

Lundbeckfonden

Lundbeck Foundation

Annual report

LUNDBECKFONDEN
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CVR-nr. 11814913

Approved at the
Annual Meeting 17 April 2018


LENE SKOLE
Chairman

LUNDBECKFONDEN

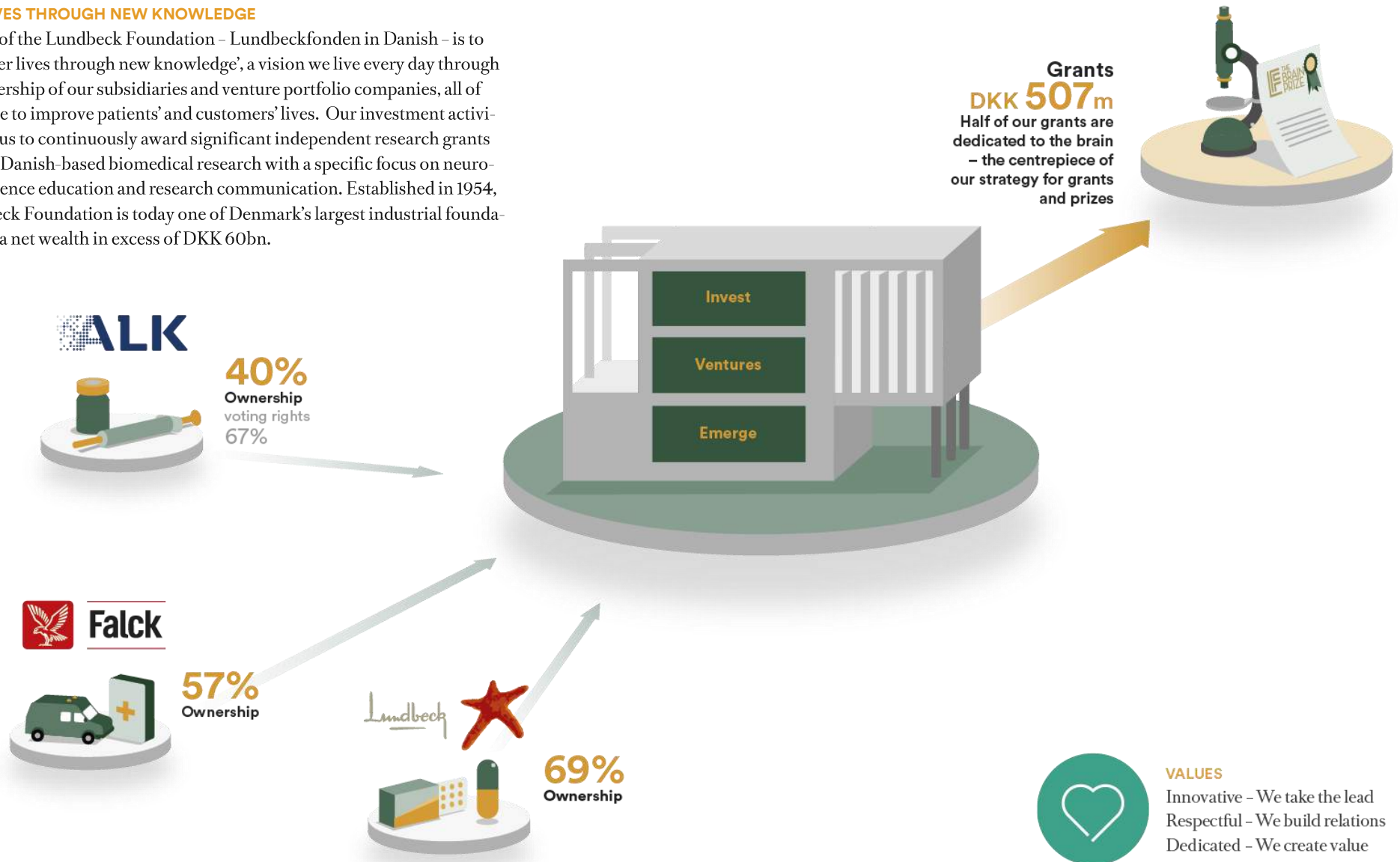


2017

LUNDBECKFONDEN AT A GLANCE

BETTER LIVES THROUGH NEW KNOWLEDGE

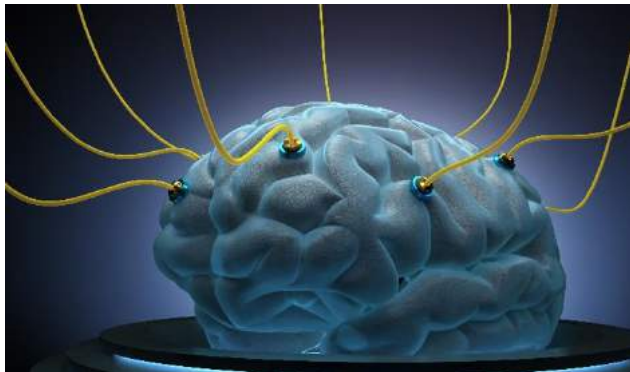
The vision of the Lundbeck Foundation – Lundbeckfonden in Danish – is to create ‘better lives through new knowledge’, a vision we live every day through active ownership of our subsidiaries and venture portfolio companies, all of which strive to improve patients’ and customers’ lives. Our investment activities enable us to continuously award significant independent research grants to advance Danish-based biomedical research with a specific focus on neuroscience, science education and research communication. Established in 1954, the Lundbeck Foundation is today one of Denmark’s largest industrial foundations, with a net wealth in excess of DKK 60bn.



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A key objective of the foundation's grant activities is to help Denmark become one of the world's leading neuroscience nations.

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“We add value to our investments through the team’s operational experience, gained in the healthcare industry, and its international financing syndication network.”



METTE KIRSTINE AGGER
Managing Partner, Ventures

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“The brain is the centrepiece of our new grant-making strategy, with the clear aim of helping Denmark to the very forefront of this critical area of research.”

LETTER FROM THE CHAIRMAN AND CEO

In many ways, 2017 was a year marked by new beginnings built on strong foundations – for the Lundbeck Foundation, and for each of our subsidiaries.

Once again, the foundation’s overall portfolio delivered positive results, ending 2017 with net assets valued at DKK 64bn,

with solid contributions coming from Lundbeck and our in-house investment activities including our venture activities.

During 2017, we announced a shift in our grant-making strategy. Each year, we typically grant around DKK 500m for biomedical research, with around half of this going to brain-related research. Our new strategy places the brain at the centre of our grant-making strategy, with the clear aim of helping Denmark to the very forefront of this critical area of research. In November, we appointed a senior vice president of Grants and Prizes, professor Thomas Sinkjær, to spearhead the implementation of the new strategy.

We also saw changes in leadership at each of our subsidiaries. At Lundbeck, in September, Kåre Schultz announced his intention to leave the company to join Teva Pharmaceutical Industries.

The current CFO, Anders Götzsche, has been appointed as interim CEO while a long-term successor is identified. He took over a strong and healthy Lundbeck, with solid financial momentum and a clear strategic direction.

At Falck, new CEO Jakob Riis took up his position in May. Together with the new CFO, Tor Magne Lønnum, who joined in September, and EVP Ambulance, Jakob Bomholt, who took up his position in January, Jakob Riis presented a new strategy to the Board in November. Although Falck is struggling with issues accumulated over a decade, we are confident that the new strategy marks the beginning of a journey towards a new, more focused and stronger Falck.

ALK’s new CEO Carsten Hellmann started his role in January 2017 and, in December, outlined a new strategy and three-year

LETTER FROM THE CHAIRMAN AND CEO

investment programme targeting a much wider global presence in allergy and allergic asthma. ALK also announced an offering of new shares, which the foundation supported in proportion to its existing holdings, resulting in total new capital of around DKK 700m.

There were positive contributions from the foundation's investment activities.

The financial investments (Invest) generated an excellent return, helped by a general confidence in the financial markets.

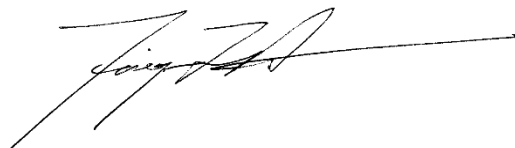
Following three significant divestments and four successful IPOs, alongside several new investments, the Ventures company portfolio saw a significant gain in its value. As each of these companies will attest, we are rarely passive investors in their futures. While we believe that our financial support is important, we also contribute our experience, our expertise, and offer access to our network of contacts. These things are just as valuable in helping to turn innovative research into the products and treatments of the future. This is also the case when it comes to our early-stage investment unit Emerge where we expanded the portfolio from three to six companies and introduced the new 'exploratory investments' concept.

Such performance is important because it provides the income to ensure our grant levels can continue at least at the current level, thus maintaining our position as one of the most important private contributors to biomedical research in Denmark.

The centrepiece of our commitment to brain research is the prestigious Brain Prize, which has conferred a EUR 1m grant to leading international brain researchers every year since 2011. This, alongside the more than DKK 250m awarded to other neuroscience projects, shows the strength of that commitment as well as the quality of research currently being undertaken.

The quest for new knowledge, for better health, and for the benefits they bring to society, goes on. And if we need reminding of the urgency of our mission, we need only look at the rising burden of psychiatric and neurological diseases, not just for those affected and their relatives, but for society as a whole.

The Lundbeck Foundation's commitment this year – as it is every year – is to invest in a better future, every single day – for patients, customers, shareholders, partners and employees. Our 2017 performance ensures we are able to continue doing so.



Jørgen Huno Rasmussen,
Chairman of the Board



Lene Skole,
CEO

5-YEAR SUMMARY

FINANCIAL HIGHLIGHTS

| DKKm | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--------|--------|--------|--------|--------|
| Revenue | 35,371 | 33,748 | 31,223 | 28,612 | 28,861 |
| Operating profit before special items | 3,876 | 2,944 | -1,121 | 814 | 2,781 |
| Operating profit | 2,230 | 2,944 | -6,109 | 814 | 2,082 |
| Profit for the year | 2,032 | 2,465 | -4,766 | 2,653 | 2,455 |
| Lundbeckfonden's share of profit | 1,700 | 1,900 | -3,006 | 2,494 | 2,074 |
| Financial items, financial investments, net | 1,433 | 1,138 | 950 | 2,228 | 1,206 |
| Financial items, Ventures and Emerge, net | 754 | -90 | 491 | 373 | 181 |
| Grants awarded | 507 | 493 | 423 | 459 | 368 |
| Dividends from subsidiaries | 337 | 20 | 149 | 401 | 295 |
| Cash flows from operating activities | 4,176 | 4,368 | 1,191 | 2,983 | 4,584 |
| Cash flows from investing activities | -1,594 | 122 | -3,937 | -4,790 | -2,530 |
| Cash flows from operating and investing activities (free cash flow) | 2,582 | 4,490 | -2,746 | -1,807 | 2,054 |
| Cash flows from financing and grant-making activities | -2,757 | -2,900 | 200 | 774 | -30 |
| Investments in acquisitions | 503 | 130 | 278 | 3,534 | 593 |
| Investments in property, plant, equipment and intangible assets | 1,423 | 1,225 | 3,971 | 2,358 | 2,361 |
| Equity | 32,708 | 30,326 | 28,864 | 33,023 | 29,357 |
| Lundbeckfonden's share of equity | 28,142 | 26,844 | 25,615 | 28,354 | 25,437 |
| Total assets | 53,886 | 55,892 | 56,126 | 59,588 | 54,121 |
| Net wealth | 63,591 | 61,287 | 54,341 | 38,770 | 37,642 |

KEY FIGURES

| | | | | | |
|--|--------|--------|--------|--------|--------|
| Revenue growth | 4.8% | 8.1% | 9.1% | -0.9% | 0.6% |
| Operating profit margin before special items | 11.0% | 8.7% | -3.6% | 2.8% | 9.6% |
| Operating profit margin | 6.3% | 8.7% | -19.6% | 2.8% | 7.2% |
| Return on equity | 6.4% | 8.3% | -15.4% | 8.5% | 8.6% |
| Average number of employees | 35,231 | 35,710 | 35,223 | 31,892 | 29,220 |

For the definition of key figures, please see note 34.

FINANCIAL PERFORMANCE

The Lundbeck Foundation's 2017 financial performance was a reflection of the strong position of Lundbeck and the excellent results of the in-house investment activities, including the foundation's life science venture fund. Strategic initiatives in ALK and Falck mark a new beginning of value creation for the future.

Revenue (DKKm)

35,371

Operating profit (DKKm)

2,230

Net wealth (DKKm)

63,591

The goals of continued growth in revenue and operating profit (before special items) were met in 2017.

Group revenue, gross profit, and operating profit before special items were all up in 2017, largely thanks to a highly successful year for Lundbeck. The foundation's investment activities also contributed significantly to Group profit, delivering a return of DKK 2,187m. Group profit for the year was, however, negatively affected by losses at ALK and Falck, the latter of which was influenced by the impairment of goodwill at Falck's Ambulance business unit.

At the end of 2017, the foundation's net wealth amounted to DKK 63,591m, which represents an increase of DKK 2,304m over 2016.

OPERATING ACTIVITIES

Revenue for the year was DKK 35,371m (DKK 33,748m), an increase of 5% over the previous year. The primary driver of this increase was Lundbeck, where revenue reached DKK 17,234m – an increase of 10% over the DKK 15,634m that was reported in 2016. Revenue in Falck increased by 1%, while revenue in ALK declined by 3%.

Gross profit for 2017 was DKK 17,526m, versus DKK 16,515m in 2016. The gross margin improved from 48.9% in 2016 to

49.6% in 2017. Again, Lundbeck was the primary influence here, with a 2017 gross margin of 77.5%, up from 73.9% in 2016.

Capacity costs amounted to DKK 13,961m, corresponding to an increase of 1% versus 2016 (DKK 13,760m).

Research and development (R&D) costs decreased by 7% to DKK 3,133m (DKK 3,354m) driven by lower R&D costs at Lundbeck. Meanwhile R&D costs at ALK increased by DKK 41m corresponding to 11% versus the previous year.

Overall sales and distribution costs increased to DKK 7,246m (DKK 6,970m) representing 20.5% of total revenue in 2017 (20.7%).

Administration costs amounted to DKK 3,582m, compared to DKK 3,436m in 2016, with the increase largely attributable to an increased spend at Falck of DKK 102m.

The foundation's own net administration and operational costs amounted to DKK 96m, versus DKK 79m in 2016. The

Figures for 2016 are shown in brackets

FINANCIAL PERFORMANCE

increase was mainly due to increased activities during 2017.

Operating profit before special items amounted to DKK 3,876m in 2017, versus DKK 2,944m in 2016. As a result of the lower returns from ALK and Falck, which distort the overall picture, the consolidated result does not fully reflect the vast improvement in Lundbeck's operating profit from 2016's DKK 2,290m to DKK 4,408m in 2017.

Special items include a DKK 1,646m impairment to goodwill at Falck's Ambulance business unit.

Operating profit (EBIT) for the Group in 2017 therefore amounted to DKK 2,230m, versus DKK 2,944m in 2016.

INVESTMENT ACTIVITIES

The overall investment activities contributed significantly to 2017's results, with a return of DKK 2,187m, up from DKK 1,048m in 2016. Of this contribution, the financial investment

OPERATING PROFIT BEFORE SPECIAL ITEMS

| DKKm | 2017 | 2016 |
|----------------|--------------|--------------|
| Lundbeck | 4,408 | 2,290 |
| ALK | -80 | 479 |
| Falck | -354 | 258 |
| Lundbeckfonden | -96 | -79 |
| Other | -2 | -4 |
| Total | 3,876 | 2,944 |

portfolio delivered a solid return of DKK 1,433m net (DKK 1,138m).

Meanwhile, the foundation's Ventures portfolio achieved a net gain of DKK 753m (loss of DKK 96m), a result that was primarily driven by the sale of three portfolio companies and IPOs of four further companies in the portfolio.

TAX

The reported tax rate increased from 32% in 2016 to 45% in 2017. The higher tax rate in 2017 is due to the non-deductible impairment of goodwill in connection with Falck's Ambulance business unit.

DISCONTINUING ACTIVITIES

Discontinuing activities refers to Falck's Safety Services division which saw a loss of DKK 115m in 2017 (loss of DKK 98m).

NET RESULT AND GRANT DONATIONS

Overall 2017 profit for the Lundbeck Foundation Group was DKK 2,032m, versus DKK 2,465m in 2016. The foundation's share of group profit was DKK 1,700m (DKK 1,900m).

During 2017, the foundation awarded a total of DKK 507m (DKK 493m) in grants, which is in line with the total grant sum of DKK 3bn that was projected for the period 2014-2019. However, thanks to the foundation's continuing financial strength, grants are now expected to grow over the coming years and to eventually exceed the projected sum by the end of 2019.

ASSETS

Total assets at 31 December 2017 amounted to DKK 53,886m versus DKK 55,892m at the end of 2016.

Meanwhile, intangible assets amounted to DKK 14,120m at year-end (DKK 17,642m), of which, goodwill amounted to DKK 9,014m (DKK 11,300m). The decrease in goodwill reflects an impairment of goodwill at Falck's Ambulance business unit of DKK 1,646m and exchange rate adjustments of DKK 676m.

Cash and bank balances at 31 December 2017, excluding discontinuing activities, amounted to DKK 3,808m (DKK 4,173m).

EQUITY AND LIABILITIES

Total equity of the Group at the end of 2017 amounted to DKK 32,708m (DKK 30,326m) reflecting an increase of 8% during 2017.

The foundation's share of the equity increased to DKK 28,142m (DKK 26,844m).

At 31 December 2017, total debt to financial institutions etc. fell to DKK 6,116m (DKK 9,253m). The decrease is mainly attributable to Lundbeck and Falck which repaid loans to the value of DKK 1,873m and 1,247m, respectively. The reduction of debts makes the Group financially stronger.

FINANCIAL PERFORMANCE

CASH FLOW

Total cash flows from operating activities amounted to DKK 4,176m versus DKK 4,368m in 2016.

Cash flows from investment activities excl. purchase and sale of financial assets was an outflow of DKK 1,430m versus DKK 767m in 2016.

In 2017, grants paid, net repayment of loans and payment of dividends amounted to DKK 406m, DKK 2,697m and DKK 190m, respectively.

Net cash flow in 2017 amounted to an outflow of DKK 173m versus an inflow of DKK 1,599m in 2016. At the end of 2017, the Group's net cash was DKK 3,939m versus DKK 4,173m at the end of 2016.

NET WEALTH

Net wealth increased by 4% to DKK 63,591m at 31 December 2017 (DKK 61,287m). Net wealth was negatively affected by a decrease in ALK's share price and a fall in the estimated value of Falck. These two factors alone reduced growth in the Group's net wealth by DKK 3,415m.

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 - for ALK and Lundbeck - and, for Falck, an estimated fair value based on a trading multiple model, and using historical accounting numbers for Falck and its peers.

OUTLOOK

The financial performance of the Group depends on developments in the commercial activities of ALK, Falck and Lundbeck as well as the returns generated by the foundation's financial investment activities, and the Ventures and Emerge portfolios. Returns provided by the financial investments largely depend on the performance of the financial markets, whereas returns from Ventures and Emerge also depend on the developments of products and similar factors at the portfolio companies.

For 2018, revenue is expected to continue to increase. Furthermore, it is expected that Group operating profit before special items will be higher than that achieved in 2017.

These expectations are based on the exchange rates prevailing at the end of January 2018.

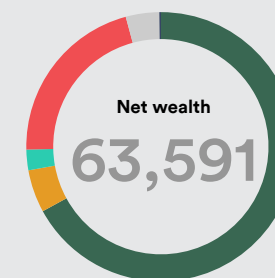
Based on the financial performance of the Group, expenditure on grants is expected to grow in the coming years.

THE LUNDBECK FOUNDATION (PARENT ENTITY)

The foundation's profit for the year amounted to DKK 708m versus DKK 379m in 2016. The result in 2017 was influenced by a dividend from Lundbeckfond Invest A/S of DKK 335m.

In total, grants awarded in 2017 amounted to DKK 507m, versus DKK 493m in 2016. Net, grants amounted to DKK 494m (DKK 472m) in 2017 as grants of DKK 13m (DKK 21m) were reversed or repaid during the year. Subsequently, the carrying equity at 31 December 2017 amounted to DKK 8,260m (DKK 8,046m).

DISTRIBUTION OF NET WEALTH



NET WEALTH

| DKKm | Value | Contribution to net wealth 2017 |
|---------------------|---------------|---------------------------------|
| Lundbeck | 43,266 | 4,142 |
| ALK | 3,321 | -693 |
| Falck | 1,597 | -2,722 |
| Invest | 13,642 | 1,433 |
| Ventures | 2,604 | 753 |
| Emerge | 110 | 1 |
| Grants, Admin, etc. | -949 | -610 |
| Net wealth | 63,591 | 2,304 |

For the outlook of the respective subsidiaries, please visit their company websites www.lundbeck.com, www.alk.net, and www.falck.com

H. LUNDBECK A/S

Lundbeck is a global pharmaceutical company specialising in psychiatric and neurological disorders. At the end of 2017, 69% of the company's shares were owned by the Lundbeck Foundation.

2017 was a successful year which saw a significant increase in profitability. There was continued solid revenue growth from the company's key products¹ primarily driven by the important US market. Furthermore, Lundbeck realised the full benefits of the restructuring programme that was initiated in 2015.

Today, Lundbeck is a solid company that is delivering strong financial performance. It has several products on the market that still have many years of market exclusivity, and benefits from a leading expertise in neuroscience along with a proven track record of developing novel treatments for patients with psychiatric and neurological disorders.

PIPELINE

The company saw positive as well as disappointing news from its development pipeline in 2017. In February, the two remaining Phase III clinical studies of idalopirdine, for the treatment of Alzheimer's disease, were finalised. In line with results from the first study, idalopirdine was shown to be safe and well tolerated. However, the profile did not demonstrate efficacy to support a regulatory submission.

¹ Abilify Maintena®, Brintellix®/Trintellix®, Northera®, Onfi® and Rexulti®

In May, Lundbeck and Otsuka Pharmaceutical Co., Ltd. (Otsuka) announced top-line results from two Phase III clinical trials evaluating the efficacy and safety of brexpiprazole in the treatment of agitation in patients with dementia of the Alzheimer's type. In both studies, patients showed improvements in symptoms of agitation when compared to placebo. However, the data was not enough to support a regulatory submission. As a result, in November, Lundbeck and Otsuka announced the initiation of a third Phase III trial, which is expected to begin in the first half of 2018.

In June, the US FDA (Food and Drug Administration) issued a second Complete Response Letter for the supplemental New Drug Application to include new data in the US label of Brintellix®/Trintellix® for treating certain aspects of cognitive dysfunction in adults with major depressive disorder (MDD). FDA did not accept to include cognitive dysfunction as part of the US label. Therefore, the US label currently only covers MDD.

Finally, Lundbeck made progress with its early-stage pipeline, including the initiation of clinical Phase I studies with a two-month formulation of Abilify Maintena® and with a long-term injectable version of brexpiprazole.



LUNDBECK – THE LARGEST SUBSIDIARY OF THE FOUNDATION



In 2008, Mr. Sheng Kanghua was diagnosed with Parkinson's disease. Depression, schizophrenia, Alzheimer's and Parkinson's diseases are the disease areas which Lundbeck focuses on. The company has expertise throughout the value chain, a proven ability to bring novel treatments to the market and a promising portfolio of R&D projects with the potential to improve patients' lives.

H. LUNDBECK A/S

Revenue DKKm

17,234

Operating profit (DKKm)

4,408

Net profit (DKKm)

2,624

Number of employees

4,980

FINANCIAL PERFORMANCE

SALES

Revenue in 2017 increased 10% to DKK 17,234m (DKK 15,634m) driven by positive developments in sales of Lundbeck's key products, as well as the later arrival of generic competition.

Sales continued to grow in the important North American markets, which now constitute 63% of Lundbeck's total revenue¹, versus 60% in 2016. Overall, revenue from North America increased 17% to DKK 10,672m (DKK 9,122m), largely driven by the uptake of key products.

Revenue from International Markets, which comprise all of Lundbeck's markets outside of Europe and North America, reached DKK 3,345m (DKK 3,275m). The increase of 2% was driven by Abilify Maintena® and Brintellix®/Trintellix® which, together, offset the reduced revenue from Azilect® and Ebixa®. International Markets constituted 20% of total revenue¹, compared to 21% in 2016.

Revenue from Europe declined 3% to DKK 2,818m (DKK 2,912m) due to generic competition which continued to erode sales of older products. Abilify Maintena® and Brintellix®/Trintellix® both experienced solid growth rates of 26% and 73%, respectively. Europe constituted 17% of total revenue¹ in 2017, compared to 19% the year before.

¹Excluding other revenue of DKK 399m (DKK 325m)

OPERATING PROFIT

Total costs for 2017 decreased 2% to DKK 13,068m (DKK 13,342m) driven by lower cost of sales, which decreased 5% to DKK 3,881m (DKK 4,082m). Sales and distribution costs increased 3% to DKK 5,649m (DKK 5,488m), corresponding to 32.8% of revenue, versus 35.1% in 2016. Administrative expenses increased DKK 28m to DKK 833m (DKK 805m) corresponding to 4.8% of total revenue (5.1%). Research and development costs decreased to DKK 2,705m (DKK 2,967m), equating to an R&D-ratio of 15.7%, compared to 19.0% last year.

Operating profit (EBIT) for 2017 increased 92% to DKK 4,408m (DKK 2,292m) and reached an EBIT-margin of 25.6% (14.7%). EBIT was positively influenced by income of DKK 242m from the divestment of office and research facilities in the US and in Denmark.

NET PROFIT

The reported tax rate decreased from 43.9% in 2016 to 38.7% in 2017. The rate is still higher than the Danish corporate income tax rate due to Lundbeck's activity in the US as well as amortisation on certain product rights, which is not tax deductible.

Net profit for 2017 increased by 117% to reach DKK 2,624m (DKK 1,211m).

Figures for 2016 are shown in brackets

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.

2017 was a year where ALK fought to maintain market leadership following a major competitor's return to the European market after it experienced supply shortages in 2015 and 2016. At the same time, ALK invested heavily to stabilise its production set-up and in building its own organisation in North America – the world's largest allergy market – following the termination of its partnership with Merck in 2016.

NEW CORPORATE STRATEGY

In late 2017, ALK launched its new, transformational growth strategy, followed by an equity offering which raised close to DKK700m.

The new strategy aims to transform ALK from a niche player – currently capturing less than 2% of the spend in the global allergy and allergic asthma market, and addressing less than 1% of people affected by allergic rhinitis – into a company with a wider presence across the entire disease area.

MARKET LEADERSHIP ACROSS EUROPE

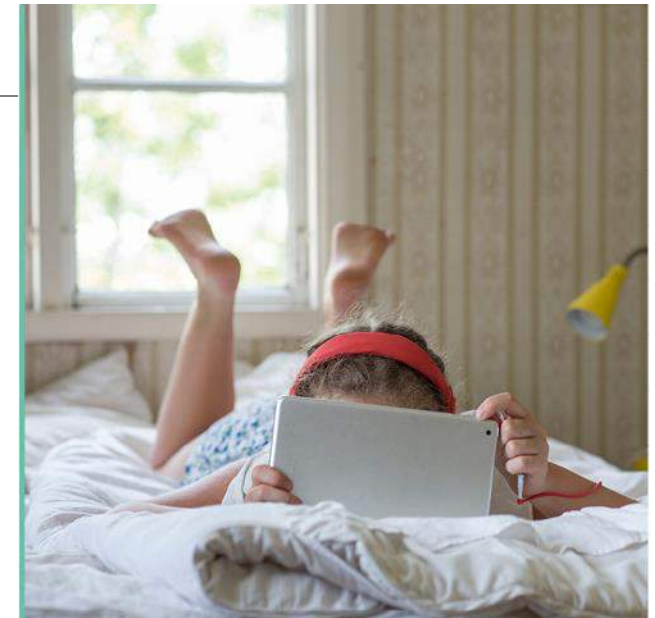
Due to strategic investment choices as well as additional sales and marketing investments in key markets, ALK consolidated its market leadership position across Europe, including in the key market of France, despite some revenue flowing back to

the major competitor as it recovered from product supply issues.

Nevertheless, European sales were organically 18% ahead of where they were two years ago, despite ALK's own temporary production issues causing a significant loss of sales. The sublingual allergy immunotherapy (SLIT) tablet franchise continues to advance, and the tablet portfolio's core product, ACARIZAX®, a year-round treatment for house dust mite allergy, is generating a positive 'halo effect' that is benefiting seasonal treatments such as the grass allergy SLIT-tablet, GRAZAX®.

APPROVAL AND LAUNCH IN NORTH AMERICA

In 2017, the long-awaited approvals for the house dust mite tablet were obtained in North America, and the planned launches were accelerated by six months. ALK's new strategy makes succeeding with the tablets in the US a top priority, and as part of the groundwork for this, in 2017, ALK invested around DKK 200m in building a new organisation to run the tablet franchise.



ALK – A SUBSIDIARY SINCE 2005



Since 1923, ALK consistently devised and developed major advances for the treatment of allergy. Today, ALK has an unrivalled understanding of allergens and how they affect the human body, as well as the link between allergy and respiratory diseases such as asthma.

ALK-ABELLÓ A/S

Revenue (DKKm)

2,910

Operating profit (DKKm)

-80

Net profit (DKKm)

-158

Number of employees

2,213

FINANCIAL PERFORMANCE

SALES

Revenue for 2017 decreased by 3% to DKK 2,910m (DKK 3,005m), due to a major competitor's return to the market. Furthermore, sales were negatively impacted by a temporary reduction in ALK's own production capacity.

Full-year revenue in Europe decreased by 9% to DKK 2,220m (DKK 2,434m) with the region accounting for 76% of ALK's total revenue (81%). Combined sales from subcutaneous allergy immunotherapy (SCIT) products and SLIT-drops weakened by 13%, with the reduction in ALK's capacity estimated to have lowered sales by approximately DKK 250m. Meanwhile, SLIT-tablet sales grew by 6%, and most markets in Northern and Central Europe showed double-digit growth, largely driven by the uptake of ACARIZAX®.

Revenue in North America declined by 2% organically to DKK 606m (DKK 512m), while reported growth was 18%, including the contribution from recent acquisitions Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC (together: ALOK). In all, the North America region accounted for 21% (17%) of total revenue. Tablet revenue in North America grew by 17% to DKK 72m, while sales of bulk allergen extracts declined 11% to DKK 246m. The decline was primarily due to temporary constraints in ALK's product supply. Sales of diagnostics and other products to allergy specialists and clinics grew 4% organically to DKK 288m, while reported growth of 71% was driven by ALOK, which contributed slightly ahead of plan.

Revenue in International Markets was DKK 84m (DKK 59m), a 42% increase over last year, and equating to 3% of total revenue (2%).

OPERATING PROFIT

Cost of sales increased 26% to DKK 1,268m (DKK 1,008m), reflecting capacity expansion, activities to improve the robustness of product supply, as well as a changed sales mix and impairments. Impairments accounted for DKK 116m and were attributable to obsolete production equipment and discontinued development projects. The lower revenue combined with higher cost of sales resulted in a gross profit of DKK 1,642m (DKK 1,997m), yielding a gross margin of 56% (66%).

Capacity costs increased by 13% to DKK 1,724m (DKK 1,525m) primarily due to ALK's accelerated growth investments, mainly for the organisational and commercial build-up in the USA.

Operating profit (EBIT) was DKK -80m (DKK 479m), negatively impacted by one-off write-downs of DKK 152m.

NET PROFIT

Net financial items reflected a loss of DKK 42m (profit of DKK 8m) and tax on the result for the year totalled DKK 36m (DKK 217m). The unusual and negative effective tax rate is a result of the current geographical distribution of income. Net loss was DKK 158m (profit of DKK 270m).

Figures for 2016 are shown in brackets

FALCK A/S

Founded in 1906, Falck is global leader in ambulance services and a Nordic leader in employee healthcare programmes and roadside assistance, operating in 35 countries. The Lundbeck Foundation owns 57% of Falck.

Despite being a leader in its industry, Falck's financial performance has worsened over recent years. 2017 marked a low with weak financial performance and impairments on goodwill leading to operating profit recognised in the foundation's consolidated financial statements of DKK -2,000m. This is clearly unsatisfactory. To meet covenants, Falck's capital base was strengthened by the owners when shareholder loans of DKK 983m were converted into shareholder capital in May 2017 and with the receipt of DKK 2,000m in new shareholder loans which were mainly used to repay syndicated loans in December 2017.

NEW AND FOCUSED STRATEGY

2017 also marked a new beginning for Falck. With a new executive management in place, the company launched its new strategy in November 2017, which included a turnaround process focused on restoring profitability. The new strategy begins a journey that will focus the company on its core business units and geographies, optimise the operations by implementing smarter ways of working, and make the business stronger.

THREE KEY THEMES OF THE NEW STRATEGY

- **Be focused:** This strategic initiative is about defining the core of Falck's business. Two service areas have been selected to be the cornerstone of Falck's future: the ambulance business and the employee healthcare programmes.
- **Work smarter:** This is the headline for improving profitability and increasing excellence in some central functions. To improve profitability, the company has launched an efficiency programme, with the aim of reducing the cost base by DKK 500m from 2019 onwards. Standardised processes and digitisation will also play a significant role across service areas and back-office functions.
- **Get stronger:** The last pillar of the strategy is about innovation of the company's core services, performance management, and honing the Falck brand – all of which will add to the strength of the future Falck.



FALCK – SAVING AND IMPROVING LIVES



Together with local and national authorities, Falck works to prevent accidents, illness and emergency situations, to rescue and assist people in emergencies quickly and competently and to rehabilitate people after illness and injury. Falck operates in 35 countries on six continents.

FALCK A/S

Revenue (DKKm)

15,227

Operating profit before special items (DKKm)

-354

Net profit (DKKm)

-2,503

Number of employees

28,007

FINANCIAL PERFORMANCE

SALES

In 2017, revenue increased 0.8% to DKK 15,227m (DKK 15,109m). More than half of the revenue derived from core Ambulance Services, where revenue decreased by 2%. Falck's Employee Healthcare Programmes continued to grow, whereas revenue decreased in Assistance Services following the discontinuation of unprofitable services. In Industrial Firefighting and Global Assistance revenues increased by 14.9% led by acquisition of new customer contracts in Global Assistance.

OPERATING PROFIT

Operating expenses (OPEX) increased by 5.5% to DKK 14,722m (DKK 13,950m). OPEX was negatively impacted by write downs on accounts receivable in the US Ambulance business and impairment of software related to the development of a new customer handling system within Assistance by DKK 282m and DKK 62m, respectively. Staff costs added to OPEX with a 1.2% increase.

Operating profit before special items was DKK -354m (DKK 258m), a decrease of DKK 612m. The result was negatively impacted by the development in operating expenses.

Operating profit (EBIT) was negative by DKK 2,000m (DKK 258m), and was significantly impacted by impairments of goodwill recognised in the foundation's consolidated financial statements to the value of DKK 1,646m.

NET PROFIT

Profit for the year from continuing operations was negative by DKK 2,388m (profit of DKK 132m).

Profit for the year including Falck's discontinued operations in Safety Services, was negative by DKK 2,503m (profit of DKK 34m).

Figures for 2016 are shown in brackets

FINANCIAL INVESTMENTS (INVEST)

The primary purpose of Invest is to generate returns and secure sufficient reserves for the grant activities and subsidiaries. The financial investments are divided into a diversified investment portfolio and long-term anchor investments in single companies.

2017 was characterised by an upward stock market momentum. Market risks and consequential price declines have been short lived and were stemmed by an influx of cash to the market in search of better yields than those offered by the current low interest rates, thereby contributing to an excellent result.

STRONG RETURN DOMINATED BY LISTED EQUITIES

The financial investments generated a return of DKK 1,433m in 2017 (DKK 1,138m). This translates into a return of 10% (8%), which is a highly satisfactory result considering more than 30% of the portfolio is held in the US dollar, which weakened by 13% during 2017.

Listed equities contributed the most in absolute terms, with a return of DKK 793m corresponding to a return of 11%. A significant proportion of this result came from the foundation's anchor investment in FLSmidth, which returned DKK 404m corresponding to a return of 27%. Aside from stocks in commodity-related areas, the cyclical and financial stocks also made substantial contributions to the return of its listed equities portfolio.

Private equities and credits generated returns of DKK 194m and 325m, corresponding to 18% and 14%, respectively. A significant dividend from Nordic Biotech drove the return in private equities whereas, in credits, the gain was predominantly related to financial credits.

Real assets, including the property company Obel-LFI Ejendomme A/S, contributed the most in relative terms, and generated a substantial return of 24%, equivalent to DKK 158m.

INCREASINGLY DEFENSIVE INVESTMENT STRATEGY

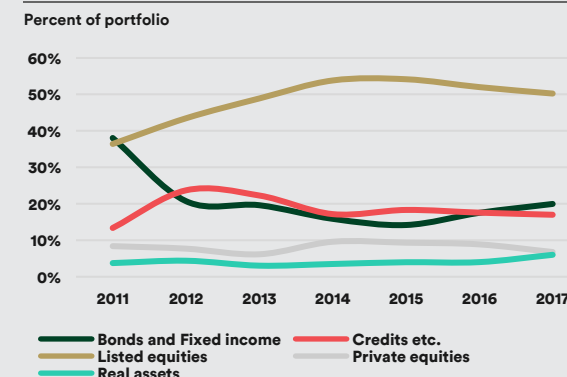
In 2017, the US Federal Reserve increased its target interest rate to 1.50%, and it anticipates further increases during 2018. Meanwhile, the European Central Bank will begin to wind down its bond-buying programme during 2018. This will mark a shift to a more normal interest rate environment. In combination with generally expensive asset prices, it calls for a more defensive investment strategy. The risk is managed through change in asset allocation and hedging.

The results provide a firm endorsement of the current investment philosophy and the strategy of investing in high quality companies across asset classes with a view to generating an attractive long-term return.

FOCUSED ON LONG-TERM VALUE CREATION

The foundation believes that its ability to invest with the long-term goal of value creation, can help companies realise their true potential which, in turn, will generate an additional return on the foundation's investments. To increase the focus on such long-term holdings, the diversified investment portfolio and long-term anchor investments in single companies will be separately managed and reported in future.

ASSET ALLOCATION OF THE INVESTMENT PORTFOLIO



INVESTMENT PORTFOLIO

| Assets | Market value (DKKm) | | Return (%) | |
|------------------------|---------------------|---------------|--------------|-------------|
| | 31.12.17 | 31.12.16 | 2017 | 2016 |
| Bonds and liquid funds | 2,345 | 2,456 | -1.5% | 3.3% |
| Credit etc. | 1,996 | 2,463 | 13.7% | 9.9% |
| Listed equities | 7,797 | 7,285 | 11.0% | 11.6% |
| Private equities | 797 | 1,244 | 18.1% | 4.9% |
| Real assets | 707 | 562 | 24.1% | -9.1% |
| Total | 13,642 | 14,010 | 10.1% | 8.4% |

Figures for 2016 are shown in brackets

LUNDBECKFONDEN VENTURES

Lundbeckfonden Ventures is the foundation's international, evergreen venture fund investing in life science with a focus on the development of innovative new medicines in areas of highly unmet medical demand.

2017 was an exciting and transformative year for the Ventures portfolio. Ventures completed the sale of Ziarco to Novartis and sold two other portfolio companies – River Vision to Horizon Pharma and Vtesse to Sucampo – for a combined DKK 2,152m in upfront payments to all shareholders. Ventures also saw IPOs for four companies in the portfolio: Bonesupport which is now listed on the OMX NASDAQ Stockholm, Biom'Up which is listed on Euronext Paris, and two NASDAQ-listed companies – Spero Therapeutics and scPharmaceuticals. This means that five out of a total of 19 holdings are now publicly listed companies.

During 2017, new investments in three private US companies were made: Amplyx Pharmaceuticals, Aura Pharmaceuticals and Trevi Therapeutics, all established, US-based biotech companies with assets in clinical development for: fungal infections such as invasive Candidiasis and Aspergillosis (Amplyx), ocular cancer (Aura), and chronic itch (Trevi).

Further investments in nine of the foundation's existing Venture portfolio companies were made.

The four companies that conducted IPOs brought in a total of DKK 2,427m to the companies. Meanwhile, the three new

companies secured financing of DKK 920m and the nine existing portfolio companies raised DKK 1,028m.

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 41.4% of Veloxis, which is traded on the OMX NASDAQ Copenhagen.

The company's main product is Envarsus® XR for the prevention of organ rejection in kidney transplant patients. Envarsus has similar efficacy as its competitors and in addition, the product has a superior side effect and kinetic profile.

The sales and marketing of Envarsus® are handled by Veloxis in the USA and via a partner, Chiesi, in Europe.

In 2017, Veloxis' net revenue was USD 30.2m (USD 9.2m) and thus tripled compared to 2016. Veloxis recorded an operating profit of USD -8.4m for 2017 (USD -28.8m).

FINANCIAL RESULTS

Lundbeckfonden Ventures' investments in 2017, in new and existing companies, amounted to DKK 406m (DKK 363m). The net return for the year was DKK 753m (DKK -96m).

The fair market value of the current portfolio equated DKK 2,764m at the end of 2017 (DKK 2,390m).

AN ACTIVE INVESTOR

As an active investor, the foundation adds value to its investments through the venture team's extensive operational experience, gained in the healthcare industry and its international financing syndication network.

At the end of 2017, the Ventures portfolio comprised 19 companies, one fewer than by the end of 2016, eight (eight) of which are US-based.

The complete portfolio is listed on the following pages.

LUNDBECKFONDEN VENTURES



ACACIA PHARMA

During 2017 Acacia Pharma announced positive results from its fourth and final pivotal trial in post-operative nausea and vomiting and filed an NDA for BAREMSIS™ in this indication.



AMPLIX

Amplix is developing APX001, a broad-spectrum antifungal drug with a novel mechanism of action for the treatment of life-threatening, invasive fungal infections caused by Candida, Aspergillus and by rare, hard-to-treat molds. Intravenous and oral formulations of APX001 have been evaluated in two Phase I clinical trials. Phase II studies are planned to be initiated in 2018.



ATOX BIO

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



AURA

Aura is developing a new class of therapies to target and destroy cancer cells selectively, while leaving surrounding tissue unharmed. The first product candidate, light-activated AU-011, is being investigated in a Phase Ib/II study for the treatment of patients with small-to-medium sized, primary ocular melanomas.



BIOM'UP

Biom'Up is a specialist in collagen-based absorbable medical devices for biosurgery and is developing a new generation haemostatic product, HEMOBLAST™. HEMOBLAST™ received FDA marketing approval during 2017 and following an IPO, Biom'Up is now listed on the Euronext, Paris, stock exchange.



BONESUPPORT

Bonesupport is developing a platform for delivering drugs to bone using CERAMENT™, an injectable bone void filler that rapidly remodels into bone. Bonesupport markets and sells CERAMENT™ in the EU and USA as well as CERAMENT™ loaded with the antibiotics Gentamicin (G) or Vancomycin (V) in the EU. During 2017 Bonesupport started an IDE CERAMENT™ G Study named FORTIFY in USA. Following an IPO, Bonesupport is now listed on Nasdaq OMX, Stockholm.



CYDAN

Cydan Development is an orphan drug accelerator that identifies and reduces risk for drug candidates targeting orphan and rare diseases and forming stand-alone companies and strategic partnerships for their drug candidates.



DYSIS

DySIS develops and markets the next generation coloscopes for the early detection and diagnosis of cervical cancer. It has a proprietary technology that measures the aceto-whitening reaction and creates an intuitive map that is overlaid on the live image of the cervix in the coloscope to help identify the most relevant biopsy sites. During the year, DySIS reported positive findings from the IMPROVE study, the largest coloscopy study ever conducted, with 7500 patients.



ENTEROME

Enterome is pioneering the development of novel drugs and diagnostics for microbiome-related diseases with a special focus on Inflammatory Bowel Disease and Immuno-Oncology. During 2017, it successfully completed phase I studies with its Chron's disease candidate EB8018. Enterome also launched a new diagnostics company, Microbiome Diagnostics Partners, together with Nestlé Health Sciences.

LUNDBECKFONDEN VENTURES



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 Macular Degeneration (AMD). In a phase IIa trial, ICON-1 showed that in combination with Lucentis (anti VEGF treatment against wet-AMD) it provides several advantages over either of the two monotherapies.



IMARA

Imara is developing novel oral treatments for sickle cell disease and other haemoglobinopathies. Imara was a new investment in 2016. Since then the company has successfully completed Phase I clinical development of IMR687 and is now preparing for phase II clinical trials.



PSIOXUS THERAPEUTICS

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 2017 PsiOxus reached a milestone in its collaboration with BMS by filing a clinical trial application for an "armed" oncolytic virus, for which it received a milestone of USD 15m.



SANIFIT

Sanifit is developing SNF472 – for the treatment of cardiovascular diseases linked to calcification in End Stage Renal Disease (ESRD) patient under-going haemodialysis. During the year, the company completed a phase II study in calciphylaxis and has begun a phase II study targeting a reduction in progression of cardiovascular calcification in ESRD.



SCPHARMACEUTICALS

scPharmaceuticals has a proprietary device technology that enables subcutaneous administration of parenteral drugs. In 2017, FDA accepted the company's NDA filing for Furoscix and following an IPO the company is now listed on Nasdaq.



SPERO THERAPEUTICS

Spero has a pipeline of novel treatments for bacterial infections. In 2017 the company announced positive results from the Potentiator platform and completed an IPO on Nasdaq.



THESAN PHARMACEUTICALS

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



TREVI

Trevi is in late-stage clinical development of Nalbuphine® ER for chronic pruritus (itch) indications. The drug has demonstrated clinical proof of concept in two significant itch indications, Uremic Pruritus and Prurigo Nodularis,. The latter is an intensely pruritic dermatologic condition characterized by unsightly and itchy skin papules and nodules. There is no approved treatment for these indications in Europe nor USA.



VELOXIS

Veloxis is a specialty pharmaceutical company committed to improving the lives of transplant patients. Veloxis is two years into the launch of the transplant anti-rejection medicine Envarsus® in the USA and in partnership with Chiesi in Europe (see main 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 gastrointestinal tract. During the year, VHsquared started a phase IIa trial in Inflammatory Bowel Disease with V565, an anti TNF-α Vorabody™.

LUNDBECKFONDEN EMERGE

Emerge is the foundation's early-stage evergreen biotech investment unit. It invests in Danish companies which combine pioneering research with commercial potential. Emerge develops the businesses it invests in by providing the capital, expertise and network required for success, reflecting the foundation's commitment to strong engagement with the companies in its portfolio.

2017 saw an increase in the Emerge portfolio from three to six companies including the first Exploratory Investments in SNIPR Biome and Folium Food Science, as well as a new investment in Dermtreat.

Exploratory Investments are designed to give highly promising, but still very early stage companies with relatively little experimental data, the finances and time to further develop their data so that they can attract seed funding followed by a first round of venture capital investment, also known as 'Series A' financing.

THREE NEW COMPANIES IN 2017

DERMTREAT

In early 2017, Emerge joined a significant investment round totalling USD 18m.

Dermtreat is developing a new therapy for diseases of the oral cavity using technology based on the Rivelin® patch which adheres to the surface of the mouth to deliver medicines transdermally. The first product candidate targets the disease, oral lichen planus (OLP), for which there is currently no licensed treatment, by incorporating the drug clobetasol propionate into the Rivelin® patch. The company used some of its new capital to fund a phase Ib clinical study to show that Rivelin® adheres adequately and is well tolerated.



SNIPR BIOME

The foundation's first Exploratory Investment



was made in 2017 into the CRISPR-technology-focused company, SNIPR Biome. CRISPR is an exciting technology that allows the editing of genes in living organisms, such as bacteria. The SNIPR Biome technology uses CRISPR to accurately modify specific bacteria within a wider population - hence the company name 'SNIPR', which echoes the accuracy of a sniper using a rifle. The technology has many possible uses, including in pharmaceuticals, industrial biotech and agriculture. The latter is being pursued in a separate company - Folium Food Science (see below). SNIPR Biome had a patent granted covering the relevant CRISPR technology, in a field that has attracted much interest during the past year.

FOLIUM FOOD SCIENCE

Based on an Exploratory Investment, Folium Food Science will develop the use of the CRISPR technology to selectively manage microbial and bacteria populations to enhance soil, animal, plant and human health in the agriculture, food and beverage industry.



In addition to the three new companies, the Emerge portfolio consists of:

INSUSENSE THERAPEUTICS develops novel innovative medical treatments for type-2 diabetes based on world-leading research into the role of the sortilin family of proteins.



IO BIOTECH develops disruptive immune therapies, also known as 'checkpoint blockades'. These are cancer vaccines that suppress the function of regulatory immune cells and induce inflammation in the microenvironment, targeting cancer cells directly.



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 from the University of Aarhus.



GRANTS & PRIZES

With grants totalling a record DKK 507m, and the seventh awarding of The Brain Prize, the Lundbeck Foundation remains one of the most important private contributors to biomedical research in Denmark and is its leading supporter of brain research.

In 2017, the foundation continued to support outstanding biomedical research with a reinforced focus on neuroscience as a result of the new strategy which puts the brain at the very centre of our grant activities. The total grant sum of DKK 507m marked a small increase on 2016 (DKK 493m) and was the highest amount awarded in a single year in the history of the foundation. As a result of the foundation's financial strength, annual grants are expected to grow over the coming years.

UPDATE OF THE GRANTS STRATEGY

The brain being the central focus of the Lundbeck Foundation's new strategy for future grants, a key objective is to help Denmark to become one of the world's leading brain research nations. It is against this background that the foundation aims to increase its grants to neuroscience over the coming years.

To do this on an informed basis, the foundation asked two of the most prominent scientists in the field to evaluate Danish neuroscience and produce a report detailing their observations and analyses.

In early 2017, accompanied by report authors Martin Rossor, Emeritus Professor of Clinical Neurology at University College London, and Sir Colin Blakemore, Professor of Neurosci-

ence and Philosophy at the University of London and Emeritus Professor of Neuroscience, University of Oxford, representatives from the foundation visited the leading neuroscience centres at Danish universities and university hospitals.

The subsequent report was positive, but also offered insights that will help to inform the foundation on future ways of supporting neuroscience.

RESEARCH PRIZES

The Lundbeck Foundation awards several research prizes, the largest and most prestigious being The Brain Prize.

THE BRAIN PRIZE

In 2017, the seventh Brain Prize was jointly awarded to Peter Dayan, Ray Dolan and Wolfram Schultz for their multi-disciplinary analysis of brain mechanisms that link learning to reward, which has far-reaching implications for the understanding of human behaviour, including disorders of decision-making in conditions such as gambling, drug addiction, compulsive behaviour and schizophrenia.

Brain Prize outreach activities

As part of the ongoing connection with past winners, the Lundbeck Foundation participated in the annual meeting of

“We will find new ways of supporting neuroscience to help Denmark to become one of the world’s leading brain research nations.”



PROFESSOR THOMAS SINKJÆR
Senior Vice President, Grants & Prizes

the Japan Neuroscience Society (JNS) in Tokyo in July, as host of a symposium featuring two previous prize winners. An agreement was signed with JNS confirming Brain Prize Lectures at future JNS meetings until at least 2020.

The foundation and the Federation of European Neuroscience Societies (FENS) have agreed to continue collaborating on the high level Brain Conferences which are held twice a year in Copenhagen. The new agreement runs until 2023.

GRANTS & PRIZES

In September, a Brain Prize Symposium featuring several past prize winners marked the University of Lund's 350-year anniversary, and a Brain Prize lecture was held at the European College of Neuropsychopharmacology's Congress in Paris.

In October, the three 2017 prize winners gave lectures at The Royal Society in London before an audience of 200 scientists. The winners also gave a public lecture, which was later broadcast by the BBC Radio 4 programme 'All in the Mind'.

Once again, the annual Brain Prize Meeting took place in Denmark in October, this time featuring a session with the DeepMind founder Demis Hassabis.

A final highlight of the year was the Brain Prize Dinner, which was held in conjunction with the Neuroscience Meeting 2017 in Washington, DC.

Planning for the future

Professor Sir Colin Blakemore stepped down as chairman of the Brain Prize Selection Committee and was succeeded by Professor Anders Björklund, while 2016 prize winner Professor Richard Morris was named as a member of the committee and its new vice chairman.

From 2018, the prize is open to researchers worldwide, further raising the international profile of The Brain Prize and the Lundbeck Foundation.

HONORARY PRIZES FOR YOUNG RESEARCHERS

Honouring young scientists remains a strong priority for the foundation and honorary prizes are awarded once a year to particularly promising Danish-based young scientists who

have produced outstanding research in the field of biomedical science.

In 2017, Professor Janine Erler, PhD, of the University of Copenhagen, received the DKK 300,000 Research Prize for Young Scientists under the age of 40, while five other promising young researchers under the age of 30 received the foundation's talent prizes of DKK 100,000 each.

PROMOTING BIOMEDICAL RESEARCH CAREERS

As an important part of the foundation's ongoing commitment to supporting the careers of young researchers, five promising biomedical researchers each received DKK 10m as a personal five-year grant. Since 2007, 59 such Lundbeckfonden Fellowships have been awarded and all of these fellows are now connected via the foundation's alumni network.

In 2017, a total of 36 individual PhD scholarships and 35 post-doctoral stipends were granted for research projects conducted in Denmark. Another 17 postdocs received support for postdoctoral research abroad.

To further strengthen the internationalisation of Danish biomedical research, the foundation also awarded 267 smaller travel grants to help researchers share their results and extend their networks at international workshops and conferences. Six visiting professorships were awarded, 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.

In total the foundation invested DKK 165m in supporting the careers of young researchers.



CELEBRATING THE YOUNG SCIENTISTS

Every year, the Lundbeck Foundation awards a range of prizes to promising young scientists. In 2017, professor Janine Erler, PhD, University of Copenhagen, received the research prize for Young Scientists. Already an internationally recognised top scientist, she investigates the way in which the tumour microenvironment promotes stimulation of cancer cell growth, invasion and metastasis.

GRANTS & PRIZES

Total grants (DKKm)

507

Number of grants

459

Support for brain research (DKKm)

376

Number of full time employees funded

731

STRATEGIC GRANTS

In 2017, all of the strategic grants were made in the area of brain research, either as continuing support for ongoing research, or grants for new initiatives.

During the year, DKK 120m was awarded to the iPSYCH project, which brings together six pre-eminent Danish principal investigators, all of whom are internationally renowned experts in their fields. The project combines genetic, epidemiological and environmental data from 80,000 subjects to increase understanding of how inborn and external factors together define our susceptibility to developing mental disorders. The 2017 grant brings the foundation's total support for this project to DKK 361m since its beginning in 2012.

DKK 60m was awarded to DANDRITE at Aarhus University, which is part of the European Molecular Biology Laboratories Partnership. This highly international centre focuses on molecular mechanisms that explain cellular communication networks in brain circuitries and looks at how these are affected in neurological and psychiatric disorders. This latest grant brings the foundation's support to a total of DKK 120m since the launch in 2012.

2017 also saw four 'thematic grants' amounting to a total of DKK 60m for collaborative basic and clinical research projects with a focus on neuroinflammation.

Two further calls for thematic grant applications were issued in late 2017 in the areas of personalised medicine for brain diseases, and research into the disease mechanisms behind brain and neurological diseases. The foundation expects to grant a total of DKK 250m following these two calls.

INTERNATIONALISATION OF DANISH NEUROSCIENCE

As part of the effort to support the internationalisation of Danish research, and neuroscience in particular, the foundation has continued its collaboration with the National Institutes of Health (NIH) in the US, with support for Danish research groups that establish collaboration with international groups already supported under the NIH BRAIN Initiative. A total of DKK 8m was granted to three such projects.

In addition, three grants totalling DKK 5m were awarded as part of a new international neuroscience career programme.

SCIENCE TEACHING AND SCIENCE COMMUNICATION

Strengthening the quality of science teaching and communication is another key priority. Once again, the foundation took pride in supporting the 'Best Teacher' award, in collaboration with the Danish newspaper, *Politiken*. The foundation also continued its support for the science communication competition known as the 'PhD Cup', in collaboration with another Danish newspaper, *Information*, and the Danish national broadcaster, DR. A new documentary 'Adult Under Construction' which focuses on the neurobiological development underlying the transition from child to adult was supported, while two major science-education grants, totalling DKK 9m, were awarded to two large and potentially transformative collaborative projects, 'LEAPS' and 'Engineering at school', both of which focus on the teaching and learning of science in primary schools.

RISK MANAGEMENT

The Lundbeck Foundation's risk management process provides the close monitoring, systematic risk assessment and the ability to identify, manage and report external risks and opportunities in a changing environment.

The Lundbeck Foundation strives for a reasonable balance between value creation and risk exposure, with the aim of delivering long-term, stable returns at moderate risk levels.

Risk assessment is an important part of the foundation's business procedures, allowing it to respond appropriately to changing circumstances. The risk management framework consists of a 'top-down' as well as a 'bottom-up' risk mapping approach which identifies key risks that the foundation is facing.

The most important risks relate to the business risks of the foundation's subsidiaries and its investments. Assessing and mitigating these risks is important for long-term value creation as well as for the ability of the foundation and its subsidiaries to operate. However, as a foundation, reputational risk related to grant-making is also important and the foundation has a strong governance framework covering these activities, setting high standards that are designed to protect the foundation from excessive risk.

RISK ASSESSMENT AND MANAGEMENT

Risks are a natural and integral part of the foundation's business activities. However, through risk management at both an entity and a group level, and by balancing its different activities, the foundation mitigates risk to an acceptable level.

The risk factors take several forms, including: operational, business and markets risks - including fluctuations in interest rates, share prices, exchange rates and credit spreads - as well as reputational risks. Through knowledge of its subsidiaries and its internal operations, investments and grant activities, the foundation aggregates the various risk factors and identifies the most important ones in terms of probability and impact.

A risk analysis report is prepared and submitted biannually to the foundation's Board of Trustees. More frequently, exposure to risk factors such as industry and geographical concentrations are submitted to the Investment Committee.

The most recent group assessment resulted in the identification of strategic, operational, financial, political and reputational risks that potentially pose a possible threat to the foundation. A key priority is to ensure that no single risk has the ability to damage the foundation, and that the foundation is

able to continue its operations and strategy, should one of the risk factors materialise. To ensure this is the case, each of the risks identified has an assigned owner who is responsible for actively managing and mitigating the risk.

The key risks identified and mitigation hereof are presented in the table on page 26.

RISKS RELATED TO SUBSIDIARIES

Business and financial risks associated with the operation and performance of the foundation's three subsidiaries, Lundbeck, ALK, and Falck are most effectively managed within each business. Consequently, the management at the individual subsidiaries each define their own risk management policies and procedures.

The foundation is represented on the Board of Directors of each subsidiary and monitors the business performance of the subsidiaries closely. Descriptions of their approaches to risk management are given by each of the subsidiaries in their own annual report.

Reports on business and risk-related issues are provided monthly to the foundation's Board of Trustees.

RISK MANAGEMENT

RISKS RELATED TO PORTFOLIO INVESTMENTS

The Board defines the foundation's investment policy, while compliance with the policy is monitored by the Investment Committee.

The foundation manages the market risk of its portfolio investments by having maximum limits for its exposure to individual asset classes and their underlying assets. This policy covers the whole portfolio, including investments by Ventures and Emerge.

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 and as an alternative to buying the underlying assets. The investment policy governs the use of such instruments regarding maturity, quantity and counterparty requirements.

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

Finally, all investments must comply with the foundation's environmental, social and governance (ESG) policy. An external consultant monitors the portfolio investments for issues related to ESG policy.

RISK REPORTING



RISK MANAGEMENT

RISKS AND MITIGATION

| RISK | CONTEXT | MITIGATION |
|--|---|---|
| <p>1. Financial distress in subsidiaries Subsidiaries account for 75% of the foundation's total net wealth</p> | <p>Poor performance in subsidiaries, ultimately resulting in value destruction of the foundation's shareholdings in the companies</p> | <ul style="list-style-type: none"> Active ownership with focus on: <ul style="list-style-type: none"> The overall strategy and key activities Board and executive management composition to secure the right competencies A sound capital structure to support the strategy Good governance with delegation of duties Representation on the boards |
| <p>2. Financial market crisis effect on portfolio investments Portfolio investments accounts for 20% of the foundation's total net wealth</p> | <p>Financial losses due to financial turmoil and possibly economic recession</p> | <ul style="list-style-type: none"> Diversified portfolio Close monitoring of risk in portfolio Limits on market and concentration risk through investment policy Dynamic hedging and continuous adjustment of portfolio |
| <p>3. Ventures and Emerge - loss on investments Ventures and Emerge accounts for 5% of the foundation's total net wealth</p> | <p>Unsuccessful drug development and/or commercial failures of portfolio companies</p> | <ul style="list-style-type: none"> Close monitoring of risks in the portfolio and active participation on boards Diversified investment in broad portfolio of life science companies Understanding the risk in portfolio companies and investing in tranches |
| <p>4. Misuse of the donated grants</p> | <p>Fraud or scientific misconduct by grantees</p> | <ul style="list-style-type: none"> Transparent grant allocation processes Peer reviews with external scientists Status reports and budget follow-ups Code of Conduct signed by grantees |
| <p>5. Geographical exposure to the US Group exposure to the US market is estimated to 50%</p> | <p>Exposure to the US through subsidiaries and portfolio investments</p> | <ul style="list-style-type: none"> Ongoing monitoring of US exposure Hedging against exchange rate risk (USD) in subsidiaries and financing of companies in USD Underweight of US-exposure in the foundation's portfolio investments |
| <p>6. Price pressure in the healthcare sector Group exposure to healthcare accounts for 75%</p> | <p>Regulation or market dynamic that lowers the prices for drugs</p> | <ul style="list-style-type: none"> Limit on pharma exposure in the foundation's investment portfolio Focus in our subsidiaries on: <ul style="list-style-type: none"> Innovation and generating strong clinical data Cooperation with healthcare authorities to document the value of the companies' pharmaceuticals Stringent process for price changes |

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) at the Lundbeck Foundation is guided by the foundation's clear commitment to making a positive impact on the societies in which it operates

As an international player with a broad range of grant and investment activities, the Lundbeck Foundation has a significant influence on society. The foundation acknowledges the responsibilities that this entails and makes an effort to ensure that it is recognised as a trustworthy organisation, setting itself high standards for transparency, commitment and integrity.

The foundation has supported and been committed to the UN Global Compact since 2012. Consequently, the Compact's ten principles form the general framework upon which the foundation's approach to corporate social responsibility is based. The foundation opposes any form of corruption, including extortion and bribery. Furthermore, it follows the UN Global Compact 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, including human rights, climate change, environmental impact, and codes of conduct. Lundbeck has signed up to the UN Global Compact whereas both ALK and Falck follow the guidelines without having formally joined the initiative.

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

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

The Board of Trustees counts two women and five men among its members, excluding employee representatives. This constitutes gender balance in accordance with the guidelines on gender equality issued by the Danish Business Authority ('Guidelines on Target figures, policies and reporting on the gender composition of management').

The foundation has ensured that all subsidiaries which fall under the requirements for reporting classes 'large C' or 'D' have set targets for their top management body individually.

Furthermore, the foundation's subsidiaries have reported on their individual targets in their annual reports, as well as on their individual policies concerning gender balance at other management levels, if applicable. Please refer to the respective annual reports of Lundbeckfond Invest A/S, ALK-Abellø A/S, Falck A/S and H. Lundbeck A/S.

All of the foundation's subsidiaries except one (ALK) have achieved gender balance on the Board of Directors.

At management level, the foundation aims to have a mix of men and women that reflects the gender distribution in the rest of the organisation. Among the management team of six, half are men and half are women.

LEARN MORE ABOUT CSR IN THE LUNDBECK FOUNDATION GROUP

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

For the Lundbeck Foundation's statutory statement on CSR in accordance with section 99a of the Danish Financial Statements Act, please refer to:

<https://www.lundbeckfonden.com/csr-report>

GOVERNANCE

The foundation aims to conduct its business with transparency and integrity. This intent is underlined by a clear governance structure and is reflected in the foundation's 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. For the Lundbeck Foundation, such influence comes with a high level of responsibility.

The Lundbeck Foundation is committed to transparency in its operations and to conducting its business with integrity. Consequently, it has high standards of governance and follows all recommendations issued by Denmark's Committee on Foundation Governance. The only exception being a shorter election period for board members than is recommended by the Committee. For a full overview of the foundation's compliance with the recommendations cf. section 77a of the Financial Statements Act, please see the foundation's website: <https://www.lundbeckfonden.com/god-fondsledelse>.

The keyword in good governance is independence. Therefore there is always both in the Board of Trustees of the Lundbeck Foundation and in the Boards of Directors of all subsidiaries of the foundation a majority of independent members. Furthermore according to our Rules of Procedure, no present or former senior employees of neither the foundation nor of its

subsidiaries can become members of the Board of the foundation. This ensures long term checks and balances in the superior management of an organisation that is not under control of any shareholders or other owners.

THE BOARD OF TRUSTEES

The Lundbeck Foundation is managed by a Board of Trustees in collaboration with the CEO. 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
- Appoint the foundation's CEO

The Board of Trustees meets a minimum of four times each 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. Both committees meet up regularly to analyse and discuss issues related to grants and prizes and to discuss investments in greater detail, respectively.

ACTIVE INVOLVEMENT IN SUBSIDIARIES

As the majority shareholder, the foundation is actively involved with each of the three subsidiaries, monitoring their performance closely and, as a long term owner, seeking to add value for their executive management and boards. The foundation exerts its 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

The basic criteria for allocation of research funding are that the scientific content of the application, the qualifications of the applicant, and the academic environment at the host institution must all be of a high international standard.

The Lundbeck Foundation seeks to ensure consistent and equal assessment of all applications. Consequently, all significant applications must be peer reviewed by a group of experts,

GOVERNANCE

the majority of whom must be unconnected to the foundation. Two permanent evaluation committees, comprising 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 the disqualification of members.

For 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.

The Board of Trustees decides on the allocation of grants in accordance with statutory requirements. The foundation is developing a model whereby the Board, as part of its decision-making on the allocation of grants, can issue a grant mandate to a committee, formed by the Board, to implement the Board's grant decisions. This adjustment will only apply to smaller grants that can be assessed according to specific, standardised criteria. The model has been approved by the Danish Business Authority and is expected to be implemented during 2018.

In general, 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

All grant holders must comply with the Lundbeck Foundation's General Terms and Conditions for Research Grants.

The foundation expects researchers who receive funding to conduct their research according to recognised codes of good research practice, including the Danish Ministry of Higher Education and Science's Code of Conduct for Research Integrity, the Medical Research Council's Good Research Practice, and the International Society for Pharmacoepidemiology's Guidelines for Good Pharmacoepidemiology Practice. This also applies to interaction with other researchers, the collection, generation and analysis of data, applications for research funding, publication of research results and the recognition of direct and indirect contributions by colleagues, partners and others.

It is a prerequisite that researchers who receive funding from The Lundbeck Foundation are affiliated with institutions that have their own published codes and guidelines for good research practice, and that the grant holder complies with such guidelines. In addition, it is a prerequisite that these institutions have formally described procedures, which must be adhered to when handling any suspicion of scientific dishonesty.

To be eligible to receive a grant from the foundation, the grant holder and the host institution, as well as researchers and third parties affiliated with the research project, must also comply with all laws and rules relevant to the research project.

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 Topsøe 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 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
- 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 medtech 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 Bispebjerg-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
- MSc (Econ)
- Chairman of DSB SOV, Nordea-fonden, Nordea Bank-fonden 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
- 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
- Member of the Human Papillomavirus Prevention and Control Board

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 Specialist (PhD)

EMPLOYEE-ELECTED

Elected by the employees of ALK-Abelló A/S



VAGN FLINK MØLLER PEDERSEN

Born 1957, elected to the Board in 2014

- Rescue Officer
- Member of the Board of Falck A/S

EMPLOYEE-ELECTED

Elected by the employees of Falck A/S

MANAGEMENT TEAM



LENE SKOLE
CEO



BERTIL FROM
CFO



CHRISTIAN ELLING
Managing Partner, Emerge



METTE KIRSTINE AGGER
Managing Partner, Ventures



REGITZE REEH
Director of Communications



THOMAS SINKJÆR
Senior Vice President, Grants & Prizes

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 categorised 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 2017, the Foundation granted the following amounts within the four categories

| | (DKKm) |
|------------------------------------|------------|
| Personal research grants | 205 |
| Strategic grants | 266 |
| Honorary awards | 9 |
| Science teaching and communication | 27 |
| Total | 507 |

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

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 and the Senior Vice President, Grants & Prizes, 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 Senior Vice President, Grants & Prizes, 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 Senior Vice President, Grants & Prizes, is responsible for managing day-to-day operations in the Grants & Prizes Department. This includes implementation of the grant strategy and staff responsibility.

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

A young girl with her hair in two long braids is shown in profile, writing on a dark chalkboard with a piece of white chalk. The chalkboard has some faint, ghostly numbers and lines from previous writing. The girl is wearing a light-colored, short-sleeved shirt. The entire scene is framed by a white border.

Financial Statements

LUNDBECKFONDEN GROUP

FINANCIAL STATEMENTS

LUNDBECKFONDEN GROUP

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FINANCIAL STATEMENTS

LUNDBECKFONDEN GROUP

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INCOME STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | 2017 | 2016 |
|---|------------|--------------|--------------|
| Revenue | 3 | 35,371 | 33,748 |
| Cost of sales | 4, 5, 6 | -17,845 | -17,233 |
| Gross profit | | 17,526 | 16,515 |
| Research and development costs | 4, 5, 6 | -3,133 | -3,354 |
| Sales and distribution costs | 4, 5, 6 | -7,246 | -6,970 |
| Administrative expenses | 4, 5, 6, 7 | -3,582 | -3,436 |
| Other income | 8 | 311 | 189 |
| Operating profit before special items | | 3,876 | 2,944 |
| Special items | 9 | -1,646 | - |
| Operating profit | | 2,230 | 2,944 |
| Financial income | 10 | 4,643 | 2,618 |
| Financial expenses | 10 | -2,922 | -1,890 |
| Income from investments in associates | | -19 | 82 |
| Profit before tax | | 3,932 | 3,754 |
| Tax on profit for the year | 11 | -1,785 | -1,191 |
| Profit for the year from continuing operations | | 2,147 | 2,563 |
| Profit for the year from discontinued operations | 32 | -115 | -98 |
| Profit for the year | | 2,032 | 2,465 |

| DKKm | Note | 2017 | 2016 |
|---------------------------|------|------------|------------|
| Profit attributable to: | | | |
| Lundbeckfonden | | 1,700 | 1,900 |
| Non-controlling interests | 22 | 332 | 565 |
| | | 2,032 | 2,465 |
| Grants authorised | 12 | 507 | 493 |

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | 2017 | 2016 |
|--|------|-------|-------|
| Profit for the year | | 2,032 | 2,465 |
| Actuarial gains/losses | 23 | 53 | -61 |
| Tax | 11 | -11 | 9 |
| Items that will not subsequently be reclassified to the income statement | | 42 | -52 |
| Currency translation, foreign subsidiaries | | -856 | -161 |
| Currency translation concerning additions to net investments in foreign subsidiaries | | -107 | 241 |
| Adjustment, deferred exchange gains/losses, hedging | | 838 | -290 |
| Exchange gains/losses, hedging (transferred to the hedged items) | | -33 | 15 |
| Exchange gains/losses, trading (transferred to financial items) | | -10 | -11 |
| Value adjustment of interest hedging instruments | | 29 | 9 |
| Fair value adjustment of available-for-sale financial assets | | 16 | 8 |
| Adjustment for hyperinflation | | 5 | 5 |
| Tax on other comprehensive income | 11 | -83 | -4 |
| Items that may subsequently be reclassified to the income statement | | -201 | -188 |

| DKKm | Note | 2017 | 2016 |
|---|------|--------------|--------------|
| Other comprehensive income for the year, net of tax | | -159 | -240 |
| Total comprehensive income for the year | | 1,873 | 2,225 |
| Attributable to: | | | |
| Lundbeckfonden | | 1,640 | 1,732 |
| Non-controlling interests | 22 | 233 | 493 |
| Total comprehensive income for the year | | 1,873 | 2,225 |

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 loss of DKK 872m (net gain of DKK 23m in 2016), 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 at a net gain of DKK 650m (net loss of DKK 215m in 2016) and recognised under retained earnings in equity in the amount of DKK 63m (loss of DKK 50m in 2016). In 2016, a net gain of DKK 11m was further recognised in reserve for fair value adjustments of available-for-sale financial assets.

BALANCE SHEET

AT 31 DECEMBER, ASSETS

| DKKm | Note | 2017 | 2016 |
|---|------|---------------|---------------|
| Goodwill | | 9,014 | 11,300 |
| Product rights | | 3,221 | 4,029 |
| Intangible assets from acquisitions | | 1,003 | 1,298 |
| Other intangible assets | | 882 | 1,015 |
| Intangible assets | 13 | 14,120 | 17,642 |
| Property, plant and equipment | 14 | 5,088 | 5,825 |
| Financial assets - Invest | 15 | 13,618 | 13,283 |
| Financial assets - Lundbeckfonden Ventures and Emerge | 15 | 2,849 | 2,425 |
| Investments in associates | | 56 | 64 |
| Receivables from associates | 15 | 3 | 26 |
| Deferred tax | 16 | 1,893 | 2,077 |
| Other financial assets | 15 | 190 | 196 |
| Financial assets | | 18,609 | 18,071 |
| Non-current assets | | 37,817 | 41,538 |

| DKKm | Note | 2017 | 2016 |
|---|------|---------------|---------------|
| Inventories | 17 | 2,333 | 2,297 |
| Trade receivables and other receivables | 18 | 6,595 | 7,016 |
| Income tax | | 300 | 60 |
| Receivables | | 6,895 | 7,076 |
| Securities - Invest | | 182 | 102 |
| Securities - subsidiaries | | 2,139 | 706 |
| Securities | 19 | 2,321 | 808 |
| Cash and bank balances - Invest | | 473 | 778 |
| Cash and bank balances - subsidiaries | | 3,335 | 3,395 |
| Cash and bank balances | 19 | 3,808 | 4,173 |
| Current assets | | 15,357 | 14,354 |
| Assets classified as held for sale | 32 | 712 | - |
| Assets | | 53,886 | 55,892 |

BALANCE SHEET

AT 31 DECEMBER, EQUITY AND LIABILITIES

| DKKm | Note | 2017 | 2016 |
|--|------|---------------|---------------|
| Capital base | 20 | 3,109 | 2,965 |
| Other reserves | 21 | 1,472 | 1,444 |
| Retained earnings | | 23,561 | 22,435 |
| Lundbeckfonden's share of equity | | 28,142 | 26,844 |
| Non-controlling interests' share of equity | 22 | 4,566 | 3,482 |
| Total equity | | 32,708 | 30,326 |
| Payable grants | | 367 | 324 |
| Provisions | 23 | 1,056 | 1,399 |
| Deferred tax | 16 | 802 | 763 |
| Debt to financial institutions and other | 24 | 5,842 | 8,024 |
| Other payables | | 86 | 62 |
| Non-current liabilities | | 8,153 | 10,572 |

| DKKm | Note | 2017 | 2016 |
|--|------|---------------|---------------|
| Payable grants | | 685 | 639 |
| Provisions | 23 | 790 | 1,187 |
| Payables to associates | | 15 | 28 |
| Income tax | | 195 | 330 |
| Debt to financial institutions and other | 24 | 776 | 1,863 |
| Other payables | 25 | 8,693 | 9,413 |
| Prepayments from customers | | 1,544 | 1,534 |
| Current liabilities | | 12,698 | 14,994 |
| Liabilities | | 20,851 | 25,566 |
| Liabilities relating to assets classified as held for sale | 32 | 327 | - |
| Equity and liabilities | | 53,886 | 55,892 |

CASH FLOW STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | 2017 | 2016 |
|--|------|---------------|--------------|
| Operating profit | | 2,230 | 2,944 |
| Adjustment for non-cash operating items | 26 | 3,746 | 2,268 |
| Working capital changes | 27 | 272 | 126 |
| Cash flows from operating activities before financial receipts and payments and tax | | 6,248 | 5,338 |
| Financial receipts | | 371 | 465 |
| Financial payments | | -447 | -234 |
| Income tax paid | | -1,996 | -1,201 |
| Cash flows from operating activities | | 4,176 | 4,368 |
| Acquisition of businesses | 28 | -503 | -130 |
| Divestment of businesses | 28 | 7 | 383 |
| Investments in intangible assets | 13 | -649 | -324 |
| Investments in property, plant and equipment | 14 | -774 | -901 |
| Disposal of intangible assets and property, plant and equipment | | 489 | 205 |
| Investments in financial assets measured at fair value through profit or loss | | -6,453 | -2,847 |
| Sale of financial assets measured at fair value through profit or loss | | 6,289 | 3,736 |
| Cash flows from investing activities | | -1,594 | 122 |
| Cash flows from operating and investing activities (free cash flow) | | 2,582 | 4,490 |

| DKKm | Note | 2017 | 2016 |
|--|-----------|---------------|---------------|
| Loan proceeds | 24 | 832 | 883 |
| Repayment of loans | 24 | -3,529 | -3,125 |
| Buyback of shares from non-controlling interests | | -93 | -155 |
| Capital injections from non-controlling interests | | 433 | - |
| Sale of treasury shares | | 3 | 47 |
| Capital increase through exercise of warrants | | 214 | 37 |
| Settlement of exercised share options and warrants | | -5 | -89 |
| Dividend paid to non-controlling interests | | -190 | -48 |
| Other transactions with non-controlling interests | | -16 | -23 |
| Authorised grants paid | | -406 | -427 |
| Cash flows from financing and grant-making activities | | -2,757 | -2,900 |
| Cash flows from continuing operations | | -175 | 1,590 |
| Cash flows from discontinued operations | 32 | 2 | 9 |
| Net cash flow for the year | | -173 | 1,599 |
| Cash at 1 January | 19 | 4,173 | 2,669 |
| Unrealised exchange rate adjustments for the year | | -61 | -95 |
| Cash and cash equivalents classified as assets held for sale | 32 | -131 | - |
| Cash at 31 December | 19 | 3,808 | 4,173 |

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKk | Capital base | Other reserves | Retained earnings | Lundbeck-fonden's share of equity | Non-controlling interests' share of equity | Total equity |
|--|--------------|----------------|-------------------|-----------------------------------|--|---------------|
| Equity at 1 January 2017 | 2,965 | 1,444 | 22,435 | 26,844 | 3,482 | 30,326 |
| Profit for the year | | | 1,700 | 1,700 | 332 | 2,032 |
| Other comprehensive income | - | -222 | 162 | -60 | -99 | -159 |
| Comprehensive income | - | -222 | 1,862 | 1,640 | 233 | 1,873 |
| Grants authorised during the year, net | | -494 | | -494 | - | -494 |
| Transferred to provision for future grants | | 744 | -744 | - | - | - |
| Non-controlling interests' share of dividends | | | - | - | -192 | -192 |
| Buyback of shares from non-controlling interests | | | -93 | -93 | - | -93 |
| Change in non-controlling interests | | | -39 | -39 | 100 | 61 |
| Adjustment of provision for acquisition of non-controlling interests | | | 41 | 41 | 30 | 71 |
| Impact by incentive programmes | | | 205 | 205 | 63 | 268 |
| Capital increase | | | - | - | 834 | 834 |
| Tax related to items recognised directly on equity | - | - | 38 | 38 | 16 | 54 |
| Other transactions | - | 250 | -592 | -342 | 851 | 509 |
| Increase of capital base | 144 | - | -144 | - | - | - |
| Equity at 31 December 2017 | 3,109 | 1,472 | 23,561 | 28,142 | 4,566 | 32,708 |

| DKKk | Capital base | Other reserves | Retained earnings | Lundbeck-fonden's share of equity | Non-controlling interests' share of equity | Total equity |
|--|--------------|----------------|-------------------|-----------------------------------|--|---------------|
| 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 | - | -190 | 22 | -168 | -72 | -240 |
| Comprehensive income | - | -190 | 1,922 | 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 | 1,444 | 22,435 | 26,844 | 3,482 | 30,326 |

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 2017. Management believes that the following accounting policies are significant to the financial statements. The general accounting policies are described in note 34.

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 control of the asset sold.
- Revenue from each deliverable 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. However, revenue from royalties is recognised when the Group obtains the right to royalty payments.
- 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 each deliverable in an overall agreement can be clearly separated and calculated reliably at fair value.
- It is probable that the Group will receive payment.
- The Group has no further delivery obligations in respect of the downpayment or milestone 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 the significant uncertainties inherent in 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 preparation 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.

When assessing materiality and relevance, due consideration is given to ensuring adherence to the International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act and to ensure 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 sales under 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 product/population utilisation mix, price increases, programme/market growth, and state-specific information. Further, the calculation of rebates involves legal interpretation of relevant regulations and is subject to changes in interpretive guidance from governmental authorities. The obligations for discounts and rebates are incurred at the time the sale is recorded; however, the actual rebate related to a specific sale may be invoiced by the authorities six to nine months later. In addition to this billing time lag, there is no statute of limitations for states to submit rebate claims; thus, rebate adjustments in any particular period may relate to sales from a prior period.

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 all assets and liabilities, whether recognised or unrecognised in the financial statements of the acquiree, are measured at fair value. Especially for intangible assets, for which there is often no active market, the calculation of fair value may involve judgement and estimates.

IMPAIRMENT TESTING

Goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use are tested for impairment annually or whenever there is indication of impairment, while the carrying amount of intangible assets with finite lives, property, plant and investments measured at cost or amortised cost is tested if there is indication of impairment. Prior impairment losses not relating to goodwill are reviewed for possible reversal at each reporting date. Impairment losses

are reversed only if the assumptions and estimates underlying the impairment calculation have changed.

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 the relevant assets.

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 3,462m at 31 December 2017 (DKK 3,450m at 31 December 2016).

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. based on 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. At each balance sheet date, it is assessed whether there is indication that an investment or a group of investments must be impaired. An impairment loss is recorded if it is assessed that lack of compliance with business plans affect the calculation of fair value or if subsequent capital injections are made at lower prices.

NOTE 2-3

2. Significant accounting estimates and judgements (continued)

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Management's estimate of future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years supports the recognition of deferred tax assets. When forecasting the utilisation of the tax assets, the Group applies the same assumptions as for impairment testing as described in note 13 *Intangible assets*.

Accordingly, the full value at 31 December 2017 of deferred tax assets relating to tax losses carried forward in Denmark and a deferred tax asset relating to impairment of product rights in 2015 have been capitalised in the amount of DKK1,069m.

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 outcome of litigations and settlements with the relevant tax authorities.

3. Revenue

| DKKm | 2017 | 2016 |
|--|---------------|---------------|
| Europe | 17,119 | 17,306 |
| North America | 13,676 | 12,051 |
| Rest of the world | 4,576 | 4,391 |
| Total | 35,371 | 33,748 |
| Brain diseases (Lundbeck) | 17,234 | 15,634 |
| Allergy treatment (ALK) | 2,910 | 3,005 |
| Ambulance, Healthcare, Assistance and Portfolio Businesses (Falck) | 15,227 | 15,109 |
| Total | 35,371 | 33,748 |
| Revenue includes: | | |
| Sale of goods | 19,693 | 18,093 |
| Rendering of services | 15,078 | 14,996 |
| Downpayments and milestone payments | - | 50 |
| Royalties | 600 | 609 |
| Total | 35,371 | 33,748 |
| Revenue in Denmark | 5,929 | 6,005 |

NOTE 4

4. Staff costs

| DKKm | 2017 | 2016 |
|---|---------------|---------------|
| Short-term staff benefits | 12,539 | 12,450 |
| Share-based payment | 59 | 66 |
| Pension benefits | 739 | 712 |
| Other social security costs | 1,314 | 1,246 |
| Total | 14,651 | 14,474 |
| The year's staff costs are specified as follows: | | |
| Cost of sales | 8,910 | 8,620 |
| Research and development costs | 1,041 | 1,098 |
| Sales and distribution costs | 2,990 | 3,054 |
| Administrative expenses | 1,666 | 1,668 |
| Included in the cost of assets | 44 | 34 |
| Total | 14,651 | 14,474 |
| Average number of full-time employees during the year | 35,231 | 35,710 |
| Number of employees at year-end | 44,666 | 44,616 |

| DKKm | 2017 | 2016 |
|--|------------|------------|
| 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 | 10.1 | 9.7 |
| Total remuneration in the Group for the Board of Trustees of the foundation amounts to | 8.3 | 7.2 |
| Executive Management: | | |
| Lene Skole | 10.1 | 9.7 |
| Board of Trustees: | | |
| Jørgen Huno Rasmussen, Chairman of the foundation and Lundbeckfond Invest A/S and member of the Investment Committee | 0.9 | 0.9 |
| Steffen Kragh, Vice-Chairman of the foundation and Lundbeckfond Invest A/S and member of the Investment Committee | 0.7 | 0.6 |
| Gunhild Waldemar, Chairman of the Research Committee | 0.7 | 0.7 |
| Lars Holmqvist, member of the Investment Committee | 1.3 | 1.2 |
| Michael Kjær, member of the Research Committee, from 12 April 2016 | 0.5 | 0.3 |
| Peter Schütze, Chairman of the Investment Committee | 2.3 | 1.5 |
| Susanne Krüger Kjær, member of the Research Committee | 0.5 | 0.4 |
| Henrik Sindal Jensen, employee representative from H. Lundbeck A/S | 0.6 | 0.5 |
| Peter Adler Würtzen, employee representative from ALK-Abelló A/S | 0.3 | 0.3 |
| 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 |
| Total | 8.3 | 7.2 |

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

NOTE 5

5. Incentive programmes

Lundbeckfonden

The Executive Management of Lundbeckfonden is not offered incentive programmes. Incentive programmes 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 is 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 2017, bonus under Invest programmes amounted to DKK 7m (DKK 6m in 2016).

In 2017, for Lundbeckfonden Ventures programmes expenses of DKK 98m (income of DKK 32m in 2016) have been recognised in the income statement under financial items and in the balance sheet as a provision. Provision amounted to DKK 160m at 31 December 2017 (DKK 62m at 31 December 2016).

Subsidiaries

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, cf. below.

Lundbeck

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- and cash-settled programmes.

EQUITY-SETTLED PROGRAMMES

In 2017, equity-settled incentive programmes consisted of warrants and restricted share units (RSUs) granted during the years 2009-2017.

In February 2017, as part of Lundbeck's recurring long-term incentive programme, Lundbeck made an initial grant offering members of Lundbeck's registered Executive Management and key employees to participate in an RSU programme. Six members of the registered Executive Management and 121 key employees employed in H. Lundbeck A/S or a Lundbeck subsidiary were offered to participate in the programme. The participants were primarily selected on the basis of job level. All the RSUs will be finally granted after the publication of the Annual Report for 2017 and will vest three years after final grant. Final grant and vesting are subject to the Board of Directors' decision on grant and vesting, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The fair value of the RSUs has been calculated on the basis of a share price of DKK 291.26 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the initial grant was DKK 268.65 per RSU.

In May 2016, the Chief Executive Officer (CEO) Kåre Schultz was offered to participate in the 2014 one-off warrant programme on the same terms as the former CEO, who is no longer part of the programme. A total of 400,000 warrants were granted, calculated proportionally to the period of time the CEO had been with Lundbeck. Vesting was subject to the 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 of DKK 85.28 per warrant.

In May 2016, as part of Lundbeck's recurring long-term incentive programme, Lundbeck made an initial grant offering members of Lundbeck's registered Executive Management and key

NOTE 5

5. Incentive programmes (continued)

employees to participate in an RSU programme. Three members of the registered 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 the registered Executive Management already participating in the 2014 one-off warrant programme are not participating in the programme. The participants were primarily selected on the basis of job level. The final grant was made after the publication of the Annual Report for 2016 and the RSUs will vest three years after final grant. Vesting is subject to the Board of Directors' decision on vesting, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The fair value of the RSUs has been calculated on the basis of a share price of DKK 252.40 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the initial grant was DKK 237.56 per RSU.

The shares granted to key employees in 2014, the warrants from the 2014 programme granted to the registered Executive Management and the remaining 50% of the warrants granted to the registered Executive Management in 2012 vested in 2017. Further, the 400,000 warrants granted

to Kåre Schultz in May 2016 vested in 2017. The shares granted to key employees in 2013 and 30% of the warrants granted to the registered Executive Management in 2012 vested in 2016. Thus, all warrants have vested.

At 31 December 2017, 136,059 warrants (280,903 warrants in 2016) were exercisable. The weighted average exercise price was DKK 113.05 (DKK 112.41 in 2016).

In 2017, the following number of warrants were exercised: 0 from the 2008 grant which expired in 2016 (13,435 in 2016), 2,207 from the 2009 grant (18,221 in 2016), 23,157 from the 2010 grant (20,856 in 2016), 46,354 from the 2011 grant (45,112 in 2016), 59,777 from the 2012 grant (79,224 in 2016), 141,592 from the 2012 grant made to the registered Executive Management (141,592 in 2016), 755,000 from the 2014 grant made to the registered Executive Management and 400,000 granted to Kåre Schultz in 2016. The weighted average share price of the warrants exercised was DKK 355.11 (DKK 251.97 in 2016).

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, DKK | Fair value of the date of grant, 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 | Total number of shares/RSUs granted | Number of shares/RSUs granted to Executive Management | Fair value at the date of grant, DKK |
|-----------------------------|--------------|-------------------------------------|---|--------------------------------------|
| 2013, number of persons 113 | 31.05.2016 | 540,562 | 98,629 | 110.70 |
| 2014, number of persons 107 | 31.05.2017 | 205,702 | - | 138.81 |
| 2015, number of persons 129 | 01.12.2018 | 130,777 | - | 202.78 |
| 2016, number of persons 126 | 01.02.2020 | 120,549 | 20,484 | 237.56 |
| 2017, number of persons 127 | 01.02.2021 | 131,516 | 47,911 | 268.65 |

| Warrants | Executive Management | Executives | Other | Total | Average exercise price, DKK |
|-------------------------|----------------------|---------------|----------------|------------------|-----------------------------|
| 1 January 2017 | 1,320,333 | 77,154 | 180,008 | 1,577,495 | 144.66 |
| Transfers | - | -2,000 | 2,000 | - | - |
| Exercised | -1,296,592 | -45,836 | -85,659 | -1,428,087 | 149.64 |
| Cancelled/expired | - | - | -13,349 | -13,349 | 102.00 |
| 31 December 2017 | 23,741 | 29,318 | 83,000 | 136,059 | 113.05 |
| 1 January 2016 | 1,038,184 | 88,270 | 407,877 | 1,534,331 | 134.79 |
| Grant | 400,000 | - | - | 400,000 | 155.56 |
| Transfers | 23,741 | 36,714 | -60,455 | - | - |
| Exercised | -141,592 | -47,830 | -129,018 | -318,440 | 117.75 |
| Exercised | - | - | -38,396 | -38,396 | 114.21 |
| 31 December 2016 | 1,320,333 | 77,154 | 180,008 | 1,577,495 | 144.66 |

CASH-SETTLED PROGRAMMES

The cash-settled programmes consist of stock appreciation rights (SARs) and restricted cash units (RCUs) granted during the years 2011-2017.

In February 2017, Lundbeck made an initial grant offering a few key employees in the US subsidiaries to participate in an RCU programme on terms and conditions similar to those applying to the RSU programme initially granted to the registered Executive Management and key employees of the parent company and its non-US subsidiaries in February 2017. All the RCUs, a total of 2,499, will be finally granted after the publication of the Annual Report for 2017 and will vest three years after final grant. Final grant and vesting are subject to the Board of Directors' decision on vesting, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The size of the amount depends on the value of the Lundbeck share on the vesting date. The fair value at the time of the initial grant was calculated at DKK 268.65 per RCU.

In May 2016, Lundbeck made an initial grant offering a few key employees in the US subsidiaries to participate in an RCU programme on terms and conditions similar to those applying to the RSU programme initially granted to the registered Executive Management and key employees of the parent company and its non-US subsidiaries in May 2016. All the RCUs, a total of 4,645, were finally granted after the publication of the Annual Report for 2016 and will vest three years after final grant. Vesting is subject to the Board of Directors' decision on vesting, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Lundbeck Group during the vesting period. The size of the amount depends on the value of the Lundbeck share on the vesting date. The fair value at the time of the initial grant was calculated at DKK 237.56 per RCU.

The cash-settled programmes for employees of the US subsidiaries cannot be converted into shares because the value of the programmes is distributed as a cash amount.

The RCUs granted in 2014 vested in 2017, after which time the programme was settled. The RCUs granted in 2013 vested in 2016, 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 are recognised in the income statement for 2017 at an expense corresponding to the fair value at the time of grant for the part of the vesting period that concerns 2017. The total expense recognised in respect of equity-settled programmes amounted to DKK 37m (DKK 53m in 2016). At 31 December 2017, the fair value of remaining equity-settled programmes was DKK 139m (DKK 340m in 2016).

The SARs granted are recognised 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 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. The total expense recognised in respect of cash-settled programmes amounted to DKK 1m (DKK 1m in 2016) and covers all cash-settled programmes in force in 2017. At 31 December 2017, the total liability in respect of cash-settled programmes was DKK 3m (DKK 4m in 2016) and covers all cash-settled programmes in force at 31 December 2017.

The total expense recognised in the income statement for all incentive programmes amounted to DKK 38m in 2017 (DKK 54m in 2016).

ALK

| DKKm | 2017 | 2016 |
|--|-----------|-----------|
| Cost of share-based payments | 21 | 15 |
| Total | 21 | 15 |
| Cost regarding share-based payments are recognised as follows: | | |
| Cost of sales | 4 | 4 |
| Research and development expenses | 3 | 3 |
| Sales and marketing expenses | 3 | 4 |
| Administrative expenses | 11 | 1 |
| Financial expenses | - | 3 |
| Total | 21 | 15 |

In 2017 the total cost of share-based payments included a financial expense of DKK 0 due to the exercise and cash settlement of share options plans (DKK 3m in 2016).

In 2017 an income of DKK 1m related to adjustment in the number of conditional shares expected to vest is included in the cost of share based payments (DKK 0 in 2016).

SHARE OPTION PROGRAMME

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

Each share option entitles the holder to acquire one existing B share of DKK 10 nominal value in the company. The exercise of options is conditional upon certain targets being met. The target achievement is met upon the holder of the option not having resigned at the time of exercise.

From the ordinary 2017 plan, the share option programme is further subject to the fulfilment of economic key indicators with a threshold below which there will be no payout, and with the opportunity to perform above target. In case of performance above target, a multiplier is used that can increase the pay-out up to 100%.

NOTE 5

5. Incentive programmes (continued)

The options can be exercised in the trading windows following the release of annual and interim reports. Share options are considered sufficiently covered by treasury shares.

| Specification of outstanding options, units | Board of Management | Other key personnel | Total | Weighted average exercise price, DKK |
|---|---------------------|---------------------|----------------|--------------------------------------|
| 1 January 2017 | 43,795 | 102,775 | 146,570 | 743 |
| Additions | 45,321 | 10,900 | 56,221 | 944 |
| Exercises | - | -17,775 | -17,775 | 660 |
| Expired | - | -1,000 | -1,000 | 410 |
| Cancellations | -19,416 | -4,315 | -23,731 | 938 |
| 31 December 2017 | 69,700 | 90,585 | 160,285 | 797 |
| 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 |

At 31 December 2017 the total number of vested share options amounts to 65,000 units (43,525 units at 31 December 2016).

The Board of Directors decided for two trading windows in 2017 that share options were to be settled by cash settlement and a total of 12,575 share options were exercised and total cash payments amounted to DKK 5m. For one trading window the Board of Directors decided that share options were settled by shares and a total of 5,200 options were exercised.

| Outstanding options characteristics | Options Units | Exercise price, DKK | Vesting date | Exercise period begins | Exercise period ends |
|-------------------------------------|----------------|---------------------|--------------|------------------------|----------------------|
| 2011 Plan | 12,000 | 375 | 01.11.2014 | 01.11.2014 | 01.11.2018 |
| 2012 Plan | 11,700 | 463 | 01.05.2015 | 01.05.2015 | 01.05.2019 |
| 2013 Plan | 12,700 | 481 | 01.03.2016 | 01.03.2016 | 01.03.2020 |
| 2014 Plan | 29,100 | 767 | 01.03.2017 | 01.03.2017 | 01.03.2021 |
| 2015 Plan | 37,375 | 836 | 01.03.2018 | 01.03.2018 | 01.03.2022 |
| 2016 Plan | 21,120 | 1,087 | 01.03.2019 | 01.03.2019 | 01.03.2023 |
| 2017 Sign on plan, CEO | 17,068 | 924 | 01.01.2018 | 01.01.2018 | 01.01.2024 |
| 2017 Plan | 19,222 | 1,013 | 01.03.2020 | 01.03.2020 | 01.03.2022 |
| 31 December 2017 | 160,285 | | | | |

| | 2017 | 2016 |
|---|-----------|-----------|
| Average remaining life of outstanding share options at year end (years) | 3.7 | 4.3 |
| Exercise prices for outstanding share options at year end (DKK) | 370-1,127 | 361-1,127 |

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:

| | 2017 Plan | 2017 Sign on plan, CEO | 2016 Plan |
|--|-------------|------------------------|-------------|
| Average share price (DKK) | 952 | 924 | 972 |
| Expected exercise price (DKK) ¹ | 1,025 | 924 | 1,073 |
| Expected volatility rate | 31% p.a. | 34% p.a. | 30% p.a. |
| Expected option life | 4 years | 4 years | 5 years |
| Expected dividend per share | 5 | 5 | 5 |
| Risk-free interest rate | -0.29% p.a. | -0.38% p.a. | -0.06% p.a. |
| Calculated fair value of granted share options (DKK) | 192 | 230 | 208 |

NOTE 5

5. Incentive programmes (continued)

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

CONDITIONAL SHARE PROGRAMME/PERFORMANCE SHARE PROGRAMME

The ALK Group has established conditional and, from 2017, performance share programmes for the Board of Management and a number of key employees as part of a retention programme. The final transfer of ownership of the shares takes place three years after the grant, provided that the ALK Group achieves the targets for vesting.

From 2017, the performance share programme is subject to the fulfilment of economic key indicators with a threshold below which there will be no pay-out, and with the opportunity to perform above target. In case of performance above target, a multiplier is used that can increase the pay-out up to 100%.

| Outstanding conditional shares, units | Board of Management | Other key personnel | Total |
|---------------------------------------|---------------------|---------------------|---------------|
| 1 January 2017 | 6,644 | 13,705 | 20,349 |
| Additions | 5,404 | 10,475 | 15,879 |
| Exercises | -2,340 | -3,498 | -5,838 |
| Cancellations | -4,382 | -3,107 | -7,489 |
| 31 December 2017 | 5,326 | 17,575 | 22,901 |
| 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 |

The performance shares have been granted at the average market price of the share for the five trading days immediately preceding the date of grant. The performance shares have been granted at DKK 952 per share (DKK 972 per share in 2016). Conditional shares and performance shares are considered sufficiently covered by treasury shares.

| Conditional shares characteristics | Vesting date | Conditional share units |
|------------------------------------|--------------|-------------------------|
| 2015 Plan | 01.03.2018 | 6,503 |
| 2016 Plan | 01.03.2019 | 4,359 |
| 2017 Plan | 01.03.2020 | 12,039 |
| 31 December 2017 | | 22,901 |

RESTRICTED STOCK UNITS

In 2015, Board of Directors decided to grant Restricted Stock Units to all employees not included in the conditional shares plan. 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 RSU's were granted in 2015. As of 31 December 2017, outstanding RSU's were 14,180 (15,040 at 31 December 2016) and are considered sufficiently covered by treasury shares. The costs of the programme are calculated based on a share price of DKK 746 and amounts in total to DKK 11m (DKK 11m in 2016), which are expensed over the vesting period.

Falck

The former warrant programme has been replaced by a new cash based incentive plans.

In 2017, Falck developed a new long-term incentive programme, which will be implemented in 2018. Therefore, 2017 was a transition year in the perspective of long-term incentives, which resulted in the long-term incentive program being linked to the short-term incentive plan.

Group

| Recognised expenses, DKKm | 2017 | 2016 |
|---|-----------|-----------|
| Recognised expenses concerning equity-based schemes | 58 | 68 |
| Recognised expenses concerning debt-based schemes | 1 | 1 |
| Total recognised expenses | 59 | 69 |

NOTE 6-10

6. Depreciation, amortisation and impairment

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Depreciation, amortisation and impairment are specified as follows: | | |
| Cost of sales | 1,771 | 1,740 |
| Research and development costs | 101 | 236 |
| Sales and distribution costs | 114 | 85 |
| Administrative expenses | 417 | 498 |
| Special items | 1,646 | - |
| Total | 4,049 | 2,559 |

7. Fees to auditors appointed at the annual meeting

| DKKm | 2017 | 2016 |
|--|-----------|-----------|
| Administrative expenses include fees to the Group auditors appointed at the annual meeting, Deloitte, in the amount of: | | |
| Statutory audit | 26 | 24 |
| Other assurance engagements | - | 1 |
| Tax advisory services | 5 | 5 |
| Other services | 7 | 5 |
| Total | 38 | 35 |

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

| DKKm | 2017 | 2016 |
|--|------------|------------|
| Gain on sales of assets | 25 | 42 |
| Gain on sales of activities and other operating income | 286 | 147 |
| Total | 311 | 189 |

9. Special items

| DKKm | 2017 | 2016 |
|-------------------------------|-------|------|
| Impairment of goodwill, Falck | 1,646 | - |

10. Financial items

Group

| DKKm | 2017 | 2016 |
|---|--------------|--------------|
| Financial income | | |
| Interest on financial assets measured at amortised cost | 36 | 25 |
| Interest on financial assets measured at fair value | 143 | 159 |
| Interest on receivables from associates | 4 | 4 |
| Dividends | 165 | 166 |
| Gains on financial assets at fair value through profit or loss | 3,971 | 1,839 |
| Gains on available-for-sale financial assets | - | 7 |
| Exchange gains | 281 | 378 |
| Other financial income | 43 | 40 |
| Total financial income | 4,643 | 2,618 |
| Financial expenses | | |
| Interest on financial liabilities measured at amortised cost | 320 | 283 |
| Interest component, discounted liabilities | 9 | 8 |
| Losses on financial assets at fair value through profit or loss | 1,307 | 1,263 |
| Losses on available-for-sale financial assets | 1 | - |
| Exchange losses | 1,152 | 287 |
| Other financial expenses | 133 | 49 |
| Total financial expenses | 2,922 | 1,890 |
| Net financials | 1,721 | 728 |

NOTE 10

10. Financial items (continued)

Invest

| DKKm | 2017 | 2016 |
|---|--------------|--------------|
| Financial items, Invest, are specified as follows: | | |
| Financial income | | |
| Interest on financial assets measured at fair value | 162 | 189 |
| Dividends | 165 | 173 |
| Gains on financial assets at fair value through profit or loss | 2,573 | 1,458 |
| Exchange gains | 67 | 163 |
| Total financial income | 2,967 | 1,983 |
| Financial expenses | | |
| Interest on financial liabilities measured at amortised cost | 8 | 7 |
| Losses on financial assets at fair value through profit or loss | 862 | 782 |
| Exchange losses | 660 | 52 |
| Other financial expenses | 4 | 4 |
| Total financial expenses | 1,534 | 845 |
| Net financials | 1,433 | 1,138 |

Lundbeckfonden Ventures and Emerge

| DKKm | 2017 | 2016 |
|--|--------------|------------|
| Financial items, Lundbeckfonden Ventures and Emerge, are specified as follows: | | |
| Financial income | | |
| Interest on financial assets measured at fair value | 9 | 6 |
| Dividends | - | 3 |
| Gains on financial assets at fair value through profit or loss | 1,398 | 381 |
| Exchange gains | 1 | 2 |
| Total financial income | 1,408 | 392 |
| Financial expenses | | |
| Losses on financial assets at fair value through profit or loss | 444 | 481 |
| Exchange losses | 210 | 1 |
| Total financial expenses | 654 | 482 |
| Net financials | 754 | -90 |

NOTE 10

10. Financial items (continued)

Subsidiaries

| DKKm | 2017 | 2016 |
|---|-------------|-------------|
| Financial items, subsidiaries, are specified as follows: | | |
| Financial income | | |
| Interest on financial assets measured at amortised cost | 36 | 25 |
| Interest on receivables from associates | 4 | 4 |
| Gains on available-for-sale financial assets, incl. dividends | - | 7 |
| Exchange gains | 213 | 203 |
| Other financial income | 43 | 40 |
| Total financial income | 296 | 279 |
| Financial expenses | | |
| Interest on financial liabilities measured at amortised cost | 340 | 312 |
| Losses on financial assets at fair value through profit or loss | 1 | - |
| Losses on available-for-sale financial assets | 1 | - |
| Interest component, discounted liabilities | 9 | 8 |
| Exchange losses | 282 | 234 |
| Other financial expenses | 129 | 45 |
| Total financial expenses | 762 | 599 |
| Net financials | -466 | -320 |

NOTE 11

11. Tax on profit for the year

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Current tax | 1,479 | 1,509 |
| Prior-year adjustment, current tax | 221 | -35 |
| Prior-year adjustment, deferred tax | -116 | 21 |
| Change of deferred tax for the year | 78 | -303 |
| Change of deferred tax as a result of changed income tax rates | 163 | 3 |
| Total tax for the year | 1,825 | 1,195 |
| Tax for the year is composed of: | | |
| Tax on profit for the year | 1,785 | 1,191 |
| Tax on other transactions in equity | -54 | 9 |
| Tax on other comprehensive income | 94 | -5 |
| Total tax for the year | 1,825 | 1,195 |

| Explanation of the Group's effective tax rate relative to the Danish tax rate 2017 | DKKm | % |
|---|--------------|-----------|
| Profit before tax | 3,932 | |
| Calculated tax, 22% | 865 | 22 |
| Tax effect of: | | |
| Differences in income tax rates of foreign subsidiaries from Danish corporate income tax rate | 466 | 12 |
| Non-deductible/non-taxable items and other permanent differences | -209 | -5 |
| Non-capitalised tax losses etc. for the year | -13 | - |
| Research and development activities (tax credits) | -40 | -1 |
| Non-deductible amortisation of intangibles | 362 | 9 |
| Prior-year tax adjustments etc., total effect on operations | 17 | - |
| Non-deductible losses/non-taxable gains on shares and other equity investments | 170 | 4 |
| Change in valuation of net tax assets | 238 | 6 |
| Deduction for grants | -149 | -4 |
| Other taxes and adjustments | 9 | - |
| Change of deferred tax as a result of changed income tax rates | 69 | 2 |
| Effective tax for the year | 1,785 | 45 |

| Explanation of the Group's effective tax rate relative to the Danish tax rate 2016 | DKKm | % |
|---|--------------|-----------|
| Profit before tax | 3,754 | |
| Calculated tax, 22% | 827 | 22 |
| Tax effect of: | | |
| Differences in income tax rates of foreign subsidiaries from Danish corporate income tax rate | 547 | 15 |
| Non-deductible/non-taxable items and other permanent differences | 40 | 1 |
| Non-capitalised tax losses etc. for the year | -52 | -1 |
| Research and development activities (tax credits) | -16 | - |
| Prior-year tax adjustments etc., total effect on operations | -16 | - |
| Non-deductible losses/non-taxable gains on shares and other equity investments | 172 | 5 |
| Change in valuation of net tax assets | -205 | -6 |
| Deduction for grants | -126 | -3 |
| Other taxes and adjustments | 20 | -1 |
| Effective tax for the year | 1,191 | 32 |

NOTE 12

12. Grants for the year

| DKKm | 2017 | 2016 |
|--------------------------------------|------------|------------|
| Travel grants and research abroad | 4 | 6 |
| Lundbeckfonden Running Costs | 13 | 10 |
| Lundbeckfonden Scholar | 6 | 6 |
| Lundbeckfonden PhD | 53 | 63 |
| Lundbeckfonden Postdoc | 55 | 55 |
| Lundbeckfonden Fellowships | 50 | 50 |
| Internationalisation programmes | 13 | 11 |
| Lundbeckfonden International Postdoc | 7 | 6 |
| Sabbatical leave for research | 1 | - |
| Visiting Professorship | 2 | 4 |
| Lundbeckfonden Scientific Meetings | 1 | 1 |
| Personal grants | 205 | 212 |
| Talent and teaching prizes | 1 | 1 |
| PhD cup | - | 3 |
| The Brain Prize | 8 | - |
| Prizes | 9 | 4 |

| DKKm | 2017 | 2016 |
|---|------------|------------|
| Thematic and strategic grants | 245 | 233 |
| Ad hoc | 21 | 5 |
| Strategic grants | 266 | 238 |
| Scientific Teaching and Communication | 27 | 39 |
| Scientific Teaching and Communication grants | 27 | 39 |
| Grants for the year, gross | 507 | 493 |
| Descendants | - | - |
| Reversed grants/repayments | -13 | -21 |
| Grants for the year, net | 494 | 472 |

NOTE 13

13. Intangible assets

| DKKm | Goodwill | Intangible assets from acquisitions | Product rights | Patent and license rights | Other intangible assets | Ongoing projects | Total |
|--|---------------|-------------------------------------|----------------|---------------------------|-------------------------|------------------|----------------|
| Cost at 1 January 2017 | 12,037 | 3,924 | 15,479 | 246 | 3,032 | 98 | 34,816 |
| Currency translation | -701 | -92 | -798 | -7 | -23 | - | -1,621 |
| Reclassification / transfers | - | - | - | - | 49 | -45 | 4 |
| Addition on acquisitions | 55 | 6 | - | 27 | - | - | 88 |
| Adjustment of put options and contingent consideration | 4 | - | - | - | - | - | 4 |
| Additions | 9 | 4 | 408 | 1 | 176 | 62 | 660 |
| Disposals | -13 | -19 | - | -2 | -214 | - | -248 |
| Transferred to assets classified as held for sale | -708 | -265 | - | - | -30 | - | -1,003 |
| Cost at 31 December 2017 | 10,683 | 3,558 | 15,089 | 265 | 2,990 | 115 | 32,700 |
| Amortisation and impairment at 1 January 2017 | -737 | -2,626 | -11,450 | -132 | -2,209 | -20 | -17,174 |
| Currency translation | 25 | 75 | 531 | - | 27 | - | 658 |
| Amortisation | - | -270 | -949 | -23 | -286 | - | -1,528 |
| Impairment | -1,646 | - | - | - | -67 | - | -1,713 |
| Disposals on divestments | - | - | - | - | 122 | - | 122 |
| Amortisation and impairment on disposals | 2 | 19 | - | 2 | 74 | - | 97 |
| Transferred to assets classified as held for sale | 687 | 247 | - | - | 24 | - | 958 |
| Amortisation and impairment at 31 December 2017 | -1,669 | -2,555 | -11,868 | -153 | -2,315 | -20 | -18,580 |
| Carrying amount at 31 December 2017 | 9,014 | 1,003 | 3,221 | 112 | 675 | 95 | 14,120 |

NOTE 13

13. Intangible assets (continued)

| DKKm | Goodwill | Intangible assets from acquisitions | Product rights | Patent and license rights | Other intangible assets | Ongoing projects | Total |
|--|---------------|-------------------------------------|----------------|---------------------------|-------------------------|------------------|----------------|
| 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 at 31 December 2016), 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 sub-groups; ALK (DKK 559m), Falck (DKK 4,331m) and Lundbeck (DKK 4,124m). 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 than the equity in those sub-groups at 31 December 2017 and no further key assumptions are used in determining whether impairment of goodwill exists for ALK's and Lundbeck's main activities, respectively (no impairment in 2016).

METHODOLOGY USED FOR FALCK

Impairment tests are generally carried out per business segment which is the lowest level of cash-generating units (CGUs) to which the carrying amount of intangibles, i.e. goodwill, customer contracts and brands, can be allocated and monitored with any reasonable certainty.

In connection with the new Falck North Star Strategy a Portfolio Businesses segment has been established which comprise the CGUs Safety Services, Industrial Firefighting and Global Assistance. Goodwill has been allocated to the new CGUs using a relative value approach after recognition of the identified impairment.

Impairment tests are in 2017 carried out on the business segments Ambulance, Healthcare and Assistance, and on the new CGUs within the Portfolio Business segment.

Safety Services is valued at fair value less costs to sell, as the Board of Directors has initiated a process to divest the activities. The valuation is based on the headroom between the fair value less cost to sell and the carrying amount of assets and liabilities classified as held for sale. See note 32 for information on assets classified as held for sale.

The impairment test for 2017 identified a need for impairment on goodwill of DKK 1,646m related to Ambulance. The impairment corresponds to the foundation's share as the non-controlling interests' share of goodwill is only partly recognised in the consolidated financial statements.

The impairment loss within Ambulance was primarily related to significant challenges in North America and Germany as well as declining EBITA margins in several markets.

The impairment test for 2016 did not result in the recognition of any impairment losses on goodwill.

Key assumptions in the impairment test

The value-in-use is established using certain key assumptions described below. The key assumptions are revenue growth, EBITA margin and discount rates.

Value-in-use cash flow projections for Ambulance, Healthcare, Global Assistance and Industrial Firefighting are based on financial budgets for 2018. Revenue growth and operating margin assumptions applied in the forecasting period are based on the terminal growth expectations.

Value-in-use cash flow projections for Assistance are based on financial budgets for 2018. Assistance is affected by the changes taking place in the automobile market towards fewer private roadside assistance subscriptions, an increasing number of shared cars and roadside assistance programs offered by car manufacturers. Revenue is expected to decrease from 2018 to 2022.

NOTE 13

13. Intangible assets (continued)

Revenue growth

Revenue growth projections in the forecasting period for the individual CGUs are estimated based on expected market development.

Terminal growth

Terminal growth rates do not exceed the expected long-term rate for inflation based on a weighted average for the countries in which the CGU operates.

The discount rates

The discount rates applied are generally based on the interests applicable for the Falck Group, but interest premiums have been added to reflect different market risks within the countries and markets in which the CGUs operate. The marked risk premium was based on observed market data and was calculated as the average of the equity risk premiums and country risk premiums and the global split of revenue within the CGUs.

Carrying amounts and key assumptions

The carrying amount of intangibles, i.e. goodwill, customer contracts and brands, and the key assumptions used in the impairment testing as per 31 December are presented below for each CGU:

| | Carrying amount | | | Forecasting period | | Terminal period | | Applied discount rate | | |
|-----------------------------|-----------------|--------------------|------------|--------------------|---------------------|-----------------|--------|-----------------------|-----------|---------|
| | Goodwill | Customer contracts | Brands | Total | Total Growth (avg.) | Margin (avg.) | Growth | EBITA margin | After tax | Pre-tax |
| 2017, DKKm | | | | | | | | | | |
| Ambulance | 1,603 | 226 | 514 | 2,343 | 2.2% | 3.3% | 2.2% | 3.5% | 7.8% | 11.1% |
| Healthcare | 870 | 23 | - | 893 | 1.8% | 4.3% | 1.8% | 4.3% | 6.9% | 9.0% |
| Assistance | 1,526 | 239 | - | 1,765 | -1.1% | 9.4% | 0.5% | 7.9% | 6.9% | 9.0% |
| Portfolio Businesses | | | | | | | | | | |
| Global Assistance | 56 | - | - | 56 | 2.1% | 4.2% | 2.1% | 4.2% | 7.1% | 9.5% |
| Industrial Firefighting | 276 | 1 | - | 277 | 2.2% | 6.7% | 2.2% | 6.7% | 8.5% | 11.3% |
| Total | 4,331 | 489 | 514 | 5,334 | | | | | | |

| | Carrying amount | | | Forecasting period | | Terminal period | | Applied discount rate | | |
|-------------------|-----------------|--------------------|------------|--------------------|---------------------|-----------------|--------|-----------------------|-----------|---------|
| | Goodwill | Customer contracts | Brands | Total | Total Growth (avg.) | Margin (avg.) | Growth | EBITA margin | After tax | Pre-tax |
| 2016, DKKm | | | | | | | | | | |
| Ambulance | 3,674 | 343 | 514 | 4,531 | 6.0% | 5.8% | 3.5% | 6.4% | 7.5% | 9.0% |
| Healthcare | 945 | 359 | - | 1,304 | 7.3% | 8.1% | 2.5% | 8.8% | 7.5% | 9.0% |
| Assistance | 1,531 | 54 | - | 1,585 | 5.5% | 8.5% | 2.5% | 9.3% | 7.5% | 9.0% |
| Safety Service | 31 | 28 | - | 59 | 6.6% | 8.6% | 2.5% | 9.0% | 9.0% | 11.0% |
| Total | 6,181 | 784 | 514 | 7,479 | | | | | | |

NOTE 13

13. Intangible assets (continued)

Sensitivity test

A sensitivity analysis on the key assumptions in the impairment testing is presented below.

The allowed change represents the percentage points by which the value assigned to the key assumption can change, all other things being equal, before the CGU's recoverable amount equals its carrying amount.

Following the impairment losses recognised in 2017 for Ambulance and allocation of goodwill to the new CGU Industrial Firefighting, a reasonably possible negative change in a key assumption would cause the carrying amount to exceed the recoverable amount.

| | Forecasting period | | | | Terminal period | | | | Discount rate (after tax) | |
|-----------------------------|--------------------|------------------|-------------------|------------------|------------------------|------------------|-------------------|------------------|---------------------------|------------------|
| | Growth | | Margin | | Growth | | Margin | | Applied rate | Allowed increase |
| | Applied avg. rate | Allowed decrease | Applied avg. rate | Allowed decrease | Applied long-term rate | Allowed decrease | Applied long-term | Allowed decrease | | |
| 2017 | | | | | | | | | | |
| Ambulance | 2.2% | - | 3.5% | - | 2.2% | - | 3.5% | - | 7.8% | - |
| Healthcare | 1.8% | 1.6% | 4.3% | 1.0% | 1.8% | 1.6% | 4.3% | 1.0% | 6.9% | 1.7% |
| Assistance | -1.1% | 1.8% | 9.4% | 0.9% | 0.5% | 0.9% | 7.9% | 1.0% | 6.9% | 0.9% |
| Portfolio Businesses | | | | | | | | | | |
| Global Assistance | 2.1% | 0.8% | 4.2% | 0.6% | 2.1% | 0.8% | 4.2% | 0.6% | 7.1% | 0.9% |
| Industrial Firefighting | 2.2% | 1.2% | 6.7% | 1.1% | 2.2% | 1.2% | 6.7% | 1.1% | 8.5% | 1.2% |

| | Forecasting period | | | | Terminal period | | | | Discount rate (after tax) | |
|----------------|--------------------|------------------|-------------------|------------------|------------------------|------------------|-------------------|------------------|---------------------------|------------------|
| | Growth | | Margin | | Growth | | Margin | | Applied rate | Allowed increase |
| | Applied avg. rate | Allowed decrease | Applied avg. rate | Allowed decrease | Applied long-term rate | Allowed decrease | Applied long-term | Allowed decrease | | |
| 2016 | | | | | | | | | | |
| Ambulance | 6.0% | 0.4% | 5.8% | 0.4% | 3.5% | 2.1% | 6.4% | 1.8% | 7.5% | 1.6% |
| Healthcare | 7.3% | 1.4% | 8.1% | 5.1% | 2.5% | 27.5% | 8.8% | 7.0% | 7.5% | 10.0% |
| Assistance | 5.5% | 1.1% | 8.5% | 4.5% | 2.5% | 11.5% | 9.3% | 6.3% | 7.5% | 6.2% |
| Safety Service | 6.6% | 0.4% | 8.6% | 1.9% | 2.5% | 0.1% | 9.0% | 2.7% | 9.0% | 2.0% |

NOTE 13

13. Intangible assets (continued)

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.

2017 testing outcome

In 2017, ALK has discontinued certain non-strategic development projects resulting in an impairment loss of DKK 67m.

2016 testing outcome

In 2016, the impairment test in relation to Lundbeck resulted in an impairment loss of DKK 137m relating to idalopirdine as a result of unfavourable study results.

IMPAIRMENT TESTING TOTAL

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

| Impairment loss per intangible asset category, DKKm | 2017 | 2016 |
|---|--------------|------------|
| Goodwill | 1,646 | - |
| Products rights | - | 130 |
| Other intangibles assets | 67 | 7 |
| Impairment loss total | 1,713 | 137 |

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

| Impairment loss recognised in the income statement, DKKm | 2017 | 2016 |
|--|--------------|------------|
| Cost of sales | 31 | 7 |
| Research and development costs | 36 | 130 |
| Special items | 1,646 | - |
| Impairment loss total | 1,713 | 137 |

NOTE 14

14. Property, plant and equipment

| DKKm | Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Leasehold improvements | Prepayments and assets under construction | Total |
|--|--------------------|---------------------|--|------------------------|---|---------------|
| Cost at 1 January 2017 | 6,054 | 2,553 | 3,193 | 239 | 564 | 12,603 |
| Currency translation | -116 | -29 | -184 | -12 | -21 | -362 |
| Reclassification / transfers | 67 | 61 | 11 | - | -143 | -4 |
| Addition on acquisitions | - | 9 | 4 | - | - | 13 |
| Additions | 71 | 42 | 283 | 42 | 382 | 820 |
| Disposals | -874 | -43 | -511 | -12 | - | -1,440 |
| Disposals on divestments | -1 | - | -1 | - | - | -2 |
| Transferred to assets classified as held for sale | -205 | - | -573 | -66 | - | -844 |
| Cost at 31 December 2017 | 4,996 | 2,593 | 2,222 | 191 | 782 | 10,784 |
| Depreciation and impairment at 1 January 2017 | -3,234 | -1,683 | -1,789 | -66 | -6 | -6,778 |
| Currency translation | 73 | 9 | 114 | 7 | - | 203 |
| Depreciation | -181 | -173 | -409 | -29 | - | -792 |
| Impairment for the year | -1 | -8 | - | - | -85 | -94 |
| Depreciation and impairment on disposals | 694 | 41 | 469 | 7 | - | 1,211 |
| Transferred to assets classified as held for sale | 83 | - | 441 | 30 | - | 554 |
| Depreciation and impairment at 31 December 2017 | -2,566 | -1,814 | -1,174 | -51 | -91 | -5,696 |
| Carrying amount at 31 December 2017 | 2,430 | 779 | 1,048 | 140 | 691 | 5,088 |
| In the carrying amount financial leasing is included in the amount of | 98 | | 260 | | | 358 |
| Carrying amount of property, plant and equipment provided as loan collateral | 590 | | | | | 590 |

As a consequence of the updated strategy announced in December 2017, ALK has discontinued certain non-strategic development projects as well as scrapped production equipment. The impairment amounts to DKK 85m which is recognised in cost of sales. The impairment is based upon an individual assessment of the individual assets' net recoverable amount, based upon the estimated fair value less cost to sell.

NOTE 14

14. Property, plant and equipment (continued)

| DKKm | Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Leasehold improvements | Prepayments and assets under construction | Total |
|--|--------------------|---------------------|--|------------------------|---|---------------|
| 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 |
| Disposals 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 |

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 based on 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 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.

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 decrease/increase profits by DKK 665m and DKK 557m respectively (decrease by DKK 829m and increase by DKK 677m in 2016).

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)

| DKKm | Invest | Lundbeckfonden Ventures and Emerge | Total | Available-for-sale financial assets | Other receivables | Other financial assets, total | Receivables from associates |
|--|---------------|--|---------------|--|-------------------|----------------------------------|--------------------------------|
| Carrying amount at 1 January 2017 | 13,385 | 2,425 | 15,810 | 48 | 148 | 196 | 26 |
| Reclassification to securities, current assets, 1 January 2017 | -102 | - | -102 | - | - | - | - |
| Carrying amount at 1 January 2016, adjusted | 13,283 | 2,425 | 15,708 | 48 | 148 | 196 | 26 |
| Additions | 4,542 | 456 | 4,998 | 4 | 12 | 16 | - |
| Disposals | -4,913 | -852 | -5,765 | - | -31 | -31 | -23 |
| Value adjustments, year-end | 786 | 820 | 1,606 | 15 | -6 | 9 | - |
| Reclassification to securities, current assets | -80 | - | -80 | - | - | - | - |
| Carrying amount at 31 December 2017 | 13,618 | 2,849 | 16,467 | 67 | 123 | 190 | 3 |
| Carrying amount at 1 January 2016 | 13,707 | 2,173 | 15,880 | 68 | 127 | 195 | 21 |
| Reclassification to securities, current assets, 1 January 2016 | -34 | - | -34 | - | - | - | - |
| Carrying amount at 1 January 2015, adjusted | 13,673 | 2,173 | 15,846 | 68 | 127 | 195 | 21 |
| Additions | 2,590 | 458 | 3,048 | 2 | 26 | 28 | 5 |
| 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 | 196 | 26 |

Financial assets included in Invest and Lundbeckfonden Ventures and Emerge are measured at fair value through profit or loss.

At 31 December 2017, investments in associates included in Lundbeckfonden's investment strategy amount to DKK1,253m (DKK1,805m at 31 December 2016). The associates are not individually material. Consequently, financial information about the associates are not disclosed.

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 based on 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. 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 to the Group. 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. See note 23.2 for further information.

Financial assets and liabilities measured at fair value

| 31 December 2017, DKKm | Level 1 | Level 2 | Level 3 |
|--|---------------|------------|--------------|
| Financial assets | | | |
| Financial assets at fair value through profit or loss | | | |
| Danish mortgage and government bonds | 4,546 | - | - |
| Credit bonds | 1,471 | - | 121 |
| Listed equities | 8,153 | - | - |
| Property and infrastructure | 221 | - | 256 |
| Lundbeckfonden Ventures and Emerge | 927 | - | 1,922 |
| Private equity funds and other unlisted funds | - | 363 | 808 |
| Available-for-sale financial assets | 32 | - | 35 |
| Derivative financial instruments | - | 530 | - |
| Financial assets at fair value | 15,350 | 893 | 3,142 |
| Financial liabilities | | | |
| Liabilities relating to acquisitions and non-controlling interests | | | 253 |
| Derivative financial instruments | - | 249 | - |
| Financial liabilities at fair value | - | 249 | 253 |
| The financial assets are specified as follows: | | | |
| Financial assets - Invest | 12,070 | 363 | 1,185 |
| Financial assets - Lundbeckfonden Ventures and Emerge | 927 | - | 1,922 |
| Securities - Invest | 182 | - | - |
| Securities - subsidiaries | 2,139 | - | - |
| Other financial assets | 32 | - | 35 |
| Other receivables | - | 530 | - |
| Financial assets at fair value | 15,350 | 893 | 3,142 |

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 according to exchange markets | N/A | N/A |
| Credit bonds | Closing prices according to exchange markets | Expected discounted cash flow | N/A |
| Listed equities | Closing prices according to exchange markets | N/A | N/A |
| Property and infrastructure | Closing prices according to 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 according to 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 according to 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 2016, DKKm | Level 1 | Level 2 | Level 3 |
|---|---------------|------------|--------------|
| Financial assets | | | |
| Financial assets at fair value through profit or loss | | | |
| Danish mortgage and government bonds | 3,154 | - | - |
| Credit bonds | 1,501 | - | 32 |
| Listed equities | 7,251 | - | - |
| Property and infrastructure | 364 | - | 198 |
| Lundbeckfonden Ventures and Emerge | 554 | - | 1,871 |
| Private equity funds and other unlisted funds | - | 345 | 1,246 |
| Available-for-sale financial assets | 2 | - | 46 |
| Derivative financial instruments | - | 40 | - |
| Financial assets at fair value | 12,826 | 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 |

The financial assets are specified as follows:

| | | | |
|---|---------------|------------|--------------|
| Financial assets - Invest | 11,462 | 345 | 1,476 |
| Financial assets - Lundbeckfonden Ventures and Emerge | 554 | - | 1,871 |
| Securities - Invest | 102 | - | - |
| Securities - subsidiaries | 706 | - | - |
| Other financial assets | 2 | - | 46 |
| Other receivables | - | 40 | - |
| Financial assets at fair value | 12,826 | 385 | 3,393 |

| DKKm | 2017 | 2016 |
|---|--------------|--------------|
| Financial assets measured at fair value according to level 3 | | |
| Carrying amount at 1 January | 3,393 | 2,984 |
| Additions | 837 | 529 |
| Disposals | -1,863 | -262 |
| Reclassification, from level 3 to level 1 in connection with IPO's | -593 | -138 |
| Fair value adjustment | 1,368 | 280 |
| Carrying amount at 31 December | 3,142 | 3,393 |

NOTE 16

16. Deferred tax

Temporary differences between the carrying amount and the tax base:

| DKKm | Balance at 1 January | Currency translation | Adjustment of deferred tax 1 January | Addition on acquisition of businesses | Transferred to assets classified as held for sale | Movements during the year | Balance at 31 December |
|---|-------------------------|-------------------------|--|---|---|------------------------------|---------------------------|
| 2017 | | | | | | | |
| Non-current assets | 1,272 | 90 | -54 | 5 | 68 | 221 | 1,602 |
| Current assets | -462 | 32 | -53 | - | - | -168 | -652 |
| Other | 706 | -8 | 15 | - | - | 674 | 1,388 |
| Provisions in subsidiaries | -1,394 | 34 | -20 | - | - | -131 | -1,511 |
| Tax loss carryforwards etc. | -5,410 | 55 | -401 | - | 64 | 16 | -5,676 |
| Total | -5,288 | 204 | -513 | 5 | 132 | 612 | -4,849 |
| Deferred (tax assets)/tax liabilities | -1,182 | 41 | -116 | 1 | 29 | 226 | -1,001 |
| Research and development activities (tax credits) | -132 | 27 | - | - | - | 15 | -90 |
| Deferred (tax assets)/tax liabilities | -1,314 | 68 | -116 | 1 | 29 | 241 | -1,091 |
| 2016 | | | | | | | |
| Non-current assets | 1,985 | -32 | -344 | 5 | - | -341 | 1,272 |
| Current assets | -295 | 16 | -117 | - | - | -65 | -462 |
| Other | 91 | -8 | 381 | - | - | 242 | 706 |
| Provisions in subsidiaries | -1,558 | -166 | -40 | - | - | 370 | -1,394 |
| Tax loss carryforwards etc. | -3,536 | -38 | 11 | - | - | -1,847 | -5,410 |
| Total | -3,313 | -228 | -110 | 5 | - | -1,641 | -5,288 |
| 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 |

NOTE 16-17

16. Deferred tax (continued)

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Deferred tax assets relate to the following items: | | |
| Non-current assets | 122 | 509 |
| Current assets | 194 | 160 |
| Provisions and payables | 83 | 69 |
| Other | 232 | 328 |
| Provisions in subsidiaries | 155 | 310 |
| Tax value of tax loss carryforwards etc. | 1,275 | 1,218 |
| Research and development activities (tax credits) | 90 | 132 |
| Offset within legal tax entities and jurisdictions | -258 | -649 |
| Total | 1,893 | 2,077 |
| Deferred tax liabilities relate to the following items: | | |
| Non-current assets | 619 | 919 |
| Current assets | 33 | 33 |
| Provisions and payables | -4 | 57 |
| Other | 412 | 403 |
| Offset within legal tax entities and jurisdictions | -258 | -649 |
| Total | 802 | 763 |
| Deferred tax, net | 1,091 | 1,314 |

Of the recognised deferred tax assets, DKK 1,365m (DKK 1,221m at 31 December 2016) 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 366m (DKK 365m at 31 December 2016) 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.

| DKKm | 2017 | 2016 |
|--|------------|------------|
| Unrecognised deferred tax assets: | | |
| Unrecognised deferred tax assets at 1 January | 189 | 394 |
| Additions | 177 | 8 |
| Utilised | -38 | -213 |
| Unrecognised deferred tax assets at 31 December | 328 | 189 |

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

17. Inventories

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Raw materials and consumables | 375 | 463 |
| Work in progress | 748 | 658 |
| Manufactured goods and goods for resale | 1,210 | 1,176 |
| Total | 2,333 | 2,297 |
| Indirect costs of production | 668 | 553 |
| Impairment loss for the year | 88 | 43 |
| Inventories calculated at net realisable value | 6 | 6 |
| The total cost of goods sold is included in cost of sales in the amount of | 3,353 | 3,422 |

NOTE 18

18. Trade receivables and other receivables

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Trade receivables and other receivables | | |
| Trade receivables | 5,355 | 5,945 |
| Other receivables | 287 | 599 |
| Derivative financial instruments | 529 | 40 |
| Receivables from associates | 35 | 47 |
| Prepayments | 389 | 385 |
| Total | 6,595 | 7,016 |
| Trade receivables | | |
| Receivables | 5,809 | 6,445 |
| Impairment | -454 | -500 |
| Total | 5,355 | 5,945 |
| Due dates of trade receivables not written-down | | |
| Not due | 4,071 | 4,244 |
| Overdue by more than 1 month and up to 6 months | 1,227 | 1,580 |
| Overdue by more than 6 months and up to 12 months | 33 | 35 |
| Overdue by more than 12 months | 24 | 86 |
| Total | 5,355 | 5,945 |

| DKKm | 2017 | 2016 |
|---|------------|------------|
| Development in writedowns of trade receivables | | |
| Writedowns at 1 January | 500 | 488 |
| Actual writedowns | -763 | -433 |
| Reversed, unrealised writedowns | -3 | -6 |
| Change in writedowns | 731 | 451 |
| Transfers to assets classified as held for sale | -11 | - |
| Writedowns at 31 December | 454 | 500 |
| Specification of other receivables by due date | | |
| Not due | 270 | 530 |
| Overdue by up to 3 months | 2 | 60 |
| Overdue by more than 3 months and up to 6 months | 4 | 3 |
| Overdue by more than 6 months and up to 12 months | - | 4 |
| Overdue by more than 12 months | 11 | 2 |
| Total | 287 | 599 |

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.

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

NOTE 18-19

18. Trade receivables and other receivables (continued)

No single customer contributed 10% or more to total revenue. The Group has no significant reliance 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.

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

19. Cash resources

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Fixed-term deposits | 239 | 303 |
| Other cash resources | 3,569 | 3,870 |
| Cash and bank balances at 31 December | 3,808 | 4,173 |
| Securities with a maturity of less than 3 months | 590 | 634 |
| Securities with a maturity of more than 3 months | 1,731 | 174 |
| Securities at 31 December | 2,321 | 808 |
| Cash, bank balances and securities at 31 December | 6,129 | 4,981 |

DKK 161m (DKK 71m at 31 December 2016) of the Group's bank deposits are provided for security in connection with derivative financial instruments.

DKK 68m (DKK 141m at 31 December 2016) 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

Lundbeckfondens's capital base is DKK 3,109m. The present charter of Lundbeckfonden was approved by the Board of Trustees on 19 April 2017. 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.

| Capital base, DKKm | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Capital base at 1 January | 2,965 | 2,888 | 2,728 | 2,523 | 2,270 |
| Increase in capital base | 144 | 77 | 160 | 205 | 253 |
| Capital base at 31 December | 3,109 | 2,965 | 2,888 | 2,728 | 2,523 |

21. Other reserves

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Reserve for future grants | | |
| Balance at 1 January | 750 | 750 |
| Grants for the year | -494 | -472 |
| Transferred to provision for future grants | 744 | 472 |
| Balance at 31 December | 1,000 | 750 |
| Currency translation reserve | | |
| Balance at 1 January | 989 | 967 |
| Currency translation for the year concerning foreign subsidiaries and additions to net investments in foreign subsidiaries | -965 | 86 |
| Tax in relation hereto | 93 | -64 |
| Balance at 31 December | 117 | 989 |
| Hedging reserve | | |
| Balance at 1 January | -295 | -79 |
| Adjustment, deferred exchange gains/losses, hedging, recognised in other comprehensive income | 835 | -305 |
| Exchange gains/losses, hedging, transferred to revenue | -33 | 15 |
| Exchange gains/losses, hedging, transferred to the balance sheet | - | 3 |
| Value adjustment of interest hedging instruments | 29 | 9 |
| Tax in relation hereto | -181 | 62 |
| Balance at 31 December | 355 | -295 |
| Reserve for fair value adjustment of available-for-sale financial assets | | |
| Fair value adjustment at 1 January | - | -11 |
| Fair value adjustment | - | 11 |
| Fair value adjustment at 31 December | - | - |
| Other reserves at 31 December | 1,472 | 1,444 |

NOTE 22

22. Non-controlling interests

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Non-controlling interests at 1 January | 3,482 | 3,249 |
| Share of profit/loss for the year | 332 | 565 |
| Share of other comprehensive income for the year | -99 | -72 |
| Impact by incentive programmes | 63 | 5 |
| Dividend | -192 | -52 |
| Buyback of shares from non-controlling interests | - | -47 |
| Change in non-controlling interests | 100 | -162 |
| Adjustment of provision for acquisition of non-controlling interests | 30 | -7 |
| Capital increase | 834 | - |
| Tax on other transactions in equity | 16 | 3 |
| Non-controlling interests at 31 December | 4,566 | 3,482 |

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

| | Non-control- ling interests | Percentage of votes | Registered office |
|-----------------|--------------------------------|------------------------|----------------------|
| H. Lundbeck A/S | 31.0% | 69.0% | Copenhagen |
| ALK-Abelló A/S | 59.7% | 67.2% | Hørsholm |
| 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 significant sub-groups:

| DKKm | Lundbeck | | ALK | | Falck | |
|--|----------|--------|-------|-------|--------|--------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Statement of comprehensive income | | | | | | |
| Revenue | 17,234 | 15,634 | 2,910 | 3,005 | 15,227 | 15,109 |
| Profit (loss) for the year | 2,624 | 1,211 | -158 | 270 | -2,503 | 34 |
| Total comprehensive income | 2,755 | 959 | -240 | 267 | -2,711 | 49 |
| Profit (loss) for the year attributable to non-controlling interests | 810 | 369 | -93 | 158 | -385 | 39 |
| Balance sheet | | | | | | |
| Non-current assets | 10,912 | 12,686 | 2,803 | 2,848 | 7,416 | 10,300 |
| Current assets | 8,844 | 7,524 | 2,155 | 1,951 | 3,625 | 4,140 |
| Assets classified as held for sale | - | - | - | - | 712 | - |
| Non-current liabilities | 1,096 | 2,740 | 1,002 | 1,117 | 6,756 | 7,182 |
| Current liabilities | 6,479 | 7,776 | 666 | 807 | 4,082 | 5,046 |
| Liabilities relating to assets classified as held for sale | - | - | - | - | 327 | - |
| Equity | 12,181 | 9,694 | 3,290 | 2,875 | 588 | 2,212 |
| Carrying amount of non-controlling interests of equity | 3,759 | 2,956 | 1,930 | 1,683 | -1,128 | -1,162 |
| Statement of cash flows | | | | | | |
| Cash flows from operating activities | 4,045 | 3,126 | -387 | 405 | 490 | 650 |
| Cash flows from investing activities | -1,830 | -337 | -358 | -204 | -648 | -229 |
| Cash flows from financing activities | -2,235 | -2,006 | 620 | 39 | 426 | -168 |
| Net cash flow for the year | -20 | 783 | -125 | 240 | 270 | 262 |
| Dividends paid to the non-controlling interests during the year | 146 | - | 29 | 29 | 15 | 19 |

The Minority shareholders share of goodwill in Falck is partly recognised in the consolidated financial statements. Thus, goodwill of DKK 2,613m at 31 December 2017 (DKK 3,972m at 31 December 2016) is not recognised in the consolidated financial statements.

NOTE 23

23. Provisions

| DKKm | Note | 2017 | 2016 |
|--|------|--------------|--------------|
| Provisions can be specified as follows: | | | |
| Pensions and similar obligations | 23.1 | 493 | 583 |
| Liabilities relating to acquisitions and non-controlling interests | 23.2 | 299 | 885 |
| Other provisions | 23.3 | 1,054 | 1,118 |
| Total | | 1,846 | 2,586 |
| Provisions break down as follows: | | | |
| Non-current | | 1,056 | 1,399 |
| Current | | 790 | 1,187 |
| Total | | 1,846 | 2,586 |

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 748m in 2017 (DKK 699m in 2016).

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.

| DKKm | 2017 | 2016 |
|--|------------|------------|
| Retirement benefit obligations and similar obligations | | |
| Present value of defined benefit plans | 683 | 867 |
| Fair value of plan assets | -266 | -358 |
| Defined benefit plans at 31 December | 417 | 509 |
| Other pension-like obligations | 76 | 74 |
| Retirement benefit obligations and similar obligations at 31 December | 493 | 583 |
| Retirement benefit obligations and similar obligations break down as follows: | | |
| Non-current liabilities | 489 | 579 |
| Current liabilities | 4 | 4 |
| Retirement benefit obligations and similar obligations at 31 December | 493 | 583 |

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:

| Percentage | 2017 | 2016 |
|-------------------------------------|-----------|-----------|
| Discount rate | 1.55-2.80 | 1.40-2.75 |
| Inflation rate | 1.75-3.00 | 1.90-2.90 |
| Pay rate increase | 0.00-2.40 | 2.40-2.50 |
| Pension increase | 1.75-3.10 | 1.90-3.20 |
| Age-weighted staff resignation rate | 0.00-8.00 | 0.00-8.00 |
| Expected return on plan assets | 2.80 | 2.75 |

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 52m (DKK 65m in 2016) and vice versa. An increase in the inflation rate of 0.25 percentage point would result in an increase in the obligation of approximately DKK 11m (DKK 14m in 2016) 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.

| % distribution | 2017 | 2016 |
|--|------------|------------|
| The fair value of the plan assets breaks down as follows: | | |
| Shares | 19 | 11 |
| Bonds | 16 | 12 |
| Property | 5 | 4 |
| Insurance contracts | 49 | 48 |
| Other assets | 11 | 25 |
| 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.

| DKKm | 2017 | 2016 |
|---|------------|------------|
| Change in present value of defined benefit plans | | |
| Present value of defined benefit plans at 1 January | 867 | 865 |
| Addition on acquisitions | - | -2 |
| Effect of foreign exchange differences | -19 | -41 |
| Past service costs | - | -2 |
| Pension expenses | 17 | 21 |
| Interest expenses relating to the obligations | 15 | 22 |
| Experience and assumptions adjustments | -43 | 75 |
| Benefits paid | -18 | -38 |
| Employee contributions | 1 | 2 |
| Settlements | -40 | -21 |
| Curtailements | -95 | -14 |
| Transferred to liabilities held for sale | -2 | - |
| Present value of funded pension obligations at 31 December | 683 | 867 |
| Change in fair value of plan assets | | |
| Fair value of plan assets at 1 January | 358 | 383 |
| Effect of foreign exchange differences | -13 | -32 |
| Interest income on plan assets | 7 | 10 |
| Experience adjustments | 8 | 15 |
| Contributions | 12 | 16 |
| Disbursements | -4 | -14 |
| Employee contributions | 1 | 2 |
| Administration fee | -1 | -1 |
| Settlements | -40 | -21 |
| Curtailement of plan | -62 | - |
| Fair value of plan assets at 31 December | 266 | 358 |
| Realised return on plan assets | 14 | 17 |

NOTE 23

23. Provisions (continued)

23.1 Pensions and similar obligations (continued)

| DKKm | 2017 | 2016 |
|--|------------|-----------|
| Specification of expenses recognised in the income statement | | |
| Past service costs | - | -2 |
| Pension expenses | 17 | 18 |
| Interest expenses relating to the obligations | 7 | 13 |
| Curtailments | -95 | -14 |
| Expected return on plan assets | -1 | -1 |
| Past service cost related to curtailment of plan | -7 | - |
| Actuarial (gains)/losses | 1 | 1 |
| Total expenses recognised | -78 | 15 |
| Specification of amount recognised in the statement of comprehensive income | | |
| Actuarial (gains)/losses | -53 | 61 |
| Total expenses recognised | -53 | 61 |

The expected contribution for 2017 for the defined benefit plans is DKK 24m (DKK 31m in 2016).

OTHER OBLIGATIONS OF A RETIREMENT BENEFIT NATURE

An obligation at 31 December 2017 of DKK 76m (DKK 74m at 31 December 2016) 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

| DKKm | 2017 | 2016 |
|--|------------|------------|
| Liabilities: | | |
| Liabilities concerning acquisition of non-controlling interests | 219 | 821 |
| Payable considerations and contingent consideration | 80 | 64 |
| Liabilities at 31 December | 299 | 885 |
| Non-current portion: | | |
| Liabilities concerning acquisition of non-controlling interests | 75 | 473 |
| Payable considerations and contingent consideration | 16 | 47 |
| Non-current portion at 31 December | 91 | 520 |
| Current portion: | | |
| Liabilities concerning acquisition of non-controlling interests | 144 | 348 |
| Payable considerations and contingent consideration | 64 | 17 |
| Current portion at 31 December | 208 | 365 |
| Liabilities concerning acquisition of non-controlling interests | | |
| Liabilities at 1 January | 821 | 837 |
| Currency translation | -52 | 17 |
| Additions on acquisitions | - | 6 |
| Disposals on divestment | - | -9 |
| Provisions used during the year | -355 | -28 |
| Interest element on discounted liabilities | 7 | 7 |
| Dividends paid and other adjustments | -22 | -34 |
| Adjustments recognised in goodwill relating to business combinations before 1 January 2010 | 4 | 8 |
| Adjustments and interest recognised in equity relating to business combinations after 1 January 2010 | -71 | 17 |
| Transferred to assets classified as held for sale | -113 | - |
| Liabilities concerning acquisition of non-controlling interests at 31 December | 219 | 821 |

| DKKm | 2017 | 2016 |
|--|------------|------------|
| Classification of liabilities for acquisition of non-controlling interests by expected maturity | | |
| Within 1 year | 144 | 348 |
| Between 1 and 5 years | 75 | 386 |
| More than 5 years | - | 87 |
| Liabilities concerning acquisition of non-controlling interests at 31 December | 219 | 821 |
| Outstanding consideration and earn-outs | | |
| Liabilities at 1 January | 64 | 100 |
| Currency translation | - | 2 |
| Additions on acquisitions | 51 | - |
| Provisions used during the year | -35 | -38 |
| Outstanding considerations and earn-outs at 31 December | 80 | 64 |
| Classification of outstanding consideration and earn-outs by expected maturity | | |
| Within 1 year | 64 | 17 |
| Between 1 and 5 years | 16 | 47 |
| Liabilities concerning acquisition of non-controlling interests at 31 December | 80 | 64 |

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 based on 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 based on 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

| DKKm | 2017 | 2016 |
|---|--------------|--------------|
| Other provisions at 1 January | 1,118 | 1,544 |
| Currency translation | -57 | 9 |
| Provisions charged | 529 | 434 |
| Provisions used | -497 | -743 |
| Unused provisions reversed | -35 | -126 |
| Transferred to assets classified as held for sale | -4 | - |
| Other provisions at 31 December | 1,054 | 1,118 |
| Other provisions at 31 December can be specified as follows: | | |
| Non-current provisions | 476 | 300 |
| Current provisions | 578 | 818 |
| Total | 1,054 | 1,118 |

Of other provisions at 31 December 2017, DKK 314m (DKK 233m) related to provision regarding returns and DKK 297m (DKK 523m) related to restructuring programs in Lundbeck.

In addition, other provisions comprise liabilities for e.g. legal disputes.

24. Debt to financial institutions and other

| DKKm | Note | 2017 | 2016 |
|--|------|--------------|--------------|
| Debt to financial institutions and other can be specified as follows: | | | |
| Mortgage debt | 24.1 | 611 | 2,422 |
| Bank and leasing debt, etc. | 24.2 | 5,505 | 6,831 |
| Repo debt | 24.4 | 502 | 634 |
| Total | | 6,618 | 9,887 |
| Can be specified as follow: | | | |
| Non-current debt to financial institutions and other – subsidiaries | | 5,842 | 8,024 |
| Current debt to financial institutions – subsidiaries | | 274 | 1,229 |
| Repo debt – Invest | | 502 | 634 |
| Total | | 6,618 | 9,887 |

Syndicated loan of DKK 4,016m (DKK 5,307m at 31 December 2016) are subject to loan terms that include covenants requiring certain financial performance indicators to be met. All loan terms were honoured in 2017 and 2016.

24.1 Mortgage debt

| DKKm | 2017 | 2016 |
|-------------------------------------|------------|--------------|
| Mortgage debt by maturity: | | |
| Within 1 year | 17 | 102 |
| Between 1 and 5 years | 70 | 418 |
| More than 5 years | 524 | 1,902 |
| Mortgage debt at 31 December | 611 | 2,422 |
| Can be specified as follow: | | |
| Non-current liabilities | 594 | 2,320 |
| Current liabilities | 17 | 102 |
| Mortgage debt at 31 December | 611 | 2,422 |

NOTE 24

24. Debt to financial institutions and other (continued)

24.1 Mortgage debt (continued)

| DKKm | Currency/ Expiry | Fixed/floating | Weighted average effective interest rates | Amortised cost | Nominal value | Fair value |
|---------------------|---------------------|----------------|--|-------------------|---------------|--------------|
| 2017 | | | | | | |
| Bond loan, Falck | DKK/2045 | Fixed | 1.15% | 301 | 308 | 308 |
| Bond loan, ALK | DKK/2035 | Fixed/Floating | 1.20% | 310 | 310 | 322 |
| Total | | | | 611 | 618 | 630 |
| 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 |

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. Debt to financial institutions and other (continued)

24.2 Bank and leasing debt, etc.

| DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Bank and leasing debt, etc. by maturity: | | |
| Within 1 year | 264 | 1,127 |
| Between 1 and 5 years | 4,911 | 4,927 |
| More than 5 years | 330 | 777 |
| Total | 5,505 | 6,831 |
| Specification of bank and leasing debt, etc.: | | |
| Non-current obligations, loan | 5,102 | 5,547 |
| Non-current obligations, leased assets | 146 | 157 |
| Total non-current | 5,248 | 5,704 |
| Current obligations, loan | 197 | 1,064 |
| Current obligations, leased assets | 60 | 63 |
| Total current | 257 | 1,127 |
| Total debt at 31 December | 5,505 | 6,831 |

NOTE 24

24. Debt to financial institutions and other (continued)

24.2 Bank and leasing debt, etc. (continued)

| DKKm | Currency | Expiry | Fixed/floating | Weighted average effective interest rates | Carrying amount | Fair value |
|-----------------------------------|-----------------|-----------|----------------|---|-----------------|--------------|
| 2017 | | | | | | |
| Other loans, Falck | DKK | 2019 | Fixed | 10.0% | 757 | 757 |
| Bank debt, Falck | DKK, EUR | 2018-2019 | Fixed/floating | 3.2% | 3,904 | 3,926 |
| Bank debt, Falck | USD, other | 2018-2019 | Floating | 3.7-4.7% | 179 | 178 |
| Leasing debt, Falck | EUR, USD, other | 2016-2025 | Fixed/floating | 4.1% | 217 | 211 |
| Leasing debt, ALK | EUR, USD | 2021 | Fixed | 4.2-6.6% | 1 | 1 |
| Other bank and finance loans, ALK | EUR | 2022 | Fixed | 1.5% | 447 | 447 |
| Total | | | | | 5,505 | 5,520 |
| 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 | 2019 | Fixed/floating | 3.1% | 5,119 | 5,069 |
| Bank debt, Falck | GBP, USD, other | 2017-2019 | Floating | 3.7-4.1% | 563 | 572 |
| Leasing debt, Falck | EUR, USD | 2017-2025 | Fixed/floating | 4.9% | 217 | 207 |
| Leasing debt, ALK | EUR, USD | 2017-2021 | Fixed | 4.0-6.0% | 2 | 2 |
| Other bank and finance loans, ALK | EUR | 2022 | Fixed | 1.5% | 446 | 446 |
| Total | | | | | 6,831 | 6,780 |

Fair value of bank and leasing debt and other loans are calculated by level 3 input.

NOTE 24-27

24. Debt to financial institutions and other (continued)

24.3 Development in mortgage debt and bank debt, etc.

| DKKm | 2016 | Cash flow | Transferred to liabilities held for sale | Non-cash changes | 2017 |
|-----------------------|--------------|---------------|--|------------------|--------------|
| Long-term borrowings | 8,057 | -1,953 | -17 | -391 | 5,696 |
| Short-term borrowings | 978 | -763 | -1 | - | 214 |
| Lease liabilities | 218 | 19 | -13 | -18 | 206 |
| Total | 9,253 | -2,697 | -31 | -409 | 6,116 |

Non-cash changes of DKK -391m includes debt converted to equity of DKK -381m.

24.4 Repo debt

At 31 December 2017, repo debt totalling DKK 502m (DKK 634m at 31 December 2016) fell due 5 January 2018 (18 January 2017). The debt carries a fixed rate of interest from the date of conclusion at negative 0.25% (negative 0.20% at 31 December 2016).

25. Other payables

| DKKm | 2017 | 2016 |
|----------------------------------|--------------|--------------|
| Trade payables | 4,055 | 4,524 |
| Other payables | 4,394 | 4,439 |
| Derivative financial instruments | 244 | 450 |
| Total | 8,693 | 9,413 |

Sales discounts and rebates in the US amounted to DKK 1,613m at 31 December 2017 (DKK 1,702m at 31 December 2016) and are included in other payables. The remaining amount of other payables relates to VAT, employee-related obligations and fair value of derivatives.

26. Adjustment for non-cash operating items

| DKKm | 2017 | 2016 |
|---|--------------|--------------|
| Depreciation, amortisation and impairment | 4,049 | 2,559 |
| Gain on reduction of ownership interest | -2 | -7 |
| Incentive programmes | 58 | 68 |
| Change in retirement benefit obligations | -28 | -41 |
| Change in other provisions | -110 | -416 |
| Gain in divestment from sale of non-currents assets | -252 | -42 |
| Income from sales of ownership interests | - | 29 |
| Other adjustments | 31 | 118 |
| Total | 3,746 | 2,268 |

27. Working capital changes

| DKKm | 2017 | 2016 |
|-------------------------------|------------|------------|
| Change in inventories | -103 | 578 |
| Change in receivables | -274 | -257 |
| Change in current liabilities | 649 | -195 |
| Total | 272 | 126 |

NOTE 28

28. Acquisitions and divestments

28.1 Acquisition of businesses

| DKKm | 2017 | 2016 |
|---|------------|------------|
| Assets | | |
| Intangible assets | 33 | 27 |
| Property, plant and equipment | 13 | 4 |
| Inventories | 50 | - |
| Cash | 6 | 3 |
| Other current assets | - | 25 |
| Equity and liabilities | | |
| Interest-bearing debt | - | -16 |
| Current liabilities, provisions etc. | -5 | -72 |
| Deferred tax | - | -1 |
| Non-controlling interests | -3 | - |
| Net assets acquired | 94 | -30 |
| Goodwill | 55 | 86 |
| Liability for acquisition of non-controlling interests, additions during the year | - | -6 |
| Purchase price | 149 | 50 |
| Adjustment for cash and cash equivalents acquired | -6 | -3 |
| Outstanding consideration | -46 | - |
| Consideration relating to prior-year acquisitions | 395 | 57 |
| Expensed costs from business combinations | 11 | 26 |
| Cash consideration for acquisitions | 503 | 130 |

GROPO EMI

On 19 October 2017 Falck acquired the remaining 36.9% of the shares in Grupo Emi from the partner in Latin America Tribeca Homecare Fund. A call option relating to Grupo Emi was exercised.

ACQUISITIONS

| Acquisitions 2017 | Main activity | Month of acquisition | Purchase price, DKKm | Consideration paid in | Voting rights acquired |
|--|------------------------|----------------------|----------------------|-----------------------|------------------------|
| Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC | Allergy immuno-therapy | January | 140 | Cash | 100% |
| Minor acquisitions | | | 9 | Cash | 60% |
| Total acquisitions | | | 149 | | |

| | |
|--|--------|
| Profit of acquired companies after date of acquisition | -3 |
| Full-year revenue including acquisitions | 35,371 |
| Full-year profit including in acquisitions | 2,037 |

ALLERGY LABORATORY OF OKLAHOMA INC. AND CRYSTAL LABS LLC

In 2017, ALK acquired the operating assets in Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC for a total cash consideration of USD 20m of which USD 6.6m is a contingent consideration, depending on meeting certain requirements by the US Food and Drug Administration's Center for Biologics Evaluation and Research (CBER). The two companies had previously been under the same private ownership and produce allergen extracts and other material used in allergy immunotherapy treatments. Allergy Laboratory of Oklahoma, Inc. and Crystal Laboratory LLC have a combined staff of around 100.

The allocation of fair values is final. The transaction is on a debt and cash free basis. The contingent consideration is limited to DKK 46m and is expected to be fully paid.

Recognised revenue related to the acquisition amounts to DKK 117m in 2017. In 2017, the acquisition had a minor positive effect on earnings for ALK.

Goodwill relates to the expected synergies between the US entities and to the ALK Group gaining control of a critical sourcing supply. Goodwill is tax deductible.

NOTE 28

28. Acquisitions and divestments (continued)

28.1 Acquisition of businesses (continued)

| Acquisitions 2016 | Main activity | Month of acquisition | Purchase price, DKKm | Consideration paid in | Voting rights acquired |
|--|---------------|----------------------|----------------------|-----------------------|------------------------|
| Sundhedsdokter, Denmark | Healthcare | November | 30 | Cash | 100% |
| Minor acquisitions | | | 20 | Cash | 100% |
| Total acquisitions | | | 50 | | |
| Profit of acquired companies after date of acquisition | | | | | -1 |
| Full-year revenue including acquisitions | | | | | 33,818 |
| Full-year profit including in acquisitions | | | | | 2,459 |

Sundhedsdokter 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.

28.2 Divestment of businesses

Divestment of businesses include divestment of subsidiaries and operations.

| DKKm | 2017 | 2016 |
|--|-----------|------------|
| Assets | | |
| Goodwill | 11 | 240 |
| Intangible assets | 1 | 16 |
| Property, plant and equipment | 2 | 149 |
| Other current assets | 2 | 73 |
| Equity and liabilities | | |
| Interest-bearing debt | - | -17 |
| Current liabilities | -7 | -122 |
| Deferred tax | - | -7 |
| Non-controlling interest | - | -14 |
| Net assets divested | 9 | 318 |
| Gain on divestment of business, net | 5 | 29 |
| Reclassified to associates | - | 56 |
| Sales price | 14 | 403 |
| Adjustment for cash and cash equivalents transferred | -2 | -20 |
| Sales price receivable | -5 | - |
| Cash flows from divestment of subsidiaries and operations | 7 | 383 |

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 subsidiaries.

See also note 15 *Financial assets and financial risks*, 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 and Lundbeckfonden Ventures' 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, DKKm | | |
|--|-------|-------|
| | 2017 | 2016 |
| Monetary assets | | |
| CAD | 144 | 114 |
| CHF | 160 | 181 |
| CNY | 265 | 26 |
| EUR | 4,809 | 4,917 |
| GBP | 826 | 939 |
| JPY | 141 | 162 |
| USD | 7,906 | 7,968 |
| Monetary liabilities | | |
| CAD | 100 | 86 |
| EUR | 1,822 | 2,333 |
| GBP | 190 | 412 |
| JPY | - | 6 |
| USD | 3,406 | 3,811 |

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

| DKKm | CAD | CHF | CNY | GBP | JPY | USD |
|-------------|-----|-----|-----|-----|-----|-----|
| 2017 | | | | | | |
| Profit | 2 | 8 | 12 | 19 | 7 | 317 |
| Equity | -17 | 8 | -3 | 15 | 7 | 180 |
| 2016 | | | | | | |
| Profit | 1 | 9 | 6 | 11 | 8 | 273 |
| Equity | -22 | 9 | 4 | 6 | -8 | 163 |

The profit impact is included in the impact on equity.

NOTE 29

29. Financial risks and financial instruments (continued)

29.1 Exchange rate risks (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 financial risks* and note 24 *Debt to financial institutions and other*.

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 2017, the Group's portfolio of bonds has a duration of 1.1 year (0.7 year at 31 December 2016). Other things being equal, an increase of 1 %-point in interest rates would decrease the Group's profit by DKK 75m (decrease of DKK 33m at 31 December 2016).

At 31 December 2017, the Group had an interest rate swap with a contractual value of DKK 600m for managing interest rate exposure on portfolio investments. Other than this, there were no derivatives at 31 December 2017 and 31 December 2016 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 with a contractual value of DKK 3,189m and consequently around 80% of the syndicated loans carry a fixed rate of interest until the loan matures in 2019.

The rest of the financing is primarily based on fix rates. Accordingly, the Group's interest rate exposure on debt is limited.

NOTE 29

29. Financial risks and financial instruments (continued)

29.3 Categories and maturity dates for financial assets and financial liabilities

| 31 December 2017, DKKm | Less than 1 year | 1-5 years | More than 5 years | Total | Effective interest |
|---|------------------|--------------|-------------------|--------------|--------------------|
| Financial assets | | | | | |
| Securities | | | | - | |
| Danish mortgage and government bonds | 822 | 2,384 | 1,340 | 4,546 | 0 - 1% |
| Credit bonds | 20 | 680 | 892 | 1,592 | 4 - 14% |
| Receivables from sale of portfolio companies | 86 | 442 | 96 | 624 | |
| Financial assets at fair value through profit or loss | 928 | 3,506 | 2,328 | 6,762 | |
| Derivatives to hedge future cash flows and net investment in foreign subsidiaries | 529 | - | - | 529 | - |
| Financial assets used as hedging instruments | 529 | - | - | 529 | |

| 31 December 2017, DKKm | Less than 1 year | 1-5 years | More than 5 years | Total | Effective interest |
|---|------------------|--------------|-------------------|---------------|--------------------|
| Receivables ¹ | 5,984 | 119 | - | 6,103 | 0% |
| Fixed-term deposits | 239 | - | - | 239 | 0 - 2% |
| Other cash resources | 3,700 | - | - | 3,700 | -1 - 10% |
| Loans and receivables | 9,923 | 119 | - | 10,042 | |
| Available-for-sale financial assets | - | 67 | - | 67 | - |
| Total financial assets | 11,380 | 3,692 | 2,328 | 17,400 | |
| Financial liabilities | | | | | |
| Derivatives included in the trading portfolio | 172 | - | - | 172 | - |
| Financial liabilities at fair value through profit or loss | 172 | - | - | 172 | |
| Derivatives to hedge future cash flows and net investment in foreign subsidiaries | 62 | 10 | - | 72 | - |
| Financial liabilities used as hedging instruments | 62 | 10 | - | 72 | |
| Mortgage, bank, leasing and repo debt, etc. | 876 | 6,104 | 614 | 7,594 | 1 - 10% |
| Employee bonds/purchase obligations | 229 | 131 | - | 360 | - |
| Other payables and non-disbursed grants ¹ | 9,249 | 548 | - | 9,797 | - |
| Financial liabilities, measured at amortised cost | 10,354 | 6,783 | 614 | 17,751 | |
| Total financial liabilities | 10,588 | 6,793 | 614 | 17,995 | |

The amounts in the tables are including interests.

NOTE 29

29. Financial risks and financial instruments (continued)

29.3 Categories and maturity dates for financial assets and financial liabilities (continued)

| 31 December 2016, DKKm | Less than 1 year | 1-5 years | More than 5 years | Total | Effective interest |
|---|------------------|--------------|-------------------|--------------|--------------------|
| Financial assets | | | | | |
| Derivatives included in the trading portfolio | 7 | - | - | 7 | - |
| Securities | | | | - | |
| Danish mortgage and government bonds | 741 | 1,155 | 1,258 | 3,154 | 0 - 4% |
| Credit bonds | 147 | 665 | 721 | 1,533 | 6 - 11% |
| Financial assets at fair value through profit or loss | 895 | 1,820 | 1,979 | 4,694 | |
| 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 DKKm | Less than 1 year | 1-5 years | More than 5 years | Total | Effective interest |
|---|------------------|--------------|-------------------|---------------|--------------------|
| Receivables ¹ | 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 | 2,016 | 15,773 | |
| 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, etc. | 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 ¹ | 9,832 | 516 | - | 10,348 | - |
| Financial liabilities, measured at amortised cost | 11,842 | 7,623 | 2,642 | 22,107 | |
| Total financial liabilities | 12,262 | 7,653 | 2,642 | 22,557 | |

¹⁾ Including receivables and payments recognised in non-current assets and liabilities
The amounts in the tables are including interests.

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

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.

| | Contractual value according to hedge accounting | Fair value at year-end recognised in other comprehensive income | Realised exchange gains/losses for the year recognised in the income statement/ balance sheet | Average hedge prices of existing forward exchange contracts | Expiry |
|--------------------------------|---|---|---|---|-------------|
| Forward contracts, DKKm | | | | | |
| 2017 | | | | | |
| CAD | 394 | 6 | 1 | 497.81 | Oct 2018 |
| CNY | 337 | -1 | 1 | 93.06 | Oct 2018 |
| JPY | 299 | 18 | 17 | 5.81 | Nov 2018 |
| SEK | 511 | 1 | 10 | 75.75 | Jan 2018 |
| USD | 6,392 | 455 | 18 | 660.98 | Oct 2018 |
| Other currencies | 951 | 12 | -4 | | Dec 2018 |
| Forward contracts | 8,884 | 491 | 43 | | |
| 2016 | | | | | |
| CAD | 459 | -12 | 1 | 506.86 | Dec 2017 |
| CNY | 52 | - | - | 99.17 | Jun 2017 |
| JPY | 332 | 7 | -29 | 6.16 | Nov 2017 |
| SEK | 669 | -13 | 14 | 76.05 | During 2017 |
| USD | 7,803 | -274 | 24 | 671.77 | May 2018 |
| Other currencies | 879 | -12 | -11 | | Dec 2017 |
| Forward contracts | 10,194 | -304 | -1 | | |

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, DKKm | Contractual value | Interest rate gains/losses recognised in the income statement/other comprehensive income | Fixed interest rate | Expiry |
|--|-------------------|--|---------------------|----------|
| 2017 | | | | |
| DKK interest rate swap | 1,700 | -21 | 0.53 | Jun 2019 |
| EUR interest rate swap | 1,489 | -13 | 0.25 | Jun 2019 |
| DKK interest rate swap | 600 | -4 | 1.14 | Maj 2025 |
| Interest rate collar/interest rate swap | | -38 | | |
| 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 | | |

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)

TRADING PART

| Equity contracts, DKKm | Contractual value | Share option gains/losses recognised in the income statement | Market value 31 December | Expiry |
|------------------------|-------------------|--|--------------------------|----------|
| 2017 | | | | |
| Options on indices | -2,794 | -360 | -151 | Mar 2018 |
| Options on shares | - | 8 | - | - |
| Share contracts | -2,794 | -352 | -151 | |
| 2016 | | | | |
| Options on indices | -2,710 | 92 | -23 | Jan 2017 |
| Options on shares | 45 | 23 | -5 | Jan 2017 |
| Share contracts | -2,665 | 115 | -28 | |

NOTE 30

30. Contractual obligations, contingent assets and liabilities, and collaterals

LEASE OBLIGATIONS

| Operating lease obligations, DKKm | 2017 | 2016 |
|--|--------------|--------------|
| Less than 1 year | 608 | 615 |
| Between 1 and 5 years | 1,416 | 1,528 |
| More than 5 years | 1,178 | 1,308 |
| Operating lease obligations total | 3,202 | 3,451 |
| Net present value of lease commitments | 2,851 | 3,055 |
| Expensed lease payments amounted to | 762 | 692 |

The operating lease commitments concern leases for vehicles and buildings. The lease term for cars 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 year-end 2016 the Group was subject to a commitment to purchase a property at a value of DKK 16m. At year-end 2017 there is no commitment.

| Finance lease obligations, DKKm | 2017 | 2016 |
|---|------------|------------|
| Less than 1 year | 62 | 83 |
| Between 1 and 5 years | 162 | 154 |
| More than 5 years | - | 10 |
| Minimum lease payments | 224 | 247 |
| Amortisations premium for future expensing | 17 | 27 |
| Present value of finance lease obligations | 207 | 220 |

OTHER CONTRACTUAL OBLIGATIONS

| DKKm | 2017 | 2016 |
|---|------|------|
| Purchase obligations | 412 | 355 |
| Collaterals and repo | 663 | 719 |
| Research and development milestones obligations | 311 | 706 |
| Research and development collaborations | 72 | 126 |
| Performance bonds in connections with a number of contracts | 240 | 279 |
| Capital contribution obligations | 466 | 468 |
| Other contractual obligations, including service agreements | 133 | 113 |

CONTINGENT ASSETS AND LIABILITIES

Acquisition of Chelsea Therapeutics International, Ltd.

In the second quarter of 2014, Lundbeck 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 (CVRs) that would have paid up to an additional USD 1.50 per share upon achievement of certain sales milestones. The CVRs were not achieved, and no obligation exists at 31 December 2017.

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 or loss.

NOTE 30

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

Pending legal proceedings

The Group is involved in a number of legal proceedings, including patent disputes. In the opinion of Management, the outcome of these proceedings will either not have a material impact on the Group's financial position or cash flows beyond the amount already provided for in the financial statements or is not provided for as no reliable estimate can be made. Such proceedings will, however, develop over time and new proceedings may occur which could have a material impact on the Group's financial position and/or cash flows. As permitted by IAS 37.92, in order not to prejudice the outcomes of proceedings and the interests of the company, we have not made any further disclosures about estimates in connection with the financial effects of, and disclosures about, uncertainty regarding the timing or amount of certain contingent liabilities.

In June 2013, Lundbeck received the European Commission's decision that the company'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 judgement concerning Lundbeck's appeal against the European Commission's 2013 decision. Lundbeck's appeal was rejected by the General Court. Lundbeck has appealed the judgement to the European Court of Justice. Lundbeck paid and expensed the fine in the third quarter of 2013. A final judgement is expected during 2018.

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 (Administrative Council for Economic Defense) and remains pending.

H. Lundbeck A/S and Lundbeck Canada Inc. are involved in three product liability class-action lawsuits relating to Cipralex®/Celexa® and four 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 products, and to Northera® and Xenazine® sales, marketing and related practices. Lundbeck LLC is cooperating with the relevant authorities on this investigation.

Return obligations

The Group has return obligations normal for the industry. Management does not expect any major losses from these obligations.

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 mortgage debt amounting to DKK 590m (DKK 1,858m at 31 December 2016) out of mortgage debt of DKK 611m (DKK 2,424m at 31 December 2016).

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 4,016m at 31 December 2017 (DKK 5,307m at 31 December 2016).

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 2017 amounted to DKK 540m (DKK 634m at 31 December 2016).

31. Related parties

Lundbeckfonden is an industrial foundation established by Grete Lundbeck in 1954. As a foundation, no party controls Lundbeckfonden.

Related parties to 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
- Associates

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.

| DKKm | 2017 | 2016 |
|--|------|------|
| Sale of property, plant and equipment | - | 46 |
| Acquisition of services | -1 | -1 |
| Lease costs | -26 | -27 |
| Interest income from associates | 4 | 4 |
| Receivables from associates at 31 December | 38 | 73 |
| Payables to associates at 31 December | 15 | 28 |

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. Discontinued operations and assets classified as held for sale

In December 2017, it was decided to initiate a process to divest the activities in Safety Services (Falck). The decision was mainly taken with the aim of streamlining Falck and focusing on key business units.

It is assessed that the divestment will be completed before year-end 2018. As a result, the Safety Services business unit is presented as assets and liabilities classified as held for sale and as discontinued operations. This classification entails that assets and liabilities are shown separately from other assets and liabilities at the end of 2017. The discontinued operations are also shown separately in the income statement and in the statement of cash flows for 2017. The comparative figures have been restated in both statements.

| DKKm | 2017 | 2016 |
|---|-------------|------------|
| Revenue | 778 | 876 |
| Cost of sales | -625 | -701 |
| Gross profit | 153 | 175 |
| Sales and distribution costs | -91 | -94 |
| Administrative expenses | -124 | -135 |
| Other income | 14 | 9 |
| Operating profit | -48 | -45 |
| Financial income and expenses, net | -57 | -63 |
| Profit before tax | -105 | -108 |
| Tax on profit for the year | -10 | 10 |
| Profit for the year from discontinued operations | -115 | -98 |

| DKKm | 2017 | 2016 |
|--|------------|------------|
| Cash flows from discontinued operations | | |
| Operating profit | -48 | -45 |
| Depreciation and amortisation | 78 | 89 |
| Other non-cash transactions | 41 | 54 |
| Profit before depreciation and amortisation | 71 | 98 |
| Change in net working capital | 11 | -20 |
| Reversal of profit/(loss) from divestment of non-current assets, net | -10 | -2 |
| Other items paid | -19 | -25 |
| Net financial payments | -51 | -77 |
| Income tax paid | 29 | -22 |
| Cash flows from operating activities | 31 | -48 |
| Cash flows from investing activities | -23 | -28 |
| Cash flows from financing activities | -6 | 85 |
| Change in cash and cash equivalents | 2 | 9 |

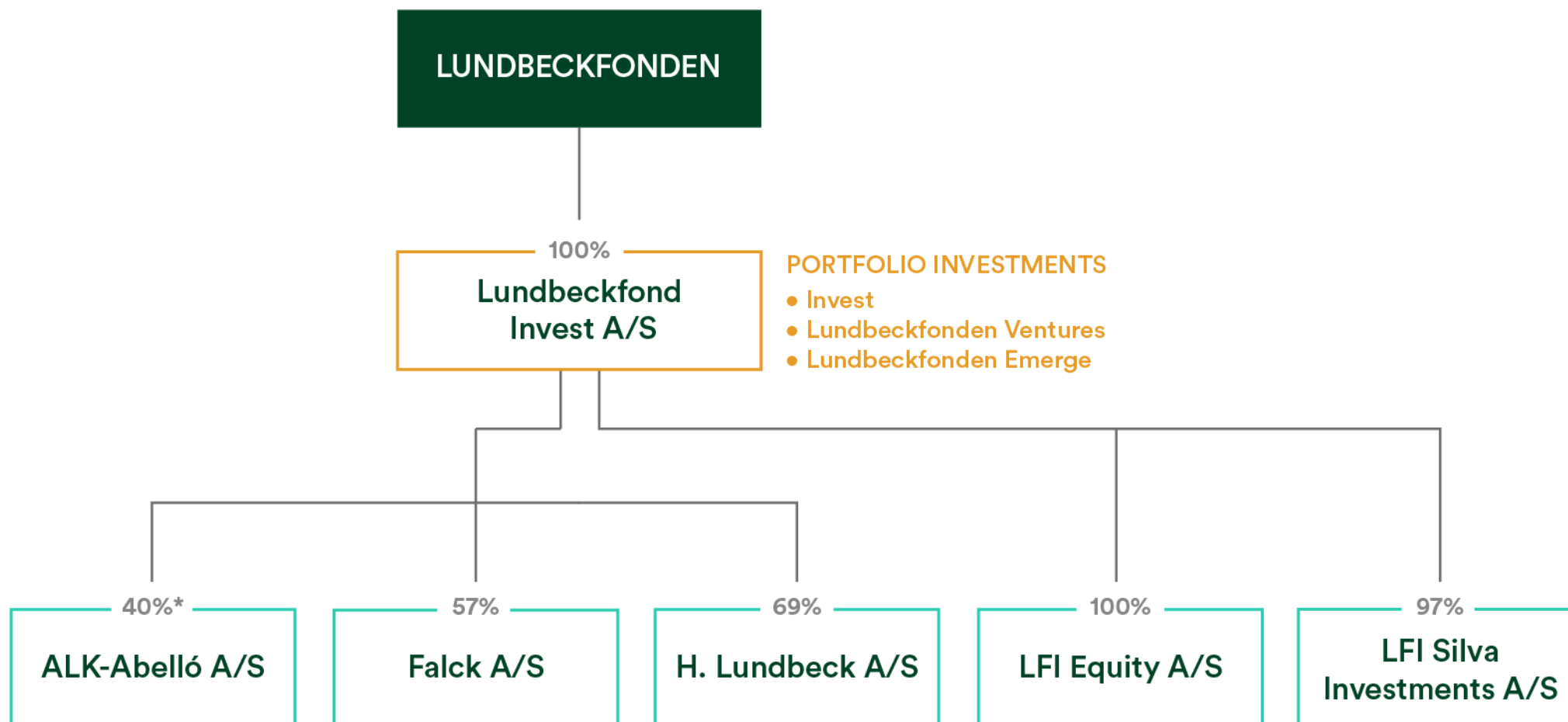
NOTE 32

32. Discontinued operations and assets classified as held for sale (continued)

| DKKm | 2017 | 2016 |
|---|------------|----------|
| Assets classified as held for sale | | |
| Intangible assets | 46 | - |
| Property, plant and equipment | 292 | - |
| Deferred tax assets | 61 | - |
| Inventories | 2 | - |
| Other receivables | 169 | - |
| Income tax | 11 | - |
| Cash | 131 | - |
| Assets classified as held for sale at 31 December | 712 | - |
| Provisions | 119 | - |
| Deferred tax | 32 | - |
| Income tax | 10 | - |
| Debt to financial institutions | 29 | - |
| Other payables | 137 | - |
| Liabilities relating to assets classified as held for sale | 327 | - |
| Net assets classified as held for sale | 385 | - |

NOTE 33

33. Group overview



* Voting rights 67%

NOTE 33

33. Group overview (continued)

| Company name | Country | Ownership |
|------------------------------------|----------------|------------------------|
| Subsidiaries | | |
| Lundbeckfond Invest A/S, including | Denmark | 100% |
| - H. Lundbeck A/S | Denmark | 69% |
| - ALK-Abelló A/S | Denmark | 40% (67% of the votes) |
| - Falck A/S | Denmark | 57% |
| - LFI Equity A/S | Denmark | 100% |
| - LFI Silva Investments A/S | Denmark | 97% |
| - LFI Silva Investments Ltd | United Kingdom | 100% |
| Insusense ApS | Denmark | 75% |

Associates of Lundbeckfond Invest A/S (1)

| | | |
|-----------------------------|----------------|-----|
| Acacia Pharma Ltd | United Kingdom | 27% |
| DySIS Medical Ltd. | United Kingdom | 43% |
| IO Biotech ApS | Denmark | 31% |
| NMD Pharma A/S | Denmark | 32% |
| Obel-LFI Ejendomme A/S | Denmark | 50% |
| SNIPR Biome ApS | Denmark | 22% |
| Veloxis Pharmaceuticals A/S | Denmark | 41% |
| 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% |

| Company name | Country | Ownership |
|--|-------------------|-----------|
| Lundbeck China Holding A/S, Denmark, including | China | 100% |
| - Lundbeck Pharmaceuticals Consulting (Shanghai) Co., Ltd. (under liquidation) | China | 100% |
| 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. | 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 Philippines Inc. | Philippines | 100% |

NOTE 33

33. Group overview (continued)

| Company name | Country | Ownership |
|---|----------------|-----------|
| 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% |
| Lundbeck RUS OOO | Russia | 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, including | South Africa | 100% |
| - H. Lundbeck (Proprietary) Limited | South Africa | 100% |
| Lundbeck España S.A. | Spain | 100% |
| H. Lundbeck AB | Sweden | 100% |
| Lundbeck (Schweiz) AG | Switzerland | 100% |
| Lundbeck İlaç Ticaret Limited Şirketi | Turkey | 100% |
| Lundbeck Group Ltd. (Holding), including | United Kingdom | 100% |
| - Lundbeck Limited | United Kingdom | 100% |
| - Lundbeck Pharmaceuticals Ltd. | United Kingdom | 100% |
| - Lifehealth Limited, including | United Kingdom | 100% |
| - Lundbeck UK LLP (2) | United Kingdom | 100% |
| Lundbeck USA Holding LLC, including | United States | 100% |
| - Lundbeck LLC, including | United States | 100% |
| - Chelsea Therapeutics International, Ltd., including | United States | 100% |
| - Lundbeck NA Ltd | United States | 100% |
| - Lundbeck Pharmaceuticals Services, LLC | United States | 100% |
| - Lundbeck Research USA, Inc. | United States | 100% |
| Lundbeck de Venezuela, C.A. | Venezuela | 100% |

| Company name | Country | Ownership |
|--|----------------|-----------|
| Subsidiaries of ALK-Abelló A/S | | |
| ALK-Abelló Nordic A/S | Denmark | 100% |
| 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 (in liquidation) | Switzerland | 100% |
| ALK ilaç ve Alerji Ürünleri Ticaret Anonim Şirketi | Turkey | 100% |
| ALK-Abelló B.V. | 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 | United States | 100% |
| - OKC Allergy Suppliers Inc. | United States | 100% |
| ALK-Abelló, Source Materials, Inc., including | United States | 100% |
| - OKC Crystal Laboratory Inc. | United States | 100% |
| ALK-Abelló Pharmaceuticals, Inc. | Canada | 100% |
| ALK Medical Consulting Services Company Limited | China | 100% |
| ALK Slovakia s.r.o. | Slovakia | 100% |

NOTE 33

33. Group overview (continued)

| Company name | Country | Ownership |
|---|----------------|-----------|
| Subsidiaries of Falck A/S | | |
| Ambulance | | |
| Falck Pty. Ltd. | Australia | 55% |
| Falck Ambulance Services Australia Pty. Ltd. | Australia | 100% |
| Falck Investments Pty. Ltd. | Australia | 100% |
| Falck Safety Services Australia Pty. Ltd. | Australia | 100% |
| Falck (Victoria) Pty. Ltd. | Australia | 100% |
| Falck Benelux NV | Belgium | 49% |
| Falck Investments NV | Belgium | 88% |
| Falck Brasil AVD Participações Ltda. | Brazil | 100% |
| Falck Brasil 747 Participações Ltda. | Brazil | 100% |
| Falck Chile Holding S.A. | Chile | 100% |
| Falck Safety Services Limitada | Chile | 100% |
| Falck Capacitacion Limitada | Chile | 100% |
| BHM Solutions Integrales de Logistica en Salud S.A.S. | Colombia | 100% |
| Haces Inversiones y Servicio S.A.S. | Colombia | 100% |
| Empresa de Medicina Integral EMI S.A. Servicio de Ambulancia Prepagada - Grupo EMI S.A. | Colombia | 100% |
| Servicio Emergencias Regional SER S.A. | Colombia | 100% |
| Falck CZ a.s. | Czech Republic | 93% |
| Falck Emergency a.s. | Czech Republic | 100% |
| Falck Global A/S | Denmark | 100% |
| Falck Fire Services A/S | Denmark | 100% |
| Falck Danmark A/S | Denmark | 100% |
| Falck Emergency A/S | Denmark | 100% |
| Falck Luftambulance A/S | Denmark | 100% |
| Falck Air Ambulance A/S | Denmark | 50% |
| Traffilog Nordic ApS (3) | Denmark | 49% |
| Global Life Care A/S (3) | Denmark | 40% |
| Life Care One A/S | Denmark | 100% |
| KPC Ejendom af 6. juni 2002 A/S (3) | Denmark | 25% |
| Responce A/S | Denmark | 100% |
| EMI Ecuador S.A. - Emergencia Medica Integral | Ecuador | 100% |
| EMI El Salvador S.A. de C.V. | El Salvador | 100% |
| 9Lives Group Oy | Finland | 51% |

| Company name | Country | Ownership |
|--|---------|-----------|
| 9Lives Care Oy | Finland | 100% |
| 9Lives Health Oy | Finland | 100% |
| 9Lives Oy | Finland | 100% |
| HES Hoiva Oy | Finland | 100% |
| HES Ensioito Oy | Finland | 100% |
| 9Lives Pirkanmaa Oy | Finland | 100% |
| 9Lives Team Oy | Finland | 100% |
| Luumänen Ensioito Oy | Finland | 100% |
| Sairaankuljetus A. Järvenpää Oy | Finland | 100% |
| Falck Rettungsdienst GmbH | Germany | 90% |
| 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 GmbH | Germany | 100% |
| K&G Taxi-Krankentransporte und Dienstleistungs GmbH | Germany | 80% |
| G.A.R.D. Beteiligungsgesellschaft für Ambulanz und Rettungsdienst GmbH | Germany | 100% |
| Ostsee-Ambulanz-Kiel GmbH | Germany | 100% |

NOTE 33

33. Group overview (continued)

| Company name | Country | Ownership |
|--|-------------|-----------|
| promedica Rettungsdienst GmbH | Germany | 100% |
| RTD Consulting GmbH | Germany | 100% |
| ASG Ambulanz Leipzig GmbH | Germany | 100% |
| Falck Arbeitsgemeinschaft Rettungsdienst Plauen GmbH & Co. oHG | Germany | 100% |
| promedica Rettungsdienst Bremhaven/Bremen GmbH | Germany | 100% |
| promedica Rettungsdienst Waldeck-Frankenberg GmbH & Co. KG | Germany | 70% |
| Euro-Med Einkaufsgemeinschaft GmbH | Germany | 100% |
| promedica Services GmbH | Germany | 100% |
| G.A.R.D. Ambulanzflugdienst GmbH | Germany | 50% |
| Falck Notfallrettung und Krankentransport GmbH | Germany | 100% |
| KS-Medi-Service GmbH | Germany | 100% |
| Brava Holding GmbH | Germany | 100% |
| First Ambulance Services Sdn. Bhd. | Malaysia | 51% |
| Falck Services Ltd. | Mauritius | 100% |
| Falck Holding B.V. | Netherlands | 100% |
| Falck Prevention B.V. | Netherlands | 100% |
| Prevention & Safety B.V. (3) | Netherlands | 49% |
| Falck Eurasia B.V. | Netherlands | 100% |
| Falck Russia Holding B.V. (3) | Netherlands | 49% |
| Falck Safety Services Nigeria Ltd. | Nigeria | 51% |
| Falck Emergency Norway AS | Norway | 100% |
| Falck Brann og Redningstjeneste AS | Norway | 100% |
| EMI Holdings Management S.A. | Panama | 100% |
| 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 Central America Holding S.A. | Panama | 80% |
| EMI Panama S.A. | Panama | 100% |
| Falck Medycyna Sp. z.o.o. | Poland | 100% |
| Starowka Sp. z.o.o. | Poland | 76% |
| Falck SCI Portugal - Segurança Contra Incêndios S.A | Portugal | 100% |
| Falck Medical Vladivostok LLC | Russia | 100% |

| Company name | Country | Ownership |
|---|----------------------|-----------|
| Falck SK a.s. | Slovakia | 98% |
| Falck Emergency AS | Slovakia | 51% |
| Falck Záchraná 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 South Africa Holding (PTY) Ltd. | South Africa | 100% |
| Falck VL Servicios Sanitarios S.L. | Spain | 75% |
| Sauper S.A. | Spain | 100% |
| Falck Lanka (Pvt) Ltd. (3) | Sri Lanka | 50% |
| Falck Sverige Holding AB | Sweden | 100% |
| Falck Ambulans AB | Sweden | 95% |
| Falck Services AB | Sweden | 100% |
| Svensk Sjöambulans AB | Sweden | 50% |
| MoPi.ch Holding AG | Switzerland | 51% |
| MoPi.ch GmbH | Switzerland | 100% |
| Käch Falck AG | Switzerland | 60% |
| Falck Medical Services LLC | United Arab Emirates | 49% |
| Falck UK Ltd. | United Kingdom | 100% |
| Falck EMS UK Ltd. | United Kingdom | 100% |
| Falck UK Ambulance Service Ltd. | United Kingdom | 100% |
| Hospital & Healthcare Cars Ltd. | United Kingdom | 100% |
| National Independent Ambulance College Ltd. | United Kingdom | 100% |
| First Response Ambulance Services Ltd. | United Kingdom | 100% |
| Medical Services Contractors Ltd. | United Kingdom | 100% |
| Falck India Ltd. | United Kingdom | 100% |
| Luvtel S.A. | Uruguay | 100% |
| UCM Uruguay S.A. | Uruguay | 100% |
| Portovenus S.A. | Uruguay | 16% |
| Falck USA Inc. | United States | 100% |
| Falck Arizona Corp. | United States | 100% |
| FCA Corp. | United States | 89% |
| Care Ambulance Service, Inc. | United States | 100% |
| Falck EMS Corp. | United States | 99% |

NOTE 33

33. Group overview (continued)

| Company name | Country | Ownership |
|--|---------------|-----------|
| Lifestar Response of Alabama, Inc. | United States | 100% |
| Medibus, Inc. | United States | 100% |
| STAT Equipment Corp. | United States | 100% |
| Bi-County Ambulance & Ambulette Transport Services Corp. | United States | 100% |
| Falck Northeast Corp. | United States | 100% |
| Lifestar Response of Maryland, Inc. | United States | 100% |
| Home Care Equipment, Inc. | United States | 100% |
| Robinson's Ambulance & Oxygen Service, Inc. | United States | 100% |
| Falck Southeast Corp. | United States | 96% |
| Falck Southeast II Corp. | United States | 97% |
| Cape Cod Medical Enterprises, Inc. | United States | 100% |
| American Ambulance, Inc. | United States | 100% |
| Transitional Health Solutions, Inc. | United States | 100% |
| Falck Northern California Corp. | United States | 87% |
| Falck Northwest Corp. | United States | 100% |
| Falck Rocky Mountain, Inc. | United States | 100% |
| Rapid Response Emergency Services, LLC | United States | 100% |
| Pulse EMS, LLC (3) | United States | 50% |
| Emergencia Medica Integral EMI Centro S.A. | Venezuela | 100% |
| Centro Medico Intergal CEMICA S.A. | Venezuela | 100% |

| Company name | Country | Ownership |
|---------------------------------|---------|-----------|
| Healthcare | | |
| Falck Health Care Holding A/S | Denmark | 59% |
| Falck Healthcare 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% |
| ActivCare A/S | Denmark | 100% |
| Falck Helse AS | Norway | 100% |
| Falck Health Care Holding AB | Sweden | 100% |
| Falck Aktiv Arbetsmedicin 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% |
| Galleriva Husläkarmottagning AB | Sweden | 100% |
| Falck Hälsopartner AB | Sweden | 100% |

NOTE 33

33. Group overview (continued)

| Company name | Country | Ownership |
|---|---------------|-----------|
| Assistance | | |
| Falck Assistance A/S | Denmark | 100% |
| S Reg Holding A/S | Denmark | 100% |
| Falck Autoabi OÜ | Estonia | 100% |
| Falck Investments Finland Oy Ab | Finland | 100% |
| Falck Oy | Finland | 100% |
| UAB Falck Lietuva | Lithuania | 100% |
| Falck Norge Holding AS | Norway | 100% |
| Falck Redning AS | Norway | 100% |
| Falck Secure AS | Norway | 100% |
| Falck Services AS | Norway | 100% |
| Falck Investment Sverige AB | Sweden | 100% |
| S Reg AB | Sweden | 100% |
| Falck Secure AB | Sweden | 100% |
| Falck Räddningskår AB | Sweden | 100% |
| Falck Försäkringsaktiebolag | Sweden | 100% |
| Global Assistance | | |
| Falck Global Assistance (China) Ltd. | China | 100% |
| Falck Global Assistance A/S | Denmark | 100% |
| Falck Global Assistance Oy | Finland | 100% |
| Falck India Pvt. Ltd. (India) | India | 100% |
| Falck Services Pvt. ltd. (India) | India | 100% |
| Falck Global Assistance Norway AS | Norway | 100% |
| Falck Global Assistance Singapore Pte. Ltd. | Singapore | 100% |
| Falck Global Assistance Spain S.L. | Spain | 100% |
| Falck Global Assistance AB | Sweden | 100% |
| Falck Global Assistance (Thailand) Ltd. | Thailand | 49% |
| Falck Global Assistance Ltd. | Thailand | 100% |
| Falck Sağlık AŞ | Turkey | 100% |
| Access Transport Services Holding, Inc. | United States | 100% |
| Falck Global Assistance, LLC | United States | 100% |
| Falck Risk Solutions, LLC | United States | 60% |
| AccessOnTime Language Services, LLC | United States | 100% |

| Company name | Country | Ownership |
|---|----------------|-----------|
| Industrial Firefighting | | |
| Falck Fire Services BE NV | Belgium | 100% |
| Falck Fire & Safety do Brasil S.A. | Brazil | 65% |
| Falck France SAS | France | 65% |
| Falck Fire Services DE GmbH | Germany | 100% |
| Falck Operations Services DE GmbH | Germany | 100% |
| Falck Servizi Industriali di Emergenza S.r.l. | Italy | 65% |
| Falck B.V. | Netherlands | 100% |
| Falck Consulting & Technology B.V. | Netherlands | 100% |
| Falck Fire Services NL B.V. | Netherlands | 100% |
| Falck Fire Services Polska Sp. z.o.o. | Poland | 100% |
| Falck Fire Services S.R.L. | Romania | 95% |
| Falck Fire Services Rus Limited Liability Company | Russia | 100% |
| Falck Fire Services a.s. | Slovakia | 100% |
| Falck Security Services s.r.o. | Slovakia | 100% |
| Falck Emergency Spain, S.L. | Spain | 65% |
| Falck SCI, S.A. | Spain | 65% |
| Falck Räddningstjänst AB | Sweden | 100% |
| Falck Fire Services CH AG | Switzerland | 100% |
| Falck Fire Consulting Ltd. | United Kingdom | 93% |
| Falck Fire Services UK Ltd. | United Kingdom | 100% |
| Group | | |
| Falck Treasury A/S | Denmark | 100% |

NOTE 33

33. Group overview (continued)

| Company name | Country | Ownership |
|---|-------------------|-----------|
| Safety Services (discontinued operations) | | |
| Falck Safety Services Holding A/S | Denmark | 100% |
| Falck Safety Services A/S | Denmark | 100% |
| Falck Nutec A/S | Norway | 100% |
| Falck Safety Services Belgium BVBA | Belgium | 100% |
| Falck Global Safety B.V. | Netherlands | 100% |
| Falck Nutec B.V. | Netherlands | 100% |
| Falck BHV Operations B.V. | Netherlands | 100% |
| Aberdeen Drilling School Ltd. | United Kingdom | 25% |
| Falck Nutec Ltd. | United Kingdom | 100% |
| Falck Safety Services Canada Inc. | Canada | 55% |
| Falck Safety Services Canada (NL) Inc. | Canada | 100% |
| Falck Safety Services Canada (LA) Inc. | Canada | 100% |
| Haztec Services St. Lucia Ltd. | St. Lucia | 100% |
| Falck USA Holdings LLC | United States | 100% |
| Alford Services Inc. | United States | 100% |
| Alford Safety Services LLC | United States | 100% |
| Falck Nutec Brasil Participacoes Ltda. | Brazil | 100% |
| Falck Nutec Brasil Treinamentos em Segurança Marítima Ltda. | Brazil | 100% |
| Falck Safety Services de México S.A.P.I. de C.V. | Mexico | 55% |
| Falck Safety Services Ltd. | Trinidad & Tobago | 100% |
| Haztec Services Trinidad Ltd. | Trinidad & Tobago | 100% |
| Falck Caspian Safe LLC | Azerbaijan | 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% |
| Falck Safety Services Nigeria Ltd. | Nigeria | 51% |
| Falck Prime Atlantic Ltd. | Nigeria | 51% |
| Aberdeen Drilling International Co. LLC | Oman | 70% |

| Company name | Country | Ownership |
|--------------------------------------|----------------------|-----------|
| Falck Safety Services LLC | Qatar | 49% |
| MSTS Asia (Spore) Pte. Ltd. | Singapore | 100% |
| Southfield Ltd. | Thailand | 50% |
| Falck Nutec (Thailand) Ltd. | Thailand | 65% |
| Aberdeen Drilling International Ltd. | United Arab Emirates | 100% |
| Falck Safety Services LLC | United Arab Emirates | 49% |
| Falck Nutec Vietnam Ltd. | Vietnam | 88% |

- (1) Associates of Lundbeckfond Invest A/S are recognised in *Financial assets - Invest* or *Financial assets - Lundbeckfonden Ventures and Emerge*
- (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
- (3) Associates and joint ventures

NOTE 34

34. General accounting policies

The consolidated financial statements for 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act, including the Danish Statutory Order on Adoption.

The consolidated financial statements are presented in Danish kroner (DKK), rounded to the nearest DKKm, which is also 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 new and revised standards has not resulted in any changes in accounting policies that have affected recognition and measurement in the current and previous years. However, the amendments to IAS 7 *Statement of Cash Flows* effective for annual reporting periods beginning on or after 1 January 2017 require disclosures of changes in liabilities arising from financing activities. These disclosures have been provided in note 24 *Debt to financial institutions and other*.

Furthermore, presentation of special items in the income statement has been changed. Consequently, special items only consist of significant income and expenses of a special nature in terms of the Group's revenue-generating operating activities such as impairment of goodwill and product rights.

Special items comprise significant income and expenses of a special nature in terms of the Group's revenue-generating operating activities such as impairment of goodwill and product rights. Amortisation and costs in 2016 of DKK 409m presented as special items in the consolidated financial statements for 2016 are now presented as part of the function they belong to in the comparative figures. The reported net profit, balance sheet and equity are not impacted by the change in presentation. See note 35 for the effect of the reclassification.

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

adopted 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 implementation of IFRS 9 Financial Instruments will impact the presentation of fair value adjustments on equity investments currently classified as available-for-sale financial assets. These fair value adjustments are currently recognised in other comprehensive income. Going forward, the Group will irrevocably and on an individual basis classify such fair value adjustments of each equity investment either in the income statement or other comprehensive income. If IFRS 9 Financial Instruments had been implemented for the financial year 2017, profit for the year would have been DKK 20m higher. The implementation will have no impact on total comprehensive income and total equity. Furthermore, the implementation of the standard will not have any significant impact on hedging.

However, the standard will have an effect related to impairment of trade receivables due to implementation of the impairment model on expected credit losses. Further, the standard does not allow costs in connection with refinancing of loans to be capitalised. The expected total negative effect in Falck will be in the level of DKK 50 to 70m on equity on 1 January 2018. The impairment model on expected credit losses and change in regards of cost of refinancing are not expected to have significant impact for the rest of the Lundbeckfonden Group.

IFRS 15 *Revenue from Contracts with Customers* 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. The Group has assessed how the standard will impact current and new agreements:

- Lundbeck - The standard may have an effect on the timing of recognising revenue in respect of future milestone payments from a few collaborations and licensing arrangements. Earlier recognition may apply when it is highly probable that no significant reversal of the revenue will occur. The standard will not affect Lundbeck's business in any other respects.

NOTE 34

34. General accounting policies (continued)

- ALK – The standard will have limited impact on revenue recognition and measurement.
- Falck – The standard will have effects on revenue and operating profit due to three factors. (1) The standard will have a negative effect on revenue in Assistance, Healthcare and Global Assistance due to the agent-principal assessment. (2) Revenue and operating profit in Ambulance will decrease due to recognition of contracts where the services are transferred to the customer over time. (3) According to IFRS 15, a contract only exists if it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods and services that will be transferred to the customer. Consequently, the implementation will have a negative effect on revenue and operating profit in Ambulance in the US, due to change of when revenue is recognised.

The total expected effect in 2018 is a decrease in revenue at the level of DKK 1,200 to 1,400m, a negative effect on operating profit at the level of DKK 40m in 2018, and a negative effect at the level of DKK 30m on equity on 1 January 2018.

Furthermore, the implementation of IFRS 15 will result in additional disclosures.

IFRS 16 *Leases* will replace IAS 17 *Leases* currently in force and is effective for annual reporting periods beginning on or after 1 January 2019. 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 right-of-use assets and lease liabilities 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 in the income statement, balance sheet and cash flow statement. The Group has made an overall assessment of the consequences of IFRS 16 *Leases* and a preliminary estimate of the impact on current agreements. The estimated impact on the income statement is expected to be limited as depreciation and interest are replacing ordinary operational expenses; however, operating profit is expected to improve as only depreciation and

not interest is recognised in operating profit. The estimated increase of total assets and total liabilities is expected to be at the level of DKK 3,445 to 4,095m, of which 2,500 to 3,000m are attributable to the significant number of lease agreements in Falck.

Furthermore, the implementation will result in additional disclosures on e.g. the expense relating to low-value assets, short-term leases and lease liabilities analysed by maturity.

RECOGNITION AND MEASUREMENT

Consolidated financial statements

The consolidated financial statements comprise the parent entity Lundbeckfonden and entities (subsidiaries) controlled by the foundation. The foundation is considered to control a subsidiary when it holds, directly or indirectly, more than 50% of the voting rights or is otherwise able to exercise or actually exercises a controlling influence.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of Lundbeckfonden and its subsidiaries. The consolidated financial statements are prepared as a consolidation of items of a uniform nature. The financial statements used for consolidation are prepared in accordance with the foundation's accounting policies.

On consolidation, intra-group income and expenses, intra-group balances and dividends, and gains and losses arising on intra-group transactions are eliminated.

Business combinations

Newly acquired or newly established companies or operations are recognised in the consolidated financial statements from the date of acquisition or establishment. The date of acquisition is the date when control of the company actually passes to the Group. Companies sold or discontinued are recognised in the consolidated income statement up to the date of disposal. The date of disposal is the date when control of the company actually passes to a third party.

NOTE 34

34. General accounting policies (continued)

Acquisitions are accounted for using the purchase method, according to which the identifiable assets, liabilities and contingent liabilities of companies acquired are measured at fair value at the date of acquisition.

Restructuring costs are only recognised in the takeover balance sheet if they represent a liability to the acquired company. The tax effect of revaluations is taken into account.

The cost of a company is the fair value of the consideration paid. If the final determination of the consideration is conditional on one or more future events these are recognised at their fair value at the date of acquisition.

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.

Costs that can be attributed directly to the transfer of ownership are recognised in the income statement when they are defrayed. As a general rule, adjustments to estimates of conditional consideration are recognised directly to the income statement.

If the fair value of the acquired assets or liabilities subsequently proves different from the values calculated at the date of acquisition, cost is adjusted for up to 12 months after the date of acquisition.

Any excess of the cost of an acquired company over the fair value of the acquired assets, liabilities and contingent liabilities (goodwill) is recognised as an asset under intangible assets and tested for impairment at least annually.

Gains or losses on disposal of subsidiaries are stated as the difference between the disposal amount and the carrying amount of net assets including goodwill at the date of disposal, accumulated foreign exchange adjustments recognised in other comprehensive income, and anticipated disposal costs. The disposal amount is measured as the fair value of the consideration received.

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 differences between the exchange rates at the time of recognition and the exchange rates at the balance sheet date or recognition of settlement are recognised in the income statement under financial items in respect of unhedged items and under the same item in respect of 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 income statement and the balance sheet of 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. The fair value of derivatives is determined by applying recognised measurement techniques, whereby assumptions are based on the market conditions pre-

NOTE 34

34. General accounting policies (continued)

vailing on 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 recognition of the hedged item, income and expenses related to such hedging transactions are transferred from other comprehensive income and recognised in the same line 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 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.

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

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 valuation method applied.

INCENTIVE PROGRAMMES

Share-based incentive programmes (equity-settled share-based payments) which comprises share option plans, conditional share plans, and performance shares are measured at the grant date at fair value and recognised in the income statement under the respective functions over the vesting period and offset in equity.

The fair value of share options is determined using the Black-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

NOTE 34

34. General accounting policies (continued)

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. Moreover, revenue includes license income and royalties from out-licensed products as well as non-refundable downpayments 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.

Revenue: Falck

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 capitalising 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.

NOTE 34

34. General accounting policies (continued)

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 e.g. 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.

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 cash and 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
- Exchange gains and losses
- Other financial income and expenses

Interest income and expenses are accrued based on the principal and the effective rate of interest.

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 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 impairment of goodwill and product rights.

NOTE 34

34. General accounting policies (continued)

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 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 consistent with 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 5 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 commercialisation.

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.

NOTE 34

34. General accounting policies (continued)

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 |

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 value of the asset as an improvement and are depreciated over the estimated useful life of the improvement.

Gains or losses on the sale or retirement of items of property, plant and equipment are calculated as the difference between the carrying amount and the selling price less cost to sell or discontinuance costs. Gains and losses are 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's 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 measured 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.

NOTE 34

34. General accounting policies (continued)

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. At each balance sheet date, it is assessed 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.

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, except for 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.

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.

NOTE 34

34. General accounting policies (continued)

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. The securities are subsequently measured at fair value at the balance sheet date. The fair value is based on officially quoted prices of the invested assets. 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.

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

Acquisition and sale 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-settled programmes) are measured at the equity instruments' fair value at the date of grant and recognised under staff costs as and when the employees obtain the right to buy/receive the shares. The offsetting item is recognised directly in equity under retained earnings.

Share price-based incentive programmes in which employees have the difference between the agreed price and the actual share price settled in cash (cash-settled programmes) are measured at fair value at the date of grant and recognised in the income statement under staff costs as and

NOTE 34

34. General accounting policies (continued)

when the employees obtain the right to such difference settlement. The cash-settled 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 offsetting item is recognised under liabilities until the time of the final settlement.

Warrant programmes

Warrants to former Executive Management Board in Falck 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.

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 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. However, deferred tax is not recognised on temporary differences arising either on initial recognition of goodwill or from a transaction that is not a business combination and if the temporary difference ascertained at the time of the initial recognition affects neither the financial result nor the taxable income. The tax value of the assets is calculated based on the planned use of 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

NOTE 34

34. General accounting policies (continued)

taxation agreement and are allocated between the companies that are subject to deductibility limitation in proportion to their share of the total limitation. Deferred tax liabilities in respect of these balances are 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 uncertainty with respect to 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 than the unavoidable cost of meeting its obligations under the contract.

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 the 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.

NOTE 34

34. General accounting policies (continued)

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.

ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets classified as held for sale comprise assets and liabilities for which it is highly probable that the value will be recovered through a sale within 12 months rather than through continued use. Assets and liabilities classified as held for sale are measured at the carrying amount at the classification date as "held for sale" or at market value less selling costs, whichever is lower. The carrying amount is measured in accordance with the Group's accounting policies. No depreciation or amortisation is effected on property, plant and equipment and intangible assets from the time when they are classified as "held for sale". Impairment losses arising on first classification as "held for sale" and gains and losses from the subsequent measurement are recognised in the income statement under the items they concern.

The result of discontinued operations are presented separately in the income statement and the cash flows from discontinued operations are presented separately in the cash flow statement. The comparative figures are restated in both statements.

Assets and liabilities classified as held for sale and result and cash flows from discontinued operations are specified in the notes.

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 bank balances at the beginning and 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 committed credit facilities.

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 is shown as a separate item in the cash flow statement.

KEY FIGURES

The key figures are calculated according to Danish Finance Society's Recommendations & Financial Ratios.

| | |
|--------------------------|---|
| Operating profit: | Defined as the profit before special items, financial items and tax |
| Operating profit margin: | $\frac{\text{Operating profit} \times 100}{\text{Revenue}}$ |
| Return on equity: | $\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$ |

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-Abelló A/S and H. Lundbeck A/S is based on market prices. The fair value of Lundbeckfonden's shares in Falck A/S is an estimated value based on a trading multiple model using historical accounting numbers for Falck A/S and a peer group.

NOTE 35-36

35. Changes in the accounting policies, etc.

| Income statement 2016, DKKm | Before adjustment | Reclassification | Transferred to profit for the year from discontinued operations | After adjustment |
|---|-------------------|------------------|---|------------------|
| Revenue | 34,603 | 21 | -876 | 33,748 |
| Cost of sales | -17,454 | -480 | 701 | -17,233 |
| Gross profit | 17,149 | -459 | -175 | 16,515 |
| Research and development costs | -3,354 | - | - | -3,354 |
| Sales and distribution costs | -7,053 | -11 | 94 | -6,970 |
| Administrative expenses | -3,549 | -22 | 135 | -3,436 |
| Other income | 194 | 4 | -9 | 189 |
| Special items | -409 | 409 | - | - |
| Operating profit | 2,978 | -79 | 45 | 2,944 |
| Financial income | 2,616 | - | 2 | 2,618 |
| Financial expenses | -1,952 | - | 62 | -1,890 |
| Income/loss from investments in associates | 4 | 79 | -1 | 82 |
| Profit before tax | 3,646 | - | 108 | 3,754 |
| Tax on profit for the year | -1,181 | - | -10 | -1,191 |
| Profit for the year from continuing operations | 2,465 | - | 98 | 2,563 |
| Profit for the year from discontinued operations | - | - | -98 | -98 |
| Profit for the year | 2,465 | - | - | 2,465 |

See note 34 for information about changes in the accounting policies.

36. Events after the balance sheet date

On 16 March 2018, it was announced that Lundbeck will acquire Prexton Therapeutics. By acquiring Prexton, Lundbeck will obtain global rights of an attractive compound (foliglurax) which currently is in clinical phase II testing for symptomatic treatment of OFF-time reduction in Parkinson's disease and dyskinesia including Levodopa Induced Dyskinesia (LID). First data from the ongoing clinical phase II programme is expected to be available during the first half of 2019.

Under terms of the agreement, Lundbeck will pay EUR 100m (approximately DKK 750m) upfront and is furthermore required to later pay up to EUR 805m (approximately DKK 6bn) in development and sales milestones depending on successful outcome of certain undisclosed milestones.

The upfront payment will be capitalised in the balance sheet as an intangible asset and tested for impairment annually or whenever there is indication of impairment.

On 22 January 2018, Falck Healthcare initiated a strategic review of the future ownership of Falck Lægehuse.

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

Financial Statements

PARENT FOUNDATION



FINANCIAL STATEMENTS

OF THE PARENT FOUNDATION

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INCOME STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | 2017 | 2016 |
|--|------|------------|------------|
| Dividend from Lundbeckfond Invest A/S | | 335 | - |
| Financial income | 2 | 630 | 547 |
| Financial expenses | 2 | -186 | -115 |
| Profit from investment activities | | 779 | 432 |
| Other operating income | | - | 1 |
| Staff costs | 3 | -26 | -25 |
| Other external costs | 4, 5 | -29 | -19 |
| Depreciations and amortisations | | -3 | -3 |
| Profit before tax | | 721 | 386 |
| Tax on profit for the year | 6 | -13 | -7 |
| Profit for the year | 7 | 708 | 379 |

BALANCE SHEET

AT 31 DECEMBER

| Assets, DKKm | Note | 2017 | 2016 |
|----------------------------------|--------|--------------|--------------|
| Other intangible assets | | 1 | 1 |
| Intangible assets | 8 | 1 | 1 |
| Land and buildings | | 75 | 77 |
| Tangible assets | 9 | 75 | 77 |
| Investments in subsidiaries | 10 | 4,063 | 4,056 |
| Other securities and investments | 11, 14 | 5,328 | 4,824 |
| Financial assets | | 9,391 | 8,880 |
| Non-current assets | | 9,467 | 8,958 |
| Receivables from subsidiaries | | - | 1 |
| Income tax | | 3 | 5 |
| Other receivables | | 17 | 22 |
| Receivables | | 20 | 28 |
| Cash and bank balances | | 160 | 300 |
| Current assets | | 180 | 328 |
| Assets | | 9,647 | 9,286 |

| Equity and liabilities, DKKm | Note | 2017 | 2016 |
|--------------------------------|------|--------------|--------------|
| Capital base | 12 | 3,109 | 2,965 |
| Reserve for future grants | | 1,000 | 750 |
| Retained earnings | | 4,151 | 4,331 |
| Equity | | 8,260 | 8,046 |
| Pension obligations | 13 | 15 | 15 |
| Provisions | | 15 | 15 |
| Payable grants, long-term | | 367 | 324 |
| Non-current liabilities | | 367 | 324 |
| Payable grants, short-term | | 685 | 640 |
| Payable to subsidiaries | | 1 | - |
| Repo debt | | 315 | 253 |
| Other payables | | 4 | 8 |
| Current liabilities | | 1,005 | 901 |
| Liabilities | | 1,372 | 1,225 |
| Equity and liabilities | | 9,647 | 9,286 |

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | Capital base | Reserve for future grants | Retained earnings | Total |
|-----------------------------------|------|--------------|---------------------------|-------------------|--------------|
| Equity at 1 January 2017 | | 2,965 | 750 | 4,331 | 8,046 |
| Grants, net | 17 | | -494 | | -494 |
| Profit for the year | 7 | 144 | 744 | -180 | 708 |
| Equity at 31 December 2017 | | 3,109 | 1,000 | 4,151 | 8,260 |
| Equity at 1 January 2016 | | 2,888 | 750 | 4,501 | 8,139 |
| Grants, net | 17 | | -472 | | -472 |
| Profit for the year | 7 | 77 | 472 | -170 | 379 |
| Equity at 31 December 2016 | | 2,965 | 750 | 4,331 | 8,046 |

NOTE 1-2

1. Accounting policies

The financial statements for Lundbeckfonden (the parent foundation) for 2017 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), rounded to the nearest DKKm, which is also 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 stated below.

OTHER OPERATING INCOME

Other income consists of other service income and gain on sale of tangible 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 a Cash Flow Statement.

2. Financial income and expenses

| DKKm | 2017 | 2016 |
|---|------------|------------|
| Financial income | | |
| Interest income, etc. | 490 | 370 |
| Gain from securities and other equity investments | 140 | 177 |
| Total financial income | 630 | 547 |
| Financial expenses | | |
| Interest expenses, etc. | 2 | 2 |
| Loss on securities and other equity investments | 184 | 113 |
| Total financial expenses | 186 | 115 |

NOTE 3-5

3. Staff costs

| DKKm | 2017 | 2016 |
|---|-------------|-------------|
| Wages and salaries, incl. holiday allowance | 25.6 | 24.3 |
| Pension contributions | 0.6 | 0.4 |
| Other social security costs | 0.1 | 0.1 |
| Total staff costs | 26.3 | 24.8 |

| | | |
|---|----|----|
| Average number of employees during the year | 16 | 14 |
| Number of employees at year-end | 16 | 15 |

| DKKm | 2017 | 2016 |
|---|------|------|
| 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) | 3 | 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 hereof, see note 4 to the consolidated financial statements.

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

| DKKm | 2017 | 2016 |
|--|-----------|-----------|
| Lundbeckfonden - Staff costs, other external costs and depreciations | 59 | 47 |
| Lundbeckfond Invest A/S - Staff costs and other external costs | 38 | 32 |
| Total costs | 97 | 79 |

The costs can be allocated to Lundbeckfonden's activities as follows:

| | | |
|---|-----------|-----------|
| Strategic investment and administration | 38 | 28 |
| Invest | 21 | 18 |
| Lundbeckfonden Ventures | 9 | 9 |
| Lundbeckfonden Emerge | 4 | 3 |
| Grant | 14 | 15 |
| The Brain Prize | 11 | 6 |
| Total costs | 97 | 79 |

5. Fees to auditors appointed at the annual meeting

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

| DKKm | 2017 | 2016 |
|-------------------|------------|------------|
| Statutory audit | 0.4 | 0.3 |
| Other services | 0.1 | 0.1 |
| Total fees | 0.5 | 0.4 |

NOTE 6-9

6. Tax on profit for the year

| DKKm | 2017 | 2016 |
|-------------------------------|-----------|----------|
| Current tax | 13 | 7 |
| Total tax for the year | 13 | 7 |

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 389m (DKK 348m at 31 December 2016).

7. Proposed distribution of profit

| DKKm | 2017 | 2016 |
|----------------------------|------------|------------|
| Capital base | 144 | 77 |
| Reserve for future grants | 744 | 472 |
| Retained earnings | -180 | -170 |
| Profit for the year | 708 | 379 |

8. Intangible assets

| Other intangible assets, DKKm | 2017 | 2016 |
|---------------------------------------|-----------|-----------|
| Cost at 1 January | 3 | 2 |
| Additions | 1 | 1 |
| Cost at 31 December | 4 | 3 |
| Amortisation at 1 January | -2 | -1 |
| Amortisation for the year | -1 | -1 |
| Amortisation at 31 December | -3 | -2 |
| Carrying amount at 31 December | 1 | 1 |

9. Tangible assets

| Land and buildings, DKKm | 2017 | 2016 |
|---------------------------------------|------------|------------|
| Cost at 1 January | 88 | 86 |
| Additions | 1 | 2 |
| Cost at 31 December | 89 | 88 |
| Depreciation at 1 January | -11 | -8 |
| Depreciation for the year | -3 | -3 |
| Depreciation at 31 December | -14 | -11 |
| Carrying amount at 31 December | 75 | 77 |

NOTE 10

10. Investments in subsidiaries

| DKKm | Lundbeckfond Invest A/S | Other subsidiaries | Total |
|---------------------------------------|-------------------------|--------------------|--------------|
| Cost at 1 January 2017 | 4,046 | 22 | 4,068 |
| Additions | - | 7 | 7 |
| Cost at 31 December 2017 | 4,046 | 29 | 4,075 |
| Impairment at 1 January 2017 | - | -12 | -12 |
| Impairment | - | - | - |
| Impairment at 31 December 2017 | - | -12 | -12 |
| Carrying amount at 31 December 2017 | 4,046 | 17 | 4,063 |
| Dividend received in 2017 | 335 | - | 335 |

| DKKm | Lundbeckfond Invest A/S | Other subsidiaries | Total |
|---------------------------------------|-------------------------|--------------------|--------------|
| Cost at 1 January 2016 | 4,046 | 22 | 4,068 |
| Additions | - | - | - |
| Cost at 31 December 2016 | 4,046 | 22 | 4,068 |
| Impairment at 1 January 2016 | - | -10 | -10 |
| Impairment | - | -2 | -2 |
| Impairment at 31 December 2016 | - | -12 | -12 |
| Carrying amount at 31 December 2016 | 4,046 | 10 | 4,056 |
| Dividend received in 2016 | - | - | - |

| Subsidiaries, DKKm | Registered office | Ownership | Profit for the year 2017 | Equity at 31 December 2017 |
|-------------------------|-------------------|-----------|--------------------------|----------------------------|
| Lundbeckfond Invest A/S | Copenhagen | 100% | 695 | 18,190 |
| Insusense ApS | Copenhagen | 75% | -3 | 8 |

NOTE 11-14

11. Other securities and investments

| DKKm | Bonds and corporate loans | Equities | Unlisted investment funds | Total |
|--|---------------------------|--------------|---------------------------|--------------|
| Carrying amount at 1 January 2017 | 2,882 | 1,930 | 12 | 4,824 |
| Additions | 2,091 | 632 | - | 2,723 |
| Disposals | -2,168 | -321 | -6 | -2,495 |
| Value adjustments for the year | -19 | 294 | 1 | 276 |
| Carrying amount at 31 December 2017 | 2,786 | 2,535 | 7 | 5,328 |
| 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 |

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 2017 amounted to DKK 315m (DKK 253m at 31 December 2016).

12. Capital base

| DKKm | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Capital base at 1 January | 2,965 | 2,888 | 2,728 | 2,523 | 2,270 |
| Increase in capital base | 144 | 77 | 160 | 205 | 253 |
| Capital base at 31 December | 3,109 | 2,965 | 2,888 | 2,728 | 2,523 |

13. Pension obligations

| DKKm | 2017 | 2016 |
|-----------------------------------|-----------|-----------|
| Obligations at 1 January | 15 | 16 |
| Adjustment for the year | - | -1 |
| Obligations at 31 December | 15 | 15 |

14. Financial instruments

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

NOTE 15-17

15. 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, LFI Silva Investments A/S, and Insusense ApS, including their subsidiaries and associates.

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 1m in 2017 (DKK 3m in 2016) from Lundbeckfond Invest A/S. At 31 December 2017 Lundbeckfonden has a debt to Lundbeckfond Invest A/S amounting to DKK 1m (receivable of DKK 1m at 31 December 2016), which is recognised in the balance sheet under current liabilities.

In 2016, Lundbeckfonden also received service fees for administrative services provided to Insusense ApS amounting to DKK 0.2m.

For information on remuneration paid to the members of the Executive Management and Board of Trustees, see note 4 to the consolidated financial statements.

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

16. 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.

17. Grants, net

| DKKm | 2017 | 2016 |
|---|------------|------------|
| Grants for the year | 507 | 493 |
| Reversed grants/repayments for the year | -13 | -21 |
| Net grants for the year | 494 | 472 |

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 2017.

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 2017, and of the Group's and

the Foundation's activities and the Group's cash flows for the financial year 1 January – 31 December 2017.

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.

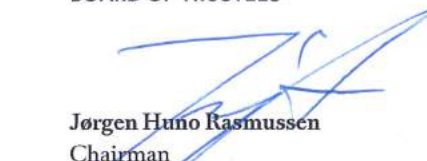
Copenhagen, 17 April 2018

EXECUTIVE MANAGEMENT



Lene Skole


BOARD OF TRUSTEES



Jørgen Huno Rasmussen
Chairman



Michael Kjær




Henrik Sindal Jensen
Elected by the employees



Steffen Kragh
Vice Chairman



Peter Schütze




Peter Adler Würtzen
Elected by the employees



Gunhild Waldemar



Susanne Krüger Kjær



Vagn Flink Møller Pedersen
Elected by the employees



Lars Holmqvist

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 2017, 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 2017 and of the results of its operations and cash flows for the financial year 1 January - 31 December 2017 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 2017 and of the results of its operations for the financial year 1 January - 31 December 2017 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 (CONTINUED)

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 exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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, 17 April 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56


Erik Holst Jørgensen
State-Authorised Public Accountant
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