities in entities where the currency of the assets/liabilities and the functional currency are identical. The comparative figures for 2018 have been restated accordingly.

Estimated impact on profit for the year and equity from a 5% increase in year-end exchange rates of the major currencies

	CAD DKKm	CNY DKKm	GBP DKKm	USD DKKm
2019				
Profit for the year	4	-	(11)	2
Equity	(11)	(15)	(17)	(396)
2018				
Profit for the year	2	10	(8)	4
Equity	(16)	(10)	(10)	(243)

The profit impact includes foreign exchange differences relating to intra-group balances that are not eliminated in the consolidated financial statements. The calculation of the estimated impact is based on the functional currency of the entities where the monetary assets and liabilities are located.

The equity impact includes primarily exchange rate adjustment of bank loans in foreign currencies, foreign exchange differences on outstanding hedging contracts and the total profit impact of monetary assets and monetary liabilities. From 2019, Lundbeck does not include exchange rate adjustments of equity in foreign subsidiaries or exchange rate adjustments of additions to net investments in foreign subsidiaries. The comparative figures for 2018 have been restated accordingly.

The main impact on equity in 2019 comes from bank loans denominated in USD and outstanding USD/DKK foreign exchange hedging contracts. In 2018, the equity effect came mainly from outstanding USD/DKK foreign exchange hedging contracts.

Due to Denmark's long-standing fixed exchange rate policy against the euro and the expected continuation of this policy, the foreign currency risk for euro is considered immaterial, and euro is therefore not included in the table above.

Interest rate risks

Interest rate risk management is handled centrally by the parent company. Through the Group's Treasury Policy, the Board of Directors has approved the limits for borrowing and investment. Loans secured by property must be approved by the Board of Directors. To hedge the interest rate risk on loans, the Board of Directors has approved the use of Interest Rate Swaps (IRS), Caps, Floors and Forward Rate Agreements (FRAs).

Lundbeck's exposure to interest rate risk derives mainly from the EUR drawdown under the revolving credit facility. The interest rate on the USD drawdown is to a large extent fixed by interest rate swaps for the full expected loan period. To hedge the equity risk in Lundbeck's US operations, the DKK-term loan is swapped to fixed USD debt through a cross-currency interest rate swap. The interest rate exposure therefore primarily relates to developments in the interest rate of EUR; see note 7 *Bank debt and borrowings* for further details. There were no derivatives related to interest rate risk in 2018.

An interest rate change on bank debt, including interest rate swaps, of one percentage point would reduce/increase profit for the year before tax by DKK 38 million (DKK 0 million in 2018) and increase/reduce equity by DKK 63 million in 2019 (DKK 0 million in 2018) on an annual basis.

NOTE 30

30. FINANCIAL INSTRUMENTS – CONTINUED

Pursuant to the Group's Treasury Policy, the securities portfolio consists of individual Danish mortgage bonds. The amount invested in the securities portfolio was DKK 4 million at 31 December 2019 (DKK 3,030 million in 2018). To manage the interest rate risk on the portfolio, Lundbeck applies a modified duration target capped at three years for the entire portfolio. At 31 December 2019, the securities portfolio had a duration of 3 months (23 months in 2018), which translates into a gain/loss of DKK 0 million (DKK 58 million in 2018) if interest rates should fall/rise by one percentage point.

Classification of and maturity dates for financial assets and financial liabilities

	Within 1 year DKKm	Between 1 and 5 years DKKm	After 5 years DKKm	Total DKKm	Effective interest rates %
2019					
Financial assets					
Securities	4	-	-	4	0-1
Financial assets measured at fair value through profit or loss	**4**	**-**	**-**	**4**	
Derivatives to hedge future cash flows	18	-	-	18	0
Derivatives to hedge net investments	62	-	-	62	0
Financial assets used as hedging instruments	**80**	**-**	**-**	**80**	
Receivables[1]	3,540	101	-	3,641	0
Cash and bank balances	3,008	-	-	3,008	(1)-10
Financial assets measured at amortized cost	**6,548**	**101**	**-**	**6,649**	
Other financial assets designated at fair value through profit or loss	**-**	**-**	**60**	**60**	0
Total financial assets	**6,632**	**101**	**60**	**6,793**	

1) Including other receivables recognized in non-current assets.

	Within 1 year DKKm	Between 1 and 5 years DKKm	After 5 years DKKm	Total DKKm	Effective interest rates %
2019					
Financial liabilities					
Derivatives to hedge future cash flows	113	-	-	113	0
Financial liabilities used as hedging instruments	**113**	**-**	**-**	**113**	
Bank debt	2,000	7,062	-	9,062	0-3
Lease liabilities	79	229	208	516	1-2
Other payables	6,984	59	-	7,043	0
Financial liabilities measured at amortized cost	**9,063**	**7,350**	**208**	**16,621**	
Total financial liabilities	**9,176**	**7,350**	**208**	**16,734**	

See note 11 *Contingent assets and contingent liabilities* for details on the obligations relating to contingent consideration.

The amounts in the tables are exclusive of interest. At 31 December 2019, the expected interest expenses on bank debt, including interest rate swaps, for the following 12 months totaled approximately DKK 160 million (DKK 0 million in 2018).

NOTE 30

30. FINANCIAL INSTRUMENTS – CONTINUED

	Within 1 year DKKm	Between 1 and 5 years DKKm	Total DKKm	Effective interest rates %
2018				
Financial assets				
Securities	13	3,017	3,030	0-1
Financial assets measured at fair value through profit or loss	**13**	**3,017**	**3,030**	
Derivatives to hedge future cash flows	54	-	54	0
Financial assets used as hedging instruments	**54**	**-**	**54**	
Receivables[1]	3,062	86	3,148	0
Cash and bank balances	3,605	-	3,605	(1)-3
Financial assets measured at amortized cost	**6,667**	**86**	**6,753**	
Other financial assets designated at fair value through profit or loss	**-**	**70**	**70**	0
Total financial assets	**6,734**	**3,173**	**9,907**	
Financial liabilities				
Derivatives to hedge future cash flows	125	-	125	0
Financial liabilities used as hedging instruments	**125**	**-**	**125**	
Other payables	7,009	72	7,081	0
Financial liabilities measured at amortized cost	**7,009**	**72**	**7,081**	
Total financial liabilities	**7,134**	**72**	**7,206**	

1) Including other receivables recognized in non-current assets.

Financial assets and financial liabilities measured or disclosed at fair value	Level 1 DKKm	Level 2 DKKm	Level 3 DKKm
2019			
Financial assets			
Securities[1]	4	-	-
Other financial assets[1]	20	-	40
Derivatives[1]	-	80	-
Total	**24**	**80**	**40**
Financial liabilities			
Contingent consideration[1]	-	-	1,224
Derivatives[1]	-	113	-
Total	**-**	**113**	**1,224**
2018			
Financial assets			
Securities[1]	3,030	-	-
Other financial assets[1]	31	-	39
Derivatives[1]	-	54	-
Total	**3,061**	**54**	**39**
Financial liabilities			
Derivatives[1]	-	125	-
Total	**-**	**125**	**-**

1) Measured at fair value.

NOTES 30-32

30. FINANCIAL INSTRUMENTS – CONTINUED

The fair value of securities is based on publicly quoted prices of the invested assets. The fair value of derivatives is calculated by applying recognized measurement techniques, whereby assumptions are based on the market conditions prevailing at the balance sheet date. The fair value of contingent consideration is calculated as the discounted cash outflows (DCF method) from future milestone payments, taking probability of success into consideration. The fair value adjustment of contingent consideration amounts to DKK 20 million and is the result of changes in the time value of money.

The carrying amount of other receivables, trade receivables, prepayments, bank debt, other debt, trade payables and other payables is believed to be equal to or close to fair value.

31. RELATED PARTIES

Lundbeck's related parties

- The parent company's principal shareholder, Lundbeckfonden (Lundbeckfond Invest A/S), Scherfigsvej 7, 2100 Copenhagen, Denmark.
- Companies in which Lundbeckfonden exercises controlling influence, including ALK-Abelló A/S and Falck A/S.
- Members of the parent company's registered Executive Management and Board of Directors as well as close relatives of these persons.
- Companies in which members of the parent company's registered Executive Management and Board of Directors as well as close relatives of these persons exercise controlling influence.

Transactions and balances with Lundbeckfonden

There have been the following transactions and balances with Lundbeckfonden:

- Payment of dividends of DKK 1,648 million in 2019 (DKK 1,099 million in 2018).
- Payment of provisional tax of DKK 100 million in 2019 (DKK 100 million in 2018) for the parent company and Danish subsidiaries.
- Refund of residual tax of DKK 70 million in 2019 (DKK 133 million in 2018) for the parent company and Danish subsidiaries.
- Interest income of DKK 0 million in 2019 (income of DKK 20 million in 2018).

Lundbeckfonden exercises controlling influence on H. Lundbeck A/S.

Transactions and balances with the ALK Group

There have been no transactions or balances with the ALK Group.

Transactions and balances with the Falck Group

There have been no material transactions or balances with the Falck Group.

Transactions and balances with the registered Executive Management and the Board of Directors

In addition to the transactions with members of the registered Executive Management and the Board of Directors outlined in note 8 *Staff costs* and note 13 *Incentive programs*, the parent company has paid dividends on shares held by members of the registered Executive Management and the Board of Directors in H. Lundbeck A/S. At 31 December 2019 and 31 December 2018, there were no balances with the registered Executive Management and the Board of Directors.

Transactions and balances with other related parties

Other than the above, there have been no material transactions or balances with other related parties.

32. SUBSIDIARIES

	Purpose	Share of voting rights and ownership %
Lundbeck Argentina S.A., Argentina	Sales and distribution	100
Lundbeck Australia Pty Ltd, Australia, including	Sales and distribution	100
- CNS Pharma Pty Ltd, Australia	Sales and distribution	100
Lundbeck Austria GmbH, Austria	Sales and distribution	100
Lundbeck S.A., Belgium	Sales and distribution	100
Lundbeck Brasil Ltda., Brazil	Sales and distribution	100
Lundbeck Canada Inc., Canada	Sales and distribution	100
Lundbeck Chile Farmacéutica Ltda., Chile	Sales and distribution	100
Lundbeck (Beijing) Pharmaceuticals Consulting Co., Ltd., China	Sale services	100
Lundbeck Colombia S.A.S., Colombia	Sales and distribution	100
Lundbeck Croatia d.o.o., Croatia	Sale services	100
Lundbeck Czech Republic s.r.o., Czech Republic	Sales and distribution	100
Lundbeck China Holding A/S in voluntary liquidation, Denmark	Other	100
Lundbeck Export A/S, Denmark	Sales and distribution	100
Lundbeck Insurance A/S, Denmark	Other	100
Lundbeck Pharma A/S, Denmark	Sales and distribution	100
Lundbeck Eesti A/S, Estonia	Sales and distribution	100
OY H. Lundbeck AB, Finland	Sales and distribution	100
Lundbeck SAS, France	Sales and distribution	100

NOTE 32

32. SUBSIDIARIES – CONTINUED

	Purpose	Share of voting rights and ownership %
Sofipharm SA, France, including	Other	100
- Laboratoire Elaiapharm SA, France	Production	100
Lundbeck GmbH, Germany	Sales and distribution	100
Lundbeck Hellas S.A., Greece	Sales and distribution	100
Lundbeck HK Limited, Hong Kong	Sales and distribution	100
Lundbeck Hungária KFT, Hungary	Sales and distribution	100
Lundbeck India Private Limited, India	Sales and distribution	100
Lundbeck (Ireland) Ltd., Ireland	Sales and distribution	100
Lundbeck Israel Ltd., Israel	Sales and distribution	100
Lundbeck Italia S.p.A., Italy	Sales and distribution	100
Lundbeck Pharmaceuticals, Italy S.p.A., Italy, including	Production	100
- Archid S.A., Luxembourg	Sales and distribution	100
Lundbeck Japan K.K., Japan	Sale services	100
Lundbeck Korea Co., Ltd., Republic of Korea	Sales and distribution	100
SIA Lundbeck Latvia, Latvia	Sale services	100
UAB Lundbeck Lietuva, Lithuania	Sale services	100
Lundbeck Malaysia SDN. BHD., Malaysia	Sales and distribution	100
Lundbeck México, SA de CV, Mexico	Sales and distribution	100
Lundbeck B.V., The Netherlands	Sales and distribution	100
Prexton Therapeutics B.V., The Netherlands, including	Other	100
- Prexton Therapeutics S.A., Switzerland	Research and development	100
Lundbeck New Zealand Limited, New Zealand	Other	100
H. Lundbeck AS, Norway	Sales and distribution	100
Lundbeck Pakistan (Private) Limited, Pakistan	Sales and distribution	100
Lundbeck America Central S.A., Panama	Sales and distribution	100
Lundbeck Peru S.A.C., Peru	Sales and distribution	100
Lundbeck Philippines Inc., Philippines	Sales and distribution	100
Lundbeck Business Service Centre Sp.z.o.o., Poland	Other	100
Lundbeck Poland Sp.z.o.o., Poland	Sales and distribution	100
Lundbeck Portugal - Produtos Farmacêuticos Unipessoal Lda, Portugal	Sales and distribution	100
Lundbeck Romania SRL, Romania	Sales and distribution	100
Lundbeck RUS OOO, Russian Federation	Sale services	100

	Purpose	Share of voting rights and ownership %
Lundbeck Singapore PTE. LTD., Singapore	Sales and distribution	100
Lundbeck Slovensko s.r.o., Slovakia	Sales and distribution	100
Lundbeck Pharma d.o.o., Slovenia	Sales and distribution	100
Lundbeck South Africa (Pty) Limited, South Africa, including	Sales and distribution	100
- H. Lundbeck (Proprietary) Limited, South Africa	Other	100
Lundbeck España S.A., Spain	Sales and distribution	100
H. Lundbeck AB, Sweden	Sales and distribution	100
Lundbeck (Schweiz) AG, Switzerland	Sales and distribution	100
Lundbeck İlaç Ticaret Limited Şirketi, Turkey	Sales and distribution	100
Lundbeck Group Ltd. (Holding), UK, including	Other	100
- Lundbeck Limited, UK	Sales and distribution	100
- Lundbeck Pharmaceuticals Ltd., UK	Other	100
- Lifehealth Limited, UK	Other	100
- Lundbeck UK LLP, UK[1]	Other	100
Lundbeck USA Holding LLC, USA, including	Other	100
- Lundbeck LLC, USA, including	Sales and distribution	100
- Chelsea Therapeutics International, Ltd., USA, including	Other	100
- Lundbeck NA Ltd., USA	Other	100
- Lundbeck Pharmaceuticals LLC, USA	Other	100
- Lundbeck Research USA, Inc., USA	Other	100
- Lundbeck La Jolla Research Center, Inc., USA, including	Research and development	100
- Abide Therapeutics (UK) Limited, UK	Other	100
- Lundbeck Seattle BioPharmaceuticals, Inc., USA, including	Research and development	100
- Alder Biopharmaceuticals Pty., Ltd., Australia	Other	100
- Alder Biopharmaceuticals Limited, Ireland	Other	100
- Alderbio Holding LLC ("ANEV"), USA	Other	100
Lundbeck de Venezuela, C.A., Venezuela	Sales and distribution	100

1) Lundbeck UK LLP is owned by Lundbeck Group Ltd. (Holding), Lundbeck Limited and Lifehealth Limited, all of which have H. Lundbeck A/S as their direct or ultimate parent company.

In 2019, Lundbeck acquired Abide Therapeutics, Inc. (which has subsequently been renamed Lundbeck La Jolla Research Center, Inc.) and Alder BioPharmaceuticals, Inc. (which has subsequently been renamed Lundbeck Seattle BioPharmaceuticals, Inc.).

NOTES 32-33

32. SUBSIDIARIES – CONTINUED

In 2018, Lundbeck acquired Prexton Therapeutics B.V., The Netherlands, and Prexton Therapeutics S.A., Switzerland. Lundbeck Pharmaceuticals Consulting (Shanghai) Co., Ltd., China was liquidated in 2018.

33. GENERAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act, including the Danish Statutory Order on Adoption of IFRS.

The consolidated financial statements are presented in Danish kroner (DKK), which is also the functional currency of the parent company.

The consolidated financial statements have been prepared in accordance with the new and revised standards (IFRS/IAS) and interpretations (IFRIC), which apply to the financial year. Changes in accounting policies are described below. No other changes have been made to the accounting policies that have affected recognition and measurement in the current or previous years.

Changes in accounting policies
Lundbeck has implemented IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments* from 1 January 2019.

Lundbeck has adopted the modified retrospective approach for the implementation of IFRS 16 *Leases* from 1 January 2019, and therefore comparative information has not been restated. As a consequence, on adoption of IFRS 16 *Leases*, the Group recognized material lease liabilities and right-of-use assets in relation to these leases, which had previously been classified as operating leases under the principles of IAS 17 *Leases*. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet at 1 January 2019. The new accounting policies are disclosed below.

The implementation of IFRS 16 *Leases* impacts Lundbeck as a lessee, as material lease agreements are recognized in the balance sheet as right-of-use assets, respectively lease liabilities which are measured at the present value of future lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities was 1.3% at 1 January 2019. Right-of-use assets are depreciated over the lease term like other assets such as property, plant and equipment, and interest is calculated on the lease liabilities. Consequently, the change impacts the presentation in the income statement, balance sheet and cash flow statement. Accordingly, the recognition of material lease agreements with a remaining lease term of more than 12 months resulted in an increase of total assets and total liabilities of DKK 439 million at 1 January 2019.

In applying IFRS 16 *Leases* for the first time, Lundbeck has used the following practical expedients:
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for operating leases with a remaining lease term of less than 12 months at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Lundbeck followed most of the guidelines in IFRIC 23 for accounting for uncertainty over income tax treatments before the implementation date. However, as the provision for uncertainties over tax treatments is now recognized on a gross basis, and not as previously at a net amount, total assets and total liabilities have increased by DKK 63 million at 1 January 2019. At the same time, the provision for uncertainties over tax treatments was reclassified from deferred tax liabilities to income taxes payable. In accordance with the transitional provisions of IFRIC 23, comparative figures have not been restated.

Future IFRS changes
At the date of the publication of the consolidated financial statements, a number of new and amended standards and interpretations have not yet come into effect or have not yet been adopted by the EU and have therefore not been incorporated in the consolidated financial statements.

None of the new standards and interpretations or amendments of these are expected to have a material impact on future consolidated financial statements.

RECOGNITION AND MEASUREMENT
Consolidated financial statements
The consolidated financial statements comprise the parent company H. Lundbeck A/S and entities controlled by the parent company.

NOTE 33

33. GENERAL ACCOUNTING POLICIES – CONTINUED

Acquisition of businesses
Newly acquired businesses or newly formed companies are recognized in the consolidated financial statements from the date of acquisition, which is also the date when control is obtained. Acquired businesses are accounted for using the acquisition method, according to which identifiable assets, liabilities and contingent liabilities of the acquired businesses are measured at fair value at the time of acquisition. The most material identifiable assets and liabilities recognized include product rights, goodwill and deferred tax. Account is taken of the tax effect of revaluations made. The cost of the acquired business is the fair value of the consideration paid plus the fair value of contingent consideration, if any. Transaction costs are recognized in the income statement.

Positive differences (goodwill) between the cost of a business and the fair value of the acquired identifiable assets, liabilities and contingent liabilities are recognized under intangible assets. Negative differences (negative goodwill) between the cost of a business and the fair value of the acquired identifiable assets, liabilities and contingent liabilities are recognized in the income statement at the time of acquisition. Goodwill arising from an acquired business may be adjusted up to one year following the acquisition if additional information about the fair value at the time of acquisition of assets, liabilities and contingent liabilities acquired is obtained after the acquisition. However, goodwill will not be recognized by an amount exceeding expected future income from the acquiree.

Product rights are measured based on expected future cash flows using the discounted cash flow method (DCF method). The expected future cash flows are estimated based on key parameters like probability of success, revenue, earnings, working capital and discount rate. These key parameters are based on market research, historical data and analogues (comparable products).

Contingent consideration is measured at fair value at the time of acquisition. Any subsequent remeasurements will be recognized in financial items. Contingent consideration is calculated as the discounted cash outflows from future payments, which depend on predefined milestones being reached, taking probability of success into consideration. Goodwill and adjustments to fair value are accounted for as assets and liabilities in the acquiree and translated at the exchange rate at the balance sheet date.

See note 2 *Significant accounting estimates and judgments* for a description of the valuation of intangible assets and the fair value measurement of contingent consideration.

Purchase of individual assets and liabilities
Acquisitions are evaluated to determine whether they constitute a business combination in accordance with IFRS 3 *Business Combinations* or a purchase of individual assets and liabilities.

Acquired assets and liabilities that do not constitute a business are recognized at cost, i.e. no goodwill or negative goodwill is recognized.

The consideration paid is allocated among the acquired assets and liabilities. Transaction costs are capitalized as part of the consideration paid.

Deferred tax assets or liabilities arising from temporary differences at initial recognition are not recognized.

Translation of foreign currency
On initial recognition, transactions denominated in foreign currencies are translated at standard rates which approximate the exchange rates at the transaction date. Exchange differences arising between the exchange rates at the transaction date and the exchange rates at the date of payment are recognized in the income statement under net financials.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. The differences between the exchange rates at the balance sheet date and the rates at the time of recognition or settlement are recognized in the income statement under net financials.

On recognition of foreign subsidiaries having a functional currency different from that used by the parent company, items in the income statement are translated at monthly average exchange rates, and non-monetary and monetary balance sheet items are translated at the exchange rates at the balance sheet date. Exchange differences arising on translating the income statements and the balance sheets of foreign subsidiaries are recognized in other comprehensive income.

Exchange gains/losses on translation of receivables from and payables to subsidiaries that are considered part of the parent company's overall net investment in subsidiaries are recognized in other comprehensive income.

NOTE 33

33. GENERAL ACCOUNTING POLICIES – CONTINUED

Financial instruments
Forward exchange contracts and other derivatives are initially recognized in the balance sheet at fair value on the contract date and subsequently remeasured at fair value at the balance sheet date. The fair value of derivatives is determined by applying recognized measurement techniques, whereby assumptions are based on the market conditions prevailing at the balance sheet date. Positive and negative fair values are included in other receivables and other payables, respectively.

Changes in the fair value of derivatives classified as hedging instruments and meeting the criteria for hedging future cash flows are recognized in other comprehensive income. On recognition of hedged items, income and expenses relating to such hedging transactions are transferred from other comprehensive income and recognized in the same line item as the hedged item.

Changes in the fair value of derivatives not qualifying for hedge accounting are recognized in the income statement under net financials as they arise.

Securities, equity investments recognized in other financial assets, derivatives and contingent consideration measured at fair value are classified according to the fair value hierarchy as belonging to levels 1-3 depending on the valuation method applied.

INCOME STATEMENT

Revenue
Revenue comprises invoiced sales for the year less returned goods, sales discounts, rebates and revenue-based taxes. Revenue is recognized when the goods are delivered at the agreed destination. Moreover, revenue includes licensing income and royalties from out-licensed products, non-refundable downpayments and milestone payments relating to research and development collaborations, and income from collaborations on commercialization of products.

See note 1 *Significant accounting policies* for a description of the accounting treatment of licensing income and income from research collaborations.

Cost of sales
Cost of sales comprises cost of goods sold, which includes the cost of raw materials, transport costs, consumables and goods for resale, direct labour and indirect costs of production, including operating costs, and amortization/depreciation and impairment losses relating to product rights and manufacturing facilities.

Sales and distribution costs
Sales and distribution costs comprise costs incurred for the sale and distribution of the Group's products sold during the year. This includes costs incurred for sales campaigns, training and administration of the sales force and for direct distribution, marketing and promotion. Also included are salaries and other costs for the sales, distribution and marketing functions, amortization/depreciation and impairment losses and other indirect costs.

Administrative expenses
Administrative expenses comprise expenses incurred for the management and administration of the Group, i.e. salaries and other expenses relating to e.g. management, HR, IT and finance functions as well as amortization/depreciation and impairment losses and other indirect costs.

Research and development costs
Research and development costs comprise costs incurred for the Group's research and development functions, i.e. salaries, amortization/depreciation and impairment losses and other indirect costs as well as costs relating to research and development collaborations.

Research costs are always recognized in the income statement as they are incurred.

Development costs are recognized in the income statement as they are incurred. Development costs are capitalized only if a number of specific criteria are deemed to have been met.

See note 1 *Significant accounting policies* for a description of the conditions for capitalizing development costs.

Other operating items
Other operating items comprise other income and expenses relating to operating activities of a secondary nature. Other operating items include integration and transaction costs relating to material acquisitions, income and expenses relating to legal settlements and material gains and losses on the sale or retirement of items of property, plant and equipment.

Net financials
Net financials comprise:
- Interest income and expenses for the year
- Interest expenses relating to lease liabilities
- Realized and unrealized fair value adjustment of financial assets, including cash and securities that are included in the Group's documented investment strategy

NOTE 33

33. GENERAL ACCOUNTING POLICIES – CONTINUED

- Fair value adjustment of contingent consideration
- Fair value adjustment of other financial liabilities
- Realized and unrealized gains and losses on items denominated in foreign currencies, forward exchange contracts and other derivatives not qualifying for hedge accounting
- Realized and unrealized fair value adjustments and dividends from equity investments classified as other financial assets measured at fair value through profit or loss
- Other financial income and expenses

Tax
The parent company and Danish subsidiaries are jointly taxed with the principal shareholder, Lundbeckfonden (Lundbeckfond Invest A/S), and its Danish subsidiaries. The current Danish corporate income tax liability is allocated among the companies of the tax pool in proportion to their taxable income (full allocation subject to reimbursement in respect of tax losses).

Tax for the year, which consists of the year's current tax and the change in deferred tax, is recognized in the income statement as regards the amount that can be attributed to the net profit or loss for the year, in other comprehensive income as regards the amount that can be attributed to items in other comprehensive income, and in equity as regards the amount that can be attributed to items in equity. The effect of foreign exchange differences on deferred tax is recognized in the balance sheet as part of the movements in deferred tax.

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

BALANCE SHEET
Intangible assets
Goodwill
On initial recognition, goodwill is measured and recognized as the excess of the cost over the fair value of the acquired assets, liabilities and contingent liabilities. Goodwill is not amortized, but is tested for impairment at least annually or when there is indication of impairment.

Development projects
Development costs are recognized in the income statement as they are incurred unless the conditions for capitalization have been met. Development costs are capitalized only if the development projects are clearly defined and identifiable and where the technical rate of utilization of the project, the availability of adequate resources and a potential future market or development opportunity can be demonstrated. Furthermore, such costs are capitalized only where the intention is to manufacture, market or use the project, when the cost can be measured reliably and when it is probable that the future earnings can cover production, sales and distribution costs, administrative expenses and development costs.

After completion of the development work, development costs are amortized over the estimated useful life. The maximum amortization period for development projects protected by intellectual property rights is consistent with the remaining patent protection period of the rights concerned. Ongoing development projects are tested for impairment at least annually or when there is indication of impairment.

Product rights and other intangible assets
Acquired intellectual property rights in the form of product rights, patents, licences, customer relationships and software are measured at cost less accumulated amortization and impairment losses. The cost of software comprises the cost of planning, labor and costs directly attributable to the project.

Product rights are amortized over the economic lives of the underlying products, which in all material aspects are currently between five and twelve years. Licences are amortized over the period of agreement. Amortization commences when the asset is ready to be brought into use, i.e. at the time of commercialization.

Amortization is recognized in the income statement under cost of sales and research and development costs, respectively. Borrowing costs to finance the manufacture of intangible assets are recognized in the cost price if such borrowing costs relate to the production period. Other borrowing costs are expensed.

Gains and losses on the disposal of development projects, patents and licences are measured as the difference between the selling price less cost to sell and the carrying amount at the time of sale.

See note 2 *Significant accounting estimates and judgments* for a description of the calculation of the recoverable amount of intangible assets and impairment testing.

Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost includes the costs of purchase and expenses directly attributable to the purchase until the asset is ready for use. The cost of self-constructed assets includes costs directly attributable to the construction of the asset.

NOTE 33

33. GENERAL ACCOUNTING POLICIES – CONTINUED

Borrowing costs to finance the construction of property, plant and equipment are recognized in the cost price if such borrowing costs relate to the production period. Other borrowing costs are expensed.

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets:

Buildings	30 years
Installations	10 years
Plant and machinery	3-10 years
Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements, max.	10 years

Depreciation methods, useful lives and residual values are re-assessed annually.

Costs incurred that increase the recoverable amount of an asset are added to the value of the asset as an improvement and are depreciated over the estimated useful life of the improvement.

Gains or losses on the sale or retirement of items of property, plant and equipment are calculated as the difference between the carrying amount and the selling price less cost to sell or discontinuance costs. Gains and losses are recognized in the income statement; normally in a separate line item or, if considered immaterial to the understanding of the consolidated financial statements, in the same line item as the associated depreciation.

Right-of-use assets are recognized at the present value of future payments in accordance with the lease agreements, reduced by lease incentives and increased by upfront payments. Right-of-use assets are depreciated over the lease term and depreciation is recognized in the income statement. Right-of-use assets are presented as part of property, plant and equipment.

See further information on the recognition of lease agreements in the section *Lease liabilities* on page 82.

Impairment
As required by IFRS, intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill acquired in a business combination are tested for impairment annually, irrespective of whether there is any indication of impairment.

Intangible assets and property, plant and equipment in use with finite useful lives are tested for impairment if there is indication of impairment. Prior impairment losses not relating to goodwill are reviewed for possible reversal at each reporting date. Impairment losses are reversed only if the assumptions and estimates underlying the impairment calculation have changed. Indications of impairment or reversal of impairment include the following:
- Research and development results for a product
- Changes in expected cash flow due to lower sales expectations
- Changes in technology
- Changes in assumptions about future use
- Changes in market and legal risks
- Changes in cost structure

Other financial assets
Equity investments that are not investments in associates are classified as other financial assets.

On initial recognition, equity investments are measured at fair value. They are subsequently measured at fair value at the balance sheet date, and changes to the fair value are recognized under net financials or other comprehensive income according to an individual decision for each equity investment.

Inventories
Raw materials, packaging and goods for resale are measured at the latest known cost at the balance sheet date, which is equivalent to cost computed according to the FIFO method. Work in progress and finished goods manufactured by Lundbeck are measured at cost, i.e. the cost of raw materials, consumables, direct labor and indirect costs of production. Indirect costs of production include materials, labor, maintenance of and depreciation on machines, factory buildings and equipment used in the manufacturing process as well as the cost of factory administration and management. Indirect costs of production are allocated based on the normal capacity of the production plant.

Inventories are written down to net realizable value if it is lower than the cost price. The net realizable value of inventories is calculated as the selling price less costs of completion and costs incurred to execute the sale. The net realizable value is determined having regard to marketability, obsolescence and expected selling price developments.

NOTE 33

33. GENERAL ACCOUNTING POLICIES – CONTINUED

Receivables
Current receivables comprise trade receivables and other receivables arising in the Group's normal course of business.

Other receivables recognized in financial assets are financial assets with fixed or determinable cash flows that are not quoted in an active market and are not derivative financial instruments.

On initial recognition, receivables are measured at fair value and subsequently at amortized cost, which usually corresponds to the nominal value less writedowns to counter the risk of losses. Writedowns are calculated using the 'full lifetime expected credit losses' method, whereby the likelihood of non-fulfilment throughout the lifetime of the financial instrument is taken into consideration. A provision account is used for this purpose.

Securities
On initial recognition, securities, including the bond portfolio, which are included in the Group's documented investment strategy for excess liquidity and recognized under current assets, are measured at fair value. The securities are subsequently measured at fair value at the balance sheet date. The fair value is based on officially quoted prices of the invested assets. Both realized and unrealized gains and losses are recognized in the income statement under net financials.

Equity
Dividends
Proposed dividends are recognized as a liability at the time of adoption of the dividend resolution at the Annual General Meeting (the time of declaration). Dividends expected to be paid in respect of the year are included in the line item *Profit for the year* in the statement of changes in equity.

Treasury shares
Acquisition and sale of treasury shares as well as dividends are recognized directly in equity under retained earnings.

Share-based payments
Share-based incentive programs in which employees may opt to buy shares in the parent company and in which shares are granted to employees (equity-settled programs) are measured at the equity instruments' fair value at the date of grant and recognized under staff costs as and when the employees obtain the right to buy/receive the shares. The offsetting item is recognized directly in equity under retained earnings.

Share price-based incentive programs in which employees have the difference between the agreed price and the actual share price settled in cash (cash-settled programs) are measured at fair value at the date of grant and recognized under staff costs as and when the employees obtain the right to such difference settlement. The cash-settled programs are subsequently remeasured on each balance sheet date and upon final settlement, and any changes in the fair value of the programs are recognized under staff costs. The offsetting item is recognized under liabilities until the time of the final settlement.

Retirement benefit obligations
Periodical payments to defined contribution plans are recognized in the income statement at the due date, and any contributions payable are recognized in the balance sheet under current liabilities.

The present value of the Group's liabilities relating to future pension payments under defined benefit plans is measured on an actuarial basis once a year on the basis of the pensionable period of employment up to the time of the actuarial valuation. The calculation of present value is based on assumptions of future developments of salary, interest, inflation, mortality and disability rates and other factors. Present value is computed exclusively for the benefits to which the employees have earned entitlement through their employment with Lundbeck. Pension expenses, finance costs and administration fees are recognized in the income statement under staff costs. Actuarial gains and losses are recognized in the statement of comprehensive income as they are calculated and cannot subsequently be recycled through profit or loss.

The present value of the defined benefit plan liability is recognized less the fair value of the plan assets, and any net obligation is recognized in the balance sheet under non-current liabilities. Any net asset is recognized in the balance sheet as a financial asset, taking into consideration, where relevant, the provisions of IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

Corporate income tax and deferred tax
Current tax payables and receivables, including contributions payable and receivable under the Danish joint taxation scheme, are recognized in the balance sheet, computed as tax calculated on the taxable income for the year adjusted for provisional tax paid.

Deferred tax is recognized on all temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recognized on temporary differences arising either on initial recognition of goodwill or from a transaction that is not a business combination if the temporary difference ascertained at the time of the initial recognition affects neither the financial result nor the taxable income. The tax value of the assets is calculated based on the planned use of the individual assets.

NOTE 33

33. GENERAL ACCOUNTING POLICIES – CONTINUED

Deferred tax is measured on the basis of the income tax rates and tax rules in force in the respective countries at the balance sheet date. Changes in deferred tax resulting from changed income tax rates or tax rules are recognized in the income statement.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognized in the balance sheet at the value at which the assets are expected to be realized, either through an offset against deferred tax liabilities or as net tax assets to be offset against future positive taxable income.

Changes in deferred tax concerning expenses for share-based payments are generally recognized in the income statement. However, if the amount of the tax deduction exceeds the related cumulative expense, it indicates that the tax deduction relates not only to an operating expense, but also to an equity item. In such a case, the excess of the associated current or deferred tax is recognized directly in equity.

Deferred tax in respect of recaptured losses previously deducted in foreign subsidiaries is recognized on the basis of a specific assessment of each individual subsidiary.

Balances on interest deductibility limitations calculated according to the provisions of the Danish Corporation Tax Act are allocated between the jointly-taxed companies according to a joint taxation agreement and are allocated between the companies that are subject to deductibility limitation in proportion to their share of the total limitation. Deferred tax liabilities in respect of these balances are recognized in the balance sheet, whereas deferred tax assets are recognized only if the criteria for recognition of deferred tax assets are met.

See note 2 *Significant accounting estimates and judgments* for a description of accounting estimates and judgments related to deferred tax.

Provisions
Provisions consist of different types of provisions, including provisions for product returns, pending lawsuits and restructuring.

See note 2 *Significant accounting estimates and judgments* for a description of accounting estimates and judgments relating to pending lawsuits.

In connection with a restructuring of the Group, provisions are made only for liabilities set out in a specific restructuring plan on the basis of which the parties affected can reasonably expect that the Group will carry out the restructuring, either by starting to implement the plan or announcing its main components.

Provisions are recognized when the Group has a legal or constructive obligation that arises from past events and it is probable that an outflow of financial resources will be required to settle the obligation.

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

Return obligations imposed on the company are recognized in the balance sheet under provisions.

Debt
Bank debt is recognized at the time of the raising of the loan at the fair value of the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost, which is equivalent to the capitalized value when the effective rate of interest is used. The difference between the proceeds and the nominal value is recognized in the income statement under net financials over the loan period.

Other payables, which include trade payables, sales discounts and rebates as well as debt to public authorities etc., are measured at amortized cost.

Contingent consideration recognized in connection with the acquisition of businesses is measured at fair value.

Other debt is subsequently measured at amortized cost.

Lease liabilities
Lease liabilities are recognized at the present value of future payments in accordance with the lease agreements and include the present value of future payments relating to reasonably certain extensions. Interest on the lease liabilities is calculated using Lundbeck's incremental borrowing rate and recognized under net financials. The lease liabilities are reduced by any instalments paid to the lessor.

Lundbeck uses the same incremental borrowing rate for lease agreements with similar characteristics.

Changes to lease agreements after initial recognition are accounted for either as a modification to an existing agreement, a separate agreement or a partial disposal depending on the nature of the change. Changes will result in changes to both the lease liability and the right-of-use asset.

Lundbeck recognizes lease agreements under Land and buildings in accordance with IFRS 16 *Leases*. Other lease agreements are considered immaterial. Short-term, low-value and immaterial lease agreements are recognized as operating expenses on a straight-line basis over the lease term.

NOTES 33-35

33. GENERAL ACCOUNTING POLICIES – CONTINUED

CASH FLOW STATEMENT

The consolidated cash flow statement is presented in accordance with the indirect method and shows the composition of cash flows, divided into operating, investing and financing activities, and cash and bank balances at the beginning and end of the year.

Cash comprises cash and bank balances.

Cash flows denominated in foreign currencies, including cash flows in foreign subsidiaries, are translated at the average exchange rates for the year as they approximate the actual exchange rates at the date of payment. Cash and bank balances at year-end are translated at the exchange rates at the balance sheet date, and the effect of exchange gains/losses on cash and bank balances is shown as a separate line item in the cash flow statement.

SEGMENT INFORMATION

Lundbeck is engaged in research, development, production and sale of pharmaceuticals for the treatment of psychiatric and neurological disorders.

Business segments are identified based on internal management reporting. In Lundbeck, the internal management reporting follows the Group's accounting policies. In accordance with the internal management reporting, on the basis of which Management evaluates and allocates resources, the Group's activities are in the business segment of pharmaceuticals for the treatment of psychiatric and neurological disorders.

Management makes decisions in respect of the future strategy, draws up action plans and defines targets for the Group's future operations.

The geographic distribution is shown for revenue and is based on the external customers' geographical location.

34. EVENTS AFTER THE BALANCE SHEET DATE

No events of importance to the Annual Report have occurred during the period from the balance sheet date until the presentation of the consolidated financial statements.

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 6 February 2020.

FINANCIAL STATEMENTS OF THE PARENT COMPANY

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NOTES

INCOME STATEMENT

1 January – 31 December 2019

	Notes	2019 DKKm	2018 DKKm
Revenue		9,464	8,607
Cost of sales	3	1,720	1,675
Gross profit		**7,744**	**6,932**
Sales and distribution costs	3	3,104	2,907
Administrative expenses	3, 4	563	469
Research and development costs	3	2,510	2,992
Other operating items, net	5	(20)	275
Profit from operations (EBIT)		**1,547**	**839**
Income from investments in subsidiaries	6	3,217	306
Financial income	7	187	120
Financial expenses	7	290	288
Profit before tax		**4,661**	**977**
Tax on profit for the year	8	215	141
Profit for the year	9	**4,446**	**836**

BALANCE SHEET – ASSETS

At 31 December 2019

	Notes	2019 DKKm	2018 DKKm
Product rights	10, 13	5,368	1,643
Other rights	10, 13	77	74
Projects in progress	10, 13	90	84
Intangible assets		**5,535**	**1,801**
Land and buildings	11, 13	1,028	1,053
Plant and machinery	11, 13	212	154
Other fixtures and fittings, tools and equipment	11, 13	31	24
Prepayments and assets under construction	11, 13	255	222
Right-of-use assets	12, 13	203	-
Property, plant and equipment		**1,729**	**1,453**
Investments in subsidiaries	6	10,769	5,914
Receivables from subsidiaries		3,779	957
Other investments		58	69
Other receivables		3	4
Deferred tax assets	14	450	732
Financial assets		**15,059**	**7,676**
Non-current assets		**22,323**	**10,930**
Inventories	15	**687**	**572**
Trade receivables		572	638
Receivables from subsidiaries		6,393	1,648
Joint taxation contribution		169	62
Other receivables		244	93
Prepayments		69	50
Receivables		**7,447**	**2,491**
Securities		**-**	**3,012**
Cash and bank balances		**2,125**	**3,068**
Current assets		**10,259**	**9,143**
Assets		**32,582**	**20,073**

BALANCE SHEET – EQUITY AND LIABILITIES

At 31 December 2019

	Notes	2019 DKKm	2018 DKKm
Share capital		996	996
Proposed dividends		816	2,389
Retained earnings		9,693	6,073
Equity		**11,505**	**9,458**
Provisions	16	50	50
Bank debt	17	7,062	-
Lease liabilities	12	190	-
Payables to subsidiaries	18	2,064	5,709
Non-current liabilities		**9,366**	**5,759**
Provisions	16	100	182
Bank debt		2,000	-
Trade payables		1,920	1,872
Lease liabilities	12	13	-
Payables to subsidiaries		7,069	2,353
Other payables		609	449
Current liabilities		**11,711**	**4,856**
Liabilities		**21,077**	**10,615**
Equity and liabilities		**32,582**	**20,073**

STATEMENT OF CHANGES IN EQUITY

1 January – 31 December 2019

	Notes	Share capital DKKm	Proposed dividends DKKm	Retained earnings DKKm	Equity DKKm
Equity at 1 January		**996**	**2,389**	**6,073**	**9,458**
Distributed dividends, gross		-	(2,389)	-	(2,389)
Dividends received, treasury shares		-	-	5	5
Profit for the year	9	-	816	3,630	4,446
Deferred exchange gains/losses, hedging		-	-	(354)	(354)
Exchange gains/losses, hedging (transferred to the hedged items)		-	-	322	322
Capital increase through exercise of warrants		-	-	4	4
Buyback of treasury shares		-	-	(20)	(20)
Incentive programs		-	-	27	27
Tax on transactions in equity	8	-	-	6	6
Equity at 31 December		**996**	**816**	**9,693**	**11,505**

For further details, see note 28 *Share capital* in the consolidated financial statements.

NOTES 1-2

1. MANAGEMENT REVIEW OF THE PARENT COMPANY

The following is considered significant to the understanding of the financial statements of the parent company.

Financial income and expenses
Financial income and expenses are impacted by a net exchange loss of DKK 136 million relating to translation of receivables from and payables to subsidiaries that are considered part of the overall investment in subsidiaries. Further, financial income and expenses are impacted by a gain of DKK 27 million relating to the translation of external loans used for hedging an intercompany loan and a gain of DKK 43 million relating to interest rate swaps used to swap the external loans from floating into fixed interest rates.

Intangible assets
Following Lundbeck's acquisition of Alder BioPharmaceuticals, Inc., the parent company H. Lundbeck A/S has acquired part of the product rights relating to eptinezumab for DKK 4,019 million.

Securities
To finance Lundbeck's acquisition of Alder BioPharmaceuticals, Inc., the parent company has sold its holding of securities. See note 4 *Business combinations* in the consolidated financial statements for more details on the acquisition.

Bank debt
To finance Lundbeck's acquisition of Alder BioPharmaceuticals, Inc., the parent company has raised external loans and transferred the funds to Lundbeck USA Holding. The parent company thus has a large external loan and a large intercompany receivable from Lundbeck USA Holding. See note 4 *Business combinations* in the consolidated financial statements for more details on the acquisition.

Treasury shares
See note 28 *Share capital* in the consolidated financial statements for details on developments in the holding of treasury shares.

2. ACCOUNTING POLICIES

The financial statements of the parent company H. Lundbeck A/S have been prepared in accordance with the provisions of the Danish Financial Statements Act for class D enterprises. The financial statements are presented in Danish kroner (DKK).

Changes in accounting policies
To achieve a fair presentation of the parent company's assets, liabilities and results, from 1 January 2019, lease agreements are recognized in accordance with the principles in IFRS 16 *Leases,* and uncertain tax positions are recognized in accordance with IFRIC 23 *Uncertainty over Income Tax Treatments* as described in note 33 *General accounting policies* in the consolidated financial statements. In accordance with the transition provisions of the Danish Financial Statements Act, IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments*, comparative figures have not been restated.

H. Lundbeck A/S implemented IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The implementation has not had any impact on current revenue contracts, but may impact the timing of recognition of some future milestone payments from collaborations and licensing arrangements.

The implementation of IFRS 16 *Leases* has resulted in depreciation and interest being recognized in the income statement in the amount of DKK 13 million and less than DKK 1 million, respectively, in 2019, whereas leasing costs in the amount of DKK 12 million have not been recognized as operating expenses. The impact on profit from operations and net profit is DKK 1 million and DKK 1 million, respectively. In addition, the implementation has resulted in right-of-use assets and lease liabilities being recognized in the balance sheet at 31 December 2019 in the amount of DKK 203 million. The impact on equity is equal to the impact on net profit. These obligations were previously disclosed in the notes to the financial statements.

The implementation of IFRIC 23 *Uncertainty over Income Tax Treatments* has resulted in a potential future income from double tax reliefs of foreign transfer pricing adjustments of DKK 63 million at 31 December 2019, which is recognized under current tax receivables. In accordance with IFRIC 23, comparative figures have not been restated.

Differences relative to the accounting policies for the consolidated financial statements
The parent company's accounting policies for recognition and measurement are consistent with the accounting policies for the consolidated financial statements with the exceptions stated below.

Income statement
Income from investments in subsidiaries
Income from investments in subsidiaries includes dividends from subsidiaries, which are recognized in the parent company's income statement when the parent company's right to receive such dividends has been approved, as well as any impairment losses or reversals of impairment losses on investments in subsidiaries.

NOTES 2-3

2. ACCOUNTING POLICIES – CONTINUED

Exchange gains/losses on translation of receivables from and payables to subsidiaries
Exchange gains/losses on translation of receivables from and payables to subsidiaries that are considered part of the overall investment in subsidiaries are recognized in the income statement under financial items.

Balance sheet
Investments in subsidiaries
Investments in subsidiaries are measured at cost in the parent company's financial statements. Where the recoverable amount of the investments is lower than cost, the investments are written down to this lower value. In addition, cost is written down to the extent that dividends distributed exceed the accumulated earnings in the subsidiary since the acquisition date.

Other financial assets
On initial recognition, investments are measured at cost, corresponding to fair value plus directly attributable costs. They are subsequently measured at fair value at the balance sheet date. Any fair value adjustments on equity investments recognized in other comprehensive income in the consolidated financial statements are recognized under financial items in the parent company's income statement.

Statement of changes in equity
Pursuant to the Danish Financial Statements Act, entries recognized in the statement of comprehensive income in the consolidated financial statements are recognized directly in the statement of changes in equity in the parent company's financial statements, except for entries concerning exchange gains/losses on translation of receivables from and payables to subsidiaries and entries concerning other financial assets.

Reserve for development costs
To the extent that development costs are capitalized, a reserve covering the capitalized development costs less amortization is recognized in equity.

Cash flow statement
As allowed under section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared as it is included in the consolidated cash flow statement.

3. STAFF COSTS

Wages and salaries, etc.

	2019 DKKm
Short-term staff benefits	1,359
Retirement benefits	122
Other social security costs	22
Equity- and cash-settled incentive programs	29
Total	**1,532**

	2019 DKKm	2018 DKKm
The year's staff costs are specified as follows:		
Cost of sales	406	396
Sales and distribution costs	95	63
Administrative expenses	333	247
Research and development costs	698	677
Total	**1,532**	**1,383**

Registered Executive Management
See note 8 *Staff costs* and note 13 *Incentive programs* in the consolidated financial statements.

Board of Directors
See note 8 *Staff costs* in the consolidated financial statements.

Number of employees

	2019
Average number of full-time employees in the financial year	1,734
Number of full-time employees at 31 December	1,766

Incentive programs
See note 13 *Incentive programs* in the consolidated financial statements.

NOTES 4-9

4. AUDIT FEES

Deloitte Statsautoriseret Revisionspartnerselskab	2019 DKKm	2018 DKKm
Statutory audit	3	2
Other services	8	1
Total	**11**	**3**

5. OTHER OPERATING ITEMS, NET

In 2019, other operating items, net, amounted to an expense of DKK 20 million relating to integration costs in connection with the acquisition of Alder BioPharmaceuticals, Inc.

In 2018, other operating items, net, amounted to an income of DKK 275 million deriving from a gain on divestment of office facilities in Denmark of DKK 48 million and income regarding legal settlements in Australia of DKK 227 million.

6. INVESTMENTS IN SUBSIDIARIES

	2019 DKKm
Cost at 1 January	5,944
Capital contributions to subsidiaries	4,858
Capital reduction in subsidiaries	(3)
Cost at 31 December	**10,799**
Impairment at 1 January	30
Impairment at 31 December	**30**
Carrying amount at 31 December	**10,769**

Income from investments in subsidiaries of DKK 3,217 million is dividends (DKK 306 million in 2018).

See note 32 *Subsidiaries* in the consolidated financial statements for an overview of subsidiaries.

7. FINANCIAL INCOME AND FINANCIAL EXPENSES

In 2019, financial income amounted to DKK 187 million (DKK 120 million in 2018), of which DKK 120 million (DKK 43 million in 2018) related to intra-group interest income, and financial expenses amounted to DKK 290 million (DKK 288 million in 2018), of which DKK 54 million (DKK 63 million in 2018) related to intra-group interest expenses.

8. TAX ON PROFIT FOR THE YEAR

	2019 DKKm	2018 DKKm
Current tax, joint taxation contribution	(81)	79
Prior-year adjustments, current tax	8	(114)
Prior-year adjustments, deferred tax	(19)	97
Change in deferred tax for the year	301	(44)
Total tax for the year	**209**	**18**
Tax for the year is composed of:		
Tax on profit for the year	215	141
Tax on transactions in equity	(6)	(123)
Total tax for the year	**209**	**18**

9. DISTRIBUTION OF PROFIT

	2019 DKKm	2018 DKKm
Proposed distribution of profit for the year		
Proposed dividends for the year	816	2,389
Transferred to/from distributable reserves	3,630	(1,553)
Total profit for the year	**4,446**	**836**
Proposed dividend per share (DKK)	**4.10**	**12.00**

The Board of Directors proposes that if warrants are exercised during the period from the Board of Directors' approval of the financial statements until the approval by the Annual General Meeting, total dividends be increased to maintain the proposed dividends per share of DKK 4.10. The total number of exercisable warrants was 26,985 at 31 December 2019.

NOTES 10-11

10. INTANGIBLE ASSETS

Intangible assets	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
Cost at 1 January	8,795	1,694	104	10,593
Transfers	-	40	(40)	-
Additions	4,019	10	46	4,075
Disposals	-	(8)	(17)	(25)
Cost at 31 December	**12,814**	**1,736**	**93**	**14,643**
Amortization and impairment losses at 1 January	7,152	1,620	20	8,792
Amortization	294	46	-	340
Disposals	-	(7)	(17)	(24)
Amortization and impairment losses at 31 December	**7,446**	**1,659**	**3**	**9,108**
Carrying amount at 31 December	**5,368**	**77**	**90**	**5,535**

1) In 2019, product rights not yet commercialized amounted to DKK 4,019 million (DKK 320 million in 2018).
2) Other rights and projects in progress primarily include items such as the IT system SAP. The amounts include directly attributable internal expenses.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Land and buildings DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment[1] DKKm	Prepayments and assets under construction DKKm	Total property, plant and equipment DKKm
Cost at 1 January	3,024	1,030	544	232	4,830
Transfers	50	69	11	(130)	-
Additions	10	28	6	163	207
Disposals	(6)	(19)	(16)	(10)	(51)
Cost at 31 December	**3,078**	**1,108**	**545**	**255**	**4,986**
Depreciation and impairment losses at 1 January	1,971	876	520	10	3,377
Depreciation	84	39	9	-	132
Impairment losses	1	-	-	-	1
Disposals	(6)	(19)	(15)	(10)	(50)
Depreciation and impairment losses at 31 December	**2,050**	**896**	**514**	**-**	**3,460**
Carrying amount at 31 December	**1,028**	**212**	**31**	**255**	**1,526**

1) Including leasehold improvements.

Pledged assets

No land and buildings were mortgaged at 31 December 2019. No other assets have been pledged.

NOTES 12-14

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Lundbeck implemented IFRS 16 *Leases* from 1 January 2019 and recognizes material lease agreements, which include lease agreements relating to office leases and similar in accordance with the standard. As a result, material lease agreements with a remaining lease period of more than 12 months resulted in an increase in total assets and total liabilities of DKK 216 million at 1 January 2019. Comparative figures have not been not restated.

Amounts recognized in the income statement	DKKm
2019	
Expenses relating to short-term leases, not capitalized	2
Depreciation of right-of-use assets, land and buildings	13

Right-of-use assets	**Land and buildings** DKKm
2019	
Carrying amount at 1 January	216
Carrying amount at 31 December	203

Maturity analysis	**Lease liabilities** DKKm
2019	
Within 1 year	13
Between 1 year and 5 years	50
After 5 years	140
Lease liabilities at 31 December	**203**

13. IMPAIRMENT

Impairment of intangible assets and property, plant and equipment
For details on impairment, see note 6 *Impairment* in the consolidated financial statements.

14. DEFERRED TAX

Temporary differences between assets and liabilities as stated in the financial statements and in the tax base	**Balance at 1 January** DKKm	**Adjustment of deferred tax at beginning of year** DKKm	**Movements during the year** DKKm	**Balance at 31 December** DKKm
Intangible assets	529	-	786	1,315
Property, plant and equipment	254	(28)	258	484
Inventories	195	-	41	236
Other items	(281)	24	(95)	(352)
Tax loss carryforwards etc.	(4,024)	(82)	379	(3,727)
Total temporary differences	**(3,327)**	**(86)**	**1,369**	**(2,044)**
Deferred (tax assets)/tax liabilities	**(732)**	**(19)**	**301**	**(450)**

The major assumptions relating to the recognition and measurement of tax assets are described in note 2 *Significant accounting estimates and judgments* in the consolidated financial statements.

Movements in deferred tax	**2019** DKKm	**2018** DKKm
Balance at 1 January	(732)	(785)
Movements relating to profit for the year	281	52
Movements relating to transactions in equity	1	1
Balance at 31 December	**(450)**	**(732)**

NOTES 15-20

15. INVENTORIES

	2019 DKKm	2018 DKKm
Raw materials and consumables	159	159
Work in progress	332	239
Finished goods and goods for resale	196	174
Total	**687**	**572**
Indirect costs of production	236	195
Writedown for the year, net	(5)	24

16. PROVISIONS

	2019 DKKm
Provisions at 1 January	232
Provisions used	(82)
Provisions at 31 December	**150**
Provisions break down as follows:	
Non-current provisions	50
Current provisions	100
Provisions at 31 December	**150**

Provisions of DKK 150 million at 31 December 2019 (DKK 232 million in 2018) related to restructuring programs. The parent company has entered into agreements with individual subsidiaries, under which the parent company will cover expected losses and obligations concerning the restructuring programs. The provisions in the parent company therefore cover such losses and obligations.

17. BANK DEBT

Bank debt falling due after more than five years from the balance sheet date amounted to DKK 0 million at 31 December 2019. There was no bank debt at 31 December 2018.

18. PAYABLES TO SUBSIDIARIES

Payables to subsidiaries falling due after more than five years from the balance sheet date amounted to DKK 2,064 million (DKK 5,709 million in 2018).

19. FINANCIAL INSTRUMENTS

Foreign currency management is handled by the parent company. See note 30 *Financial instruments* in the consolidated financial statements.

The fair value of derivatives at year-end is disclosed in note 30 *Financial instruments* in the consolidated financial statements. The fair value adjustment recognized in equity is disclosed in the statement of changes in equity in the financial statements of the parent company. All fair value adjustments are initially recognized in equity.

20. CONTRACTUAL OBLIGATIONS

Rental and lease obligations
Lundbeck implemented IFRS 16 *Leases* from 1 January 2019, and office leases and similar are considered material lease agreements and are recognized as leases. For further details, see note 12 *Right-of-use assets and lease liabilities*.

In 2018, the parent company had obligations relating to rental of offices and similar as well as operating equipment in the amount of DKK 108 million. Of this amount, DKK 88 million fell due after more than one year. In 2018, rental of offices and leasing of operating equipment in the amount of DKK 26 million was recognized in the income statement.

Research and development milestones and collaborations
The parent company has entered into a number of agreements relating to research and development. According to the agreements, Lundbeck is committed to pay certain milestones. At 31 December 2019, potential future milestone payments covering the coming ten-year period totalled up to approximately DKK 1,750 million (DKK 1,700 million in 2018). In addition, the parent company is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 10 million (DKK 31 million in 2018).

NOTES 20-21

20. CONTRACTUAL OBLIGATIONS – CONTINUED

Sales milestones
Lundbeck is committed to pay certain commercial sales milestones. The amount depends on future sales.

Other purchase obligations
The parent company has undertaken purchase obligations in the amount of DKK 155 million (DKK 113 million in 2018), the majority of which relate to service contracts. In addition, the parent company has undertaken purchase obligations relating to property, plant and equipment in the amount of DKK 83 million (DKK 55 million in 2018). Furthermore, the parent company has entered into service agreements amounting to DKK 210 million (DKK 252 million in 2018).

21. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Letters of intent
The parent company has entered into agreements to cover operating losses in certain subsidiaries.

As collateral for bank guarantees, the parent company has issued letters of intent to the banks in the amount of DKK 6 million (DKK 17 million in 2018) on behalf of subsidiaries.

Joint taxation
H. Lundbeck A/S is part of a Danish joint taxation scheme with Lundbeckfonden (Lundbeckfond Invest A/S including subsidiaries), according to which the company has partly a joint and several liability and partly a secondary liability with respect to corporate income taxes etc. for the jointly-taxed companies. In addition, H. Lundbeck A/S has partly a joint and several liability and partly a secondary liability with respect to any obligations to withhold tax on interest, royalties and dividends for these companies. However, in both cases the secondary liability is capped at an amount equal to the share of the capital of the company directly or indirectly owned by the ultimate parent company. The total tax obligation under the joint taxation scheme is shown in the financial statements of Lundbeckfond Invest A/S.

Pending legal proceedings
H. Lundbeck A/S is involved in a number of legal proceedings, including patent disputes, the most significant of which are described below. In the opinion of Management, the outcome of these proceedings will not have a material impact on the company's financial position or cash flows beyond the amount already provided for in the financial statements, or it is too uncertain to make a reliable provision. Such proceedings will, however, develop over time, and new proceedings may occur which could have a material impact on the company's financial position and/or cash flows.

In June 2013, Lundbeck received the European Commission's decision that the company's agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining Lundbeck EUR 93.8 million (approximately DKK 700 million). In September 2016, Lundbeck announced that the General Court of the European Union had delivered its judgment concerning Lundbeck's appeal against the European Commission's 2013 decision. Lundbeck's appeal was rejected by the General Court. Lundbeck has appealed the judgment to the European Court of Justice. Lundbeck paid and expensed the fine in the third quarter of 2013. An oral hearing was conducted by the European Court of Justice in January 2019. The Advocate General is expected to deliver her opinion to the European Court in March 2020, and a final judgment is expected during 2020 after the delivery of the opinion. So-called "follow-on claims" for reimbursement of alleged losses, resulting from alleged violation of competition law, often arise when decisions and fines issued by the European Commission are upheld by the European Court of Justice. Health authorities in the UK and The Netherlands have taken formal protective steps against Lundbeck with the principal purpose of preventing potential claims from being time-barred under the applicable statutes of limitation. Lundbeck expects no further material development in these matters until after the European Court of Justice has issued its final judgment.

In Canada, H. Lundbeck A/S and its subsidiary Lundbeck Canada Inc. are involved in three product liability class-action lawsuits relating to Cipralex®/Celexa® (two cases alleging various Celexa®-induced birth defects and one case against several SSRI manufacturers (incl. Lundbeck) alleging that SSRI (Celexa®/ Lexapro®) induces autism birth defect); two relating to Abilify Maintena® (alleging i.a. failure to warn about compulsive behavior side effects); and one relating to Rexulti® (also alleging i.a. failure to warn about compulsive behavior side effects). The cases are in the preliminary stages and as such there is significant uncertainty as to how these lawsuits will be resolved. Lundbeck strongly disagrees with the claims raised.

NOTES 21-23

21. CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

In 2018, the H. Lundbeck A/S and its subsidiary Lundbeck Australia Pty Ltd entered into settlements with three of the four generic companies involved in an Australian federal court case, in which Lundbeck was pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. Lundbeck received AUD 51.7 million (DKK 242 million) in 2018. In Lundbeck's case against the final generic company, Sandoz Pty Ltd, the Federal Court found that Sandoz Pty Ltd had infringed Lundbeck's escitalopram patent between 2009 and 2012 and awarded Lundbeck AUD 26.3 million in damages. Sandoz' appeal of the decision was heard on 8-10 May 2019 and a decision is expected in the first half of 2020. In the meantime, the Australian Patent Office has issued a license to exploit the patent to Sandoz for the entire period of infringement. The license may potentially remove the damages awarded to Lundbeck. Lundbeck has appealed this license decision.

Together with Takeda, H. Lundbeck A/S has instituted patent infringement proceedings against 16 generic companies that have applied for marketing authorization for generic versions of Trintellix® in the US. Two opponents have now withdrawn and the cases against the remaining 14 opponents continue. Decisions are expected shortly before the end of March 2021. Lundbeck has strong confidence in its vortioxetine patents. The FDA cannot grant marketing authorization to the generic companies unless they receive a decision in their favor. The compound patent, including patent term extensions, will expire in the US on 17 December 2026. Lundbeck has other patents relating to vortioxetine with expiry in the period until 2032.

Together with Otsuka, H. Lundbeck A/S has instituted patent infringement proceedings against several generic companies that have applied for marketing authorization for generic versions of Rexulti® in the US. Lundbeck has strong confidence in the Rexulti® patents. The FDA cannot grant marketing authorization in the US to the generic companies before the patents expire unless the generic companies receive decisions in their favor.

Product return obligations
H. Lundbeck A/S has product return obligations normal for the industry. Management does not expect any major losses from these obligations apart from the amount already recognized.

22. RELATED PARTIES

For information on related parties exercising controlling influence on H. Lundbeck A/S, see note 31 *Related parties* in the consolidated financial statements.

H. Lundbeck A/S is included in the consolidated financial statements of Lundbeckfonden.

H. Lundbeck A/S had transactions with subsidiaries during 2019. H. Lundbeck A/S's share of ownership of all subsidiaries is 100%. H. Lundbeck A/S did not enter into any transactions with other related parties that were not on an arm's length basis.

23. EVENTS AFTER THE BALANCE SHEET DATE

See note 34 *Events after the balance sheet date* in the consolidated financial statements.

MANAGEMENT STATEMENT

The Board of Directors and the registered Executive Management have today considered and approved the Annual Report of H. Lundbeck A/S for the financial year 1 January – 31 December 2019.

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 and the parent financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2019, the results of their operations and of the Group's cash flows for the financial year 1 January – 31 December 2019.

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

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

Copenhagen, 6 February 2020

REGISTERED EXECUTIVE MANAGEMENT

Deborah Dunsire
President and CEO

Lars Bang
Executive Vice President, Product Development & Supply

Anders Götzsche
Executive Vice President, CFO

Per Johan Luthman
Executive Vice President, Research & Development

Jacob Tolstrup
Executive Vice President, Commercial Operations

BOARD OF DIRECTORS

Lars Søren Rasmussen
Chairman of the Board

Lene Skole-Sørensen
Deputy Chairman of the Board

Henrik Andersen

Jeffrey Berkowitz

Lars Erik Holmqvist

Jeremy Max Levin

Rikke Kruse Andreasen
Employee representative

Henrik Sindal Jensen
Employee representative

Ludovic Tranholm Otterbein
Employee representative

INDEPENDENT AUDITOR'S REPORT

To the shareholders of H. Lundbeck A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of H. Lundbeck A/S for the financial year 1 January - 31 December 2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2019, and of the results of its operations and cash flows for the financial year 1 January - 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2019, and of the results of its operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

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.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

After H. Lundbeck A/S was listed on Nasdaq Copenhagen in 1999, we were appointed auditors at the Annual General Meeting held on 28 March 2000 for the financial year 2000. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 20 years up to and including the financial year 2019.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January - 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Rebates, discounts and allowances in the US
The Group provides rebates and discounts to customers in the US that fall under certain government mandated reimbursement arrangements, of which the most significant is Medicaid. These arrangements result in deductions to gross sales in arriving at revenue. The period passing between the sales to distributors and payment of a rebate to the government bodies may be several months and requires the unsettled amounts to be recognized as an accrual resulting in a reduction of gross sales.

The arrangements are complex and require significant judgment and estimation by Management in establishing an appropriate accrual for the unsettled amounts. This includes estimation of sales volumes subject to the rebates, estimation of applicable rebate rates, and estimation of the lag time described above.

At 31 December 2019, Management determined an accrual of DKK 1,057 million (2018: DKK 1,493 million).

We refer to notes 2, 9 and 33 in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

– continued

How the matter was addressed in our audit
We have evaluated and tested the appropriateness of the Group's processes for determining the accrual.

We obtained Management's accrual calculations under the reimbursement arrangements and evaluated the accuracy of the calculations and assumptions made by Management. We have assessed inputs and key assumptions and recalculated the rebate percentages.

We performed an analysis of the accrual balance by testing the payments made, we obtained and assessed the Group's estimate of the period from sale to payment of rebates, the sales volume and rebate rates applied, and analyzed expenses by reference to actual rebates paid in prior periods, as well as making inquiries to Management. We also considered the historical accuracy of the Group's accruals by comparing the actual rebate with the rebate percentage estimate utilized by Management to record the accrual, including performing a retrospective review of the prior period accrual compared to subsequent payments to evaluate the accuracy of Management's estimate and to identify any potential management bias.

Carrying value of goodwill and other intangible assets
At 31 December 2019, the Group has intangible assets of DKK 23,399 million comprising primarily product rights of DKK 17,876 million and goodwill of DKK 5,278 million (2018: DKK 3,496 million and DKK 4,300 million, respectively).

The carrying value of goodwill and other intangible assets relies on the discounted expected future cash flows (value in use) which are complex to determine and require significant judgment and estimation by Management. The estimates used for impairment evaluation include determination of market and sales potential, timing of product launches, patent expiry, profit margins and discount rate assumptions. There is a risk that the assets will be impaired if these future cash flows deviate negatively from the Group's expectations. In addition, there is a risk that previously recognized impairment losses should be reversed if significant positive changes in the initial circumstances that led to the recognition of impairment losses have occurred.

We refer to notes 2, 5, 6 and 33 in the consolidated financial statements.

How the matter was addressed in our audit
We have evaluated and tested the appropriateness of the Group's processes for evaluating intangible assets impairments as well as potential reversals.

We obtained the Group's impairment tests and assessed Management's assumptions, including impact of the expiry of patents and timing of product launches as well as an assessment of market potential and thereby assessment of future sales and earnings possibilities. We assessed:

- The impairment models applied to evaluate consistency with previous years
- The forecast of future cash flows by discussing it with Management and key employees
- Discount rates by testing the Group's weighted average cost of capital (WACC)
- The adjustments for risk factors included in the impairment models
- The probabilities of success for product rights not yet approved

We consulted with subject matter experts regarding the valuation methodologies applied and Management's assumptions

We obtained and evaluated Management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions. We also obtained and evaluated Management's analysis of potential reversals of impairment.

We also evaluated the impairment testing disclosures.

Deferred tax assets and liabilities
Measurement of deferred tax assets requires significant judgment and estimation by Management in assessing the expected future utilization of tax losses and tax credits. At 31 December 2019, the Group has recorded deferred tax assets relating to tax loss carryforwards etc. of DKK 1,695 million (2018: DKK 975 million).

We refer to notes 2, 15 and 33 in the consolidated financial statements.

How the matter was addressed in our audit
We have evaluated and tested the appropriateness of the Group's processes for assessing the recoverability of tax losses and tax credits carried forward.

INDEPENDENT AUDITOR'S REPORT

– continued

We evaluated Management's assumptions used for reasonableness, including the projections of taxable profit in the foreseeable future in the jurisdictions with tax losses and tax credits carried forward, the planned initiatives and the release and expiry of the tax losses and tax credits carried forward. We also consulted with tax experts regarding the valuation methodologies applied and Management's assumptions. We obtained and evaluated sensitivity analyses to quantify the possible impact of changes in key assumptions.

We evaluated the presentation and disclosure of the deferred tax assets in the consolidated financial statements.

Purchase price allocation (PPA) for acquisitions of businesses
On 29 May 2019, the Group acquired Abide Therapeutics Inc. (Abide) for a total recognized net purchase price of DKK 1,786 million, including the fair value of contingent consideration. On 22 October 2019, the Group acquired Alder BioPharmaceuticals Inc. (Alder) for a total recognized net purchase price of DKK 9,923 million, including the fair value of contingent consideration. In accordance with International Financial Reporting Standards, identifiable assets and liabilities acquired were recognized at fair value on acquisition.

The allocation of the purchase price in a business combination to the net assets, including intangible assets, tangible assets and financial assets acquired as well as contingent consideration, relies on assumptions and judgements made by Management.

The main asset identified by Management regarding Abide was product rights, while the main assets for Alder were product rights, deferred tax assets, inventories, and cash. Both acquisitions include fair value of contingent considerations. Management has performed fair value calculations which include key judgements in determining appropriate methodologies to value these assets and liabilities and applying appropriate assumptions in Management's accounting estimates, including forecasting revenue and cash flows, determining discount rate and expected success rates as well as assessing the timing and likelihood of future sales and development milestones used for determining the fair value of contingent considerations.

We refer to notes 2, 4 and 33 in the consolidated financial statements.

How the matter was addressed in our audit
We have evaluated and tested the appropriateness of the Group's processes for determining the PPA.

We assessed and challenged Management's assumptions used in identifying and determining the fair value of the acquired net assets, including:

- Inquired key employees about the process and judgements made.
- Evaluated Management's process for identifying the net assets acquired, including intangible assets, considering the rationale for the acquisition and the nature of the Abide and Alder businesses.
- Obtained supporting documentation of Management's accounting estimates and key assumptions.
- Consulted with subject matter experts regarding the valuation methodologies applied and Management's assumptions.
- Challenged the future cash flow projections by discussing them with Management and key employees.
- Tested the mathematically accuracy of the calculations in the models.

We also evaluated the presentation and disclosures relating to the business combinations in the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

– continued

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these 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.

INDEPENDENT AUDITOR'S REPORT

– continued

- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 6 February 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Erik Holst Jørgensen
State-Authorized Public Accountant
MNE no 9943

Sumit Sudan
State-Authorized Public Accountant
MNE no 33716

CORE RECONCILIATION

– Part of the Management review

As a general rule, Lundbeck adjusts for each non-recurring item that Management deems exceptional and which accumulates or is expected to accumulate to an amount exceeding a DKK 100 million threshold. Lundbeck's core reporting is a non-IFRS performance measurement. Lundbeck's core results, including core operating income (core EBIT) and core EPS, exclude:

Amortization of product rights

Impairment of intangible assets and property, plant and equipment

Major restructuring costs

Acquisition and integration costs, including:
- Accounting adjustments relating to the consolidation of material acquisitions and disposals of associates, products and businesses
- Costs associated with the integration of newly acquired companies
- Retention costs
- Transaction costs

Legal fees and settlements, including:
- Legal costs (external), charges (net of insurance recoveries) and expenses relating to settlement of litigations, government investigations and other disputes
- Income from settlements of litigations and other disputes

Core results

1 January – 31 December 2019

DKK million	Reported result	Amortization of product rights	Impairment	Major restructuring	Acquisition and integration costs	Legal fees and settlements	Divestments/ sales milestones	Core result
Revenue	17,036	-	-	-	-	-	-	17,036
Cost of sales	3,385	(854)	-	-	-	-	-	2,531
Gross profit	**13,651**	**854**	**-**	**-**	**-**	**-**	**-**	**14,505**
Sales and distribution costs	5,514	-	-	-	-	-	-	5,514
Administrative expenses	899	-	-	-	-	-	-	899
Research and development costs	3,116	-	-	-	-	-	-	3,116
Other operating items, net	(514)	-	-	-	514	-	-	-
Profit from operations (EBIT)	**3,608**	**854**	**-**	**-**	**514**	**-**	**-**	**4,976**
Net financials	(127)	-	-	-	-	-	-	(127)
Profit before tax	**3,481**	**854**	**-**	**-**	**514**	**-**	**-**	**4,849**
Tax on profit for the year	814	81	-	-	87	-	-	982
Profit for the year	**2,667**	**773**	**-**	**-**	**427**	**-**	**-**	**3,867**
Earnings per share, basic (EPS)	13.42	3.89	-	-	2.15	-	-	19.46

CORE RECONCILIATION

– continued

Divestments/milestones, including:

- Income/expenses from discontinued operations
- Gains/losses on divestments of assets
- Received or expensed upfront sales and development milestones

The adjusted core result is taxed at the underlying corporate tax rate.

Core results

1 January – 31 December 2018

DKK million	Reported result	Amortization of product rights	Impairment	Major restructuring	Acquisition and integration costs	Legal fees and settlements	Divestments/ sales milestones	Core result
Revenue	18,117	-	-	-	-	-	-	18,117
Cost of sales	3,456	(813)	-	-	-	-	-	2,643
Gross profit	**14,661**	**813**	**-**	**-**	**-**	**-**	**-**	**15,474**
Sales and distribution costs	5,277	-	-	-	-	-	-	5,277
Administrative expenses	762	-	-	-	-	-	-	762
Research and development costs	3,277	-	-	-	-	-	-	3,277
Other operating items, net	(44)	-	-	-	-	92	(48)	-
Profit from operations (EBIT)	**5,301**	**813**	**-**	**-**	**-**	**92**	**(48)**	**6,158**
Net financials	(12)	-	-	-	-	-	-	(12)
Profit before tax	**5,289**	**813**	**-**	**-**	**-**	**92**	**(48)**	**6,146**
Tax on profit for the year	1,382	78	-	-	-	(14)	(11)	1,435
Profit for the year	**3,907**	**735**	**-**	**-**	**-**	**106**	**(37)**	**4,711**
Earnings per share, basic (EPS)	19.66	3.69	-	-	-	0.54	(0.18)	23.71

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