Annual report 2016

Lundbeckfonden

The Lundbeck Foundation

Lundbeckfonden
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CVR-nr. 11 81 49 13

Approved at the Annual Meeting
19 April 2017

Chairman

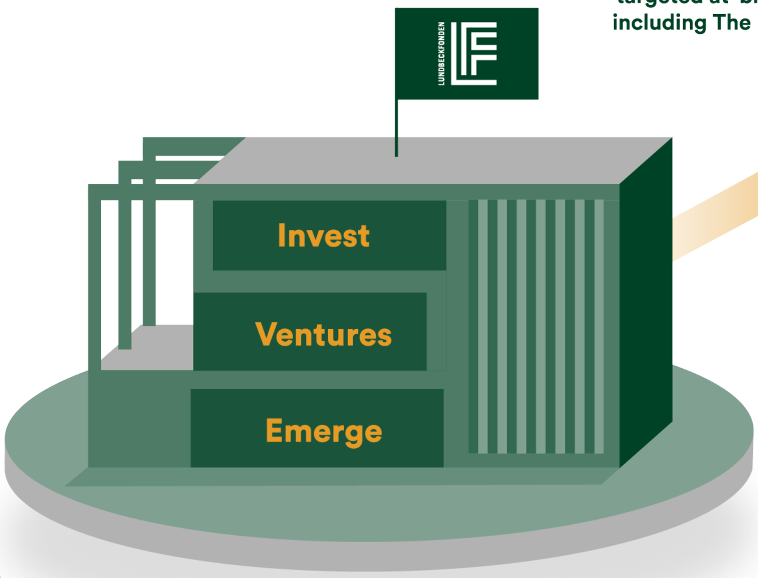
LUNDBECKFONDEN

AT A GLANCE

BETTER LIVES THROUGH NEW KNOWLEDGE

Established in 1954 by Grete Lundbeck, the Lundbeck Foundation is one of Denmark's largest industrial foundations with approx. 36,000 employees and a net wealth of DKK 61.3bn. Our mission is to create, inspire and spread new knowledge through our grant activities aimed primarily at biomedical research, and to generate value and stimulate growth through active ownership of our three subsidiaries, an international portfolio of life science companies, and in-house administration of financial assets.

Grants
DKK 493m
of which DKK 256m are targeted at 'brain health' including The Brain Prize



ALK

40% Ownership
voting rights 67%

Falck

57% Ownership

Lundbeck

70% Ownership

Ambition

We are dedicated to making Denmark the leading nation for brain health

Values

Innovative – We take the lead
Respectful – We build relations
Dedicated – We create value

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"Leviathan" is the name of the sculpture by Morten Stræde, which greets the visitors of the Lundbeck Foundation headquarters in Copenhagen. It has kindly been lent to us by New Carlsberg Foundation. Photo: Thomas Tolstrup

LETTER FROM THE CHAIRMAN AND CEO

Thanks to the financial results of 2016 and our expectations for the coming years, we are now in a position where we can begin to define important initiatives to take our vision to create better lives through new knowledge to the next level

We passed a milestone in 2016 by reaching a net wealth of more than DKK 60bn, the highest recorded value in the history of the Foundation. This was primarily down to Lundbeck's solid performance.

ALK achieved record levels of revenue and operating profit benefiting from market disruptions in Europe, while Falck experienced declining margins and implemented significant cost-cutting initiatives to capture the strong growth potential inherent in the market.

The investment activities contributed positively and a successful exit of Ventures' portfolio company Ziarco was signed in December.

Carsten Hellmann was appointed new CEO of ALK and took up his position on 1 January 2017. At Falck, a new CEO was announced on 1 March 2017. Jakob Riis will take his new position on 1 May 2017. We look forward to a continued constructive collaboration with the managements of our three companies.

Lene Skole and Jørgen Huno Rasmussen
Photo: Thomas Tolstrup

The 2016 result together with our expectations for the years to come will enable us to maintain the level of grant contributions to biomedical research at approx. DKK 500m per year and to strengthen our position as one of the most important private donors for biomedical research in Denmark.

BRAIN HEALTH IS OUR FOCUS

It is vital to us that we direct our grants to areas where they make a real difference and deliver the most value for Danish biomedical research and ultimately for patients and society.

Reflecting our special focus area "brain health", we are committed to specific ambitions for Danish neuroscience in the future.

Statistics show that one in three Europeans – around 180 million people – suffer from psychiatric or neurological diseases

180 million people in Europe suffer from psychiatric or neurological diseases

LETTER FROM THE CHAIRMAN AND CEO

and this number is rising. These diseases not only cause great suffering for patients and their families; they also impose a substantial social and economic burden on society.

We invest in research aimed at alleviating this burden. Around half of our grants - DKK 256m - testify to this commitment. So does the Brain Prize, our most prestigious prize of EUR 1m, which has been awarded every year since 2011 to leading international brain researchers, all of whom have had a groundbreaking impact on brain research.

IMPROVING THE STANDARD OF DANISH NEUROSCIENCE

Denmark's standing is already strong in the international neuroscience arena. As documented in the report, *Mapping of Danish Neuroscience Research from 2004 – 2015,* the field has developed rapidly over the past decade. The report was commissioned by the Lundbeck Foundation and delivered by leading researchers at Aarhus University.

Our aim is to play a role in further developing this positive trend. We would like to see Denmark mentioned among the global leaders in the neuroscientific field. Danish neuroscience has the talent and potential to enter the top league. Through our continued support for our special focus area, we want to help translate this potential into reality.

The Lundbeck Foundation systematically facilitates open international collaboration. Given the increasing geopolitical threats to open societies this is now more important than ever.

We have strengthened our ambitions, and we will continue to deliver on our commitments.

We are dedicated to supporting researchers and companies in their efforts to charter new frontiers. Together, we will generate new knowledge, promote better health and help stimulate growth in society.

Jørgen Huno Rasmussen,
Chairman of the Board

Lene Skole,
CEO

5-YEAR SUMMARY

FINANCIAL HIGHLIGHTS

DKKm	2016	2015	2014	2013	2012
Revenue	34,603	32,390	29,904	30,092	28,675
Operating profit before special items	3,387	-665	1,425	3,465	2,842
Operating profit	2,978	-6,890	892	2,216	2,446
Profit for the year	2,465	-4,766	2,653	2,455	2,646
The Lundbeck Foundation's share of profit	1,900	-3,006	2,494	2,074	2,115
Financial items, Invest, net	1,138	950	2,228	1,206	1,286
Financial items, Lundbeckfonden Ventures and Emerge, net	-90	491	373	181	-78
Grants awarded	493	423	459	368	466
Dividend from subsidiaries	20	149	401	295	499
Investments in acquisitions	149	278	3,534	593	437
Investments in property, plant, equipment and intangible assets	1,222	3,971	2,358	2,361	2,426
Equity	30,326	28,864	33,023	29,357	27,928
The Lundbeck Foundation's share of equity	26,844	25,615	28,354	25,437	24,033
Total assets	55,892	56,126	59,588	54,121	50,232
Net wealth	61,287	54,341	38,770	37,642	26,893
KEY FIGURES					
Revenue growth	6.8%	8.3%	-0.6%	5.0%	21.5%
Operating profit margin before special items	9.8%	-2.1%	4.8%	11.5%	9.9%
Return on equity	8.3%	-15.4%	8.5%	8.6%	9.8%
Average number of employees	36,334	34,436	32,135	29,798	28,049

FINANCIAL PERFORMANCE

2016 was a satisfactory year for the Lundbeck Foundation with growth in revenue, improved operating profit and higher earnings. The return on our financial investments contributed to the result, despite considerable fluctuations on the financial markets over the year

Revenue (DKKm)

34,603

Operating profit (EBIT) (DKKm)

2,978

Net wealth (DKKm)

61,287

The increase in revenue, operating profit and earnings reflects an underlying solid performance in most parts of the Group. Furthermore, the Foundation's net wealth increased substantially by DKK 6.9bn, amounting to DKK 61.3bn by the end of 2016. This is the highest value recorded in the history of the Foundation. The result is primarily a reflection of the strong performance of Lundbeck as well as net returns on our financial investment activities in Invest.

OPERATING ACTIVITIES

Revenue for 2016 increased by 7% to DKK 34,603m (32,390m). This increase stems from growing revenues in all three of the Foundation's subsidiaries: ALK, Falck and Lundbeck.

Total costs decreased to DKK 31,410m (33,287m), despite the increase in revenue. The decline of 6% is primarily attributable to the positive effects from Lundbeck's restructuring programme initiated in 2015. The decrease in Lundbeck's total costs more than compensates for the higher costs in both ALK and Falck.

Research and development costs decreased by 6% to DKK 3,354m (3,573m) driven by lower costs in Lundbeck. ALK's R&D costs remained largely unchanged.

Sales and distribution costs fell to DKK 7,053m (8,305m). This decrease of 15% is a result of Lundbeck's restructuring programme as well as a change in the company's product mix.

Administration costs increased by 14% to DKK 3,549m (3,121m) due to up front expenses related to the implementation of cost-reducing initiatives in Falck.

Comparative figures for 2015 are shown in brackets

FINANCIAL PERFORMANCE

The Foundation's **own administration and operational costs** totalled DKK 79m compared to DKK 67m in 2015. This increase is mainly due to growth in number of employees and The Brain Prize becoming an integral part of the Lundbeck Foundation. In previous years, the award of The Brain Prize and its related activities have been managed by the Grete Lundbeck European Brain Research Foundation by way of donations from the Lundbeck Foundation.

Special items fell to DKK 409m compared to DKK 6,225m in 2015. Last year, special items included Lundbeck's impairment of product rights and impairment of Falck's Safety Services activities.

Operating profit (EBIT) for 2016 was a profit of DKK 2,978m compared to a loss of DKK 6,890m in 2015. Thus, the EBIT margin improved significantly to 9% in 2016 due to enhanced operating profitability in both Lundbeck and ALK.

INVESTMENT ACTIVITIES

The return from the Foundation's investment activities also contributed positively to the result in 2016. The return of DKK 1,048m (1,441m) was driven by the investment activities in Invest which delivered a solid return of 1,138m despite high market volatility over the year. A significant proportion of this result stemmed from our shareholding in FLSmidth & Co. resulting in a return of DKK 312m (23%).

Lundbeckfonden Ventures recorded a net loss of DKK 96m driven by a fall in the Veloxis share price, which was only partly offset by the successful exit of the portfolio company Ziarco.

TAX

The reported tax rate increased from 17% in 2015 to 32 % in 2016. This higher tax rate is primarily due to increased activity in the US, where the tax rate is higher than in Denmark.

NET RESULT AND GRANT DONATIONS

The Lundbeck Foundation Group realised a profit for the year of DKK 2,465m compared to a loss of DKK 4,766m in 2015. The Foundation's share of Group Profit was DKK 1,900m (loss of 3,006m).

Management's expectations for the year including continuing growth in revenue and generating an operating profit have been met.

In 2016, the Foundation awarded DKK 493m (423m) in grants, which is in line with the total of 3bn expected for the period from 2014 to 2019.

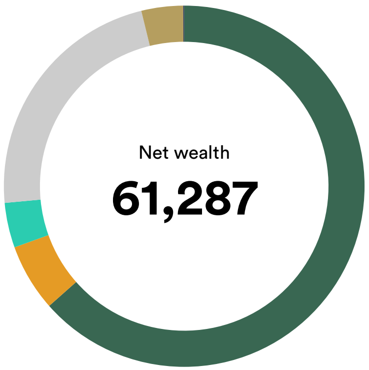
EQUITY

Group equity, after awarded grants and transfer to provision for future grants, increased to DKK 30,326m in 2016 (28,864m) as a combined effect of the Group operations.

The Foundation's share of equity increased to DKK 26,844m (25,615m).

FINANCIAL PERFORMANCE

DISTRIBUTION OF NET WEALTH



NET WEALTH

	Value (DKKm)	Contribution to net wealth 2016 (DKKm)
Lundbeck	39,461	7,128
ALK	3,753	179
Falck	2,499	-923
Invest	14,010	1,050
Ventures and Emerge	2,379	-102
Grants, Admin, etc.	-815	-386
Net wealth	**61,287**	**6,946**

NET WEALTH

Net wealth increased by 13% to DKK 61.3bn in 2016 (54.3bn). The increase is primarily a reflection of the development in Lundbeck's and ALK's share price which more than compensate for the decrease in the estimated value of Falck.

The three subsidiaries' contribution to net wealth differs from the contribution recognised and measured in accordance with the accounting policies of the Lundbeck Foundation Group. The fair value of the Foundation's net assets is based on market prices where available including Lundbeck and ALK and estimated fair value based on a trading multiple model using historical accounting numbers for Falck and a peer group.

OUTLOOK

The financial performance of the Group depends on the developments in the commercial activities of ALK, Falck and Lundbeck as well as the returns on the portfolio investments generated by Invest, Lundbeckfonden Ventures and Lundbeckfonden Emerge. Returns provided by Invest depend on trends in the financial markets whereas returns provided by Ventures and Emerge also depend on the developments of products, etc. in the portfolio companies.

For 2017, we expect a continued growth in revenue.

Furthermore, it is expected that the Group will generate an operating profit in 2017 higher than 2016.

Based on the financial performance across the Group, we expect to maintain the current level of grant activities in the coming years.

FOR THE OUTLOOK OF THE SUBSIDIARIES, PLEASE VISIT THEIR COMPANY WEBSITES WWW.LUNDBECK.COM, WWW.ALK.NET, AND WWW.FALCK.COM

H. LUNDBECK A/S

Lundbeck is an international pharmaceutical company striving for global leadership in psychiatry and neurology by improving the lives of patients. 70% of the company's shares are owned by the Lundbeck Foundation

2016 was a year of continued progress for Lundbeck with strong growth in the important US market and in sales of its key products as well as a solid improvement of the company's profitability.

The year saw a positive development in Lundbeck's pipeline with the initiation of the clinical phase III programme for the compound Lu AF35700 for patients with treatment resistant schizophrenia.

Lundbeck also finalised the clinical programme for idalopirdine for the treatment of Alzheimer's disease. The efficacy profile in the clinical studies did not demonstrate efficacy and hence did not suffice to support a regulatory submission. In addition, Lundbeck received a negative Complete Response Letter from the US FDA to a supplemental New Drug Application (sNDA) for Trintellix® in the US, requesting cognition data to be included in the product label.

Maria is one of the over 21 million people around the globe, who - according to WHO - suffer from schizophrenia.

2016 was the year in which Lundbeck introduced a new strategy to deliver significant improvement to profitability and the company's value creation. The new strategy focuses on three key elements: four priority diseases areas (depression, schizophrenia, Alzheimer's disease and Parkinson's disease), independent drug development and commercialisation, and profitable growth.

FINANCIAL PERFORMANCE

Overall, the company achieved its revised financial expectations for 2016 with revenue reaching DKK 15,634m and operating profit (EBIT) amounting to DKK 2,292m.

Comparative figures for 2015 are shown in brackets

H. LUNDBECK A/S

Revenue (DKKm)

15,634

EBIT (DKKm)

2,292

Net profit (DKKm)

1,211

Average number of employees

5,120

SALES

Revenue increased by 7% to DKK 15,634m, driven by positive developments in the company's key products (Abilify Maintena®, Brintellix®/Trintellix®, Northera®, Onfi®, and Rexulti®). Growth from these products reached 79%, and the company expects the high growth level to continue. Lundbeck's product portfolio also includes Cipralex®/Lexapro®, Azilect®, Ebixa®, Sabril® and Xenazine® as well as several other products.

2016 showed continued strong growth on the important US market where revenue reached DKK 8,404m (6,353m). The increase of 32% was driven by the uptake in Rexulti® and Northera ®, as well as growth in other US products offsetting the decline in sales of Xenazine®. 55% of revenue stemmed from the US market compared to 45% last year.

In Europe, revenue amounted to DKK 2,912m (3,896m), down 25% from last year. This decline was due to the handback of Azilect® to Teva Pharmaceutical Industries Ltd and generic erosion of older products. Adjusting for Azilect®, key products are offsetting the decline in sales of other mature products. Europe constituted 19% of revenue compared to 28% last year.

Revenue from International Markets, which comprises all of Lundbeck's markets outside Europe and the US, amounted to DKK 3,993m (3,827m). This increase was driven by Abilify Maintena® and Brintellix® mitigating the reduced revenue from products such as Azilect® and Ebixa®. International Markets constituted 26% of revenue compared to 27% last year.

EBIT

EBIT for 2016 reached DKK 2,292m, compared to a loss of DKK 6,816m in 2015. Thus EBIT margin increased significantly to 15% in 2016, primarily due to a fall in Lundbeck's costs. Total costs for 2016 were DKK 13,342m (21,410m). Costs in 2015 included the impairment loss of product rights mainly related to Rexulti®, which were recognized as special items, as well as restructuring costs, which combined reached close to DKK 7bn. The underlying decrease in total costs of approximately 10% is primarily attributable to the positive effects from the restructuring programme initiated in August 2015.

NET PROFIT/LOSS

Net profit for 2016 reached DKK 1,211m, compared to a net loss of DKK 5,694 million in 2015.

The effective tax rate increased from 19% in 2015 to 44% in 2016. Compared to the Danish corporate income tax rate, Lundbecks tax rate for 2016 was higher due to Lundbeck's increased activity in the US as well as amortisation on certain product rights, which is not deductible for tax purposes.

ALK-ABELLÓ A/S

ALK is a global, research-driven pharmaceutical company that focuses on the prevention, diagnosis and treatment of allergies. The Lundbeck Foundation owns 40% of the share capital and 67% of the votes

2016 was a landmark year for ALK. Benefiting from market disruptions in Europe caused by temporary issues at a competitor, ALK achieved record high levels of revenue and operating profit in 2016.

INVESTMENTS IN CAPACITY AND QUALITY

In response to higher demand and increasing regulatory requirements, ALK accelerated its investments in production capacity and quality during 2016. Expansion of SLIT-tablet production capacity continued as planned, while staffing at the SLIT-drops facility was nearly doubled. ALK accelerated upgrades of the SCIT production facility which unfortunately has reduced the company's SCIT capacity temporarily, however, output will gradually normalise in 2017.

ACARIZAX® TAKES TOP SPOT

Just six months after its launch, ACARIZAX® was the most prescribed AIT (allergy immunotherapy) product in Germany and Denmark for new adult house dust mite allergy patients. Sales in Japan, under the brand name MITICURE™, have also been steadily growing so that, in total, close to 25,000 patients have now been initiated on ACARIZAX® treatment worldwide. 2016 saw several further approvals and launches, while regulatory processes were initiated in North America and South-East Asia.

ALK work to improve the quality of life for the many allergy sufferers by developing products that provide long-lasting relief.

SIGNIFICANT OPPORTUNITY IN THE USA

After MSD's (known as Merck in the USA and Canada) decision in 2016 to withdraw from the partnership covering the SLIT-tablet portfolio in North America, all rights were repatriated to ALK as of 1 January 2017. ALK's North American subsidiaries will now market the tablets alongside their existing portfolios of bulk allergen extracts, diagnostics and other products. To facilitate this, ALK has added around 50 new employees and is developing a new long-term commercial strategy for North America.

ASTHMA EVIDENCE CONTINUES TO BUILD

Evidence supporting the use of AIT in asthma continues to build. In April, the Journal of the American Medical Association published Phase III data from an ACARIZAX® asthma trial which showed a substantial reduction in the risk of moderate to severe asthma exacerbations. Separately, the

SCIT: *subcutaneous injection-based allergy immunotherapy*
SLIT-drops: *sublingual drop-based allergy immunotherapy*
SLIT-tablets: *sublingual tablet-based allergy immunotherapy*

ALK-ABELLÓ A/S

Revenue (DKKm)

3,005

EBIT (DKKm)

479

Net profit (DKKm)

270

Average number of employees

2,010

GRAZAX® Asthma Prevention trial demonstrated that treatment with GRAZAX® significantly reduced children's risk of experiencing asthma symptoms.

Carsten Hellmann was appointed new CEO at ALK in 2016 and took up the position on 1 January 2017. Carsten Hellman came from a position as CEO of Merial and EVP of Sanofi.

ALK began 2017 in a strong position and the year ahead will see significant investments and costs in key areas, as ALK seeks to consolidate its market position and build long-term growth.

FINANCIAL PERFORMANCE

SALES

Revenue in 2016 increased by 17% to DKK 3,005m (2,569m), driven by base business[1] which grew by 25% to DKK 2,918m (2,384m) due to unusually high double-digit growth in Europe. By contrast, income from the SLIT-tablet partnerships was down 53% to DKK 87m (185m). This decline was foreseen and reflected the tablet portfolio's advanced stage of development, which leads to less milestone payments from partners.

EBIT

Operating profit (EBIT) was DKK 479m (292m), corresponding to an EBIT margin of 16% (11%). The improvement in operating profit was prompted by top-line growth, economies of scale and cost control.

Because of the higher revenue, cost of sales increased 19% to DKK 994m, yielding a gross margin of 67%, the same level as in 2015. The gross margin was positively influenced by higher sales volumes and economies of scale but these positive factors were offset by the cost of increasing production capacity, additional investments in compliance programmes as well as change in the sales mix.

Capacity cost increased 3% to DKK 1,476m (1,440m), reflecting a largely unchanged level of R&D expenses and administrative expenses compared to 2015, while sales and marketing expenses grew by 6% following higher activity levels, including efforts to support the launch of ACARIZAX® as well as expansion in existing and new markets. The capacity costs-to-revenue ratio decreased to 49% (56%) because of top-line growth, cost controls and initiatives to drive efficiency improvements.

NET PROFIT

Net profit in 2016 fell to DKK 270m (344m). Substantially lower financial gains and considerably higher taxes than in 2015 outweighed the improvement in operating profits.

Net financials were a gain of DKK 8m compared to a gain of DKK 108m in 2015, while the effective tax rate increase from 14% in 2015 to 45% in 2016 because of the geographical distribution of income.

1. Revenue from ALK's base business is defined as total revenue excluding revenues from the SLIT-tablet partnerships in North America and International markets

Comparative figures for 2015 are shown in brackets

FALCK A/S

Founded in 1906, Falck is an international organisation whose objectives are to prevent accidents, disease and emergency situations, to rescue and assist people in emergencies and to rehabilitate people after illness and injury

For the past decade, Falck has reported significant revenue growth year after year, but in recent years the company has seen a decline in its operating margin. This trend continued in 2016 where the company's revenue increased by 5% to DKK 15,964m, while the operating profit (EBITA) decreased by 18% to DKK 792m. To reverse this trend, Falck implemented significant cost-reducing initiatives during the year and had to say goodbye to a significant number of staff, mainly in Safety Services but also in Emergency, Assistance and Healthcare.

NEW MANAGEMENT IN PLACE

On 20 December 2016, Allan Søgaard Larsen stepped down as President and CEO of Falck, and on 1 March 2017 Jakob Riis was announced as the new President and CEO. Jakob Riis, who comes from a position as EVP of Novo Nordisk, will take up his new position on 1 May 2017.

Falck's key focus in the coming years will be on improving margins while also capturing the strong growth potential inherent in the markets Falck operates in.

FINANCIAL PERFORMANCE

SALES

Revenue increased in 2016 by 5% to DKK 15,964m (15,227m) driven by increasing revenues from Emergency, Assistance and Healthcare whereas Safety Services continued to report negative revenue growth.

Falck's largest business areas, **Emergency**, increased by 7% to DKK 9,987m (9,340m). The increase was mainly driven by ambulance contracts won in 2015 in the United States and in Spain, but several other markets and fire service activities also contributed with strong growth rates.

Assistance increased by 7%, reaching revenues of DKK 3,381m (3,162m). This was a result of growth within global assistance activities (both medical assistance to customers of insurance companies and travel safety offered directly to corporations) as well as in roadside assistance.

Revenue in the **Healthcare** business also increased in 2016. With an increase of 9%, revenue reached DKK 2,669m (2,452m) and cemented Falck's position as the largest provider of employee healthcare services in Scandinavia.

Because of the continued slowdown in the oil and gas industry, revenue from **Safety Services** decreased by DKK 365m and reached DKK 876m (1,241m).

Operating more than 2500 ambulances, Falck has the world's largest international ambulance fleet.

FALCK A/S

Falck

Revenue (DKKm)

15,694

EBITA (DKKm)

792

Net profit (DKKm)

34

Average number of employees

29,176

EBITA

Operating profit (EBITA) for 2016 was DKK 792m (971m), corresponding to an EBITA-margin of 5% (6%). The decrease in operating profit was primarily attributable to **Emergency** services in Denmark and the United Kingdom.

In Denmark, the implementation of new contracts had a negative impact on the operating profit due to start-up costs and lack of medical professionals, which led to higher staff costs. In the UK, the newly acquired patient transport company reported an operating loss as the infrastructure established and prices obtained were not enough to handle the significant new contracts won shortly before Falck took control of the company. Thus, Falck made investments during 2016 to improve the infrastructure and contracts base in the UK.

2016 was also negatively impacted by lower operating profit in **Assistance** due to an increase in costs as well as the introduction of additional services for subscribers in Denmark.

Both the **Healthcare** and **Safety Services** business increased its operating profit and EBITA-margin in 2016. In Healthcare, the increase originated from a higher activity level and from operational improvements, while the increase from Safety Services was a direct result of the cost reduction programme implemented in 2015 and 2016.

NET PROFIT

The result for year was a net profit of DKK 34m, compared to a loss in 2015 of DKK 586m. The improvement was due to an impairment charge of DKK 750m related to the Safety Services business in 2015.

Amortisation and costs from business combinations totalled DKK 409m (516m). The decline originated from the full amortisation of intangible assets acquired in business combinations.

Financial expenses, net amounted to DKK 257m. This is an increase from the 2015 level of DKK 226m attributable to interest on shareholder loans.

Tax on profit for the year was DKK 5m (63m), equivalent to an effective tax rate of 14% (32%). The tax rate was impacted by tax-exempt income related to the sale of shares.

INVEST

Invest manages the Foundation's financial investments. The purpose is to generate returns and secure sufficient reserves to support the Foundation's grant activities and the subsidiaries

2016 got off to a challenging start with declining asset prices and interest rates. By mid-year, global business sentiment had improved, a trend that continued throughout the second half of the year. This resulted in increasing asset prices and interest rates and contributed to a satisfactory result.

A SATISFACTORY RETURN DRIVEN BY LISTED EQUITIES

Despite the challenging market conditions, Invest generated a return of DKK 1,138m in 2016 (950m). This translates into a return of 8% (7%), which is a satisfactory result given the high levels of volatility and decline in the financial markets during the first half of 2016.

Listed equities contributed the most both in absolute terms (DKK 821m) and in relative terms (12%). A significant proportion of this result stemmed from our shareholding in FLSmidth & Co., which gave a return of DKK 312m (23%). Private equities and credits also performed well generating returns of DKK 65m and 248m, corresponding to 5% and 10%, respectively.

We invest in high quality companies and often in sectors facing some challenges. This gives an attractive valuation compared to the general market. In 2016, selection of stocks in commodity related, cyclical and financial stocks formed the basis for the return on our portfolio of **listed equities**.

The return on **private equities** was driven by well performing holdings related to buy-out funds.

The reasonable return from **credits** was driven by financial as well as commodity- related credits.

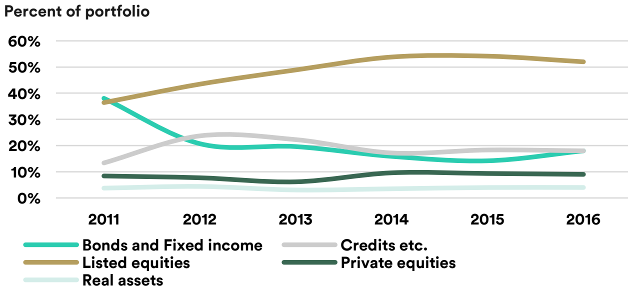
Our **real assets**, consisting primarily of real estate, generated a negative return in 2016 partly due to mark-to-market of interest rate swaps. On the positive side, Obel-LFI Ejendomme's first apartments on Teglværkskajen were completed and building of 217 new apartments commenced in CobraHave. Both projects are located in Copenhagen.

INVESTMENT STRATEGY IN LOW INTEREST MARKETS

Due to the low interest rate environment, which has characterised the markets since 2012, we have chosen a low allocation to fixed income and high exposure to equity and credit in our investment portfolio. The associated risk has been managed using hedging strategies. This strategy has made a favourable contribution to our results.

We believe that the 2016 result confirms our investment philosophy and our strategy to invest in high quality companies across asset classes with a view to generating an attractive long-term return.

ASSET ALLOCATION OF THE INVESTMENT PORTFOLIO



INVESTMENT PORTFOLIO

	Market value (DKKm)		Return (%)	
Assets	31.12.16	31.12.15	2016	2015
Bonds and liquid funds	2,456	1,978	3.3%	1.2%
Credit etc.	2,463	2,554	9.9%	6.6%
Listed equities	7,285	7,549	11.6%	7.0%
Private equities	1,244	1,302	4.9%	10.0%
Real assets	562	555	-9.1%	20.1%
Total	**14,010**	**13,937**	**8.4%**	**7.0%**

Comparative figures for 2015 are shown in brackets

LUNDBECKFONDEN VENTURES

Lundbeckfonden Ventures is an international, evergreen venture fund investing in life science with focus on the development of innovative new medicines in areas of high unmet medical demand

2016 was an exciting year for the Foundation's venture activities. We made one new investment in bio-tech start-up Imara, and in December we sold Ziarco[1], a biotech company focusing on products for inflammatory skin disorders, to Novartis. During the year, as many as nine of the venture portfolio companies made follow-on investments, raising a total of DKK 2,020m.

In 2016, the investments in new and existing companies amounted to DKK 350m (361m). Fair market value reached DKK 2,390m at the end of 2016 (2,162m) and the net return was a loss of DKK 96m (gain of 472m).

STRONG BUSINESS DEVELOPMENT YEAR

PsiOxus signed two significant collaborative agreements with Bristol-Myers Squibb (BMS) on immune oncology covering development of PsiOxus oncolytic virus Enadenotucirev and the next generation "armed" virus NG-348. The total upfront payment to Psioxus was DKK 427m the contract has a potential value of DKK 6,321m.

Enterome also entered a collaboration with BMS on immune-oncology and the microbiome. The up-front payment to Entorome amounted to DKK 105m.

VELOXIS PHARMACEUTICALS A/S

The portfolio's largest investment is in Veloxis, a specialty pharmaceutical company committed to improving the lives of transplant patients. The Lundbeck Foundation owns 43% of Veloxis, which is traded on OMX NASDAQ Copenhagen.

The company's main product is Envarsus® XR. In liver transplant patients, it has a superior side effect and kinetic profile over its competitors and the same efficacy in suppressing transplant rejection.

Sales and marketing of Envarsus® are handled by Veloxis itself in the USA and through its partner, Chiesi, in Europe.

FINANCIAL RESULTS

In 2016, Veloxis' net revenues increased by 357% compared to 2015, amounting to DKK 65m (DKK 14m). Veloxis recorded a net loss of DKK 72m for 2016, compared to a net loss of DKK 176m for 2015.

AN ACTIVE INVESTOR

Since setting up Ventures in 2010, we have invested DKK 1,868m (1,427m) in 26 (25) life science companies. At year-end, combined returned proceeds and the fair market value of the Foundation's share of the portfolio companies totalled DKK 2,688 m (2,410m). The increase from last year is due to this year's follow-on investments.

As an active investor, we add value to our investment through the Venture team's extensive operational experience, gained in the healthcare industry and its international financing syndication network.

At the end of 2016, Lundbeckfonden Ventures' portfolio counted 20 active companies, one more than in 2015. Eight (seven) of these are based in the US.

The portfolio companies are listed on the following pages.

Comparative figures for 2015 are shown in brackets

1. Definite agreement signed on 15 December 2016, closed in January 2017.

LUNDBECKFONDEN VENTURES

ACACIA PHARMA
Acacia Pharma is preparing for filing an NDA for BAREMSIS™ for the treatment of post-operative nausea and vomiting (PONV). During 2016 they successfully completed two phase III studies with BAREMSIS™ showing non-inferiority against standard of care in PONV and that for patients that have failed standard of care in PONV, BAREMSIS™ improves the patients' response rate compared to placebo.

ATOX BIO
Atox Bio develops novel immuno-modulators to treat critically ill patients with necrotizing soft tissue infections ("flesh eating bacteria"), a rare, life threatening, infection for which no current therapy exists. AB103, is studied in ACCUTE, a phase III pivotal clinical trial. AB103 has received Orphan Drug designation from the FDA and EMA as well as Fast Track designation from the FDA.

BIOM'UP
Biom'Up is a specialist in collagen-based absorbable medical devices for biosurgery and is developing a new generation hemostatic product, HEMOBLAST™. HEMOBLAST™ is currently being tested in a multicenter, pivotal, clinical trial in the USA, evaluating the safety and efficacy in Cardiothoracic, Abdominal, and Orthopedic Lower Extremity Surgeries. The study is expected to report in the first half of 2017.

BONESUPPORT
Bonesupport develops a platform for delivering drugs to bone using CERAMENT™. This carrier is an injectable bone void filler that rapidly remodels into bone. Bonesupport markets and sells CERAMENT™ in EU and USA and CERAMENT™ loaded with the antibiotics Gentamicin (G) or Vancomycin (V) in EU. During 2016, the company treated its 20.000 patient with a CERAMENT™ product, launched CERAMENT™ V in the EU and got FDA Approval to start an IDE CERAMENT™ G Study in USA.

CYDAN
Cydan Development is an orphan drug accelerator that identifies and de-risks drug candidates targeting orphan and rare diseases and form stand-alone companies and strategic partnerships around successful such candidates. During 2016, Cydan launched Imara (see next column).

DYSIS
DySIS develops and markets the next generation colposcopes for early detection and diagnosis of cervical cancer. They have a proprietary technology that measures the aceto-whitening reaction and summarizes it in the form of an intuitive map that is overlaid on the live image of the cervix in the colposcope to help identify the most relevant biopsy sites. During the year, DySIS reported positive initial findings from the ongoing 11,000-patient IMPROVE-COLPO study, the largest colposcopy study ever made.

ENTEROME
Enterome is pioneering the development of novel drugs and diagnostics to support a personalized therapeutic approach of microbiome-related diseases with a special focus on Inflammatory Bowel Disease (IBD) and Immuno Oncology (I/O). During 2016 the company in-licensed an IBD pre-clinical compound from Vertex, and brought it into Phase I clinical trials. They also struck three Pharma collaborations, two in IBD with Takeda and J&J and one in I/O with BMS.

ICONIC THERAPEUTICS
Iconic Therapeutics is exploring the role of Tissue Factor (TF) in retinal disease and cancer. ICON-1, is a human fusion protein that potentially addresses the root causes of acute vision loss in wet Age-related Macula Degeneration (AMD). During 2016, the company studied ICON-1 in an explorative phase IIa trial which showed tha the combination of Lucentis (anti VEGF treatment against wet-AMD) and ICON-1 provided several advantages over either of the monotherapies.

IMARA
Imara is developing novel oral treatments for sickle cell disease and other haemoglobinopathies. Imara was a new investment in 2016. The company entered a Phase I clinical trial in November with IMR687, a highly selective and potent small molecule inhibitor of phosphodiesterase-9 (PDE9i) in-licensed from H. Lundbeck A/S.

LUNDBECKFONDEN VENTURES

NEXSTIM
Nexstim is a medical technology company improving rehabilitation for stroke patients through the use of non-invasive brain stimulation. During the year, the company concluded a phase III trial in stroke rehabilitation, and submitted de novo documentation with the FDA. In the phase III study, both the sham group and the active group showed clinically meaningful improvements why they now are planning a small additional trial with a different, and truly inactive, sham design.

PSIOXUS
PsiOxus is developing novel therapeutics based on its platform of tumour-targeted delivery with oncolytic vaccines that can be administered systemically, and replicates in and kill cancer cells, but not normal cells. During 2016 Psioxus struck two collaboration deals with BMS: one to perform clinical trials combining Psioxus clinical lead Enadenotuceriv and BMS check point inhibitor Opdivo and another focused on developing the next generation, "armed", oncolytic virus.

RIVER VISION
River Vision is developing a protein therapy for the treatment of Graves' Orbitopathy (GO). GO is a condition in which an autoimmune response is mounted against tissues behind the eye, causing inflammation, tissue proliferation and excess production of extracellular matrix. The company has during 2016 concluded a pivotal phase II/III study successfully and have based on the data received break through therapy status from the FDA.

SANIFIT
Sanifit develops SNF472 – for the treatment of cardiovascular diseases linked to calcification in the End Stage Renal Disease (ESRD) patient population undergoing haemodialysis. During the year, the company has completed a phase Ib/IIa study in haemodialysis patients, and has initiated a phase II/III study in calciphylaxis and a phase II study in ESRD.

SCPHARMACEUTICALS
scPharmaceuticals has a proprietary device technology that enables subcutaneous administration of parenteral drugs. The sc2Wear™ pump, serves as the platform for a pipeline of proven drugs that enables a new anytime-anywhere treatment model that is independent of clinical setting.

SPERO
Spero has a pipeline of novel treatments for bacterial infections. During 2016 the company entered phase I clinical trials with their first program.

THESAN PHARMACEUTICALS
Thesan Pharmaceuticals is a biopharmaceutical company dedicated to the development of novel therapeutics for disorders of the skin.

VELOXIS
Veloxis is a specialty pharmaceutical company committed to improving the lives of transplant patients. Veloxis is one year into the launch of the transplant anti-rejection medicine Envarsus® directly in the USA and with it's partner Chiesi in Europe (see separate text).

VHSQUARED
VHsquared has developed a platform of transformational oral biologics – Vorabodies™. These are oral gut-restricted domain antibodies targeting local immuno-inflammatory targets in the GI tract. VHsquared has successfully completed Phase I clinical trials with its first Vorabody™.

VTESSE
Vtesse, Inc. is developing VTS-270 in a pivotal phase II/III clinical trial to treat patients with the disease Niemann-Pick Type C. During 2016, Vtesse has received break through therapy status and a pediatric priority voucher from the FDA.

ZIARCO
Ziarco is a dermatology company progressing therapies for Atopic Dermatitis and Psoriasis, using both oral and topical routes of delivery. During 2016, Ziarco reported strong anti-inflammatory data with the H4 receptor antagonist, ZPL-389 in a phase IIa clinical trial in atopic dermatitis patients. Ziarco's owners entered into a definitive agreement about its sale to Novartis in December 2016.

LUNDBECKFONDEN EMERGE

Emerge is the early-stage investment unit of the Foundation. The unit focuses on Danish-based investments in pioneering research with commercial potential, developing business by providing the capital, expertise and network needed to become a viable biotech business

2016 was the first year of our new strategy with an investment frame of DKK 300m in Danish-based early stage biotech companies between 2016 and 2019. We remain committed to offer a strong engagement in, and active ownership of the companies in which we invest.

PORTFOLIO ACTIVITIES IN 2016

NMD PHARMA

In the summer of 2016, the Lundbeck Foundation was part of a syndicate of investors, including Novo Seeds and Capnova, that invested USD 3m in start-up NMD Pharma ApS. The company is based on cutting edge electrophysiological science and was founded by Associate Professor Thomas Holm Pedersen, Professor Ole Bækgaard Nielsen and Senior Researcher Claus Elsborg Olesen from Aarhus University.

The company's vision is to improve the quality of life and survival of patients with neuromuscular disorders, a range of serious and sometimes life-threatening diseases with few and inadequate treatments available.

IO BIOTECH

Based on the financing closed in December 2015, IO Biotech Aps, has made important progress in moving its lead programmes towards the clinic and expects to begin the first formal regulatory clinical trial in 2017. The company is based on research conducted by Professor Mads Hald Andersen and Professor Inge Marie Svane at the Centre for Cancer Immune Therapy, Herlev Hospital, Denmark.

INSUSENSE

Insusense Therapeutics ApS continued its programme translating exciting scientific results on sortilin biology into new potential treatments for diabetes. The company is based on ground-breaking research conducted by Professor Anders Nykjær and his team at the Lundbeck Foundation-funded neuroscience research centre, MIND, at Aarhus University.

EXPLORATORY INVESTMENTS

During 2017 we anticipate to engage further with young promising companies offering a new type of investments – Exploratory Investments. These are designed to aid company founders access the capital and knowledge they require to pressure test their pioneering ideas. Ideally, they will form the basis for robust financing. Alternatively they will demonstrate that more time is needed to build a genuine investable case.

NMD PHARMA develops new innovative medical treatments for rare neuromuscular diseases including myasthenia gravis, amyotrophic lateral sclerosis and spinal muscular atrophy based on world-leading electrophysiology science at University of Aarhus.

IO BIOTECH develops disruptive immune therapies i.e. checkpoint/cancer vaccines. Checkpoint cancer vaccines suppress the function of regulatory immune cells and induce inflammation in the microenvironment and target cancer cells directly.

INSUSENSE THERAPEUTICS develops novel innovative medical treatments for diabetes based on world-leading research on the role of the sortilin protein family.

GRANTS AND PRIZES

With grants totalling DKK 493m, the Lundbeck Foundation is one of the most important private donors to biomedical research in Denmark. Our grants directly fund the salaries of 718 full time researchers and other scientific staff at Danish universities

In 2016, we continued to strive towards fulfilling our vision of creating better lives through new knowledge by supporting excellent biomedical research with a special focus on brain health. A total grant sum of DKK 493m marked a substantial increase compared to 2015 (423m) and is the second highest amount in the history of the Foundation.

A SPECIAL FOCUS ON BRAIN HEALTH

In Europe alone, it is estimated that one third of Europeans – almost 180 million people – struggle with at least one brain disorder, and the numbers are likely to increase further in the future. Therefore, brain disorders represent a considerable social and economic burden for society.

The Foundation has the ambition of making Denmark one of the world's leading brain research nations. As part of the implementation of this strategy, several large grants within the area of brain research were awarded in 2016.

DKK 40m were awarded to the BRAINSTRUC project, which brings together the best Danish structural biologists to gain a better understanding of the brain's complex biological processes.

Professor Alex Zelikin from Aarhus University received the Research Prize for Young Scientists 2016, a personal award of DKK 300,000.
Photo: Thomas Tolstrup

A total of DKK 80m was awarded to Professor Maiken Nedergaard and Professor Steve Goldman at the University of Copenhagen and Copenhagen University Hospital, enabling the two internationally renowned scientists to continue their ground-breaking research in Denmark focusing on glial cells and stem cell therapy for brain disorders.

Finally, the board approved the planned two-year extension with a budget of DKK 20m of the Blood-Brain Barrier research project launched in 2013, headed by Professor Martin Lauritzen, University of Copenhagen.

NIH COLLABORATION

As one of the first partners outside the US, the Lundbeck Foundation has established a formal collaboration with the prestigious American medical research institution NIH.

With this collaboration, we aim to support Danish brain research teams with research activities in keeping with NIH's significant BRAIN Initiative venture.

In addition, the Foundation commissioned and funded a comprehensive mapping and analysis of Danish brain research.

GRANTS AND PRIZES

Total grants (DKKm)

493

Number of grants

462

Support for brain health (DKKm)

256

Number of salaries funded

718

The report, "Mapping of Danish Neuroscience Research from 2004 – 2015", was carried out by professor Jesper W. Schneider og postdoc Jens Peter Andersen. The report is publicly available on our website.

NEW APPROACH TO STRATEGIC GRANTS

In May, we organised and hosted a workshop for 50 of Denmark's top experts in the field of biomedicine and health – leading researchers, clinicians, administrators, healthcare politicians, futurologists and public servants. During the workshop, they identified key challenges to society.

Inspiration gained at the workshop paved the way for a series of theme-based calls for grant applications, in two overarching categories: 1) increasing the understanding of disease mechanisms and improved prevention of disease, and 2) developing new and more precise diagnostics and treatments. In the coming years, we will announce several focused calls for applications, referring to one of these two categories. The first theme-based call for applications – Inflammation and the development of central and peripheral nervous system disease – was announced in December 2016

PROMOTING BIOMEDICAL RESEARCH CAREERS

In 2016, we appointed five new Lundbeckfonden Fellows. Each received a personal grant of DKK 10m over a five-year period, to enable them to establish and expand their own independent research groups at Danish research institutions.

45 individual PhD scholarships and 35 postdoc stipends were granted for research projects conducted in Denmark. 14 postdocs received a grant for a postdoc abroad. To strengthen the internationalisation of Danish biomedical research, the Foundation awarded 255 smaller travel grants to help researchers, interested in sharing their results and extending their networks at international workshops and conferences. We also awarded 10 visiting professorships, enabling leading Danish researchers to invite international colleagues to stay in Denmark for up to six months to initiate or consolidate collaboration on shared methods and projects.

For the second time, the Foundation supported a number of major biomedical projects of innovative, ground-breaking, and international standard, awarding grants of up to DKK 10m to each. Ten researchers, or research groups, covering a variety of biomedical fields received a total of DKK 93m in funding.

HONORARY PRIZES

Honouring young scientists remains a strong priority for the Foundation. Professor Alexander N. Zelikin, Aarhus University, received the Research Prize for Young Scientists, and four promising young researchers received the Foundation's talent prizes this year.

SCIENCE TEACHING AND SCIENCE COMMUNICATION

Strengthening the quality of science teaching and communication is a key priority for us. Once again we took pride in supporting 'The Best Teacher Award' in collaboration with the Danish newspaper Politiken. We also continued our support for the 'PhD Cup' science communication competition in collaboration with another Danish newspaper, Information and Danish Broadcasting Corporation (DR). In addition, the second season of the TV-series 'Great Danish Scientists', funded by the Lundbeck Foundation, aired on DR's cultural channel in November.

THE BRAIN PRIZE

The prestigious brain research prize was established by the Lundbeck Foundation in 2010 and has since been awarded every year to leading international brain researchers, who have had a ground-breaking impact on brain research. The Prize is a personal prize of EUR 1m

In July 2016, all The Brain Prize activities were made an integral part of the Lundbeck Foundation and the Grete Lundbeck European Brain Research Foundation was wound up.

2016 BRAIN PRIZE WINNERS

The 2016 Brain Prize was awarded to Timothy Bliss, Graham Collingridge and Richard Morris, all from the UK, for *"their ground-breaking research on the cellular and molecular basis of Long-Term Potentiation and the demonstration that this form of synaptic plasticity underpins spatial memory and learning".*

OUTREACH ACTIVITIES

We sponsored the opening ceremony and participated with a booth at the Federation of European Neuroscience Societies (FENS) Forum, which took place in Copenhagen in July. On the opening day, the Brain Prize Cavalcade comprising short lectures by prize winners from each of the first five prize years had an audience of 3,000 and The Brain Prize Special Lecture given the next day by three of last year's prize winners had almost as big an audience.

In September, we hosted a celebratory event at The Royal Society in London, where the three 2016 prize winners gave their prize lectures for 200 renowned British scientists. On the following day, the trio gave a public lecture for 350 at the Royal Institution in London, broadcast by the BBC.

Crown Prince Frederik presented the winners with The Brain Prize 2016. He is flanked by Professor Povl Krogsgaard-Larsen (left), Chairman of the Grete Lundbeck European Brain Research Foundation and Kim Krogsgaard (right).

In September, one of this year's Brain Conferences, *New insights into psychiatric disorders through computational, biological and developmental approaches* was held in Copenhagen in collaboration with FENS.

2015 prize winner Arthur Konnerth gave this year's Brain Prize Award Lecture at the Congress of the European College of Neuropsychopharmacology in Vienna.

Two of the three 2011 prize winners were keynote speakers at the Brain Prize Cajal training course – *The Hippocampus: from Circuits to Cognition* – which was hosted by FENS at the Bordeaux University Neurocampus in October.

The annual Brain Prize Meeting in Denmark gathered 130 participants including the three 2016 prize winners and six keynote speakers invited from USA, Canada, Japan and the UK.

Another highlight of the year was this year's Brain Prize dinner, which was held in conjunction with the Neuroscience Meeting 2016 in San Diego, California, USA.

RISK MANAGEMENT

Our risk management process ensures close monitoring, systematic risk assessment and the ability to identify, manage and report external risks and opportunities in a changing environment

The Lundbeck Foundation wishes to ensure a reasonable balance between value creation and risk exposure. Our goal is to achieve long-term, stable returns at moderate risk.

Risk assessment is an important part of our business procedure, allowing us to respond appropriately to changing circumstances. A risk analysis is prepared for the Lundbeck Foundation Group annually and reported to the Foundation's Board of Trustees.

The most important risks relate to the business risks of our subsidiaries and investments. However, for an industrial foundation, reputation is also tied to risk management. For this reason, we focus on good governance and set high standards for the Foundation's way of doing business.

RISKS RELATED TO OUR SUBSIDIARIES

Risks include business and financial risks associated with the operation and performance of our three subsidiaries, Lundbeck, ALK, and Falck. Such risks are most effectively managed de-centrally. Consequently, managements of the individual subsidiaries define their own risk management policies and procedures.

As owner and a member of the Board of Directors of each subsidiary, the Foundation monitors business performance in the subsidiaries closely, and reports on business and risk-related issues are provided monthly to the Foundation's Board of Trustees.

RISKS RELATED TO PORTFOLIO INVESTMENTS

The Board defines the Foundation's investment policy. We manage the market, credit and currency risks related to our portfolio investments by limiting maximum exposure to individual asset classes and underlying assets. To manage interest rate risk, limits for the duration of bond investments are defined. Derivative financial instruments such as swaps, options and forward contracts are used for risk management purposes. The investment policy governs the use of such instruments regarding maturity, quantity and counter-party requirements as well the venture investments.

Weekly portfolio performance reports are prepared for the CEO, and monthly detailed reporting is prepared for the Board of Trustees of the Lundbeck Foundation.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR in the Lundbeck Foundation is guided by our clear commitment to making a positive impact on the societies in which the Foundation operates

STATUTORY REPORT CF. SECTION 99A OF THE FINANCIAL STATEMENTS ACT

As an international player with a broad range of grant and investment activities, the Lundbeck Foundation has a significant influence on society. We acknowledge the responsibilities that this entails and make an effort to ensure that we are recognised as a trustworthy group, setting high standards for transparency, commitment and integrity.

We have supported and been committed to the UN Global Compact since 2012. Consequently, the Compact's ten principles form the general framework on which our approach to corporate social responsibility is based. We oppose any form of corruption, including extortion and bribery. Furthermore, we follow the UN guidelines for environmental and labour market policies, human rights and sustainable development.

The Board of Directors of each subsidiary defines its own specific CSR policies and codes of conduct. The Foundation is represented on each board, and these representatives ensure that CSR policies, including human rights, climate change and environmental impact, are enforced.

Policies are adapted to meet the circumstances in which each of the subsidiaries operates.

STATUTORY REPORT CF. SECTION 99B OF THE FINANCIAL STATEMENTS ACT

It is the policy of Lundbeck Foundation to support gender equality and diversity.

The Board of Trustees counts two women and five men (not including employee representatives). This constitutes gender balance in accordance with the guidelines[1].

The Lundbeck Foundation has not set a group target for the underrepresented gender but has ensured that all owned entities which fall under the requirements as reporting class large C or D have set targets for their supreme management body individually. Furthermore, our subsidiaries have reported on their individual target in their annual report, as well as for their individual policies concerning gender balance at the other management levels if applicable. Please refer to the annual reports of Lundbeckfond Invest A/S, LFI Equity A/S, ALK-Abellò A/S, Falck A/S and H. Lundbeck A/S.

Generally, all our subsidiaries except one have achieved equal representation on the Board of Directors. For the remaining Board of Directors, which have not obtained equal gender split, the Board will continue to work towards its target.

At management level, the Foundation aims to have a mix of men and women that reflects the gender distribution in the rest of the organization. Among the management team, four out of seven are women. Thereby, the Foundation itself has equal representation of men and women in the management team as well.

LEARN MORE ABOUT CSR IN THE LUNDBECK FOUNDATION GROUP

For more information about Lundbeck, ALK and Falck's approach to CSR, please visit their websites.

FOR THE FOUNDATION'S STATUTORY STATEMENT ON CSR IN ACCORDANCE WITH SECTION 99A OF THE DANISH FINANCIAL STATEMENTS ACT, PLEASE REFER TO: WWW.LUNDBECKFONDEN.COM/CSR-REPORT

GOVERNANCE

We wish to run a transparent operation and conduct our business with integrity. This is reflected in our governance structure and our approach to investments and grants

Industrial foundations play an important role in Danish society. With ownership of some of the largest Danish corporations and substantial contributions to Danish research, industrial foundations have considerable influence on social and economic development in Denmark. In our view, such influence comes with a high level of responsibility.

We are committed to ensuring a transparent operation and conduct our business with integrity. Consequently, we set high standards for good governance and follow all recommendations issued by the Committee on Foundation Governance. The only exception to this is that we have selected a shorter election period for board members than that recommended by the Committee.

THE BOARD OF TRUSTEES

The Lundbeck Foundation is managed by a Board of Trustees in collaboration with the CEO and the management team. The Board's primary responsibilities are to:

- define the Foundation's strategy;
- make all decisions of major significance or of an exceptional nature;
- make final decisions on the allocation of grants, based on recommendations from the committees;
- supervise the organisation to make sure the Foundation is managed appropriately, in accordance with applicable law and the Foundation's statutes; and
- appoint the Foundation's CEO

The Board of Trustees meets a minimum of four times a year for board meetings and holds an annual seminar to review, discuss and refine the strategy.

The Board has set up both a Research and Prize Committee and an Investment Committee. These meet regularly to analyse and discuss issues related to grants and prizes as well as investments in greater detail.

ACTIVE INVOLVEMENT IN SUBSIDIARIES

As majority shareholder, we are actively involved in all our subsidiaries. We monitor their performance closely and, as a partner, seek to add value for their executive management and boards. We exert our influence through board appointments and representation on the companies' boards and at their General Meetings. The CEO of the Lundbeck Foundation sits on the boards of the subsidiaries in the role of Vice Chairman, as one of the Foundation's two representatives.

GRANT GOVERNANCE

In the context of our strategy, the basic criterion for allocation of research funding is that the scientific content of the application, the qualifications of the applicant and the academic environment at the host institution must be of a high international standard.

GOVERNANCE

The Lundbeck Foundation seeks to ensure consistent and equal assessment of all applications. Consequently, all applications must be peer reviewed by a group of experts, the majority of whom must be unconnected to the Foundation. Two permanent evaluation committees, with a majority of external and international experts, have been set up to assess regular project applications. Ad hoc evaluation panels with international experts are established, as required, to assess major personal and strategic applications. The members of both types of panel must comply with the Foundation's rules on disqualification of members.

Regarding The Brain Prize, an independent Selection Committee reports to the Lundbeck Foundation Board of Trustees through the Research and Prize Committee. The latter ensures that the recommendation complies with the Brain Prize provisions.

All expert assessments lead to a recommendation to the Board of Trustees. The Board then decides on final allocation of grants in accordance with statutory requirements. Assessment procedures for applications and recommendations are adjusted on an ongoing basis to accommodate the developments and implementation of new initiatives.

GENERAL TERMS AND CONDITIONS FOR RESEARCH GRANTS

The General Terms and Conditions for Research Grants (General Grant Terms) apply to all grants for research projects in biomedical sciences. All recipients of such research grants must sign this document, thereby confirming that they accept and comply with the General Grant Terms at all times. The terms also refer to the national Code of Conduct for Research Integrity of 2014, issued by the Danish Ministry of Higher Education and Science.

CODE OF CONDUCT FOR GOOD RESEARCH PRACTICE

The Board of Trustees has adopted the Lundbeck Foundation Code of Good Research Practice. This document supports basic principles of good research, i.e. honesty, transparency and accountability. All grant holders must sign this document before any research funds can be disbursed. By doing so, they declare that they will comply with these codes at all times. The Lundbeck Foundation Code of Good Research Practice complies with the new national Code of Conduct for Research Integrity of 2014, issued by the Danish Ministry of Higher Education and Science.

BOARD OF TRUSTEES

JØRGEN HUNO RASMUSSEN, CHAIRMAN

Born 1952, elected to the Board in 2008

- Member of the Investment Committee
- MSc engineering (civil), B. Com. and PhD
- Chairman of the boards of Tryghedsgruppen and Tryg A/S
- Vice Chairman of the boards of Haldor Topsoe A/S, Terma A/S and Rambøll Group A/S
- Member of the boards of Bladt Industries A/S, Otto Mønsted A/S and Thomas B. Thriges Fond

Considered independent

SPECIAL QUALIFICATIONS

In-depth knowledge of managing an international listed group and skills in new markets, strategy, branding, acquisitions and divestments, business development, procurement, finance, risk management and optimising production processes.

STEFFEN KRAGH, VICE CHAIRMAN

Born 1964, elected to the Board in 2013

- Member of the Investment Committee
- MSc. and MBA
- President & CEO of Egmont Foundation and Egmont International Holding A/S
- Chairman of the board of Nykredit Holding A/S and Nykredit Realkredit A/S, and chairman of companies in the Egmont group

Considered independent

SPECIAL QUALIFICATIONS

Expertise within strategy, economics, finance and accounting, capital markets, securities and funding, legal and regulatory matters of importance to financial business, corporate management and financial business management, including IT.

GUNHILD WALDEMAR

Born 1957, elected to the Board in 2011

- Chairman of the Research and Prize Committee
- Professor and Chair, M.D. D.M.Sc. Danish Dementia Research Centre, Department of Neurology, Rigshospitalet, University of Copenhagen
- Coordinating Professor (for the Neuroscience Centre at Rigshospitalet), Department of Clinical Medicine, University of Copenhagen
- President of the Medical Society of Copenhagen
- Board member of the Alliance for Biomedical Research in Europe

Considered independent

SPECIAL QUALIFICATIONS

Long-standing experience with international research management and with strategic management in international scientific societies. Extensive experience with assessment of research and with research and innovation in clinical neuroscience.

LARS HOLMQVIST

Born 1959, elected to the Board in 2015

- Member of the Investment Committee
- Senior Advisor at Bain Capital
- Member of the boards of BPL Holdings (UK) H. Lundbeck A/S, ALK-Abelló A/S and Tecan AG (Switzerland)

Considered independent

SPECIAL QUALIFICATIONS

Experience in management, finance, sales and marketing in international life science companies, including med-tech and pharmaceutical companies.

BOARD OF TRUSTEES

MICHAEL KJÆR

Born 1957, elected to the Board in 2016

- Member of the Research and Prize Committee
- Professor, Chief Physician, D.M.Sc. Head of Institute of Sports Medicine, Department of Orthopaedic Surgery, Bispebjerg Hospital and coordinating Professor (for Bisbebjerg-Frederiksberg Hospital), Institute of Clinical Medicine, University of Copenhagen
- Chair for the PhD School Programme in Basic and Clinical Research in Muskulo-Skeletal and Oral Sciences, Faculty for Health and Medical Sciences, University of Copenhagen
- Member of the Steering Committee at the Centre for Healthy Aging, University of Copenhagen

SPECIAL QUALIFICATIONS

Scientific production within in musculoskeletal and metabolic research. Skills in research, development, and research evaluation. Experience in research management and international scientific board work

PETER SCHÜTZE

Born 1948, elected to the Board in 2015

- Chairman of the Investment Committee
- Chairman of DSB SOV and Falck A/S. Chairman of the Investment Committee at the Danish Climate Investment Fund and the Danish Agribusiness Fund
- Vice Chairman of SimCorp A/S, Nordea-fonden and Nordea Bank-fonden
- Member of the Industrial Board of Axcel and Axcel Future
- Member of "The Systemic Risk Council"
- Chairman of Dronning Margrethe den II's Arkæologiske Fond
- Member of the boards of Bestyrelsesforeningen and Gösta Enboms Fond

Considered independent

SPECIAL QUALIFICATIONS

Extensive management experience from an international financial company as well as several board positions both as chairman and member. Skills in accounting, investments, IT, risk management, strategy and organisational development.

SUSANNE KRÜGER KJÆR

Born 1955, elected to the Board in 2014

- Member of the Research and Prize Committee
- Professor, M.D., DMSc. Copenhagen University Hospital, Copenhagen University
- Head of Research, Unit of Virus, Lifestyle and Genes, Danish Cancer Society Research Centre
- Member of the Steering Committee of the Mermaid Project
- Member of the boards of Johannes Clemmesens Research Foundation and the Aragon Foundation
- Scientific reviewer for the Italian Association for Cancer Research

Considered independent

SPECIAL QUALIFICATIONS

Substantial scientific production within oncology. Skills in research, development, research evaluation and innovation. Longstanding experience with international research management.

BOARD OF TRUSTEES

HENRIK SINDAL JENSEN

Born 1969, elected to the Board in 2014

- Principal Scientist (PhD)
- Member of the Board of H. Lundbeck A/S

EMPLOYEE-ELECTED

Elected by the employees of H. Lundbeck A/S

PETER ADLER WÜRTZEN

Born 1968, elected to the Board in 2008

- Senior Research Scientist (PhD)

EMPLOYEE-ELECTED

Elected by the employees of ALK-Abellò A/S

VAGN FLINK MØLLER PEDERSEN

Born 1957, elected to the Board in 2014

- Rescue Officer
- Shop steward for Assistance West
- Member of the Board of Falck A/S

EMPLOYEE-ELECTED

Elected by the employees of Falck A/S

MANAGEMENT TEAM

LENE SKOLE
CEO

ANNE-MARIE ENGEL
Director of Grants

BERTIL FROM
CFO

BIRGITTE SCHOU
Vice President, Finance

CHRISTIAN ELLING
Managing Partner, Emerge

KIM KROGSGAARD
Managing Director, The Brain Prize

METTE KIRSTINE AGGER
Managing Partner, Ventures

REGITZE REEH
Director of Communications

FOUNDATION GOVERNANCE

STATUTORY REPORT CF. SECTION 77A OF THE FINANCIAL STATEMENTS ACT

	RECOMMENDATIONS	LUNDBECKFONDEN
1.1	**It is recommended** That the board of directors adopt guidelines for external communication, including who can make public statements on behalf of the foundation and on what matters. The guidelines should address the need for transparency and stakeholders' needs and possibilities to obtain relevant up-to-date information about the circumstances of the foundation.	**We comply** The Board has defined an external communication policy, which sets out who can make public statements on behalf of Lundbeckfonden and on what matters. The CEO defines the general framework and goals for communication and make statements on behalf of the Foundation. This responsibility may be delegated to the Director of Communications or relevant members of executive management. All press enquiries to the Board are referred to the Chairman, who speaks on behalf of the Board.
2.1.1	**It is recommended** that, to secure the activities of the commercial foundation in accordance with the purposes and interests of the foundation, at least once a year the board of directors take a position on the overall strategy and distribution policy of the foundation based on the articles of association.	**We comply** At the annual strategy seminar, the Board takes a position on the overall strategy and grant policy of Lundbeckfonden
2.2.1	**It is recommended** that the chairman of the board of directors organise, convene and chair meetings of the board of directors to ensure effective board work and to establish the best conditions for the work of the board members individually and collectively.	**We comply** The Chairman plans all board meetings in close collaboration with the CEO. It is the Chairman's responsibility to convene, organise and chair board meetings.
2.2.2	**It is recommended** that if, in addition to the position as chairman, in exceptional circumstances, the chairman of the board of directors is requested to perform specific operating functions for the commercial foundation, a board resolution be passed which ensures that the board of directors retains its independent, overall	**We comply** The Chairman is responsible for organising Lundbeckfonden's board work. If, in exceptional circumstances, the Chairman is requested to perform specific operating functions, the Board expects this to take place because of a

FOUNDATION GOVERNANCE

	RECOMMENDATIONS	LUNDBECKFONDEN
	management and control function. Appropriate allocation of responsibilities should be ensured between the chairman, the vice-chairman, the other members of the board of directors and the executive board, if any.	board decision, which specifically ensures appropriate allocation of responsibilities between the Chairman and the other members of the Board and management.
2.3.1	**It is recommended** that the board of directors regularly assess and stipulate the competences that the board of directors is to possess to perform the tasks incumbent upon the board of directors as well as possible.	**We comply** The Board regularly assesses and stipulates the skills required by the Board of Directors to perform the tasks that the Board carries out.
2.3.2	**It is recommended** that, with due respect of any right in the articles of association to make appointments, the board of directors ensures a structured, thorough and transparent process for selection and nomination of candidates for the board of directors.	**We comply** The Board is a self-perpetuating entity that selects and supplements members in accordance with the articles of association. The Chairman and Vice Chairman typically nominate new members for the Board. In circumstances in which specific research skills are required, nomination takes place in collaboration with the Chairman of the Foundation's Research and Prize committee. External advisors are usually called in to assist with the selection process.
2.3.3	**It is recommended** that members of the board of directors are appointed based on their personal qualities and competences considering the collective competences of the board and when composing and nominating new members of the board the need for introducing new talent is weighed against the need for continuity and the need for diversity is considered in relation to commercial and grants experience, age and gender.	**We comply** The Board is composed such that the combined knowledge and experience of its members ensures the fulfilment of Lundbeckfonden's objectives, as specified in the statutes.

FOUNDATION GOVERNANCE

	RECOMMENDATIONS	LUNDBECKFONDEN
2.3.4	**It is recommended** that in the management review in the annual report and on the commercial foundation's website, there is an account of the composition of the board of directors, including its diversity, and that the following information is provided on each board member: • the name and position of the member, • the age and gender of the member, • date of original appointment to the board whether the member has been re-elected, and expiry of the current election period, • any special competences possessed by the member, • other managerial positions held by the member, including positions on executive boards, boards of directors and supervisory boards and board committees in Danish and foreign foundations, enterprises and institutions, as well as other demanding organisation tasks, • whether the member has been appointed by authorities/providers of grants etc., and • whether the member is considered independent.	**We comply** An overview of the competition of the Board of Directors is presented in the Management Report 2016 and on Lundbeckfonden's website. No authority or similar body has the power to appoint members to the Board.
2.3.5	**It is recommended** that the majority of the members of the board of directors of the commercial foundation are not also members of the board of directors or executive board of the foundation's subsidiary(ies), unless it is a fully owned actual holding company.	**We comply** The majority of the members of Lundbeckfonden's Board are not also members of the boards of our subsidiaries, just as the Board is not represented on the executive management teams of the subsidiaries. The Foundation is represented by two members on the boards of our subsidiaries. One of these members is our CEO, who serves as Vice Chairman on these boards. The other representative is a member of the Foundation's Board. Our Chairman is not a member of the boards of our subsidiaries.

FOUNDATION GOVERNANCE

	RECOMMENDATIONS	LUNDBECKFONDEN
2.4.1	**It is recommended** that an appropriate proportion of the board of directors be independent. If the board of directors (excluding employee representatives) is composed of up to four members, at least one member should be independent. If the board of directors is composed of between five and eight members, at least two members should be independent. If the board of directors is composed of nine to eleven members, at least three members should be independent, and so on. To be considered independent, this person may not: • be or within the past three years have been member of the executive board, or senior employee in the foundation, or a subsidiary or associated company to the foundation, • within the past five years have received larger emoluments, including distributions or other benefits from the foundation/group or a subsidiary or associated company to the foundation in other capacity than as member of the board of directors or executive board of the foundation, • within the past year have had a significant business relationship (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management of companies with corresponding connection) with the foundation/group or a subsidiary or associated company of the foundation, • be or within the past three years have been employed or partner at the external auditor, • have been a member of the board of directors or executive board of the foundation for more than 12 years, • have close relatives with persons who are not considered as independent, • is the founder or a significant donor if the purpose of the foundation is to grant support to this person's family or others who are especially close to this person, or	**We comply** The Board consists of 10 members, of which seven are elected according to the statues and three are employee-elected representatives appointed by Group employees. Six of the seven statute-elected board members are considered independent – as one board member received a research grant from the Foundation in 2015 before being elected to board.

FOUNDATION GOVERNANCE

	RECOMMENDATIONS	LUNDBECKFONDEN
	• a member of the management of an organisation, another foundation or similar, which receives or repeatedly within the past five years have received significant donations from the foundation.	
2.5.1	**It is recommended** that members of the board of directors be appointed for a minimum period of two years and a maximum period of four years.	**We explain** Lundbeckfonden has chosen a shorter election period. According to the statues, a board member is elected for one year at a time – adopting best practice from listed companies. This allows for regular evaluation of a member's performance. No member who has been a member of the Board for more than 12 years can be re-elected. The Board may deviate from this rule if the Board's competence profile dictates it. The decision to do so is always made by the Board.
2.5.2	**It is recommended** that an age limit for members of the board of directors be set, which is published in the management review or on the foundation's website.	**We comply** Members of the Board who have turned 75 years of age may not be elected or re-elected to the Board. The Board may deviate from this rule if the Board's competence profile dictates it. The decision to do so is always made by the Board.
2.6.1	**It is recommended** that the board of directors establish an evaluation procedure in which the board of directors, the chairman and the contributions and performance of individual members are evaluated annually and the result is discussed by the board of directors.	**We comply** The Board performs an annual self-assessment.

FOUNDATION GOVERNANCE

	RECOMMENDATIONS	LUNDBECKFONDEN
2.6.2	**It is recommended** that once a year the board of directors evaluate the work and performance of the executive board and/or the administrator (where relevant) in accordance with predefined clear criteria.	**We comply** The work and performance of the management team is assessed as part of the annual self-assessment of the Board.
3.1.	**It is recommended** that the members of the board of directors of commercial foundations be remunerated with a fixed remuneration and that members of a possible executive board be remunerated with a fixed remuneration, possibly combined with a bonus which should not be dependent upon accounting results. The remuneration should reflect the work and responsibilities consequential to the position.	**We comply** Members of the Board and management are remunerated by a fixed fee. This fee does not depend on the financial results of the subsidiaries nor on our other investment activities. Members of our research and investment committees – as well as the board members of our subsidiaries – receive an additional fee in proportion to their workload.
3.2	**It is recommended** that the annual financial statements provide information about the full remuneration received by each member of the board of directors and executive board (if relevant) from the commercial foundation and from other enterprises in the group. Furthermore, there should be information on any other remuneration which members of the board of directors, except for employee representatives, have received for performing tasks for the foundation, subsidiaries of the foundation or enterprises in the same group as the foundation.	**We comply** Information on the total sum paid in remuneration to members of the Board and the CEO is specified in Lundbeckfonden's Annual Report 2016.

GRANT POLICY

STATUTORY REPORT CF. SECTION 77B OF THE FINANCIAL STATEMENTS ACT

Referring to the statutes of Lundbeckfonden the foundation has two primary objectives:

a. to secure and extend the activities of the Lundbeck Group
b. to make donations for the objectives mentioned in section 6 of the statutes

Adhering to the recommendations by the committee for industrial foundations, the grant objectives of the foundation are divided into the following categories:

- Social causes
- Research
- Cultural purposes
- Relatives of the Founder
- Employees of the Lundbeck Group
- Subsidiaries

The grant objectives listed under section 6 in the statutes are categorized as follows:

STATUTES	GRANT OBJECTIVE
Section 6a (Relatives of the Founder)	The Foundation may make donations to descendants of the parents of the Founder and her spouse.
Section 6b (Employees of the Lundbeck Group)	The Foundation may grant support to and otherwise make distributions for the benefit of present and previous employees of the Lundbeck Group, for instance for education, holidays and for holiday purposes. In so far as there is no need, in the given case, to make distributions at any other time of the year, such distributions shall only be made once a year at the birthday on 20 July of the deceased Hans Lundbeck, manufacturer.
Section 6c (Research)	The Foundation may grant honorary awards to physicians, scientists and others.
Section 6d (Research)	The Foundation may grant support for scientific purposes, primarily for specific projects.
Section 6e (Subsidiaries)	The Foundation may support special research projects within the Lundbeck Group
Section 6f (Research)	The Foundation may grant support for hospitals and for the combating of diseases.
Section 6g (Research)	The Foundation may support education in the widest sense of the word, possibly by way of interest-free loans.
Section 6h (Research)	The Foundation may make donations for nurses.
Section 6i (Social causes)	The Foundation may distribute up to 3% of the profit for the year before tax less retained earnings in subsidiaries and associates, including LFI a/s, for the support of old and/or sick people as well as those in need.
Section 6j (All categories)	The Foundation may support other purposes as decided by the Board of Trustees. However, support for such purposes may in a calendar year only account for 25% of the total distributions of the year.

GRANT POLICY

The aim of the grant activities is to fulfil the Foundation's grant strategy entrenched in the statutes' section 6. The grant strategy is an integral part of this grant policy.

The Board of Trustees has the overall responsibility for the allocation of all grants. The board has decided that the previously mentioned objectives should be met mainly through support for research in biomedicine. Grants for the support of research are primarily awarded to projects invited through open calls for applications. Grants may also be awarded without calls for applications.

The foundation has four overall grant categories:
- Personal research grants within health and biomedicine
- Strategic/theme-based research grants within biomedicine
- Honorary awards for outstanding researchers
- Grants for science teaching and science communication

In 2016, the Foundation granted the following amounts within the four categories:

	(DKKm)
Personal research grants:	212
Strategic grants:	238
Honorary awards:	4
Science teaching and communication:	39
Total	493

COMMITTEES

To facilitate grant activities within the mentioned categories, the Foundation has established two committees, which serve as advisory bodies and submit recommendations for decisions to the Board of Trustees.

RESEARCH AND PRIZE COMMITTEE (BIOMEDICINE)

The Board has appointed a Research and Prize Committee composed of the members of the Board appointed for their research expertise according to the statutes. The CEO, the Director of Grants and the Director of The Brain Prize, who are not members of the Research and Prize Committee, assist this committee. The Research and Prize Committee is tasked with the following:

- Advising and submitting recommendations for decisions to the Board regarding applications, prize nominations and strategic research policy issues
- Reviewing applications related to health and biomedicine, if necessary assisted by external experts
- Supervising the development of the Foundation's grant strategy

SCIENCE TEACHING AND COMMUNICATION COMMITTEE

The Foundation has a committee for reviewing applications related to science teaching and communication. This committee is composed of the CEO, the Director of Grants and the Director of Communications and may be assisted by external experts. The committee acts as an advisory body and submits recommendations for decisions on applications related to science teaching and communication to the Board of Trustees.

DISTRIBUTION OF RESPONSIBILITY

The Director of Grants is responsible for managing day-to-day operations in the Grants Department. This includes implementation of the grant strategy and staff responsibility.

The Board of Trustees approves all the grants of the Foundation prior to being awarded.

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INCOME STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

	Note	2016 DKKm	2015 DKKm
Revenue	3	34,603	32,390
Cost of sales	4, 5, 6	-17,454	-18,288
Gross profit		17,149	14,102
Research and development costs	4, 5, 6	-3,354	-3,573
Sales and distribution costs	4, 5, 6	-7,053	-8,305
Administrative expenses	4, 5, 6, 7	-3,549	-3,121
Other income	8	194	232
Operating profit before special items		3,387	-665
Special items	9	-409	-6,225
Operating profit		**2,978**	**-6,890**
Financial income	10	2,616	2,954
Financial expenses	10	-1,952	-1,821
Income from investments in associates		4	-1
Profit before tax		3,646	-5,758
Tax on profit for the year	11	-1,181	992
Profit for the year		**2,465**	**-4,766**

	Note	2016 DKKm	2015 DKKm
Profit attributable to:			
Lundbeckfonden		1,900	-3,006
Non-controlling interests	22	565	-1,760
		2,465	-4,766
Grants authorised	12	**493**	**423**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

	Note	2016 DKKm	2015 DKKm
Profit for the year		2,465	-4,766
Actuarial gains/losses	23	-61	13
Tax	11	9	-2
Items that will not subsequently be reclassified to the income statement		-52	11
Currency translation, foreign subsidiaries		-161	238
Currency translation concerning additions to net investments in foreign subsidiaries		241	555
Adjustment, deferred exchange gains/losses, hedging		-308	-93
Exchange gains/losses, hedging (transferred to the hedged items)		15	80
Exchange gains/losses, trading (transferred to financial items)		3	5
Value adjustment of interest hedging instruments		9	-3
Value adjustment of currency hedging instruments		4	-1
Fair value adjustment of available-for-sale financial assets	21	8	79
Adjustment for hyperinflation		5	-11
Tax on other comprehensive income	11	-4	-161
Items that may subsequently be reclassified to the income statement		-188	688

	Note	2016 DKKm	2015 DKKm
Other comprehensive income for the year, net of tax		-240	699
Total comprehensive income for the year		**2,225**	**-4,067**
Attributable to:			
Lundbeckfonden		1,732	-2,501
Non-controlling interests	22	493	-1,566
Total comprehensive income for the year		2,225	-4,067

Currency translation of foreign subsidiaries and currency translation concerning additions to net investments in foreign subsidiaries and tax related to these items amounted to a net gain of DKK 23m (net gain of DKK 636m in 2015), and is recognised in the currency translation reserve in equity. Other items and tax related to such items are recognised in reserve for hedging transactions and reserve for fair value adjustments of available-for-sale financial assets, respectively, at a net loss DKK 215m (net loss of DKK 16m in 2015) and a net gain DKK 11m (net gain DKK 68m in 2015) and recognised under retained earnings in equity in the amount of DKK 50m (negative DKK 191m in 2015).

BALANCE SHEET

AT 31 DECEMBER, ASSETS

	Note	2016 DKKm	2015 DKKm
Goodwill		11,300	11,313
Product rights		4,029	5,134
Intangible assets from acquisitions		1,298	1,655
Other intangible assets		1,015	921
Intangible assets	13	17,642	19,023
Property, plant and equipment	14	5,825	6,125
Financial assets – Invest	15	13,283	13,673
Financial assets – Lundbeckfonden Ventures and Emerge	15	2,425	2,173
Investments in associates		64	52
Receivables from associates	15	26	21
Deferred tax	16	2,077	1,641
Other financial assets	15	196	195
Financial assets		18,071	17,755
Non-current assets		**41,538**	**42,903**

	Note	2016 DKKm	2015 DKKm
Inventories	17	2,297	2,845
Trade receivables and other receivables	18	7,016	6,901
Income tax		60	210
Receivables		7,076	7,111
Securities – Invest		102	34
Securities – subsidiaries		706	564
Securities	19	808	598
Cash and bank balances – Invest		778	345
Cash and bank balances – subsidiaries		3,395	2,324
Cash and bank balances	19	4,173	2,669
Current assets		**14,354**	**13,223**
Assets		**55,892**	**56,126**

BALANCE SHEET

AT 31 DECEMBER, EQUITY AND LIABILITIES

	Note	2016 DKKm	2015 DKKm
Capital base	20	2,965	2,888
Other reserves	21	1,446	1,627
Retained earnings		22,433	21,100
Lundbeckfonden's share of equity		**26,844**	**25,615**
Non-controlling interests' share of equity	22	3,482	3,249
Total equity		30,326	28,864
Payable grants		324	333
Provisions	23	1,378	1,824
Deferred tax	16	763	711
Payables to financial institutions	24	8,024	10,339
Other payables		62	7
Non-current liabilities		**10,551**	**13,214**

	Note	2016 DKKm	2015 DKKm
Payable grants		639	586
Provisions	23	1,208	1,214
Payables to associates		28	15
Income tax		330	180
Payables to financial institutions	24	1,229	1,023
Repo debt – Invest	24	634	367
Other payables	25	9,413	9,153
Prepayments from customers		1,534	1,510
Current liabilities		**15,015**	**14,048**
Liabilities		**25,566**	**27,262**
Equity and liabilities		**55,892**	**56,126**

CASH FLOW STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

	Note	2016 DKKm	2015 DKKm
Operating profit		2,978	-6,890
Adjustment for non-cash operating items	26	2,247	9,812
Working capital changes	27	167	-887
Cash flows from operating activities before financial receipts and payments and tax		**5,392**	**2,035**
Financial receipts		465	639
Financial payments		-314	-615
Income tax paid		-1,222	-740
Cash flows from operating activities		**4,321**	**1,319**
Acquisition of businesses	28	-149	-278
Divestment of businesses	28	386	54
Investments in intangible assets	13	-324	-2,919
Investments in property, plant and equipment	14	-898	-1,106
Disposal of intangible assets and property, plant and equipment		190	296
Investments in financial assets measured at fair value through profit or loss		-2,847	-7,271
Sale of financial assets measured at fair value through profit or loss		3,469	7,054
Change in other financial assets		-	-1
Cash flows from investing activities		**-173**	**-4,171**

	Note	2016 DKKm	2015 DKKm
Loan proceeds		1,248	1,575
Repayment of loans		-3,126	-713
Buyback of shares from non-controlling interests		-155	-22
Capital injections from non-controlling interests		-	102
Sale of treasury shares		47	68
Capital increase through exercise of warrants		37	-
Settlement of exercised share options and warrants		-89	-41
Employee bonds		-	-8
Dividend paid to non-controlling interests	22	-52	-155
Other transactions with non-controlling interests		-32	-
Authorised grants paid		-427	-444
Cash flows from financing and grants activities		**-2,549**	**362**
Change in cash		1,599	-2,490
Cash at 1 January	19	2,669	5,211
Unrealised exchange rate adjustments for the year		-95	-52
Cash at 31 December	19	**4,173**	**2,669**

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

	Capital base	Other reserves	Retained earnings	Lundbeck-fonden's share of equity	Non-controlling interests' share of equity	Total equity
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Equity at 1 January 2016	2,888	1,627	21,100	25,615	3,249	28,864
Profit for the year			1,900	1,900	565	2,465
Other comprehensive income	-	-188	20	-168	-72	-240
Comprehensive income	**-**	**-188**	**1,920**	**1,732**	**493**	**2,225**
Grants authorised during the year, net		-472		-472	-	-472
Transferred to provision for future grants		472	-472	-	-	-
Non-controlling interests' share of dividends			-	-	-52	-52
Buyback of shares from non-controlling interests			-108	-108	-47	-155
Change in non-controlling interests			23	23	-162	-139
Adjustment of provision for acquisition of non-controlling interests			-10	-10	-7	-17
Impact by incentive programmes			58	58	5	63
Tax related to items recognised directly on equity	-	7	-1	6	3	9
Other transactions	**-**	**7**	**-510**	**-503**	**-260**	**-763**
Increase of capital base	**77**	**-**	**-77**	**-**	**-**	**-**
Equity at 31 December 2016	**2,965**	**1,446**	**22,433**	**26,844**	**3,482**	**30,326**

	Capital base	Other reserves	Retained earnings	Lundbeck-fonden's share of equity	Non-controlling interests' share of equity	Total equity
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Equity at 1 January 2015	2,728	939	24,687	28,354	4,669	33,023
Profit for the year			-3,006	-3,006	-1,760	-4,766
Other comprehensive income	-	688	-183	505	194	699
Comprehensive income	**-**	**688**	**-3,189**	**-2,501**	**-1,566**	**-4,067**
Grants authorised during the year, net		-406		-406	-	-406
Transferred to provision for future grants		406	-406	-		-
Non-controlling interests' share of dividends			-	-	-155	-155
Buyback of shares from non-controlling interests			-15	-15	-7	-22
Change in non-controlling interests			-24	-24	145	121
Adjustment of provision for acquisition of non-controlling interests			162	162	120	282
Impact by incentive programmes			40	40	36	76
Tax related to items recognised directly on equity	-	-	5	5	7	12
Other transactions	**-**	**-**	**-238**	**-238**	**146**	**-92**
Increase of capital base	**160**	**-**	**-160**	**-**	**-**	**-**
Equity at 31 December 2015	**2,888**	**1,627**	**21,100**	**25,615**	**3,249**	**28,864**

NOTE 1-2

1. Significant accounting policies

The consolidated financial statements of Lundbeckfonden have been prepared to give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2016. Management believes that the following accounting policies are significant to the financial statements. The general accounting policies are described in Note 33.

LICENSE INCOME AND INCOME FROM RESEARCH COLLABORATIONS

License income and royalties from out-licensed products are recognised in the income statement under revenue when the following criteria have been met:

- The most significant risks and benefits associated with the asset sold are transferred to the buyer.
- The Group surrenders management control of the asset sold.
- Revenue from the individual payments in an overall agreement can be clearly separated and calculated reliably at fair value.
- It is probable that the Group will receive payment for the asset sold.
- The Group has no further delivery obligations in respect of the asset sold.

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

- The payment relates to research results already obtained.
- The buyer has gained access to and possession of the research results.
- The revenue from the individual payments in an overall agreement can be clearly separated and calculated reliably at fair value.
- It is probable that the Group will receive payment.

DEVELOPMENT COSTS

Development costs are recognised in the income statement as they are incurred unless the criteria for capitalisation are deemed to have been met and it is found to be probable that future earnings will cover the development costs. Due to a very long development period and significant uncertainty connected with the development of new products, in the opinion of the Group, development costs should not normally be capitalised.

2. Significant accounting estimates and judgements

The presentation of the consolidated financial statements of Lundbeckfonden involves the use of accounting estimates and judgements.

APPLICATION OF MATERIALITY AND RELEVANCE

In the preparation of the consolidated financial statements, Lundbeckfonden aims to focus on information, which is considered to be material and thus relevant to the users of the consolidated financial statements. This applies both to the accounting policies and to the information given in the notes in general.

Based upon events, which have taken place during the year and the financial position at year-end, Management has assessed which information is material for the users. For this purpose, Lundbeckfonden operates with internal guidelines for the application of materiality and relevance, which have been agreed with the external auditors.

When assessing materiality and relevance, due consideration is given to ensuring adherence to the International Financial Reporting Standards as endorsed by the EU and to Danish disclosure requirements and to ensuring that the consolidated financial statements give a true and fair view of the Group's financial position at the balance sheet date and the operations and cash flows for the financial year.

Management believes that the following accounting estimates and judgements are significant to the financial statements.

NOTE 2

2. Significant accounting estimates and judgements (Continued)

SALES DEDUCTIONS FOR PHARMACEUTICALS IN THE US

The most significant sales deductions in the US are given in connection with the US Federal and State Government Healthcare programmes, primarily Medicaid.

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

VALUATION OF INTANGIBLE ASSETS

Goodwill, product rights and intangibles assets from acquisitions represent a significant part of the Group's total assets. The major part of the value of these assets arose through the acquisition of businesses or the acquisition of rights. On acquisition, the individual assets and liabilities are re-assessed to ensure that both recognised and unrecognised values are measured at fair value. Especially for intangible assets, for which there is often no active market, the calculation of fair value may involve uncertainty.

Goodwill and other intangible assets are tested for impairment at least annually or if there is indication of impairment. The value in use of the assets is calculated by discounting the estimate made by Management of the expected cash flows during a budget period of a number of years with due consideration to patent expiry etc. For the calculation of the value in use of the assets, the Group uses different discount rates and Management's expectations for growth and terminal value in the period over the budget period. These factors are crucial for the assessment of any impairment and thus for the final calculation of the fair value of intangible assets.

It is a precondition for the retention of the value of the Group's rights that such rights are respected. It is the Group's policy to defend these rights wherever they may be violated.

IMPAIRMENT TESTING

Intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill acquired in a business combination are tested for impairment annually. In addition, intangible assets and property, plant and equipment in use are tested if there is any indication of impairment.

In the impairment test, the discounted expected future cash flows (value in use) for the cash-generating unit (CGU) are compared with the carrying amounts of goodwill and other net assets.

If the carrying amount exceeds the higher amount of fair value less cost to sell and value in use, an impairment loss is recognised in the income statement.

FINANCIAL ASSETS

Financial assets include investments in listed and unlisted equity instruments and securities, including life science investments recognised at their fair value. Investments in unlisted equity instruments and securities amounted to DKK 3,450m in 2016 (DKK 2,959m in 2015).

The assessment of fair value of unlisted investments is subject to considerable uncertainty. This applies especially to life science investments because the value of these businesses is linked to the company's often long-term investment in the development of new pharmaceuticals and technologies.

Management estimates the fair value of unlisted investments in accordance with International Private Equity and Venture Capital Valuation Guidelines i.e. on the basis of relevant valuation methods based on comparable transactions on market conditions, capital increases and the like. If the fair value cannot be determined with sufficient reliability, the investments in question are recognised at cost less any impairment. The Group assesses at each balance sheet date whether there is any indication that an investment or a group of investments has to be impaired. An

NOTE 2

2. Significant accounting estimates and judgements (continued)

impairment loss is recorded if the Group assesses that lack of compliance with business plans affect the calculation of fair value or if subsequent capital injections are made at lower prices.

DEFERRED TAX ASSETS AND TAX LIABILITIES

Management's estimate of future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years supports the utilization of the deferred tax assets within the foreseeable future.

Therefore, the full value at 31 December 2016 of deferred tax assets relating to significant net operating losses in Denmark realised in 2015 and 2016 and a deferred tax asset regarding impairment of product rights in 2015 has been capitalised in the amount of DKK 986m.

The Group operates in a multinational tax environment. Complying with tax rules can be complex as the interpretation of legislation and case law may not always be clear or may change over time. In addition, transfer pricing disputes with tax authorities may occur. Management judgements are applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties. Management believes that the provision made for uncertain tax positions not yet settled with local tax authorities is adequate. However, the actual obligation may differ from the provision made and depends on the result of litigations and settlements with the relevant tax authorities.

PROVISIONS RELATED TO ACQUISITIONS OF OPERATIONS AND NON-CONTROLLING INTERESTS

When contingent considerations or put options are issued as part of the consideration for business combinations, the non-controlling interests receiving the consideration are considered to have been redeemed on the acquisition date. The non-controlling interests are eliminated and a debt liability is recognised.

The consideration for obligations and rights to acquire non-controlling interests is determined on the basis of profit before exercise multiplied by an already agreed multiple typically less net debt in the relevant companies. On recognition in the balance sheet, this liability is made up on the basis of earnings and net debt at the time when the non-controlling interests are expected to exercise their right to sell their shares. The calculated liability typically assumes an increase in earnings and a decrease in net debt in the relevant companies as compared with the value recognised in the financial statements.

These factors are of material importance to the fair value calculation, which is therefore subject to uncertainty. At 31 December 2016, the carrying amount of provisions related to acquisitions of operations and non-controlling interests amounted to DKK 885m (DKK 937m in 2015).

NOTE 3-4

3. Revenue

	2016 DKKm	2015 DKKm
Europe	17,834	17,962
USA	11,458	9,160
Rest of the world	5,311	5,268
Total	**34,603**	**32,390**
Brain diseases (Lundbeck)	15,634	14,594
Allergy treatment (ALK)	3,005	2,569
Emergency, assistance, healthcare and training (Falck)	15,964	15,227
Total	**34,603**	**32,390**
Revenue includes:		
Sale of goods	18,093	16,777
Rendering of services	15,851	15,174
Downpayments and milestone payments	50	148
Royalties	609	291
Total	**34,603**	**32,390**
Revenue in Denmark	6,005	6,248

4. Staff costs

	2016 DKKm	2015 DKKm
Short-term staff benefits	12,788	13,382
Share-based payment	66	61
Pension benefits	726	772
Other social security costs	1,285	1,296
Total	**14,865**	**15,511**
The year's staff costs are specified as follows:		
Cost of sales	8,863	8,196
Research and development costs	1,098	1,603
Sales and distribution costs	3,121	3,572
Administrative expenses	1,749	2,104
Included in the cost of assets	34	36
Total	**14,865**	**15,511**
Average number of full-time employees during the year	36,334	34,436
Number of employees at year-end	45,705	45,582

NOTE 4-5

4. Staff costs (Continued)

	2016 DKKm	2015 DKKm
Remuneration in the Group including management remuneration for board positions in subsidiaries		
Total remuneration in the Group for the Executive Management of the Foundation amounts to	9.7	8.9
Total remuneration in the Group for the Board of Trustees of the Foundation amounts to	7.2	5.7
Executive Management:		
Lene Skole	9.7	8.9
Board of Trustees:		
Jørgen Huno Rasmussen, Chairman of the Foundation and Lundbeckfond Invest A/S and member of the Investment Committee	0.9	0.7
Steffen Kragh, Vice-Chairman of the Foundation and Lundbeckfond Invest A/S and member of the Investment Commitee	0.6	0.5
Gunhild Waldemar, Chairman of the Research Committee	0.7	0.5
Lars Holmqvist, member of the Investment Committee, from 9 April 2015	1.2	0.9
Michael Kjær, from 12 April 2016	0.3	-
Peter Schütze, Chairman of the Investment Committee, from 9 April 2015	1.5	1.0
Susanne Krüger Kjær, member of the Research Committee	0.4	0.4
Henrik Sindal Jensen, employee representative from H. Lundbeck A/S	0.5	0.5
Peter Adler Würtzen, employee representative from ALK-Abelló A/S	0.3	0.2
Vagn Flink Møller Pedersen, employee representative from Falck A/S	0.5	0.5
Povl Krogsgaard-Larsen, member of the Research Committee, stepped down on 12 April 2016	0.3	0.4
Thorleif Kraup, member of Investment Commitee, Chairman of the Science Teaching and Communication Committee, stepped down on 9 April 2015	-	0.1
Total	**7.2**	**5.7**

Remuneration to Executive Management and Board of Trustees comprise short-term benefits.

5. Incentive programmes

LUNDBECKFONDEN

The Executive Management of Lundbeckfonden is not offered incentive programmes. Incentive programme have been implemented as from 2010 for employees of Invest and Lundbeckfonden Ventures which are similar to standard incentive programmes for investment management and venture industries. The purpose of the incentive programmes are for Lundbeckfonden to be able to attract and retain skilled and qualified employees. The costs related to the programmes are not recognised as staff cost before payment takes place due to uncertainty about the amount and if and when the payment becomes payable.

In 2016, bonus under Invest programmes amounted to DKK 6m (DKK 6m in 2015).

In 2016, for Lundbeckfonden Ventures programmes income of DKK 32m (expenses of DKK 64m in 2015) have been recognised in the income statement under financial items and in the balance sheet as a provision. Provision amounted to DKK 62m at 31 December 2016 (DKK 94m in 2015).

SUBSIDIARIES

In order to attract, retain and motivate key employees and align their interests with those of the shareholders, a number of incentive programmes have been established in ALK, Falck and Lundbeck. The Group uses short-term incentive programmes that provide an annual bonus for the achievement of pre-determined targets of the financial year as well as long-term equity-based and debt-based programmes.

NOTE 5

5. Incentive programmes (Continued)

LUNDBECK

INCENTIVE PROGRAMMES

In order to attract, retain and motivate key employees and align their interests with those of the shareholders, Lundbeck has established a number of incentive programmes. Lundbeck uses equity-based as well as debt-based programmes.

EQUITY-BASED PROGRAMMES

In 2016, equity-based incentive programmes consisted of warrants, shares and restricted share units (RSUs) granted in the years 2008-2016.

In May 2016, the Chief Executive Officer (CEO) of Lundbeck was offered to participate in the 2014 one-off warrant programme on the same terms as the former CEO of Lundbeck, who is no longer a part of the programme. A total of 400,000 warrants were granted, calculated proportionally to the period of time the CEO has been with Lundbeck. All of the warrants vest in 2017 subject to Lundbeck's Board of Directors' decision on vesting, taking into account e.g. the financial situation of the Lundbeck Group, and subject to the CEO's continuing employment with Lundbeck during the vesting period. The warrants may be exercised during certain windows until 30 April 2020. The fair value of the warrants at the time of grant was calculated using the Black-Scholes method and based on a volatility of 39.72%, a dividend yield of 2.00%, a risk free interest rate of 0.50%, a vesting period of one year and a share price of DKK 231.70. This translates into a fair value per warrant of DKK 85.28.

In May 2016, Lundbeck offered participation in a RSU programme to members of Lundbeck's Executive Management and key employees as part of Lundbeck's recurring long-term incentive programme. Three members of Executive Management and 123 key employees employed in H. Lundbeck A/S or a Lundbeck subsidiary were offered to participate in the programme. Members of Executive Management, who are already participating in the 2014 one-off warrant programme, are not participating in the programme. The participants have primarily been selected on the basis of job level. All of the RSUs will be granted after the publication of the Annual Report for 2016 and will vest three years after grant. Grant and vesting are subject to the Board of Directors' decision on vesting, Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the period from grant until the RSUs vest. The fair value of the RSUs has been calculated on the basis of a share price of DKK 252.40 reduced by and expected dividend yield of 2.00% p.a. The fair value at the time of the offer was DKK 237.56 per RSU.

In December 2015, Lundbeck established an RSU programme for key employees. 129 employees were granted 130,777 RSUs in H. Lundbeck A/S. All of the RSUs will vest in 2018, three years after grant, subject to the financial targets for vesting being achieved and subject to continuing employment with the Lundbeck Group. The fair value of the RSUs was calculated using the Black-Scholes method and based on a volatility of 31.44%, a dividend yield of 2.00%, a risk free interest rate of 0.50%, a vesting period of three years and a share price of DKK 215.32. The fair value at the time of grant was DKK 202.78 per RSU.

The shares granted to key employees in 2013 and an additional 30% of the warrants granted to Executive Management in 2012 vested in 2016 (20% in 2015). Warrants and shares granted to key employees in 2012 vested in 2015. All warrants granted in 2008, 2009, 2010 and 2011 have vested.

At 31 December 2016, 280,903 warrants (552,783 warrants at 31 December 2015) were exercisable. The weighted average exercise price was DKK 112.41 (DKK 113.23 in 2015).

In 2016, the following number of warrants were exercised: 13,435 from the 2008 grand (82,886 in 2015), 18,221 from the 2009 grant (100,293 in 2015), 20,856 from the 2010 grant (110,683 in 2015), 45,112 from the 2011 grant (218,305 in 2015), 79,224 from the 2012 grant (400,239 in 2015) and 141,592 from the 2012 grant made to Executive Management. The weighted average share price of the warrants exercised was DKK 251.97 (DKK 184.44 in 2015).

NOTE 5

5. Incentive programmes (Continued)

The tables below show the conditions for the active equity-based scheme:

Warrant programmes	Vesting date	Exercise period begins	Exercise period ends	Number of warrants granted to Executive Management	Total number of warrants granted	Exercise price	Fair value of the date of grant
	date	date	date	units	units	DKK	DKK
2008, number of persons 87	06.05.2011	06.05.2011	05.05.2016	219,618	405,234	115.00	35.55
2009, number of persons 98	16.03.2012	16.03.2012	15.03.2017	333,811	534,058	102.00	40.37
2010, number of persons 101	16.03.2013	16.03.2013	15.03.2018	507,885	765,979	97.00	29.86
2010, number of persons 16	16.03.2013	16.03.2013	15.03.2018	-	24,971	97.00	24.30
2011, number of persons 112	31.03.2014	01.04.2014	31.03.2019	381,224	849,085	121.00	30.10
2012, number of persons 4 [1]	31.03.2015	01.04.2015	31.12.2018	155,750	155,750	113.00	21.05
2012, number of persons 4 [1]	31.03.2016	01.04.2016	31.12.2018	233,629	233,629	113.00	22.40
2012, number of persons 4 [1]	31.03.2017	01.04.2017	31.12.2018	389,380	389,380	113.00	21.99
2012, number of persons 102	31.03.2015	01.04.2015	31.03.2020	-	692,003	113.00	24.11
2014, number of persons 3 [2]	30.04.2017	01.05.2017	30.04.2020	1,355,000	1,355,000	141.00	26.06
2016, number of persons 1 [2]	30.04.2017	01.05.2017	30.04.2020	400,000	400,000	141.00	85.28

[1] As from 2012, the exercise price of DKK 113.00 is revalued by 4.00% p.a. adjusted for dividend payout.

[2] As from 2014, the exercise price of DKK 141.00 is revalued by 4.00% p.a. adjusted for dividend payout.

NOTE 5

5. Incentive programmes (Continued)

Share and RSU programmes	Vesting date date	Total number of shares/RSUs granted units	Number of shares/RSUs granted to Executive Management units	Fair value at the date of grant DKK
2012, number of person 104	31.03.2015	230,503	101,107	113.20
2012, number of person 5	31.03.2015	15,178	-	99.05
2013, number of person 113	31.05.2016	540,562	98,629	110.70
2014, number of person 107	31.05.2017	205,702	-	138.81
2015, number of person 129	01.12.2018	130,777	-	202.78
2016, number of person 126	01.02.2020	120,549	20,484	237.56

Warrants	Executive Management units	Executives units	Other units	Average exercise price DKK
1 January 2016	1,038,184	88,270	407,877	134.79
Grant	400,000	-	-	155.56
Transfers	23,701	36,714	-60,415	-
Exercised	-141,592	-47,830	-129,018	117.75
Cancelled/expired	-	-	-38,396	114.21
31 December 2016	**1,320,293**	**77,154**	**180,048**	**144.66**
1 January 2015	1,038,184	366,713	1,041,840	121.14
Transfers	-	-63,338	63,338	-
Exercised	-	-215,105	-697,301	111.95
31 December 2015	**1,038,184**	**88,270**	**407,877**	**134.79**

DEBT-BASED PROGRAMMES

The debt-based programmes consist of stock appreciation rights (SARs) and restricted cash units (RCUs) granted during the years 2011-2016.

In May 2016, a few key employees in Lundbeck's US subsidiaries were offered participation in an RCU programme on terms and conditions similar to those applying to the RSU programme offered to Executive Management and key employees of H. Lundbeck A/S and its non-US subsidiaries in May 2016. All of the RCUs, a total of 4,645, will be granted after the publication of the Annual Report for 2016 and will vest three years after grant. Grant and vesting are subject to the Board of Directors' decision on vesting, Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the period from grant until RCUs vest. The size of the amount depends on the value of the Lundbeck share on the vesting date. The fair value per RCU at the time of grant was calculated at DKK 237.56.

In December 2015, a few key employees in Lundbeck's US subsidiaries were granted 9,314 RCUs on terms and conditions similar to those that apply to the RSU programme granted in December 2015 to key employees of H. Lundbeck A/S and its non-US subsidiaries. The RCUs will vest on 1 December 2018 subject to continuing employment with Lundbeck and Lundbeck achieving its financial targets, after which time they are settled. The size of the amount depends on the value of the Lundbeck share on the vesting date. The fair value per RCU at the time of grant was calculated at DKK 202.78.

The share price-based programmes for employees of Lundbeck's US subsidiaries cannot be converted into shares because the value of the programme is distributed as a cash amount.

The RCUs granted in 2013 vested in 2016, after which time the programme was settled. The SARs granted in 2012 vested in 2015. The RCUs granted in 2012 vested in 2015, after which time the programme was settled.

NOTE 5

5. Incentive programmes (Continued)

FAIR VALUE, LIABILITY AND EXPENSE RECOGNISED IN THE INCOME STATEMENT

The warrants, shares and RSUs granted/offered are recognised in the income statement for 2016 at an expense corresponding to the fair value at the time of grant/offer for the part of the vesting period that concerns 2016. The fair value of equity-based programmes was DKK 340m (DKK 317m in 2015).

The SARs granted are recognized in the income statement at an expense corresponding to the value adjustment for the year based on the Black-Scholes method, and the RCUs granted/offered are recognised in the income statement at an expense corresponding to the value adjustment for the year based on the performance of the Lundbeck share.

ALK

	2016 DKKm	2015 DKKm
Cost of share-based payments	15	15
Total	**15**	**15**
Cost for the year regarding share-based payments are recognised as follows:		
Cost of sales	4	4
Research and development expenses	3	3
Sales and marketing expenses	4	4
Administrative expenses	1	4
Financial expenses	3	-
Total	**15**	**15**

In 2016, the total cost of share-based payments included a financial expense of DKK 3m due to the exercise and cash settlement of share option plans (DKK 0m in 2015).

In 2016, an income of DKK 0m related to adjustment in the number of conditional shares expected to be vested is included in the cost of share based payments (DKK 1m in 2015).

SHARE OPTION PLANS

ALK has established share option plans for ALK's Board of Management and a number of key employees as part of a retention programme.

Each share option entitles the holder to acquire one existing B share of DKK 10 nominal value in ALK. The right to exercise the option is subject to the holder of the option not having resigned at the time of exercise. No other vesting conditions apply. The option can be exercised only during a period of four weeks after the publication of annual reports or interim financial statements. Share options are considered sufficiently covered by treasury shares.

NOTE 5

5. Incentive programmes (Continued)

Specification of outstanding options	Board of Management units	Other key personnel units	Total units	Weighted average exercise price DKKm
1 January 2016	129,925	170,525	300,450	470
Additions	8,720	18,400	27,120	1,087
Exercises	-82,150	-79,975	-162,125	419
Expired	-	-500	-500	553
Cancellations	-12,700	-5,675	-18,375	754
31 December 2016	**43,795**	**102,775**	**146,570**	**743**
1 January 2015	137,325	240,250	377,575	454
Additions	18,100	26,050	44,150	836
Exercises	-25,500	-90,500	-116,000	403
Expired	-	-1,750	-1,750	585
Cancellations	-	-3,525	-3,525	552
31 December 2015	**129,925**	**170,525**	**300,450**	**470**

At 31 December 2016, the total number of vested share options amounts to 43,525 units (127,675 units in 2015).

ALK's Board of Directors decided for three open windows in 2016 that share options were to be settled by cash settlement and a total of 135,100 share options were exercised and total cash payments amounted to DKK 89m. For one open window ALK's Board of Directors decided that share options were settled by shares and a total of 27,025 were exercised.

Outstanding options characteristics	Options Units units	Exercise price DKK	Vesting date date	Exercise period begins date	Exercise period ends date
2010 Plan	1,000	405	01.11.2013	01.11.2013	01.11.2017
2011 Plan	13,100	370	01.11.2014	01.11.2014	01.11.2018
2012 Plan	13,400	457	01.05.2015	01.05.2015	01.05.2019
2013 Plan	16,025	475	01.03.2016	01.03.2016	01.03.2020
2014 Plan	39,250	758	01.03.2017	01.03.2017	01.03.2021
2015 Plan	36,675	836	01.03.2018	01.03.2018	01.03.2022
2016 Plan	27,120	1,087	01.03.2019	01.03.2019	01.03.2023
31 December 2016	**146,570**				

	2016	2015
Average remaining life of outstanding share options at year end (years)	4.3	4.1
Exercise prices for outstanding share options at year end (DKK)	361-1,127	352-867

The calculated market price at the grant date is based on the Black & Scholes model for valuation of options.

The assumptions for the calculation of the market price of share options at the grant date are as follows:

	2016 Plan	2015 Plan
Average share price (DKK)	972	747
Expected exercise price (DKK) [1]	1,073	825
Expected volatility rate	30% p.a.	28% p.a.
Expected option life	5 years	5 years
Expected dividend per share	5	5
Risk-free interest rate	-0.06% p.a.	0.16% pa
Calculated fair value of granted share options (DKK)	208	145

1) The exercise price is equivalent to the average market price of ALK's share for the five trading days immediately preceding the date of grant and is increased by 2.5% p.a. and reduced by dividends paid.

NOTE 5

5. Incentive programmes (Continued)

The expected volatility rate is based on the historical volatility (measured over 12 months).

CONDITIONAL SHARES

ALK has established conditional share plans for ALK's Board of Management and a number of key employees as a part of a retention programme. Conditional shares will be available three years after the date of grant, provided that ALK achieves the targets for vesting.

Outstanding conditional shares	Board of Management units	Other key personnel units	Total units
1 January 2016	11,870	18,305	30,175
Additions	1,864	3,875	5,739
Exercises	-2,412	-4,237	-6,649
Cancellations	-4,678	-4,238	-8,916
31 December 2016	**6,644**	**13,705**	**20,349**
1 January 2015	13,400	22,625	36,025
Additions	3,520	5,090	8,610
Exercises	-2,525	-4,400	-6,925
Cancellations	-2,525	-5,010	-7,535
31 December 2015	**11,870**	**18,305**	**30,175**

The conditional shares have been granted at the average market price of the company's share for the five trading days immediately preceding the date of grant. The conditional shares have been granted at DKK 972 per share (DKK 747 in 2015). Conditional shares are considered sufficiently covered by treasury shares.

Conditional shares characteristics	Vesting date	Conditional share units
2014 Plan	01.09.2017	7,280
2015 Plan	01.03.2018	7,330
2016 Plan	01.03.2019	5,739
31 December 2016		**20,349**

RESTRICTED STOCK UNITS

In 2015, ALK's Board of Directors decided to grant Restricted Stock Units to all employees not included in the conditional shares. The programme granted 10 Restricted Stock Units to employees permanently employed at the ALK group as of 31 March 2015. A Restricted Stock Unit (RSU) is a right to receive one share or the value of one share in ALK upon vesting.

The programme will run for three years and vesting will be no later than 31 March 2018.

A total of 18,150 RSUs were granted in 2015. As of 31 December 2016, outstanding RSUs were 15,040 and are considered sufficiently covered by treasury shares. The cost of the programme is calculated based on a share price of DKK 746 and amounts in total to DKK 11m, which are expensed over the vesting period.

NOTE 5

5. Incentive programmes (Continued)

FALCK

Warrant programmes	Executive Management Board units	Executives employees units	Total units
1 January 2016	4,443,120	965,572	5,408,692
Grants	-	15,000	15,000
Buy-back of warrants	-	-20,830	-20,830
31 December 2016	**4,443,120**	**959,742**	**5,402,862**
1 January 2015	4,443,120	1,040,877	5,483,997
Grants	-	59,006	59,006
Buy-back of warrants	-	-134,311	-134,311
31 December 2015	**4,443,120**	**965,572**	**5,408,692**

WARRANT PROGRAMME, EXECUTIVE MANAGEMENT BOARD

At a meeting of Falck's Board of Directors held on 15 March 2011, the Board passed a resolution to establish a warrant programme for the former and current member of Falck's Executive Management Board. The warrant programme comprises 4,443,120 warrants.

Each warrant entitles the holder to subscribe for one share in Falck A/S with a nominal value of DKK 1.00. The warrants are exercisable in the period 2019-2021 at between DKK 171 and DKK 209 per share. The warrants issued were acquired at market value with no conditions attached.

WARRANT PROGRAMME, OTHER EXECUTIVES

At the general meeting held on 26 April 2012, Falck's Board of Directors was authorised to establish a new warrant programme. At a meeting of Falck's Board of Directors held on 25 June 2014, the Board passed a resolution to establish a new warrant programme for executive employees other than the Executive Management Board of Falck.

The warrant programme comprises 959,742 warrants held by 21 employees. Each warrant entitles the holder to subscribe for one share in Falck A/S with a nominal value of DKK 1.00. The warrants are exercisable in three tranches in 2021, 2023 and 2025 at a price based on a share price of DKK 102 plus 8% per year. Dividends in the period between issuance and exercise of the warrants are adjusted in the price.

The exercise of the warrants is subject to the employee being in continuing employment in Falck Group on the date of exercise. Special provisions are in place concerning sickness and death and in case of change to Falck Group's capital structure etc. Falck's Board of Directors may at any time set an earlier time for exercise of the warrants than the said fixed times of exercise. If the employee does not use the option to exercise, the warrants lapse.

Valuation

The employees acquired the warrants issued at market value, equivalent to DKK 5m, so no cost relating to the warrants is recognised in the income statement. The market value is based on a Black-Scholes option valuation model with adjustment for dilution. The volatility in the calculation 23.3% (23.3% in 2015) is estimated based on the average rate of volatility for the defined peer group. Zero-coupon interest rates adjusted for the term of the programme have been used as risk free interest rate 0.5% (1.2% in 2015). Moreover, the calculation of the market value considers the non-marketability of the warrants, whereas the employment requirement at the time of exercise is not included.

NOTE 5-8

5. Incentive programmes (Continued)

GROUP

Recognised expenses	2016 DKKm	2015 DKKm
Recognised expenses concerning equity-based schemes	68	49
Recognised expenses concerning debt-based schemes	1	12
Total recognised expenses	**69**	**61**

In 2016 the total cost of share-based payments included a financial expense of DKK 3m due to the exercise and cash settlement of share option plans (DKK 0m in 2015).

In 2016 an income of DKK 0m related to adjustment in the number of conditional shares expected to be vested is included in the cost of share based payments (DKK 1m in 2015).

At 31 December 2016, the total liability in respect of debt-based schemes amounted to DKK 4m (DKK 7m in 2015).

6. Depreciation, amortisation and impairment

	2016 DKKm	2015 DKKm
Depreciation, amortisation and impairment are specified as follows:		
Cost of sales	1,798	2,126
Research and development costs	236	282
Sales and distribution costs	90	147
Administrative expenses	141	187
Special items	383	6,213
Total	**2,648**	**8,955**

7. Fees to auditors appointed at the annual meeting

	2016 DKKm	2015 DKKm
Administrative expenses include fees to the Group auditors appointed at the annual meeting, Deloitte, in the amount of:		
Statutory audit	24	22
Other assurance engagements	1	-
Tax advisory services	5	4
Other services	5	5
Total	**35**	**31**

A few minor foreign subsidiaries are not audited by the parent foundation's auditors, a foreign business partner of the auditors, or by a recognised, international auditing firm.

8. Other income

	2016 DKKm	2015 DKKm
Gain on sales of assets	45	169
Gain on sales of activities and other operating income	149	63
Other income	**194**	**232**

NOTE 9-10

9. Special items

	2016 DKKm	2015 DKKm
Impairment product rights, Lundbeck	-	4,988
Impairment goodwill, Falck	-	721
Amortisation of contractual customer relationships, Falck	383	504
Transaction costs associated with acquisitions, Falck	26	12
Special items	**409**	**6,225**

10. Financial items

GROUP

	2016 DKKm	2015 DKKm
Financial income		
Interest on financial assets measured at amortised cost	28	14
Interest on financial assets measured at fair value	45	-
Interest on receivables from associates	4	9
Dividends	109	181
Gains on financial assets at fair value through profit or loss	1,758	1,926
Gains on financial instruments included in the trading portfolio	222	158
Gains on available-for-sale financial assets	7	-
Exchange gains	436	653
Other financial income	7	13
Total financial income	**2,616**	**2,954**
Financial expenses		
Interest on financial liabilities measured at amortised cost	316	349
Interest component, discounted liabilities	12	14
Losses on financial assets measured at fair value	1,301	1,027
Lossess on financial instruments included in the trading portfolio	-	3
Loses on available-for-sale financial assets	-	39
Exchange losses	262	350
Other financial expenses	61	39
Total financial expenses	**1,952**	**1,821**
Net financials	**664**	**1,133**
Group eliminations financial income/expenses included above	**36**	**4**

NOTE 10

10. Financial items (Continued)

INVEST

	2016 DKKm	2015 DKKm
Financial items, Invest are specified as follows:		
Financial income		
Interest on financial assets measured at amortised cost	-	2
Interest on financial assets measured at fair value	75	4
Dividends	106	181
Gains on financial assets at fair value through profit or loss	1,409	1,224
Gains on financial instruments included in the trading portfolio	222	158
Exchange gains	171	198
Total financial income	**1,983**	**1,767**
Financial expenses		
Losses on financial assets at fair value through profit or loss	820	812
Losses on financial instruments included in the trading portfolio	-	3
Exchange losses	21	1
Other financial expenses	4	1
Total financial expenses	**845**	**817**
Net financials	**1,138**	**950**

LUNDBECKFONDEN VENTURES AND EMERGE

	2016 DKKm	2015 DKKm
Financial items, Lundbeckfonden Ventures and Emerge, are specified as follows:		
Financial income		
Interest on financial assets measured at fair value	6	-
Dividends	3	-
Gains on financial assets at fair value through profit or loss	349	702
Exchange gains	34	4
Total financial income	**392**	**706**
Financial expenses		
Losses on financial assets at fair value through profit or loss	481	215
Exchange losses	1	-
Total financial expenses	**482**	**215**
Net financials	**-90**	**491**

NOTE 10

10. Financial items (Continued)

SUBSIDIARIES

	2016 DKKm	2015 DKKm
Financial items, subsidiaries, are specified as follows:		
Financial income		
Interest on financial assets measured at amortised cost	28	12
Interest on receivables from associates	4	9
Gains on available-for-sale financial assets, incl. dividends	7	-
Exchange gains	231	451
Other financial income	7	13
Total financial income	**277**	**485**
Financial expenses		
Interest on financial liabilities measured at amortised cost	352	353
Losses on available-for-sale financial assets	-	39
Interest component, discounted liabilities	12	14
Exchange losses	240	349
Other financial expenses	57	38
Total financial expenses	**661**	**793**
Net financials	**-384**	**-308**

NOTE 11

11. Tax on profit for the year

	2016 DKKm	2015 DKKm
Current tax	1,401	881
Prior-year adjustment, current tax	-35	-42
Prior-year adjustment, deferred tax	21	6
Change of deferred tax for the year	-205	-1,779
Change of deferred tax as a result of changed income tax rates	3	117
Total tax for the year	**1,185**	**-817**
Tax for the year is composed of:		
Tax on profit for the year	1,181	-992
Tax on other comprehensive income	-5	163
Tax on other transactions in equity	9	12
Total tax for the year	**1,185**	**-817**

Explanation of the Group's effective tax rate relative to the Danish tax rate 2016	2016 DKKm	2016 %
Profit before tax	3,646	
Calculated tax, 22%	802	22
Tax effect of:		
Differences in income tax rates of foreign subsidiaries from Danish corporate income tax rate	543	15
Non-deductible/non-taxable items and other permanent differences	49	1
Non-capitalised tax losses etc. for the year	-38	-1
Research and development activities (tax credits)	-16	-
Prior-year tax adjustments etc., total effect on operations	-7	-
Non-deductible losses/non-taxable gains on shares and other equity investments	172	5
Change in valuation of net tax assets	-218	-6
Deduction for grants	-126	-3
Other taxes and adjustments	20	-1
Effective tax for the year	**1,181**	**32**

Explanation of the Group's effective tax rate relative to the Danish tax rate 2015	2015 DKKm	2015 %
Profit before tax	-5,758	
Calculated tax, 23.5%	-1,354	24
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	237	-4
Non-deductible/non-taxable items and other permanent differences	115	-2
Non-capitalised tax losses etc. for the year	72	-1
Research and development activities (tax credits)	-43	1
Non-deductible amortization of intangibles	342	-6
Effect of group transfer of activities	-74	1
Prior-year tax adjustments etc., total effect on operations	-19	0
Non-deductible losses/non-taxable gains on shares and other equity investments	-265	5
Change in valuation of net tax assets	-106	2
Deduction for grants	-62	1
Other taxes and adjustments	23	-
Change of deferred tax as a result of changed income tax rates	142	-2
Effective tax for the year	**-992**	**18**

NOTE 12

12. Grants for the year

	2016 DKKm	2015 DKKm
Travel grants and research abroad	6	8
Lundbeckfonden Running Costs	10	10
Lundbeckfonden Scholar	6	5
Lundbeckfonden PhD	63	66
Lundbeckfonden Postdoc	55	58
Lundbeckfonden Fellowships	50	60
Internationalisation programmes	11	2
Lundbeckfonden International Postdoc	6	8
Sabbatical leave for research	-	-
Visiting Professorship	4	2
Lundbeckfonden Scientific Meetings	1	-
Other grants	-	22
Personal grants	**212**	**241**
Talent and teaching prizes	1	1
Teaching	-	6
PhD cup	3	3
The Brain Prize	-	17
Prizes	**4**	**27**

	2016 DKKm	2015 DKKm
Bottom-up	173	111
Top-down	60	-
Ad hoc	5	-
Strategic grants	**238**	**111**
Scientific Teaching and Communication	39	44
Scientific Teaching and Communication grants	**39**	**44**
Grants for the year, gross	**493**	**423**
Descendants	-	-
Reversed grants/repayments	-21	-17
Grants for the year, net	**472**	**406**

NOTE 13

13. Intangible assets

	Goodwill	Intangible assets from acquisitions	Product rights	Patent and license rights	Other intangible assets	Ongoing projects	Total
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Cost at 1 January 2016	12,055	3,914	15,390	243	2,794	120	34,516
Currency translation	124	6	75	3	4	-	212
Reclassification / transfers	-	14	-	-	33	-95	-48
Addition on acquisitions	94	25	-	-	2	-	121
Adjustment of put options and contingent consideration	9	-	-	-	-	-	9
Additions	-	-	16	-	235	73	324
Disposals	-245	-35	-2	-	-36	-	-318
Cost at 31 December 2016	**12,037**	**3,924**	**15,479**	**246**	**3,032**	**98**	**34,816**
Amortisation and impairment at 1 January 2016	-742	-2,259	-10,256	-109	-2,109	-18	-15,493
Currency translation	5	-1	-20	-1	-5	-	-22
Amortisation	-	-383	-1,046	-22	-165	-	-1,616
Impairment	-	-	-130	-	-5	-2	-137
Disposals on divestments	-	17	-	-	1	-	18
Amortisation and impairment on disposals	-	-	2	-	74	-	76
Amortisation and impairment at 31 December 2016	**-737**	**-2,626**	**-11,450**	**-132**	**-2,209**	**-20**	**-17,174**
Carrying amount at 31 December 2016	**11,300**	**1,298**	**4,029**	**114**	**823**	**78**	**17,642**

NOTE 13

13. Intangible assets (Continued)

Except for goodwill and the Falck trademark in the amount of DKK 514m (DKK 514m in 2015), recognised in intangible assets from acquisitions, all intangible assets are deemed to have a definite life.

IMPAIRMENT TESTING GOODWILL

As required by IFRS, intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill acquired in a business combination are tested for impairment annually, irrespective of whether there is any indication of impairment.

Management has performed impairment tests of goodwill related to the investments in the subgroups; ALK (DKK 520m), Falck (DKK 6,181m) and Lundbeck (DKK 4,599m). The tests have been performed individually for each sub-group.

Methodology used for ALK and Lundbeck

Management has identified one CGU for respectively ALK and Lundbeck. The closing price according to exchange markets of ALK and Lundbeck are greater that the equity in those subgroups at 31 December 2016 and no further key assumptions are used in determining whether impairment of goodwill exits for ALK's and Lundbeck's main activities, respectively (no impairment in 2015).

Methodology used for Falck

Management has identified four cash-generating units (CGUs) in Falck; Emergency, Assistance, Healthcare and Safety Services. Goodwill is tested for impairment at least once a year, and more frequently if there are indications of impairment. In the impairment test, the discounted values of the future net cash flows of each of the cash-generating units (value in use) are compared with their carrying amounts. The impairment test performed identified no indication of impairment in any of the cash-generating units. In 2015, the impairment test performed in respect of Safety Services identified a need for an impairment of DKK 721m.

Growth rates are determined for each individual CGU. The growth rates applied for the terminal period are in line with, or lower than, the expected rate of inflation and assume no nominal growth. In connection with acquisitions and the related purchase price allocation, growth rates are assessed and determined based on factors relevant for the individual CGU.

Management has tested goodwill for impairment based on future expectations for the four business areas using the future net cash flows assumed (value in use) in the budget for 2017 and an update to the current performance of the strategic plan for 2018 to 2021, applying the following key assumptions:

Cash-generating unit	Compound Annual Growth Rate (CAGR) 2011-2016	Compound Annual Growth Rate (CAGR) 2016-2021	Growth rate in the terminal period	Discount rate after tax	Discount rate before tax
Emergency	7.2%	6.0%	3.5%	7.5%	9.0%
Assistance	4.0%	5.5%	2.5%	7.5%	9.0%
Healthcare	7.4%	7.2%	2.5%	7.5%	9.0%
Safety Services	-2.3%	6.5%	2.5%	9.0%	11.0%

The CAGR used in the impairment test in Emergency and Healthcare was lower that the CAGR for the past five years. For Assistance and Safety Services the CAGR was higher than the previous five years. The higher CAGR in Safety Services should be seen in light of the fact that Safety Services has seen a decline in revenue in 2015 and 2016 due to the downturn in the oil and gas industry.

The growth rates during the terminal period have been estimated at 3.5% in Emergency (3.5% in 2015) and 2.5% in the other CGUs (2.5% in 2015).

The risk-free interest rates used in the impairment test performed in 2016 were based on observed market data. For countries where long-term risk-free interest rates are not observable, the interest rate is estimated based on observations from other markets and/or long-term expectations expressed by major international financial institutions. The risk premium for the risk-free interest rate was calculated based on published equity and country risk premiums, reflecting the expected long-term market price of capital. The total interest rate thus reflected the long-term interest rate applicable to the Group's investments in the individual markets. The discount rate for

NOTE 13

13. Intangible assets (Continued)

Safety Services has been set at 11% before tax (11% in 2015) and at 9% for other CGUs (8% in 2015). The change in the discount rates compared to 2015 was related to a higher market premium.

Sensitivity tests have been performed to determine the lowest budget and terminal period growth rates and/or highest discount rates that can be applied without resulting in impairment loss. The sensitivity test of the maximum decline in growth rate during the prognosis period assumes a year-on-year decline in the nominal growth rate, thereby estimating the accumulated effect of a negative change in the prognosis period. The sensitivity tests have been completed assuming all other assumptions are equal, as it is relevant for assess the sensitivity to a decline growth as this might be impacted by other changes independently of changes in the discount rate. Sensitivity analysis has been performed to determine impairment of goodwill in the event of a change in the growth rate during the terminal period and the discount rate. The sensitivity analysis did not identify potential impairment.

IMPAIRMENT TESTING OTHER INTANGIBLE ASSETS

Other intangible assets in use with definite useful lives are tested for impairment if there is any indication of impairment.

2016 testing outcome

For 2016, the impairment test in relation to Lundbeck resulted in an impairment loss of DKK 140m relating to idalopirdine as a result of unfavourable study results. Of this amount, DKK 130m relating to the idalopirdine product rights was recognised in research and development costs and DKK 7m relating to a few other assets was recognised in cost of sales.

2015 testing outcome

In 2015, Lundbeck recognised an impairment loss of DKK 5,226m relating to a number of intangible assets. Of this amount, DKK 4,847m relating to the Rexulti® product rights was recognised in research and development costs. At 31 December 2015, the remaining value of the Rexulti® product rights was DKK 0m. In addition, the products to Selincro® were written down, and an impairment loss was recognised in the costs of sales in the amount of DKK 50m and in research and development costs in the amount of DKK 79m. The remaining impaired intangible assets consisted of various minor assets, for which the impairment loss was recognised mainly in research and development costs. The recoverable amounts were calculated on the basis of Lundbeck Management's re-assessed estimate of the value in use of the assets. The re-assessment was based on contractual circumstances and generally eroded market conditions, mainly in Europe, affecting the outlook for market access and pricing conditions.

In addition, impairment losses of DKK 99m relating to other rights and DKK 18m relating to projects in progress were recognised. The impairment loss was recognised in cost of sales in the amount of DKK 36m, in sales and distribution costs in the amount of DKK 29m, in administrative expenses in the amount of DKK 27m and in research and development costs in the amount of DKK 25m.

IMPAIRMENT TESTING TOTAL

The impairment losses per intangible asset category can be specified as follows:

Impairment loss per intangible asset category	2016 DKKm	2015 DKKm
Goodwill	-	721
Products rights	130	5,109
Other intangibles assets	7	117
Impairment loss total	**137**	**5,947**

The impairment loss has been recognised in the income statement as follows:

Impairment loss recognised in the income statement	2016 DKKm	2015 DKKm
Cost of sales	7	86
Research and development costs	130	96
Sales and distributions costs	-	29
Administrative expenses	-	27
Special items	-	5,709
Impairment loss total	**137**	**5,947**

NOTE 13

13. Intangible assets (Continued)

	Goodwill	Intangible assets from acquisitions	Product rights	Patent and license rights	Other intangible assets	Ongoing projects	Total
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Cost at 1 January 2015	11,404	3,701	12,311	235	2,556	127	30,334
Currency translation	426	29	696	6	17	1	1,175
Reclassification / transfers	-	-	-	-	162	-95	67
Addition on acquisitions	247	188	-	-	1	-	436
Adjustment of put options and contingent consideration	-22	-	-	7	-	-	-15
Additions	-	-	2,615	1	216	87	2,919
Disposals	-	-4	-232	-6	-158	-	-400
Cost at 31 December 2015	**12,055**	**3,914**	**15,390**	**243**	**2,794**	**120**	**34,516**
Amortisation and impairment at 1 January 2015	-20	-1,750	-3,976	-90	-1,988	-	-7,824
Currency translation	-1	-9	-280	-2	-4	-	-296
Amortisation	-	-504	-1,123	-22	-171	-	-1,820
Impairment	-721	-	-5,109	-	-99	-18	-5,947
Amortisation and impairment on disposals	-	4	232	5	153	-	394
Amortisation and impairment at 31 December 2015	**-742**	**-2,259**	**-10,256**	**-109**	**-2,109**	**-18**	**-15,493**
Carrying amount at 31 December 2015	**11,313**	**1,655**	**5,134**	**134**	**685**	**102**	**19,023**

NOTE 14

14. Property, plant and equipment

	Land and buildings DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment DKKm	Leasehold improvements DKKm	Prepayments and assets under construction DKKm	Total DKKm
Cost at 1 January 2016	6,036	2,447	3,286	182	521	12,472
Currency translation	-13	4	31	-9	2	15
Reclassification / transfers	120	94	18	-	-232	-
Addition on acquisitions	-	-	4	-	-	4
Additions	42	47	461	74	273	897
Disposals	-122	-39	-320	-1	-	-482
Disposals on divestments	-9	-	-287	-7	-	-303
Cost at 31 December 2016	**6,054**	**2,553**	**3,193**	**239**	**564**	**12,603**
Depreciation and impairment at 1 January 2016	-3,088	-1,526	-1,674	-53	-6	-6,347
Currency translation	-17	-	12	2	-	-3
Reclassification / transfers	-1	-1	2	-	-	-
Depreciation	-170	-163	-461	-25	-	-819
Impairment for the year	-27	-30	-17	-	-	-74
Depreciation and impairment on disposals	68	37	198	9	-	312
Diposals on divestments	1	-	151	1	-	153
Depreciation and impairment at 31 December 2016	**-3,234**	**-1,683**	**-1,789**	**-66**	**-6**	**-6,778**
Carrying amount at 31 December 2016	**2,820**	**870**	**1,404**	**173**	**558**	**5,825**
In the carrying amount financial leasing is included in the amount of	107		257			364
Carrying amount of property, plant and equipment provided as loan collateral	1,858		-			1,858

Land and buildings in Denmark include buildings on land leased from Scion DTU A/S, Horsholm. The lease period for this land is unlimited.

NOTE 14

14. Property, plant and equipment (Continued)

	Land and buildings DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment DKKm	Leasehold improvements DKKm	Prepayments and assets under construction DKKm	Total DKKm
Cost at 1 January 2015	5,898	2,294	2,753	125	732	11,802
Currency translation	42	31	-21	-4	20	68
Reclassification / transfers	199	180	60	-	-506	-67
Addition on acquisitions	-	-	159	5	-	164
Additions	73	99	548	56	275	1,051
Disposals	-176	-157	-213	-	-	-546
Cost at 31 December 2015	**6,036**	**2,447**	**3,286**	**182**	**521**	**12,472**
Depreciation and impairment at 1 January 2015	-2,627	-1,457	-1,335	-39	-	-5,458
Currency translation	-37	-15	30	6	-	-16
Depreciation	-201	-164	-462	-19	-	-846
Impairment for the year	-337	-44	-72	-1	-6	-460
Depreciation and impairment on disposals	114	154	165	-	-	433
Depreciation and impairment at 31 December 2015	**-3,088**	**-1,526**	**-1,674**	**-53**	**-6**	**-6,347**
Carrying amount at 31 December 2015	**2,948**	**921**	**1,612**	**129**	**515**	**6,125**
In the carrying amount financial leasing is included in the amount of	126		265			391
Carrying amount of property, plant and equipment provided as loan collateral	1,991		-			1,991

Property, plant and equipment in use with definite useful lives are tested for impairment if there is any indication of impairment. An impairment loss of DKK 434m relating to property, plant and equipment was recognised in cost of sales in the amount of DKK 285m, in sales and distribution costs in the amount of DKK 11m, in administrative expenses in the amount of DKK 37m and in research and development costs in the amount of DKK 101m.

NOTE 15

15. Financial assets and financial risks

The Group's financial investments classified as financial assets at fair value through profit or loss primarily relate to Invest's investments. These investments are made on the basis of an investment policy approved by the Board of Trustees. The strategy aims for an appropriate diversification of investments on different asset classes and geographical markets in order to achieve an appropriate diversification of interest rate, exchange rate, credit and equity risks on the financial investments. The purpose is to reduce the risk of losses but also to retain the prospect of gaining a long-term return on the investments.

CREDIT RISKS

Credit risks concerning the Group's financial investments primarily relate to investment in bonds and other unlisted funds investing in loans to businesses.

In order to limit the credit risk, a large proportion of this asset class has been invested in Danish government and mortgage bonds with a high credit rating. To achieve a higher return, the Group also invests in corporate bonds.

EQUITY RISKS

Equity risks concerns the Group's holding of listed and unlisted shares, including private equity funds as part of the Group's investment operations. Most of these investments are placed in listed shares.

To limit the risk of losses on these shares, they are diversified on different geographical regions and sectors in accordance with the applicable investment policy. Derivative financial instruments are used to manage the equity risk.

Other things being equal, a 10% decrease/increase in equity prices would reduce/increase profits by DKK 1,063m and DKK 868m respectively (reduce by DKK 938m and increase by DKK 959m in 2015).

For further information on risks concerning the Group's financial investments, see Note 19: *Cash resources* and Note 29: *Financial risks and financial instruments*.

NOTE 15

15. Financial assets and financial risks (Continued)

	Financial assets at fair value through profit or loss			Other financial assets			
	Invest	Lundbeckfonden Ventures and Emerge	Total	Available-for-sale financial assets	Other receivables	Receivables from associates	Total
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Carrying amount at 1 January 2016	13,707	2,173	15,880	68	127	21	216
Reclassification to securities, current assets, 1 January 2016	-34	-	-34	-	-	-	-
Carrying amount at 1 January 2016, adjusted	13,673	2,173	15,846	68	127	21	216
Additions	2,590	458	3,048	2	26	5	33
Disposals	-3,673	-71	-3,744	-40	-5	-	-45
Value adjustments, year-end	761	-135	626	18	-	-	18
Reclassification to securities, current assets	-68	-	-68	-	-	-	-
Carrying amount at 31 December 2016	**13,283**	**2,425**	**15,708**	**48**	**148**	**26**	**222**
Carrying amount at 1 January 2015	13,496	1,452	14,948	71	111	72	254
Reclassification to securities, current assets, 1 January 2015	-251	-	-251	-	-	-	-
Carrying amount at 1 January 2015, adjusted	13,245	1,452	14,697	71	111	72	254
Additions	6,602	402	7,004	5	21	-	26
Disposals	-6,404	-232	-6,636	-25	-7	-51	-83
Value adjustments, year-end	13	551	564	17	2	-	19
Reclassification to securities, current assets	217	-	217	-	-	-	-
Carrying amount at 31 December 2015	**13,673**	**2,173**	**15,846**	**68**	**127**	**21**	**216**

NOTE 15

15. Financial assets and financial risks (Continued)

Fair value hierarchy for financial assets and financial liabilities, measured at fair value
Level 1 includes financial assets for which the fair value is measured based on quoted prices (unadjusted) in active markets for identical assets. Level 2 includes financial assets and financial liabilities for which the fair value is measured on the basis of directly or indirectly observable inputs other than the quoted prices included in level 1. Level 3 includes financial assets for which the fair value is measured based on valuation methods which include inputs not based on observable market data.

The requirement for reclassifications between the levels are evaluated continually during the year. For the individual financial assets and liabilities, it is evaluated whether the most critical input variable in connection with determination of fair value have changed from unobservable to observable or the other way around. If this is the case, the asset or liability is reclassified from the recent relevant level to new level from the time where the change in input variable occur.

Level 3 liabilities are determined on the basis of profit before exercise multiplied by an already agreed multiple typically less net debt in the relevant companies, see Note 23.2.

Financial assets and liabilities measured at fair value 31 December 2016	Level 1 DKKm	Level 2 DKKm	Level 3 DKKm
Financial assets			
Financial assets at fair value through profit or loss			
Danish mortgage and government bonds	3,154	-	-
Credit bonds	1,501	-	130
Listed equities	7,253	-	-
Property and infrastructure	364	-	198
Lundbeckfonden Ventures and Emerge	554	-	1,871
Private equity funds	-	289	1,061
Other unlisted funds	-	56	87
Available-for-sale financial assets	2	-	46
Derivative financial instruments	-	40	-
Financial assets at fair value	**12,828**	**385**	**3,393**
Financial liabilities			
Liabilities relating to acquisitions and non-controlling interests			885
Derivative financial instruments	-	450	-
Financial liabilities at fair value	**-**	**450**	**885**

NOTE 15

15. Financial assets and financial risks (Continued)

Applied valuation methods for the determination of fair value of the majority of the separate categories above are as follows:

	Valuation method used	Used unobservable inputs	Sensitivity in fair value in case of changes in unobservable inputs
Danish mortgage and government bonds	Closing prices per exchange markets	N/A	N/A
Credit bonds	Closing prices per exchange markets	Expected discounted cash flow	N/A
Listed equities	Closing prices per exchange markets	N/A	N/A
Property and infrastructure	Closing prices per exchange markets or the capitalisation model	Required rates on return 5.0-5.75% or cost if under construction	If required rate of return is reduced by 0.25pp the fair value will be increased by DKK 32m
Lundbeckfonden Ventures and Emerge	Closing prices per exchange markets for level 1 and price of recent transactions for level 3	Capital injections made at different prices	N/A
Private equity funds and other unlisted funds	Closing prices per exchange markets and valuation methods based on International Private Equity and Venture Capital Valuation Guidance	Trading multiples or expected discounted cash flow	If closing prices according to exchange markets for a peer group increase by 1% the fair value will be increased by DKK 10m
Derivative financial instruments	Fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves. Fair value of foreign exchange contracts is determined using forward exchange rate at the balance sheet date. Fair value for share and index options is based on closing prices according to exchange markets	N/A	N/A

NOTE 15

15. Financial assets and financial risks (Continued)

Financial assets and liabilities measured at fair value 31 December 2015	Level 1 DKKm	Level 2 DKKm	Level 3 DKKm
Financial assets			
Financial assets at fair value through profit or loss			
Danish mortgage and government bonds	2,568	-	-
Credit bonds	1,858	-	232
Listed equities	7,494	-	-
Property and infrastructure	391	-	163
Lundbeckfonden Ventures and Emerge	914	-	1,259
Private equity funds	-	234	1,068
Other unlisted funds	-	43	218
Available-for-sale financial assets	24	-	44
Derivative financial instruments	-	92	-
Financial assets at fair value	**13,249**	**369**	**2,984**
Financial liabilities			
Liabilities relating to acquisitions and non-controlling interests			937
Derivative financial instruments	-	151	-
Financial liabilities at fair value	**-**	**151**	**937**

	2016 DKKm	2015 DKKm
Financial assets measured at fair value according to level 3		
Carrying amount at 1 January	2,984	2,137
Additions	529	728
Disposals	-262	-260
Reclassification, from level 3 to level 1 in connection with IPO's	-138	-201
Fair value adjustment	280	580
Carrying amount at 31 December	**3,393**	**2,984**

NOTE 16

16. Deferred tax

Temporary differences between the carrying amount and the tax base

	Balance at 1 January DKKm	Currency translation DKKm	Adjustment of deferred tax 1 January DKKm	Addition on acquisition of businesses DKKm	Movements during the year DKKm	Balance at 31 December DKKm
2016						
Non-current assets	1,985	-32	-390	5	-400	1,168
Current assets	-295	16	-117	-	-11	-407
Other	91	-8	426	-	319	828
Provisions in subsidiaries	-1,558	-166	-40	-	370	-1,394
Tax loss carry-forwards etc.	-3,536	-38	11	-	-1,919	-5,482
Total	**-3,313**	**-228**	**-110**	**5**	**-1,641**	**-5,287**
Deferred (tax assets)/tax liabilities	-849	-37	-20	1	-277	-1,182
Research and development activities (tax credits)	-81	-7	-1	-	-43	-132
Deferred (tax assets)/tax liabilities	**-930**	**-44**	**-21**	**1**	**-320**	**-1,314**
2015						
Non-current assets	7,980	44	96	59	-6,194	1,985
Current assets	-264	1	-48	-	16	-295
Other	-23	-7	-52	-	173	91
Provisions in subsidiaries	-1,325	-5	167	-	-395	-1,558
Tax loss carryforwards etc.	-1,885	-247	-34	-	-1,370	-3,536
Total	**4,483**	**-214**	**129**	**59**	**-7,770**	**-3,313**
Deferred (tax assets)/tax liabilities	948	-77	25	13	-1,758	-849
Research and development activities (tax credits)	-145	-34	-	-	98	-81
Deferred (tax assets)/tax liabilities	**803**	**-111**	**25**	**13**	**-1,660**	**-930**

NOTE 16-17

16. Deferred tax (Continued)

	2016 DKKm	2015 DKKm
Deferred tax assets concern the following items:		
Non-current assets	509	546
Current assets	160	152
Provisions and payables	69	151
Other	328	688
Provisions in subsidiaries	310	46
Tax value of tax loss carryforwards etc.	1,218	907
Research and development activities (tax credits)	132	81
Offset within legal tax entities and jurisdictions	-649	-930
Total	**2,077**	**1,641**
Deferred tax liabilities concern the following items:		
Non-current assets	919	1,148
Current assets	33	55
Provisions and payables	57	54
Other	403	384
Offset within legal tax entities and jurisdictions	-649	-930
Total	**763**	**711**
Deferred tax, net	**1,314**	**930**

Of the recognised deferred tax assets, DKK 1,221m (DKK 988m in 2015) related to tax losses and research and development incentives to be carried forward. The utilisation of tax loss carryforwards is subject to the groups generating future positive taxable income against which the losses may be offset.

Deferred tax liabilities include a provision of DKK 365m (DKK 347m in 2015) to cover uncertain tax positions not yet settled with local tax authorities. The provision is based on Management's judgement of the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties. The actual obligation may differ from the provision made as it depends on the outcome of litigations and settlements with the relevant tax authorities.

The recognition of tax losses is based on estimates of the expected taxable income in the loss-making entities, supported by reports by external analysts, when available.

	2016 DKKm	2015 DKKm
Unrecognised deferred tax assets:		
Unrecognised deferred tax assets at 1 January	394	503
Additions	8	9
Utilised	-213	-118
Unrecognised deferred tax assets at 31 December	**189**	**394**

Unrecognised deferred tax assets primarily relate to net operating losses and research and developments incentives.

17. Inventories

	2016 DKKm	2015 DKKm
Raw materials and consumables	463	432
Work in progress	658	609
Manufactured goods and goods for resale	1,176	1,804
Total	**2,297**	**2,845**
Indirect costs of production	553	530
Impairment loss for the year	71	115
Inventories calculated at net realisable value	2	5
The total cost of goods sold is included in cost of sales in the amount of	3,422	4,254

NOTE 18

18. Trade receivables and other receivables

	2016 DKKm	2015 DKKm
Trade receivables and other receivables		
Trade receivables	5,945	5,720
Other receivables	599	689
Derivative financial instruments	40	92
Receivables from associates	47	41
Prepayments	385	359
Total	**7,016**	**6,901**
Trade receivables		
Receivables	6,445	6,208
Impairment	-500	-488
Total	**5,945**	**5,720**
Due dates of trade receivables not written-down		
Not due	4,244	4,080
Overdue by more than 1 month and up to 6 months	1,580	1,481
Overdue by more than 6 month and up to 12 months	35	92
Overdue by more than 12 months	86	67
Total	**5,945**	**5,720**

	2016 DKKm	2015 DKKm
Development in writedowns of trade receivables		
Writedowns at 1 January	488	362
Actual writedowns	-433	-256
Reversed, unrealised writedowns	-1	-5
Change in writedowns	446	387
Writedowns at 31 December	**500**	**488**
Specification of other receivables by due date		
Not due	530	669
Overdue by up to 3 months	60	14
Overdue by more than 3 month and up to 6 months	3	2
Overdue by more than 6 month and up to 12 months	4	1
Overdue by more than 12 months	2	3
Total	**599**	**689**

OTHER RECEIVABLES

No writedowns were made as no losses are expected on other receivables.

CREDIT RISKS

The Groups products are sold primarily to distributors of pharmaceuticals, pharmacies and hospitals. Services are sold to public authorities, other large customers and small subscription receivables from individual customers.

No single customer contributed 10% or more to total revenue. The Group has no significant reliance on specific on specific customers. Internal procedures for evaluating specific credit risks from new customer relationship and changes to the risk profile of existing relationships ensure that the risk of loss is reduced to an acceptable level.

NOTE 18-19

18. Trade receivables and other receivables (Continued)

Fluctuations in currency exchange rates, including the impact from currency devaluations, represent and inherent risk for the Group as we also operate in volatile economies. The Group monitors and acts to safeguard receivables at an acceptable level.

MARKET RISKS

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

Moreover, the growing number of market access hurdles set by local authorities is impairing the earnings potential of the Groups new generation of pharmaceuticals in the finite period of exclusivity. The Group expects that these conditions will continue in 2017 and 2018.

The presence in the ambulance services market in the United States generally entails a higher credit risk exposure because payment for ambulance service is collected directly from the patient transported if the patient does not have health insurance or coverage under a public insurance scheme.

19. Cash resources

	2016 DKKm	2015 DKKm
Fixed-term deposits	303	137
Other cash resources	3,870	2,532
Cash and bank balances at 31 December	**4,173**	**2,669**
Securities with a maturity of less than 3 months	634	472
Securities with a maturity of more than 3 months	174	126
Securities at 31 December	**808**	**598**
Cash, bank balances and securities at 31 December	**4,981**	**3,267**

DKK 141m (DKK 115m in 2015) of the Group's securities are held in a Swedish subsidiary which is subject to Swedish insurance regulations and therefore subject to solvency requirements.

Securities are classified as financial assets measured at fair value through profit or loss.

LIQUIDITY AND CREDIT RISK AND CAPITAL STRUCTURE

With the present capital structure, the Group is well-consolidated. The Group aims to retain adequate cash resources to support business development and flexibility in case of changes to the market situation, potential acquisition activities and product in licensing opportunities. This is achieved through a combination of liquidity management, ultra-liquid assets and guaranteed and unguaranteed credit facilities. The capital structure is considered appropriate relative to the Group's strategic plans.

The credit risk of cash, bank balances and derivatives (forward exchange contracts, currency options, interest-rate options and share options) is limited because the Group only deals with banks with a high credit rating. To further limit the risk of loss, internal limits have been defined for the credit exposure accepted towards the banks with which the Group collaborates. Pursuant to the Group's policies, the credit lines are presented to the Board of Trustees and Board of Directors in sub-groups, for approval. Furthermore, the Group aims to maintain counterparty diversification to avoid material concentration at individual counterparties. The Group also uses collateral agreements (e.g. ISDA and GRMA) and exchange of collateral with counterparties with which the Group has hedging business.

NOTE 20-21

20. Capital base

Lundbeckfonden's capital base is DKK 2,965m. The present charter of Lundbeckfonden was approved by the Board of Trustees on 12 April 2016. The Danish Business Authority acts as supervisory authority.

Of the Foundation's profit before tax less non-distributed earnings in the subsidiaries and associates, at least 20% must first be allocated to the capital base.

Changes in the capital base	Note	2016 DKKm	2015 DKKm
Capital base at 1 January 2012 (2011 in 2015)		2,225	2,050
2011 Capital base increased by		-	175
2012 Capital base increased by		45	45
2013 Capital base increased by		253	253
2014 Capital base increased by		205	205
2015 Capital base increased by		160	160
2016 Capital base increased by		77	-
Capital base at 31 December 2016 (2015 in 2015)		**2,965**	**2,888**
Grants for the year, net	12	**472**	**406**

21. Other reserves

	2016 DKKm	2015 DKKm
Reserve for future grants		
Balance at 1 January	750	750
Grants for the year	-472	-406
Transferred to provision for future grants	472	406
Balance at 31 December	**750**	**750**
Currency translation reserve		
Balance at 1 January	967	331
Currency translation for the year concerning foreign subsidiaries and additions to net investments in foreign subsidiaries	85	789
Tax in relation hereto	-62	-153
Balance at 31 December	**990**	**967**
Hedging reserve		
Balance at 1 January	-79	-63
Adjustment, deferred exchange gains/losses, hedging, recognised in other comprehensive income	-304	-103
Exchange gains/losses, hedging, transferred to revenue	15	167
Exchange gains/losses, hedging, transferred to the balance sheet	3	-87
Exchange gains/losses, trading, transferred to net financials (transferred from hedging)	-	5
Value adjustment of interest hedging instruments	9	-1
Tax in relation hereto	62	3
Balance at 31 December	**-294**	**-79**

NOTE 21-22

21. Other reserves (Continued)

	2016 DKKm	2015 DKKm
Reserve for fair value adjustment of available-for-sale financial assets		
Fair value adjustment at 1 January	-11	-79
Fair value adjustment	11	79
Tax in relation hereto	-	-11
Fair value adjustment at 31 December	**-**	**-11**
Other reserves at 31 December	**1,446**	**1,627**

22. Non-controlling interests

	2016 DKKm	2015 DKKm
Non-controlling interests at 1 January	3,249	4,669
Share of profit/loss for the year	565	-1,760
Share of other comprehensive income for the year	-72	194
Impact by incentive programmes	5	36
Dividend	-52	-155
Buyback of shares from non-controlling interests	-47	-7
Change in non-controlling interests	-162	145
Adjustment of provision for acquisition of non-controlling interests	-7	120
Tax on other transactions in equity	3	7
Non-controlling interests at 31 December	**3,482**	**3,249**

Lundbeckfonden's subsidiaries with significant non-controlling interests include the following:

	Non-controlling interests	Percentage of votes	Registered office
H. Lundbeck A/S	30.5%	69.5%	Copenhagen
ALK-Abelló A/S	59.7%	67.2%	Horsholm
Falck A/S	42.6%	57.4%	Copenhagen

NOTE 22

22. Non-controlling interests (Continued)

The financial information set out below are aggregated for the sub-groups:

	Lundbeck		ALK		Falck	
	2016	2015	2016	2015	2016	2015
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Statement of comprehensive income						
Revenue	15,634	14,594	3,005	2,569	15,964	15,227
Profit (loss) for the year	1,211	-5,694	270	344	34	-586
Total comprehensive income	959	-4,855	267	338	49	-720
Profit (loss) for the year attributable to non-controlling interests	-368	-1,731	-161	205	39	-233
Balance sheet						
Non-current assets	12,686	13,665	2,848	2,716	14,021	14,609
Current assets	7,524	7,660	1,951	1,536	4,140	3,730
Non-current liabilities	2,740	4,792	1,117	636	7,182	7,928
Current liabilities	7,776	7,748	807	919	5,046	4,478
Equity	9,694	8,785	2,875	2,697	5,933	5,933
Carrying amount of non-controlling interests of equity	2,956	2,671	1,685	1,610	2,760	2,758
Statement of cash flows						
Cash flows from operating activities	3,126	197	405	183	602	828
Cash flows from investing activities	-337	-2,842	-204	-165	-231	-1,008
Cash flows from financing activities	-2,006	501	39	298	-109	-142
Change in cash and cash equivalents	783	-2,144	240	316	262	-322
Dividends paid to the non-controlling interests during the year	-	-	29	29	23	126

In Falck Group, there is a non-controlling interests' ownership in Falck Healthcare sub-group of 40% which is included in figures for non-controlling interests above.

NOTE 23

23. Provisions

	Note	2016 DKKm	2015 DKKm
Provisions can be specified as follows:			
Pensions and similar obligations	23.1	562	533
Liabilities relating to acquisitions and non-controlling interests	23.2	885	937
Other provisions	23.3	1,139	1,568
Total		**2,586**	**3,038**
Provisions break down as follows:			
Non-current		1,378	1,824
Current		1,208	1,214
Total		**2,586**	**3,038**

23.1 PENSIONS AND SIMILAR OBLIGATIONS

DEFINED CONTRIBUTION PLANS

In defined contribution plans, the employer is obliged to pay a certain contribution to a pension fund or the like but bears no risks regarding the future development in interest, inflation, mortality, disability rates etc. regarding the amount to be paid to the employee.

The cost of defined contribution plans, representing contributions to the plans, amounted to DKK 713m in 2016 (DKK 744m in 2015).

DEFINED BENEFIT PLANS

In defined benefit plans the employer is obliged to pay a certain payment when a pre-agreed event occurs. The employer bears the risks regarding future developments in interest, inflation, mortality, disability rates etc. regarding the amount to be paid to the employee.

The Group has defined benefit plans in a few countries. The most important plans comprise employees in Germany, The Netherlands, Switzerland and the UK.

	2016 DKKm	2015 DKKm
Pensions and similar obligations		
Present value of funded pension obligations	481	500
Fair value of plan assets	-397	-404
Funded pension obligations, net	**84**	**96**
Present value of unfunded pension obligations	406	364
Provisions for pensions at 31 December	**490**	**460**
Other pension-like obligations	74	75
Provisions for pensions and pension-like obligations at 31 December	**564**	**535**
Pension assets/liabilities and similar obligations break down as follows:		
Non-current liabilities	558	529
Current liabilities	4	4
Pension obligations	**562**	**533**
Plan assets, recognised in other (receivables) / liabilities	2	2
Pension assets/liabilities and similar obligations 31 December, net	**564**	**535**

The actuarial assumptions applied in calculating pension obligations concerning the defined benefit plans vary from one country to the next and are based on local economic and social conditions. The following assumptions have been used:

	2016	2015
Discount rate	1.4%-2.75%	2.2%-3.85%
Inflation rate	1.9%-2.9%	1.9%-2.9%
Pay rate increase	2.4%-2.5%	2.4%-4.0%
Pension increase	1.9%-3.2%	1.9%-3.0%
Age-weighted staff resignation rate	0%-8.0%	0%-8.0%
Expected return on plan assets	2.2%-2.75%	2.3%-3.85%

NOTE 23

23. Provisions (Continued)

23.1 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

Discounted rate and inflation rate are the most significant assumptions used in the calculation of the obligation for defined benefit plans. An increase in the discounted rate of 0.25 of a percentage point would result in a decrease in the obligation of approximately DKK 77m (DKK 69m in 2015) and vice versa. An increase in the inflations rate of 0.25 percentage point would result in an increase in the obligation of approximately DKK 14m (DKK 13m in 2015) and vice versa. The sensitivity analysis indicates how the development in the obligation would be as a result of a change in the individual assumptions. However, the assumptions will most likely be correlated and consequently result in a different obligation.

	2016 % distribution	2015 % distribution
The fair value of the plan assets breaks down as follows:		
Shares	11	12
Bonds	12	15
Property	4	5
Insurance contracts	48	51
Other assets	25	17
Total	**100**	**100**

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

	2016 DKKm	2015 DKKm
Change in present value of funded pension obligations		
Present value of funded pension obligations at 1 January	500	477
Addition on acquisitions	18	-
Currency translation	-39	29
Past service costs	-2	-
Pension expenses	9	12
Interest expenses relating to the obligations	14	15
Experience and assumptions adjustments	31	-7
Disbursements	-28	-15
Employee contributions	4	2
Settlements	-21	-8
Curtailments	-5	-5
Present value of funded pension obligations at 31 December	**481**	**500**
Change in fair value of plan assets		
Fair value of plan assets at 1 January	404	366
Addition on acquisitions	22	-
Currency translation	-31	21
Interest income on plan assets	10	12
Experience adjustments	14	3
Contributions	16	24
Disbursements	-15	-16
Employee contributions	2	2
Administration fee	-1	-2
Settlements	-21	-6
Other adjustments	-3	-
Fair value of plan assets at 31 December	**397**	**404**
Realised return on plan assets	**17**	**10**

NOTE 23

23. Provisions (Continued)

23.1 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

	2016 DKKm	2015 DKKm
Change in present value of unfunded pension obligations		
Present value of unfunded pension obligations at 1 January	364	337
Currency translation	-2	1
Pension expenses	9	11
Interest expenses relating to the obligations	8	9
Experience and assumptions adjustments	43	-2
Disbursements	-7	-7
Plan changes	-	15
Curtailments	-9	-
Present value of unfunded pension obligations at 31 December	**406**	**364**

	2016 DKKm	2015 DKKm
Specification of expenses recognised in the income statement		
Pension expenses	16	19
Interest expenses relating to the obligations	22	24
Curtailments	-14	-5
Expected return on plan assets	-10	-12
Actuarial (gains)/losses	1	2
Total expenses recognised	**15**	**28**
Specification of amount recognised in the statement of comprehensive income		
Actuarial (gains)/losses	61	-13
Total expenses recognised	**61**	**-13**

The expected contribution for 2016 for the defined benefit plans is DKK 31m (DKK 32m in 2015).

OTHER OBLIGATIONS OF A RETIREMENT BENEFIT NATURE

An obligation of DKK 74m (DKK 75m in 2015) is recognised to cover other obligations of a retirement benefit nature, which primarily include termination benefits in a number of subsidiaries. The benefit payments are conditional upon specified requirements being met. The benefit payments are conditional upon specified requirements being met.

NOTE 23

23. Provisions (Continued)

23.2 LIABILITIES RELATING TO ACQUISITIONS AND NON-CONTROLLING INTERESTS

	2016 DKKm	2015 DKKm
Liabilities:		
Liabilities concerning acquisition of non-controlling interests	821	837
Payable considerations and contingent consideration	64	100
Liabilities at 31 December	**885**	**937**
Non-current portion:		
Liabilities concerning acquisition of non-controlling interests	473	765
Payable considerations and contingent consideration	47	62
Non-current portion at 31 December	**520**	**827**
Current portion:		
Liabilities concerning acquisition of non-controlling interests	348	72
Payable considerations and contingent consideration	17	38
Current portion at 31 December	**365**	**110**
Liabilities concerning acquisition of non-controlling interests		
Liabilities at 1 January	837	1.077
Currency translation	17	45
Additions on acquisitions	6	45
Additions on disposal of non-controlling interests	-9	-
Disposals on acquisition of non-controlling interests	-28	-19
Interest element on discounted liabilities	7	9
Dividends paid and other adjustments	-34	-11
Adjustments recognised in goodwill relating to business combinations before 1 January 2010	8	-27
Adjustments and interest recognised in equity relating to business combinations after 1 January 2010	17	-282
Liabilities concerning acquisition of non-controlling interests at 31 December	**821**	**837**

	2016 DKKm	2015 DKKm
Classification of liabilities for acquisition of non-controlling interests by expected maturity		
Within 1 year	348	72
Between 1 and 5 years	386	765
More than 5 years	87	-
Liabilities concerning acquisition of non-controlling interests at 31 December	**821**	**837**
Outstanding consideration and earn-outs		
Liabilities at 1 January	100	83
Currency translation	2	3
Additions through acquisitions	-	36
Reassessment of previously recognised earn-outs	-	3
Payments and other disposals	-38	-25
Outstanding considerations and earn-outs at 31 December	**64**	**100**
Classification of outstanding consideration and earn-outs by expected maturity		
Within 1 year	17	38
Between 1 and 5 years	47	62
Liabilities concerning acquisition of non-controlling interests at 31 December	**64**	**100**

In connection with Falck assuming an obligation to acquire non-controlling interests, a concurrent right was obtained for Falck to acquire the same non-controlling interests in the agreed period. The consideration for obligations and rights to acquire non-controlling interests is determined on the basis of profit before exercise multiplied by an already agreed multiple typically less net debt in the relevant companies. On recognition in the balance sheet, this liability is made up at on the basis of earnings and net debt at the time when the non-controlling interests are expected to exercise their right to sell their shares to Falck. The calculated liability typically assumes an increase in earnings and a decrease in net debt in the relevant companies as compared with the value recognised in the financial statements.

NOTE 23-24

23. Provisions (Continued)

23.3 OTHER PROVISIONS

	2016 DKKm	2015 DKKm
Other provisions at 1 January	1,568	663
Currency translation	9	27
Addition on acquisitions	-	66
Provisions charged	437	1,446
Provisions used	-749	-558
Unused provisions reversed	-126	-76
Total	**1,139**	**1,568**
Other provisions at 31 December can be specified as follows:		
Non-current provisions	300	468
Current provisions	839	1,100
Total	**1,139**	**1,568**

At 31 December 2016, Other provision primarily related to Lundbeck's restructuring programmes initiated in 2015 and the Groups provisions related to legal disputes, onerous contracts and re-turns.

At 31 December 2015, Other provisions primarily related to Lundbeck's restructuring programmes initiated in 2015 and the Groups provision related to legal disputes

24. Mortgage, bank, leasing and repo debt

	Note	2016 DKKm	2015 DKKm
Mortgage, bank, leasing and repo debt can be specified as follows:			
Mortgage debt	24.1	2,422	2,817
Bank and leasing debt	24.2	6,831	8,545
Repo debt	24.3	634	367
Total		**9,887**	**11,729**
Can be specified as follow:			
Non-current debt to financial institutions – subsidiaries		8,024	10,339
Current debt to financial institutions – subsidiaries		1,229	1,023
Repo debt – Lundbeckfond Invest		634	367
Total		**9,887**	**11,729**

Syndicated loan of DKK 5,307m (DKK 6,165m in 2015) are subject to loan terms that include covenants requiring certain financial performance indicators to be met. All loan terms were honoured in 2016 and 2015.

24.1 MORTGAGE DEBT

	2016 DKKm	2015 DKKm
Mortgage debt by maturity:		
Within 1 year	102	100
Between 1 and 5 years	418	472
More than 5 years	1,902	2,245
Mortgage debt at 31 December	**2,422**	**2,817**
Can be specified as follow:		
Non-current liabilities	2,320	2,717
Current liabilities	102	100
Mortgage debt at 31 December	**2,422**	**2,817**

NOTE 24

24. Mortgage, bank, leasing and repo debt (Continued)

24.1 MORTGAGE DEBT (CONTINUED)

	Currency/ Expiry date	Fixed/floating	Weighted average effective interest rate	Amortised cost DKKm	Nominal value DKKm	Fair value DKKm
2016						
Bond loan, Lundbeck	DKK/2035	Fixed	1.21%	1,354	1,360	1,398
Bond loan, Lundbeck	DKK/2037	Fixed	0.82%	416	405	418
Bond loan, Falck	DKK/2045	Fixed	1.20%	325	325	333
Bond loan, ALK	DKK/2035	Fixed/Floating	1.20%	327	327	332
Total				**2,422**	**2,417**	**2,481**
2015						
Bond loan, Lundbeck	DKK/2035	Fixed	1.48%	1,418	1,450	1,451
Bond loan, Lundbeck	DKK/2037	Fixed	1.09%	436	422	428
Bond loan, Lundbeck	DKK/2037	Floating	0.54%	276	283	276
Bond loan, Lundbeck	DKK/2034	Floating	0.83%	12	12	12
Bond loan, Falck	DKK/2045	Fixed	1.20%	331	333	332
Bond loan, ALK	DKK/2035	Floating	1.20%	344	344	345
Total				**2,817**	**2,844**	**2,844**

Fair value is calculated by applying the market value of the underlying bonds at 31 December and therefore measured by level 1 input.

NOTE 24

24. Mortgage, bank, leasing and repo debt (Continued)

24.2 BANK AND LEASING DEBT

	2016 DKKm	2015 DKKm
Bank and leasing debt by maturity:		
Within 1 year	1,127	923
Between 1 and 5 years	4,927	7,274
More than 5 years	777	348
Bank debt at 31 December	**6,831**	**8,545**
Specification of bank and leasing debt:		
Non-current obligations, loan	5,547	7,493
Non-current obligations, leased assets	157	129
Total non-current	**5,704**	**7,622**
Current obligations, loan	1,064	852
Current obligations, leased assets	63	71
Total current	**1,127**	**923**
Bank debt at 31 December	**6,831**	**8,545**

NOTE 24

24. Mortgage, bank, leasing and repo debt (Continued)

24.2 BANK AND LEASING DEBT (CONTINUED)

	currency	expiry	fixed/floating	Weighted average effective interest rate	Carrying amount DKKm	Fair value DKKm
2016						
Bank debt, Lundbeck	Varios	2017	Floating	2.1%	103	103
Other loans, Falck	DKK	2019	Fixed	10.0%	381	381
Bank debt, Falck	DKK, EUR, GBP, USD, other	2017-2019	Floating	3.7%	5,682	5,641
Leasing debt, Falck	EUR, USD	2017-2025	Fixed/floating	4.9%	217	207
Leasing debt, ALK	EUR, USD	2017-2021	Floating	4.0-6.0%	2	2
Other bank and finance loans, ALK	EUR	2022	Fixed	1.5%	446	446
Total					**6,831**	**6,780**
2015						
Bank debt, Lundbeck	EUR	2019	Floating	2.3%	1,119	1,119
Bank debt, Lundbeck	DKK	2017	Floating	1.4%	500	500
Other loans, Falck	DKK	2019	Fixed	10.0%	121	121
Bank debt, Falck	DKK, EUR, USD, NOK, other	2016-2019	Floating	3.4%	6,307	6,398
Leasing debt, Falck	EUR, USD	2016-2025	Fixed/floating	4.1%	197	197
Leasing debt, ALK	EUR, USD	2016-2020	Floating	1.3-4.0%	3	3
Other bank and finance loans, ALK	EUR	2016	Fixed	3.1%	298	298
Total					**8,545**	**8,636**

Bank and leasing debt is measured by level 3 input.

NOTE 24-27

24. Mortgage, bank, leasing and repo debt (Continued)

24.3 REPO DEBT

At 31 December 2016, repo debt totalling DKK 634m (DKK 367m in 2015) fell due 18 January 2017 (20 January in 2016). The debt carries a fixed rate of interest from the date of conclusion at negative 0.20% (negative 0.25% in 2015).

25. Other payables

	2016 DKKm	2015 DKKm
Trade payables	4,524	5,288
Other payables	4,439	3,714
Derivative financial instruments	450	151
Total	**9,413**	**9,153**

Sales discounts and rebates in the US amounted to DKK 1,702m at 31 December 2016 (DKK 981m in 2015) and are included in Other payables.

26. Adjustment for non-cash operating items

	2016 DKKm	2015 DKKm
Depreciation, amortisation and impairment	2,648	8,955
Gain on reduction of ownership interest	-7	-37
Incentive programmes	68	49
Change in retirement benefit obligations	-41	-10
Change in other provisions	-328	828
Income from sales of ownership interests	11	48
Other adjustments	-104	-21
Total	**2,247**	**9,812**

27. Working capital changes

	2016 DKKm	2015 DKKm
Change in inventories	582	-223
Change in receivables	-246	-368
Transactions with associates	4	-
Change in current liabilities	-173	-296
Total	**167**	**-887**

NOTE 28

28. Acquisitions and divestments

28.1 ACQUISITION OF BUSINESSES

	2016 DKKm	2015 DKKm
Assets		
Intangible assets	27	196
Property, plant and equipment	4	164
Financial assets	-	6
Cash	3	32
Other current assets	25	234
Equity and liabilities		
Interest-bearing debt	-16	-200
Current liabilities, provisions etc.	-72	-256
Deferred tax	-1	-13
Net assets acquired	**-30**	**163**
Goodwill	94	252
Fair value of investment in phased acquisitions	-	-68
Liability for acquisition of non-controlling interests, additions during the year	-6	-45
Purchase price	**58**	**302**
Adjustment for cash and cash equivalents acquired	-3	-32
Outstanding consideration	-	-36
Consideration relating to prior-year acquisitions	68	28
Expensed costs from business combinations	26	12
Cash consideration for acquisitions	**149**	**274**

Other than customer contracts and customer relations with a total value of DKK 25m (DKK 188m in 2015), no assets or liabilities have been identified which were not recognised in the companies acquired on the date of acquisition.

VALUATION OF INTANGIBLE ASSETS

In connection with acquisitions, an assessment is made of the value of the customer agreements, framework agreements and customer portfolios taken over. The valuation thereof is based on the "Multi Period Excess Earnings Method" (MEEM-method) in which the value is calculated based on an expected future cash flow. The principal assumptions are expected lives of the existing agreements and portfolios, earnings and contribution for using associated assets and employees.

Business combinations made during the year are based on preliminary calculations. Acquired assets include receivables from sales at fair value of DKK 21m (DKK 128m in 2015). The contractual gross receivable is DKK 21m (DKK 128m in 2015), of which DKK 0m (DKK 0m in 2015) was deemed to be unrecoverable as of the date of takeover.

ACQUISITIONS

Acquisitions 2016	Main activity	Month of acquisition	Purchase price DKKm	Consideration paid in	Voting rights acquired %
Sundhedsdoktor, Denmark	Healthcare	November	30	Cash	100
Others			28	Cash	
Total acquisitions in 2016			**58**		

Profit of acquired companies after date of acquisition	-1
Full-year revenue including acquisitions	34,706
Full-year profit including in acquisitions	2,477

Sundhedsdoktor delivers health solutions to large Danish companies, municipalities and insurance companies. Flack Healthcare will be strengthening its position in the Danish EAP market and provide a more digital and proactive/preventive approach to its healthcare offerings. In order to harvest the synergies, the company is being integrated into Falck Healthcare. Part of the purchase price has been allocated to existing customer contracts, while the rest has been allocated to goodwill.

Other include minor acquisitions completed in 2016.

NOTE 28

28. Acquisitions and divestments (Continued)

Acquisitions 2015	Main activity	Month of acquisition	Purchase price	Consideration paid in	Voting rights acquired
			DKKm		%
Responce, Denmark	Emergency	April	97	Cash	75
Manpower Hälsopartner, Sweden	Healthcare	April	23	Cash	100
9Lives, Finland	Emergency	June	76	Cash	100
Rapid Response, USA	Emergency	August	52	Cash	100
Others			42	Cash	
Total acquisitions in 2015			**290**		

Profit of acquired companies after date of acquisition	-23
Full-year revenue including acquisitions	32,884
Full-year profit including in acquisitions	-4,749

Responce is a Danish ambulance service provider with activities in central and southern Jutland. Part of the purchase price has been allocated to existing costumer contracts, while the rest has been allocated to goodwill, relating to the potential synergy and efficiency gains through consolidation of Response and Falck.

Manpower Hälsopartner supplies healthcare solutions for industrial businesses and public-sector customers in Sweden. Part of the purchase price has been allocated to existing customer contracts, while the rest has been allocated to goodwill, relating to the potential for expanding Falck´s healthcare activities. The company and its 160 employees are being integrated into Previa, a subsidiary acquired by Falck in 2014.

9Lives is one of the largest ambulance service providers in Finland. This acquisition will make Falck the leading private patient transport and ambulance service provider in Finland. Part of the purchase price has been allocated to existing customer contracts. The rest has been allocated to goodwill, relating to the potential of growth in the Finnish market by achieving a strong foundation and efficiency through consolidation and by leveraging the competencies, knowledge and relations of key persons.

Rapid Response is an ambulance service provider in, primarily, Detroit. Part of the purchase price has been allocated to existing customer contracts and the rest to goodwill, relating to a strong platform for continued growth in the United States.

28.2 DIVESTMENT OF BUSINESSES

Divestment of businesses include divestment of subsidiaries and operations.

	2016	2015
	DKKm	DKKm
Assets		
Goodwill	244	-
Intangible assets	19	-
Property, plant and equipment	150	-
Other current assets	73	17
Equity and liabilities		
Interest-bearing debt	-17	-
Current liabilities	-122	-
Deferred tax	-7	-
Non-controlling interest	-14	-
Net assets divested	**326**	**17**
Gain on divestment of business, net	29	37
Reclassified to associates	56	-
Sales price	**411**	**54**
Adjustment for cash and cash equivalents transferred	-20	-
Sales price receivable	-5	-
Cash flow from divestment of subsidiaries and operations	**386**	**54**

In 2015, ALK divested its European veterinary business.

NOTE 29

29. Financial risks and financial instruments

The Group's business activities imply that the results and balance sheet may be affected by various financial risks. The management of these risks is decentralised and handled in Lundbeckfonden and in ALK, Falck and Lundbeck based on policies and guidelines approved by the Board of Trustees or the Board of Directors in the sub-groups.

See also Note 15 *Financial assets*, Note 18 *Trade receivables and other receivables* and Note 19 *Cash resources* for a description of risks and the management thereof.

29.1 EXCHANGE RATE RISKS

Exchange rate risks arise because the Group's expenses and income in different currencies do not match and because the Group's assets and liabilities denominated in foreign currency do not balance, among other things due to Invest's investment assets. The management of these risks is focused on risk mitigation.

The Group applies various derivative financial instruments to manage these risks. Some of these instruments are classified as hedging instruments and meet the accounting criteria for hedging future cash flows. Changes in the fair value of these contracts are recognised in the statement of comprehensive income under other comprehensive income as they arise and – on invoicing of the hedged cash flow transferred from other comprehensive income for inclusion in the same item as the hedged cash flow. Hedging contracts that do not meet the hedge criteria are classified as trading contracts, and changes in the fair value are recognised as financial items as they arise. The need for hedging is assessed separately in ALK, Falck and Lundbeck and in Invest.

Monetary assets and monetary liabilities for the principal currencies at 31 December	2016 DKKm	2015 DKKm
Monetary assets		
CAD	114	142
CHF	181	222
EUR	4,917	5,008
GBP	939	1,183
JPY	162	204
USD	9,270	8,398
Monetary liabilities		
CAD	86	80
EUR	2,333	2,979
GBP	412	582
JPY	6	6
USD	5,113	4,118

Estimated impact on profit and equity from a 5% increase in year-end exchange rates of the most important currencies:

	CAD DKKm	CHF DKKm	GBP DKKm	JPY DKKm	USD DKKm
2016					
Profit	1	9	11	8	273
Equity	-22	9	6	-8	198
2015					
Profit	2	11	26	10	236
Equity	-12	11	29	-8	504

The profit impact is included in the impact on equity.

NOTE 29

29. Financial risks and financial instruments (Continued)

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

29.2 INTEREST RATE RISKS

Interest rate risk relates to the Group's interest-bearing assets and liabilities and principally to the Group's bonds classified as financial assets measured at fair value through profit or loss. See Note 15 *Financial assets* and Note 24: *Mortgage, bank, leasing and repo debt*.

INTEREST INCOME

The duration of the investments when selecting financing and investment instruments is used to manage the interest rate risk. In addition, the Group uses derivative financial instruments to mitigate the interest rate exposure. The use of financial instruments to manage interest rate risk does not qualify for hedge accounting, and the changes in fair value are therefore recognised as financial income or expenses in an ongoing process.

At 31 December 2016, the Group's portfolio of bonds has a duration of 1.9 year (2.4 year in 2015). Other things being equal, an increase of 1 %-point in interest rates would increase the Group's profit by DKK 38m (DKK 48m in 2015).

At 31 December 2016, the Group had an interest rate swap for managing interest rate exposure on portfolio investments. Other than this, there were no derivatives at 31 December 2016 and 31 December 2015 to manage interest rate risks because the distribution of investments carrying floating and fixed interest at the given times was deemed to be satisfactory.

INTEREST EXPENSES

Interest rate risk is mainly affected by syndicated loan carry variable interest but the Group has decided to hedge this risk by interest rate swaps and consequently around 70% of the syndicated loans carry a fixed rate of interest. Based on the Group's assessment of the marked situation, a decision has been made not to make any changes to the Group's existing interest rate swaps, which expire in 2019.

The interest rate exposure is hedged by interest rate swaps during the hedging period to the effect that interest rates on the part of the debt denominated in DKK cannot exceed 3.4% (3.1% in 2015) including the current interest rate margin, EUR cannot exceed 3.2% (2.9% in 2015) including the current interest rate margin and USD cannot exceed 3.6% (3.4% in 2015) including the applicable interest rate margin.

The Group is therefore only to a minor extent sensitive to fluctuations in market interest rates, and a fluctuation of 1% would change the interest expense for the year by DKK 16m (DKK 19m in 2015) as a large part of the interest rate risk is hedged by interest rate swaps. Without these hedges, a fluctuation of 1% would change the Group's interest expense by DKK 53m (DKK 62m in 2015).

Negative market interest rates affect the Group's interest expenses as the Group pays these rates on interest rate swaps concluded, while it is only partly compensated for negative interest rates on loans.

NOTE 29

29. Financial risks and financial instruments (Continued)

29.3 CATEGORIES AND MATURITY DATES FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31 December 2016	Less than 1 year DKKm	1-5 years DKKm	More than 5 years DKKm	Total DKKm	Effective interest rate
Financial assets					
Derivatives included in the trading portfolio	7	-	-	7	-
Securities[1]				-	
Danish mortgage and government bonds	741	1,155	1,258	3,154	0-4%
Credit bonds	147	665	819	1,631	6-11%
Financial assets at fair value through profit or loss	**895**	**1,820**	**2,077**	**4,792**	
Derivatives to hedge future cash flows and net investment in foreign subsidiaries	33	-	-	33	-
Financial assets used as hedging instruments	**33**	**-**	**-**	**33**	

31 December 2016	Less than 1 year DKKm	1-5 years DKKm	More than 5 years DKKm	Total DKKm	Effective interest rate
Receivables [2]	6,659	129	37	6,825	0%
Fixed-term deposits	303	-	-	303	0-2%
Other cash resources	3,870	-	-	3,870	(-1)-10%
Loans and receivables	**10,832**	**129**	**37**	**10,998**	
Available-for-sale financial assets	-	48	-	48	-
Total financial assets	**11,760**	**1,997**	**2,114**	**15,871**	
Financial liabilities					
Derivatives included in the trading portfolio	50	-	-	50	-
Financial liabilities at fair value through profit or loss	**50**	**-**	**-**	**50**	
Derivatives to hedge future cash flows and net investment in foreign subsidiaries	370	30	-	400	-
Financial liabilities used as hedging instruments	**370**	**30**	**-**	**400**	
Mortgage, bank, leasing and repo debt	2,004	6,188	2,480	10,672	1-5%
Employee bonds/purchase obligations	6	919	162	1,087	-
Other payables and non-disbursed grants [2]	9,962	386	-	10,348	-
Financial liabilities, measured at amortised cost	**11,972**	**7,493**	**2,642**	**22,107**	
Total financial liabilities	**12,392**	**7,523**	**2,642**	**22,557**	

NOTE 29

29. Financial risks and financial instruments (Continued)

31 December 2015	Less than 1 year DKKm	1-5 years DKKm	More than 5 years DKKm	Total DKKm	Effective interest rate
Financial assets					
Derivatives included in the trading portfolio	44	-	-	44	-
Securities[1]				-	
Danish mortgage and government bonds	566	512	1,457	2,535	0-4%
Credit bonds	-	1,183	907	2,090	0-16%
Financial assets at fair value through profit or loss	**610**	**1,695**	**2,364**	**4,669**	
Derivatives to hedge future cash flows and net investment in foreign subsidiaries	48	-	-	48	-
Financial assets used as hedging instruments	**48**	**-**	**-**	**48**	

31 December 2015	Less than 1 year DKKm	1-5 years DKKm	More than 5 years DKKm	Total DKKm	Effective interest rate
Receivables[2]	6,681	86	41	6,808	-
Fixed-term deposits	137	-	-	137	0-7%
Other cash resources	2,560	-	-	2,560	(-1)-10%
Loans and receivables	**9,378**	**86**	**41**	**9,505**	
Available-for-sale financial assets	-	68	-	68	-
Total financial assets	**10,036**	**1,849**	**2,405**	**14,290**	
Financial liabilities					
Derivatives included in the trading portfolio	5	-	-	5	-
Financial liabilities at fair value through profit or loss	5	-	-	5	
Derivatives to hedge future cash flows and net investment in foreign subsidiaries	116	30	-	146	-
Financial liabilities used as hedging instruments	**116**	**30**	**-**	**146**	
Mortgage, bank, leasing and repo debt	1,550	8,537	2,365	12,452	1-5%
Employee bonds/purchase obligations	71	981	-	1,052	-
Other payables and non-disbursed grants[2]	9,773	350	-	10,123	-
Financial liabilities, measured at amortised cost	**11,394**	**9,868**	**2,365**	**23,627**	
Total financial liabilities	**11,515**	**9,898**	**2,365**	**23,778**	

1) The securities are classified as financial assets measured at fair value through profit or loss.
2) Including receivables and payments recognised in non-current assets and liabilities.

NOTE 29

29. Financial risks and financial instruments (Continued)

29.4 NET OUTSTANDING FORWARD EXCHANGE RATE TRANSACTIONS, CURRENCY OPTIONS, INTEREST RATE SWAPS AND EQUITY OPTIONS

29.4 HEDGING PART

The Group uses forward exchange contracts to hedge its risks related to exchange rates. The fair value of the effective part of the outstanding foreign exchange contracts as at 31 December used as hedging instruments and qualifying for hedge accounting in respect of future transactions has been recognised directly in equity through other comprehensive income until the hedged transactions are recognised in the income statement. Forward exchange contracts are used to hedge investments in subsidiaries with a functional currency other than Danish kroner.

NOTE 29

29. Financial risks and financial instruments (Continued)

29.4 NET OUTSTANDING FORWARD EXCHANGE RATE TRANSACTIONS, CURRENCY OPTIONS, INTEREST RATE SWAPS AND EQUITY OPTIONS (CONTINUED)

Forward contracts	Contractual value in accordance with hedge accounting DKKm	Exchange gains/losses recognised in other comprehensive income DKKm	Exchange gains/losses recognised in income statement DKKm	Average hedge prices of existing forward exchange transactions DKK	Expiry period
2016					
CAD	459	-12	1	506.86	Dec 2017
JPY	332	7	-29	6.16	Nov 2017
SEK	669	-13	-	76.05	During 2017
USD	7,803	-274	24	671.77	May 2018
Other currencies	1,600	-25	-11		Dec 2017
Forward contracts	**10,863**	**-317**	**-15**		
2015					
CAD	378	17	2	517.43	Dec 2016
GBP	73	-2	-21	1,042.87	Oct 2016
JPY	339	-9	-9	5.46	Aug 2016
SEK	471	-14	-	78.96	Mar 2016
USD	2,996	-15	-22	673.27	Nov 2016
Other currencies	1,096	-9	-30		Dec 2016
Forward contracts	**5,353**	**-32**	**-80**		

At 31 December 2016, the exchange difference between the contract value and the market value of the concluded forward exchange contracts represented a loss of DKK 243m (a gain of DKK 12m in 2015), of which a gain of DKK 4m was recognised in the income statement (a loss of DKK 10m in 2015).

NOTE 29

29. Financial risks and financial instruments (Continued)

29.4 NET OUTSTANDING FORWARD EXCHANGE RATE TRANSACTIONS, CURRENCY OPTIONS, INTEREST RATE SWAPS AND EQUITY OPTIONS (CONTINUED)

Interest rate collar/interest rate swap	Contractual value DKKm	Interest rate gains/losses recognised in other comprehensive income DKKm	Fixed interest rate %	Expiry period
2016				
DKK interest rate swap	2,015	-18	0.88	Sep 2017
USD interest rate swap	480	-1	1.14	Sep 2017
EUR interest rate swap	1,197	-9	0.67	Sep 2017
DKK interest rate swap	1,700	-20	0.53	Jun 2019
EUR interest rate swap	1,487	-15	0.25	Jun 2019
DKK interest rate swap	600	-32	1.14	May 2025
Interest rate collar/interest rate swap		**-95**		
2015				
DKK interest rate swap	725	-3	0.56	Jun 2016
DKK interest rate swap	2,015	-37	0.88	Sep 2017
USD interest rate swap	464	-2	1.14	Sep 2017
EUR interest rate swap	1,201	-20	0.67	Sep 2017
DKK interest rate swap	1,700	-5	0.53	Jun 2019
EUR interest rate swap	1,493	-6	0.25	Jun 2019
DKK interest rate swap	600	-2	1.14	May 2025
Interest rate collar/interest rate swap		**-75**		

NOTE 29

29. Financial risks and financial instruments (Continued)

29.4 NET OUTSTANDING FORWARD EXCHANGE RATE TRANSACTIONS, CURRENCY OPTIONS, INTEREST RATE SWAPS AND EQUITY OPTIONS (CONTINUED)

29.4 TRADING PART

Equity contracts	Contractual value DKKm	Share option gains/losses recognised in the income statement DKKm	Market value 31 December DKKm	Expiry period
2016				
Options on indices	-2,710	92	-23	Jan 2017
Options on shares	45	23	-5	Jan 2017
Share contracts	**-2,665**	**115**	**-28**	
2015				
Options on indices	-3,612	134	43	Jan 2016
Options on shares	-102	30	-5	Jan 2016
Share contracts	**-3,714**	**164**	**38**	

NOTE 30

30. Contractual obligations, contingent assets and liabilities and collaterals

LEASE OBLIGATIONS

	2016 DKKm	2015 DKKm
Operating lease obligations		
Less than 1 year	645	591
Between 1 and 5 years	1,613	1,306
More than 5 years	1,428	1,228
Operating lease obligations total	**3,686**	**3,125**
Net present value of lease commitments	3,225	2,728
Expensed lease payments amounted to	726	760

The operating lease commitments primarily concern leases for vehicles and buildings. The lease term for vehicles is typically between 4 and 9 years. The lease term for buildings is typically up to 20 years.

None of the leases include material contingent lease payments, but the Group has a right of first refusal to buy a number of buildings at a present value. At 31 December 2016, the Group is subject to a commitment to purchase a property at a value of DKK 16m (DKK 21m in 2015).

	2016 DKKm	2015 DKKm
Finance lease obligations		
Less than 1 year	83	74
Between 1 and 5 years	154	138
More than 5 years	10	9
Minimum lease payments	**247**	**221**
Amortisations premium for future expensing	27	21
Present value of finance lease obligations	**220**	**200**

OTHER CONTRACTUAL OBLIGATIONS

	2016 DKKm	2015 DKKm
Purchase obligations	355	221
Collaterals and repo	719	379
Research and development milestones obligations	706	683
Research and development collaborations	126	45
Performance bonds in connections with a number of contracts	279	252
Capital contribution obligations	468	537
Other contractual obligations, including service agreements	113	120

CONTINGENT ASSETS AND LIABILITIES

Acquisition of Chelsea Therapeutics International, Ltd.

In 2016, the Group completed the purchase of all shares in Chelsea Therapeutics International, Ltd. For USD 6.44 per share in cash and non-transferable contingent value rights (CFRs) that may pay up to an additional USD 1.50 per share upon achievement of certain sales milestones. The CVRs for 2015 and 2016 were not achieved, which reduced the potential additional payment by USD 1.00 to USD 0.50 per share.

Falck HealthCare merger with Previa and Quick Care

In 2014, Falck Healthcare was merged with Previa and Quick Care, owned by Tryghedsgruppen. The purchase price for TryghedsGruppen's acquisition of shares in Falck Health Care Holding A/S is subject to a potential adjustment based on performance in 2017 or 2018 at the latest. The potential adjustment can be settled in cash of up to DKK 146m or a corresponding transfer of shares in Falck Health Care Holding A/S. The potential adjustment will be made directly to equity and therefore no effect on profit/(loss).

NOTE 30

30. Contractual obligations, contingent assets and liabilities and collaterals (Continued)

Pending legal proceedings

The Danish Competition and Consumer Authority (DCCA) has in 2016 issued a Notice of Concern to Falck Danmark A/S, a Danish subsidiary in the group. The Notice is a part of DCCA's on-going investigation of a hypothesis regarding Falck Danmark A/S' potential misuse of a dominating position on the ambulance and patient transportation market in Denmark in connection with the transfer of the ambulance operation in Region Southern Denmark to a new provider in 20115. Falck does not agree to DCCA's hypothesis and is in a dialogue with DCCA with the view to have the matter clarified.

Lundbeck is involved in a number of legal proceedings including patent disputes. In the opinion of the management, the outcome of these proceedings will not have a material impact on the Group's financial position or cash flows beyond the amount already provided for in the financial statements. Due to uncertainty about the outcome of the legal proceedings, the amount of the provision is uncertain.

In June 2013, Lundbeck received the European Commission's decision that Lundbeck's agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining Lundbeck EUR 93.8m (approximately DKK 700m). On 8 September 2016, Lundbeck announced that the General Court of the European Union had delivered its judgment concerning Lundbeck's appeal against the European Commission's 2013 decision. Lundbeck's appeal was rejected by the General Court. Lundbeck has appealed the judgment to the European Court of Justice. Lundbeck paid the fine in 2013.

In December 2011, the Brazilian antitrust authorities SDE (Secretariat of Economic Law) initiated administrative proceedings to investigate whether Lundbeck's enforcement of data protection rights could be viewed as anticompetitive conduct. In January 2012, Lundbeck submitted a response to the authorities. Due to a change in the Brazilian Antitrust Law, handling of the case has shifted from SDE to CADE (the Administrative Council for Economic Defense) and remains pending.

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

In January 2016, Lundbeck LLC, USA received a subpoena from the US Attorney's Office for the District of Rhode Island relating to an investigation of Xenazine® sales, marketing and related practices. Lundbeck LLC is cooperating with the relevant authorities on this investigation.

In May 2016, Lundbeck NA Ltd (formerly known as Chelsea Therapeutics, Inc.) received a subpoena from the US Attorney's Office in Boston, Massachusetts relating to an investigation of payments to charitable organisations providing financial assistance to patients taking Lundbeck's products, and to Nothera® and Xenazine® sales, marketing and related practices. Lundbeck LLC is cooperating with the relevant authorities on this investigation.

Other pending legal proceedings

Management assesses that the outcome of other pending claims and disputes will have no material impact on the financial position.

Industry and business obligations

As part of the Group's activities, usual supplier agreements have been entered.

NOTE 30-31

30. Contractual obligations, contingent assets and liabilities and collaterals (Continued)

Usual representations and warranties are made in connection with the divestment of companies and operations. There are currently no outstanding claims which are not sufficiently recognised in the balance sheet.

COLLATERALS

Land and buildings provided as security for mortage debt amounting to DKK 619m (DKK 688m in 2015) out of mortage debt of DKK 654m (DKK 677m in 2015).

The shares in the subsidiaries Falck Danmark A/S, Falck Global A/S, Falck Assistance A/S, Falck Global Assistance A/S, Falck Health Care Holding A/S and Falck Safety Services Holding A/S have been provided as collateral for Falck's debt. The debt amounted to DKK 5,307m at 31 December 2016 (DKK 6,165m in 2015)

Bonds in repo business have been provided as collateral for repo debt, and other bonds have been provided as collateral for hedging transactions. The value of bonds provided as collateral at 31 December 2016 amounted to DKK 634m (DKK 367m in 2015).

31. Related parties

Lundbeckfonden is an industrial foundation established by Grete Lundbeck in 1954.

Related parties exercising a significant influence on Lundbeckfonden:

- The foundation's Executive Management and Board of Trustees
- Companies in which the company's Executive Management and Board of Trustees exercise controlling influence

See Note 4 *Staff costs* for information about The Board of Trustees and the Executive Management received remuneration.

Transactions with associates

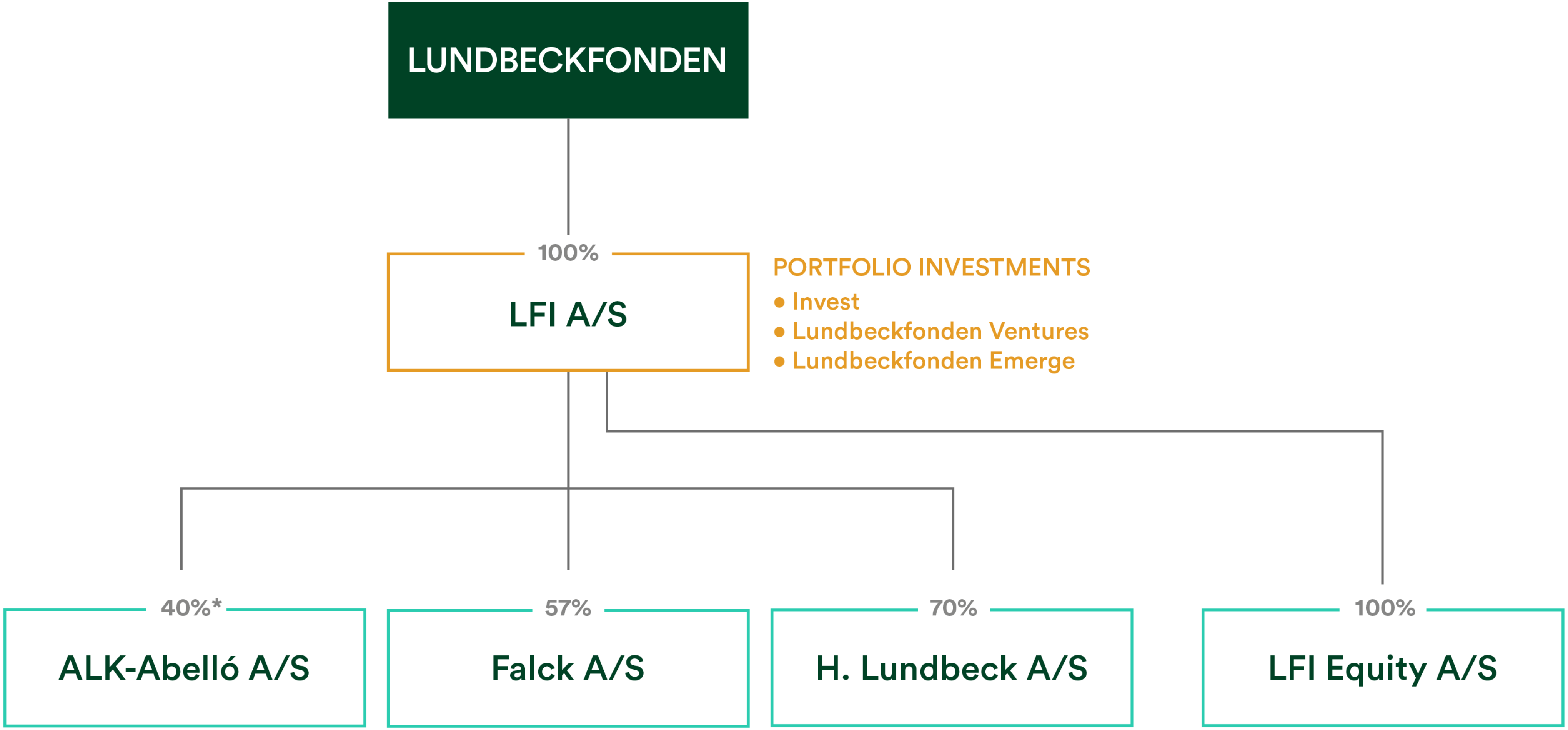
Transactions with associates comprise associates, in which the group has significant influence. See Group overview for an overview of associates.

	2016 DKKm	2015 DKKm
Sale of property, plant and equipment	46	25
Acquisition of services	-1	-2
Royalty income	-	2
Lease costs	-27	-25
Interest income from associates	4	9
Receivables from associates at 31 December	73	41

Other than the above and except for transactions with subsidiaries eliminated in the consolidated financial statements, there have only been few transactions of immaterial importance with related parties.

NOTE 32

32. Group overview



* Voting rights 67%

NOTE 32

32. Group overview (Continued)

Company name	Country	Ownership
Subsidiaries		
Lundbeckfond Invest A/S, including	Denmark	100%
- H. Lundbeck A/S	Denmark	70%
- ALK-Abelló A/S	Denmark	40% (67% of the votes)
- Falck A/S	Denmark	57%
- LFI Equity A/S	Denmark	100%
Insusense ApS	Denmark	69%
Associates of Lundbeckfond Invest A/S		
Acacia Pharma Ltd	United Kingdom	27%
DySIS Medical Ltd.	United Kingdom	38%
Enterome S.A.	France	24%
Obel-LFI Ejendomme A/S	Denmark	50%
River Vision Corp.	USA	36%
scPharmacauticals Inc.	USA	23%
Veloxis Pharmaceuticals A/S	Denmark	43%
VHsquared Ltd.	United Kingdom	29%
Subsidiaries of H. Lundbeck A/S		
Lundbeck Argentina S.A.	Argentina	100%
Lundbeck Australia Pty Ltd, including	Australia	100%
- CNS Pharma Pty Ltd	Australia	100%
Lundbeck Austria GmbH	Austria	100%
Lundbeck S.A.	Belgium	100%
Lundbeck Brasil Ltda.	Brazil	100%
Lundbeck Canada Inc.	Canada	100%
Lundbeck Chile Farmacéutica Ltda.	Chile	100%
Lundbeck (Beijing) Pharmaceuticals Consulting Co., Ltd	China	100%
Lundbeck Colombia S.A.S.	Colombia	100%
Lundbeck Croatia d.o.o.	Croatia	100%
Lundbeck Czech Republic s.r.o.	Czech Republic	100%
Lundbeck China Holding A/S,Denmark (1), including	China	100%
- Lundbeck Pharmaceuticals (Tianjin) Co., Ltd.	China	100%
- Lundbeck Pharmaceuticals Consulting (Shanghai) Co., Ltd.	China	100%

Company name	Country	Ownership
Lundbeck Export A/S	Denmark	100%
Lundbeck Insurance A/S	Denmark	100%
Lundbeck Pharma A/S	Denmark	100%
Lundbeck Eesti A/S	Estonia	100%
OY H. Lundbeck AB	Finland	100%
Lundbeck SAS	France	100%
Sofipharm SA, including	France	100%
- Laboratoire Elaiapharm SA	France	100%
Lundbeck GmbH	Germany	100%
Lundbeck Hellas S.A.	Greece	100%
Lundbeck HK Limited	Hong Kong	100%
Lundbeck Hungária KFT	Hungary	100%
Lundbeck India Private Limited	India	100%
Lundbeck (Ireland) Ltd.	Ireland	100%
Lundbeck Israel Ltd.	Israel	100%
Lundbeck Italia S.p.A.	Italy	100%
Lundbeck Pharmaceuticals, Italy S.p.A., including	Italy	100%
- Archid S.a.	Luxembourg	100%
Lundbeck Japan K. K.	Japan	100%
Lundbeck Korea Co., Ltd.	Republic of Korea	100%
SIA Lundbeck Latvia	Latvia	100%
UAB Lundbeck Lietuva	Lithuania	100%
Lundbeck Malaysia SDN. BHD.	Malaysia	100%
Lundbeck México, SA de CV	Mexico	100%
Lundbeck B.V.	The Netherlands	100%
Lundbeck New Zealand Limited	New Zealand	100%
H. Lundbeck AS	Norway	100%
Lundbeck Pakistan (Private) Limited	Pakistan	100%
Lundbeck America Central S.A.	Panama	100%
Lundbeck Peru S.A.C.	Peru	100%
Lundbeck Business Service Centre Sp.z.o.o.	Poland	100%
Lundbeck Poland Sp.z.o.o.	Poland	100%
Lundbeck Portugal - Produtos Farmacêuticos Unipessoal Lda	Portugal	100%
Lundbeck Romania SRL	Romania	100%

NOTE 32

32. Group overview (Continued)

Company name	Country	Ownership
Lundbeck RUS OOO	Russian Federation	100%
Lundbeck Singapore PTE. LTD.	Singapore	100%
Lundbeck Slovensko s.r.o.	Slovakia	100%
Lundbeck Pharma d.o.o.	Slovenia	100%
Lundbeck South Africa (Pty) Limited	South Africa	100%
Lundbeck España S.A.	Spain	100%
H. Lundbeck AB, including	Sweden	100%
Lundbeck (Schweiz) AG	Switzerland	100%
Lundbeck Pharmaceutical GmbH (under liquidation)	Switzerland	100%
Lundbeck İlaç Ticaret Limited Şirketi	Turkey	100%
Lundbeck Group Ltd. (Holding), including	UK	100%
- Lundbeck Limited	UK	100%
- Lundbeck Pharmaceuticals Ltd.	UK	100%
- Lifehealth Limited, including	UK	100%
- Lundbeck UK LLP (2)	UK	100%
Lundbeck USA Holding LLC, including	USA	100%
- Lundbeck LLC, including	USA	100%
- Chelsea Therapeutics International, Ltd., including	USA	100%
- Lundbeck NA Ltd	USA	100%
- Lundbeck Pharmaceuticals Ireland Limited (under liquidation)	Ireland	100%
- Lundbeck Pharmaceuticals Services, LLC	USA	100%
- Lundbeck Research USA, Inc.	USA	100%
Lundbeck de Venezuela, C.A.	Venezuela	100%
CNS Pharma AB was liquidated in 2016	Sweden	
Chelsea Therapeutics Limited was dissolved in 2015	UK	
Established in 2015:		
Lundbeck HK Limited	Hong Kong	
Lundbeck Romania SRL	Romania	

(1) In 2016, the share of voting rights and ownership was increased from 67% to 100%
(2) Lundbeck UK LLP is owned by Lundbeck Group Ltd. (Holding), Lundbeck Limited and Lifehealth Limited, all of which have H. Lundbeck A/S as the direct or ultimate parent company.

Company name	Country	Ownership
Subsidiaries of ALK-Abelló A/S		
ALK-Abelló Nordic A/S	Denmark	100%
ALK-Abelló Nordic A/S	Sweden	Branch
ALK-Abelló Nordic A/S	Norway	Branch
ALK-Abelló Nordic A/S	Finland	Branch
ALK-Abelló Ltd.	United Kingdom	100%
ALK-Abelló S.A.	France	100%
ALK-Abelló Arzneimittel GmbH	Germany	100%
ALK-Abelló Allergie-Service GmbH	Austria	100%
ALK-Abelló AG	Switzerland	100%
ALK AG	Switzerland	100%
ALK ilaç ve Alerji Ürünleri Ticaret Anonim Şirketi	Turkey	100%
ALK-Abelló B.V., including	The Netherlands	100%
- Artu Biologicals Europe B.V.	The Netherlands	100%
ALK-Abelló S.A., including	Spain	100%
- ALK-Abelló S.p.A.	Italy	100%
ALK-Abelló sp. z.o.o.	Poland	100%
ALK-Abelló, Inc., including	USA	100%
- OKC Allergy Suppliers Inc.	USA	100%
ALK-Abelló, Source Materials, Inc., including	USA	100%
- OKC Crystal Laboratory Inc.	USA	100%
ALK-Abelló Pharmaceuticals, Inc.	Canada	100%
ALK-Abelló A/S	China	Branch
ALK Medical Consulting Services Company Limited	China	100%
ALK Slovakia s.r.o.	Slovakia	100%
ALK Slovakia s.r.o. – od štěpný závod	Czech Republic	Branch

NOTE 32

32. Group overview (Continued)

Company name	Country	Ownership
Subsidiaries of Falck A/S		
Denmark		
Falck A/S	Denmark	100%
Falck Global Assistance A/S	Denmark	100%
Falck Global A/S	Denmark	100%
Falck Health Care Holding A/S	Denmark	59%
Falck Healthcare A/S	Denmark	100%
Sundhedsdoktor A/S	Denmark	100%
Falck Hjælpemidler A/S	Denmark	100%
VikTeam A/S	Denmark	100%
ActivCare Privat A/S	Denmark	100%
Sirculus ApS	Denmark	100%
Falck Healthcare CS Holding A/S	Denmark	100%
Falck Lægehuse A/S	Denmark	100%
Quick Care A/S	Denmark	100%
Falck Safety Services Holding A/S	Denmark	100%
Falck Safety Services A/S	Denmark	100%
Falck Danmark A/S	Denmark	100%
Falck Assistance A/S	Denmark	100%
Falck Emergency A/S	Denmark	100%
Falck Treasury A/S	Denmark	100%
A C Trafik A/S	Denmark	100%
Falck Luftambulance A/S	Denmark	100%
ActiveCare A/S	Denmark	100%
Falck Medical Services Africa A/S	Denmark	60%
Falck Air Ambulance A/S	Denmark	50%
Traffilog Nordic ApS (1)	Denmark	49%
Falck Fire Services A/S	Denmark	100%
Falck Fire Services Greenland A/S	Denmark	100%
Falck Fire Services Eastern Europe Holding A/S	Denmark	100%
S Reg Holding A/S	Denmark	100%
Responce A/S	Denmark	100%
Global Life Care A/S (1)	Denmark	40%
KPC Ejendomme af 6. juni 2002 A/S (1)	Denmark	25%

Company name	Country	Ownership
Nordics		
Falck Ensihoito Oy	Finland	100%
Falck Investments Finland Oy Ab	Finland	100%
Falck Oy	Finland	100%
9Lives Group Oy	Finland	51%
9Lives Care Oy	Finland	100%
9Lives Health Oy	Finland	100%
9Lives Oy	Finland	100%
HES Hoiva Oy	Finland	100%
HES Ensihoito OY	Finland	100%
9Lives Pirkanmaa Oy	Finland	100%
9Lives Team Oy	Finland	100%
Luumänen Ensihoito Oy	Finland	100%
Sairaankuljetus A. Järvenpää Oy	Finland	100%
Falck Helse AS	Norway	100%
Falck Nutec AS	Norway	100%
Falck Norge Holding AS	Norway	100%
Falck Redning AS	Norway	100%
Falck Secure AS	Norway	100%
Falck Emergency AS	Norway	100%
Falck Emergency Norway AS	Norway	100%
Falck Services AS	Norway	100%
Falck Global Assistance Norway AS	Norway	100%
Falck Brann og Redningstjeneste AS	Norway	100%
Falck Health Care Holding AB	Sweden	100%
Falck Healthcare AB	Sweden	100%
Skandinavisk Hälsovård AB	Sweden	100%
Svensk Närsjukvård AB	Sweden	100%
Doc Care AB	Sweden	100%
Ofelia Vård AB	Sweden	100%
AB Previa	Sweden	100%
Silverhälsan AB	Sweden	100%
Inlandshälsan AB	Sweden	100%
Previa Sjukvård AB	Sweden	100%

NOTE 32

32. Group overview (Continued)

Company name	Country	Ownership
Nordics		
Galleriva Husläkarmottagning AB	Sweden	100%
Falck Hälsopartner AB	Sweden	100%
Falck Air AB	Sweden	100%
Falck Sverige Holding AB	Sweden	100%
Falck Investment Sverige AB	Sweden	100%
S Reg AB	Sweden	100%
Falck Secure AB	Sweden	100%
Falck Räddningskår AB	Sweden	100%
Falck Security AB	Sweden	100%
Falck Försäkringsaktiebolag	Sweden	100%
Falck Global Assistance AB	Sweden	100%
Falck Ambulans AB	Sweden	95%
Falck Räddningstjänst AB	Sweden	100%
Falck Services AB	Sweden	100%
Svensk Sjöambulans AB	Sweden	50%
Falck Aktiv Arbetsmedicin AB	Sweden	100%
Europe		
Falck Österreich GmbH	Austria	100%
Nutec Belgium Holding BVBA	Belgium	100%
Nutec Belgium BVBA	Belgium	100%
Falck Safety Services Belgium BVBA	Belgium	100%
Falck Fire Services BE NV	Belgium	100%
Falck Benelux NV	Belgium	49%
Falck Investments NV	Belgium	88%
Falck CZ a.s	Czech Republic	93%
Falck Emergency a.s	Czech Republic	100%
Falck Autoabi OÜ	Estland	100%
Falck France SAS	France	65%
Falck Fire Services DE GmbH	Germany	100%
Falck Operations Services DE GmbH	Germany	100%
Falck Rettungsdienst GmbH	Germany	90%

Company name	Country	Ownership
Europe		
G.A.R.D. Verwaltungsgesellschaft für Ambulanz und Rettungsdienst mbH	Germany	100%
G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Cuxhaven GmbH	Germany	100%
G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Hamburg West mbH	Germany	100%
GUARD Hospital Service GmbH	Germany	100%
G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Bremen mbH	Germany	100%
ASN-Ambulanz-Service-Nord GmbH	Germany	100%
G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Hamburg-Ost GmbH	Germany	100%
G.A.R.D. Arbeitsgemeinschaft Rettungsdienst Dresden GmbH	Germany	100%
G.A.R.D. ArGe Rettungsdienst Dresden GmbH & Co oHG	Germany	100%
G.A.R.D. Gemeinnützige Ambulanz und Rettungsdienst GmbH	Germany	100%
GUARD Gesellschaft für unabhängige ambulante Rettungsdienstleistungen GmbH	Germany	100%
G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst NRW mbH	Germany	100%
K&G Taxi-Krankentransporte und Dienstleitungs GmbH	Germany	80%
G.A.R.D. Beteiligungsgesellschaft für Ambulanz und Rettungsdienst mbH	Germany	100%
Ostsee-Ambulanz-Kiel GmbH	Germany	100%
Promedica Rettungsdienst GmbH	Germany	100%
RTD Consulting GmbH	Germany	100%
ASG Ambulanz Leipzig GmbH	Germany	100%
Promedica Rettungsdienst Bremehaven/Bremen GmbH	Germany	100%
Promedica Rettungsdienst Waldeck-Frankenberg GmbH & Co. KG	Germany	70%
Euro-Med Einkaufsgemeinschaft GmbH	Germany	67%

NOTE 32

32. Group overview (Continued)

Company name	Country	Ownership
Europe		
Promedica Services GmbH	Germany	100%
G.A.R.D. Ambulanzflugdienst GmbH	Germany	50%
Falck Kranken-Transport Herzig GmbH	Germany	100%
KS-Medi-Service GmbH	Germany	100%
Brava Holding GmbH	Germany	100%
Falck Servizi Industriali di Emergenza S.r.l.	Italy	65%
UAB Altas Assistance	Lithuania	100%
Falck Global Safety B.V.	Netherlands	100%
Falck Nutec B.V.	Netherlands	100%
MarineSafety International Rotterdam B.V.	Netherlands	100%
Falck BHV Operations B.V.	Netherlands	100%
Falck Alford International B.V.	Netherlands	100%
Falck Eurasia B.V.	Netherlands	100%
Falck Russia Holding II B.V.	Netherlands	100%
Falck Russia Holding B.V. (1)	Netherlands	49%
Falck Holding B.V.	Netherlands	100%
Falck B.V.	Netherlands	100%
Falck Consulting & Technology B.V.	Netherlands	100%
Falck Fire Services NL B.V.	Netherlands	100%
Falck Staffing B.V.	Netherlands	100%
Falck Prevention B.V.	Netherlands	100%
Prevention & Safety B.B. (1)	Netherlands	49%
Falck Fire Services Polska Sp. Z.o.o.	Poland	100%
Falck Medycyna Sp. z o.o.	Poland	100%
Starowka Sp. z o.o.	Poland	76%
Falck SCI Portugal – Segurança Contra Incêndios, SA.	Portugal	100%
Falck Fire Services S.R.L.	Romania	93%
Falck Medical Vladivostok LLC	Russia	100%
Falck Fire Services Rus Limited Liability Company	Russia	100%
Falck SK a.s.	Slovakia	93%
Falck Emergency AS	Slovakia	51%

Company name	Country	Ownership
Europe		
Falck Záchranná a.s.	Slovakia	100%
Falck Academy s.r.o.	Slovakia	100%
Falck Healthcare a.s.	Slovakia	100%
Falck Pharma s.r.o.	Slovakia	100%
Falck Fire Services a.s.	Slovakia	100%
Falck Security Services s.r.o.	Slovakia	100%
Falck SCI, S.A.	Spain	65%
Falck Emergency Spain, S.L.	Spain	65%
Falck VL Servicios Sanitarios, S.L.	Spain	75%
Sauper, S.A.	Spain	100%
Falck Global Assistance Spain S.L.	Spain	100%
Falck Fire Services CH AG	Switzerland	100%
MoPi.ch Holding AG	Switzerland	51%
MoPi.ch GmbH	Switzerland	100%
Käch Falck AG	Switzerland	60%
Falck Sağlık AŞ	Turkey	100%
Aberdeen Drilling School Ltd	UK	25%
Falck Nutec Ltd.	UK	100%
Nutec Centre for Safety Ltd.	UK	100%
Falck Onsite Limited	UK	100%
Onsite Training Services Limited.	UK	100%
Nutec UK Ltd.	UK	100%
Falck UK Limited	UK	100%
Falck EMS UK Limited	UK	100%
Medical Services Ltd.	UK	51%
Hospital & Healthcare Cars Ltd.	UK	100%
National Independent Ambulance College Ltd.	UK	100%
First Response Ambulance Services Ltd.	UK	100%
Medical Services Contractors Ltd.	UK	100%
Falck Fire Consulting Limited	UK	93%
Falck Fire Services UK Limited	UK	100%
Falck India Limited	UK	100%

NOTE 32

32. Group overview (Continued)

Company name	Country	Ownership
North America		
Falck Safety Services Canada Ltd. Incorporated	Canada	55%
Falck Safety Services Canada (NL) Incorporated	Canada	100%
Falck Safety Services Canada (LA) Incorporated	Canada	100%
Haztec Services St. Lucia Ltd	St. Lucia	100%
Falck USA Holdings, LLC	USA	100%
Falck Alford Holdings, LLC	USA	100%
Alford Services, Inc	USA	100%
Alford Safety Services, LLC	USA	100%
Haztec Services - West Indies, LLC	USA	100%
Falck USA, Inc.	USA	98%
Falck Arizona Corp.	USA	100%
FCA Corp.	USA	89%
Care Ambulance Service, Inc.	USA	100%
Falck EMS Corp.	USA	99%
Lifestar Response Corporation	USA	100%
Lifestar Response of Alabama, Inc.	USA	100%
Medibus, Inc.	USA	100%
STAT Equipment Corp.	USA	100%
Bi-County Ambulance & Ambulette Transport Services Corp.	USA	100%
Falck Northeast Corp.	USA	100%
Lifestar Response of Maryland, Inc.	USA	100%
Access Transport Services Holding, Inc.	USA	100%
AccessOnTime Language Services, LLC	USA	100%
Falck Global Assistance, LLC	USA	100%
Home Care Equipment, Inc.	USA	100%
Robinson's Ambulance & Oxygen Service, Inc.	USA	100%
Falck Southeast Corp.	USA	96%
Cape Cod Medical Enterprises, Inc	USA	100%
American Ambulance, Inc.	USA	100%
Falck Southeast II Corp.	USA	96%
Transitional Health Solutions, Inc.	USA	100%

Company name	Country	Ownership
North America		
Falck Northern California Corp.	USA	87%
Falck Northwest Corp.	USA	100%
Falck Rocky Mountain, Inc.	USA	100%
Rapid Response Emergency Services, LLC	USA	100%
Pulse EMS, LLC (1)	USA	50%
Latin America		
Falck Nutec Brasil Participacoes Ltda	Brazil	100%
Falck Nutec Brasil Treinamentos em Segurança Marítima Ltda	Brazil	100%
Falck Brasil AVD Participações Ltda.	Brazil	100%
Falck Brasil 747 Participações Ltda.	Brazil	100%
Falck Fire & Safety do Brasil S.A.	Brazil	65%
Falck Chile Holding S.A.	Chile	100%
Falck Safety Services Limitada	Chile	100%
Falck Capacitacion Limitada	Chile	100%
Servicio Emergencias Regional SER S.A.	Colombia	100%
BHM Soluciones Integrales de Logistica en Salud S.A.S.	Colombia	100%
Haces Inversiones y Servicios S.A.S	Colombia	100%
Empresa de Medicina Integral EMI S.A. Servicio de Ambulancia Prepagada - Grupo EMI S.A.	Colombia	100%
EMI Ecuador S.A.- Emergencia Medica Integral	Ecuador	100%
EMI El Salvador S.A. de C.V.	El Salvador	100%
Falck Holding de México, S.A. de C.V.	Mexico	100%
Falck Safety Services de México, S.A.P.I. de C.V.	Mexico	55%
Falck Panama Holding S.A.	Panama	100%
EMI Holdings Management S.A.	Panama	63%
EMI Foreign Holdings 1 S.A.	Panama	100%
EMI Foreign Holdings 2 S.A.	Panama	100%
EMI Foreign Holdings 3 S.A.	Panama	100%
EMI Foreign Holdings 4 S.A.	Panama	100%
EMI Venezuela Holding S.A.	Panama	100%

NOTE 32

32. Group overview (Continued)

Company name	Country	Ownership
Latin America		
EMI Central America Holding S.A.	Panama	80%
EMI Panama S.A.	Panama	100%
Falck Safety Services Limited	Trinidad & Tobago	100%
Haztec Services Trinidad, Ltd.	Trinidad & Tobago	100%
Luvtel S.A.	Uruguay	100%
UCM Uruguay S.A.	Uruguay	100%
Portovenus S.A.	Uruguay	16%
Emergencia Medica Integral EMI Centro S.A.	Venezuela	100%
Centro Medico Integral CEMICA S.A.	Venezuela	100%
Rest of the world		
Falck Pty. Ltd.	Australia	53%
Falck Ambulance Services Australia Pty. Ltd .	Australia	100%
Falck Investments Pty. Ltd.	Australia	100%
Falck Safety Services Australia Pty. Ltd.	Australia	100%
First Response MT Pty. Ltd.	Australia	100%
Falck (Victoria) Pty. Ltd.	Australia	100%
Falck Caspian Safe LLC	Azerbaijan	100%
Falck Global Assistance (China) Limited	China	100%
Falck India Pvt. Ltd. (India)	India	100%
Falck Care Pvt. Ltd.	India	100%
Falck Services Pvt. Ltd. (India)	India	100%
Falck Kazakhstan LLP	Kazakhstan	100%
Aberdeen Drilling International (Malaysia) SDN BHD	Malaysia	100%
MSTS Asia Sdn. Bhd.	Malaysia	70%
Risktec (M) Sdn. Bhd.	Malaysia	100%
Falck Bestari Healthcare Sdn Bhd	Malaysia	82%
Falck Nutec Malaysia Sdn. Bhd.	Malaysia	70%
First Ambulance Services Sdn. Bhd.	Malaysia	51%
Falck Services Limited	Mauritius	100%
Falck Safety Services Nigeria Limited	Nigeria	51%
Falck Prime Atlantic Limited	Nigeria	51%

Company name	Country	Ownership
Rest of the world		
Aberdeen Drilling International Co. LLC	Oman	70%
Falck Safety Services LLC	Qatar	49%
MSTS Asia (S'pore) Pte. Ltd.	Singapore	100%
Falck Emergency Asia Pte. Ltd.	Singapore	100%
Falck South Africa Holding (PTY) LTD	South Africa	100%
Falck Lanka (Pvt) Ltd. (1)	Sri Lanka	50%
Southfield Ltd	Thailand	50%
Falck Nutec (Thailand) Ltd	Thailand	65%
Aberdeen Drilling International Limited	UAE	100%
Falck Safety Services LLC	UAE	49%
Falck Medical Services LLC	UAE	49%
Falck Nutec Vietnam Limited	Vietnam	88%

(1) Associates and joint ventures

NOTE 33

33. General accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and Danish disclosure requirements for annual reports for large enterprises of reporting class C and industrial foundations.

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

The consolidated financial statements have been prepared in accordance with the new and revised standards (IFRS/IAS) and interpretations (IFRIC), which apply to the financial year. The implementation of the new and revised standards has not resulted in any changes in accounting policies that have affected recognition and measurement in the current year and previous years.

See Note 1 *Significant accounting policies* and Note 2 *Significant accounting estimates and judgements.*

FUTURE IFRS CHANGES

At the date of the approval of the consolidated financial statements, a number of new and amended standards and interpretations have not yet come into effect or have not yet been endorsed by the EU and have therefore not been incorporated in the consolidated financial statements.

IFRS 9 *Financial Instruments* is effective for annual reporting periods beginning on or after 1 January 2018. The standard is part of IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*, and the new standard will change the classification, presentation and measurement of financial instruments and hedging requirements. The implementation of the new standard is expected to result in higher impairment losses on receivables as the standard requires recognition of expected losses, whereas under the current standard impairment losses are not charged until there are indications of impairment. Further impact of this standard is expected to be limited.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and is effective for annual reporting periods beginning on or after 1 January 2018. Entities will apply a five-step model to determine when, how and at what amount revenue is to be recognised depending on whether certain criteria are met. Furthermore, a change in the agent-principal assessment and other criteria for recognition will apply. The Group has made an overall analysis of how the standard will impact current and new agreements. The Group expect to finish the analysis and review of selected contracts during 2017. Furthermore, the implementation will result in additional disclosures.

Amendments to IAS 7 *Statement of Cash Flows* were issued in January 2016 and are effective for annual reporting periods beginning on or after 1 January 2017. The implementation will result in additional disclosures regarding the development in cash flows from financing activities.

IFRS 16 *Leases* was issued in January 2016. The standard will replace IAS 17 *Leases* currently in force and is effective for annual reporting periods beginning on or after 1 January 2019. The standard has not yet been endorsed by the EU. The new standard is expected to have an impact on the Group as a lessee, as all leases (except for short-term leases and leases of low-value assets) will be recognised in the balance sheet as a right-of-use asset and a lease liability measured at the present value of future lease payments. The right-of-use asset is subsequently depreciated over the lease term in a similar way to other assets such as property, plant and equipment, and interest on the lease liability is calculated in a similar way to finance leases under IAS 17 *Leases*. Consequently, the change will also impact the presentation of the income statement, balance sheet and cash flow statement. The Group has not yet made a detailed assessment of the impact on future financial statements. The group's operating lease commitments at 31 December 2016 are presented in Note 30.

RECOGNITION AND MEASUREMENT

Consolidated financial statements

The consolidated financial statements comprise the parent entity Lundbeckfonden and entities controlled by the Foundation.

NOTE 33

33. General accounting policies (Continued)

Acquisitions
Acquisitions are evaluated to determine whether they constitute a business combination in accordance with IFRS 3 *Business Combinations*.

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

The consideration paid, including any tax assets associated with tax losses and tax credits carried forward, is allocated among the acquired assets and liabilities. Transaction costs are capitalised as part of the consideration paid.

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

Contingent considerations are classified as financial instruments and included in the cost price if it is more likely than not that they will occur.

Put options issued to minority shareholders in connection with acquisitions for them to sell their remaining shares to the Group, the value of which is contingent on future events will be recognised as part of the consideration at the date of acquisition. The put options issued are subsequently measured at fair value of the expected exercise price. Any changes in the fair value of issued put options after initial recognition are recognised in equity.

Translation of foreign currency
On initial recognition, transactions denominated in foreign currencies are translated at standard rates which approximate the exchange rates at the transaction date. Exchange differences arising between the exchange rates at the transaction date and the exchange rates at the date of payment are recognised in the income statement under financial items except in case of hedge accounting. In case of hedge accounting, such differences are deferred in equity and subsequently recognised in the same item as the hedged item.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the rates at the time of recognition of settlement are recognised in the income statement under financial items in respect of unhedged items and under the same item for hedged items.

On translation of foreign subsidiaries having a functional currency different from that used by the Foundation, non-monetary and monetary items are translated at the exchange rates at the balance sheet date. Exchange differences arising on translating the balance sheet and the income statement of the foreign subsidiaries are recognised in other comprehensive income.

Exchange gains/losses on translation of receivables from or payables to subsidiaries that are considered part of the Group's overall investment in the subsidiaries are recognised in other comprehensive income.

FINANCIAL INSTRUMENTS
Forward exchange contracts, interest rate swaps, equity options and other derivatives are initially recognised in the balance sheet at fair value on the contract date and subsequently remeasured at fair value at the balance sheet date. Positive and negative fair values are included in other receivables and other payables respectively.

Changes in the fair value of derivatives classified as hedging instruments and meeting the criteria for hedging future cash flows are recognised in other comprehensive income. On invoicing of the hedged item, income and expenses related to such hedging transactions are transferred from other comprehensive income and recognised in the same item as the hedged item.

Changes in the fair value of derivatives classified as hedging instruments and meeting the criteria for hedging the fair value of a recognised asset or liability are recognised in the income statement together with changes in the value of the hedged asset or liability.

Changes in the fair value of derivatives not qualifying for hedge accounting are recognised in the income statement under financial items as they arise.

NOTE 33

33. General accounting policies (Continued)

Changes in the fair value of derivatives used for hedging net investments in foreign subsidiaries or associates and that otherwise meet the relevant criteria for hedging are recognised in other comprehensive income.

Securities, available-for-sale financial assets and derivatives measured at fair value are classified according to the fair value hierarchy as belonging to levels 1-3 depending on the pricing method applied.

INCENTIVE PROGRAMMES

Share-based incentive programmes (equity-settled share-based payments) which comprises share option plans and conditional share plans are measured at the grant date at fair value and recognised in the income statement under the respective functions over the vesting period. The balancing item is recognised in equity. The fair value of share options is determined using the Black and Scholes-model.

If the share option agreements entitled the Group to demand cash settlement of the options, the cash-settled share options are recognised as other liabilities and adjusted to fair value when the Group has an obligation to settle in cash. The subsequent adjustment to fair value is recognised in the income statement under financial items.

Warrants regarding warrant programme to Executive Management Board of subsidiaries are issued at the market value on the date of grant. Payments received and made in relation to the warrant programme are recognised in equity.

NON-CONTROLLING INTERESTS

On initial recognition, non-controlling interests are measured either at fair value (including the fair value of goodwill related to non-controlling interests in the acquired company) or at the non-controlling interests' proportionate share of the acquired company's identifiable assets, liabilities and contingent liabilities measured at fair value (excluding the fair value of goodwill related to non-controlling interests in the acquired company). The measurement basis for non-controlling interests is selected for each individual transaction.

Acquisition and divestment of non-controlling interests

Increases and reductions of non-controlling interests are accounted for as transactions with shareholders, in their capacity as shareholders. Thus, any differences between adjustment to the carrying amount of non-controlling interests and the fair value of the consideration received or paid are recognised directly in equity.

When put options are issued as part of the consideration for business combinations, the non-controlling interests receiving put options are considered to have been redeemed on the acquisition date. The non-controlling interests are eliminated and a liability is recognised. The liability is determined as the present value of the expected exercise price of the option. Subsequent adjustments to the liability are recognised in equity.

Issued put options relating to business combinations with an acquisition date prior to 1 January 2010 will continue to be recognised in accordance with IFRS 3 (2004), i.e. with recognition of interest expenses in the income statement and value changes in goodwill. Any subsequent dividend payments to option holders reduce the liability, as the option price is adjusted for dividend payment.

INCOME STATEMENT

Revenue: Pharmaceuticals for treatment of brain disorders and allergy

Revenue comprises invoiced sales for the year less returned goods and discounts and revenue-based taxes consisting mainly of value added taxes and revenue-based drug taxes. Moreover, revenue includes license income and royalties from out-licensed products as well as non-refundable down payments and milestone payments relating to research and development partnerships and collaboration on commercialisation of products.

In addition, income from the reduction of investments in research enterprises considered to represent sale of research results is recognised as revenue.

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

NOTE 33

33. General accounting policies (Continued)

Revenue: Emergency, Assistance, Healthcare and Safety services

Revenue comprises the value of services and goods delivered and invoiced subscriptions attributable to the financial period, and is recognised in the income statement if delivery and transfer of risk to the buyer have taken place before year-end, and if the income can be reliably measured and is expected to be received.

The value of services rendered is recognised on the basis of the delivered percentage of the total service.

Revenue from subscriptions is allocated to the income statement on a straight-line basis.

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue is measured at the fair value of the agreed consideration less value added taxes and discounts.

Cost of sales

Cost of sales comprises the cost of goods and services sold. Cost includes the cost of raw materials, transport costs, consumables and goods for resale, direct labour and indirect costs of production, including operating costs, amortisation/depreciation and impairment losses relating to products rights and manufacturing facilities. Moreover, cost of sales includes royalty payments for in-licensed products, expenses for quality assurance of products and write-down to net realisable value of obsolete and slow-moving goods.

Cost of sales also includes external assistance used to generate the revenue for the year.

Research and development costs

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

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

Development costs are recognised in the income statement as they are incurred. Development costs are capitalised only if a number of specific criteria are deemed to have been met. See Note 1 *Significant accounting policies* for a description of conditions for capitalizing development costs.

Sales and distribution costs

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

Administrative expenses

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

Results of investments in associates

The proportionate share of the results of associates is recognised in the income statement after tax. Unrealised gains and losses on transactions with associates are eliminated in proportion to the Group's share of the enterprise.

NOTE 33

33. General accounting policies (Continued)

Financial items

Financial items comprise:

- Interest income and expenses
- Interest element of financial lease payments
- Realised and unrealised market value adjustments of financial assets including short-term securities that are included in the Group's investment strategy.
- Realised and unrealised gains and losses on unhedged items denominated in foreign currencies, forward exchange contracts and other derivatives not used for hedge accounting
- Realised fair value adjustments and prolonged impairment losses on and dividends from available-for-sale financial assets.
- Dividends to capital holders who have received put options in connection with business combinations in the cases where the option price is independent of dividend payments.
- Dividends from investments included in the Group's investment strategy
- Other financial income and expenses

Tax

Lundbeckfonden's Danish subsidiaries are jointly taxed with Lundbeckfond Invest A/S as administration company. The current Danish corporate income tax liability is allocated among the companies of the tax pool in proportion to their taxable income (full allocation subject to reimbursement in respect of tax losses).

Lundbeckfonden has the option to use section 3(4) of the Danish Corporation Tax Act. Under these rules, the taxable income of Lundbeckfond Invest A/S is considered to have been earned by Lundbeckfonden if the taxable income is distributed as dividend to Lundbeckfonden. Since Lundbeckfonden's taxable income is regularly offset against grants for the year and tax provisions for future grants, no deferred tax asset or liability is recognised in respect of financial assets (portfolio investments) owned by Lundbeckfonden and Lundbeckfond Invest A/S and future grants.

Tax for the year, which consists of the year's current tax and the change in deferred tax, is recognised in the income statement as regards the amount that can be attributed to the net profit or loss for the year, in other comprehensive income as regards the amount that can be attributed to items in other comprehensive income and in equity as regards the amount that can be attributed to items recognised in equity. The effect of foreign currency exchange difference on deferred tax is recognised in the balance sheet as part of the movements in deferred tax.

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

Special items

Special items comprise significant income and expenses of a special nature in terms of the Group's revenue-generating operating activities such as amortisation of intangible assets from acquisitions, transaction costs associated with acquisitions and impairment of goodwill and product rights.

BALANCE SHEET

Goodwill

On initial recognition, goodwill is measured and recognised as the excess of the cost or fair value of the acquired business over the fair value of the acquired assets, liabilities and contingent liabilities. On recognition, the goodwill amount is allocated to those of the Group's activities that generate separate cash flows (cash generating units).

Goodwill is not amortised but is tested for impairment at least annually, or if there is indication of impairment.

Development projects

Development costs are recognised in the income statement as they are incurred unless the conditions for capitalisation have been met. Development costs are capitalised only if the development projects are clearly defined and identifiable and where the technical rate of utilisation of the project, the availability of adequate resources and a potential future market or development opportunity can be demonstrated. Furthermore, such costs are capitalised only where the intention is to manufacture, market or use the project, when the cost can be measured reliably and when it is

NOTE 33

33. General accounting policies (Continued)

probable that the future earnings can cover production, sales and distribution costs, administrative expenses and development costs.

After completion of the development work, development costs are amortised over the expected useful life. The maximum amortisation period for development projects protected by intellectual property rights, is the remaining patent protection period of the rights concerned. Ongoing development projects are tested for impairment at least annually, or if there is indication of impairment.

Product rights and other intangible assets
Acquired intellectual property rights in the form of product rights, patents, licenses, customer relationships, brands and software are measured at cost less accumulated amortisation and impairment losses. The cost of software comprises the cost of planning, labour and costs directly attributable to the project.

Product rights are amortised over the economic lives of the underlying products, which in all material aspects are currently between 6 and 10 years. Patents are amortised over a maximum of the remaining life of the patent. Licenses are amortised over the period of the agreement. Intangible assets acquired on acquisition are amortised over the expected economic life, estimated to be 3 to 10 years. Software is amortised over the expected economic life, estimated to be 3 to 5 years. Amortisation commences when the asset is ready to be brought into use, i.e. at the time of commercialization.

Amortisation is recognised in the income statement under cost of sales, research and development costs , sales and distribution costs and administrative expenses, respectively. Borrowing costs to finance the manufacture of intangible assets are recognised in the cost price if such borrowing costs relate to the production period. Other borrowing costs are expensed.

Gains and losses on the disposal of development projects, patents and licenses are measured as the difference between the selling price less cost to sell and the carrying amount at the time of sale.

See Note 2 *Significant accounting estimates and judgements* for a description of the calculation of the recoverable number of intangible assets and impairment testing.

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

Cost includes the costs of purchase and expenses directly attributable to the purchase until the asset is ready for use. The cost of self-constructed assets includes costs directly attributable to the construction of the asset. Borrowing costs to finance the manufacture of property, plant and equipment are recognised in the cost price if such borrowing costs relate to the production period. Other borrowing costs are expensed.

Assets held under finance leases are recognised under property, plant and equipment and measured at the lower of the fair value and value in use of the future lease payments at the inception of the lease. Assets held under finance leases are depreciated over the estimated useful lives of the assets or, if shorter, over the lease term.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the assets:

	Years
Buildings	25-50
Installations	10
Plant and machinery	3-10
Vehicles according to category	5-12
Dispatch centres, radio systems, major administrative systems and networks	8
Fire extinguishers and similar equipment installed at customers' locations	3-5
Other fixtures and fittings, tools and equipment	3-10
Leasehold improvements max.	10

NOTE 33

33. General accounting policies (Continued)

Depreciation methods, useful lives and residual values are re-assessed annually.

Costs incurred that increase the recoverable amount of the asset are added to the asset's cost as an improvement and are depreciated over the estimated useful life of the improvement.

Gains or losses on the sale or retirement of items of property, plant and equipment are calculated as the difference between the carrying amount and the selling price less cost to sell or discontinuance costs. Gains and losses are recognised in the income statement normally in a separate line item or, if considered immaterial to the understanding of the consolidated financial statements, in the same line item as the associated depreciation.

Investments in associates

Investments in associates, except for investments in associates, that are included in Lundbeckfonden's investment strategy, are measured in the consolidated financial statements using the equity method and recognised at the proportionate share of the equity of the relevant enterprise, made up in accordance with the Group' accounting policies, with the addition of values added on acquisition, including goodwill. Investments in associates are tested for impairment when there is an indication that the investment may be impaired. Associates with negative equity value are measured at zero value. If the Group has a legal or constructive obligation to cover the associate's negative balance, such obligation is recognised under liabilities.

Investments in associates that are included in Lundbeckfonden's investment strategy are recognised at fair value. Both realised and unrealised gains and losses are recognised in the income statement under financial items.

Receivables from associates

Receivables from associates are recognised at cost. Receivables are written down only to the extent they are deemed irrecoverable.

Joint arrangements

Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties involved. Joint operations are recognised based on the Group's share of income, expenses, assets and liabilities. Joint ventures are recognised at equity value in line with associates.

Financial assets

Securities that are included in Lundbeckfonden's investment strategy in accordance with the fair value option of IAS 39 Financial Instruments: Recognition and Measurement are recognised on the basis of the settlement date fair value and are subsequently measured at market price or estimated fair value at the balance sheet date. Bonds with a term to maturity of less than one year are recognised in current assets. Both realised and unrealised gains and losses are recognised in the income statement under financial items.

Bonds forming part of repo transactions, i.e. the selling of bonds to be repurchased later, remain in the balance sheet as financial assets, and the amount received on repo transactions is recognised as repo debt. Returns on such bonds are recognised under financial items.

The fair value of listed investments is calculated using market prices at the balance sheet date. The calculation of fair value of unlisted investments, including life science investments, is made in accordance with International Private Equity and Venture Capital Valuation Guidelines. i.e. on the basis of relevant valuation methods based on comparable transactions on market conditions, capital increases and the like. If the fair value cannot be determined with sufficient reliability, the investments in question are recognised at cost less any impairment. The Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. Assessments of investments in unlisted equity instruments and securities, including life science investments, include an assessment of whether the companies live up to the defined business plans and the impact of any non-compliance on the calculation of fair value.

NOTE 33

33. General accounting policies (Continued)

Other investments classified as available-for-sale are measured at fair value with the addition of costs directly attributable to the acquisition. These financial assets are subsequently measured at fair value at the balance sheet date, and changes to the fair value are recognised in other comprehensive income with the exception of dividends and prolonged impairment losses, which are recognised in the income statement. When these financial assets are sold or settled, the accumulated fair value adjustments are recycled to financial items or to revenue if the fair value adjustment concerns investments in research enterprises.

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

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

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

Other receivables recognised in financial assets are financial assets with fixed or determinable payments that are not quoted on an active market and are not derivative financial instruments.

On initial recognition, receivables are measured at fair value and subsequently at amortised costs, which usually corresponds to the nominal value less writedowns to counter the risk of loss calculated on the basis of an individual assessment or a portfolio of receivables assessment. A provision account is used for this purpose.

Prepayments
Prepayments comprise prepaid costs which are measured at cost.

Securities
On initial recognition, securities including the bond portfolio, that are included in the Group's investment strategy for excess liquidity, or bonds with a term to maturity of less than one year, are recognised under current assets and measured at fair value at the transaction date. The securities are subsequently measured at fair value at the balance sheet date corresponding to the market value at the balance sheet date. Both realised and unrealised gains and losses are recognised in the income statement.

Equity
Authorised grants
Grants are considered equity movements and are recognised as a liability at the time when the grant has been authorised by the Board of Trustees and announced to the recipient. Authorised grants not yet disbursed are recognised in non-current or current liabilities, respectively.

Reserve for future grants
In accordance with the Danish Act for industrial foundations, a reserve for future grants has been set up in order for Board of Trustees to be able to donate grants during the period until the approval of the annual report for the subsequent financial year. The reserve does not have to be used, but is continuously reduced with donated grants. Every year at the Annual Meeting, the Board of Trustees will re-evaluate the size of the reserve.

NOTE 33

33. General accounting policies (Continued)

Hedging reserve
Hedge transactions that meet the criteria for hedging future cash flows and for which the hedged transaction has yet to be realised are recognised in equity through other comprehensive income under the hedging reserve.

Foreign exchange adjustments concerning hedging transactions used to hedge the Group's net investment in such entities are recognised in equity through other comprehensive income under the hedging reserve.

Currency translation reserve
Foreign exchange adjustments arising on the translation of financial statements for subsidiaries and associates which are not part of Lundbeckfonden's Investment Strategy and have a functional currency other than DKK and foreign exchange adjustments relating to financial assets and liabilities representing a part of the Group's net investment in such entities are recognised in equity through other comprehensive income under the currency translation reserve.

On full or partial realisation of a net investment, foreign exchange adjustments are recognised in the income statement.

Treasury shares in subsidiaries
Cost and selling prices of treasury shares held by subsidiaries as well as dividends are recognised directly in equity under retained earnings.

Non-controlling interests
The proportionate shares of the profit and equity of subsidiaries attributable to non-controlling interests are recognised as a separate item under equity. On initial recognition, non-controlling interests are recognised as described under "Acquisitions". Put options issued as part of the consideration for business combinations are recognised as described under "Acquisition and divestment of non-controlling interests" above.

Share-based payments
Share-based incentive programmes in which employees may opt to buy shares in H. Lundbeck A/S, Falck A/S and ALK-Abelló A/S, and in which shares are granted to employees (equity programmes) are measured at the equity instruments' fair value at the date of offer/grant and recognised under staff costs when or as the employee obtains the right to buy/receive the shares. The balancing item is recognised directly in equity under other transactions.

Share price-based incentive programmes in which employees have the difference between the agreed price and the actual share price settled in cash (debt programmes) are measured at fair value at the date of grant and recognised in the income statement under staff costs when or as the employees obtain the right to such difference settlement. The incentive programmes are subsequently remeasured on each balance sheet date and upon final settlement, and any changes in the fair value of the programmes are recognised under staff costs. The balancing item is recognised under provisions until the time of the final settlement.

Warrant programmes
Warrants to Executive Management Board in Falck are issues at the market value on the date of grant. Payments received and made in relation to the warrant programme are recognised in equity.

Retirement benefit obligations
Periodical payments to defined contribution plans are recognised in the income statement at the due date, and any contributions payable are recognised in the balance sheet under current liabilities.

The present value of the Group's liabilities relating to future pension payments according to defined benefit plans is measured on an actuarial basis once a year on the basis of the pensionable period of employment up to the time of the actuarial valuation. The calculation of present value is based on assumptions of the future developments of salary, interest, inflation, mortality and disability rates and other factors. Present value is computed exclusively for the benefits to which the employees have earned entitlement through their employment with the Group. Pension expenses, finance costs and administration fees are recognised in the income statement under staff

NOTE 33

33. General accounting policies (Continued)

costs. Actuarial gains and losses are recognised in the statement of comprehensive income as they are calculated and cannot subsequently be recycled through profit or loss.

The present value of the defined benefit plan liability is measured less the fair value of the plan assets, and any net obligation is recognised in the balance sheet under non-current liabilities. Any net asset is recognised in the balance sheet as a financial asset.

Corporate income tax and deferred tax
Current tax payables and receivables are recognised in the balance sheet, computed as tax calculated on the taxable income for the year adjusted for provisional tax paid.

Tax on items in other comprehensive income is recognised in other comprehensive income. Tax on equity entries is recognised in equity.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities and their tax bases, except for temporary differences arising either on initial recognition of goodwill or from a transaction that is not a business combination and with the temporary difference ascertained at the time of the initial recognition affecting neither the financial result nor the taxable income. The tax value of the assets is calculated based on the planned use of each asset.

Deferred tax is measured on the basis of the income tax rates and tax rules in force in the respective countries on the balance sheet date. Changes in deferred tax as a result of changed tax income rates or tax rules are recognised in the income statement.

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

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

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

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

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

Other provisions
Other provisions consist of different types of provisions, including provisions for pending lawsuits. Management assesses provisions and contingent items, including the probable outcome of pending and possible future lawsuits, which are inherently subject to uncertain future events. When management determines the probable outcome of lawsuits and similar factors, it relies on assessments made by external advisers who are familiar with the specific cases and the existing legal practice in the area.

In connection with a restructuring of the Group, provisions are made only for liabilities set out in a specific restructuring plan on the basis of which the parties affected can reasonably expect that the Group will carry out the restructuring, either by starting to implement the plan or announcing its main components.

A provision for onerous contracts is made when the expected benefits to be derived by the Group from a contract are lower that the unavoidable cost of meeting its obligations under the contract.

NOTE 33

33. General accounting policies (Continued)

When the Group is under an obligation to dismantle an asset or re-establish the site where the asset has been used, a provision is made corresponding to the present value of the expected future costs. The provision is determined based on current orders and estimated future costs, discounted to their present value. The discount factor used reflects the general level of interest rates. The present value of the costs is recognised in the cost of the item of property, plant and equipment in question and depreciated together with these assets. The increase of the present value over time is recognised in the income statement under financial expenses.

Other provisions are recognised when the Group has a legal or constructive obligation that arises from past events and it is probable that an outflow of financial resources will be required to settle the obligation.

Other provisions are measured as the best estimate of the costs required to settle the liabilities at the balance sheet date.

Return obligations imposed on the Group are recognised in the balance sheet under other provisions.

Debt

Mortgage debt, bank debt and debt to credit institutions are recognised at the time of the raising of the loan at proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, which is equivalent to the capitalised value when the effective rate of interest is used. The difference between the proceeds and the nominal value is recognised in the income statement under financial items over the loan period.

Debt included in the short-term financial liquidity is measured at amortised cost in subsequent periods.

Residual lease commitments from finance leases are recognised at amortised cost.

Repo debt relates to bonds included in repo transactions. Repo debt is recognised at amortised cost, and accumulated repo interest has been accrued.

Other payables, which include trade payables and debt to public authorities etc., are measured at amortised cost.

Lease liabilities

Lease liabilities regarding assets held under finance lease are recognised in the balance sheet as liabilities and measured at the inception of the lease at the lower of the fair value of the leased asset and the present value of future lease payments.

On subsequent recognition, lease liabilities are measured at amortised cost. The difference between the present value and the nominal value of lease payments is recognised in the income statement over the term of lease as financial items.

Lease payments regarding operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Prepayments from customers

Prepayments from customers primarily represents subscription revenue relating to subsequent financial years and revenue from contracts prepaid by customers.

CASH FLOW STATEMENT

The consolidated cash flow statement is presented according to the indirect method and shows the composition of cash flows, divided into operating, investing and financing activities respectively, and cash and cash equivalents at the beginning and at the end of the year.

Cash flows includes cash flows from companies acquired as from the date of acquisition and cash flows from companies divested until the date of divestment.

Cash comprises cash and bank balances less any drawings on credit facilities that are an integral part of the cash management.

NOTE 33-34

33. General accounting policies (Continued)

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

KEY FIGURES

The key figures are calculated according to Recommendations and Financial Ratios 2015 issued by the Danish Finance Society.

Operating profit:	Defined as the profit before special items, financial items and tax
Operating profit margin:	Operating profit x 100 / Revenue
Return on equity:	Profit for the year x 100 / Average equity

Net wealth

Net wealth of Lundbeckfonden's net assets is estimated based on fair value at the balance sheet date. For the valuation of Lundbeckfonden's investment activities, please refer to the accounting policies above under *Financial assets*. The fair value of Lundbeckfonden's shares in ALK and Lundbeck is based on market prices. The fair value of Lundbeckfonden's shares in Falck is an estimated value based on a trading multiple model using historical accounting numbers for Falck and a peer group.

34. Events after the balance sheet date

At 3 January 2017, the operating assets in Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC were acquired by ALK Group for a total cash consideration of USD 20m (approx. DKK 141m) exclusive taxed. The two companies had previously been under the same private ownership and produce allergen extracts and other material used in allergy immunotherapy treatments. Allergy Laboratories, Inc. and Crystal Laboratories LLC have a combined staff of around 100.

The transaction is on a debt and cash free basis. The purchase price reflects a 2015 notice by the US Food and Drug Administration's Center for Biologics Evaluation and Research (CBER) that intends to revoke Allergy Laboratories' biological license. ALK is confident that it can resolve this issue. However, part of the purchase price will be held back pending full resolution of the matter.

Preliminary purchase price allocation has been prepared. Inventories amount to USD 5m, operating tangible assets amount to USD 3m and intangible (incl. goodwill) assets amount to USD 12m. No liabilities were transferred.

No other events of importance to the Annual Report have occurred during the period from the balance sheet date until the presentation of the financial statements.

Financial statements

FINANCIAL STATEMENTS

OF THE PARENT FOUNDATION

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INCOME STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

	Note	2016 DKKm	2015 DKKm
Dividend from Lundbeckfond Invest A/S		-	1,000
Financial income	2	547	310
Financial expenses	2	-115	-474
Profit from investing activities before costs		**432**	**836**
Other operating income		1	3
Staff costs	3	-25	-19
Other external costs	4, 5	-19	-17
Depreciations and amortisations		-3	-3
Profit before tax		**386**	**800**
Tax on profit for the year	6	-7	-17
Profit for the year		**379**	**783**

	2016 DKKm
Proposed distribution of profit:	
Profit for the year	379
Amount available for distribution	**379**
The Board of Trustees proposes the profit to be allocated as follows:	
Transferred to capital base	77
Grants for the year	493
Reversed grants/repayments for the year	-21
Net grants for the year	472
Transferred to provision for future grants	472
Retained earnings	-170
Distributed	**379**

BALANCE SHEET

AT 31 DECEMBER

Assets	Note	2016 DKKm	2015 DKKm
Other intangible assets		1	1
Intangible assets	7	**1**	**1**
Land and buildings		77	78
Tangible assets	8	**77**	**78**
Investments in subsidiaries	9	4,056	4,058
Other securities and investments	10, 13	4,824	4,919
Financial assets		**8,880**	**8,977**
Non-current assets		**8,958**	**9,056**
Receivables from subsidiaries		1	3
Income taxes receivable		5	-
Other receivables		22	31
Financial assets		**28**	**34**
Cash and bank balances		**300**	**112**
Current assets		**328**	**146**
Assets		**9,286**	**9,202**

Equity and liabilities	Note	2016 DKKm	2015 DKKm
Capital base	11	2,965	2,888
Reserve for future grants		750	750
Retained earnings		4,331	4,501
Equity		**8,046**	**8,139**
Pension liabilities	12	15	16
Provisions		**15**	**16**
Payable grants, long-term		324	333
Non-current liabilities		**324**	**333**
Payable grants, short-term		640	586
Income taxes payable		-	3
Repo debt		253	119
Other payables		8	6
Current liabilities		**901**	**714**
Liabilities		**1,225**	**1,047**
Equity and liabilities		**9,286**	**9,202**
Financial instruments	13		
Related parties	14		
Events after the balance sheet date	15		

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

	Capital base	Reserve for future grants	Retained earnings	Total
	DKKm	DKKm	DKKm	DKKm
Equity at 1 January 2016	2,888	750	4,501	8,139
Grants, net		-472		-472
Transferred to provision for future grants		472	-472	-
Transferred to capital base	77		-77	-
Retained profit for the year			379	379
Equity at 31 December 2016	**2,965**	**750**	**4,331**	**8,046**
Equity at 1 January 2015	2,728	750	4,284	7,762
Grants, net		-406		-406
Transferred to provision for future grants		406	-406	-
Transferred to capital base	160		-160	-
Retained profit for the year			783	783
Equity at 31 December 2015	**2,888**	**750**	**4,501**	**8,139**

NOTE 1-2

1. Accounting policies

The financial statements for Lundbeckfonden (the parent foundation) for 2016 have been prepared in accordance with the Danish Financial Statements Act for large reporting enterprises class C.

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

The accounting policies are unchanged from last year.

DIFFERENCES RELATIVE TO THE ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The parent foundation's accounting policies for recognition and measurement are consistent with the policies for the consolidated financial statements with the exception of the changes to accounting policies as a result of changes to the Danish Financial Statements Act and the exceptions stated below.

OTHER OPERATING INCOME

Other income consists of rental and other service income as well as gain on sale of tangible fixed assets.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are measured at cost less impairment losses. Dividends are recognised in the income statement.

CASH FLOW STATEMENT

With reference to section 86(4) of the Danish Financial Statements Act and the consolidated financial statements of Lundbeckfonden, the parent has not prepared Cash Flow Statement.

2. Financial income and expenses

	2016 DKKm	2015 DKKm
Financial income		
Interest income, etc.	370	233
Gain from securities and other equity investments	177	77
Total financial income	**547**	**310**
Financial expenses		
Interest expenses etc.	2	1
Loss on securities and other equity investments	113	473
Total financial expenses	**115**	**474**

NOTE 3-5

3. Staff costs

	2016 DKKm	2015 DKKm
Wages and salaries, incl. holiday allowance	24.3	19.1
Pension contributions	0.4	0.1
Other social security costs	0.1	0.1
Total staff costs	**24.8**	**19.3**

Average number of employees during the year	14	10
Number of employees at year-end	15	12

	2016 DKKm	2015 DKKm
Remuneration of the Executive Management (excluding remuneration received from subsidiaries)	4	4
Remuneration of the Board of Trustees, including committee fees (excluding remuneration received from subsidiaries)	4	4

Members of Executive Management and the Board of Trustees, who also serve as board members in subsidiaries also receive board remuneration directly from such subsidiaries. For a complete description, see the consolidated financial statements in the annual report 2016 for Lundbeckfonden, Note 4.

4. Total operating costs of Lundbeckfonden and Lundbeckfond Invest A/S

	2016 DKKm	2015 DKKm
Lundbeckfonden - Staff costs, other external costs and depreciations	47	39
Lundbeckfond Invest A/S - Staff costs and other external costs	32	28
Total costs	**79**	**67**
The costs can be allocated to Lundbeckfonden's activities as follows:		
Strategic investment and administration	28	28
Invest	18	16
LundbeckfondenVentures	9	7
Lundbeckfonden Emerge	3	-
Grant	15	16
The Brain Prize	6	-
Total costs	**79**	**67**

5. Fees to auditors appointed at the annual meeting

Other external costs include fees to auditors appointed by the Board of Trustees.

	2016 DKKm	2015 DKKm
Statutory audit	0.3	0.3
Other services	0.1	0.3
Total fees	**0.4**	**0.6**

NOTE 6-9

6. Tax on profit for the year

	2016 DKKm	2015 DKKm
Current tax	7	17
Total tax for the year	**7**	**17**

In 2016, Lundbeckfonden paid corporate income taxes of DKK 14m (DKK 33m in 2015). When calculating the taxable income, Lundbeckfonden has deducted grants and tax provisions for future grants. No deferred taxes are recognised for accounting purposes concerning tax provisions for future grants as this is not expected to realise. Furthermore, no deferred tax asset has been recognised regarding tax losses carried forward. Deferred tax not recognised amounted to DKK 550m (DKK 371m in 2015).

7. Intangible assets

Other intangible assets	2016 DKKm	2015 DKKm
Cost at 1 January	2	2
Additions	1	-
Disposals	-	-
Cost at 31 December	**3**	**2**
Amortisation at 1 January	-1	-1
Amortisation for the year	-1	-
Amortisation at 31 December	**-2**	**-1**
Carrying amount at 31 December	**1**	**1**

8. Tangible assets

Land and buildings	2016 DKKm	2015 DKKm
Cost at 1 January	86	85
Additions	2	1
Disposals	-	-
Cost at 31 December	**88**	**86**
Depreciation at 1 January	-8	-5
Depreciation for the year	-3	-3
Depreciation at 31 December	**-11**	**-8**
Carrying amount at 31 December	**77**	**78**

9. Investments in subsidiaries

	Lundbeckfond Invest A/S DKKm	Other subsidiaries DKKm	Total DKKm
Cost at 1 January 2016	4,046	22	4,068
Additions	-	-	-
Cost at 31 December 2016	**4,046**	**22**	**4,068**
Net revaluation at 1 January 2016	-	-10	-10
Value adjustments for the year	-	-2	-2
Net revaluation at 31 December 2016	**-**	**-12**	**-12**
Carrying amount at 31 December 2016	**4,046**	**10**	**4,056**
Dividend received in 2016	**-**	**-**	**-**

NOTE 9-10

9. Investments in subsidiaries (Continued)

	Lundbeckfond Invest A/S DKKm	Other subsidiaries DKKm	Total DKKm
Cost at 1 January 2015	4,046	15	4,061
Additions	-	7	7
Cost at 31 December 2015	**4,046**	**22**	**4,068**
Net revaluation at 1 January 2015	-	-6	-6
Value adjustments for the year	-	-4	-4
Net revaluation at 31 December 2015	**-**	**-10**	**-10**
Carrying amount at 31 December 2015	**4,046**	**12**	**4,058**
Dividend received in 2015	**1,000**	**-**	**1,000**

	Registered office DKKm	Ownership DKKm	Profit for the year 2016 DKKm	Equity at 31 December 2016 DKKm
Lundbeckfond Invest A/S	Copenhagen, Denmark	100%	554	17,830
Insusense ApS	Copenhagen, Denmark	69%	-4	3

10. Other securities and investments

	Bond and corporate loans portfolios DKKm	Equities DKKm	Unlisted investment funds DKKm	Total DKKm
Carrying amount at 1 January 2016	2,881	2,025	13	4,919
Additions	1,257	223	-	1,480
Disposals	-1,353	-438	-	-1,791
Value adjustments for the year	97	120	-1	216
Carrying amount at 31 December 2016	**2,882**	**1,930**	**12**	**4,824**
Carrying amount at 1 January 2015	3,001	1,428	11	4,440
Additions	2,227	1,541	1	3,769
Disposals	-2,353	-604	-	-2,957
Value adjustments for the year	6	-340	1	-333
Carrying amount at 31 December 2015	**2,881**	**2,025**	**13**	**4,919**

Valuation methods used for determination of fair value of unlisted investment funds are based on International Private Equity and Venture Capital Valuation Guidance applied by the general managers in capital accounts, e.g. trading multiples of peer group or expected discounted cash flow.

Bonds in repo transactions have been provided as collateral for repo debt. The value of bonds in repo transactions provided as collateral at 31 December 2016 amounted to DKK 253m (DKK 119m in 2015).

NOTE 11-13

11. Capital base

Changes in the capital base	2016 DKKm	2015 DKKm
Capital base at 1 January 2012 (2011 in 2015)	2,225	2,050
2011 Capital base increased by	-	175
2012 Capital base increased by	45	45
2013 Capital base increased by	253	253
2014 Capital base increased by	205	205
2015 Capital base increased by	160	160
2016 Capital base increased by	77	-
Capital base at 31 December	**2,965**	**2,888**

12. Pension obligations

Pension obligations	2016 DKKm	2015 DKKm
Obligations at 1 January	16	18
Adjustment for the year	-1	-2
Obligations at 31 December	**15**	**16**

13. Financial instruments

Equity contracts	Contractual value DKKm	Share option gains/losses recognised in the income statement DKKm	Market value 31 December DKKm	Expiry period
2016				
Options on shares	-54	10	-3	Jan 2017
Equity contracts	**-54**	**10**	**-3**	
2015				
Options on shares	-	7	-	-
Equity contracts	**-**	**7**	**-**	

NOTE 14-15

14. Related parties

Lundbeckfonden defines related parties as Lundbeckfonden's Board of Trustees and Executive Management, its wholly-owned investment and holding company Lundbeckfond Invest A/S and this company's subsidiaries H. Lundbeck A/S, ALK-Abelló A/S, Falck A/S, LFI Equity A/S, and Insusense ApS, including theirs subsidiaries.

Lundbeckfond Invest A/S shares the same address as Lundbeckfonden, and there is duality of membership between the Executive Management, administration (partly) and Board of Trustees. Lundbeckfonden receives dividends from Lundbeckfond Invest A/S, which are recognised in the income statement.

Lundbeckfonden received payment for administration costs, net amount DKK 3m in 2016 (DKK 3m in 2015) from Lundbeckfond Invest A/S. At 31 December 2016 Lundbeckfonden has a receivable from Lundbeckfond Invest A/S amounting to DKK 1m (DKK 3m in 2015), which is recognised in the balance sheet under current assets.

Lundbeckfonden also received service fees for administrative services provided to Insusense ApS amounting to DKK 0.2m in 2016 (DKK 0.2m in 2015).

For information on remuneration paid to the members of the Executive Management and Board of Trustees, see Note 4.

Other than the above, there have only been few transactions of immaterial importance with related parties.

15. Events after the balance sheet date

No events of importance to the Annual Report have occurred during the period from the balance sheet date until the presentation of the financial statements.

MANAGEMENT STATEMENT

The Board of Trustees and the Executive Management have today considered and approved the annual report of Lundbeckfonden for the financial year ended 31 December 2016.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements have been prepared in accordance with the Danish Financial Statements Act.

We consider the accounting policies used to be appropriate. Accordingly, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Foundation's assets, liabilities and financial position at 31 December 2016, and of the Group's and the Foundation's activities and the Group's cash flows for the financial year 1 January – 31 December 2016.

We believe that the management's review includes a fair review of developments in the Group's and the Foundation's activities and finances, results for the year and the Group's and the Foundation's financial position in general as well as a fair description of the principal risks and uncertainties to which the Group and the Foundation are exposed.

Copenhagen, 19 April 2017

EXECUTIVE MANAGEMENT

Lene Skole

BOARD OF TRUSTEES

Jørgen Huno Rasmussen
Chairman

Steffen Kragh
Deputy Chairman

Gunhild Waldemar

Lars Holmqvist

Michael Kjær

Peter Schütze

Susanne Krüger Kjær

Henrik Sindal Jensen
Elected by the employees

Peter Adler Würtzen
Elected by the employees

Vagn Flink Møller Pedersen
Elected by the employees

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF TRUSTEES OF LUNDBECKFONDEN

Opinion

We have audited the consolidated financial statements and the parent financial statements of Lundbeckfonden for the financial year 1 January - 31 December 2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies for the Group as well as the parent foundation, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Foundation's financial position at 31 December 2016 and of the results of its operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Statement on the management review

Management is responsible for the management review.

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

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

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

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

Management's responsibilities for the consolidated financial statements and the Foundation financial statements

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

INDEPENDENT AUDITOR'S REPORT

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

Auditor's responsibilities for the consolidated financial statements and the Foundation financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the Foundation financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Copenhagen, 19 April 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

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State-Authorised Public Accountant

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LUNDBECKFONDEN