

# Tax Policy

At Lundbeck, we are tirelessly dedicated to restoring brain health, so every person can be their best. Sustainability is vital to Lundbeck. We consider a fair tax policy and a robust management of this policy as part of our sustainability commitment.

We recognize that tax is fundamental for any country to finance its public services and infrastructure. Through direct and indirect tax payments, businesses are an important source of revenue for governments.

We support the recommendations such as the EU and OECD frameworks preventing Base Erosion and Profit Shifting (BEPS) ask companies to avoid facilitating tax strategies that artificially shift profits to low or no-tax locations where there is little or no economic activity.

Being compliant with applicable laws, regulations, guidelines and industry standards is at the foundation of being responsible. As stated in our Code of Conduct, our tax policy, local tax laws and regulations are observed when establishing collaborations and conducting business. We acknowledge that even legal and compliant transactions and structures may have reputational impact, if the underlying business reasons are not communicated in a clear and transparent manner.

This policy sets forward the principles by which we manage our tax affairs in a compliant, transparent and responsible manner.

## **Accountability and Governance**

**Tax is a core part of Lundbeck's corporate responsibility and governance and is overseen by the board of directors.**

The board of directors is accountable for the tax policy and the responsibility for our tax risk management lies with the CFO and is overseen by the Audit committee.

The operational management of Lundbecks tax affairs is handled by the Group Tax team. Group Tax is involved in all significant business development activities and no tax restructurings, optimization initiatives or significant transactions are carried out without involvement from Group Tax.

Group Tax is a team of appropriately qualified and trained tax professionals with the right level of experience, expertise and understanding of tax legislation and their impact on Lundbecks business. External advice is engaged in situations where a transactions or interpretation of tax legislation is outside the expertise of Group Tax.

The principles of the policy apply to all Lundbeck entities and are reflected in our internal operational guideline and in processes established to ensure that the policy is embedded in the daily operation. The expectations to officers in group entities related to responsible tax behavior are included in the operational guideline. Training and support are provided to ensure that the principles in the tax policy is understood by and adhered to in Lundbecks daily operations.

Lundbeck's Compliance Hotline provides opportunities for employees and all stakeholders to raise any issues or concerns related to business ethics including our tax strategy and management.

Group Tax systematically collects, maps and monitors tax risks in collaboration with relevant stakeholders in Lundbeck, and with tax advisors.

## **Tax Risk Management and Reporting**

**Tax Lundbeck has a low tolerance towards tax risks.**

Tax risks and key tax matters are reported to management on a quarterly basis. Material tax matters and tax risks are reported to and discussed with Audit Committee twice a year.

No tax optimization initiatives considered to impose a tax adjustment risk material to Lundbeck are implemented without involvement of Management and Audit Committee.

## **Compliance**

**Being compliant with applicable national and international tax rules and regulations is fundamental to Lundbeck. We are committed to comply with the tax legislation of the countries in which we operate and pay the right amount of tax at the right time, in the countries where we create value.**

We are committed to prepare and file all tax returns required, providing complete, accurate and timely disclosure to all relevant revenue authorities.

Our tax planning is based on reasonable interpretation of applicable law and is aligned with the substance of the economic and commercial activities of our business.

Complying with tax rules can be complex as the interpretation of legislation and case law may not always be clear and may change over time. We aim to always comply with the letter of the law as well as the legislators' intention with the law, while managing a competitive effective tax rate.

Where tax regulations are unclear or subject to interpretation, written advice or confirmation will be sought as appropriate to gain clarity, minimize tax risks and/or ensure that our position would, more likely than not, be settled in our favor.

We will not undertake transactions whose sole purpose is to create a tax benefit which was not the intention of the relevant tax rule.

## **Transfer Pricing**

The nature of being a global corporation implies that goods are sold, services are carried out and intangibles exploited between Lundbeck entities across geographical borders and between different tax regimes. Consequently, transfer pricing is particularly important when it comes to managing our tax affairs responsibly.

We pay close attention to transfer pricing requirements and focus on pricing the value of these intercompany transactions on arms-length basis according to best practice guidelines issued by the OECD. The guidelines ensure profits being taxed in the country, where the economic activities generating the profits are performed and where the value is created.

We consider the transfer pricing regulation equally important in all of the countries where we operate. At the same time, we must maintain the right balance between international and local tax requirements to minimize the consolidated transfer pricing adjustment risk for Lundbeck and limit double taxation.

To minimize tax risks and uncertainties regarding transfer pricing, we seek to obtain advance pricing agreements (bilateral binding rulings) with local tax authorities in key jurisdictions or jurisdictions with significant risks in cases where it is relevant and possible.

## Business Structure

**Our legal organization is driven by commercial considerations and is aligned with our business activities. We are not engaged in artificial or opaque structures that are intended for tax avoidance or have no commercial substance.**

The group structure as also presented in the annual report is driven by commercial considerations. Subsidiaries are generally owned directly by H. Lundbeck A/S unless local holdings are relevant for business purposes. Cross country ownership structures inherited as part of group acquisitions are winded up if they are not serving a commercial purpose.

Lundbeck does not use 'tax havens' to avoid taxes on activities which takes place elsewhere. Our presence in 'tax havens' is based on commercial potential for our pharmaceutical products in the specific jurisdiction, and the profit earned in these entities are in line with the profit for similar commercial activities in other countries.

Our effective tax rate in countries classified as tax haven by IMF and EU is illustrated in below table together with the rate for the jurisdictions.

### Tax Havens

Tax Jurisdiction	Effective Tax Rate	Corporate Income Tax Rate
Hong Kong*	12.12%	16.50%
Ireland	34.71%	12.50%
Luxembourg	21.50%	21.50%
Netherlands	21.00%	18.95%
Panama**	0.50%	25.00%
Singapore	20.83%	17.00%

\* Corporate tax rate is 8.25% for income up to HKD 2 million

\*\* Profit in Panama amounts to USD 0.1 million

We ensure profits being taxed in the jurisdictions, where economic activities generating the profits are performed and where value is created within the normal course of commercial activities; we do not use artificially structures to avoid establishing a taxable presence in jurisdictions where we do business.

Our tax principles extend to our relationships with employees, customers and contractors, and explicitly express our policy of not engaging in arrangements whose sole purpose is to create a tax benefit which is in excess of what is reasonably understood to be intended by relevant rules.

## Relationship with Authorities

**Where relevant, we seek to develop cooperative relationships with tax authorities, based on mutual respect, transparency and trust.**

We follow established procedures and channels for all dealing with tax authorities, government officials, ministers and other third parties, in a professional, courteous and timely manner.

We have an open and transparent dialogue with tax authorities and respond to relevant tax authority enquiries in a straightforward and timely manner to assist in the evaluation of a tax liability.

We are not formally engaged in tax governance collaborations however we endeavor to build relationships and engage proactively in constructive dialogues with tax authorities to discuss uncertainties related to significant transactions and risks.

We will seek to enter into an early dialogue with tax authorities, whenever possible, where there is significant uncertainty about how tax rules apply to our business.

Where there are misunderstandings of facts or law, we will seek to work with tax authorities to identify the issues and explore options to resolve any misunderstandings or disagreements. In situations where we cannot resolve disagreements with tax authorities through dialogue, we resolve our disagreements in the tax tribunals or courts to ensure the correct tax treatment.

If we seek rulings from tax authorities to confirm an applicable tax treatment, we do so based on full disclosure of all the relevant facts and circumstances.

We do not bribe or otherwise induce tax officials, government officials or ministers with the aim of obtaining more beneficial outcome with respect to tax matters.

### **Use of Tax Incentives**

**We claim available incentives and tax reliefs where they apply in areas where we have business substance and where this is the legislators' intention with the rules.**

Governments often implement tax rules and incentives encouraging companies to increase investments to stimulate economic development or employment. We will seek to implement these incentives in the manner intended by the framework.

We will only use tax incentives where they are aligned with our business' operational objectives and economic substance. In 2020, we had a net tax benefit of DKK 69 million mainly related to our research and development activities in US and Denmark.

### **Supporting Effective Tax Systems**

**We engage constructively in dialogue with governments, business groups and civil society to support the development of effective tax systems, legislation and administration.**

We give constructive input to industry groups and governments and engage with civil society on tax issues to contribute to the development of future tax legislation and practice.

We also make ourselves available if the authorities ask for our assessment of the consequences of a tax measure.

We promote responsible tax practice through our involvement in industry associations, governmental or external bodies, and in our relationship with suppliers, contractors and customers.

### **Transparency**

**We believe that by disclosing relevant information about our approach to tax will contribute to restore the trust in the corporate tax system and in multinationals management of tax matters.**

With this tax policy we provide information to our stakeholders, including investors, policy makers, employees, civil society and the general public about our approach to tax.

We will seek to balance the public need for information with the business needs for safeguarding business sensitive information. We recognize that disclosing detailed financial data on our revenue generated and by this the income generated and taxes paid on a country by country level, as well as total tax contribution will lend even more credibility to our management of this policy.

We are developing our disclosures in this field and are closely following the international development of commonly accepted reporting frameworks, which at the moment are lacking.

At present, we are assessing how more detailed disclosures can be done in the coming years without significant risk of harming our own or our partners business. Starting with reporting for the financial year 2020, and this update of our tax policy, we have commenced country-by-country reporting for tax havens, as shown above.