Annual Report

2020

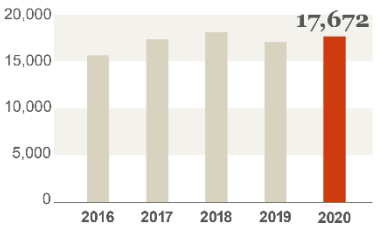
CONTENTS

MANAGEMENT REVIEW

FINANCIAL STATEMENTS

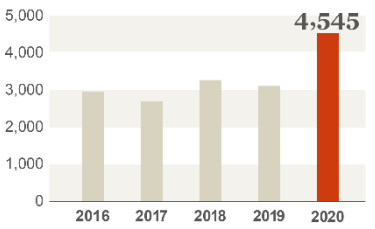
5 YEARS PERFORMANCE*

REVENUE
(DKKm)



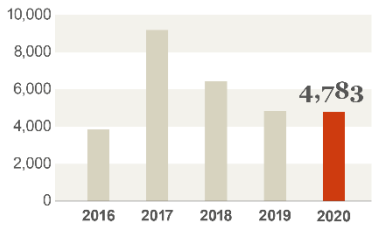
2,367 EURm 2,705 USDm

RESEARCH AND DEVELOPMENT COSTS
(DKKm)



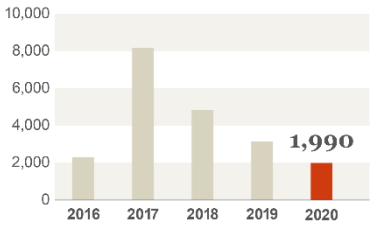
609 EURm 696 USDm

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



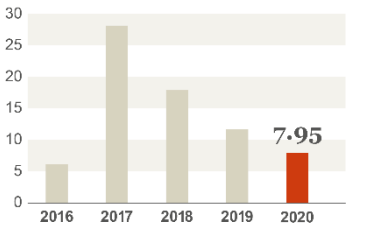
641 EURm 732 USDm

PROFIT FROM OPERATIONS (EBIT)**
(DKKm)



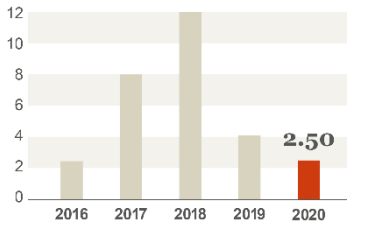
267 EURm 305 USDm

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



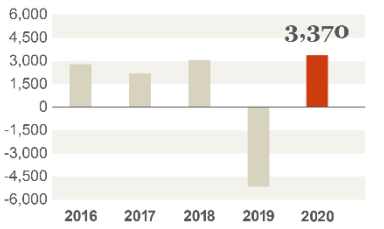
1.06 EUR 1.22 USD

PROPOSED DIVIDEND PER SHARE
(DKK)



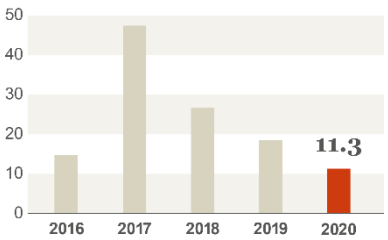
0.33 EUR 0.38 USD

CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES
(DKKm)

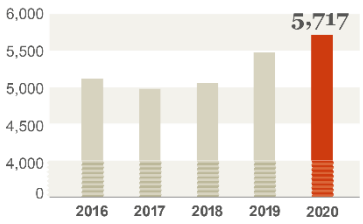


451 EURm 516 USDm

EBIT MARGIN**
(%)



AVERAGE NUMBER OF EMPLOYEES



5,628
Number of employees end 2020

*
Currency conversion is based on average exchange rates for 2020

**
2017-2019 have been restated to reflect the reversal of an impairment loss on the Rexulti® product rights in 2017

PREFACE

Lundbeck showed resiliency during unprecedented times.

Against the backdrop of a global pandemic, we are pleased with the performance of the business during 2020. Lundbeck employees showed resiliency and responded to the immense challenges faced. They continue to put patients first, while embracing and delivering on our Expand and invest to grow strategy.

2020 has been an unparalleled year. Covid-19 tested us all; not only the company and our employees, but also the patients we serve.

Under extraordinary circumstances, our employees have shown immense creativity and can-do attitude in their wholehearted efforts to deliver on our purpose of restoring brain health. Their determination and hard work made us able to continue to supply medicine to more than 7 million patients who depend on our therapies.

Our strategic brands - Abilify Maintena®, Brintellix®/Trintellix®, Northera®, Rexulti®/Rxulti® and Vyepti® - continue to show good growth, both in volume and value, across all regions. Both our mature and strategic brands have shown remarkable resiliency, which can be attributed to their well-known effectiveness and good tolerability profiles. Our supply chains have remained uninterrupted throughout the pandemic, ensuring we have been able to deliver medicines to the patients who need them most.

We have expanded our operating space and therapeutic reach through acquisitions in 2019. We are now in the process of building a migraine and specialty pain franchise, with the launch of Vyepti in the U.S. and with regulatory approvals in additional countries underway.

We are transforming our R&D organization to build a pipeline around high unmet medical needs, in specialist neuroscience indications. Furthermore, we are fortifying our winning culture, leveraging the diversity of our global workforce to drive our progress.

We remain committed to our shared purpose of being tirelessly dedicated to restoring brain health, so every person can be their best.

Our newest strategic brand, Vyepti, an effective treatment for migraine prevention
On 21 February, Vyepti was approved by the U.S. Food and Drug Administration (FDA) and subsequently launched on 6 April 2020.

Vyepti is a powerful, fast and sustained treatment for migraine prevention. It is the first and only intravenous treatment for prevention of migraines on the market. Migraine is the second leading cause of years lived with disability among all diseases. More than 130 million insured people in the U.S. have access to Vyepti without a branded step.

We are very encouraged with how the product is delivering for people with migraine who have reported their great satisfaction with the efficacy, tolerability and ease of use of the product.

Launching during a pandemic definitely impacted the speed of uptake of this infusion therapy, but patient uptake continues to rise steadily.

Rebuilding our pipeline
Throughout 2020, we have been transforming our approach to R&D to more effectively enable delivery of a steady stream of breakthrough and differentiated medicines across all phases of the pipeline. The transformation has ensured a more innovative approach to research and development.

We have a strong, sustainable early clinical pipeline – two new molecules entered phase I this year, offsetting two that exited phase II. We have also initiated studies in new indications to explore the full benefit to patients of our pipeline and marketed molecules.

Preclinically, we have focused our internal discovery research on four clusters, which represent areas of emerging biology in neuroscience, rich with opportunities to address a range of indications. We have established experimental medicine unit capabilities to earlier establish the technical and scientific qualities of our clinical candidates, in order to de-risk the path to the market.

Clinical trials, initially impacted by Covid-19, are picking up pace – enrollment rates are increasing, however still not at the level we experienced before the pandemic.

Committed to building a better world

This year we introduced a company-wide Diversity & Inclusion Forum. Just as much as we need a global and cross functional working organization, we also need a diverse and inclusive one. We aim to enrich our decision making through the different viewpoints that a diverse workforce brings, and we are also taking steps to ensure our clinical trials better reflect the diversity of the patients we serve.

We have a zero-tolerance approach to harassment, racism and discrimination of any kind and clear processes for employees and stakeholders to voice their concerns and have them addressed.

As part of our commitment to sustainability, we launched an Access to Brain Health strategy that goes beyond making safe and efficacious medicine available. It builds on four long-term aspirations aimed at enhancing Brain Health accessibility for the most vulnerable.

We are transitioning our business model to a net-zero future as approved by the Science Based Targets initiative. To drive efforts forward, we will report progress annually and get revalidation of our pathway to future-proof low-carbon growth at minimum every 5 years.

Thank you for your continued support

The pandemic has had a tremendous impact on mental health around the world. We continue to work closely with stakeholders to raise awareness and fight stigma associated with brain diseases through our advocacy and outreach programs.

We will continue to build on the progress we made during 2020, implementing digital approaches throughout our business where they can help us better engage with our stakeholders and drive better outcomes for patients. We will forge ahead, reaccelerating our strategic brands as we move out of the pandemic. We will continue to transform R&D and focus on filling our pipeline with treatments for brain diseases for which there are few, if any, treatment options and niche diseases affecting subpopulations of people where there is a high, unmet medical need. We will leverage our winning culture to take Lundbeck ahead.

On behalf of Lundbeck's Board of Directors, Executive Management and employees, we would like to thank all stakeholders for the trust you place in our company.

Lars Søren Rasmussen
Chairman of the board

Deborah Dunsire
President and CEO

2020 PERFORMANCE AND 2021 OUTLOOK

In 2020, Lundbeck saw continued growth of our strategic brands across all regions. Sales have been impacted by deteriorating currencies as well as the global pandemic.

We made good progress on our Expand and invest to grow strategy and strengthened our pipeline.

We experienced robust growth in sales of our strategic brands; Abilify Maintena®, Brintellix®/Trintellix®, Northera®, and Rexulti®/Rxulti®. Our new strategic brand, Vyepti®, was launched in the U.S. on 6 April 2020, adding to sales growth.

In 2020, Lundbeck's total revenue reached DKK 17,672 million compared to the guidance for 2020 set out in the Annual Report 2019 of DKK 17.4 – 18.0 bn. Operating profit (EBIT) reached DKK 1,990 million compared to the guidance for 2020 set out in the Annual Report 2019 of DKK 2.2 – 2.7 bn. This was mainly due to the foliglurax impairment and the increase in amortizations on the Rexulti product rights as a consequence of the decision in November 2020 from the Danish Business Authority (Erhvervsstyrelsen). However, the realized EBIT for 2020 is in line with the updated guidance in November 2020 in which the expected EBIT for 2020 was DKK 1.7 – 1.9 bn.

Net profit for the year ended at DKK 1,581 million.

Vyepti will be a significant driver of growth in the coming years, as it serves a big unmet medical need in migraine prevention as a fast, powerful and sustained IV treatment. It will also be the first product in Lundbeck's history that we launch globally without the use of partners, thereby retaining the entire value.

In February 2019, we announced our Expand and invest to grow strategy and during 2020 we have continued to make significant progress across all our strategic imperatives, setting us up for long-term growth.

Our top priority is to provide innovative treatments that create value for patients as well as the company. In 2019, we expanded our operating space and therapeutic reach through acquisitions. Now, with the launch of Vyepti, we are in the process of building a migraine and specialty pain franchise and we are transforming our R&D organization to build a pipeline around high unmet medical needs, in specialist neuroscience indications.

TOTAL REVENUE 2020

DKKm	2020	2019	Growth	Growth in local currencies
Abilify Maintena®	2,271	1,961	16%	17%
Brintellix®/Trintellix®	3,102	2,826	10%	13%
Northera®	2,553	2,328	10%	12%
Rexulti®/Rxulti®	2,620	2,270	15%	17%
Vyepti®	93	-	-	-
Strategic brands	**10,639**	**9,385**	**13%**	**16%**
Cipralex®/Lexapro®	2,380	2,314	3%	7%
Onfi®	642	1,052	(39%)	(38%)
Sabril®	777	847	(8%)	(7%)
Other pharmaceuticals	2,738	3,100	(12%)	(9%)
Other revenue	491	660	(26%)	(25%)
Effects from hedging	5	(322)	-	-
Total revenue	**17,672**	**17,036**	**4%**	**4%**

COVID-19 SITUATION REPORT

Lundbeck's priorities during the global pandemic are to ensure the health and safety of its employees and to continue to safely supply all our medicines to millions of patients around the world. We have successfully implemented and embraced new ways of working, including less travel and switching to virtual meeting solutions. Across our operations and over the course of the pandemic, our employees have been able to adapt and have successfully shifted their working patterns depending on the situation in their particular country. Without the passion for our patients and the commitment to excellence in serving them shown by every single Lundbeck employee, we could not have achieved the strong results demonstrated in 2020.

While we benefitted somewhat in the first quarter from stockpiling by both patients and pharmacies, this was reversed in the second quarter and it is our assessment that the inventory situation has normalized. Our product portfolio has generally been very resilient even if many physicians are still seeing significantly fewer patients than before the pandemic. For example, in the U.S. revenue of products such as Brintellix/Trintellix, where uptake is dependent on new patient starts, have been negatively impacted due to the pandemic.

A significant reduction of in-person patient visits to physician offices significantly reduced the use of physician-administered therapies in the U.S. across all disease categories.

We expect that health care activity will gradually improve during 2021 as health care providers utilize telehealth or in-person visits to see patients despite additional Covid-19 outbreaks, including that:

- new patient prescriptions will continue to improve in the U.S.;
- pricing headwinds from increased utilization of patient affordability programs and changes in segment mix due to increased U.S. unemployment will continue to be modest;
- promotional spend will constitute a mix of in-person customer interactions, direct-to-consumer advertising, and investments in digital promotion.

The launch of Vyepti in April 2020 was significantly impacted by patients being generally unable to visit healthcare providers to receive an infusion therapy, but we saw this gradually improving during the second half of the year.

The Covid-19 pandemic also continued to impact clinical and regulatory activities causing manageable disruptions. Importantly, we did see a reacceleration of clinical activity as sites reopen patient accrual, although with intermittent limitations.

Our cash collections continue to be according to our normal trade terms, and days sales outstanding are at normal levels. In addition, in April 2020, Lundbeck purchased a "key buyer" credit insurance covering around 100 of the largest customers of the Group. The credit insurance protects against insolvency, protracted default and political risk. Lundbeck remains well positioned to meet its ongoing financial obligations and has more than sufficient liquidity to support our normal business activities.

FINANCIAL PERFORMANCE

2020 PRODUCT PORTFOLIO

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

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

SALES PERFORMANCE

Revenue in 2020 reached DKK 17,672 million compared to DKK 17,036 million in 2019. The strategic brands (Abilify Maintena, Brintellix/Trintellix, Northera, Rexulti/Rxulti and Vyepti) grew by 13% for the year, reaching DKK 10,639 million or 60% of total revenue. Lundbeck continues to see solid underlying demand and the inventory level at wholesalers is assessed to be normalized. The biggest markets are the U.S., China, Canada, Japan, Spain, Italy and France.

NORTH AMERICA

Revenue reached DKK 9,790 million in 2020, which is an increase of 2% (4% in local currencies) compared to DKK 9,583 million in 2019. The strategic brands, Abilify Maintena, Trintellix, Northera, Rexulti and Vyepti, grew by 13% for the year, reaching DKK 7,845 million. Adjusting for Onfi, sales for the region increased 7%. The Covid-19 pandemic continues to impact business in the region.

Abilify Maintena® revenue grew 16% (18% in local currencies) for the year and reached DKK 980 million, which represents Lundbeck's share of total net sales. In the U.S., Abilify Maintena is co-marketed with Otsuka Pharmaceutical and has a volume market share of 20.7% and in Canada it reached 30.8% by October 2020 (source: IQVIA).

Trintellix® sales grew 7% (9% in local currencies) to DKK 1,682 million in revenue for Lundbeck. The volume market share in the U.S. and Canada was 0.9% and 1.34% of the total anti-depressant market, respectively by October 2020. The value market share of the total anti-depressant market in the U.S. was 24.3%. In Canada, the value market share of the total anti-depressant market was 24.0% by October 2020 (source: IQVIA).

Northera® sales reached DKK 2,553 million in 2020, representing growth of 10% (12% in local currencies).

Lundbeck's share of **Rexulti®** revenue reached DKK 2,537 million with growth of 14% (16% in local currencies). In the U.S., Rexulti has achieved a market volume share of 2.1% by October 2020 (source: IQVIA). In Canada, the product has reached a volume market share of 2.5%. Patient data suggest that more than 3/4 of prescriptions in the U.S. are prescribed for Major Depressive Disorder (MDD).

Vyepti® was approved by the U.S. Food and Drug Administration (FDA) on 21 February 2020 for the preventive treatment of chronic and frequent episodic migraine in adults. The product was made available on 6 April and reached sales of DKK 93 million in 2020. Vyepti can be obtained via selected specialty distributors and specialty pharmacies. It is still very early in the launch, and the uptake has been affected by general decline in physician-administered medicines during the pandemic. Nonetheless, more patients are being treated with Vyepti, and we are encouraged by the strong positive feedback from clinicians and patients on the positive effects and the ease of use. There have also been several national and regional payers who have issued positive coverage policies and Vyepti is now available to more than 130 million insured patients without them having to go through any other branded prevention therapies. Setting the stage further, in October the Centers for Medicare & Medicaid Services issued a permanent J-Code. It helps reduce uncertainty around reimbursement and improves Vyepti claim processing turnaround time.

REVENUE – NORTH AMERICA

DKKm	2020	2019	Growth	Growth in local currencies
Abilify Maintena®	980	845	16%	18%
Brintellix®/Trintellix®	1,682	1,579	7%	9%
Northera®	2,553	2,328	10%	12%
Rexulti®/Rxulti®	2,537	2,219	14%	16%
Vyepti®	93	-	-	-
Strategic brands	**7,845**	**6,971**	**13%**	**15%**
Onfi®	642	1,052	(39%)	(38%)
Sabril®	777	847	(8%)	(7%)
Other pharmaceuticals	526	713	(26%)	(25%)
Total revenue	**9,790**	**9,583**	**2%**	**4%**

INTERNATIONAL MARKETS

Revenue from International Markets, which comprise all Lundbeck's markets outside of Europe and North America, reached DKK 4,057 million in 2020, compared to DKK 3,892 million in 2019. The growth of 4% (10% in local currencies) was driven by Brintellix/Trintellix, Cipralex/Lexapro, Rexulti and Abilify Maintena. The biggest markets are Australia, Brazil, China, Japan and South Korea. China realized modest growth and constitutes close to 25% of the regional revenue. The strategic brands grew by 19% (28% in local currencies) for the year ending at DKK 858 million corresponding to 21% of revenue from the region.

Abilify Maintena® reached DKK 210 million in revenue in 2020 representing a growth of 27% (30% in local currencies). Sales are mainly derived from Australia where Abilify Maintena shows solid momentum and achieved a volume market share of 28.5% by October 2020 (source: IQVIA). Countries such as Kuwait and Saudi Arabia also had a positive impact.

Brintellix®/Trintellix® reached DKK 583 million in revenue or an increase of 13% (24% in local currencies). The product realized solid growth across several markets. Brazil, China, Mexico, South Korea and Turkey are the largest markets for Brintellix.

Rexulti® reached DKK 65 million in revenue in 2020. In International Markets, the product had its highest sales in Australia, where it has achieved a market share to 2% in volume by October 2020 (source: IQVIA).

Cipralex®/Lexapro® generated revenue of DKK 1,730 million representing a growth of 6% (11% in local currencies). The revenue of the product shows solid growth in most countries in the region including Japan and China. Japan, China, South Korea, Brazil and Saudi Arabia are the largest markets for Cipralex/Lexapro.

REVENUE – INTERNATIONAL MARKETS

DKKm	2020	2019	Growth	Growth in local currencies
Abilify Maintena®	210	165	27%	30%
Brintellix®/Trintellix®	583	517	13%	24%
Rexulti®/Rxulti®	65	40	63%	74%
Strategic brands	**858**	**722**	**19%**	**28%**
Cipralex®/Lexapro®	1,730	1,638	6%	11%
Other pharmaceuticals	1,469	1,532	(4%)	0%
Total revenue	**4,057**	**3,892**	**4%**	**10%**

EUROPE

Revenue reached DKK 3,329 million in 2020, representing a growth of 3% (4% in local currencies) compared to DKK 3,223 million last year. The strategic brands, Abilify Maintena, Brintellix and Rexulti/Rxulti, grew by 14% thereby reaching DKK 1,936 million or 58% of total revenue. In general, Europe sees a solid underlying demand offsetting negative price development. The mature portfolio is impacted by continued generic erosion.

Abilify Maintena® has been launched across Europe and is Lundbeck's largest product in the region. Sales uptake of Abilify Maintena is solid with revenue reaching DKK 1,081 million. In Europe, the penetration of long-acting atypical antipsychotics is generally higher than seen in the U.S. (volume). Driven by increasing demand from patients, sales of Abilify Maintena are growing across Europe and the product in general has achieved a 25% or more volume market share in most markets. In some markets, the product is approaching or has exceeded 30%. Abilify Maintena is the second most prescribed long acting injectable treatment for patients with schizophrenia in many markets. Spain, France and Italy are the largest European markets for Abilify Maintena.

Brintellix® revenue grew 15% reaching DKK 837 million. Brintellix is Lundbeck's second largest product in Europe and realized solid growth across many markets. In the main countries, France, Italy and Spain, the product has achieved value market shares of 10%, 9% and 9% respectively by October 2020 (source: IQVIA). The volume market shares are stable or slightly increasing at 4%, 3.6% and 3% respectively (source: IQVIA).

Rexulti®/Rxulti® revenue reached DKK 18 million. The product was approved for the treatment of adults with schizophrenia in July 2018. Rxulti is co-marketed with Otsuka Pharmaceutical.

Cipralex® generated revenue of DKK 523 million following a decline of 3%.

REVENUE – EUROPE

DKKm	2020	2019	Growth	Growth in local currencies
Abilify Maintena®	1,081	951	14%	14%
Brintellix®/Trintellix®	837	730	15%	15%
Rexulti®/Rxulti®	18	11	62%	57%
Strategic brands	**1,936**	**1,692**	**14%**	**15%**
Cipralex®/Lexapro®	523	538	(3%)	(3%)
Other pharmaceuticals	870	993	(12%)	(12%)
Total revenue	**3,329**	**3,223**	**3%**	**4%**

COSTS AND PROFITS

Total costs in 2020 grew by 17% to DKK 15,623 million compared to DKK 13,369 million for 2019.

The increase is mainly due to:

- increased investments in the commercial organization in the U.S., China and Japan related to support the continued growth of Brintellix/Trintellix and Vyepti;
- impairment in the first half of 2020 of the foliglurax product rights and R&D restructuring costs both recognized in R&D costs of DKK 792 million and DKK 77 million, respectively;
- the manufacturing of Vyepti has shown to be more cost effective and thus production costs will be lower going forward. In Q4 new information related to the inventory valuation was obtained about facts and circumstances that existed as of the acquisition date. This information resulted in a partial reversal of the P&L adjustment of inventory against goodwill. Net non-recurring impact for the year is DKK 47 million (non-cash);
- increase in amortization due to Vyepti of approximately DKK 500 million.

Excluding the non-recurring costs for foliglurax impairment, the R&D restructuring costs and the Vyepti inventory valuation adjustment, total costs increased by approximately 10%.

Cost of sales increased by 8% to DKK 4,166 million in 2020 and the gross margin is 76.4%. Cost of sales is impacted by the valuation adjustment of Vyepti's inventory due to the stabilization of the production after the start-up phase and the decline in Onfi sales that is offset by the changed product mix, resulting in reduced royalty costs.

Sales and distribution costs were DKK 5,946 million, an increase of 8% compared to 2019. Sales and distribution costs correspond to 33.6% of revenue, compared to 32.3% the year before.

Administrative expenses increased 7% to DKK 966 million, corresponding to 5.5% of total revenue.

Total **sales, distribution and administrative expenses (SG&A)** combined were DKK 6,912 million, compared to DKK 6,413 million in 2019. The SG&A ratio for the year was 39.1%, compared to 37.6% the prior year.

Research & development costs increased 46% to DKK 4,545 million in 2020. The R&D ratio reached 25.7%. Adjusted for the impairment and the restructuring costs, the R&D ratio was 21%.

Other operating expenses, net amounted to DKK 59 million for 2020 as a consequence of acquisition and integration costs related to the acquisition of Alder Biopharmaceuticals Inc. in 2019. In 2019, other operating expenses, net amounted to DKK 514 milion.

Core EBIT for 2020 declined 11% to DKK 4,436 million and the Core EBIT margin was 25.1%*. **Reported EBIT** reached DKK 1,990 million compared to DKK 3,153 million in 2019, driven by the foliglurax impairment and the valuation adjustment of Vyepti's inventory due to the stabilization of production after the start-up phase.

TAX

The effective tax rate for 2020 is 17.0% compared to 23.6% in 2019**. The tax rate is positively impacted by the increase in Danish research & development incentives and by integration work of acquired companies causing:

- Accelerated utilization of net operating losses (NOLs) leading to recognition of prior year not-recognized NOLs and tax credits;
- Lower blended state rate taxes;
- Low tax rate realized on transfers to Denmark of all IP rights from La Jolla and all IP rights related to foliglurax.

*
For definition of the measure "Core EBIT" and "Core EBIT margin", see page 103 *Core reconciliation*

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

PROFIT AND EPS

Profit for 2020 reached DKK 1,581 million compared to DKK 2,313 million in 2019. The reported net profit corresponds to an **EPS** of DKK 7.95 versus an EPS of DKK 11.64 last year. Core EPS was DKK 18.91 for 2020, compared to a Core EPS of DKK 19.46 in 2019.

CASH FLOW

Cash flows from operating activities amounted to DKK 3,837 million in 2020 compared to DKK 2,609 million in 2019. The positive development compared to last year primarily relates to reduced taxes paid and limited cash flow impact from working capital in 2020 while 2019 had significant negative impact from working capital.

Lundbeck's **net cash flows from investing activities** was an outflow of DKK 467 million compared to an outflow of DKK 7,755 million in 2019 as a consequence of the acquisition of Alder. The **free cash flow** reached an inflow of DKK 3,370 million in 2020 compared to an outflow of DKK 5,146 million in 2019.

In 2020, the **net cash flow** reached an inflow of DKK 976 million compared to an outflow of DKK 598 million in 2019. The net cash flow is impacted by dividend payout, net of DKK 815 million which was approved at the Annual General Meeting on 26 March 2020 and repayment of bank loans.

Net debt has decreased from DKK 6,566 million at year-end 2019 to DKK 4,106 million at the end of 2020. **Interest bearing debt** was DKK 8,030 million at the end of the year.

On 8 October 2020, Lundbeck announced a successful **Eurobond issuance** in an aggregate principal amount of EUR 500 million (the "Notes") under its EUR 2 billion Euro Medium Term Note Programme. The Notes are senior unsecured notes with a tenor of seven years maturing on 14 October 2027. The Notes were issued on 14 October 2020. The net proceeds from the issuance has been used for the partial refinancing of drawdowns previously made under Lundbeck's existing revolving credit facility. As such, the issuance is leverage-neutral. The Notes carry a fixed coupon of 0.875% per annum.

BALANCE SHEET

At 31 December 2020, Lundbeck's **total assets** amounted to DKK 36,029 million compared to DKK 38,133 million at the end of 2019 mainly following a decline in intangible assets due to amortization and the impairment of foliglurax.

At 31 December 2020, Lundbeck's **equity** amounted to DKK 16,973 million, corresponding to an **equity ratio** of 47.1% compared to 44.0% at the end of 2019.

DIVIDEND

The Board of Directors proposes a dividend of approximately 31% of net profit for 2020, in line with our payout policy of 30-60%. This corresponds to a dividend of DKK 2.50 per share. The dividend payout is subject to approval at the Annual General Meeting on 23 March 2021.

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.

GUIDANCE 2021

Lundbeck's financial results for 2021 are expected to be driven by the continued growth of Abilify Maintena, Brintellix/Trintellix, Rexulti/Rxulti and the expected strong growth of Vyepti from the continued roll-out.

Northera is expected to be exposed to generic competition in 2021, which is expected to lead to a decline of approximately 50% of revenue compared to 2020.

Lundbeck's main currencies are USD, CNY and CAD. The financial guidance for 2021 is based on mid-January spot rates for the main currencies and includes an expected hedging gain of DKK 150 - 200 million. The current hedging rates are USD/DKK (6.48), CNY/DKK (0.92) and CAD/DKK (4.75).

Based on our assumptions for product and geographical mix, it is estimated that 5% change of the USD/DKK exchange rate will impact revenue by DKK 250 – 300 million. The financial guidance for 2021 is summarized below:

FINANCIAL GUIDANCE 2021

DKK	FY 2020 actual	FY 2021 guidance
Revenue	17,672 m	16.3 – 16.9 bn
EBITDA	4,783 m	3.5 – 4.0 bn
Profit from operation (EBIT)	1,990 m	1.8 – 2.3 bn
Core EBIT	4,436 m	3.1 – 3.6 bn

EVENTS AND MILESTONES 2020

January

- Lundbeck ranked among the top 2% of more than 8,400 companies evaluated for their actions against climate change by the independent interest group Carbon Disclosure Project (CDP), which sets the global standard for actions against climate change

February

- Lundbeck applied for market authorization of Vyepti in Canada
- The U.S. Food and Drug Administration approved Vyepti, the first and only intravenous preventive treatment for migraine

March

- Lundbeck received a grant from The Michael J. Fox Foundation for Parkinson's disease research
- Lundbeck announced that phase IIa study results of Lu AG06466 in adults with Tourette Syndrome showed insufficient efficacy to proceed investigational studies in additional indications
- Lundbeck held its Annual General Meeting
- Lundbeck announced that the phase IIa AMBLED study of foliglurax for the treatment of Parkinson's disease did not meet the primary study endpoint

April

- Lundbeck launched Vyepti in the U.S.

June

- As part of the Expand and invest to grow strategy, Lundbeck announced changes to its organization in Research & Development to focus in four core areas of emerging biologies that have significant potential to yield transformative therapies for brain disease in the future

August

- Lundbeck announced the decision to discontinue the phase II clinical study of Lu AF11167 in patients with schizophrenia
- Lundbeck announced positive headline results in the RELIEF study of efficacy and tolerability of Vyepti when initiated during a migraine attack in patients who are candidates for preventive therapy

October

- Lundbeck successfully placed its first Eurobond issuance in an aggregate principal amount of EUR 500 million
- Lundbeck initiated a biomarker focused phase 1b study with Lu AG06466 in patients with Post-Traumatic Stress Disorder

November

- The Danish Business Authority required Lundbeck to conduct a new impairment test for 2017. It led to a reversal of an impairment loss on the Rexulti product rights. This was expected to increase the annual amortizations and thereby reduce Lundbeck's FY 2020 financial guidance for reported EBIT from previously DKK 2.0 – 2.2 billion to approximately DKK 1.7 – 1.9 billion

December

- The European Medicines Agency accepted Lundbeck's application for marketing authorization of Vyepti

STRATEGY REVIEW

Since launching our Expand and invest to grow strategy in 2019, we continue to make strong progress, fueled by our purpose, to restore brain health so everyone can be their best.

First and foremost, our portfolio of medicines provides important benefits to patients who need them, hence both our strategic and mature brands continue to grow. This strong foundation together with our winning culture positions us well for the future.

DELIVERING ON OUR PROMISES

We have taken significant strides to expand our operating space through the acquisitions of Abide and Alder in 2019, which gave us the platforms needed to expand our areas of focus in neuroscience. With the 2020 launch of Vyepti in the U.S., we are beginning to establish a new frontier in migraine prevention and expanding our presence into protein-based therapies. Furthermore, we are continuously expanding our existing portfolio of medicines into new markets.

The changes we made to how we approach R&D enables us to de-risk our internal pipeline compounds in early development. We utilize an experimental medicine approach to identify effects of a drug in carefully selected patient populations, to find the most efficient clinical pathway powered by leading biomarkers and study designs and advance the most promising drug candidates into full development.

The geographical expansion of Vyepti and the work we are still doing to continue to grow and expand Brintellex/Trintellix, Rexulti/Rxulti and Abilify Maintena, along with several other life-cycle management projects, are all crucial to our future.

We have made choices as to where we will focus our efforts to enhance our operations digitally, which will pick up pace into 2021. Also, we have taken steps to fortify our winning culture with increased agility, collaboration, diversity and inclusion. These are just a few of many actions that are helping us deliver on the promise of our strategy to yield sustainable, long-term profitable growth.

While we are realizing growth across our strategic and mature brands, we are simultaneously experiencing headwinds that we must navigate.

Covid-19 has contributed to a slower start than anticipated for Vyepti sales in the U.S. and has also had an impact on our clinical trials. We have faced additional attrition from our mid-stage pipeline and early 2021 we lose exclusivity of Northera in the U.S.

CREATING VALUE THROUGH OUR UNIQUE POSITION

Our goal continues to be providing innovative treatments for patients that create value for the company. Achieving our fullest potential as a mid-size, highly specialized pharmaceutical company requires that we thoughtfully concentrate our efforts where we can make the most difference for patients and in areas that set us up best for long-term growth.

While we maximize the great medicines and brands that we already have, we will simultaneously focus on filling our pipeline with treatments for brain diseases for which there are few, if any, treatment options and niche diseases affecting subpopulations of people where there is a high, unmet medical need. By focusing on niche and rare disease neurology and niche psychiatry indications, we can best take advantage of our size and strong relationships with specialist health care providers to deliver powerful solutions to challenging diseases.

We currently promote medicines that, in some countries, both primary care physicians and specialists treat. We will continue to promote these excellent medicines, working with our partners to reach these larger numbers of physicians.

Just as important to filling our pipeline and selling our medicines, is the manufacturing of our medicines, whether internally or via external contract manufacturing. We have strong internal capabilities within small molecule and antibody processes and formulation development to support our R&D pipeline, internal small molecule manufacturing and through our contract manufacturing partners for biologics.

Our three priorities across Production Development & Supply remain quality, reliability and cost. We have a robust track-record on all three parameters and ambitious goals to continuously improve performance with a strong focus on operational excellence.

We aim to build on what we have achieved and capitalize further on the strong fundamentals that are deeply ingrained in Lundbeck; our rich heritage of developing and producing life-changing treatments for patients, our deep scientific knowledge in psychiatry and neurology and our patient-centric mindset. We will focus on embracing new biologies and technologies, adjusting and learning as we forge ahead.

In the future, we will work with even more agility and collaboration across geographies, simplifying our processes and accelerating our ability to test and learn for faster, higher quality decision making. This will fully leverage our diverse talent, knowledge and skill-sets so that we can pursue solving some of the biggest brain disease challenges with the greatest patient reward.

EXPAND AND INVEST TO GROW: OUR STRATEGIC IMPERATIVES

We will continue to use our strategic imperatives to guide us towards reaching our objective to expand and invest to grow.

Maximize existing brands

Our strategic brands continue to show solid growth, both in volume and value, across all regions. At the same time, several of our mature brands have shown remarkable resiliency. Our commercial teams will continue to accelerate our efforts in growing our mature and strategic brands across more geographies, thereby maximising our existing brands to drive growth in the coming years.

Our strategic brands:

Brintellix®/Trintellix® is a prescription medication used to treat Major Depressive Disorder (MDD). The brand delivered solid growth in 2020 despite the flattening in total prescriptions of MDD medications during the pandemic.

Rexulti®/Rxulti® is a prescription medication used as an adjunctive therapy to antidepressants for the treatment of MDD. We will continue to maximize this medication with launches in additional countries in 2021.

Northera® is a prescription medication used to reduce dizziness in adults who have symptomatic neurogenic orthostatic hypotension (nOH) and who have Parkinson's disease. Northera delivered solid growth in sales and has shown resiliency, despite the pandemic. The brand lose exclusivity in the U.S. in early 2021.

Abilify Maintena® is globally the second most prescribed long acting injectable treatment for patients with schizophrenia. In some European countries it is the market leader.

Vyepti® is an infusion treatment for the prevention of migraine in adults. This is our newest strategic brand launched in the U.S. on 6 April 2020. Initial patient testimonials are very encouraging. While we continue to file for approval in more countries and expand the indications, we remain confident that Vyepti will deliver for migraine patients and become a strong growth driver for Lundbeck in the future.

Our portfolio of mature brands is large.

In the U.S., Onfi, Sabril and Xenazine are declining after the initial loss to generics. The larger group of mature brands is remarkably resilient having high levels of trust and brand recognition in many markets around the world. And some of the products show impressive growth – e.g. Cipralex/Lexapro – adding an underappreciated franchise to our portfolio.

In 2021, we will continue our strong partnerships with Otsuka Pharmaceutical and Takeda Pharmaceutical to engage healthcare professionals treating a broad range of psychiatric diseases, with keen commercial execution against our portfolio of strategic and mature brands.

In the coming years, we will further strengthen and reinforce our field force ensuring that they have the digital tools and capabilities needed to help them to expand their networks and collaborate even better with patients and customers.

We continue to ensure patients receive the full benefit of our medicines through continued clinical activities, life cycle

management programs, proactive patient safety efforts, medical activities and value positioning, and also through advocacy efforts.

Expand operating space
We have expanded our operating space through the acquisitions of Alder and Abide in 2019, which gave us the platforms needed to expand our areas of focus in neuroscience towards our targeted indication groups of niche and rare neurology and niche psychiatry.

Furthermore, we continue to invest to maximize our strategic brand franchises - Brintellix/Trintellix, Rexulti/Rxulti, Abilify Maintena and Vyepti. And we are continuously expanding our existing portfolio of medicines into new markets.

We have identified four biological clusters on which to focus our R&D efforts that enable us to treat our targeted indication groups. These are:

- **Circuit / neuronal biology**: Targeting neurotransmission / synaptic dysfunction to restore brain circuits and reduce neurological, psychiatric, and pain symptoms;
- **Hormonal / neuropeptide signaling**: Targeting selected pathways of pain signals and stress response;
- **Protein aggregation, folding, and clearance**: Targeting neurodegenerative proteinopathies involved in a range of neurodegenerative diseases, e.g., Alzheimer's and Parkinson's as well as rare diseases;
- **Neuroinflammation / neuroimmunology**: Targeting brain function through the innate and adaptive immune system relevant across most neurological disorders.

We will continue to pursue opportunities to acquire, partner or build up capabilities and innovation in niche and rare neurology and niche psychiatry indications with high unmet need that complement these biological clusters.

Rebuilding the pipeline
The R&D organization is transforming, adopting an agile mindset to enable the team to be more flexible when necessary. In this way, we will more effectively and efficiently rebuild our pipeline with a balance of first-in-class and best-in-class drug candidates, to enable a steady stream of breakthrough and differentiated medicines across all phases of the pipeline.

We will continue to shift Research & Development towards specialist treated disease indications that address high unmet needs in niche and rare disease neurology and niche psychiatry. We will use our four biological clusters in our in-house discovery research to target the high unmet needs within our expanded operating space and to deliver impactful neuroscience medicines of the future.

Drawing on our experimental medicine expertise, we will detect signals and gain more objective evidence to test efficacy earlier in development – de-risking the path to the market.

We will complement the rebuild of our pipeline with the right blend of external innovation, mix of acquisitions, partnerships and licenses for new medicines that fit with our refined focus on niche neuroscience indications.

Maintain focus on profitability
Safeguarding a consistent level of profitability ensures our ability to make strategic investments in our business.

We will increase cost efficiency across the organization whenever we can by further leveraging the knowledge and capabilities in our Group Business Services center (GBS) in Poland.

We will further harness the power of technology and pull digital capabilities into our ways of working to drive greater efficiency.

With our current product portfolio and projects in our pipeline it is our ambition to reach an EBIT margin of more than 25% by 2025.

Enhance organizational agility and collaboration
We work as global function teams, building on each other's strengths and harnessing the full power of our functions and departments across borders for greater outcomes. Working cross-functionally and cross-geographically allows us full clarity

and alignment in terms of prioritization and decision making and provides greater opportunity for our people through transfer of knowledge and talent development. We work in alignment with our priorities and shared purpose. We are grounded in our beliefs. We will continue to infuse the organization with more flexible and agile ways of working both in terms of how we work and the way we work, simplifying our processes and accelerating our ability to test and learn for faster, higher quality decision making.

By leveraging digital technologies and capabilities where it can make us faster and more effective, we can make the best use of our talent and competencies across functions that will enable the development of best or first-in-class products and get them to patients faster.

Just as much as we need a global and cross functional working organization, we need a diverse and inclusive one too. We aim to enrich our decision making through diversity of thought across all that we do. Diversity comes from having inclusive teams made up of people with different perspectives and experiences - and that comes from having an organization of people with different nationalities, race, gender and sexual orientation. We have a zero-tolerance approach to harassment, racism and discrimination of any kind and clear processes for employees and stakeholders to voice their concerns and have them addressed.

Equally important, we will continue to ensure sustainable business practices following leading environmental, social and corporate governance criteria.

Our ability to successfully deliver on our strategy takes the entire Lundbeck team collaborating around our shared purpose of restoring brain health, so every person can be their best.

OUR LONG-TERM AMBITION: TO BE #1 IN BRAIN HEALTH

Over the past two years, we have made strategic choices around where we put our efforts across our entire business. With the choices we made, we have lofty ambitions for what the future should look like when we succeed.

Our ambition is to be **#1 in Brain Health** – so what does that mean?

We will have Top quartile financial results in our peer group. By focusing on our patients and our products, top financial performance will follow.

We will have a premier neuroscience pipeline filled with assets that will make a difference to our patients.

We will have an established and focused commercial footprint around commercially attractive patient segments in niche and rare neurology and psychiatry.

We will be best in class in terms of how we use digital technologies to improve patient outcomes.

We will be a company leveraging diversity, with top talents across all functions.

We will continue to deliver sustainable growth in revenue and profitability.

And finally, **we will be on track to be carbon neutral**. Giving back to society is as equally important as financial performance.

The culmination of all this together is what will make us #1 in Brain Health, serving the people who need new medicines to help them conquer brain diseases. It will take every brain being fully “in the game” to achieve it. We continue to prioritize and take action, year by year to stay on track.

RESEARCH AND DEVELOPMENT

In 2020, Lundbeck transformed the R&D organization in order to enrich the pipeline with a steady stream of programs addressing specialist indications in neuroscience with high unmet medical need.

Our aspiration is to effectively translate forefront science into innovative therapies, building on Lundbeck's strong heritage, competencies, and footprint in brain diseases.

R&D TRANSFORMATION

In mid-2020, Lundbeck restructured the global R&D organization to execute on the Expand and invest to grow strategy, focusing on cutting-edge science, de-risking and optimizing clinical development, and supporting the commercialization of truly global products.

In the earliest phases, we refocused research into four areas of biology, where the science is the most advanced and holds the most potential for discovering breakthroughs and differentiated therapies.

We established experimental medicine and strengthened portfolio management to ensure that programs that progress to full development meet stringent criteria, including a positive clinical proof of concept and a competitive product profile.

To launch and support truly global products, we refined our global-local network in Patient Safety, Regulatory Affairs and Medical Affairs, strengthening the link with our commercial affiliates.

Throughout the value chain, we are implementing state-of-the-art technologies (including digital) and agile principles into our ways of working, to enable us to stay at the forefront of innovation, to progress a strong portfolio of industry-leading therapies, and to be the employer and partner of choice.

DEVELOPMENT PIPELINE

Lundbeck's development pipeline underwent significant change in 2020. One new molecule was added: Lu AG06479 (former ABX1762; MAGLi - clinical phase I), and two new development programs were started: eptinezumab in episodic cluster headache (clinical phase III) and Lu AG06466 (former ABX-1431; MAGLi) in Post-Traumatic Stress Disorder (PTSD) (clinical phase Ib). Four clinical-stage molecules were discontinued: foliglurax (mGluR4 PAM for Parkinson's disease), Lu AF11167 (PDE10 inhibitor for negative symptoms in schizophrenia), Lu AF95245 (Kv7. 2-5 channels activator for neuropsychiatric disorders), and Lu AF88434 (PDE1B inhibitor for cognitive dysfunction, preclinical activity continues). Lu AG06466 (former ABX-1431; MAGli) will not progress in Tourette Syndrome, but is being explored in other indications.

PROJECTS UNDER REGULATORY REVIEW

Eptinezumab for migraine prevention

Eptinezumab for migraine prevention was approved by the U.S. Food and Drug Administration (FDA) on 21 February 2020.

Eptinezumab is a monoclonal antibody (mAb) that is administered as a quarterly 30-minute IV infusion. Eptinezumab provides immediate and complete bioavailability and binds to calcitonin gene-related peptide (CGRP), a neuropeptide believed to play a key role in mediating and initiating migraines, with high specificity and potency.

In February 2020, Lundbeck announced that Vyepti (eptinezumab-jjmr) was approved by the FDA for the preventive treatment of frequent episodic and chronic migraine in adults. The recommended dose is 100 mg every 3 months; some patients may benefit from a dose of 300 mg. Vyepti is the first FDA-approved intravenous (IV) treatment for migraine prevention and has demonstrated treatment benefit over placebo as early as day 1 post-infusion.

In August 2020, Lundbeck announced headline results from the parallel group, double-blind, randomized, placebo-controlled *RELIEF*-study (NCT04152083) that assessed the efficacy and tolerability of Vyepti when initiated during a migraine attack in patients who are candidates for preventive therapy. The study met statistical significance on the co-primary endpoints, demonstrating that patients receiving a 100 mg Vyepti infusion during a migraine attack achieved earlier time to freedom from headache pain and absence of their most bothersome symptom compared to patients receiving the placebo. The most bothersome symptom was the individual patient's choice between photophobia, phonophobia and nausea. The key secondary endpoints of the proportion of patients with pain

freedom and the proportion of patients with the absence of their most bothersome symptom two hours after the start of infusion, also met statistical significance. All other secondary endpoints were also statistically significant.

In June 2020, Lundbeck initiated the *DELIVER* study (NCT04418765). The purpose of this study is to evaluate eptinezumab in the prevention of migraine in patients with unsuccessful prior preventive treatments. The patient must have documented evidence of treatment failure (must be supported by medical records or by a physician's confirmation specific to each treatment) in the past 10 years of two to four different migraine preventive medications and have a history of either previous or active use of triptans for migraine. The total study duration from the screening visit to the completion visit is approximately 76 weeks and includes a screening period (28-30 days), a placebo-controlled treatment period (24 weeks) and a treatment extension period (48 weeks). The patient starts the treatment at the baseline visit and follows a 12-week dosing schedule with either eptinezumab (100 or 300 mg) or a placebo by intravenous (IV) infusion. Patients who were assigned to the placebo in the placebo-controlled treatment period, will be randomly allocated to one of two treatment groups: eptinezumab 300 mg or eptinezumab 100 mg (n = 840).

In December 2020, Lundbeck initiated the ALLEVIATE study (NCT04688775). The purpose of this study is to evaluate the efficacy of eptinezumab intravenously in patients with episodic Cluster Headache (eCH). Eligible patients will be randomly assigned to receive, in a blinded manner, two infusions of either eptinezumab or placebo in a cross-over manner during the Placebo-controlled Period and Active Treatment Period of the study. The duration of the active study is 24 weeks, including a safety follow up period of 8 weeks.

In December 2020, the European Medicines Agency accepted our application for marketing authorization of Vyepti and in United Arab Emirates, Vyepti received approval. By year end, regulatory review was ongoing in eight other countries (Australia, Brazil, Canada, Indonesia, Kuwait, the Philippines, Singapore and Switzerland).

PIVOTAL PROGRAMS (CLINICAL PHASE III)

Brexpiprazole – phase III in Alzheimer's agitation

Lundbeck and Otsuka Pharmaceutical are pursuing a third clinical phase III study (NCT03548584) of brexpiprazole in the treatment of agitation in patients with dementia of the Alzheimer's type. The decision to initiate a third adaptive trial followed discussions with the FDA regarding two phase III clinical trials for the agitation in Alzheimer's disease indication that were completed by Otsuka Pharmaceutical and Lundbeck in 2017. In 2020, the global Covid-19 pandemic impacted recruitment and conduct of the trial. As the extent of the pandemic impact is unknown, it was decided to increase the power of the trial and adjust the sample size to the maximum of 330 subjects and conduct an interim analysis, when a targeted sample of 255 subjects have completed the trial. The interim analysis decision will be in accordance with pre-specified criteria and conducted by an independent Data Monitoring Committee and is expected to take place during the second quarter of 2021. Should the study need to recruit all 330 patients, completion of the study is anticipated at the beginning of 2022, based on the current assessment of patient recruitment. The changes are not due to any safety concerns and the increased sample size and the plans to perform the interim analysis have been accepted by the FDA.

Brexpiprazole – phase III in Post-Traumatic Stress Disorder (PTSD)

Lundbeck and Otsuka Pharmaceutical initiated a pivotal phase III program (n = ~577) investigating the use of brexpiprazole in combination with sertraline in the treatment of PTSD (NCT04124614) subsequent to a positive phase II study and an *End of Phase II* meeting with the FDA in May 2019.

PTSD is a psychiatric disorder that can develop as a response to traumatic events, such as interpersonal violence, combat, life-threatening accidents or natural disasters. Core features of PTSD include a variety of symptoms, such as re-experiencing phenomena (i.e. flashbacks and nightmares), avoidance

behavior, numbing (i.e. amnesia, anhedonia, withdrawal, negativism) and increased arousal (i.e. insomnia, irritability, poor concentration, hypervigilance). Psychiatric co-morbidities are common, and PTSD sufferers can also present with substance abuse, mood and other anxiety disorders, impulsive and dangerous behavior and self-harm.

PROOF OF CONCEPT STUDIES (CLINICAL PHASE II)

Brexpiprazole – phase II for borderline personality disorder

Lundbeck and Otsuka Pharmaceutical have initiated a proof-of-concept study (n = ~240) investigating the use of brexpiprazole in the treatment of borderline personality disorder (BPD) subsequent to a Type B meeting with the FDA in May 2019 (NCT04100096). BPD is characterized by a pervasive pattern of instability in affect regulation, impulse control, interpersonal relationships, and self-image. The clinical signs of the disorder include emotional dysregulation, impulsive aggression, repeated self-injury, and chronic suicidal tendencies, which make these patients frequent users of mental health resources. There is no medication approved for BPD. In October 2019, the FDA designated as a *Fast Track* development program the investigation of brexpiprazole for BPD.

FIRST IN HUMANS (CLINICAL PHASE I)

Lu AG06466 (former ABX-1431) – phase Ib commenced in September 2020

Lu AG06466 is an inhibitor of the monoacylglycerol lipase (MAGL) and selective modulator of the endocannabinoid system, and thereby works to reduce excessive neurotransmission and neuroinflammation that are known pathophysiological hallmarks for a range of psychiatric and neurological disorders.

Lundbeck is planning investigational studies in other indications in neurology and psychiatry both with Lu AG06466 and with additional compounds generated by Lundbeck La Jolla Research Center. Trials across the indications will assess a variety of common biomarkers to develop tools to help guide further late-stage development. The first of these 1b studies will investigate the effect of Lu AG06466 after multiple doses.

Lu AG06479 (former ABX1762) – phase I commenced in July 2020

Lu AG06479 is a follow up monoacylglycerol lipase (MAGL) inhibitor. A phase I program has been initiated to investigate the safety, tolerability and pharmacokinetic of Lu AG06479 after single dose administration to healthy volunteers (NCT04473651). The distribution profile of this agent differs from Lu AG06466 in that it is only moderately brain penetrant.

Lu AG09222 (former ALD 1910) – phase I

Lu AG09222 is a monoclonal antibody (mAb) designed to inhibit pituitary adenylate cyclase-activating polypeptide (PACAP). PACAP has emerged as an important signalling molecule in the pathophysiology of migraine and represents an attractive novel target for treating migraine. Lu AG09222 may hold potential as a migraine prevention treatment for those who have an inadequate response to other therapies and could provide another mechanism-specific therapeutic option for migraine patients and their physicians. In addition, Lu AG09222 may hold potential as a treatment of other disorders. The phase I double-blind, placebo-controlled study of Lu AG09222, which was initiated in October 2019, has demonstrated safety and tolerability.

Lu AF87908 – phase I

Lu AF87908 is a monoclonal antibody targeting the pathological form of the protein tau that is believed to play a pivotal role in the development and progression of Alzheimer’s disease and other neurodegenerative disorders. The project aims to demonstrate delay of disease progression with a therapeutic effect on disease burden and function, by targeting pathological tau with an antibody that will inhibit aggregation and potentially clear pathological tau from the brain. The ability to offer a treatment that will change the course of the disease will offer a fundamental improvement compared to currently available symptomatic treatments. The purpose of the Phase I study, initiated in September 2019 is to investigate the safety and tolerability of a single dose of Lu AF87908, in both healthy subjects and people living with Alzheimer's disease (NCT04149860).

Lu AF28996 - phase IB study in Parkinson's disease commenced in October 2020
Dopaminergic neuronal loss is a key hallmark in Parkinson's disease and responsible for dysfunctions in motor control. Lu AF28996 is targeting continuous D1/D2 stimulation as an optimized approach to replace dopamine loss. The study aims to explore the safety, tolerability, pharmacokinetics and efficacy of multiple doses in subjects with Parkinson's disease with motor fluctuations (NCT04291859).

Lu AF82422 – phase I
Lu AF82422 is a monoclonal antibody targeting preferentially pathological forms of the protein alpha-synuclein. Abnormal aggregation of alpha-synuclein is believed to play a pivotal role in the development and progression of neurodegenerative disorders with synucleinopathies, e.g. Parkinson's disease, multiple system atrophy and dementia with Lewy bodies. The project aims to demonstrate delay of disease progression with a therapeutic effect on disease burden and patient function, by targeting pathological alpha-synuclein with an antibody that will inhibit aggregation and potentially clear pathological alpha-synuclein from the brain. The ability to offer a treatment that will change the course of the disease will offer a fundamental improvement compared to currently available symptomatic treatments. The purpose of the Phase I study, initiated in July 2018, is to investigate the safety and tolerability of a single dose of Lu AF82422, in healthy subjects and people living with Parkinson's disease (NCT03611569).

Aripiprazole – 2-Month Injectable (LAI) formulation
In July 2019, Lundbeck and Otsuka Pharmaceutical initiated a pivotal phase 1b study (NCT04030143) to determine the safety, tolerability and pharmacokinetics of multiple-dose administrations of aripiprazole to adult participants with schizophrenia or bipolar I disorder. It was an open-label, multiple-dose, randomized, parallel-arm, multicenter study. In addition to the assessment of safety and tolerability, the objective was to establish the similarity of aripiprazole concentrations on the last day of the dosing interval and the exposure in the last dosing interval following the final administration of aripiprazole into the gluteal muscle site. The study showed that the new 2-Month formulation, while being safe and tolerable, provided effective plasma concentrations of aripiprazole for two months. This implies that the new formulation can be dosed every second month compared to Abilify Maintena, which is given on a monthly basis.

Dosing every second month can add important benefits in terms of convenience for the patients and may increase treatment adherence as well as minimizing the risk of missing doses. It may also reduce the potential need for medication monitoring by healthcare professionals, family and caregivers.

No further clinical studies are expected to be required and as a next step the regulatory agencies in the U.S. and EU will be approached. The scale-up of manufacturing capacity is progressing at Otsuka Pharmaceutical, with regulatory submission pending completion of the build and validation of the new manufacturing capacity at Otsuka Pharmaceutical. The new 2-Month formulation is an innovative addition to the LAI franchise and has patent protection until the early part of the next decade.

CLOSED STUDIES

In August 2020, Lundbeck announced the decision to discontinue the phase II proof of concept clinical study of **Lu AF11167** (PDE10 inhibitor) in patients with schizophrenia, who were experiencing persistent negative symptoms. The decision to stop the trial was based on the results of a futility interim analysis, which concluded that the trial was unlikely to achieve statistical significance on its primary endpoint. Further analysis of the data showed no positive treatment effect on primary or secondary endpoints. The development program of PDE10 has been terminated.

In March 2020, Lundbeck announced that **foliglurax,** a selective positive allosteric modulator of the glutamate 4 receptor (mGlu4 PAM) for the treatment of Parkinson's disease, did not meet the primary study endpoint in the phase IIa study (*AMBLED*). There was no statistically significant difference in change from baseline in OFF time versus placebo after a 4-week treatment period. The difference in change from baseline versus placebo was 0.27h and

0.44h for the 10 and 30 mg doses (twice daily) respectively, as assessed by the Hauser diary. Neither of the foliglurax doses separated from placebo on dyskinesia (secondary endpoint). The study showed an acceptable clinical safety and tolerability profile in patients with Parkinson's disease. The development program of foliglurax has been terminated.

In addition, an investigational study with **Lu AG06466** for the treatment of adult patients with Tourette Syndrome (TS) was completed. The randomized, double blind, placebo controlled and with individual dose titration clinical trial enrolled 48 patients at multiple sites in Europe. In this study the primary endpoint, the Yale Global Tic Severity Scale (YGTSS-TTS), was not statistically significant in favouring Lu AG06466 compared to placebo after 28 and 56 days of treatment. The study did not show any adverse events that prohibit development in other indications. Lu AG06466 will be explored in other indications through a series of phase 1b studies.

In April 2020, Lundbeck stopped the phase I study of **Lu AF95245** (NCT04199585) as the drug did not have the desired pharmacokinetic profile and the safety margins were unfavorable.

In November 2020, Lundbeck stopped the phase I study of **Lu AF88434** (PDE1b) as the drug did not have the desired pharmacokinetic profile.

PIPELINE

Project	Biology	Area	Phase I	Phase II	Phase III	Filing
Eptinezumab (anti-CGRP mAb)	Hormonal / neuropeptide signalling	Migraine prevention				
Eptinezumab (anti-CGRP mAb)		Episodic cluster headache				
Lu AG09222 (PACAP mAb)[1]		Migraine				
Brexpiprazole[2]	Circuitry / neuronal biology	Agitation in Alzheimer's disease				
Brexpiprazole[2]		PTSD				
Brexpiprazole[2]		Borderline Personality Disorder				
Aripiprazole 2-month injectable formulation[2]		Schizophrenia & bipolar I disorder				
Lu AF28996 (D1/D2 agonist)		Parkinson's disease				
Lu AG06466 (MAGL inhibitor)[3,4]		PTSD				
Lu AG06479 (MAGL inhibitor)[3]		Neurology/psychiatry				
Lu AF87908 (Tau mAb)	Protein aggregation, folding and clearance	Tauopathies				
Lu AF82422 (alpha-synuclein mAb)		Synucleinopathies				

1) PACAP: Pituitary adenylate cyclase-activating polypeptide
2) Life cycle management. In partnership with Otsuka Pharmaceutical Development & Commercialization, Inc.
3) MAGL: Monoacylglycerol lipase
4) PTSD study has been initiated, additional Phase Ib studies within psychiatry/neurology will be explored during 2021

PRODUCTS

PRODUCT	TOTAL REVENUE (DKKM)	% OF TOTAL REVENUE	GROWTH	COMMENT
STRATEGIC BRANDS				
Abilify Maintena® (aripiprazole once-monthly)	2,271	13%	16%	Monthly intramuscular injection indicated for the treatment of schizophrenia. Lundbeck markets Abilify Maintena® in the U.S. in collaboration with Otsuka Pharmaceutical Co., Ltd. and in Europe and International Markets either alone or in collaboration with Otsuka Pharmaceutical Co., Ltd. First launched in the U.S. in 2013, hereafter launched in close to 40 countries.
Brintellix®/Trintellix® (vortioxetine)	3,102	18%	10%	Indicated for the treatment of Major Depressive Disorder (MDD). Lundbeck markets Brintellix®/Trintellix® in Europe and International Markets. In the U.S., Takeda Pharmaceutical Company Limited is our co-promotion partner. Launched in the first markets in 2014 and now available in approximately 60 countries.
Northera® (droxidopa)	2,553	14%	10%	Indicated for the treatment of symptomatic neurogenic orthostatic hypotension in adult patients. Northera® is the only U.S. FDA-approved therapy for this condition. Lundbeck markets Northera® in the U.S. and launched the product in 2014.
Rexulti®/Rxulti® (brexpiprazole)	2,620	15%	15%	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 U.S. in 2015 in collaboration with Otsuka Pharmaceutical Co., Ltd. hereafter in a number of other countries.
Vyepti® (eptizumab)	93	1%	-	Indicated for the preventive treatment of migraine in adults. Approved by the U.S. FDA on 21 February 2020 and made available on 6 April 2020 via selected specialty distributors and specialty pharmacies.
MATURE BRANDS				
Cipralex®/Lexapro® (escitalopram)	2,380	14%	3%	Indicated for the treatment of depression. First launched in 2002 and today available in more than 100 countries around the world.
Onfi® (clobazam)	642	4%	(39%)	Indicated as adjunctive treatment of Lennox-Gastaut syndrome for people aged two years or older. Launched in the U.S. in 2012.
Sabril® (vigabatrine)	777	5%	(8%)	Indicated for the treatment of refractory complex partial seizures (rCPS) and infantile spasms (IS). Launched in the U.S. in 2009.
Other pharmaceuticals	2,738	16%	(12%)	Ebixa® (dementia), Azilect® (Parkinson's disease), Xenazine® (chorea), Deanxit® (depression), Cipramil® (depression and anxiety) and Cisordinol® (psychosis) are among the biggest of our other mature brands.

RISK MANAGEMENT

Lundbeck's risk management processes ensure close monitoring, systematic risk assessment and the ability to identify, manage and report internal and 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 mitigating actions.

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 FRAMEWORK

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

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

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

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

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

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

Lundbeck has 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 enables Executive Management to control Lundbeck's risk appetite when deciding strategy and practice, and when making day-to-day decisions.

KEY RISKS

RISK AREA	DESCRIPTION	POTENTIAL CONSEQUENCES	MITIGATING ACTIONS
RESEARCH AND DEVELOPMENT	Exposure to delays of regulatory approval or failure in the development of new and innovative medicines. Exposure to delays is higher due to Covid-19. Increased regulatory requirements for clinical trials. Data requirements from production of non-clinical studies and clinical studies.	Delays or failure of new products could impact patients who cannot benefit from these products and decrease earnings for shareholders. Delay in regulatory approval may impact the patient's drug access. 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	Price pressure, new legislation, regulation of reimbursement and healthcare reforms in key markets, etc. Limited access to physician offices due to Covid-19.	Market restrictions could impact patients' access to Lundbeck products. Changes in market conditions and health care reforms could affect the pricing landscape as well as rebates and discounts. Restrictions due to Covid-19 could impact patients' access to physicians.	Understanding the price development in main markets. Working with health care authorities around the world to document the value of our pharmaceuticals. Monitor political developments and requirements.
SUPPLY, QUALITY AND PRODUCT SAFETY	Disruption of production or supply or unpredictable demand and stock-out. Loss of licenses to manufacture or sell pharmaceuticals. Defects in product quality or safety.	Product shortage, not giving patients needed access to the pharmaceuticals they require.	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	Cyber-attacks and cyber fraud. System down-time.	Disruption or compromise of IT security could affect all parts of Lundbeck's operations and product supply to patients. Data loss.	IT policies and procedures are in place to safeguard processes and data. Cyber-attack testing is being performed on a regular basis. Annual testing of IT disaster recovery plan. Lundbeck has also purchased a cyber insurance.
LEGAL AND COMPLIANCE	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 in 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 subject to monitoring.
FINANCIAL	Fluctuations in exchange rates incl. impact from currency devaluations. Fluctuations in interest rates.	Lundbeck's cash flow and earnings could be impacted in cases of fluctuations in key currencies.	Monitoring the financial exposure and hedging a significant part of Lundbeck's currency risk up to 18 months in advance. Issuing debt with fixed interest and fixing interest rates on floating debt with interest rate swaps or similar derivatives. Exchange rate risks and interest risks are managed within the Treasury Policy.

SUSTAINABILITY & COMPLIANCE

Lundbeck's sustainability activities aim to mitigate risks and adverse impacts related to our business activities and contribute to solving societal challenges where we can. We remain committed to the UN Global Compact Principles and contribute to addressing seven of the Sustainable Development Goals.

In this section we present a short summary of aspirations, management, due diligence and targets.

We publish an annual Sustainability Report at the same time as the release of the Annual Report. Here you can find detailed information and an ESG (Environmental, Social and Governance) section for analysts and investors. Our mandatory annual statutory reporting on sustainability and diversity of management in accordance with section 99(a), 99(b) and 107(d) in the Danish Financial Statements Act can also be found in our Sustainability Report.*

* https://www.lundbeck.com/global/sustainability

STRATEGIC IMPERATIVE

Sustainability is an imperative to Lundbeck and an integral part of our strategy and culture.

Lundbeck's sustainability activities aim to mitigate risks and adverse impacts related to our business activities and contribute to solving societal challenges where we can. The Sustainable Development Goals (SDG) are the blueprint to achieve a better and more sustainable future for all. At Lundbeck, we want to contribute in partnerships to address global challenges where we can make the most difference.

Our most material sustainability issues are reflected in the SDGs that we significantly impact. Our biggest contribution to sustainable development – and where we bring most value to the communities we serve – is our medical treatments and the good health and wellbeing they bring to people. Closely related to this is being compliant in all aspects of patient safety and taking a strict stance on anti-corruption in our collaborations with business partners, healthcare professionals and regulators.

Our other material issues include taking a leading role in climate action, environmental management in general, and promoting an ethical, safe and inclusive culture in our entire value chain.

MANAGING SUSTAINABILITY

Executive Management governs the sustainability strategy and review progress on targets and approves new initiatives in quarterly sessions.

We continuously set ambitious targets, report on progress on the targets and disclose a set of externally audited non-financial indicators across all areas of corporate sustainability and business ethics compliance.

The table on the following page provides an overview of our current sustainability targets. More detailed information about our sustainability policies, efforts and results is available in our Sustainability Report and on www.lundbeck.com*.

SUSTAINABILITY REVIEW OF 2020

Our activities related to Access to health in 2020 was guided by two targets. We achieved our goal to engage all Lundbeck offices in local World Mental Health Day activities, this year with a higher degree of digital events and activities due to Covid-19. Our other completed target was to establish a product donation partnership to low and middle-income countries. This is the first new initiative in our Access to Brain Health 2030 strategy focused on accessibility for the most vulnerable.

The 2020 target for business ethics was that all employees at work globally should complete the Annual Code of Conduct training. This was achieved with a 99.8% completion rate. In 2020, we also established a new data model to monitor proportion of healthcare professionals supporting disclosure of collaborations.

To reduce carbon emissions, we have over the last years increasingly replaced conventional fuel oil with bio-oil at our facilities. The emissions from our purchased energy was also reduced in 2020. In total, we reduced our carbon emissions with 14% compared to 2019, overachieving our 2020 target of 4%. We have not purchased certificates of origin in 2020 to achieve this result.

The target for recycling of solvents was achieved, as we achieved 68%. We did not achieve our target of zero environmental incidents last year, as we had two such incidents.

Lundbeck maintained a gender split for people managers globally at 42/58% and consider our Diversity & Inclusion target of equal gender split achieved.

We are happy to report a decrease in accident frequency of 11% in 2020 compared to 2019, due to preventive actions and less activities on our sites caused by Covid-19 measures. We were however not successful in reaching our 2020 target of a frequency of lost time accident rate below 5, with a rate for the full year of 5.5.

SUSTAINABILITY TARGETS

ISSUE	2021 TARGET	2020 TARGET	
ACCESS TO BRAIN HEALTH	Ensure all disease awareness sponsorships within psychiatry measurably support suicide prevention or mental health awareness Donate treatment for at least 900 patients through new product donation partnerships in low- and middle-income countries	Engage all Lundbeck offices in local World Mental Health Day activities (●) Establish a product donation partnership (●)	SDG 3
BUSINESS ETHICS	Annual Code of Conduct training completed by all employees at work globally Increase proportion of healthcare professionals supporting disclosure of collaborations compared to the previous reporting year	Annual Code of Conduct training completed by all employees at work globally (●) Work to increase proportion of healthcare professionals supporting disclosure of collaborations compared to the previous reporting year (●)	SDG 16
CLIMATE ACTION	Reduce total carbon footprint across own operations, supply and distribution in line with our Science-Based Target*	Reduce CO_2 emission by 4% in 2020 compared to 2019 (●) Obtain 'Science Based Targets initiative (SBTi)' approval of new climate target (●)	SDG 13
ENVIRONMENTAL MANAGEMENT	Recycle 60% of the solvents used in chemical production Recycle 63% of all general waste	Recycle 55% of the solvents used in chemical production (●) Zero environmental incidents (○)	SDG 12
DIVERSITY & INCLUSION	Build an inclusive organization with a first initiative focusing on unconscious bias across the organization Maintain an overall equal gender split for people managers globally	Strive to maintain an overall equal gender split for people managers globally (●)	SDG 5 SDG 10
HEALTH & SAFETY	Reduce lost time accident frequency to ≤ 5	Reduce lost time accident frequency to ≤ 5 (○)	SDG 8

* We will report progress annually on the approved 15-year targets in Scope 1 & 2 (own operations and energy use) and Scope 3 (emissions from supply, services, distribution, and more).
(●) Achieved
(○) Not achieved

BUSINESS ETHICS AND CODE OF CONDUCT

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

CODE OF CONDUCT

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

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

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

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

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

COMPLIANCE CULTURE BUILT ON AN OPEN DIALOGUE

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

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

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

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

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

CORPORATE GOVERNANCE

Corporate governance concerns the way Lundbeck is managed and controlled, while creating value for both the company and our stakeholders. More information on the mandatory annual corporate governance report is disclosed on www.lundbeck.com in accordance with section 107(b) in the Danish Financial Statements Act.*

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

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

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

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

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

The 2020 evaluation built on the previous year's, with all members of the Board of Directors and Executive Management participating. It was conducted with support from an external provider and concluded that there was a high level of satisfaction with the collaboration and interaction between the Board of Directors and Executive Management, describing it as transparent, constructive, effective and involving. The Board represents a broad set of competencies and knowledge relevant to the company and its future strategic path. We believe that its composition can be improved by adding even more relevant scientific expertise, an objective that will be followed up on in 2021. To meet this objective, the Board is currently working towards expanding the scientific knowledge of the Board.

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****.

Disclosure regarding change of control
The EU Takeover Bids Directive, as partially implemented in the Danish Financial Statements Act, requires listed companies to disclose information about significant agreements that may be affected in case of a completed take-over bid, in particular in relation to disclosure of change-of-control provisions.

Lundbeck discloses that the Group has a major partnership agreement in place under which an acquiring entity must divest any competing product according to an agreed process and in the absence of such divesture, Lundbeck's partner may terminate the agreement. The Lundbeck Group may be met with demands for repayment on its debt portfolio should Lundbeckfond Invest A/S hold less than 50% of the share capital or voting rights in H. Lundbeck A/S (change of control).

In the event Lundbeck is acquired or merges, certain Executive Management members may, depending on the impact on their position, be entitled to terminate employment with Lundbeck with a three (3) months' notice and receive a compensation of up to eighteen (18) months remuneration.

Given the ownership structure of Lundbeck the risks are considered remote. For information about the ownership structure of Lundbeck, see page 36.

*
https://www.lundbeck.com/upload/global/files/pdf/corporate_governance/2020/corporate_governance_report.pdf

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

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

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

EXECUTIVE MANAGEMENT*

DEBORAH DUNSIRE
President and CEO

- Born 1962
- Joined Lundbeck in 2018

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

Holding of shares
- 3,500

PETER ANASTASIOU **
Executive Vice President, North America

- Born 1970
- Joined Lundbeck in 2009

Directorships
- PhRMA (Pharmaceutical Research and Manufacturers of America) (M)

Holding of shares
- None

LARS BANG
Executive Vice President, Product Development & Supply

- Born 1962
- Joined Lundbeck in 1988

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

Holding of shares
- 42,792

ANDERS GÖTZSCHE
Executive Vice President, CFO

- Born 1967
- Joined Lundbeck in 2007

Directorships
- Obsidian Therapeutics (M)
- DFDS (M)
- Rosborg Møbler A/S (C)

Holding of shares
- 42,796

Per 31.12 2020

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

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

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

ELISE HAUGE **

Executive Vice President, People & Communication

- Born 1967
- Joined Lundbeck in 2019

Directorships
- CBS Executive Fonden (M)

Holding of shares
- 1,225

KELD FLINTHOLM JØRGENSEN **

Executive Vice President, Corporate Strategy & Business Development

- Born 1971
- Joined Lundbeck in 2019

Directorships
- None

Holding of shares
- None

PER JOHAN LUTHMAN

Executive Vice President, Research & Development

- Born 1959
- Joined Lundbeck in 2019

Directorships
- None

Holding of shares
- None

JACOB TOLSTRUP

Executive Vice President, Commercial Operations

- Born 1972
- Joined Lundbeck in 1999

Directorships
- Pharmacosmos A/S (C)

Holding of shares
- 257

Per 31.12 2020

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

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

BOARD OF DIRECTORS*

LARS SØREN RASMUSSEN
Chairman

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

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

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

Holding of shares
- 20,000

LENE SKOLE-SØRENSEN
Deputy Chairman

- Born 1959
- CEO, Lundbeck Foundation
- Elected at the 2015 Annual General Meeting
- Considered dependent

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

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

Holding of shares
- 8,808

HENRIK ANDERSEN

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

Lundbeck Committees
- Audit Committee (C)

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

Holding of shares
- 3,500

JEFFREY BERKOWITZ

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

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

Directorships
- Esperion Therapeutics, Inc. (M)
- Zealand Pharma A/S (M)
- Uniphar PLC (M)

Holding of shares
- None

Per 31.12 2020

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

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

LARS ERIK HOLMQVIST

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

Lundbeck Committees
- Audit Committee (M)

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

Holding of shares
- 15,000

JEREMY MAX LEVIN

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

Lundbeck Committees
- Scientific Committee (C)

Directorships
- BIO (Biotechnology Innovation Organization in the U.S.) (C)
- Ovid Therapeutics Inc. (C)
- Opthea Ltd. (C)

Holding of shares
- None

RIKKE KRUSE ANDREASEN

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

Holding of shares
- 5

HENRIK SINDAL JENSEN

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

Holding of shares
- None

LUDOVIC TRANHOLM OTTERBEIN

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

Directorships
- Lundbeck Foundation (M)

Holding of shares
- None

Per 31.12 2020

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

THE LUNDBECK SHARE

2020 was a very eventful year for Lundbeck with solid financial results and progression against our Expand and invest to grow strategy while operating during a global pandemic.

The Lundbeck share price began the year at DKK 254.40 (closing price end 2019), reached a year high of DKK 302.4 (5 February), recorded a year low of DKK 178.15 (3 November) and ended the year at DKK 208.80. This is a decrease of 18% for the year. In comparison, the Danish OMXC25 index increased by 34%, while the MSCI European Pharmaceutical Index increased by 4%.

TURNOVER

Total trading in Lundbeck shares amounted to DKK 24.6 billion in 2020, while the average daily turnover was DKK 110 million, an increase of 22% compared to 2019. A total of 109 million shares were traded in 2020, equivalent to 435,658 shares per day, an increase of 28% compared to 2019.

Lundbeck has an American Depository Receipt (ADR) Level 1 program. The ADR volume increased slightly during 2020. At the end of 2020, 370,011 ADRs were outstanding, representing 0.2% of the total shares or 0.6% 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 2020, Lundbeck's total share capital amounted to DKK 995,741,110, which is equivalent to 199,148,222 shares.

COMPOSITION OF SHAREHOLDERS

According to the Lundbeck share register, the company had approximately 52,000 shareholders at the end of 2020, 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 2020, 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 2020, investors in North America held 32% of the free float compared to 45% in 2019; European (excl. Danish) investors held 31% compared to 31% in 2019; Danish investors held 14% compared to 7% in 2019; rest of the world held unchanged 4% and other investors, incl. private, held 19% compared to 13% in 2019.

In order to fund our long-term share-based incentive programs, Lundbeck acquired treasury shares in 2020 at a value of DKK 29 million (DKK 20 million in 2019), corresponding to 114,000 shares (69,000 shares in 2019).

At the end of 2020, Lundbeck's Board of Directors and Executive Management held a total of 137,878 Lundbeck shares compared to 130,339 Lundbeck shares by the end of 2019. The total number of shares in 2020 corresponds to 0.07% 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 2020, investor relations activity was materially impacted by the global pandemic with lock-downs and travel restrictions. Lundbeck's Investor Relations team held more than 300 meetings most of them based on digital platforms. Lundbeck has also participated/presented at 12 investor conferences, most of which were virtual.

Lundbeck is currently covered by 18 sell-side analysts, incl. the major global investment banks that regularly produce research reports on Lundbeck. A list of analysts covering Lundbeck is available on www.lundbeck.com*.

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

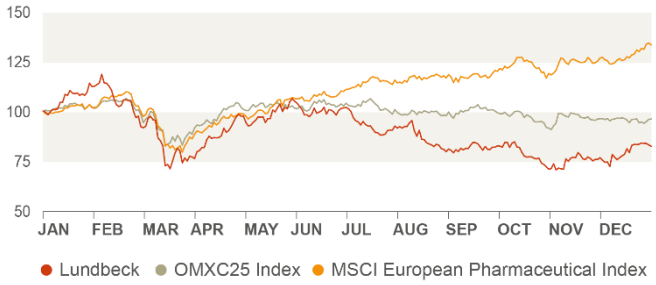
* https://investor.lundbeck.com/share/analysts

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

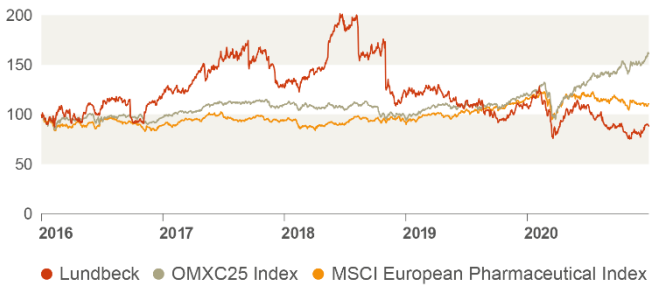
FINANCIAL CALENDAR 2021

23 March 2021	Annual General Meeting
26 March 2021	Dividends for 2020 at the disposal of shareholders
11 May 2021	Financial statements for the first three months of 2021
18 August 2021	Financial statements for the first six months of 2021
10 November 2021	Financial statements for the first nine months of 2021

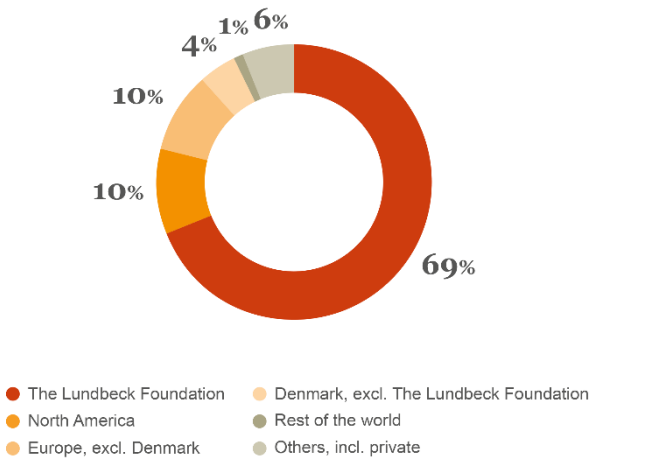
STOCK PERFORMANCE 2020



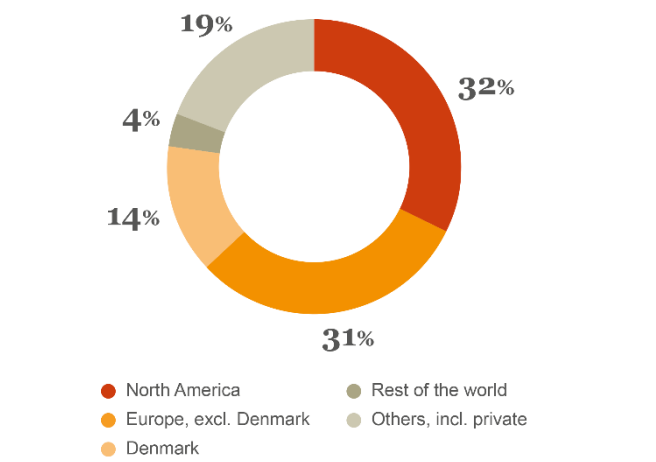
STOCK PERFORMANCE 2016-2020



COMPOSITION OF OWNERSHIP, END 2020



COMPOSITION OF FREE FLOAT, END 2020



SHARE RATIOS

	2020	2019	2018	2017
Earnings per share, basic (EPS) (DKK)	7.95	11.64	17.88	28.14
Earnings per share, diluted (DEPS) (DKK)	7.95	11.64	17.87	28.10
Cash flow from operating activities per share, diluted (DKK)	19.31	13.13	30.09	20.44
Net asset value per share, diluted (DKK)	85.42	84.45	84.67	76.03
Proposed dividend per share (DKK)	2.50	4.10	12.00	8.00
Dividend payout ratio (%)	31	35	67	29
Dividend yield (%)	1.2	1.6	4.2	2.5
Share price, year-end (DKK)	208.80	254.4	285.4	315.0
Share price, high (DKK)	302.4	306.9	475.9	411.8
Share price, low (DKK)	178.15	217.2	257.0	315.0
Price/Earnings, diluted (DKK)	26.25	21.86	15.97	11.21
Price/Cash flow, diluted (DKK)	10.82	19.38	9.48	15.41
Price/Net asset value, diluted (DKK)	2.44	3.01	3.37	4.14
Market capitalization, year-end (DKKm)	41,582	50,660	56,825	62,700
Annual trading, million shares	108.9	84.4	99.2	107.7
Average trading per trading day, thousands of shares	435.7	340.4	400.1	429.2

SHARE FACTS

Number of shares, year-end	199,148,222
Share capital, year-end (DKK)	995,741,110
Nominal value per share (DKK)	5
Holding of treasury shares	449,896
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 2016-2020

Statement of profit or loss (DKKm)	2020	2019[1]	2018[1]	2017[1]	2016
Revenue	17,672	17,036	18,117	17,234	15,634
Research and development costs	4,545	3,116	3,277	2,705	2,967
Reversal of impairment loss	-	-	-	3,766	-
Operating profit before depreciation and amortization (EBITDA)	4,783	4,823	6,436	9,190	3,846
Profit from operations (EBIT)	1,990	3,153	4,846	8,174	2,292
Net financials, expenses	84	127	12	131	135
Profit before tax	1,906	3,026	4,834	8,043	2,157
Profit for the year	1,581	2,313	3,553	5,560	1,211

Assets (DKKm)	2020	2019[1]	2018[1]	2017[1]	2016
Non-current assets	25,924	29,095	13,944	13,893	12,686
Inventories	2,163	2,204	1,753	1,376	1,528
Receivables	4,018	3,822	3,261	3,791	3,779
Cash, bank balances and securities	3,924	3,012	6,635	3,677	2,217
Total assets	**36,029**	**38,133**	**25,593**	**22,737**	**20,210**

Equity and liabilities (DKKm)	2020	2019[1]	2018[1]	2017[1]	2016
Equity	16,973	16,782	16,833	15,117	9,694
Non-current liabilities	9,044	11,071	1,184	1,141	2,740
Current liabilities	10,012	10,280	7,576	6,479	7,776
Total equity and liabilities	**36,029**	**38,133**	**25,593**	**22,737**	**20,210**

Statement of cash flows (DKKm)	2020	2019	2018	2017	2016
Cash flows from operating activities	3,837	2,609	5,981	4,045	3,126
Cash flows from investing activities	(467)	(7,755)	(2,907)	(1,830)	(337)
Cash flows from operating and investing activities (free cash flow)	3,370	(5,146)	3,074	2,215	2,789
Cash flows from financing activities	(2,394)	4,548	(1,607)	(2,235)	(2,006)
Interest-bearing debt, cash, bank balances and securities, net, year-end – net cash/(net debt)	(4,106)	(6,566)	6,635	3,677	326

1) 2017-2019 have been restated to reflect the reversal of an impairment loss on the Rexulti® product rights in 2017. See note 7 *Intangible assets*.

SUMMARY FOR THE GROUP 2016-2020

CONTINUED

Key figures	2020	2019[1]	2018[1]	2017[1]	2016
EBIT margin (%)	11.3	18.5	26.7	47.4	14.7
Research and development ratio (%)	25.7	18.3	18.1	15.7	19.0
Return on equity (%)	9.4	13.8	22.2	44.8	13.1
Equity ratio (%)	47.1	44.0	65.8	66.5	48.0
Invested capital (DKKm)	21,079	23,348	10,198	11,440	9,368
Net debt/EBITDA	0.9	1.4	(1.0)	(0.7)	(0.1)
Effective tax rate (%)	17.0	23.6	26.5	30.9	43.9
Purchase of intangible assets, gross (DKKm)	114	88	1,149	480	104
Purchase of property, plant and equipment, gross (DKKm)	364	356	300	245	238
Purchase of financial assets, gross (DKKm)	17	18	1,524	1,509	16
Average number of employees	5,717	5,475	5,060	4,980	5,120

Share data[2]	2020	2019[1]	2018[1]	2017[1]	2016
Number of shares for the calculation of EPS (millions)	198.7	198.7	198.7	197.5	197.2
Earnings per share, basic (EPS) (DKK)[3]	7.95	11.64	17.88	28.14	6.11
Earnings per share, diluted (DEPS) (DKK)[3]	7.95	11.64	17.87	28.10	6.11
Proposed dividend per share (DKK)	2.50	4.10	12.00	8.00	2.45
Cash flows from operating activities per share, diluted (DKK)[3]	19.31	13.13	30.09	20.44	15.77
Net asset value per share, diluted (DKK)[3]	85.42	84.45	84.67	76.03	48.86
Market capitalization (DKKm)	41,582	50,660	56,825	62,700	56,776
Price/Earnings, diluted (DKK)[3]	26.25	21.86	15.97	11.21	47.04
Price/Cash flow, diluted (DKK)[3]	10.82	19.38	9.48	15.41	18.22
Price/Net asset value, diluted (DKK)[3]	2.44	3.01	3.37	4.14	5.88

1) 2017-2019 have been restated to reflect the reversal of an impairment loss on the Rexulti® product rights in 2017. See note 7 *Intangible assets*.

2) The calculation is based on a share denomination of DKK 5.

3) Comparative figures have been restated using a factor 0.99997 for the effect of employees' exercise of warrants.

SUMMARY FOR THE GROUP 2016-2020

CONTINUED

Definitions	
Interest-bearing debt	Debt and financial instruments (including financial leases) carrying interest
Interest-bearing net cash	Cash, bank balances and securities less interest-bearing debt
EBIT margin[2]	Profit from operations as a percentage of revenue
EBITDA	Profit before interest, tax, depreciation, amortization and gain on divestment of properties
Return on equity[2]	Net profit/(loss) for the year as a percentage of shareholders' equity (average)
Equity ratio[2]	Shareholders' equity, year-end, as a percentage of total assets
Invested capital	Shareholders' equity, year-end, plus net interest-bearing debt
Net debt	Interest bearing debt less cash, bank balances and securities
Net debt/EBITDA[2]	Net interest-bearing debt divided by EBITDA
Earnings per share, basic (EPS)[2]	Net profit/(loss) for the year divided by average number of shares, excl. treasury shares
Earnings per share, diluted (DEPS)[2]	Net profit/(loss) for the year divided by average number of shares, excl. treasury shares, incl. warrants, fully diluted
Cash flows from operating activities per share, diluted[2]	Cash flows 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[2]	Total number of shares, year-end, multiplied by the official price quoted on Nasdaq Copenhagen, year-end
Price/Earnings, diluted[2]	The official price quoted on Nasdaq Copenhagen, year-end, divided by earnings per share, diluted
Price/Cash flows, diluted[2]	The official price quoted on Nasdaq Copenhagen, year-end, divided by cash flows 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

EBITDA calculation (DKKm)	2020	2019[1]	2018[1]	2017[1]	2016
EBIT	1,990	3,153	4,846	8,174	2,292
+ Depreciation, amortization and impairment losses	2,793	1,670	1,638	1,258	1,554
- Gain on divestment of properties recognized in other operating expenses, net	-	-	(48)	(242)	-
EBITDA	**4,783**	**4,823**	**6,436**	**9,190**	**3,846**

1) 2017-2019 have been restated to reflect the reversal of an impairment loss on the Rexulti® product rights in 2017. See note 7 *Intangible assets*.

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

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

NOTES

STATEMENT OF PROFIT OR LOSS

1 January – 31 December

	Notes	2020 DKKm	2019 DKKm
Revenue	2	17,672	17,036
Cost of sales	3	4,166	3,840
Gross profit		**13,506**	**13,196**
Sales and distribution costs	3	5,946	5,514
Administrative expenses	3	966	899
Research and development costs	3	4,545	3,116
Other operating expenses, net	4	59	514
Profit from operations (EBIT)		**1,990**	**3,153**
Financial income	5	277	74
Financial expenses	5	361	201
Profit before tax		**1,906**	**3,026**
Tax on profit for the year	6	325	713
Profit for the year		**1,581**	**2,313**
Earnings per share, basic (EPS) (DKK)	13	7.95	11.64
Earnings per share, diluted (DEPS) (DKK)	13	7.95	11.64

STATEMENT OF COMPREHENSIVE INCOME

1 January – 31 December

	Notes	2020 DKKm	2019 DKKm
Profit for the year		**1,581**	**2,313**
Actuarial gains/losses	14	(1)	(61)
Tax	13	1	6
Items that will not be reclassified subsequently to profit or loss		**-**	**(55)**
Exchange rate gains/losses on investments in foreign subsidiaries		(1,007)	135
Exchange rate gains/losses on additions to net investments in foreign subsidiaries		(21)	(136)
Hedging of net investments in foreign subsidiaries	20	356	62
Deferred exchange gains/losses, hedging	20	313	(337)
Deferred fair value of interest rate swaps	20	(90)	8
Exchange gains/losses, hedging (transferred to revenue)	20	(5)	322
Exchange gains/losses, hedging (transferred to intangible assets)	20	-	(17)
Tax	13	(124)	22
Items that may be reclassified subsequently to profit or loss		**(578)**	**59**
Other comprehensive income		**(578)**	**4**
Comprehensive income		**1,003**	**2,317**

STATEMENT OF FINANCIAL POSITION – ASSETS

At 31 December

	Notes	2020 DKKm	2019 DKKm
Goodwill	7	4,845	5,278
Product rights	7	17,632	20,732
Other rights	7	90	114
Projects in progress	7	171	131
Intangible assets		**22,738**	**26,255**
Land and buildings	8	1,219	1,205
Plant and machinery	8	444	438
Other fixtures and fittings, tools and equipment	8	122	136
Prepayments and assets under construction	8	492	419
Right-of-use assets	9	456	476
Property, plant and equipment		**2,733**	**2,674**
Other financial assets		116	60
Other receivables		104	101
Deferred tax assets	6	233	5
Financial assets		**453**	**166**
Non-current assets		**25,924**	**29,095**
Inventories	10	**2,163**	**2,204**
Trade receivables	11	2,553	2,768
Income taxes receivable		217	464
Other receivables	11	868	388
Prepayments		380	202
Receivables		**4,018**	**3,822**
Securities	12	**-**	**4**
Cash and bank balances	12	**3,924**	**3,008**
Current assets		**10,105**	**9,038**
Assets		**36,029**	**38,133**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

At 31 December

	Notes	2020 DKKm	2019 DKKm
Share capital	13	996	996
Foreign currency translation reserve		134	882
Hedging reserve	20	95	(75)
Retained earnings		15,748	14,979
Equity		**16,973**	**16,782**
Retirement benefit obligations	14	288	295
Deferred tax liabilities	6	1,614	1,832
Provisions	16	139	258
Bank debt and bond debt	18	5,397	7,062
Lease liabilities	9	416	437
Other payables	19	1,190	1,187
Non-current liabilities		**9,044**	**11,071**
Retirement benefit obligations	14	2	-
Provisions	16	1,672	2,048
Bank debt	18	2,000	2,000
Trade payables		3,740	3,933
Lease liabilities	9	77	79
Income taxes payable		675	551
Other payables	19	1,846	1,669
Current liabilities		**10,012**	**10,280**
Liabilities		**19,056**	**21,351**
Equity and liabilities		**36,029**	**38,133**

STATEMENT OF CHANGES IN EQUITY

At 31 December

	Notes	Share capital DKKm	Foreign currency translation reserve DKKm	Hedging reserve DKKm	Retained earnings DKKm	Total equity DKKm
2020						
Equity at 1 January		**996**	**882**	**(75)**	**14,979**	**16,782**
Profit for the year		-	-	-	1,581	1,581
Other comprehensive income	13	-	(748)	170	-	(578)
Comprehensive income		**-**	**(748)**	**170**	**1,581**	**1,003**
Distributed dividends, gross	13	-	-	-	(816)	(816)
Dividends received, treasury shares		-	-	-	1	1
Capital increase through exercise of warrants	13	-	-	-	1	1
Buyback of treasury shares	13	-	-	-	(29)	(29)
Incentive programs	15	-	-	-	30	30
Tax on other transactions in equity	6	-	-	-	1	1
Other transactions		**-**	**-**	**-**	**(812)**	**(812)**
Equity at 31 December		**996**	**134**	**95**	**15,748**	**16,973**
2019						
Equity at 1 January		**996**	**804**	**(56)**	**15,089**	**16,833**
Profit for the year		-	-	-	2,313	2,313
Other comprehensive income	13	-	78	(19)	(55)	4
Comprehensive income		**-**	**78**	**(19)**	**2,258**	**2,317**
Distributed dividends, gross	13	-	-	-	(2,389)	(2,389)
Dividends received, treasury shares		-	-	-	5	5
Capital increase through exercise of warrants	13	-	-	-	4	4
Buyback of treasury shares	13	-	-	-	(20)	(20)
Incentive programs	15	-	-	-	33	33
Tax on other transactions in equity	6	-	-	-	(1)	(1)
Other transactions		**-**	**-**	**-**	**(2,368)**	**(2,368)**
Equity at 31 December		**996**	**882**	**(75)**	**14,979**	**16,782**

STATEMENT OF CASH FLOWS

At 31 December

	Notes	2020 DKKm	2019 DKKm
Profit from operations (EBIT)		**1,990**	**3,153**
Adjustment for non-cash items:			
Amortization, depreciation and impairment losses		2,793	1,670
Incentive programs		30	33
Change in provisions		(307)	(508)
Other adjustments		(39)	(124)
Change in working capital:			
Change in inventories		(265)	227
Change in receivables		(428)	(138)
Change in short-term debt		675	(1,024)
Cash flows from operations before financial receipts and payments		**4,449**	**3,289**
Financial receipts		11	5
Financial payments		(298)	(15)
Cash flows from ordinary activities		**4,162**	**3,279**
Income taxes paid		(325)	(670)
Cash flows from operating activities		**3,837**	**2,609**
Acquisition of businesses		-	(10,496)
Purchase of intangible assets	7	(114)	(88)
Purchase of property, plant and equipment	8	(364)	(356)
Sale of property, plant and equipment		1	4
Purchase of securities and other financial assets		(17)	(18)
Sale of securities and other financial assets		27	3,199
Cash flows from investing activities		**(467)**	**(7,755)**
Cash flows from operating and investing activities (free cash flow)		**3,370**	**(5,146)**

	Notes	2020 DKKm	2019 DKKm
Proceeds from loans and issue of bonds	18	3,701	11,095
Repayment of bank loans and borrowings	18	(5,169)	(4,080)
Repayment of lease liabilities	9	(83)	(67)
Buyback of treasury shares	13	(29)	(20)
Capital increase through exercise of warrants	13	1	4
Dividends paid in the financial year, net		(815)	(2,384)
Cash flows from financing activities		**(2,394)**	**4,548**
Net cash flows for the year		**976**	**(598)**
Cash and bank balances at 1 January		3,008	3,605
Unrealized exchange gains/losses on cash and bank balances		(60)	1
Net cash flows for the year		976	(598)
Cash and bank balances at 31 December		**3,924**	**3,008**
Interest-bearing debt, cash, bank balances and securities, net, is composed as follows:			
Cash and bank balances	12	3,924	3,008
Securities	12	-	4
Interest bearing debt	18	(8,030)	(9,578)
Interest-bearing debt, cash, bank balances and securities, net, at 31 December – net cash/(net debt)		**(4,106)**	**(6,566)**

NOTE 1

1 BASIS OF PREPARATION

1.1 Reporting entity

H. Lundbeck A/S (herein denominated the "Parent company" or "Company") is domiciled in Denmark. The Company's registered office is at Ottiliavej 9, 2500 Valby. These consolidated financial statements comprise the Parent company and its subsidiaries (together referred to as the "Group" or "Lundbeck"). The Group is engaged in research, development, production and sale of pharmaceuticals for the treatment of psychiatric and neurological disorders. See note 2 *Revenue and segment information*.

1.2 Basis of accounting

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. The consolidated financial statements were approved by the Board of Directors and authorized for issue on 4 February 2021.

The comparative figures for 2019 are in accordance with the restated figures as published in the "Adjusted Supplementary Information to the Annual Report 2019" on 5 January 2021 presenting the changes required by the Danish Business Authority ("Erhvervsstyrelsen"). See note 7 *Intangible assets*.

The statement of financial position is also referred to as "balance sheet".

Details of the Group's accounting policies are included in note 1.7 *Standards issued but not yet effective* and note 26 *Significant accounting policies*.

1.3 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in Danish kroner (DKK), which is also the functional currency of the Parent company. All amounts have been rounded to millions, unless otherwise indicated.

1.4 Principal accounting policies

The consolidated financial statements have been prepared to give a true and fair view of the Group's financial position at 31 December 2020 and financial performance for the year. The significant accounting policies are described in note 26 *Significant accounting policies*. Management believes that the accounting policies listed in note 1.5 *Use of judgments and estimates* are principal to the financial statements.

1.5 Use of judgments and estimates

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

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

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

Principal accounting policies	Key accounting estimates and judgments	Note
Provision for discounts and rebates	Estimate of discounts and rebates in the U.S.	2, 16
Income taxes and deferred income taxes	Judgment and estimate of deferred tax assets and liabilities and provision for uncertain tax positions	6
Impairment of product rights	Estimate of the value-in-use methodology for impairment of product rights	7
Provisions for legal disputes, contingent assets and liabilities	Estimate of ongoing legal disputes, litigations and investigations	16, 17
Other payables - contingent consideration	Assumptions and estimates used in the calculation of the fair value related to contingent consideration from the businesses acquired in 2019	19

1.6 Changes in significant accounting policies

Effective 1 January 2020, a number of amendments to the accounting standards were implemented.

None of the amendments have a material impact on the accounting policies and/or on the consolidated financial statements, consequently, no changes to the accounting policies or retrospective adjustments have been made as a result of adopting these standards.

NOTES 1-2

1 BASIS OF PREPARATION - CONTINUED

1.7 Standards issued but not yet effective
A number of new standards and amendments are effective for annual periods beginning after 1 January 2020 though not mandatory for annual reporting periods ending on 31 December 2020. Earlier application is permitted; however the new or amended standards have not been early adopted by the Group.

The amended standards are as follows:
- Classification of Liabilities as Current or Non-current (amendments to IAS 1 *Presentation of Financial Statements*)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*)

The amended standards are not mandatory for 31 December 2020 reporting periods. The Group expects to adopt the new standards, improvements, amendments and interpretations when they become mandatory.

None of the amended standards are expected to have a significant impact on the accounting policies and/or on the consolidated financial statements.

1.8 European Single Electronic Format (ESEF)
Reporting using ESEF is introduced for annual reports of public listed companies on EU regulated markets from 2020.

The annual report is prepared in XHTML format, and the consolidated financial statements are tagged using inline eXtensible Business Reporting Language (iXBRL). The iXBRL tags comply with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation. Where a financial statement line item is not defined in the ESEF taxonomy, an extension to the taxonomy has been created. Extensions are anchored to elements in the ESEF taxonomy, except for extensions which are subtotals.

The annual report submitted to the Danish Financial Supervisory Authority consists of the XHTML document together with certain technical files, all included in a ZIP file named HLUN-2020-12-31.zip.

2 REVENUE AND SEGMENT INFORMATION

The Group is engaged in research, development, production and sale of pharmaceuticals for the treatment of psychiatric and neurological disorders, which is the Group's single business (operating) segment. The business segment reflects the way in which Management makes decisions and assesses the business performance.

The Group is organized in geographical regions, and the tables below show the Group's revenue from external customers broken down by key products and geographical regions.

2020	Europe DKKm	North America DKKm	International Markets DKKm	Group DKKm
Abilify Maintena®	1,081	980	210	2,271
Brintellix®/Trintellix®	837	1,682	583	3,102
Cipralex®/Lexapro®	523	127	1,730	2,380
Northera®	-	2,553	-	2,553
Onfi®	-	642	-	642
Rexulti®/Rxulti®	18	2,537	65	2,620
Sabril®	-	777	-	777
Vyepti®	-	93	-	93
Other pharmaceuticals	870	399	1,469	2,738
Other revenue				491
Effects from hedging				5
Total revenue	**3,329**	**9,790**	**4,057**	**17,672**
Of this amount:				
Royalty				752
Downpayments and milestone payments				32

Of total revenue, DKK 30 million derived from sales in Denmark, and DKK 9,074 million derived from sales in the U.S.

For information on trade receivables and major customers, see note 11 *Trade and other receivables*.

NOTES 2-3

2 REVENUE AND SEGMENT INFORMATION – CONTINUED

2019	Europe DKKm	North America DKKm	International Markets DKKm	Group DKKm
Abilify Maintena®	951	845	165	1,961
Brintellix®/Trintellix®	730	1,579	517	2,826
Cipralex®/Lexapro®	538	138	1,638	2,314
Northera®	-	2,328	-	2,328
Onfi®	-	1,052	-	1,052
Rexulti®/Rxulti®	11	2,219	40	2,270
Sabril®	-	847	-	847
Other pharmaceuticals	993	575	1,532	3,100
Other revenue				660
Effects from hedging				(322)
Total revenue	**3,223**	**9,583**	**3,892**	**17,036**
Of this amount:				
Royalty				888
Downpayments and milestone payments				74

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

Intangible assets and property, plant and equipment	2020 DKKm	2019 DKKm
Denmark	11,452	10,120
USA	12,487	16,557
Other countries	1,532	2,252
Total	**25,471**	**28,929**

3 EMPLOYEE COSTS

Breakdown of employee costs

	2020 DKKm	2019 DKKm
Short-term employee benefits	4,293	3,849
Retirement benefits	244	238
Social security costs	353	330
Equity- and cash-settled incentive programs	34	36
Total	**4,924**	**4,453**

Employee costs by nature	2020 DKKm	2019 DKKm
Cost of sales	725	593
Sales and distribution costs	2,550	2,344
Administrative expenses	633	531
Research and development costs	1,016	985
Total	**4,924**	**4,453**

Registered Executive Management

Each of the registered Executive Management members participates in a short-term incentive program that provides an annual cash bonus based on the achievement of predetermined targets for the preceding financial year. The short-term incentive payment levels will be determined by the Board of Directors from year to year. The CEO has a target of up to 100% and a maximum of up to 117% of the fixed annual base salary. The other registered Executive Management members have a target of up to 33.33% and a maximum of up to 50% of the fixed annual base salary. All registered Executive Management members may receive payment below target and potentially no payment in case of performance below target.

NOTE 3

3 EMPLOYEE COSTS – CONTINUED

	Salary DKKm	Cash bonus DKKm	Pension DKKm	Other benefits DKKm	Equity- and cash-settled incentive programs DKKm	Total DKKm	Tax indemnification[1] DKKm	Total after tax indemnification DKKm
2020								
Deborah Dunsire, President and CEO	9.6	9.1	-	0.4	3.9	23.0	2.7	25.7
Lars Bang, Executive Vice President, Product Development & Supply	4.0	1.8	1.1	0.2	2.2	9.3	-	9.3
Anders Götzsche, Executive Vice President, CFO	5.0	2.4	1.3	0.2	2.3	11.2	-	11.2
Per Johan Luthman, Executive Vice President, Research & Development	3.8	1.7	1.0	0.2	1.1	7.8	-	7.8
Jacob Tolstrup, Executive Vice President, Commercial Operations	3.9	1.7	1.0	0.2	1.9	8.7	-	8.7
Total	**26.3**	**16.7**	**4.4**	**1.2**	**11.4**	**60.0**	**2.7**	**62.7**
2019								
Deborah Dunsire, President and CEO	9.4	9.0	-	0.1	2.7	21.2	36.0	57.2
Lars Bang, Executive Vice President, Product Development & Supply	4.0	1.8	1.0	0.2	1.9	8.9	-	8.9
Anders Götzsche, Executive Vice President, CFO	4.9	2.3	1.3	0.2	1.5	10.2	-	10.2
Per Johan Luthman[2], Executive Vice President, Research & Development	3.2	1.6	0.8	0.1	0.5	6.2	-	6.2
Jacob Tolstrup, Executive Vice President, Commercial Operations	3.8	1.8	1.0	0.2	1.5	8.3	-	8.3
Total	**25.3**	**16.5**	**4.1**	**0.8**	**8.1**	**54.8**	**36.0**	**90.8**

1) According to the employment agreement with Deborah Dunsire, Lundbeck will pay the difference in taxation on investment return from personal assets between the U.S. and Denmark.

2) Per Johan Luthman joined H. Lundbeck A/S in February 2019.

Executives

	2020 DKKm	2019 DKKm
Short-term employee benefits	96	85
Retirement benefits	11	11
Other social security costs	1	1
Equity- and cash-settled incentive programs	11	10
Total	**119**	**107**

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

Board of Directors

The total remuneration of the Board of Directors for 2020 amounted to DKK 7.5 million (DKK 6.8 million in 2019). The amount includes fees for participation in the Audit Committee of DKK 0.7 million (DKK 0.7 million in 2019), the Remuneration & Nomination Committee of DKK 0.7 million (DKK 0.7 million in 2019), the Scientific Committee of DKK 0.7 million (DKK 0.7 million in 2019) and travel allowances of DKK 0.8 million (DKK 0.5 million in 2019) for board members with permanent residence outside of Europe. The remuneration for 2020 is consistent with the remuneration presented at the Annual General Meeting held on 24 March 2020.

The members of the Board of Directors held a total of 47,313 Lundbeck shares at 31 December 2020 (47,313 shares in 2019).

The total remuneration of the Chairman of the Board of Directors amounted to DKK 1.7 million (DKK 1.6 million in 2019). The total remuneration of the Deputy Chairman of the Board of Directors amounted to DKK 1.2 million (DKK 1.1 million in 2019). These amounts include fees for participation in Board committees.

Number of employees

	2020	2019
Average number of full-time employees in the financial year	**5,717**	**5,475**
Number of full-time employees at 31 December		
In Denmark	1,728	1,786
In other countries	3,900	4,020
Total	**5,628**	**5,806**

NOTES 4-6

4 OTHER OPERATING EXPENSES, NET

In 2020, other operating expenses, net, amounted to DKK 59 million (DKK 514 million in 2019) relating to integration, retention and transaction costs in connection with the acquisition of Alder BioPharmaceuticals, Inc. (subsequently renamed Lundbeck Seattle BioPharmaceuticals, Inc.).

5 NET FINANCIALS

	2020 DKKm	2019 DKKm
Net interest income/(expenses) from financial assets and financial liabilities measured at amortized cost	(167)	(17)
Interest expenses relating to lease liabilities	(8)	(7)
Net gains/(losses) on securities and other financial assets, measured at fair value through profit or loss, incl. dividends	80	(5)
Net fair value adjustment of contingent consideration	3	(20)
Net exchange gains/(losses)	76	(55)
Net income/(expenses), other financial items	(68)	(23)
Financial income/(expenses) - Net financials	**(84)**	**(127)**

Interest income from financial assets measured at amortized cost amounted to DKK 6 million (DKK 39 million in 2019), and interest expenses on financial assets and financial liabilities measured at amortized cost amounted to DKK 173 million (DKK 56 million in 2019).

6 INCOME TAXES

Tax on profit for the year

	2020 DKKm	2019 DKKm
Current tax	735	402
Prior-year adjustments, current tax	1	385
Prior-year adjustments, deferred tax	(41)	(403)
Change in deferred tax for the year	(284)	303
Change in deferred tax as a result of changed income tax rates	36	(1)
Total tax for the year	**447**	**686**
Tax for the year is composed of:		
Tax on profit for the year	325	713
Tax on other comprehensive income	123	(28)
Tax on other transactions in equity	(1)	1
Total tax for the year	**447**	**686**

For a specification of tax on comprehensive income, see note 13 *Equity*.

Uncertain tax positions

The Group operates in a multinational tax environment. Complying with tax rules can be complex as the interpretation of legislation and case law may not always be clear or may change over time. In addition, transfer pricing disputes with tax authorities may occur. Management's judgments are applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties.

The net accrual for uncertain tax positions amounts to DKK 406 million (DKK 385 million in 2019). Management believes that the accrual is adequate. However, the actual obligation may differ from the accrual made and depends on the outcome of litigations and settlements with the relevant tax authorities.

NOTE 6

6 INCOME TAXES - CONTINUED

Explanation of the Group's effective tax rate

	DKKm	%
2020		
Profit before tax	**1,906**	
Calculated tax, 22%	419	22.0
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	20	1.0
Non-deductible expenses/non-taxable income and other permanent differences	59	3.1
Research and development incentives	(69)	(3.6)
Foreign-derived intangible income benefit	(26)	(1.4)
Non-deductible writedown on intangible assests	111	5.8
Non-deductible amortization of product rights	101	5.3
Change in valuation of net tax assets	(286)	(15.0)
Change in deferred tax as a result of changed income tax rates	36	1.9
Prior-year tax adjustments etc., total effect on operations	(40)	(2.1)
Effective tax/tax rate for the year	**325**	**17.0**

	DKKm	%
2019		
Profit before tax	**3,026**	
Calculated tax, 22%	665	22.0
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	62	2.0
Non-deductible expenses/non-taxable income and other permanent differences	79	2.6
Research and development incentives	(13)	(0.4)
Foreign-derived intangible income benefit	(140)	(4.6)
Non-deductible amortization of product rights	103	3.4
Change in valuation of net tax assets	(24)	(0.8)
Change in deferred tax as a result of changed income tax rates	(1)	(0.0)
Prior-year tax adjustments etc., total effect on operations	(18)	(0.6)
Effective tax/tax rate for the year	**713**	**23.6**

NOTE 6

6 INCOME TAXES – CONTINUED

Deferred tax balances

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[2] DKKm	Additions through acquisitions DKKm	Movements during the year DKKm	Balance at 31 December DKKm
2020						
Intangible assets	15,708	(981)	5	-	(1,896)	12,836
Property, plant and equipment	753	(15)	6	-	(16)	728
Inventories	597	(15)	(582)	(178)	103	(75)
Provisions	(1,645)	102	49	(164)	247	(1,411)
Other items[1]	(546)	36	(8)	-	(27)	(545)
Tax loss carryforwards etc.	(7,191)	380	366	164	453	(5,828)
Total temporary differences	**7,676**	**(493)**	**(164)**	**(178)**	**(1,136)**	**5,705**
Deferred (tax assets)/tax liabilities	1,831	(119)	(41)	(38)	(248)	1,385
Research and development incentives	(4)	-	-	-	-	(4)
Deferred (tax assets)/tax liabilities	**1,827**	**(119)**	**(41)**	**(38)**	**(248)**	**1,381**
2019						
Intangible assets	4,420	(298)	10	15,274	(3,698)	15,708
Property, plant and equipment	283	(39)	202	98	209	753
Inventories	(116)	(3)	22	668	26	597
Provisions	(1,452)	(57)	(61)	(462)	387	(1,645)
Other items[1]	1,867	(116)	(1,937)	(51)	(309)	(546)
Tax loss carryforwards etc.	(4,365)	47	(124)	(7,229)	4,480	(7,191)
Total temporary differences	**637**	**(466)**	**(1,888)**	**8,298**	**1,095**	**7,676**
Deferred (tax assets)/tax liabilities	109	(16)	(403)	1,910	231	1,831
Research and development incentives	(73)	(2)	-	-	71	(4)
Deferred (tax assets)/tax liabilities	**36**	**(18)**	**(403)**	**1,910**	**302**	**1,827**

1) Movements during the year include DKK -1 million (DKK 1 million in 2019) recognized in equity.

2) In 2019, in accordance with IFRIC 23 *Uncertainty over Income Tax Treatments* movements in Other items includes a reclassification to income taxes payable of DKK 1,672 million (tax value DKK 368 million) relating to provisions for uncertain tax positions.

NOTE 6

6 INCOME TAXES – CONTINUED

Deferred (tax assets)/tax liabilities	2020 Deferred tax assets DKKm	2020 Deferred tax liabilities DKKm	2020 Net DKKm	2019 Deferred tax assets DKKm	2019 Deferred tax liabilities DKKm	2019 Net DKKm
Intangible assets	(105)	3,156	3,051	(35)	3,790	3,755
Property, plant and equipment	(8)	179	171	(9)	183	174
Inventories	(94)	68	(26)	(70)	207	137
Provisions	(339)	-	(339)	(396)	-	(396)
Other items	(195)	53	(142)	(197)	53	(144)
Tax loss carryforwards etc.	(1,330)	-	(1,330)	(1,695)	-	(1,695)
Research and development incentives	(4)	-	(4)	(4)	-	(4)
Deferred (tax assets)/tax liabilities	**(2,075)**	**3,456**	**1,381**	**(2,406)**	**4,233**	**1,827**
Set off within legal tax entities and jurisdictions	1,842	(1,842)	-	2,401	(2,401)	-
Total net deferred (tax assets)/tax liabilities	**(233)**	**1,614**	**1,381**	**(5)**	**1,832**	**1,827**

Management estimates future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years, which 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*.

Accordingly, at 31 December 2020 all deferred tax assets relating to tax losses carried forward in Denmark from 2015, 2016 and 2018 were capitalized in the amount of DKK 777 million (DKK 820 million in 2019). U.S. tax losses and tax credits stemming from acquisitions have been recognized in the amount of DKK 553 million (DKK 775 million in 2019) equalling the expected utilization within a foreseeable future, whereas an amount of DKK 132 million (DKK 454 million in 2019) has not been recognized in the balance sheet.

Unrecognized deferred tax assets

	2020 DKKm	2019 DKKm
Unrecognized deferred tax assets at 1 January	507	77
Additions through acquisitions	-	454
Prior-year adjustments	(37)	(24)
Additions	1	3
Recognized	(287)	(3)
Unrecognized deferred tax assets at 31 December	**184**	**507**

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

NOTE 7

7 INTANGIBLE ASSETS

Reconciliation of carrying amount

Intangible assets	Goodwill DKKm	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
2020					
Cost at 1 January	5,278	31,610	1,826	134	38,848
Effect of foreign exchange differences	(409)	(1,357)	(12)	(1)	(1,779)
Transfers	-	-	55	(55)	-
Additions	-	-	21	93	114
Additions through acquisitions, change in opening balance	(24)	-	-	-	(24)
Disposals	-	-	(159)	-	(159)
Cost at 31 December	**4,845**	**30,253**	**1,731**	**171**	**37,000**
Amortization and impairment losses at 1 January	-	10,878	1,712	3	12,593
Effect of foreign exchange differences	-	(597)	(10)	-	(607)
Transfers	-	-	3	(3)	-
Amortization	-	1,548	63	-	1,611
Impairment losses	-	792	-	-	792
Disposals	-	-	(127)	-	(127)
Amortization and impairment losses at 31 December	**-**	**12,621**	**1,641**	**-**	**14,262**
Carrying amount at 31 December	**4,845**	**17,632**	**90**	**171**	**22,738**

1) At 31 December 2020, product rights not yet commercialized amounted to DKK 5,890 million (DKK 15,956 million in 2019).

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

In 2020, Lundbeck changed the initial purchase price allocation relating to the acquisition of Alder BioPharmaceuticals, Inc. (subsequently renamed Lundbeck Seattle BioPharmaceuticals, Inc.) due to prepayments to a supplier expensed prior to the acquisition date and due to a reassessment of the inventory valuation. This resulted in a decrease in goodwill of DKK 24 million, comprising an increase in prepayments of DKK 164 million and a decrease in inventories, net of tax, of DKK 140 million.

Intangible assets	Goodwill DKKm	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
2019					
Cost at 1 January	4,300	16,239	1,759	136	22,434
Effect of foreign exchange differences	69	97	3	-	169
Additions through acquisitions	909	15,274	-	-	16,183
Transfers	-	-	58	(58)	-
Additions	-	-	15	73	88
Disposals	-	-	(9)	(17)	(26)
Cost at 31 December	**5,278**	**31,610**	**1,826**	**134**	**38,848**
Amortization and impairment losses at 1 January	-	9,432	1,648	20	11,100
Effect of foreign exchange differences	-	137	3	-	140
Amortization	-	1,309	68	-	1,377
Disposals	-	-	(7)	(17)	(24)
Amortization and impairment losses at 31 December	**-**	**10,878**	**1,712**	**3**	**12,593**
Carrying amount at 31 December	**5,278**	**20,732**	**114**	**131**	**26,255**

Description of material product rights

In October 2019, as part of the acquisition of Alder BioPharmaceuticals, Inc. (subsequently renamed Lundbeck Seattle BioPharmaceuticals, Inc.), Lundbeck acquired the eptinezumab product rights, which is an investigational monoclonal antibody (mAb) for migraine prevention targeting the calcitonin gene-related peptide (CGRP). The value of the product rights was DKK 13,421 million at the time of acquisition. The carrying amount of DKK 12,076 million at 31 December 2020 (DKK 13,340 million in 2019) was affected by developments in the USD/DKK exchange rate.

NOTE 7

7 INTANGIBLE ASSETS - CONTINUED

In May 2019, as part of the acquisition of Abide Therapeutics, Inc. (subsequently renamed Lundbeck La Jolla Research Center, Inc., Lundbeck acquired a portfolio of compounds, including the product rights to ABX-1431; a first-in-class, small-molecule inhibitor of monoacylglycerol lipase (MGLL) currently being investigated in clinical trials for the treatment of neurological disorders, and various compounds in the pre-clinical phase. The value of the portfolio of compounds recognized as product rights was DKK 1,853 million at the time of acquisition. The carrying amount of DKK 1,871 million at 31 December 2020 (DKK 1,840 million in 2019) was affected by developments in the USD/DKK exchange rate.

In 2015, Lundbeck recognized an impairment loss on the Rexulti® product rights in the approximate amount of DKK 5 billion. In 2020, based on the requirement from the Danish Business Authority, an impairment test was performed for 2017, leading to the conclusion that the impairment loss recognized in the Annual Report 2015 should be reversed in 2017 net of accumulated amortization. The reversal led to an increase in the value of the Rexulti® product rights amounting to DKK 3,766 million, net of amortization, at 31 December 2017. The value of the Rexulti® product rights was restated and published on 5 January 2021 as “Adjusted Supplementary Information to the Annual Report 2019”. The total carrying amount of the Rexulti® product rights amounted to DKK 2,823 million, net of amortization, at 31 December 2020 (DKK 3,150 million in 2019).

Amortization and impairment losses
Amortization and impairment losses for the year are included in the following functions in the statement of profit or loss:

Amortization and impairment losses	2020 DKKm	2019 DKKm
Cost of sales	1,584	1,343
Sales and distribution costs	33	18
Administrative expenses	18	6
Research and development costs	800	12
Total	**2,435**	**1,379**

In March 2020, it was announced that the phase IIa study (AMBLED) of its novel selective positive allosteric modulator of the glutamate 4 receptor (mGlu4 PAM), foliglurax, for the treatment of Parkinson's disease did not meet the primary study endpoint. Consequently, Lundbeck recognized an impairment loss of DKK 792 million relating to the foliglurax product rights. The impairment loss is included in research and development costs.

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

In addition to the impairment test of the CGU, an impairment test was performed for the product rights of Rexulti® as indications of impairment were identified.

Methodology
In the impairment test of the CGU, based on the fair value less cost of disposal, the market price of Lundbeck is compared with its carrying amount.

In the impairment test of the product rights of Rexulti®, based on value in use, the discounted expected future cash flows for the specific asset tested are compared with the carrying amount of the intangible asset. The expected future cash flows are based on a forecast period of nine years, which is the period used by Management for decision making, with due consideration of patent expiry. The assumptions used in the impairment test are based on benchmarked external data and historical trends. The key parameters in the calculation of the value in use are revenue, earnings, working capital, discount rate and the preconditions for the cash flow period.

In the impairment test of the product rights of Rexulti®, based on value in use, significant assumptions and estimates are applied to the discounted expected future cash flows from the product right. The value-in-use calculation is compared with the carrying amount of the relevant asset.

NOTE 7

7 INTANGIBLE ASSETS - CONTINUED

The four category elements in the table below are taken into consideration when determining the key parameters for the value-in-use calculation.

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 (including promotion costs)	

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

The calculation of the value in use for product right is based on a discount rate after tax of 7.3% (7.93% in 2019).

2020 testing outcome
The impairment tests performed in 2020 did not result in the recognition of impairment losses other than the impairment loss on the foliglurax product rights recognized in March 2020.

2019 testing outcome
The impairment test performed in 2019 did not result in the recognition of any impairment losses.

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

NOTE 8

8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Land and buildings[1] DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment DKKm	Prepayments and assets under construction DKKm	Total property, plant and equipment DKKm
2020					
Cost at 1 January	3,381	1,906	853	419	6,559
Effect of foreign exchange differences	(1)	(6)	(16)	(2)	(25)
Transfers	91	68	21	(180)	-
Additions	29	46	34	255	364
Disposals	(5)	(12)	(59)	-	(76)
Cost at 31 December	**3,495**	**2,002**	**833**	**492**	**6,822**
Depreciation and impairment losses at 1 January	2,176	1,468	717	-	4,361
Effect of foreign exchange differences	(1)	(5)	(8)	-	(14)
Depreciation	104	100	45	-	249
Impairment losses	1	7	-	-	8
Disposals	(4)	(12)	(43)	-	(59)
Depreciation and impairment losses at 31 December	**2,276**	**1,558**	**711**	**-**	**4,545**
Carrying amount at 31 December	**1,219**	**444**	**122**	**492**	**2,277**

1) No land and buildings were mortgaged at 31 December 2020 and at 31 December 2019.

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
2019					
Cost at 1 January	3,309	1,765	813	333	6,220
Effect of foreign exchange differences	1	-	3	-	4
Additions through acquisitions	-	17	32	-	49
Transfers	60	89	11	(160)	-
Additions	17	55	28	256	356
Disposals	(6)	(20)	(34)	(10)	(70)
Cost at 31 December	**3,381**	**1,906**	**853**	**419**	**6,559**
Depreciation and impairment losses at 1 January	2,083	1,401	708	10	4,202
Effect of foreign exchange differences	1	-	3	-	4
Depreciation	97	87	36	-	220
Impairment losses	1	-	-	-	1
Disposals	(6)	(20)	(30)	(10)	(66)
Depreciation and impairment losses at 31 December	**2,176**	**1,468**	**717**	**-**	**4,361**
Carrying amount at 31 December	**1,205**	**438**	**136**	**419**	**2,198**

NOTES 9-11

9 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Amounts recognized in profit or loss	2020 DKKm	2019 DKKm
Expenses relating to short-term leases, not capitalized	2	4
Depreciation of right-of-use assets, land and buildings	85	70
Interest expenses relating to lease liabilities	8	7

Land and buildings	2020 DKKm	2019 DKKm
Carrying amount at 1 January	476	441
Additions (in 2019, including additions through acquisitions)	34	76
Carrying amount at 31 December	456	476

Development in lease liabilities	Balance at 1 January DKKm	Cash outflow DKKm	Non-cash flow DKKm	Balance at 31 December DKKm
2020				
Lease liabilities	516	(83)	60	493
Total lease liabilities	**516**	**(83)**	**60**	**493**
2019				
Lease liabilities	472	(67)	111	516
Total lease liabilities	**472**	**(67)**	**111**	**516**

The total cash outflow from lease agreements relating to office leases and similar amounted to DKK 91 million (DKK 74 million in 2019) and includes repayment of lease liabilities and interest.

The maturity analysis of lease liabilities is provided in the table ”Classification of and contractual maturity dates for financial assets and financial liabilities” in note 20 *Financial instruments*.

10 INVENTORIES

	2020 DKKm	2019 DKKm
Raw materials and consumables	206	233
Work in progress	1,155	1,084
Finished goods and goods for resale	802	887
Total	**2,163**	**2,204**

Inventories recognized as cost of sales amounted to DKK 2,618 million (DKK 2,531 million in 2019).

Inventories of DKK 722 million (DKK 749 million in 2019) are expected to be utilized after more than 12 months.

11 TRADE AND OTHER RECEIVABLES

	2020 DKKm	2019 DKKm
Trade receivables	2,579	2,797
Writedowns	(26)	(29)
Trade receivables, net	**2,553**	**2,768**
Other receivables	**868**	**388**

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.

NOTES 11-12

11 TRADE AND OTHER RECEIVABLES - CONTINUED

In April 2020, Lundbeck purchased a “key buyer” credit insurance covering around 100 of the largest customers of the Group. The credit insurance protects against insolvency, protracted default and political risk.

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 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 2020.

The Group has one customer in the U.S. contributing approximately DKK 1.8 billion (DKK 1.7 billion in 2019) of total revenue. No other single customer contributed 10% or more to total revenue.

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.

12 CASH RESOURCES

	2020 DKKm	2019 DKKm
Cash and bank balances	3,924	3,008
Securities with a maturity of more than three months[1]	-	4
Cash, bank balances and securities at 31 December	**3,924**	**3,012**

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

Liquidity risk and capital structure
The credit risk on cash and derivatives (forward exchange contracts, currency options and interest rate swaps) is limited as Lundbeck only deals 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 whom Lundbeck collaborates. The counterparty risk towards banks with a short-term credit rating lower than A-1 (Standard & Poor’s) is kept to a minimum, only allowing balances necessary for operating needs within the immediate future. Credit lines are part of the Treasury Policy.

The Treasury Policy covers financial resources, foreign currency exposure, interest rate risk, securities, loan and bond portfolios as well as capitalization of subsidiaries. The Treasury Policy 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.

In 2019, Lundbeck entered into two loan agreements with its strategic banks; a revolving credit facility (RCF) of EUR 1.5 billion and a term loan of DKK 2 billion.

The RCF expires in 2024 and has an option, at the lenders' discretion, to extend the maturity for up to two additional years. The flexible structure of the RCF enables repayment of the debt in full at short notice, normally not more than three months, and still maintain the facility until expiration of the credit commitment.

The term loan also has an extension possibility, at the lenders’ discretion, to extend the maturity for up to two additional years. Due to Lundbeck’s significant unutilized credit facilities and cash position, from a liquidity risk perspective, it is not expected to be necessary to extend the term loan.

NOTES 12-13

12 CASH RESOURCES - CONTINUED

Both facilities are subject to covenants, and no breaches were encountered during the year. At 31 December 2020, Lundbeck had unutilized committed credit facilities of DKK 9.4 billion (DKK 4.1 billion in 2019).

In October 2020, Lundbeck issued a seven-year eurobond in the amount of EUR 500 million with a fixed coupon of 0.875%. The bond was issued under Lundbeck´s euro medium-term note (EMTN) program of EUR 2 billion.

In addition, Lundbeck has a number of uncommitted credit facilities to cover its day-to-day operations. At 31 December 2020 and 31 December 2019, these credit facilities were unutilized.

When managing its capital structure, Lundbeck's main objective is to support the Expand and invest to grow strategy; use capital resources for required research and development and for investments to realize the strategy; and to generate long-term attractive return for the shareholders. Lundbeck also wishes to be a strong financial counterparty to debt providers and other stakeholders by maintaining its investment grade credit rating (BBB-).

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

Lundbeck defines capital as total equity and net interest-bearing debt (see notes 18 *Bank debt, bond debt and borrowings* and 9 *Right-of-use assets and lease liabilities)* and after deducting cash resources. At 31 December 2020, total equity amounted to DKK 16,973 million compared with DKK 16,782 million at 31 December 2019. At 31 December 2020, interest-bearing debt, cash, bank balances and securities, net, amounted to DKK 4,106 million compared with DKK 6,566 million at 31 December 2019. The change in interest-bearing debt, cash, bank balances and securities, net, is mainly due to cash flows from operations.

Lundbeck has unfunded obligations relating to defined benefit plans amounting to DKK 255 million at 31 December 2020 (DKK 262 million in 2019).

13 EQUITY

Share capital

The share capital of DKK 996 million at 31 December 2020 is divided into 199,148,222 shares at a nominal value of DKK 5 each.

Share capital	2020 DKKm	2019 DKKm	2018 DKKm	2017 DKKm	2016 DKKm
At 1 January	996	996	995	988	987
Capital increase through exercise of warrants	-	-	1	7	1
At 31 December	**996**	**996**	**996**	**995**	**988**

Issued shares	2020 Number	2019 Number
At 1 January	199,136,725	199,104,996
Capital increase through exercise of warrants	11,497	31,729
At 31 December	**199,148,222**	**199,136,725**

Treasury shares

Treasury shares	Shares of DKK 5 nom. Number	Nominal value DKKm	Proportion of share capital %	Cost DKKm
2020				
Shareholding at 1 January	435,019	2	0.22	135
Share buyback	114,000	1	0.06	29
Shares used for funding incentive programmes	(99,123)	(1)	(0.05)	(29)
Shareholding at 31 December	**449,896**	**2**	**0.23**	**135**
2019				
Shareholding at 1 January	366,019	2	0.18	115
Share buyback	69,000	-	0.04	20
Shareholding at 31 December	**435,019**	**2**	**0.22**	**135**

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.

NOTE 13

13 EQUITY - CONTINUED

In 2020, the Parent company acquired treasury shares at a value of DKK 29 million (DKK 20 million in 2019), corresponding to 114,000 shares (69,000 shares in 2019). The shares were acquired to fund Lundbeck's long-term share-based incentive programs. A total of 99,123 shares were used for this purpose in 2020 (0 shares in 2019).

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 2020, employees exercised warrants totalling DKK 1 million (DKK 4 million in 2019). The share premium in this connection was DKK 1 million (DKK 4 million in 2019).

Distribution of profit

The Board of Directors is proposing distribution of dividends for 2020 of approximately 31% (35% in 2019) of the net profit for the year allocated to the shareholders, equivalent to DKK 2.50 per share (DKK 4.10 per share in 2019) or DKK 498 million (DKK 816 million in 2019), inclusive of dividends on treasury shares. Total dividends are based on the current share capital.

Earnings per share

	2020	2019
Profit for the year (DKKm)	**1,581**	**2,313**
Average number of shares ('000 shares)	199,146	199,120
Average number of treasury shares ('000 shares)	(416)	(427)
Average number of shares, excl. treasury shares ('000 shares)	**198,730**	**198,693**
Average number of warrants, fully diluted ('000 warrants)	3	22
Average number of shares, fully diluted ('000 shares)	**198,733**	**198,715**
Earnings per share, basic (EPS) (DKK)	**7.95**	**11.64**
Earnings per share, diluted (DEPS) (DKK)	**7.95**	**11.64**

At 31 December 2020, no warrants were outstanding.

Tax on other comprehensive income

	Before tax DKKm	Tax DKKm	After tax DKKm
2020			
Other comprehensive income recognized under foreign currency translation reserve in the statement of changes in equity			
Exchange rate gains/losses on investments in foreign subsidiaries	(1,007)	-	(1,007)
Exchange rate gains/losses on additions to net investments in foreign subsidiaries	(21)	3	(18)
Hedging of net investments in foreign subsidiaries	356	(79)	277
Total	**(672)**	**(76)**	**(748)**
Other comprehensive income recognized under hedging reserve in the statement of changes in equity			
Deferred exchange gains/losses, hedging	313	(69)	244
Deferred fair value of interest rate swaps	(90)	20	(70)
Exchange gains/losses, hedging (transferred to revenue)	(5)	1	(4)
Total	**218**	**(48)**	**170**
Other comprehensive income recognized under retained earnings in the statement of changes in equity			
Actuarial gains/losses	(1)	1	-
Total	**(1)**	**1**	**-**
Recognized in other comprehensive income	**(455)**	**(123)**	**(578)**

NOTES 13-14

13 EQUITY - CONTINUED

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

Exchange rate gains/losses on investments in foreign subsidiaries, a loss of DKK 1,007 million (a gain of DKK 135 million in 2019), and exchange rate gains/losses on additions to net investments in foreign subsidiaries, a loss of DKK 21 million (DKK 136 million in 2019), are primarily driven by developments in USD/DKK and GBP/DKK exchange rates.

14 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 U.S. The cost of defined contribution plans, representing contributions to the plans, amounted to DKK 234 million in 2020 (DKK 231 million in 2019).

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	2020 DKKm	2019 DKKm
Present value of defined benefit plans	530	537
Fair value of plan assets	(275)	(275)
Defined benefit plans at 31 December	**255**	**262**
Other obligations of a retirement benefit nature	35	33
Retirement benefit obligations and similar obligations at 31 December	**290**	**295**
Retirement benefit obligations and similar obligations break down as follows:		
Non-current obligations	288	295
Current obligations	2	-
Retirement benefit obligations and similar obligations at 31 December	**290**	**295**

NOTE 14

14 RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

Assumptions for the most important plans	2020 %	2019 %
Discount rate	0.70-1.70	0.65-2.00
Inflation rate	1.75-2.85	1.75-1.85
Pay rate increase	0.00-2.50	0.00-2.50
Pension increase	1.75-5.00	1.75-5.00
Age-weighted employee resignation rate	0-8	0-8
Expected return on plan assets	1.70	2.00

The most significant assumptions used in the calculation of the obligation for defined benefit plans are discount rate and inflation rate. An increase in the discount rate of 0.25 of a percentage point would result in a decrease in the obligation of approximately DKK 22 million (DKK 22 million in 2019) and vice versa. An increase in the inflation rate of 0.25 of a percentage point would result in an increase in the obligation of approximately DKK 8 million (DKK 8 million in 2019) and vice versa. The sensitivity analysis indicates how a change in the individual assumptions would change the obligation. However, the assumptions will most likely be correlated and consequently result in a different obligation.

Fair value of plan assets	2020 DKKm	2019 DKKm
Shares	56	52
Bonds	38	46
Property	17	17
Insurance contracts	147	147
Other assets	17	13
Total	**275**	**275**

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

Change in present value of defined benefit plans	2020 DKKm	2019 DKKm
Present value of defined benefit plans at 1 January	537	455
Effect of foreign exchange differences	(16)	13
Pension expenses	7	6
Interest expenses relating to the obligations	7	10
Experience adjustments	4	14
Adjustments relating to financial assumptions	9	75
Adjustments relating to demographic assumptions	-	(18)
Benefits paid	(19)	(16)
Employee contributions	1	1
Curtailments	-	(3)
Present value of defined benefit plans at 31 December	**530**	**537**

Change in fair value of plan assets	2020 DKKm	2019 DKKm
Fair value of plan assets at 1 January	275	247
Effect of foreign exchange differences	(13)	13
Interest income on plan assets	5	7
Experience adjustments	12	10
Administration fees	(1)	(1)
Contributions	7	8
Benefits paid	(11)	(10)
Employee contributions	1	1
Fair value of plan assets at 31 December	**275**	**275**

Net expense recognized in profit or loss	2020 DKKm	2019 DKKm
Pension expenses	7	6
Curtailments	-	(3)
Finance costs	2	3
Administration fees	1	1
Total	**10**	**7**

NOTES 14-15

14 RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

	2020	2019
Amount recognized in other comprehensive income	DKKm	DKKm
Actuarial (gains)/losses	1	61
Total	**1**	**61**
Realized return on plan assets	**17**	**17**

The benefit under unfunded defined benefit plans is paid directly by the Group. In some countries, the future contribution to funded defined benefit plans depends on the development in salaries, administrative fees and regular premiums, and in other countries on the surplus/deficit according to local requirements. The weighted average duration of the obligation is 15 years (16 years in 2019). The expected contribution to defined benefit plans for 2021 is DKK 14 million (DKK 16 million for 2020).

Other obligations of a retirement benefit nature
An obligation of DKK 35 million (DKK 33 million in 2019) was recognized 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.

15 INCENTIVE PROGRAMS

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

Equity-settled programs
In 2020, equity-settled incentive programs consisted of restricted share units (RSUs) and warrants.

In February 2020, as part of Lundbeck's recurring long-term incentive program, Lundbeck established an RSU program for Lundbeck's registered Executive Management and key employees. Four of the members of the registered Executive Management and 131 key employees employed with H. Lundbeck A/S or a Lundbeck subsidiary were granted RSUs. The participants were selected on the basis of job level. All the RSUs vest three years after grant. Vesting is subject to the Board of Directors' decision on vesting, to Lundbeck achieving certain financial targets specified by the Board of Directors and to continuing employment with the Group during the vesting period. The fair value of the RSUs has been calculated on the basis of a share price of DKK 274.56 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the grant was DKK 258.41 per RSU.

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

The RSUs granted to the registered Executive Management and key employees in 2016 vested in 2020. No RSUs vested in 2019.

RSU programs	2020	2019	2018	2017	2016
Number of persons included in the program	135	139	133	127	126
Total number of RSUs granted	139,119	127,899	107,321	131,516	120,549
Number of RSUs granted to the registered Executive Management	29,923	28,128	24,783	47,911	20,484
Vesting date	01.02.23	01.02.22	01.02.22	01.02.21	01.02.20
Fair value at the date of grant, DKK	258.41	269.71	291.03	268.65	237.56

At 31 December 2020, no warrants were outstanding (26,985 warrants in 2019).

In 2020, 11,497 warrants from the 2012 grant were exercised (27,934 in 2019). In 2019, 3,795 warrants from the 2011 grant were exercised and at 31 December 2019, no warrants from the 2011 grant were outstanding. The weighted average share price of the warrants exercised was DKK 284.52 (DKK 271.77 in 2019).

NOTE 15

15 INCENTIVE PROGRAMS - CONTINUED

Warrant programs	2011	2012
Number of persons included in the program	112	102
Total number of warrants granted	849,085	692,003
Number of warrants granted to the registered Executive Management	381,224	-
Vesting date	31.03.14	31.03.15
Exercise period begins	01.04.14	01.04.15
Exercise period ends	31.03.19	31.03.20
Exercise price, DKK	121.00	113.00
Fair value at the date of grant, DKK	30.10	24.11

Warrants	Registered Executive Management Number	Executives Number	Other Number	Total Number	Average exercise price DKK
2020					
1 January	-	3,458	23,527	26,985	113.00
Exercised	-	(3,458)	(8,039)	(11,497)	113.00
Expired	-	-	(15,488)	(15,488)	113.00
31 December	**-**	**-**	**-**	**-**	-
2019					
1 January	23,741	3,458	37,324	64,523	114.19
Exercised	(23,741)	-	(7,988)	(31,729)	113.96
Expired	-	-	(5,809)	(5,809)	121.00
31 December	**-**	**3,458**	**23,527**	**26,985**	113.00

Cash-settled programs

In 2020, the cash-settled programs consisted of restricted cash units (RCUs).

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

In February 2020, Lundbeck established an RCU program for the Chief Executive Officer (CEO) and a few key employees in the U.S. subsidiaries. The terms and conditions are similar to those applying to the RSU program granted to the registered Executive Management and key employees of the Parent company and its non-U.S. subsidiaries in February 2020. The RCUs granted to the CEO, a total of 30,012, and the RCUs granted to the key employees, a total of 1,526, will vest three years after grant. Vesting is subject to the Board of Directors' decision, to Lundbeck achieving certain financial targets specified by the Board of Directors and to continuing employment with the 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 258.41 per RCU.

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

The RCUs granted in 2016 vested in 2020, after which time the program was settled. No RCUs vested in 2019.

Fair value, liability and expense recognized in the statement of profit or loss

The RSUs granted are recognized in profit or loss for 2020 at an expense corresponding to the fair value at the time of grant for the part of the vesting period that concerns 2020. The total expense recognized in respect of equity-settled programs amounted to DKK 30 million (DKK 33 million in 2019). At 31 December 2020, the fair value of the remaining equity-settled programs was DKK 89 million (DKK 103 million in 2019).

The RCUs granted are recognized in the profit or loss 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 programs amounted to DKK 4 million (DKK 3 million in 2019) and covers all cash-settled programs in force in 2020. At 31 December 2020, the total liability in respect of cash-settled programs was DKK 7 million (DKK 4 million in 2019) and covers all cash-settled programs in force at 31 December 2020.

The total expense recognized in profit or loss for all incentive programs amounted to DKK 34 million in 2020 (DKK 36 million in 2019).

NOTES 16-17

16 PROVISIONS

	Discounts and rebates DKKm	Product returns DKKm	Other provisions DKKm	Total DKKm
2020				
Provisions at 1 January	1,040	246	1,020	2,306
Effect of foreign exchange differences	(96)	(17)	(51)	(164)
Provisions charged	2,154	18	268	2,440
Provisions used	(1,954)	(68)	(534)	(2,556)
Unused provisions reversed	(142)	-	(73)	(215)
Provisions at 31 December	**1,002**	**179**	**630**	**1,811**
Provisions break down as follows:				
Non-current provisions	-	85	54	139
Current provisions	1,002	94	576	1,672
Provisions at 31 December	**1,002**	**179**	**630**	**1,811**

Discounts and rebates

The most significant sales deductions are in the U.S. and comprises discounts and rebates given in connection with sales under the U.S. Federal and State Government Healthcare programs, primarily Medicaid.

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

Product returns

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

Other provisions

Of other provisions at 31 December 2020, DKK 161 million (DKK 337 million in 2019) relates to restructuring programs. In addition, other provisions comprise liabilities relating to items such as legal disputes.

17 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Pending legal proceedings

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

In June 2013, Lundbeck received the European Commission's decision that agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining Lundbeck EUR 93.8 million (approximately DKK 700 million). Lundbeck paid and expensed the fine in the third quarter of 2013. In September 2016, Lundbeck announced that the General Court of the European Union had delivered its judgment concerning Lundbeck's appeal against the European Commission's 2013 decision. Lundbeck's appeal was rejected by the General Court. Lundbeck has appealed the judgment to the European Court of Justice. An oral hearing was conducted by the European Court of Justice in January 2019. The Advocate General delivered her opinion to the European Court of Justice on 4 June 2020. In the opinion, the Advocate General proposes that the European Court of Justice should uphold the fine of EUR 93.8 million imposed on Lundbeck. The final judgment will be delivered on 25 March 2021. So called "follow-on claims" for reimbursement of alleged losses, resulting from alleged violation of competition law, often arise when decisions and fines issued by the European Commission are upheld by the European Court of Justice. Health authorities in the UK and the Netherlands have taken formal protective steps against Lundbeck with the principal purpose of preventing potential claims from being time-barred under the applicable statutes of limitation. Lundbeck expects no further material development in these matters until after the European Court of Justice has issued its final judgment.

NOTE 17

17 CONTINGENT ASSETS AND CONTINGENT LIABILITIES - CONTINUED

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

In 2018, Lundbeck entered into settlements with three of four generic companies involved in an Australian federal court case, in which Lundbeck was pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. Lundbeck received AUD 51.7 million (DKK 242 million) in 2018. In Lundbeck's case against the last of the four generic companies, Sandoz Pty Ltd, the Federal Court found that Sandoz Pty Ltd had infringed Lundbeck's escitalopram patent between 2009 and 2012 and awarded Lundbeck AUD 26.3 million in damages. Sandoz' appeal of the decision was heard in May 2019, and the Full Federal Court in August 2020 allowed Sandoz' appeal and decided that Sandoz is not liable for damages. Lundbeck's application for special leave to appeal the decision to the High Court will be heard in February 2021.

Together with Takeda, Lundbeck has instituted patent infringement proceedings against 16 generic companies that have applied for marketing authorization for generic versions of Trintellix® in the U.S. Two opponents have withdrawn and Lundbeck has now settled with eight opponents. The cases against the six remaining opponents continue. The trial with the six opponents was in late January 2021 and decision is currently expected within seven months after the trial. Lundbeck has strong confidence in its vortioxetine patents. The FDA cannot grant marketing authorization to the generic companies unless they receive a decision in their favor. The compound patent, including patent term extensions, will expire in the U.S. on 17 December 2026. Lundbeck has other patents relating to vortioxetine with expiry in the period until 2032.

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

In February 2019, Alder BioPharmaceuticals, Inc. (now a wholly owned subsidiary of Lundbeck LLC and subsequently renamed Lundbeck Seattle BioPharmaceuticals, Inc.) terminated a Development and Manufacturing Services Agreement (DMSA) with Lonza Ltd. (Lonza), based on material breaches of that agreement by Lonza. In April 2019, Lonza filed a claim for arbitration with the American Arbitration Association (AAA), asserting claims for breach of contract and declaratory judgment arising from the termination. The case was settled in January 2021 with no significant impact on the financial position at 31 December 2020.

Lundbeck received a Civil Investigative Demand (CID) from the U.S. Department of Justice (DOJ) in March 2020. The CID seeks information regarding the sales, marketing, and promotion of Trintellix. Lundbeck is cooperating with the DOJ.

Joint taxation

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

NOTE 18

18 BANK DEBT, BOND DEBT AND BORROWINGS

Bank debt and bond debt maturing within below periods from the balance sheet date	2020 DKKm	2019 DKKm
Within one year	2,000	2,000
Between three and four years	1,698	7,062
After more than five years	3,699	-
Bank debt and bond debt at 31 December	**7,397**	**9,062**
Bank debt and bond debt breaks down as follows:		
Non-current liabilities	5,397	7,062
Current liabilities	2,000	2,000
Bank debt and bond debt at 31 December	**7,397**	**9,062**

	Currency	Expiry of commitment	Fixed/ floating	Weighted average effective interest rate %	Amortized cost DKKm	Nominal value DKKm	Fair value DKKm
2020							
Bank loan	DKK	Oct 2021	Floating	0.80	2,000	2,000	2,000
Bank loan	USD	Jun 2024	Floating	1.11	1,698	1,698	1,698
Issued bonds	EUR	Oct 2027	Fixed	0.88	3,699	3,720	3,781
Total					**7,397**	**7,418**	**7,479**
2019							
Bank loan	DKK	Oct 2020	Floating	0.65	2,000	2,000	2,000
Bank loan	USD	Jun 2023	Floating	2.80	3,326	3,326	3,326
Bank loan	EUR	Jun 2023	Floating	0.55	3,736	3,736	3,736
Total					**9,062**	**9,062**	**9,062**

The DKK 2 billion bank loan has been swapped into USD using cross-currency swaps expiring in October 2021. The total nominal value of the cross-currency swaps amounts to USD -295 million and DKK +2 billion. At 31 December 2020, the interest rates were 0.94% (floating) for the USD leg and 0% (fixed) for the DKK leg. The cross-currency swaps as well as the USD bank loan are designated as hedging of net investments.

A large part of the USD funding, including bank loan and cross-currency swaps, has been swapped into fixed interest rates by interest rate swaps. The nominal amounts of the interest rate swaps follow the expected repayment profile of the USD debt until they expire in 2023. The total outstanding amount of the interest rate swaps as of 31 December 2020 was USD 290 million, and the average interest rate was 1.56% for the fixed legs and 0.22% for the floating legs.

In 2019, the DKK loan was swapped into USD using cross-currency swaps, expiring in October 2020 and with an average fixed interest rate of 2.58% for the USD leg and 0% for DKK leg. USD 450 million of the USD loan (totalling USD 500 million) was swapped into fixed interest by interest rate swaps with a four-year tenor and an average fixed interest rate of 1.56%.

The eurobond is issued with a fixed coupon until October 2027.

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

Development in bank debt, bond debt and borrowings

	Balance at 1 January DKKm	Additions through acquisitions DKKm	Cash inflow DKKm	Cash outflow DKKm	Non-cash flow DKKm	Balance at 31 December DKKm
2020						
Bank loans	9,062	-	-	(5,169)	(195)	3,698
Issued bonds	-	-	3,701	-	(2)	3,699
Total bank debt and bond debt	**9,062**	**-**	**3,701**	**(5,169)**	**(197)**	**7,397**
2019						
Bank loans	-	-	11,095	(2,010)	(23)	9,062
Borrowings	-	2,053	-	(2,070)	17	-
Total bank debt and borrowings	**-**	**2,053**	**11,095**	**(4,080)**	**(6)**	**9,062**

NOTES 19-20

19 OTHER PAYABLES

	2020 DKKm	2019 DKKm
Contingent consideration	1,108	1,128
Other payables	82	59
Non-current payables	**1,190**	**1,187**
Contingent consideration	-	96
Other payables	1,846	1,573
Current payables	**1,846**	**1,669**

Contingent consideration recognized in acquisition of businesses in 2019
As part of the acquisition of Alder BioPharmaceuticals, Inc. (subsequently renamed Lundbeck Seattle BioPharmaceuticals, Inc.), Lundbeck is required to pay a contingent value right (CVR) of USD 2.00 per share upon European approval of eptinezumab. The CVR has a value of up to USD 236 million. At 31 December 2020, the fair value of the CVR amounted to DKK 1,059 million (DKK 1,080 million in 2019).

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

As part of the acquisition of Abide Therapeutics, Inc., Inc. (subsequently renamed Lundbeck La Jolla Research Center, Inc.), Lundbeck is required to pay up to USD 150 million in future development and sales milestones dependent on predefined milestones being reached. At 31 December 2020, the fair value of the contingent consideration amounted to DKK 49 million (DKK 144 million in 2019).

Contingent consideration is recognized at fair value. The calculation of the fair value is based on the discounted cash flow method (DCF method) which comprises significant assumptions and estimates. Key inputs are expected timing of payment (using a specific discount rate) and probability of success.

20 FINANCIAL INSTRUMENTS

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

Foreign currency risks managed by derivatives and loans in 2020 comprise cash flow risk in several currencies and USD translation risk emanating from net investments in foreign subsidiaries.

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 the statement of comprehensive income as they arise. At maturity of the hedge contracts, the final effect is transferred from other comprehensive income and recognized in the profit or loss or balance sheet together with the hedged item.
Forward exchange contracts and currency options that do not meet the hedge accounting criteria are classified as trading contracts, and changes in the fair value are recognized under financial income or financial expenses as they arise.

Cash flow timing and changes to the forecasted amounts are the main sources for evaluating the risk of hedge ineffectiveness. When concluding a hedge transaction, and each time presenting the financial statements thereafter, it is assessed whether the hedged exposure and the hedging instrument are still financially correlated. If the hedged cash flows are no longer expected to be realised, the accumulated value change is transferred to financial income or financial expenses.

Lundbeck did not have any hedge ineffectiveness in 2020 or 2019.

NOTE 20

20 FINANCIAL INSTRUMENTS - CONTINUED

Forward exchange contracts (against DKK)	Contract amount according to hedge accounting	Fair value at year-end recognized in the statement of comprehensive income/other receivables	Fair value at year-end recognized in the statement of comprehensive income/other payables	Realized exchange gains/losses for the year recognized in the statement of profit or loss/ statement of financial position	Average hedge prices of existing forward exchange contracts	Maturity
	DKKm	DKKm	DKKm	DKKm	DKK	
2020						
CAD (sell position)	383	2	(1)	7	475.46	Dec. 2021
CNY (sell position)	458	3	(5)	-	91.71	Oct. 2021
JPY (sell position)	294	8	-	5	6.04	Oct. 2021
USD (sell position)	3,337	225	-	(55)	648.01	Oct. 2021
Other currencies	1,172	14	(41)	48		Dec. 2021
Total		**252**	**(47)**	**5**		
2019						
CAD (sell position)	300	-	(9)	(17)	492.68	Oct. 2020
CNY (sell position)	289	1	(3)	(25)	93.79	Oct. 2020
JPY (sell position)	344	4	(2)	(17)	6.15	Nov. 2020
USD (sell position)	2,594	2	(74)	(210)	640.47	Oct. 2020
Other currencies	1,364	3	(25)	(31)		Dec. 2020
Total		**10**	**(113)**	**(300)**		

Net foreign exchange contracts, trading

There were no outstanding forward exchange contracts relating to trading in December 2020 and no material impact from trading contracts was recognized in financial income or financial expenses in 2020.

Hedges of net investment

Lundbeck has hedged part of the translation risk emanating from its net investments in foreign subsidiaries in the U.S. by taking out bank debt in USD and by entering two cross-currency swaps, converting DKK bank debt into USD. Thereby, Lundbeck decreases the negative impact that a weaker USD will have on the value of its U.S. assets, as a decrease in the value of the debt portfolio will offset part of this impact. Lundbeck designates the USD bank debt and the cross-currency swaps as hedges of net investment, and the exchange rate adjustments are recognized in other comprehensive income. The hedges of net investment are considered to be effective as long as there is a clear financial correlation between how a change in the exchange rate impacts the net investment in subsidiaries and the hedges of net investment. For more information about the net investment hedges, see note 18 *Bank debt, bond debt and borrowings*.

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

	2020 DKKm	2019 DKKm
Monetary assets		
CAD	55	78
CNY	65	111
EUR	183	330
USD	607	595
Monetary liabilities		
CNY	15	-
EUR	3,834	3,866
USD	3,723	5,486

Monetary assets and monetary liabilities include trade receivables, other receivables, securities, cash, bank debt and bond debt (including interest rate swaps), lease liabilities, trade payables, other payables, deferred taxes and income taxes. The balances exclude all intra-group balances and monetary assets and monetary liabilities in entities where the currency of the assets/liabilities and the functional currency are identical.

NOTE 20

20 FINANCIAL INSTRUMENTS - CONTINUED

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

	CAD	CNY	USD
	DKKm	DKKm	DKKm
2020			
Profit for the year	4	(2)	(78)
Equity	(18)	(25)	(330)
2019			
Profit for the year	4	-	2
Equity	(11)	(15)	(396)

The shown sensitivities only comprise impact from Lundbeck's financial instruments and reflect a relative change of the exchange rates at 31 December 2020 and 2019.

The profit impact comprises financial instruments that remained open at the balance sheet date and which have an impact on profit in the current financial year. It 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 profit impact is limited as the largest liabilities are exchange rate adjusted in other comprehensive income, being part of Lundbeck's hedging structure.

The equity impact includes financial instruments that remained open at the balance sheet date and which are exchange rate adjusted in other comprehensive income. The equity effect in 2020 and 2019 primarily consists of exchange rate adjustments on bank loans and cross-currency swaps in USD that are designated as hedges of net investment and foreign exchange differences on outstanding cash flow hedging contracts.

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

Interest rate risks
Lundbeck ensures that the interest rate risk is managed according to the Treasury Policy. Interest rate risk relates mainly to outstanding interest-bearing debt with floating interest rates.

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. Only a limited part of the total loan portfolio is allowed to have floating interest rates, and to hedge the interest rate risk on loans, the Board of Directors has approved the use of Interest Rate Swaps (IRS), Caps, Floors and Forward Rate Agreements (FRAs).

Lundbeck's exposure to interest rate risk is considered limited due to the EUR 500 million bond being issued with a fixed coupon until 2027 and the USD funding to a large extent being swapped into fixed interest through interest rate swaps. For more information about interest rate swaps, see note 18 *Bank debt, bond debt and borrowings*.

An interest rate change on bank debt and bond debt, including interest rate swaps, of +/- 1 percentage point would decrease/increase profit for the year before tax by DKK 15 million (DKK 38 million in 2019) and increase/decrease equity by DKK 56 million in 2020 (DKK 63 million in 2019) on an annual basis.

The below table includes undiscounted cash flows, including interest payments, and assumes that the liabilities will be repaid at their contractual maturity dates.

See note 19 *Other payables* for details on the obligations relating to contingent consideration. See note 18 *Bank debt, bond debt and borrowings* for details on the bank debt and bond debt.

NOTE 20

20 FINANCIAL INSTRUMENTS - CONTINUED

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

2020	Within 1 year DKKm	Between 1 and 5 years DKKm	After 5 years DKKm	Total DKKm	Effective interest rates %
Financial assets					
Derivatives to hedge future cash flows - FX	252	-	-	252	0
Derivatives to hedge future cash flows - interest	15	7	-	22	0-2
Derivatives to hedge net investments	209	-	-	209	0-2
Financial assets measured at FVTOCI[1]	**476**	**7**	**-**	**483**	
Other financial assets	-	-	116	116	0
Other financial assets measured at FVTPL[2]	**-**	**-**	**116**	**116**	
Receivables[3]	2,941	104	-	3,045	0
Cash and bank balances	3,924	-	-	3,924	(1)-10
Financial assets measured at amortized cost	**6,865**	**104**	**-**	**6,969**	
Total financial assets	**7,341**	**111**	**116**	**7,568**	
Financial liabilities					
Derivatives to hedge future cash flows - FX	47	-	-	47	0
Derivatives to hedge future cash flows - interest	46	58	-	104	0-2
Financial liabilities measured at FVTOCI[1]	**93**	**58**	**-**	**151**	
Contingent consideration[4]	-	1,087	21	1,108	
Other financial liabilities measured at FVTPL[2]	**-**	**1,087**	**21**	**1,108**	
Bank and bond debt	2,063	1,865	3,786	7,714	0-2
Lease liabilities	77	229	187	493	1-8
Trade and other payables	5,896	82	-	5,978	0
Financial liabilities measured at amortized cost	**8,036**	**2,176**	**3,973**	**14,185**	
Total financial liabilities	**8,129**	**3,321**	**3,994**	**15,444**	

2019	Within 1 year DKKm	Between 1 and 5 years DKKm	After 5 years DKKm	Total DKKm	Effective interest rates %
Financial assets					
Derivatives to hedge future cash flows - FX	10	-	-	10	0
Derivatives to hedge future cash flows - interest	8	-	-	8	0-3
Derivatives to hedge net investments	62	-	-	62	0-3
Financial assets measured at FVTOCI[1]	**80**	**-**	**-**	**80**	
Other financial assets	-	-	60	60	0
Securities	4	-	-	4	0-1
Other financial assets measured at FVTPL[2]	**4**	**-**	**60**	**64**	
Receivables[3]	3,540	101	-	3,641	0
Cash and bank balances	3,008	-	-	3,008	(1)-10
Financial assets measured at amortized cost	**6,548**	**101**	**-**	**6,649**	
Total financial assets	**6,632**	**101**	**60**	**6,793**	
Financial liabilities					
Derivatives to hedge future cash flows - FX	113	-	-	113	0
Financial liabilities measured at FVTOCI[1]	**113**	**-**	**-**	**113**	
Contingent consideration[4]	96	1,081	47	1,224	
Other financial liabilities measured at FVTPL[2]	**96**	**1,081**	**47**	**1,224**	
Bank debt	2,113	7,309	-	9,422	0-3
Lease liabilities	79	229	208	516	1-8
Trade and other payables	5,944	59	-	6,003	0
Financial liabilities measured at amortized cost	**8,136**	**7,597**	**208**	**15,941**	
Total financial liabilities	**8,345**	**8,678**	**255**	**17,278**	

1) Fair value through other comprehensive income.

2) Fair value through profit or loss.

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

4) See note 19 *Other payables*.

NOTES 20-21

20 FINANCIAL INSTRUMENTS – CONTINUED

Financial assets and financial liabilities measured or disclosed at fair value	Level 1 DKKm	Level 2 DKKm	Level 3 DKKm
2020			
Financial assets			
Other financial assets[1]	81	-	35
Derivatives[1]	-	697	-
Total	**81**	**697**	**35**
Financial liabilities			
Contingent consideration[1]	-	-	1,108
Derivatives[1]	-	365	-
Bank debt[2]	-	3,698	-
Bond debt[2]	3,781	-	-
Total	**3,781**	**4,063**	**1,108**
2019			
Financial assets			
Securities[1]	4	-	-
Other financial assets[1]	20	-	40
Derivatives[1]	-	80	-
Total	**24**	**80**	**40**
Financial liabilities			
Contingent consideration[1]	-	-	1,224
Derivatives[1]	-	113	-
Bank debt[2]	-	9,062	-
Total	**-**	**9,175**	**1,224**

1) Measured at fair value.

2) Disclosed 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 fair value of contingent consideration is calculated as the discounted cash outflows (DCF method) from future milestone payments, taking probability of success into consideration. The fair value adjustment of contingent consideration amounts to a net gain of DKK 3 million and is the result of changes in the time value of the contingent value rights and the milestone relating to the phase IIa study results of Lu AG06466 not being met. Total contingent consideration amounted to DKK 1,108 million at 31 December 2020 (DKK 1,224 million at 31 December 2019). Besides the fair value adjustment, the only change in contingent consideration is exchange rate adjustments of DKK 113 million.

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

21 AUDIT FEES

	2020 DKKm	2019 DKKm
Statutory audit	10	10
Other opinions	-	-
Tax consulting	4	1
Other services	1	9
Total	**15**	**20**

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

At the Annual General meeting held on 24 March 2020, PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab was elected as Lundbeck's external auditor. Deloitte Statsautoriseret Revisionspartnerselskab was Lundbeck's external auditor in 2019.

The fee for non-audit services provided to the Group by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab, Denmark, amounted to DKK 4 million during 2020 and consisted of tax services relating to expatriates and transfer pricing, advisory services relating to cyber risk, other auditor reports on various statements to public authorities, and other accounting and tax advisory services.

NOTES 22-23

22 CONTRACTUAL OBLIGATIONS

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 2020, potential future milestone payments covering the coming ten-year period totalled up to approximately DKK 300 million (approximately DKK 1,750 million in 2019). In addition, the Group is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 1 million (DKK 10 million in 2019).

Sales milestones
Lundbeck is committed to pay certain commercial sales milestones. The amounts depend on future sales.

Other purchase obligations
The Group has undertaken purchase obligations in the amount of DKK 1,102 million (DKK 1,828 million in 2019), the majority of which relates to service contracts. In addition, the Group has undertaken purchase obligations relating to property, plant and equipment in the amount of DKK 126 million (DKK 138 million in 2019). Furthermore, the Group has entered into service agreements amounting to DKK 227 million (DKK 290 million in 2019).

23 RELATED PARTIES

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

Transactions and balances with Lundbeckfonden
There have been the following transactions and balances with Lundbeckfonden:
- Payment of dividends of DKK 563 million in 2020 (DKK 1,648 million in 2019).
- Payment of provisional tax of DKK 101 million in 2020 (DKK 100 million in 2019) for the Parent company and Danish subsidiaries.
- Refund of residual tax of DKK 64 million in 2020 (DKK 70 million in 2019) for the Parent company and Danish subsidiaries.
- Interest expense of DKK 1 million in 2020 (income of DKK 0 million in 2019).

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

Transactions and balances with the ALK group
There have been no transactions or balances with the ALK group.

Transactions and balances with the Falck group
There have been no material transactions or balances with the Falck group.

Transactions and balances with the registered Executive Management and the Board of Directors
In addition to the transactions with members of the registered Executive Management and the Board of Directors outlined in notes 3 *Employee costs* and 15 *Incentive programs*, the Parent company has paid dividends on shares held by members of the registered Executive Management and the Board of Directors in H. Lundbeck A/S. At 31 December 2020 and 31 December 2019, there were no balances with the registered Executive Management and the Board of Directors.

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

NOTE 24

24 LIST OF SUBSIDIARIES

The list below shows the subsidiaries in the Group.

	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 Export A/S, Denmark	Sales and distribution	100
Lundbeck Pharma A/S, Denmark	Sales and distribution	100
Lundbeck Eesti A/S, Estonia	Sales and distribution	100
OY H. Lundbeck AB, Finland	Sales and distribution	100
Lundbeck SAS, France	Sales and distribution	100
Sofipharm SA, France, including	Other	100
- Laboratoire Elaiapharm SA, France	Production	100
Lundbeck GmbH, Germany	Sales and distribution	100
Lundbeck Hellas S.A., Greece	Sales and distribution	100
Lundbeck HK Limited, Hong Kong	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	Other	100
Lundbeck New Zealand Limited, New Zealand	Other	100
H. Lundbeck AS, Norway	Sales and distribution	100
Lundbeck Pakistan (Private) Limited, Pakistan	Sales and distribution	100
Lundbeck America Central S.A., Panama	Sales and distribution	100
Lundbeck Peru S.A.C., Peru	Sales and distribution	100
Lundbeck Philippines Inc., Philippines	Sales and distribution	100
Lundbeck Business Service Centre Sp.z.o.o., Poland	Other	100
Lundbeck Poland Sp.z.o.o., Poland	Sales and distribution	100
Lundbeck Portugal - Produtos Farmacêuticos Unipessoal Lda, Portugal	Sales and distribution	100
Lundbeck Romania SRL, Romania	Sales and distribution	100
Lundbeck RUS OOO, Russian Federation	Sale services	100
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

NOTES 24-25

24 LIST OF SUBSIDIARIES – CONTINUED

	Purpose	Share of voting rights and ownership %
Lundbeck USA Holding LLC, USA, including	Other	100
- Lundbeck LLC, USA, including	Sales and distribution	100
- Chelsea Therapeutics International, Ltd., USA, including	Other	100
- Lundbeck NA Ltd., USA	Other	100
- Lundbeck Pharmaceuticals LLC, USA	Other	100
- Lundbeck Research USA, Inc., USA	Other	100
- Lundbeck La Jolla Research Center, Inc., USA, including	Research and development	100
- Abide Therapeutics (UK) Limited, UK	Other	100
- Lundbeck Seattle BioPharmaceuticals, Inc., USA, including	Research and development	100
- Alder Biopharmaceuticals Pty., Ltd., Australia	Other	100
- Alder Biopharmaceuticals Limited, Ireland	Other	100
- Alderbio Holdings LLC ("ANEV"), USA	Other	100
Lundbeck de Venezuela, C.A., Venezuela	Sales and distribution	100

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

Lundbeck China Holding A/S and Lundbeck Insurance A/S were liquidated in 2020.

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

25 SUBSEQUENT EVENTS

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.

NOTE 26

26 SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, unless otherwise mentioned (see note 1.7 *Standards issued but not yet effective*).

Lundbeck has made some reclassifications in the statement of financial position with effect from 2020. Discounts and rebates, previously recognized in other payables, are reclassified to provisions. Contingent consideration is reclassified to other payables. Management believes that the new presentation better reflects the nature of the Group's operations and is more aligned with industry practice. The comparative figures for 2019 have been reclassified accordingly. There has been no impact on profit or loss for the years.

Basis of consolidation
The consolidated financial statements comprise the Parent company H. Lundbeck A/S and entities controlled by the Parent company.

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 profit or loss under financial income or financial expenses.

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 profit or loss under financial income or financial expenses.

On recognition of foreign subsidiaries having a functional currency different from that used by the Parent company, items in the profit or loss 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 when translating the profit or loss and the balance sheet 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.

Exchange gains/losses on that part of the bank debt in foreign currency which is used for hedging of the net investments in subsidiaries and which provides an effective hedging of the exchange gains/losses of the net investments are recognized in other comprehensive income

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

Cash comprises cash and bank balances.

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

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 hedge accounting are recognized in other comprehensive income. On recognition of hedged items, income and expenses relating to such hedging transactions are transferred from other comprehensive income and recognized in the same line item as the hedged item.

Changes in the fair value of derivatives not qualifying for hedge accounting are recognized in the statement of profit or loss under financial income or financial expenses as they arise.

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

NOTE 26

26 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Statement of profit or loss

Revenue

Revenue comprises invoiced sales less expected return of goods for the year, 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.

Sales-based licensing and royalty income from out-licensed products are recognized in profit or loss under revenue, when the Group provides access to its product rights as it exists throughout the license period. As the performance obligations are satisfied over time, the revenue is also recognized over time.

When the Group provides a customer the right to use the product rights as it exists at the point in time at which the license is granted, revenue is recognized at a point in time when control is transferred to the licensee and the license period begins when the customer's rights to the intellectual property is transferred.

Non-refundable downpayments and milestone payments received relating to research collaborations are recognized in profit or loss under revenue.

Cost of sales

Cost of sales comprises cost of goods sold, which includes the cost of raw materials, transportation 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. employee costs, 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 profit or loss as they are incurred.

Due to a very long development period and the significant uncertainties inherent in the development of new products, development costs are expensed as incurred in line with industry practice. Consequently, the development costs do not qualify for capitalization as intangible assets until marketing approval by a regulatory authority is obtained or considered highly probable.

Other operating expenses

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

Financial income and financial expenses

Financial income and financial expenses include:

- Interest income and expenses from financial assets and financial liabilities measured at amortized cost
- Interest expenses relating to lease liabilities
- Net gain or loss on securities and other financial assets measured at fair value through profit or loss, including dividends
- Fair value adjustment of contingent consideration classified as a financial liability
- Fair value adjustment of other financial liabilities
- Foreign currency gain or loss on financial assets and financial liabilities
- Other financial income and expenses

Interest income or expense is recognized using the effective interest method.

Income 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).

NOTE 26

26 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Tax for the year, which consists of the year's current tax and the change in deferred tax, is recognized in the statement of profit or loss 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 statement of financial position as part of the movements in deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a tax authority will accept an uncertain tax treatment. The Group measures its tax balances based on either the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

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

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 profit or loss.

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 profit or loss. However, if the amount of the tax deduction exceeds the related cumulative expense, it indicates that the tax deduction relates not only to an operating expense, but also to an equity item. In such a case, the excess of the associated current or deferred tax is recognized directly in equity.

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

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

Statement of financial position

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.

Development projects

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

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

Product rights and other intangible assets

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

NOTE 26

26 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Product rights are amortized over the economic lives of the underlying products, which in all material aspects follow the patent terms, which are currently between five and fifteen years. Other rights are amortized over the period of agreement. Amortization commences when the asset is ready to be brought into use.

Amortization is recognized in profit or loss 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. In general, amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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 reassessed annually and adjusted if appropriate. 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 profit or loss; normally in a separate line item or, if considered immaterial to the understanding of the consolidated financial statements, in the same line item as the associated depreciation.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term. Depreciation is recognized in profit or loss. Right-of-use assets are presented as part of property, plant and equipment.

Impairment
Intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill acquired in a business combination are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they may be impaired. The annual impairment test is performed 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 whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTE 26

26 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 lower sales expectations
- Changes in technology
- Changes in assumptions about future use
- Changes in market and legal risks
- Changes in cost structure

Other financial assets

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

On initial recognition, equity investments are measured at fair value. Subsequently, they are measured at fair value at the balance sheet date, and changes to the fair value are recognized under financial income or financial expenses or in other comprehensive income according to an individual decision for each equity investment.

Inventories

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

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

Receivables

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

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

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

Securities

On initial recognition, securities (including the bond portfolio), which are included in the Group's documented investment strategy for excess liquidity and recognized under current assets, are measured at fair value. Subsequently, the securities are 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 profit or loss under financial income or financial expenses.

Equity

Dividends

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

Treasury shares

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

Share-based payments

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

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

NOTE 26

26 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Provisions
Provisions mainly consist of provisions for discounts and rebates, product returns, pending lawsuits and restructuring. A provision is a liability of uncertain timing or amount.

Unsettled discounts and rebates are recognized as provisions, when the time or amount is uncertain. Where absolute amounts are known, the discounts and rebates are recognized as trade payables.

Return obligations imposed on the Group are recognized as provisions in the balance sheet.

Amounts relating to pending lawsuits are recognized when the outflow is probable and the amount is measured as the best estimate of the costs required to settle the liabilities at the balance sheet date.

In connection with restructurings in 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.

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

Other payables
Other payables include contingent consideration, payables to shareholders, debt to public authorities, etc.

Contingent consideration is recognized as part of the business combination and is recognized at fair value considering the passage of time and changes in the applied probability of success. The fair value is assessed at each reporting date and the effect of any adjustments relating to the timing of payment and the probability of success is recognized under financial income or financial expenses.

Payables to shareholders and other debts are measured at amortized cost.

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

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

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

FINANCIAL STATEMENTS OF THE PARENT COMPANY

CONTENTS

NOTES

STATEMENT OF PROFIT OR LOSS

1 January – 31 December

	Notes	2020 DKKm	2019 DKKm
Revenue		10,733	9,464
Cost of sales	2	2,532	2,175
Gross profit		**8,201**	**7,289**
Sales and distribution costs	2	3,110	3,104
Administrative expenses	2	648	563
Research and development costs	2	5,027	2,510
Other operating expenses, net		8	20
Profit from operations (EBIT)		**(592)**	**1,092**
Income from investments in subsidiaries	3	757	3,217
Financial income	4	743	187
Financial expenses	4	273	290
Profit before tax		**635**	**4,206**
Tax on profit for the year	5	(80)	114
Profit for the year	6	**715**	**4,092**

STATEMENT OF FINANCIAL POSITION – ASSETS

At 31 December

	Notes	2020 DKKm	2019 DKKm
Product rights	7	9,850	8,224
Other rights	7	68	77
Projects in progress	7	132	90
Intangible assets		**10,050**	**8,391**
Land and buildings	8	1,040	1,028
Plant and machinery	8	197	212
Other fixtures and fittings, tools and equipment	8	25	31
Prepayments and assets under construction	8	295	255
Right-of-use assets	9	194	203
Property, plant and equipment		**1,751**	**1,729**
Investments in subsidiaries	3	10,534	10,769
Receivables from subsidiaries		4,819	3,779
Other investments		114	58
Other receivables		4	3
Financial assets		**15,471**	**14,609**
Non-current assets		**27,272**	**24,729**
Inventories	10	**1,303**	**687**
Trade receivables		587	572
Receivables from subsidiaries		1,388	6,393
Joint taxation contribution		130	169
Other receivables		747	244
Prepayments		84	69
Receivables		**2,936**	**7,447**
Cash and bank balances		**3,171**	**2,125**
Current assets		**7,410**	**10,259**
Assets		**34,682**	**34,988**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

At 31 December

	Notes	2020 DKKm	2019 DKKm
Share capital		996	996
Proposed dividends		498	816
Hedging reserve		176	-
Retained earnings		12,144	11,921
Equity		**13,814**	**13,733**
Deferred tax liabilities	5	137	178
Provisions	11	-	50
Bank debt and bond debt	13	5,397	7,062
Lease liabilities	9	182	190
Payables to subsidiaries	14	6,226	2,064
Other payables		20	-
Non-current liabilities		**11,962**	**9,544**
Provisions	11	132	100
Bank debt		2,000	2,000
Trade payables		2,092	1,920
Lease liabilities	9	13	13
Payables to subsidiaries		3,791	7,069
Other payables		878	609
Current liabilities		**8,906**	**11,711**
Liabilities		**20,868**	**21,255**
Equity and liabilities		**34,682**	**34,988**

STATEMENT OF CHANGES IN EQUITY

At 31 December

	Notes	Share capital DKKm	Proposed dividends DKKm	Hedging reserve DKKm	Retained earnings DKKm	Equity DKKm
Equity at 1 January		**996**	**816**	**-**	**11,921**	**13,733**
Profit for the year	6	-	498	-	217	715
Distributed dividends, gross		-	(816)	-	-	(816)
Dividends received, treasury shares		-	-	-	1	1
Deferred exchange gains/losses, hedging		-	-	313	-	313
Deferred fair value of interest rate swaps		-	-	(82)	-	(82)
Exchange gains/losses, hedging (transferred to revenue)		-	-	(5)	-	(5)
Capital increase through exercise of warrants		-	-	-	1	1
Buyback of treasury shares		-	-	-	(29)	(29)
Incentive programs		-	-	-	32	32
Tax on transactions in equity	5	-	-	(50)	1	(49)
Equity at 31 December		**996**	**498**	**176**	**12,144**	**13,814**

See note 13 *Equity* in the consolidated financial statements.

NOTES 1-2

1 MANAGEMENT REVIEW OF THE PARENT COMPANY

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

Revenue
Of total revenue, DKK 4,806 derived from sales in North America, representing 45% of total revenue and DKK 3,704 derived from sales in Europe, representing 35% of total revenue. See note 2 *Revenue and segment information* in the consolidated financial statements.

Financial income and expenses
Financial income and expenses are impacted by a net exchange loss of DKK 13 million relating to translation of receivables from and payables to subsidiaries that are considered part of the overall investment in subsidiaries. Further, financial income and expenses are impacted by a gain of DKK 356 million relating to the translation of external loans and cross-currency swaps used for hedging net investments in foreign operations in the U.S.

Intangible assets
The Parent company H. Lundbeck A/S has acquired all intellectual property rights from Lundbeck La Jolla Research Center, Inc. and the intellectual property rights from Prexton Therapeutics S.A. relating to foliglurax at a total amount of DKK 3,627 million. The foliglurax product rights were subsequently impaired impacting research and development costs.

Bond issuance
The Parent company H. Lundbeck A/S has issued eurobonds in an aggregate amount of EUR 500 million. The proceeds from the bond issuance have been used to settle part of the bank debt raised to finance Lundbeck's acquisition of Alder BioPharmaceuticals, Inc. (subsequently renamed Lundbeck Seattle BioPharmaceuticals, Inc.) in 2019.

Treasury shares
See note 13 *Equity* in the consolidated financial statements for details on developments in the holding of treasury shares.

2 EMPLOYEE COSTS

Breakdown of employee costs

	2020 DKKm	2019 DKKm
Short-term employee benefits	1,478	1,330
Retirement benefits	127	122
Social security costs	27	22
Equity- and cash-settled incentive programs	29	29
Total	**1,661**	**1,503**

Employee costs by nature	2020 DKKm	2019 DKKm
Cost of sales	427	406
Sales and distribution costs	105	95
Administrative expenses	396	304
Research and development costs	733	698
Total	**1,661**	**1,503**

Registered Executive Management
See notes 3 *Employee costs* and 15 *Incentive programs* in the consolidated financial statements.

Board of Directors
See note 3 *Employee costs* in the consolidated financial statements.

Number of employees

	2020	2019
Average number of full-time employees in the financial year	1,738	1,734
Number of full-time employees at 31 December	1,709	1,766

Incentive programs
See note 15 *Incentive programs* in the consolidated financial statements.

NOTES 3-5

3 INVESTMENTS IN SUBSIDIARIES

	2020 DKKm
Cost at 1 January	10,799
Disposals	(61)
Cost at 31 December	**10,738**
Impairment at 1 January	30
Impairment of investments in subsidiaries	204
Disposals	(30)
Impairment at 31 December	**204**
Carrying amount at 31 December	**10,534**

Income from investments in subsidiaries amounting to DKK 757 million is the net amount of dividends received, proceeds from liquidations of subsidiaries and impairment losses recognized related to investments in subsidiaries. In 2019, income from investments in subsidiaries was dividends amounting to DKK 3,217 million.

See note 24 *List of subsidiaries* in the consolidated financial statements for an overview of subsidiaries.

4 NET FINANCIALS

In 2020, financial income amounted to DKK 743 million (DKK 187 million in 2019), of which DKK 233 million (DKK 120 million in 2019) related to intra-group interest income, and financial expenses amounted to DKK 273 million (DKK 290 million in 2019), of which DKK 56 million (DKK 54 million in 2019) related to intra-group interest expenses.

5 INCOME TAXES

Tax on profit for the year

	2020 DKKm	2019 DKKm
Current tax, joint taxation contribution	12	(81)
Prior-year adjustments, current tax	(2)	8
Prior-year adjustments, deferred tax	8	(19)
Change in deferred tax for the year	(49)	200
Total tax for the year	**(31)**	**108**
Tax for the year is composed of:		
Tax on profit for the year	(80)	114
Tax on transactions in equity	49	(6)
Total tax for the year	**(31)**	**108**

Deferred tax balances

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	4,171	-	(456)	3,715
Property, plant and equipment	484	-	(13)	471
Inventories	236	-	114	350
Other items	(352)	(18)	(11)	(381)
Tax loss carryforwards etc.	(3,727)	52	143	(3,532)
Total temporary differences	**812**	**34**	**(223)**	**623**
Deferred (tax assets)/tax liabilities	**178**	**8**	**(49)**	**137**

The major assumptions relating to the recognition and measurement of tax assets are described in note 6 *Income taxes* in the consolidated financial statements.

NOTES 5-7

5 INCOME TAXES - CONTINUED

Movements in deferred tax	2020 DKKm	2019 DKKm
Balance at 1 January	178	(3)
Movements relating to profit for the year	(41)	180
Movements relating to transactions in equity	-	1
Balance at 31 December	**137**	**178**

6 DISTRIBUTION OF PROFIT

Proposed distribution of profit for the year	2020 DKKm	2019 DKKm
Proposed dividends for the year	498	816
Transferred to/from distributable reserves	217	3,276
Total profit for the year	**715**	**4,092**
Proposed dividend per share (DKK)	**2.50**	**4.10**

7 INTANGIBLE ASSETS

Intangible assets	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
Cost at 1 January	12,814	1,736	93	14,643
Transfers	-	29	(29)	-
Additions	3,627	16	68	3,711
Disposals	-	(122)	-	(122)
Cost at 31 December	**16,441**	**1,659**	**132**	**18,232**
Amortization and impairment losses at 1 January	4,590	1,659	3	6,252
Transfers	-	3	(3)	-
Amortization	594	39	-	633
Impairment losses	1,407	-	-	1,407
Disposals	-	(110)	-	(110)
Amortization and impairment losses at 31 December	**6,591**	**1,591**	**-**	**8,182**
Carrying amount at 31 December	**9,850**	**68**	**132**	**10,050**

1) At 31 December 2020, product rights not yet commercialized amounted to DKK 6,239 million (DKK 4,019 million in 2019).

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

NOTES 8-9

8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Land and buildings 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
Cost at 1 January	3,078	1,108	545	255	4,986
Transfers	83	27	14	(124)	-
Additions	20	8	5	164	197
Disposals	(5)	(8)	(33)	-	(46)
Cost at 31 December	**3,176**	**1,135**	**531**	**295**	**5,137**
Depreciation and impairment losses at 1 January	2,050	896	514	-	3,460
Depreciation	89	44	11	-	144
Impairment losses	1	6	-	-	7
Disposals	(4)	(8)	(19)	-	(31)
Depreciation and impairment losses at 31 December	**2,136**	**938**	**506**	**-**	**3,580**
Carrying amount at 31 December	**1,040**	**197**	**25**	**295**	**1,557**

1) Including leasehold improvements.

Pledged assets

No land and buildings were mortgaged at 31 December 2020. No other assets have been pledged.

9 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Amounts recognized in profit or loss	2020 DKKm	2019 DKKm
Expense relating to short-term leases, not capitalized	1	2
Depreciation of right-of-use assets, land and buildings	13	13

Land and buildings	2020 DKKm	2019 DKKm
Carrying amount at 1 January	203	216
Carrying amount at 31 December	194	203

Maturity analysis of lease liabilities	2020 DKKm	2019 DKKm
Within 1 year	13	13
Between 1 year and 5 years	52	50
After 5 years	130	140
Lease liabilities at 31 December	**195**	**203**

NOTES 10-12

10 INVENTORIES

	2020 DKKm	2019 DKKm
Raw materials and consumables	143	159
Work in progress	868	332
Finished goods and goods for resale	292	196
Total	**1,303**	**687**

11 PROVISIONS

	2020 DKKm
Provisions at 1 January	150
Provisions charged	122
Provisions used	(102)
Unused provisions reversed	(38)
Provisions at 31 December	**132**

The Parent company has entered into agreements with individual subsidiaries, under which the Parent company will cover expected losses and obligations concerning the restructuring programs. The provisions in the Parent company therefore cover such losses and obligations.

At 31 December 2020, provisions of DKK 132 million (DKK 150 million in 2019) related to restructuring programs.

12 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Pending legal proceedings

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

In June 2013, the Company received the European Commission's decision that agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining the Company EUR 93.8 million (approximately DKK 700 million). The Company paid and expensed the fine in the third quarter of 2013. In September 2016, the Company announced that the General Court of the European Union had delivered its judgment concerning the Company's appeal against the European Commission's 2013 decision. The Company's appeal was rejected by the General Court. The Company has appealed the judgment to the European Court of Justice. An oral hearing was conducted by the European Court of Justice in January 2019. The Advocate General delivered her opinion to the European Court of Justice on 4 June 2020. In the opinion, the Advocate General proposes that the European Court of Justice should uphold the fine of EUR 93.8 million imposed on the Company. The final judgment will be delivered on 25 March 2021. So called "follow-on claims" for reimbursement of alleged losses, resulting from alleged violation of competition law, often arise when decisions and fines issued by the European Commission are upheld by the European Court of Justice. Health authorities in the UK and the Netherlands have taken formal protective steps against the Company with the principal purpose of preventing potential claims from being time-barred under the applicable statutes of limitation. The Company expects no further material development in these matters until after the European Court of Justice has issued its final judgment.

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

NOTES 12-15

12 CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

In 2018, the Company entered into settlements with three of four generic companies involved in an Australian federal court case, in which the Company was pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. The Company received AUD 51.7 million (DKK 242 million) in 2018. In the Company's case against the last of the four generic companies, Sandoz Pty Ltd, the Federal Court found that Sandoz Pty Ltd had infringed the Company's escitalopram patent between 2009 and 2012 and awarded the Company AUD 26.3 million in damages. Sandoz' appeal of the decision was heard in May 2019, and the Full Federal Court has in August 2020 allowed Sandoz' appeal and decided that Sandoz is not liable for damages. The company's application for special leave to appeal the decision to the High Court will be heard in February 2021.

Together with Takeda, the Company has instituted patent infringement proceedings against 16 generic companies that have applied for marketing authorization for generic versions of Trintellix® in the U.S. Two opponents have withdrawn and the Company has now settled with eight opponents. The cases against the six remaining opponents continue. The trial with the six opponents was in late January 2021 and decision is currently expected within seven months after the trial. The Company has strong confidence in its vortioxetine patents. The FDA cannot grant marketing authorization to the generic companies unless they receive a decision in their favor. The compound patent, including patent term extensions, will expire in the U.S. on 17 December 2026. The Company has other patents relating to vortioxetine with expiry in the period until 2032.

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

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

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

As collateral for bank guarantees, the Parent company has issued letters of intent to the banks in the amount of DKK 6 million (DKK 6 million in 2019) of behalf of subsidiaries.

13 BANK DEBT AND BOND DEBT

Bank debt and bond debt falling due after more than five years from the balance sheet date amounted to DKK 3,699 million at 31 December 2020 (DKK 0 million in 2019).

14 PAYABLES TO SUBSIDIARIES

Payables to subsidiaries falling due after more than five years from the balance sheet date amounted to DKK 6,226 million at 31 December 2020 (DKK 2,064 million in 2019).

15 FINANCIAL INSTRUMENTS

Foreign currency management is handled by the Parent company. See note 20 *Financial instruments* in the consolidated financial statements.

The fair value of derivatives at year-end is disclosed in note 20 *Financial instruments* in the consolidated financial statements. The fair value adjustment recognized in equity is disclosed in the statement of changes in equity in the financial statements of the Parent company. All fair value adjustments are initially recognized in equity.

NOTES 16-19

16 AUDIT FEES

	2020 DKKm	2019 DKKm
Statutory audit	4	3
Other opinions	-	-
Tax consulting	3	-
Other services	1	8
Total	**8**	**11**

At the Annual General meeting held on 24 March 2020, PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab was elected as Lundbeck's external auditor. Deloitte Statsautoriseret Revisionspartnerselskab was Lundbeck's external auditor in 2019.

17 CONTRACTUAL OBLIGATIONS

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, the Company is committed to pay certain milestones. At 31 December 2020, potential future milestone payments covering the coming ten-year period totalled up to approximately DKK 300 million (approximately DKK 1,750 million in 2019). In addition, the Parent company is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 1 million (DKK 10 million in 2019).

Sales milestones
The Company 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 93 million (DKK 155 million in 2019), the majority of which relates to service contracts. In addition, the Parent company has undertaken purchase obligations relating to property, plant and equipment in the amount of DKK 82 million (DKK 83 million in 2019). Furthermore, the Parent company has entered into service agreements amounting to DKK 160 million (DKK 210 million in 2019).

18 RELATED PARTIES

For information on related parties exercising controlling influence on the Parent company, see note 23 *Related parties* in the consolidated financial statements.

The Parent company is included in the consolidated financial statements of Lundbeckfonden.

The Parent company had transactions with subsidiaries during 2020. The Parent company's share of ownership of all subsidiaries is 100%. The Parent company did not enter into any transactions with other related parties that were not on an arm's length basis.

19 SUBSEQUENT EVENTS

See note 25 *Subsequent events* in the consolidated financial statements.

NOTE 20

20 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Parent company H. Lundbeck A/S have been prepared in accordance with the provisions of the Danish Financial Statements Act for class D enterprises. The financial statements are presented in Danish kroner (DKK). All amounts have been rounded to millions, unless otherwise indicated.

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.

Statement of profit or loss
Income from investments in subsidiaries
Income from investments in subsidiaries includes dividends from subsidiaries, which are recognized in the Parent company's statement of profit or loss when the Parent company's right to receive such dividends has been approved. Further, income from investments in subsidiaries includes proceeds from liquidation of subsidiaries and any impairment losses or reversals of impairment losses on investments in subsidiaries.

Exchange gains/losses
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 profit or loss under financial income or financial expenses.

Exchange gains/losses on that part of the bank debt in foreign currency which is used for hedging of the net investments in subsidiaries and which provides an effective hedging of the exchange gains/losses of the net investments are recognized in profit or loss under financial income or financial expenses.

Statement of financial position
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. Subsequently, they are 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 income or financial expenses in the Parent company's statement of profit or loss.

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, entries providing an effective hedge against foreign exchange gains/losses on the net investment and entries concerning other financial assets.

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

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 to 31 December 2020.

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. Management review has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the Parent company's financial statements give a true and fair view of the Group's and the Parent company's financial position at 31 December 2020, the results of their operations and of the Group's cash flows for the financial year 1 January to 31 December 2020.

We believe that Management 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.

In our opinion, the Annual Report of H. Lundbeck A/S for the financial year 1 January to 31 December 2020 identified as HLUN-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation

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

Copenhagen, 4 February 2021

REGISTERED EXECUTIVE MANAGEMENT

Deborah Dunsire
President and CEO

Lars Bang
Executive Vice President, Product Development & Supply

Anders Götzsche
Executive Vice President, CFO

Per Johan Luthman
Executive Vice President, Research & Development

Jacob Tolstrup
Executive Vice President, Commercial Operations

BOARD OF DIRECTORS

Lars Søren Rasmussen
Chairman of the Board

Lene Skole-Sørensen
Deputy Chairman of the Board

Henrik Andersen

Jeffrey Berkowitz

Lars Erik Holmqvist

Jeremy Max Levin

Rikke Kruse Andreasen
Employee representative

Henrik Sindal Jensen
Employee representative

Ludovic Tranholm Otterbein
Employee representative

INDEPENDENT AUDITOR'S REPORTS

To the shareholders of H. Lundbeck A/S

Report on the audit of the financial statements

Our opinion
In our opinion, the consolidated financial statements (pages 43-84) give a true and fair view of the Group's financial position at 31 December 2020 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent company financial statements (pages 85-96) give a true and fair view of the Parent company's financial position at 31 December 2020 and of the results of the Parent company's operations for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited
The consolidated financial statements of H. Lundbeck A/S for the financial year 1 January to 31 December 2020 comprise the consolidated statement of profit or loss and statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes, including summary of significant accounting policies.

The Parent company financial statements of H. Lundbeck A/S for the financial year 1 January to 31 December 2020 comprise the statement of profit or loss, the statement of financial position, the statement of changes in equity, and the notes, including summary of significant accounting policies.

Collectively referred to as the "financial statements".

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 financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Appointment
We were first appointed auditors of H. Lundbeck A/S on 24 March 2020 for the financial year 2020.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORTS

CONTINUED

Key audit matter	*How our audit addressed the key audit matter*
Sales deductions in the U.S. As of 31 December 2020, Management has recognized a provision for discounts and rebates of DKK 1,002 million (2019: DKK 1,040 million). The Group provides rebates and discounts to customers in the U.S. 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 net revenue. The period passing between the sales to distributors and payment of the related rebate to the government bodies may be several months and requires the unsettled amounts to be recognized as a provision. We focused on these arrangements because they are complex and require significant estimation by Management in establishing an appropriate provision 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. We refer to notes 1.5, 16 and 26 in the consolidated financial statements.	We evaluated and tested controls related to the provision on rebates and discounts in the U.S., including applicable information systems and Management's monitoring controls. We obtained Management's calculations under the reimbursement arrangements and evaluated the accuracy of the calculations made by Management. Further, we assessed and tested key data inputs and significant assumptions and recalculated the rebate percentages. We obtained and assessed the Group's estimate of the period from sale to payment of rebates, and rebate percentages applied, and inquired with Management about their estimation process. We considered the Group's historical provisions by comparing the actual rebate with the rebate percentage estimate used by Management to recognize the provision, including performing a retrospective review of the prior period provision compared to subsequent payments to evaluate the accuracy of Management's estimate and to identify any potential management bias. We evaluated the presentation and disclosures of sales deductions in the U.S. in the consolidated financial statements.
Impairment of product rights As of 31 December 2020, the Group has product rights of DKK 17,632 million (2019: DKK 20,732 million). The carrying value of product rights might be impaired and the impairment test relies on the discounted expected future cash flows (value in use) which are complex to determine and require significant 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. We focused on this area as the amounts involved are material and there is a risk that the assets will be impaired if the future cash flows deviate negatively from the expectations. We refer to notes 1.5, 7, and 26 in the consolidated financial statements.	We evaluated the appropriateness of the Group's processes for identifying impairment indicators of product rights and conducting impairment testing, where relevant. We obtained the Group's assessments of impairment indicators and impairment tests and evaluated 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. Further, we assessed: • The impairment models applied. We included our valuation specialists in our audit of the valuation methodologies applied and the assumptions made; • The forecast of future cash flows by discussing it with Management and key employees; and • The applied discount rates by including our valuation specialists to independently calculate the discount rates. We compared the discount rates used by Management to our calculated rates. We evaluated the presentation and disclosures of impairment testing in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORTS

CONTINUED

Key audit matter - continued	*How our audit addressed the key audit matter - continued*
Deferred tax asset valuation and uncertain tax positions As of 31 December 2020, deferred tax assets amounted to DKK 2,075 million before netting deferred tax liabilities within legal tax entities and jurisdictions (2019: DKK 2,406 million) and provision for uncertain tax positions amounted to DKK 406 million (2019: DKK 385 million). The Group operates in many territories and is, consequently, subject to local laws, and cross-border transfer pricing legislation which complicates the tax matters of the Group as a whole. Where the amount of tax payable or receivable is uncertain, a provision for uncertain tax positions is recognized based on Management's estimates. Measurement of deferred tax assets requires significant estimation by Management in assessing the expected future utilization of tax losses and tax credits. We focused on these areas as the amounts involved are material and as the valuation of deferred tax assets and uncertain tax positions is associated with a high degree of estimation uncertainty. We refer to notes 1.5, 6 and 26 in the consolidated financial statements.	We evaluated the appropriateness of the Group's processes for assessing the recoverability of tax losses, tax credits carried forward and provisions for uncertain tax positions. We evaluated Management's assumptions used in (a) the projections of taxable profit in the foreseeable future in the jurisdictions with tax losses, tax credits carried forward and (b) provisions for uncertain tax positions. Moreover, we assessed the planned initiatives and the release and expiry of the tax losses and tax credits carried forward. We included our tax specialists to evaluate and challenge the adequacy of Management's significant assumptions. We evaluated the presentation and disclosure of the deferred tax assets and uncertain tax positions in the consolidated financial statements.

Statement on Management review
Management is responsible for Management review (pages 3-42 and pages 103-104, respectively).

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

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

Moreover, we considered whether Management review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management review is in accordance with the consolidated financial statements and the Parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management review.

Management's responsibilities for the 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 further requirements in the Danish Financial Statements Act and for the preparation of parent company 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent

INDEPENDENT AUDITOR'S REPORTS

CONTINUED

company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 company'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 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 company'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 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 or the Parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

INDEPENDENT AUDITOR'S REPORTS

CONTINUED

Report on compliance with the ESEF Regulation

As part of our audit of the financial statements we performed procedures to express an opinion on whether the Annual Report of H. Lundbeck A/S for the financial year 1 January to 31 December 2020 with the file name HLUN-2020-12-31.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the consolidated financial statements.

Management is responsible for preparing an Annual Report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for all financial information required to be tagged using judgment where necessary;
- Ensuring consistency between iXBRL tagged data and the consolidated financial statements presented in human-readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

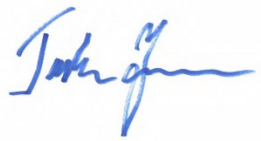
- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the consolidated financial statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited consolidated financial statements.

In our opinion, the annual report of H. Lundbeck A/S for the financial year 1 January to 31 December 2020 with the file name HLUN-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Hellerup, 4 February 2021

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Lars Baungaard
State Authorized Public Accountant
mne23331



Torben Jensen
State Authorized Public Accountant
mne18651

CORE RECONCILIATION

Part of Management review

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

Amortization of product rights

Impairment of intangible assets and property, plant and equipment as well as inventory valuation adjustment

Major restructuring costs

Acquisition and integration costs, including:

- Accounting adjustments relating to the consolidation of material acquisitions and disposals of associates, products and businesses
- Costs associated with the integration of newly acquired companies
- Retention costs
- Transaction costs
- Legal fees and settlements, including:
- Legal costs (external), charges (net of insurance recoveries) and expenses relating to settlement of litigations, government investigations and other disputes
- Income from settlement of litigations and other disputes

Core results	Reported result DKKm	Amortization of product rights DKKm	Impairment and inventory valuation DKKm	Major restructuring DKKm	Acquisition and integration costs DKKm	Legal fees and settlements DKKm	Divestments/ sales milestones DKKm	Core result DKKm
1 January - 31 December 2020								
Revenue	17,672	-	-	-	-	-	-	17,672
Cost of sales	4,166	(1,548)	(47)	-	-	-	-	2,571
Gross profit	**13,506**	**1,548**	**47**	**-**	**-**	**-**	**-**	**15,101**
Sales and distribution costs	5,946	-	-	-	-	-	-	5,946
Administrative expenses	966	-	-	-	-	-	-	966
Research and development costs	4,545	-	(792)	-	-	-	-	3,753
Other operating expenses, net	59	-	-	-	(59)	-	-	-
Profit from operations (EBIT)	**1,990**	**1,548**	**839**	**-**	**59**	**-**	**-**	**4,436**
Net financials, expenses	84	-	-	-	-	-	-	84
Profit before tax	**1,906**	**1,548**	**839**	**-**	**59**	**-**	**-**	**4,352**
Tax on profit for the year	325	244	11	-	14	-	-	594
Profit for the year	**1,581**	**1,304**	**828**	**-**	**45**	**-**	**-**	**3,758**
Earnings per share, basic (EPS) (DKK)	7.95	6.56	4.17	-	0.23	-	-	18.91

CORE RECONCILIATION

CONTINUED

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

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

Core results	Reported result DKKm	Amortization of product rights DKKm	Impairment and inventory valuation DKKm	Major restructuring DKKm	Acquisition and integration costs DKKm	Legal fees and settlements DKKm	Divestments/ sales milestones DKKm	Core result DKKm
1 January - 31 December 2019								
Revenue	17,036	-	-	-	-	-	-	17,036
Cost of sales	3,840	(1,309)	-	-	-	-	-	2,531
Gross profit	**13,196**	**1,309**	**-**	**-**	**-**	**-**	**-**	**14,505**
Sales and distribution costs	5,514	-	-	-	-	-	-	5,514
Administrative expenses	899	-	-	-	-	-	-	899
Research and development costs	3,116	-	-	-	-	-	-	3,116
Other operating expenses, net	514	-	-	-	(514)	-	-	-
Profit from operations (EBIT)	**3,153**	**1,309**	**-**	**-**	**514**	**-**	**-**	**4,976**
Net financials, expenses	127	-	-	-	-	-	-	127
Profit before tax	**3,026**	**1,309**	**-**	**-**	**514**	**-**	**-**	**4,849**
Tax on profit for the year	713	182	-	-	87	-	-	982
Profit for the year	**2,313**	**1,127**	**-**	**-**	**427**	**-**	**-**	**3,867**
Earnings per share, basic (EPS) (DKK)	11.64	5.67	-	-	2.15	-	-	19.46

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