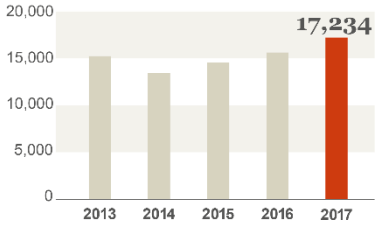
Lundbeck

# ANNUAL REPORT

# 2017

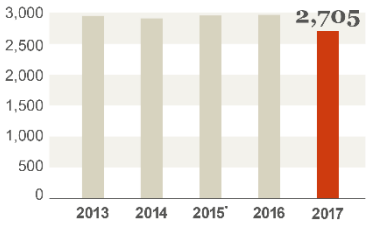
# 5 YEARS PERFORMANCE *

**REVENUE (DKKm)**




2,312 EURm 2,611 USDm

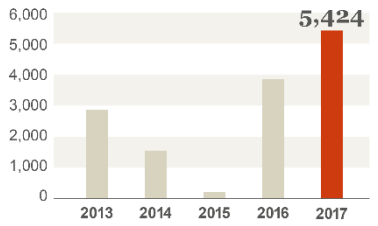
**RESEARCH AND DEVELOPMENT COSTS (DKKm)**




*excl. impairment

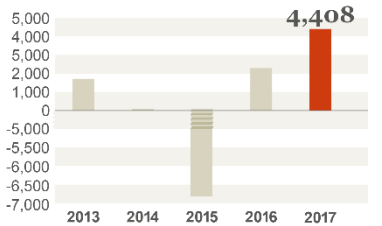
363 EURm 410 USDm

**OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA) (DKKm)**



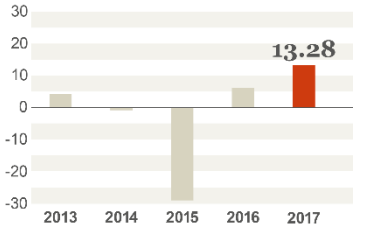

728 EURm 822 USDm

**PROFIT/(LOSS) FROM OPERATIONS (EBIT) (DKKm)**



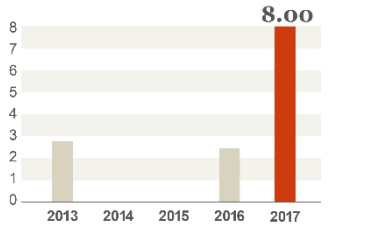

591 EURm 668 USDm

**EARNINGS PER SHARE, BASIC (EPS) (DKK)**



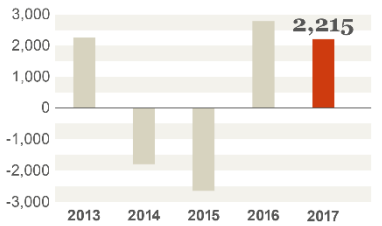

1.78 EUR 2.01 USD

**PROPOSED DIVIDEND PER SHARE (DKK)**



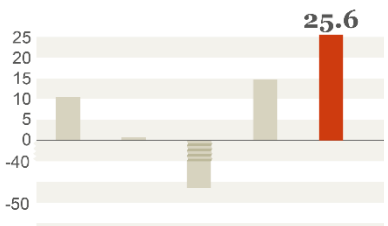

1.07 EUR 1.21 USD

**CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES (DKKm)**

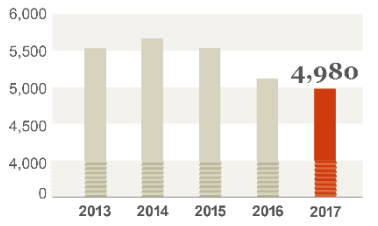



297 EURm 336 USDm

**EBIT MARGIN (%)**




**AVERAGE NUMBER OF EMPLOYEES**




4,976
Number of employees end 2017

* Currency conversion is based on average exchange rates for 2017.

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## MANAGEMENT REVIEW



## FINANCIAL STATEMENTS

# PREFACE

*2017 has been a successful financial year with a significantly increased profitability for Lundbeck. Going forward we will continue the focus on efficiency, and we will increase focus on development of our pipeline to create long-term, sustainable and profitable growth*.

2017 took us a step further on our strategic journey with a clear emphasis on creating value for patients, societies and our shareholders. We realized full benefit of the restructuring program initiated in 2015. We also experienced solid growth in sales of our recently launched products, which resulted in a significant improvement in our profits.

Lundbeck is today a solid company with a strong financial performance. We have several products on the market with many years of market exclusivity, and a leading neuroscience expertise with a proven track record of bringing novel treatments to patients living with psychiatric and neurological disorders.

In 2017, we experienced several approvals of products including Brintellix®/Trintellix® and Azilect® in China. On the other hand, our dedication to neuroscience and our ambition for global leadership in psychiatry and neurology also presents inherent challenges.

In development of new and innovative medicines, we will experience disappointments and setbacks on the journey. This was the case in 2017 and we will also face challenges from time to time in the years to come. However, the harder the struggle, the greater the joy when we are granted approval of new medicines and improve the lives of patients with psychiatric and neurological disorders.

On behalf of Lundbeck's Board of Directors, Executive Management and all employees, we would like to thank all our shareholders, customers and business partners for the interest and trust they have shown in our company throughout 2017.

Lars Rasmussen
Chairman of the Board

Anders Götzsche
Interim CEO and Executive Vice President, CFO

# MANAGEMENT REVIEW

*2017 was a successful year for Lundbeck. We saw continued solid revenue growth primarily driven by the important US market, as well as a strong improvement in our profitability.*

We continued our progress with strong growth in sales of products such as Abilify Maintena®, Brintellix®/Trintellix®, Northera®, Onfi® and Rexulti®. Overall, our revenue significantly exceeded the original financial guidance for 2017 provided in February 2017 following a generally better product sale, especially of products such as Sabril® and Xenazine®. For the year, Lundbeck's total revenue reached DKK 17,234 million and operating profit (EBIT) reached DKK 4,408 million. This is in line with the expectations communicated in the financial report in November 2017 for a net profit of DKK 2,624 million for the year, an increase of 117%.

We saw positive as well as disappointing news from Lundbeck's pipeline in 2017. In February, the two remaining studies in the clinical phase III programme evaluating the safety and efficacy of idalopirdine for the treatment of Alzheimer's disease were finalized. In line with the results seen in the first study, idalopirdine was safe and well tolerated. However, the profile did not demonstrate efficacy to support a regulatory submission.

In May, Lundbeck and Otsuka Pharmaceutical Co., Ltd. (Otsuka) announced top-line results from two clinical phase III trials evaluating the efficacy and safety of brexpiprazole in the treatment of agitation in patients with dementia of the Alzheimer's type. In both studies, patients treated with brexpiprazole showed improvements in symptoms of agitation relative to placebo. However, the data was not enough to support a regulatory submission.

In June, the US FDA issued a second Complete Response Letter (CRL) for the supplemental New Drug Application (sNDA) to include new data in the US label of Brintellix®/Trintellix® for treating certain aspects of cognitive dysfunction in adults with major depressive disorder (MDD). Further, in July, the US FDA approved Abilify Maintena® for extended-release injectable suspension for the maintenance monotherapy treatment of bipolar I disorder in adults.

In November, Lundbeck and Otsuka announced the initiation of a third clinical phase III trial to evaluate the use of brexpiprazole in agitation in Alzheimer's disease. This study is expected to start during the first half of 2018.

Finally, Lundbeck saw progress in its early-stage pipeline, e.g. with the initiation of clinical phase I studies with a two-month formulation of Abilify Maintena® and with a long-term injectable version of brexpiprazole.

**TOTAL REVENUE 2017**

| DKKm | 2017 | 2016 | Growth | Growth in local currencies |
|---|---|---|---|---|
| Abilify Maintena® | 1,331 | 1,114 | 19% | 21% |
| Brintellix®/Trintellix® | 1,662 | 1,105 | 50% | 52% |
| Cipralex®/Lexapro® | 2,369 | 2,518 | (6%) | (4%) |
| Northera® | 1,644 | 1,087 | 51% | 55% |
| Onfi® | 3,022 | 2,409 | 25% | 28% |
| Rexulti® | 1,247 | 826 | 51% | 54% |
| Sabril® | 1,509 | 1,342 | 12% | 14% |
| Xenazine® | 1,049 | 1,571 | (33%) | (32%) |
| Other pharmaceuticals | 3,002 | 3,337 | (10%) | (8%) |
| Other revenue | 399 | 325 | 23% | 24% |
| **Total revenue** | **17,234** | **15,634** | **10%** | **12%** |

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

## PRODUCT PORTFOLIO

Our key products are Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Northera® (symptomatic neurogenic orthostatic hypotension), Onfi® (Lennox-Gastaut syndrome) and Rexulti® (depression/ schizophrenia).

Our product portfolio also includes Azilect® (Parkinson's disease), Cipralex®/Lexapro® (depression), Ebixa® (Alzheimer's disease), Sabril® (epilepsy) and Xenazine® (chorea associated with Huntington's disease) as well as other products where sales are included under 'Other pharmaceuticals'.

## 2017 FINANCIAL PERFORMANCE

### Sales performance

Revenue in 2017 reached DKK 17,234 million, compared to DKK 15,634 million in 2016. This is an increase of 10% (12% in local currencies), which is primarily driven by positive developments in sales of Brintellix®/Trintellix®, Northera®, Onfi® and Rexulti®, as well as the later arrival of generic competition.

### North America

Revenue from North America reached DKK 10,672 million in 2017, which is an increase of 17%, compared to DKK 9,122 million in 2016. This was driven by the uptake of Brintellix®/Trintellix®, Northera®, Onfi® and Rexulti®, offsetting the decline in sales of Xenazine®. North America constituted 63% of total revenue (excluding 'Other revenue'), compared to 60% last year. The two most recent product launches in the US, Northera® and Rexulti®, showed strong sales uptake. Sales from Northera® reached DKK 1,644 million, corresponding to a growth of 51%. Rexulti® revenue reached DKK 1,245 million, corresponding to a growth of 51%.

| DKKm | 2017 | 2016 | Growth | Growth in local currencies |
|---|---|---|---|---|
| Abilify Maintena® | 591 | 526 | 12% | 14% |
| Brintellix®/Trintellix® | 974 | 706 | 38% | 42% |
| Northera® | 1,644 | 1,087 | 51% | 55% |
| Onfi® | 3,022 | 2,409 | 25% | 28% |
| Rexulti® | 1,245 | 826 | 51% | 54% |
| Sabril® | 1,509 | 1,342 | 12% | 14% |
| Xenazine® | 1,016 | 1,557 | (35%) | (34%) |
| Other pharmaceuticals | 671 | 669 | 0% | 1% |
| **Total revenue** | **10,672** | **9,122** | **17%** | **19%** |

### International Markets

Revenue from International Markets, which comprise all of Lundbeck's markets outside of Europe and North America, reached DKK 3,345 million in 2017, compared to DKK 3,275 million in 2016. In local currencies, sales were up 5% as the positive underlying performance driven by Abilify Maintena® and Brintellix®/Trintellix® offset the reduced revenue from Azilect® and Ebixa®. International Markets constituted 20% of total revenue (excluding 'Other revenue'), compared to 21% in 2016.

| DKKm | 2017 | 2016 | Growth | Growth in local currencies |
|---|---|---|---|---|
| Abilify Maintena® | 103 | 80 | 27% | 29% |
| Brintellix®/Trintellix® | 307 | 179 | 71% | 75% |
| Cipralex®/Lexapro® | 1,554 | 1,571 | (1%) | 2% |
| Ebixa® | 460 | 486 | (5%) | (1%) |
| Other pharmaceuticals | 921 | 959 | (4%) | (1%) |
| **Total revenue** | **3,345** | **3,275** | **2%** | **5%** |

### Europe

Revenue from Europe reached DKK 2,818 million in 2017, which is a decline of 3%, compared to DKK 2,912 million in 2016. This was caused by generic competition which continued to erode sales of older products. Excluding the sales of Azilect®, revenue from Europe was up 1%. Abilify Maintena® and Brintellix®/Trintellix® both experienced solid growth rates of 26% and 73%, respectively. Europe constituted 17% of total revenue (excluding 'Other revenue'), compared to 19% last year.

| DKKm | 2017 | 2016 | Growth | Growth in local currencies |
|---|---|---|---|---|
| Abilify Maintena® | 637 | 508 | 26% | 27% |
| Brintellix®/Trintellix® | 381 | 220 | 73% | 67% |
| Cipralex®/Lexapro® | 648 | 760 | (15%) | (16%) |
| Other pharmaceuticals | 1,152 | 1,424 | (19%) | (19%) |
| **Total revenue** | **2,818** | **2,912** | **(3%)** | **(4%)** |

**Costs and profits**
Total costs for 2017 were DKK 13,068 million, compared to DKK 13,342 million in 2016. Cost of sales decreased 5% to DKK 3,881 million in 2017. This corresponds to 22.5% of total revenue, compared to 26.1% last year. Sales and distribution costs were DKK 5,649 million in 2017, which was an increase of 3%, compared to 2016. Sales and distribution costs correspond to 32.8% of revenue, compared to 35.1% the year before. Administrative expenses were stable at DKK 833 million corresponding to 4.8% of total revenue in 2017. SG&A costs were DKK 6,482 million, compared to DKK 6,293 million in 2016. The SG&A ratio for 2017 was 37.6%, compared to 40.2% in 2016. Research and development costs declined to DKK 2,705 million in 2017. The R&D ratio reached 15.7% in 2017, compared to 19.0% last year.

EBIT for 2017 reached DKK 4,408 million, compared to DKK 2,292 million in 2016. EBIT was positively impacted by Other operating income, which amounted to DKK 242 million. This relates to gains from divestitures of office and research facilities, in the US and in Denmark, recognized in the first and third quarters of 2017. The EBIT margin increased significantly and reached 25.6% in 2017.

**Tax***
The reported tax rate decreased from 43.9% in 2016 to 38.7% in 2017. The reported tax rate was higher than the Danish corporate income tax rate for the following reasons:
- Lundbeck's activities in the US resulted in a significant profit generated in the US and was taxed at a higher tax rate than the Danish.
- Amortization of Northera® product rights, which was not deductible for tax purposes and thus created a permanent difference.
- Orphan tax credits on Northera® phase IV partly offset the negative effect of the amortizations in 2017.

**Net profit and EPS**
Net profit for 2017 reached DKK 2,624 million, compared to DKK 1,211 million in 2016. Net profit for 2017 corresponds to an EPS of DKK 13.28 per share versus an EPS of DKK 6.12 per share last year.

**Cash flow**
Cash flows from operating activities amounted to DKK 4,045 million, against DKK 3,126 million in 2016. The increase of 29% reflects the significantly increased profitability. Additionally, the divestiture of properties generated a positive cash flow of around DKK 400 million. The free cash flow was DKK 2,215 million in 2017, compared to DKK 2,789 million in 2016.

In 2017, repayment of loans and payment of dividends amounted to DKK 1,873 million and DKK 483 million, respectively. The net cash flow changed from an inflow of DKK 783 million in 2016 to a cash outflow of DKK 20 million in 2017.

At 31 December 2017, Lundbeck had net cash of DKK 3,677 million, against net cash of DKK 326 million at 31 December 2016.

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

## OUTLOOK 2018

Lundbeck's results in 2018 are expected to be driven by the continued strong growth of Abilify Maintena®, Brintellix®/ Trintellix®, Northera® and Rexulti® which should more than compensate the effect of additional generic erosion on older products, and also the potential introduction of generic clobazam towards the end of the year. We expect to realize growth in local currencies in all our three geographical regions, North America, International Markets and Europe.

In 2018, we expect total revenue to be DKK 17.2-18.0 billion and EBIT to be DKK 4.8-5.2 billion. Lundbeck's main currency is the USD and guidance is based on a USD exchange rate at the level it was by the end of January 2018. As a consequence of the US tax reform, Lundbeck expects the reported tax rate in 2018 to be 26-28% compared to 38.7% in 2017. The financial guidance is summarized below:

### FINANCIAL GUIDANCE 2018

| DKK | 2017 actual | 2018 guidance |
|---|---|---|
| Revenue | 17,234m | 17.2-18.0bn |
| EBIT | 4,408m | 4.8-5.2bn |
| Tax rate | 38.7% | 26-28% |

## DIVIDEND

For 2017, the Board of Directors proposes the dividend payout ratio to be 61% of Lundbeck's net profit, corresponding to a dividend of DKK 8.00 per share. The dividend payout is subject to approval at the Annual General Meeting on 20 March 2018.

## FINANCIAL TARGETS

In February 2016, Lundbeck introduced the following three financial targets in order to describe what Lundbeck strives for on the journey to realize the strategy and to govern the company's path towards increased profitability and enhanced cash flow generation.

### FINANCIAL TARGETS

| Key figures | Definition | 2017 actual | Financial target |
|---|---|---|---|
| EBIT margin (%) | Profit from operations as a percentage of revenue | 25.6% | 25% |
| ROIC (%) | Profit from operations (EBIT) after tax as a percentage of average invested capital | 30.8% | 25% |
| Cash to earnings | Free cash flow exclusive of changes in cash equivalence as a percentage of net profit | 141.8% | >90% |

## 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, including 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.

# EVENTS & MILESTONES 2017

## January

- Lundbeck and IBM Watson Health form collaboration on technology for developing innovative medicine.

## May

- Lundbeck and Otsuka Pharmaceutical Co., Ltd. (Otsuka) announce improvement of agitation symptoms related to dementia of the Alzheimer's type following treatment with brexpiprazole relative to placebo.
- Lundbeck enters a conditional agreement and divests part of its headquarters in Copenhagen.

## June

- Lundbeck obtains rights to innovative research in Alzheimer's disease.
- Lundbeck and Takeda Pharmaceutical Company Limited (Takeda) receive a second Complete Response Letter (CRL) from the US Food and Drug Administration (FDA) for the supplemental New Drug Application (sNDA) for Brintellix®/Trintellix® (vortioxetine).
- Lundbeck receives approval of Azilect® (rasagiline) in China both as initial monotherapy and as adjunct therapy to levodopa from the China Food and Drug Administration (CFDA).

## July

- Abilify Maintena® (aripiprazole once-monthly) for extended-release injectable suspension gets approval by the US FDA for maintenance monotherapy treatment of bipolar I disorder.

## August

- Lundbeck collaborates with the personal genetics company 23andMe, Inc. and the think tank Milken Institute on a large first-of-its kind study of links between genetics and psychiatric disorders.

## October

- Following the resignation of Kåre Schultz as President and CEO and Staffan Schüberg as CCO in September, Lundbeck announces that Anders Götzsche (EVP and CFO) becomes interim CEO until a new CEO is in place. At the same time, Peter Anastasiou, EVP of Lundbeck North America, joins the Executive Management team and Jacob Tolstrup becomes EVP of Commercial Operations.

## November

- Lundbeck and Otsuka announce the initiation of a third clinical phase III study to evaluate the use of brexpiprazole in the treatment of agitation in patients with dementia of the Alzheimer's type.

# STRATEGY REVIEW

*Lundbeck has made significant progress since 2015 based on a clear and focused strategy. Today, we are in a good position to continue our solid performance: We are focusing on our core strengths, we have several newly marketed products with many years of market exclusivity, we have a promising R&D portfolio, and we have a profitable and competitive platform.*

**We have a clear vision**
Lundbeck strives for global leadership in psychiatry and neurology by improving the lives of patients. This vision is based on our ambitions, our leading competencies in the field, and our passion about making a difference for people living with psychiatric and neurological disorders.

We invent new treatments and improve patients' access to them. Today, our product portfolio includes some of the best antidepressants and antipsychotics available. Within neurology, we have a promising portfolio of novel research projects with the potential to become leading treatments within Alzheimer's and Parkinson's diseases.

Every year, treatments invented by Lundbeck reach more than 50 million patients around the world.[1]

**We focus on four disease areas**
We focus our efforts on depression, schizophrenia, Alzheimer's and Parkinson's diseases. Within these four disease areas, we have expertise throughout the value chain, a proven ability to bring novel treatments to the market and a promising portfolio of R&D projects, with the potential to improve patients' lives.

These diseases are among the most disabling conditions in the world, representing the highest burden for society. Focusing on these four disease areas gives Lundbeck the opportunity to make a difference to millions of people all over the world.

If we are successful in improving treatments for patients in these four disease areas, it will also strengthen Lundbeck's competitiveness and performance. The global pharmaceutical market for the four diseases is around USD 45 billion, which is approximately 20 times Lundbeck's annual revenue.

**We will capture full value**
We will fill our pipeline with in-house inventions and early external innovation. This independent approach will ensure that we capture the full value of our products. Research into the brain costs more, takes longer and fails at a higher rate than most other medical research. But if we can launch new products with global rights, we will be able to create long-term sustainable value.

We have several important and valuable partnerships and will continue to benefit greatly from the collaboration with partners in the years to come. Going forward, however, we will also strive to develop and commercialize innovative and improved treatments on our own.

**We aim for global, profitable growth**
Lundbeck will continue to focus on profitability. Today, we have a strong and competitive presence in the US, the world's biggest pharmaceutical market. We still see great opportunities for expanding our business in countries such as China and Japan, we will seek further opportunities in emerging markets and we will continue to optimize our presence in established markets.

With our focused strategy, we will be able to create the most value for patients, societies and shareholders. Lundbeck will continue to be an attractive and engaging workplace, conducting research in potentially breakthrough treatments, growing the business profitably.

1) Internal Lundbeck estimates


## HOW WE CREATE VALUE

Our focused strategy consists of a simple framework: our vision describes what we strive for; our principles are based on Lundbeck's unique culture and guide our actions; and our strategic objectives define the strategic focus for decisions and execution of the strategy in the years to come.

## STRATEGIC PROGRESS

During 2017, Lundbeck experienced solid momentum based on the execution of our focused strategy that began with the restructuring in 2015 and was fully presented in 2016. In 2017, we saw the full-year effect of this strategy on Lundbeck's performance, which resulted in the best financial result in our history.

## STRATEGIC OBJECTIVES

**Four disease areas**: We will strive for leadership in the treatment of depression, schizophrenia, Parkinson's disease and Alzheimer's disease.

**Innovation**: We will develop innovative treatments that address unmet patient needs.

**Globalization**: We will expand and optimize our global organization.

**Profitability**: We will grow our business with a strong focus on profitability created by independent development and commercialization of future products.

**Organization**: Lundbeck will be a specialized company with strong cross-functional collaboration.

### Four disease areas

We will focus our efforts within the four disease areas; depression, schizophrenia, Alzheimer's and Parkinson's diseases, where we have the opportunity to lead the innovation of improved treatments. All four diseases are characterized as areas with huge unmet medical needs, and where Lundbeck has expertise and competitive advantages throughout the value chain. For other psychiatric and neurological disorders, Lundbeck will adopt an opportunistic approach, based on our ability in each area, and seek to create value for patients, societies and our shareholders.

| Value drivers | Value barriers |
|---|---|
| • Increased recognition of the burden of the four diseases<br>• Economic growth increases investment in healthcare systems and treatments<br>• Strong R&D expertise in the four disease areas | • Restricted access to new and better treatments in societies<br>• Insufficient healthcare system capacity to diagnose and treat patients<br>• Stigma and discrimination |

**Strategic initiatives**

- Be among the leaders in the improvement of pharmaceutical treatments within the four diseases
- Develop a strong R&D pipeline based on own research combined with early-stage external opportunities
- Develop and market more effective and safer treatments for patients with depression and schizophrenia
- Develop and market innovative disease-modifying and symptomatic treatments for patients with Alzheimer's and Parkinson's diseases

**Performance in 2017**

- Abilify Maintena® approved for bipolar I disorder in the US
- Abilify Maintena® launched for bipolar I disorder in Canada
- Abilify Maintena® two-month formulation in development
- Azilect® approved and launched in China
- New study (Anew) initiated with Lu AF35700
- US FDA issued second CRL regarding inclusion of cognition data in Brintellix®/Trintellix® label
- Brintellix®/Trintellix® approved in China
- Early pipeline progressed

## Innovation

For 70 years, Lundbeck has conducted research in psychiatric and neurological disorders and today we are among the world's leading pharmaceutical companies within neuroscience. The core of the value we create is derived from the better treatments we discover, develop and distribute. Treatments for psychiatric and neurological disorders are primarily symptomatic, but we believe that in the future we will be able to discover new pharmaceuticals targeting the underlying mechanisms of these disorders. This allows us to treat the symptoms more effectively and also, potentially, to alter the course of the disorders.

| Value drivers | Value barriers |
|---|---|
| • Strong expertise in neuroscience<br>• New insights to treat underlying biological mechanisms<br>• Digitalization provides new approaches to improve value for patients | • High risks related to breakthrough innovations<br>• Increased cost to invent new treatments<br>• Limited acknowledgement of patient-relevant outcomes beyond traditional endpoints<br>• Restrictions for patients |

**Strategic initiatives**

- Research and develop innovative pharmaceutical treatments using our leading expertise within the four diseases
- Improve the understanding of patient needs through increased partnerships with patient organizations and affected communities
- Address unmet patient needs as the foundation of our research efforts
- Research and develop innovative treatments targeting well-defined patient segments
- Apply innovative approaches to optimize development

**Performance in 2017**

- Improved insights and understanding of focus disease areas, underlying mechanisms, targets and segmentation of patients
- Intensified external collaboration based on innovative technologies to support our research platform
- Early-stage licensing strategy implemented
- Global Patient Summit with 36 patient organizations held

## Globalization

Today, we have our own organization in more than 50 countries and have made our pharmaceutical treatments available in more than 100 countries. With a global presence, we are able to increase the value of the pharmaceuticals we commercialize. Our ability to provide treatments to patients in countries where we operate is dependent on robust healthcare systems. We expect to create value by working with societies, improving access for patients to new and better treatments and by balancing and expanding our global organization accordingly.

| | Value drivers | Value barriers |
|---|---|---|
| US | • Accounts for more than half of the global market<br>• Willingness to reward innovation | • The value of some of our products is shared with our partners due to co-commercialization |
| International Markets | • Economic growth increases focus on investing in healthcare systems<br>• Demographics | • Limited healthcare infrastructure to diagnose and treat psychiatric and neurological disorders |
| Europe | • A long heritage in Europe and strong relations with the medical community | • Reduced healthcare budgets limits access to new treatments |

**Strategic initiatives**

- Maintain strong and competitive presence in the US
- Expand our commercial presence in China and Japan
- Optimize and drive our business in established markets based on a sustainable and profitable presence
- Expand our organization in key emerging markets in line with the increased demand for treatments

**Performance in 2017**

- Profitable growth in all regions
- 64% of revenue from China, Japan and the US markets
- Brintellix®/Trintellix® now launched in +60 markets and Abilify Maintena® now launched in +40 markets
- Progress in clinical studies in Japan

## Profitability

We will grow our business with a strong focus on profitability. The ability to create a growing business and deliver profitable results makes Lundbeck able to improve treatments for patients, offer an attractive return to our shareholders and contribute to the societies we operate in.

| Value drivers | Value barriers |
|---|---|
| • Competitive cost base<br>• Opportunities to expand globally<br>• Products with long exclusivity | • Generic competition on mature portfolio<br>• Price pressure and market access restrictions |

**Strategic initiatives**

- Increase profitability of product portfolios
- Maximize the value of our partnered products through priority of our existing alliances
- Increase profit through independent development and commercialization of future products

**Performance in 2017**

- Restructuring programme fully implemented
- Administrative functions account for 4.8% of total revenue
- SGA account for 37.6%
- Profit from operations reached DKK 4,408 million
- EBIT margin increased to 25.6%

## Organization

Lundbeck is a highly-specialized organization with a strong cross-functional collaboration. In order to generate value, we focus on being an attractive workplace for engaged employees with the required level of expertise and the passion to improve the lives of patients.

| Value drivers | Value barriers |
|---|---|
| • Focused on psychiatry and neurology throughout the value chain<br>• Proven track-record in developing and commercializing leading treatments for psychiatric and neurological disorders | • Increased competition for talents |

**Strategic initiatives**

- Ensure R&D organization focused on four disease areas
- Ensure cost-efficient administration and supply chain
- Ensure commercial organization balanced to capture market potential and increase profitability
- Ensure that the organization has the required level of capabilities to meet business needs
- Continue to be an attractive workplace with engaged employees
- Ensure strong cross-functional collaboration across the organization

**Performance in 2017**

- Highly loyal, committed employees and good overall employee satisfaction

# KEY DISEASE AREAS

*Lundbeck has a diversified portfolio of actively promoted products and a pipeline of drug candidates within our four disease areas.*

## DEPRESSION

| | |
|---|---|
| World market size[1] | USD 13.0bn in 2016 (DKK 79bn) |
| Lundbeck treatments for depression | Total DKK 6.3bn<br>Brintellix®/Trintellix® DKK 1.7bn<br>Cipralex®/Lexapro® DKK 2.4bn<br>Other products DKK 2.2bn |

### Background

In the early 1960s, Lundbeck launched the antidepressant Saroten®. This marked the start of Lundbeck's interest in antidepressants that would later lead to the discovery of citalopram and the development of Cipramil®, which was launched in 1989, and later Cipralex®/Lexapro®, which was launched in 2002. Cipralex®/Lexapro® grew to become a major share of Lundbeck's business and one of the leading antidepressants in the world.

In 2014, Brintellix®/Trintellix® was launched in the US and later in European and International Markets for the treatment of MDD. In August 2015, Rexulti® was launched in the US for the adjunctive treatment of MDD together with our partner Otsuka.

### Disease description and demographics

Depression is a serious medical condition associated with a series of symptoms, including sadness, trouble concentrating and loss of energy, as well as suicidal thoughts. These symptoms have a great impact on daily life.[2] Depression is also frequently associated with anxiety and other psychiatric disorders.[3]

Depression is found worldwide in people of all age groups and from all social backgrounds and among both men and women. Depression typically first appears in people aged 20–25 years.[4]

Currently, it is estimated that 300 million people worldwide suffer from depression.[5] The World Health Organization (WHO) now lists depression as the leading disability worldwide and a major contributor to the overall global burden of disease.[5] One study found that up to 65% of individuals suffering from depression rated their condition as being severely disabling. Despite this, many people with depression remain untreated.[6]

Even though in the acute phase the focus of treatment is alleviating depressed mood and potential suicidal thoughts, it is important to treat all symptoms to achieve optimal recovery.[7] Functional improvements are generally smaller than the resolution of mood symptoms and this is often due to unresolved and functionally impairing symptoms, such as fatigue, sleep/wake disturbance and cognitive symptoms.[8]

### Current approaches and unmet needs

While several pharmacological treatments are available, more than 50%[5] of patients remain symptomatic following first-line treatment. One third of people fail to achieve remission after four rounds of treatment with established compounds.[9]

Both in clinical practice and clinical research, the main focus in depression has been on symptoms of depressed mood. Primary measures in clinical trials, e.g. the Montgomery–Åsberg Depression Rating Scale (MADRS), reflect changes in a range of symptoms with an emphasis on improvement of depressed mood. However, the range of symptoms that patients experience includes other symptoms, such as trouble concentrating, which, if left untreated, hinder the ultimate treatment goal of optimal recovery.[7,8]

The tolerability of antidepressants and patients' concerns about side-effects negatively affect treatment outcomes. Patients with MDD who experience at least one severe side-effect are twice as likely to discontinue treatment prematurely. Additional treatment strategies are therefore needed to prevent and treat the common and debilitating symptoms of depression.

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3) Kessler RC, Berglund P, Demler O, et al. The epidemiology of major depressive disorder: results from the National Comorbidity Survey Replication (NCS-R). JAMA. 2003; 289(23): 3095–3105
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5) WHO: http://www.who.int/mediacentre/factsheets/fs369/en/
6) Kessler R, Aguilar-Gaxiola S, Alonso J, et al. The global burden of mental disorders: An update from the WHO World Mental Health (WMH) Surveys. Epidemiol Psychiatr Soc 2009; 18(1): 23–33
7) Lam RW et al. Canadian Network for Mood and Anxiety Treatments (CANMAT) 2016 Clinical Guidelines for the Management of Adults with Major Depressive Disorder: Section 1. Disease Burden and Principles of Care. Can J Psychiatry. (2016)
8) Saltiel PF, Silvershein DI. Major depressive disorder: mechanism-based prescribing for personalized medicine. Neuropsychiatry Dis Treat. 2015; 11: 875–888
9) Rush AJ et al. Acute and Longer-Term Outcomes in Depressed Outpatients Requiring One or Several Treatment Steps. A STAR*D Report, 2006

*Brintellix®/Trintellix® (vortioxetine)*
Brintellix®/Trintellix® was approved by the US FDA in October 2013 and by the European Medicines Agency (EMA) in December 2013. In early 2014, together with our partner Takeda, Lundbeck launched Brintellix®/Trintellix® in the US. Since 2014, Lundbeck has also launched Brintellix®/Trintellix® in a number of European and International Markets. Brintellix®/Trintellix® generated revenue of DKK 1,662 million in 2017.

Brintellix®/Trintellix® is an inhibitor of serotonin (5-HT) reuptake and is also an agonist at 5-$HT_{1A}$ receptors, a partial agonist at 5-$HT_{1B}$ receptors and an antagonist at 5-$HT_3$, 5-$HT_{1D}$ and 5-$HT_7$ receptors. It is considered to be the first compound with this combination of pharmacodynamic activity. The interplay between the receptor pathways, explaining the antidepressant effect of Brintellix®/Trintellix®, is not yet fully understood and has not yet been definitively established. Brintellix®/Trintellix® was discovered by Lundbeck researchers in Denmark.

In June 2017, Lundbeck and Takeda announced that the US FDA issued a second Complete Response Letter (CRL) for the supplemental New Drug Application (sNDA) to include new data in the US label of Brintellix®/Trintellix® for treating certain aspects of cognitive dysfunction in adults with MDD. The CRL does not apply to the use of Brintellix®/Trintellix® in MDD. However, Lundbeck and Takeda were pleased that the US FDA recognized the importance of cognitive dysfunction in MDD and view it as a legitimate target for drug development.

*Rexulti® (brexpiprazole)*
Rexulti® was discovered by Otsuka and co-developed by Otsuka and Lundbeck. The efficacy of Rexulti® may be mediated through a combination of partial agonist activity at serotonin 5-$HT_{1A}$ and dopamine $D_2$ receptors, and antagonist activity at serotonin 5-$HT_{2A}$ receptors. In addition, Rexulti® exhibits high affinity for noradrenaline $alpha_{1B/2C}$ receptors.

The drug was approved in the US in July 2015 and launched in August 2015 as adjunctive therapy to antidepressants in adults with depression and as a treatment in adults with schizophrenia. In 2017, Rexulti® generated revenue of DKK 1,247 million.

**The future**
Lundbeck's research efforts within the area of depression are geared towards meeting currently unmet needs such as treatment resistance and improved functionality, as well as higher efficacy and tolerability. Recent efforts to address treatment resistance have led to an increased attention on a major transmitter in the human brain called glutamate.

Representing a novel area in depression-targeted research, our research programmes actively pursue pharmacological opportunities to interfere with the glutamatergic system in a safe and efficacious way. Moreover, Lundbeck seeks to unravel the neurobiological mechanisms that underlie the role of this transmitter in patients with depression.

To further address and adjust the underlying mechanisms of depression, we study networks in the brain that are involved in the interpretation of external stimuli leading to internal processing of emotions. Here, advanced technologies allow us to visualize brain activity during pleasurable as well as adverse experiences, both in humans and pre-clinical species. With these tools at hand, our goal is to identify innovative drug targets that are directly involved in mood-related mechanisms, e.g. reward-related pathways. In addition to developing the pharmaceutical agents, we invest in identifying biological markers that can support the diagnosis, as well as monitor treatment responses and predict treatment outcomes.

Bearing in mind that different biological as well as environmental factors can lead to the development of depression, it is critical to identify the causative processes of the disorder in order to optimize efficacy rates of each treatment.

## SCHIZOPHRENIA

| | |
|---|---|
| World market size[1] | USD 18.6bn in 2016 (DKK ~113bn) |
| Lundbeck treatments for schizophrenia | Total DKK 3.6bn<br>Abilify Maintena® DKK 1.3bn<br>Rexulti® DKK 1.3bn<br>Other products DKK 1.0bn |

### Background

In 1959, Lundbeck launched Truxal®, one of the first antipsychotics in the world, which through the 1960s and 1970s became Lundbeck's most sold product. In 1996, Serdolect® was launched for the treatment of schizophrenia. The product is still registered in more than 30 countries. In 2011, Lundbeck launched Saphris®/Sycrest® for the treatment of bipolar I disorder in Europe and schizophrenia and/or bipolar I disorder outside of Europe. Saphris®/Sycrest® was licensed from Merck & Co., Inc. in 2010.

In February 2013, Abilify Maintena® was approved by the FDA in the US and by the EMA in Europe in November 2013 for the treatment of schizophrenia. We launched the product in the US in 2013 together with Otsuka. Extension of the label into maintenance monotherapy treatment of bipolar I disorder was approved in the US in 2017. Abilify Maintena® has currently been launched in more than 40 countries worldwide.

In 2015, Lundbeck further strengthened its position in treatments for schizophrenia with the launch of Rexulti® in the US, also together with Otsuka. In 2017, Rexulti® was approved for the treatment of schizophrenia in Canada and Australia. Further, in March 2017 brexpiprazole was submitted for approval for the treatment of schizophrenia in Europe, and if the EMA grants regulatory approval to Rexulti®, the brand name of the product in the EU will be Rxulti®.

### Disease description and demographics

Schizophrenia is a chronic, severe and disabling psychiatric disorder. The disease is marked by so-called positive symptoms (hallucinations and delusions) and so-called negative symptoms (depression, blunted emotions and social withdrawal), and cognitive decline which becomes progressively worse over the course of the illness.

Schizophrenia affects people regardless of race, culture or social class. It typically starts in early adulthood (from age 20), but it can develop at any age from late teens and onwards. Schizophrenia affects both men and women, although men tend to develop the condition slightly earlier in life. The risk of an individual developing schizophrenia during his or her lifetime is approximately 1%.[2]

The WHO estimates that more than 21 million people suffer from schizophrenia. Schizophrenia is one of the top 20 causes of disability worldwide.[3] It is among the most financially costly illnesses in the world and, together with other psychotic illnesses, has shown to account for a significant proportion of total national healthcare and social budgets.[4,5]

### Current approaches and unmet needs

Atypical antipsychotics are the predominant drug class for treating schizophrenia. The primary goals of medical treatment of schizophrenia are to reduce the frequency and severity of psychotic episodes, maintain the reduction of these symptoms over the long term, balance the effect and tolerability, and improve patients' functional capacity, thereby enhancing quality of life for patients and their caregivers.

Studies have demonstrated that as many as 75% of patients with schizophrenia have difficulty in taking their oral medication on a regular basis, which can lead to worsening of symptoms and increased risk of relapse.[6]

1) IMS Health
2) Tsuang MT, Farone SV. Schizophrenia. Second edition. Oxford University Press Inc, New York: 2005
3) WHO: http://www.who.int/mediacentre/factsheets/fs397/en/
4) Rössler W, Salize HJ, van Os J, Riecher-Rössler A. Size of burden of schizophrenia and psychotic disorders. Eur Neuropsychopharmacol 2005; 15 (4): 399–409
5) Lindström E, Eberhard J, Neovius M, Levander S. Costs of schizophrenia during 5 years. Acta Psychiatr Scand Suppl 2007; 116 (435): 33–40
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*Abilify Maintena® (aripiprazole once-monthly)*
Abilify Maintena® was approved by the US FDA in February 2013 and by the EMA in Europe in November 2013. Together with our partner Otsuka, Lundbeck launched the product in the US in 2013. Since then it has been launched in more than 40 countries. The indication for maintenance monotherapy treatment of bipolar I disorder in adults was approved in the US in July 2017 as well as in Canada. Abilify Maintena® is the first once-monthly injection of a dopamine $D_2$ partial agonist and is available globally. Revenue reached DKK 1,331 million in 2017.

*Rexulti® (brexpiprazole)*
Rexulti® was discovered by Otsuka and co-developed by Otsuka and Lundbeck. The mechanism of action for Rexulti® in the treatment of MDD or schizophrenia is unknown. However, the efficacy of Rexulti® may be mediated through a combination of partial agonist activity at serotonin 5-$HT_{1A}$ and dopamine $D_2$ receptors, and antagonist activity at serotonin 5-$HT_{2A}$ receptors. In addition, Rexulti® exhibits high affinity for noradrenaline $alpha_{1B/2C}$ receptors.

The drug was approved by the US FDA in July 2015 and launched in the US in August 2015 as adjunctive therapy to antidepressants in adults with depression and as a treatment in adults with schizophrenia. In 2017, Rexulti® generated revenue of DKK 1,247 million.

*Brexpiprazole – clinical phase II and III*
In January 2017, Lundbeck and Otsuka initiated a clinical phase II study using brexpiprazole as monotherapy or as combination therapy in the treatment of adults with Post-Traumatic Stress Disorder (PTSD). The study is expected to enrol around 330 patients.

In October 2017, Lundbeck and Otsuka initiated two global clinical phase III trials to evaluate brexpiprazole for the treatment of patients with manic episodes associated with bipolar I disorder. Both studies are expected to recruit around 320 patients and is planned to finalize towards the end of 2018.

*Lu AF35700 – clinical phase III*
In March 2016, Lundbeck announced that the investigational compound Lu AF35700, a novel antipsychotic, entered a clinical phase III programme, which is planned to consist of two pivotal trials. Two doses of Lu AF35700 (10 and 20 mg) are given to patients with treatment-resistant schizophrenia. The primary endpoint is a change from baseline to week 10 in the Positive and Negative Syndrome Scale (PANSS) total score. Additional endpoints include Clinical Global Impression – Severity of Illness (CGI-S) score and Personal and Social Performance Scale (PSP).

The first study is planned to enrol approximately 1,000 patients in around 15 countries, including the US and Canada, and is expected to last around three years. The pivotal clinical programme with Lu AF35700 is a global programme and consists of several studies involving more than 2,000 patients.

In July 2017, Lundbeck initiated the *Anew*-study to evaluate the efficacy of Lu AF35700 on symptoms of schizophrenia in patients with early-in-disease or late-in-disease treatment-resistant schizophrenia. The study is expected to recruit around 300 patients and is planned to finalize during the first half of 2019.

Lu AF35700 has a novel pharmacological profile with predominant $D_1$ vs $D_2$ dopamine receptor occupancy. The relatively low dopamine $D_2$ receptor occupancy of Lu AF35700 is expected to result in reduced burden of adverse events, such as extrapyramidal side-effects (EPS), prolactin elevation, dysphoria/anhedonia and depressed mood. In completed safety trials, Lu AF35700 was generally well tolerated with a good safety profile. In November 2015, the US FDA granted Fast Track designation for Lu AF35700, an important first step to facilitate a potential expedited approval of the compound.

**The future**

Lundbeck's schizophrenia research programmes focus on key biological mechanisms underlying the disorder with the aim of addressing patients' current unmet needs. These include deficits in cognition as well as positive and negative symptoms, both of which affect a person's ability to function normally.

The field of genetics has brought novel insights into schizophrenia research over the past decade, as advanced analytical tools have revealed several hereditary risk factors. One of these genetic risk factors is the so-called copy number variants (CNVs), which represent either a duplication or a deletion of whole regions of DNA that comprise several genes. Lundbeck is committed to understanding the biological mechanisms related to these genes and to using genetically engineered research tools to identify novel treatments with the potential to revert these mechanisms to a healthy state.

Another focus area of our schizophrenia research addresses the communication between different brain regions, also referred to as connectivity. Here, we are especially interested in certain types of cells in the brain, the so-called interneurons, that play an important role in synchronizing brain activity, thereby allowing signals to be communicated between different brain regions. Evidence hints towards an interneuronal dysfunction related to schizophrenia, and reinstating the properties of these cells to a normal status is at the core of several of our research programmes. To monitor such biological processes, we develop and test quantitative laboratory tools that can measure these mechanisms in humans as well as in pre-clinical species.

## ALZHEIMER'S DISEASE

| | |
|---|---|
| World market size[1] | USD 4.4bn in 2016 (DKK ~27bn) |
| Lundbeck treatments for Alzheimer's disease | Total DKK 0.7bn<br>Ebixa® DKK 0.7bn |

**Background**

In 2002, Lundbeck obtained approval for Ebixa® (memantine) for the treatment of moderately severe to severe Alzheimer's disease. In 2005, the label was extended to also cover treatment of moderate Alzheimer's disease. Ebixa® was licensed from Merz Pharma GmbH & Co. KGaA in August 2000.

**Disease description and demographics**

Dementia is estimated to affect 50 million people worldwide, and there are nearly 10 million new cases every year. Dementia is one of the major causes of disability and dependency among older people worldwide. The WHO estimates that the total global societal cost of dementia today is USD 604 billion per year, which corresponds to 1% of the worldwide gross domestic product (GDP)[2]. With the demographic shift towards an increasingly elderly population, it is predicted that the number of people affected by dementia will almost double every 20 years. Thus, the total number of people with dementia is projected to reach 75.6 million in 2030, and by 2050 it is thought that 135.5 million people will suffer from the condition.[2]

Alzheimer's disease is the most common neurodegenerative disorder and is estimated to contribute to 60–70% of all dementia cases.[2] Alzheimer's disease is characterized by the gradual loss of neurons which consequently leads to loss of memory, problems with reasoning or judgment, disorientation, difficulty in learning, loss of language skills, a decline in the ability to perform routine tasks and ultimately leading to death within 4–20 years after diagnosis depending on age and overall health condition.[3] Changes in personality and behaviour such as agitation, anxiety, delusions and hallucinations are also associated with Alzheimer's disease. Taken together, these characteristics have a devastating impact on the patient's daily life, but also have a substantial negative impact on caregivers.

1) IMS Health
2) WHO: http://www.who.int/mediacentre/factsheets/fs362/en/
3) Alzheimer's Association :
http://www.alz.org/alzheimers_disease_what_is_alzheimers.asp

**Current approaches and unmet needs**
To date, only symptomatic treatment of Alzheimer's disease is available and there is a huge unmet medical need for generating new therapies for improving symptomatic treatment or delaying the progression of Alzheimer's disease. Acetylcholinesterase inhibitors (AChEIs) and memantine are the only approved treatments of Alzheimer's disease, with some AChEIs approved from mild to severe stages of the disease and memantine from the moderate to severe stage of the disease.

Abnormal protein deposits of amyloid plaques (extracellular deposits containing a protein called beta amyloid peptide) and neurofibrillary tangles (intracellular, abnormally twisted forms of the protein tau) are believed to play an essential role in the pathogenesis of Alzheimer's disease, and development of therapies targeting these proteins for delaying progression of Alzheimer's disease is of major interest in the pharmaceutical industry including Lundbeck. As the protein deposits appear in the brain a decade before diagnosis of the disease, methods for early diagnosis and early intervention have become increasingly important and are being investigated intensely.

*Brexpiprazole – clinical phase III*
In 2013, Lundbeck and Otsuka began two pivotal studies with brexpiprazole in the treatment of agitation in patients with dementia of the Alzheimer's type. Top-line results were communicated in May 2017. In both studies patients treated with brexpiprazole showed improvements in symptoms of agitation relative to placebo. However, the data was not enough to support a regulatory submission.

In November 2017, Lundbeck and Otsuka announced the initiation of a third clinical phase III study for brexpiprazole in the treatment of agitation in patients with dementia of the Alzheimer's type. The trial is expected to commence during the first half of 2018. The US FDA has granted Fast Track designation for this programme.

*Lu AF20513 – clinical phase I*
Lu AF20513 is a therapeutic vaccine inducing high-affinity polyclonal antibodies that target the beta amyloid peptide, a protein that can exert toxic effects in the brain and is predicted to play a central role in the pathology of Alzheimer's disease. Lu AF20513 will generate a polyclonal response towards the beta amyloid peptides in comparison to monoclonal antibody treatment strategies. In March 2015, Lundbeck began a first-in-man, open label, dose-escalation, multiple-immunization study with Lu AF20513. As positive antibody titers were observed, it was decided to extend the study into 2018, and the study is now expected to be completed during 2018.

**The future**
Lundbeck has a diverse preclinical and early clinical portfolio of therapeutic approaches. Lundbeck's late-discovery projects are focused on reducing the impact of the two main pathological mechanisms in Alzheimer's disease; beta amyloid plaques and tau tangles. The therapeutic approaches involve small-molecule drugs and antibody-based therapies. Methods and technologies to improve early diagnosis and optimize trial design for future clinical trials are investigated in public-private partnerships involving several pharmaceutical industries.

BACE (beta-site amyloid precursor protein cleaving enzyme) was identified in 1999 and is an enzyme that initiates the production of the Alzheimer's disease associated peptide beta amyloid. Lundbeck also pursues the BACE approach, getting ready for the first-in-human clinical trial.

It has been shown that pathological forms of tau protein can be transmitted from cell to cell in the brain and this is believed to play a major role in disease pathology and progression of Alzheimer's disease. By targeting pathological tau forms with a monoclonal antibody, Lundbeck aims to delay Alzheimer's disease progression with a therapeutic effect on disease burden and function. The programme plans to enter the first-in-human clinical trial in 2019.

## PARKINSON'S DISEASE

| | |
|---|---|
| World market size[1] | USD 4.0bn in 2016 (DKK ~24bn) |
| Lundbeck treatments for Parkinson's disease | Total DKK 1.8bn<br>Azilect® DKK 0.2bn<br>Northera® DKK 1.6bn |

### Background

At the beginning of 2005, Lundbeck was given approval to market Azilect® (rasagiline) in Europe for the treatment of Parkinson's disease. Azilect® was licensed from Teva in November 1999. The sales rights of Azilect® for European markets were transferred back to Teva in 2016 in accordance with the agreement. In 2017, Azilect® was approved and launched in China, it is expected to be launched in Singapore as well in the near future. Commercialization of Azilect® is currently ongoing in Hong Kong, Philippines, South Korea and Thailand. This contributes significantly to our business in the region.

### Disease description and demographics

Parkinson's disease is a progressive, degenerative disorder characterized by resting tremor, muscular rigidity, bradykinesia and postural instability. The motor symptoms are caused by the degeneration of dopamine-producing cells in the brain. In the late stage of the disease, patients deteriorate strongly and are often confined to a chair or bed. Many Parkinson's disease patients also suffer from disease related non-motor symptoms, e.g. sensory problems, sleep disorders, psychiatric problems and dementia. The non-motor symptoms are largely caused by dysfunction of non-dopaminergic neurotransmitter systems.

Parkinson's disease is the second most common of the neurodegenerative disorders. It is estimated to affect approximately 6 million patients worldwide.[1,2] Parkinson's disease usually develops in people in their late 50s and early 60s, but can also develop before the age of 40.[3] One study of five European countries found that 1.6% of the population aged +65 had Parkinson's disease.[4] In the US alone, the prevalence of diagnosed patients will likely double between 2010 and 2040 due to increased life expectancy.[5,6]

### Current approaches and unmet needs

Available therapies for Parkinson's disease treat the symptoms of the disease. Drugs that enhance brain dopamine levels or stimulate dopamine receptors remain the mainstay of treatment for motor symptoms. These drugs include levodopa, dopamine agonists, COMT inhibitors, monoamine oxidase type B inhibitors, and, less commonly, amantadine.

*Northera® (droxidopa)*

In 2014, Lundbeck acquired Chelsea Therapeutics International Ltd and as a result also acquired Northera®, which was approved by the US FDA early in 2014. Lundbeck launched the product in the US in September 2014, and in 2017 sales reached DKK 1,644 million. Northera® is indicated for the treatment of orthostatic dizziness, light-headedness, or the 'feeling that you are about to black out' in adult patients, with symptomatic neurogenic orthostatic hypotension caused by primary autonomic failure (Parkinson's disease, multiple-system atrophy and pure autonomic failure), dopamine beta hydroxylase deficiency or non-diabetic autonomic neuropathy.

### The future

The neurodegeneration in Parkinson's disease is predicted to result from spreading of a pathological misfolded protein, alpha synuclein. Lundbeck has in collaboration with Genmab A/S developed a new antibody, Lu AF82422, targeting alpha synuclein. Expectations are that Lu AF82422 can reduce or prevent the spreading of alpha synuclein in the brain and thereby limit the progression of Parkinson's disease. Lu AF82422 is planned to be tested in humans in 2018.

Several familiar (genetic) forms of Parkinson's disease have been identified. Mutations with elevated kinase activity in the Leucine-Rich Repeat Kinase 2 (LRRK2) increase the risk factors for the development of Parkinson's disease. Inhibition of LRRK2 activity is being investigated as a potential neuroprotective for treatment of Parkinson's patients with high LRRK2 activity.

1) IMS Health
2) The Global Burden of Disease Study 2015, Lancet.com, online 8 October, 2016 http://thelancet.com/pdfs/journals/lancet/PIIS0140-6736(16)31678-6.pdf.
3) De Lau, Lonneke ML & Breteler, Monique MB Epidemiology of Parkinson's disease, The Lancet Neurology, 2006; 5(6): 525–535.
4) Grimes DA. Parkinson's disease: a guide to treatments, therapies and controlling symptoms. London : Constable & Robinson Ltd., 2004.
5) de Rijk MC, Tzourio C, Breteler MM, et al. Prevalence of parkinsonism and Parkinson's disease in Europe: the EUROPARKINSON Collaborative Study. European Community Concerted Action on the Epidemiology of Parkinson's disease. J Neurol Neurosurg Psychiatry 1997; 62(1):10–15.
6) International Parkinson and Movement Disorder Society http://onlinelibrary.wiley.com/doi/10.1002/mds.25292/full.

# PRODUCTS

| PRODUCT | TOTAL REVENUE (DKKm) | % OF TOTAL REVENUE | GROWTH | COMMENT |
|---|---|---|---|---|
| Abilify Maintena® (aripiprazole once-monthly) | 1,331 | 8% | 19% | Once-monthly intramuscular injection indicated for the treatment of schizophrenia. Lundbeck markets Abilify Maintena® in Europe and the US in collaboration with Otsuka. Launched in the US in 2013, hereafter launched in more than 45 countries. |
| Brintellix®/Trintellix® (vortioxetine) | 1,662 | 10% | 50% | Indicated for the treatment of MDD. Lundbeck markets Brintellix®/Trintellix® in Europe and International Markets, and in the US Takeda is our co-promotion partner. Launched in the first markets in 2014. |
| Cipralex®/Lexapro® (escitalopram) | 2,369 | 14% | (6%) | Indicated for the treatment of depression. First launched in 2002 and today available in more than 100 countries around the world. |
| Northera® (droxidopa) | 1,644 | 10% | 51% | 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) | 3,022 | 17% | 25% | Indicated as adjunctive treatment of Lennox-Gastaut syndrome for people aged two years or older. Launched in the US in 2012. |
| Rexulti® (brexpiprazole) | 1,247 | 7% | 51% | Indicated for adjunctive therapy for the treatment of adults with major depressive disorder and as a treatment for adults with schizophrenia. Launched in the US in 2015 in collaboration with Otsuka, hereafter also in Canada and Australia. |
| Sabril® (vigabatrine) | 1,509 | 9% | 12% | Indicated the treatment of refractory complex partial seizures (rCPS) and infantile spasms (IS). Launched in the US in 2009. |
| Xenazine® (tetrabenazine) | 1,049 | 6% | (33%) | Indicated for the treatment of chorea associated with Huntington's disease. Launched in the US in 2008. |

# 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.*

The principal aim of Lundbeck's risk management is to strike the right balance between risk exposure and value creation. Our risk management processes are continually updated and adapted to match internal and external requirements. This gives our Executive Management an accurate and complete overview of activities and resources, and a clear basis for decision-making on our overall risk-exposure-derived opportunities.

Although Lundbeck's risk management teams report to a central Risk Office, we believe risks are best assessed by decentralized and specialized units, which are monitored and reassessed centrally. The decentralized units have detailed and extensive knowledge of the risks within their area of responsibility and systematically identify, quantify, respond to and monitor risks.

Lundbeck assesses the likelihood of an event occurring and the potential impact on the group in terms of financial loss or reputational damage. Risk identification, evaluation, qualification, recording and reporting are carried out by our decentralized units and are continually reviewed by the risk management team through clearly defined reporting, decision-making, follow-up procedures, workshops and risk roundtables. The overall risk exposure is evaluated by our central Risk Office.

## RISK REPORTING AND ASSESSMENT

Risk reporting is an integral part of Lundbeck's overall reporting process. Our corporate risk register provides a consolidated picture of our risk exposure by detailing each risk, risk category and type. The risk descriptions give details of the event, its current status, the status of the response, an assessment of likelihood and potential impact, and the name of the person responsible for managing the risk. Our reporting process defines six risk categories, which are further defined as belonging to three risk types: 'external', 'actionable' and 'strategic'.

Using this information, the Risk Office assesses the overall risk exposure and discusses it with Executive Management. Finally, a two-dimensional risk 'heat map' is reviewed by our Audit Committee and shared with the Board of Directors annually.

## R&D RISKS

R&D in Lundbeck is focused on developing innovative pharmaceuticals. However, there are risks involved in developing new pharmaceuticals and treatments for complex diseases. During the R&D process, there is the risk that new products will be delayed or do not materialize. In each of our late-stage pipeline projects, we consider whether starting new clinical studies or giving additional support to ongoing studies could lead to more successful outcomes. Understanding and mitigating the strategic risks associated with the development of new products is a crucial element of Lundbeck's overall risk management strategy.

## MARKET RISKS

The pharmaceutical market has been and will most likely continue to be characterized by attempts by authorities to cap or reduce increasing healthcare costs. These cost-containment measures are structured in several ways, such as regulation of prices or reimbursement, or by having to engage in lengthy and resource-consuming market access processes in each country. Lundbeck is engaged in understanding price development in the important US market, addressing this through dialogue with our stakeholders and incorporating it in our financial planning models.

We are working with healthcare authorities around the world to document the value of our pharmaceuticals, through health-economic assessments and other initiatives. And we are constantly looking for ways to adapt to the changing market conditions.

## INFRASTRUCTURE, IT AND RESOURCE RISKS

It is crucial for patients to always have access to the pharmaceuticals they require. As a pharmaceutical manufacturer, we must ensure reliability of supply. We monitor supply carefully and maintain an inventory in order to respond to any interruption in production. To reduce production risks, we have production and packaging facilities at four independent sites: Lumsås and Valby (Denmark), Nice (France) and Padova (Italy). Having a number of alternative facilities increases our production flexibility so we can respond to volatile market demand. In rare cases, pharmaceutical companies are forced to recall a product from the market due to safety or quality issues. At Lundbeck, we have systems, policies and procedures to ensure a swift, effective response should such a situation arise.

It is also crucial that we are able to protect the proprietary knowledge that underpins our success. We have increased our focus on information security to protect our intellectual property (IP) rights and to avoid infringing third-party rights. We have developed secure internal information systems and procedures to ensure smooth and safe flow of information and critical data around our global network.

Lundbeck continually evaluates the risks associated with the use, ownership, operation, involvement, influence and adoption of information technology (IT). Sensitive information and data are key elements of Lundbeck's business and require a sufficient and solid security strategy. The department responsible ensures that updated processes are in place to mitigate IT risks and that partners comply with the required standards when handling sensitive information on behalf of Lundbeck.

In light of the upcoming EU General Data Protection Regulation, Lundbeck is engaged in assessing and implementing solutions, processes and guidelines to ensure adherence to these new rules and regulations.

As a knowledge-based company, Lundbeck's success depends on having the right employees with the right competencies. We seek to motivate, engage and retain our employees through competitive remuneration and employee benefits as well as through individual recognition and development opportunities. Monitoring employee satisfaction and evaluating performance helps us to improve our ways of working.

## REPUTATIONAL RISKS

As a leading pharmaceutical company, we know that coverage of new clinical studies in publications, or even letters to editors, can influence the perception of products and manufacturers. To build confidence and trust in our capabilities, we invest in creating factual and scientific information resources for the benefit of healthcare professionals and patients.

Strong corporate governance is an essential part of the way we manage our business and is also integral to protecting our reputation. We have systems and processes in place to ensure proactive risk management, and we deliver fast and accurate reports on the risk profile of marketed products as well as on operational, tactical and strategic financial planning.

Our Code of Conduct is pivotal to sustaining Lundbeck's compliance culture. It helps our employees around the world to comply with international laws and regulations, pharmaceutical industry association standards and corporate requirements. We provide relevant training and conduct regular audits of our business and selected partners against our Code of Conduct. We revise our Code of Conduct and related procedures to meet changing regulations, to implement best practice and to respond to audit observations.

The marketing of pharmaceutical products is strictly regulated and we are committed to complying with these regulations. Our employees and all third parties involved in the marketing of our products are trained to comply with all relevant laws and regulations. We have systems in place to provide accurate, balanced, fair, objective and sufficiently complete information on our products.

At Lundbeck, we are committed to having an open and honest dialogue about ethical dilemmas. Our Compliance Hotline allows people to report any legal or other serious concerns they have so that management can quickly address them. The Compliance Hotline can be used by both internal and external stakeholders and is a part of our monitoring efforts to continuously improve our compliance culture.

## LEGAL RISKS

Lundbeck relies on its ability to protect its intellectual rights for new pharmaceuticals. We must also operate our business without infringing the rights of others. For pharmaceutical companies, patenting and the patent application process are extremely complex, both legally and scientifically. We take great care to develop and retain competencies in this high-risk, highly technical area. We believe our IP rights are valid and enforceable and defend these rights wherever they may be violated.

The Group is involved in a number of legal proceedings, including patent disputes.

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 the fine in the third quarter of 2013. A final judgment is expected during 2018.

In December 2011, the Brazilian antitrust authorities SDE (Secretariat of Economic Law) initiated administrative proceedings to investigate whether Lundbeck's enforcement of data protection rights could be viewed as anticompetitive conduct. In January 2012, Lundbeck submitted a response to the authorities. Due to a change in the Brazilian Antitrust Law, handling of the case has shifted from SDE to CADE (Administrative Council for Economic Defense) and remains pending.

H. Lundbeck A/S and Lundbeck Canada Inc. are involved in three product liability class-action law suits relating to Cipralex®/Celexa® and four relating to Abilify Maintena® in Canada. The cases are in the preliminary stages and as such associated with significant uncertainties. Lundbeck strongly disagrees with the claims raised.

In January 2016, Lundbeck LLC, USA, received a subpoena from the US Attorney's Office for the District of Rhode Island relating to an investigation of Xenazine® sales, marketing and related practices. Lundbeck LLC is cooperating with the relevant authorities on this investigation.

In May 2016, Lundbeck NA Ltd. (formerly known as Chelsea Therapeutics, Inc.) received a subpoena from the US Attorney's Office in Boston, Massachusetts, relating to an investigation of payments to charitable organizations providing financial assistance to patients taking Lundbeck products, and to Northera® and Xenazine® sales, marketing and related practices. Lundbeck LLC is cooperating with the relevant authorities on this investigation.

## FINANCIAL RISKS

Most of Lundbeck's commercial transactions are settled in foreign currencies. The main currency risk at the moment concerns fluctuations of the US dollar (USD), the Canadian dollar (CAD), the Chinese yuan (CNY) and the Japanese yen (JPY). Lundbeck hedges a significant part of the Group's currency risk for a period of 12-18 months. Fluctuations in exchange rates, including impact from currency devaluations, are inherent risks for Lundbeck, as we also operate in volatile countries. Lundbeck monitors and takes actions to safeguard net financial exposure at an acceptable level.

Interest rate risks arise in connection with our financial investment portfolio and cash reserves. We reduce these risks by seeking short duration on these assets. There are also credit risks associated with the sale of goods, investments and cash reserves. To reduce these risks, we avoid concentrating our credit risks and we diversify our receivables by trading with a large number of creditworthy trading partners. In addition, we only deal with or invest in financial institutions that have a solid "investment grade" credit rating.

# SUSTAINABILITY AND CORPORATE GOVERNANCE

## SUSTAINABILITY

Lundbeck's sustainability activities are driven by understanding our stakeholders' expectations while seizing new opportunities and making a positive difference in the societies in which we operate.

Lundbeck has chosen to disclose the mandatory annual statutory report on sustainability and the gender diversity of management in the form of a Communication on Progress report to the UN Global Compact on www.lundbeck.com.[1]

1) http://www.lundbeck.com/upload/global/files/pdf/sustainability/COP/COP_2017.pdf

## CORPORATE GOVERNANCE

Corporate governance at Lundbeck concerns the way our group is managed and controlled, while creating value for our group and stakeholders.

Lundbeck has chosen to disclose the mandatory annual corporate governance report on www.lundbeck.com.[2]

2) http://www.lundbeck.com/upload/global/files/pdf/corporate_governance/2017/corporate_governance_report.pdf

# EXECUTIVE MANAGEMENT *

## ANDERS GÖTZSCHE
*Interim CEO and Executive Vice President, CFO*

- Born 1967
- Joined Lundbeck in 2007

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

**Holding of shares**
- 42,796

## ANDERS GERSEL PEDERSEN
*Executive Vice President, R&D*

- Born 1951
- Joined Lundbeck in 2000

**Directorships**
- ALK-Abelló A/S (M)
- Bavarian Nordic A/S (DC)
- Genmab A/S (DC)

**Holding of shares**
- 28,903

## JACOB TOLSTRUP
*Executive Vice President, Commercial Operations*

- Born 1972
- Joined Lundbeck in 1999

**Directorships**
- None

**Holding of shares**
- 840

## LARS BANG
*Executive Vice President, Supply Operations & Engineering*

- Born 1962
- Joined Lundbeck in 1988

**Directorships**
- Claudio Bidco A/S (M)
- Claudio Holdco A/S (M)
- Fertin Pharma A/S (M)
- OB Holding (M)

**Holding of shares**
- 35,216

## PETER ANASTASIOU **
*Executive Vice President, North America*

- Born 1970
- Joined Lundbeck in 2009

**Directorships**
- The Bear Necessities Pediatric Cancer Foundation
- PhRMA (Pharmaceutical Research and Manufacturers of America)

**Holding of shares**
- None

* For more information about Executive Management and their competencies, please visit www.lundbeck.com.

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

** Peter Anastasiou participates in the Executive Management in his role as Executive Vice President for North America, but he is not a member of the Executive Management as registered with the Danish Business Authority.

# BOARD OF DIRECTORS *

## LARS SØREN RASMUSSEN
*Chairman*

- Born 1959
- CEO, Coloplast A/S
- Elected at the 2013 Annual General Meeting
- Considered independent

**Lundbeck Committees**
- Audit Committee (M)
- Remuneration Committee (C)

**Directorships**
- William Demant Holding A/S (M)

**Holding of shares**
- 20,000

## LARS ERIK HOLMQVIST

- Born 1959
- Senior Advisor within healthcare, Bain Capital
- Elected at the 2015 Annual General Meeting
- Considered dependent

**Lundbeck Committees**
- Audit Committee (M)

**Directorships**
- ALK-Abelló A/S (M)
- Naka UK topco Ltd. (M)
- Lundbeck Foundation (M)
- Tecan AG (M)

**Holding of shares**
- 15,000

## 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 Committee (M)
- Scientific Committee (M)

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

**Holding of shares**
- 8,808

## JENS JESPER OVESEN

- Born 1957
- Elected at the 2015 Annual General Meeting
- Considered independent

**Lundbeck Committees**
- Audit Committee (C)

**Directorships**
- Scandinaviska Enskilda Banken AB (DC)
- ConvaTec Group PLC (M)
- Sunrise Communications Group AG (M)

**Holding of shares**
- None

* For more information about the Board of Directors and their competencies, please visit www.lundbeck.com.

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

## 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)
- ZappRx (M)
- BIO (Biotechnology Innovation Organization in the US) (M)

**Holding of shares**
- None

## MONA ELISABETH ELSTER

- Born 1962
- Senior Laboratory Technician
- First elected by employees in 2010

**Holding of Lundbeck shares**
- None

## JØRN MØLLER MAYNTZHUSEN

- Born 1966
- Project Director
- First elected by employees in 2008

**Holding of shares**
- 520

## HENRIK SINDAL JENSEN

- Born 1969
- Principal Scientist
- Elected by employees in 2014

**Directorships**
- Lundbeck Foundation (M)

**Holding of Lundbeck shares**
- None

# THE LUNDBECK SHARE

*2017 was an eventful year for Lundbeck, with a noteworthy, yet mixed flow of news. The Lundbeck share reached an all-time high share price of DKK 411.80 and ended the year at DKK 315.00, which is an increase of 6.6%, compared to 2016. In comparison, the Danish capped index, OMXC20 CAP, increased by 110%, and the MSCI European Pharmaceutical Index increased by 4.6%.*

**Turnover**
Total trading in Lundbeck shares amounted to DKK 37.0 billion in 2017, while the average daily turnover was DKK 147.6 million, which represents an increase of 88%, compared to last year. A total of 107,730,817 million shares were traded in 2017, equivalent to 429,206 shares per day or an increase of 33%, compared to 2016.

Since May 2012, Lundbeck has had an American Depository Receipt (ADR) programme in the US. The ADR volume declined in the first half of 2017, but has increased slightly since May 2017. At the end of 2017, 460,412 million ADRs were outstanding.

**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 2017, Lundbeck's total share capital amounted to DKK 995,239,040, which is the equivalent of 199,047,808 shares.

**Composition of shareholders**
According to the Lundbeck share register, the company had more than 20,000 shareholders at the end of 2017, representing approximately 99% 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 the year. This equals 69% of the share capital and voting rights of Lundbeck. The Lundbeck Foundation is the only shareholder to report a holding in excess of 5% of the share capital.

At the end of 2017, investors in North America held 44% of the free float, compared to 51% in 2016; European (excluding Danish) investors' share was 29%, compared to 23% in 2016; Danish investors held 9%, compared to 11% in 2016; the rest of the world held 3%, compared to 1% in 2016, and finally other investors, including private, held 15%, compared to 14% in 2016. Throughout the year we have seen a significant increase in holdings from passive investors.

At year-end, Lundbeck's Board of Directors and Executive Management held a total of 153,388 Lundbeck shares, corresponding to 0.1% of the total shares outstanding.

**Lundbeck and the equity market**
Through its Investor Relations function, Lundbeck aspires to give a fair and accurate view of its activities through 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 2017, Lundbeck's Investor Relations team held more than 450 meetings, primarily in North America, Europe and Japan, and presented at more than 12 investor conferences.

Lundbeck is currently covered by 20 sell-side analysts, including the major global investment banks that regularly produce research reports on Lundbeck. A list of analysts covering Lundbeck can be found on www.lundbeck.com.[1]

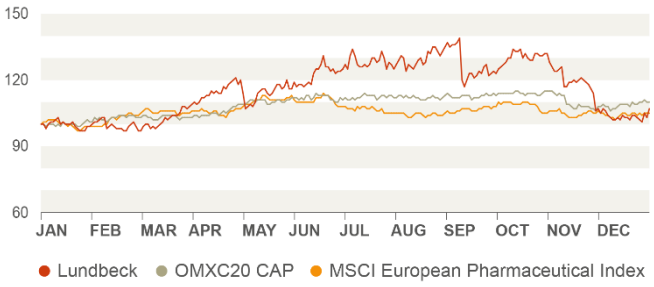
Each year, as Lundbeck's interim and full-year reports are announced, we conduct roadshows at which members of our Executive Management and Investor Relations team inform investors and analysts about the company's latest developments. Our investor presentations are available for download on www.lundbeck.com.[2]

1) http://investor.lundbeck.com/analysts.cfm
2) http://investor.lundbeck.com/downloads.cfm

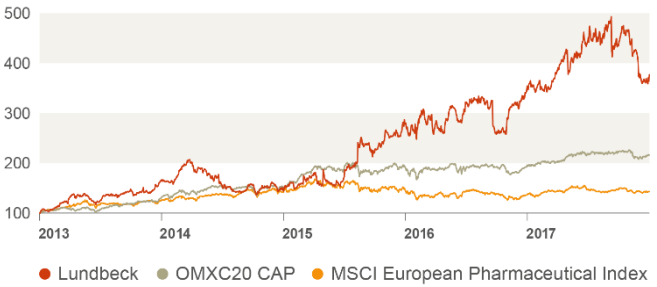
## FINANCIAL CALENDAR 2018

| | |
|---|---|
| 20 March 2018 | Annual General Meeting |
| 8 May 2018 | First quarter report 2018 |
| 8 August 2018 | Second quarter report 2018 |
| 7 November 2018 | Third quarter report 2018 |
| February 2019 | Fourth quarter report and annual report 2018 |

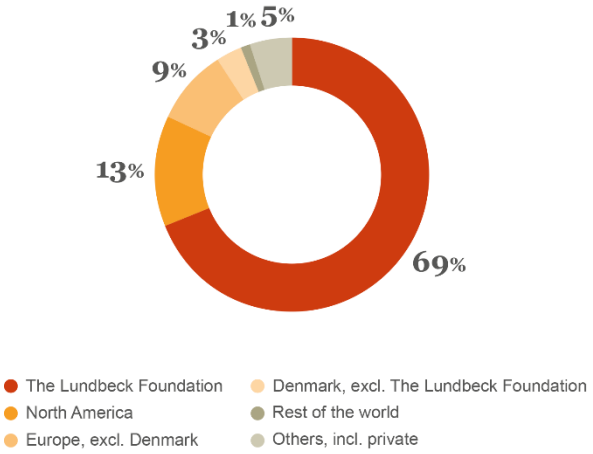
### STOCK PERFORMANCE 2017



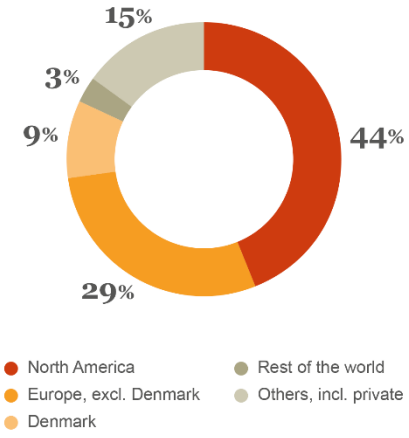

### STOCK PERFORMANCE 2013-2017




### COMPOSITION OF OWNERSHIP, END 2017




### COMPOSITION OF FREE FLOAT, END 2017



# SHARE RATIOS

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Earnings per share, basic (EPS) (DKK) | 13.28 | 6.12 | (28.84) | (0.77) |
| Earnings per share, diluted (DEPS) (DKK) | 13.27 | 6.11 | (28.84) | (0.77) |
| Cash flow from operating activities per share, diluted (DKK) | 20.45 | 15.77 | 1.00 | 8.14 |
| Net asset value per share, diluted (DKK) | 61.29 | 48.88 | 44.24 | 68.38 |
| Proposed dividend per share (DKK) | 8.00 | 2.45 | 0.00 | 0.00 |
| Dividend payout ratio (%) | 61 | 40 | - | - |
| Dividend yield (%) | 2.5 | 0.9 | 0.0 | 0.0 |
| Share price, year-end (DKK) | 315.0 | 287.3 | 235.4 | 122.8 |
| Share price, high (DKK) | 411.8 | 287.3 | 235.4 | 173.6 |
| Share price, low (DKK) | 315.0 | 206.9 | 120.4 | 111.5 |
| Price/Earnings, diluted (DKK) | 23.75 | 47.03 | n/a | n/a |
| Price/Cash flow, diluted (DKK) | 15.40 | 18.22 | 236.10 | 15.08 |
| Price/Net asset value, diluted (DKK) | 5.14 | 5.88 | 5.32 | 1.80 |
| Market capitalization, year-end (DKKbn) | 62.70 | 56.78 | 46.45 | 24.12 |
| Annual trading, million shares | 107.7 | 81.0 | 65.2 | 51.0 |
| Average trading per trading day, thousands of shares | 429.2 | 321.7 | 262.0 | 205.8 |

# SHARE FACTS

| | |
|---|---|
| Number of shares, end 2017 | 199,047,808 |
| Share capital, end 2017 (DKK) | 995,239,040 |
| Nominal value per share (DKK) | 5 |
| Holding of treasury shares | 388,327 |
| Free float (%) | 30 |
| IPO | 18 June 1999 |
| Stock exchange | NASDAQ Copenhagen |
| ISIN code | DK0010287234 |
| Ticker | LUN.CO (Reuters), LUN DC (Bloomberg) |
| ADR programme | Sponsored level 1 programme |
| ADR trading code | HLUYY |

# SUMMARY FOR THE GROUP 2013-2017

| Income statement (DKKm) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Revenue | 17,234 | 15,634 | 14,594 | 13,468 | 15,258 |
| Research and development costs | 2,705 | 2,967 | 8,149 | 2,911 | 2,951 |
| Operating profit before depreciation and amortization (EBITDA) | 5,424 | 3,846 | 210 | 1,552 | 2,861 |
| Profit/(loss) from operations (EBIT) | 4,408 | 2,292 | (6,816) | 99 | 1,599 |
| Net financials | (131) | (135) | (190) | (155) | (127) |
| Profit/(loss) before tax | 4,277 | 2,157 | (7,006) | (56) | 1,472 |
| Profit/(loss) for the year | 2,624 | 1,211 | (5,694) | (153) | 855 |

| Assets (DKKm) | | | | | |
|---|---|---|---|---|---|
| Non-current assets | 10,912 | 12,686 | 13,665 | 16,251 | 12,286 |
| Inventories | 1,376 | 1,528 | 2,217 | 1,991 | 1,893 |
| Receivables | 3,791 | 3,779 | 3,922 | 3,726 | 3,611 |
| Cash, bank balances and securities | 3,677 | 2,217 | 1,521 | 3,669 | 5,859 |
| **Total assets** | **19,756** | **20,210** | **21,325** | **25,637** | **23,649** |

| Equity and liabilities (DKKm) | | | | | |
|---|---|---|---|---|---|
| Equity | 12,181 | 9,694 | 8,785 | 13,526 | 13,481 |
| Non-current liabilities | 1,096 | 2,740 | 4,792 | 4,909 | 3,650 |
| Current liabilities | 6,479 | 7,776 | 7,748 | 7,202 | 6,518 |
| **Total equity and liabilities** | **19,756** | **20,210** | **21,325** | **25,637** | **23,649** |

| Cash flow statement (DKKm) | | | | | |
|---|---|---|---|---|---|
| Cash flows from operating activities | 4,045 | 3,126 | 197 | 1,610 | 3,760 |
| Cash flows from investing activities | (1,830) | (337) | (2,842) | (3,396) | (1,500) |
| Cash flows from operating and investing activities (free cash flow) | 2,215 | 2,789 | (2,645) | (1,786) | 2,260 |
| Cash flows from financing activities | (2,235) | (2,006) | 501 | 589 | (141) |
| Interest-bearing debt, cash, bank balances and securities, net at year-end - Net cash/(net debt) | 3,677 | 326 | (2,249) | 326 | 3,699 |

# SUMMARY FOR THE GROUP 2013-2017

CONTINUED

| Key figures | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| EBIT margin (%) | 25.6 | 14.7 | (46.7) | 0.7 | 10.5 |
| Research and development ratio (%) | 15.7 | 19.0 | 55.8 | 21.6 | 19.3 |
| Return on equity (%) | 24.0 | 13.1 | (51.1) | (1.1) | 6.4 |
| Equity ratio (%) | 61.7 | 48.0 | 41.2 | 52.8 | 57.0 |
| Invested capital (DKKm) | 8,504 | 9,368 | 11,034 | 13,200 | 9,782 |
| Return on invested capital (ROIC) (%) | 30.8 | 13.2 | (45.4) | 0.0 | 9.3 |
| Net debt/EBITDA | (0.7) | (0.1) | 10.7 | (0.2) | (1.3) |
| Cash to earnings (%) | 141.8 | 230.3 | n/a | n/a | 264.4 |
| Effective tax rate (%) | 38.7 | 43.9 | 18.7 | (171.5) | 41.9 |
| Purchase of intangible assets, gross (DKKm) | 480 | 104 | 2,719 | 4,225 | 1,204 |
| Purchase of property, plant and equipment, gross (DKKm) | 245 | 238 | 237 | 240 | 311 |
| Purchase of financial assets, gross (DKKm) | 1,509 | 16 | 9 | 62 | 7 |
| Average number of employees | 4,980 | 5,120 | 5,534 | 5,665 | 5,530 |

| Share data[1, 2] | | | | | |
|---|---|---|---|---|---|
| Number of shares for the calculation of EPS (millions) | 197.5 | 197.2 | 196.5 | 196.3 | 196.1 |
| Earnings per share, basic (EPS) (DKK) | 13.28 | 6.12 | (28.84) | (0.77) | 4.33 |
| Earnings per share, diluted (DEPS) (DKK) | 13.27 | 6.11 | (28.84) | (0.77) | 4.33 |
| Proposed dividend per share (DKK) | 8.00 | 2.45 | 0.00 | 0.00 | 2.77 |
| Cash flow from operating activities per share, diluted (DKK) | 20.45 | 15.77 | 1.00 | 8.14 | 19.03 |
| Net asset value per share, diluted (DKK) | 61.29 | 48.88 | 44.24 | 68.38 | 68.19 |
| Market capitalization (DKKm) | 62,700 | 56,776 | 46,445 | 24,117 | 26,879 |
| Price/Earnings, diluted (DKK) | 23.75 | 47.03 | n/a | n/a | 31.66 |
| Price/Cash flow, diluted (DKK) | 15.40 | 18.22 | 236.10 | 15.08 | 7.20 |
| Price/Net asset value, diluted (DKK) | 5.14 | 5.88 | 5.32 | 1.80 | 2.01 |

1) The calculation is based on a share denomination of DKK 5.
2) Comparative figures including number of shares have been restated using a factor 0.9958 for the effect of employees' exercise of warrants.

# SUMMARY FOR THE GROUP 2013-2017

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 plus net interest-bearing debt |
| Return on invested capital (ROIC), incl. goodwill | Profit from operations after tax as a percentage of average invested capital |
| Net debt/EBITDA[1] | Net interest-bearing debt as a percentage of EBITDA |
| Cash to earnings | Cash flow from operating and investing activities, excl. changes in cash equivalents, as a percentage of net profit/(loss) for the year |
| 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) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| EBIT | 4,408 | 2,292 | (6,816) | 99 | 1,599 |
| + Depreciation, amortization and impairment losses | 1,258 | 1,554 | 7,026 | 1,453 | 1,262 |
| - Gain on divestment of properties recognized in other operating income | (242) | - | - | - | - |
| **EBITDA** | **5,424** | **3,846** | **210** | **1,552** | **2,861** |

# CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS



## PRIMARY NOTES



## SECONDARY NOTES



## OTHER NOTES

# INCOME STATEMENT

1 January – 31 December 2017

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| Revenue | 3 | 17,234 | 15,634 |
| Cost of sales | 4, 8, 22 | 3,881 | 4,082 |
| **Gross profit** | | **13,353** | **11,552** |
| | | | |
| Sales and distribution costs | 4, 8 | 5,649 | 5,488 |
| Administrative expenses | 4, 8, 18 | 833 | 805 |
| Research and development costs | 4, 8 | 2,705 | 2,967 |
| Other operating income | 9 | 242 | - |
| **Profit from operations (EBIT)** | | **4,408** | **2,292** |
| | | | |
| Financial income | 19 | 183 | 172 |
| Financial expenses | 19 | 314 | 307 |
| **Profit before tax** | | **4,277** | **2,157** |
| | | | |
| Tax on profit for the year | 12 | 1,653 | 946 |
| **Profit for the year** | 13 | **2,624** | **1,211** |
| | | | |
| Earnings per share, basic (EPS) (DKK) | 20 | 13.28 | 6.12 |
| Earnings per share, diluted (DEPS) (DKK) | 20 | 13.27 | 6.11 |

# STATEMENT OF COMPREHENSIVE INCOME

1 January – 31 December 2017

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| **Profit for the year** | | **2,624** | **1,211** |
| | | | |
| Actuarial gains/losses | 24 | 33 | (42) |
| Tax | 12 | (5) | 3 |
| **Items that will not be reclassified subsequently to profit or loss** | | **28** | **(39)** |
| | | | |
| Exchange rate gains/losses on investments in foreign subsidiaries | | (447) | (180) |
| Exchange rate gains/losses on additions to net investments in foreign subsidiaries | | (107) | 241 |
| Deferred exchange gains/losses, hedging | 26 | 817 | (308) |
| Exchange gains/losses, hedging (transferred to the hedged items) | 26 | (33) | 15 |
| Exchange gains/losses, transferred from hedging to financial items | | - | 3 |
| Fair value adjustment of available-for-sale financial assets | | 16 | 8 |
| Tax | 12 | (143) | 8 |
| **Items that may be reclassified subsequently to profit or loss** | | **103** | **(213)** |
| | | | |
| **Other comprehensive income** | 21 | **131** | **(252)** |
| | | | |
| **Comprehensive income** | | **2,755** | **959** |

# BALANCE SHEET – ASSETS

At 31 December 2017

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| Goodwill | | 4,124 | 4,599 |
| Product rights | | 3,221 | 4,029 |
| Other rights | | 125 | 133 |
| Projects in progress | | 95 | 78 |
| **Intangible assets** | 7 | **7,565** | **8,839** |
| | | | |
| Land and buildings | | 1,246 | 1,430 |
| Plant and machinery | | 401 | 458 |
| Other fixtures and fittings, tools and equipment | | 104 | 129 |
| Prepayments and assets under construction | | 239 | 145 |
| **Property, plant and equipment** | 7 | **1,990** | **2,162** |
| | | | |
| Available-for-sale financial assets | | 67 | 48 |
| Other receivables | | 76 | 72 |
| Deferred tax assets | 14 | 1,214 | 1,565 |
| **Financial assets** | | **1,357** | **1,685** |
| | | | |
| **Non-current assets** | | **10,912** | **12,686** |
| | | | |
| **Inventories** | 22 | **1,376** | **1,528** |
| | | | |
| Trade receivables | 15 | 2,918 | 3,102 |
| Income taxes receivable | | 177 | 210 |
| Other receivables | 15 | 546 | 288 |
| Prepayments | | 150 | 179 |
| **Receivables** | | **3,791** | **3,779** |
| | | | |
| **Securities** | 16 | **1,522** | **17** |
| | | | |
| **Cash and bank balances** | 16 | **2,155** | **2,200** |
| | | | |
| **Current assets** | | **8,844** | **7,524** |
| | | | |
| **Assets** | | **19,756** | **20,210** |

# BALANCE SHEET – EQUITY AND LIABILITIES

At 31 December 2017

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| Share capital | 23 | 995 | 988 |
| Foreign currency translation reserve | | 634 | 1,164 |
| Currency hedging reserve | 26 | 382 | (230) |
| Retained earnings | | 10,170 | 7,772 |
| **Equity** | | **12,181** | **9,694** |
| | | | |
| Retirement benefit obligations | 24 | 246 | 311 |
| Deferred tax liabilities | 14 | 515 | 548 |
| Other provisions | 6 | 278 | 173 |
| Mortgage debt | 25 | - | 1,685 |
| Other debt | | 57 | 23 |
| **Non-current liabilities** | | **1,096** | **2,740** |
| | | | |
| Retirement benefit obligations | 24 | 1 | 2 |
| Other provisions | 6 | 490 | 743 |
| Mortgage debt | 25 | - | 85 |
| Bank debt | 25 | - | 103 |
| Trade payables | | 3,203 | 3,650 |
| Income taxes payable | | 54 | 157 |
| Other payables | 5 | 2,731 | 3,036 |
| **Current liabilities** | | **6,479** | **7,776** |
| | | | |
| **Liabilities** | | **7,575** | **10,516** |
| | | | |
| **Equity and liabilities** | | **19,756** | **20,210** |

# STATEMENT OF CHANGES IN EQUITY

At 31 December 2017

| | Notes | Share capital DKKm | Share premium DKKm | Foreign currency translation reserve DKKm | Currency hedging reserve DKKm | Retained earnings DKKm | Equity DKKm |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| **Equity at 1 January** | | **988** | **-** | **1,164** | **(230)** | **7,772** | **9,694** |
| Profit for the year | | - | - | - | - | 2,624 | 2,624 |
| Other comprehensive income | 21 | - | - | (530) | 612 | 49 | 131 |
| **Comprehensive income** | | **-** | **-** | **(530)** | **612** | **2,673** | **2,755** |
| Distributed dividends, gross | 13 | - | - | - | - | (484) | (484) |
| Dividends received, treasury shares | 13 | - | - | - | - | 1 | 1 |
| Capital increase through exercise of warrants | 23 | 7 | - | - | - | 207 | 214 |
| Buyback of treasury shares | 23 | - | - | - | - | (93) | (93) |
| Incentive programmes | 11 | - | - | - | - | 37 | 37 |
| Tax on other transactions in equity | 12 | - | - | - | - | 57 | 57 |
| **Other transactions** | | **7** | **-** | **-** | **-** | **(275)** | **(268)** |
| **Equity at 31 December** | | **995** | **-** | **634** | **382** | **10,170** | **12,181** |
| **2016** | | | | | | | |
| **Equity at 1 January** | | **987** | **349** | **1,157** | **(4)** | **6,296** | **8,785** |
| Profit for the year | | - | - | - | - | 1,211 | 1,211 |
| Other comprehensive income | 21 | - | - | 7 | (226) | (33) | (252) |
| **Comprehensive income** | | **-** | **-** | **7** | **(226)** | **1,178** | **959** |
| Capital increase through exercise of warrants | 23 | 1 | 36 | - | - | - | 37 |
| Buyback of treasury shares | 23 | - | - | - | - | (155) | (155) |
| Incentive programmes | 11 | - | - | - | - | 53 | 53 |
| Tax on other transactions in equity | 12 | - | - | - | - | 15 | 15 |
| Reclassified to retained earnings | | - | (385) | - | - | 385 | - |
| **Other transactions** | | **1** | **(349)** | **-** | **-** | **298** | **(50)** |
| **Equity at 31 December** | | **988** | **-** | **1,164** | **(230)** | **7,772** | **9,694** |

# CASH FLOW STATEMENT

1 January – 31 December 2017

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| Profit from operations (EBIT) | | 4,408 | 2,292 |
| Adjustment for non-cash operating items etc. | | 871 | 1,154 |
| Change in working capital | | 291 | 463 |
| **Cash flows from operations before financial receipts and payments** | | **5,570** | **3,909** |
| Financial receipts | | 57 | 35 |
| Financial payments | | (153) | (98) |
| **Cash flows from ordinary activities** | | **5,474** | **3,846** |
| Income taxes paid | | (1,429) | (720) |
| **Cash flows from operating activities** | | **4,045** | **3,126** |
| | | | |
| Purchase of intangible assets | 7 | (480) | (104) |
| Purchase of property, plant and equipment | 7 | (245) | (238) |
| Sale of property, plant and equipment | | 404 | 8 |
| Purchase of financial assets | | (1,509) | (16) |
| Sale of financial assets | | - | 13 |
| **Cash flows from investing activities** | | **(1,830)** | **(337)** |
| | | | |
| **Cash flows from operating and investing activities (free cash flow)** | | **2,215** | **2,789** |
| | | | |
| Repayment of loans | 25 | (1,873) | (1,888) |
| Buyback of treasury shares | 23 | (93) | (155) |
| Capital increase through exercise of warrants | 23 | 214 | 37 |
| Dividends paid in the financial year, net | | (483) | - |
| **Cash flows from financing activities** | | **(2,235)** | **(2,006)** |
| | | | |
| **Net cash flow for the year** | | **(20)** | **783** |
| | | | |
| Cash and bank balances at 1 January | | 2,200 | 1,504 |
| Unrealized exchange gains/losses on cash and bank balances | | (25) | (87) |
| Net cash flow for the year | | (20) | 783 |
| **Cash and bank balances at 31 December** | 16 | **2,155** | **2,200** |

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| **Interest-bearing debt, cash, bank balances and securities, net is composed as follows:** | | | |
| Cash and bank balances | 16 | 2,155 | 2,200 |
| Securities | 16 | 1,522 | 17 |
| Interest-bearing debt | | - | (1,891) |
| **Interest-bearing debt, cash, bank balances and securities, net at 31 December – Net cash/(net debt)** | | **3,677** | **326** |

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 of H. Lundbeck A/S have been prepared to give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2017. The registered Executive Management believes that the following accounting policies are significant to the financial statements. The general accounting policies are described in note 29.

**Licensing income and income from research collaborations**
Licensing income and royalties from out-licensed products are recognized in the income statement under revenue when the following criteria have been met:
- The most significant risks and benefits associated with the asset sold are transferred to the buyer.
- Lundbeck surrenders control of the asset sold.
- 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 for the asset sold. However, revenue from royalties is recognized when the Group obtains the right to royalty payments.
- Lundbeck has no further delivery obligations in respect of the asset sold.

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

The preparation of the consolidated financial statements of H. Lundbeck A/S involves the use of accounting estimates and judgments.

**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 to both the accounting policies and the information given in the notes in general.

Based upon events which have taken place during the year and the financial position at year-end, the registered Executive 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 to ensure 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.

The registered Executive Management believes that the following accounting estimates and judgments are significant to the 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 programmes, 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, programme/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.

# NOTE 2

## 2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS – CONTINUED

**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 arose through the acquisition of businesses or the acquisition of rights. On acquisition, 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 may involve judgments and estimates.

**Impairment testing**
Goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use are tested for impairment annually or whenever there is indication of impairment, while the carrying amount of intangible assets with finite lives, property, plant and equipment and investments measured at cost or amortized cost 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.

In the impairment test, the discounted expected future cash flows (value in use) for the cash-generating unit (CGU) are compared with the carrying amounts of the relevant assets. Lundbeck has identified only one CGU as all assets of the Group and the related cash inflows from its activities, including cash inflows from alliances with partners, are in all material aspects considered to be for the benefit of the Lundbeck Group.

**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 the tax assets, the Group applies the same assumptions as for impairment testing as described in note 7 *Intangible assets and property, plant and equipment*.

Accordingly, at 31 December 2017 all deferred tax assets relating to tax losses carried forward in Denmark from 2015 and 2016 and a deferred tax asset relating to the impairment of product rights in 2015 have been capitalized in the amount of DKK 810 million.

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 judgments are applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties. Management believes that the provision made for uncertain tax positions not yet settled with local tax authorities is adequate. However, the actual obligation may differ from the provision made and depends on the outcome of litigations and settlements with the relevant tax authorities.

# NOTE 3

## 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 business segment. The business segment reflects the internal management reporting.

The tables below show the Group's revenue broken down by key products and geographical regions.

| 2017 | Europe DKKm | North America DKKm | International Markets DKKm | Group DKKm |
|---|---|---|---|---|
| Abilify Maintena® | 637 | 591 | 103 | 1,331 |
| Brintellix®/Trintellix® | 381 | 974 | 307 | 1,662 |
| Cipralex®/Lexapro® | 648 | 167 | 1,554 | 2,369 |
| Northera® | - | 1,644 | - | 1,644 |
| Onfi® | - | 3,022 | - | 3,022 |
| Rexulti® | - | 1,245 | 2 | 1,247 |
| Sabril® | - | 1,509 | - | 1,509 |
| Xenazine® | 33 | 1,016 | - | 1,049 |
| Other pharmaceuticals | 1,119 | 504 | 1,379 | 3,002 |
| Other revenue | | | | 399 |
| **Total revenue** | **2,818** | **10,672** | **3,345** | **17,234** |
| | | | | |
| **Of this amount:** | | | | |
| Royalty | | | | 596 |

Of total revenue, DKK 20 million derives from sales in Denmark, and DKK 9,871 million derives from sales in the US.

| 2016 | Europe DKKm | North America DKKm | International Markets DKKm | Group DKKm |
|---|---|---|---|---|
| Abilify Maintena® | 508 | 526 | 80 | 1,114 |
| Brintellix®/Trintellix® | 220 | 706 | 179 | 1,105 |
| Cipralex®/Lexapro® | 760 | 187 | 1,571 | 2,518 |
| Northera® | - | 1,087 | - | 1,087 |
| Onfi® | - | 2,409 | - | 2,409 |
| Rexulti® | - | 826 | - | 826 |
| Sabril® | - | 1,342 | - | 1,342 |
| Xenazine® | 14 | 1,557 | - | 1,571 |
| Other pharmaceuticals | 1,410 | 482 | 1,445 | 3,337 |
| Other revenue | | | | 325 |
| **Total revenue** | **2,912** | **9,122** | **3,275** | **15,634** |
| | | | | |
| **Of this amount:** | | | | |
| Royalty | | | | 601 |
| Downpayments and milestone payments | | | | 12 |
| Income from divestment of ownership interests | | | | 14 |

Of total revenue, DKK 21 million derives from sales in Denmark, and DKK 8,404 million derives from sales in the US.

| Non-current assets[1] | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Denmark | 3,209 | 3,175 |
| USA | 5,165 | 6,618 |
| Other countries | 1,181 | 1,208 |
| **Total** | **9,555** | **11,001** |

1) Exclusive of financial instruments, deferred tax and retirement benefit assets.

# NOTE 4

## 4. STAFF COSTS

### Wages and salaries etc.

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Cost of sales | 538 | 510 |
| Sales and distribution costs | 2,154 | 2,208 |
| Administrative expenses | 423 | 417 |
| Research and development costs | 813 | 895 |
| **Total** | **3,928** | **4,030** |

### Registered Executive Management

The members of the registered Executive Management participate in a short-term incentive programme that provides an annual bonus for the achievement of pre-determined targets. The CEO may receive up to nine months' base salary as a bonus on condition of achievement of exceptional results. 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 results.

| | Salary DKKm | Cash bonus DKKm | Pension DKKm | Other benefits DKKm | Equity- and cash-settled incentive programmes DKKm | Total DKKm |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Anders Götzsche[1], interim CEO and Executive Vice President, CFO | 4.3 | 2.3 | 1.1 | 0.2 | 1.5 | 9.4 |
| Lars Bang, Executive Vice President, Supply Operations & Engineering | 3.8 | 1.7 | 1.0 | 0.2 | 1.4 | 8.1 |
| Anders Gersel Pedersen, Executive Vice President, R&D | 4.2 | 2.0 | 1.1 | 0.2 | 1.7 | 9.2 |
| Jacob Tolstrup, Executive Vice President, Commercial Operations | 2.6 | 1.7 | 0.7 | 0.2 | 0.9 | 6.1 |
| Kåre Schultz[2], former President and CEO | 6.3 | 4.5 | 1.6 | 0.3 | 11.4 | 24.1 |
| Staffan Schüberg[3], former Executive Vice President, CCO | 3.9 | 1.8 | 1.0 | 0.2 | (0.2) | 6.7 |
| **Total** | **25.1** | **14.0** | **6.5** | **1.3** | **16.7** | **63.6** |

1) Anders Götzsche was appointed interim CEO in November 2017
2) Kåre Schultz resigned at the end of October 2017
3) Staffan Schüberg resigned at the end of October 2017

| | Salary DKKm | Cash bonus DKKm | Pension DKKm | Other benefits DKKm | Equity- and cash-settled incentive programmes DKKm | Total DKKm |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Kåre Schultz, President and CEO | 7.5 | 5.3 | 1.9 | 0.3 | 22.8 | 37.8 |
| Lars Bang[1], Executive Vice President, Supply Operations & Engineering | 3.3 | 1.5 | 0.9 | 0.2 | 1.1 | 7.0 |
| Anders Götzsche, Executive Vice President, CFO | 3.8 | 1.8 | 1.0 | 0.2 | 3.9 | 10.7 |
| Anders Gersel Pedersen, Executive Vice President, R&D | 4.1 | 1.9 | 1.1 | 0.2 | 4.2 | 11.5 |
| Staffan Schüberg[1], Executive Vice President, CCO | 3.4 | 1.6 | 0.9 | 0.2 | 1.5 | 7.6 |
| Jacob Tolstrup[1], Executive Vice President, Corporate Functions | 2.1 | 0.9 | 0.5 | 0.2 | 0.7 | 4.4 |
| **Total** | 24.2 | 13.0 | 6.3 | 1.3 | 34.2 | 79.0 |

1) Lars Bang, Staffan Schüberg and Jacob Tolstrup joined the registered Executive Management in February 2016.

### Executives[1]

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Short-term staff benefits | 78 | 71 |
| Retirement benefits | 9 | 11 |
| Other social security costs | - | 1 |
| Equity- and cash-settled incentive programmes | 9 | 6 |
| **Total** | **96** | **89** |

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

# NOTES 4-6

## 4. STAFF COSTS – CONTINUED

### Board of Directors

The total remuneration of the Board of Directors for 2017 amounted to DKK 5.3 million (DKK 4.9 million in 2016). The amount includes fees for participation in the Audit Committee of DKK 0.7 million (DKK 0.7 million in 2016), the Remuneration Committee of DKK 0.6 million (DKK 0.7 million in 2016) and the Scientific Committee of DKK 0.4 million (DKK 0.1 million in 2016). The remuneration for 2017 is consistent with the remuneration presented at the Annual General Meeting held on 30 March 2017.

The members of the Board of Directors held a total of 44,328 Lundbeck shares at 31 December 2017 (44,630 shares in 2016).

The total remuneration of the chairman of the Board of Directors amounted to DKK 1.5 million (DKK 1.4 million in 2016). The total remuneration of the deputy chairman of the Board of Directors amounted to DKK 1.0 million (DKK 0.9 million in 2016). The amounts include fees for participation in Board committees.

### Number of employees

| | 2017 | 2016 |
|---|---|---|
| **Average number of full-time employees in the financial year** | **4,980** | **5,120** |
| | | |
| **Number of full-time employees at 31 December** | | |
| In Denmark | 1,631 | 1,589 |
| In other countries | 3,345 | 3,394 |
| **Total** | **4,976** | **4,983** |

## 5. OTHER PAYABLES

Other payables amounted to DKK 2,731 million at 31 December 2017 (DKK 3,036 million in 2016). Of this amount, DKK 1,613 million (DKK 1,702 million in 2016) relates to sales discounts and rebates in the US. The remaining amount relates mainly to VAT, employee-related obligations and fair value of derivatives.

## 6. OTHER PROVISIONS

| | Returns DKKm | Other provisions DKKm | Total DKKm |
|---|---|---|---|
| **2017** | | | |
| Provisions at 1 January | 233 | 683 | 916 |
| Effect of foreign exchange differences | (33) | (16) | (49) |
| Provisions charged | 149 | 139 | 288 |
| Provisions used | (19) | (349) | (368) |
| Unused provisions reversed | (16) | (3) | (19) |
| **Provisions at 31 December** | **314** | **454** | **768** |
| | | | |
| **Provisions break down as follows:** | | | |
| Non-current provisions | 165 | 113 | 278 |
| Current provisions | 149 | 341 | 490 |
| **Provisions at 31 December** | **314** | **454** | **768** |

| | Returns DKKm | Other provisions DKKm | Total DKKm |
|---|---|---|---|
| **2016** | | | |
| Provisions at 1 January | 141 | 1,143 | 1,284 |
| Effect of foreign exchange differences | 9 | 2 | 11 |
| Provisions charged | 109 | 221 | 330 |
| Provisions used | (23) | (561) | (584) |
| Unused provisions reversed | (3) | (122) | (125) |
| **Provisions at 31 December** | **233** | **683** | **916** |
| | | | |
| **Provisions break down as follows:** | | | |
| Non-current provisions | 104 | 69 | 173 |
| Current provisions | 129 | 614 | 743 |
| **Provisions at 31 December** | **233** | **683** | **916** |

# NOTES 6-7

## 6. OTHER PROVISIONS – CONTINUED

Of other provisions at 31 December 2017, DKK 297 million (DKK 523 million in 2016) related to restructuring programmes.

In addition, provisions comprise liabilities for e.g. legal disputes and returns.

## 7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

| Intangible assets | Goodwill DKKm | Product rights[1] DKKm | Other rights[2] DKKm | Projects in progress[2] DKKm | Total intangible assets DKKm |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Cost at 1 January | 4,599 | 15,479 | 1,806 | 98 | 21,982 |
| Effect of foreign exchange differences | (475) | (798) | (10) | - | (1,283) |
| Transfers | - | - | 47 | (45) | 2 |
| Additions | - | 408 | 10 | 62 | 480 |
| Disposals | - | - | (122) | - | (122) |
| **Cost at 31 December** | **4,124** | **15,089** | **1,731** | **115** | **21,059** |
| | | | | | |
| Amortization and impairment losses at 1 January | - | 11,450 | 1,673 | 20 | 13,143 |
| Effect of foreign exchange differences | - | (531) | (8) | - | (539) |
| Amortization | - | 949 | 63 | - | 1,012 |
| Disposals | - | - | (122) | - | (122) |
| **Amortization and impairment losses at 31 December** | **-** | **11,868** | **1,606** | **20** | **13,494** |
| **Carrying amount at 31 December** | **4,124** | **3,221** | **125** | **95** | **7,565** |

| Intangible assets | Goodwill DKKm | Product rights[1] DKKm | Other rights[2] DKKm | Projects in progress[2] DKKm | Total intangible assets DKKm |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Cost at 1 January | 4,475 | 15,390 | 1,722 | 120 | 21,707 |
| Effect of foreign exchange differences | 124 | 75 | 2 | - | 201 |
| Transfers | - | - | 95 | (95) | - |
| Additions | - | 16 | 15 | 73 | 104 |
| Disposals | - | (2) | (28) | - | (30) |
| **Cost at 31 December** | **4,599** | **15,479** | **1,806** | **98** | **21,982** |
| | | | | | |
| Amortization and impairment losses at 1 January | - | 10,256 | 1,639 | 18 | 11,913 |
| Effect of foreign exchange differences | - | 20 | 3 | - | 23 |
| Amortization | - | 1,046 | 54 | - | 1,100 |
| Impairment losses | - | 130 | 5 | 2 | 137 |
| Disposals | - | (2) | (28) | - | (30) |
| **Amortization and impairment losses at 31 December** | **-** | **11,450** | **1,673** | **20** | **13,143** |
| **Carrying amount at 31 December** | **4,599** | **4,029** | **133** | **78** | **8,839** |

The value of the Northera® product rights amounted to DKK 2,600 million when purchased in 2014. The carrying amount was DKK 1,442 million at 31 December 2017 (DKK 2,205 million in 2016) and was affected by developments in the USD/DKK exchange rate. The remaining amortization period is three years (four years in 2016).

1) All product rights were commercialized.
2) Other rights and projects in progress include items such as the IT system SAP. The amounts include directly attributable internal expenses.

# NOTE 7

## 7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – CONTINUED

| Property, plant and equipment | Land and buildings[1] DKKm | Plant and machinery DKKm | Other fixtures and fittings, tools and equipment DKKm | Prepayments and assets under construction DKKm | Total property, plant and equipment DKKm |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Cost at 1 January | 4,155 | 1,741 | 962 | 151 | 7,009 |
| Effect of foreign exchange differences | (56) | - | (14) | - | (70) |
| Transfers | 54 | 22 | 5 | (83) | (2) |
| Additions | 15 | 27 | 26 | 177 | 245 |
| Disposals | (845) | (27) | (160) | - | (1,032) |
| **Cost at 31 December** | **3,323** | **1,763** | **819** | **245** | **6,150** |
| Depreciation and impairment losses at 1 January | 2,725 | 1,283 | 833 | 6 | 4,847 |
| Effect of foreign exchange differences | (54) | - | (9) | - | (63) |
| Depreciation | 96 | 97 | 44 | - | 237 |
| Impairment losses | 1 | 8 | - | - | 9 |
| Disposals | (691) | (26) | (153) | - | (870) |
| **Depreciation and impairment losses at 31 December** | **2,077** | **1,362** | **715** | **6** | **4,160** |
| **Carrying amount at 31 December** | **1,246** | **401** | **104** | **239** | **1,990** |

| Property, plant and equipment | Land and buildings[1] DKKm | Plant and machinery DKKm | Other fixtures and fittings, tools and equipment DKKm | Prepayments and assets under construction DKKm | Total property, plant and equipment DKKm |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Cost at 1 January | 4,082 | 1,671 | 963 | 150 | 6,866 |
| Effect of foreign exchange differences | 14 | (3) | 1 | - | 12 |
| Transfers | 43 | 57 | 18 | (118) | - |
| Additions | 21 | 31 | 67 | 119 | 238 |
| Disposals | (5) | (15) | (87) | - | (107) |
| **Cost at 31 December** | **4,155** | **1,741** | **962** | **151** | **7,009** |
| Depreciation and impairment losses at 1 January | 2,591 | 1,169 | 854 | 6 | 4,620 |
| Effect of foreign exchange differences | 12 | (3) | - | - | 9 |
| Transfers | 1 | 1 | (2) | - | - |
| Depreciation | 97 | 100 | 45 | - | 242 |
| Impairment losses | 27 | 30 | 17 | - | 74 |
| Disposals | (3) | (14) | (81) | - | (98) |
| **Depreciation and impairment losses at 31 December** | **2,725** | **1,283** | **833** | **6** | **4,847** |
| **Carrying amount at 31 December** | **1,430** | **458** | **129** | **145** | **2,162** |

1) No land and buildings were mortgaged at 31 December 2017. At 31 December 2016, the carrying amount of mortgaged land and buildings was DKK 1,239 million.

# NOTE 7

## 7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – CONTINUED

**Impairment testing**
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 e.g. the following:

- Research and development results for a product
- Changes in expected cash flows due to changed sales expectations
- Changes in technology
- Changed assumptions about the future use

**Methodology**
All subsidiaries are considered to be fully integrated in the Group as no entity has a significant independent inflow of cash. Accordingly, the impairment test was performed based on one CGU.

In the impairment test, the discounted expected future cash flows (value in use) for the CGU are compared with the carrying amounts of goodwill and other intangible assets. The expected future cash flows are based on a forecasting 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 historic 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 five percent 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.

| Financial elements | Market elements |
|---|---|
| Prices | Healthcare reforms |
| Rebates | Price reforms |
| Quantities | Market access |
| Patient population | Pharma restrictions in some markets |
| 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% (7.40% in 2016).

**2017 testing outcome**
The impairment test performed in 2017 did not result in any recognition of impairment losses or reversal of prior impairment losses.

**2016 testing outcome**
In 2016, the impairment test resulted in an impairment loss of DKK 140 million relating to idalopirdine as a consequence of unfavourable study results. Of this amount, DKK 130 million relating to idalopirdine product rights was recognized in research and development costs and DKK 10 million relating to a few other assets was recognized in cost of sales.

# NOTES 8-10

## 8. AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| **Amortization, depreciation and impairment losses are specified as follows:** | | |
| Cost of sales | 1,090 | 1,258 |
| Sales and distribution costs | 47 | 46 |
| Administrative expenses | 27 | 22 |
| Research and development costs | 94 | 228 |
| **Total** | **1,258** | **1,554** |

## 9. OTHER OPERATING INCOME

Other operating income of DKK 242 million (DKK 0 million in 2016) relates to gains from the divestment of office and research facilities in Denmark and the US.

## 10. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

**Acquisition of Chelsea Therapeutics International, Ltd.**
In the second quarter of 2014, Lundbeck completed the purchase of all shares in Chelsea Therapeutics International, Ltd. for USD 6.44 per share in cash and non-transferable contingent value rights (CVRs) that would have paid up to an additional USD 1.50 per share upon achievement of certain sales milestones. The CVRs were not achieved, and no obligation exists at 31 December 2017.

**Joint taxation**
H. Lundbeck A/S and Danish subsidiaries are part of a Danish joint taxation scheme with Lundbeckfonden (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.

**Pending legal proceedings**
The Group is involved in a number of legal proceedings, including patent disputes. In the opinion of Management, the outcome of these proceedings will either 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 is not provided for as no reliable estimate can be made. 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. As permitted by IAS 37.92, in order not to prejudice the outcomes of proceedings and the interests of the company, we have not made any further disclosures about estimates in connection with the financial effects of, and disclosures about, uncertainty regarding the timing or amount of certain contingent liabilities.

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). On 8 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. A final judgment is expected during 2018.

In December 2011, the Brazilian antitrust authorities SDE (Secretariat of Economic Law) initiated administrative proceedings to investigate whether Lundbeck's enforcement of data protection rights could be viewed as anticompetitive conduct. In January 2012, Lundbeck submitted a response to the authorities. Due to a change in the Brazilian Antitrust Law, handling of the case has shifted from SDE to CADE (Administrative Council for Economic Defense) and remains pending.

H. Lundbeck A/S and Lundbeck Canada Inc. are involved in three product liability class-action lawsuits relating to Cipralex®/Celexa® and four relating to Abilify Maintena® in Canada. The cases are in the preliminary stages and as such associated with significant uncertainties. Lundbeck strongly disagrees with the claims raised.

In January 2016, Lundbeck LLC, USA, received a subpoena from the US Attorney's Office for the District of Rhode Island relating to an investigation of Xenazine® sales, marketing and related practices. Lundbeck LLC is cooperating with the relevant authorities on this investigation.

In May 2016, Lundbeck NA Ltd. (formerly known as Chelsea Therapeutics, Inc.) received a subpoena from the US Attorney's Office in Boston, Massachusetts, relating to an investigation of payments to charitable organizations providing financial assistance to patients taking Lundbeck products, and to Northera® and Xenazine® sales, marketing and related practices. Lundbeck LLC is cooperating with the relevant authorities on this investigation.

# NOTES 10-11

## 10. CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

**Return obligations**
The Group has return obligations normal for the industry. Management does not expect any major losses from these obligations.

## 11. INCENTIVE PROGRAMMES

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

**Equity-settled programmes**
In 2017, equity-settled incentive programmes consisted of warrants and restricted share units (RSUs) granted during the years 2009-2017.

In February 2017, as part of Lundbeck's recurring long-term incentive programme, Lundbeck made an initial grant offering members of Lundbeck's registered Executive Management and key employees to participate in an RSU programme. Six members of the registered Executive Management and 121 key employees employed in H. Lundbeck A/S or a Lundbeck subsidiary were offered to participate in the programme. The participants were primarily selected on the basis of job level. All the RSUs will be finally granted after the publication of the Annual Report for 2017 and will vest three years after final grant. Final grant and vesting are subject to the Board of Directors' decision on grant and vesting, 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 fair value of the RSUs has been calculated on the basis of a share price of DKK 291.26 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the initial grant was DKK 268.65 per RSU.

In May 2016, the Chief Executive Officer (CEO) Kåre Schultz was offered to participate in the 2014 one-off warrant programme on the same terms as the former CEO, who is no longer part of the programme. A total of 400,000 warrants were granted, calculated proportionally to the period of time the CEO had been with Lundbeck. Vesting was subject to the Board of Directors' decision on vesting, taking into account e.g. the financial situation of the Lundbeck Group, and subject to the CEO's continuing employment with Lundbeck during the vesting period. The warrants may be exercised during certain windows until 30 April 2020. The fair value of the warrants at the time of grant was calculated using the Black-Scholes method and based on a volatility of 39.72%, a dividend yield of 2.00%, a risk-free interest rate of 0.50%, a vesting period of one year and a share price of DKK 231.70. This translates into a fair value of DKK 85.28 per warrant.

In May 2016, as part of Lundbeck's recurring long-term incentive programme, Lundbeck made an initial grant offering members of Lundbeck's registered Executive Management and key employees to participate in an RSU programme. Three members of the registered Executive Management and 123 key employees employed in H. Lundbeck A/S or a Lundbeck subsidiary were offered to participate in the programme. Members of the registered Executive Management already participating in the 2014 one-off warrant programme are not participating in the programme. The participants were primarily selected on the basis of job level. The final grant was made after the publication of the Annual Report for 2016 and the RSUs will vest three years after final grant. Vesting is subject to the Board of Directors' decision on vesting, 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 fair value of the RSUs has been calculated on the basis of a share price of DKK 252.40 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the initial grant was DKK 237.56 per RSU.

The shares granted to key employees in 2014, the warrants from the 2014 programme granted to the registered Executive Management and the remaining 50% of the warrants granted to the registered Executive Management in 2012 vested in 2017. Further, the 400,000 warrants granted to Kåre Schultz in May 2016 vested in 2017. The shares granted to key employees in 2013 and 30% of the warrants granted to the registered Executive Management in 2012 vested in 2016. Thus, all warrants have vested.

At 31 December 2017, 136,059 warrants (280,903 warrants in 2016) were exercisable. The weighted average exercise price was DKK 113.05 (DKK 112.41 in 2016).

In 2017, the following number of warrants were exercised: 0 from the 2008 grant which expired in 2016 (13,435 in 2016), 2,207 from the 2009 grant (18,221 in 2016), 23,157 from the 2010 grant (20,856 in 2016), 46,354 from the 2011 grant (45,112 in 2016), 59,777 from the 2012 grant (79,224 in 2016), 141,592 from the 2012 grant made to the registered Executive Management (141,592 in 2016), 755,000 from the 2014 grant made to the registered Executive Management and 400,000 granted to Kåre Schultz in 2016. The weighted average share price of the warrants exercised was DKK 355.11 (DKK 251.97 in 2016).

# NOTE 11

## 11. INCENTIVE PROGRAMMES – CONTINUED

| Warrant programmes | 2008 | 2009 | 2010 | 2010 | 2011 | 2012[1] 20% | 2012[1] 30% | 2012[1] 50% | 2012 | 2014[2] | 2016[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of persons included in the programme | 87 | 98 | 101 | 16 | 112 | 4 | 4 | 4 | 102 | 3 | 1 |
| Total number of warrants granted | 405,234 | 534,058 | 765,979 | 24,971 | 849,085 | 155,750 | 233,629 | 389,380 | 692,003 | 1,355,000 | 400,000 |
| Number of warrants granted to the registered Executive Management | 219,618 | 333,811 | 507,885 | - | 381,224 | 155,750 | 233,629 | 389,380 | - | 1,355,000 | 400,000 |
| Vesting date | 06.05.11 | 16.03.12 | 16.03.13 | 16.03.13 | 31.03.14 | 31.03.15 | 31.03.16 | 31.03.17 | 31.03.15 | 30.04.17 | 30.04.17 |
| Exercise period begins | 06.05.11 | 16.03.12 | 16.03.13 | 16.03.13 | 01.04.14 | 01.04.15 | 01.04.16 | 01.04.17 | 01.04.15 | 01.05.17 | 01.05.17 |
| Exercise period ends | 05.05.16 | 15.03.17 | 15.03.18 | 15.03.18 | 31.03.19 | 31.12.18 | 31.12.18 | 31.12.18 | 31.03.20 | 30.04.20 | 30.04.20 |
| Exercise price, DKK | 115.00 | 102.00 | 97.00 | 97.00 | 121.00 | 113.00 | 113.00 | 113.00 | 113.00 | 141.00 | 141.00 |
| Fair value at the date of grant, DKK | 35.55 | 40.37 | 29.86 | 24.30 | 30.10 | 21.05 | 22.40 | 21.99 | 24.11 | 26.06 | 85.28 |

1) As from 2012, the exercise price of DKK 113.00 is revalued by 4.00% p.a. adjusted for dividend payout.
2) As from 2014, the exercise price of DKK 141.00 is revalued by 4.00% p.a. adjusted for dividend payout.

| Share and RSU programmes | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Number of persons included in the programme | 113 | 107 | 129 | 126 | 127 |
| Total number of shares/RSUs granted | 540,562 | 205,702 | 130,777 | 120,549 | 131,516 |
| Number of shares/RSUs granted to the registered Executive Management | 98,629 | - | - | 20,484 | 47,911 |
| Vesting date | 31.05.16 | 31.05.17 | 01.12.18 | 01.02.20 | 01.02.21 |
| Fair value at the date of grant, DKK | 110.70 | 138.81 | 202.78 | 237.56 | 268.65 |

# NOTE 11

## 11. INCENTIVE PROGRAMMES – CONTINUED

| Warrants | Registered Executive Management Number | Executives Number | Other Number | Total Number | Average exercise price DKK |
|---|---|---|---|---|---|
| **2017** | | | | | |
| 1 January | 1,320,333 | 77,154 | 180,008 | 1,577,495 | 144.66 |
| Transfers | - | (2,000) | 2,000 | - | - |
| Exercised | (1,296,592) | (45,836) | (85,659) | (1,428,087) | 149.64 |
| Expired | - | - | (13,349) | (13,349) | 102.00 |
| **31 December** | **23,741** | **29,318** | **83,000** | **136,059** | 113.05 |
| | | | | | |
| **2016** | | | | | |
| 1 January | 1,038,184 | 88,270 | 407,877 | 1,534,331 | 134.79 |
| Grant | 400,000 | - | - | 400,000 | 155.56 |
| Transfers | 23,741 | 36,714 | (60,455) | - | - |
| Exercised | (141,592) | (47,830) | (129,018) | (318,440) | 117.75 |
| Cancelled/expired | - | - | (38,396) | (38,396) | 114.21 |
| **31 December** | **1,320,333** | **77,154** | **180,008** | **1,577,495** | 144.66 |

**Cash-settled programmes**
The cash-settled programmes consist of stock appreciation rights (SARs) and restricted cash units (RCUs) granted during the years 2011-2017.

In February 2017, Lundbeck made an initial grant offering a few key employees in the US subsidiaries to participate in an RCU programme on terms and conditions similar to those applying to the RSU programme initially granted to the registered Executive Management and key employees of the parent company and its non-US subsidiaries in February 2017. All the RCUs, a total of 2,499, will be finally granted after the publication of the Annual Report for 2017 and will vest three years after final grant. Final grant and vesting are subject to the Board of Directors' decision on vesting, 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 calculated at DKK 268.65 per RCU.

In May 2016, Lundbeck made an initial grant offering a few key employees in the US subsidiaries to participate in an RCU programme on terms and conditions similar to those applying to the RSU programme initially granted to the registered Executive Management and key employees of the parent company and its non-US subsidiaries in May 2016. All the RCUs, a total of 4,645, were finally granted after the publication of the Annual Report for 2016 and will vest three years after final grant. Vesting is subject to the Board of Directors' decision on vesting, 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 calculated at DKK 237.56 per RCU.

The cash-settled programmes for employees of the US subsidiaries cannot be converted into shares because the value of the programmes is distributed as a cash amount.

The RCUs granted in 2014 vested in 2017, after which time the programme was settled. The RCUs granted in 2013 vested in 2016, after which time the programme was settled.

**Fair value, liability and expense recognized in the income statement**
The warrants, shares and RSUs granted are recognized in the income statement for 2017 at an expense corresponding to the fair value at the time of grant for the part of the vesting period that concerns 2017. The total expense recognized in respect of equity-settled programmes amounted to DKK 37 million (DKK 53 million in 2016). At 31 December 2017, the fair value of remaining equity-settled programmes was DKK 139 million (DKK 340 million in 2016).

The SARs granted are recognized in the income statement at an expense corresponding to the value adjustment for the year based on the Black-Scholes method, and 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 total expense recognized in respect of cash-settled programmes amounted to DKK 1 million (DKK 1 million in 2016) and covers all cash-settled programmes in force in 2017. At 31 December 2017, the total liability in respect of cash-settled programmes was DKK 3 million (DKK 4 million in 2016) and covers all cash-settled programmes in force at 31 December 2017.

The total expense recognized in the income statement for all incentive programmes amounted to DKK 38 million in 2017 (DKK 54 million in 2016).

# NOTES 12-13

## 12. TAX ON PROFIT FOR THE YEAR

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Current tax | 1,372 | 902 |
| Prior-year adjustments, current tax | 99 | (12) |
| Prior-year adjustments, deferred tax | (86) | 17 |
| Change in deferred tax for the year | 291 | 10 |
| Change in deferred tax as a result of changed income tax rates | 68 | 3 |
| **Total tax for the year** | **1,744** | **920** |
| | | |
| **Tax for the year is composed of:** | | |
| Tax on profit for the year | 1,653 | 946 |
| Tax on other comprehensive income | 148 | (11) |
| Tax on other transactions in equity | (57) | (15) |
| **Total tax for the year** | **1,744** | **920** |

For a specification of tax on other comprehensive income, see note 21 *Other comprehensive income*.

| **Explanation of the Group's effective tax rate relative to the Danish corporate income tax rate** | DKKm | % |
|---|---|---|
| **2017** | | |
| | | |
| **Profit before tax** | **4,277** | |
| | | |
| Calculated tax, 22% | 941 | 22.0 |
| | | |
| **Tax effect of:** | | |
| Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate | 467 | 11.0 |
| Non-deductible expenses/non-taxable income and other permanent differences | 71 | 1.6 |
| Research and development incentives | (40) | (0.9) |
| Non-deductible amortization of product rights | 170 | 4.0 |
| Change in valuation of net tax assets | (38) | (0.9) |
| Change in deferred tax as a result of changed income tax rates | 68 | 1.6 |
| Prior-year tax adjustments etc., total effect on operations | 14 | 0.3 |
| **Effective tax/tax rate for the year** | **1,653** | **38.7** |

| **Explanation of the Group's effective tax rate relative to the Danish corporate income tax rate** | DKKm | % |
|---|---|---|
| **2016** | | |
| | | |
| **Profit before tax** | **2,157** | |
| | | |
| Calculated tax, 22% | 475 | 22.0 |
| | | |
| **Tax effect of:** | | |
| Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate | 453 | 21.0 |
| Non-deductible expenses/non-taxable income and other permanent differences | 75 | 3.5 |
| Research and development incentives | (16) | (0.8) |
| Non-deductible amortization of product rights | 172 | 8.0 |
| Change in valuation of net tax assets | (218) | (10.1) |
| Prior-year tax adjustments etc., total effect on operations | 5 | 0.3 |
| **Effective tax/tax rate for the year** | **946** | **43.9** |

## 13. DISTRIBUTION OF PROFIT

The Board of Directors proposes distribution of dividends for 2017 of 61% (40% in 2016) of the net profit for the year allocated to the shareholders, equivalent to DKK 8.00 per share (DKK 2.45 per share in 2016) or DKK 1,592 million (DKK 484 million in 2016), inclusive of dividends on treasury shares. Total dividends are based on the current share capital.

In addition, if warrants are exercised during the period from the Board of Directors' approval of the consolidated financial statements and the approval by the Annual General Meeting, the Board of Directors proposes that total dividends be increased to maintain the proposed dividends per share of DKK 8.00. The total number of exercisable warrants was 136,059 at 31 December 2017.

# NOTE 14

## 14. 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 DKKm | Movements during the year DKKm | Balance at 31 December DKKm |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Intangible assets | 114 | (43) | - | 334 | 405 |
| Property, plant and equipment | (72) | 38 | 14 | 314 | 294 |
| Inventories | (96) | 18 | (8) | (41) | (127) |
| Provisions | (1,394) | 6 | (3) | 447 | (944) |
| Other items | 1,076 | 34 | (20) | (131) | 959 |
| Tax loss carryforwards etc. | (3,404) | 46 | (360) | 130 | (3,588) |
| **Total temporary differences** | **(3,776)** | **99** | **(377)** | **1,053** | **(3,001)** |
| | | | | | |
| Deferred (tax assets)/tax liabilities[1] | (885) | 18 | (86) | 344 | (609) |
| Research and development incentives | (132) | 27 | - | 15 | (90) |
| **Deferred (tax assets)/tax liabilities** | **(1,017)** | **45** | **(86)** | **359** | **(699)** |
| | | | | | |
| **2016** | | | | | |
| Intangible assets | 53 | 1 | 5 | 55 | 114 |
| Property, plant and equipment | (39) | (10) | (4) | (19) | (72) |
| Inventories | (61) | 16 | 19 | (70) | (96) |
| Provisions | (1,558) | (166) | (40) | 370 | (1,394) |
| Other items | 734 | 1 | 81 | 260 | 1,076 |
| Tax loss carryforwards etc. | (2,671) | (43) | 2 | (692) | (3,404) |
| **Total temporary differences** | **(3,542)** | **(201)** | **63** | **(96)** | **(3,776)** |
| | | | | | |
| Deferred (tax assets)/tax liabilities[1] | (928) | (31) | 18 | 56 | (885) |
| Research and development incentives | (81) | (7) | (1) | (43) | (132) |
| **Deferred (tax assets)/tax liabilities** | **(1,009)** | **(38)** | **17** | **13** | **(1,017)** |

1) Movements during the year include an increase in deferred tax of DKK 68 million (DKK 3 million in 2016) as a result of changed income tax rates.

# NOTE 14

## 14. DEFERRED TAX – CONTINUED

| Deferred (tax assets)/tax liabilities | 2017 Deferred tax assets DKKm | 2017 Deferred tax liabilities DKKm | 2017 Net DKKm | 2016 Deferred tax assets DKKm | 2016 Deferred tax liabilities DKKm | 2016 Net DKKm |
|---|---|---|---|---|---|---|
| Intangible assets | (65) | 214 | 149 | (176) | 311 | 135 |
| Property, plant and equipment | (3) | 71 | 68 | (140) | 63 | (77) |
| Inventories | (74) | 37 | (37) | (76) | 38 | (38) |
| Provisions | (155) | - | (155) | (310) | - | (310) |
| Other items | (243) | 412 | 169 | (234) | 403 | 169 |
| Tax loss carryforwards etc. | (803) | - | (803) | (764) | - | (764) |
| Research and development incentives | (90) | - | (90) | (132) | - | (132) |
| **Deferred (tax assets)/tax liabilities** | **(1,433)** | **734** | **(699)** | **(1,832)** | **815** | **(1,017)** |
| Set off within legal tax entities and jurisdictions | 219 | (219) | - | 267 | (267) | - |
| **Total net deferred (tax assets)/tax liabilities** | **(1,214)** | **515** | **(699)** | **(1,565)** | **548** | **(1,017)** |

Of the recognized deferred tax assets, DKK 893 million (DKK 896 million in 2016) related 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.

Deferred tax liabilities include a provision of DKK 366 million (DKK 365 million in 2016) to cover uncertain tax positions not yet settled with local tax authorities. The provision is based on Management's judgment of the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties. The actual obligation may differ from the provision made as it depends on the outcome of litigations and settlements with the relevant tax authorities.

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 | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Unrecognized deferred tax assets at 1 January | 138 | 345 |
| Additions | - | 6 |
| Utilized | (38) | (213) |
| **Unrecognized deferred tax assets at 31 December** | **100** | **138** |

Unrecognized deferred tax assets primarily relate to net operating losses and research and development incentives.

# NOTES 15-16

## 15. TRADE RECEIVABLES AND OTHER RECEIVABLES

### Trade receivables

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Receivables | 2,942 | 3,135 |
| Writedowns | (24) | (33) |
| **Total** | **2,918** | **3,102** |

| **Due dates of trade receivables not written down** | | |
|---|---|---|
| Not due | 2,421 | 2,528 |
| Overdue by up to three months | 362 | 421 |
| Overdue by between three months and up to six months | 82 | 42 |
| Overdue by between six months and up to twelve months | 31 | 29 |
| Overdue by more than twelve months | 22 | 82 |
| **Total** | **2,918** | **3,102** |

### Other receivables

Other receivables amounted to DKK 546 million (DKK 288 million in 2016), the greater part of which was not yet due and related to the fair value of derivatives. 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. Historically, losses sustained on debtors have been insignificant. This was also the case in 2017. In 2017, writedowns decreased compared to 2016 mainly due to utilization. An internal assessment has confirmed that overdue balances do not represent a material risk of loss.

The Group has one customer in the US contributing approximately DKK 2.3 billion (DKK 2.3 billion in 2016) to total revenue. No other single customer contributed 10% or more to total revenue. The Group has no significant reliance on specific customers. Internal procedures for evaluating specific credit risks from new customer relationships and changes to the risk profile of existing relationships ensure that the risk of loss is reduced to an acceptable level.

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 safeguard receivables at an acceptable level.

### 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 continue into 2018 and 2019.

## 16. CASH RESOURCES

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Cash and bank balances | 2,155 | 2,200 |
| **Cash and bank balances at 31 December** | **2,155** | **2,200** |
| Securities with a maturity of more than three months[1] | 1,522 | 17 |
| **Securities at 31 December** | **1,522** | **17** |
| **Cash, bank balances and securities at 31 December** | **3,677** | **2,217** |

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

### Liquidity risks and capital structure

The credit risk on cash and derivatives (forward exchange contracts and currency options) is limited because Lundbeck deals only with banks with a high 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. Pursuant to the Group's Treasury Policy, the credit lines are presented to and approved by the Board of Directors.

# NOTES 16-17

## 16. CASH RESOURCES – CONTINUED

The Treasury Policy covers financial resources, foreign currency exposure and the securities and loan portfolios. 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, credit lines and types of business.

Pursuant to its Treasury Policy, Lundbeck must be able to raise a minimum of DKK 1 billion at two weeks' notice. 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 has a number of uncommitted credit facilities to cover its day-to-day operations. In 2017, a DKK 2.0 billion revolving credit facility was cancelled. This credit facility was unutilized at 31 December 2016. A committed credit facility of EUR 150 million with the European Investment Bank obtained in 2013 was fully repaid in 2016. Lundbeck manages its capital structure based on a wish to carry an investment grade rating.

The securities portfolio consists of individual Danish mortgage bonds and an externally managed investment portfolio, all of which carry a limited credit risk. The management of the investment portfolio focuses on capital preservation, the risk level being measured through an option-adjusted duration.

Liquidity exceeding the requirement for business development and general business purposes is primarily distributed as dividends. Lundbeck currently pursues a policy of distributing between 60% and 80% of the profit for the year as dividends, but may deviate from this policy in exceptional cases.

In 2017, a few minor operational changes were made to the Group's Treasury Policy.

## 17. CONTRACTUAL OBLIGATIONS

**Rental and lease obligations**
The Group has obligations amounting to DKK 534 million (DKK 503 million in 2016) in the form of rentals and leasing of operating equipment.

| Future rental and lease payments | Land and buildings DKKm | Operating equipment DKKm | Total DKKm |
|---|---|---|---|
| **2017** | | | |
| Within one year | 64 | 56 | 120 |
| Between one and five years | 180 | 120 | 300 |
| After five years | 114 | - | 114 |
| **Total** | **358** | **176** | **534** |
| | | | |
| **2016** | | | |
| Within one year | 78 | 43 | 121 |
| Between one and five years | 185 | 59 | 244 |
| After five years | 138 | - | 138 |
| **Total** | **401** | **102** | **503** |

Rental and lease payments recognized in the income statement amounted to DKK 196 million (DKK 157 million in 2016).

**Other purchase obligations**
The Group has undertaken purchase obligations in the amount of DKK 412 million (DKK 339 million in 2016), the majority of which relate to production consumables.

**Research and development milestones and collaborations**
Research and development milestone obligations amounted to DKK 311 million (DKK 706 million in 2016). The total amount of the milestone obligations may increase in line with the development of the projects.

In addition, the Group is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 67 million (DKK 102 million in 2016).

# NOTES 17-20

## 17. CONTRACTUAL OBLIGATIONS – CONTINUED

**Other contractual obligations**
The Group has entered into various service agreements amounting to DKK 133 million (DKK 113 million in 2016).

At 31 December 2017, the Group's capital contribution obligations amounted to DKK 3 million (DKK 4 million in 2016).

## 18. AUDIT FEES

| Deloitte Statsautoriseret Revisionspartnerselskab | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Statutory audit | 9 | 9 |
| Tax consulting | 1 | 1 |
| Other services | 2 | 3 |
| **Total** | **12** | **13** |

A few minor foreign subsidiaries are not audited by the parent company's auditors, a foreign business partner of the auditors, 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 2 million and consisted of assistance related to brand strategy optimization, auditor's reports on various statements for public authorities and other parties, agreed-upon procedures reports related to subsidiaries, assistance with non-financial compliance reviews, and other accounting and tax advisory services.

## 19. NET FINANCIALS

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Net interest income/(expenses) from financial assets and financial liabilities measured at amortized cost | (85) | (50) |
| Net gains/(losses) on available-for-sale financial assets, incl. dividends | (1) | 7 |
| Net exchange gains/(losses) | (33) | (73) |
| Net gains/(losses) on financial assets measured at fair value through profit or loss | (1) | - |
| Net income/(expenses) from other financial items | (11) | (19) |
| **Net financials** | **(131)** | **(135)** |

Interest income from financial assets measured at amortized cost amounted to DKK 12 million (DKK 10 million in 2016), and interest expenses on financial liabilities measured at amortized cost amounted to DKK 97 million (DKK 60 million in 2016).

In 2016, as a result of the devaluation of the Venezuelan currency in February 2016 and the ensuing decline in transactions settled at the official exchange rate, the receivables were re-assessed. As it is highly unlikely that the receivables will be settled at the official exchange rate, an exchange rate loss of DKK 125 million was recognized.

## 20. EARNINGS PER SHARE

| | 2017 | 2016 |
|---|---|---|
| **Profit for the year (DKKm)** | **2,624** | **1,211** |
| Average number of shares ('000 shares) | 197,895 | 197,392 |
| Average number of treasury shares ('000 shares) | (381) | (205) |
| **Average number of shares, excl. treasury shares ('000 shares)** | **197,514** | **197,187** |
| Average number of warrants, fully diluted ('000 warrants) | 276 | 223 |
| **Average number of shares, fully diluted ('000 shares)** | **197,790** | **197,410** |
| **Earnings per share, basic (EPS) (DKK)** | **13.28** | **6.12** |
| **Earnings per share, diluted (DEPS) (DKK)** | **13.27** | **6.11** |

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 programmes, see note 11 *Incentive programmes.*

# NOTE 21

## 21. OTHER COMPREHENSIVE INCOME

| | Before tax DKKm | Tax DKKm | After tax DKKm |
|---|---|---|---|
| **2017** | | | |
| **Other comprehensive income recognized under foreign currency translation reserve in equity** | | | |
| Exchange rate gains/losses on investments in foreign subsidiaries | (447) | - | (447) |
| Exchange rate gains/losses on additions to net investments in foreign subsidiaries | (107) | 24 | (83) |
| **Total** | **(554)** | **24** | **(530)** |
| **Other comprehensive income recognized under currency hedging reserve in equity** | | | |
| Deferred exchange gains/losses, hedging | 817 | (179) | 638 |
| Exchange gains/losses, hedging (transferred to revenue) | (33) | 7 | (26) |
| **Total** | **784** | **(172)** | **612** |
| **Other comprehensive income recognized under retained earnings in equity** | | | |
| Fair value adjustment of available-for-sale financial assets | 16 | 5 | 21 |
| Actuarial gains/losses | 33 | (5) | 28 |
| **Total** | **49** | **-** | **49** |
| **Recognized in other comprehensive income** | **279** | **(148)** | **131** |

| | Before tax DKKm | Tax DKKm | After tax DKKm |
|---|---|---|---|
| **2016** | | | |
| **Other comprehensive income recognized under foreign currency translation reserve in equity** | | | |
| Exchange rate gains/losses on investments in foreign subsidiaries | (180) | - | (180) |
| Exchange rate gains/losses on additions to net investments in foreign subsidiaries | 241 | (54) | 187 |
| **Total** | **61** | **(54)** | **7** |
| **Other comprehensive income recognized under currency hedging reserve in equity** | | | |
| Deferred exchange gains/losses, hedging | (308) | 68 | (240) |
| Exchange gains/losses, hedging (transferred to revenue) | 15 | (3) | 12 |
| Exchange gains/losses, transferred from hedging to financial items | 3 | (1) | 2 |
| **Total** | **(290)** | **64** | **(226)** |
| **Other comprehensive income recognized under retained earnings in equity** | | | |
| Fair value adjustment of available-for-sale financial assets | 8 | (2) | 6 |
| Actuarial gains/losses | (42) | 3 | (39) |
| **Total** | **(34)** | **1** | **(33)** |
| **Recognized in other comprehensive income** | **(263)** | **11** | **(252)** |

Exchange rate gains/losses on investments in foreign subsidiaries, a loss of DKK 447 million (DKK 180 million in 2016), and exchange rate gains/losses on additions to net investments in foreign subsidiaries, a loss of DKK 107 million (a gain of DKK 241 million in 2016), are primarily driven by developments in USD/DKK and GBP/DKK exchange rates.

# NOTES 22-23

## 22. INVENTORIES

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Raw materials and consumables | 212 | 284 |
| Work in progress | 406 | 409 |
| Finished goods and goods for resale | 758 | 835 |
| **Total** | **1,376** | **1,528** |
| | | |
| Indirect costs of production | 299 | 298 |
| Writedown for the year | 54 | 27 |
| Inventories calculated at net realizable value | 6 | 6 |

The total cost of goods sold included in cost of sales amounted to DKK 2,932 million (DKK 3,036 million in 2016).

## 23. SHARE CAPITAL

The share capital of DKK 995 million at 31 December 2017 is divided into 199,047,808 shares at a nominal value of DKK 5 each.

| Share capital | 2017 DKKm | 2016 DKKm | 2015 DKKm | 2014 DKKm | 2013 DKKm |
|---|---|---|---|---|---|
| At 1 January | 988 | 987 | 982 | 981 | 980 |
| Capital increase through exercise of warrants | 7 | 1 | 5 | 1 | 1 |
| **At 31 December** | **995** | **988** | **987** | **982** | **981** |

| Issued shares | 2017 Number | 2016 Number |
|---|---|---|
| At 1 January | 197,619,721 | 197,301,281 |
| Capital increase through exercise of warrants | 1,428,087 | 318,440 |
| **At 31 December** | **199,047,808** | **197,619,721** |

| Treasury shares | Shares of DKK 5 nom. Number | Nominal value DKKm | Proportion of share capital % | Cost DKKm |
|---|---|---|---|---|
| **2017** | | | | |
| Shareholding at 1 January | 271,187 | 1 | 0.14 | 70 |
| Share buyback | 290,000 | 2 | 0.15 | 93 |
| Shares used for funding incentive programmes | (172,860) | (1) | (0.09) | (45) |
| **Shareholding at 31 December** | **388,327** | **2** | **0.20** | **118** |
| | | | | |
| **2016** | | | | |
| Shareholding at 1 January | - | - | - | - |
| Share buyback | 623,926 | 3 | 0.32 | 155 |
| Shares used for funding incentive programmes | (352,739) | (2) | (0.18) | (85) |
| **Shareholding at 31 December** | **271,187** | **1** | **0.14** | **70** |

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.

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 2017, employees exercised warrants totalling DKK 214 million (DKK 37 million in 2016). The share premium in this connection was DKK 207 million (DKK 36 million in 2016).

# NOTE 24

## 24. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

### Defined contribution plans

The major defined contribution plans cover employees in Australia, Canada, Denmark, Finland, Korea, Sweden, the UK and the US. The cost of defined contribution plans, representing contributions to the plans, amounted to DKK 231 million in 2017 (DKK 220 million in 2016).

### 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 those of 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 | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Present value of defined benefit plans | 481 | 582 |
| Fair value of plan assets | (256) | (292) |
| **Defined benefit plans at 31 December** | **225** | **290** |
| Other obligations of a retirement benefit nature | 22 | 23 |
| **Retirement benefit obligations and similar obligations at 31 December** | **247** | **313** |
| | | |
| **Retirement benefit obligations and similar obligations break down as follows:** | | |
| Non-current obligations | 246 | 311 |
| Current obligations | 1 | 2 |
| **Retirement benefit obligations and similar obligations at 31 December** | **247** | **313** |

| Assumptions for the most important plans | 2017 % | 2016 % |
|---|---|---|
| Discount rate | 1.55-2.80 | 1.40-2.75 |
| Inflation rate | 1.75-2.05 | 1.90-2.20 |
| Pay rate increase | 0.00-2.40 | 2.40-2.50 |
| Pension increase | 1.75-3.10 | 1.90-3.20 |
| Age-weighted staff resignation rate | 0-8 | 0-8 |
| Expected return on plan assets | 2.80 | 2.75 |

The most significant assumptions used in the calculation of the obligation for defined benefits 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 19 million (DKK 25 million in 2016) 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 7 million (DKK 9 million in 2016) and vice versa. The sensitivity analysis indicates how the development in the obligation would be as a result of a change in the individual assumptions. However, the assumptions will most likely be correlated and consequently result in a different obligation.

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| **The fair value of the plan assets breaks down as follows:** | | |
| Shares | 50 | 42 |
| Bonds | 35 | 34 |
| Property | 15 | 14 |
| Insurance contracts | 145 | 191 |
| Other assets | 11 | 11 |
| **Total** | **256** | **292** |

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.

# NOTE 24

## 24. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| **Change in present value of defined benefit plans** | | |
| Present value of defined benefit plans at 1 January | 582 | 605 |
| Effect of foreign exchange differences | (16) | (38) |
| Past service costs | - | (2) |
| Pension expenses | 8 | 10 |
| Interest expenses relating to the obligations | 10 | 16 |
| Experience adjustments | (4) | (36) |
| Adjustments relating to financial assumptions | (21) | 88 |
| Adjustments relating to demographic assumptions | - | (2) |
| Benefits paid | (13) | (33) |
| Employee contributions | 1 | 2 |
| Settlements | (40) | (14) |
| Curtailments | (26) | (14) |
| **Present value of defined benefit plans at 31 December** | **481** | **582** |
| | | |
| **Change in fair value of plan assets** | | |
| Fair value of plan assets at 1 January | 292 | 320 |
| Effect of foreign exchange differences | (12) | (32) |
| Interest income on plan assets | 6 | 9 |
| Experience adjustments | 8 | 8 |
| Administration fees | (1) | (1) |
| Contributions | 9 | 14 |
| Benefits paid | (7) | (14) |
| Employee contributions | 1 | 2 |
| Settlements | (40) | (14) |
| **Fair value of plan assets at 31 December** | **256** | **292** |

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| **Specification of expenses recognized in the income statement** | | |
| Past service costs | - | (2) |
| Pension expenses | 8 | 10 |
| Curtailments | (26) | (14) |
| Finance costs | 4 | 7 |
| Administration fees | 1 | 1 |
| **Total** | **(13)** | **2** |
| | | |
| **Specification of amount recognized in the statement of comprehensive income** | | |
| Actuarial (gains)/losses | (33) | 42 |
| **Total** | **(33)** | **42** |
| | | |
| **Realized return on plan assets** | **14** | **17** |

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 (17 years in 2016). The expected contribution to defined benefit plans for 2018 is DKK 15 million (DKK 18 million for 2017).

**Other obligations of a retirement benefit nature**

An obligation of DKK 22 million (DKK 23 million in 2016) was recognized in the Group to cover other obligations of a retirement benefit nature, which primarily include termination benefits in a number of subsidiaries. The benefit payments are conditional upon specified requirements being met.

# NOTE 25

## 25. MORTGAGE AND BANK DEBT

### Mortgage debt

**2017**
At 31 December 2017, there was no mortgage debt.

**2016**

| | 2016 DKKm |
|---|---|
| **Mortgage debt maturing within the following periods from the balance sheet date:** | |
| Within one year | 85 |
| Between one and two years | 86 |
| Between two and three years | 87 |
| Between three and four years | 88 |
| Between four and five years | 88 |
| After more than five years | 1,336 |
| **Mortgage debt at 31 December** | **1,770** |
| | |
| **Mortgage debt breaks down as follows:** | |
| Non-current liabilities | 1,685 |
| Current liabilities | 85 |
| **Mortgage debt at 31 December** | **1,770** |

| | Currency | Expiry of commitment | Fixed/ floating | Weighted average effective interest rate[1] % | Amortized cost DKKm | Nominal value DKKm | Fair value DKKm |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| Mortgage debt, bond loan | DKK | 2035 | Fixed 5-7 years | 1.21 | 1,354 | 1,360 | 1,398 |
| Mortgage debt, bond loan | DKK | 2037 | Fixed 4 years | 0.82 | 416 | 405 | 418 |
| **Total** | | | | | **1,770** | **1,765** | **1,816** |

1) Calculated on the basis of the interest rate in force until the next fixing, after which time the anticipated interest rate is used until expiry of the commitment.

Amortized cost is calculated as the proceeds received less instalments paid, plus or minus amortization of capital gains or losses. Fair value is calculated by applying the market value of the underlying bonds at 31 December.

### Bank debt

**2017**
At 31 December 2017, there was no bank debt, and no overdraft facilities were utilized.

**2016**

| | 2016 DKKm |
|---|---|
| **Bank debt maturing within the following period from the balance sheet date:** | |
| Within one year | 103 |
| **Bank debt at 31 December** | **103** |
| | |
| **Bank debt breaks down as follows:** | |
| Current liabilities | 103 |
| **Bank debt at 31 December** | **103** |

| | Currency | Expiry of commitment | Fixed/ floating | Weighted average effective interest rate % | Amortized cost DKKm | Nominal value DKKm | Fair value DKKm |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| Overdraft facilities | Various | 2017 | Floating | 2.09 | 103 | 103 | 103 |
| **Total** | | | | | **103** | **103** | **103** |

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

# NOTES 25-26

## 25. MORTGAGE AND BANK DEBT – CONTINUED

### Development in mortgage debt and bank debt

| | Balance at 1 January DKKm | Cash flow DKKm | Balance at 31 December DKKm |
|---|---|---|---|
| **2017** | | | |
| Mortgage debt | 1,770 | (1,770) | - |
| Bank debt | 103 | (103) | - |
| **Total mortgage and bank debt** | **1,873** | **(1,873)** | **-** |

## 26. 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 significant part of the Group's anticipated cash flows for a period of 12-18 months using forward exchange contracts and in some cases currency options. The forward contracts and currency options are classified as hedging instruments when meeting the accounting criteria for hedge accounting according to IAS 39 *Financial Instruments: Recognition and Measurement*. 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 together with the hedged item.

Forward exchange contracts that do not meet the hedge accounting criteria are classified as trading contracts, and changes in the fair value are recognized as financial items as they arise.

### Net forward exchange contracts, hedging

| Forward exchange contracts (against DKK) | Contract amount according to hedge accounting DKKm | Fair value at year-end recognized in other comprehen-sive income 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 end date |
|---|---|---|---|---|---|
| **2017** | | | | | |
| CAD | 394 | 6 | 1 | 497.81 | Oct. 2018 |
| CNY | 337 | (1) | 1 | 93.06 | Oct. 2018 |
| JPY | 299 | 18 | 17 | 5.81 | Nov. 2018 |
| USD | 6,392 | 455 | 18 | 660.98 | Oct. 2018 |
| Other currencies | 951 | 12 | (4) | | Dec. 2018 |
| **Total** | | **490** | **33** | | |
| **2016** | | | | | |
| CAD | 459 | (12) | 1 | 506.86 | Dec. 2017 |
| CNY | 52 | - | - | 99.17 | Jun. 2017 |
| JPY | 332 | 7 | (29) | 6.16 | Nov. 2017 |
| USD | 7,591 | (277) | 24 | 671.77 | May 2018 |
| Other currencies | 879 | (12) | (11) | | Dec. 2017 |
| **Total** | | **(294)** | **(15)** | | |

# NOTE 26

## 26. FINANCIAL INSTRUMENTS – CONTINUED

### Monetary assets and monetary liabilities for the major currencies at 31 December

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| **Monetary assets** | | |
| CAD | 144 | 114 |
| CNY | 265 | 26 |
| EUR | 890 | 1,091 |
| GBP | 105 | 215 |
| USD | 1,950 | 2,208 |
| | | |
| **Monetary liabilities** | | |
| CAD | 100 | 86 |
| CNY | 1 | - |
| EUR | 772 | 1,047 |
| GBP | 115 | 310 |
| USD | 3,157 | 3,632 |

Monetary assets and monetary liabilities include trade receivables, other receivables, securities, cash, mortgage debt, bank debt, trade payables, other payables, deferred taxes and income taxes.

### 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 |
|---|---|---|---|---|
| **2017** | | | | |
| Profit for the year | 2 | 12 | (11) | 50 |
| Equity | (17) | (3) | (15) | (105) |
| | | | | |
| **2016** | | | | |
| Profit for the year | 1 | 6 | (20) | 31 |
| Equity | (22) | 4 | (24) | (94) |

The profit impact includes foreign exchange differences relating to intra-group balances, which are not eliminated in the consolidated financial statements.

The equity impact includes primarily exchange rate adjustments of equity, exchange rate adjustment of additions to net investments in foreign subsidiaries, foreign exchange differences on outstanding hedging contracts and the total profit impact.

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).

An interest rate change on mortgage and bank debt of one percentage point would reduce/increase profit for the year before tax and equity by DKK 0 million in 2018 (DKK 0 million in 2017) on an annual basis.

Pursuant to the Group's Treasury Policy, the securities portfolio consists of individual Danish mortgage bonds and an externally managed investment portfolio. The amount invested in the securities portfolio was DKK 1,522 million at 31 December 2017 (DKK 17 million in 2016). For managing the interest rate risk on the portfolio, Lundbeck applies a modified duration target capped at three years for the entire portfolio, reduced from five years at the end of 2016. At 31 December 2017, the securities portfolio had a duration of 23 months (24 months in 2016), which translates into a gain/loss of DKK 29 million (DKK 0 million in 2016) if interest rates should fall/rise by one percentage point.

There were no derivatives related to interest rate risks during 2017 and 2016 because the distribution of debt carrying floating and fixed interest at the given times was deemed to be satisfactory.

# NOTE 26

## 26. FINANCIAL INSTRUMENTS – CONTINUED

### Classification of and maturity dates for financial assets and financial liabilities

| | Within 1 year DKKm | Between 1 and 5 years DKKm | Total DKKm | Effective interest rates % |
|---|---|---|---|---|
| **2017** | | | | |
| **Financial assets** | | | | |
| Securities | 4 | 1,518 | 1,522 | 0-1 |
| **Financial assets measured at fair value through profit or loss** | **4** | **1,518** | **1,522** | |
| Derivatives to hedge future cash flows | 529 | - | 529 | 0 |
| **Financial assets used as hedging instruments** | **529** | **-** | **529** | |
| Receivables[1] | 3,112 | 76 | 3,188 | 0 |
| Cash resources | 2,155 | - | 2,155 | (1)-10 |
| **Loans and receivables** | **5,267** | **76** | **5,343** | |
| **Available-for-sale financial assets** | **-** | **67** | **67** | 0 |
| **Total financial assets** | **5,800** | **1,661** | **7,461** | |
| **Financial liabilities** | | | | |
| Derivatives to hedge future cash flows | 39 | - | 39 | 0 |
| **Financial liabilities used as hedging instruments** | **39** | **-** | **39** | |
| Other payables | 5,949 | 57 | 6,006 | 0 |
| **Financial liabilities measured at amortized cost** | **5,949** | **57** | **6,006** | |
| **Total financial liabilities** | **5,988** | **57** | **6,045** | |

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 % |
|---|---|---|---|---|---|
| **2016** | | | | | |
| **Financial assets** | | | | | |
| Securities | - | 17 | - | 17 | 0-1 |
| **Financial assets measured at fair value through profit or loss** | **-** | **17** | **-** | **17** | |
| Derivatives to hedge future cash flows | 30 | - | - | 30 | 0 |
| **Financial assets used as hedging instruments** | **30** | **-** | **-** | **30** | |
| Receivables[1] | 3,570 | 72 | - | 3,642 | 0 |
| Cash resources | 2,200 | - | - | 2,200 | (1)-10 |
| **Loans and receivables** | **5,770** | **72** | **-** | **5,842** | |
| **Available-for-sale financial assets** | **-** | **48** | **-** | **48** | 0 |
| **Total financial assets** | **5,800** | **137** | **-** | **5,937** | |
| **Financial liabilities** | | | | | |
| Derivatives to hedge future cash flows | 324 | - | - | 324 | 0 |
| **Financial liabilities used as hedging instruments** | **324** | **-** | **-** | **324** | |
| Mortgage debt | 85 | 349 | 1,336 | 1,770 | 1-2 |
| Bank debt | 103 | - | - | 103 | 0-3 |
| Other payables | 6,519 | 23 | - | 6,542 | 0 |
| **Financial liabilities measured at amortized cost** | **6,707** | **372** | **1,336** | **8,415** | |
| **Total financial liabilities** | **7,031** | **372** | **1,336** | **8,739** | |

The amounts in the tables are exclusive of interest. At 31 December 2017, the expected interest expenses on mortgage and bank debt for the following 12 months totalled DKK 0 million (DKK 27 million in 2016).

# NOTES 26-27

## 26. FINANCIAL INSTRUMENTS – CONTINUED

| Financial assets and financial liabilities measured or disclosed at fair value | Level 1 DKKm | Level 2 DKKm | Level 3 DKKm |
|---|---|---|---|
| **2017** | | | |
| **Financial assets** | | | |
| Securities[1] | 1,522 | - | - |
| Available-for-sale financial assets[1] | 32 | - | 35 |
| Derivatives[1] | - | 529 | - |
| **Total** | **1,554** | **529** | **35** |
| **Financial liabilities** | | | |
| Derivatives[1] | - | 39 | - |
| **Total** | **-** | **39** | **-** |
| **2016** | | | |
| **Financial assets** | | | |
| Securities[1] | 17 | - | - |
| Available-for-sale financial assets[1] | 2 | - | 46 |
| Derivatives[1] | - | 30 | - |
| **Total** | **19** | **30** | **46** |
| **Financial liabilities** | | | |
| Mortgage debt[2] | 1,816 | - | - |
| Bank debt[2] | - | 103 | - |
| Derivatives[1] | - | 324 | - |
| **Total** | **1,816** | **427** | **-** |

1) Measured at fair value.
2) Disclosure of fair value.

The fair value of securities is based on officially quoted prices of the invested assets. The fair value of derivatives is calculated by applying recognized measurement techniques, whereby the Group makes assumptions that are based on the market conditions prevailing on the closing date. The fair value of the mortgage debt is based on the official bond rates adjusted for Lundbeck's credit risk. Given Lundbeck's financial situation, the credit risk is considered to be insignificant.

## 27. 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, e.g. 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:

- Dividends
- Payment of provisional tax of DKK 100 million in 2017 regarding 2017 (DKK 0 million in 2016 regarding 2016) for the parent company and Danish subsidiaries.
- Refund of residual tax of DKK 34 million in 2017 regarding 2016 (DKK 201 million in 2016 regarding 2015) for the parent company and Danish subsidiaries.
- Interest expense of DKK 1 million in 2017 (DKK 0 million in 2016).

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.

# NOTES 27-28

## 27. RELATED PARTIES – CONTINUED

**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 4 *Staff costs* and note 11 *Incentive programmes*, 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 2017 and 31 December 2016, there were no balances with the registered Executive Management and the Board of Directors.

**Transactions and balances with other related parties**
In 2017, Lundbeck received consultancy services amounting to DKK 5 million (DKK 5 million in 2016) from Lundbeck International Neuroscience Foundation, an independent commercial foundation established by H. Lundbeck A/S in 1997. Other than this, there have been no material transactions or balances with other related parties.

## 28. 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, Denmark, including | Other | 100 |
| - Lundbeck Pharmaceuticals Consulting (Shanghai) Co., Ltd., China (under liquidation) | 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 |
| 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 | Sale services | 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 | Sales and distribution | 100 |
| UAB Lundbeck Lietuva, Lithuania | Sales and distribution | 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 |
| 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 | Other | 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 |

# NOTES 28-29

## 28. SUBSIDIARIES – CONTINUED

| | Purpose | Share of voting rights and ownership % |
|---|---|---|
| Lundbeck RUS OOO, Russian Federation | Sales services | 100 |
| 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 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 the direct or ultimate parent company.

Lundbeck Pharmaceuticals (Tianjin) Co., Ltd., China, Lundbeck Pharmaceuticals GmbH, Switzerland and Lundbeck Pharmaceuticals Ireland Limited, Ireland were liquidated in 2017. CNS Pharma AB, Sweden was liquidated in 2016.

## 29. 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. The implementation of new and revised standards has not resulted in any changes in accounting policies that have affected recognition and measurement in the current and previous years. However, the amendments to IAS 7 *Statement of Cash Flows* effective for annual reporting periods beginning on or after 1 January 2017 require disclosures of changes in liabilities arising from financing activities. These disclosures have been provided in note 25 *Mortgage and bank debt.*

**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.

IASB has issued IFRS 9 *Financial Instruments*, which was adopted by the EU in 2016. The standard is effective for annual reporting periods beginning on or after 1 January 2018. The implementation of IFRS 9 *Financial Instruments* will impact the presentation of fair value adjustments on equity investments currently classified as available-for-sale financial assets. These fair value adjustments are currently recognized in other comprehensive income. Going forward, Lundbeck will irrevocably and on an individual basis classify such fair value adjustments of each equity investment either in the income statement or other comprehensive income. If IFRS 9 *Financial Instruments* had been implemented for the financial year 2017, profit for the year would have been DKK 20 million higher. The implementation will have no impact on total comprehensive income, total equity or total assets and liabilities. Furthermore, the implementation of the standard will not have any significant impact on hedging. Considering Lundbeck's historically low writedowns on receivables, the impairment model on expected credit losses is not expected to have any significant impact.

# NOTE 29

## 29. GENERAL ACCOUNTING POLICIES – CONTINUED

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and is effective for annual reporting periods beginning on or after 1 January 2018. The standard was adopted by the EU in 2016. Entities will apply a five-step model to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met. Lundbeck has assessed how the standard will impact current and new agreements. The new standard may have an effect on the timing of recognizing revenue in respect of future milestone payments from a few collaborations and licensing arrangements. Earlier recognition may apply when it is highly probable that no significant reversal of the revenue will occur. The standard will not affect Lundbeck's business in any other respects. However, the implementation will result in a few additional disclosures.

IFRS 16 *Leases* was issued in January 2016. The standard will replace IAS 17 *Leases* currently in force and is effective for annual reporting periods beginning on or after 1 January 2019. The standard was adopted by the EU in 2017. The new standard is expected to have an impact on Lundbeck as a lessee, as all leases (except for short-term leases and leases of low-value assets) will be recognized in the balance sheet as right-of-use assets and lease liabilities measured at the present value of future lease payments. The right-of-use asset is subsequently depreciated over the lease term in a similar way to other assets such as property, plant and equipment, and interest on the lease liability is calculated in a similar way to finance leases under IAS 17 *Leases*. Consequently, the change will also impact the presentation in the income statement, balance sheet and cash flow statement. Lundbeck has made an overall assessment of the consequences of IFRS 16 *Leases* and a preliminary estimate of the impact on current agreements. The estimated impact on the income statement is expected to be limited as depreciation and interest are replacing ordinary operational expenses; however, EBIT is expected to improve immaterially as only depreciation and not interest is recognized in EBIT. The estimated increase of total assets and total liabilities is expected to be approximately DKK 695-745 million. Furthermore, the implementation will result in additional disclosures on e.g. the expense relating to low-value assets, short-term leases and lease liabilities analyzed by maturity.

### 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.

**Acquisitions**
Acquisitions are evaluated to determine whether they constitute a business combination in accordance with IFRS 3 *Business Combinations*.

The consideration paid, including any tax assets associated with tax losses and tax credits carried forward, 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.

Contingent considerations are classified as financial instruments and included in the cost price if it is more likely than not that they will occur.

Acquired assets and liabilities that do not constitute a business combination are recognized at cost, i.e. no goodwill or bargain purchase gain is 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 except in case of hedge accounting. In case of hedge accounting, such differences are recognized in the same item as the hedged item.

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 in respect of unhedged items and under the same item in respect of hedged items.

On recognition of foreign subsidiaries having a functional currency different from that used by the parent company, non-monetary and monetary 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 investment in subsidiaries are recognized in other comprehensive income.

# NOTE 29

## 29. 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 Lundbeck makes assumptions that 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 the hedged item, 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 classified as hedging instruments and meeting the criteria for hedging the fair value of a recognized asset or liability are recognized in the income statement together with changes in the value of the hedged asset or liability.

Changes in the fair value of derivatives that are used for hedging net investments in foreign subsidiaries and otherwise meet the relevant criteria are recognized in other comprehensive income.

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, available-for-sale financial assets and derivatives 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, discounts and revenue-based taxes. Moreover, revenue includes licensing income and royalties from out-licensed products, non-refundable downpayments and milestone payments relating to research and development collaborations, and 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, 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, 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.

# NOTE 29

## 29. GENERAL ACCOUNTING POLICIES – CONTINUED

**Net financials**
Net financials comprise:
- Interest income and expenses for the year.
- Realized and unrealized market value adjustments of financial assets, including cash and securities that are included in the Group's documented investment strategy.
- Realized and unrealized gains and losses on unhedged items denominated in foreign currencies, forward exchange contracts and other derivatives not used for hedge accounting.
- Realized fair value adjustments and prolonged impairment losses on and dividends from available-for-sale financial assets.
- 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 or fair value of the acquired business 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 if 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 if 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, labour 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 ten 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.

# NOTE 29

## 29. GENERAL ACCOUNTING POLICIES – CONTINUED

**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.

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.

**Available-for-sale financial assets**
Available-for-sale financial assets are financial assets that are not derivative financial instruments and that are either classified as available for sale or cannot be classified as loans or receivables, financial assets measured at fair value through profit or loss, or as held-to-maturity financial assets.

On initial recognition, available-for-sale financial assets are measured at fair value with the addition of costs directly attributable to the acquisition. The assets are subsequently measured at fair value at the balance sheet date, and changes to the fair value are recognized in other comprehensive income, except for dividends and prolonged impairment losses, which are taken to the income statement. When the assets are sold, the accumulated fair value adjustments recognized in other comprehensive income are recycled to net financials.

**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 labour and indirect costs of production. Indirect costs of production include materials, labour, 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.

**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 payments 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 loss calculated on the basis of an individual assessment. A provision account is used for this purpose.

**Securities**
On initial recognition, securities, including the bond portfolio, that 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.

# NOTE 29

## 29. GENERAL ACCOUNTING POLICIES – CONTINUED

**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 programmes in which employees may opt to buy shares in the parent company and in which shares are granted to employees (equity-settled programmes) 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 programmes in which employees have the difference between the agreed price and the actual share price settled in cash (cash-settled programmes) 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 programmes are subsequently remeasured on each balance sheet date and upon final settlement, and any changes in the fair value of the programmes 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 according to 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 the 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 measured 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.

**Corporate income tax and deferred tax**
Current tax payables and receivables 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 each asset.

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 as a result of 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 tax deducted 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 calculated according to the provisions of the Danish Corporate Tax Act on interest deductibility limitations 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.

# NOTES 29-31

## 29. GENERAL ACCOUNTING POLICIES – CONTINUED

**Other provisions**
Other provisions consist of different types of provisions, including provisions for pending lawsuits. Management assesses provisions and contingent items, including the probable outcome of pending and possible future lawsuits, which are inherently subject to uncertainty with respect to future events. When Management determines the probable 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.

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.

Other 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.

Other 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 other provisions.

**Debt**
Mortgage debt, bank debt and debt to credit institutions are recognized at the time of the raising of the loan at 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.

Debt included in the short-term financial liquidity is measured at amortized cost in subsequent periods.

Other payables, which include trade payables and debt to public authorities etc., are measured at amortized cost.

### CASH FLOW STATEMENT

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

Cash comprises cash and bank balances less any drawings on committed credit facilities.

Cash flows denominated in foreign currencies, including cash flows in foreign subsidiaries, are translated at the average exchange rates during the year because 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.

The registered Executive 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.

## 30. 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.

## 31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 7 February 2018.

# FINANCIAL STATEMENTS OF THE PARENT COMPANY

CONTENTS



NOTES

# INCOME STATEMENT

1 January – 31 December 2017

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| Revenue | | 6,276 | 5,816 |
| Cost of sales | 3 | 1,727 | 2,118 |
| **Gross profit** | | **4,549** | **3,698** |
| | | | |
| Sales and distribution costs | 3 | 1,558 | 1,692 |
| Administrative expenses | 3, 4 | 540 | 450 |
| Research and development costs | 3 | 2,453 | 2,796 |
| Other operating income | 5 | 202 | - |
| **Profit/(loss) from operations (EBIT)** | | **200** | **(1,240)** |
| | | | |
| Income from investments in subsidiaries | 6 | 297 | 1,919 |
| Financial income | | 2,378 | 1,028 |
| Financial expenses | | 1,398 | 528 |
| **Profit before tax** | | **1,477** | **1,179** |
| | | | |
| Tax on profit for the year | 7 | 269 | (176) |
| **Profit for the year** | 8 | **1,208** | **1,355** |

# BALANCE SHEET – ASSETS

At 31 December 2017

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| Product rights | | 1,591 | 1,413 |
| Other rights | | 79 | 84 |
| Projects in progress | | 69 | 59 |
| **Intangible assets** | 9 | **1,739** | **1,556** |
| | | | |
| Land and buildings | | 1,093 | 1,240 |
| Plant and machinery | | 189 | 228 |
| Other fixtures and fittings, tools and equipment | | 26 | 42 |
| Prepayments and assets under construction | | 162 | 109 |
| **Property, plant and equipment** | 9 | **1,470** | **1,619** |
| | | | |
| Investments in subsidiaries | 6 | 4,911 | 4,905 |
| Receivables from subsidiaries | | 1,339 | 10,289 |
| Other investments | | 65 | 46 |
| Other receivables | | 5 | 5 |
| Deferred tax assets | 10 | 785 | 878 |
| **Financial assets** | | **7,105** | **16,123** |
| | | | |
| **Non-current assets** | | **10,314** | **19,298** |
| | | | |
| **Inventories** | 11 | **704** | **725** |
| | | | |
| Trade receivables | | 286 | 445 |
| Receivables from subsidiaries | | 2,050 | 1,188 |
| Joint taxation contribution | | - | 182 |
| Other receivables | | 552 | 108 |
| Prepayments | | 59 | 48 |
| **Receivables** | | **2,947** | **1,971** |
| | | | |
| **Securities** | | **1,505** | **-** |
| | | | |
| **Cash and bank balances** | | **1,680** | **1,723** |
| | | | |
| **Current assets** | | **6,836** | **4,419** |
| | | | |
| **Assets** | | **17,150** | **23,717** |

# BALANCE SHEET – EQUITY AND LIABILITIES

At 31 December 2017

| | Notes | 2017 DKKm | 2016 DKKm |
|---|---|---|---|
| Share capital | | 995 | 988 |
| Proposed dividends | | 1,592 | 484 |
| Retained earnings | | 8,051 | 7,765 |
| **Equity** | | **10,638** | **9,237** |
| | | | |
| Other provisions | 12 | 50 | - |
| Mortgage debt | 13 | - | 1,685 |
| Payables to subsidiaries | | 3,001 | 8,372 |
| **Non-current liabilities** | | **3,051** | **10,057** |
| | | | |
| Other provisions | 12 | 236 | 512 |
| Mortgage debt | | - | 85 |
| Bank debt | | - | 103 |
| Trade payables | | 1,468 | 1,645 |
| Payables to subsidiaries | | 1,334 | 1,487 |
| Joint taxation contribution | | 6 | - |
| Other payables | | 417 | 591 |
| **Current liabilities** | | **3,461** | **4,423** |
| | | | |
| **Liabilities** | | **6,512** | **14,480** |
| | | | |
| **Equity and liabilities** | | **17,150** | **23,717** |

# STATEMENT OF CHANGES IN EQUITY

At 31 December 2017

| | Notes | Share capital DKKm | Proposed dividends DKKm | Retained earnings DKKm | Equity DKKm |
|---|---|---|---|---|---|
| **Equity at 1 January** | | **988** | **484** | **7,765** | **9,237** |
| Distributed dividends, gross | | - | (484) | - | (484) |
| Dividends received, treasury shares | | - | - | 1 | 1 |
| Profit for the year | 8 | - | 1,592 | (384) | 1,208 |
| Deferred exchange gains/losses, hedging | | - | - | 607 | 607 |
| Exchange gains/losses, hedging (transferred to the hedged items) | | - | - | (33) | (33) |
| Capital increase through exercise of warrants | | 7 | - | 207 | 214 |
| Buyback of treasury shares | | - | - | (93) | (93) |
| Incentive programmes | | - | - | 53 | 53 |
| Tax on transactions in equity | 7 | - | - | (72) | (72) |
| **Equity at 31 December** | | **995** | **1,592** | **8,051** | **10,638** |

For further details, see note 23 *Share capital* in the consolidated financial statements.

# NOTES 1-2

## 1. MANAGEMENT REVIEW OF THE PARENT COMPANY

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

**Other operating income**
In 2017, the parent company sold office facilities in Denmark. The gain of DKK 202 million is recognized in other operating income.

**Financial income and expenses**
Financial income and expenses are impacted by a net exchange loss of DKK 125 million relating to translation of receivables from and payables to subsidiaries that are considered part of the overall investment in subsidiaries.

**Treasury shares**
See note 23 *Share capital* in the consolidated financial statements for details on developments in the holding of treasury shares.

**Sustainability and corporate governance**
See *Sustainability and corporate governance*, page 26.

## 2. ACCOUNTING POLICIES

The annual report of the parent company H. Lundbeck A/S has been prepared in accordance with the provisions of the Danish Financial Statements Act for class D enterprises. The annual report is presented in Danish kroner (DKK). The accounting policies remain unchanged from 2016.

**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 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 equity investments.

***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, and changes to the fair value are recognized under financial items in the income statement.

# NOTES 2-3

## 2. ACCOUNTING POLICIES – CONTINUED

***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 and tax 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.**

| | 2017 DKKm |
|---|---|
| Short-term staff benefits | 1,138 |
| Retirement benefits | 106 |
| Other social security costs | 17 |
| Equity- and cash-settled incentive programmes | 32 |
| **Total** | **1,293** |

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| **The year's staff costs are specified as follows:** | | |
| Cost of sales | 378 | 357 |
| Sales and distribution costs | 66 | 61 |
| Administrative expenses | 236 | 232 |
| Research and development costs | 613 | 644 |
| **Total** | **1,293** | **1,294** |

**Registered Executive Management**

See note 4 *Staff costs* and note 11 *Incentive programmes* in the consolidated financial statements.

**Executives**[1]

| | 2017 DKKm |
|---|---|
| Short-term staff benefits | 57 |
| Retirement benefits | 8 |
| Equity- and cash-settled incentive programmes | 8 |
| **Total** | **73** |

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

**Board of Directors**

See note 4 *Staff costs* in the consolidated financial statements.

**Number of employees**

| | 2017 |
|---|---|
| Average number of full-time employees in the financial year | 1,596 |
| Number of full-time employees at 31 December | 1,613 |

**Incentive programmes**

See note 11 *Incentive programmes* in the consolidated financial statements.

# NOTES 4-8

## 4. AUDIT FEES

| Deloitte Statsautoriseret Revisionspartnerselskab | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Statutory audit | 2 | 2 |
| Other services | 1 | 2 |
| **Total** | **3** | **4** |

## 5. OTHER OPERATING INCOME

Other operating income of DKK 202 million (DKK 0 million in 2016) relates to the gain from the divestment of office facilities in Denmark.

## 6. INVESTMENTS IN SUBSIDIARIES

| | 2017 DKKm |
|---|---|
| Cost at 1 January | 4,905 |
| Capital contributions to subsidiaries | 36 |
| **Cost at 31 December** | **4,941** |
| | |
| Impairment at 1 January | - |
| Impairment of investments in subsidiaries | (30) |
| **Impairment at 31 December** | **(30)** |
| **Carrying amount at 31 December** | **4,911** |

Income from investments in subsidiaries of DKK 297 million is mainly dividends. In 2016, dividends from subsidiaries amounted to DKK 1,919 million.

See note 28 *Subsidiaries* in the consolidated financial statements for an overview of subsidiaries.

## 7. TAX ON PROFIT FOR THE YEAR

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Current tax, joint taxation contribution | 158 | (87) |
| Prior-year adjustments, current tax | 90 | (15) |
| Prior-year adjustments, deferred tax | (80) | 3 |
| Change in deferred tax for the year | 173 | (108) |
| **Total tax for the year** | **341** | **(207)** |
| | | |
| **Tax for the year is composed of:** | | |
| Tax on profit for the year | 269 | (176) |
| Tax on transactions in equity | 72 | (31) |
| **Total tax for the year** | **341** | **(207)** |

## 8. DISTRIBUTION OF PROFIT

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| **Proposed distribution of profit for the year** | | |
| Proposed dividends for the year | 1,592 | 484 |
| Transferred to/from distributable reserves | (384) | 871 |
| **Total profit for the year** | **1,208** | **1,355** |
| | | |
| **Proposed dividend per share (DKK)** | **8.00** | **2.45** |

If warrants are exercised during the period from the Board of Directors' approval of the financial statements and the approval by the Annual General Meeting, the Board of Directors proposes that total dividends be increased to maintain the proposed dividends per share of DKK 8.00. The total number of exercisable warrants was 136,059 at 31 December 2017.

# NOTE 9

## 9. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

| Intangible assets | Product rights[1] DKKm | Other rights[2] DKKm | Projects in progress[2] DKKm | Total intangible assets DKKm |
|---|---|---|---|---|
| Cost at 1 January | 8,263 | 1,769 | 79 | 10,111 |
| Transfers | - | 30 | (30) | - |
| Additions | 408 | 4 | 40 | 452 |
| Disposals | - | (122) | - | (122) |
| **Cost at 31 December** | **8,671** | **1,681** | **89** | **10,441** |
| Amortization and impairment losses at 1 January | 6,850 | 1,685 | 20 | 8,555 |
| Amortization | 230 | 39 | - | 269 |
| Disposals | - | (122) | - | (122) |
| **Amortization and impairment losses at 31 December** | **7,080** | **1,602** | **20** | **8,702** |
| **Carrying amount at 31 December** | **1,591** | **79** | **69** | **1,739** |

1) All product rights were commercialized.
2) Other rights and projects in progress primarily include items such as the IT system SAP. The amounts include directly attributable internal expenses.

| 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 | 3,426 | 1,076 | 676 | 115 | 5,293 |
| Transfers | 51 | 11 | 5 | (67) | - |
| Additions | 12 | 7 | - | 120 | 139 |
| Disposals | (419) | (18) | (124) | - | (561) |
| **Cost at 31 December** | **3,070** | **1,076** | **557** | **168** | **4,871** |
| Depreciation and impairment losses at 1 January | 2,186 | 848 | 634 | 6 | 3,674 |
| Depreciation | 84 | 53 | 17 | - | 154 |
| Impairment losses | 1 | 4 | - | - | 5 |
| Disposals | (294) | (18) | (120) | - | (432) |
| **Depreciation and impairment losses at 31 December** | **1,977** | **887** | **531** | **6** | **3,401** |
| **Carrying amount at 31 December** | **1,093** | **189** | **26** | **162** | **1,470** |

1) Including leasehold improvements.

### Impairment of intangible assets and property, plant and equipment

For details on impairment testing, see note 7 *Intangible assets and property, plant and equipment* in the consolidated financial statements.

### Pledged assets

No land and buildings were mortgaged at 31 December 2017. No other assets have been pledged.

# NOTES 10-14

## 10. 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 | (760) | - | 506 | (254) |
| Property, plant and equipment | 233 | - | 10 | 243 |
| Inventories | 210 | - | - | 210 |
| Other items | (612) | - | 272 | (340) |
| Tax loss carryforwards etc. | (3,063) | (363) | - | (3,426) |
| **Total temporary differences** | **(3,992)** | **(363)** | **788** | **(3,567)** |
| **Deferred (tax assets)/tax liabilities** | **(878)** | **(80)** | **173** | **(785)** |

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

## 11. INVENTORIES

| | 2017 DKKm | 2016 DKKm |
|---|---|---|
| Raw materials and consumables | 168 | 198 |
| Work in progress | 325 | 327 |
| Finished goods and goods for resale | 211 | 200 |
| **Total** | **704** | **725** |
| | | |
| Indirect costs of production | 210 | 230 |
| Writedown for the year | 27 | 16 |

## 12. OTHER PROVISIONS

| | 2017 DKKm |
|---|---|
| Provisions at 1 January | 512 |
| Provisions charged | 68 |
| Provisions used | (294) |
| **Provisions at 31 December** | **286** |
| | |
| **Provisions break down as follows:** | |
| Non-current provisions | 50 |
| Current provisions | 236 |
| **Provisions at 31 December** | **286** |

Other provisions at 31 December 2017 of DKK 286 million (DKK 507 million in 2016) related to restructuring programmes. The parent company has entered into agreements with individual subsidiaries, under which the parent company will cover expected losses and obligations concerning the restructuring programmes. The provisions in the parent company therefore cover such losses and obligations.

## 13. MORTGAGE AND BANK DEBT

There was no mortgage debt and no bank debt at 31 December 2017. Mortgage debt falling due after more than five years from the balance sheet date amounted to DKK 1,336 million in 2016, and the entire bank debt at 31 December 2016 fell due within five years from the balance sheet date.

## 14. FINANCIAL INSTRUMENTS

Foreign currency management is handled by the parent company. See note 26 *Financial instruments* in the consolidated financial statements.

# NOTES 15-16

## 15. CONTRACTUAL OBLIGATIONS

**Rental and lease obligations**
The parent company has obligations amounting to DKK 122 million (DKK 136 million in 2016) in the form of rentals and leasing of operating equipment. Of this amount, DKK 104 million (DKK 113 million in 2016) falls due after more than one year. Rental and lease payments recognized in the income statement amounted to DKK 29 million (DKK 27 million in 2016).

**Other purchase obligations**
The parent company has undertaken purchase obligations in the amount of DKK 191 million (DKK 206 million in 2016), the majority of which relate to production consumables.

**Research and development milestones and collaborations**
Research and development milestone obligations amounted to DKK 311 million (DKK 706 million in 2016). The total amount of the milestone obligations may increase in line with the development of the projects.

In addition, the parent company is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 67 million (DKK 102 million in 2016).

**Other contractual obligations**
The parent company has entered into various service agreements amounting to DKK 130 million (DKK 107 million in 2016).

At 31 December 2017, the parent company's capital contribution obligations amounted to DKK 3 million (DKK 4 million in 2016).

## 16. 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 28 million (DKK 20 million in 2016) on behalf of subsidiaries.

**Joint taxation**
H. Lundbeck A/S is part of a Danish joint taxation scheme with Lundbeckfonden (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.

**Pending legal proceedings**
H. Lundbeck A/S is involved in a number of legal proceedings, including patent disputes. In the opinion of Management, the outcome of these proceedings will either 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 is not provided for as no reliable estimate can be made. 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 order not to prejudice the outcomes of proceedings and the interests of the company, we have not made any further disclosures about estimates in connection with the financial effects of, and disclosures about, uncertainty regarding the timing or amount of certain contingent liabilities.

# NOTES 16-18

## 16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

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). On 8 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. A final judgment is expected during 2018.

In December 2011, the Brazilian antitrust authorities SDE (Secretariat of Economic Law) initiated administrative proceedings to investigate whether Lundbeck's enforcement of data protection rights could be viewed as anticompetitive conduct. In January 2012, Lundbeck submitted a response to the authorities. Due to a change in the Brazilian Antitrust Law, handling of the case has shifted from SDE to CADE (Administrative Council for Economic Defense) and remains pending.

H. Lundbeck A/S and Lundbeck Canada Inc. are involved in three product liability class-action lawsuits relating to Cipralex®/Celexa® and four relating to Abilify Maintena® in Canada. The cases are in the preliminary stages and as such associated with significant uncertainties. Lundbeck strongly disagrees with the claims raised.

**Return obligations**
H. Lundbeck A/S has return obligations normal for the industry. Management does not expect any major losses from these obligations.

## 17. RELATED PARTIES

For information on related parties exercising controlling influence on H. Lundbeck A/S, see note 27 *Related parties* in the consolidated financial statements.

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

H. Lundbeck A/S has not entered into any transactions with related parties that were not on an arm's length basis.

## 18. EVENTS AFTER THE BALANCE SHEET DATE

See note 30 *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 2017.

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 2017, the results of their operations and of the Group's cash flows for the financial year 1 January – 31 December 2017.

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, 7 February 2018

## REGISTERED EXECUTIVE MANAGEMENT

**Anders Götzsche**
*Interim CEO and Executive Vice President, CFO*

**Lars Bang**
*Executive Vice President, Supply Operations & Engineering*

**Anders Gersel Pedersen**
*Executive Vice President, R&D*

**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*

**Mona Elisabeth Elster**
*Employee representative*

**Lars Erik Holmqvist**

**Henrik Sindal Jensen**
*Employee representative*

**Jeremy Max Levin**

**Jørn Møller Mayntzhusen**
*Employee representative*

**Jens Jesper Ovesen**

# 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 2017 to 31 December 2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including the summary of 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 2017, and of the results of its operations and cash flows for the financial year 1 January 2017 to 31 December 2017, 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 2017, and of the results of its operations for the financial year 1 January 2017 to 31 December 2017 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 OF 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 OMX 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 every year by decision of the Annual General Meeting for a total consecutive engagement period of 18 years up to and including the financial year 2017.

**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 2017 to 31 December 2017. 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 and discounts 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 may be several months and requires the unsettled amounts to be recognized as an accrual resulting in a reduction of gross sales.

At 31 December 2017, Management determined an accrual of DKK 1,613 million (2016: DKK 1,702 million).

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

# INDEPENDENT AUDITOR'S REPORT

*– continued*

subject to the rebates, estimation of applicable rebate rates, and estimation of the lag time described above.

We refer to notes 2, 5 and 29 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 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 accruals 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 of Management. We also considered the historical accuracy of the Group's accruals by comparing the actual rebate experience against the rebate percentage estimate utilized by Management to record the accrual.

**Carrying value of goodwill and intangible assets**
At 31 December 2017, the Group has intangible assets of DKK 7,565 million comprising primarily product rights of DKK 3,221 million and goodwill of DKK 4,124 million (2016: DKK 4,029 million and DKK 4,599 million, respectively).

The carrying value of intangible assets and goodwill 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 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, 7, 8 and 29 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 ensure consistency with previous years
- The forecast of future cash flows by discussing it with key employees
- Discount rates by testing the Group's weighted average cost of capital (WACC).

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

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 2017, the Group has recorded deferred tax assets of DKK 1,214 million (2016: 1,565 million).

Further, the Group operates in a multinational tax environment with complex tax legislation and transfer pricing rules. Tax audits of several years are ongoing in a number of jurisdictions at any point in time. Tax provisioning requires significant judgment and estimation by Management in assessing the level of provisions required for tax exposures and uncertain tax positions. At 31 December 2017, the Group recognized provisions of DKK 366 million in respect of tax exposures and uncertain tax positions (2016: DKK 365 million).

# INDEPENDENT AUDITOR'S REPORT

*– continued*

We refer to notes 2 and 14 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.

We evaluated Management's assumptions used for reasonableness, including the projections of future taxable profit in the jurisdictions with tax losses and tax credits carried forward, the planned initiatives and the expiry of the tax losses and tax credits carried forward. 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.

Based on our international tax and transfer pricing knowledge, we have evaluated the appropriateness of the Group's tax provision processes.

We analyzed and challenged the assumptions used by Management for determining tax provisions. In evaluating the judgments, we have reviewed and assessed the correspondence with tax authorities, the status of tax audits and the judgments made in tax returns.

We also evaluated the presentation and disclosure of the provision for tax exposures in the consolidated financial statements.

**Changes from the previous year**
As stated in the consolidated financial statements for 2016, the restructuring provision at 31 December 2016 amounted to DKK 523 million and required significant judgment and estimation by Management in determining the remaining provision, primarily concerning the remaining employee reductions and costs per employee. At 31 December 2017, the restructuring provision has not been subject to the same level of judgment and as a result of the utilization of the provision, the restructuring provision is reduced to DKK 297 million.

The restructuring provision at 31 December 2017 is, therefore, no longer significant to the consolidated financial statements, and we have not considered the restructuring provision a key audit matter for 2017.

**STATEMENT OF THE MANAGEMENT REVIEW**
Management is responsible for the management review.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management review and, in doing so, consider whether the management review is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Based on the work we have performed, we conclude that the management review is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement 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 under 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

# INDEPENDENT AUDITOR'S REPORT

*– continued*

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 Parent 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 additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism 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 Parent to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

# INDEPENDENT AUDITOR'S REPORT

*– continued*

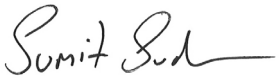
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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, 7 February 2018

**Deloitte**
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

**Erik Holst Jørgensen**
State-Authorized
Public Accountant
MNE no 9943



**Sumit Sudan**
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