Annual Report
2018

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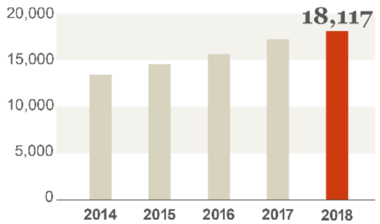
MANAGEMENT REVIEW

FINANCIAL STATEMENTS

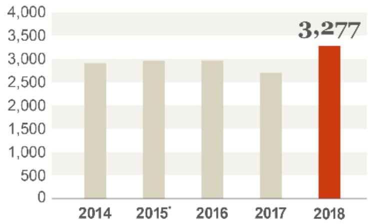
5 YEARS PERFORMANCE *

REVENUE
(DKKm)



2,428 EURm 2,759 USDm

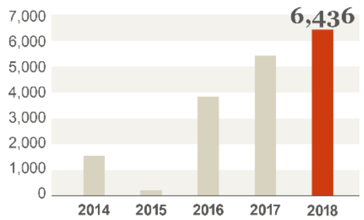
RESEARCH AND DEVELOPMENT COSTS
(DKKm)



*excl. impairment

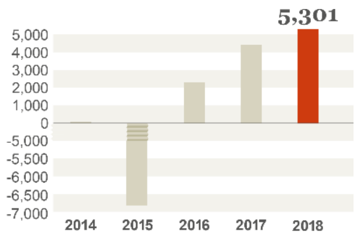
439 EURm 499 USDm

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



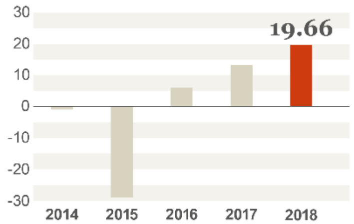
863 EURm 980 USDm

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



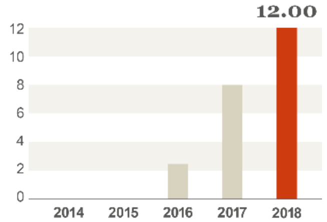
711 EURm 807 USDm

EARNINGS PER SHARE, BASIC (EPS)
(DKK)



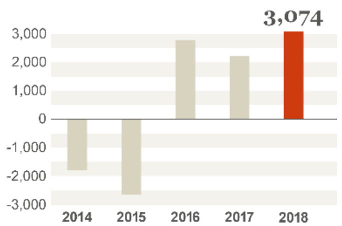
2.64 EUR 2.99 USD

PROPOSED DIVIDEND PER SHARE
(DKK)



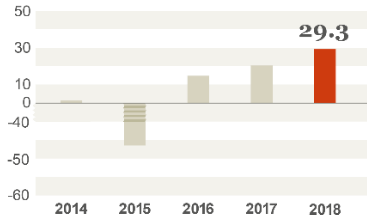
1.61 EUR 1.83 USD

CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES
(DKKm)

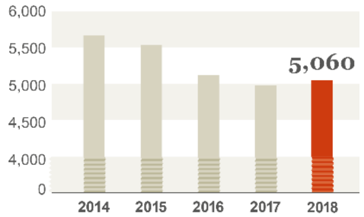


412 EURm 468 USDm

EBIT MARGIN
(%)



AVERAGE NUMBER OF EMPLOYEES



5,143
Number of employees end 2018

* Currency conversion is based on average exchange rates for 2018

PREFACE

In 2018, Lundbeck delivered the best-ever financial results in the company's history. The goals set in 2015 to restore profitability have been surpassed and today Lundbeck operates a highly profitable business. Going forward, we will focus on accessing opportunities to return to strong revenue growth and to achieve competitive returns for our stakeholders in the mid- and long-term.

We will achieve this by building on our expertise in brain science, accelerating innovation to strengthen our pipeline and leverage our organizational capabilities – all with the aim of living up to our purpose of restoring brain health so people can be their best.

2018 was an eventful year for Lundbeck with strong performance across our product portfolio and across all regions of the world. We made progress with our early-stage pipeline, having moved three compounds from our research laboratories into the clinic. In addition, we expanded our clinical phase II pipeline with the addition of foliglurax for the treatment of Parkinson's disease when we acquired Prexton Therapeutics BV.

Disappointing results with our late-stage asset being studied for treatment resistant schizophrenia (Lu AF35700), in addition to the loss of exclusivity on our leading brand, Onfi®, now demand that we focus our attention on rebuilding our pipeline.

Lundbeck's strong heritage with over 70 years of focus on brain diseases will ground us as we build the company for the future. We will capitalize on our strong scientific understanding of brain diseases to develop transformative medicines and build on our global presence to bring innovative therapies to people living with psychiatric and neurological diseases around the world.

Our commitment to patients

It is estimated that more than 700 million people live with brain diseases, which are the leading cause of disability worldwide and represent an alarmingly high and increasing burden for society. While there are vast unmet medical needs within brain diseases, many companies have scaled back their investments in research and development or even abandoned entirely.

Despite the challenges of brain science, Lundbeck remains steadfast in our commitment to deliver innovation that patients need. We work tirelessly to advance neuroscience, develop new and innovative treatments, and support patient communities – all with the aim of restoring brain health and transforming the lives of the millions of people living with a brain disease.

In the years to come we will accelerate our innovation efforts and work with more refined biomarkers so we can target our therapies to specific patients who can benefit the most from them. We will look to our own research for new targets within the areas of discovery where we have some of the world's best scientists. We will also seek to access external innovation where we see scientific opportunity to develop transformative medicines and where we can leverage our own global drug development and commercial expertise to bring those new medicines to patients. We set our sights high with the belief that every person living with a brain disease should have the chance to be their best. Lundbeck has the unique constellation of capabilities to make meaningful progress towards this important goal.

Our company's strong financial foundation gives us the strategic flexibility to focus on pursuing the best opportunities for changing the outcomes for people living with brain disease. We will take a disciplined approach to bringing forward important medicines that make a meaningful difference for patients while also delivering a strong return for our shakeholders, and creating a robust and sustainable future for the company.

On behalf of Lundbeck's Board of Directors, Executive Management and employees, we would like to thank all shareholders, patient communities, customers and business partners for their interest in our work throughout 2018 and the trust they place in our company as we continue this important journey to address the impact of brain diseases.

Lars Søren Rasmussen
Chairman of the Board

Deborah Dunsire
President and CEO

2018 PERFORMANCE AND 2019 OUTLOOK

2018 ended as Lundbeck's best financial year ever. We saw continued solid revenue growth in all our geographical markets and strong improvement in our profitability. We had good progress in our pipeline, but we also met setbacks.

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

We continued our progress with strong growth in sales of products such as Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Northera® (symptomatic neurogenic orthostatic hypotension), Onfi® (Lennox-Gastaut syndrome) and Rexulti® (depression/schizophrenia). Overall, our 2018 revenue exceeded the financial guidance provided in February 2018 as a result of generally better than expected sales.

For the year, Lundbeck's total revenue reached DKK 18,117 million and operating profit (EBIT) reached DKK 5,301 million. This is in line with the expectations communicated in the financial statements for the first nine months in November 2018. Net profit ended at DKK 3,907 million for the year, an increase of 49%.

In July 2018, the Board of Directors appointed Dr. Deborah Dunsire as new president and CEO of Lundbeck.

We saw positive as well as disappointing news from Lundbeck's pipeline in 2018. Three projects moved into clinical phase I; Lu AF76432 (schizophrenia and Alzheimer's disease), Lu AF28996 (Parkinson's disease) and Lu AF82422 (Parkinson's disease). With the acquisition of Prexton Therapeutics BV in March 2018, we obtained the global rights of foliglurax, and could add this promising compound to our clinical phase II pipeline testing for symptomatic treatment of 'off-time' in Parkinson's disease and dyskinesia, incl. Levodopa Induced Dyskinesia (LID).

In May 2018, the US Food and Drug Administration (FDA) approved a supplemental New Drug Application (sNDA) for Brintellix®/Trintellix® (vortioxetine) to include data showing processing speed in acute Major Depressive Disorder (MDD) in the label. Further, in October 2018 the FDA approved the expansion of the Brintellix®/Trintellix® label to include Treatment-Emergent Sexual Dysfunction (TESD).

In September 2018, Lundbeck and our partner Takeda Pharmaceutical Company Limited announced the submission of a New Drug Application (NDA) to the Japanese Ministry of Health, Labour and Welfare for vortioxetine for the treatment of MDD in adults.

In October 2018, we completed the clinical phase III study for Lu AF35700 in Treatment-Resistant Schizophrenia (TRS). The results demonstrated that Lu AF35700 is safe, well tolerated and similarly effective to conventional therapy in this indication – thus not achieving the goal of superior performance against the current standards of care.

TOTAL REVENUE 2018

DKKm	2018	2017	Growth	Growth in local currencies
Abilify Maintena®	1,595	1,333	20%	23%
Brintellix®/Trintellix®	2,182	1,663	31%	37%
Cipralex®/Lexapro®	2,257	2,392	(6%)	0%
Northera®	1,806	1,644	10%	15%
Onfi®	3,165	3,022	5%	12%
Rexulti®	1,723	1,247	38%	44%
Sabril®	1,342	1,509	(11%)	(6%)
Xenazine®	440	1,046	(58%)	(56%)
Other pharmaceuticals	2,703	3,028	(11%)	(8%)
Other revenue	662	402	64%	64%
Effects from hedging	242	(52)	-	-
Total revenue	**18,117**	**17,234**	**5%**	**8%**

2018 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.

2018 FINANCIAL PERFORMANCE

Sales performance

Revenue in 2018 reached DKK 18,117 million, compared to DKK 17,234 million in 2017. This is an increase of 5% (8% in local currencies), which is primarily driven by positive developments in sales of Abilify Maintena®, Brintellix®/Trintellix®, Northera® and Rexulti®.

North America

Revenue from North America reached DKK 10,743 million in 2018, which is an increase of 1% (6% in local currencies), compared to DKK 10,673 million in 2017. This was driven by the uptake of Abilify Maintena®, Brintellix®/Trintellix®, Northera® and Rexulti®, offsetting the decline in sales of Sabril® (epilepsy) and Xenazine® (chorea associated with Huntington's disease).

North America constituted 63% of total revenue (excl. effects from hedging and 'Other revenue'), which is unchanged from last year.

International Markets

Revenue from International Markets, which comprise all of Lundbeck's markets outside of Europe and North America, reached DKK 3,500 million in 2018, compared to DKK 3,406 million in 2017. In local currencies, sales were up 10% primarily driven by growth of Abilify Maintena® and Brintellix®/Trintellix®.

International Markets constituted 20% of total revenue (excl. effects from hedging and 'Other revenue'), which is at the same level as last year.

Europe

Revenue from Europe reached DKK 2,970 million in 2018, which is an increase of 6% (6% in local currencies), compared to DKK 2,805 million in 2017. Abilify Maintena® and Brintellix®/Trintellix® both experienced solid growth rates of 21% and 46%, respectively. This growth is partly off-set by the decline of the mature products portfolio.

Europe constituted 17% of total revenue (excl. effects from hedging and 'Other revenue'), which is unchanged from last year.

Costs and profits

Total costs for 2018 were DKK 12,772 million, compared to DKK 13,068 million in 2017. Cost of sales decreased 11% to DKK 3,456 million in 2018. This corresponds to 19.1% of total revenue, compared to 22.5% last year. Sales and distribution costs were DKK 5,277 million in 2018, which was a decrease of 7% compared to 2017. Sales and distribution costs correspond to 29.1% of revenue, compared to 32.8% in 2017. Administrative expenses declined 9% to DKK 762 million, corresponding to 4.2% of total revenue in 2018. SG&A costs were DKK 6,039 million, compared to DKK 6,482 million in 2017. The SG&A ratio for 2018 was 33.3%, compared to 37.6% in 2017. R&D costs increased 21% to DKK 3,277 million in 2018. The R&D ratio reached 18.1% in 2018, compared to 15.7% last year.

EBIT for 2018 reached DKK 5,301 million, compared to DKK 4,408 million in 2017, which is a growth of 20%. The EBIT margin increased significantly and reached 29.3% in 2018.

Tax*

The effective tax rate for 2018 was 26.1%. The effective tax rate has decreased significantly compared to 2017 due to the reduced US federal tax rate. The effective tax rate is still higher than the Danish income tax rate due to amortization of Northera® product rights, which is not deductible for tax purposes and thus creates a permanent difference.

Net profit and EPS

Net profit for 2018 reached DKK 3,907 million, compared to DKK 2,624 million in 2017. Net profit for 2018 corresponds to an EPS of DKK 19.66 per share versus an EPS of DKK 13.28 per share in 2017.

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

DISCLAIMER

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

Cash flow

Cash flows from operating activities amounted to DKK 5,981 million, compared to DKK 4,045 million in 2017. The increase of 48% reflects the significantly increased profitability. The free cash flow was DKK 3,074 million in 2018, compared to DKK 2,215 million in 2017. The net cash flow reached DKK 1,467 million compared to an outflow of DKK 20 million in 2017. The net cash flow is impacted by dividend payout of DKK 1.6 billion. At 31 December 2018, Lundbeck had net cash of DKK 6,635 million, compared to DKK 3,677 million at 31 December 2017.

DIVIDEND

The Board of Directors proposes a dividend of 61% of net profit for 2018 in line with our pay-out policy of 60-80%. This corresponds to DKK 12.00 per share. The dividend pay-out is subject to approval at the Annual General Meeting on 26 March 2019.

As we execute upon the revised strategy, Lundbeck will see increased capital needs related to our strategic initiatives and so will revise the dividend policy from the current range of 60-80% of net profit to a range of 30-60% of net profit from 2019 onwards.

GUIDANCE 2019

Lundbeck's financial results for 2019 are expected to be driven by the continued strong growth of Abilify Maintena®, Brintellix®/Trintellix®, Northera® and Rexulti® which partially can offset the continued erosion of mature products such as Onfi®.

Lundbeck's total revenue is expected to reach between DKK 16.1 billion and 16.7 billion in 2019 and EBIT is expected to be in the range between DKK 4.2 billion and 4.6 billion. Lundbeck's main currencies are the USD, CNY and CAD. The financial guidance is based on currency levels as per end-January 2019 and includes an expected hedging effect of a loss of DKK 150-200 million.

FINANCIAL GUIDANCE 2019

DKK	2018 actual	2019 guidance
Revenue	18,117m	16.1-16.7bn
EBIT	5,301m	4.2-4.6bn
Tax rate	26.1%	26-28%

FINANCIAL TARGETS

In February 2016, Lundbeck introduced three financial targets in order to describe what Lundbeck would strive for on the journey towards increased profitability and enhanced cash flow generation. This focus on profitability also relied on an organic path for future pipeline growth and narrowed the range of brain diseases that the company would invest in. External innovation was limited to early-stage acquisitions and collaborations. Over the last three years, Lundbeck has successfully executed on this strategy and has achieved its goals and established a strong financial foundation on which to build.

Lundbeck has now conducted a strategic review to define the strategy to return to growth and deliver competitive returns over the coming years. An overview of this strategic review is available on page 9-11.

With our new strategy, our focus on operational efficiency and cost discipline will not change. We aspire to maintain the EBIT margin of at least 25% in the ordinary course of business but may adjust this for a period as we execute on rebuilding the growth platform in the pipeline. Given the variety of paths that building for future growth may take, we will no longer provide long-term targets.

EVENTS AND MILESTONES 2018

January

- Lundbeck entered a new research partnership with Vanderbilt University on novel treatment of schizophrenia.

March

- Lundbeck acquired Prexton Therapeutics BV adding foliglurax for the treatment of Parkinson's disease in clinical phase II.
- Lundbeck held its Annual General Meeting.

April

- The Drug Committee of Ministry of Health, Labour and Welfare in Japan accepted a two-year extension of market exclusivity of Lexapro®.

May

- The US Food and Drug Administration (FDA) updated the Brintellix®/Trintellix® (vortioxetine) label to include data showing improvement in processing speed in acute Major Depressive Disorder (MDD).
- Lu AF76432 entered clinical phase I as a potential new treatment of schizophrenia as well as Alzheimer's disease.
- Lundbeck transfered two preclinical research programs to biotech company MindImmune Therapeutics, Inc.

June

- Lundbeck reached a voluntary agreement in principle with US Department of Justice related to Lundbeck LLC's relationship with and donations to independent patient assistance charitable foundation.
- Lundbeck and Takeda Pharmaceutical Company Limited (Takeda) announced positive clinical phase III results of vortioxetine in Japanese adults with MDD.
- Lu AF28996 entered clinical phase I as a potential new treatment of Parkinson's disease.

July

- Dr. Deborah Dunsire was appointed new president and CEO of Lundbeck.

August

- Lu AF82422 entered clinical phase I as a potential new treatment of Parkinson's disease.

September

- Lundbeck and Takeda submitted a New Drug Application (NDA) for vortioxetine in Japan for the treatment of MDD.

October

- FDA approved the expansion of Brintellix®/Trintellix® label to include Treatment-Emergent Sexual Dysfunction (TESD).
- Lundbeck announced clinical phase III data for Lu AF35700 showing similar anti-psychotic effects but not statistical superiority versus conventional therapy in patients with Treatment-Resistant Schizophrenia (TRS).
- Lundbeck and Otsuka reported positive clinical phase II data for the combination treatment of brexpiprazole and sertraline for the treatment of Post-Traumatic Stress Disorder (PTSD).

December

- Anders Gersel Pedersen retired as Executive Vice President, Research and Development.

STRATEGY REVIEW

Growth is at the core of Lundbeck's future strategy. Following the last strategic review initiated in 2015, Lundbeck focused on restructuring the cost base in order to restore the company's profitability. Consequently, Lundbeck focused its activities in a narrow range of brain diseases and limited accessing external innovation to pre-clinical collaborations. Today Lundbeck operates a highly profitable business with solid cash flow generation and zero debt.

We focus on restoring brain health to drive our growth
For Lundbeck to sustain our foundation as a highly profitable business into the decades ahead, it is imperative to focus the company strategy on restoring value creating growth. Utilizing the capabilities of our talented employees together with our financial resources, we will invest in accessing opportunities to drive revenue growth and strengthen our pipeline in order to deliver a competitive return to our shareholders.

The burden of brain diseases is vast and growing
It is estimated that more than 700 million people live with brain diseases. These diseases are the leading cause of disability worldwide and account for 37% of healthy life years lost from non-communicable diseases. Brain diseases represent an alarmingly high and increasing burden for society. A study by World Economic Forum* estimates that the total cost of mental illness is expected to increase to 6 trillion USD in 2030, more than double the total cost of cancer, diabetes and cardiovascular diseases combined. Brain diseases are the leading cause of disability-adjusted life years (DALYs) and the second leading cause of death. With the projected growth and aging of the world's population, brain diseases will become even greater contributors to premature death and disability.

People living with brain diseases more than ever need the commitment of the neuroscience community to enable them to restore their brain health. As the number of people living with brain diseases grows, the need to achieve new generations of breakthroughs has never been more urgent.

Despite the vast unmet needs within brain diseases, many companies have scaled back their investments in research and development or even abandoned the space entirely, however Lundbeck has not.

Tirelessly dedicated to restoring brain health
Despite the challenges, Lundbeck remains steadfast in our commitment to deliver innovation that patients need. We work tirelessly to advance neuroscience, develop new and innovative treatments, and support patient communities – all with the aim of restoring brain health and transforming the lives of the millions of people living with a brain disease. Not only does the burden of brain diseases demand action now, it also demands expertise and courage. We know that to get radically different results, we need to pursue radically different approaches.

Lundbeck will leverage our specialist knowledge of the brain to address this huge burden for people and societies all over the world. Among the more than 200 different diseases of the brain, Lundbeck has the neuroscience expertise and global reach to deliver transformative medicines that create significant value for years to come.

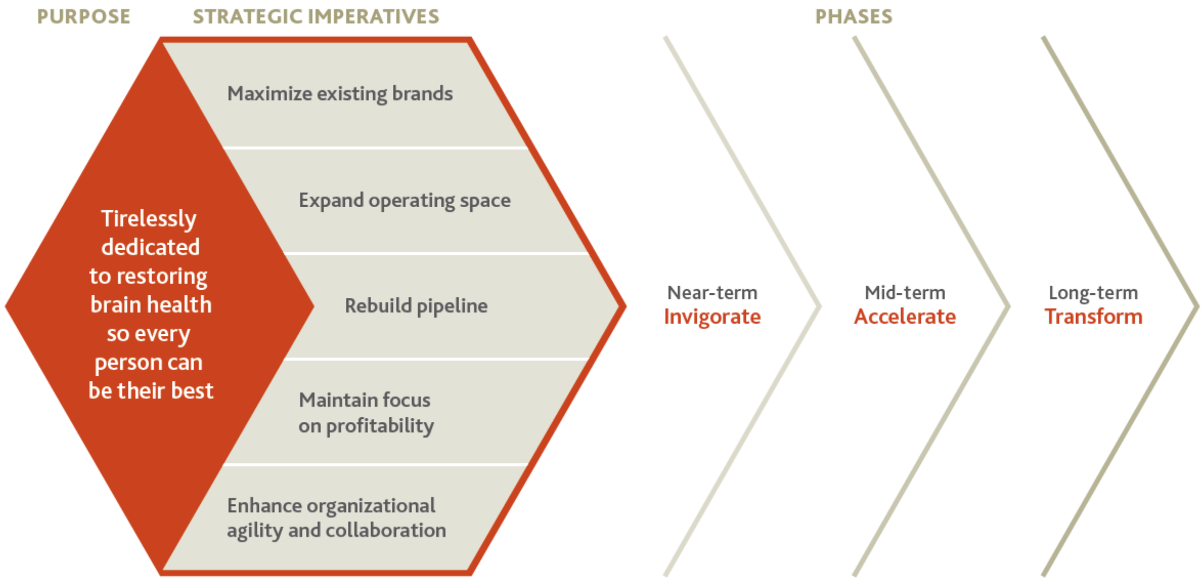
* The Global Economic Burden of Non-Communicable Diseases - A report by the World Economic Forum and the Harvard School of Public Health. September 2011

We will build on our strengths to grow Lundbeck
Five strategic imperatives are at the core of our new strategy:

- Maximising the performance of our existing brands through new indications and improved formulations.
- Expanding our operating space to encompass a broader range of brain diseases, always grounded in the areas where we have unique skills and capabilities.
- Rebuilding our pipeline of transformative medicines across all clinical phases through external and internal innovation.
- Maintaining focus on high profitability, but allowing flexibility to invest in growing the top-line and profits.
- Enhancing our organizational agility and collaboration.

Lundbeck's strategy builds on our expertise in neuroscience, developed through over 70 years of focus on helping people living with brain diseases. As a fully integrated pharmaceutical company with leading expertise in neuroscience and a strong specialized global presence, we have the skills, capabilities and financial flexibility needed to spur innovation from both our own laboratories and through externally sourced initiatives.

The treatments launched by Lundbeck over the last 10 years demonstrate the company's ability to deliver transformative medicines to patients from own research as well as through partnerships, collaborations, licensing and company acquisitions. In recent years, Lundbeck has also strengthened its global commercial footprint and has created a highly efficient organization with specialized expertise across the value chain. Going forward it will remain a priority for Lundbeck to run an efficient business. We will continue to attract and retain engaged employees who have the expertise and commitment to addressing the needs of people with brain diseases and thus, deliver exceptional company performance.



We aim to lead in the field of brain health
With a global presence, we have the reach to benefit people around the world with our therapies, improving access to new and better treatments. Launching our products globally enhances the return on research and development investments and drives the growth of Lundbeck. In this way, we simultaneously create value for society while securing a profitable return on our investments.

Transforming treatments
The core of the value we create is derived from the innovative treatments we develop and make available to patients. Lundbeck has a broad mature portfolio of therapies and strategic growth products that are already addressing the needs of people with brain diseases. Lundbeck will realize the full potential of these assets throughout the product lifecycle, incl. ongoing evaluation of opportunities to improve the value for patients through the launch of new indications or through improved formulations.

In the years to come we will accelerate our innovation efforts and invest in both internal and external opportunities. Our goal is to offer novel therapies that redefine the standard of care and address functional outcomes that matter most to patients. We will utilize cutting edge neuroscience insights and technologies to more precisely match the right therapy to the right patient when it can help them most.

Our growth agenda
Our strategy has been developed to sustain Lundbeck's growth for the long-term. To tackle this growth agenda, we are focusing first on invigorating the current portfolio, starting with clear actions in 2019. Near-term, we aim to invigorate our business by further expanding the potential of our growth brands, rebuilding our pipeline and driving organizational agility.

In the mid-term, we will accelerate our growth by expanding our brand franchises through the launches of new indications and new formulations. In our pipeline, we will accelerate innovation through own research and external opportunities, building on deep scientific understanding and leveraging technology to advance transformative therapies that address unmet medical needs.

Longer term, we will transform our business by launching novel transformative medicines across all regions, exceeding shareholder returns and being a recognized leader in brain health worldwide. In this way, we are accelerating our journey to restore brain health so every person can be their best.

Priorities for 2019
- Grow our brands
- Accelerate access to external innovation to rebuild pipeline across all phases
- Refine and accelerate internal pipeline
- Selectively expand globally
- Drive organizational agility and maintain an engaged, high-performance culture
- Maintain cost discipline and focus on growth

RESEARCH AND DEVELOPMENT

We are dedicating our research and development efforts based on both internal and external innovation to develop new and innovative medicines within a number of indications for the treatment of brain diseases.

Underlying disease biology

Lundbeck's research and development is aimed at enabling the discovery and development of new pharmaceuticals targeting the underlying mechanisms of brain diseases. This requires comprehensive research in the biology and the mechanisms of the diseases, as well as improved understanding of research targets and clinical outcomes. Over the years, we have built a broad and robust platform within psychiatry and neuro-degeneration, which allows us to use small molecules, antibodies and vaccines in the development of new medicines that can treat symptoms more effectively and potentially also alter the course of the diseases.

Strategic partnerships

Lundbeck's long experience and continuous work within diseases of the brain has provided us with a strong global network in preclinical and clinical neuroscience research. It is essential for us to maintain our strong internal research and development capabilities and to build external alliances to supplement our internal capabilities, taking advantage of the increased opportunities provided by innovative technologies.

Together with other companies and academia Lundbeck is involved in efforts towards the discovery of molecules and biomarkers within brain diseases. Reliable biomarkers are only known to a certain degree. Most progress has been made in neurological conditions such as Alzheimer's disease and Parkinson's disease but less for psychiatric conditions. No laboratory blood test or brain scan can yet distinguish whether someone has e.g. depression or bipolar disorder. With reliable biomarkers, the prediction that a new drug candidate interacts with its target and potentially interferes with disease progression, would significantly improve. This would thereby reduce the high attrition rates of New Chemical Entities (NCEs) in clinical development for brain diseases.

Lundbeck also joined the personal genetics company 23andMe, Inc. and the think tank The Milken Institute in a large new study to increase the understanding of the underlying causes of Major Depressive Disorder (MDD) and bipolar depression. This study further explores how these diseases and brain functions such as attention and decision-making are related to genetics.

Another example is our participation in the RADAR-CNS collaboration with the scope to develop new ways of monitoring conditions such as MDD, epilepsy and multiple sclerosis using wearable devices and smartphone technology. Such widely available devices can reveal a patient's current condition, remotely, at previously unachievable levels of detail.

Future platform

Our research and development strategy provides a future platform from which Lundbeck can discover and develop drugs with clearly documented effects on biologically defined patient groups. This is not least based on our digital approach to optimize the treatment of brain diseases. It is expected that society's demand for these new types of treatments will increase.

Recently, however, a large-scale analysis of postmortem brains is revealing distinctive molecular traces in people with psychiatric disorders*. An international team of researchers has reported that five major psychiatric disorders have patterns of gene activity that often overlap but also vary in disease-specific - and sometimes counterintuitive - ways. The findings might someday lead to diagnostic tests and novel therapies.

* Gandal et al., Science 359, 693–697, 2018

PIPELINE

Lundbeck is developing several new and promising medicines for the treatment of brain diseases. Our pipeline is summarized below.

PIVOTAL PROGRAMS (CLINICAL PHASE III)

Rexulti® (brexpiprazole) in bipolar mania

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.

Rexulti® was approved by the US FDA in July 2015 as adjunctive therapy for treatment of adults with Major Depressive Disorder (MDD) and as treatment for adults with schizophrenia. In addition, Rexulti® is approved for both indications in El Salvador, Honduras, Mexico and Saudi Arabia and for the treatment of schizophrenia in the EU, Canada, Switzerland and Australia. Rexulti® has been submitted for regulatory approval with authorities in several major worldwide markets incl. Canada (MDD) and Brazil (MDD) and is currently under review.

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 to be completed in the first half of 2019.

Bipolar disorder is a lifelong illness characterized by recurrent manic and depressive episodes that may last weeks or months, interspersed with periods of euthymia. Bipolar mania involves abnormally and persistently elevated mood and goal-directed activity lasting more than one week. In a manic episode with mixed features, more than three of the following must also be exhibited: prominent depressed mood; diminished interest or pleasure in activities; psychomotor retardation; loss of energy; feelings of worthlessness or excessive guilt; recurrent thoughts of death, suicidal ideation or attempted suicide (American Psychiatric Association 2013).

Over 90% of people with bipolar disorder experience recurrences during their lifetime – recurrence rates are up to 40% in the first year, 40–66% in the second year and more than 70% after 5 years, even in those taking mood stabilizers. Repeated episodes are linked to poor functional outcomes (incl. impairments in psychosocial functioning) in individuals with bipolar disorder.

Rexulti® (brexpiprazole) in agitation in dementia of the Alzheimer's type

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 (AAD). 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. Lundbeck and Otsuka have initiated a new study to generate sufficient data. The US FDA has granted Fast Track designation for this program.

PROOF OF CONCEPT STUDIES (CLINICAL PHASE II)

Foliglurax in Parkinson's disease

Foliglurax is a potent and selective metabotropic glutamate receptor 4 (mGlu4) positive allosteric modulator (PAM).

In March 2018, Lundbeck acquired Prexton Therapeutics BV thereby obtaining global rights of foliglurax, which is currently in clinical phase II testing for symptomatic treatment of 'off-time' in Parkinson's disease and dyskinesia incl. Levodopa Induced Dyskinesia (LID).

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

Brexpiprazole in Post-Traumatic Stress Disorder
In November 2018, Lundbeck and Otsuka reported positive clinical phase II data for the combination treatment of brexpiprazole and sertraline for the treatment of adults with Post-Traumatic Stress Disorder (PTSD). The study enrolled 321 patients.

Lu AF11167 in schizophrenia
Lu AF11167 is a potent and selective inhibitor of the PDE10A enzyme and is in clinical phase II development as a monotherapy treatment of negative symptoms in clinically stable (positive symptom controlled) patients with schizophrenia.

Lu AF11167 represents a new approach to the effective treatment of negative symptoms of schizophrenia, which despite on-going standard of care antipsychotic therapy cause patients to continue to be socially withdrawn or amotivated/emotionless. Patients are limited in their interaction with others resulting in poor function that often prevents them from managing everyday situations and diminishes their quality of life.

FIRST IN HUMANS (CLINICAL PHASE I)

Lu AF20513 in Alzheimer's disease
Lu AF20513 is an active vaccine inducing high affinity polyclonal antibodies that target beta-amyloid (Aß), for the potential injectable prevention of progression of Alzheimer's disease. In May 2015, an open-label, dose escalation, multiple immunisation clinical phase I study was initiated, to assess the safety, tolerability and immunogenicity of Lu AF20513 in patients with mild Alzheimer's disease.

Lu AF76432 in Alzheimer's disease
Lu AF76432 is a potent and selective PDE1 inhibitor (PDE1i) and is in early development for the treatment of cognitive dysfunction, e.g. patients with schizophrenia and/or with Alzheimer's disease.

Lu AF28996 in Parkinson's disease
Lu AF28996 is a D_1/D_2 agonist in development targeting moderate to advanced Parkinson's disease patients with motor fluctuations.

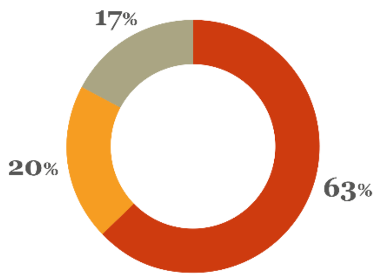
Lu AF82422 in Parkinson's disease
Lu AF82422 is a human IgG1 mAb that recognizes all major species of alpha-synuclein. Extracellular alpha-synuclein is believed to play a major role in disease pathology and progression in Parkinson's disease.

GEOGRAPHICAL MARKETS

Treatments for brain diseases remain one of the largest sectors of the global pharmaceutical market. According to the most recent IMS data, the market for pharmaceuticals for brain diseases was valued at USD 146 billion in 2017, corresponding to 14% of the global pharmaceutical market.

Lundbeck has divided its markets into three regions of which North America accounts for 63% of revenue, Europe for 17% and International Markets for 20%*.

REVENUE PER REGION 2018*



NORTH AMERICA

Revenue reached DKK 10,743 million in 2018, which is an increase of 1% (6% in local currencies) compared to DKK 10,673 million in 2017. The growth was mainly driven by the uptake of Abilify Maintena®, Brintellix®/Trintellix®, Northera® and Rexulti®, offsetting the decline in sales of Sabril® and Xenazine®.

Abilify Maintena® revenue grew 18% (23% in local currencies) for the year and reached DKK 695 million, which represents Lundbeck's share of total net sales. In the US, Abilify Maintena® has a volume market share of 20% and in Canada it reached 24% by November 2018.

Brintellix®/Trintellix® sales reached DKK 1,239 million for Lundbeck following growth of 27% (32% in local currencies). In the US, Brintellix®/Trintellix®'s value market share of the total anti-depressant market was 19.2% and in Canada, the value market share of the total anti-depressant market was 5.7% by November 2018.

Northera® was made available in the US in the autumn of 2014 for the treatment of Neurogenic Orthostatic Hypotension (nOH). Sales from Northera® reached DKK 1,806 million in 2018, representing a growth of 10% (15% in local currency). Northera® experienced increased underlying demand, which highlights the unmet need in the nOH market as well as Northera®'s strong clinical profile.

Onfi® reached revenue of DKK 3,165 million corresponding to a growth of 5% (12% in local currency). In October 2018, the US FDA approved the first versions of generic clobazam, which impacted sales negatively towards the end of the year.

Lundbeck's share of **Rexulti®** revenue reached DKK 1,702 million following a growth of 37% (43% in local currencies). In the US, Rexulti® has achieved market shares of 1.57% and 8.45% in volume and value, respectively. In Canada, the product has reached a volume share of 0.69% and a value share of 1.04%. Patient data suggest that more than 3/4 of prescriptions in the US are prescribed for Major Depressive Disorder (MDD).

Revenue – North America

DKKm	2018	2017	Growth	Growth in local currencies
Abilify Maintena®	695	591	18%	23%
Brintellix®/Trintellix®	1,239	974	27%	32%
Northera®	1,806	1,644	10%	15%
Onfi®	3,165	3,022	5%	12%
Rexulti®	1,702	1,245	37%	43%
Sabril®	1,342	1,509	(11%)	(6%)
Xenazine®	418	1,016	(59%)	(57%)
Other pharmaceuticals	376	672	(44%)	(42%)
Total revenue	**10,743**	**10,673**	**1%**	**6%**

*Excl. Other revenue and effects from hedging

USA MARKET VALUE*

Antidepressants: USD 4.9bn
Antipsychotics: USD 10.5bn
Alzheimer's disease: USD 1.5bn
Parkinson's disease: USD 0.9bn
Epilepsy: USD 12.0bn

Lundbeck has a strong presence in the US with around 850 employees. Our US offices are based in Deerfield, Illinois.

The US is an important market for Lundbeck and will continue being so in the coming years. However, the political environment in the US has become more uncertain. Several states have proposed or implemented laws relating to drug pricing and/or greater transparency regarding the costs of prescription medications. The Administration and Congress have also issued a blueprint to reduce the cost of medicines and have begun to issue rules for consideration that focus not only on drug makers but also prescription benefit managers and insurers. Therefore, it is likely that the focus on healthcare costs and access is expected to continue at both federal and state level in 2019.

INTERNATIONAL MARKETS

Revenue from International Markets, which comprise all Lundbeck's markets outside of Europe and North America, reached DKK 3,500 million in 2018, compared to DKK 3,406 million in 2017. In local currencies, sales were up 10% driven by strong sales of Abilify Maintena® and Brintellix®/Trintellix®. The biggest markets in International Markets are Australia, Brazil, China, Japan, Mexico and South Korea.

Abilify Maintena® reached DKK 130 million in revenue in 2018 representing a growth of 23% (31% in local currencies). Sales are mainly derived from Australia where Abilify Maintena® shows solid momentum with a volume share of 23%.

Brintellix®/Trintellix® reached DKK 396 million in revenue corresponding to an increase of 26% (41% in local currencies). Brintellix®/Trintellix® has seen solid growth in markets such as Brazil, China, Mexico, South Africa, South Korea and Turkey. The launch of Brintellix®/Trintellix® in China in April 2018 enables Lundbeck to make an even bigger difference for the many patients affected by depression and their caregivers. Already today, Lundbeck is the market leader in the anti-depressant market in China, where approximately 25% of all medicines prescribed for treating depression are invented by Lundbeck. In September 2018, Brintellix®/Trintellix® was launched in India for the treatment of MDD, after receiving approval from Drug Controller General of India (DCGI).

Revenue – International Markets

DKKm	2018	2017	Growth	Growth in local currencies
Abilify Maintena®	130	105	23%	31%
Brintellix®/Trintellix®	396	313	26%	41%
Cipralex®/Lexapro®	1,552	1,582	(2%)	6%
Ebixa®	461	469	(2%)	4%
Other pharmaceuticals	961	937	3%	8%
Total revenue	**3,500**	**3,406**	**3%**	**10%**

* IMS 2017

Cipralex®/Lexapro® generated revenue of DKK 1,552 million representing a decline of 2% (6% growth in local currencies).

Ebixa® generated revenue of DKK 461 million, representing a decline of 2% (4% growth in local currencies). 2017 was positively impacted by stocking in China up to license renewal by the end of 2017.

Rexulti® was approved for the treatment of schizophrenia in Australia in June 2017 and was launched during the third quarter of 2017. It has now achieved a market share of 1.23% and 2.01% in volume and value, respectively. Rexulti® has been approved for both schizophrenia and adjunctive therapy in MDD in a number of countries already and registrations are ongoing in a number of other countries worldwide.

Azilect® was approved by the Chinese FDA in June 2017 and launched in October 2017 by Lundbeck. Parkinson's disease is the second most common neurodegenerative disease in China after Alzheimer's disease.

Both Rexulti® and Azilect® are currently included in Other pharmaceuticals.

CHINA MARKET VALUE*

Antidepressants: USD 0.5bn
Antipsychotics: USD 0.6bn
Alzheimer's disease: USD 0.1bn
Parkinson's disease: USD 0.1bn

Lundbeck's China operation has 400 employees and is headquartered in Beijing. We continue to build our Chinese sales force and organization following the launches of Azilect® and Brintellix®/Trintellix® earlier in 2018. Further growth of the organization is planned after taking over the full promotion of Lexapro in 2019. China is now Lundbeck's second biggest market. In China, mental illness has overtaken heart disease and cancer as the biggest strain on the Chinese healthcare system and the government has initiated several major programs in recent years to lift this burden.

JAPAN MARKET VALUE*

Antidepressants: USD 1.1bn
Antipsychotics: USD 1.1bn
Alzheimer's disease: USD 1.1bn
Parkinson's disease: USD 0.7bn

Since 2011 Lexapro® has been co-marketed in Japan by Mochida Pharmaceutical Co., Ltd. and Mitsubishi Tanabe Corporation based on a license agreement with Lundbeck. Our own organization in Japan has primarily been a development organization up until now. However, with the submission for a New Drug Application for vortioxetine in collaboration with Takeda Pharmaceutical we are starting to build a commercial organization. The requirements for a Japanese drug approval is one of the strictest in the world and requires long-term planning and investments.

* IMS 2017

EUROPE

Revenue reached DKK 2,970 million in 2018, representing a growth of 6% (6% in local currencies) compared to DKK 2,805 million last year due to the growth of key products.

Abilify Maintena® has been launched in all major markets in Europe. Uptake of Abilify Maintena® is solid with sales reaching DKK 770 million making it Lundbeck's biggest product in the region. In Europe, the penetration of long-acting atypical antipsychotics is generally higher than seen in the US (volume). Driven by increasing demand from patients, sales of Abilify Maintena® are growing in all major European markets and has reached or surpassed a 20% market share (value) in all major markets in Europe. Abilify Maintena® is the second most prescribed long-acting injectable treatment for patients with schizophrenia in many markets.

Brintellix®/Trintellix® has been launched in most European markets and revenue grew 46%, reaching DKK 547 million in total sales. Brintellix®/Trintellix® has been launched in most European markets and realized solid growth in main courtries such as France, Italy and Spain, where the product achieved value market shares of 7.6%, 7.4% and 6.0%, respectively by November 2018, and volume shares of 2.4%, 2.9% and 2.1%, respectively.

Cipralex®/Lexapro® generated revenue of DKK 572 million following a decline in sales of 11%.

In July 2018, Lundbeck and Otsuka announced that the European Commission has approved **Rxulti®** (brexpiprazole) for the treatment of schizophrenia in adults. Furthermore, Rxulti® has been approved in Switzerland and from 1 January 2019 Lundbeck has started launching it. This launch is the first in a sequence that will make the treatment available in other European countries during 2019 and 2020. The product will be branded as Rxulti® in countries within the European Union.

Revenue – Europe

DKKm	2018	2017	Growth	Growth in local currencies
Abilify Maintena®	770	637	21%	21%
Brintellix®/Trintellix®	547	376	46%	46%
Cipralex®/Lexapro®	572	643	(11%)	(10%)
Other pharmaceuticals	1,081	1,149	(6%)	(6%)
Total revenue	**2,970**	**2,805**	**6%**	**6%**

EUROPE MARKET VALUE*

Antidepressants: USD 3.0bn
Antipsychotics: USD 3.7bn
Alzheimer's disease: USD 0.8bn
Parkinson's disease: USD 1.6bn

Lundbeck's sales in Europe has improved significantly following uptake of new products and increased profitability.

* IMS 2017

PRODUCTS

PRODUCT	TOTAL REVENUE (DKKm)	% OF TOTAL REVENUE	GROWTH	COMMENT
Abilify Maintena® (aripiprazole once-monthly)	1,595	9%	20%	Once-monthly intramuscular injection indicated for the treatment of schizophrenia. Lundbeck markets Abilify Maintena® in Europe and the US in collaboration with Otsuka. First launched in the US in 2013, hereafter launched in more than 45 countries.
Brintellix®/Trintellix® (vortioxetine)	2,182	12%	31%	Indicated for the treatment of Major Depressive Disorder (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)	2,257	12%	(6%)	Indicated for the treatment of depression. First launched in 2002 and today available in more than 100 countries around the world.
Northera® (droxidopa)	1,806	10%	10%	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)	3,165	18%	5%	Indicated as adjunctive treatment of Lennox-Gastaut syndrome for people aged two years or older. Launched in the US in 2012.
Rexulti® (brexpiprazole)	1,723	10%	38%	Indicated for adjunctive therapy for the treatment of adults with Major Depressive Disorder (MDD) and as a treatment for adults with schizophrenia. Launched in the US in 2015 in collaboration with Otsuka, hereafter in a number of other countries.
Sabril® (vigabatrine)	1,342	7%	(11%)	Indicated the treatment of refractory complex partial seizures (rCPS) and infantile spasms (IS). Launched in the US in 2009.
Xenazine® (tetrabenazine)	440	2%	(58%)	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.

RISK MANAGEMENT GOVERNANCE STRUCTURE

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

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

RISK MANAGEMENT FRAMEWORKS

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

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

Business Units and Corporate Functions report to the central Risk Office on a semi-annual basis. The central Risk Office facilitates workshops for management from Business Units and Corporate Functions, risk contributors and risk responsible individuals. These workshops play a crucial part in the alignment of risks reported to the Risk Office.

The Risk Office assesses the likelihood of an event occurring and the potential impact on the Group in terms of financial loss, and identifies the key risks. The key risk overview is presented to Executive Management for their assessment and approval, before it is reported to the Audit Committee and the Board of Directors.

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

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

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

KEY RISKS

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

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.**

*http://www.lundbeck.com/upload/global/files/pdf/sustainability/COP/COP_2018.pdf

CORPORATE GOVERNANCE

Corporate governance at Lundbeck concerns the way the company is managed and controlled, while creating value for both the company and our stakeholders. Lundbeck has chosen to disclose the mandatory annual corporate governance report on www.lundbeck.com.*

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

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

Lundbeck's Board of Directors is responsible for approving the corporate strategy, setting goals for Executive Management, and for ensuring that members of Executive Management and other senior managers have the right qualifications. The Board of Directors also evaluates management performance and management remuneration. Furthermore, the Board of Directors has the overall responsibility for ensuring that adequate internal and external controls are in place, and for identifying and addressing any relevant risks. This responsibility is defined in the Danish Companies Act and stipulated in the rules of procedures for the Board of Directors. The Board of Directors regularly evaluates the business, our financial strategies and policies, and ensures that day-to-day management is carried out in accordance with such policies.

The Board of Directors has established a self-evaluation procedure covering, among other things, composition, contribution and results, cooperation between the Board of Directors and Executive Management and committee work and structure. All members of the Board of Directors and Executive Management participates in the evaluation. Key conclusions from the 2018 evaluation was a continued good cooperation, an improved set of competencies represented with deep scientific and pharmaceutical sector knowledge as well as strong international business and financial management competencies, and satisfaction with the work in the Committees, especially the newly established Scientific Committee.

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

* https://www.lundbeck.com/upload/global/files/pdf/corporate_governance/2018/corporate_governance_report.pdf

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

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

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

EXECUTIVE MANAGEMENT *

DEBORAH DUNSIRE
President and CEO

- Born 1962
- Joined Lundbeck in 2018

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

Holding of shares
- None

ANDERS GÖTZSCHE
Executive Vice President, CFO

- Born 1967
- Joined Lundbeck in 2007

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

Holding of shares
- 42,796

LARS BANG
Executive Vice President, Product Development & Supply

- Born 1962
- Joined Lundbeck in 1988

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

Holding of shares
- 35,216

JACOB TOLSTRUP
Executive Vice President, Commercial Operations

- Born 1972
- Joined Lundbeck in 1999

Directorships
- None

Holding of shares
- 4,403

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 *

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

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

LARS SØREN RASMUSSEN
Chairman

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

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

Directorships
- Coloplast A/S (C)
- William Demant Holding A/S (M)

Holding of shares
- 20,000

LENE SKOLE-SØRENSEN
Deputy Chairman

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

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

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

Holding of shares
- 8,808

HENRIK ANDERSEN

- Born 1967
- Group President and CEO of Hempel A/S
- Elected at the 2018 Annual General Meeting
- Considered independent

Lundbeck Committees
- Audit Committee (C)

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

Holding of shares
- None

JEFFREY BERKOWITZ

- Born 1966
- Executive Vice President of United Health Group (UNH), and CEO of their Optum International subsidiary
- Elected at the 2018 Annual General Meeting
- Considered independent

Lundbeck Committees
- Scientific Committee (M)

Directorships
- Infinity Pharmaceuticals, Inc.
- Esperion Therapeutics, Inc.

Holding of shares
- None

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

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

RIKKE KRUSE ANDREASEN

- Born 1971
- Laboratory Technician
- First elected by employees in 2018

Holding of shares
- 5

HENRIK SINDAL JENSEN

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

Holding of shares
- None

LUDOVIC TRANHOLM OTTERBEIN

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

Directorships
- Lundbeck Foundation (M)

Holding of shares
- None

THE LUNDBECK SHARE

2018 was yet another eventful year for Lundbeck with both positive and disappointing newsflow. The Lundbeck share price began the year at DKK 315.0 (closing price end 2017) and reached an all-time high of DKK 475.9 (15 June). Following the effect of the loss of exclusivity on Onfi®, the clinical phase III data for Lu AF35700, as well as increased uncertainty in the stock market in general, the Lundbeck share fell to DKK 257.0 (23 November), however ended the year at DKK 285.4. This is a decrease of 9.4% for the year. In comparison, the Danish OMXC25 index decreased by 13.4%, while the MSCI European Pharmaceutical Index decreased by 2.0%.

TURNOVER

Total trading in Lundbeck shares amounted to DKK 34.7 billion in 2018, while the average daily turnover was DKK 140.0 million, a decrease of 5% compared to 2017. A total of 99,235,561 million shares were traded in 2018, equivalent to 400,143 shares per day, a decrease of 7% compared to 2017.

Lundbeck has an American Depository Receipt (ADR) Level 1 program. The ADR volume has been relatively stable in 2018 with a pick up towards the end of the year. At the end of 2018, 342,641 ADRs were outstanding, representing 0.2% of the total shares or 0.5% of the free float.

SHARE CAPITAL

The Lundbeck share is listed on the Copenhagen Stock Exchange, NASDAQ Copenhagen. All shares belong to the same class and rank equally. The shares are negotiable and there are no restrictions on their transferability. Each share has a nominal value of DKK 5 and carries one vote. At the end of 2018, Lundbeck's total share capital amounted to DKK 995,524,980 which is equivalent to 199,104,996 shares.

COMPOSITION OF SHAREHOLDERS

According to the Lundbeck share register, the company had approximately 20,000 shareholders at the end of 2018, 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 2018, which equals 69% of the share capital and voting rights. The Lundbeck Foundation is the only shareholder to report a holding in excess of 5% of the share capital.

At the end of 2018, investors in North America held 48% of the free float compared to 44% in 2017; European (excl. Danish) investors held 27% compared to 29% in 2017; Danish investors held 5% compared to 9% in 2017; rest of the world held 3%, which is unchanged from 2017, and other investors, incl. private, held 17% compared to 15% in 2017.

In order to fund our long-term share-based incentive programs, Lundbeck acquired treasury shares in 2018 at a value of DKK 25 million (DKK 93 million in 2017), corresponding to 87,000 shares (290,000 shares in 2017).

At the end of 2018, Lundbeck's Board of Directors and Executive Management held a total of 122,665 Lundbeck shares, corresponding to 0.06% of the total shares outstanding.

LUNDBECK AND THE EQUITY MARKET

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

In 2018, Lundbeck's Investor Relations team held more than 350 meetings, primarily in North America and Europe, and presented at more than 10 investor conferences.

Lundbeck is currently covered by 21 sell-side analysts, incl. the major global investment banks that regularly produce research reports on Lundbeck. A list of analysts covering Lundbeck can be found at www.lundbeck.com*.

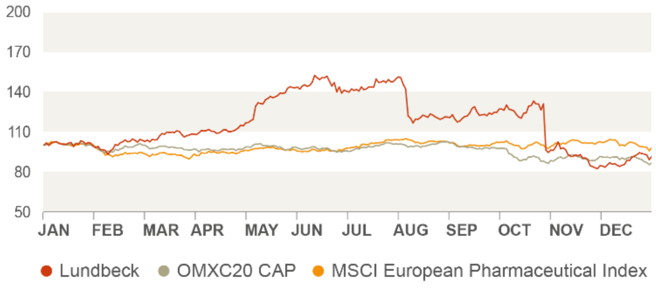
Each year, when Lundbeck's interim and full-year reports are announced, we conduct roadshows where members of our Executive Management and Investor Relations team inform investors and analysts about the company's latest developments. Our investor presentations are available for download at www.lundbeck.com**.

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

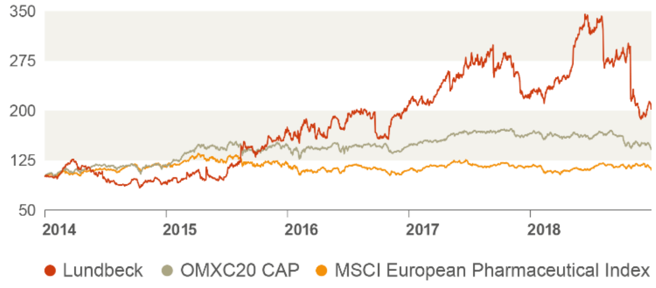
FINANCIAL CALENDAR 2019

26 March 2019	Annual General Meeting
29 March 2019	Dividends for 2018 at the disposal of shareholders
8 May 2019	Financial statements for the first three months 2019
14 August 2019	Financial statements for the first six months 2019
5 November 2019	Financial statements for the first nine months 2019

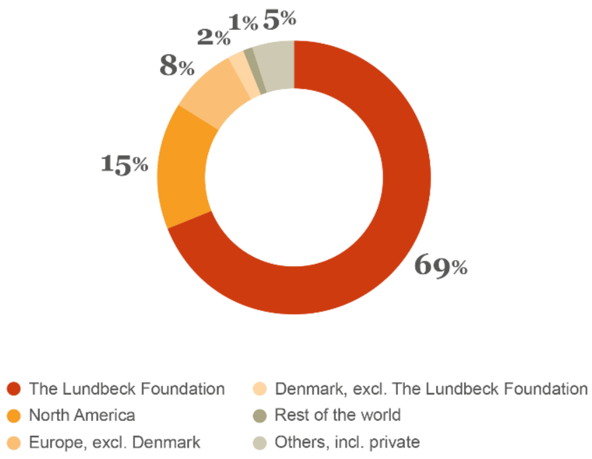
STOCK PERFORMANCE 2018



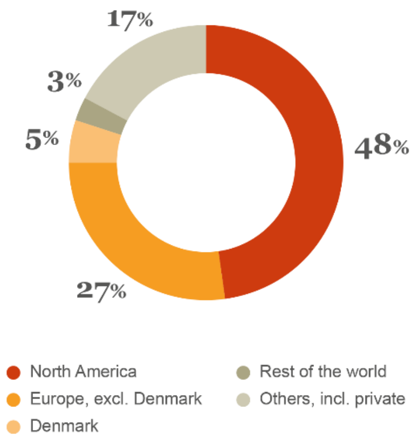
STOCK PERFORMANCE 2014-2018



COMPOSITION OF OWNERSHIP, END 2018



COMPOSITION OF FREE FLOAT, END 2018



SHARE RATIOS

	2018	2017	2016	2015
Earnings per share, basic (EPS) (DKK)	19.66	13.28	6.12	(28.83)
Earnings per share, diluted (DEPS) (DKK)	19.66	13.26	6.11	(28.83)
Cash flow from operating activities per share, diluted (DKK)	30.10	20.45	15.77	1.00
Net asset value per share, diluted (DKK)	71.69	61.27	48.87	44.23
Proposed dividend per share (DKK)	12.00	8.00	2.45	0.00
Dividend payout ratio (%)	61	61	40	-
Dividend yield (%)	4.2	2.5	0.9	0.0
Share price, year-end (DKK)	285.4	315.0	287.3	235.4
Share price, high (DKK)	475.9	411.8	287.3	235.4
Share price, low (DKK)	257.0	315.0	206.9	120.4
Price/Earnings, diluted (DKK)	14.52	23.75	47.03	n/a
Price/Cash flow, diluted (DKK)	9.48	15.41	18.22	236.15
Price/Net asset value, diluted (DKK)	3.98	5.14	5.88	5.32
Market capitalization, year-end (DKKbn)	56.82	62.70	56.78	46.45
Annual trading, million shares	99.2	107.7	81.0	65.2
Average trading per trading day, thousands of shares	400.1	429.2	321.7	262.0

SHARE FACTS

Number of shares, year-end	199,104,996
Share capital, year-end (DKK)	995,524,980
Nominal value per share (DKK)	5
Holding of treasury shares	366,019
Free float (%)	31
IPO	18 June 1999
Stock exchange	NASDAQ Copenhagen
ISIN code	DK0010287234
Ticker	LUN.CO (Reuters), LUN DC (Bloomberg)
ADR program	Sponsored level 1 program
ADR trading code	HLUYY

SUMMARY FOR THE GROUP 2014-2018

Income statement (DKKm)	2018	2017	2016	2015	2014
Revenue	18,117	17,234	15,634	14,594	13,468
Research and development costs	3,277	2,705	2,967	8,149	2,911
Operating profit before depreciation and amortization (EBITDA)	6,436	5,424	3,846	210	1,552
Profit/(loss) from operations (EBIT)	5,301	4,408	2,292	(6,816)	99
Net financials	(12)	(131)	(135)	(190)	(155)
Profit/(loss) before tax	5,289	4,277	2,157	(7,006)	(56)
Profit/(loss) for the year	3,907	2,624	1,211	(5,694)	(153)

Assets (DKKm)	2018	2017	2016	2015	2014
Non-current assets	11,362	10,912	12,686	13,665	16,251
Inventories	1,753	1,376	1,528	2,217	1,991
Receivables	3,261	3,791	3,779	3,922	3,726
Cash, bank balances and securities	6,635	3,677	2,217	1,521	3,669
Total assets	**23,011**	**19,756**	**20,210**	**21,325**	**25,637**

Equity and liabilities (DKKm)	2018	2017	2016	2015	2014
Equity	14,251	12,181	9,694	8,785	13,526
Non-current liabilities	1,184	1,096	2,740	4,792	4,909
Current liabilities	7,576	6,479	7,776	7,748	7,202
Total equity and liabilities	**23,011**	**19,756**	**20,210**	**21,325**	**25,637**

Cash flow statement (DKKm)	2018	2017	2016	2015	2014
Cash flows from operating activities	5,981	4,045	3,126	197	1,610
Cash flows from investing activities	(2,907)	(1,830)	(337)	(2,842)	(3,396)
Cash flows from operating and investing activities (free cash flow)	3,074	2,215	2,789	(2,645)	(1,786)
Cash flows from financing activities	(1,607)	(2,235)	(2,006)	501	589
Interest-bearing debt, cash, bank balances and securities, net, at year-end - net cash/(net debt)	6,635	3,677	326	(2,249)	326

SUMMARY FOR THE GROUP 2014-2018

CONTINUED

Key figures	2018	2017	2016	2015	2014
EBIT margin (%)	29.3	25.6	14.7	(46.7)	0.7
Research and development ratio (%)	18.1	15.7	19.0	55.8	21.6
Return on equity (%)	29.6	24.0	13.1	(51.1)	(1.1)
Equity ratio (%)	61.9	61.7	48.0	41.2	52.8
Invested capital (DKKm)	7,616	8,504	9,368	11,034	13,200
Return on invested capital (ROIC), incl. goodwill (%)	48.6	30.8	13.2	(45.4)	0.0
Net debt/EBITDA	(1.0)	(0.7)	(0.1)	10.7	(0.2)
Cash to earnings (%)	117.6	141.8	230.3	n/a	n/a
Effective tax rate (%)	26.1	38.7	43.9	18.7	(171.5)
Purchase of intangible assets, gross (DKKm)	1,149	480	104	2,719	4,225
Purchase of property, plant and equipment, gross (DKKm)	300	245	238	237	240
Purchase of financial assets, gross (DKKm)	1,524	1,509	16	9	62
Average number of employees	5,060	4,980	5,120	5,534	5,665

Share data[1]	2018	2017	2016	2015	2014
Number of shares for the calculation of EPS (millions)	198.7	197.5	197.2	196.5	196.3
Earnings per share, basic (EPS) (DKK)[2]	19.66	13.28	6.12	(28.83)	(0.77)
Earnings per share, diluted (DEPS) (DKK)[2]	19.66	13.26	6.11	(28.83)	(0.77)
Proposed dividend per share (DKK)	12.00	8.00	2.45	0.00	0.00
Cash flow from operating activities per share, diluted (DKK)[2]	30.10	20.45	15.77	1.00	8.14
Net asset value per share, diluted (DKK)[2]	71.69	61.27	48.87	44.23	68.36
Market capitalization (DKKm)	56,825	62,700	56,776	46,445	24,117
Price/Earnings, diluted (DKK)[2]	14.52	23.75	47.03	n/a	n/a
Price/Cash flow, diluted (DKK)[2]	9.48	15.41	18.22	236.15	15.09
Price/Net asset value, diluted (DKK)[2]	3.98	5.14	5.88	5.32	1.80

1) The calculation is based on a share denomination of DKK 5.
2) Comparative figures have been restated using a factor 0.9997 for the effect of employees' exercise of warrants.

SUMMARY FOR THE GROUP 2014-2018

CONTINUED

Definitions	
Interest-bearing net cash	Cash, bank balances and securities less interest-bearing debt
EBIT margin[1]	Profit from operations as a percentage of revenue
EBITDA	Profit before interest, tax, depreciation, amortization and gain on divestment of properties
Return on equity[1]	Net profit/(loss) for the year as a percentage of shareholders' equity (average)
Equity ratio[1]	Shareholders' equity, year-end, as a percentage of total assets
Invested capital	Shareholders' equity, year-end, plus net interest-bearing debt
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)	2018	2017	2016	2015	2014
EBIT	5,301	4,408	2,292	(6,816)	99
+ Depreciation, amortization and impairment losses	1,183	1,258	1,554	7,026	1,453
- Gain on divestment of properties recognized in other operating items, net	(48)	(242)	-	-	-
EBITDA	**6,436**	**5,424**	**3,846**	**210**	**1,552**

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

PRIMARY NOTES

SECONDARY NOTES

OTHER NOTES

INCOME STATEMENT

1 January – 31 December 2018

	Notes	2018 DKKm	2017 DKKm
Revenue	3	18,117	17,234
Cost of sales	4, 8, 22	3,456	3,881
Gross profit		**14,661**	**13,353**
Sales and distribution costs	4, 8	5,277	5,649
Administrative expenses	4, 8, 18	762	833
Research and development costs	4, 8	3,277	2,705
Other operating items, net	9	(44)	242
Profit from operations (EBIT)		**5,301**	**4,408**
Financial income	19	84	23
Financial expenses	19	96	154
Profit before tax		**5,289**	**4,277**
Tax on profit for the year	12	1,382	1,653
Profit for the year	14	**3,907**	**2,624**
Earnings per share, basic (EPS) (DKK)	20	19.66	13.28
Earnings per share, diluted (DEPS) (DKK)	20	19.66	13.26

STATEMENT OF COMPREHENSIVE INCOME

1 January – 31 December 2018

	Notes	2018 DKKm	2017 DKKm
Profit for the year		**3,907**	**2,624**
Actuarial gains/losses	24	15	33
Tax	12	(2)	(5)
Items that will not be reclassified subsequently to profit or loss		**13**	**28**
Exchange rate gains/losses on investments in foreign subsidiaries		287	(447)
Exchange rate gains/losses on additions to net investments in foreign subsidiaries		(151)	(107)
Deferred exchange gains/losses, hedging	25	(319)	817
Exchange gains/losses, hedging (transferred to the hedged items)	25	(242)	(33)
Fair value adjustment of available-for-sale financial assets		-	16
Tax	12	157	(143)
Items that may be reclassified subsequently to profit or loss		**(268)**	**103**
Other comprehensive income	21	**(255)**	**131**
Comprehensive income		**3,652**	**2,755**

BALANCE SHEET – ASSETS

At 31 December 2018

	Notes	2018 DKKm	2017 DKKm
Goodwill		4,300	4,124
Product rights		3,496	3,221
Other rights		111	125
Projects in progress		116	95
Intangible assets	7	**8,023**	**7,565**
Land and buildings		1,226	1,246
Plant and machinery		364	401
Other fixtures and fittings, tools and equipment		105	104
Prepayments and assets under construction		323	239
Property, plant and equipment	7	**2,018**	**1,990**
Other financial assets		70	67
Other receivables		86	76
Deferred tax assets	13	1,165	1,214
Financial assets		**1,321**	**1,357**
Non-current assets		**11,362**	**10,912**
Inventories	22	**1,753**	**1,376**
Trade receivables	15	2,764	2,918
Income taxes receivable		110	177
Other receivables	15	242	546
Prepayments		145	150
Receivables		**3,261**	**3,791**
Securities	16	**3,030**	**1,522**
Cash and bank balances	16	**3,605**	**2,155**
Current assets		**11,649**	**8,844**
Assets		**23,011**	**19,756**

BALANCE SHEET – EQUITY AND LIABILITIES

At 31 December 2018

	Notes	2018 DKKm	2017 DKKm
Share capital	23	996	995
Foreign currency translation reserve		804	634
Currency hedging reserve	25	(56)	382
Retained earnings		12,507	10,170
Equity		**14,251**	**12,181**
Retirement benefit obligations	24	235	246
Deferred tax liabilities	13	472	515
Other provisions	6	405	278
Other debt		72	57
Non-current liabilities		**1,184**	**1,096**
Retirement benefit obligations	24	-	1
Other provisions	6	442	490
Trade payables		4,078	3,203
Income taxes payable		72	54
Other payables	5	2,984	2,731
Current liabilities		**7,576**	**6,479**
Liabilities		**8,760**	**7,575**
Equity and liabilities		**23,011**	**19,756**

STATEMENT OF CHANGES IN EQUITY

1 January – 31 December 2018

	Notes	Share capital DKKm	Foreign currency translation reserve DKKm	Currency hedging reserve DKKm	Retained earnings DKKm	Equity DKKm
2018						
Equity at 1 January		**995**	**634**	**382**	**10,170**	**12,181**
Profit for the year		-	-	-	3,907	3,907
Other comprehensive income	21	-	170	(438)	13	(255)
Comprehensive income		**-**	**170**	**(438)**	**3,920**	**3,652**
Distributed dividends, gross	14	-	-	-	(1,592)	(1,592)
Dividends received, treasury shares		-	-	-	3	3
Capital increase through exercise of warrants	23	1	-	-	6	7
Buyback of treasury shares	23	-	-	-	(25)	(25)
Incentive programmes	11	-	-	-	25	25
Other transactions		**1**	**-**	**-**	**(1,583)**	**(1,582)**
Equity at 31 December		**996**	**804**	**(56)**	**12,507**	**14,251**
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	14	-	-	-	(484)	(484)
Dividends received, treasury shares		-	-	-	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**

CASH FLOW STATEMENT

1 January – 31 December 2018

	Notes	2018 DKKm	2017 DKKm
Profit from operations (EBIT)		5,301	4,408
Adjustment for non-cash operating items etc.		1,243	871
Change in working capital		563	291
Cash flows from operations before financial receipts and payments		**7,107**	**5,570**
Financial receipts		62	17
Financial payments		(56)	(113)
Cash flows from ordinary activities		**7,113**	**5,474**
Income taxes paid		(1,132)	(1,429)
Cash flows from operating activities		**5,981**	**4,045**
Acquisition of subsidiary[1]	7	(745)	-
Purchase of intangible assets	7	(404)	(480)
Purchase of property, plant and equipment	7	(300)	(245)
Sale of property, plant and equipment		66	404
Purchase of financial assets		(1,524)	(1,509)
Cash flows from investing activities		**(2,907)**	**(1,830)**
Cash flows from operating and investing activities (free cash flow)		**3,074**	**2,215**
Repayment of loans		-	(1,873)
Buyback of treasury shares	23	(25)	(93)
Capital increase through exercise of warrants	23	7	214
Dividends paid in the financial year, net		(1,589)	(483)
Cash flows from financing activities		**(1,607)**	**(2,235)**
Net cash flow for the year		**1,467**	**(20)**
Cash and bank balances at 1 January		2,155	2,200
Unrealized exchange gains/losses on cash and bank balances		(17)	(25)
Net cash flow for the year		1,467	(20)
Cash and bank balances at 31 December	16	**3,605**	**2,155**

	Notes	2018 DKKm	2017 DKKm
Interest-bearing debt, cash, bank balances and securities, net, is composed as follows:			
Cash and bank balances	16	3,605	2,155
Securities	16	3,030	1,522
Interest-bearing debt, cash, bank balances and securities, net, at 31 December – net cash/(net debt)		**6,635**	**3,677**

1) The acquisition of Prexton Therapeutics BV, which is considered a purchase of assets, consists of the foliglurax product rights valued at DKK 712 million, tax assets of DKK 39 million and net liabilities totalling DKK 6 million at the time of purchase.

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

NOTES 1-2

1. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared to give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2018. The registered Executive Management believes that the following accounting policies are significant to the financial statements. The general accounting policies are described in note 28.

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

Non-refundable downpayments and milestone payments relating to research collaborations are recognized in the income statement under revenue when the following criteria have been met:

- The payment relates to research results already obtained.
- The buyer has gained access to and possession of the research results.
- The revenue from each deliverable in an overall agreement can be clearly separated and calculated reliably at fair value.
- It is probable that Lundbeck will receive payment.
- Lundbeck has no further delivery obligations in respect of the downpayment or milestone payment.

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

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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 both to the accounting policies and the information provided in the notes in general.

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

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

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 acquisition of businesses or 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.

At 31 December 2018, the carrying amounts of goodwill and product rights amounted to DKK 4,300 million and DKK 3,496 million respectively.

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

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

Accordingly, at 31 December 2018 all deferred tax assets relating to tax losses carried forward in Denmark from 2015, 2016 and 2018 have been capitalized in the amount of DKK 885 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's judgments are applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties. The provision for uncertain tax positions not yet settled with local authorities amounts to DKK 368 million. Management believes that the provision 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.

2018	Europe DKKm	North America DKKm	International Markets DKKm	Group DKKm
Abilify Maintena®	770	695	130	1,595
Brintellix®/Trintellix®	547	1,239	396	2,182
Cipralex®/Lexapro®	572	133	1,552	2,257
Northera®	-	1,806	-	1,806
Onfi®	-	3,165	-	3,165
Rexulti®	-	1,702	21	1,723
Sabril®	-	1,342	-	1,342
Xenazine®	22	418	-	440
Other pharmaceuticals	1,059	243	1,401	2,703
Other revenue				662
Effects from hedging				242
Total revenue	**2,970**	**10,743**	**3,500**	**18,117**

Of this amount:	
Royalty	733

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

For information on trade receivables and major customers, see note 15 *Trade receivables and other receivables*.

2017	Europe DKKm	North America DKKm	International Markets DKKm	Group DKKm
Abilify Maintena®	637	591	105	1,333
Brintellix®/Trintellix®	376	974	313	1,663
Cipralex®/Lexapro®	643	167	1,582	2,392
Northera®	-	1,644	-	1,644
Onfi®	-	3,022	-	3,022
Rexulti®	-	1,245	2	1,247
Sabril®	-	1,509	-	1,509
Xenazine®	30	1,016	-	1,046
Other pharmaceuticals	1,119	505	1,404	3,028
Other revenue				402
Effects from hedging				(52)
Total revenue	**2,805**	**10,673**	**3,406**	**17,234**

Of this amount:	
Royalty	596

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

Non-current assets[1]	2018 DKKm	2017 DKKm
Denmark	3,254	3,209
USA	4,822	5,165
Other countries	1,965	1,181
Total	**10,041**	**9,555**

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

NOTE 4

4. STAFF COSTS

Wages and salaries etc.

	2018 DKKm	2017 DKKm
The year's staff costs are specified as follows:		
Cost of sales	563	538
Sales and distribution costs	2,086	2,154
Administrative expenses	433	423
Research and development costs	872	813
Total	**3,954**	**3,928**

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 is entitled to receive a maximum of 14 months' worth of fixed salary in bonus in case of exceptional performance, subject to the 2019 Annual General Meeting's approval of amended remuneration guidelines for Lundbeck. 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	Retirement package DKKm	Total DKKm
2018							
Deborah Dunsire[1,2], President and CEO	3.4	3.3	-	-	0.2	-	6.9
Lars Bang, Executive Vice President, Product Development & Supply	3.8	1.8	1.0	0.2	1.7	-	8.5
Anders Götzsche[3], Executive Vice President, CFO	5.9	3.8	1.5	0.2	0.9	-	12.3
Jacob Tolstrup, Executive Vice President, Commercial Operations	3.7	1.8	1.0	0.2	1.1	-	7.8
Anders Gersel Pedersen, Executive Vice President, R&D	4.3	2.0	1.1	0.2	(0.4)	9.8	17.0
Total	**21.1**	**12.7**	**4.6**	**0.8**	**3.5**	**9.8**	**52.5**

1) Deborah Dunsire joined H. Lundbeck A/S in September 2018.
2) It has been agreed that Lundbeck may pay a compensation as a result of differences between US and Danish private investment income taxation. The salary for 2018 did not include any compensation for tax on private investment income.
3) Anders Götzsche was interim CEO until the end of August 2018.

	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.

Executives[1]

	2018 DKKm	2017 DKKm
Short-term staff benefits	81	78
Retirement benefits	10	9
Other social security costs	1	-
Equity- and cash-settled incentive programmes	10	9
Total	**102**	**96**

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 2018 amounted to DKK 6.0 million (DKK 5.3 million in 2017). The amount includes fees for participation in the Audit Committee of DKK 0.7 million (DKK 0.7 million in 2017), the Remuneration Committee of DKK 0.5 million (DKK 0.6 million in 2017) and the Scientific Committee of DKK 0.7 million (DKK 0.4 million in 2017). The remuneration for 2018 is consistent with the remuneration presented at the Annual General Meeting held on 20 March 2018.

The members of the Board of Directors held a total of 43,813 Lundbeck shares at 31 December 2018 (44,328 shares in 2017).

The total remuneration of the chairman of the Board of Directors amounted to DKK 1.6 million (DKK 1.5 million in 2017). The total remuneration of the deputy chairman of the Board of Directors amounted to DKK 1.1 million (DKK 1.0 million in 2017). These amounts include fees for participation in Board committees.

Number of employees

	2018	2017
Average number of full-time employees in the financial year	**5,060**	**4,980**
Number of full-time employees at 31 December		
In Denmark	1,718	1,631
In other countries	3,425	3,345
Total	**5,143**	**4,976**

5. OTHER PAYABLES

Other payables amounted to DKK 2,984 million at 31 December 2018 (DKK 2,731 million in 2017). Of this amount, DKK 1,493 million (DKK 1,613 million in 2017) relates to sales discounts and rebates in the US. The remaining amount relates mainly to VAT, employee-related obligations, the fair value of derivatives and legal settlements.

6. OTHER PROVISIONS

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

	Product 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**

Of other provisions at 31 December 2018, DKK 243 million (DKK 297 million in 2017) related to restructuring programmes.

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

NOTE 7

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

1) In 2018, product rights not yet commercialized amounted to DKK 1,066 million (DKK 0 million in 2017).
2) Other rights and projects in progress include items such as the IT system SAP. The amounts include directly attributable internal expenses.

In March 2018, Lundbeck purchased the foliglurax product rights by acquiring all shares in Prexton Therapeutics BV. The purchase is considered a purchase of assets, i.e. not a business combination. The value of the product rights was DKK 712 million at the time of purchase. The carrying amount of DKK 745 million at 31 December 2018 was affected by developments in the CHF/DKK exchange rate.

The value of the Northera® product rights was DKK 2,600 million when purchased in 2014. The carrying amount of DKK 1,036 million at 31 December 2018 (DKK 1,442 million in 2017) was affected by developments in the USD/DKK exchange rate. The remaining amortization period is two years (three years in 2017).

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**

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
2018					
Cost at 1 January	3,323	1,763	819	245	6,150
Effect of foreign exchange differences	-	2	(2)	-	-
Transfers	61	36	12	(109)	-
Additions	41	32	30	197	300
Disposals	(116)	(68)	(46)	-	(230)
Cost at 31 December	**3,309**	**1,765**	**813**	**333**	**6,220**
Depreciation and impairment losses at 1 January	2,077	1,362	715	6	4,160
Effect of foreign exchange differences	-	1	(2)	-	(1)
Depreciation	95	96	35	-	226
Impairment losses	9	9	4	4	26
Disposals	(98)	(67)	(44)	-	(209)
Depreciation and impairment losses at 31 December	**2,083**	**1,401**	**708**	**10**	**4,202**
Carrying amount at 31 December	**1,226**	**364**	**105**	**323**	**2,018**

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**

1) No land and buildings were mortgaged at 31 December 2018 and 31 December 2017.

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 the following:

- Research and development results for a product
- Changes in expected cash flows due to changed sales expectations
- Changes in technology
- Changes in the 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
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 7.97% (7.93% in 2017).

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

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

NOTES 8-10

8. AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

	2018 DKKm	2017 DKKm
Amortization, depreciation and impairment losses are specified as follows:		
Cost of sales	1,002	1,090
Sales and distribution costs	42	47
Administrative expenses	24	27
Research and development costs	115	94
Total	**1,183**	**1,258**

9. OTHER OPERATING ITEMS, NET

Other operating items, net, amounted to an expense of DKK 44 million deriving from a gain on divestment of office facilities in Denmark of DKK 48 million, income from legal settlements in Australia of DKK 242 million and expenses of DKK 334 million relating to legal settlements in the US. In 2017, other operating items, net, amounted to an income of DKK 242 million deriving from gains on divestment of office and research facilities in Denmark and the US.

10. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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 the outcome is too uncertain to enable the Group to make a reliable provision. Such proceedings will, however, develop over time, and new proceedings may occur which could have a material impact on the Group's financial position and/or cash flows.

In June 2013, Lundbeck received the European Commission's decision that the company's agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining Lundbeck EUR 93.8 million (approximately DKK 700 million). 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. An oral hearing was conducted by the European Court of Justice on 24 January 2019 and a final judgment is expected during 2019. So-called "follow-on claims" for reimbursement of alleged losses resulting from alleged violation of competition law often arise when decisions and fines issued by the European Commission are upheld by the European Court of Justice.

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

In June 2018, Lundbeck announced that its US subsidiary Lundbeck LLC had reached an agreement in principle to resolve the U.S. Department of Justice (DOJ) investigation related to Lundbeck LLC's relationship with and donations to independent patient assistance charitable foundations. As part of the agreement, Lundbeck LLC will pay DOJ an amount of USD 52.6 million (DKK 334 million). The remaining terms of agreement are subject to further negotiation with DOJ. Lundbeck LLC is pleased to have reached an agreement that will allow the company to put this matter behind it. The agreement does not include any admission by Lundbeck LLC that it violated any law. The agreement will allow Lundbeck LLC to continue its focus on providing innovative medications to the patients.

The Group has entered into settlements with three of the four generic companies involved in a federal court case, where Lundbeck is pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. Lundbeck received AUD 51.7 million (DKK 242 million) in 2018. Lundbeck's case against the final generic company, Sandoz Pty Ltd, is continuing. Sandoz Pty Ltd has been found liable for infringing Lundbeck's escitalopram patent between 2009 and 2012, and the parties are now awaiting the court orders, including the court's final calculation of the damage award. Sandoz Pty Ltd has appealed the decision.

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

NOTES 10-11

10. CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

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 shifted from SDE to CADE (Administrative Council for Economic Defense). In April, May and June 2018, CADE's Superintendence, CADE's General Attorney and the Federal Public Prosecutor, respectively, issued opinions stating that Lundbeck in defending its data protection rights had not acted in violation of Brazilian competition law regulation and recommended that the case should be closed. On 3 October 2018, the members of CADE's Tribunal unanimously decided to end the case without any consequences for Lundbeck.

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

11. INCENTIVE PROGRAMMES

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 2018, equity-settled incentive programmes consisted of warrants and restricted share units (RSUs) granted during the years 2010-2018.

In February 2018, 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. Four members of the registered Executive Management and 129 key employees employed with H. Lundbeck A/S or a Lundbeck subsidiary were offered to participate in the 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 2018 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 315.52 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the initial grant was DKK 291.03 per RSU.

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 with 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 were finally granted after the publication of the Annual Report for 2017 and will vest three years after final grant. Vesting is subject to the Board of Directors' decision, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The 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.

The shares granted to key employees in 2015 vested in 2018. 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 the former CEO, Kåre Schultz, in May 2016 vested in 2017.

At 31 December 2018, 64,523 warrants (136,059 warrants in 2017) were exercisable. The weighted average exercise price was DKK 114.19 (DKK 113.05 in 2017).

In 2018, the following number of warrants were exercised: 0 from the 2009 grant which expired in 2017 (2,207 in 2017), 1,377 from the 2010 grant (23,157 in 2017), 22,631 from the 2011 grant (46,354 in 2017), 33,180 from the 2012 grant (59,777 in 2017), 0 from the 2012 grant made to the registered Executive Management (141,592 in 2017). In 2017, 755,000 warrants from the 2014 grant made to the registered Executive Management and 400,000 warrants granted to the former CEO, Kåre Schultz, in 2016 were exercised. The weighted average share price of the warrants exercised was DKK 383.72 (DKK 355.11 in 2017).

NOTE 11

11. INCENTIVE PROGRAMMES – CONTINUED

Warrant programmes	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	98	101	16	112	4	4	4	102	3	1
Total number of warrants granted	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	333,811	507,885	-	381,224	155,750	233,629	389,380	-	1,355,000	400,000
Vesting date	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	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	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	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	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.

RSU programmes	2014	2015	2016	2017	2018
Number of persons included in the programme	107	129	126	127	133
Total number of RSUs granted	205,702	130,777	120,549	131,516	107,321
Number of RSUs granted to the registered Executive Management	-	-	20,484	47,911	24,783
Vesting date	31.05.17	01.12.18	01.02.20	01.02.21	01.02.22
Fair value at the date of grant, DKK	138.81	202.78	237.56	268.65	291.03

NOTE 11

11. INCENTIVE PROGRAMMES – CONTINUED

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

Cash-settled programmes
The cash-settled programmes consist of stock appreciation rights (SARs) and restricted cash units (RCUs) granted during the years 2011-2018.

In February 2018, 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 2018. All the RCUs, a total of 1,073, will be finally granted after the publication of the Annual Report for 2018 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 DKK 291.03 per RCU.

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

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, were finally granted after the publication of the Annual Report for 2017 and will vest three years after final grant. Vesting is subject to the Board of Directors' decision, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The size of the amount depends on the value of the Lundbeck share on the vesting date. The fair value at the time of the initial grant was DKK 268.65 per RCU.

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

The RCUs granted in 2015 vested in 2018, after which time the programme was settled. The RCUs granted in 2014 vested in 2017, after which time the programme was settled.

Fair value, liability and expense recognized in the income statement
The warrants and RSUs granted are recognized in the income statement for 2018 at an expense corresponding to the fair value at the time of grant for the part of the vesting period that concerns 2018. The total expense recognized in respect of equity-settled programmes amounted to DKK 25 million (DKK 37 million in 2017). At 31 December 2018, the fair value of remaining equity-settled programmes was DKK 102 million (DKK 139 million in 2017).

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 2017) and covers all cash-settled programmes in force in 2018. At 31 December 2018, the total liability in respect of cash-settled programmes was DKK 3 million (DKK 3 million in 2017) and covers all cash-settled programmes in force at 31 December 2018.

The total expense recognized in the income statement for all incentive programmes amounted to DKK 26 million in 2018 (DKK 38 million in 2017).

NOTE 12

12. TAX ON PROFIT FOR THE YEAR

	2018 DKKm	2017 DKKm
Current tax	1,233	1,372
Prior-year adjustments, current tax	(60)	99
Prior-year adjustments, deferred tax	86	(86)
Change in deferred tax for the year	(29)	291
Change in deferred tax as a result of changed income tax rates	(3)	68
Total tax for the year	**1,227**	**1,744**
Tax for the year is composed of:		
Tax on profit for the year	1,382	1,653
Tax on other comprehensive income	(155)	148
Tax on other transactions in equity	-	(57)
Total tax for the year	**1,227**	**1,744**

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

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**

NOTE 13

13. 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
2018					
Intangible assets	405	11	-	693	1,109
Property, plant and equipment	294	2	(54)	41	283
Inventories	(127)	12	(11)	10	(116)
Provisions	(944)	2	56	(566)	(1,452)
Other items	959	(34)	389	553	1,867
Tax loss carryforwards etc.[1]	(3,588)	(3)	484	(1,258)	(4,365)
Total temporary differences	**(3,001)**	**(10)**	**864**	**(527)**	**(2,674)**
Deferred (tax assets)/tax liabilities[2]	(609)	-	86	(97)	(620)
Research and development incentives	(90)	(9)	-	26	(73)
Deferred (tax assets)/tax liabilities	**(699)**	**(9)**	**86**	**(71)**	**(693)**
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[2]	(885)	18	(86)	344	(609)
Research and development incentives	(132)	27	-	15	(90)
Deferred (tax assets)/tax liabilities	**(1,017)**	**45**	**(86)**	**359**	**(699)**

1) Movements during the year include an addition from the acquisition of Prexton Therapeutics B.V. of DKK 39 million not recognized in the income statement.
2) Movements during the year include a decrease in deferred tax of DKK 3 million (an increase of DKK 68 million in 2017) as a result of changed income tax rates.

NOTE 13

13. DEFERRED TAX – CONTINUED

Deferred (tax assets)/tax liabilities	2018 Deferred tax assets DKKm	2018 Deferred tax liabilities DKKm	2018 Net DKKm	2017 Deferred tax assets DKKm	2017 Deferred tax liabilities DKKm	2017 Net DKKm
Intangible assets	(31)	343	312	(65)	214	149
Property, plant and equipment	(2)	66	64	(3)	71	68
Inventories	(77)	37	(40)	(74)	37	(37)
Provisions	(356)	-	(356)	(155)	-	(155)
Other items	(75)	450	375	(243)	412	169
Tax loss carryforwards etc.	(975)	-	(975)	(803)	-	(803)
Research and development incentives	(73)	-	(73)	(90)	-	(90)
Deferred (tax assets)/tax liabilities	**(1,589)**	**896**	**(693)**	**(1,433)**	**734**	**(699)**
Set off within legal tax entities and jurisdictions	424	(424)	-	219	(219)	-
Total net deferred (tax assets)/tax liabilities	**(1,165)**	**472**	**(693)**	**(1,214)**	**515**	**(699)**

Of the recognized deferred tax assets, DKK 1,048 million (DKK 893 million in 2017) 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. 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.

Deferred tax liabilities include a provision of DKK 368 million (DKK 366 million in 2017) 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 and depends on the outcome of litigations and settlements with the relevant tax authorities.

Unrecognized deferred tax assets	2018 DKKm	2017 DKKm
Unrecognized deferred tax assets at 1 January	100	138
Additions	24	-
Utilized	(47)	(38)
Unrecognized deferred tax assets at 31 December	**77**	**100**

Unrecognized deferred tax assets primarily relate to exchange rate losses to be carried forward.

NOTES 14-15

14. DISTRIBUTION OF PROFIT

The Board of Directors is proposing distribution of dividends for 2018 of 61% (61% in 2017) of the net profit for the year allocated to the shareholders, equivalent to DKK 12.00 per share (DKK 8.00 per share in 2017) or DKK 2,389 million (DKK 1,592 million in 2017), inclusive of dividends on treasury shares. Total dividends are based on the current share capital.

If warrants are exercised during the period from the Board of Directors' approval of the consolidated financial statements until approval by the Annual General Meeting, the Board of Directors proposes that total dividends be increased to maintain the proposed dividends per share of DKK 12.00. The total number of exercisable warrants was 64,523 at 31 December 2018.

15. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables

	2018 DKKm	2017 DKKm	2016 DKKm
Receivables	2,794	2,942	3,135
Writedowns	(30)	(24)	(33)
Trade receivables, net	**2,764**	**2,918**	**3,102**

Other receivables
Other receivables amounted to DKK 242 million (DKK 546 million in 2017 and DKK 288 million in 2016), the greater part of which was not yet due and related to the fair value of derivatives and VAT refunds. No writedowns were made as no losses are expected on other receivables.

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

Changes to the Group's customer portfolio are limited. When collaboration is established with a new customer, credit assessment is done either by Lundbeck or an external credit rating agency. At the time of revenue recognition, Lundbeck assesses the full lifetime expected credit losses. In addition, undue and due receivables are analyzed in an ongoing process. Based on the credit assessment, receivables analysis, historical experience and industry experience, it is estimated whether the receivables are recoverable or writedowns are needed. Historically, losses on debtors have been insignificant. This was also the case in 2018.

The Group has one customer in the US contributing approximately DKK 2.0 billion (DKK 2.3 billion in 2017) to total revenue. No other single customer contributed 10% or more to total revenue. The Group has no significant reliance on specific customers.

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

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

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

NOTES 16-17

16. CASH RESOURCES

	2018 DKKm	2017 DKKm
Cash and bank balances	3,605	2,155
Cash and bank balances at 31 December	**3,605**	**2,155**
Securities with a maturity of more than three months[1]	3,030	1,522
Securities at 31 December	**3,030**	**1,522**
Cash, bank balances and securities at 31 December	**6,635**	**3,677**

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 as Lundbeck deals only with banks with a solid credit rating. To further limit the risk of loss, internal limits have been defined for the credit exposure accepted towards the banks with which Lundbeck collaborates. Credit lines are part of the Treasury Policy.

The securities portfolio consists of individual Danish mortgage bonds and two externally managed investment funds. The management of the investment funds focuses on capital preservation, the risk level being measured through an option-adjusted duration. The credit risk is considered limited as the securities portfolio consists of covered bonds, mainly Danish mortgage and government bonds, with solid credit rating. The majority of the bonds have a credit rating of AAA.

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

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

Lundbeck has a number of uncommitted credit facilities to cover its day-to-day operations. At 31 December 2018 and 31 December 2017, these credit facilities were unutilized. In 2017, a DKK 2.0 billion revolving credit facility was cancelled. Lundbeck manages its capital structure based on a wish to carry an investment grade rating.

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 2018, 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 452 million (DKK 534 million in 2017) in the form of rentals and leasing of operating equipment.

Future rental and lease payments	Land and buildings DKKm	Operating equipment DKKm	Total DKKm
2018			
Within one year	76	49	125
Between one and five years	201	60	261
After five years	66	-	66
Total	**343**	**109**	**452**
2017			
Within one year	64	56	120
Between one and five years	180	120	300
After five years	114	-	114
Total	**358**	**176**	**534**

Rental and lease payments recognized in the income statement amounted to DKK 177 million (DKK 196 million in 2017).

NOTES 17-20

17. CONTRACTUAL OBLIGATIONS – CONTINUED

Research and development milestones and collaborations
The Group has entered into a number of agreements relating to research and development. According to the agreements Lundbeck is committed to pay certain milestones. At 31 December 2018, potential future milestone payments covering the coming ten-year period totalled up to approximately DKK 1,700 million (DKK 460 million in 2017). In addition, the Group is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 31 million (DKK 67 million in 2017).

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

Other purchase obligations
The Group has undertaken purchase obligations in the amount of DKK 300 million (DKK 366 million in 2017), the majority of which relate to service contracts. In addition, the Group has undertaken purchase obligations relating to property, plant and equipment in the amount of DKK 95 million (DKK 46 million in 2017). Furthermore, the Group has entered into service agreements amounting to DKK 255 million (DKK 133 million in 2017).

Other contractual obligations
At 31 December 2018, the Group's capital contribution obligations amounted to DKK 3 million (DKK 3 million in 2017).

18. AUDIT FEES

Deloitte Statsautoriseret Revisionspartnerselskab	2018 DKKm	2017 DKKm
Statutory audit	8	9
Tax consulting	1	1
Other services	2	2
Total	**11**	**12**

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 1 million (DKK 2 million in 2017) and consisted of assistance related to auditor's reports on various statements for public authorities and other parties, agreed-upon procedures reports related to subsidiaries, assistance with compliance reviews, and other accounting, tax advisory and consulting services.

19. NET FINANCIALS

	2018 DKKm	2017 DKKm
Net interest income/(expenses) from financial assets and financial liabilities measured at amortized cost	29	(85)
Net gains/(losses) on securities and other financial assets, incl. dividends	(13)	(2)
Net exchange gains/(losses)	(24)	(33)
Net income/(expenses), other financial items	(4)	(11)
Net financials	**(12)**	**(131)**

Interest income from financial assets measured at amortized cost amounted to DKK 52 million (DKK 12 million in 2017), and interest expenses on financial assets and financial liabilities measured at amortized cost amounted to DKK 23 million (DKK 97 million in 2017).

20. EARNINGS PER SHARE

	2018	2017
Profit for the year (DKKm)	**3,907**	**2,624**
Average number of shares ('000 shares)	199,066	197,895
Average number of treasury shares ('000 shares)	(391)	(381)
Average number of shares, excl. treasury shares ('000 shares)	**198,675**	**197,514**
Average number of warrants, fully diluted ('000 warrants)	61	276
Average number of shares, fully diluted ('000 shares)	**198,736**	**197,790**
Earnings per share, basic (EPS) (DKK)	**19.66**	**13.28**
Earnings per share, diluted (DEPS) (DKK)	**19.66**	**13.26**

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

Exchange rate gains/losses on investments in foreign subsidiaries, a gain of DKK 287 million (a loss of DKK 447 million in 2017), and exchange rate gains/losses on additions to net investments in foreign subsidiaries, a loss of DKK 151 million (DKK 107 million in 2017), are primarily driven by developments in USD/DKK and GBP/DKK exchange rates.

	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**

NOTES 22-23

22. INVENTORIES

	2018 DKKm	2017 DKKm
Raw materials and consumables	236	212
Work in progress	384	406
Finished goods and goods for resale	1,133	758
Total	**1,753**	**1,376**
Indirect costs of production	293	299
Writedown for the year, net	10	54
Inventories calculated at net realizable value	4	6

The total cost of goods sold included in cost of sales amounted to DKK 2,642 million (DKK 2,932 million in 2017).

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

23. SHARE CAPITAL

The share capital of DKK 996 million at 31 December 2018 is divided into 199,104,996 shares at a nominal value of DKK 5 each.

Share capital	2018 DKKm	2017 DKKm	2016 DKKm	2015 DKKm	2014 DKKm
At 1 January	995	988	987	982	981
Capital increase through exercise of warrants	1	7	1	5	1
At 31 December	**996**	**995**	**988**	**987**	**982**

Issued shares	2018 Number	2017 Number
At 1 January	199,047,808	197,619,721
Capital increase through exercise of warrants	57,188	1,428,087
At 31 December	**199,104,996**	**199,047,808**

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

In 2018, the parent company acquired treasury shares at a value of DKK 25 million (DKK 93 million in 2017), corresponding to 87,000 shares (290,000 shares in 2017). The shares were acquired to fund Lundbeck's long-term share-based incentive programmes. A total of 109,308 shares were used for this purpose in 2018 (172,860 in 2017).

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 2018, employees exercised warrants totalling DKK 7 million (DKK 214 million in 2017). The share premium in this connection was DKK 6 million (DKK 207 million in 2017).

NOTE 24

24. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Defined contribution plans
The major defined contribution plans cover employees in Australia, Canada, Denmark, Finland, South Korea, Sweden, the UK and the US. The cost of defined contribution plans, representing contributions to the plans, amounted to DKK 214 million in 2018 (DKK 231 million in 2017).

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

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

Retirement benefit obligations and similar obligations	**2018** DKKm	**2017** DKKm
Present value of defined benefit plans	455	481
Fair value of plan assets	(247)	(256)
Defined benefit plans at 31 December	**208**	**225**
Other obligations of a retirement benefit nature	27	22
Retirement benefit obligations and similar obligations at 31 December	**235**	**247**
Retirement benefit obligations and similar obligations break down as follows:		
Non-current obligations	235	246
Current obligations	-	1
Retirement benefit obligations and similar obligations at 31 December	**235**	**247**

Assumptions for the most important plans	**2018** %	**2017** %
Discount rate	1.70-3.00	1.55-2.80
Inflation rate	1.75-2.10	1.75-2.05
Pay rate increase	0.00-2.80	0.00-2.40
Pension increase	1.75-3.00	1.75-3.10
Age-weighted staff resignation rate	0-8	0-8
Expected return on plan assets	3.00	2.80

The most significant assumptions used in the calculation of the obligation for defined benefit plans are discount rate and inflation rate. An increase in the discount rate of 0.25 of a percentage point would result in a decrease in the obligation of approximately DKK 19 million (DKK 19 million in 2017) 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 7 million in 2017) and vice versa. The sensitivity analysis indicates how a change in the individual assumptions would change the obligation. However, the assumptions will most likely be correlated and consequently result in a different obligation.

	2018 DKKm	**2017** DKKm
The fair value of the plan assets breaks down as follows:		
Shares	53	50
Bonds	40	35
Property	15	15
Insurance contracts	132	145
Other assets	7	11
Total	**247**	**256**

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

	2018 DKKm	2017 DKKm
Change in present value of defined benefit plans		
Present value of defined benefit plans at 1 January	481	582
Effect of foreign exchange differences	2	(16)
Past service costs	1	-
Pension expenses	6	8
Interest expenses relating to the obligations	10	10
Experience adjustments	1	(4)
Adjustments relating to financial assumptions	(12)	(21)
Adjustments relating to demographic assumptions	1	-
Benefits paid	(34)	(13)
Employee contributions	1	1
Settlements	(2)	(40)
Curtailments	-	(26)
Present value of defined benefit plans at 31 December	**455**	**481**
Change in fair value of plan assets		
Fair value of plan assets at 1 January	256	292
Effect of foreign exchange differences	1	(12)
Interest income on plan assets	6	6
Experience adjustments	5	8
Administration fees	(1)	(1)
Contributions	8	9
Benefits paid	(27)	(7)
Employee contributions	1	1
Settlements	(2)	(40)
Fair value of plan assets at 31 December	**247**	**256**

	2018 DKKm	2017 DKKm
Specification of expenses recognized in the income statement		
Past service costs	1	-
Pension expenses	6	8
Curtailments	-	(26)
Finance costs	4	4
Administration fees	1	1
Total	**12**	**(13)**
Specification of amount recognized in the statement of comprehensive income		
Actuarial (gains)/losses	(15)	(33)
Total	**(15)**	**(33)**
Realized return on plan assets	**11**	**14**

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 15 years (16 years in 2017). The expected contribution to defined benefit plans for 2019 is DKK 15 million (DKK 15 million for 2018).

Other obligations of a retirement benefit nature

An obligation of DKK 27 million (DKK 22 million in 2017) was recognized at Group level to cover other obligations of a retirement benefit nature, which primarily include termination benefits in a number of subsidiaries. These benefit payments are conditional upon specified requirements being met.

NOTE 25

25. 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.

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

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

Timing of cash flow is the main source for evaluating the risk of hedge ineffectiveness. Lundbeck did not have any hedge ineffectiveness in 2018 and 2017.

Net foreign exchange contracts, hedging of cash flows

Forward exchange contracts (against DKK)	Contract amount according to hedge accounting DKKm	Fair value at year-end recognized in other comprehensive income/ other receivables DKKm	Fair value at year-end recognized in other comprehensive income/ other payables DKKm	Realized exchange gains/losses for the year recognized in the income statement/ balance sheet DKKm	Average hedge prices of existing forward exchange contracts DKK	Maturity
2018						
CAD	355	7	-	2	482.16	Nov. 2019
CNY	390	-	(10)	(8)	91.10	Sep. 2019
JPY	282	-	(9)	8	5.74	Oct. 2019
USD	4,411	28	(88)	237	632.01	Jan. 2020
Other currencies	1,039	12	(16)	3		Dec. 2019
Total		**47**	**(123)**	**242**		
2017						
CAD	394	7	(1)	1	497.81	Oct. 2018
CNY	337	-	(1)	1	93.06	Oct. 2018
JPY	299	18	-	17	5.81	Nov. 2018
USD	6,392	481	(26)	18	660.98	Oct. 2018
Other currencies	951	23	(11)	(4)		Dec. 2018
Total		**529**	**(39)**	**33**		

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

There were no outstanding currency option contracts in 2017.

NOTE 25

25. FINANCIAL INSTRUMENTS – CONTINUED

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

	2018 DKKm	2017 DKKm
Monetary assets		
CAD	123	144
CNY	261	265
EUR	884	890
GBP	51	105
USD	1,714	1,950
Monetary liabilities		
CAD	86	100
CNY	-	1
EUR	818	772
GBP	280	115
USD	3,630	3,157

Monetary assets and monetary liabilities include trade receivables, other receivables, securities, cash, trade payables, other payables, deferred taxes and income taxes. The balances include all monetary assets and monetary liabilities within the Group, including balances in functional currencies, but exclude all intra-group balances.

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
2018				
Profit for the year	2	10	(8)	4
Equity	(16)	(12)	(14)	(86)
2017				
Profit for the year	2	12	(11)	50
Equity	(17)	(3)	(15)	(105)

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

The equity impact includes primarily exchange rate 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 rate 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).

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 3,030 million at 31 December 2018 (DKK 1,522 million in 2017). To manage the interest rate risk on the portfolio, Lundbeck applies a modified duration target capped at three years for the entire portfolio. At 31 December 2018, the securities portfolio had a duration of 23 months (23 months in 2017), which translates into a gain/loss of DKK 58 million (DKK 29 million in 2017) if interest rates should fall/rise by one percentage point.

There were no derivatives related to interest rate risks during 2018 and 2017.

NOTE 25

25. 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 %
2018				
Financial assets				
Securities	13	3,017	3,030	0-1
Financial assets measured at fair value through profit or loss	**13**	**3,017**	**3,030**	
Derivatives to hedge future cash flows	54	-	54	0
Financial assets used as hedging instruments	**54**	**-**	**54**	
Receivables[1]	3,062	86	3,148	0
Cash resources	3,605	-	3,605	(1)-3
Financial assets measured at amortized cost	**6,667**	**86**	**6,753**	
Other financial assets designated at fair value through profit or loss	**-**	**70**	**70**	0
Total financial assets	**6,734**	**3,173**	**9,907**	
Financial liabilities				
Derivatives to hedge future cash flows	125	-	125	0
Financial liabilities used as hedging instruments	**125**	**-**	**125**	
Other payables	7,009	72	7,081	0
Financial liabilities measured at amortized cost	**7,009**	**72**	**7,081**	
Total financial liabilities	**7,134**	**72**	**7,206**	

	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)-3
Financial assets measured at amortized cost	**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.

NOTES 25-26

25. FINANCIAL INSTRUMENTS – CONTINUED

Financial assets and financial liabilities measured or disclosed at fair value	Level 1 DKKm	Level 2 DKKm	Level 3 DKKm
2018			
Financial assets			
Securities[1]	3,030	-	-
Other financial assets[1]	31	-	39
Derivatives[1]	-	54	-
Total	**3,061**	**54**	**39**
Financial liabilities			
Derivatives[1]	-	125	-
Total	**-**	**125**	**-**
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**	**-**

1) Measured at fair value.

The fair value of securities is based on publicly quoted prices of the invested assets. The fair value of derivatives is calculated by applying recognized measurement techniques, whereby assumptions are based on the market conditions prevailing at the balance sheet date.

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

26. RELATED PARTIES

Lundbeck's related parties

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

Transactions and balances with Lundbeckfonden

There have been the following transactions and balances with Lundbeckfonden:

- Dividends of DKK 1,099 million in 2018 (DKK 337 million in 2017).
- Payment of provisional tax of DKK 100 million in 2018 (DKK 100 million in 2017) for the parent company and Danish subsidiaries.
- Refund of residual tax of DKK 133 million in 2018 (DKK 34 million in 2017) for the parent company and Danish subsidiaries.
- Interest income of DKK 20 million in 2018 (expense of DKK 1 million in 2017).

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 26-27

26. 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 2018 and 31 December 2017, there were no balances with the registered Executive Management and the Board of Directors.

Transactions and balances with other related parties
In 2018, Lundbeck received consultancy services amounting to DKK 4 million (DKK 5 million in 2017) 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.

27. 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	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

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

NOTES 27-28

27. SUBSIDIARIES – CONTINUED

	Purpose	Share of voting rights and ownership %
Lundbeck RUS OOO, Russian Federation	Sale 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.

In 2018, Lundbeck acquired Prexton Therapeutics B.V., The Netherlands, and Prexton Therapeutics S.A., Switzerland.

Lundbeck Pharmaceuticals Consulting (Shanghai) Co., Ltd., China was liquidated in 2018. Lundbeck Pharmaceuticals (Tianjin) Co., Ltd., China, Lundbeck Pharmaceuticals GmbH, Switzerland and Lundbeck Pharmaceuticals Ireland Limited, Ireland were liquidated in 2017.

28. GENERAL ACCOUNTING POLICIES

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

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

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

Changes in accounting policies
Lundbeck has implemented IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018.

The implementation of IFRS 9 *Financial Instruments* has had an impact on the presentation of fair value adjustments on equity investments previously classified as available-for-sale financial assets. These fair value adjustments were previously recognized in other comprehensive income. As from 1 January 2018, Lundbeck irrevocably and on an individual basis classifies such fair value adjustments on each equity investment either in the income statement under net financials or in other comprehensive income. Lundbeck has decided to recognize fair value adjustments on all equity investments held at 1 January 2018 in the income statement under net financials. Comparative figures have not been restated. However, if the standard had been implemented for the financial year 2017, profit for the year would have been DKK 20 million higher, whereas the implementation would not have had any impact on total comprehensive income, total equity or total assets and liabilities. The impact on profit for the year for 2018 was DKK 5 million. At 31 December 2018, the carrying amount of other financial assets amounted to DKK 70 million. Furthermore, writedowns on receivables are calculated using the 'full lifetime expected credit losses' method, whereby the likelihood of non-fulfilment throughout the lifetime of the financial instruments is taken into consideration. Comparative figures have not been restated as the change does not have any impact. The implementation of IFRS 9 *Financial Instruments* does not have any impact on hedging. The disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* from IFRS 9 *Financial Instruments* have been implemented.

NOTE 28

28. GENERAL ACCOUNTING POLICIES – CONTINUED

The implementation of IFRS 15 *Revenue from Contracts with Customers*, does not have any impact on current revenue contracts except for the timing of recognition of some future milestone payments from collaborations and licensing arrangements. Earlier recognition may apply when it is highly probable that no significant reversal of revenue will occur. This has not had any material impact in 2018.

In addition, Lundbeck has changed the accounting policy for *Translation of foreign currency* and *Net financials*. The exception whereby currency translation related to hedged items was recognized in the same item as the hedged items no longer applies; such exchange differences are now recognized under net financials. Comparative figures have not been restated as the impact is considered immaterial.

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.

IFRS 16 *Leases* was issued in January 2016. The standard replaces IAS 17 *Leases* 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 will have an impact on Lundbeck as a lessee, as leases 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 assets are subsequently depreciated over the lease term like other assets such as property, plant and equipment, and interest on the lease liabilities is calculated in a similar way as for 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 assessment of the consequences of IFRS 16 *Leases*. Based on the Group's current contracts, depreciation is estimated to increase by approximately DKK 65 million and interest is estimated to increase by approximately DKK 5 million in 2019, whereas rental expenses at an estimated amount of DKK 70 million will no longer be recognized in the income statement. In addition, total assets and total liabilities are expected to increase by approximately DKK 450 million to DKK 500 million. Beyond these changes, the implementation will result in additional disclosures on e.g. expenses relating to low-value assets, short-term leases and lease liabilities analyzed by maturity.

IFRIC 23 *Uncertainty over income tax treatments* was issued in June 2017 and will be implemented by Lundbeck from 1 January 2019. The interpretation was adopted by the EU in 2018. As Lundbeck is already following most of the guidelines in IFRIC 23 for accounting for uncertainty over income tax treatments, the implementation of the interpretation standard is not expected to result in a significant change to the net amount of the provision. However, the balance sheet values of both tax assets and tax liabilities will increase as the provision for uncertainties over tax treatments currently being recognized as a net amount will be recognized on a gross basis from 2019.

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.

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

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

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

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

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

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

NOTE 28

28. GENERAL ACCOUNTING POLICIES – CONTINUED

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

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

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

Changes in the fair value of derivatives classified as hedging instruments and meeting the criteria for hedging future cash flows are recognized in other comprehensive income. On recognition of 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 not qualifying for hedge accounting are recognized in the income statement under net financials as they arise.

Securities, equity investments recognized in other financial assets 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, sales discounts, rebates and revenue-based taxes. Revenue is recognized when the goods are delivered at the agreed destination. Moreover, revenue includes licensing income and royalties from out-licensed products, non-refundable downpayments and milestone payments relating to research and development collaborations, and income from collaborations on commercialization of products.

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

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

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

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

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

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

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

NOTE 28

28. GENERAL ACCOUNTING POLICIES – CONTINUED

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

Net financials
Net financials comprise:
- Interest income and expenses for the year.
- Realized and unrealized fair 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 items denominated in foreign currencies, forward exchange contracts and other derivatives not used for hedge accounting.
- Realized and unrealized fair value adjustments and dividends from equity investments classified as other 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 over the fair value of the acquired assets, liabilities and contingent liabilities. Goodwill is not amortized, but is tested for impairment if there is indication of impairment or at least annually.

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 if there is indication of impairment or at least annually.

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.

NOTE 28

28. GENERAL ACCOUNTING POLICIES – CONTINUED

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

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

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

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.

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

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

Inventories
Raw materials, packaging and goods for resale are measured at the latest known cost at the balance sheet date, which is equivalent to cost computed according to the FIFO method. Work in progress and finished goods manufactured by Lundbeck are measured at cost, i.e. the cost of raw materials, consumables, direct 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 losses. Writedowns are calculated using the 'full lifetime expected credit losses' method, whereby the likelihood of non-fulfilment throughout the lifetime of the financial instrument is taken into consideration. A provision account is used for this purpose.

NOTE 28

28. GENERAL ACCOUNTING POLICIES – CONTINUED

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

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

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

Share-based payments
Share-based incentive 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 under defined benefit plans is measured on an actuarial basis once a year on the basis of the pensionable period of employment up to the time of the actuarial valuation. The calculation of present value is based on assumptions of 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, where relevant taking into consideration the provisions of IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

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

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

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

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

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

NOTE 28

28. GENERAL ACCOUNTING POLICIES – CONTINUED

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

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

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

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

CASH FLOW STATEMENT

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

Cash comprises cash and bank balances.

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

NOTES 29-30

29. EVENTS AFTER THE BALANCE SHEET DATE

On 22 January 2019, H. Lundbeck A/S announced that Dr. Johan Luthman has been appointed Executive Vice President and Head of Research & Development in Lundbeck. Dr. Luthman will assume his new position and join the registered Executive Management on 1 March 2019.

Other than the above, 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.

30. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 5 February 2019.

FINANCIAL STATEMENTS OF THE PARENT COMPANY

CONTENTS

NOTES

INCOME STATEMENT

1 January – 31 December 2018

	Notes	2018 DKKm	2017 DKKm
Revenue		8,607	6,276
Cost of sales	3	1,675	1,727
Gross profit		**6,932**	**4,549**
Sales and distribution costs	3	2,907	1,558
Administrative expenses	3, 4	469	540
Research and development costs	3	2,992	2,453
Other operating income	5	275	202
Profit from operations (EBIT)		**839**	**200**
Income from investments in subsidiaries	6	306	297
Financial income		120	1,327
Financial expenses		288	347
Profit before tax		**977**	**1,477**
Tax on profit for the year	7	141	269
Profit for the year	8	**836**	**1,208**

BALANCE SHEET – ASSETS

At 31 December 2018

	Notes	2018 DKKm	2017 DKKm
Product rights		1,643	1,591
Other rights		74	79
Projects in progress		84	69
Intangible assets	9	**1,801**	**1,739**
Land and buildings		1,053	1,093
Plant and machinery		154	189
Other fixtures and fittings, tools and equipment		24	26
Prepayments and assets under construction		222	162
Property, plant and equipment	9	**1,453**	**1,470**
Investments in subsidiaries	6	5,914	4,911
Receivables from subsidiaries		957	1,339
Other investments		69	65
Other receivables		4	5
Deferred tax assets	10	732	785
Financial assets		**7,676**	**7,105**
Non-current assets		**10,930**	**10,314**
Inventories	11	**572**	**704**
Trade receivables		638	286
Receivables from subsidiaries		1,648	2,050
Joint taxation contribution		62	-
Other receivables		93	552
Prepayments		50	59
Receivables		**2,491**	**2,947**
Securities		**3,012**	**1,505**
Cash and bank balances		**3,068**	**1,680**
Current assets		**9,143**	**6,836**
Assets		**20,073**	**17,150**

BALANCE SHEET – EQUITY AND LIABILITIES

At 31 December 2018

	Notes	2018 DKKm	2017 DKKm
Share capital		996	995
Proposed dividends		2,389	1,592
Retained earnings		6,073	8,051
Equity		**9,458**	**10,638**
Other provisions	12	50	50
Payables to subsidiaries	13	5,709	3,001
Non-current liabilities		**5,759**	**3,051**
Other provisions	12	182	236
Trade payables		1,872	1,468
Payables to subsidiaries		2,353	1,334
Joint taxation contribution		-	6
Other payables		449	417
Current liabilities		**4,856**	**3,461**
Liabilities		**10,615**	**6,512**
Equity and liabilities		**20,073**	**17,150**

STATEMENT OF CHANGES IN EQUITY

1 January – 31 December 2018

	Notes	Share capital DKKm	Proposed dividends DKKm	Retained earnings DKKm	Equity DKKm
Equity at 1 January		**995**	**1,592**	**8,051**	**10,638**
Distributed dividends, gross		-	(1,592)	-	(1,592)
Dividends received, treasury shares		-	-	3	3
Profit for the year	8	-	2,389	(1,553)	836
Deferred exchange gains/losses, hedging		-	-	(319)	(319)
Exchange gains/losses, hedging (transferred to the hedged items)		-	-	(242)	(242)
Capital increase through exercise of warrants		1	-	6	7
Buyback of treasury shares		-	-	(25)	(25)
Incentive programmes		-	-	29	29
Tax on transactions in equity	7	-	-	123	123
Equity at 31 December		**996**	**2,389**	**6,073**	**9,458**

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 2018, the parent company realized a gain on the divestment of office facilities in Denmark of DKK 48 million and income regarding legal settlements in Australia of DKK 227 million.

Financial income and expenses
Financial income and expenses are impacted by a net exchange loss of DKK 155 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* on page 22 and *Corporate governance* on page 23.

2. ACCOUNTING POLICIES

The financial statements 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 financial statements are presented in Danish kroner (DKK). The accounting policies remain unchanged from 2017.

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

Income statement
Income from investments in subsidiaries
Income from investments in subsidiaries includes dividends from subsidiaries, which are recognized in the parent company's income statement when the parent company's right to receive such dividends has been approved, and 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. Any fair value adjustments on equity investments recognized in other comprehensive income in the consolidated financial statements are recognized under financial items in the parent company's income statement.

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.

	2018 DKKm
Short-term staff benefits	1,236
Retirement benefits	110
Other social security costs	19
Equity- and cash-settled incentive programmes	18
Total	**1,383**

	2018 DKKm	2017 DKKm
The year's staff costs are specified as follows:		
Cost of sales	396	378
Sales and distribution costs	63	66
Administrative expenses	247	236
Research and development costs	677	613
Total	**1,383**	**1,293**

Registered Executive Management

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

Executives[1]

	2018 DKKm
Short-term staff benefits	57
Retirement benefits	9
Equity- and cash-settled incentive programmes	7
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

	2018
Average number of full-time employees in the financial year	1,657
Number of full-time employees at 31 December	1,701

Incentive programmes

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

NOTES 4-8

4. AUDIT FEES

Deloitte Statsautoriseret Revisionspartnerselskab	2018 DKKm	2017 DKKm
Statutory audit	2	2
Other services	1	1
Total	**3**	**3**

5. OTHER OPERATING INCOME

Other operating income amounted to DKK 275 million deriving from a gain on divestment of office facilities in Denmark of DKK 48 million and income regarding legal settlements in Australia of DKK 227 million. In 2017, other operating income amounted to DKK 202 million deriving from a gain on divestment of office facilities in Denmark.

6. INVESTMENTS IN SUBSIDIARIES

	2018 DKKm
Cost at 1 January	4,941
Capital contributions to subsidiaries	1,003
Cost at 31 December	**5,944**
Impairment at 1 January	30
Impairment at 31 December	**30**
Carrying amount at 31 December	**5,914**

Income from investments in subsidiaries of DKK 306 million is dividends. In 2017, income from investments in subsidiaries of DKK 297 million was mainly dividends.

See note 27 *Subsidiaries* in the consolidated financial statements for an overview of subsidiaries.

7. TAX ON PROFIT FOR THE YEAR

	2018 DKKm	2017 DKKm
Current tax, joint taxation contribution	79	158
Prior-year adjustments, current tax	(114)	90
Prior-year adjustments, deferred tax	97	(80)
Change in deferred tax for the year	(44)	173
Total tax for the year	**18**	**341**
Tax for the year is composed of:		
Tax on profit for the year	141	269
Tax on transactions in equity	(123)	72
Total tax for the year	**18**	**341**

8. DISTRIBUTION OF PROFIT

	2018 DKKm	2017 DKKm
Proposed distribution of profit for the year		
Proposed dividends for the year	2,389	1,592
Transferred to/from distributable reserves	(1,553)	(384)
Total profit for the year	**836**	**1,208**
Proposed dividend per share (DKK)	**12.00**	**8.00**

If warrants are exercised during the period from the Board of Directors' approval of the financial statements until the approval by the Annual General Meeting, the Board of Directors proposes that total dividends be increased to maintain the proposed dividends per share of DKK 12.00. The total number of exercisable warrants was 64,523 at 31 December 2018.

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	8,671	1,681	89	10,441
Transfers	-	40	(40)	-
Additions	320	4	55	379
Disposals	(196)	(31)	-	(227)
Cost at 31 December	**8,795**	**1,694**	**104**	**10,593**
Amortization and impairment losses at 1 January	7,080	1,602	20	8,702
Amortization	268	45	-	313
Impairment losses	-	4	-	4
Disposals	(196)	(31)	-	(227)
Amortization and impairment losses at 31 December	**7,152**	**1,620**	**20**	**8,792**
Carrying amount at 31 December	**1,643**	**74**	**84**	**1,801**

1) In 2018, product rights not yet commercialized amounted to DKK 320 million (DKK 0 million in 2017).
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	3,070	1,076	557	168	4,871
Transfers	53	15	11	(79)	-
Additions	17	5	3	143	168
Disposals	(116)	(66)	(27)	-	(209)
Cost at 31 December	**3,024**	**1,030**	**544**	**232**	**4,830**
Depreciation and impairment losses at 1 January	1,977	887	531	6	3,401
Depreciation	83	45	12	-	140
Impairment losses	9	9	4	4	26
Disposals	(98)	(65)	(27)	-	(190)
Depreciation and impairment losses at 31 December	**1,971**	**876**	**520**	**10**	**3,377**
Carrying amount at 31 December	**1,053**	**154**	**24**	**222**	**1,453**

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 2018. 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	(254)	(3)	786	529
Property, plant and equipment	243	-	11	254
Inventories	210	-	(15)	195
Other items	(340)	(16)	75	(281)
Tax loss carryforwards etc.	(3,426)	461	(1,059)	(4,024)
Total temporary differences	**(3,567)**	**442**	**(202)**	**(3,327)**
Deferred (tax assets)/tax liabilities	**(785)**	**97**	**(44)**	**(732)**

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

11. INVENTORIES

	2018 DKKm	2017 DKKm
Raw materials and consumables	159	168
Work in progress	239	325
Finished goods and goods for resale	174	211
Total	**572**	**704**
Indirect costs of production	195	210
Writedown for the year, net	24	27

12. OTHER PROVISIONS

	2018 DKKm
Provisions at 1 January	286
Provisions charged	23
Provisions used	(77)
Provisions at 31 December	**232**
Provisions break down as follows:	
Non-current provisions	50
Current provisions	182
Provisions at 31 December	**232**

Other provisions at 31 December 2018 of DKK 232 million (DKK 286 million in 2017) 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. PAYABLES TO SUBSIDIARIES

Payables to subsidiaries falling due after more than five years from the balance sheet date amounted to DKK 5,709 million (DKK 3,001 million in 2017).

14. FINANCIAL INSTRUMENTS

Foreign currency management is handled by the parent company. See note 25 *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 108 million (DKK 122 million in 2017) in the form of rentals and leasing of operating equipment. Of this amount, DKK 88 million (DKK 104 million in 2017) falls due after more than one year. Rental and lease payments recognized in the income statement amounted to DKK 26 million (DKK 29 million in 2017).

Research and development milestones and collaborations

The parent company has entered into a number of agreements relating to research and development. According to the agreements Lundbeck is committed to pay certain milestones. At 31 December 2018, potential future milestone payments covering the coming ten-year period totalled up to approximately DKK 1,700 million (DKK 460 million in 2017). In addition, the parent company is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 31 million (DKK 67 million in 2017).

Sales milestones

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

Other purchase obligations

The parent company has undertaken purchase obligations in the amount of DKK 113 million (DKK 162 million in 2017), the majority of which relate to service contracts. In addition, the parent company has undertaken purchase obligations relating to property, plant and equipment in the amount of DKK 55 million (DKK 29 million in 2017). Furthermore, the parent company has entered into service agreements amounting to DKK 252 million (DKK 130 million in 2017).

Other contractual obligations

At 31 December 2018, the parent company's capital contribution obligations amounted to DKK 3 million (DKK 3 million in 2017).

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 17 million (DKK 28 million in 2017) 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 the outcome is too uncertain to enable Lundbeck to make a reliable provision. Such proceedings will, however, develop over time and new proceedings may occur which could have a material impact on the company's financial position and/or cash flows.

In June 2013, Lundbeck received the European Commission's decision that the company's agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining Lundbeck EUR 93.8 million (approximately DKK 700 million). 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. An oral hearing was conducted by the European Court of Justice on 24 January 2019 and a final judgment is expected during 2019. So-called "follow-on claims" for reimbursement of alleged losses resulting from alleged violation of competition law often arise when decisions and fines issued by the European Commission are upheld by the European Court of Justice.

NOTES 16-18

16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

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

H. Lundbeck A/S and Lundbeck Australia have entered into settlements with three of the four generic companies involved in a federal court case, where Lundbeck is pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. Lundbeck received AUD 48.5 million (DKK 227 million) in 2018. Lundbeck's case against the final generic company, Sandoz Pty Ltd, is continuing. Sandoz Pty Ltd has been found liable for infringing Lundbeck's escitalopram patent between 2009 and 2012, and the parties are now awaiting the court orders including the court's final calculation of the damage award. Sandoz Pty Ltd has appealed the decision.

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

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 shifted from SDE to CADE (Administrative Council for Economic Defense). In April, May and June 2018, CADE's Superintendence, CADE's General Attorney and the Federal Public Prosecutor, respectively, issued opinions stating that Lundbeck in defending its data protection rights had not acted in violation of Brazilian competition law regulation and recommended that the case should be closed. On 3 October 2018, the members of CADE's Tribunal unanimously decided to end the case without any consequences for Lundbeck.

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

17. RELATED PARTIES

For information on related parties exercising controlling influence on H. Lundbeck A/S, see note 26 *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 had transactions with subsidiaries during 2018. H. Lundbeck A/S's share of ownership of all subsidiaries is 100%. H. Lundbeck A/S has not entered into any transactions with other related parties that were not on an arm's length basis.

18. EVENTS AFTER THE BALANCE SHEET DATE

See note 29 *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 2018.

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 2018, the results of their operations and of the Group's cash flows for the financial year 1 January – 31 December 2018.

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, 5 February 2019

REGISTERED EXECUTIVE MANAGEMENT

Deborah Dunsire
President and CEO

Lars Bang
Executive Vice President, Product Development & Supply

Anders Götzsche
Executive Vice President, CFO

Jacob Tolstrup
Executive Vice President, Commercial Operations

BOARD OF DIRECTORS

Lars Søren Rasmussen
Chairman of the Board

Lene Skole-Sørensen
Deputy Chairman of the Board

Henrik Andersen

Jeffrey Berkowitz

Lars Erik Holmqvist

Jeremy Max Levin

Rikke Kruse Andreasen
Employee representative

Henrik Sindal Jensen
Employee representative

Ludovic Tranholm Otterbein
Employee representative

INDEPENDENT AUDITOR'S REPORT

To the shareholders of H. Lundbeck A/S

OPINION

We have audited the consolidated financial statements and the parent financial statements of H. Lundbeck A/S for the financial year 1 January - 31 December 2018, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2018, and of the results of its operations and cash flows for the financial year 1 January - 31 December 2018 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 2018, and of the results of its operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

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

BASIS FOR OPINION

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

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

After H. Lundbeck A/S was listed on Nasdaq 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 annually by decision of the general meeting for a total contiguous engagement period of 19 years up to and including the financial year 2018.

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 2018 - 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Rebates, discounts and allowances in the US

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

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

INDEPENDENT AUDITOR'S REPORT

– continued

At 31 December 2018, Management determined an accrual of DKK 1,493 million (2017: DKK 1,613 million).

We refer to notes 2, 5 and 28 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 accrual balance by testing the payments made, we obtained and assessed the Group's estimate of the period from sale to payment of rebates, the sales volume and rebate rates applied, and analysed expenses by reference to actual rebates paid in prior periods, as well as making inquiries to Management. We also considered the historical accuracy of the Group's accruals by comparing the actual rebate with the rebate percentage estimate utilised by Management to record the accrual, including performing a retrospective review of the prior period accrual compared to subsequent payments to evaluate the accuracy of Management's estimate and to identify any potential management bias.

Carrying value of goodwill and other intangible assets
At 31 December 2018, the Group has intangible assets of DKK 8,023 million comprising primarily product rights of DKK 3,496 million and goodwill of DKK 4,300 million (2017: DKK 3,221 million and DKK 4,124 million, respectively).

The carrying value of goodwill and other intangible assets relies on the discounted expected future cash flows (value in use) which are complex to determine and require significant judgment and estimation by Management. The estimates used for impairment evaluation include determination of market and sales potential, timing of product launches, patent expiry, profit margins and discount rate assumptions. There is a risk that the assets will be impaired if these future cash flows deviate negatively from the Group's expectations. In addition, there is a risk that previously recognised 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 28 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 Management
- 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 obtained and evaluated Management's analysis of potential reversals of impairment.

We also evaluated the impairment testing disclosures.

Deferred tax assets and liabilities
Measurement of deferred tax assets requires significant judgment and estimation by Management in assessing the expected future utilisation of tax losses and tax credits. At 31 December 2018, the Group has recorded deferred tax assets of DKK 1,165 million (2017: DKK 1,214 million).

INDEPENDENT AUDITOR'S REPORT

– continued

Furthermore, 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 2018, the Group recognised provisions of DKK 368 million in respect of tax exposures and uncertain tax positions (2017: DKK 366 million).

We refer to notes 2, 13 and 28 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 analysed 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.

STATEMENT ON THE MANAGEMENT REVIEW

Management is responsible for the management review.

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

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

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

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

MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

– continued

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT FINANCIAL STATEMENTS

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

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

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

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, 5 February 2019

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Statsautoriseret Revisionspartnerselskab
Business Registration no 33 96 35 56

Erik Holst Jørgensen
State-Authorized Public Accountant
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