



**Enclosure 7.b.iii**

**Statutory Corporate  
Governance Report for 2017,  
cf. art. 107b of the  
Danish Financial Statements Act**

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## Appendix 1 – NASDAQ OMX Copenhagen Corporate Governance Recommendations

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This Statutory Corporate Governance Report covers the period 1 January 2017 to 31 December 2017 and is prepared pursuant to art. 107b of the Danish Financial Statements Act, and is an element of the management review as included in the annual report for 2017. Appendix 1 is not subject to the auditor's report in the Annual Report.

### 1. Corporate Governance recommendations and practices

As a global company listed on the stock exchange in Copenhagen, Lundbeck is subject to the Danish Corporate Governance Recommendations designed by NASDAQ Copenhagen ([www.corporategovernance.dk](http://www.corporategovernance.dk)).

Lundbeck follows the applicable recommendations in all material aspects and a detailed report of Lundbeck's compliance with and deviations from the Danish Corporate Governance Recommendations can be found in Appendix 1.

### 2. Corporate risk management

Close monitoring, a systematic risk assessment and the ability to respond to a changing environment are essential for an effective risk management process at Lundbeck.

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

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

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

#### Risk reporting and assessment

Risk reporting is an integral part of Lundbeck's overall reporting process. Our corporate risk register provides a consolidated picture of our risk exposure by detailing each risk, risk category and type. The risk descriptions give details of the event, its current status, the status of the response, an assessment of likelihood and potential impact, and the name of the person responsible for managing the risk. Our reporting process defines six risk categories, which are defined as belonging to three risk types: 'external', 'actionable' and 'strategic'. Using this information, the Risk Office assesses the overall risk exposure and discusses it with Executive Management and finally a two-dimensional risk 'heat map' is reviewed by Lundbeck's Audit Committee, which then is shared with the Board of Directors annually.

The risk office continuously evaluates and independently stress tests selected risk assurance, and mitigating initiatives of the most significant corporate risks for Lundbeck.

#### Internal risk management processes and audit functions

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

Our Code of Conduct is pivotal to Lundbeck's approach to compliance. It helps ensure that we comply with international laws and regulations, pharmaceutical industry association standards and corporate reporting requirements. We conduct regular audits of our business against our Code of Conduct. We revise our procedures to meet changing regulations, to implement best practice and to respond to audit observations.

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

Lundbeck has implemented an “Audit Coordination Group” to ensure that the established second line of defense functions covers the identified risks globally. The coordination of audit scope ensures global risk assurance across all key functions of the organization. As part of the risk management setup in Lundbeck, combined compliance reviews are conducted across departments and responsibilities.

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

A detailed description of the most significant risks can be found in the 2017 Annual Report.

### 3. Internal control

Supplementary information on Lundbeck's internal controls in the financial reporting process is available in this section.

The Board of Directors has a supervisory duty and the Executive Management the overall responsibility for Lundbeck's risk management and internal controls in relation to the financial reporting process, including compliance with relevant legislation and additional disclosure requirements pertaining to financial reporting.

The purpose of the risk management process and the internal controls is effectively to identify, manage and mitigate the risk of errors in the financial reporting process and to provide reasonable assurance that material misstatement and errors in relation to the financial reporting process are avoided. Furthermore, the purpose is also to support a complex commercial business, focusing on quality, effectiveness and strong ethics in every day transactions and decisions.

The Board of Directors has set up an Audit Committee, which has an advisory role relative to the Board of Directors, including on matters such as internal controls in the financial reporting procedures, special financial and accounting issues, evaluation of financial reporting and other financial information and risk management. The Audit Committee gathers independent advice and insights from the external auditors, who are present at the meetings. External audit presents their audit strategies and findings to the Audit Committee.

#### **Control environment**

The Board of Directors approves the overall risk management policies presented by the Executive Management, including the treasury policy. These policies are incorporated in the internal control and risk management system, which comprises a clearly defined organizational structure, including roles and responsibilities. Based on this structure, Lundbeck has drawn up manuals describing the principal business procedures, internal controls, requirements on segregation of functions and duties, reconciliations, approval and authorization as well as accounting policies. Compliance with the guidelines is verified in an ongoing process.

Lundbeck has set up a central controlling function to check the financial reporting from all group companies, including compliance with the accounting policies. Each business area has been allocated a business controlling function which reviews the validity of reported earnings and underlying activities of each business area.

#### **Risk management**

The Executive Management regularly assesses the risks that Lundbeck is exposed to, including risks related to financial reporting. In case of actual or expected changes that could affect the risks that Lundbeck is exposed to, the Executive Management will review such changes and consider appropriate mitigating actions together with the Board of Directors. At least once a year, the Audit Committee assesses whether the internal controls related to the financial reporting process are effective in relation to the risks identified.

Once a year, and as needed, the Audit Committee reviews the accounting policies and any changes thereto as well as critical estimates and judgments related to financial reporting. As part of the review, the committee discusses changes in accounting policies and the impact of critical estimates and judgments with the Executive Management. The Audit Committee reports the findings of these assessments to the Board of Directors, which approves the financial reporting process and the findings of the assessment.

#### **Control activities**

Control activities are based on the risk assessment. The objective of the control activities is to ensure compliance with strategies, policies, manuals, procedures etc. established by the Board of Directors and the Executive Management and each business area, respectively, and Lundbeck aims to prevent, detect and correct any misstatement, discrepancies and errors, etc.

A formal reporting process has been established for the Group's business areas. The process builds on a budget and estimate process as well as a monthly follow-up on realized figures, budget deviations and key figures, etc.

Requirements have been defined in respect of analyses of monthly financial data, etc. in the reporting packages that form the basis of internal and external financial statements. The business areas have established reporting procedures that are consistent with Lundbeck's reporting process and the special operational issues of each business area. Supplementary information is gathered on an ongoing basis for use in ensuring compliance with any requirements regarding notes, other disclosure requirements and operational analyses.

Based on the risk assessment, minimum requirements have been established in respect of controls, reconciliations and analyses of financial data for the Group's principal units and accounting items.

Lundbeck has established a Corporate Risk and Compliance department within Group Finance and financial compliance reviews are conducted throughout the organization based on a defined review strategy, risk assessment and plan approved by Corporate Management and the Audit Committee annually.

### **Information and communication**

Lundbeck has established information and communication systems which, among other things, set out the general financial reporting requirements and external financial reporting requirements in accordance with current legislation and applicable regulations, including International Financial Reporting Standards as adopted by the EU.

As a result of ongoing work with business procedures, internal controls and changing financial reporting regulation, Lundbeck regularly updates the contents of the systems and manuals in respect of business procedures, internal controls, and requirements on segregation of functions and duties, reconciliations, approval and authorization and accounting policies. The manuals are accessible on Lundbeck's intranet.

### **Monitoring**

The risk assessment and control activities are monitored in an ongoing process. The monitoring comprises formal and informal procedures. These are used by the management and the persons who have ownership of processes, risks and control procedures. The process includes a review of the financial results, which are compared to budgets and estimates. An analytical control and ongoing assessments are performed of key figures. Major weaknesses and non-compliance with internal guidelines are reported to the Executive Management, who follows up on any issues.

As part of their audit of the financial statements, the auditors elected at the annual general meeting report on any major weaknesses in Lundbeck's internal control and risk management system in the long-form audit report to the Board of Directors, whilst less significant weaknesses are addressed in a management letter to the Executive Management. The Board of Directors ensures that the Executive Management follows up on any outstanding issues, and the Executive Management ensures that the subsidiaries follow up on any weaknesses. Once a year, subsidiary managers and financial controllers declare that the reporting is consistent with Lundbeck's guidelines. In connection with the financial reporting process, the Executive Management makes a separate statement that the consolidated reporting is consistent with Lundbeck's guidelines and policies.

## **4. Management**

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.

### *Board of Directors*

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

The Board has eight members of whom five are elected by the shareholders at the annual general meeting, and three are Lundbeck employees from Denmark elected by the Danish employees.

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In March 2017, the shareholders elected the following members to the Board of Directors:

- Lars Søren Rasmussen (Chairman of the Board)
- Lene Skole-Sørensen (Deputy Chairman of the Board)
- Jens Jesper Ovesen (Member of the Board)
- Lars Erik Holmqvist (Member of the Board)
- Jeremy Max Levin (Member of the Board)

In 2014, the employees elected the following members to the Board of Directors:

- Mona Elisabeth Elster (Member of the Board – employee representative)
- Jørn Møller Mayntzhusen (Member of the Board – employee representative)
- Henrik Sindal Jensen (Member of the Board – employee representative)

### *Board Committees*

The Board of Directors has set up three advisory committees: the Audit Committee, the Remuneration Committee and the Scientific Committee. The three committees advise the Board on financial information and reporting, the company's remuneration strategy including remuneration of Executive Management, and R&D, respectively. The Chairmanship carries out the role of a Nomination Committee.

### *Executive Management*

Lundbeck's Executive Management is responsible for the company's day-to-day management. This responsibility comprises the Lundbeck organization, allocation of resources, defining and implementing strategies and policies, achieving goals, and reporting information to the Board of Directors.

Lundbeck's Executive Management consists of five members appointed by the Board of Directors:

- Anders Götzsche, Interim CEO and Executive Vice President, Chief Financial Officer (CFO)<sup>1</sup>
- Anders Gersel Pedersen, Executive Vice President, Chief Scientific Officer (CSO)<sup>1</sup>
- Lars Bang, Executive Vice President, Supply Operations & Engineering<sup>1</sup>
- Jacob Tolstrup, Executive Vice President, Commercial Operations<sup>1</sup>
- Peter Anastasiou, Executive Vice President, North America

## **Remuneration to the Board of Directors and Executive Management**

Remuneration to the Board of Directors and Executive Management is based on guidelines approved at the AGM. The guidelines are available at the corporate website. Remuneration to Lundbeck's Board of Directors and Executive Management is annually benchmarked against a group of Danish and international peer companies. The Board of Directors approves remuneration for Executive Management within the frame of the remuneration guidelines, while remuneration to the Board of Directors is approved by shareholders at the AGM.

### *Board of Directors*

Members of Lundbeck's Board of Directors receive a fixed remuneration and are not included in the company's bonus and incentive programs in the form of cash bonus, warrants or shares. In addition, members of the Audit, Remuneration and Scientific Committees receive a separate fee. In 2017, an ordinary member of the Board received DKK 350,000, while the Chairman and Deputy Chairman each received triple and double the basic fee, respectively. Members of the Audit, Remuneration and Scientific Committees received DKK 200,000 in 2017. The chairmen of the committees received 1,5 times this basic fee.

### *Executive Management*

The remuneration package for the Executive Management team is structured to reward the achievement of ambitious short-term objectives and also to provide incentives to focus on long-term goals. The package consists of a base salary, short- and long-term incentive programs, pension and other fringe benefits. The base salary is aligned with the average salary of our peer companies. The short-term incentive is awarded as an annual bonus, if agreed targets for the preceding financial year are met. The CEO can receive up to nine months' base salary as a bonus pay-out following exceptional results. The other members of the Executive Management team can receive up to six months' base salary as a bonus, also on condition of exceptional results.

In addition, members of the Executive Management team participate in long-term incentive programs that include share-based instruments, such as warrants and shares. The programs are based on generating value for shareholders and can be accessed when pre-defined long-term strategic targets are achieved. The pension plan for Executive Management is a defined contribution plan, which corresponds to similar schemes in the

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<sup>1</sup> Member of the Executive Management as registered with the Danish Business Authority

market. On termination of employment, members of Executive Management receive no more than two years' salary.

### 5. Audit Committee

The Audit Committee provides advice to the Board of Directors on internal and external controls in financial reporting procedures, special financial and accounting issues, evaluation of financial reporting and other financial information, risk management and non-GxP compliance.

The audit committee provides advice on the basis of:

- Meetings with the Executive Management and internal and independent auditors
- Management's recommendation concerning accounting policies, accounting estimates, new accounting standards and significant single transactions
- Critical guidelines and policies for internal controls and financial reporting procedures
- Annual strategy, plans and review of status on financial reviews procedures performed by Group Finance
- Communication from independent auditors to the Board of Directors, including monitoring and control of auditors' independence, review of audit planning and drafting long-form audit reports
- Systematic review of the company's risk exposure
- Cases received through the whistleblower system.

In March 2017, the Board of Directors elected Jesper Ovesen as Chairman of the Audit Committee and Lars Holmqvist and Lars Rasmussen as members.

The Chairman of the Board does not act as Chairman of the Audit Committee, and more than half of the members are independent.

### 6. Remuneration Committee

The purpose of the Remuneration Committee is to provide the Board of Directors with the best possible basis for making decisions on the remuneration provided to the members of the Executive Management and on the company's overall remuneration policy. The Committee also handles assignments related to recruitment and appointments to Lundbeck's Executive management.

In March 2017, the Board of Directors elected Lars Søren Rasmussen as Chairman of the Remuneration Committee and Lene Skole-Sørensen as member.

### 7. Scientific Committee

Lundbeck's Board of Directors has a Scientific Committee, the purpose of which is to advise the Board of Directors on support for strategic R&D.

In March 2017, the Board of Directors elected Jeremy Max Levin as Chairman and Lene Skole-Sørensen as a member of the Scientific Committee.

**NASDAQ OMX Copenhagen**  
**Danish Corporate Governance Recommendations**

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<b>1. Communication and interaction by the company with its investors and other stakeholders</b>				
<i>1.1. Dialogue between company, shareholders and other stakeholders</i>				
<p>1.1.1. The Committee <b>recommends</b> that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company’s potential and policies, and in order for the board of directors to be aware of the shareholders’ views, interests and opinions on the company.</p>	X			<p>Lundbeck has an ongoing dialogue with shareholders and is conducting regular roadshows, meetings and participate in investor conferences. Conference calls held after the presentation of full-year and interim reports are webcasted on the Internet to anyone interested, and the presentations are freely available at the company’s website. All corporate and press releases are published in both Danish and English. The interim financial reports, the annual report and the company magazine are published in English.</p> <p>All registered shareholders automatically receive notices of general meetings and can register for the meetings via the company’s website. Lundbeck webcasts its general meeting on the Internet with simultaneous interpretation into English for the benefit of the company’s large group of foreign shareholders. The company has adopted a policy on information and communication and has communication strategies for providing information to relevant stakeholders.</p>
<p>1.1.2. The Committee <b>recommends</b> that the board of directors adopt policies on the company’s relationship with its</p>	X			<p>The company’s stakeholders are addressed and discussed on an ad hoc basis at meetings of the Board of Directors and strategy seminars.</p>

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<p>stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders are respected in accordance with company policies.</p>				<p>Lundbeck has an integrated corporate vision, mission and set of values that reflect the company’s business concept, objectives and fundamental management principles. In addition, the company has a specific group communication policy and a code of conduct defining guidelines for interaction with stakeholders.</p> <p>The Board of Directors believes that the interests of the company, and thus also of its shareholders, are best safeguarded by maintaining an open, constructive and ongoing dialogue between the company and all its stakeholders. Lundbeck maintains a regular contact with its major stakeholders including investors, employees, partners, suppliers, organizations and authorities.</p>
<p>1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports</p>	X			<p>Quarterly reports are disclosed in corporate releases and published at the corporate web-site (<a href="http://www.lundbeck.com">www.lundbeck.com</a>).</p>
<p><i>1.2. General meeting</i></p>				
<p>1.2.1. The Committee <b>recommends</b> that when organizing the company’s general meeting, the board of directors plans the meeting to support active ownership.</p>	X			<p>General meetings are convened by the company giving not less than three weeks’ notice and not more than five weeks’ notice. The company aims to ensure that all notifications of general meetings and agendas are clear and unambiguous, stating all relevant details for the shareholders to be able to form an adequate impression of the points to be discussed. Furthermore,</p>

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				<p>all shareholders are entitled to have specific issues considered at the general meeting, subject to submitting a written request to the Board of Directors in time for the issue to be included on the agenda for the meeting.</p> <p>The general meeting is conducted by physical attendance at Lundbeck’s headquarters in Valby.</p>
<p>1.2.2. The Committee <b>recommends</b> that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.</p>	X			<p>Shareholders who grant proxies are given the opportunity to state their position on each item on the agenda.</p>
<p><i>1.3. Takeover bids</i></p>				
<p>1.3.1. The Committee <b>recommends</b> that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. According to such contingency procedures, the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid themselves.</p>	X			<p>Lundbeck has established procedures for handling takeover bids. If a specific takeover bid is made, the Board of Directors will consider such a bid individually with due consideration to the Danish Companies Act and the Rules for issuers of shares of NASDAQ OMX Copenhagen A/S as well as the guidelines already discussed and adopted by the Board of Directors.</p> <p>In the event of a serious take-over bid, the shareholders will be given the opportunity to decide whether or not they wish to dispose of their shares in the company under the terms offered.</p>

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<b>2. Tasks and responsibilities of the board of directors</b>				
<i>2.1. Overall tasks and responsibilities</i>				
2.1.1. The Committee <b>recommends</b> that at least once a year the board of directors take a position on the matters related to the board’s performance of its responsibilities.	X			At least once every year the Board of Directors takes a position on the matters related to the board’s performance of its responsibilities. The responsibilities are defined in the rules of procedures for the Board of Directors which annually is assessed for the need of changes.
2.1.2. The Committee <b>recommends</b> that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.	X			At least once every year the Board of Directors assesses the company’s overall strategy.
2.1.3. The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and long-term value creation of the company are in the best interest of the	X			The Board of Directors analyses the company’s need for capital on an ongoing basis, including an assessment of the company’s capital structure. There is no universal answer to the question of what the optimum capital structure is for a specific company because the relationship between equity and interest-

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<p>shareholders and the company, and that the board of directors presents this in the management commentary on the company's annual report and/or on the company's website.</p>				<p>bearing debt relies on the specific characteristics that apply within the particular industry in which the business operates and, by extension, the operating and financial risk. However, companies in the pharmaceutical industry are often particularly well-funded which may be explained by the extended development projects and risks associated with research activities.</p> <p>The Board of Directors pursues the policy that equity beyond the level which, based on a conservative estimate, would be considered sufficient to support the underlying business should be distributed to the shareholders. The distribution to our shareholders takes place through annual dividends and if appropriate share buyback programs.</p> <p>In the years ahead, the Board of Directors intends to pay dividends of 60-80% of the profit after tax.</p>
<p>2.1.4. The Committee <b>recommends</b> that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.</p>	X			<p>Communications between the Executive Management and the Board of Directors are regulated in the rules of procedure for the Executive Management which annually is assessed for the need of changes. These procedures stipulate what matters the Executive Management should report to the Board of Directors, and how often to report such matters. In addition, meetings are held on a regular basis between the chairman or deputy chairman of the Board of Directors and the Executive Management with a view to</p>

Appendix 1 – NASDAQ OMX Copenhagen Corporate Governance Recommendations

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
				continuously optimizing communications and collaboration.
2.1.5. The Committee <b>recommends</b> that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.	X			At least once a year the board of directors discusses the composition of the executive board, as well as developments, risks and succession plans at an executive session following an ordinary Board meeting.
2.1.6. The Committee <b>recommends</b> that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the company's annual report and/or on the website of the company.	X			Lundbeck aims for equal opportunities for men and women across the organization. The Board of Directors has set specific target figures for the representation of the underrepresented gender in the Board of Directors in accordance with section 139a (1) (1) of the Danish Companies Act. To keep focus on diversity at other managerial levels, Lundbeck has prepared a General Diversity Policy. A status on diversity is provided in the company's annual COP report.
<i>2.2. Corporate social responsibility</i>				
2.2.1. The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.	X			Lundbeck has adopted a policy on corporate social responsibility and supports the UN Global Compact.

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<i>2.3. Chairman and vice-chairman of the board of directors</i>				
2.3.1. The Committee <b>recommends</b> appointing a vice-chairman of the board of directors who will assume the responsibilities of the chairman in the event of the chairman’s absence, and who will also act as effective sparring partner for the chairman.	X			Annually, the Board of Directors elects a deputy chairman who chairs the board meetings in the chairman’s absence. The duties of the chairman and deputy chairman are set out in a description of tasks and duties.
2.3.2. The Committee <b>recommends</b> ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, overall management and control function. Resolutions on the chairman’s participation in day-to-day management and the expected duration hereof should	X			To ensure that the Board of Directors will maintain responsibility for the overall management and control function in case the chairman is asked to perform special tasks for the company, distribution of duties and duration of the agreements will be documented in minutes from the relevant Board of Directors meeting and disclosed in a company release.

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be published in a company announcement.				
<b>3. Composition and organization of the board of directors</b>				
<i>3.1. Composition</i>				
<p>3.1.1. The Committee <b>recommends</b> that the board of directors annually accounts for</p> <ul style="list-style-type: none"> <li>• the skills it must have to best perform its tasks,</li> <li>• the composition of the board of directors, and</li> <li>• the special skills of each member.</li> </ul>	X			<p>The required skills of the Board of Directors are annually assessed by the board. Candidates nominated for the Board of Directors are described according to the recommendation in the notice convening the general meeting. A description of the Board of Directors in accordance with the recommendation is published on the company's website.</p>
<p>3.1.2. The Committee <b>recommends</b> that the selection and nomination of candidates for the board of directors be carried out through a thoroughly transparent process approved by the overall board of directors. When assessing its composition and nominating new candidates, the board of directors must take into consideration the need for integration of new talent</p>	X			<p>The goal of the Board of Directors is for the individual board members to complement each other with respect to international experience and qualifications, as this is the best way to be a qualified sounding board for the Executive Management. The Board of Directors proposals for new members are always accompanied by a thorough description of the candidate and the candidate's resume. The Board of Directors support equal opportunities for both genders.</p> <p>Moreover, at the general meeting the Chairman of the Board of Directors reviews the recruitment criteria on</p>

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and diversity in relation to age, international experience and gender.				which the Board of Directors has based its recommendation.
<p>3.1.3. The Committee <b>recommends</b> that a description of the nominated candidates' qualifications, including information about the candidates'</p> <ul style="list-style-type: none"> <li>• other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises, be accompanied by the notice convening the general meeting when election of members to the board of directors is on the agenda.</li> <li>• demanding organizational tasks, and information</li> <li>• about whether candidates to the board of directors are considered independent.</li> </ul>	X			Candidates nominated for the Board of Directors are described according to the recommendation in the notice convening the general meeting.
3.1.4. The Committee <b>recommends</b> that the company's articles of association stipulate a retirement age for members of the board of directors.	X			Pursuant to the articles of association of H. Lundbeck A/S, a board member shall resign not later than at the general meeting in the calendar year in which the board member attains the age of 70.

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<p>3.1.5. The Committee <b>recommends</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.</p>	X			<p>Pursuant to the company's articles of association, board members elected by the general meetings are elected for a period of one year.</p>
<p><i>3.2. Independence of the board of directors</i></p>				
<p>3.2.1. The Committee <b>recommends</b> that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests. To be considered independent, this person may not:</p> <ul style="list-style-type: none"> <li>• be or within the past five years have been member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate,</li> <li>• within the past five years, have received larger emoluments from the company/group,</li> <li>• a subsidiary undertaking or an associate in another capacity than as member of the board of directors,</li> </ul>	X			<p>At least half of the members of the Board of Directors elected by the shareholders are independent in accordance with the cited definition.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<ul style="list-style-type: none"> <li>• represent the interests of a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the company, a subsidiary undertaking or an associate.</li> <li>• be or within the past three years have been employed or partner at the external auditor,</li> <li>• have been chief executive in a company holding cross-memberships with the company,</li> <li>• have been member of the board of directors for more than 12 years, or</li> <li>• have been close relatives with persons who are not considered independent.</li> </ul>				
<p>3.3. <i>Members of the board of directors and the number of other executive functions</i></p>				
<p>3.3.1. The Committee <b>recommends</b> that each member of the board of directors assesses the expected time</p>	X			<p>The number of directorships each member is able to hold is subject to an individual assessment.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<p>commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.</p>				
<p>3.3.2. The Committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:</p> <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the relevant person,</li> <li>• whether the member is considered independent,</li> <li>• the date of appointment to the board of directors of the member,</li> <li>• expiry of the current election period,</li> <li>• other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and</li> <li>• demanding organizational tasks, and</li> <li>• the number of shares, options, warrants and similar in the company,</li> </ul>	X			<p>The company's annual report or website contains information on the members of the Board of Directors in accordance with the recommendation.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<p>and other group companies of the company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year.</p>				
<p>3.4. Board committees</p>				
<p>3.4.1. The Committee <b>recommends</b> that the company publish the following on the company's website:</p> <p>The terms of reference of the board committees,</p> <ul style="list-style-type: none"> <li>the most important activities of the committees during the year, and the number of meetings held by each committee, and</li> <li>the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.</li> </ul>	<p>X</p>			<p>The specified information is published on the company's website or in the annual report.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<p>3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent.</p>			X	<p>In 2017 the remuneration committee went from having three members to having two, of which one is considered independent. It is the ambition to again have three members in the remuneration committee at which point Lundbeck will be in compliance with the recommendation.</p> <p>The scientific committee also has two members of which one is considered independent. Similar to the remuneration committee, it is the ambition to include a third member in the Scientific Committee so that the majority of members is independent and Lundbeck will be in compliance.</p>
<p>3.4.3. The Committee <b>recommends</b> that the board of directors set up a formal <u>audit committee</u> composed such that</p> <ul style="list-style-type: none"> <li>• the chairman of the board of directors is not chairman of the audit committee, and</li> <li>• between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares</li> </ul>	X			<p>Lundbeck has established an audit committee consisting of three board members. The chairman of the Board of Directors is not chairman of the audit committee.</p> <p>Lundbeck finds that the members of the audit committee between them have the necessary skills and experience to handle the tasks assigned to the committee.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
are admitted to trading on a regulated market.				
<p>3.4.4. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the board of directors about:</p> <ul style="list-style-type: none"> <li>• significant accounting policies,</li> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook for the current year.</li> </ul>	X			In case of significant changes in accounting policies or estimates, related party transactions or changes in uncertainties or risks, the company’s audit committee will deal with the changes and notify the Board of Directors.
<p>3.4.5. The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• annually assesses the need for an internal audit, and in such case, makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>• monitor the executive board’s follow-up on the conclusions and</li> </ul>	X			The Board of Directors, together with the Audit Committee, assesses the need for an internal audit function. It has been determined that the tasks of assessing internal control systems and risk management systems are better carried out by the company’s external auditor and other internal control functions in the company. Based on the work conducted by the external auditors and internal control functions, the Audit Committee reviews and assesses the internal control systems and the management’s guidelines for such systems annually, and either recommends that the Board of Directors approve the systems or ensures that necessary improvements are

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<p>recommendations of the internal audit function.</p>				<p>implemented. Executive Management follows-up on conclusions and recommendations made in this respect.</p> <p>The Audit Committee meets with the internal control functions at every Audit Committee meeting.</p>
<p>3.4.6. The Committee <b>recommends</b> that the board of directors establish a nomination committee chaired by the chairman of the board of directors with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describe the qualifications required by the board of directors and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined,</li> <li>• annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors,</li> </ul>		X		<p>The tasks of a nomination committee are carried out by the Chairmanship who annually provides the Board of Directors with information about:</p> <ul style="list-style-type: none"> <li>• qualifications required in the two governing bodies and for a given position, the expected time commitment for a position and the balance of skills, knowledge and experience available in the two governing bodies.</li> <li>• the structure, size, composition and performance of the governing bodies including suggested changes,</li> <li>• skills, knowledge and experience of the individual members of the governing bodies,</li> <li>• proposals submitted by relevant persons, including shareholders and members of the governing bodies, for candidates for executive positions.</li> <li>• identified and recommended candidates for the governing bodies.</li> </ul>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<ul style="list-style-type: none"> <li>annually assess the competences, knowledge and experience of the individual members of management, and report to the board of directors in this respect,</li> <li>consider proposals from relevant persons, including shareholders and members of the board of directors and the executive board for candidates for the board of directors and the executive board, and</li> <li>propose an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>				
<p>3.4.7. The Committee <b>recommends</b> that the board of directors establish a remuneration committee with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the board of directors and the executive board for approval by the board of directors</li> </ul>	X			<p>Lundbeck has established a remuneration committee responsible for the company’s overall remuneration strategy and remuneration of the members of the Executive Management. The objective of the committee is partly to ensure a consistently competitive remuneration, also in a regional perspective, partly to ensure a reasonable balance between remuneration and performance. Furthermore, it is the duty of the committee to ensure that all long-term incentive programs set up for members of the Executive Management are</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<p>prior to approval by the general meeting,</p> <ul style="list-style-type: none"> <li>• make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group, and</li> <li>• recommend a remuneration policy applicable for the company in general.</li> </ul>				<p>competitive but also conform to best practice in similar companies and industries.</p>
<p>3.4.8. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.</p>	X			<p>The remuneration committee and Executive Management do not consult with the same external advisers.</p>
<p><i>3.5. Evaluation of the performance of the board of directors and the executive board</i></p>				

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<p>3.5.1. The Committee <b>recommends</b> that the board of directors establish an evaluation procedure where contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.</p>	X			<p>The Board of Directors has adopted a formal evaluation procedure to ensure systematic evaluation of the work of the Board of Directors and the individual members. The chairman is in charge of the evaluation of the Board and significant changes deriving from the assessment is disclosed in the annual report.</p>
<p>3.5.2. The Committee <b>recommends</b> that in connection with preparation of the general meeting, the board of directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.</p>	X			<p>The company's Board of Directors consists of 4-6 external directors elected by the shareholders in general meeting and 2-3 members elected by the company's Danish employees. The Board of Directors believes that its current size is appropriate, both in relation to the company's requirements and the Board of Directors assignments and skills. The number of members on the board is assessed annually.</p>
<p>3.5.3. The Committee <b>recommends</b> that at least once every year the board of directors evaluate the work and performance of the executive board in</p>	X			<p>The evaluation of the work and results of the Executive Management forms a natural part of the regular meetings held by the chairman of the Board of</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
accordance with predefined clear criteria.				Directors and the CEO. A performance plan for Executive Management is established annually.
3.5.4. The Committee <b>recommends</b> that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalized dialogue between the chairman of the board of directors and the chief executive officer and that the outcome of the evaluation be presented to the board of directors.	X			The Board of Directors has adopted a formal evaluation procedure to ensure systematic evaluation of the work of the Board of Directors and Executive Management. Further, ongoing evaluation of the cooperation between Executive Management and the Board of Directors is part of the regular meetings held by the chairman of the Board of Directors and the CEO.
<b>4. Remuneration of management</b>				
<i>4.1. Form and content of the remuneration policy</i>				
4.1.1. The Committee <b>recommends</b> that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including <ul style="list-style-type: none"> <li>a detailed description of the components of the remuneration for members of the board of directors and the executive board,</li> </ul>	X			Lundbeck has a remuneration policy for Executive Management and the Board of Directors which includes the reasons for choosing the individual components of the remuneration and a description of the criteria on which the balance between the individual components of the remuneration is based. The remuneration policy is described in the annual report and posted on the company's website, <a href="http://www.lundbeck.com">www.lundbeck.com</a> Any changes to the remuneration policy are subject to approval at the general meeting.

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<ul style="list-style-type: none"> <li>the reasons for choosing the individual components of the remuneration, and</li> <li>a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul> <p>The remuneration policy should be approved by the general meeting and published on the company's website.</p>				
<p>4.1.2. The Committee <b>recommends</b> that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> <li>limits be set on the variable components of the total remuneration package,</li> <li>a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms,</li> <li>there be clarity about performance criteria and measurability for award of variable components,</li> </ul>	X			<p>The remuneration of the Executive Management and the company's executives consists of a combination of a fixed salary, bonus and share based instruments. The Board of Directors believes that this split of the remuneration into three components ensure that the company's management retains its focus on the company's operations in the short term as well as the longer term strategies/objectives. This will in turn ensure that management endeavors to optimize shareholder value.</p> <p>The value of the Executive Management's bonus program cannot exceed 6 months' salary for EVPs and 9 months' salary for the CEO. There are no unusual severance packages for members of the Executive Management.</p> <p>In accordance with the recommendations, in exceptional cases, the company is entitled to reclaim in</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<ul style="list-style-type: none"> <li>• there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and</li> <li>• an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.</li> </ul>				<p>full or in part financial benefits received by the executive, if it is ascertained that the financial benefits were received on the basis of information that subsequently proves to be misstated, and provided that the executive is acting in bad faith.</p>
<p>4.1.3. The Committee <b>recommends</b> that remuneration of members of the board of directors does not include share options.</p>	X			<p>Members of the company’s Board of Directors receive a fixed annual remuneration. The remuneration does not include bonus and incentive programs.</p>
<p>4.1.4. The Committee <b>recommends that</b> if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.</p>	X			<p>Executive Management receives stock-based remuneration that meets the specified requirements. The remuneration program is described in the annual report and on the company’s website, <a href="http://www.lundbeck.com">www.lundbeck.com</a>.</p> <p>The Board of Directors believes that the LTI programs implemented promote long-term behavior. The LTI warrant implemented programs are valued according to Black &amp; Scholes.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
4.1.5. The Committee <b>recommends that</b> agreements on termination payments should not amount to more than two years' annual remuneration.	X			The Board of Directors has adopted a general policy that severance payments to Executive Management should not amount to more than two years' annual remuneration.
<i>4.2. Disclosure of the remuneration policy</i>				
4.2.1. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.	X			At the company's general meeting, the chairman addresses the company's remuneration policy and compliance with the policy.
4.2.2. The Committee <b>recommends</b> that the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.	X			At the company's general meeting, the chairman addresses the remuneration of the Board of Directors. The remuneration appears from the company's annual report and is approved each year at the company's general meeting.
4.2.3. The Committee <b>recommends</b> that the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group, including information on the most important contents of retention and	X			Lundbeck discloses the individual remuneration granted to each member of the Board of Directors and Executive Management in the annual report. Lundbeck does not offer defined-benefit schemes to members of the Board of Directors or the Executive Management.

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retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.				The most important aspects of retention and severance programs are disclosed in the annual report.
<b>5. Financial reporting, risk management and audits</b>				
<i>5.1. Identification of risks and transparency about other relevant information</i>				
5.1.1. The Committee <b>recommends</b> that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.	X			Lundbeck takes a systematic approach to risk management. Annually, the company identifies the most significant risks, which are monitored in an ongoing process by Executive Management as well as the Board of Directors.  The company's risk management activities are disclosed in the annual report.
<i>5.2. Whistleblower scheme</i>				
5.2.1. The Committee <b>recommends</b> that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.	X			Lundbeck has established a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying/partially complying/not complying with the recommendation
<i>5.3. Contact to auditor</i>				
<p>5.3.1. The Committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.</p>	X			<p>The audit committee holds several annual meetings with external and internal risk and compliance function to identify significant risk areas and discuss substantial accounting issues. Based on the discussions, the audit committee reports back to the Board of Directors.</p> <p>To close the year-end audit, the external auditors prepare a long-form audit report which is presented to the audit committee for their review and discussion. At the subsequent board meeting, at which the financial statements are approved, the external auditors review the long-form audit report together with the members of the Board of Directors.</p> <p>The Board of Directors and the audit committee meet with the external auditors at least once every year without the Executive Management present.</p>
<p>5.3.2. The Committee <b>recommends</b> that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of</p>	X			<p>The company's audit committee negotiates the audit agreement, including fees to the auditors, and presents the agreement for approval by all members of the Board of Directors.</p>

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<b>Recommendation</b>	<b>The company complies</b>	<b>The company complies partially</b>	<b>The company does not comply</b>	<b>The explanation for complying/partially complying/not complying with the recommendation</b>
a recommendation from the audit committee.				