



**Statutory Corporate  
Governance Report for 2019,  
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 2019 to 31 December 2019 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 2019. 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 identify and mitigate risks while keeping 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 process provides 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 two times a year, which then is shared with the Board of Directors annually.

The Risk Office continuously evaluates and independently stress tests selected risks, and mitigating initiatives of the most significant identified 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

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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.

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 2019 Annual Report.

### 3. Internal controls

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.

### **Supervision of internal controls and management**

Executive Management regularly assesses the risks that Lundbeck is exposed to, in relation to financial reporting. Any changes that could affect Lundbeck's risk environment, Executive Management will review 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**

There are several control activities performed within Lundbeck. Control activities are based on the risk assessment, but as well continuous risk control processes are in place. 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.

One key element of the control activity is the formal reporting for the Group's business areas. The reporting 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.

Minimum requirements have been established to mitigate identified risks in respect of controls, reconciliations and analysis of financial data for the Group's principal units and accounting items.

Within Group Finance, Lundbeck has established a Financial Compliance and Enterprise Risk Management department. The department performs financial compliance site reviews that are conducted throughout the organization based on a previously performed risk assessment. The defined review plan is approved by Senior 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 nine members of whom six are elected by the shareholders at the annual general meeting, and three are Lundbeck employees from Denmark elected by the employees.

In March 2019, 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)
- Henrik Andersen (Member of the Board)
- Jeffrey Berkowitz (Member of the Board)
- Jeremy Max Levin (Member of the Board)
- Lars Erik Holmqvist (Member of the Board)

In 2018, the employees elected the following members to the Board of Directors:

- Henrik Sindal Jensen (Member of the Board – employee representative)
- Ludovic Tranholm Otterbein (Member of the Board – employee representative)
- Rikke Kruse Andreasen (Member of the Board – employee representative)

#### *Board Committees*

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

#### *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 team consists of eight members appointed by the Board of Directors:

- Deborah Dunsire, Chief Executive Officer (CEO)<sup>1</sup>
- Anders Götzsche, Executive Vice President, Chief Financial Officer (CFO)<sup>1</sup>
- Jacob Tolstrup, Executive Vice President, Commercial Operations<sup>1</sup>
- Johan Luthman, Executive Vice President, Chief Scientific Officer<sup>1</sup>
- Lars Bang, Executive Vice President, Supply Operations & Engineering<sup>1</sup>
- Peter Anastasiou, Executive Vice President, North America<sup>2</sup>
- Elise Hauge, Executive Vice President, People & Communication<sup>2</sup>

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

<sup>2</sup> Participates in the Executive Management team, but is not a member of the Executive Management as registered with the Danish Business Authority

- Keld Flintholm Jørgensen, Executive Vice President & Chief Business Officer<sup>2</sup>

### **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, Nomination & Remuneration and Scientific Committees receive a separate fee. In 2019, 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 2019. The chairmen of the committees received 1.5 times this fee, i.e. DKK 300,000. Board members with permanent residence outside of Europe received an additional DKK 350,000.

#### *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 and payments. 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 fourteen (14) months' base salary as a bonus pay-out following exceptional results. The other members of the Executive Management team can receive up to six (6) 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, restricted share units 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 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
- Review of the company's annual, mid-year and quarterly reports.

In March 2019, the Board of Directors elected Henrik Andersen as Chairman of the Audit Committee and Lars Erik Holmqvist and Lars Søren 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. Nomination & Remuneration Committee**

The purpose of the Nomination & Remuneration Committee is to provide the Board of Directors with the best possible basis for making decisions on the nomination of Executive Management members and members of the Board and 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 2019, the Board of Directors elected Lars Søren Rasmussen as Chairman of the Nomination & Remuneration Committee and Lene Skole-Sørensen and Jeffrey Berkowitz as members of the Committee. More than half of the members are independent.

### **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 and pipeline evaluation.

In March 2019, the Board of Directors elected Jeremy Max Levin as Chairman and Jeffrey Berkowitz and Lene Skole-Sørensen as members of the Scientific Committee. More than half of the members are independent.



**Lundbeck - Corporate Governance Recommendations**

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The report concerns the financial year **1 January 2019 to 31 December 2019**

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/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 so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders' views, interests and opinions in relation to the company.</p>	<p><b>X</b></p>			<p>Lundbeck has an ongoing dialogue with shareholders and is conducting regular roadshows, meetings and participates 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.</p> <p>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>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.</p> <p>The company has adopted a policy on information and communication and has communication strategies for providing information to relevant stakeholders.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>1.1.2. The Committee <b>recommends</b> that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders, and that the board of directors ensure that the interests of the stakeholders are respected in accordance with company policies.</p>	<p><b>X</b></p>			<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> <p>Lundbeck has a purpose and beliefs 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.</p> <p>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>	<p><b>X</b></p>			<p>The company publishes annual, mid-year and quarterly reports.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<i>1.2. General meeting</i>				
<p>1.2.1. The Committee <b>recommends</b> that in organising the company's general meeting, the board of directors plans the meeting to support active ownership.</p>	<b>X</b>			<p>The Annual General Meeting is convened by the Board of Directors giving not less than three weeks' notice and not more than five weeks' notice.</p> <p>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.</p> <p>Furthermore, 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; and shareholders can vote via proxy.</p>
<p>1.2.2. The Committee <b>recommends</b> that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.</p>	<b>X</b>			<p>Shareholders who grant proxies are given the opportunity to state their position on each item on the agenda.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<i>1.3. Takeover bids</i>				
<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. The contingency procedures should establish that 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>	<b>X</b>			<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 relevant internal guidelines already discussed and adopted by the Board of Directors.</p>
<b>2. Tasks and responsibilities of the board of directors</b>				
<i>2.1. Overall tasks and responsibilities</i>				
<p>2.1.1. The Committee <b>recommends</b> that at least once annually the board of directors consider the matters that should be included in the board's performance of its work.</p>	<b>X</b>			<p>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.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>2.1.2. The Committee <b>recommends</b> that at least once annually the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company.</p>	<p><b>X</b></p>			<p>At least once every year the Board of Directors assesses the company's overall strategy.</p>
<p>2.1.3. The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure which supports that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors explain this in the management commentary and/or on the company's website.</p>	<p><b>X</b></p>			<p>The Board of Directors analyses the company's need for capital on an ongoing basis, including an assessment of the company's capital structure.</p> <p>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-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.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
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's reporting to the board of directors.	<b>X</b>			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.
2.1.5. The Committee <b>recommends</b> that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.	<b>X</b>			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.
<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.	<b>X</b>			Lundbeck has adopted a policy, strategy and action plan for sustainability that supports the company's commitment to the UN Global Compact principles and the relevant Sustainable Development Goals. Annual reporting on the defined targets and general progress on the Corporate website.
<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	<b>X</b>			Annually, the Board of Directors elects a vice chairman who chairs the board meetings in the chairman's absence. The duties

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
the event of the chairman’s absence, and who will also act as effective sparring partner for the chairman.				of the chairman and vice chairman are set out in a description of tasks and duties.
2.3.2. The Committee <b>recommends</b> that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman’s or other board members’ participation in day-to-day management and the expected duration hereof should be publicly announced.	<b>X</b>			To ensure that the Board of Directors will maintain responsibility for the overall management and control function in case the chairman or other board members are 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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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<b>3. Composition and organisation of the board of directors</b>				
<i>3.1. Composition</i>				
3.1.1. The Committee <b>recommends</b> that the board of directors annually evaluate and in the management commentary account for: <ul style="list-style-type: none"> <li>• the competencies that it must have to best perform its tasks,</li> <li>• the composition of the board of directors, and</li> <li>• the special competencies of each member.</li> </ul>	<b>X</b>			The required skills of the Board of Directors are annually assessed and evaluated by the board.  All candidates nominated for the Board of Directors, including candidates for re-election, are described in the notice convening the general meeting.  A description of the Board of Directors in accordance with the recommendation is included in the management commentary or on the company's website.
3.1.2. The Committee <b>recommends</b> that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.	<b>X</b>			The company strives to ensure diversity and inclusion for all employees. The Board of Directors have in 2019 adopted an updated Employee Diversity & Inclusion Policy that can be found on the company's website.  A general status on diversity and inclusion is provided in the company's annual UN Global Compact Communication on Progress report available on the company's website.
3.1.3. The Committee <b>recommends</b> that the selection and nomination of candidates for the board of directors	<b>X</b>			The goal of the Board of Directors is for the individual board members to complement each other with respect to international

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<p>be carried out through a careful and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should, in addition to the need for competencies and qualifications, take into consideration the need for integration of new talent and diversity.</p>				<p>experience and qualifications, as this is the best way to be a qualified sounding board for the Executive Management.</p> <p>The Board of Directors’ proposals for new members are always accompanied by a thorough description of the candidate and the candidate’s resume.</p> <p>The Board of Directors supports diversity, inclusion and equal opportunities for both genders. Moreover, at the general meeting the Chairman of the Board of Directors reviews the recruitment criteria on which the Board of Directors has based its recommendation.</p>
<p>3.1.4. The Committee <b>recommends</b> that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of nominated candidates, including information about the candidates’</p> <ul style="list-style-type: none"> <li>• other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and</li> <li>• demanding organisational tasks.</li> </ul>	<p><b>X</b></p>			<p>Candidates nominated for the Board of Directors are described according to the recommendation in the notice convening the general meeting.</p>

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Furthermore, it should be indicated if the candidates to the board of directors are considered independent.				
3.1.5. The Committee <b>recommends</b> that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.	<b>X</b>			The company complies with this recommendation.
3.1.6. 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.	<b>X</b>			Pursuant to the company's articles of association, board members elected by the general meeting are elected for a period of one year.
<i>3.2. Independence of the board of directors</i>				

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<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.</p> <p>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 a member of the executive board, or senior staff member in the company, a subsidiary or an associated company,</li> <li>• within the last five years, have received large emoluments from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors,</li> <li>• represent or be associated with a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder,</li> </ul>	<p><b>X</b></p>			<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/not complying with the recommendation
<p>customer, supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company.</p> <ul style="list-style-type: none"> <li>• be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting,</li> <li>• be the chief executive officer in a company with cross-memberships with the company,</li> <li>• have been a member of the board of directors for more than 12 years, or</li> <li>• be a close relative with persons who are not considered independent.</li> </ul> <p>Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.</p>				
<p><i>3.3. Members of the board of directors and the number of other management functions</i></p>				

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>3.3.1. The Committee <b>recommends</b> that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level for the company.</p>	<p><b>X</b></p>			<p>The number of directorships each board member is able to hold is subject to an individual assessment. Each board member is encouraged to make such assessment in connection with the board evaluation procedure.</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 person in question,</li> <li>• the person’s competencies and qualifications that are relevant to the company</li> <li>• whether the member is considered independent,</li> <li>• the member’s date of appointment to the board of directors,</li> <li>• expiry of the current election term,</li> </ul>	<p><b>X</b></p>			<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/not complying with the recommendation
<ul style="list-style-type: none"> <li>the member's participation in the meetings on the board of directors and committee meetings,</li> <li>other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and</li> <li>the number of shares, options, warrants and similar owned by the member in the company and other group companies, as well as changes to the member's portfolio of the mentioned securities which have occurred during the financial year.</li> </ul>				
<p>3.3.3. The Committee <b>recommends</b> that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the</p>	<p><b>X</b></p>			<p>The annual evaluation procedure includes an individual assessment of each member of the Executive Management and the Board of Directors of what is regarded as a reasonable level for the number of other management functions.</p> <p>The reasonable level is discussed directly between the Chairman and each member of the Executive Management and the Board of Directors as part of the annual evaluation.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
other individual management functions are taken into account.				
<i>3.4. Board committees</i>				
<p>3.4.1. The Committee <b>recommends</b> that the company publish the following on the company’s website:</p> <ul style="list-style-type: none"> <li>• the terms of reference of the board committees,</li> <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 regarding which members are independent members and which members have special competencies.</li> </ul>	<b>X</b>			The specified information is published on the company’s website or in the annual report.
3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent.	<b>X</b>			The majority of members in the Audit Committee, the Nomination & Remuneration committee and the scientific Committee are independent.



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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>3.4.3. The Committee <b>recommends</b> that the members of the board of directors set up an <u>audit committee</u> and that a chairman is appointed who is not the chairman of the board of directors.</p>	<b>X</b>			<p>Lundbeck has established an Audit Committee consisting of three board members. Only members of the Board of Directors are members of the Audit Committee and the Chairman of the Board of Directors is not Chairman of the Audit Committee.</p>
<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 monitor and report 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>	<b>X</b>			<p>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>
<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 function and, in such a case, presents mandates and recommendations on</li> </ul>	<b>X</b>			<p>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 and, consequently, that no internal audit function is required</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,</p> <ul style="list-style-type: none"> <li>ensure that if an internal audit has been established, a description of its functions is available and approved by the board of directors,</li> <li>ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and</li> <li>monitor the executive board’s follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>				<p>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 approves the systems or ensures that necessary improvements are 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 <u>nomination committee</u>, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>describing the qualifications required by the board of directors and the executive board and for a</li> </ul>	<p><b>X</b></p>			<p>In 2019 the company expanded the remuneration and formed a combined Nomination &amp; Remuneration Committee with the responsibility for handling preparatory tasks related to nomination and remuneration.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,</p> <ul style="list-style-type: none"> <li>• annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors,</li> <li>• annually assessing the competencies, knowledge, experience and succession of the individual members of management and report to the board of directors in this respect,</li> <li>• recommending candidates for the board of directors and the executive board, and</li> <li>• proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>				

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>3.4.7. The Committee <b>recommends</b> that the board of directors establish a <u>remuneration committee</u>, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>recommending 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 prior to approval by the general meeting,</li> <li>making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring 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 on the total remuneration that members of the board of directors and the</li> </ul>	<p><b>X</b></p>			<p>Lundbeck has established a combined Nomination &amp; Remuneration Committee responsible for the company’s overall nomination and remuneration strategy and remuneration of the members of the Executive Management and the Board of Directors.</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>executive board receive from other companies in the group,</p> <ul style="list-style-type: none"> <li>recommending a remuneration policy applicable for the company in general and</li> <li>assisting with the preparation of the annual remuneration report.</li> </ul>				
<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>	<b>X</b>			<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>				
<p>3.5.1. The Committee <b>recommends</b> that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least</p>	<b>X</b>			<p>The Board of Directors has adopted a formal evaluation procedure to ensure an annual and systematic evaluation of the work of the Board of Directors and the individual members.</p> <p>The chairman is in charge of the evaluation of the Board and the evaluation includes, amongst others, the criteria set out in recommendation 3.5.1; recommendation 3.3.3; and an</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>every third year. The evaluation should inter alia include:</p> <ul style="list-style-type: none"> <li>• contribution and results,</li> <li>• cooperation with the executive board,</li> <li>• the chairman’s leadership of the board of directors,</li> <li>• the composition of the board of directors (including competencies, diversity and the number of members),</li> <li>• the work in the committees and the committee structure, and</li> <li>• the organisation and quality of the material that is submitted to the board of directors.</li> </ul> <p>The evaluation procedure and the general conclusions should be described in the management commentary and on the company’s website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions on the general meeting prior to the election of the board of directors.</p>				<p>individual interview between each board member and the Chairman.</p> <p>The main elements of the evaluation procedure and the general conclusions are described in the management commentary and on the company’s website. Further, the chairman accounts for the evaluation as set out in the recommendation on the general meeting.</p> <p>External assistance will be obtained at least every third year, and external assistance was obtained in 2019. .</p>

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>3.5.2. The Committee <b>recommends</b> that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.</p>	<p><b>X</b></p>			<p>The evaluation of the work and results of the Executive Management forms a natural part of the regular meetings held between the Board of Directors, the CEO and the Executive Management. As part of the annual board evaluation set out in recommendation 3.5.1, the Executive Management is evaluated</p> <p>A performance plan for Executive Management is established annually.</p> <p>The Board of Directors continuously evaluates the need for changes to the structure and the composition of the Executive Management in light of the company's strategy.</p>
<p>3.5.3. 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 formalised 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.</p>	<p><b>X</b></p>			<p>The Board of Directors has adopted a formal evaluation procedure to ensure an annual and systematic evaluation of the work of the Board of Directors and Executive Management.</p> <p>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.</p>
<p><b>4. Remuneration of management</b></p>				
<p><i>4.1. Form and content of the remuneration policy</i></p>				

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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>4.1.1. The Committee <b>recommends</b> that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes</p> <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> <li>• the reasons for choosing the individual components of the remuneration,</li> <li>• a description of the criteria that form the basis for the balance between the individual components of the remuneration, and</li> <li>• an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.</li> </ul> <p>The remuneration policy should be approved by the general meeting at least every fourth year and upon any</p>	<p><b>X</b></p>			<p>Lundbeck has a remuneration policy for the 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.</p> <p>The remuneration policy is available on the company's website.</p> <p>The remuneration policy will be approved by the general meeting at least every fourth year and upon any material amendments to the policy.</p>



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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
material amendments and it should be published on the company's website.				
<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 composition be ensured between remuneration for members of management and the value creation for shareholders in the long term,</li> <li>• clarity be established about performance criteria and measurability for the award of variable components,</li> <li>• it is ensured that variable remuneration not only consists of short-term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years, and</li> </ul>	<b>X</b>			<p>The remuneration of the Executive Management and the company's executives consists of a combination of a fixed salary, a short-term bonus, long-term share-based instruments fringe benefits and other payments.</p> <p>The Board of Directors believes that these remuneration 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 14 months' salary for the CEO.</p> <p>In exceptional cases, the company is entitled to reclaim in 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>

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<ul style="list-style-type: none"> <li>it be ensured that the company has the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.</li> </ul>				
<p>4.1.3. The Committee <b>recommends</b> that remuneration of members of the board of directors does not include share options or warrants.</p>	<b>X</b>			<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</b> that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.</p>	<b>X</b>			<p>Executive Management receives stock-based remuneration that will generally have a vesting period of three years and is granted as roll-over programmes.</p> <p>The Board of Directors believes that the LTI programs implemented promote long-term behavior.</p>
<p>4.1.5. The Committee <b>recommends</b> that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration,</p>	<b>X</b>			<p>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.</p>

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including all components of the remuneration.				
<i>4.2. Disclosure of remuneration</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.	<b>X</b>			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 shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.	<b>X</b>			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 company prepares a remuneration report that includes information on the total remuneration	<b>X</b>			The company has prepared the remuneration report and the report is published on the company’s website. The most important information is also disclosed in the company’s annual financial report.

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<p>received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.</p> <p>The remuneration report should be published on the company's website.</p>				
<p><b>5. Financial reporting, risk management and audits</b></p>				
<p><i>5.1. Identification of risks and transparency about other relevant information</i></p>				
<p>5.1.1. The Committee <b>recommends</b> that the board of directors consider and in the management commentary account for the most important</p>	<p><b>X</b></p>			<p>Lundbeck takes a systematic approach to risk management. Annually, the company identifies the most significant risks, which are monitored in an ongoing process by the Executive</p>

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strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.				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 establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.	<b>X</b>			<p>Lundbeck has established a Compliance Hotline (whistleblower scheme) as a secure and confidential reporting channel managed by an independent provider. Due to data protection regulations and other legal restrictions only concerns that involve legal, serious financial, reputational risks may be reported via the Compliance Hotline.</p> <p>All reported concerns are investigated. The reporter is protected by Lundbeck's non-retaliation policy. The reporter can anonymously communicate with the investigator through the Compliance Hotline. Concerns that are substantiated will be followed by corrective and preventive actions.</p>
<i>5.3. Contact to auditor</i>				
5.3.1. The Committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of	<b>X</b>			The Audit Committee holds several annual meetings with external and internal risk and compliance functions to identify significant risk areas and discuss substantial accounting issues.

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<p>information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.</p>				<p>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 auditor's fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.</p>	<p><b>X</b></p>			<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>