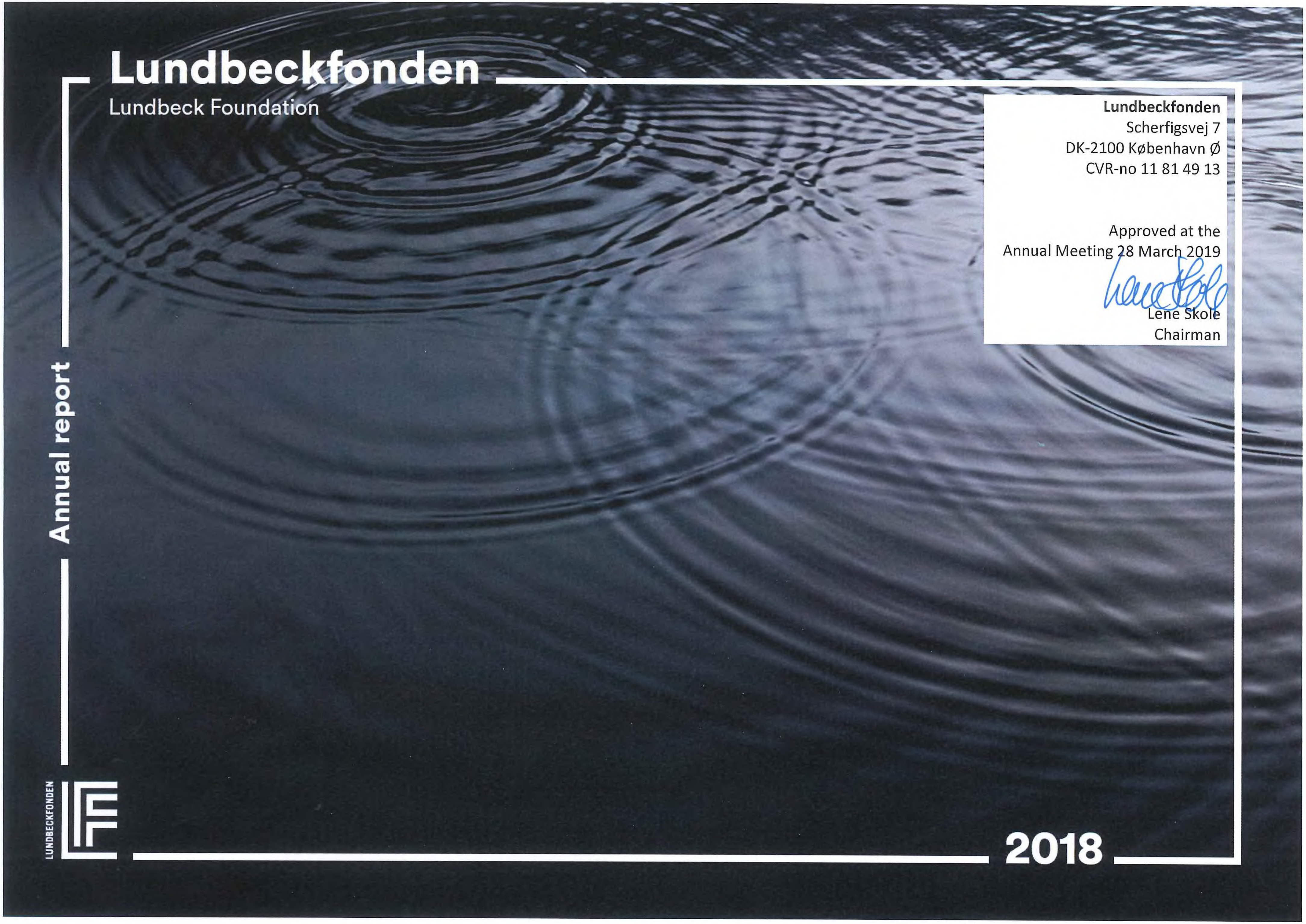


# Lundbeckfonden

Lundbeck Foundation

Annual report


**Lundbeckfonden**
Scherfigsvej 7
DK-2100 København Ø
CVR-no 11 81 49 13


Approved at the
Annual Meeting 28 March 2019

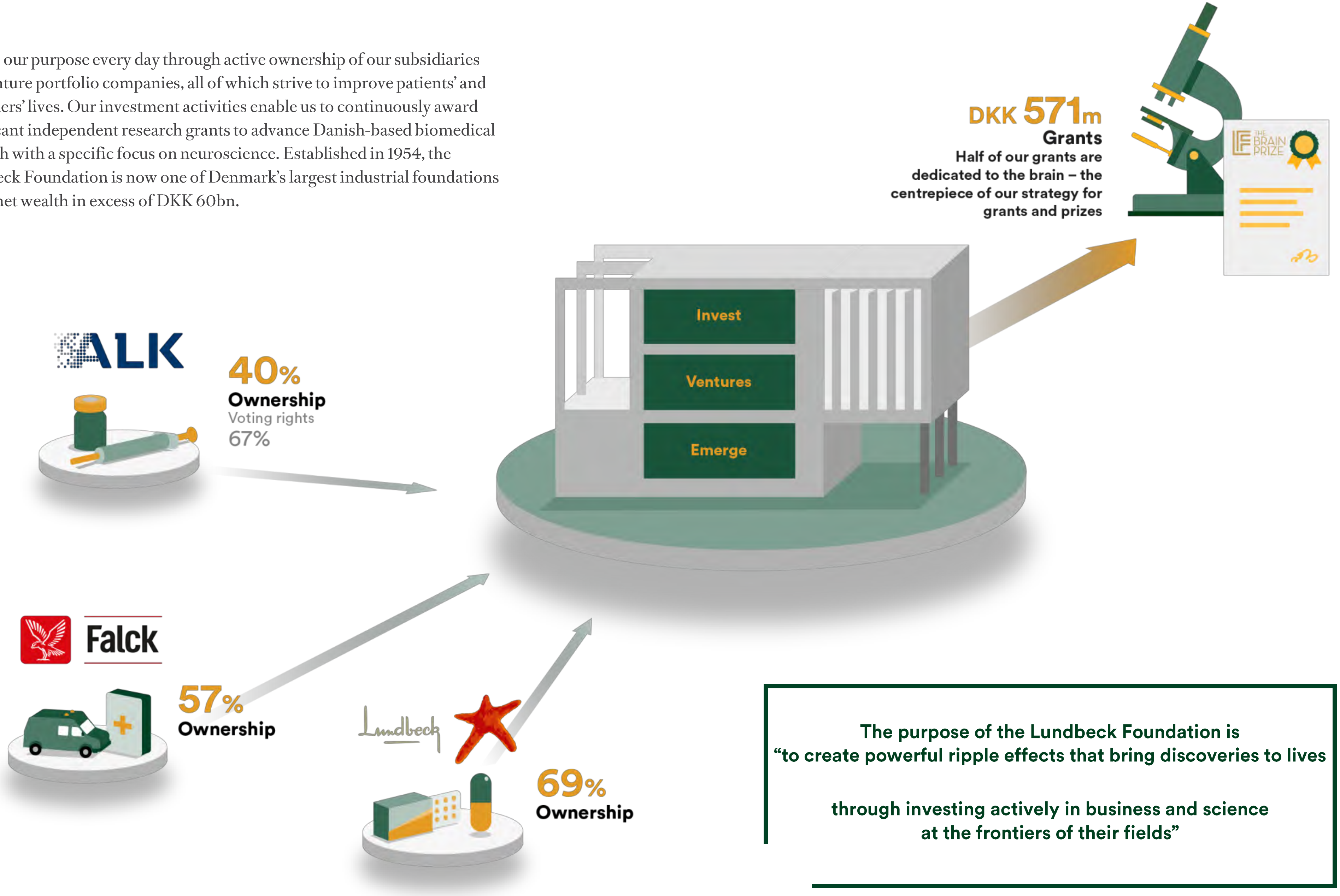
Lene Skole
Chairman

LUNDBECKFONDEN

2018

# LUNDBECKFONDEN AT A GLANCE

We live our purpose 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. Established in 1954, the Lundbeck Foundation is now one of Denmark's largest industrial foundations with a net wealth in excess of DKK 60bn.



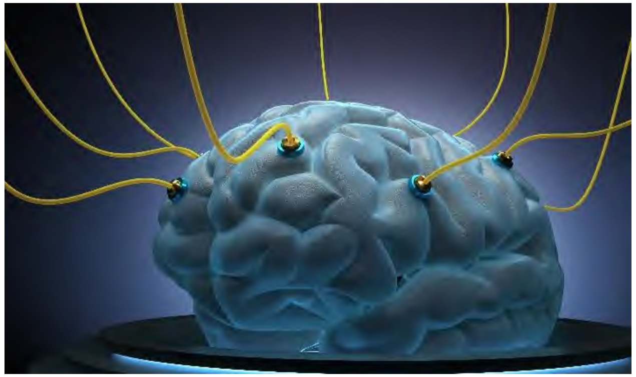

**The purpose of the Lundbeck Foundation is "to create powerful ripple effects that bring discoveries to lives**

**through investing actively in business and science at the frontiers of their fields"**

# CONTENTS

## Management review





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



"Our ability to invest with the long-term goal of value creation can help companies to realise their true potential"

**BERTIL FROM**
Chief Financial Officer



## Financial statements

"Stable markets with open borders are a prerequisite for everything we do – from our financial investments, to our subsidiaries, and the research we fund."

# LETTER FROM THE CHAIRMAN AND CEO

In 2018 we saw the world become increasingly unpredictable. Brexit and political instability on all continents, together with escalating trade wars between major economic blocs, led to nervousness and created a challenging business and investment environment for many. The impact of all of this is a major concern for us as stable markets with open borders are a prerequisite for everything that we do – from our financial investments, to our subsidiaries, and the biomedical research we fund.

At such times, it is important that companies and organisations are navigating a course that is defined by a clear, long-term purpose. The Foundation is no exception and our own purpose guides us through an ever-changing landscape and gives us a lasting platform upon which to operate – one that recognises the responsibilities we have to make an impactful difference for society.

Against the backdrop of turmoil and uncertainty that dampened investment optimism and depressed returns, we delivered some of our best ever results. This performance owed much to a strong 2018 from our largest subsidiary Lundbeck, while work to improve returns at ALK and Falck is still in its early days.

Lundbeck welcomed a new CEO in September, and the company reported strong growth for 2018. In February 2019, the management team unveiled a new strategy that is designed to replenish the company's pipeline and deliver competitive growth and returns over the coming years.

At ALK, the strategy launched at the end of 2017 is starting to show early progress with better than expected 2018 results. The ultimate goal is an ALK capable of delivering sustainable, high revenue and earnings growth by 2020.

In January 2019, Falck was informed of a ruling that it had violated Danish competition rules. The ruling related to unacceptable behaviour dating back to 2014-2015 and which was clearly in conflict with the Foundation's ethical standards. Today, under new management, Falck is working hard to regain the public trust while driving a focused turnaround of the business. This involves refocusing efforts on the core businesses and geographies, reducing complexity, and optimising operations. While much work remains to be done, there is solid evidence that the company is getting back on track.

Among many initiatives, Falck has introduced quarterly reporting to establish greater corporate transparency and has developed a company Code of Conduct, which is being implemented worldwide.

There was a mixed picture from our financial investment activities which, for the first time in many years, reported a deficit. Given volatile market conditions that were among the most challenging in a decade, this is nevertheless viewed as an acceptable outcome.

The ability to maintain the value of our asset base in such a challenging environment is a testament to our active approach to investment and ownership. Our asset base and the returns it generates is essential to securing the funds for our ambitious programme of grants which, in 2018, totalled a record DKK 571m, maintaining our position as one of the most important private contributors to biomedical research in Denmark.

In 2018 we initiated the implementation of the 2017 grants strategy, focusing our efforts on People, Projects and Prizes – all with the aim of supporting talent, research and significant achievements in brain research. Acknowledging the fact that increased research funds from private foundations may result in increased running costs for the universities, we also introduced scope to pay up to 10% of overhead costs on selected grant categories.

Other highlights included the approval of DKK 228m to fund Danish brain research with a particular focus on projects within personalised medicine in support of the Danish government's strategy in this area. It also underlined our strong commitment to the brain which taps into the battle of the rising global burden of psychiatric and neurological diseases.

The Brain Prize remains the Foundation's pre-eminent award and, in 2018, it celebrated the work of four European scientists whose ground-breaking research on the biological roots of Alzheimer's disease has advanced our understanding of brain disease and cleared the way for potential new therapies.

Every day we strive to live up to the responsibility of being an industrial foundation and we are proud to be Denmark's most transparent foundation for the third successive year[1].

While long term financial growth is a prerequisite for the longevity of the Foundation, it is in the commercial success of our subsidiaries and the work that our funding supports that we truly see the impact of what we do as a foundation.

Neither the research we fund nor the commercial activities we engage in are limited to national borders. To continue and grow our impact, we need financial stability and open borders. This will truly enable us to create the ripples that can turn into waves and eventually bring discoveries to lives.

Jørgen Huno Rasmussen,
Chairman of the Board

Lene Skole,
CEO

1 According to the Danish Foundations Analysis 2018 published by Kraft & Partners

# FIVE-YEAR SUMMARY

## FINANCIAL HIGHLIGHTS

| DKKm | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Revenue | 34,302 | 34,525 | 32,935 | 30,351 | 27,850 |
| Operating profit before special items | 5,086 | 3,837 | 2,927 | -1,119 | 814 |
| Operating profit | 5,086 | 2,191 | 2,927 | -6,107 | 814 |
| Profit for the year | 2,957 | 2,032 | 2,465 | -4,766 | 2,653 |
| Lundbeckfonden's share of profit | 1,873 | 1,700 | 1,900 | -3,006 | 2,494 |
| Financial items, Invest etc. | -325 | 1,433 | 1,138 | 950 | 2,228 |
| Financial items, Ventures and Emerge | 153 | 754 | -90 | 491 | 373 |
| Grants awarded | 571 | 507 | 493 | 423 | 459 |
| Dividends from subsidiaries | 1,099 | 357 | 20 | 149 | 401 |
| Cash flow from operating activities | 6,880 | 4,136 | 4,304 | 1,217 | 2,901 |
| Cash flow from investing activities | -3,746 | -1,589 | 156 | -3,922 | -4,756 |
| Cash flow from operating and investing activities (free cash flow) | 3,134 | 2,547 | 4,460 | -2,705 | -1,855 |
| Cash flow from financing activities | -1,617 | -2,716 | -2,900 | 200 | 774 |
| Investments in acquisitions | 821 | 503 | 149 | 278 | 3,534 |
| Investments in property, plant, equipment and intangible assets | 1,346 | 1,423 | 1,222 | 3,971 | 2,358 |
| Equity | 34,412 | 32,708 | 30,326 | 28,864 | 33,023 |
| Lundbeckfonden's share of equity | 29,329 | 28,142 | 26,844 | 25,615 | 28,354 |
| Total assets | 55,410 | 53,886 | 55,892 | 56,126 | 59,588 |
| Debt to financial institutions etc. | 5,467 | 6,116 | 9,253 | 11,362 | 10,442 |
| Net wealth | 62,483 | 63,591 | 61,287 | 54,341 | 38,770 |
| **Key figures** | | | | | |
| Revenue growth | -0.6% | 4.8% | 8.5% | 9.0% | -0.9% |
| Operating profit margin before special items | 14.8% | 11.1% | 8.9% | -3.7% | 2.9% |
| Operating profit margin | 14.8% | 6.3% | 8.9% | -20.1% | 2.9% |
| Return on equity | 8.8% | 6.4% | 8.3% | -15.4% | 8.5% |
| Average number of employees | 32,113 | 34,193 | 34,733 | 34,104 | 30,935 |

2014 – 2017 are not adjusted for impact from IFRS 9 and IFRS 15 reporting standards, cf. note 37.

For the definition of key figures, please see note 37.

# FINANCIAL PERFORMANCE

The Lundbeck Foundation's 2018 financial performance was strong and a reflection of the financial results of Lundbeck, offsetting losses in ALK, Falck and the in-house investment activities.

Revenue (DKKm)

**34,302**

Operating profit (DKKm)

**5,086**

Net wealth (DKKm)

**62,483**

Adjusted for the effect of new IFRS standards, the goals of continued growth in revenue and operating profit were met in 2018.

Gross profit and operating profit before special items were up in 2018, largely thanks to Lundbeck which delivered the best-ever financial results in the company's history. Falck also contributed to this by improving profitability in 2018 by DKK 375m. Group profit for the year was, however, negatively affected by the foundation's investment activities.

The financial strength of the group was improved and borrowing fell to its lowest level since 2011.

## OPERATING ACTIVITIES

Revenue for the year was DKK 34,302m (DKK 34,525m). Revenue at Lundbeck reached DKK 18,117m corresponding to an increase of 5% over the DKK 17,234m that was reported in 2017. Revenue at Falck decreased by DKK 1,111m or 8%. The decrease was mainly attributable to changes to revenue recognition requirements under the new IFRS standards which impacted revenue negatively by DKK 972m. Revenue at ALK was in line with that of 2017.

Gross profit for 2018 was DKK 18,431m, versus DKK 17,456m in 2017. The gross margin improved from 51% in 2017 to 54% in 2018. Lundbeck was the primary influence here, with a 2018 gross margin of 81%, up from 78% in 2017.

Research and development (R&D) costs increased by 17% to DKK 3,673m (DKK 3,133m) driven by higher R&D costs at Lundbeck. Meanwhile R&D costs at ALK decreased by DKK 34m corresponding to 8% versus 2017.

Overall sales and distribution costs decreased to DKK 6,792m (DKK 7,243m) representing 20% of total revenue in 2018 (21%).

Administration costs amounted to DKK 2,949m, compared to DKK 3,560m in 2017, with the decrease largely attributable to Falck.

The Foundation's own net administration and operational costs amounted to DKK 104m, versus DKK 96m in 2017. The increase was mainly due to higher activity levels during 2018.

**REVENUE**

| DKKm | 2018 | 2017 |
|---|---|---|
| Lundbeck | 18,117 | 17,234 |
| ALK | 2,915 | 2,910 |
| Falck | 13,270 | 14,381 |
| **Total** | **34,302** | **34,525** |

Capacity costs in total thus amounted to DKK 13,414m, corresponding to a decrease of 4% versus 2017 (DKK 13,936m).

Operating profit before special items improved strongly to DKK 5,086m in 2018, versus DKK 3,837 in 2017. The increase was mainly attributable to Lundbeck and Falck which improved profitability by DKK 893m and 375m, respectively.

**OPERATING PROFIT BEFORE SPECIAL ITEMS**

| DKKm | 2018 | 2017 |
|---|---|---|
| Lundbeck | 5,301 | 4,408 |
| ALK | -96 | -80 |
| Falck | -18 | -393 |
| Lundbeckfonden | -103 | -96 |
| Other | 2 | -2 |
| **Total** | **5,086** | **3,837** |

Unlike last year, operating profit (EBIT) for the Group in 2018 was not affected by special items. Operating Profit (EBIT) therefore amounted to DKK 5,086m, versus DKK 2,191m in 2017.

Special items in 2017 included a DKK 1,646m impairment to goodwill at Falck's Ambulance business unit.

## INVESTMENT ACTIVITIES

Due to falling international equity markets, overall investment activities saw a loss of DKK 172m compared to a gain of DKK 2,187m in 2017. The Foundation's Ventures portfolio achieved a net gain of DKK 149m (DKK 753m), a result that was driven by listed portfolio companies.

Meanwhile, the financial investment portfolio generated a loss of DKK 325m (gain of DKK 1,433m).

## TAX

The reported tax rate amounted to 33% in 2018. The tax rate was in line with 2017 when adjusted for that year's non-deductible impairment of goodwill in connection with Falck's Ambulance business unit.

## DISCONTINUING ACTIVITIES

Discontinuing activities refers to Falck's Safety Services division and non-core activities in Healthcare which saw a profit of DKK 23m in 2018 (loss of DKK 79m).

## NET RESULTS AND GRANT DONATIONS

Overall 2018 profit for the Lundbeck Foundation Group was DKK 2,957m, versus DKK 2,032m in 2017. The Foundation's share of group profit was DKK 1,873m (DKK 1,700m).

During 2018, the Foundation awarded a total of DKK 571m (DKK 507m) in grants, which was in line with the total grant sum of DKK 3bn that was projected for the period 2014-2019. The grants are expected to meet or exceed the projected sum by the end of 2019.

## ASSETS

Total assets at 31 December 2018 amounted to DKK 55,410m versus DKK 53,886m at the end of 2017.

Intangible assets amounted to DKK 13,738m at year-end (DKK 14,120m), of which goodwill amounted to DKK 8,737m (DKK 9,014m).

Cash and bank balances at 31 December 2018, excluding discontinuing activities, amounted to DKK 5,647m (DKK 3,808m).

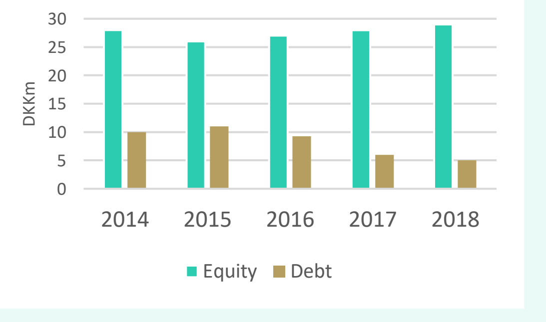
## EQUITY AND LIABILITIES

Total equity of the Group at the end of 2018 amounted to DKK 34,412m (DKK 32,708m) reflecting an increase of 5% during 2018.

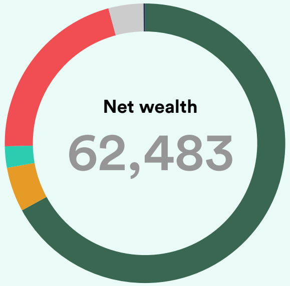
The Foundation's share of the equity increased to DKK 29,329m (DKK 28,142m).

At 31 December 2018, total debt to financial institutions etc. fell to DKK 5,467m (DKK 6,116m). The decrease was mainly attributable to Falck which repaid loans to the value of DKK 633m. The reduction of debt makes the Group financially even stronger.

**LUNDBECKFONDEN'S SHARE OF EQUITY AND DEBT TO FINANCIAL INSTITUTIONS ETC.**



## DISTRIBUTION OF NET WEALTH




## NET WEALTH

| DKKm | Value | Contribution to net wealth 2018 |
|---|---|---|
| Lundbeck | 39,200 | -2,967 |
| ALK | 4,308 | 987 |
| Falck | 3,422 | 1,820 |
| Invest | 13,716 | -463 |
| Ventures | 2,809 | 140 |
| Emerge | 174 | -1 |
| Grants, Admin, etc. | -1,146 | -624 |
| Net wealth | 62,483 | -1,108 |

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.

## CASH FLOW

Total cash flow from operating activities amounted to DKK 6,880m versus DKK 4,136m in 2017. The increase was primarily driven by Lundbeck which realised a cash flow from operating activities of DKK 5,981m (DKK 4,045m).

Cash flow from investment activities excl. purchase and sale of financial assets was an outflow of DKK 1,975m versus DKK 1,425m in 2017.

In 2018, the total cash flow from grants paid, net repayment of loans and dividends paid to non-controlling interests amounted to an outflow of DKK 1,589m (DKK 3,252m).

Net cash flow in 2018 amounted to an inflow of DKK 1,733m versus an outflow of DKK 173m in 2017. At the end of 2018, the Group's cash was DKK 5,654m versus DKK 3,939m at the end of 2017.

## NET WEALTH

Net wealth decreased by 2% to DKK 62,483m at 31 December 2018 (DKK 63,591m). Net wealth was negatively affected by a decrease in Lundbeck's share price of 9%. Adjusted for dividend payments, this reduced the Group's net wealth by DKK 2,967m.

## 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 development of products and similar factors at the portfolio companies.

For 2019, revenue is expected to decrease, reflecting Lundbeck's expectations for 2019. Furthermore, it is expected that Group operating profit will be lower than that achieved in 2018.

The expectations are based on the exchange rates prevailing at the end of January 2019.

## THE LUNDBECK FOUNDATION (PARENT ENTITY)

The Foundation's profit for the year amounted to DKK 13m versus DKK 708m in 2017. The result in 2018 is negatively affected by losses on investments totalling DKK 259m (gain of DKK 444m).

In total, grants awarded in 2018 amounted to DKK 571m, versus DKK 507m in 2017. Net grants amounted to DKK 567m (DKK 494m) in 2018 as grants of DKK 4m (DKK 13m) were reversed or repaid during the year. Subsequently, the carrying equity at 31 December 2018 amounted to DKK 7,706m (DKK 8,260m).

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 2018, 69% of the company's shares were owned by the Lundbeck Foundation.

In 2018, Lundbeck delivered the best-ever financial results in the company's history. The company saw continued solid revenue growth in all its geographical markets and delivered a strong improvement in its profitability.

Lundbeck also made progress with its early-stage pipeline in 2018, having moved three compounds from its research laboratories into the clinic. In addition, the company expanded its clinical phase II pipeline with the addition of foliglurax, for the treatment of Parkinson's disease, when Prexton Therapeutics BV was acquired in March. Despite the progress made, Lundbeck experienced a setback when the results of its late-stage asset being studied for treatment-resistant schizophrenia (Lu AF35700) showed disappointing results. This, combined with the loss of exclusivity on its leading brand, Onfi®, now demand that the company focus its attention on rebuilding its pipeline.

Dr. Deborah Dunsire took up the position as President and CEO of Lundbeck on 1 September 2018.

## STRATEGIC REVIEW: EXPAND AND INVEST TO GROW

The goals set in 2015 to restore profitability have been surpassed and today, Lundbeck operates a highly profitable business with solid cash flow generation and zero debt. Going forward, Lundbeck will focus on accessing opportunities to return to strong revenue growth and to achieve competitive returns in the mid- and long-term.

Lundbeck has conducted a strategic review to define the strategy to return to growth and deliver competitive returns over the coming years – building on the company's expertise in brain science and its financial resources. An important element of the new strategy is the expansion of the company's therapeutic scope to encompass a broader range of brain diseases, grounded in the areas where Lundbeck has unique skills and capabilities. The company will continue to maximise its current business through growing the strategic brands as well as capitalising on selected growth opportunities in the mature product portfolio.

In order to achieve sustainable growth, the internally generated pipeline will need to be supplemented with high quality assets from external sources. As part of the new strategy, Lundbeck will access this external innovation through in-licensing or acquisition as well as through strategic partnerships, always building on the company's competitive edge. The aim is to supplement the pipeline across all phases of development.

The focus on operational efficiency and cost discipline will not change for Lundbeck. Going forward, Lundbeck aspires to maintain an EBIT margin of at least 25% in the ordinary course of business but may adjust this for a period as the company executes on rebuilding the growth platform in the pipeline.

Revenue DKKm

**18,117**

Operating profit (DKKm)

**5,301**

Net profit (DKKm)

**3,907**

Number of employees

**5,060**

## FINANCIAL PERFORMANCE

### SALES

Revenue in 2018 increased 5% to DKK 18,117m (DKK 17,234m) driven by the positive developments in sales of Lundbeck's key products[1].

Sales continued to grow in North America, constituting 63% of Lundbeck's total revenue[2] (the same as in 2017). Overall, revenue from North America increased 1% to DKK 10,743m (DKK 10,673m), largely driven by the uptake of key products and offsetting the decline in sales of Sabril® (epilepsy) and Xenazine® (chorea associated with Huntington's disease), due to generic competition.

Revenue from International markets, which comprise all of Lundbeck's markets outside of Europe and North America, reached DKK 3,500m (DKK 3,406m). The increase of 3% was primarily driven by Abilify Maintena® and Brintellix®/Trintellix® which increased 23% and 26%, respectively. International markets constituted 20% of total revenue[2], which was the same as in 2017.

Revenue from Europe increased 6% and reached DKK 2,970m (DKK 2,805m). The increase was driven by positive developments in sales of Abilify Maintena® and Brintellix®/Trintellix®, both of which experienced solid growth rates of 21% and 46%, respectively. This growth was partly offset by the decline in sales of the mature products portfolio. Europe constituted 17% of total revenue[2], which was unchanged from 2017.

### OPERATING PROFIT

Total costs for 2018 decreased 2% to DKK 12,764m (DKK 13,068m) driven by lower cost of sales as well as lower administrative expenses, and sales and distribution costs, which were partly offset by an increase in research and development costs.

Cost of sales decreased 11% to DKK 3,448m (DKK 3,881m). This corresponds to 19% of total revenue, versus 23% last year. Sales and distribution costs decreased 7% to DKK 5,277m (DKK 5,649m) corresponding to 29% of revenue, compared to 33% in 2017. Administrative expenses decreased 9% to DKK 762m (DKK 833m), corresponding to 4% of total revenue in 2018 (5%).

Research and development costs increased 21% to DKK 3,277m (DKK 2,705m) with an R&D ratio of 18%, compared to 16% in 2017. The increase was impacted by additional costs related to Lu AF35700 as the programme in treatment-resistant schizophrenia is being closed.

Operating profit (EBIT) for 2018 reached DKK 5,301m (DKK 4,408m), which was an increase of 20%. As a result, the EBIT margin increased significantly and reached 29% in 2018 (26%).

### NET PROFIT

The effective tax rate for 2018 was 26% and decreased significantly compared to 2017 due to the reduced US federal tax rate. The effective tax rate is still higher than the Danish income tax rate due to amortisation on certain product rights, which is not tax deductible.

Net profit for 2018 increased by 49% and reached DKK 3,907m, compared to DKK 2,624m in 2017. This represented Lundbeck's best ever financial result.

Figures for 2017 are shown in brackets

1 Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Northera® (symptomatic neurogenic orthostatic hypotension), Onfi® (Lennox-Gastaut syndrome) and Rexulti® (depression/schizophrenia)

2 Excluding effect from hedging of DKK 242m (DKK -52m) and other revenue of DKK 662m (DKK 402m)

# 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.

2018 was the first year under the new strategy which was announced in December 2017. It was a year of strong progress, as ALK focused its efforts and resources on establishing positive momentum for the new strategy which is designed to broaden ALK's presence in the global allergy market and to stimulate a new era of growth for the company.

## A YEAR INTO THE THREE-YEAR TRANSFORMATION PERIOD (2018-2020)

The strategy implementation that spans three years has four key elements:

- Succeed in North America.
- Complete and commercialise the tablet portfolio for relevant ages.
- Patient engagement systems and adjacent business.
- Optimise and reallocate.

In **North America**, ALK has expanded its organisation to drive the growth of the sublingual allergy immunotherapy (SLIT)-tablets and other products. In January 2018, ALK launched its house dust mite tablet ODACTRA™ in the USA (ACARIZAX® in Canada), joining the already launched GRASTEK® and RAGWITEK® tablets. The house dust mite tablet is seen as the key to establishing the US tablet franchise, however, it is expected to take time to develop a market where subcutaneous allergy immunotherapy (SCIT) has traditionally been the dominant form of allergy immunotherapy (AIT).

A year ago, the company said its ambition was to **complete the tablet portfolio** for all relevant ages. The filing of the tree tablet and the launch of the Japanese cedar tablet, both in 2018, bring that reality a step closer. To reflect this progress, ALK has now updated this element of the strategy to 'complete and commercialise the tablet portfolio...' as the company's efforts increasingly address the various age and market-specific studies necessary to maximise the opportunity these products represent. Commercially, ALK saw strong launches for ACARIZAX® in 2018, including in the key market of France, along with evidence that this product can act as a trail-blazer for the wider tablet portfolio, bringing more patients into the allergist's office.

The tablets remain central to ALK's wider ambitions, and the company's efforts in **patient engagement systems and adjacent business** opportunities are a reflection of this. For a company with almost a century of allergy expertise, ALK is, however, under-represented and under-recognised when it comes to the overall experience of people who live with allergy. This part of the strategy is designed to address that shortfall, placing ALK at the centre of disease information and education, establishing a suite of products and services that make ALK synonymous with allergy solutions, and ensuring that the path to AIT treatment, for those who need it, is far smoother. Products such as those offered via the company's consumer platform klarify.me (launched in April 2018), and instant information tools such as the klara app are key to engaging more with people with allergy.

The final component of the transformational strategy is to **optimise and reallocate.** Here also, progress contributed strongly to the performance in 2018, through restored inventories and improved robustness in supply operations as well as a focus on the core strategic products, the ability to respond to increased demand for products such as Jext®, and company-wide savings that had a tangible effect on overall financial performance.

ALK begins 2019 on the right path, focused on delivering on the transformational strategy, and the ultimate goal of bringing allergy solutions for life to the millions of people who suffer in silence every day.

Revenue DKKm

**2,915**

Operating profit (DKKm)

**-96**

Net profit (DKKm)

**-170**

Number of employees

**2,341**

## FINANCIAL PERFORMANCE

### SALES

Revenue for 2018 increased slightly to DKK 2,915m (DKK 2,910m) which was significantly better than expected at the beginning of the year.

Revenue in Europe was unchanged at DKK 2,220m and was a key reason for significantly better than expected performance at the beginning of the year. SLIT-tablets performed strongly, with sales growth of 30% thanks to continued strong performances from ACARIZAX® and GRAZAX®. Sales of ACARIZAX® more than doubled, while GRAZAX® grew in the low double-digits. Overall, tablets saw solid growth in most European markets, with particularly strong sales in the region's most important market, France, as well as in the Nordic countries and the Netherlands. Together, SCIT and SLIT-drops sales decreased by 10% which was less than originally expected. The decline was largely due to product rationalisations and the consequences of the previous year's supply constraints. Sales of other products increased by 22%, primarily driven by 43% growth from ALK's adrenaline auto-injector (AAI), Jext®, which experienced a spike in demand due to supply issues in the AAI market.

Revenue in North America grew marginally in local currencies but exchange rates reduced reported revenues by 4% to DKK 583m (DKK 606m). The result reflected a mixed picture of increased sales from SCIT products which was counterbalanced by a decline in sales of tablets and other products. SLIT-tablet sales in North America were DKK 59m (DKK 72m) and were lower as a consequence of stockpiling at wholesalers in 2017, especially in Canada. Nevertheless, tablet sales in the USA grew by 29%. In absolute terms, sales remain modest, reflecting the nature of the US AIT market and the structural market barriers that ALK still needs to overcome. Sales of SCIT bulk allergen extracts to specialists and clinics grew 15% to DKK 270m (DKK 246m) while sales of diagnostics and other products declined 8%.

Revenue in International markets was up 41% in local currencies at DKK 112m (DKK 84m). The growth was mainly due to the strong development in tablet sales in Japan.

### OPERATING PROFIT

Cost of sales increased 1% to DKK 1,282m (DKK 1,268m). Gross profit of DKK 1,633m (DKK 1,642m) yielded a gross margin of 56% (56%), reflecting costs for compliance and efforts to build robustness in product supply as well as changes in the product mix.

Capacity costs increased by 2% to DKK 1,756m (DKK 1,724m) due to an increase in sales and distribution costs of 7% reflecting the commercial build-up in the USA, efforts to support ACARIZAX® launches, as well as the cost of developing patient engagement platforms. The higher sales and distribution costs were partly offset by a minor decrease in administrative expenses of 2% and a decrease in R&D expenses of 8% due to savings and the phasing of large-scale clinical trials.

Operating profit (EBIT) was DKK -96m (DKK -80m) and reflected strategic business investments in building the new growth platform, but also benefited from the capture of operational efficiencies and savings.

### NET PROFIT

Net financial items reflected a loss of DKK 7m (loss of DKK 42m) mainly due to net interest expenses. Tax on the result for the year totalled DKK 67m (DKK 36m) and net profit was a loss of DKK 170m compared to a loss of DKK 158m in 2017. The negative effective tax rate is a result of the current geographical distribution of income.

Figures for 2017 are shown in brackets

# FALCK A/S

Founded in 1906, Falck is a market leader in emergency response and healthcare services with strongholds in the Nordics, the US and Colombia. Globally, Falck operates across 31 countries and employs more than 32,000 people. The Lundbeck Foundation owns 57% of Falck.

2018 was the first full turnaround year for Falck, and the company focused entirely on restoring profitability while improving its competitive edge. Falck managed to improve profitability and cash collection in 2018 and divested several non-core activities, which allowed the company to reduce its debt while focusing on its business and building global operating models. All of this to enable Falck to further develop its business, improve services to customers and enhance its industry leadership, now, and in the years to come.

## COST BASE REDUCED BY MORE THAN DKK 500M

In 2017, Falck initiated an ambitious, group-wide efficiency and cost optimisation programme. The goal was to reduce the cost base by DKK 500m with full run-rate effect in 2019, in support of Falck's overall goal of restoring profitability. In 2018, a total of 2,371 improvement and cost-out initiatives were identified, of which 2,084 were implemented during the year. The remaining 287 initiatives are in progress and are expected to be implemented during the first half of 2019.

In total, the programme increased profitability by DKK 312m in 2018 and, by the end of the year, the programme had improved Falck's run-rate by more than DKK 500m with full effect from 2019. The efficiency programme continues through 2019, and Falck's renewed ambition is to reduce the cost base by an additional DKK 500m compared to 2018 and with full run-rate effect in 2020.

## UNLEASHING GLOBAL POTENTIAL

The current focus on restoring profitability and generating cash flow will allow Falck to fund the journey to become an undisputed global leader in emergency response and healthcare services. The strategic levers for the coming one-to-two years are three-fold and are aimed at:

- Improving efficiency and optimising cost.
- Becoming ONE Falck.
- Ensuring high employee engagement levels.

Falck holds an **efficiency and cost optimisation** potential following several years of acquisitional growth while failing to integrate its local business models. By eliminating complexity and unnecessary costs, the company will continue to optimise operations, reduce overhead costs and establish robust procurement processes across its business.

**ONE Falck.** To leverage its scale, Falck is building global operating models for its business units and staff functions. Significant investments are being made in implementing standardised core processes and shared IT systems in the Ambulance, Assistance and Healthcare businesses as well as in Finance, IT and HR. In 2018, Finance, IT and HR changed their operating models from being local to global functions and initiated the outsourcing of transactional finance processes and IT infrastructure.

In addition, several group-wide policies as well as a revised Code of Conduct have been put in place and organisational alignment is being enforced across Falck.

People are at the core of Falck's business. Trained employees deliver Falck's services efficiently, reliably and with care for patients. **High engagement** levels benefit the services delivered and, ultimately, Falck's customer satisfaction and financial performance.

Revenue (DKKm)

**13,270**

Operating profit (DKKm)

**-18**

Net profit (DKKm)

**-528**

Number of employees

**24,676**

## FINANCIAL PERFORMANCE

### SALES

In 2018, revenue amounted to DKK 13,270m (DKK 14,381m). Reported revenue growth was negatively impacted by DKK 972m due to changes to revenue recognition requirements under the new IFRS standards. Adjusted for these, revenue decreased by 1%.

Activity levels increased in a number of markets in Ambulance, and weather conditions contributed to increased revenue in Assistance's pay-on-use business. Falck's focus on exiting unprofitable businesses and pruning the contract portfolio in general accounted for the revenue loss. In Ambulance the revenue loss was primarily related to existing contracts in Sweden and Finland, in Assistance it was related to discontinuation of damage control and alarm services in Denmark, and in Healthcare to exiting a number of smaller contracts.

### OPERATING PROFIT

Operating expenses decreased by 11% to DKK 12,465m (DKK 13,928m). The reported decrease was primarily due to new IFRS standards, but the comprehensive efficiency and cost optimisation programme also had a positive impact.

In 2018, the efficency programme resulted in DKK 312m in total savings. Ambulance contributed DKK 153m, driven by re-negotiated contracts in Denmark, reduced overhead costs and operational optimisation. Assistance contributed DKK 105m, driven by increased use of franchise takers and sub-contractors, improved utilisation of call centres and optimisation of the network of Falck stations. In addition, effective price management in the subscription-based business-to-consumer portfolio had a positive impact. The Healthcare business proved to be more challenged than anticipated due to declining performance which outweighed the positive impact from efficiency and cost optimisation initiatives of DKK 48m.

Operating profit (EBIT) was negative by DKK 18m compared to a loss of DKK 2,039m in 2017 which was affected by impairment loss on goodwill of DKK 1,646m related to Ambulance. Operating profit in 2018 was adversely impacted by restructuring and transformation costs in the form of write-downs of assets and increased costs related to implementing global operating models, primarily in IT and Finance, resulting in non-recurring costs of DKK 398m in total.

### NET PROFIT

Profit for the year from continuing operations was negative by DKK 551m (loss of DKK 2,424m), impacted by net financial items of DKK -493m (DKK -305m).

Profit for the year, including Falck's discontinued operations, was negative by DKK 528m (loss of DKK 2,503m).

Figures for 2017 are shown in brackets

# FINANCIAL INVESTMENTS (INVEST)

Invest generates returns with the primary purpose to secure sufficient reserves to protect the long-term holding of our subsidiaries and to maintain our grant-making activities. The financial investments are divided into a diversified investment portfolio and long-term anchor investments in single companies.

2018 began strongly for Invest with global equity markets up more than 5% in January. However, this gain was reversed by a sharp correction in February. Risk appetite subsequently returned gradually to the financial markets which were encouraged by strong company earnings releases in Q1 and Q2 until markets saw a further 14% correction during Q4 due to nervousness over the trade war between China and the USA and worries about a potential slowdown in global growth. Rising interest rates and spread-widening negatively impacted bonds and credit returns and few assets delivered positive returns over the full year, making this one of the financially worst performing years since the financial crisis of 2008.

## NEGATIVE RETURN DRIVEN PRIMARILY BY LISTED EQUITIES

The Foundation's financial investments generated a return of DKK -454m in 2018 (DKK 1,405m), which equates to -3.3% (10.1%). Given the backdrop of challenging market conditions and the low single-digit negative return on global equities, along with negative returns from major asset classes, the result was deemed to be acceptable.

Listed equities generated a return of DKK -555m, corresponding to a return of -4.0%. A significant proportion of this came from the Foundation's investment in FLSmidth & Co., which returned DKK -324m, or -16.2%. Financial stocks had the largest negative impact on results, while technology stocks made the largest positive contribution.

Private equities and credits generated returns of DKK -22m and DKK 43m, corresponding to -2.6% and 2.5%, respectively. Private equity was negatively impacted by legacy biotech funds.

Real assets, including the property company Obel-LFI Ejendomme A/S and the new woodland investment in LFI Silva Investments A/S, contributed the most in relative terms, and generated a return of 6.3%, equivalent to DKK 52m.

In 2018, the expense ratio (including management fees) decreased to 0.18% (0.19%) of the invested capital, due to lower internal performance compensation.

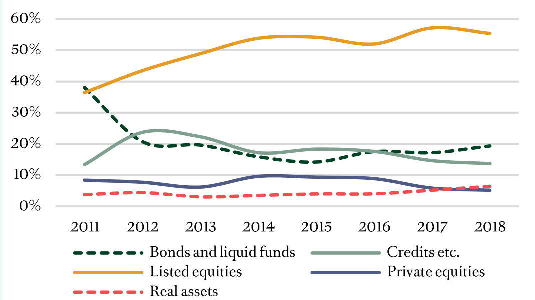
## INCREASINGLY DEFENSIVE INVESTMENT STRATEGY

Monetary policy normalisation continued in 2018 with the US Federal Reserve increasing its target interest rate, while the European Central Bank will begin to wind down its bond-buying programme during 2019. Overall, the macro-environment for investments worsened during 2018, and the geopolitical situation intensified. This in combination with assets generally being expensive caused the Foundation to adopt a more defensive investment strategy. Consequently, assets allocation has been changed towards less cyclical assets.

While 2018 ended on a negative note, the long-term results for Invest remained strong with returns of 5.0% and 8.9% over three and five years, respectively, which is well ahead of the benchmark. This provides 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.

### ASSET ALLOCATION OF THE INVESTMENT PORTFOLIO

Percent of portfolio




### INVESTMENT PORTFOLIO

| Assets | Market value (DKKm) 31.12.18 | Market value (DKKm) 31.12.17 | Return (%) 2018 | Return (%) 2017 |
|---|---|---|---|---|
| Bonds and liquid funds | 2,653 | 2,345 | -1.2% | -1.5% |
| Credit etc. | 1,876 | 1,996 | 2.2% | 13.7% |
| Listed equities | 7,596 | 7,797 | -4.0% | 11.0% |
| Private equities | 709 | 797 | -2.9% | 18.1% |
| Real assets | 882 | 707 | 6.3% | 24.1% |
| **Total** | **13,716** | **13,642** | **-3.3%** | **10.1%** |

Figures for 2017 are shown in brackets

# LUNDBECKFONDEN VENTURES

Lundbeckfonden Ventures is the Foundation's evergreen venture fund investing in international life science with a focus on the development of innovative new medicines in areas of high unmet medical need.

In 2018, Ventures invested in one (three) new company: Reneo, a San Diego-based biotech company with a clinical development programme aimed at fighting genetic orphan diseases associated with deficits in cellular metabolism and energy production. Reneo raised a total of DKK 325m in 2018.

During the year, one (four) company, Acacia Pharma, completed an IPO via the Euronext Brussels stock exchange, generating approx. DKK 300m in the process.

Portfolio company Enterome entered into a global licensing, co-development and co-promotion agreement with Takeda for the drug EB8018 to treat patients with Crohn's disease, for which it received an upfront payment of DKK 325m and a commitment from Takeda to make a future equity investment in the company. Enterome is also eligible to receive up to DKK 4.2 billion for achieving specified clinical development, regulatory and commercial milestones with EB8018.

## VELOXIS PHARMACEUTICALS A/S

The portfolio's largest investment is in Veloxis, a specialty pharmaceutical company committed to improving the lives of organ transplant recipients. The Lundbeck Foundation owns 41.2% of Veloxis, which is traded on OMX NASDAQ Copenhagen.

The company's main product is ENVARSUS® for the prevention of organ rejection in kidney transplant recipients. ENVARSUS® has similar efficacy to its competitor products while offering a superior side-effect and pharmacokinetic profile.

In April, the US Food and Drug Administration (FDA) accepted a supplemental New Drug Application to extend the indication of ENVARSUS® to cover de novo kidney transplant recipients. This application was successfully approved in December.

"By the end of 2018, the Ventures portfolio companies employed more than 500 people. Historically these companies have raised more than USD 1.5 billion in funding, conducted 75 clinical trials involving more than 15,000 participants, and treated approx. 40,000 patients with marketed products. This illustrates that the impact of our investments reaches far beyond the purely financial."

**METTE KIRSTINE AGGER**
Managing Partner, Ventures

In 2018, Veloxis' net revenue was USD 39.5m (USD 30.2m), an increase of 31% versus 2017. Over the same period, Veloxis recorded an operating profit of USD -5.8m for 2018 (USD -8.4m).

## FINANCIAL RESULTS

In 2018, Ventures' investments in new and existing companies, amounted to DKK 194m (DKK 406m). The net return for the year was DKK 149m (DKK 753m).

The fair market value of the current portfolio equated DKK 2,969m at the end of 2018 (DKK 2,764m).

## AN ACTIVE INVESTOR

As an active investor, the Foundation is represented on the Board of Directors of the portfolio companies and adds value to the companies through the Ventures team's extensive operational experience, gained in the healthcare industry, and its international financing syndication network.

At the end of 2018, the Ventures portfolio comprised 18 (19) companies. Half of these, nine (eight), are based in the USA, and one-third, six (five), are public companies. The complete portfolio is listed on the following pages.

Figures for 2017 are shown in brackets

### ACACIA PHARMA (ACPH:EURONEXT)

In 2018 Acacia Pharma completed an IPO via Euronext Brussels and re-filed its New Drug Application (NDA) in the US for its post-operative nausea and vomiting drug BARHEMSYS™. The refiling was made after its API supplier re-filed a corrective and preventive action report to address their FDA inspection remarks. The FDA's new review deadline for the NDA submission is 5 May 2019.

### AMPLYX

Amplyx has initiated a Phase II study of APX001, a broad-spectrum antifungal drug with a novel mechanism of action, in Candidemia infection. During 2018, Amplyx published preclinical data for APX001 which showed activity against the hardest to treat *Candida* species (*C. Auris and C. Glabrata*) and rare moulds as well as demonstrating eye and brain penetration.

### ATOX BIO

Atox Bio is in Phase III trials with the immuno-modulator Reltecimod™, to treat critically ill patients who have necrotising soft tissue infections, a rare, life-threatening infection for which no current therapy exists. In 2018, an Independent Safety Monitoring Committee recommended the continuation of the trial after a planned review of the 200 first patients. This year the company also started a randomised, placebo-controlled Phase II study in acute kidney injury (AKI) aiming to enrol 120 patients with abdominal sepsis and stage 2/3 AKI.

### AURA BIOSCIENCES

Aura is studying the light-activated AU-011, in a Phase Ib/II study for the treatment of patients with choroidal melanoma. With this new class of therapy, Aura is attempting to target and destroy cancer cells selectively, while leaving surrounding tissue unharmed. During 2018 it was reported that multiple doses of AU-011 were well-tolerated, with vision preserved at 12 to 18 months, and that the disease was stable in all patients at three months.

### BIOM'UP (BUP:EURONEXT)

Biom'up is developing a new generation haemostatic product, HEMOBLAST™, a bellows laparoscopic applicator. During 2018 Biom'up launched the product in the US and also obtained a CE conformity mark for HEMOBLAST™.

### BONESUPPORT (BONEX:OMX)

Bonesupport markets and sells CERAMENT®, an injectable bone void filler that rapidly remodels into bone, in Europe and the USA, as well as CERAMENT® loaded with the antibiotics gentamicin or vancomycin in Europe. During 2018, Bonesupport recruited a new CEO, terminated its US legacy distribution agreement and established its own US commercial platform. To this end, two complementary products - a collagen matrix bone graft substitute and a demineralised bone matrix – were in-licensed for the US market.

### CYDAN

Cydan operates as an orphan drug accelerator, identifying and qualifying drug candidates targeting orphan and rare diseases, and forming stand-alone companies and strategic partnerships for such drug candidates.

### DYSIS MEDICAL

DYSIS develops and markets next-generation colposcopes for the 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 a live image of the cervix to help identify the most relevant biopsy sites. During 2018, DYSIS raised GBP 18m to accelerate its growth and also hired a new CEO.

### 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 2018, Enterome raised EUR 32m and struck a co-development agreement with Takeda for EB8018 in Crohn's Disease for a USD 50m upfront payment.

**IMARA**
Imara, a Cydan-created company, is developing novel oral treatments for sickle cell disease and other haemoglobinopathies. During the year, Imara appointed a new CEO and dosed the first sickle cell disease patients with IMR687 in a Phase II clinical trial.

**PSIOXUS THERAPEUTICS**
PsiOxus is developing novel therapeutics based on its platform of tumour-targeted delivery of oncolytic vaccines that can be administered systemically, and which replicate in and kill cancer cells, but not normal cells. During 2018, PsiOxus and the Parker Institute for Cancer Immunotherapy announced a joint research project to investigate the use of PsiOxus' virus-based gene therapy for treating solid tumours that have historically been resistant to immunotherapy. PsiOxus also started Phase I trials with NG-348.

**RENEO**
Reneo is a clinical-stage pharmaceutical company focused on the development of therapies for patients with genetically-defined orphan diseases. Many of these orphan diseases are associated with deficits in cellular metabolism and energy production. Reneo's goal is to improve the quality of life and daily function of patients suffering from these diseases.

**SANIFIT**
Sanifit is developing SNF472 for the treatment of cardiovascular diseases linked to calcification in end-stage renal disease (ESRD) patients undergoing haemodialysis. During the year, the company reported that SNF472 met all endpoints in a Phase II study in the orphan disease calciphylaxis, and completed recruitment for a Phase II study targeting a reduction in the progression of cardiovascular calcification in ESRD patients.

**SCPHARMACEUTICALS (SCPH:NASDAQ)**
scPharmaceuticals has a aproprietary exclusively licensed device technology that enables the subcutaneous administration of parenteral drugs. In 2018, the FDA asked the company to conduct additional human factors studies and a dose delivery validation study with the recently modified FUROSCIX Infusor, before it would accept an NDA covering subcutaneous delivery of the diuretic furosemide. The FDA has not requested any additional clinical trials.

**SPERO THERAPEUTICS (SPRO:NASDAQ)**
Spero has a pipeline of novel treatments for bacterial infections. In 2018, the company announced positive clinical results from the potentiator platform and its oral carbapenem, SPR994, and received a USD 54m grant from the US Biomedical Advanced Research and Development Authority. The company also completed a secondary offering which generated USD 75m.

**TREVI**
In 2018, Trevi initiated a phase IIb/III clinical trial of nalbuphine extended release for the treatment of pruritus in prurigo nodularis. This is an intensely pruritic dermatologic condition characterised by unsightly and itchy skin papules and nodules. There is no approved treatment for this indication in Europe or the USA.

**VELOXIS (VELO:OMX)**
Veloxis is a specialty pharmaceutical company committed to improving the lives of transplant patients. Veloxis is three years into the launch of its transplant anti-rejection medicine ENVARSUS® in the USA and in Europe where it partners with Chiesi (see page 17).

**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. VHsquared is in Phase IIa trials 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.

In 2018, Emerge made significant progress with developing its existing portfolio companies. NMD Pharma completed one of Scandinavia's largest Series A venture financing rounds, while IO Biotech and Afyx Therapeutics (formerly Dermtreat) both initiated Phase II clinical trials. Overall, the direction of the portfolio is considered positive and the Foundation will continue its work to develop strong companies based on Danish research so that they can attract further investments and bring innovation to the market.

## DEVELOPING THE PORTFOLIO

### NMD PHARMA

The company develops new, innovative medical treatments for rare neuromuscular diseases such as myasthenia gravis, and reversal agents for neuromuscular blockade in post-surgical settings, based on world-leading electrophysiology science from the University of Aarhus.

In 2018, the company was successful in raising DKK 280m via Series A financing, which attracted Inkef Capital and Roche Ventures. This round, one of the largest European series A rounds of 2018, will enable NMD Pharma to further develop its programmes towards clinical proof of concept.

### IO BIOTECH

IO Biotech develops disruptive immune therapies. These are cancer vaccines that recruit the immune system to target cells expressing so-called checkpoints, and in so doing engages the immune system to directly target the cancerous cells. 2018 was transformative for IO Biotech, with the initiation of a Phase II clinical trial in non-small-cell lung cancer. This study, along with platform developments, is designed to prove the concept of their new approach to treating challenging diseases.

### AFYX THERAPEUTICS

Afyx (formerly 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 through the mucosa. The company has initiated a significant Phase II clinical study of Rivelin and developed new pipeline programmes to treat diseases of the mucosa. The first product candidate targets oral lichen planus (OLP), for which there is currently no licensed treatment, by incorporating the drug clobetasol propionate into the Rivelin patch.

### SNIPR BIOME

The Foundation's first Exploratory Investment has expanded its platform technology and is en route to becoming a significant new Copenhagen-based biotech company. The company has established its new domicile in Copenhagen and is well on the way to unlocking the potential of its powerful CRISPR technology and develop new human therapeutics.

### FOLIUM FOOD SCIENCE

Based on an Exploratory Investment, Folium Food Science uses CRISPR technology to selectively manage microbial and bacterial populations to enhance soil, animal, plant and human health in the agriculture, food and beverage industries. Folium has developed a unique value proposition based on the premise that securing future global food supplies will require important innovations from farm to fork.

### INSUSENSE THERAPEUTICS

The company develops novel, innovative medical treatments for type-2 diabetes, based on world-leading research into the role of the sortilin family of proteins. The company, based in Aarhus, made significant scientific progress during 2018.

## EXPLORATORY INVESTMENTS DOING THEIR JOB

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. The 2018 results in the first companies that has received Exploratory Investments, demonstrated the value of this investment tool as a complement to Emerge's other, later-stage investments,

## FINANCIAL RESULTS

The net return for the year was DKK 4m (DKK 1m). The fair market value of the current portfolio was DKK 174m (110m) at the end of 2018.

# GRANTS & PRIZES

In 2018, the Lundbeck Foundation launched the three pillars under which the Foundation will implement the updated strategy which was announced in 2017. The strategy which is centred around neuroscience aims to ensure that Denmark fosters talented scientists spanning the field of biomedical research and thereby enabling Denmark to develop into one of the world's leading brain research nations.

Total grants (DKKm)

**571**

Number of grants

**355**

Support for brain research (DKKm)

**441**

Number of full time employees funded

**755**

The total grant sum of DKK 571m marked a significant increase over 2017 (DKK 507m) and was the highest amount awarded in a single year in the history of the Foundation.

In 2018, the Foundation continued its support for outstanding biomedical research with an even stronger commitment to neuroscience. A total of DKK 228m was awarded to projects focused on two themes: 'What causes brain disease?' and 'How do we best advance personalised medicine for brain diseases?'.

## THE GRANT STRATEGY

The 2017 grant strategy will be implemented under the heading 'People, Projects and Prizes'.

***People*** focuses on talent and career advancement. The aim is to identify the best scientists with the most innovative ideas, and to give them the opportunity to develop their own research ideas and individual research careers with projects focusing on biomedical and health-related research questions. The People programme comprises four funding instruments:

- *LF Postdocs* applies to postdocs in Denmark, encouraging young Danish scientists to travel abroad and attracting young scientists from abroad to Denmark.
- *LF Fellows* focuses on talents, both in Denmark and abroad, who wish to establish or expand their own research team in Denmark.
- *LF Ascending Investigators* focuses on outstanding scientists, at associate professor level in particular, and includes researchers in clinical positions at the same level.
- *LF Professors* focuses on the very best international and Danish neuroscience researchers and on building up excellent research environments around these people in Denmark.

***Projects*** focuses on major, interdisciplinary neuroscience undertakings and unorthodox, ground-breaking ideas which challenge current dogma in the field of neuroscience-focused biomedicine.

The Projects programme comprises two funding instruments:

- *LF Collaborative Projects,* focusing on projects involving collaboration between research teams within Denmark or between Danish and international research teams. These are usually interdisciplinary neuroscience research projects which seek to understand or solve a complex issue.
- *LF Experiments* focuses on funding bold, ground-breaking research ideas which might not be given a chance in application programmes that are subject to traditional peer review. This funding instrument encourages scientists to challenge current dogma with the aim of changing the way we view the world.

***Prizes*** is an important instrument for acknowledging and celebrating outstanding scientists. The Brain Prize continues to be the Foundation's principal, international flagship prize. The Talent Prizes and the Lundbeck Foundation Research Prize for Young Scientists have been strengthened by increasing their monetary value (from 2019).

## NEW EXPERT PANELS

The Foundation has established two new expert panels to evaluate biomedical applications.

*The Grants and Prizes Panel* comprises the three board members - professors Gunhild Waldemar (chairman), Susanne Krüger Kjær and Michael Kjær - and three external members: professors Ray Dolan (University College London, Brain Prize winner 2017), Monica di Luca (University of Milan, President of the European Brain Council) and Daniel Wolpert (Columbia University, USA). The panel is tasked with evaluating applications for LF Fellows, LF Professors and LF Collaborative Projects and recommends grants to the Board of Trustees.

*The Talent Panel* comprises 15 external members. The panel is chaired by Professor Mart Saarma (University of Helsinki) (chairman) and Professor and Deputy Dean Sven Frøkiær (University of Copenhagen) (vice chairman). The Talent Panel evaluates applications for LF Postdocs, LF Ascending Investigators and LF Experiments and, in compliance with the grant mandate issued by the Board of Trustees, makes the decisions on these grants.

## RESEARCH PRIZES

### The Brain Prize

The Brain Prize 2018 was awarded to four scientists: Bart De Strooper from Belgium, Michel Goedert from Luxembourg, Christian Haass from Germany and John Hardy from the UK for '*their groundbreaking research on the genetic and molecular basis of Alzheimer's disease, with far-reaching implications for the development of new therapeutic interventions as well as for the understanding of other neurodegenerative diseases of the brain*'.

### Brain Prize outreach activities

The outreach programme has been expanded to include agreements for Brain Prize Lectures at the annual and biennial meetings of the European Academy of Neurology, the Japan Neuroscience Society and the British Neuroscience Association. Specific activities comprised:

- Brain Prize Lectures at the biennial meeting of the Federation of European Neuroscience Societies (FENS) in Berlin
- A Brain Prize Lecture at the annual meeting of the Japan Neuroscience in Kobe
- Prize Lectures at The Royal Society in London and a public lecture at the Royal Institution in London
- Brain Conferences in collaboration with FENS
- The Brain Prize Meeting at Hindsgavl Castle, Denmark

### Strengthening outreach to the public

The Foundation has agreed to sponsor the world's leading web resource for neuroscience, brainfacts.org, with around DKK 4.5 million over the next five years to further develop their website, which was originally launched by the Society for Neuroscience, the Kavli Foundation and the Gatsby Foundation. Thus, the Foundation joins a select group of foundations and institutions devoted to promoting and supporting this important resource on brain research. The website has eight million users contains millions of videos and articles sharing knowledge about the brain in an enthusiastic and accessible manner.

### Honorary prizes for young scientists

Honouring young scientists remains a strong priority for the Foundation, and honorary prizes are awarded annually to promising, Denmark-based, young scientists who have conducted outstanding research in the field of biomedical science.

In 2018, Ane B. Fisker, doctor and senior researcher at Statens Serum Institut and associate professor at the University of Southern Denmark, was awarded the DKK 300,000 Lundbeck Foundation Research Prize for Young Scientists, while the Foundation's talent prizes of DKK 100,000 each, for promising young researchers under the age of 30, were awarded to Thor Haarh, PhD student, Flemming Javier Olsen, MD, and Hjalte Holm Andersen, PhD.

### Strategic and thematic grants

A new, first of its kind centre, 'Lundbeck Foundation Centre for Disease Evolution' was established at The University of Copenhagen in 2018. The centre will focus on learning from ancient European genomes and how, in particular, psychiatric and neurological diseases have developed over the last 10,000 years, taking into account how infections, including epidemics as well as general living conditions, have influenced people's lives over the same period.

The centre, which has been granted DKK 60m over six years, will be headed by Professor Eske Willerslev and Professor Thomas Werge who will work with a team of leading researchers from other universities in Europe and the USA, including the University of Cambridge in the UK, and University of California Berkeley in the USA.

The Foundation received 113 applications in response to its two thematic calls 'What causes brain disease?' and 'How do we best advance personalised medicine for brain diseases?'. Eight projects (DKK 10m or less) and four large projects (DKK 10-20m) received grants under the first theme, while five projects (DKK 10m or less) and one research alliance (DKK 40m) received grants under the second.

### Promoting careers

Five new Lundbeck Foundation Fellows each received a personal research stipend of DKK 10m. This was the 12th time the Foundation awarded such fellowships and, as always, the recipients were promising young researchers, with international experience, and well-established in their own fields. The LF Fellows will have a unique opportunity to conduct targeted and concentrated research over a five-year period and, at the same time, build up a research team and grow as research leaders.

### Science education and science communication

In 2018, the Foundation granted support both for projects that communicate science and its results to a broader public in the form of, e.g., books, meetings and documentaries, and to projects that aim to inspire pupils and students in science- and technology-related school subjects, as well as research projects on science education and the education of science teachers.

# RISK MANAGEMENT

The Lundbeck Foundation's risk management framework provides 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 may face.

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 there is a strong governance framework in place to cover 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 what it considers to be an acceptable level.

There are several types of potential risk, including: operational, business and market 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 potential 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 could potentially pose a threat to the Foundation. A key priority is to ensure that no single risk has the ability to materially damage the Foundation, and that the Foundation is able to continue its operations and strategy, should any 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 that have been identified are presented in the table on page 25, together with details of the mitigation measures that have been put in place.

### 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 teams 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 outlined by each of the subsidiaries in their own annual reports.

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

### RISKS RELATED TO PORTFOLIO INVESTMENTS

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

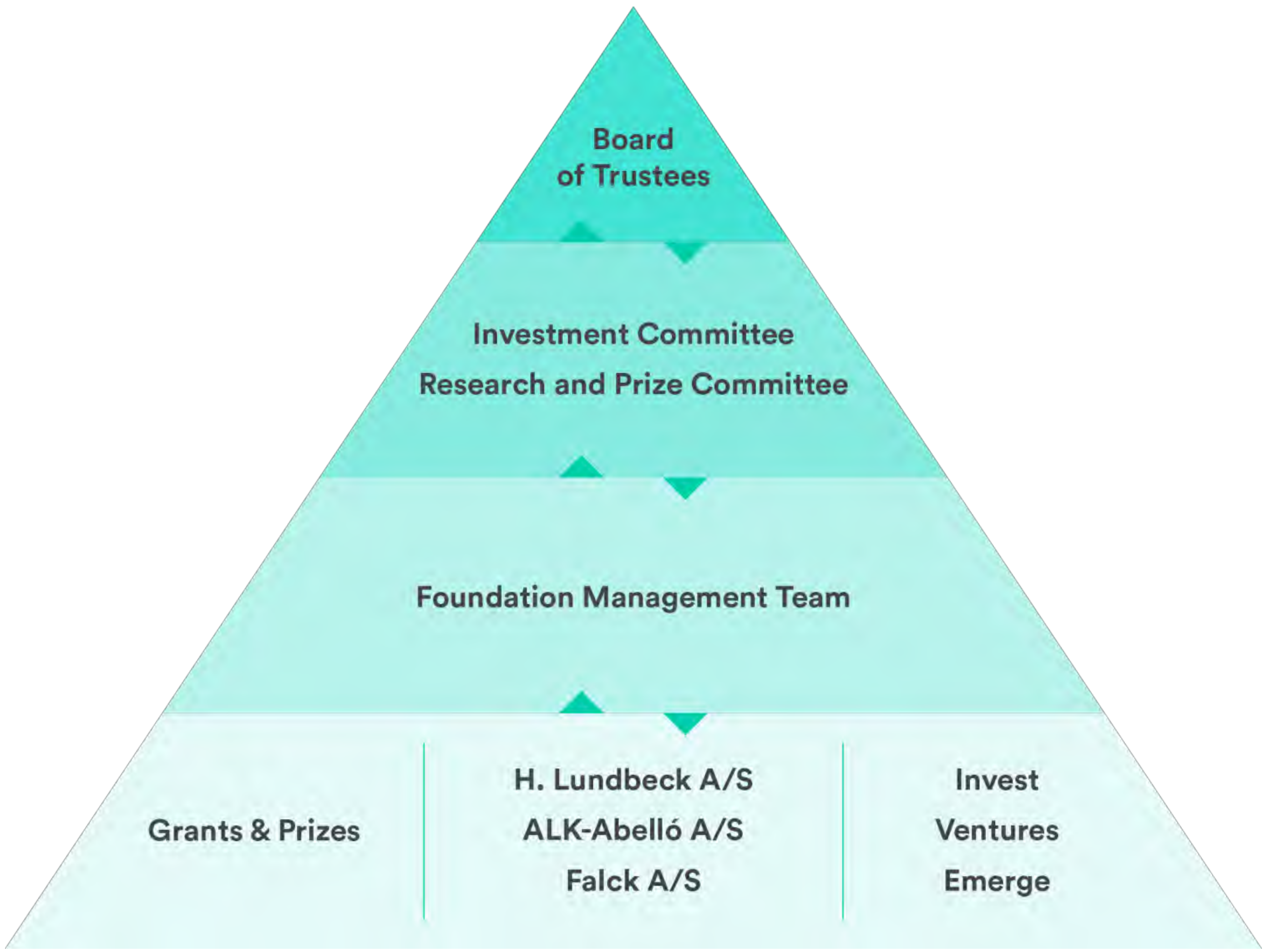
The Foundation manages the market risk of its portfolio investments by having limits for its exposure to individual asset classes and their underlying assets. This policy covers the whole portfolio, including investments by Ventures and Emerge.

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 counter-party requirements.

Weekly portfolio performance reports are prepared for the CEO and detailed monthly reports are 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. No investments have been identified as being in violation of the ESG policy. An ESG report is approved by the CEO and the Investment Committee twice a year.

## RISK REPORTING AND MANAGEMENT



## RISKS AND MITIGATION

| RISK | CONTEXT | MITIGATION |
|---|---|---|
| 1. Distress in subsidiaries<br>Subsidiaries account for 75% of the Foundation's total net wealth | Poor performance by subsidiaries, ultimately resulting in value destruction of the Foundation's shareholdings in the companies | • Active ownership with a focus on:<br>– The overall strategy and key activities<br>– Board and executive management composition to ensure the right competencies<br>– A sound capital structure to support the strategy<br>– Good governance with delegation of duties<br>– Representation on the boards |
| 2. Research and development risk in pharmaceutical subsidiaries | Lack of a successful pipeline in pharmaceutical subsidiaries will limit long-term growth in the companies and result in value destruction | • High quality research and development with a focus on:<br>– New innovative drugs in areas with unmet medical needs<br>– Ongoing evaluation of the product pipeline, regulatory requirements and product benefits<br>• Active involvement through:<br>– Board and executive management composition to ensure the right competencies<br>– Representation on the scientific committees in the subsidiaries<br>– A sound capital structure to support research and development |
| 3. Financial market crisis effect on portfolio investments<br>Portfolio investments account for 20% of the Foundation's total net wealth | Financial losses due to financial turmoil and possible economic recession | • Diversified portfolio<br>• Close monitoring of risks in portfolio<br>• Limits on market and concentration risk through investment policy<br>• Dynamic hedging and continuous adjustment of portfolio |
| 4. Ventures and Emerge – loss on investments<br>Ventures and Emerge account for 5% of the Foundation's total net wealth | Unsuccessful development and/or commercial failures of portfolio companies | • Close monitoring of risks in the portfolio and active participation on boards<br>• Diversified investment in a broad portfolio of life science companies<br>• Understanding the risk in portfolio companies and investing in tranches |
| 5. Misuse of the donated grants | Fraud or scientific misconduct by grant recipients | • Transparent grant allocation processes<br>• Peer reviews with external scientists<br>• Status reports and budget follow-ups<br>• Code of Conduct signed by grant recipients |
| 6. Geographical exposure to the US<br>Group exposure to the US market is estimated at 50% | Exposure to the US through subsidiaries and portfolio investments | • Ongoing monitoring of US exposure<br>• Hedging against exchange rate risk (USD) in subsidiaries and financing of companies in USD<br>• Lower relative exposure to the US in the Foundation's portfolio investments |
| 7. Price pressure in the healthcare sector<br>Group exposure to healthcare accounts for 75% | Regulation or market dynamic that lowers the prices for drugs | • Limit on exposure to pharmaceutical companies in the Foundation's investment portfolio<br>• Focus in pharmaceutical subsidiaries on:<br>– Innovation and generating strong clinical data<br>– Cooperation with healthcare authorities to document the value of the companies' pharmaceuticals<br>– Stringent process for managing 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 society through its investments in business and science at the frontiers of their fields.

As an international player with a broad range of investment activities and grants, 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 and is the only private industrial Foundation in Denmark to do so. Consequently, the Compact's 10 principles form the general framework upon which the Foundation's approach to CSR is based.

The UN Sustainable Development Goals address the global challenges, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. The goals aim to set the world on a course for a more sustainable future by 2030. The Foundation wants to do its part and will, during 2019, explore the possibilities of addressing a range of selected Sustainable Development Goals. While there is an obvious and immediate connection to the goals that are connected to science, health and education, the Foundation will also look to expand its focus to include the goals related to commercial activities and partnerships.

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 on human rights, climate change, environmental impact and codes of conduct. Lundbeck and Falck have signed up to the UN Global Compact, whereas ALK follows 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 Foundation is currently working on a diversity policy which is expected to be reviewed and approved by the Board of Trustees in 2019.

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').

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, three are men and three are women.

The Foundation has also ensured that all subsidiaries which fall under the requirements for the reporting classes 'large C' or 'D' have set gender-balance targets for their top management teams.

Furthermore, the Foundation's subsidiaries have reported on their individual targets in their own 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, H. Lundbeck A/S, ALK-Abellò A/S and Falck A/S.

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

## LEARN MORE ABOUT CSR AT 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 Lundbeck 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 both the Board of Trustees of the Lundbeck Foundation and the Boards of Directors of all subsidiaries of the Foundation operate with a majority of independent members. Furthermore, according to the Foundation's Rules of Procedure, no present or former senior employees of either the Foundation or its subsidiaries can become members of the Board of the Foundation or the Boards of Directors of the subsidiaries.

This ensures checks and balances through a high degree of independence which is of particular importance for a foundation which by design is not under control of any legal 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:

- Decide the Foundation's strategy
- Make all decisions of major significance or of an exceptional nature
- Make final decisions on the allocation of grants
- Supervise the organisation to make sure the Foundation is managed appropriately, in accordance with applicable laws 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 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 teams 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 the allocation of research funding are the scientific content of the application, the qualifications of the applicant, and the academic environment at the host institution, all of which must 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 experts, the majority of whom must be unconnected to the Foundation. The Lundbeck Foundation has established three permanent evaluation committees – the Research and Prize Committee, the Selection Committee for The Brain Prize, and the Science Teaching and Communication Committee – as well as three permanent evaluation panels – the Grants and Prizes Panel, the Talent Panel and the Internationalisation Panel. Furthermore, ad hoc evaluation panels with international experts are established, as required, to assess major personal and strategic applications. The members of the committees and panels must comply with the Foundation's impartiality rules.

The Research and Prize Committee, the Science Teaching and Communication Committee and the Grants and Prizes Panel all report to the Board of Trustees. The Selection Committee for The Brain Prize reports to the Board of Trustees through the Research and Prize Committee to ensure that its recommendations comply with the provisions for The Brain Prize.

The Board of Trustees decides on the allocation of grants in accordance with statutory requirements. However, the Foundation has developed 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 only applies to smaller grants that can be assessed according to specific, standardised criteria. This model has been approved by the Danish Business Authority and was implemented during 2018.

In general, assessment procedures for applications and recommendations are adjusted on an ongoing basis to accommodate the development 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 recipients comply 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
- 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

Solid experience in ownership structures, management of international, listed companies as well as grant activities, strategy, communication, acquisitions and divestments, business and organisational 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
- Member of the Board 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 the 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, Tecan AG (Switzerland) and Vitrolife AB (Sweden)

Considered independent

#### SPECIAL QUALIFICATIONS

Experience in management, finance, sales and marketing in international life science companies, including medtech and pharmaceutical companies.

## 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 Musculo-Skeletal and Oral Sciences, Faculty for Health and Medical Sciences, University of Copenhagen
- Member of the Steering Committee at the Centre for Healthy Ageing, University of Copenhagen

### SPECIAL QUALIFICATIONS

Scientific production within 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 SDG Investment Fund K/S
- 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., D.M.Sc. 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 Board of Johannes Clemmesens Research Foundation
- Member of the Human Papillomavirus Prevention and Control Board
- Visiting professor Johns Hopkins University School of Medicine

Considered independent

### SPECIAL QUALIFICATIONS

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

## HENRIK VILLSEN ANDERSEN

*Born 1969, elected to the Board in 2018*

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

**EMPLOYEE-ELECTED**

Elected by the employees of Falck A/S

## LUDOVIC TRANHOLM OTTERBEIN

*Born 1973, elected to the Board in 2018*

- Director, Research Informatics and Operations
- PhD Biophysics, MSc Molecular Biology
- 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**
*Chief Executive Officer*

**BERTIL FROM**
*Chief Financial Officer*

**CHRISTIAN ELLING**
*Managing Partner, Emerge and acting Director of Science, Grants & Prizes*

**METTE KIRSTINE AGGER**
*Managing Partner, Ventures*

**REGITZE REEH**
*Director of Communications*

# GRANTS POLICY

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

In accordance with the statutes of Lundbeckfonden, the Foundation has two primary objectives:

a. to consolidate and expand the activities of the Lundbeck Group
b. to make distributions for the purposes mentioned in article 6 of the statutes

Adhering to the recommendations by the Danish 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 statutes does not stipulate any obligations on grant activities within the individual categories.

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

| STATUTES | GRANT OBJECTIVE |
|---|---|
| Article 6a (Relatives of the Founder) | The Foundation may make donations to descendants of the parents of the founder and her spouse. |
| Article 6b (Employees of the Lundbeck Group) | The Foundation may provide financial support to and otherwise make distributions for the benefit of existing and former employees of the Lundbeck Group, including for training and education, for holidays and for holiday purposes. In so far as there is no need in each individual case to make distributions at any other time of the year, such distributions will only be made once a year on 20 July, which is the birthday of the deceased Mr Hans Lundbeck, manufacturer. |
| Article 6c (Research) | The Foundation may grant honorary awards to physicians, scientists and others. |
| Article 6d (Research) | The Foundation may grant support for scientific purposes, primarily for specific projects. |
| Article 6e (Subsidiaries) | The Foundation may support special research projects within the Lundbeck Group. |
| Article 6f (Research) | The Foundation may grant support to hospitals and for diseases prevention. |
| Article 6g (Research) | The Foundation may provide support to training and education in the widest sense of the word, if relevant by way of interest-free loans. |
| Article 6h (Research) | The Foundation may make grants for nurses. |
| Article 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. |
| Article 6j (All categories) | The Foundation may support other purposes as decided by the Board of Trustees. However, support for such purposes may only account for 25% of the total annual distributions of each calender year. |

The aim of the grant activities is to fulfil the Foundation's grant strategy as set out 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. The Board of Trustees may decide on grants based upon recommendations from committees/expert panels or issue a grant mandate to an expert panel that will make the final decisions within certain grant programmes. 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 2018, the Foundation granted the following amounts within the four categories**

| | DKKm |
|---|---|
| Personal research grants | 216 |
| Strategic grants | 319 |
| Honorary awards | 8 |
| Science teaching and communication | 27 |
| Other purposes | 1 |
| **Total** | 571 |

Other purposes include donations to descendants of DKK 196,200.

## COMMITTEES

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

### RESEARCH AND PRIZE COMMITTEE

This committee comprises the three members of the Board of Trustees who are appointed for their research expertise according to the statutes. The CEO and the Director of Science, Grants & Prizes, who are not members of the Research and Prize Committee, assist this committee. The members of the Research and Prize Committee, who are also members of the Grants and Prizes Panel (see below), are tasked with the following:

- Advising and submitting recommendations for decisions to the Board of Trustees regarding applications, prize nominations and strategic research policy issues
- Supervising the implementation of the Foundation's grant strategy

### THE SELECTION COMMITTEE FOR THE BRAIN PRIZE

The selection committee for the Brain Prize reviews the nominations for The Brain Prize and its members, all of whom are external to the Foundation, represent the highest possible level of expertise within the field of brain research including relevant and comprehensive knowledge about the international scientific world.

## EXPERT PANELS

In order to assist in the evaluation of applications and to make decisions on grants the Foundation has established three expert panels:

### THE GRANTS AND PRIZES PANEL

This panel comprises the three members of the Board of Trustees appointed for their research expertise according to the statutes and three external experts within the field of neuroscience. The panel evaluates applications for LF Fellows, LF Professors, and LF Collaborative Projects and submits recommendations for decisions to the Board of Trustees.

### THE TALENT PANEL

This panel comprises 15 external experts spanning the field of biomedical research. The panel evaluates applications for LF Postdocs, LF Ascending Investigators and LF Experiments. The panel makes decisions on grants according to a grant mandate issued by the Board of Trustees.

### THE INTERNATIONALISATION PANEL

This panel comprises two of the three members of the Board of Trustees appointed for their research expertise according to the statutes, the Head of Talent and Career Programmes and the Science Manager. The panel evaluates applications for travel grants, meetings, visiting professorships and senior researcher sabbaticals. The panel makes decisions on grants according to a grant mandate issued by the Board of Trustees.

## DISTRIBUTION OF RESPONSIBILITY

The Director of Science, Grants & Prizes, is responsible for managing day-to-day operations in the Grants & Prizes department. This includes implementation of the grant strategy.

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

# Consolidated financial statements

OF LUNDBECKFONDEN

# FINANCIAL STATEMENTS

## LUNDBECKFONDEN GROUP

## Contents



## Notes

# Notes

# INCOME STATEMENT

## FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Revenue | 3 | 34,302 | 34,525 |
| Cost of sales | 4, 5, 6 | -15,871 | -17,069 |
| Gross profit | | 18,431 | 17,456 |
| Research and development costs | 4, 5, 6 | -3,673 | -3,133 |
| Sales and distribution costs | 4, 5, 6 | -6,792 | -7,243 |
| Administrative expenses | 4, 5, 6, 7 | -2,949 | -3,560 |
| Other operating items, net | 8 | 69 | 317 |
| Operating profit before special items | | 5,086 | 3,837 |
| Special items | 9 | - | -1,646 |
| **Operating profit** | | **5,086** | **2,191** |
| Financial income | 10 | 1,904 | 4,642 |
| Financial expenses | 10 | -2,588 | -2,933 |
| Income/loss from investments in associates | | 1 | -6 |
| Profit before tax | | 4,403 | 3,894 |
| Tax on profit for the year | 11 | -1,469 | -1,783 |
| **Profit for the year from continuing operations** | | **2,934** | **2,111** |
| Profit for the year from discontinued operations | 35 | 23 | -79 |
| **Profit for the year** | | **2,957** | **2,032** |

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Profit attributable to: | | | |
| Lundbeckfonden | | 1,873 | 1,700 |
| Non-controlling interests | 24 | 1,084 | 332 |
| **Profit for the year** | | **2,957** | **2,032** |
| **Grants authorised, gross** | 12 | **571** | **507** |

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Profit for the year | | 2,957 | 2,032 |
| | | | |
| Actuarial gains/losses | 25 | 19 | 53 |
| Tax | 11 | -3 | -11 |
| Items that will not subsequently be reclassified to the income statement | | 16 | 42 |
| | | | |
| Currency translation, foreign subsidiaries | | 306 | -856 |
| Currency translation concerning additions to net investments in foreign subsidiaries | | -151 | -107 |
| Adjustment, deferred exchange gains/losses, hedging | | -322 | 838 |
| Exchange gains/losses, hedging (transferred to the hedged items) | | -242 | -33 |
| Exchange gains/losses, trading (transferred to financial items) | | - | -10 |
| Value adjustment of interest hedging instruments | | 25 | 29 |
| Fair value adjustment of available-for-sale financial assets | | - | 16 |
| Adjustment for hyperinflation | | - | 5 |
| Tax on other comprehensive income | 11 | 134 | -83 |
| Items that may subsequently be reclassified to the income statement | | -250 | -201 |
| | | | |
| Other comprehensive income for the year, net of tax | | -234 | -159 |
| | | | |
| **Total comprehensive income for the year** | | **2,723** | **1,873** |
| | | | |
| Attributable to: | | | |
| Lundbeckfonden | | 1,702 | 1,640 |
| Non-controlling interests | 24 | 1,021 | 233 |
| **Total comprehensive income for the year** | | **2,723** | **1,873** |

Currency translation of foreign subsidiaries and currency translation concerning additions to net investments in foreign subsidiaries and tax related to these items amounted to a net gain of DKK 171m (net loss of DKK 865m in 2017), 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 loss of DKK 421m (net gain of DKK 643m in 2017) and recognised under retained earnings in equity in the amount of DKK 16m (DKK 63m in 2017).

# BALANCE SHEET

## AT 31 DECEMBER, ASSETS

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Goodwill | | 8,737 | 9,014 |
| Product rights | | 3,496 | 3,221 |
| Intangible assets from acquisitions | | 771 | 1,003 |
| Other intangible assets | | 734 | 882 |
| Intangible assets | 13 | 13,738 | 14,120 |
| | | | |
| Property, plant and equipment | 14 | 4,814 | 5,088 |
| Biological assets | 15 | 59 | - |
| Tangible assets | | 4,873 | 5,088 |
| | | | |
| Financial assets, Invest | 16 | 12,784 | 13,618 |
| Financial assets, Lundbeckfonden Ventures and Emerge | 16 | 3,125 | 2,849 |
| Investments in associates | | 64 | 56 |
| Receivables from associates | 16 | 2 | 3 |
| Deferred tax | 17 | 1,949 | 1,893 |
| Other financial assets | 16 | 213 | 190 |
| Financial assets | | 18,137 | 18,609 |
| | | | |
| **Non-current assets** | | **36,748** | 37,817 |

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Inventories | 18 | 2,770 | 2,333 |
| | | | |
| Trade receivables and other receivables | 19 | 5,503 | 6,595 |
| Contract assets | 20 | 471 | - |
| Income tax | | 214 | 300 |
| Receivables | | 6,188 | 6,895 |
| | | | |
| Securities, Invest | | 347 | 182 |
| Securities, subsidiaries | | 3,203 | 2,139 |
| Securities | 21 | 3,550 | 2,321 |
| | | | |
| Cash and bank balances, Invest | | 683 | 473 |
| Cash and bank balances, subsidiaries | | 4,964 | 3,335 |
| Cash and bank balances | 21 | 5,647 | 3,808 |
| | | | |
| **Current assets** | | **18,155** | **15,357** |
| | | | |
| **Assets classified as held for sale** | 35 | **507** | **712** |
| | | | |
| **Assets** | | **55,410** | **53,886** |

# BALANCE SHEET

## AT 31 DECEMBER, EQUITY AND LIABILITIES

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Capital base | 22 | 3,114 | 3,109 |
| Other reserves | 23 | 1,474 | 1,472 |
| Retained earnings | | 24,741 | 23,561 |
| **Lundbeckfonden's share of equity** | | **29,329** | **28,142** |
| Non-controlling interests' share of equity | 24 | 5,083 | 4,566 |
| **Total equity** | | **34,412** | **32,708** |
| Payable grants | | 432 | 367 |
| Provisions | 25 | 1,142 | 1,056 |
| Deferred tax | 17 | 708 | 802 |
| Debt to financial institutions and other | 26 | 5,327 | 5,842 |
| Contract liabilities | 27 | 49 | - |
| Other payables | | 82 | 86 |
| **Non-current liabilities** | | **7,740** | **8,153** |

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Payable grants | | 837 | 685 |
| Provisions | 25 | 712 | 790 |
| Payables to associates | | 31 | 15 |
| Income tax | | 169 | 195 |
| Debt to financial institutions and other | 26 | 339 | 776 |
| Contract liabilities | 27 | 1,154 | - |
| Other payables | 28 | 9,920 | 8,693 |
| Prepayments from customers | | - | 1,544 |
| **Current liabilities** | | **13,162** | **12,698** |
| **Liabilities** | | **20,902** | **20,851** |
| **Liabilities relating to assets classified as held for sale** | 35 | **96** | **327** |
| **Equity and liabilities** | | **55,410** | **53,886** |

# CASH FLOW STATEMENT

## FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Operating profit | | 5,086 | 2,191 |
| Adjustment for non-cash operating items | 29 | 2,339 | 3,610 |
| Working capital changes | 30 | 650 | 405 |
| **Cash flows from operating activities before financial receipts and payments and tax** | | **8,075** | **6,206** |
| Financial receipts | | 429 | 371 |
| Financial payments | | -194 | -452 |
| Income tax paid | | -1,438 | -1,989 |
| **Cash flows from operating activities** | | **6,880** | **4,136** |
| Acquisition of businesses | 31 | -821 | -503 |
| Divestment of businesses | 31 | - | 7 |
| Investments in associates | | -8 | - |
| Investments in intangible assets | 13 | -564 | -631 |
| Investments in property, plant and equipment | 14 | -730 | -771 |
| Investments in biological assets | 15 | -52 | - |
| Disposal of intangible assets and property, plant and equipment | | 200 | 473 |
| Investments in financial assets measured at fair value through profit or loss | | -5,268 | -6,453 |
| Sale of financial assets measured at fair value through profit or loss | | 3,497 | 6,289 |
| **Cash flows from investing activities** | | **-3,746** | **-1,589** |
| **Cash flows from operating and investing activities (free cash flow)** | | **3,134** | **2,547** |

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Loan proceeds | 26 | 27 | 870 |
| Repayment of loans | 26 | -764 | -3,526 |
| Buyback of shares from non-controlling interests | | -25 | -93 |
| Capital injections from non-controlling interests | | 3 | 433 |
| Sale of treasury shares | | 8 | 3 |
| Capital increase through exercise of warrants | | 7 | 214 |
| Settlement of exercised share options and warrants | | -18 | -5 |
| Dividend paid to non-controlling interests | | -502 | -190 |
| Other transactions with non-controlling interests | | -3 | -16 |
| Authorised grants paid | | -350 | -406 |
| **Cash flows from financing and grant-making activities** | | **-1,617** | **-2,716** |
| **Cash flows from continuing operations** | | **1,517** | **-169** |
| Cash flows from discontinued operations | 35 | 216 | -4 |
| Net cash flow for the year | | 1,733 | -173 |
| Cash at 1 January | 21 | 3,939 | 4,173 |
| Unrealised exchange rate adjustments for the year | | -18 | -61 |
| | | 5,654 | 3,939 |
| Cash and bank balances classified as assets held for sale | 35 | -7 | -131 |
| **Cash at 31 December** | 21 | **5,647** | **3,808** |

# STATEMENT OF CHANGES IN EQUITY

## FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Capital base | Other reserves | Retained earnings | Lundbeckfonden's share of equity | Non-controlling interests' share of equity | Total equity |
|---|---|---|---|---|---|---|
| **Equity at 1 January 2018** | 3,109 | 1,472 | 23,561 | 28,142 | 4,566 | 32,708 |
| **Change in accounting policies** | - | - | -27 | -27 | -20 | -47 |
| **Equity at 1 January 2018** | 3,109 | 1,472 | 23,534 | 28,115 | 4,546 | 32,661 |
| Profit for the year | | | 1,873 | 1,873 | 1,084 | 2,957 |
| Other comprehensive income | - | -248 | 77 | -171 | -63 | -234 |
| **Comprehensive income** | **-** | **-248** | **1,950** | **1,702** | **1,021** | **2,723** |
| Grants for the year, net | | -567 | | -567 | - | -567 |
| Transferred to provision for future grants | | 817 | -817 | - | - | - |
| Non-controlling interests' share of dividends | | | - | - | -502 | -502 |
| Reclassification of exchange rate adjustment from divestment of discontinued operation | | | 59 | 59 | 43 | 102 |
| Buyback of shares from non-controlling interests | | | -17 | -17 | -8 | -25 |
| Sale of treasury shares | | | 1 | 1 | 5 | 6 |
| Change in non-controlling interests | | | 3 | 3 | -51 | -48 |
| Adjustment of provision for acquisition of non-controlling interests | | | 10 | 10 | 7 | 17 |
| Incentive programmes | | | 20 | 20 | 14 | 34 |
| Capital increase | | | - | - | 3 | 3 |
| Tax related to items recognised directly on equity | - | - | 3 | 3 | 5 | 8 |
| **Other transactions** | **-** | **250** | **-738** | **-488** | **-484** | **-972** |
| **Increase of capital base** | **5** | **-** | **-5** | **-** | **-** | **-** |
| **Equity at 31 December 2018** | **3,114** | **1,474** | **24,741** | **29,329** | **5,083** | **34,412** |

| DKKm | Capital base | Other reserves | Retained earnings | Lundbeckfonden'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 for 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 | | | -66 | -66 | -27 | -93 |
| Sale of treasury shares | | | 1 | 1 | - | 1 |
| Change in non-controlling interests | | | -39 | -39 | 100 | 61 |
| Adjustment of provision for acquisition of non-controlling interests | | | 41 | 41 | 30 | 71 |
| Incentive programmes | | | 177 | 177 | 90 | 267 |
| 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** |

# NOTES

## 1. Significant accounting policies

The consolidated financial statements of Lundbeckfonden 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 of IFRS.

The consolidated financial statements have been prepared to give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2018. Management believes that the following accounting policies are significant to the financial statements. The general accounting policies are described in note 37.

### 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 judgments

The preparation of the consolidated financial statements of Lundbeckfonden involves the use of accounting estimates and judgments.

### 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 the information provided 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 judgments are significant to the financial statements.

### 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.

At 31 December 2018, the obligation relating to sales discounts and rebates in the US amounted to DKK 1,493m (DKK 1,613m at 31 December 2017).

### 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 acquisition of businesses or 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 judgments and estimates.

At 31 December 2018, the carrying amounts of goodwill and product rights amounted to DKK 8,737m and DKK 3,496m respectively (DKK 9,014m and 3,221m at 31 December 2017).

## 2. Significant accounting estimates and judgments - continued

### IMPAIRMENT TESTING

Goodwill and intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment if there is indication of impairment and at least annually, while the carrying amount of intangible assets with finite lives and property, plant and equipment 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 3,239m at 31 December 2018 (DKK 4,035m at 31 December 2017).

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.

### 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 tax assets, the Group applies the same assumptions as for impairment testing. See note 13 *Intangible assets* for more information.

Accordingly, at 31 December 2018 all deferred tax assets relating to tax losses carried forward in Denmark have been capitalised in the amount of DKK 1,259m (DKK 1,069m at 31 December 2017).

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's judgments are applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties. The provision for uncertain tax positions not yet settled with local authorities amounts to DKK 456m. Management believes that the provision 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 | 2018 | 2017 |
|---|---|---|
| Europe | 16,445 | 16,304 |
| North America | 13,184 | 13,580 |
| Rest of the world | 4,673 | 4,641 |
| **Total** | **34,302** | **34,525** |
| | | |
| Brain diseases (Lundbeck) | 18,117 | 17,234 |
| Allergy treatment (ALK) | 2,915 | 2,910 |
| Ambulance, Assistance, Healthcare and Portfolio Businesses (Falck) | 13,270 | 14,381 |
| **Total** | **34,302** | **34,525** |
| | | |
| Revenue includes: | | |
| Sale of goods | 20,547 | 19,805 |
| Rendering of services | 13,011 | 14,120 |
| Royalties | 744 | 600 |
| **Total** | **34,302** | **34,525** |
| | | |
| Revenue in Denmark | 5,140 | 5,398 |

## 4. Staff costs

| DKKm | 2018 | 2017 |
|---|---|---|
| Short-term staff benefits | 11,592 | 11,948 |
| Share-based payment | 46 | 59 |
| Pension benefits | 704 | 719 |
| Other social security costs | 1,266 | 1,285 |
| **Total** | **13,608** | **14,011** |
| | | |
| The year's staff costs are specified as follows: | | |
| Cost of sales | 7,976 | 8,284 |
| Research and development costs | 1,079 | 1,041 |
| Sales and distribution costs | 2,920 | 2,990 |
| Administrative expenses | 1,602 | 1,652 |
| Included in the cost of assets | 31 | 44 |
| **Total** | **13,608** | **14,011** |
| | | |
| Average number of full-time employees during the year | 32,113 | 34,193 |
| Number of employees at year-end | 39,868 | 43,462 |

| DKKm | 2018 | 2017 |
|---|---|---|
| **Remuneration in the Group including management remuneration for board positions in subsidiaries:** | | |
| Total remuneration in the Group for the Executive Management of Lundbeckfonden amounts to | 11.4 | 10.1 |
| Total remuneration in the Group for the Board of Trustees of Lundbeckfonden amounts to | 7.8 | 8.3 |
| | | |
| Executive Management: | | |
| Lene Skole | 11.4 | 10.1 |
| | | |
| Board of Trustees: | | |
| Jørgen Huno Rasmussen, Chairman of Lundbeckfonden and Lundbeckfond Invest A/S and member of the Investment Committee | 0.9 | 0.9 |
| Steffen Kragh, Vice Chairman of Lundbeckfonden and Lundbeckfond Invest A/S and member of the Investment Committee | 0.7 | 0.7 |
| Gunhild Waldemar, Chairman of the Research Committee | 0.7 | 0.7 |
| Lars Holmqvist, member of the Investment Committee | 1.3 | 1.3 |
| Michael Kjær, member of the Research Committee | 0.5 | 0.5 |
| Peter Schütze, Chairman of the Investment Committee | 1.5 | 2.3 |
| Susanne Krüger Kjær, member of the Research Committee | 0.5 | 0.5 |
| Henrik Villsen Andersen, employee representative from Falck A/S | 0.4 | - |
| Ludovic Tranholm Otterbein, employee representative from H. Lundbeck A/S | 0.4 | - |
| 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 |
| Henrik Sindal Jensen, employee representative from H. Lundbeck A/S, stepped down on 17 April 2018 | 0.1 | 0.6 |
| **Total** | **7.8** | **8.3** |

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

## 5. Incentive programmes

### Lundbeckfonden

As from 2018, the Executive Management of Lundbeckfonden participate in a short-term incentive programme that provides an annual bonus for the achievement of pre-determined targets. Bonus under the programme amounted to DKK 1m in 2018, equivalent to 73% of the maximum, which will be paid out with a delay of 12 month.

Employees of Invest, Lundbeckfonden Ventures and Lundbeckfonden Emerge participate in incentive programmes 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 2018, bonus under Invest programmes amounted to DKK 5m (DKK 7m in 2017).

Provision for Lundbeckfonden Ventures programmes amounted to DKK 160m at 31 December 2018, which is unchanged from 31 December 2017. In 2017, expenses of DKK 98m regarding the programmes were recognised in the income statement under financial items and in the balance sheet as a provision. The cost related to the program will be reclassified from financial items to staff cost when payment takes place, due to uncertainty about the amount and if and when the payment will become payable.

### 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 Lundbeck, ALK and Falck. The Group uses short-term incentive programmes that provide an annual bonus for the achievement of pre-determined targets for the financial year as well as long-term equity-based and debt-based programmes, cf. below.

### Lundbeck

Lundbeck has established equity- and cash-settled programmes.

#### EQUITY-SETTLED PROGRAMMES

In 2018, equity-settled incentive programmes consisted of warrants and restricted share units (RSUs) granted during the years 2010-2018.

In February 2018, 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. Four members of the registered Executive Management and 129 key employees employed with 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 Lundbeck's Annual Report for 2018 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 315.52 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the initial grant was DKK 291.03 per RSU.

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 with 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 were finally granted after the publication of Lundbeck's Annual Report for 2017 and will vest three years after final grant. Vesting is subject to the Board of Directors' decision, 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.

## 5. Incentive programmes - continued

The shares granted to key employees in 2015 vested in 2018. 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 the former CEO, Kåre Schultz, in May 2016 vested in 2017.

At 31 December 2018, 64,523 warrants (136,059 warrants at 31 December 2017) were exercisable. The weighted average exercise price was DKK 114.19 (DKK 113.05 at 31 December 2017).

In 2018, the following number of warrants were exercised: 0 from the 2009 grant which expired in 2017 (2,207 in 2017), 1,377 from the 2010 grant (23,157 in 2017), 22,631 from the 2011 grant (46,354 in 2017), 33,180 from the 2012 grant (59,777 in 2017), 0 from the 2012 grant made to the registered Executive Management (141,592 in 2017). In 2017, 755,000 warrants from the 2014 grant made to the registered Executive Management and 400,000 warrants granted to the former CEO, Kåre Schultz, in 2016 were exercised. The weighted average share price of the warrants exercised was DKK 383.72 (DKK 355.11 in 2017).

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 |
|---|---|---|---|---|---|---|---|
| 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.

## 5. Incentive programmes - continued

| RSU programmes | Vesting date | Total number of RSUs granted | Number of RSUs granted to Executive Management | Fair value at the date of grant, DKK |
|---|---|---|---|---|
| 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 |
| 2018, number of persons 133 | 01.02.2022 | 107,321 | 24,783 | 291.03 |

| Warrants | Executive Management | Executives | Other | Total | Average exercise price, DKK |
|---|---|---|---|---|---|
| 1 January 2018 | 23,741 | 29,318 | 83,000 | 136,059 | 113.05 |
| Exercised | - | -25,860 | -31,328 | -57,188 | 115.78 |
| Expired | - | - | -14,348 | -14,348 | 97.00 |
| **31 December 2018** | **23,741** | **3,458** | **37,324** | **64,523** | **114.19** |
| | | | | | |
| 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 |
| Expired | - | - | -13,349 | -13,349 | 102.00 |
| **31 December 2017** | **23,741** | **29,318** | **83,000** | **136,059** | **113.05** |

### CASH-SETTLED PROGRAMMES

The cash-settled programmes consist of stock appreciation rights (SARs) and restricted cash units (RCUs) granted during the years 2011-2018.

In February 2018, 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 2018. All the RCUs, a total of 1,073, will be finally granted after the publication of Lundbeck's Annual Report for 2018 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 DKK 291.03 per RCU.

In September 2018, Lundbeck made an initial grant offering the Chief Executive Officer (CEO), Deborah Dunsire, to participate in the 2018 RCU programme on the same terms and conditions as offered to the other participants in February 2018. A total of 9,175 RCUs were granted, calculated proportionally to the period of time the CEO has been with Lundbeck. The RCUs will vest on 1 February 2022. Final grant and vesting are subject to the Board of Directors' decision on vesting and to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors. The fair value at the time of the initial grant was DKK 291.03 per RCU.

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, were finally granted after the publication of Lundbeck's Annual Report for 2017 and will vest three years after final grant. Vesting is subject to the Board of Directors' decision, 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 DKK 268.65 per RCU.

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

The RCUs granted in 2015 vested in 2018, after which time the programme was settled. The RCUs granted in 2014 vested in 2017, after which time the programme was settled.

### FAIR VALUE, LIABILITY AND EXPENSE RECOGNISED IN THE INCOME STATEMENT

The warrants and RSUs granted are recognised in the income statement for 2018 at an expense corresponding to the fair value at the time of grant for the part of the vesting period that concerns 2018. The total expense recognised in respect of equity-settled programmes amounted to DKK 25m (DKK 37m in 2017). At 31 December 2018, the fair value of remaining equity-settled programmes was DKK 102m (DKK 139m in 2017).

## 5. Incentive programmes - continued

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 as 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 2017) and covers all cash-settled programmes in force in 2018. At 31 December 2018, the total liability in respect of cash-settled programmes was DKK 3m (DKK 3m at 31 December 2017) and covers all cash-settled programmes in force at 31 December 2018.

The total expense recognised in the income statement for all incentive programmes amounted to DKK 26m in 2018 (DKK 38m in 2017).

## ALK

| DKKm | 2018 | 2017 |
|---|---|---|
| Cost of share-based payments | 20 | 21 |
| **Total** | **20** | **21** |
| Cost regarding share-based payments is recognised as follows: | | |
| Cost of sales | 2 | 4 |
| Research and development expenses | 4 | 3 |
| Sales and marketing expenses | 6 | 3 |
| Administrative expenses | 6 | 11 |
| Financial expenses | 2 | - |
| **Total** | **20** | **21** |

In 2018 the total cost of share-based payments included a financial expense of DKK 2m due to the exercise and cash settlement of share options plans (DKK 0 in 2017). An adjustment of DKK 0 related to the number of conditional shares expected to vest is included in the cost of share based payments (DKK 1m in 2017).

ALK's special incentive plan is a one-time scheme designed to implement ALK's growth strategy and consists of both share options and performance shares. The value of the plan may not exceed 50% of the Executive's 2018 annual base salary on the grant/allocation date. The special incentive plan is conditional upon strategic key performance indicators being attained, with a threshold value below which the plan will not pay out. If the result exceeds the threshold, a defined multiplier may increase the grant/allocation in ALK's special incentive plan by up to 300%. However, the overall payout of the plan on the vesting date for the performance shares and on the exercise date for the share options can never exceed a total value of 300% of the recipient's 2018 annual base salary. The special incentive plan was adopted at ALK's annual general meeting on 12 March 2018.

### SHARE OPTION PROGRAMME

The ALK Group has established share option plans for the Board of Management and a number of key employees as part of a retention programme. Each share option entitles the holder to acquire one existing B share of DKK 10 nominal value in 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.

In the 2017 and 2018 plans, the share option programme is further subject to the fulfilment of strategic key performance 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 payout up to 100%. For a limited number of share options (47,806) the payout can be increased by 300%.

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 2018 | 69,700 | 90,585 | 160,285 | 797 |
| Additions | 41,320 | 35,159 | 76,479 | 793 |
| Exercises | -7,000 | -27,775 | -34,775 | 605 |
| Expired | - | -3,000 | -3,000 | 379 |
| Cancellations | - | -100 | -100 | 776 |
| **31 December 2018** | **104,020** | **94,869** | **198,889** | **841** |
| 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** |

At 31 December 2018, the total number of vested share options amounted to 82,068 units (65,000 units at 31 December 2017).

## 5. Incentive programmes - continued

The Board of Directors decided for one trading window in 2018 that share options were to be settled by cash settlement and a total of 18,575 share options were exercised and total cash payments amounted to DKK 7m. For three trading windows the Board of Directors decided that share options were to be settled by shares and a total of 16,200 options were exercised.

In 2017, two trading windows were 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 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 |
|---|---|---|---|---|---|
| 2012 Plan | 3,150 | 469 | 01.05.2015 | 01.05.2015 | 01.05.2019 |
| 2013 Plan | 10,925 | 487 | 01.03.2016 | 01.03.2016 | 01.03.2020 |
| 2014 Plan | 24,725 | 776 | 01.03.2017 | 01.03.2017 | 01.03.2021 |
| 2015 Plan | 26,200 | 846 | 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 | 1,025 | 01.03.2020 | 01.03.2020 | 01.03.2022 |
| 2018 Plan | 31,973 | 793 | 01.03.2021 | 01.03.2021 | 01.03.2023 |
| 2018 Plan - one-time | 44,506 | 793 | 01.03.2021 | 01.03.2021 | 01.03.2023 |
| **31 December 2018** | **198,889** | | | | |

| | 2018 | 2017 |
|---|---|---|
| Average remaining life of outstanding share options at year end (years) | 4.3 | 3.7 |
| Exercise prices for outstanding share options at year end (DKK) | 462-1,127 | 370-1,127 |

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:

| | 2018 Plan | 2017 Sign on plan, CEO | 2017 Plan |
|---|---|---|---|
| Average share price (DKK) | 745 | 952 | 924 |
| Expected exercise price (DKK) [1] | 802 | 1,025 | 924 |
| Expected volatility rate | 29% p.a. | 31% p.a. | 34% p.a. |
| Expected option life | 4 years | 4 years | 4 years |
| Expected dividend per share | - | 5 | 5 |
| Risk-free interest rate | -0.16% p.a. | -0.29% p.a. | -0.38% p.a. |
| Calculated fair value of granted share options (DKK) | 150 | 192 | 230 |

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

The expected volatility rate is based on the historical volatility.

### 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 strategic key performance 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 payout up to 100%. For a limited number of performance shares (14,067) the payout can be increased by 300%.

| Outstanding conditional and performance shares, units | Board of Management | Other key personnel | Total |
|---|---|---|---|
| 1 January 2018 | 5,326 | 17,575 | 22,901 |
| Additions | 8,305 | 17,144 | 25,449 |
| Exercises | -2,330 | -4,173 | -6,503 |
| **31 December 2018** | **11,301** | **30,546** | **41,847** |
| | | | |
| 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** |

## 5. Incentive programmes - continued

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 745 per share (2017: DKK 952 per share). Conditional shares and performance shares are considered sufficiently covered by treasury shares.

Outstanding conditional shares and performance shares have the following characteristics:

| Outstanding conditional and performance shares, units | Vesting date | Conditional share units |
|---|---|---|
| 2016 Plan (conditional shares) | 01.03.2019 | 4,359 |
| 2017 Plan (performance shares) | 01.03.2020 | 12,039 |
| 2018 Plan (performance shares) | 01.03.2021 | 16,507 |
| 2018 Plan one-time (performance shares) | 01.03.2021 | 8,942 |
| **31 December 2018** | | **41,847** |

### 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 ran for three years and was fully settled and paid out 31 March 2018. The costs of the programme amounted to DKK 11m over the vesting period.

### Falck

The remuneration of the members of the Executive Committee and other members of the Executive Management consists of a short-term incentive plan and long-term incentive plan.

The short-term incentive plan is a variable cash payment based on achievement of annual objectives. Its role is to drive and reward exceptional performance of Falck, and specific focused activities. The short-term incentive is targeted at the median level of the peer group. The Board of Directors reviews performance and approves annual incentive pay-out levels.

The long-term incentive plan is a cash-based incentive designed to drive and reward the creation of long-term shareholder value at Falck. The Remuneration Committee evaluates the degree of achievement for each member based on input from the CEO of Falck.

Long-term incentive plan for 2018 is based on an estimate as the programme expires at the end of 2019.

### Group

| Recognised expenses, DKKm | 2018 | 2017 |
|---|---|---|
| Recognised expenses concerning equity-based schemes | 45 | 58 |
| Recognised expenses concerning debt-based schemes | 1 | 1 |
| **Total recognised expenses** | **46** | **59** |

## 6. Depreciation, amortisation and impairment

| DKKm | 2018 | 2017 |
|---|---|---|
| **Depreciation, amortisation and impairment are specified as follows:** | | |
| Cost of sales | 1,543 | 1,770 |
| Research and development costs | 154 | 101 |
| Sales and distribution costs | 68 | 114 |
| Administrative expenses | 540 | 428 |
| Special items | - | 1,646 |
| **Total** | **2,305** | **4,059** |

## 7. Fees to auditors appointed at the annual meeting

| DKKm | 2018 | 2017 |
|---|---|---|
| **Administrative expenses include fees to the Group auditors appointed at the annual meeting, Deloitte, in the amount of:** | | |
| Statutory audit | 20 | 26 |
| Tax advisory services | 3 | 5 |
| Other services | 7 | 7 |
| **Total** | **30** | **38** |

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 operating items, net

| DKKm | 2018 | 2017 |
|---|---|---|
| Legal settlements in Australia | 242 | - |
| Legal settlements in the US | -334 | - |
| Gain on sales of assets | 85 | 26 |
| Other operating income | 80 | 292 |
| Change in value of biological assets | 7 | - |
| Losses on sales of assets and other operating expenses | -11 | -1 |
| **Total** | **69** | **317** |

## 9. Special items

| DKKm | 2018 | 2017 |
|---|---|---|
| Impairment goodwill, Falck | - | 1,646 |
| **Total** | **-** | **1,646** |

Impairment of goodwill relates to Falck's business unit, Ambulance, cf. note 13.

## 10. Financial items

### Group

| DKKm | 2018 | 2017 |
|---|---|---|
| **Financial income** | | |
| Interest on financial assets measured at amortised cost | 77 | 36 |
| Interest on financial assets measured at fair value | 129 | 143 |
| Interest on receivables from associates | 5 | 4 |
| Dividends | 132 | 165 |
| Gains on financial assets at fair value through profit or loss | 1,308 | 3,971 |
| Exchange gains | 234 | 280 |
| Other financial income | 19 | 43 |
| **Total financial income** | **1,904** | **4,642** |
| **Financial expenses** | | |
| Interest on financial liabilities measured at amortised cost | 278 | 319 |
| Interest component, discounted liabilities | 8 | 8 |
| Losses on financial assets at fair value through profit or loss | 2,147 | 1,308 |
| Exchange losses | 49 | 1,151 |
| Other financial expenses | 106 | 147 |
| **Total financial expenses** | **2,588** | **2,933** |
| **Net financials** | **-684** | **1,709** |

### Subsidiaries (Lundbeck, ALK, Falck)

| DKKm | 2018 | 2017 |
|---|---|---|
| Financial items, subsidiaries, are specified as follows: | | |
| **Financial income** | | |
| Interest on financial assets measured at amortised cost | 77 | 40 |
| Gains on financial assets at fair value through profit or loss | 27 | - |
| Exchange gains | 21 | 212 |
| Other financial income | 17 | 43 |
| **Total financial income** | **142** | **295** |
| **Financial expenses** | | |
| Interest on financial liabilities measured at amortised cost[1] | 407 | 358 |
| Losses on financial assets at fair value through profit or loss | 96 | 2 |
| Interest component, discounted liabilities | 8 | 8 |
| Exchange losses | 39 | 281 |
| Other financial expenses | 104 | 124 |
| **Total financial expenses** | **654** | **773** |
| **Net financials** | **-512** | **-478** |

1) Including interest on shareholder loans of DKK 131m (DKK 28m in 2017)

### Lundbeckfonden Ventures and Emerge

| DKKm | 2018 | 2017 |
|---|---|---|
| Financial items, Lundbeckfonden Ventures and Emerge, are specified as follows: | | |
| **Financial income** | | |
| Interest on financial assets measured at fair value through profit or loss | 5 | 9 |
| Gains on financial assets at fair value through profit or loss | 725 | 1,398 |
| Exchange gains | 54 | 1 |
| **Total financial income** | **784** | **1,408** |
| **Financial expenses** | | |
| Losses on financial assets at fair value through profit or loss | 627 | 444 |
| Exchange losses | 4 | 210 |
| **Total financial expenses** | **631** | **654** |
| **Net financials** | **153** | **754** |

## 10. Financial items - continued

### Invest etc.

| DKKm | 2018 | 2017 |
|---|---|---|
| Financial items, Invest etc., are specified as follows: | | |
| **Financial income** | | |
| Interest on financial assets measured at fair value through profit or loss[1] | 260 | 162 |
| Dividends from portfolio investments | 132 | 165 |
| Gains on financial assets at fair value through profit or loss | 556 | 2,573 |
| Exchange gains | 159 | 67 |
| Other financial income | 2 | - |
| **Total financial income** | **1,109** | **2,967** |
| **Financial expenses** | | |
| Interest on financial liabilities measured at amortised cost | 2 | 8 |
| Losses on financial assets at fair value through profit or loss | 1,424 | 862 |
| Exchange losses | 6 | 660 |
| Other financial expenses | 2 | 4 |
| **Total financial expenses** | **1,434** | **1,534** |
| **Net financials** | **-325** | **1,433** |

1) Including interest on shareholder loans of DKK 131m (DKK 28m in 2017)

## 11. Tax on profit for the year

| DKKm | 2018 | 2017 |
|---|---|---|
| Current tax | 1,487 | 1,470 |
| Prior-year adjustment, current tax | -40 | 227 |
| Prior-year adjustment, deferred tax | 178 | -116 |
| Change of deferred tax for the year | -295 | 79 |
| Change of deferred tax as a result of changed income tax rates | - | 163 |
| **Total tax for the year** | **1,330** | **1,823** |
| Tax for the year is composed of: | | |
| Tax on profit for the year | 1,469 | 1,783 |
| Tax on other comprehensive income | -131 | 94 |
| Tax on other transactions in equity | -8 | -54 |
| **Total tax for the year** | **1,330** | **1,823** |

| Tax on other comprehensive income, DKKm | 2018 | 2017 |
|---|---|---|
| Actuarial gains/losses | -3 | -11 |
| Currency translation, foreign subsidiaries | -18 | 69 |
| Currency translation concerning additions to net investments in foreign subsidiaries | 34 | 24 |
| Value adjustment of interest hedging instruments | -6 | -6 |
| Adjustment, deferred exchange gains/losses, hedging | 71 | -182 |
| Exchange gains/losses, hedging (transferred to the hedged items) | 53 | 7 |
| Fair value adjustment of available-for-sale financial assets | - | 5 |
| **Total tax on other comprehensive income** | **131** | **-94** |

| Explanation of the Group's effective tax rate relative to the Danish tax rate 2018 | DKKm | % |
|---|---|---|
| Profit before tax | 4,403 | |
| Calculated tax, 22% | 969 | 22 |
| Tax effect of: | | |
| Differences in income tax rates of foreign subsidiaries from Danish corporate income tax rate | 151 | 3 |
| Non-deductible/non-taxable items and other permanent differences | 72 | 2 |
| Non-capitalised tax losses etc. for the year | 92 | 2 |
| Research and development activities (tax credits) | -26 | -1 |
| Non-deductible amortisation of intangibles | 97 | 2 |
| Prior-year tax adjustments etc., total effect on operations | 1 | - |
| Change in valuation of net tax assets | 94 | 2 |
| Deduction for grants | -4 | - |
| Other taxes and adjustments | 23 | 1 |
| **Effective tax for the year** | **1,469** | **33** |

## 11. Tax on profit for the year - continued

| Explanation of the Group's effective tax rate relative to the Danish tax rate 2017 | DKKm | % |
|---|---|---|
| Profit before tax | 3,894 | |
| Calculated tax, 22% | 857 | 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 | 2 | - |
| Research and development activities (tax credits) | -40 | -1 |
| Non-deductible amortisation of intangibles | 532 | 14 |
| Prior-year tax adjustments etc., total effect on operations | 106 | 2 |
| Change in valuation of net tax assets | 139 | 4 |
| Deduction for grants | -149 | -4 |
| Other taxes and adjustments | 10 | - |
| Change of deferred tax as a result of changed income tax rates | 69 | 2 |
| **Effective tax for the year** | **1,783** | **46** |

## 12. Grants for the year

| DKKm | 2018 | 2017 |
|---|---|---|
| Travel grants and research abroad | 4 | 4 |
| Lundbeckfonden Running Costs | 10 | 13 |
| Lundbeckfonden Scholar | 6 | 6 |
| Lundbeckfonden PhD | 31 | 53 |
| Lundbeckfonden Postdoc | 48 | 55 |
| Lundbeckfonden Fellowships | 50 | 50 |
| Internationalisation programmes | 34 | 13 |
| Lundbeckfonden International Postdoc | 25 | 7 |
| Sabbatical leave for research | 2 | 1 |
| Visiting Professorship | 3 | 2 |
| Lundbeckfonden Scientific Meetings | 2 | 1 |
| **Personal grants** | **215** | **205** |
| | | |
| Talent and teaching prizes | 1 | 1 |
| The Brain Prize | 8 | 8 |
| **Prizes** | **9** | **9** |
| | | |
| Thematic and strategic grants | 252 | 245 |
| Ad hoc | 67 | 21 |
| **Strategic grants** | **319** | **266** |
| | | |
| Scientific Teaching and Communication | 27 | 27 |
| | | |
| Other purposes | 1 | - |
| | | |
| **Grants authorised, gross** | **571** | **507** |
| | | |
| Descendants | - | - |
| Reversed grants/repayments | -4 | -13 |
| **Grants for the year, net** | **567** | **494** |

## 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 2018 | 10,683 | 3,558 | 15,089 | 265 | 2,990 | 115 | 32,700 |
| Currency translation | 183 | 5 | 280 | 1 | 5 | 1 | 475 |
| Reclassification/transfers | - | - | - | - | 57 | -57 | - |
| Addition on acquisitions | - | 6 | - | - | - | - | 6 |
| Additions | - | - | 1,066 | - | 166 | 77 | 1,309 |
| Disposals | -128 | -54 | -196 | - | -155 | - | -533 |
| Transferred to assets classified as held for sale | -397 | -29 | - | - | -4 | - | -430 |
| **Cost at 31 December 2018** | **10,341** | **3,486** | **16,239** | **266** | **3,059** | **136** | **33,527** |
| Amortisation and impairment at 1 January 2018 | -1,669 | -2,555 | -11,868 | -153 | -2,315 | -20 | -18,580 |
| Currency translation | -10 | -2 | -220 | -1 | -3 | - | -236 |
| Amortisation | - | -232 | -813 | -24 | -196 | - | -1,265 |
| Impairment | - | - | -38 | - | -156 | - | -194 |
| Disposals on divestments | 75 | 48 | 196 | - | 34 | - | 353 |
| Amortisation and impairment on disposals | - | - | - | - | 105 | - | 105 |
| Transferred to assets classified as held for sale | - | 26 | - | - | 2 | - | 28 |
| **Amortisation and impairment at 31 December 2018** | **-1,604** | **-2,715** | **-12,743** | **-178** | **-2,529** | **-20** | **-19,789** |
| **Carrying amount at 31 December 2018** | **8,737** | **771** | **3,496** | **88** | **530** | **116** | **13,738** |

## 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 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** |

## 13. Intangible assets - continued

Except for goodwill and the Falck trademark in the amount of DKK 514m (DKK 514m at 31 December 2017), 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 563m), Falck (DKK 3,874m) and Lundbeck (DKK 4,300m). 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 2018 and no further key assumptions are used in determining whether impairment of goodwill exits for ALK's and Lundbeck's main activities, respectively (no impairment in 2017).

### 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.

Impairment tests are carried out on the business segments Ambulance, Assistance and Healthcare, and on the CGUs within the Portfolio Business segment, Global Assistance and Industrial Fire Services.

In 2018, goodwill of DKK 397m related to Healthcare non-core activities was allocated to discontinued operations using a relative value approach within the total Healthcare segment. Healthcare non-core activities are 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 expected fair value less costs to sell exceed the carrying amount of assets and liabilities classified as held for sale. See note 35 for information on assets classified as held for sale.

The impairment test for 2018 did not result in recognition of any impairment losses on goodwill and other intangible assets.

In 2017, an impairment loss on goodwill of DKK 1,646m was recognised related to Ambulance. 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.

#### Key assumptions in the impairment test

The recoverable amounts for the CGUs are determined on the basis of the value-in-use. In the impairment tests, the discounted values of the future net cash flows of each of the CGUs value-in-use are compared with their carrying amounts.

As a result of the nature of Falck's business, expected cash flows must be estimated over a period of a number of years, which inherently results in some degree of uncertainty.

Value-in-use cash flow projections for Ambulance, Assistance, Healthcare, Global Assistance and Industrial Fire Services are based on financial forecasts for 2019.

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

#### Revenue growth

Revenue growth projections in the financial forecast for 2019 are estimated on the basis of the current operations and the expected market development for the individual CGUs.

For Ambulance and Portfolio Businesses the current development supports revenue growth in the forecasting period (2019 to 2023) in line with the terminal growth expectations.

Assistance is affected by the changes taking place in the automobile market towards fewer private roadside assistance subscriptions, and increase in roadside assistance programmes offered by car manufacturers. Revenue is expected to decrease from 2019 to 2023.

Healthcare is affected by the current transformation including pruning and renegotiation of large contracts. Consequently, revenue is expected to decrease from 2019 to 2020, and increase from 2021 to 2023.

#### EBITA margin

When estimating the CGU's EBITA margin in the financial forecast for 2019, past experience and improvements from Falck's efficiency and cost optimisation programme are taken into consideration. In total, Falck expects the efficiency and cost optimisation programme to improve EBITA by more than DKK 500m from 2017 to 2019.

## 13. Intangible assets - continued

EBITA in Ambulance has improved significantly in 2018, primarily due to cost optimisation initiatives and contract pruning. Improvements are expected to continue in 2019, where the initiatives will have full run-rate effect combined with the effect of new operating models.

Current performance in Healthcare is impacted by the large transformation, i.e. non-recurring costs, transition costs etc. Forecast in 2019 is based on significant improvement in underlying performance, driven by large cost-out initiatives and renegotiation of contracts. Further structural initiatives regarding operations and contract portfolio are initiated impacting 2019 to 2020.

**Discount rates and terminal growth**

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

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.

**Carrying amounts and key assumptions**

The carrying amount of goodwill, customer contracts and brands, and the key assumptions used in the impairment testing at 31 December are presented below for each CGU:

| | Carrying amount | | | | Forecasting period | | Terminal period | | Applied discount rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2018, DKKm** | **Goodwill** | **Customer contracts** | **Brands** | **Total** | **Total Growth (avg.)** | **Margin (avg.)** | **Growth** | **EBITA margin** | **After tax** | **Pre-tax** |
| Ambulance | 1,578 | 136 | 514 | 2,228 | 1.8% | 5.0% | 1.8% | 5.0% | 7.2% | 10.4% |
| Assistance | 1,519 | 119 | - | 1,638 | -5.0% | 15.2% | 0.5% | 15.2% | 6.4% | 8.6% |
| Healthcare | 464 | 1 | - | 465 | 1.6% | 4.1% | 1.6% | 5.0% | 6.5% | 8.4% |
| **Portfolio Businesses** | | | | | | | | | | |
| Industrial Fire Services | 256 | 1 | - | 257 | 1.8% | 5.6% | 1.8% | 6.0% | 8.5% | 11.3% |
| Global Assistance | 57 | - | - | 57 | 1.8% | 5.2% | 1.8% | 5.2% | 7.0% | 9.5% |
| **Total** | **3,874** | **257** | **514** | **4,645** | | | | | | |

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

## 13. Intangible assets - continued

**Sensitivity test**

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

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.

Due to the relative size of cash flows within Healthcare, Global Assistance and Industrial Fire Services, they are sensitive to changes.

| | Forecasting period | | | | Terminal period | | | | Discount rate (after tax) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Growth | | Margin | | Growth | | Margin | | | |
| 2018 | Applied avg. rate | Allowed decrease | Applied avg. rate | Allowed decrease | Applied long-term rate | Allowed decrease | Applied long-term | Allowed decrease | Applied rate | Allowed increase |
| Ambulance | 1.8% | 12.1% | 5,0% | 1.9% | 1.8% | 4.7% | 5,0% | 2.3% | 7.2% | 3.2% |
| Assistance | -5.0% | 13.6% | 15.2% | 6.1% | 0.5% | 7.5% | 15.2% | 7.9% | 6.4% | 4.7% |
| Healthcare | 1.6% | 8.3% | 4.1% | 0.8% | 1.6% | 1.6% | 5.0% | 1.2% | 6.5% | 1.3% |
| **Portfolio Businesses** | | | | | | | | | | |
| Industrial Fire Services | 1.8% | 3.8% | 5.6% | 0.5% | 1.8% | 0.9% | 6.0% | 0.8% | 8.5% | 0.7% |
| Global Assistance | 1.8% | 13.8% | 5.2% | 2.3% | 1.8% | 4.4% | 5.2% | 2.6% | 7.0% | 3.1% |

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

## 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.

#### 2018 testing outcome

In 2018, the impairment tests in relation to Falck resulted in impairment of software and other intangible assets of DKK 120m mainly related to a customer handling system in Healthcare. Furthermore, impairment tests resulted in impairment losses of DKK 42m at Lundbeck mainly relating to products rights, and an impairment at ALK of DKK 32m related to capitalised development expenses.

#### 2017 testing outcome

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

### IMPAIRMENT TESTING TOTAL

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

| Impairment loss per intangible asset category, DKKm | 2018 | 2017 |
|---|---|---|
| Goodwill | - | 1,646 |
| Products rights | 38 | - |
| Other intangibles assets | 156 | 67 |
| **Impairment loss total** | **194** | **1,713** |

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

| Impairment loss recognised in the income statement, DKKm | 2018 | 2017 |
|---|---|---|
| Cost of sales | | 31 |
| Research and development costs | 70 | 36 |
| Administrative expenses | 124 | - |
| Special items | - | 1,646 |
| **Impairment loss total** | **194** | **1,713** |

## 14. Property, plant and equipment

| DKKm | Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Leasehold improve-ments | Prepayments and assets under construction | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2018 | 4,996 | 2,593 | 2,222 | 191 | 782 | 10,784 |
| Currency translation | 17 | 10 | 19 | -2 | 12 | 56 |
| Reclassification/transfers | 259 | 95 | 31 | - | -385 | - |
| Addition on acquisitions | - | - | - | - | - | - |
| Additions | 216 | 48 | 164 | 11 | 291 | 730 |
| Disposals | -245 | -78 | -414 | -30 | -1 | -768 |
| Disposals on divestments | -66 | - | -48 | -3 | - | -117 |
| Transferred to assets classified as held for sale | - | - | -15 | -2 | - | -17 |
| **Cost at 31 December 2018** | **5,177** | **2,668** | **1,959** | **165** | **699** | **10,668** |
| | | | | | | |
| Depreciation and impairment at 1 January 2018 | -2,566 | -1,814 | -1,174 | -51 | -91 | -5,696 |
| Currency translation | -3 | -1 | -5 | 1 | - | -8 |
| Depreciation | -190 | -171 | -376 | -39 | - | -776 |
| Impairment for the year | -9 | -9 | -30 | -11 | -11 | -70 |
| Depreciation and impairment on disposals | 154 | 73 | 399 | 29 | - | 655 |
| Disposals on divestments | 1 | - | 27 | 3 | - | 31 |
| Transferred to assets classified as held for sale | - | - | 9 | 1 | - | 10 |
| **Depreciation and impairment at 31 December 2018** | **-2,613** | **-1,922** | **-1,150** | **-67** | **-102** | **-5,854** |
| | | | | | | |
| **Carrying amount at 31 December 2018** | **2,564** | **746** | **809** | **98** | **597** | **4,814** |
| | | | | | | |
| In the carrying amount financial leasing is included in the amount of | 82 | - | 198 | - | - | 280 |
| Carrying amount of property, plant and equipment provided as loan collateral | 221 | - | - | - | - | 221 |

## 14. Property, plant and equipment - continued

| DKKm | Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Leasehold improve-ments | 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 |

## 15. Biological assets

| DKKm | 2018 | 2017 |
|---|---|---|
| Fair value at 1 January | - | - |
| Additions | 52 | - |
| Change in fair value | 7 | - |
| **Fair value at 31 December** | **59** | **-** |

At 31 December 2018, the Group owns 1,123 hectares of growing forest land being managed actively.

The valuation of biological assets is made by calculating the present value of future expected cash flows from the forests. Fair value measurement is based on measurement level 3. This calculation of cash flows is made for the coming 15 years. The cash flows are calculated on the basis of harvesting volumes according to the Group's current plan and assessments of future price and cost changes. Furthermore, the cost of re-planting is taken into account. The cash flows are discounted using an interest rate of 4.5%.

The carrying amount of land related to forest activity is recognised under property, plant and equipment.

## 16. 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 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 after tax by DKK 885m and DKK 881m respectively (decrease by DKK 665m and increase by DKK 557m in 2017).

For further information on risks concerning the Group's financial investments, see note 21 Cash *resources* and note 32 *Financial risks and financial instruments*.

## 16. Financial assets and financial risks - continued

| DKKm | Invest | Lundbeckfonden Ventures and Emerge | Total | Other financial assets at fair value through profit or loss | Other receivables | Other financial assets, total | Receivables from associates |
|---|---|---|---|---|---|---|---|
| Carrying amount at 1 January 2018 | 13,799 | 2,849 | 16,648 | 67 | 123 | 190 | 3 |
| Reclassification to securities, current assets, 1 January 2018 | -181 | - | -181 | - | - | - | - |
| Carrying amount at 1 January 2018, adjusted | 13,618 | 2,849 | 16,467 | 67 | 123 | 190 | 3 |
| Additions | 3,485 | 254 | 3,739 | 70 | 35 | 105 | - |
| Disposals | -3,225 | -126 | -3,351 | -67 | -16 | -83 | -1 |
| Value adjustments, year-end | -928 | 148 | -780 | - | 1 | 1 | - |
| Reclassification to securities, current assets | -166 | - | -166 | - | - | - | - |
| **Carrying amount at 31 December 2018** | **12,784** | **3,125** | **15,909** | **70** | **143** | **213** | **2** |

| DKKm | Invest | Lundbeckfonden Ventures and Emerge | Total | Available-for-sale financial assets[1] | 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 2017, 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** |

1) From 1 January 2018, available for sale financial assets are measured at fair value through profit or loss. See note 37 for more information.

Financial assets included in Invest and Lundbeckfonden Ventures and Emerge are measured at fair value through profit or loss. Other receivables and receivables from associates are measured at amortised cost.

At 31 December 2018, investments in associates included in Lundbeckfonden's investment strategy amount to DKK 2,440m (DKK 1,509m at 31 December 2017). The associates are not individually material. Consequently, financial information about the associates are not disclosed.

**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 25.2 for further information.

## 16. Financial assets and financial risks - continued

**Financial assets and liabilities measured at fair value through profit or loss**

| 31 December 2018, DKKm | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets, Invest | | | | |
| Danish mortgage and government bonds | 1,949 | - | - | 1,949 |
| Credit bonds | 1,275 | - | 98 | 1,373 |
| Equities | 7,974 | - | 364 | 8,338 |
| Private equity funds and other unlisted funds | - | 271 | 853 | 1,124 |
| Total financial assets, Invest | 11,198 | 271 | 1,315 | 12,784 |
| Lundbeckfonden Ventures and Emerge | | | | |
| Equities | 1,565 | - | 994 | 2,559 |
| Receivables from sale of portfolio companies | - | - | 541 | 541 |
| Other receivables | - | - | 25 | 25 |
| Total Lundbeckfonden Ventures and Emerge | 1,565 | - | 1,560 | 3,125 |
| Other financial assets | 31 | - | 39 | 70 |
| Securities (current assets) | 3,550 | - | - | 3,550 |
| **Total financial assets** | **16,344** | **271** | **2,914** | **19,529** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | 168 | - | 168 |
| **Total financial liabilities** | **-** | **168** | **-** | **168** |

**Financial assets and liabilities measured at fair value through other comprehensive income**

| 31 December 2018, DKKm | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments | - | 54 | - | 54 |
| **Total financial assets** | **-** | **54** | **-** | **54** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | 72 | - | 72 |
| **Total financial liabilities** | **-** | **72** | **-** | **72** |

**Financial assets and liabilities measured at fair value through profit or loss**

| 31 December 2017, DKKm | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets, Invest | | | | |
| Danish mortgage and government bonds | 2,245 | - | - | 2,245 |
| Credit bonds | 1,451 | - | 121 | 1,572 |
| Equities | 8,374 | - | 256 | 8,630 |
| Private equity funds and other unlisted funds | - | 363 | 808 | 1,171 |
| Total financial assets, Invest | 12,070 | 363 | 1,185 | 13,618 |
| Financial assets, Lundbeckfonden Ventures and Emerge | | | | |
| Equities | 927 | - | 1,176 | 2,103 |
| Receivables from sale of portfolio companies | - | - | 624 | 624 |
| Other receivables | - | - | 122 | 122 |
| Total Lundbeckfonden Ventures and Emerge | 927 | - | 1,922 | 2,849 |
| Securities (current assets) | 2,321 | - | - | 2,321 |
| **Total financial assets** | **15,318** | **363** | **3,107** | **18,788** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | 172 | - | 172 |
| **Total financial liabilities** | **-** | **172** | **-** | **172** |

**Financial assets and liabilities measured at fair value through other comprehensive income**

| 31 December 2017, DKKm | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments | - | 530 | - | 530 |
| Available-for-sale financial assets | 32 | - | 35 | 67 |
| **Total financial assets** | **32** | **530** | **35** | **597** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | 72 | - | 72 |
| **Total financial liabilities** | **-** | **72** | **-** | **72** |

## 16. Financial assets and financial risks - continued

| DKKm | 2018 | 2017 |
|---|---|---|
| **Financial assets measured at fair value according to level 3** | | |
| Carrying amount at 1 January | 3,142 | 3,393 |
| Additions | 356 | 837 |
| Disposals | -346 | -1,863 |
| Reclassification, from level 3 to level 1 in connection with IPO's | -245 | -593 |
| Fair value adjustment | 7 | 1,368 |
| **Carrying amount at 31 December** | **2,914** | **3,142** |

Applied valuation methods for the determination of fair value of the material 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 and credit bonds (listed) | Closing prices according to exchange markets | N/A | N/A |
| Equities (listed) | Closing prices according to exchange markets | N/A | N/A |
| Equities, property and infrastructure (unlisted) | Capitalisation model | Required rates on return 4.25-5.75% or cost if under construction | If required rate of return is reduced by 0.25pp the fair value will be increased by DKK 44m |
| Equities, Ventures and Emerge (unlisted) | Valuation methods based on International Private Equity and Venture Capital Valuation Guidance and price of recent transactions for level 3 | Capital injections made at different prices | If group of investments increase by 1% the fair value will be increased by DKK 10m |
| 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 applied by fund managers | Trading multiples | If group of investments increase by 1%-point the fair value will be increased by DKK 10m |
| Receivables including receivables from sale of portfolio companies | Expected discounted cash flow | Discount rate (WACC of 8.5%) | If group of investments increase by 1%-point the fair value will be increased by DKK 10m |
| Securities (current assets) | Closing prices according to exchange markets | N/A | N/A |
| 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 |

## 17. Deferred tax

Temporary differences between the carrying amount and the tax base:

| DKKm | Balance at 1 January | Changes in accounting policies | Currency translation | Adjustment of deferred tax 1 January | Addition on acquisition of businesses etc. | Transferred to assets classified as held for sale | Movements during the year | Balance at 31 December |
|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | |
| Non-current assets | 1,602 | - | 8 | -349 | 5 | 63 | 857 | 2,186 |
| Current assets | -651 | -59 | 12 | 234 | - | - | -431 | -895 |
| Other | 820 | - | -34 | 225 | - | - | 426 | 1,437 |
| Provisions in subsidiaries | -944 | - | 2 | 56 | - | - | -566 | -1,452 |
| Tax loss carryforwards etc. | -5,676 | - | -3 | 1,431 | -169 | 64 | -1,839 | -6,192 |
| **Total** | **-4,849** | **-59** | **-15** | **1,597** | **-164** | **127** | **-1,553** | **-4,916** |
| | | | | | | | | |
| Deferred (tax assets)/tax liabilities | -1,001 | -13 | -1 | 178 | -38 | 28 | -321 | -1,168 |
| Research and development activities (tax credits) | -90 | - | -9 | - | - | - | 26 | -73 |
| **Deferred (tax assets)/tax liabilities** | **-1,091** | **-13** | **-10** | **178** | **-38** | **28** | **-295** | **-1,241** |
| | | | | | | | | |
| **2017** | | | | | | | | |
| Non-current assets | 1,272 | - | 90 | -54 | 5 | 68 | 221 | 1,602 |
| Current assets | -462 | - | 32 | -53 | - | - | -168 | -651 |
| Other | 706 | - | 20 | -2 | - | - | 96 | 820 |
| Provisions in subsidiaries | -1,394 | - | 6 | -3 | - | - | 447 | -944 |
| Tax loss carryforwards etc. | -5,410 | - | 55 | -401 | - | 64 | 16 | -5,676 |
| **Total** | **-5,288** | **-** | **203** | **-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** |

## 17. Deferred tax – continued

| DKKm | 2018 | 2017 |
|---|---|---|
| **Deferred tax assets relate to the following items:** | | |
| Non-current assets | 24 | 122 |
| Current assets | 268 | 194 |
| Provisions and payables | 103 | 83 |
| Other | 113 | 232 |
| Provisions in subsidiaries | 356 | 155 |
| Tax value of tax loss carryforwards etc. | 1,488 | 1,275 |
| Research and development activities (tax credits) | 73 | 90 |
| Offset within legal tax entities and jurisdictions | -476 | -258 |
| Total | 1,949 | 1,893 |
| **Deferred tax liabilities relate to the following items:** | | |
| Non-current assets | 696 | 619 |
| Current assets | 37 | 33 |
| Provisions and payables | 1 | -4 |
| Other | 450 | 412 |
| Offset within legal tax entities and jurisdictions | -476 | -258 |
| Total | 708 | 802 |
| Deferred tax, net | 1,241 | 1,091 |

Of the recognised deferred tax assets, DKK 1,561m (DKK 1,365m at 31 December 2017) relate 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 456m (DKK 456m at 31 December 2017) to cover uncertain tax positions not yet settled with local tax authorities. The provision is based on Management's judgment 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 | 2018 | 2017 |
|---|---|---|
| **Unrecognised deferred tax assets:** | | |
| Unrecognised deferred tax assets at 1 January | 328 | 189 |
| Additions | 142 | 177 |
| Utilised | -93 | -38 |
| **Unrecognised deferred tax assets at 31 December** | **377** | **328** |

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

## 18. Inventories

| DKKm | 2018 | 2017 |
|---|---|---|
| Raw materials and consumables | 456 | 375 |
| Work-in-progress | 756 | 748 |
| Manufactured goods and goods for resale | 1,558 | 1,210 |
| Total | 2,770 | 2,333 |
| | | |
| Indirect costs of production | 648 | 668 |
| Impairment loss for the year | 52 | 88 |
| Inventories calculated at net realisable value | 121 | 6 |
| The total cost of goods sold is included in cost of sales in the amount of | 3,156 | 3,442 |

## 19. Trade receivables and other receivables

| DKKm | 2018 | 2017 |
|---|---|---|
| **Trade receivables and other receivables** | | |
| Trade receivables | 4,493 | 5,355 |
| Other receivables | 501 | 287 |
| Derivative financial instruments | 54 | 529 |
| Receivables from associates | 57 | 35 |
| Prepayments | 398 | 389 |
| **Total** | **5,503** | **6,595** |
| | | |
| **Trade receivables** | | |
| Receivables | 4,754 | 5,809 |
| Loss allowance | -261 | -454 |
| **Total** | **4,493** | **5,355** |

| Trade receivables, DKKm | Expected loss rate % | Receivables, gross | Loss allowance | 2018 Total | 2017 Total |
|---|---|---|---|---|---|
| Days past due | | | | | |
| Not due | 1% | 3,452 | 18 | 3,434 | 4,071 |
| 1 months to 6 months | 15% | 1,018 | 151 | 867 | 1,227 |
| 6 month to 12 months | 22% | 185 | 41 | 144 | 33 |
| More than 12 months | 52% | 99 | 51 | 48 | 24 |
| **Total** | | **4,754** | **261** | **4,493** | **5,355** |

| DKKm | 2018 | 2017 |
|---|---|---|
| **Allowance for doubtful trade receivables** | | |
| Allowance at 1 January | 454 | 500 |
| Change in accounting policies (IFRS 9) | 28 | - |
| Losses recognised | -967 | -712 |
| Adjustment for the year | 729 | 728 |
| Currency translation | 17 | -51 |
| Transfers to assets classified as held for sale | - | -11 |
| **Allowance at 31 December** | **261** | **454** |

### OTHER RECEIVABLES

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

| DKKm | 2018 | 2017 |
|---|---|---|
| **Specification of other receivables by due date** | | |
| Not due | 456 | 271 |
| Overdue by up to 3 months | 31 | 2 |
| Overdue by more than 3 months and up to 6 months | - | 3 |
| Overdue by more than 6 months and up to 12 months | - | - |
| Overdue by more than 12 months | 14 | 11 |
| **Total** | **501** | **287** |

### CREDIT RISKS

The Group's products are sold primarily to distributors of pharmaceuticals, pharmacies and hospitals. Services are sold to public authorities, other large customers and small individual customers.

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 relationships 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 as the Group also operates in volatile economies. The Group monitors and takes action to mitigate risks associated with receivables.

## 20. Contract assets

| DKKm | 2018 | 2017 |
|---|---|---|
| Contract assets (not invoiced) | 488 | - |
| Contract assets impairments | -17 | - |
| **Total** | **471** | **-** |
| | | |
| Expected loss rate | **4%** | **-** |

## 21. Cash resources

| DKKm | 2018 | 2017 |
|---|---|---|
| Fixed-term deposits | 194 | 239 |
| Other cash resources | 5,453 | 3,569 |
| **Cash and bank balances at 31 December** | **5,647** | **3,808** |
| | | |
| Securities with a maturity of less than 3 months | 198 | 590 |
| Securities with a maturity of more than 3 months | 3,352 | 1,731 |
| **Securities at 31 December** | **3,550** | **2,321** |
| | | |
| **Cash, bank balances and securities at 31 December** | **9,197** | **6,129** |

At 31 December 2018, DKK 30m (DKK 161m at 31 December 2017) of the Group's bank deposits are provided for security in connection with derivative financial instruments.

At 31 December 2018, DKK 73m (DKK 68m at 31 December 2017) 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.

## 22. Capital base

Lundbeckfonden's capital base is DKK 3,114m. The present charter of Lundbeckfonden was approved by the Board of Trustees on 17 April 2018. 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 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Capital base at 1 January | 3,109 | 2,965 | 2,888 | 2,728 | 2,523 |
| Increase in capital base | 5 | 144 | 77 | 160 | 205 |
| **Capital base at 31 December** | **3,114** | **3,109** | **2,965** | **2,888** | **2,728** |

## 23. Other reserves

| DKKm | 2018 | 2017 |
|---|---|---|
| **Reserve for future grants** | | |
| Balance at 1 January | 1,000 | 750 |
| Grants for the year | -567 | -494 |
| Transferred to provision for future grants | 817 | 744 |
| **Balance at 31 December** | **1,250** | **1,000** |
| | | |
| **Currency translation reserve** | | |
| Balance at 1 January | 117 | 989 |
| Currency translation for the year concerning foreign subsidiaries and additions to net investments in foreign subsidiaries | 157 | -965 |
| Tax in relation hereto | 16 | 93 |
| **Balance at 31 December** | **290** | **117** |
| | | |
| **Hedging reserve** | | |
| Balance at 1 January | 355 | -295 |
| Adjustment, deferred exchange gains/losses, hedging, recognised in other comprehensive income | -322 | 835 |
| Exchange gains/losses, hedging, transferred to revenue | -242 | -33 |
| Exchange gains/losses, hedging, transferred to the balance sheet | - | - |
| Value adjustment of interest hedging instruments | 25 | 29 |
| Tax in relation hereto | 118 | -181 |
| **Balance at 31 December** | **-66** | **355** |
| | | |
| **Other reserves at 31 December** | **1,474** | **1,472** |

## 24. Non-controlling interests

| DKKm | 2018 | 2017 |
|---|---|---|
| Non-controlling interests at 1 January | 4,566 | 3,482 |
| Changes in accounting policies | -20 | - |
| Share of profit/loss for the year | 1,084 | 332 |
| Share of other comprehensive income for the year | -63 | -99 |
| Incentive programmes | 14 | 90 |
| Dividend | -502 | -192 |
| Buyback of shares from non-controlling interests | -8 | -27 |
| Sale of treasury shares | 5 | - |
| Change in non-controlling interests | -51 | 100 |
| Adjustment of provision for acquisition of non-controlling interests | 7 | 30 |
| Capital increase | 3 | 834 |
| Reclassification of exchange rate adjustment from divestment of discontinued operations | 43 | - |
| Tax on other transactions in equity | 5 | 16 |
| **Non-controlling interests at 31 December** | **5,083** | **4,566** |

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

| | Non-controlling interests | Lundbeck-fonden's percentage of votes | Registered office |
|---|---|---|---|
| H. Lundbeck A/S | 30.9% | 69.0% | Copenhagen |
| ALK-Abelló A/S | 59.7% | 67.2% | Hørsholm |
| Falck A/S | 42.6% | 57.4% | Copenhagen |

The Minority shareholder's share of goodwill in Falck is partly recognised in the consolidated financial statements. Thus, goodwill of DKK 2,155m at 31 December 2018 (DKK 2,542m at 31 December 2017) is not recognised in the consolidated financial statements.

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

| | Lundbeck | | ALK | | Falck | |
|---|---|---|---|---|---|---|
| DKKm | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Statement of comprehensive income** | | | | | | |
| Revenue | 18,117 | 17,234 | 2,915 | 2,910 | 13,270 | 14,381 |
| Profit (loss) for the year | 3,907 | 2,624 | -170 | -158 | -528 | -2,503 |
| Total comprehensive income | 3,652 | 2,755 | -129 | -240 | -546 | -2,711 |
| Profit (loss) for the year attributable to non-controlling interests | 1,207 | 810 | -100 | -93 | -19 | -385 |
| **Balance sheet** | | | | | | |
| Non-current assets | 11,362 | 10,912 | 2,866 | 2,803 | 6,259 | 7,416 |
| Current assets | 11,649 | 8,844 | 1,999 | 2,155 | 3,416 | 3,625 |
| Assets classified as held for sale | - | - | - | - | 507 | 712 |
| Non-current liabilities | 1,184 | 1,096 | 960 | 1,002 | 6,364 | 6,756 |
| Current liabilities | 7,576 | 6,479 | 726 | 666 | 3,670 | 4,082 |
| Liabilities relating to assets classified as held for sale | - | - | - | - | 96 | 327 |
| Equity | 14,251 | 12,181 | 3,179 | 3,290 | 52 | 588 |
| Carrying amount of non-controlling interests of equity | 4,402 | 3,759 | 1,868 | 1,930 | -1,191 | -1,128 |
| **Statement of cash flow** | | | | | | |
| Cash flows from operating activities | 5,973 | 4,045 | -95 | -387 | 756 | 478 |
| Cash flows from investing activities | -2,899 | -1,830 | 250 | -358 | -307 | -671 |
| Cash flows from financing activities | -1,607 | -2,235 | -28 | 620 | -734 | 467 |
| Net cash flow for the year | 1,467 | -20 | -322 | -125 | -69 | 270 |
| Dividends paid to the non-controlling interests during the year | 490 | 146 | - | 29 | 12 | 15 |

## 25. Provisions

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| **Provisions can be specified as follows:** | | | |
| Pensions and similar obligations | 25.1 | 487 | 493 |
| Liabilities relating to acquisitions and non-controlling interests | 25.2 | 243 | 299 |
| Other provisions | 25.3 | 1,124 | 1,054 |
| **Total** | | **1,854** | **1,846** |
| **Provisions break down as follows:** | | | |
| Non-current | | 1,142 | 1,056 |
| Current | | 712 | 790 |
| **Total** | | **1,854** | **1,846** |

### 25.1 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 683m in 2018 (DKK 728m in 2017).

**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, Switzerland and the UK.

| DKKm | 2018 | 2017 |
|---|---|---|
| **Retirement benefit obligations and similar obligations** | | |
| Present value of defined benefit plans | 663 | 683 |
| Fair value of plan assets | -258 | -266 |
| **Defined benefit plans at 31 December** | **405** | **417** |
| Other pension-like obligations | 82 | 76 |
| Retirement benefit obligations and similar obligations at 31 December | **487** | **493** |
| **Retirement benefit obligations and similar obligations break down as follows:** | | |
| Non-current liabilities | 486 | 489 |
| Current liabilities | 1 | 4 |
| **Retirement benefit obligations and similar obligations at 31 December** | **487** | **493** |

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 | 2018 | 2017 |
|---|---|---|
| Discount rate | 1.70-3.00 | 1.55-2.80 |
| Inflation rate | 1.75-3.00 | 1.75-3.00 |
| Pay rate increase | 0.00-2.90 | 0.00-2.40 |
| Pension increase | 1.75-3.20 | 1.75-3.10 |
| Age-weighted staff resignation rate | 0.00-8.00 | 0.00-8.00 |
| Expected return on plan assets | 3.00-3.20 | 2.80-3.30 |

## 25. Provisions - continued

### 25.1 Pensions and similar obligations - continued

Discount rate and inflation rate are the most significant assumptions used in the calculation of the obligation for defined benefit plans. An increase in the discount rate of 0.25 %-point would result in a decrease in the obligation of approximately DKK 52m (DKK 52m at 31 December 2017) and vice versa. An increase in the inflation rate of 0.25 %-point would result in an increase in the obligation of approximately DKK 11m (DKK 11m at 31 December 2017) 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 | 2018 | 2017 |
|---|---|---|
| **The fair value of the plan assets breaks down as follows:** | | |
| Shares | 20 | 19 |
| Bonds | 23 | 16 |
| Property | 5 | 5 |
| Insurance contracts | 46 | 49 |
| Other assets | 6 | 11 |
| **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 | 2018 | 2017 |
|---|---|---|
| **Change in present value of defined benefit plans** | | |
| Present value of defined benefit plans at 1 January | 683 | 867 |
| Effect of foreign exchange differences | 3 | -19 |
| Past service costs | 1 | - |
| Pension expenses | 11 | 17 |
| Interest expenses relating to the obligations | 13 | 15 |
| Experience and assumptions adjustments | -12 | -43 |
| Benefits paid | -36 | -18 |
| Employee contributions | 1 | 1 |
| Settlements | -2 | -40 |
| Curtailments | - | -95 |
| Transferred to liabilities held for sale | - | -2 |
| Reclassified to and from other balance sheet accounts | 1 | - |
| **Present value of funded pension obligations at 31 December** | **663** | **683** |
| **Change in fair value of plan assets** | | |
| Fair value of plan assets at 1 January | 266 | 358 |
| Effect of foreign exchange differences | 1 | -13 |
| Interest income on plan assets | 6 | 7 |
| Experience adjustments | 5 | 8 |
| Contributions | 9 | 12 |
| Disbursements | -27 | -4 |
| Employee contributions | 1 | 1 |
| Administration fee | -1 | -1 |
| Settlements | -2 | -40 |
| Curtailment of plan | - | -62 |
| **Fair value of plan assets at 31 December** | **258** | **266** |
| **Realised return on plan assets** | **11** | **14** |

## 25. Provisions - continued

### 25.1 Pensions and similar obligations - continued

| DKKm | 2018 | 2017 |
|---|---|---|
| **Specification of expenses recognised in the income statement** | | |
| Past service costs | 1 | - |
| Pension expenses | 11 | 17 |
| Interest expenses relating to the obligations | 7 | 7 |
| Curtailments | - | -95 |
| Expected return on plan assets | - | -1 |
| Past service cost related to curtailment of plan | - | -7 |
| Actuarial (gains)/losses | 1 | 1 |
| **Total expenses recognised** | **20** | **-78** |
| | | |
| **Specification of amount recognised in the statement of comprehensive income** | | |
| Actuarial (gains)/losses | -19 | -53 |
| **Total expenses recognised** | **-19** | **-53** |

The expected contribution for 2019 for the defined benefit plans is DKK 23m (DKK 24m in 2018).

#### OTHER OBLIGATIONS OF A RETIREMENT BENEFIT NATURE

An obligation at 31 December 2018 of DKK 82m (DKK 76m at 31 December 2017) 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.

### 25.2 Liabilities relating to acquisitions and non-controlling interests

| DKKm | 2018 | 2017 |
|---|---|---|
| Liabilities: | | |
| Liabilities concerning acquisition of non-controlling interests | 135 | 219 |
| Payable considerations and contingent consideration | 108 | 80 |
| **Liabilities at 31 December** | **243** | **299** |
| | | |
| Non-current portion: | | |
| Liabilities concerning acquisition of non-controlling interests | - | 75 |
| Payable considerations and contingent consideration | 10 | 16 |
| **Non-current portion at 31 December** | **10** | **91** |
| | | |
| Current portion: | | |
| Liabilities concerning acquisition of non-controlling interests | 135 | 144 |
| Payable considerations and contingent consideration | 98 | 64 |
| **Current portion at 31 December** | **233** | **208** |
| | | |
| **Liabilities concerning acquisition of non-controlling interests** | | |
| Liabilities at 1 January | 219 | 821 |
| Currency translation | 2 | -52 |
| Disposals on divestment | -42 | - |
| Provisions used during the year | -25 | -355 |
| Interest element on discounted liabilities | - | 7 |
| Dividends paid and other adjustments | -3 | -22 |
| Adjustments recognised in goodwill relating to business combinations before 1 January 2010 | - | 4 |
| Adjustments and interest recognised in equity relating to business combinations after 1 January 2010 | -16 | -71 |
| Transferred to assets classified as held for sale | - | -113 |
| **Liabilities concerning acquisition of non-controlling interests at 31 December** | **135** | **219** |
| | | |
| Classification of liabilities for acquisition of non-controlling interests by expected maturity | | |
| Within 1 year | 135 | 144 |
| Between 1 and 5 years | - | 75 |
| More than 5 years | - | - |
| **Liabilities concerning acquisition of non-controlling interests at 31 December** | **135** | **219** |

## 25. Provisions – continued

### 25.2 Liabilities relating to acquisitions and non-controlling interests - continued

| DKKm | 2018 | 2017 |
|---|---|---|
| **Outstanding consideration and earn-outs** | | |
| Liabilities at 1 January | 80 | 64 |
| Provisions charged | 60 | - |
| Additions on acquisitions | 1 | 51 |
| Provisions used during the year | -33 | -35 |
| **Outstanding considerations and earn-outs at 31 December** | **108** | **80** |
| | | |
| Classification of outstanding consideration and earn-outs by expected maturity | | |
| Within 1 year | 98 | 64 |
| Between 1 and 5 years | 10 | 16 |
| **Liabilities concerning acquisition of non-controlling interests at 31 December** | **108** | **80** |

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 on the basis of earnings and net debt at the time when the non-controlling interests are expected to exercise their right to sell their shares to Falck. The calculated liability typically assumes an increase in earnings and a decrease in net debt in the relevant companies as compared with the value recognised in the financial statements.

### 25.3 Other provisions

| DKKm | 2018 | 2017 |
|---|---|---|
| Other provisions at 1 January | 1,054 | 1,118 |
| Currency translation | 19 | -57 |
| Provisions charged | 319 | 529 |
| Provisions used | -226 | -497 |
| Unused provisions reversed | -60 | -35 |
| Reclassified to and from other balance sheet accounts | 18 | - |
| Transferred to assets classified as held for sale | - | -4 |
| **Other provisions at 31 December** | **1,124** | **1,054** |
| | | |
| **Other provisions at 31 December can be specified as follows:** | | |
| Non-current provisions | 646 | 476 |
| Current provisions | 478 | 578 |
| **Total** | **1,124** | **1,054** |

Of other provisions at 31 December 2018, DKK 446m (DKK 314m at 31 December 2017) relates to provision regarding returns and DKK 243m (DKK 297m at 31 December 2017) relates to restructuring programs in Lundbeck.

Furthermore, other provisions 31 December 2018 comprise liability regarding incentive programmes of DKK 160m (DKK 160m at 31 December 2017) and liabilities for e.g. legal disputes.

## 26. Debt to financial institutions and other

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| **Debt to financial institutions and other can be specified as follows:** | | | |
| Mortgage debt | 26.1 | 591 | 611 |
| Bank and leasing debt, etc. | 26.2 | 4,876 | 5,505 |
| Repo debt | 26.4 | 199 | 502 |
| **Total** | | **5,666** | **6,618** |
| | | | |
| **Can be specified as follow:** | | | |
| Non-current debt to financial institutions and other, subsidiaries | | 5,327 | 5,842 |
| Current debt to financial institutions, subsidiaries | | 140 | 274 |
| Repo debt, Invest | | 199 | 502 |
| **Total** | | **5,666** | **6,618** |

Syndicated loans amounting to DKK 3,344m (DKK 4,016m at 31 December 2017) were re-financed in 2018. Following, DKK 20m capitalised loan costs has been recognised in the income statement. The loans are subject to loan terms that include covenants requiring certain financial performance indicators to be met. All loan terms were honoured in 2018 and 2017.

Subordinated shareholder loans in Falck of DKK 846m were converted to equity in March 2019.

### 26.1 Mortgage debt

| DKKm | 2018 | 2017 |
|---|---|---|
| **Mortgage debt by maturity:** | | |
| Within 1 year | 17 | 17 |
| Between 1 and 5 years | 71 | 70 |
| More than 5 years | 503 | 524 |
| **Mortgage debt at 31 December** | **591** | **611** |
| | | |
| **Can be specified as follow:** | | |
| Non-current liabilities | 574 | 594 |
| Current liabilities | 17 | 17 |
| **Mortgage debt at 31 December** | **591** | **611** |

| DKKm | Currency/ Expiry | Fixed/floating | Weighted average effective interest rates | Amortised cost | Nominal value | Fair value |
|---|---|---|---|---|---|---|
| 2018 | | | | | | |
| Bond loan, Falck | DKK/2045 | Fixed | 1.2% | 298 | 303 | 303 |
| Bond loan, ALK | DKK/2035 | Fixed/Floating | 1.2% | 293 | 293 | 302 |
| **Total** | | | | **591** | **596** | **605** |
| | | | | | | |
| 2017 | | | | | | |
| Bond loan, Falck | DKK/2045 | Fixed | 1.2% | 301 | 308 | 308 |
| Bond loan, ALK | DKK/2035 | Fixed/Floating | 1.2% | 310 | 310 | 322 |
| **Total** | | | | **611** | **618** | **630** |

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

# 26. Debt to financial institutions and other - continued

## 26.2 Bank and leasing debt, etc.

| DKKm | 2018 | 2017 |
|---|---|---|
| **Bank and leasing debt, etc. by maturity:** | | |
| Within 1 year | 123 | 257 |
| Between 1 and 5 years | 685 | 4,980 |
| More than 5 years | 4,068 | 268 |
| **Total** | **4,876** | **5,505** |
| | | |
| **Specification of bank and leasing debt, etc.:** | | |
| Non-current obligations, loan | 4,659 | 5,102 |
| Non-current obligations, leased assets | 94 | 146 |
| **Total non-current** | **4,753** | **5,248** |
| | | |
| Current obligations, loan | 66 | 197 |
| Current obligations, leased assets | 57 | 60 |
| **Total current** | **123** | **257** |
| | | |
| **Total debt at 31 December** | **4,876** | **5,505** |

## 26. Debt to financial institutions and other - continued

### 26.2 Bank and leasing debt, etc. - continued

| DKKm | Currency | Expiry | Fixed/floating | Weighted average effective interest rates | Carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Bank debt, Falck | DKK | 2019-2021 | Floating | 3.3% | 1,848 | 1,852 |
| Bank debt, Falck | EUR | 2019-2021 | Floating | 2.5% | 1,502 | 1,505 |
| Bank debt, Falck | EUR | 2019-2021 | Fixed | 1.6% | 20 | 20 |
| Bank debt, Falck | USD, other | 2019-2021 | Fixed/floating | 2.7% | 59 | 59 |
| Other loans, Falck | DKK | 2021 | Fixed | 10.0% | 846 | 846 |
| Leasing debt, Falck | EUR, USD, other | 2018-2025 | Fixed/floating | 4.2% | 152 | 152 |
| Leasing debt, ALK | EUR, USD | 2020-2023 | Fixed | 4.2-6.6% | 1 | 1 |
| Other bank and finance loans, ALK | EUR | 2022 | Fixed | 1.8% | 448 | 448 |
| **Total** | | | | | **4,876** | **4,883** |
| **2017** | | | | | | |
| Bank debt, Falck | DKK | 2019 | Floating | 3.2% | 2,375 | 2,403 |
| Bank debt, Falck | EUR | 2019 | Floating | 2.4% | 1,497 | 1,491 |
| Bank debt, Falck | EUR | 2019 | Fixed | 2.9% | 32 | 32 |
| Bank debt, Falck | USD, other | 2018-2019 | Floating | 3.7-4.7% | 179 | 178 |
| Other loans, Falck | DKK | 2019 | Fixed | 10.0% | 757 | 757 |
| 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** |

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

## 26. Debt to financial institutions and other - continued

### 26.3 Development in mortgage debt and bank debt, etc.

| DKKm | Balance at 1 January | Cash flow, net | Transferred to liabilities held for sale | Non-cash changes | Balance at 31 December |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Long-term borrowings | 5,696 | -543 | - | 83 | 5,236 |
| Short-term borrowings | 214 | -133 | -2 | - | 79 |
| Lease liabilities | 206 | -61 | - | 7 | 152 |
| **Total** | **6,116** | **-737** | **-2** | **90** | **5,467** |
| | | | | | |
| 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** |

### 26.4 Repo debt

At 31 December 2018, repo debt totalling DKK 199m (DKK 502m at 31 December 2017) fell due in January 2019 (January 2018). The debt carries a fixed rate of interest from the date of conclusion at negative 0.30% (negative 0.25% at 31 December 2017).

## 27. Contract liabilities

| DKKm | 2018 | 2017 |
|---|---|---|
| Stepped-pricing contracts | 49 | - |
| Prepayments | 1,154 | - |
| **Total** | **1,203** | **-** |
| | | |
| Within 1 year | 1,154 | - |
| More than 1 year | 49 | - |
| **Total** | **1,203** | **-** |
| | | |
| Revenue recognised from amounts included in contract liabilities at the beginning of the year | 1,356 | - |
| Revenue recognised from performance obligations satisfied in previous years | -16 | - |

## 28. Other payables

| DKKm | 2018 | 2017 |
|---|---|---|
| Trade payables | 5,023 | 4,055 |
| Other payables | 4,729 | 3,038 |
| Prepayments from customers | - | 1,356 |
| Derivative financial instruments | 168 | 244 |
| **Total** | **9,920** | **8,693** |

Sales discounts and rebates in the US amounted to DKK 1,493m at 31 December 2018 (DKK 1,613m at 31 December 2017) and are included in other payables. The remaining amount relates mainly to VAT, employee-related obligations and legal settlements. Prepayments from customers at 31 December 2018 is presented as contract liabilities.

## 29. Adjustment for non-cash operating items

| DKKm | 2018 | 2017 |
|---|---|---|
| Depreciation, amortisation and impairment | 2,305 | 4,059 |
| Gain on reduction of ownership interest | - | -2 |
| Incentive programmes | 45 | 58 |
| Change in retirement benefit obligations | - | -28 |
| Change in other provisions | 11 | -154 |
| Gain in divestment from sale of non-currents assets | -34 | -267 |
| Change in valuation of biological assets | -7 | - |
| Other adjustments | 19 | -56 |
| **Total** | **2,339** | **3,610** |

## 30. Working capital changes

| DKKm | 2018 | 2017 |
|---|---|---|
| Change in inventories | -406 | -103 |
| Change in contract assets | -4 | |
| Change in receivables | 587 | -192 |
| Change in contract liabilities | -164 | - |
| Change in current liabilities | 645 | 700 |
| **Total** | **658** | **405** |

# 31. Acquisitions and divestments

## 31.1 Acquisition of businesses etc.

| DKKm | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Intangible assets | 6 | 33 |
| Property, plant and equipment | - | 13 |
| Inventories | - | 50 |
| Cash and bank balances | - | 6 |
| **Equity and liabilities** | | |
| Current liabilities, provisions etc. | - | -5 |
| Deferred tax | -1 | - |
| Non-controlling interests | - | -3 |
| **Net assets acquired** | **5** | **94** |
| Goodwill | - | 55 |
| **Purchase price** | **5** | **149** |
| Adjustment for cash and bank balances acquired | - | -6 |
| Outstanding consideration | - | -46 |
| Acquisition of Prexton Therapeutics BV | 745 | - |
| Consideration relating to prior-year acquisitions | 71 | 395 |
| Expensed costs from business combinations | - | 11 |
| **Cash consideration for acquisitions** | **821** | **503** |

In 2018, Lundbeck purchased the foliglurax product rights by acquiring all shares in Prexton Therapeutics BV. The purchase is considered a purchase of assets, i.e. not a business combination.

No other significant acquisitions have been made during 2018.

In 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 immunotherapy | 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 was 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.

# 31. Acquisitions and divestments - continued

## 31.2 Divestment of businesses

Divestment of businesses include divestment of subsidiaries and operations.

| DKKm | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Goodwill | 53 | 11 |
| Other intangible assets | 7 | 1 |
| Property, plant and equipment | 86 | 2 |
| Cash and bank balances | 38 | - |
| Other current assets | 39 | 2 |
| **Equity and liabilities** | | |
| Current liabilities | -98 | -7 |
| Deferred tax | -2 | - |
| **Net assets divested** | **123** | **9** |
| Gain and losses on divestment of business, net | -44 | 5 |
| Reclassified to associates | - | - |
| **Sales price** | **79** | **14** |
| Adjustment for cash and bank balances transferred | -38 | -2 |
| Sales price receivable | -29 | -5 |
| Transaction costs | -12 | - |
| **Cash flows from divestment of subsidiaries and operations** | **-** | **7** |

In 2018, Falck divested its shares in 9Lives in Finland, First Ambulances in Malaysia, Falck Fire Academy in the Netherlands, and three minor ambulance companies in Switzerland.

In 2017, no significant divestments were made.

# 32. 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 16 *Financial assets and financial risks*, note 19 *Trade receivables and other receivables* and note 21 *Cash resources* for a description of risks and the management thereof.

## 32.1 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 | 2018 | 2017 |
|---|---|---|
| **Monetary assets** | | |
| CAD | 123 | 144 |
| CHF | 213 | 160 |
| CNY | 261 | 265 |
| EUR | 4,595 | 4,809 |
| GBP | 442 | 826 |
| JPY | 82 | 141 |
| USD | 7,244 | 7,906 |
| **Monetary liabilities** | | |
| CAD | 86 | 100 |
| EUR | 1,869 | 1,822 |
| GBP | 338 | 190 |
| USD | 3,838 | 3,406 |

# 32. Financial risks and financial instruments – continued

## 32.1 Exchange rate risks – continued

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 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Profit | 2 | 10 | 10 | 11 | 4 | 273 |
| Equity | -16 | 10 | -12 | 5 | 4 | 200 |
| **2017** | | | | | | |
| Profit | 2 | 8 | 12 | 21 | 7 | 321 |
| Equity | -17 | 8 | -3 | 17 | 7 | 184 |

The profit impact is included in the impact on equity.

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 the euro is therefore not included in the table above.

## 32.2 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 16 *Financial assets and financial risks* and note 26 *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 2018, the Group's portfolio of bonds had a duration of 1.5 year (1.1 year at 31 December 2017). Other things being equal, an increase of 1 %-point in interest rates would decrease the Group's profit after tax by DKK 66m (decrease of DKK 41m at 31 December 2017).

At 31 December 2018, the Group had an interest rate swap with a contractual value of DKK 600m for managing interest rate exposure on Danish mortgage and government bonds amounting to DKK 1,949m (DKK 2,245m at 31 December 2017). Other than this, there were no derivatives at 31 December 2018 and 31 December 2017 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 of DKK 3,344m (DKK 3,887m at 31 December 2017) carry variable interest. The interest rate risk is hedged with interest rate swaps with a contractual value of DKK 2,493m (DKK 3,189m at 31 December 2017) and consequently approximately 74% (80% at 31 December 2017) of the syndicated loans carry a fixed rate of interest.

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

An increase in the interest rate of 1 %-point on debt to financial institutions and other would decrease the Group's profit after tax by DKK 13m (DKK 7m at 31 December 2017).

## 32. Financial risks and financial instruments - continued

### 32.3 Categories and maturity dates for financial assets and financial liabilities

| 31 December 2018, DKKm | Less than 1 year | 1-5 years | More than 5 years | Total | Carrying amount | Effective interest |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Financial assets, Invest | | | | | | |
| Danish mortgage and government bonds | - | 599 | 1,984 | 2,583 | 1,949 | 0 - 4% |
| Credit bonds | - | 799 | 679 | 1,478 | 1,373 | 1 - 14% |
| Financial assets, Lundbeckfonden Ventures and Emerge | | | | | | |
| Receivables from sale of portfolio companies | 32 | 412 | 97 | 541 | 541 | |
| Other receivables | 26 | - | - | 26 | 25 | 8% |
| Securities (current assets) | 3,628 | - | - | 3,628 | 3,550 | 0 - 14% |
| **Financial assets at fair value through profit or loss** | **58** | **1,810** | **2,760** | **4,628** | **3,888** | |
| Derivatives to hedge future cash flows and net investment in foreign subsidiaries | 54 | - | - | 54 | 54 | |
| **Financial assets used as hedging instruments** | **54** | **-** | **-** | **54** | **54** | |
| Receivables | 5,274 | 136 | - | 5,410 | 5,410 | |
| Fixed-term deposits | 194 | - | - | 194 | 194 | 0 - 4% |
| Other cash resources | 5,460 | - | - | 5,460 | 5,460 | -1 - 3% |
| **Loans and receivables measured at amortised cost** | **10,928** | **136** | **-** | **11,064** | **11,064** | |
| **Total financial assets** | **11,040** | **1,946** | **2,760** | **15,746** | **15,006** | |

| 31 December 2018, DKKm | Less than 1 year | 1-5 years | More than 5 years | Total | Carrying amount | Effective interest |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Derivatives included in the trading portfolio | 31 | - | - | 31 | 31 | |
| **Financial liabilities at fair value through profit or loss** | **31** | **-** | **-** | **31** | **31** | |
| Derivatives to hedge future cash flows and net investment in foreign subsidiaries | 137 | | - | 137 | 137 | |
| **Financial liabilities used as hedging instruments** | **137** | **-** | **-** | **137** | **137** | |
| Mortgage, bank, leasing and repo debt, etc. | 643 | 5,380 | 590 | 6,613 | 5,666 | 1 - 10% |
| Employee bonds/purchase obligations | 135 | - | - | 135 | 135 | |
| Other payables and non-disbursed grants | 10,694 | 609 | - | 11,303 | 11,303 | |
| **Financial liabilities measured at amortised cost** | **11,472** | **5,989** | **590** | **18,051** | **17,104** | |
| **Total financial liabilities** | **11,640** | **5,989** | **590** | **18,219** | **17,272** | |

The amounts in the tables are including interests.

## 32. Financial risks and financial instruments - continued

### 32.3 Categories and maturity dates for financial assets and financial liabilities - continued

| 31 December 2017, DKKm | Less than 1 year | 1-5 years | More than 5 years | Total | Carrying amount | Effective interest |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Financial assets, Invest | | | | | | |
| Danish mortgage and government bonds | - | 994 | 1,727 | 2,721 | 2,245 | 0 - 1% |
| Credit bonds | - | 817 | 895 | 1,712 | 1,572 | 4 - 14% |
| Financial assets, Lundbeckfonden Ventures and Emerge | | | | | | |
| Receivables from sale of portfolio companies | 86 | 442 | 96 | 624 | 624 | |
| Other receivables | 123 | - | - | 123 | 122 | 8 - 12% |
| Securities | 2,393 | - | - | 2,393 | 2,321 | 0 - 14% |
| **Financial assets at fair value through profit or loss** | **2,602** | **2,253** | **2,718** | **7,573** | **6,884** | |
| Derivatives to hedge future cash flows and net investment in foreign subsidiaries | 529 | - | - | 529 | 529 | |
| **Financial assets used as hedging instruments** | **529** | **-** | **-** | **529** | **529** | |
| Receivables | 5,984 | 119 | - | 6,103 | 6,103 | |
| Fixed-term deposits | 239 | - | - | 239 | 239 | 0 - 2% |
| Other cash resources | 3,700 | - | - | 3,700 | 3,700 | -1 - 10% |
| **Loans and receivables measured at amortised cost** | **9,923** | **119** | **-** | **10,042** | **10,042** | |
| **Total financial assets** | **13,054** | **2,372** | **2,718** | **18,144** | **17,455** | |

| 31 December 2017, DKKm | Less than 1 year | 1-5 years | More than 5 years | Total | Carrying amount | Effective interest |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Derivatives included in the trading portfolio | 172 | - | - | 172 | 172 | |
| **Financial liabilities at fair value through profit or loss** | **172** | **-** | **-** | **172** | **172** | |
| Derivatives to hedge future cash flows and net investment in foreign subsidiaries | 62 | 10 | - | 72 | 72 | |
| **Financial liabilities used as hedging instruments** | **62** | **10** | **-** | **72** | **72** | |
| Mortgage, bank, leasing and repo debt, etc. | 876 | 6,109 | 614 | 7,599 | 6,618 | 1 - 10% |
| Employee bonds/purchase obligations | 229 | 131 | - | 360 | 253 | |
| Other payables and non-disbursed grants | 9,249 | 548 | - | 9,797 | 9,797 | |
| **Financial liabilities measured at amortised cost** | **10,354** | **6,788** | **614** | **17,756** | **16,668** | |
| **Total financial liabilities** | **10,588** | **6,798** | **614** | **18,000** | **16,912** | |

The amounts in the tables are including interests.

## 32. Financial risks and financial instruments - continued

### 32.4 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.

| Forward contracts, DKKm | 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 |
|---|---|---|---|---|---|
| 2018 | | | | | |
| CAD | 355 | 7 | 2 | 482.16 | Nov 2019 |
| CNY | 390 | -10 | -8 | 91.10 | Sep 2019 |
| JPY | 282 | -9 | 8 | 5.74 | Oct 2019 |
| SEK | 436 | -4 | 1 | 72.01 | Dec 2019 |
| USD | 4,659 | -59 | 237 | 632.01 | Jan 2020 |
| Other currencies | 1,039 | -4 | 3 | | Dec 2019 |
| **Forward contracts** | **7,161** | **-79** | **243** | | |
| 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** | **23** | | |

# 32. Financial risks and financial instruments – continued

## 32.4 Net outstanding forward exchange rate transactions, currency options, interest rate swaps and equity options - continued

| Interest rate collar/interest rate swap, DKKm | Contractual value | Market value 31 December | Interest rate gains/losses recognised in other comprehensive income | Fixed interest rate | Expiry |
|---|---|---|---|---|---|
| 2018 | | | | | |
| DKK interest rate swap | 1,000 | -4 | 17 | 0.54 | Jun 2019 |
| EUR interest rate swap | 1,493 | -5 | 8 | 0.25 | Jun 2019 |
| DKK interest rate swap | 600 | -18 | -18 | 1.08 | Jan 2028 |
| **Interest rate collar/interest rate swap** | | **-27** | **7** | | |
| 2017 | | | | | |
| DKK interest rate swap | 1,700 | -21 | -21 | 0.53 | Jun 2019 |
| EUR interest rate swap | 1,489 | -13 | -13 | 0.25 | Jun 2019 |
| DKK interest rate swap | 600 | -22 | -4 | 1.14 | May 2025 |
| **Interest rate collar/interest rate swap** | | **-56** | **-38** | | |

## 32. Financial risks and financial instruments - continued

### 32.4 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 |
|---|---|---|---|---|
| 2018 | | | | |
| Options on indices | 83 | -89 | 1 | Jun 2019 |
| Options on shares | 113 | 20 | -14 | Jun 2019 |
| **Share contracts** | **196** | **-69** | **-13** | |
| | | | | |
| 2017 | | | | |
| Options on indices | -2,794 | -360 | -151 | Mar 2018 |
| Options on shares | - | 8 | - | - |
| **Share contracts** | **-2,794** | **-352** | **-151** | |

## 33. Contractual obligations, contingent assets and liabilities, and collaterals

#### LEASE OBLIGATIONS

| Operating lease obligation, DKKm | 2018 | 2017 |
|---|---|---|
| Less than 1 year | 498 | 604 |
| Between 1 and 5 years | 1,210 | 1,411 |
| More than 5 years | 984 | 1,178 |
| **Operating lease obligations total** | **2,692** | **3,193** |
| | | |
| Net present value of lease commitments | 2,414 | 2,842 |
| Expensed lease payments amounted to | 691 | 756 |

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.

| Finance lease obligations, DKKm | 2018 | 2017 |
|---|---|---|
| Less than 1 year | 60 | 62 |
| Between 1 and 5 years | 106 | 162 |
| More than 5 years | - | - |
| **Minimum lease payments** | **166** | **224** |
| Amortisations premium for future expensing | 14 | 17 |
| **Present value of finance lease obligations** | **152** | **207** |

#### OTHER CONTRACTUAL OBLIGATIONS

| DKKm | 2018 | 2017 |
|---|---|---|
| Purchase obligations | 395 | 412 |
| Collaterals and repo | 231 | 701 |
| Research and development milestones obligations | 1,700 | 460 |
| Research and development collaborations | 31 | 72 |
| Performance bonds in connections with a number of contracts | 343 | 240 |
| Capital contribution obligations | 858 | 466 |
| Other contractual obligations, including service agreements | 255 | 133 |

#### CONTINGENT ASSETS AND LIABILITIES

**Falck - ruling from the Danish Competition Council**

Falck has received a ruling from the Danish Competition Council for having violated the Danish competition rules in connection with the award and transfer of the ambulance operation contract in the Southern Denmark region to a new provider (BIOS) in 2015. Falck decided to refrain from appealing the ruling, and the case was then referred to SØIK for an investigation and determination of a potential fine. SØIK have not yet informed Falck of their expected timing for a determination on the case. BIOS and the region of Southern Denmark have expressed the intention or possibility to raise compensation claims against Falck. However, Falck has not received any such claims yet. The Group has not recognised a provision for either a fine or compensation claims due to the uncertainty on the amount and timing.

## 33. 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 the outcome is too uncertain to enable the Group to make a reliable provision. 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.

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 judgment concerning Lundbeck's appeal against the European Commission's 2013 decision. Lundbeck's appeal was rejected by the General Court. Lundbeck has appealed the judgment to the European Court of Justice. Lundbeck paid and expensed the fine in 2013. An oral hearing was conducted by the European Court of Justice on 24 January 2019 and a final judgment is expected during 2019. So-called "follow-on claims" for reimbursement of alleged losses resulting from alleged violation of competition law often arise when decisions and fines issued by the European Commission are upheld by the European Court of Justice.

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

In June 2018, Lundbeck announced that its US subsidiary Lundbeck LLC had reached an agreement in principle to resolve the U.S. Department of Justice (DOJ) investigation related to Lundbeck LLC's relationship with and donations to independent patient assistance charitable foundations. As part of the agreement, Lundbeck LLC will pay DOJ an amount of USD 52.6m (DKK 334m). The remaining terms of agreement are subject to further negotiation with DOJ. Lundbeck LLC is pleased to have reached an agreement that will allow the company to put this matter behind it. The agreement does not include any admission by Lundbeck LLC that it violated any law. The agreement will allow Lundbeck LLC to continue its focus on providing innovative medications to the patients.

Lundbeck has entered into settlements with three of the four generic companies involved in a federal court case, where Lundbeck is pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. Lundbeck received AUD 51.7m (DKK 242m) in 2018. Lundbeck's case against the final generic company, Sandoz Pty Ltd, is continuing. Sandoz Pty Ltd has been found liable for infringing Lundbeck's escitalopram patent between 2009 and 2012, and the parties are now awaiting the court orders, including the court's final calculation of the damage award. Sandoz Pty Ltd has appealed the decision.

Lundbeck has instituted patent infringement proceedings against 16 generic companies that have applied for marketing authorization for generic versions of Trintellix® in the US. Decisions are expected shortly before the end of March 2021. Lundbeck has strong confidence in its vortioxetine patents. The FDA cannot grant marketing authorizations to the generic companies unless they receive a decision in their favour. The compound patent, including patent term extensions, will expire in the US on 17 December 2026. Lundbeck has other patents relating to vortioxetine with expiry in the period until 2032.

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 shifted from SDE to CADE (Administrative Council for Economic Defense). In April, May and June 2018, CADE's Superintendence, CADE's General Attorney and the Federal Public Prosecutor, respectively, issued opinions stating that Lundbeck in defending its data protection rights had not acted in violation of Brazilian competition law regulation and recommended that the case should be closed. On 3 October 2018, the members of CADE's Tribunal unanimously decided to end the case without any consequences for Lundbeck.

**Return obligations**

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

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

**COLLATERALS**

Land and buildings provided as security for mortgage debt amounting to DKK 541m (DKK 590m at 31 December 2017) out of mortgage debt of DKK 591m (DKK 611m at 31 December 2017).

## 33. Contractual obligations, contingent assets and liabilities, and collaterals - continued

The shares in the subsidiaries Falck Danmark A/S, Falck Global A/S, Falck Assistance A/S, Falck Global Assistance A/S and Falck Health Care Holding A/S have been provided as collateral for Falck's debt. The debt amounted to DKK 3,344m at 31 December 2018 (DKK 4,016m at 31 December 2017).

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 2018 amounted to DKK 201m (DKK 540m at 31 December 2017).

## 34. 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 | 2018 | 2017 |
|---|---|---|
| Acquisition of services | -1 | -1 |
| Lease costs | -27 | -26 |
| Interest income from associates | - | 4 |
| Receivables from associates at 31 December | 31 | 38 |
| Payables to associates at 31 December | 31 | 15 |

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.

## 35. Discontinued operations and assets classified as held for sale

Falck Safety Services and Healthcare non-core activities are presented as discontinued operations.

On 20 September 2018, Falck divested Falck Safety Services. The consideration paid consists of a cash payment of DKK 534m and an interest-bearing deferred payment of DKK 50m falling due in 2019. A loss on the divestment of DKK 21 was recognised in profit for the period from discontinued operations.

Cash flows from investing activities comprise considerations related to prior-year acquisitions in Malaysia and Thailand for a net amount of DKK 94m.

On 25 September 2018, Falck divested its Danish medical clinics and associated businesses (Falck Lægehuse, Sirculus and Vikteam). The consideration consists of a cash payment of DKK 3m. A loss on the divestment of DKK 24m was recognised in profit for the year from discontinued operations.

| DKKm | 2018 | 2017 |
|---|---|---|
| Revenue | 1,422 | 1,630 |
| Cost of sales | -1,179 | -1,410 |
| **Gross profit** | 243 | 220 |
| Sales and distribution costs | -2 | -96 |
| Administrative expenses | -139 | -147 |
| Other operating items, net | 2 | 14 |
| Operating profit | 104 | -9 |
| Financial income and expenses, net | -5 | -58 |
| Profit before tax | 99 | -67 |
| Tax on profit for the year | -31 | -12 |
| Profit for the year | 68 | -79 |
| Loss on divestment of discontinued operations | -45 | - |
| **Profit for the year from discontinued operations** | **23** | **-79** |

## 35. Discontinued operations and assets classified as held for sale – continued

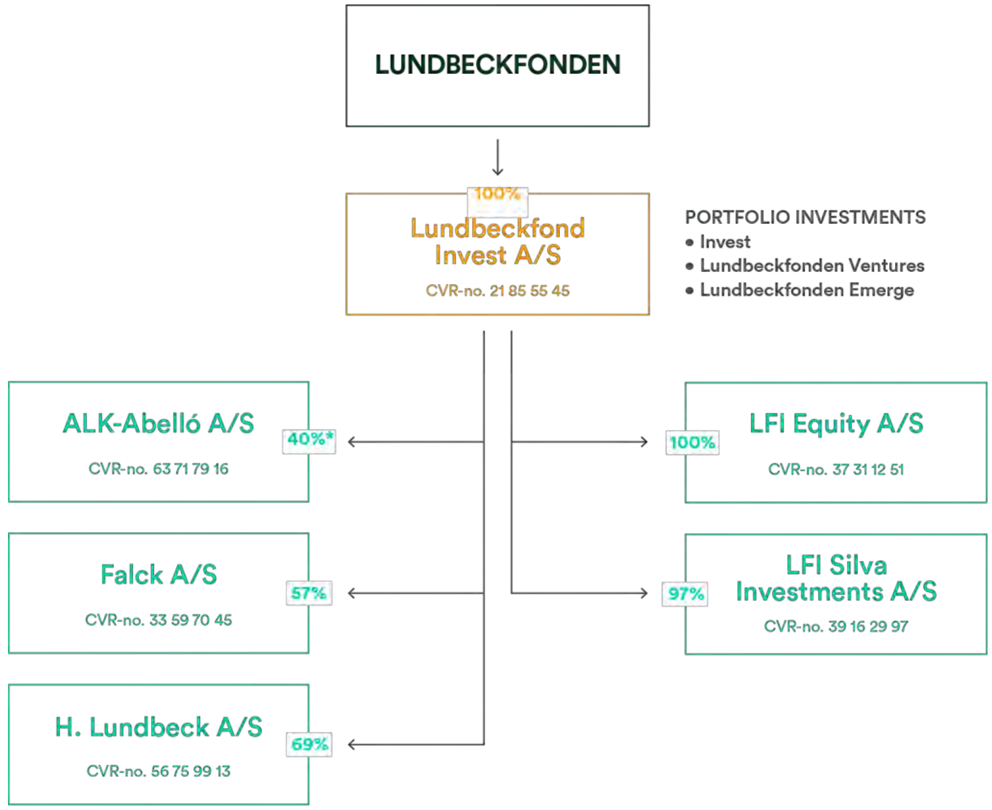
| DKKm | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities | 62 | 70 |
| Cash flows from investing activities | -144 | -28 |
| Cash flows from financing activities | -106 | - |
| Cash consideration from divestment of discontinued operations | 404 | -46 |
| **Cash flows from discontinued operations** | **216** | **-4** |

| DKKm | 2018 | 2017 |
|---|---|---|
| Consideration received | 537 | - |
| Deferred payment | 50 | - |
| Sales price for discontinued operations | 587 | - |
| Net assets divested | -515 | - |
| Reclassification of exchange rate adjustment from divestment of discontinued operations | -102 | - |
| Transaction costs | -15 | - |
| Loss on divestments of discontinued operations | -45 | - |
| Net assets divested | | |
| Assets | | |
| Goodwill | 28 | - |
| Other intangible assets | 30 | - |
| Property, plant and equipment | 335 | - |
| Deferred tax | 41 | - |
| Current assets | 246 | - |
| Cash and bank balances | 118 | - |
| Liabilities | | |
| Non-controlling interests | -49 | - |
| Deferred tax | -8 | - |
| Provisions | -28 | - |
| Current liabilities | -198 | - |
| Net assets divested | 515 | - |
| Gain on divestment of discontinued operations | 57 | - |
| Sales price receivable | -50 | - |
| Adjustment for cash and bank balances divested | -118 | - |
| **Cash consideration from divestment of discontinued operations** | **404** | **-** |

| DKKm | 2018 | 2017 |
|---|---|---|
| Assets classified as held for sale | | |
| Intangible assets | 397 | 46 |
| Property, plant and equipment | 3 | 292 |
| Deferred tax assets | - | 61 |
| Inventories | - | 2 |
| Contract assets | 8 | - |
| Other receivables | 92 | 169 |
| Income tax | - | 11 |
| Cash and bank balances | 7 | 131 |
| **Assets classified as held for sale at 31 December** | **507** | **712** |
| | | |
| Provisions | - | 119 |
| Deferred tax | - | 32 |
| Income tax | 9 | 10 |
| Debt to financial institutions | - | 29 |
| Other payables | 87 | 137 |
| **Liabilities relating to assets classified as held for sale** | **96** | **327** |
| **Net assets classified as held for sale** | **411** | **385** |

Assets and liabilities classified as held for sale at 31 December 2018 relate to Healthcare non-core activities.

## 36. Group overview




* Voting rights 67%

| 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% |
| - epVIR ApS | Denmark | 100% |
| - DySIS Medical Ltd. | United Kingdom | 70% |
| Insusense ApS | Denmark | 75% |
| **Associates of Lundbeckfond Invest A/S (1)** | | |
| Acacia Pharma Ltd. | United Kingdom | 23% |
| IO Biotech ApS | Denmark | 33% |
| NMD Pharma A/S | Denmark | 30% |
| Obel-LFI Ejendomme A/S | Denmark | 50% |
| SNIPR Holdings ApS | Denmark | 22% |
| - SNIPR Biome ApS | Denmark | 100% |
| - SNIPR Technologies Ltd. | United Kingdom | 100% |
| - Folium Food Science Ltd. | United Kingdom | 75% |
| Veloxis Pharmaceuticals A/S | Denmark | 41% |
| VHsquared Ltd. | United Kingdom | 30% |
| **Subsidiaries of H. Lundbeck A/S** | | |
| Lundbeck Argentina S.A. | Argentina | 100% |
| Lundbeck Australia Pty Ltd, including | Australia | 100% |
| - CNS Pharma Pty Ltd | Australia | 100% |
| Lundbeck Austria GmbH | Austria | 100% |
| Lundbeck S.A. | Belgium | 100% |
| Lundbeck Brasil Ltda. | Brazil | 100% |
| Lundbeck Canada Inc. | Canada | 100% |
| Lundbeck Chile Farmacéutica Ltda. | Chile | 100% |
| Lundbeck (Beijing) Pharmaceuticals Consulting Co., Ltd | China | 100% |
| Lundbeck Colombia S.A.S. | Colombia | 100% |
| Lundbeck Croatia d.o.o. | Croatia | 100% |
| Lundbeck Czech Republic s.r.o. | Czech Republic | 100% |
| Lundbeck China Holding A/S | Denmark | 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% |

## 36. Group overview - continued

| Company name | Country | Ownership |
|---|---|---|
| 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% |
| Prexton Therapeutics B.V., including | Netherlands | 100% |
| - Prexton Therapeutics S.A | Switzerland | 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% |
| 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% |

| Company name | Country | Ownership |
|---|---|---|
| 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, LLC | United States | 100% |
| - Lundbeck Research USA, Inc. | United States | 100% |
| Lundbeck de Venezuela, C.A. | Venezuela | 100% |
| **Subsidiaries of ALK-Abelló A/S** | | |
| ALK-Abelló Nordic A/S | Denmark | 100% |
| ALK e-com 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. | Spain | 100% |
| ALK-Abelló S.p.A. | Italy | 100% |
| ALK-Abelló sp. z.o.o. | Poland | 100% |
| ALK-Abelló, Inc. | United States | 100% |
| ALK-Abelló, Source Materials, Inc. | United States | 100% |
| OKC Allergy Suppliers Inc. | 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% |
| **Subsidiaries of Falck A/S** | | |
| Ambulance | | |
| Falck Pty. Ltd. | Australia | 55% |
| Falck (Victoria) Pty. Ltd. | Australia | 55% |
| Falck Benelux NV | Belgium | 49% |

## 36. Group overview - continued

| Company name | Country | Ownership |
|---|---|---|
| Falck Investments NV | Belgium | 88% |
| Falck Brasil AVD Participações Ltda. çõ | 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% |
| Falck CZ a.s. | Czech Republic | 100% |
| 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 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 | 100% |
| Life Care One A/S | Denmark | 100% |
| KPC Ejendomme 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 | 80% |
| Falck Rettungsdienst GmbH | Germany | 97% |
| G.A.R.D. Verwaltungsgesellschaft für Ambulanz und Rettungsdienst GmbH | Germany | 97% |
| G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Cuxhaven GmbH | Germany | 97% |
| GUARD Hospital Service GmbH | Germany | 97% |
| G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Bremen mbH | Germany | 97% |
| G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Hamburg-Ost GmbH | Germany | 97% |
| G.A.R.D ArGe Rettungsdienst Dresden GmbH & Co. oHG | Germany | 97% |
| G.A.R.D. Gemeinnützige Ambulanz und Rettungsdienst GmbH | Germany | 97% |
| GUARD Gesellschaft für unabhängige ambulante Rettungsdienstleistungen GmbH | Germany | 97% |
| K&G Taxi-Krankentransporte und Dienstleitungs GmbH | Germany | 77% |
| G.A.R.D. Beteiligungsgesellschaft für Ambulanz und Rettungsdienst GmbH | Germany | 97% |

| Company name | Country | Ownership |
|---|---|---|
| Ostsee-Ambulanz-Kiel GmbH | Germany | 97% |
| promedica Rettungsdienst GmbH | Germany | 97% |
| ASG Ambulanz Leipzig GmbH | Germany | 97% |
| Falck Arbeitsgemeinschaft Rettungsdienst Plauen GmbH & Co. oHG | Germany | 97% |
| promedica Rettungsdienst Bremehaven/Bremen GmbH | Germany | 97% |
| promedica Rettungsdienst Waldeck-Frankenberg GmbH & Co. KG | Germany | 68% |
| Falck Notfallrettung und Krankentransport GmbH | Germany | 97% |
| KS-Medi-Service GmbH | Germany | 97% |
| Brava Holding GmbH | Germany | 100% |
| Falck Services Ltd. | Mauritius | 100% |
| Falck Holding B.V. | Netherlands | 100% |
| Inprevo B.V. | Netherlands | 49% |
| Falck Eurasia B.V. | Netherlands | 100% |
| Falck Russia Holding B.V. (3) | Netherlands | 49% |
| Falck Emergency Norway AS | Norway | 100% |
| Falck Brann og Redningstjeneste A | 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 | 80% |
| Falck Medycyna Sp. z.o.o. | Poland | 100% |
| Falck Centra Medyczne Sp. z o.o. | Poland | 100% |
| Starowka Sp. z.o.o. | Poland | 76% |
| Falck SCI Portugal - Segurança Contra Incêndios S.A | Portugal | 65% |
| Falck Medical Vladivostok LLC | Russia | 49% |
| Falck SK a.s. | Slovakia | 100% |
| Falck Emergency AS | Slovakia | 51% |
| Falck Záchranná a.s. | Slovakia | 51% |
| Falck Academy s.r.o | Slovakia | 51% |
| Falck Healthcare a.s. | Slovakia | 51% |
| Falck South Africa Holding (PTY) Ltd. | South Africa | 100% |
| Falck VL Servicios Sanitarios S.L. | Spain | 49% |
| Sauper S.A. | Spain | 49% |
| Falck Lanka (Pvt) Ltd. (3) | Sri Lanka | 50% |
| Falck Sverige Holding AB | Sweden | 100% |
| Falck Ambulans AB | Sweden | 100% |

## 36. Group overview - continued

| Company name | Country | Ownership |
|---|---|---|
| Falck Services AB | Sweden | 100% |
| Svensk Sjöambulans AB | Sweden | 50% |
| Falck Medical Services LLC | UAE | 43% |
| 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% |
| 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% |
| FCA Corp. | United States | 89% |
| Care Ambulance Service, Inc. | United States | 89% |
| Falck EMS Corp. | United States | 99% |
| Lifestar Response Corporation | United States | 99% |
| Lifestar Response of Alabama, Inc. | United States | 99% |
| Lifestar Response of Maryland, Inc. | United States | 99% |
| Falck Southeast Corp. | United States | 99% |
| Falck Southeast II Corp. | United States | 99% |
| Cape Cod Medical Enterprises, Inc. | United States | 99% |
| American Ambulance, Inc. | United States | 99% |
| Transitional Health Solutions, Inc. | United States | 99% |
| Falck Northern California Corp. | United States | 100% |
| 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% |
| | | |
| 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 Redning AS | Norway | 100% |

| Company name | Country | Ownership |
|---|---|---|
| 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% |
| | | |
| Healthcare | | |
| Falck Health Care Holding A/S | Denmark | 59% |
| Falck Healthcare A/S | Denmark | 59% |
| ActivCare Privat A/S | Denmark | 59% |
| ActivCare A/S | Denmark | 100% |
| Falck Helse AS | Norway | 59% |
| Falck Centra Medyczne Sp. z o.o. | Poland | 100% |
| Falck Health Care Holding AB | Sweden | 59% |
| Falck Aktiv Arbetsmedicin AB | Sweden | 59% |
| Falck Healthcare AB | Sweden | 59% |
| Skandinavisk Hälsovård AB | Sweden | 59% |
| Svensk Närsjukvård AB | Sweden | 59% |
| Doc Care AB | Sweden | 59% |
| Ofelia Vård AB | Sweden | 59% |
| AB Previa | Sweden | 59% |
| Silverhälsan AB | Sweden | 59% |
| Inlandshälsan AB | Sweden | 59% |
| Previa Sjukvård AB | Sweden | 59% |
| Galleriva Husläkarmottagning AB | Sweden | 59% |
| Falck Hälsopartner AB | Sweden | 59% |
| | | |
| 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 | 49% |

## 36. Group overview - continued

| Company name | Country | Ownership |
|---|---|---|
| Falck Saglik AS | Turkey | 100% |
| Access Transport Services Holding, Inc. | United States | 99% |
| Falck Global Assistance, LLC | United States | 99% |
| Falck Risk Solutions, LLC | United States | 60% |
| AccessOnTime Language Services, LLC | United States | 99% |
| | | |
| 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 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 | 100% |
| Falck Fire Services a.s. | Slovakia | 51% |
| Falck Security Services s.r.o. | Slovakia | 51% |
| Falck Emergency Spain, S.L. | Spain | 65% |
| Falck SCI, S.A. | Spain | 65% |
| Falck Räddningstjänst AB | Sweden | 100% |
| Falck Fire Consulting Ltd. | United Kingdom | 93% |
| Falck Fire Services UK Ltd. | United Kingdom | 100% |
| | | |
| Group | | |
| Falck Treasury A/S | Denmark | 100% |

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

## 37. General accounting policies

The consolidated financial statements for 2018 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 foundation).

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. Changes in accounting policies are described below. No other changes have been made to the accounting policies that have affected recognition and measurement in the current or previous years.

### CHANGES IN ACCOUNTING POLICIES

The Group has implemented IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 using the modified retrospective method.

Furthermore, the disclosure requirements in IFRS 7 *Financial Instruments*: Disclosures from IFRS 9 *Financial Instruments* have been implemented.

### IFRS 9 *Financial Instruments*

*Lundbeck*

The implementation has had an impact on the presentation of fair value adjustments on equity investments previously classified as available-for-sale financial assets. These fair value adjustments were previously recognised in other comprehensive income. As from 1 January 2018, Lundbeck irrevocably and on an individual basis classifies such fair value adjustments on each equity investment either in the income statement under financial items or in other comprehensive income. Lundbeck has decided to recognise fair value adjustments on all equity investments held at 1 January 2018 in the income statement under financial items. Comparative figures have not been restated. However, if the standard had been implemented for the financial year 2017, profit for the year would have been DKK 20m higher, whereas the implementation would not have had any impact on total comprehensive income, total equity or total assets and liabilities. The impact on profit for the year for 2018 was DKK 5m. At 31 December 2018, the carrying amount of other financial assets amounted to DKK 70m.

## 37. General accounting policies - continued

Furthermore, writedowns on receivables are calculated using an expected credit loss approach, whereby the likelihood of non-fulfilment throughout the lifetime of the financial instruments is taken into consideration. Comparative figures have not been restated as the change does not have any impact.

*ALK*
ALK has assessed its existing financial assets and liabilities in terms of the requirements in IFRS 9 based on the facts and circumstances that existed on 1 January 2018. It has been assessed whether a financial asset meets the business model test for amortised cost or fair value. The initial application of IFRS 9 had the following impact on ALK's financial assets as regards to their classification and measurement:

- Marketable securities contain holdings in investment funds which invest in bonds and other similar securities. The marketable securities are, not held for investing reasons, but purely for temporary placement of cash. The business model is "other", which means that the adjustment of fair value is still recognised through profit/loss, also under IFRS 9.
- Financial assets and liabilities previously measured at amortised cost under IAS 39 continue to be measured at amortised cost under IFRS 9, as the business model is to collect the contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

ALK applies the simplified approach for measuring loss allowance for trade receivables. Based on low historical loss on trade receivables, the application of IFRS 9 has resulted in insignificant additional loss allowances.

*Falck*
The adoption of IFRS 9 has fundamentally changed Falck's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with the forward-looking expected credit loss approach. The implementation of the expected credit loss model better reflects Falck's credit risk exposure and risk management procedures regarding trade receivables and contract assets.

Upon adoption of IFRS 9, Falck has recognised an additional impairment of DKK 28m before tax related to trade receivables at 1 January 2018 in the opening balance of equity. With the implementation of the new expected credit loss model comes a more timely (earlier point in time) recognition of impairment at recognition and subsequently.

Furthermore, the implementation of IFRS 15, cf. separate section has indirectly had a decreasing effect on impairment of trade receivables, as revenue from patients without insurance or aid from Federal/State programmes in Ambulance in the United States is recognised when the customer pays for a service ("cash accounting"), in accordance with IFRS 15.

### IFRS 15 *Revenue from contracts with Customers*

*Lundbeck and ALK*
The implementation *in Lundbeck and ALK* does not have any material impact on current revenue contracts except for the timing of recognition of some future milestone payments from collaborations and licensing arrangements. Earlier recognition may apply when it is highly probable that no significant reversal of revenue will occur.

*Falck*
As Falck acts as agent on behalf of the customers in multiple contracts, the implementation has a significant impact on Falck's recognition of revenue. The agent-principal assessment impacts recognition of revenue in the Healthcare and Portfolio Businesses. Consequently, in 2018 revenue and cost of sales have decreased by approximately DKK 657m mainly related to agent-principal assessment. Profit for the year is not affected.

The Ambulance business has contracts with predetermined price reductions. The transaction price has been recalculated to an average price covering the total contract period. As the contracts were assigned before 1 January 2018, a negative adjustment of DKK 32m before tax is recognised in the opening balance of equity. The adoption of the policy has affected revenue and profit before tax negatively by DKK 16m in 2018.

Due to the probability that Falck will collect the consideration Falck is entitled to, the accounting policy related to patients without insurance or aid from Federal/State programmes in the Ambulance US Business is changed to "cash accounting". Revenue from cash accounting is recognised when the customer pays for a service. The adoption of the policy has affected revenue in 2018 negatively with DKK 299m and EBITA in 2018 negatively with DKK 5m.

Changes in policy due to IFRS 15 do not affect the cash flows or results over the contracts periods. However, the timing of when income and costs are recognised is affected, as are results for individual years under a contract.

## 37. General accounting policies - continued

Further, the adoption of IFRS 15 has resulted in changes of presentation in the balance sheet in relation to contract assets and contract liabilities. Contract assets mainly relate to Falck's right to consideration for the completed services which have not been invoiced at the reporting date. Contract assets are transferred to trade receivables when the rights become unconditional. Contract liabilities show the recalculated transaction price from predetermined price reductions, where the service is transferred over time, and are recognised at the same average consideration over the term of the contract. Contract liabilities also show prepayments related to consideration from customers who have paid in advance for the subsequent period.

See note 38 for the effect of the changes due to implementation of IFRS 9 and 15.

### FUTURE IFRS CHANGES

At the date of the publication 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 16 *Leases* was issued in January 2016. The standard replaces IAS 17 *Leases* and is effective for annual reporting periods beginning on or after 1 January 2019. The standard was adopted by the EU in 2017. The new standard will have an impact on the Group as a lessee, as leases 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 assets are subsequently depreciated over the lease term like other assets such as property, plant and equipment, and interest on the lease liabilities is calculated in a similar way as for 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 assessment of the consequences of IFRS 16 *Leases*. Based on the Group's current contracts, impact on income statement is expected to be in the range of DKK 5-45m. In addition, total assets and total liabilities are expected to increase by approximately DKK 2,860m to DKK 3,430m. Beyond these changes, the implementation will result in additional disclosures on e.g. expenses relating to low-value assets, short-term leases and lease liabilities analysed by maturity.

IFRIC 23 *Uncertainty over income tax treatments* was issued in June 2017 and will be implemented by the Group from 1 January 2019. The interpretation was adopted by the EU in 2018. As the Group is already following most of the guidelines in IFRIC 23 for accounting for uncertainty over income tax treatments, the implementation of the interpretation standard is not expected to result in a significant change to the net amount of the provision. However, the balance sheet values of both tax assets and tax liabilities will increase as the provision for uncertainties over tax treatments currently being recognised as a net amount will be recognised on a gross basis from 2019.

### 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 based on 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

Acquisitions are evaluated to determine whether they constitute a business combination in accordance with IFRS 3 Business Combinations or a purchase of individual assets and liabilities.

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

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.

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.

## 37. General accounting policies - continued

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 incurred. 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.

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.

On translation of foreign subsidiaries having a functional currency different from that used by the Foundation, items in the income statement are translated at monthly average exchange rates, and 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 net 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 prevailing at the balance sheet date. Positive and negative fair values are included in other receivables and other payables respectively.

Changes in the fair value of derivatives classified as hedging instruments and meeting the criteria for hedging future cash flows are recognised in other comprehensive income. On 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, equity investments recognised in other 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.

## 37. General accounting policies - continued

### 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 payments to option holders reduce the liability, as the option price is adjusted for dividend payment.

### INCOME STATEMENT

#### Revenue Lundbeck and ALK

Revenue comprises invoiced sales for the year less returned goods, sales discounts, rebates and revenue-based taxes. Revenue is recognised when the goods are delivered at the agreed destination. Revenue is recognised at a point in time.

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 collaborations and income from collaborations on commercialisation of products.

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

#### Revenue Falck

Revenue includes services and goods delivered together with invoiced subscriptions attributable to the financial period. Revenue is recognised in the income statement if the control of the services or goods are transferred to the customer. Services are recognised over time when the customer receives and consumes the benefits as the service is delivered by Falck.

For contracts with predetermined price reductions, the transaction price will be recalculated to an average price covering the total contract period.

For contracts where Falck acts as an agent (mainly claims handling), the revenue is recognised as the net amount that Falck is entitled to retain in return for its services as agent. For contracts where Falck acts as a principal, the revenue is recognised as the gross amount to which Falck expects to be entitled.

Revenue is measured at the fair value of the agreed consideration excluding VAT and other taxes collected on behalf of third parties. All discounts granted are recognised in revenue.

Contracts with variable consideration is measured using the most likely amount and remeasured at a monthly basis.

## 37. General accounting policies - continued

### 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.

### 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 and impairment losses and other indirect costs.

### Results of investments in associates measured using the equity method

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 fair 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 items denominated in foreign currencies, forward exchange contracts and other derivatives not used for hedge accounting
- Realised and unrealised fair value adjustments and dividends from equity investments classified as other 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.

## 37. General accounting policies - continued

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.

### Other operating items

Other operating items comprise items secondary to the principal activities of the Group, including gains and losses on ongoing disposal and replacement of intangible assets and property, plant and equipment.

### 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.

### BALANCE SHEET

### Goodwill

On initial recognition, goodwill is measured and recognised as the excess of the cost 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 if there is indication of impairment and at least annually.

### 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 if there is indication of impairment and at least annually.

### 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 judgments* for a description of the calculation of the recoverable number of intangible assets and impairment testing.

### Property, plant and equipment

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

Cost includes the costs of purchase and expenses directly attributable to the purchase until the asset is ready for use. The cost of self-constructed assets includes costs directly attributable to the

## 37. General accounting policies - continued

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 other operating items, net.

### Biological assets

Forest assets are divided into growing forests, which are recognised as biological assets at fair value less cost to sell, and land, which is measured at cost. The valuation of biological assets is based on discounted cash flow models.

Changes in the fair value of biological assets are recognised in the income statement under other operating items.

### Investments in associates

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

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

### Receivables from associates measured via the equity method

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

### Joint arrangements

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

### Financial assets

At initial recognition, securities, that are included in the group's investment strategy, are measured at its fair value. Transaction costs of financial assets are expensed under financial items.

Subsequently, securities are measured at fair value at the balance sheet date. Both realised and unrealised gains and losses are recognised in the income statement under financial items.

Bonds with a term to maturity of less than one year are recognised in current assets. Bonds forming part of repo transactions, i.e. the selling of bonds to be repurchased at a later date, 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.

## 37. General accounting policies - continued

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 the 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 costless any impairment. 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.

Equity investments that are not included in the group's investment strategy are classified as other financial assets. On initial recognition, these investments are measured at fair value. They are subsequently measured at fair value at the balance sheet date, and changes to the fair value are recognised in the income statement or other comprehensive income according to an individual decision for each equity investment.

### 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 and contract assets

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.

Contract assets comprise the Group's right to consideration for the completed services which have not been invoiced at the balance sheet date.

On initial recognition, receivables and contract assets are measured at fair value, subsequently at amortised costs.

Impairments for lifetime expected credit losses (ECL), are recognised in the income statement upon initial recognition of the receivable. The expected credit losses are calculated on the portfolio of receivables grouped by shared credit risk characteristics. A provision matrix is established based on historical development in trade receivables and the historical credit losses, adjusted for forward-looking factors specific to the debtors and the economic environment.

An impairment gain or loss is recognised in the income statement.

### Prepayments

Prepayments comprise prepaid costs which are measured at cost.

### Securities

On initial recognition, securities including the bond portfolio, which 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.

## 37. General accounting policies - continued

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

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

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

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

**Treasury shares in subsidiaries**
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 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 under 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.

## 37. General accounting policies - continued

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, where relevant taking into consideration the provisions of IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

### 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 the individual asset.

Deferred tax is measured on the basis of the income tax rates and tax rules in force in the respective countries at the balance sheet date. Changes in deferred tax resulting from 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 amount of the tax deduction 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 on interest deductibility limitations calculated according to the provisions of the Danish Corporate Tax Act are allocated between the jointly-taxed companies according to a joint 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 judgments* for a description of accounting estimates and judgments 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 potential 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 that 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.

## 37. General accounting policies - continued

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.

#### Contract liabilities

Prepayments mainly include accrued subscriptions and prepayment according to contracts. Contract liabilities also comprise the recalculated transaction price from predetermined price reductions, where the service is transferred over time, and are recognised at the same average consideration over the term of the contract.

#### 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.

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.

### 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 in accordance with the indirect method and shows the composition of cash flows, divided into operating, investing and financing activities, 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.

## 37. General accounting policies - continued

Cash flows denominated in foreign currencies, including cash flows in foreign subsidiaries, are translated at the average exchange rates for 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: | Operating profit x 100 / Revenue |
| Return on equity: | Profit for the year x 100 / Average equity |

### Net wealth

Net wealth of Lundbeckfonden's net assets is estimated based on fair value at the balance sheet date. For the valuation of Lundbeckfonden's investment activities, please refer to the accounting policies above under *Financial assets*. The fair value of Lundbeckfonden's shares in ALK-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.

## 38. Changes in the accounting policies, etc.

| Income statement 2017, DKKm | Before adjustment etc. | IFRS 15 adjustment | IFRS 9 adjustment | Transferred to profit for the year from discontinued operations | After adjustment |
|---|---|---|---|---|---|
| Revenue | 35,371 | - | - | -846 | 34,525 |
| Cost of sales | -17,845 | - | - | 776 | -17,069 |
| Gross profit | 17,526 | - | - | -70 | 17,456 |
| Research and development costs | -3,133 | - | - | | -3,133 |
| Sales and distribution costs | -7,246 | - | - | 3 | -7,243 |
| Administrative expenses | -3,582 | - | - | 22 | -3,560 |
| Other income | 311 | - | - | 6 | 317 |
| Special items | -1,646 | - | - | - | -1,646 |
| **Operating profit** | **2,230** | **-** | **-** | **-39** | **2,191** |
| Financial income | 4,643 | - | - | - | 4,643 |
| Financial expenses | -2,922 | - | - | - | -2,922 |
| Income/loss from investments in associates | -19 | - | - | 1 | -18 |
| Profit before tax | 3,932 | - | - | -38 | 3,894 |
| Tax on profit for the year | -1,785 | - | - | 2 | -1,783 |
| **Profit for the year from continuing operations** | **2,147** | **-** | **-** | **-36** | **2,111** |
| Profit for the year from discontinued operations | -115 | - | - | 36 | -79 |
| **Profit for the year** | **2,032** | **-** | **-** | **-** | **2,032** |

| Cash flow statement 2017, DKKm | Before adjustment etc. | IFRS 15 adjustment | IFRS 9 adjustment | Transferred to profit for the year from discontinued operations | After adjustment |
|---|---|---|---|---|---|
| Cash flows from operating activities | 4,176 | - | - | -40 | 4,136 |
| Cash flows from investing activities | -1,594 | - | - | 5 | -1,589 |
| Cash flows from financing activities | -2,757 | - | - | 41 | -2,716 |
| Cash consideration from divestment of discontinued operations | 2 | - | - | -6 | -4 |
| **Cash flows from discontinued operations** | **-173** | **-** | **-** | **-** | **-173** |

## 38. Changes in the accounting policies, etc. – continued

| Balance sheet at 1 January 2018 | Before adjustment etc. | IFRS 15 adjustment | IFRS 9 adjustment | Transferred to profit for the year from discontinued operations | After adjustment |
|---|---|---|---|---|---|
| Assets | | | | | |
| Deferred tax | 1,893 | 7 | 6 | - | 1,906 |
| Contract assets | - | 484 | | - | 484 |
| Trade receivables and other receivables | 6,595 | -484 | -28 | - | 6,083 |
| | | | | | |
| Total assets | 53,886 | 7 | -22 | - | 53,871 |
| | | | | | |
| Lundbeckfonden's share of equity | 28,142 | | | | 28,142 |
| Change in accounting policies | - | -18 | -16 | - | -34 |
| Tax effect of changes in accounting policies | - | 4 | 3 | - | 7 |
| | **28,142** | **-14** | **-13** | **-** | **28,115** |
| | | | | | |
| Non-controlling interest' share of equity | 4,566 | | | | 4,566 |
| Change in accounting policies | - | -14 | -12 | - | -26 |
| Tax effect of changes in accounting policies | - | 3 | 3 | - | 6 |
| | **4,566** | **-11** | **-9** | **-** | **4,546** |
| | | | | | |
| Liabilities | | | | | |
| Contract liabilities, non-current | - | 32 | - | - | 32 |
| Contract liabilities, current | - | 1,356 | - | - | 1,356 |
| Other payables | 8,693 | -1,356 | - | - | 7,337 |
| | | | | | |
| Total liabilities | 21,178 | 32 | - | - | 21,210 |
| | | | | | |
| Equity and liabilities | 53,886 | 7 | -22 | - | 53,871 |

See note 37 for information about changes in the accounting policies.

## 39. 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 consolidated financial statements.

# Parent financial statements

## OF LUNDBECKFONDEN

# FINANCIAL STATEMENTS

## OF THE PARENT FOUNDATION

## Contents



## Notes

# INCOME STATEMENT

## FOR THE PERIOD 1 JANUARY – 31 DECEMBER

| DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Dividend from Lundbeckfond Invest A/S | | 349 | 335 |
| Financial income | 2 | 238 | 630 |
| Financial expenses | 2 | -497 | -186 |
| **Profit from investment activities** | | **90** | **779** |
| | | | |
| Staff costs | 3 | -28 | -21 |
| Other external costs | 4, 5 | -33 | -34 |
| Depreciations and amortisations | | -4 | -3 |
| **Profit before tax** | | **25** | **721** |
| | | | |
| Tax on profit for the year | 6 | -12 | -13 |
| **Profit for the year** | 7 | **13** | **708** |

# BALANCE SHEET

## AT 31 DECEMBER

| Assets, DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Other intangible assets | | 1 | 1 |
| **Intangible assets** | 8 | **1** | **1** |
| Land and buildings | | 71 | 75 |
| **Tangible assets** | 9 | **71** | **75** |
| Investments in subsidiaries | 10 | 4,063 | 4,063 |
| Other securities and investments | 11, 14 | 4,684 | 5,328 |
| **Financial assets** | | **8,747** | **9,391** |
| **Non-current assets** | | **8,819** | **9,467** |
| Receivables from subsidiaries | | 1 | - |
| Income tax | | 4 | 3 |
| Other receivables | | 19 | 17 |
| **Receivables** | | **24** | **20** |
| **Cash and bank balances** | | **268** | **160** |
| **Current assets** | | **292** | **180** |
| **Assets** | | **9,111** | **9,647** |

| Equity and liabilities, DKKm | Note | 2018 | 2017 |
|---|---|---|---|
| Capital base | 12 | 3,114 | 3,109 |
| Reserve for future grants | | 1,250 | 1,000 |
| Retained earnings | | 3,342 | 4,151 |
| **Equity** | | **7,706** | **8,260** |
| Pension obligations | 13 | 14 | 15 |
| **Provisions** | | **14** | **15** |
| Payable grants, long-term | | 432 | 367 |
| **Non-current liabilities** | | **432** | **367** |
| Payable grants, short-term | | 837 | 685 |
| Payable to subsidiaries | | - | 1 |
| Repo debt | | 115 | 315 |
| Other payables | | 7 | 4 |
| **Current liabilities** | | **959** | **1,005** |
| **Liabilities** | | **1,391** | **1,372** |
| **Equity and liabilities** | | **9,111** | **9,647** |

# 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 2018 | | 3,109 | 1,000 | 4,151 | 8,260 |
| Grants, net | 15 | | -567 | | -567 |
| Profit for the year | 7 | 5 | 817 | -809 | 13 |
| **Equity at 31 December 2018** | | **3,114** | **1,250** | **3,342** | **7,706** |
| | | | | | |
| Equity at 1 January 2017 | | 2,965 | 750 | 4,331 | 8,046 |
| Grants, net | 15 | | -494 | | -494 |
| Profit for the year | 7 | 144 | 744 | -180 | 708 |
| **Equity at 31 December 2017** | | **3,109** | **1,000** | **4,151** | **8,260** |

# NOTES

## 1. Accounting policies

The financial statements for Lundbeckfonden (the parent foundation) for 2018 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.

### 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 | 2018 | 2017 |
|---|---|---|
| **Financial income** | | |
| Interest income, etc. | 87 | 490 |
| Gain from securities and other equity investments | 151 | 140 |
| **Total financial income** | **238** | **630** |
| | | |
| **Financial expenses** | | |
| Interest expenses, etc. | 1 | 2 |
| Loss on securities and other equity investments | 496 | 184 |
| **Total financial expenses** | **497** | **186** |

## 3. Staff costs

| DKKm | 2018 | 2017 |
|---|---|---|
| Wages and salaries, incl. holiday allowance | 26.4 | 20.6 |
| Pension contributions | 1.1 | 0.6 |
| Other social security costs | 0.1 | 0.1 |
| **Total staff costs** | **27.6** | **21.3** |

| | | |
|---|---|---|
| Average number of employees during the year | 20 | 16 |
| Number of employees at year-end | 22 | 16 |

| DKKm | 2018 | 2017 |
|---|---|---|
| Remuneration of the Executive Management (excluding remuneration received from subsidiaries) | 4.6 | 3.8 |
| Remuneration of the Board of Trustees, including committee fees (excluding remuneration received from subsidiaries) | 3.5 | 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 | 2018 | 2017 |
|---|---|---|
| Lundbeckfonden - Staff costs, other external costs and depreciations | 65 | 59 |
| Lundbeckfond Invest A/S - Staff costs and other external costs | 39 | 38 |
| **Total costs** | **104** | **97** |
| | | |
| The costs can be allocated to Lundbeckfonden's activities as follows: | | |
| Strategic investmenst and administration | 48 | 38 |
| Invest | 17 | 21 |
| Lundbeckfonden Ventures | 9 | 9 |
| Lundbeckfonden Emerge | 6 | 4 |
| Grants and prizes | 24 | 25 |
| **Total costs** | **104** | **97** |

## 5. Fees to auditors appointed at the annual meeting

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

| DKKm | 2018 | 2017 |
|---|---|---|
| Statutory audit | 0.3 | 0.3 |
| Other services | 0.1 | 0.2 |
| **Total fees** | **0.4** | **0.5** |

## 6. Tax on profit for the year

| DKKm | 2018 | 2017 |
|---|---|---|
| Current tax | 12 | 13 |
| **Total tax for the year** | **12** | **13** |

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 211m (DKK 389m at 31 December 2017).

## 7. Proposed distribution of profit

| DKKm | 2018 | 2017 |
|---|---|---|
| Capital base | 5 | 144 |
| Reserve for future grants | 817 | 744 |
| Retained earnings | -809 | -180 |
| **Profit for the year** | **13** | **708** |

## 8. Intangible assets

| Other intangible assets, DKKm | 2018 | 2017 |
|---|---|---|
| Cost at 1 January | 4 | 3 |
| Additions | - | 1 |
| **Cost at 31 December** | **4** | **4** |
| | | |
| Amortisation at 1 January | -3 | -2 |
| Amortisation for the year | - | -1 |
| **Amortisation at 31 December** | **-3** | **-3** |
| | | |
| **Carrying amount at 31 December** | **1** | **1** |

## 9. Tangible assets

| Land and buildings, DKKm | 2018 | 2017 |
|---|---|---|
| Cost at 1 January | 89 | 88 |
| Additions | - | 1 |
| **Cost at 31 December** | **89** | **89** |
| | | |
| Depreciation at 1 January | -14 | -11 |
| Depreciation for the year | -4 | -3 |
| **Depreciation at 31 December** | **-18** | **-14** |
| | | |
| **Carrying amount at 31 December** | **71** | **75** |

## 10. Investments in subsidiaries

| DKKm | Lundbeckfond Invest A/S | Other subsidiaries | Total |
|---|---|---|---|
| Cost at 1 January 2018 | 4,046 | 29 | 4,075 |
| Additions | - | - | - |
| **Cost at 31 December 2018** | **4,046** | **29** | **4,075** |
| Impairment at 1 January 2018 | - | -12 | -12 |
| Impairment | - | - | - |
| **Impairment at 31 December 2018** | **-** | **-12** | **-12** |
| **Carrying amount at 31 December 2018** | **4,046** | **17** | **4,063** |
| **Dividend received in 2018** | **349** | **-** | **349** |

| Subsidiaries, DKKm | Registered office | Ownership | Profit for the year 2018 | Equity at 31 December 2018 |
|---|---|---|---|---|
| Lundbeckfond Invest A/S | Copenhagen | 100% | 1,158 | 18,999 |
| Insusense ApS | Copenhagen | 75% | -4 | 4 |

| 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** |

## 11. Other securities and investments

| DKKm | Bonds and corporate loans | Equities | Unlisted investment funds | Total |
|---|---|---|---|---|
| Carrying amount at 1 January 2018 | 2,786 | 2,535 | 7 | 5,328 |
| Additions | 1,493 | 139 | - | 1,632 |
| Disposals | -1,436 | -483 | - | -1,919 |
| Value adjustments for the year | -41 | -318 | 2 | -357 |
| **Carrying amount at 31 December 2018** | **2,802** | **1,873** | **9** | **4,684** |
| 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** |

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 2018 amounted to DKK 115m (DKK 315m at 31 December 2017).

## 12. Capital base

| DKKm | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Capital base at 1 January | 3,109 | 2,965 | 2,888 | 2,728 | 2,523 |
| Increase in capital base | 5 | 144 | 77 | 160 | 205 |
| **Capital base at 31 December** | **3,114** | **3,109** | **2,965** | **2,888** | **2,728** |

## 13. Pension obligations

| DKKm | 2018 | 2017 |
|---|---|---|
| Obligations at 1 January | 15 | 15 |
| Adjustment for the year | -1 | - |
| **Obligations at 31 December** | **14** | **15** |

## 14. Financial instruments

| Equity contracts, DKKm | Contractual value | Share option gains/losses recognised in the income statement | Market value 31 December | Expiry |
|---|---|---|---|---|
| 2018 | | | | |
| Options on shares | - | 2 | - | - |
| **Equity contracts** | **-** | **2** | **-** | |
| 2017 | | | | |
| Options on shares | - | 3 | - | |
| **Equity contracts** | **-** | **3** | **-** | |

## 15. Grants, net

| DKKm | 2018 | 2017 |
|---|---|---|
| Grants for the year | 571 | 507 |
| Reversed grants/repayments for the year | -4 | -13 |
| **Net grants for the year** | **567** | **494** |

## 16. 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 2m in 2018 (DKK 1m in 2017) from Lundbeckfond Invest A/S. At 31 December 2018 Lundbeckfonden has a receivable from Lundbeckfond Invest A/S amounting to DKK 1m (DKK 1m at 31 December 2017).

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.

The Foundation has not entered into any transactions with related parties that were not on an arm's length basis.

## 17. Events after the balance sheet date

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

# MANAGEMENT STATEMENT

The Board of Trustees and the Executive Management have today considered and approved the annual report of Lundbeckfonden for the financial year ended 31 December 2018.

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 2018, and of the Group's and the Foundation's activities and the Group's cash flows for the financial year 1 January – 31 December 2018.

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, 28 March 2019

## EXECUTIVE MANAGEMENT

**Lene Skole**

## BOARD OF TRUSTEES

**Jørgen Huno Rasmussen**
Chairman

**Steffen Kragh**
Vice Chairman

**Gunhild Waldemar**

**Lars Holmqvist**

**Michael Kjær**

**Peter Schütze**

**Susanne Krüger Kjær**

**Henrik Villsen Andersen**
**Elected by the employees**

**Ludovic Tranholm Otterbein**
**Elected by the employees**

**Peter Adler Würtzen**
Elected by the employees

**Vagn Flink Møller Pedersen**
Elected by the employees

# INDEPENDENT AUDITOR'S REPORT

## To the Board of Trustees of Lundbeckfonden

### Opinion
We have audited the consolidated financial statements and the parent financial statements of Lundbeckfonden for the financial year 1 January - 31 December 2018, 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 2018 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2018 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 2018 and of the results of its operations for the financial year 1 January – 31 December 2018 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.

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

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

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment 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, 28 March 2019

**Deloitte**
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Erik Holst Jørgensen
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