



# **Charter of the Audit Committee of H. Lundbeck A/S**

**January 2018**

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## 1. Introduction

- 1.1 The Committee shall be called the “Audit Committee”.
- 1.2 The purpose of the Audit Committee is to assist the Board of Directors in its oversight responsibilities. The Committee reports its findings to the Board of Directors. The Board of Directors has the full responsibility for all audit matters.
- 1.3 The Audit Committee shall assist the Board of Directors with the oversight of:
  - 1.3.1 The external audit process, including the process for audit tenders
  - 1.3.2 The independence of the external auditors including complying with the regulations governing non-prohibited services
  - 1.3.3 Enterprise Risk Management (ERM) and the internal financial compliance function
  - 1.3.4 Reporting related to financial standards, accounting treatment and management estimates
  - 1.3.5 Compliance with law and regulation related to IFRS, Tax and Treasury, GDPR and non-GxP<sup>1</sup> compliance risks
  - 1.3.6 Code of Conduct compliance
  - 1.3.7 Complaints reported through the Compliance Hotline (whistleblowing)

## 2. Membership

- 2.1 The Committee shall consist of no less than three and no more than five members of the Board of Directors. Notwithstanding any vacancy in the Committee, the continuing members of the Committee may act so long as the number of members of the Committee does not fall below two for a period exceeding three months.
- 2.2 The Board of Directors shall appoint the members of the Committee. Appointment usually takes place at the Board of Directors Meeting following the Annual General Meeting, and members shall be Directors whose nominations for such appointment have been reviewed and approved by the Board of Directors. Members of the Audit Committee are elected for a one-year term. The Board of Directors may reappoint any member of the Committee at any time, provided that the nomination for such reappointment has been reviewed and approved by the Board of Directors. The Board of Directors can remove any member of the Audit Committee at any time.
- 2.3 The Board of Directors shall define principles for re-election of members for the Audit Committee.
- 2.4 The members of the Committee shall elect a Chairman of the Committee who is not an Executive Director or employee of the Group or any related corporation and whose nomination as Chairman of the Committee has been reviewed and approved by the Board of Directors. The Chairman of the Board of Directors cannot be the Chairman of the Audit Committee.
- 2.5 Each member of the Committee shall hold office until the next Annual General Meeting following that member’s appointment or reappointment. The retiring Chairman of the Committee and other members of the Committee shall, subject to the preceding paragraphs, be eligible for reappointment.
- 2.6 If the number of members falls below three, the Board of Directors shall endeavour to fill the vacancy within two months and in any case the Board of Directors shall within three months of such event appoint any Director or Directors whose nominations have been reviewed and approved by the Board of Directors as a member or members as may be required to make up the minimum number of three members.

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<sup>1</sup> Non GxP covers compliance with legislation and pharmaceutical industry codes and standards, which cover issues outside regulated areas (GxP) e.g. Good Manufacturing Practice (GMP) or Good Clinical Practice (GCP).

### **3. Independence**

- 3.1 No member of the Committee shall be:
  - 3.1.1 An Executive Director of the Group or any related corporation
  - 3.1.2 A spouse, parent, brother, sister, son or adopted son, daughter or adopted daughter of an Executive Director of the Group or of any related corporation, or
  - 3.1.3 An affiliated person of the Group, or
  - 3.1.4 A receiver of any consulting, advisory or other compensatory fee from the Group, other than the fee as member of the Board of Directors, the Audit Committee and the Compensation Committee for the Group
  - 3.1.5 Any person having a relationship which in the opinion of the Board of Directors would interfere with the exercise of independent judgement in carrying out the functions of the Committee
- 3.2 A Director may be considered independent if any relationship he may have would not, in the individual case, be likely to affect the Director's exercise of independent judgement.
- 3.3 The rules in force from time to time regarding financial investments etc. set out in the Terms of Reference for the Board of Directors (paragraph 9 "Interne Regler") also apply to the members of the Audit Committee.

### **4. Meetings and attendance**

- 4.1 The Committee shall meet as often as it deems necessary, however no less than 3 times per year. Any member of the Committee may call for a meeting. Attendees should be limited to those familiar with, or responsible for, the topics on the agenda. The CEO and/or the CFO and the VP of Group Finance and the responsible for the financial compliance reviews attend all Audit Committee meetings. The External auditors shall attend one meeting per year and when the Audit Committee deems it necessary.
- 4.2 At least at one meeting a year the external auditors, as part of the meeting, conduct a separate meeting in which the CEO and the CFO do not attend.
- 4.3 Meetings shall be convened at no less than 8 day's written notice to all members of the Audit Committee, and such notice shall include an agenda for the meeting in question. Any written material relating to the individual agenda items shall, to the extent possible, be forwarded to the members together with the notice convening the meeting.
- 4.4 Under special circumstances, a committee resolution may be passed over the phone or in writing. In such cases the proposed resolution shall be forwarded to the members, and the Chairman shall subsequently seek to obtain a written, oral or electronically transferred statement from all members of the Audit Committee and arrange for the recording of the resolution in the minute book.
- 4.5 No business shall be transacted at a meeting unless at least two members of the Committee are present.
- 4.6 At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman of the Committee is absent, the members present at the meeting shall elect a Chairman of the meeting.

### **5. Responsibilities**

- 5.1 The Committee assists the Board of Directors in fulfilling its oversight responsibilities. Its primary functions are to review and evaluate:
  - 5.1.1 the internal control, risk management systems and non-GxP-compliance structure and

- 5.1.2 the audit process, the scope, results, effectiveness and objectivity of the audit process and maintain an appropriate relationship with the external auditors.
  - 5.1.3 on behalf of the Board of Directors, the adequacy of the internal control framework, including accounting controls, taking input from the external auditors, risk management and compliance functions
  - 5.1.4 with the external auditors, all audit plans and audit reports; this will normally include:
    - auditors' long-form report
    - result on the statutory audit
    - reports on internal controls
    - schedule of audit differences
    - audit strategy
  - 5.1.5 estimated cost for the basic audit charges based on the audit plan prepared by the external auditors for the coming year
  - 5.1.6 established policies and procedures governing service provided by any of the Big-4 audit firms, covering audit services and permitted non-audit services in compliance with Danish and EU law.
  - 5.1.7 Pre-approve all audit services and permitted non-audit services in value above DKK 500,000 provided by any audit firm
  - 5.1.8 the external auditors' reporting regarding the balance sheet and income statement of the Group and thereafter to submit the reporting to the Board of Directors
- 5.2 The Committee shall have full access to, and cooperation by, the management, including external auditors, and have full discretion to invite any Director or employee to attend meetings.
  - 5.3 Review of internal controls, risk management and procedures established by the management to mitigate risk in connection with inspections and GxP-audits by e.g. the FDA and Lægemiddelstyrelsen is not part of the Audit Committees responsibilities.

### **Audit Process**

- 5.4 In respect of the overall audit process, it will be the responsibility of the Audit Committee to:
  - 5.4.1 Provide an open channel of communication between the CFO, the external auditors and the Board of Directors
  - 5.4.2 Review the strategy, plan, scope and approach of the external auditors' annual audit and Group Finance's financial compliance reviews
  - 5.4.3 Review the scope and results of the external auditors, risk management and compliance related to the financial matters and their effectiveness, and to report periodically to the Board of Directors on significant findings, and
  - 5.4.4 Meet, as required, at least once a year, with the external auditors and management in separate sessions to discuss any matters that these groups believe should be discussed privately with the Audit Committee

### **External Audit**

- 5.5 In respect of the external auditors, it will be the responsibility of the Audit Committee to:
  - 5.5.1 Nominate to the Board of Directors a firm or firms for appointment as the Group's external auditors at any Annual General Meeting of the

Group, or whenever there is a vacancy in the office of auditor, and evaluate their audit charges, having regard also to:

- 5.5.1.1 Any questions of appointment, reappointment or termination of the Group's external auditors to the Board of Directors
- 5.5.1.2 A review of their competences, performance and independence and objectivity, including any potential conflicts of interest
- 5.5.1.3 Monitor the statutory audit of the financial statements etc., taking into consideration the outcome of the latest quality assurance review of the audit firm
- 5.5.1.4 A review with the CFO and the external auditors of the scope and results of the external audit and any significant findings reported to the Committee in the management letter
- 5.4.4.1 A review of the relationship with external auditors; to discuss with external auditors concerning issues such as compliance with accounting standards and any proposals which the external auditors have made vis-à-vis the Group's accounting policies

### **Group Finance**

- 5.6 In respect of Group Finance, it will be the responsibility of the Audit Committee to:
  - 5.6.1 Review and approve the Strategic Annual Financial Compliance Review Plan
  - 5.6.2 Ensure that Group Finance is adequately resourced and continues to have appropriate standing within the Group, and to keep under review its members' objectivity
  - 5.6.3 Ensure that the work of Group Finance, Corporate Compliance & Sustainability and external audit is properly co-ordinated and that appropriate communication channels exist, and
  - 5.6.4 Receive reports of significant issues from Group Finance including significant findings in respect of fraud, illegal acts and deficiencies in internal controls

### **ERM and Internal Controls**

- 5.7 In respect of ERM and internal controls related to financial matters, it will be the responsibility of the Audit Committee to:
  - 5.7.1 Consider and review the Group's ERM and internal controls framework, including financial controls and compliance controls (including the effectiveness thereof), prior to endorsement by the Board of Directors

### **Financial Reporting**

- 5.8 In respect of financial reporting matters, it will be the responsibility of the Audit Committee to:
  - 5.8.1 Review the reporting from the external auditors and Group Finance regarding financial statements contained in the annual reports of the Group and to ensure that the external auditors are satisfied with the disclosure and contents
  - 5.8.2 Review any changes in accounting policies to determine the appropriateness of accounting policies and financial disclosure practices

- 5.8.3 Review the consistency of accounting policies on a year-to-year basis as well as significant new accounting policies across the Group, and
- 5.8.4 Monitor the financial reporting process and make recommendations or proposals to safeguard integrity.

### **Regulatory matters**

- 5.9 In addition to the responsibilities imposed by the Companies Act, the Audit Committee shall:
  - 5.9.1 When it becomes aware of any suspected fraud or irregularity, or suspected infringement of any law, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, discuss such matters with the external auditors and Group Finance and, at an appropriate time, report the matter to the Board of Directors

### **General matters**

- 5.10 In addition to the above paragraphs, it will be within the responsibilities and power of the Audit Committee to:
  - 5.10.1 Investigate any matter brought to its attention, within the scope of its responsibilities, with the power to obtain independent professional advice
  - 5.10.2 Investigate any matter brought to the Audit Committees attention via the whistleblower function as financial misconduct such as fraud, misappropriation of assets including theft and misuse, unlawful behaviour in connection with accounting principles, internal accounting controls or auditing matters and deliberate error in the preparation or maintenance of any financial statement or financial records including financial reports or audit reports
  - 5.10.3 Supervise that procedures and processes are established so that that Lundbeck employees or other anonymous persons can express any concerns regarding possible irregular conditions via the established whistleblower function in confidence. It must be secured that procedures and processes for the whistleblower function are:
    - in accordance with Danish legislation, here among the Danish Data Protection Agency
    - ensuring a proper independent investigation of the matters reported via the whistleblower function, and that there is a appropriate follow-up on each reported matters
  - 5.10.4 Call any member of staff to be interviewed at a meeting of the Audit Committee as and when required

## **6. The Chairman's Responsibility**

- 6.1 Upon the request of the external auditors, the Chairman of the Audit Committee shall convene a meeting of the Audit Committee to consider any matters the external auditors believes should be brought to the attention of the Board of Directors.
- 6.2 On a regularly basis inform the Board of Directors about discussions in the Audit Committee. Upon request from the Board of Directors all material presented to or prepared by the Audit Committee will be available to all

member of the Board of Directors including. Minutes of the Audit Committee's meetings will be distributed to members of the Board of Directors.

- 6.3 On an annual basis conduct a self-evaluation of the Audit Committee's performance in respect to the agreed responsibilities as described in this Charter of the Audit Committee of H. Lundbeck A/S.

## **7. Written or Circulating Resolution**

- 7.1 Any resolution in writing, signed or assented to by all the members of the Audit Committee present in Denmark (a minimum of two members must be present in Denmark) shall be as valid as if it had been passed at a meeting of the Audit Committee duly called and constituted and may consist of several identical documents each signed by one or more of the members of the Audit Committee. The expressions "in writing" and "signed" include approval by e-mail by any such member of the Audit Committee.

## **8. Amendment**

- 8.1 The provisions herein are subject to such revisions by way of modification, addition or otherwise as the Board of Directors may from time to time consider appropriate in so far as such revisions is consistent with the provisions of the Companies Act. The Charter of the Audit Committee of H. Lundbeck A/S shall be renewed and changed if it is considered necessary. Significant changes and additions shall be presented to the Board of Directors for approval.

Approved at the Audit Committee meeting 29 January 2018

Approved at the Board of Directors meeting 6 February 2018