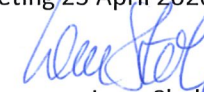


Lundbeckfonden

Lundbeck Foundation

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

Approved at the
Annual Meeting 23 April 2020



Lene Skole
Chairman

Annual report

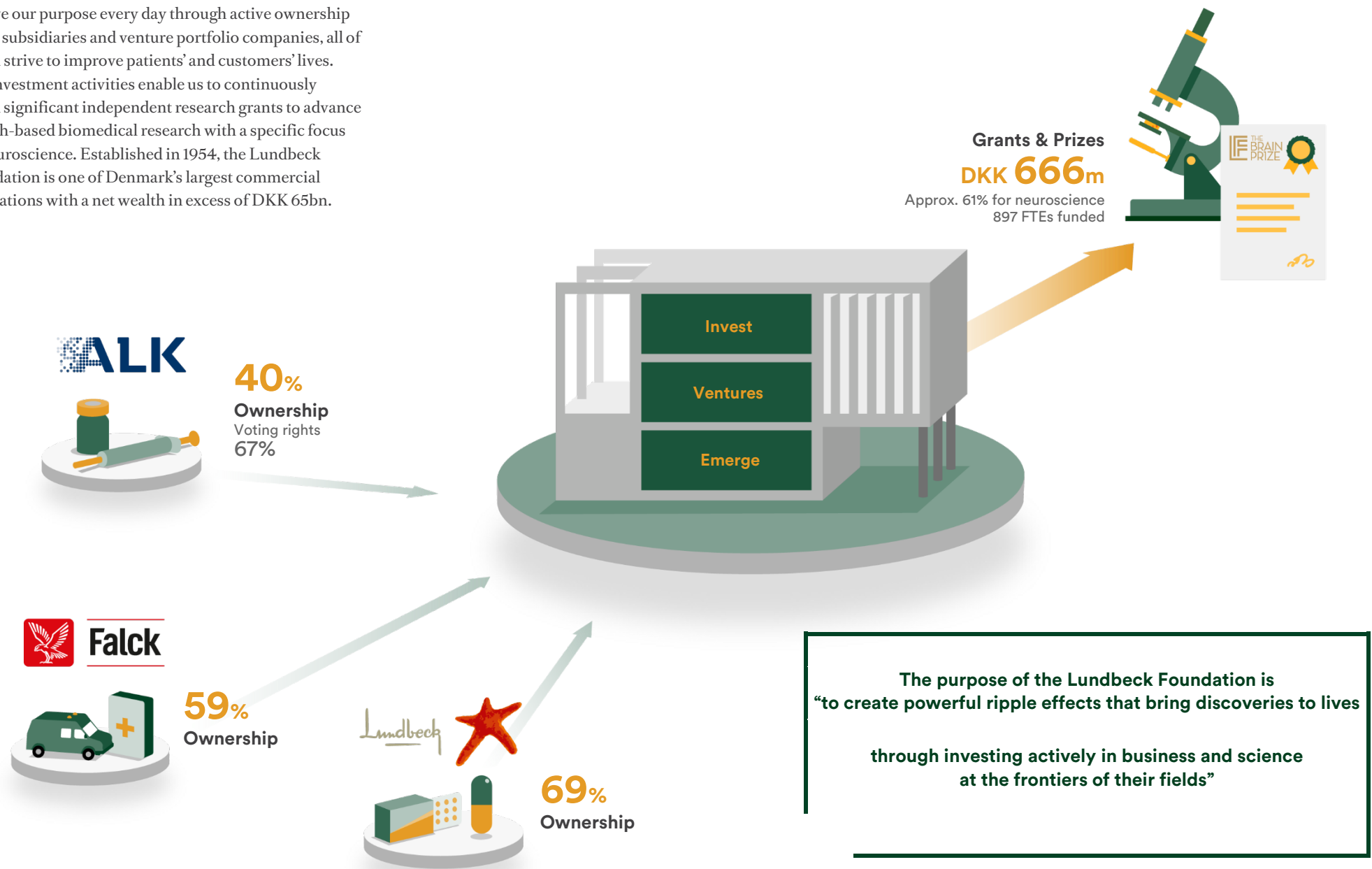
LUNDBECKFONDEN



2019

LUNDBECKFONDEN AT A GLANCE

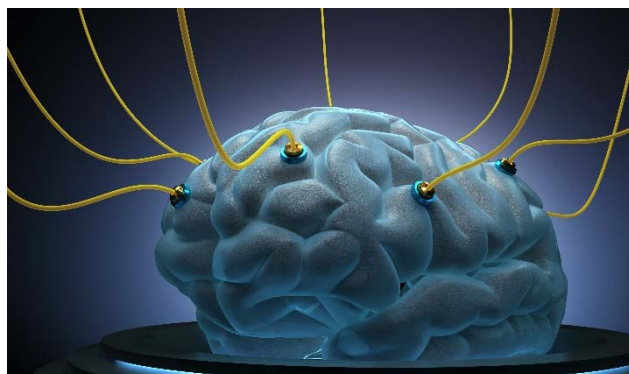
We live our purpose every day through active ownership of our subsidiaries and venture portfolio companies, all of which strive to improve patients' and customers' lives. Our investment activities enable us to continuously award significant independent research grants to advance Danish-based biomedical research with a specific focus on neuroscience. Established in 1954, the Lundbeck Foundation is one of Denmark's largest commercial foundations with a net wealth in excess of DKK 65bn.



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

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“The 2019 financial performance was record-breaking, not least due to the financial results of our investment activities”



BERTIL FROM
Chief Financial Officer

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Cover photo

The front page shows an artistic illustration of a nerve cell



Following the annual meeting in April 2020, Jørgen Huno Rasmussen will retire as Chairman of the Board of Directors of the Lundbeck Foundation and Lundbeckfond Invest A/S. This is in accordance with our Articles of Association, as he joined both boards in 2008 and was appointed their chairman in 2012.

LETTER FROM THE CHAIRMAN AND CEO

2019 marked a year of significant achievement for the Lundbeck Foundation. We delivered our best ever financial results and awarded a record level of grants, as we continued to invest at the frontiers of medical science with the purpose of bringing discoveries to lives.

In addition to favourable financial markets, 2019's solid results were attributable to the consistent execution of long-term strategies by the Foundation and Lundbeck, ALK and

Falck. Our results are also a testament to the efforts of employees at both the Foundation and the three strategic subsidiaries and we thank every one of them for their continuing dedication.

The three strategic subsidiaries performed well in 2019, strengthening their business platforms despite combined financial results that were slightly down on the previous year. This clearly demonstrates the benefit of our active ownership model, which supports long-term value creation so that, during transition periods such as those underway at all three companies, we can maintain our support in anticipation of future, sustainable, profitable growth.

At Lundbeck, the strategy to 'Expand and Invest to Grow' resulted in two acquisitions – Alder BioPharmaceuticals, Inc., whose intravenous migraine preventive treatment received

FDA approval in February 2020, and Abide Therapeutics, Inc., which has strengthened Lundbeck's early R&D pipeline.

ALK continued to deliver on the three-year transformation programme that was initiated two years ago, and investors rewarded the company's progress with an increase in the share price of around 70% during 2019.

Meanwhile, Falck has completed its extensive turnaround which included a significant refocusing of the organisation, as well as the complete settlement of matters related to past anti-competitive behaviours. The company has now turned its attention to reinforcing its leadership position by seeking sustainable profitable growth opportunities at home and abroad.

The Foundation's investment portfolio delivered record returns in 2019, based on a strategy of balancing risks in a volatile market with maintaining a long-term investment horizon.

One of the many highlights of the year was the sale of Veloxis to Asahi Kasei – an example of our active investment strategy taking a company from early promise to a profitable business.

2019 set a new record for our grant awards, which totalled DKK 666m. As part of this, several new research funding programmes saw the light of day during the year. These included the new 'Experiments' programme, for which there was an overwhelming response of 293 applications from bold, ground-breaking ideas with the potential to 'change the way we view the world'.

Brain disorders pose a serious threat, both to individuals and their relatives, and to economies around the world, not least because of the ageing profile of our population. So, it's important that, as a society, we raise our ambitions, part of which involves developing Denmark into one of the world's leading brain research nations. In this way, we can play a role in changing the lives of millions of people living with brain diseases.

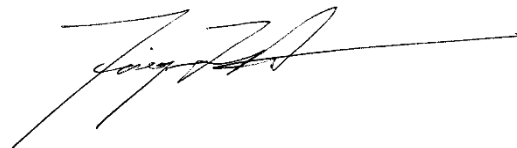
Another of our contributions to this goal is our new Professorships programme. The aim of this is to promote the development of strong brain research environments, centred around internationally renowned, pioneering researchers. The six professors who were awarded grants worth DKK 232m – our largest grant allocation to date – are all among Denmark's leading neuroscientists. They are not only expected to contribute to ground-breaking research but will also serve as dedicated mentors for the next generation of talented scientists.

The Brain Prize 2019 was awarded to four French researchers for their discovery of and dedicated work on a specific brain disease - CADASIL - that also has profound benefits for our understanding of other brain diseases, including stroke, migraine and dementia.

Our ongoing Fellowships programme is all about boosting and developing talent, offering the most promising young scientists the freedom to develop biomedical research that may form the basis for their future careers. Under this programme in 2019, ten outstanding research talents were each awarded DKK 10m to conduct their research over the next five years, making this the largest Lundbeck Foundation Fellows programme ever.

In 2019, we were named the most transparent foundation in Denmark for the fourth year running. Such accolades are welcome and demonstrate that, along with our desire to drive improvements in brain health, we are just as serious about governance and accountability as we are about investing in business and science.

We continuously hold ourselves open to scrutiny, both from within and from the outside, to ensure that we are not only doing things in the right way, but that we focus our influence where it can have the highest impact in keeping with our purpose.



Jørgen Huno Rasmussen,
Chairman of the Board

We regard foundation ownership – preferably in combination with a listing on the stock exchange – as a near-perfect model for 'sustainable capitalism'. Research shows that companies owned by foundations are stronger and perform better than average, particularly during tough times. And, as foundations do not have owners who demand a return on their investments, any profits are recirculated into society in the form of grants – in our case, grants dedicated to restoring brain health.

With our three subsidiaries counting for more than 12,000 employees in Denmark and as funder of 897 full time research positions in Danish universities, we have significant influence on the Danish society. With influence comes great responsibility but influence also brings great opportunity to change the world for the better, something that has been the hallmark of our activities since Grete Lundbeck established the Lundbeck Foundation 66 years ago.



Lene Skole,
CEO

FIVE-YEAR SUMMARY

FINANCIAL HIGHLIGHTS

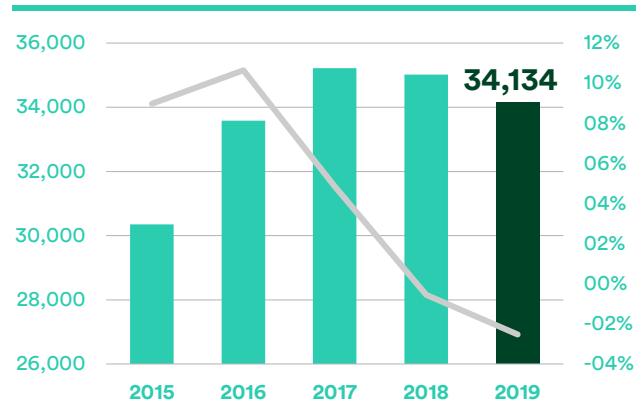
DKKm	2019	2018	2017	2016	2015
Revenue	34,134	35,020	35,215	33,581	30,351
Operating profit before special items	3,357	5,096	3,878	3,052	-1,110
Operating profit	3,357	5,096	2,232	3,052	-6,098
Profit for the year	5,568	2,924	2,038	2,474	-4,766
Lundbeckfondens share of profit	4,917	1,850	1,703	1,905	-3,006
Financial items, Invest etc.	2,187	-325	1,433	1,138	950
Financial items, Ventures and Emerge	1,452	153	754	-90	491
Grants awarded	666	571	507	493	423
Dividends from subsidiaries	1,648	1,099	357	20	149
Cash flow from operating activities	3,659	6,941	4,198	4,444	1,281
Cash flow from investing activities	-8,757	-3,710	-1,594	134	-3,916
Cash flow from operating and investing activities (free cash flow)	-5,098	3,231	2,604	4,578	-2,635
Cash flow from financing and grant-making activities	4,419	-1,880	-2,706	-2,892	160
Investments in acquisitions	10,516	804	503	149	278
Investments in property, plant, equipment and intangible assets	893	1,346	1,441	1,272	3,998
Equity	39,574	34,403	32,732	30,345	28,874
Lundbeckfondens share of equity	33,513	29,291	28,126	26,830	25,601
Total assets	74,126	56,064	54,152	56,172	55,382
Debt to financial institutions and others	15,766	6,332	7,168	8,484	9,981
Net wealth	65,301	62,483	63,591	61,287	54,341
Key figures					
Revenue growth	-2.5%	-0.6%	4.9%	10.6%	9.0%
Operating profit margin before special items	9.8%	14.6%	11.0%	9.1%	-3.7%
Operating profit margin	9.8%	14.6%	6.3%	9.1%	-20.1%
Return on equity	15.1%	8.7%	6.5%	8.4%	-15.4%
Average number of employees	31,818	34,226	35,107	35,524	35,057

2015 - 2017 are not adjusted for impact from IFRS 9 and IFRS 15 reporting standards, implemented in 2018. Debt to financial institutions and others at 31. December 2019 includes lease liabilities of DKK 2,013m from IFRS 16 implementation. In Falck, three accounting issues have been identified and corrected retrospectively and comparison figures for the period 2015-2018 have been adjusted accordingly. See note 37 of the consolidated financial statements for further details. For the definition of key figures, please see note 37.

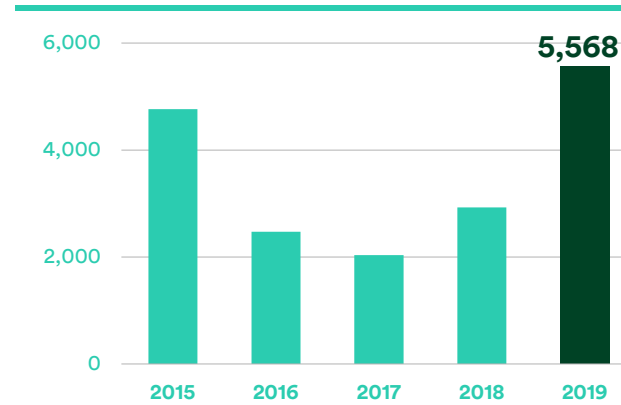
FIVE-YEAR SUMMARY

FINANCIAL HIGHLIGHTS

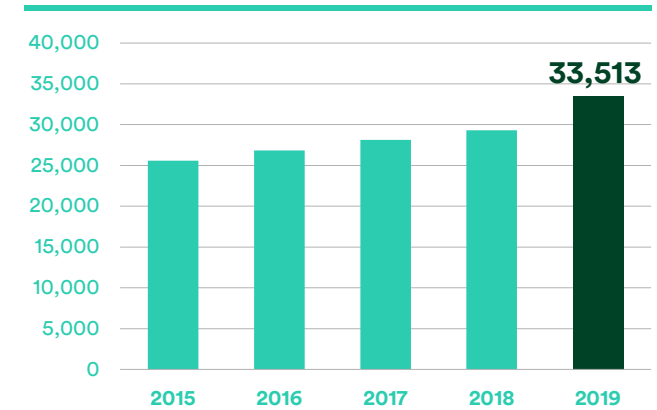
REVENUE AND REVENUE GROWTH



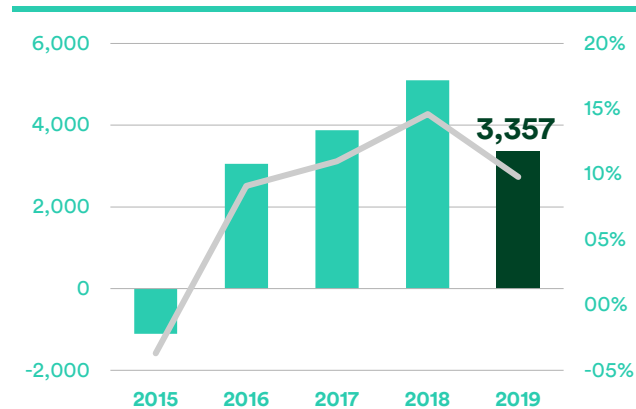
PROFIT FOR THE YEAR



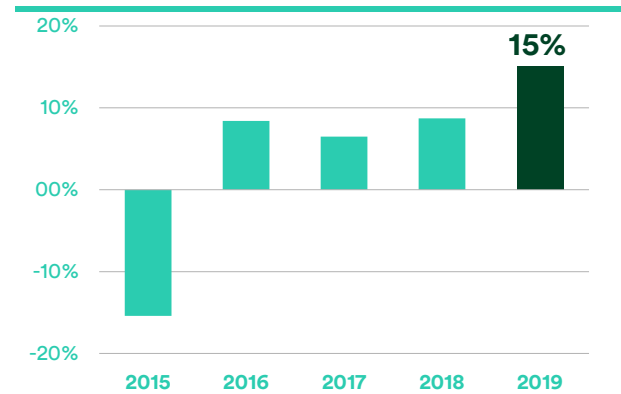
LUNDBECKFONDEN'S SHARE OF EQUITY



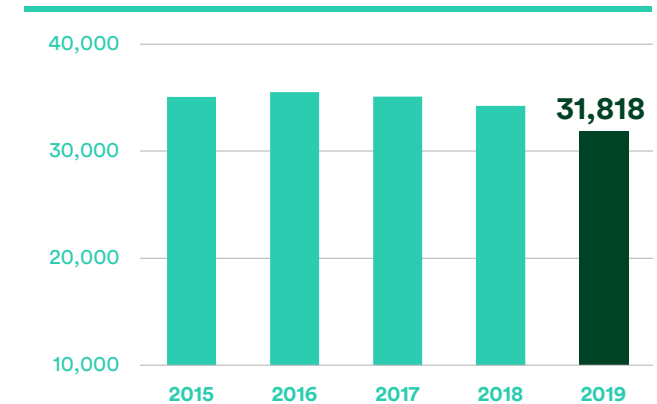
OPERATING PROFIT BEFORE SPECIAL ITEMS AND OPERATING PROFIT MARGIN



RETURN ON EQUITY



AVERAGE NUMBERS OF EMPLOYEES



FINANCIAL PERFORMANCE

In 2019, the Lundbeck Foundation delivered the best ever financial result in its history and awarded a record level of grants.

Revenue (DKKm)

34,134

Operating profit (DKKm)

3,357

Net wealth (DKKm)

65,301

As expected, Group revenue decreased in 2019 primarily driven by Lundbeck's loss of exclusivity of mature products, especially Onfi®.

This was also the primary reason for the decline in gross profit and operating profit versus the previous year.

Group profit for the year, at DKK 5,568m (DKK 2,924m), was positively influenced by solid financial results from the Foundation's investment activities.

Grants totalled DKK 666m, which was the highest level ever awarded.

RESTATEMENT OF PREVIOUS YEARS

In connection with the preparation of Falck's consolidated financial statements, three accounting issues have been identified and corrected retrospectively and comparison figures have been adjusted accordingly.

Furthermore, Falck decided to keep its Healthcare staffing business and, as a result, this is no longer presented under discontinued operations. Accordingly, comparative figures have been restated.

See note 37 to the consolidated financial statements for further details.

OPERATING ACTIVITIES

Revenue for the year was DKK 34,134m (DKK 35,020m). Revenue at Lundbeck was DKK 17,036m, corresponding to a decrease of 6% on the DKK 18,117m reported in 2018. The decrease was primarily driven by the loss of exclusivity for Onfi®, which was only partly counterbalanced by strong growth of 28% from the strategic brands. Revenue at Falck decreased by DKK 164m, or 1%, while revenue at ALK increased by DKK 359m, or 12%.

Gross profit for 2019 was DKK 18,159m, versus DKK 18,669m in 2018. Gross profit at Lundbeck decreased by DKK 1,018m while gross profit at ALK and Falck increased by DKK 259m and DKK 249m, respectively. Group gross margin was on a par with that for 2018.

Research and development (R&D) costs decreased by 2% to DKK 3,593m (DKK 3,673m).

REVENUE

DKKm	2019	2018
Lundbeck	17,036	18,117
ALK	3,274	2,915
Falck	13,824	13,988
Total	34,134	35,020

Meanwhile, overall sales and distribution costs increased to DKK 7,218m (DKK 7,013m), representing 21% of total revenue in 2019 (20%).

Overall administration costs amounted to DKK 3,156m, compared to DKK 2,956m in 2018. The Foundation's own net administration and operational costs amounted to DKK 296m, versus DKK 104m in 2018. The increase was mainly due to bonus payable under Ventures incentive programmes primarily as a result of the sale of the Foundation's holding in Veloxis.

The background is that the Foundation in 2010 instead of the previous indirect investments in young small-medium life-science companies via external venture capital funds decided to establish its own Lundbeckfonden Ventures and do direct investments. These venture activities were organised in line with market standards for the partners without any annual bonuses but instead a long-term 13 year incentive programme based on realised returns on these investments that generally have higher risk profile than our other investments. Ventures has very successfully developed and sold several companies with Veloxis as the latest example that drove the net gain of Ventures to DKK 1,445m in 2019. This has caused the recognition of bonuses due. See note 4 to the consolidated financial statements for further details.

Capacity costs in total thus amounted to DKK 13,967m, corresponding to an increase of 2% versus 2018 (DKK 13,642m).

OPERATING PROFIT

DKK m	2019	2018
Lundbeck	3,608	5,301
ALK	-14	-96
Falck	55	-8
Lundbeckfonden	-294	-103
Other	2	2
Total	3,357	5,096

Other operating items, net, amounted to an expense of DKK 835m versus an income of DKK 69m in 2018. In 2019, other operating items, net, included costs of DKK 514m related to the acquisition and integration of Alder BioPharmaceuticals, Inc., settlement costs, legal fees, and a fine related to the competition case against Falck of DKK 223m plus a DKK 266m impairment to goodwill of Falck's Healthcare business unit.

Operating profit declined to DKK 3,357m in 2019, versus DKK 5,096m in 2018. The decrease was mainly attributable to Lundbeck, where profitability declined by DKK 1,693m. Meanwhile, ALK and Falck both improved their profitability, by DKK 82m and 63m, respectively.

INVESTMENT ACTIVITIES

The Foundation's other investment activities contributed significantly to 2019's results, with a return of DKK 3,639m, up from a loss of DKK 172m in 2018. Of this contribution, the financial investment portfolio delivered a solid return of DKK 2,187m, versus a loss of DKK 325m in 2018. Meanwhile, the Foundation's Ventures portfolio delivered an impressive net gain of DKK 1,445m (DKK 149m) - a result driven by listed portfolio companies.

TAX

The reported tax rate amounted to 17% in 2019 compared to 33% in 2018. The lower effective tax rate was primarily influenced by non-taxable financial income as well as deductible grants.

NET RESULTS AND GRANTS

Overall, 2019 profit for the Lundbeck Foundation Group was DKK 5,568m, versus DKK 2,924m in 2018. The Foundation's share of group profit was DKK 4,917m (DKK 1,850m).

During 2019, the Foundation awarded a total of DKK 666m (DKK 571m), so that total grants over the period 2014-2019 amounted to DKK 3,119m, closely matching the previously-stated expectation that total grants would amount to DKK 3bn for the period.

ASSETS

Total assets at 31 December 2019 amounted to DKK 74,126m versus DKK 56,064m at the end of 2018. The significant increase was primarily driven by Lundbeck's acquisitions of Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc.

Intangible assets amounted to DKK 28,906m at the end of 2019 (DKK 14,134m), of which, product rights amounted to DKK 17,876m (DKK 3,496m). Goodwill at year-end amounted to DKK 9,789m (DKK 9,132m).

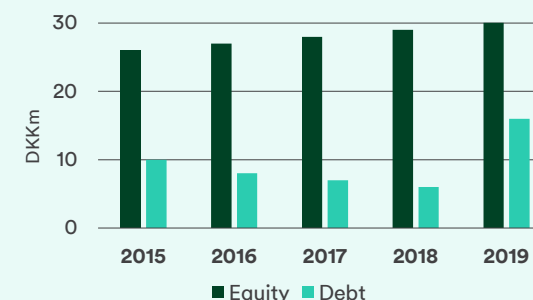
Cash and bank balances at 31 December 2019 amounted to DKK 5,027m (DKK 5,658m).

EQUITY AND LIABILITIES

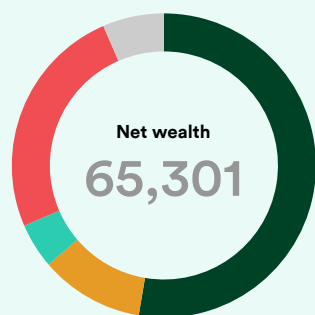
Total equity of the Group at 31 December 2019 amounted to DKK 39,574m (DKK 34,403m), reflecting an increase of 15% during 2019. The Foundation's share of the equity increased to DKK 33,513m (DKK 29,291m).

At 31 December 2019, total debt to financial institutions etc., including lease liabilities, increased to DKK 15,766m (DKK 6,332m). The steep increase was mainly attributable to Lundbeck's financing of acquisitions made during the year.

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



DISTRIBUTION OF NET WEALTH



NET WEALTH

DKKm	Value	Contribution to net wealth 2019
Lundbeck	34,942	-2,610
ALK	7,337	3,029
Falck	3,193	-229
Invest	16,560	2,156
Ventures	4,307	1,261
Emerge	247	-17
Grants, Admin, etc.	-1,285	-772
Net wealth	65,301	2,818

The three subsidiaries' contributions to net wealth differed 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 3,659m versus DKK 6,941m in 2018. The decrease was primarily driven by Lundbeck which realised a cash flow from its operating activities of DKK 2,609m (DKK 5,981m).

Cash flow from investment activities, excluding the purchase and sale of financial assets, was an outflow of DKK 10,886m, versus DKK 1,939m in 2018. The increase was driven by Lundbeck's acquisitions of Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc.

In 2019, the total cash flow from grants paid and dividends paid to non-controlling interests amounted to an outflow of DKK 1,279m (DKK 855m). Net proceeds from borrowings amounted to an inflow of DKK 5,775m (outflow of DKK 984m).

Net cash flow in 2019 amounted to an outflow of DKK 632m versus an inflow of DKK 1,733m in 2018. At the end of 2019, the Group's cash balance totalled DKK 5,027m, versus DKK 5,658m at the end of 2018.

NET WEALTH

Net wealth increased by 5% to DKK 65,301m at 31 December 2019 (DKK 62,483m).

Net wealth was positively affected by an increase in ALK's share price of 70%, corresponding to an increase in the value of the Foundation's holding of DKK 3,029m, as well as solid results from the Foundation's investment activities. Adjusted for dividend payments, the decrease in Lundbeck's share price affected the Group's net wealth negatively by DKK 2,610m.

OUTLOOK

The financial performance of the Group depends upon developments in the commercial activities of Lundbeck, ALK and Falck, as well as returns generated by the Foundation's financial investment activities, including the Ventures and Emerge portfolios. Returns provided by financial investments

largely depend on the overall 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 2020, revenue is expected to be approximately DKK 34bn. Group operating profit is however expected to be lower than achieved in 2019, primarily due to write-down of product rights.

The recent accelerating economical consequences of the global COVID-19 crisis introduce extraordinary uncertainty for any financial outlook. However, based on strong solidity and cashflow our group is in a position to deal with a crisis including a temporary recession.

Based on the financial strength of the Foundation the expenditure on grants in the coming years is expected to remain on a high level of at least DKK 500m.

The expectations are based on the exchange rates prevailing at the end of January 2020.

Please refer to the respective annual reports of Lundbeck, ALK and Falck and subsequent financial guidance of Lundbeck for further details about the companies' individual expectations.

LUNDBECK FOUNDATION (PARENT ENTITY)

The Foundation's profit for the year amounted to DKK 583m versus DKK 13m in 2018. The 2019 result was positively affected by gains on investments etc. totalling DKK 567m (losses of DKK 259m).

In total, grants awarded in 2019 amounted to DKK 666m, versus DKK 571m in 2018. Net grants amounted to DKK 657m (DKK 567m) in 2019, as grants of DKK 9m (DKK 4m) were reversed or repaid during the year. Subsequently, the carrying equity at 31 December 2019 amounted to DKK 7,632m (DKK 7,706m).

H. LUNDBECK A/S

Lundbeck is a global pharmaceutical company that specialises in brain diseases. The Lundbeck Foundation owns 69% of the company's shares.

2019 was a year of strong performance for Lundbeck. The strategic products¹ delivered strong growth across all regions, which mitigated the expected impact from the generic erosion of products such as Onfi® (Lennox-Gastaut Syndrome).

Lundbeck also made good progress on its 'Expand and Invest to Grow' strategy and strengthened its pipeline through the acquisitions of both Abide Therapeutics, Inc. and Alder BioPharmaceuticals, Inc., as well the progress of its internal discovery research.

In addition, Lundbeck strengthened its executive management team with three new members: Dr Johan Luthman was appointed as the new Executive Vice President of Research & Development, Keld Flintholm Jørgensen as Executive Vice President of Corporate Strategy & Business Development, and Elise Hauge as Executive Vice President of People & Communication. In doing so, Lundbeck has created a more diverse leadership team with which to grow its reach and improve the lives of people living with brain disease.

EXPAND AND INVEST TO GROW

In 2019, Lundbeck announced its strategy, 'Expand and Invest to Grow' to shape the path towards long-term, sustainable growth and value. The strategy builds on Lundbeck's heritage

of delivering essential medicines for brain diseases, as well as leveraging its broad neuroscience expertise to expand the scope of the brain diseases it is pursuing for the benefit of patients.

Lundbeck is focused on accelerating its internal innovation as well as opportunistically adding to the future growth drivers in its pipeline by accessing external innovation that fits Lundbeck's capabilities and growth strategy.

The pipeline was strengthened in 2019 through the acquisition of Abide Therapeutics, Inc. – thereby adding a unique

discovery platform and a lead compound for Tourette syndrome – as well as Alder BioPharmaceuticals, Inc., which added two migraine treatment and prevention compounds to the pipeline.

To continue the neuroscience achievements, Lundbeck also pruned projects that were not strong enough to advance, investing instead in only the most promising internal candidates. Through both the acquisitions of Abide Therapeutics, Inc., and Alder BioPharmaceuticals, Inc., and the progress in its internal discovery research, Lundbeck has been able to add seven new compounds to its pipeline.



¹ Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Northera® (symptomatic neurogenic orthostatic hypotension) and Rexulti®/Rxulti® (depression/schizophrenia)

Revenue DKKm

17,036

Operating profit (DKKm)

3,608

Net profit (DKKm)

2,667

Number of employees

5,475

FINANCIAL PERFORMANCE**SALES**

Revenue in 2019 decreased 6% to DKK 17,036m (DKK 18,117m) primarily driven by the loss of exclusivity for Onfi® and only partly counterbalanced by strong sales growth from the strategic brands of 28% in 2019.

Revenue from North America constituted 58% of Lundbeck's total revenue¹, compared to 63% in 2018. Overall, revenue from North America decreased 11% to DKK 9,583m (DKK 10,743m), primarily driven by the loss of exclusivity for Onfi® and a decline in sales of Sabril® (epilepsy) due to generic competition.

Revenue from International Markets, which comprise all of Lundbeck's markets outside of Europe and North America, reached DKK 3,892m (DKK 3,500m). Sales were up 11% primarily driven by growth in sales of Abilify Maintena® and Brintellix®/Trintellix®.

International Markets constituted 23% of revenue¹, compared to 20% in 2018.

Revenue from Europe reached DKK 3,223m in 2019 (2,970m), which was an increase of 9%. Abilify Maintena® and Brintellix®/Trintellix® both experienced solid growth rates of 24% and 34%, respectively. This growth was partly offset by the decline in sales of the mature products portfolio.

Europe constituted 19% of revenue¹, compared to 17% in 2018.

OPERATING PROFIT

Total costs in 2019 increased 1% to DKK 12,914m (DKK 12,764m) driven by an increase in sales and distribution costs and administrative expenses, which were partly offset by a decrease in the cost of sales, and research & development costs.

¹ Excluding effects from hedging and other revenue

Cost of sales decreased 2% to DKK 3,385m (DKK 3,448m). This corresponded to 19.9% of total revenue, versus 19.0% in 2018. Sales and distribution costs increased 4% to DKK 5,514m (5,277m). The increase was due to investments in the commercial organisations in China and Japan. Sales and distribution costs corresponded to 32.4% of revenue, compared to 29.1% in 2018. Administrative expenses increased to DKK 899m (DKK 762m), corresponding to 5.3% of total revenue in 2019 (4.2%).

Research & development costs declined 4.9%, resulting in an R&D ratio of 18.3% in 2019, which was the same level as in 2018.

Operating profit (EBIT) in 2019 was DKK 3,608m (DKK 5,301m), a decrease of 32%. As a result, the EBIT margin decreased to 21.2% in 2019, compared to 29.3% in 2018.

Operating profit was negatively impacted by hedging losses of DKK 322m in 2019 (gain of DKK 242m) as well as other operating items amounting to a net expense of DKK 514m (DKK 52m) due to acquisition and integration costs related to the acquisition of Alder BioPharmaceuticals, Inc.

NET PROFIT

The effective tax rate for 2019 was 23.4% and decreased significantly compared to 2018. The tax rate was positively impacted by a tax benefit realised following the integration of Alder BioPharmaceuticals, Inc.

Net profit in 2019 reached DKK 2,667m (DKK 3,907m).

Figures for 2018 are shown in brackets

ALK-ABELLÓ A/S

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

ALK achieved growth in local currencies of 11% in 2019 and closed the year ahead of schedule with its strategic transformation plan, which targets sustainable, double-digit growth and earnings that are on a par with benchmarks for the specialty pharmaceutical sector. Important progress was seen on the company's optimisation efforts and commercialisation of the SLIT-tablets* portfolio, which saw 45% sales growth.

SECOND YEAR OF THE THREE-YEAR TRANSFORMATION PROGRAMME (2018-2020)

ALK continued the execution of its three-year transformation programme, which was announced in December 2017. By the end of 2019, ALK was already well ahead of the timetable it set for establishing itself as a company that can capitalise on the major opportunities that lie ahead in helping people all over the world with allergy solutions.

ALK's transformation period spans three years and has four areas of focus:

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

¹ Sublingual allergy immunotherapy tablets (SLIT-tablets)

In **North America**, organic sales growth in 2019 was broadly in line with ALK's target of 10%. Sales of ACARIZAX®/ODACTRA®, which is central to the company's goal of establishing the wider tablet franchise in North America, continued to grow, albeit from a low level. Acceptance of the tablets continued to show improvement in both the USA and Canada, and 2019 saw increases in the overall number of prescribers (breadth), prescriptions (depth) and patients who were new to tablets. In absolute terms, tablet sales were still modest, underlining the fact that establishing this franchise will be a long-term endeavour with considerable potential upside. Continued investments mean that ALK has now established the necessary infrastructure to support the tablet portfolio and continues to develop its expertise in unlocking market barriers.

Work to **complete and commercialise the tablet portfolio for all relevant ages** continued at pace. In 2019, ALK secured European approval for its tablet for the treatment of tree pollen-induced allergic rhinitis, branded ITULAZAX®. This was followed by ALK's best ever new product launch in Germany and, by year-end, the product had been formally launched in three markets. ALK's overall tablet portfolio made further strong progress in 2019 with 45% sales growth over the previous year, so that tablets now represent 30% of ALK's total sales. ALK also began expanding its geographical footprint during 2019 and, with a tablet range that now covers five of the world's most important respiratory allergens, the majority of ALK's focus will be directed towards its successful commercialisation.

ALK is working to support people with allergy much earlier in their disease journey by engaging with them, informing and mobilising them to seek treatment. Efforts in **patient engagement systems and adjacent business** opportunities are a reflection of this. ALK is developing a consumer-focused ecosystem of information resources, services and products that complement and smooth the path to treatment with ALK's core allergy immunotherapy portfolio. The financial contribution of the new consumer care portfolio services remained negligible, reflecting the very early stage of these activities. Nevertheless, ALK continued to identify and secure adjacent business opportunities in 2019, most notably a next-generation adrenaline auto-injector in partnership with Windgap Medical. Development work on this continues ahead of a decision on the potential timing of a registration application to the US Food and Drug Administration (FDA).



Revenue DKKm

3,274

Operating profit (DKKm)

-14

Net profit (DKKm)

-50

Number of employees

2,385

The final component of the transformational strategy, **optimise and reallocate**, is a wide-ranging programme to improve quality and robustness while also generating savings that can be reinvested in the push for improved sales and margins.

FINANCIAL PERFORMANCE

SALES

Revenue in 2019 increased 12% to DKK 3,274m (DKK 2,915m) which was at the upper end of the guidance range given at the beginning of 2019.

European revenue was up 7% at DKK 2,368m (DKK 2,220m), with growth largely fuelled by sales of SLIT-tablets, which were up 32%. Tablet sales saw broad-based growth across European markets, driven by strong performances from ACARIZAX® and GRAZAX®, as well as the encouraging early take-up of ITULAZAX®, as ALK continued to take advantage of the ongoing market shift in favour of evidence-based medicines. Revenue from the legacy portfolio stabilised as combined SCIT¹ and SLIT-drops² sales were largely unchanged due to recovering SCIT sales and strong sales of venom products. Overall revenue increased in most markets although, in France, sales declined slightly as ACARIZAX® took sales from its legacy equivalents.

Revenue in North America grew by 9% in local currencies, which equated to reported revenue of DKK 669m (DKK 583m). Disregarding the divestment of the US veterinary business at the end of 2019, organic growth was 10%, which was broadly in line with ALK's 2019 target. SLIT-tablet sales in North America were up 38% at DKK 85m (DKK 59m). In terms of volume, uptake was in line with ALK's 2019 targets. However, promotional activities such as rebates and coupons – essential to establishing any new medicine in the USA – lowered the effective selling price of the tablets, subduing overall revenue, which was slightly below expectations.

¹ Sublingual allergy immunotherapy drops (SLIT-drops)

² Subcutaneous allergy immunotherapy (SCIT)

Revenue from International markets was up 112% in local currencies at DKK 237m (DKK 112m). Growth was largely attributable to strong performance from the tablet portfolio, most notably in Japan, but there were improved sales in all markets, including south-east Asia, the Middle East and Australia.

OPERATING PROFIT

Cost of sales increased 8% to DKK 1,382m (DKK 1,282m). The gross profit of DKK 1,892m (DKK 1,633m) yielded a gross margin of 58% (56%), reflecting increased sales – especially from tablets, with higher volumes absorbed by existing capacity – but also significant costs associated with compliance, efforts to secure robustness in product supply, and implementation of the product and site strategy.

Capacity costs increased by 9% to DKK 1,922m (DKK 1,756m) driven by higher research and development costs, which was in line with expectations and reflected increased expenses for clinical trials in 2019. Administrative expenses increased 8%, largely as a consequence of strengthening selected support functions, while sales and marketing expenses grew by 6%, reflecting support for the tablets, including new launches and market expansion activities.

Operating profit (EBIT) was DKK -14m (DKK -96m) and reflected revenue development, better margins, efficiencies and savings.

NET PROFIT

Net financials were a loss of DKK 17m (loss of DKK 7m) mainly related to net interest expenses. Tax on the result for the year totalled DKK 19m (DKK 67m) and net profit was a loss of DKK 50m (a loss of DKK 170m).

Figures for 2018 are shown in brackets

FALCK A/S

Falck is an international market leader in emergency response and healthcare, with strongholds in the Nordics, the USA and Colombia. Globally, Falck operates across 30 countries and employs more than 30,000 people. The Lundbeck Foundation owns 59% of Falck.

In late 2019, Falck completed its turnaround. With improved performance over six consecutive quarters, Falck completed two years of diligent work to get the company out of a deeply challenging situation.

The financial and strategic turnaround has been about changing the mindset from one of acquisitional revenue growth and local autonomy to one of organic growth, profitability, global operating models with a strong focus on governance.

In January 2019, a ruling from the Danish Competition Council emphasised the need for strong governance and business ethics at Falck. Many initiatives had already been taken since 2016 to secure that Falck never again violates competition law as happened in 2014-15. Over the past year, these initiatives have been further reinforced.

The 'cost out and efficiency programme', which was introduced in 2017, will conclude in early 2020, but measures to ensure continuous cost optimisation are also being implemented. The efficiency programme has delivered DKK 1bn in cost savings that will have a full-year effect in 2020 and, while Falck will continue its drive for further efficiency, customers and employees nevertheless remain the top priority.

KEY HIGHLIGHTS FROM THE DIVISIONS

Ambulance improved its operating profit (EBIT) due to efficiency measures, price management and contract pruning, which more than offset costs related to several contract start-

ups and closedowns. Reported EBIT increased to DKK 333m (DKK 97m). In 2019, the EBIT margin improved by 3.0 percentage points to 4.3% (1.3%).

In 2019, reported revenue was DKK 7,766m (DKK 7,659m). New fixed-price and pay-on-use contracts were initiated with Alameda County in California, the Municipality of Stockholm

in Sweden, Imperial College Healthcare NHS Trust in London, and several municipalities in Germany. In particular, the introduction of a quality assurance fee programme in California contributed positively to revenue in Ambulance. In **Roadside Assistance**, EBIT improved on declining revenue due to efficiency measures and price management. Reported EBIT increased by 47% to DKK 340m (DKK 231m).



Revenue (DKKm)

13,824

Operating profit (DKKm)

55

Net profit (DKKm)

-362

Number of employees

23,920

Price management contributed positively to revenue development but did not fully offset the continuing loss of customers in the subscription portfolio and the loss of public fire service contacts in Denmark. Meanwhile, the mild winter in Sweden and Norway in 2019 led to lower activity levels in the pay-on-use portfolio compared to 2018, when activity levels were extraordinarily high. Reported revenue declined 4% to DKK 2,808m (DKK 2,937m).

In **Healthcare**, EBIT decreased to DKK -380m (DKK -153m), which was due to an impairment of goodwill of DKK 450m, related to the expiry of large contracts in Denmark and Norway. Adjusted for the impairment, profitability improved due to efficiency measures and continuing contract pruning across the business that more than offset the expiry of three large contracts.

Revenue decreased 5% to DKK 2,355m (DKK 2,466m), partly on contract losses and partly on lower activity levels in Denmark and Sweden. A new contract with the Volvo Group and several medium-sized wins in the second half of 2019 did not offset the expiry of large contracts with Tryg in Denmark, Gjensidige in Norway and staffing contracts with two municipalities in Denmark.

Portfolio Businesses improved its EBIT on flat revenue. The improved profitability derived from efficiency measures implemented across Industrial Fire Services and Falck Global Assistance. As a result, reported EBIT increased to DKK 86m (DKK 42m).

Revenue in 2019 was DKK 1,160m (DKK 1,162m). Higher activity levels and new contracts in Industrial Fire Services offset the divestment of Falck Fire Academy in the Netherlands. In 2019, Industrial Fire Services initiated two new contracts in Aberdeen and Glasgow in the UK, a contract with emmtec Industry & Businesspark in the Netherlands, and rescue operations for Red Bull Air Race events. Falck Global Assistance initiated new contracts with several new customers for security and medical travel services.

FINANCIAL PERFORMANCE

SALES

In 2019, revenue was DKK 13,824m (DKK 13,988m). The divestment of business activities in the Ambulance and Portfolio businesses had a negative impact on revenue of DKK 423m for the year.

OPERATING PROFIT

Cost of services was DKK 11,208m (DKK 11,621m). Efficiency measures across business units, the divestment of loss-making, non-core businesses in Ambulance, and contract pruning all contributed positively. In total, these factors more than offset the effects of customer losses in the subscription business and higher costs related to the start-up of new contracts. The underlying OPEX ratio for 2019 was 81.1% (83.1%).

Sales and administrative expenses amounted to DKK 2,207m (DKK 2,460m). Efficiency improvements in staff functions across the business offset increased investments in new technology and processes enhancing Falck's global operating models.

Operating profit (EBIT) increased to DKK 55m (DKK -8m). In 2019, EBIT included an impairment of DKK 266m and settlement costs, legal fees and a fine related to the competition case against Falck of DKK 223m.

NET PROFIT

Profit for the year was DKK -362m (DKK -550m from continuing operations) which was an improvement of DKK 188m. The improvement was driven by lower financial expenses which partly offset the lower EBIT and higher income tax.

Figures for 2018 are shown in brackets

FINANCIAL INVESTMENTS (INVEST)

Invest generates returns with the primary purpose of securing sufficient reserves to protect the long-term holding of the Foundation's subsidiaries and to maintain grant-making activities. The financial investments are spread across a diversified investment portfolio and long-term investments in individual companies.

Invest delivered a very strong result in 2019, despite a lot of risk factors and uncertainty. The strong result counter-balanced a weak 2018 when markets suffered due to trade war worries, concerns about global growth and speculation about a possible recession. There were concerns in 2019 too – not least regarding Brexit, the ongoing trade-war between the USA and China, a downturn in manufacturing output and an earnings recession. Despite these factors, the market climbed the so-called 'wall-of-worry' and all asset classes performed strongly. A critical factor in boosting confidence was the decision by the US Federal Reserve to reverse its policy of monetary tightening as it began lowering interest rates.

STRONG RETURN DRIVEN PRIMARILY BY LISTED EQUITIES

The Foundation's financial investments generated a return of DKK 2,180m in 2019 (DKK -454m). This equated a return of 15.2% (-3.3%) which was considered to be highly satisfactory.

Listed equities generated a return of DKK 1,751m, corresponding to a return of 23.0%. Luxury goods stocks, US banks and energy transition stocks contributed the most to the result, whereas European financial stocks contributed negatively. The Foundation's investment in FLSmith & Co. was loss-making at DKK -99m, or -6.9%.

Private equities and credits generated returns of DKK 92m and DKK 170m respectively, corresponding to gains of 11.8% and 8.0% respectively.

Real assets, including the property company Obel-LFI Ejendomme A/S and the woodland investment in LFI Silva Investments A/S, contributed DKK 167m or 18.8%.

In 2019, the expense ratio (including management fees) increased to 0.23% (0.18%) due to higher performance fee and administration costs.

INCREASINGLY DEFENSIVE INVESTMENT STRATEGY

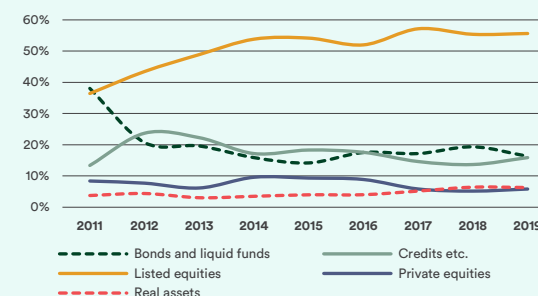
Macro, geopolitics and monetary policy once again had a significant impact on the markets. The long list of worries prompted investors to seek safety, so that defensive names and quality stocks experienced substantial influges. The sharp reduction in interest rates encouraged this trend still further. Credit spreads narrowed to around 200 basis points.

Although both macro and geopolitical risks had receded by the end of 2019, they were nevertheless still noticeable going into 2020. In addition, the strong rise in all major asset classes has made several of these expensive. Consequently, Invest is maintaining a balanced approach to risk, quality and valuation as it focuses attention on companies with secular growth.

The long-term results for Invest remained strong with returns of 7.3% and 7.5% over three and five years, respectively, which was 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)		Return (%)	
	31.12.19	31.12.18	2019	2018
Bonds and liquid funds	2,701	2,653	-0.3%	-1.2%
Credit etc.	2,631	1,876	8.0%	2.2%
Listed equities	9,210	7,596	23.0%	-4.0%
Private equities	965	709	11.8%	-2.9%
Real assets	1,053	882	18.8%	6.3%
Total	16,560	13,716	15.2%	-3.3%

Figures for 2018 are shown in brackets

LUNDBECKFONDEN VENTURES

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.

The Ventures portfolio reached several important milestones during 2019, delivering important clinical results, as well as solid financing rounds and returns for the Foundation. Several follow-on financings were completed, as was a series A financing for the new company Tiburio.

During the year, Trevi completed an IPO on Nasdaq generating approximately DKK 470m in the process. Sanifit, Imara and Aura also raised substantial new capital.

Tiburio raised DKK 207m in a series A financing. This is yet another example of a company launch resulting from the work conducted by Cydan, the orphan drug accelerator, in which Ventures invested in 2013.

Sanifit published very impressive clinical trial results in the autumn showing that SNF472 significantly reduced the progression of cardiovascular calcification in patients with end-stage kidney disease (ESKD) and who are receiving haemodialysis. The results are remarkable as they have been achieved in patients who continued to be treated with modern adjunct therapy for the management of cardiovascular disease and disorders of mineral metabolism in ESKD.

Ventures previously invested in River Vision which is developing teprotumumab for the treatment of Graves' orbitopathy. Horizon Pharma acquired River Vision in 2017 and has progressed the development of teprotumumab to the point where

it has confirmed the very solid therapeutic effect seen in an earlier clinical study by River Vision via a second Phase III study which led to the filing of a Biologics License Application (BLA) to the US Food and Drug Administration (FDA) in mid-2019 with a review deadline of 8 March 2020.

“After 10 years of investing, Ventures is now seeing a number of drug candidates approved or approaching approval for the benefit of patients. Leading the field has been the approval of ENVARUSUS®, which was developed by Veloxis and has shown impressive growth in a market dominated by generics, confirming its benefit to patients. The acquisition by Asahi Kasei Corporation is a testimony to the results achieved so far”



METTE KIRSTINE AGGER
Managing Partner, Ventures

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 company's main product is ENVARUSUS® for the prevention of organ rejection in kidney transplant recipients.

ENVARUSUS® has similar efficacy to its competitor products while offering a superior side-effect and pharmacokinetic profile.

At the end of 2019, the Lundbeck Foundation owned 36.6% on a fully diluted basis (40.8% on a non-diluted basis) of Veloxis, which is traded on Nasdaq Copenhagen.

On 25 November 2019, Asahi Kasei Corporation, a Japanese public corporation listed on the Tokyo Stock Exchange, made a recommended conditional voluntary public offer (through Asahi Kasei Pharma Denmark A/S) to purchase all issued and outstanding shares and warrants in Veloxis (except for treasury shares) for a total valuation of DKK 8.9bn. Shareholders representing 81.2% of the company's share capital (on a fully diluted basis) agreed to accept the offer, and the acquisition was completed in January 2020. Asahi Kasei Corporation plans to further accelerate the growth of the business via its US subsidiary, Veloxis Pharmaceuticals Inc.

FINANCIAL RESULTS

In 2019, Ventures' investments in new and existing companies, amounted to DKK 301m (DKK 194m). The net return for the year was DKK 1,445m (DKK 149m) primarily driven by increasing share price on Veloxis.

The fair market value of the current portfolio equated to DKK 4,563m at the end of 2019 (DKK 2,969m).

AN ACTIVE INVESTOR

As an active investor, the Foundation is represented on the Board of Directors of 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 2019, the Ventures portfolio comprised 18 companies, of which, 11 are based in the USA, while one-third, six, are public companies. The complete portfolio is listed on the following pages.

PUBLIC PORTFOLIO COMPANIES



In 2019, Acacia received another Complete Response Letter from the FDA to its New Drug Application (NDA) in the USA for its post-operative anti-nausea and vomiting drug BARHEMSYS™. This response came as its API supplier failed to successfully address their FDA inspection remarks. The company has now changed API supplier, refiled the NDA and the new FDA review deadline is 26 February 2020.



Bonesupport markets and sells CERA-MENT®, 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 2019, Bonesupport grew its own US commercial platform and improved financial results considerably.



scPharmaceuticals is developing FUROSCIX® - an investigational, proprietary, pH-neutral formulation of furosemide for subcutaneous administration via an on-body infuser and used in the outpatient treatment of oedema and congestion in patients with heart failure. The company is completing work towards a new NDA filing covering subcutaneous delivery of the diuretic furosemide, with a filing planned for mid-2020.



Spero has a pipeline of novel treatments for bacterial infections. In 2019, the company received Fast Track designation for SPR994. It further announced that an independent review committee had evaluated pharmacokinetic data following enrolment of the first 70 patients in its ongoing pivotal Phase III clinical trial of SPR994, Spero's oral carbapenem product candidate, recommending that Spero continue the trial.



In May 2019, Trevi completed a public offering on Nasdaq generating proceeds of approximately DKK 470m. The company is conducting a Phase IIb/III clinical trial of nalbuphine extended release for the treatment of pruritus in prurigo nodularis as well as a Phase II trial in chronic cough in patients with idiopathic pulmonary fibrosis.



Veloxis is a specialty pharmaceutical company committed to improving the lives of transplant patients. Veloxis reached break-even early in the fourth year of its launch of transplant anti-rejection medicine ENVARUSUS® in the USA and in Europe where it partners with Chiesi (see page 18).

PRIVATE PORTFOLIO COMPANIES



Amplix is conducting a Phase II study of APX001, a broad-spectrum antifungal drug with a novel mechanism of action, in Candidemia infection and has announced early positive data. The drug has received Fast Track designation from the FDA. In September, the company acquired the global rights to a Phase II anti-BK virus (BKV) monoclonal antibody, MAU868, for the treatment and prevention of BKV infection that can arise in immunosuppressed patients.



Atox 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. The company is also conducting a randomised, placebo-controlled Phase II study in acute kidney injury (AKI) and is aiming to enrol 120 patients with abdominal sepsis and stage 2/3 AKI.



Aura is studying the light-activated AU-011 in a Phase Ib/II study for the treatment of patients with eye melanoma. With this new class of therapy, Aura is attempting to target and destroy cancer cells selectively, while leaving surrounding tissue unharmed. During 2019 it was reported that 15 patients out of 17 (88%) with documented tumour growth prior to trial enrolment experienced tumour control after treatment with AU-011 ($p=0.0117$).



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.



Imara, a Cydan-created company, is developing novel oral treatments for sickle cell disease. In early 2019, the company closed a series B financing after raising DKK 420m (USD 63m) and expanded its organisation. The company is currently well underway with its Phase II clinical trial for IMR687, which is being developed for the treatment of sickle cell disease as well as beta-thalassemia. In May, the company received Fast Track designation from the FDA for the treatment of sickle cell disease.



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 to help identify the most relevant biopsy sites. During 2019, the company received confirmation that the Dysis procedure will be covered by a special code for current procedural terminology (CPT1) which will render Dysis eligible for add-on reimbursement.



Enterome is pioneering the development of novel drugs for microbiome-related diseases with a special focus on inflammatory bowel disease and immuno-oncology. During 2019, the company progressed its clinical pipeline and established several collaborative agreements with leading institutions.



PsiOxus is developing gene-based immuno-oncology treatments for solid tumours using its proprietary, intravenously administered T-SIGn virus platform. The portfolio of differentiated gene therapy products are all delivered systemically but act locally within the tumour. The company has several programmes in clinical trials.



Reneo is a clinical-stage pharmaceutical company focused on the development of therapies for patients with genetic mitochondrial diseases. Reneo is developing RENO01 to improve cellular energy metabolism by enhancing mitochondrial function and potentially increasing the number of mitochondria. Mitochondria are known as the powerhouses of the cell, where carbohydrates, fats and proteins are used to generate the energy the body needs. Mitochondrial dysfunction has been implicated in many disorders that affect skeletal muscle metabolism and impact daily function and quality of life.



Sanifit is developing SNF472 for the treatment of cardiovascular diseases linked to calcification in end-stage renal disease (ESRD) patients undergoing haemodialysis. In October, the company reported that the SNF472 Phase IIb CaLIPSO trial met its primary endpoint in slowing the progression of cardiovascular calcification in patients on haemodialysis.



Tiburio, a Cydan-created company, launched a series A financing in early 2019, raising DKK 207m. Tiburio is dedicated to advancing novel treatments for serious neuroendocrine disorders such as non-functioning pituitary adenoma (NFPA), for which the company is progressing TBR-760 via a global Phase IIb trial.



VHsquared has developed a platform of transformational oral biologics, named Vorabodies™. These are oral, gut-restricted, domain antibodies targeting local immuno-inflammatory targets in the gastrointestinal tract. VHsquared has completed a Phase IIa trial in inflammatory bowel disease with V565, an anti TNF- α Vorabody™.

LUNDBECKFONDEN EMERGE

Emerge is the Foundation's early-stage, evergreen investment unit, building and financing biotech companies based on Danish research. EmERGE invests in pioneering research that promises to deliver significant patient benefit and commercial potential.

In 2019, EmERGE continued developing its portfolio of mainly Denmark-based biotechnology companies. Notably, EmERGE co-led the USD 50m series A financing of SNIPR Biome, which EmERGE seed-financed in 2017. This represents one of the largest series A biotechnology financings in Europe to date and positions the company well to develop its technologies and bring its products forward for the benefit of patients.

GROWING PORTFOLIO

With CytoKi Pharma, EmERGE added a new company to the portfolio. The company received an exploratory investment

for its IL-22 programme, creating the basis for the company formation.

With two portfolio companies conducting Phase II clinical trials and several companies on their way towards clinical validation, the portfolio is progressing according to expectations.

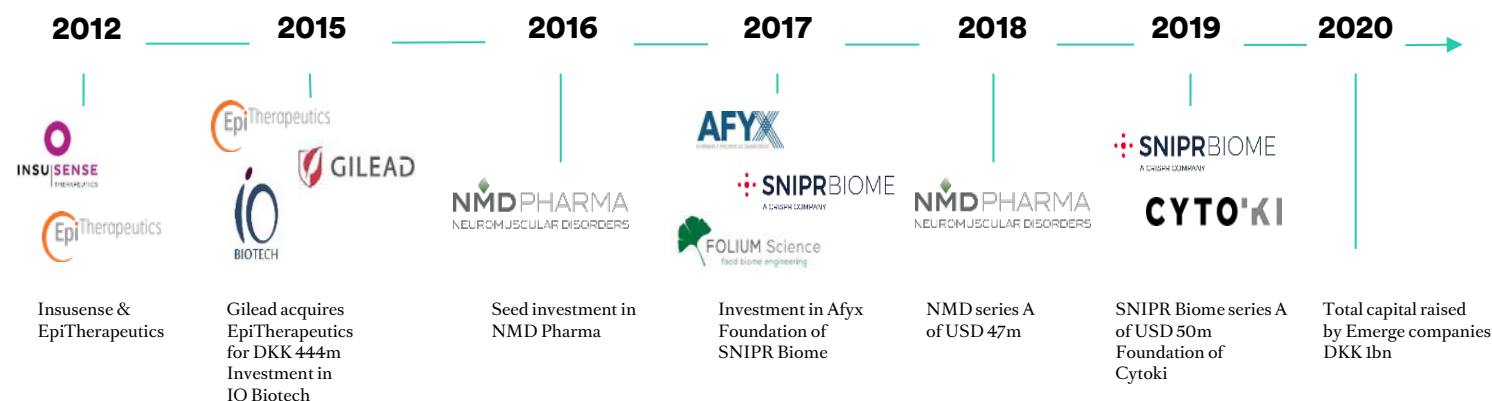
EmERGE will continue to develop strong companies based on Danish research, as well as attracting further investments and bringing innovation to patients.

It is a testament to this approach that the portfolio companies are able to attract investment from international investors and to execute their business plans while simultaneously recruiting high calibre individuals from diverse backgrounds at both management and board levels.

FINANCIAL RESULTS

The net return for the year was DKK -9m (DKK 4m) and the fair market value of the current portfolio was DKK 247m (DKK 174m) at the end of 2019.

THE DEVELOPMENT OF LUNDBECKFONDEN EMERGE'S PORTFOLIO





AFYX THERAPEUTICS

Afyx Therapeutics is developing a new therapy for diseases of the oral cavity using technology based on the Rivelin patch which uniquely adheres to mucosal surfaces to deliver medicines. The first product candidate targets oral lichen planus (OLP), for which there is currently no approved treatment, by incorporating the drug clobetasol propionate into the Rivelin patch. In 2019 company closed a USD 13m loan financing that will be used to support the ongoing Phase IIb study of the clobetasol propionate patch for OLP, as well as expansion of the Rivelin® platform into other mucosal diseases.

CYTO'KI

CYTOKI PHARMA

CytoKi Pharma is a new discovery-stage biotech company which, based on an exploratory investment from Emerge, was founded in 2019. The company will progress an advanced pipeline based on the Interleukin-22 biology towards a range of orphan indications within acute inflammatory states of the epithelial outer layer of organs, catering to a significant unmet medical need.



FOLIUM SCIENCE

Folium Science uses CRISPR technology to precisely manage microbial and bacterial populations to enhance soil, animal, plant and ultimately human health in the agriculture, food and beverage industries. North-East Family Office joined Emerge in providing support and financial backing for the company, in its quest to bring its technology to the food and feed industries and to launch the first product for controlling salmonella in industrial chicken feed.



INSUSENSE THERAPEUTICS

The company develops novel, innovative medical treatments for type-2 diabetes and diabetic complications, based on world-leading research into the role of the sortilin family of proteins. The company, based in Aarhus, made significant scientific progress during 2019 in a new indication area.



IO BIOTECH

IO Biotech develops disruptive cancer vaccines directing the immune system to target cells expressing so-called 'checkpoints'. This allows the immune system to directly engage with otherwise 'cloaked', malignant cells. In 2019, the company made significant progress in the Phase II clinical study of IOI02 as part of a global, open-label, randomised clinical trial in combination with KEYTRUDA® (pembrolizumab) for the treatment of first-line patients with metastatic, non-small cell lung cancer.



NMD PHARMA

Based on world-leading electrophysiology science from the University of Aarhus, NMD Pharma develops innovative medical treatments for rare neuromuscular diseases such as myasthenia gravis, and reversal agents for neuromuscular blockade in post-surgical settings. Following the USD 47m series A financing in 2018, the company has moved its programmes towards preclinical development with candidates identified for both main programmes.



SNIPR BIOME

SNIPR Biome has established its new domicile in Copenhagen and was successful in raising a USD 50m series A financing from an international venture capital investor syndicate co-led by Emerge. This represents one of the largest series A financings in Europe to date. The company is well on the way to unlocking the potential of its powerful CRISPR technology and to developing new treatments, initially for life-threatening infectious diseases. The company was recognised by EY as 'Entrepreneur of the Year' in Life Sciences in Denmark.

“Emerge develops the businesses it invests in by providing the capital, expertise and network required for success - reflecting the Foundation’s commitment to bringing discoveries to lives through investing actively in science”



CHRISTIAN ELLING

Managing Partner, Emerge

GRANTS & PRIZES

In 2019, the Lundbeck Foundation awarded grants and prizes designed to enable Denmark's development as one of the world's leading brain research nations by funding relevant biomedical, health and clinical sciences. At the same time, the Foundation's grants aim to support an environment that fosters the most talented scientists at all career levels.

Total grants (DKKm)

666

Number of grants

382

Support for brain research (DKKm)

406

Number of full time employees funded

897

In 2019, the Foundation continued its support for outstanding biomedical research with an even stronger commitment to neuroscience.

The total grant sum of DKK 666m marked a significant increase over 2018 (DKK 571m) and was the highest amount awarded in a single year in the history of the Foundation.

THE GRANTS

The 2019 awards were distributed across three main groups: People, Projects and Prizes.

PEOPLE

People focuses on talent and career advancement. The aim is to identify the best scientists with the most innovative ideas. The People programme comprises four funding instruments:

- *LF Postdocs* applies to post-doctoral research projects with a biomedical or health-related focus. The grants are open to postdocs working in Denmark, and for Danish postdocs who want to travel abroad for the purposes of furthering their work. DKK 87m was awarded in 2019.
- *LF Fellows* are talented young researchers who wish to establish or expand their own research groups. It applies to Denmark-based researchers or to researchers who wish to move to Denmark. DKK 100m was awarded to 10 scientists in 2019.
- *LF Ascending Investigators* are experienced and independent researchers in the fields of neuroscience or biomedical,

clinical or health science. DKK 100m was awarded in 20 grants in 2019.

- *LF Professors* focuses on the very best neuroscience researchers and on building excellent research environments around these people in Denmark. DKK 232m was awarded to six professors in 2019.

PROJECTS

The *Projects* programme comprises two funding instruments:

- *LF Collaborative Projects* focuses on basic or clinical neuroscience, or science with clear relevance to neuroscience and which require collaboration between Danish research teams or with international research teams. The first awards under this instrument will be made during 2020.
- *LF Experiments* focuses on funding bold, ground-breaking research ideas which might fail in programmes that are

GRANTS IN 2019

DKKm	
555	Personal research and travel grants
86	Project grants
10	Prizes
11	Science teaching and communication grants
4	Other purposes
666	Total

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

subject to traditional peer review. This funding covers research in biomedical, clinical or health science. DKK 60m was awarded in 2019.

PRIZES

Prizes is an important instrument for acknowledging and celebrating outstanding scientists.

The Brain Prize is the world's largest international neuroscience prize dedicated to scientists who have made an outstanding contribution to neuroscience. The Brain Prize 2019 of DKK 10m was awarded to Marie-Germaine Bousser, Hugues Chabriat, Anne Joutel and Elisabeth Tournier-Lasserre - all from France - for "*their ground-breaking research on the clinical, genetic, cellular and molecular basis of a brain syndrome, known as CADASIL. Their achievement is a beautiful illustration of a clinical observation leading to fundamental discoveries about brain disease with implications for the understanding of causes of dementia, migraine and stroke*".

Brain Prize outreach activities

Brain Prize outreach activities bring the outstanding science behind each year's Brain Prize to the scientific community, with particular focus on the Danish neuroscience community. Specific activities in 2019 comprised:

- Brain Prize Lectures at the Federation of European Neuroscience Societies (FENS) in Belgrade, Serbia
- A Brain Prize Lecture at the annual meeting of European College of Neuropsychopharmacology and BrainDays in Copenhagen, Denmark
- A Brain Prize Lecture at the annual Canadian Neuroscience meeting in Toronto, Canada
- A Brain Prize Lecture at the annual meeting of the European Academy of Neurology, Oslo, Norway
- A Brain Prize Lecture at the annual meeting of Japan Neuroscience, Osaka, Japan
- A Brain Prize Evening with three Prize winners at the BNA Festival of Neurosciences, Dublin, Ireland
- Two brain conferences in collaboration with FENS at

Rungstedgaard, Denmark

- The Brain Prize Meeting at Borupgaard, Denmark

Strengthening outreach to the public

To increase the awareness of the Brain Prize and share the latest scientific achievements the Foundation sponsors the world's leading web resource for neuroscience, brainfacts.org. The website has 8 million users and contains videos and articles about the brain for different levels of scientific understanding.

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.

The Young Investigator Prize of DKK 1m was awarded to Simon Bekker-Jensen, PhD, professor with special responsibilities at the Center for Healthy Aging and the Department for Cellular and Molecular Medicine.

Three talent prizes of DKK 500,000 each, for promising young researchers under the age of 30, were awarded to Josefine Stokholm Bækgaard (PhD-student, MD, Rigshospitalet), Jawad Haider Butt (resident, PhD-student, MD, Rigshospitalet), and Jens Velde Andersen (PhD-student, cand.scient., University of Copenhagen).

EXPERT PANELS

The Foundation uses two 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, UK, Brain Prize winner 2017), Monica di Luca (University of Milan, Italy) and Daniel Wolpert (Columbia University, USA). The panel evaluates the applications for LF Fellows, LF Professors

and LF Collaborative Projects and proposes selections for subsequent approval by the Board of Directors.

The Talent Panel comprises 15 external members. It is chaired by Professor Mart Saarma (University of Helsinki, Finland) and Professor Dean Sven Frøkjær (University of Copenhagen, Denmark) (deputy 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 Directors, makes the decisions on these grants.

SCIENCE EDUCATION AND SCIENCE COMMUNICATION

In 2019, the Foundation granted DKK 10m for projects that communicate science and its results to the 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. The Foundation provides five scholarships for medical students to study for one year at Stanford University or the University of California, San Francisco - both in the USA.

“We have decided to prioritise brain research for the Lundbeck Foundation's grants, since brain disorders are a major and increasing threat to the individual as well as the national economy. Our goal is to develop Denmark into one of the world's leading brain research nations”



JAN EGEBJERG

Senior Vice President, Grants & Prizes,
Director of Science

RISK MANAGEMENT

The Lundbeck Foundation's risk management framework provides close monitoring, systematic risk assessment and the ability to identify, manage and report 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: business, operational, cyber 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 Directors. More frequently, updates on exposure to risk factors such as industry and geographical concentrations are submitted to the Investment Committee.

The most recent group risk assessment exercise resulted in the identification of a range of strategic, operational, financial, political and reputational risks that could potentially pose a threat to the Foundation. A key priority of the subsequent work 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 27, 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 Directors.

RISKS RELATED TO PORTFOLIO INVESTMENTS

The Board of Directors 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 counterparty requirements.

Weekly portfolio performance reports are prepared for the CEO and detailed monthly reports are prepared for the Board of Directors.

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. An ESG status report is reviewed and approved by the CEO and the Investment Committee twice a year. No investments have been identified as being in violation of the ESG policy.

RISKS RELATED TO CYBER-SECURITY

In recent years, several major cyberattacks have been launched against companies and organisations around the world.

The subsidiaries and the Foundation rely on their IT platforms to run their businesses and the Group owns various types of intellectual property rights. Consequently, the Group is a potential target for cyberattacks or industrial espionage, and it is a strategic priority to continue to improve cyber-security.

As IT platforms differ across the Group, cyber-security is managed by each subsidiary and the Foundation separately. Each has programmes designed to improve resilience against cyber-attacks. In addition, cyber-risk awareness campaigns are conducted regularly throughout the organisations to minimise risks resulting from phishing emails and similar threats.

RISK REPORTING AND MANAGEMENT



Risk reporting model

RISKS AND MITIGATION

RISK	CONTEXT	MITIGATION
1. Distress in subsidiaries Subsidiaries account for 70% of the Foundation's total net wealth	Poor performance by subsidiaries, ultimately resulting in value destruction of the Foundation's shareholdings in the companies	<ul style="list-style-type: none"> ■ Active ownership with a focus on: <ul style="list-style-type: none"> ◦ The overall strategy and key activities ◦ Board and executive management composition to ensure the right competencies ◦ A sound capital structure to support the strategy ◦ Good governance with delegation of duties ◦ 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	<ul style="list-style-type: none"> ■ High quality research and development with a focus on: <ul style="list-style-type: none"> ◦ New innovative drugs in areas with unmet medical needs ◦ Ongoing evaluation of the product pipelines, regulatory requirements and product benefits ■ Active involvement through: <ul style="list-style-type: none"> ◦ Board and executive management composition to ensure the right competencies ◦ Representation on the scientific committees in the subsidiaries ◦ A sound capital structure to support research and development
3. Financial market crisis effect on portfolio investments Portfolio investments account for 25% of the Foundation's total net wealth	Financial losses due to financial turmoil and possible economic recession	<ul style="list-style-type: none"> ■ Diversified portfolio ■ Close monitoring of risks in portfolio ■ Limits on market and concentration risk through investment policy ■ Dynamic hedging and continuous adjustment of portfolio
4. Ventures and Emerge - loss on investments Ventures and Emerge account for 7% of the Foundation's total net wealth	Unsuccessful development and/or commercial failure of portfolio companies	<ul style="list-style-type: none"> ■ Close monitoring of risks in the portfolio and active participation on boards ■ Diversified investment in a broad portfolio of life science companies ■ Understanding the risk in portfolio companies and investing in tranches
5. Misuse of grants	Fraud or scientific misconduct by grant recipients	<ul style="list-style-type: none"> ■ Transparent grants allocation processes ■ Peer reviews by external scientists ■ Status reports and budget follow-ups ■ Code of Conduct signed by grant recipients
6. Geographical exposure to the USA Group exposure to the US market is estimated at 41% of total revenue	Exposure to the USA through subsidiaries and portfolio investments	<ul style="list-style-type: none"> ■ Ongoing monitoring to exposure to the USA ■ Hedging against exchange rate risk (USD) in subsidiaries and financing of companies in USD ■ Lower relative exposure to the USA in the Foundation's portfolio investments
7. Price pressure in the healthcare sector Group exposure to healthcare accounts for 71% of the Foundation's total net wealth	Regulation or market dynamic that lowers the prices for drugs	<ul style="list-style-type: none"> ■ Limit on exposure to pharmaceutical companies in the Foundation's investment portfolio ■ Focus in pharmaceutical subsidiaries on: <ul style="list-style-type: none"> ◦ Innovation and generating strong clinical data ◦ Cooperation with healthcare authorities to document the value of the companies' pharmaceuticals ◦ Stringent process for 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 and grant activities, the Lundbeck Foundation has significant influence on society. The Foundation acknowledges the responsibilities that this entails and works to ensure that it is recognised as a trustworthy organisation, setting itself high standards for transparency, commitment and integrity.

UN GLOBAL COMPACT

The Foundation has been committed to the UN Global Compact since 2012 and is one of the only private commercial foundations 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 Foundation opposes any form of corruption, including extortion and bribery. Furthermore, the Foundation follows the UN Global Compact guidelines for environmental and labour market policies, human rights and sustainable development.

Of the Foundation's subsidiaries, Lundbeck signed up to the UN Global Compact in 2009, while Falck joined at the beginning of 2019 and, later in the year, ALK also became a signatory.


















The Board of Directors of each subsidiary further define their own, specific CSR policies, including on human rights, climate change, environmental impact and codes of conduct.

THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

The 17 Sustainable Development Goals (SDGs) are an urgent call for action by all UN Member States to address global challenges, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. The goals aim to set the world on course for a more sustainable future by 2030, leaving no one behind.

The Foundation strives to play a part in achieving these goals, primarily through the business practices of its subsidiaries, Lundbeck, ALK and Falck. Each has an SDG strategy related to their areas of interest. ALK focuses on goals 3, 8, 12 and 16 and Falck on SDGs 3, 8 and 16. Lundbeck has chosen to pay special attention to one of the targets linked to goal 3, aiming to promoting mental health and well-being, but is also committed to SDGs 5, 8, 12, 13 and 16.

While there is an obvious and immediate connection between the Foundation's purpose and the SDG activities that are connected to health, education and gender equality, the Foundation will expand its focus in 2020 to include further goals that are related to commercial activities and partnerships. Goal 3, which focuses on good health and well-being remains, however, the preeminent goal for the Foundation.

	Lundbeck Foundation	Lundbeck	ALK	Falck
People				
				
				
Prosperity				
Planet				
				
Peace				
Partnership				

NATIONAL BASELINE

The Foundation took direct action on the SDGs in 2019 when it agreed to co-fund the development of a set of national indicators as a supplement to the 232 global indicators, so that Denmark could accurately measure its progress towards the SDGs, and help prioritise efforts.

The contracting authority for the project is the Danish Parliament's cross-party network for the UN SDGs. The project is led by Statistics Denmark and funded by the Lundbeck Foundation together with four other Danish foundations, each of whom contributed DKK 3m. In autumn 2020, the baseline metrics will be presented to the Danish Government and Parliament and will subsequently be used as the basis for the Government's review of its political action plan in support of the UN SDGs.

DIVERSITY POLICY

In 2019, the Foundation launched a diversity policy in connection with its grants and prizes. The policy was developed in close collaboration with Danish universities and various diversity specialists and strives to ensure inclusive and unbiased processes, including in the calls for applications and nominations, the evaluation of applications and nominations, and the selection of grant nominees and recipients. All panels and committees must strive to ensure a minimum of 40% representation for the gender which is in the minority.

The policy is not limited to gender but implies that diversity of background, ideas and methodological approach is a strength to all aspects of research including: quality, problem solving, innovation and collaboration.

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

It is the policy of the Lundbeck Foundation to support gender equality and diversity in practice, as well as policy.

The Board of Directors 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 seven, three are men and four 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-Abellø A/S and Falck A/S.

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 underpinned by a clear governance structure and is further reflected in the Foundation's approach to investments and grants.

Commercial foundations play an important role in Danish society. With ownership of some of the largest Danish corporations and substantial contributions to Danish research, commercial 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 for good governance is independence. Therefore, our governance states that both the Board of Directors of the Lundbeck Foundation and the Board of Directors of all subsidiaries of the Foundation operate with a majority of independent members. Furthermore, according to the Foundation's Rules of Procedure, but respecting our governance for active involvement in subsidiaries, no present or former senior employees of either the Foundation or its subsidiaries can become members of the Board of the Foundation or the

Board of Directors of the subsidiaries. This also applies to present or former members of the Board of Directors of a subsidiary who cannot become a member of the Board of the Foundation.

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 the control of any legal owners.

THE BOARD OF DIRECTORS

The Lundbeck Foundation is managed by a Board of Directors 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 Directors meets a minimum of four times each year 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 all three subsidiaries in the role of Deputy Chairman, and 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 the 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 set up two permanent evaluation committees – the previously mentioned Research and Prize Committee and the Selection Committee to oversee The

Brain Prize (see page 33) – 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 personal and strategic applications. The members of the committees and panels must comply with the Foundation's impartiality rules.

The Research and Prize Committee and the Grants and Prizes Panel report to the Board of Directors. The Selection Committee for The Brain Prize reports to the Board of Directors through the Research and Prize Committee to ensure that its recommendations comply with the provisions for The Brain Prize.

The Board of Directors decides on the allocation of grants in accordance with statutory requirements. However, the Foundation has developed a model, which has been approved by the Danish Business Authority, 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.

Please refer to the next section on the Foundation's grant policy for more information about the committees and expert panels.

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 for a grant from the Foundation, the grant recipient and their 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.

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

At the annual strategy seminar, the Board takes a position on the overall strategy and grant policy. 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 do not stipulate any obligations for 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 grants 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 Directors. However, support for such purposes may only account for 25% of the total annual distributions of each calendar 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 Directors has the overall responsibility for the allocation of all grants. The Board of Directors has decided that the previously mentioned objectives should be met mainly through support for research in biomedicine. The Board of Directors 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.

COMMITTEES

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

RESEARCH AND PRIZE COMMITTEE

This committee comprises the three members of the Board of Directors who are appointed for their research expertise according to the statutes. The CEO and the Senior Vice President, Grants & Prizes, Director of Science, 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 Directors 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, bringing to the committee 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 Directors appointed for their research expertise according to the statutes and three external experts from 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 Directors.

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 Directors.

THE INTERNATIONALISATION PANEL

This panel comprises two of the three members of the Board of Directors 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 Directors.

DISTRIBUTION OF RESPONSIBILITY

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

The Board of Directors approves all of the Foundation's prizes before they are awarded.

BOARD OF DIRECTORS



JØRGEN HUNO RASMUSSEN, CHAIRMAN

Born 1952, elected to the Board in 2008

- Member of the Investment Committee
- MSc engineering (civil), B. Com. and PhD
- Deputy Chairman of the boards of Terma A/S and Rambøll Group A/S
- Member of the boards of Haldor Topsøe A/S, Bladt Industries A/S, Otto Mønsted A/S, Aase og Jørgen Münters Fond 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, DEPUTY 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 boards 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, MD, DMSc. Danish Dementia Research Centre, Department of Neurology, Rigshospitalet, University of Copenhagen
- Coordinating Professor (for the Neuroscience Centre at Rigshospitalet), Department of Clinical Medicine, University of Copenhagen
- President-Elect of the board of Biomedical Alliance 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
- Chairman of the board of Biovica International AB
- 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, DMSc. 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 Sciences, Faculty for Health and Medical Sciences, University of Copenhagen
- Member of the Steering Committee at the Center for Healthy Aging, University of Copenhagen

Considered dependent

SPECIAL QUALIFICATIONS

Scientific production within musculo-skeletal 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, SimCorp A/S and Falck A/S. Chairman of the Investment Committee at the Danish SDG Investment Fund K/S
- Member of the Industrial Board of Axcel and Axcel Future
- Member of The Systemic Risk Council
- Chairman of Dronning Margrethe 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, MD, DMSc. Copenhagen University Hospital, Copenhagen University
- Head of Research, Unit of Virus, Lifestyle and Genes, Danish Cancer Society Research Centre
- Member of the Steering Committee of the Mermaid Project
- Member of the 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 VILLEN 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



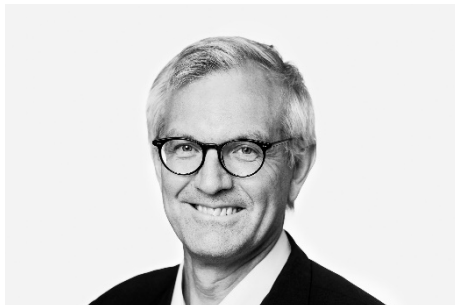
BERTIL FROM
Chief Financial Officer



CHRISTIAN ELLING
Managing Partner, Emerge



INGE BERNEKE
Senior Vice President, HR, Strategy and Public Affairs



JAN EGEBJERG
Senior Vice President, Grants & Prizes, Director of Science



METTE KIRSTINE AGGER
Managing Partner, Ventures



REGITZE REEH
Senior Vice President, Communications

A microscopic image of a neuron, showing its cell body and branching processes. The image is overlaid with a semi-transparent green color and framed by a dark green border. The text is positioned in the lower-left quadrant of the frame.

Consolidated financial statements

OF LUNDBECKFONDEN

FINANCIAL STATEMENTS

LUNDBECKFONDEN GROUP

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INCOME STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

DKKm	Note	2019	2018
Revenue	3	34,134	35,020
Cost of sales	4 - 6	-15,975	-16,351
Gross profit		18,159	18,669
Research and development costs	4 - 6	-3,593	-3,673
Sales and distribution costs	4 - 6	-7,218	-7,013
Administrative expenses	4 - 7	-3,156	-2,956
Other operating items, net	8	-835	69
Operating profit		3,357	5,096
Financial income	9	4,265	1,905
Financial expenses	9	-958	-2,597
Income/loss from investments in associates		1	1
Profit before tax		6,665	4,405
Tax on profit for the year	10	-1,097	-1,470
Profit for the year from continuing operations		5,568	2,935
Profit for the year from discontinued operations	35	-	-11
Profit for the year		5,568	2,924

DKKm	Note	2019	2018
Profit attributable to:			
Lundbeckfonden		4,917	1,850
Non-controlling interests	24	651	1,074
Profit for the year		5,568	2,924
Grants authorised, gross	11	666	571

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

DKKm	Note	2019	2018
Profit for the year		5,568	2,924
Actuarial gains/losses	25	-97	19
Tax	10	17	-3
Items that will not subsequently be reclassified to the income statement		-80	16
Currency translation, foreign subsidiaries		190	306
Currency translation concerning additions to net investments in foreign subsidiaries		-136	-151
Hedging of net investments in foreign subsidiaries		62	-
Adjustment, deferred exchange gains/losses, hedging		-333	-322
Exchange gains/losses, hedging (transferred to the hedged items)		-17	-242
Exchange gains/losses, trading (transferred to financial items)		322	-
Value adjustment of interest hedging instruments		17	25
Tax on other comprehensive income	10	7	134
Items that may subsequently be reclassified to the income statement		112	-250
Other comprehensive income for the year, net of tax		32	-234
Total comprehensive income for the year		5,600	2,690
Attributable to:			
Lundbeckfonden		4,941	1,679
Non-controlling interests	24	659	1,011
Total comprehensive income for the year		5,600	2,690

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 120m (net gain of DKK 171m in 2018), 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 8m (net loss of DKK 421m in 2018) and recognised under retained earnings in equity in the amount of DKK -80m (DKK 16m in 2018).

BALANCE SHEET

AT 31 DECEMBER, ASSETS

DKKm	Note	2019	2018
Goodwill		9,789	9,132
Product rights		17,876	3,496
Intangible assets from acquisitions		589	772
Other intangible assets		652	734
Intangible assets	12	28,906	14,134
Property, plant and equipment	13	4,901	5,567
Right-of-use assets	14	2,250	-
Biological assets	15	141	59
Tangible assets		7,292	5,626
Financial assets, Invest	16	15,618	12,784
Financial assets, Lundbeckfonden Ventures and Emerge	16	4,808	3,125
Investments in associates		9	47
Receivables from associates	16	-	2
Deferred tax	17	1,235	1,949
Income tax receivables		160	-
Other financial assets	16	246	213
Other non-current assets		22,076	18,120
Non-current assets		58,274	37,880

DKKm	Note	2019	2018
Inventories	18	3,286	2,770
Trade receivables and other receivables	19	5,962	5,513
Contract assets	20	396	479
Income tax		663	214
Receivables		7,021	6,206
Securities, Invest		514	347
Securities, subsidiaries		4	3,203
Securities	21	518	3,550
Cash and bank balances, Invest		630	683
Cash and bank balances, subsidiaries		4,397	4,975
Cash and bank balances	21	5,027	5,658
Current assets		15,852	18,184
Assets		74,126	56,064

BALANCE SHEET

AT 31 DECEMBER, EQUITY AND LIABILITIES

DKKm	Note	2019	2018
Capital base	22	3,236	3,114
Other reserves	23	1,690	1,578
Retained earnings		28,587	24,599
Lundbeckfondens share of equity		33,513	29,291
Non-controlling interests' share of equity	24	6,061	5,112
Total equity		39,574	34,403
Payable grants		470	432
Provisions	25	2,141	1,142
Deferred tax	17	1,899	724
Income tax		143	-
Debt to financial institutions etc.	26	11,121	5,419
Lease liabilities	26	1,756	280
Contract liabilities	27	72	49
Other payables		342	82
Non-current liabilities		17,944	8,128

DKKm	Note	2019	2018
Payable grants		921	837
Provisions	25	1,425	712
Payables to associates		-	31
Income tax		641	166
Debt to financial institutions etc.	26	2,411	303
Lease liabilities	26	478	330
Contract liabilities	27	1,192	1,154
Other payables	28	9,540	10,000
Current liabilities		16,608	13,533
Liabilities		34,552	21,661
Equity and liabilities		74,126	56,064

CASH FLOW STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

DKKm	Note	2019	2018
Operating profit		3,357	5,096
Adjustment for non-cash operating items	29	2,578	2,348
Working capital changes	30	-1,408	716
Cash flows from operating activities before financial receipts and payments and tax		4,527	8,160
Financial receipts		504	429
Financial payments		-366	-201
Income tax paid		-1,006	-1,447
Cash flows from operating activities		3,659	6,941
Acquisition of businesses	31	-10,516	-804
Divestment of businesses	31	135	-
Investments in associates		-	-8
Investments in intangible assets	12	-158	-564
Investments in property, plant and equipment	13	-677	-730
Investments in biological assets	15	-58	-52
Disposal of intangible assets and property, plant and equipment		388	219
Investments in financial assets measured at fair value through profit or loss		-8,627	-5,268
Sale of financial assets measured at fair value through profit or loss		10,756	3,497
Cash flows from investing activities		-8,757	-3,710
Cash flows from operating and investing activities (free cash flow)		-5,098	3,231

DKKm	Note	2019	2018
Loan proceeds	26	11,245	16
Repayment of loans and lease liabilities	26	-5,470	-1,000
Buyback of shares from non-controlling interests		-20	-25
Capital injections from non-controlling interests		3	3
Sale of treasury shares		11	8
Capital increase through exercise of warrants		4	7
Settlement of exercised share options and warrants		-24	-18
Dividend paid to non-controlling interests		-744	-505
Other transactions with non-controlling interests		-51	-16
Authorised grants paid		-535	-350
Cash flows from financing and grant-making activities		4,419	-1,880
Cash flows from continuing operations		-679	1,351
Cash flows from discontinued operations	35	47	382
Net cash flow for the year		-632	1,733
Cash at 1 January	21	5,658	3,813
Unrealised exchange rate adjustments for the year		1	-21
Less change in cash and cash equivalents related to assets classified as held for sale		-	133
Cash at 31 December	21	5,027	5,658

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

DKKm	Capital base	Other reserves	Retained earnings	Lundbeck-fonden's share of equity	Non-controlling interests' share of equity	Total equity
Equity at 31 December 2018 as disclosed in the annual report	3,114	1,474	24,741	29,329	5,083	34,412
Correction of previous years	-	104	-142	-38	29	-9
Equity at 1 January 2019	3,114	1,578	24,599	29,291	5,112	34,403
Profit for the year			4,917	4,917	651	5,568
Other comprehensive income	-	112	-88	24	8	32
Comprehensive income	-	112	4,829	4,941	659	5,600
Grants for the year, net		-657		-657	-	-657
Provision for future grants		657	-657	-	-	-
Non-controlling interests' share of dividends			-	-	-744	-744
Buyback of shares from non-controlling interests			-14	-14	-6	-20
Sale of treasury shares			5	5	6	11
Change in non-controlling interests			-39	-39	169	130
Adjustment of provision for acquisition of non-controlling interests			-56	-56	-39	-95
Incentive programmes			32	32	20	52
Capital increase			-	-	868	868
Tax related to items recognised directly on equity	-	-	10	10	16	26
Other transactions	-	-	-719	-719	290	-429
Increase of capital base	122	-	-122	-	-	-
Equity at 31 December 2019	3,236	1,690	28,587	33,513	6,061	39,574

Capital increase in 2019 of DKK 868m relates to Falck.

DKKm	Capital base	Other reserves	Retained earnings	Lundbeck-fonden's share of equity	Non-controlling interests' share of equity	Total equity
Equity at 31 December 2017 as disclosed in the annual report	3,109	1,472	23,561	28,142	4,566	32,708
Correction of previous years			-15	-15	39	24
Equity at 31 December 2017	3,109	1,472	23,546	28,127	4,605	32,732
Change in accounting policies	-	-	-27	-27	-20	-47
Equity at 1 January 2018	3,109	1,472	23,519	28,100	4,585	32,685
Profit for the year			1,850	1,850	1,074	2,924
Other comprehensive income	-	-246	75	-171	-63	-234
Comprehensive income	-	-246	1,925	1,679	1,011	2,690
Grants for the year, net		-567	-	-567	-	-567
Provision for future grants		817	-817	-	-	-
Non-controlling interests' share of dividends			-	-	-502	-502
Reclassification of exchange rate adjustment from divestment of discontinued operation		102	-43	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	-	352	-840	-488	-484	-972
Increase of capital base	5	-	-5	-	-	-
Equity at 31 December 2018	3,114	1,578	24,599	29,291	5,112	34,403

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 financial position at 31 December 2019 and financial performance for the financial year. Management believes that the following accounting policies are significant to the financial statements. The general accounting policies are described in note 37.

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 ensuring that the consolidated financial statements give a true and fair view of the Group's financial position at the balance sheet date and the operations and cash flows for the financial year.

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

In preparing the consolidated financial statements, Management has made estimates and judgments that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of estimates are recognised prospectively.

Management believes that the following accounting estimates, assumptions and judgments are significant to the consolidated 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. Moreover, when a product loses exclusivity, shifts in payer mix may cause Medicaid claims/estimates to be more volatile.

At 31 December 2019, the obligation relating to sales discounts and rebates in the US amounted to DKK 1,057m (DKK 1,493m at 31 December 2018).

ACQUISITION OF A BUSINESS OR AN INDIVIDUAL ASSET

In connection with an acquisition, the Group uses judgments to determine whether the transaction is a business combination by applying the definition in IFRS 3 Business combinations. A transaction is determined as a business combination when the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs

2. Significant accounting estimates and judgments – continued

that have the ability to create outputs. If the assets acquired do not constitute a business, the transaction is recognised as a purchase of individual assets.

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 of businesses, 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 estimates.

At 31 December 2019, the carrying amounts of goodwill and product rights amounted to DKK 9,789m and DKK 17,876m respectively (DKK 9,132m and 3,496m at 31 December 2018). See note 12 *Intangible assets* for more information.

IMPAIRMENT TESTING

Goodwill and intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually or when there is indication of impairment, 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.

Due to indications of impairment reversal identified for an intangible asset impaired in 2015, an updated impairment test was performed. Due to significant uncertainties pertaining to key assumptions and due to limited increases in expected earnings from the impaired asset, no impairment reversal was performed.

In the impairment test, significant assumptions and estimates are applied to the discounted expected future cash flows (value in use) from the cash-generating unit (CGU), which are compared with the carrying amounts of the relevant assets.

The impairment tests for 2019 identified a need for impairment on goodwill of DKK 266m related to Falck's Healthcare business unit. At 31 December 2019, the carrying amount of goodwill and product rights tested for impairment amounted to DKK 27,665 m (DKK 12,628m at 31 December 2018). See note 12 *Intangible assets* for more information.

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 3,834m at 31 December 2019 (DKK 3,239m at 31 December 2018).

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 12 *Intangible assets* for more information.

Accordingly, at 31 December 2019 all deferred tax assets relating to tax losses carried forward in Denmark from 2015, 2016 and 2018 were capitalised in the amount of DKK 1,268m (DKK 1,310m at 31 December 2018).

US tax losses and tax credits stemming from Lundbeck's acquisition of Alder BioPharmaceuticals, Inc. have been recognised at an amount of DKK 761m, equalling the expected utilisation within a foreseeable future, whereas an amount of DKK 454m has not been recognised in the balance sheet.

2. Significant accounting estimates and judgments – continued

INCOME TAXES RECEIVABLE AND INCOME TAXES PAYABLE

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 net accrual for uncertain tax positions not yet settled with local authorities amounts to DKK 464m (DKK 456m at 31 December 2018). Management believes that the accrual is adequate. However, the actual obligation may differ from the accrual made and depends on the outcome of litigations and settlements with the relevant tax authorities.

PENDING LEGAL PROCEEDINGS

In connection with recognition of provisions for pending legal proceedings, Management assesses the probable outcome of pending and potential future lawsuits, which are inherently subject to uncertainty with respect to future events. When Management determines the 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.

Provisions for pending legal proceedings in acquired businesses are recognised at fair value at the acquisition date. This may result in the recognition of obligations even if Management believes that the likelihood of an unfavourable outcome is low.

At 31 December 2019, other provisions that include provisions for pending legal proceedings amounted to DKK 1,512m (DKK 1,124m at 31 December 2018). See note 25.3 for more information about other provisions.

CONTINGENT CONSIDERATION RECOGNISED IN ACQUISITION OF BUSINESSES

Upon acquisition of businesses, contingent consideration is recognised at fair value. The calculation of the fair value is based on the discounted cash flow method (DCF method) which comprises significant assumptions and estimates. Key inputs are expected timing of payment (using a specific discount rate) and probability of success. The fair value of contingent consideration will be assessed at each reporting date, and the effect of any adjustments relating to the timing of payment and the probability of success will be recognised under net financials.

At 31 December 2019, the fair value of contingent consideration amounted to DKK 1,461m (DKK 243m at 31 December 2018). See note 25.2 for more information.

3. Revenue

DKKm	2019	2018
Europe	16,435	16,726
North America	12,602	13,564
Rest of the world	5,097	4,730
Total	34,134	35,020
Brain diseases (Lundbeck)	17,036	18,117
Allergy treatment (ALK)	3,274	2,915
Ambulance, Roadside Assistance, Healthcare and Portfolio Businesses (Falck)	13,824	13,988
Total	34,134	35,020
Revenue includes:		
Sale of goods	19,410	20,547
Rendering of services	13,728	13,729
Downpayments and milestone payments	74	-
Royalties	922	744
Total	34,134	35,020
Revenue in Denmark	5,495	5,273

4. Staff costs

DKKm	2019	2018
Wages and salaries	12,791	12,141
Share-based payment	56	46
Pension benefits	718	722
Other social security costs	1,381	1,293
Total	14,946	14,202
The year's staff costs are specified as follows:		
Cost of sales	8,548	8,551
Research and development costs	1,194	1,079
Sales and distribution costs	3,181	2,904
Administrative expenses	1,980	1,637
Included in the cost of assets	43	31
Total	14,946	14,202
Average number of full-time employees during the year	31,818	34,226
Number of employees at year-end	41,543	44,163

4. Staff costs - continued

DKKm	2019	2018
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	12.9	11.4
Total remuneration in the Group for the Board of Directors of Lundbeckfonden amounts to	8.4	7.8
Executive Management:		
Lene Skole	12.9	11.4
Board of Directors:		
Jørgen Huno Rasmussen, Chairman of the foundation and Lundbeckfond Invest A/S and member of the Investment Committee	1.0	0.9
Steffen Kragh, Deputy Chairman of the foundation 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	1.6	1.5
Susanne Krüger Kjær, member of the Research Committee	0.5	0.5
Henrik Villsen Andersen, employee representative from Falck A/S	0.6	0.4
Ludovic Tranholm Otterbein, employee representative from H. Lundbeck A/S	0.6	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	0.6	0.5
Henrik Sindal Jensen, employee representative from H. Lundbeck A/S, stepped down on 17 April 2018	-	0.1
Total	8.4	7.8

Remuneration to Executive Management comprises short-term benefits.

5. Incentive programmes

Lundbeckfonden

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 2m in 2019 (DKK 1m in 2018), equivalent to 88% of the maximum, which will be paid out with a delay of 12 months.

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 recognised as staff cost when there is certainty about the amount due and time of payment.

In 2019, bonus under Invest programmes amounted to DKK 7m (DKK 5m in 2018).

Provision for Lundbeckfonden Ventures programmes amounted to DKK 81m at 31 December 2019 (DKK 160m at 31 December 2018), resulting in an income in 2019 of DKK 79m recognised in the income statement under financial items. In addition, bonus due according to Ventures incentive programmes of DKK 175m were recognised in other payables and expensed as staff cost. The net effect amounted to an expense of DKK 96m (DKK 0 in 2018).

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, as described below.

Lundbeck

Lundbeck has established equity- and cash-settled programmes.

EQUITY-SETTLED PROGRAMMES

In 2019, equity-settled incentive programmes consisted of warrants and restricted share units (RSUs) granted in the years 2011-2019.

In February 2019, as part of Lundbeck's recurring long-term incentive programme, Lundbeck established an RSU programme for Lundbeck's registered Executive Management and key employees.

5. Incentive programmes - continued

Four members of the registered Executive Management and 135 key employees employed with H. Lundbeck A/S or a Lundbeck subsidiary were granted RSUs. The participants were selected on the basis of job level. All the RSUs vest three years after 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 calculation of the fair value of the RSUs is based on a share price of DKK 286.56 reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the grant was DKK 269.71 per RSU.

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. The RSUs were finally granted after the publication of the Annual Report for 2018 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 was 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.

No RSUs vested in 2019. The RSUs granted to key employees in 2015 vested in 2018.

At 31 December 2019, 26,985 warrants (64,523 warrants in 2018) were exercisable. The weighted average exercise price was DKK 113.00 (DKK 114.19 in 2018).

In 2019, the following number of warrants were exercised: 0 from the 2010 grant which expired in 2018 (1,377 in 2018), 3,795 from the 2011 grant (22,631 in 2018) and 27,934 from the 2012 grant (33,180 in 2018). The weighted average share price of the warrants exercised was DKK 271.77 (DKK 383.72 in 2018).

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

Warrant programmes	2010	2010	2011	2012
Number of persons included in the programme	101	16	112	102
Total number of warrants granted	765,979	24,971	849,085	692,003
Number of warrants granted to the registered Executive Management	507,885	-	381,224	-
Vesting date	16.03.2013	16.03.2013	31.03.2014	31.03.2015
Exercise period begins	16.03.2013	16.03.2013	01.04.2014	01.04.2015
Exercise period ends	15.03.2018	15.03.2018	31.03.2019	31.03.2020
Exercise price, DKK	97.00	97.00	121.00	113.00
Fair value at the date of grant, DKK	29.86	24.30	30.10	24.11

RSU programmes	2015	2016	2017	2018	2019
Number of persons included in the programme	129	126	127	133	139
Total number of RSUs granted	130,777	120,549	131,516	107,321	127,899
Number of RSUs granted to the registered Executive Management	-	20,484	47,911	24,783	28,128
Vesting date	01.12.2018	01.02.2020	01.02.2021	01.02.2022	01.02.2022
Fair value at the date of grant, DKK	202.78	237.56	268.65	291.03	269.71

Warrants, units	Registered Executive Management	Executives	Other	Total	Average exercise price, DKK
1 January 2019	23,741	3,458	37,324	64,523	114.19
Exercised	-23,741	-	-7,988	-31,729	113.96
Expired	-	-	-5,809	-5,809	121.00
31 December 2019	-	3,458	23,527	26,985	113.00
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

5. Incentive programmes - continued

CASH-SETTLED PROGRAMMES

The cash-settled programmes consist of restricted cash units (RCUs) and stock appreciation rights (SARs) granted during the years 2011-2019.

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

In February 2019, Lundbeck established an RCU programme for the Chief Executive Officer (CEO) and a few key employees in the US subsidiaries. The terms and conditions are similar to those applying to the RSU programme granted in February 2019. The RCUs granted to the CEO, a total of 27,917, and the RCUs granted to the key employees, a total of 1,323, will vest three years after 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 grant was DKK 269.71 per RCU.

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 in February 2018. The RCUs, a total of 1,073, were finally granted after the publication of the Annual Report for 2018 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 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 had been with Lundbeck. The RCUs will vest on 1 February 2022. Vesting is subject to the Board of Directors' decision 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.

No RCUs vested in 2019. The RCUs granted in 2015 vested in 2018, 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 2019 at an expense corresponding to the fair value at the time of grant for the part of the vesting period that concerns 2019. The total expense recognised in respect of equity-settled programmes amounted to DKK 33m (DKK 25m in 2018). At 31 December 2019, the fair value of the remaining equity-settled programmes was DKK 103m (DKK 102m in 2018).

The RCUs granted are recognised in the income statement at an expense corresponding to the value adjustment for the year based on the performance of the Lundbeck share. The SARs granted were recognised in the income statement at an expense corresponding to the value adjustment for the year based on the Black-Scholes method. No SARs were outstanding at 31 December 2019. The total expense recognised in respect of cash-settled programmes amounted to DKK 3m (DKK 1m in 2018) and covers all cash-settled programmes in force in 2019. At 31 December 2019, the total liability in respect of cash-settled programmes was DKK 4m (DKK 3m in 2018) and covers all cash-settled programmes in force at 31 December 2019.

The total expense recognised in the income statement for all incentive programmes amounted to DKK 36m in 2019 (DKK 26m in 2018).

ALK

DKKm	2019	2018
Cost of share-based payments	39	20
Total	39	20
Cost regarding share-based payments is recognised as follows:		
Cost of sales	4	2
Research and development expenses	7	4
Sales and marketing expenses	11	6
Administrative expenses	12	6
Financial expenses	5	2
Total	39	20

5. Incentive programmes - continued

In 2019, the total cost of share-based payments included a financial expense of DKK 5m due to the exercise and cash settlement of share options plans (2018: DKK 2m). The expensed cost includes DKK 13m related to adjustment in the share options and performance shares expected to vest (2018: DKK 0).

SPECIAL INCENTIVE PLAN 2018

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 did 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 the annual general meeting in 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.

From 2017 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%. In the 2017 and 2018 plans, including the special incentive plan 2018, for a number of share options (46,641) 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 2019	104,020	94,869	198,889	841
Additions	14,898	10,509	25,407	1,120
Exercises	-20,655	-38,570	-59,225	818
Expired	-	-1,350	-1,350	474
Cancellations	-	-3,165	-3,165	852
31 December 2019	98,263	62,293	160,556	904
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

At 31 December 2019, the total number of vested share options amounted to 42,513 units (82,068 units at 31 December 2018).

The Board of Directors decided for one trading window in 2019 to settle share options by cash and a total of 41,125 share options were exercised and total cash payments amounted to DKK 24m. For three trading windows the Board of Directors decided to settle share options by shares and a total of 18,100 options were exercised.

In 2018, the Board of Directors decided for one trading window in 2018 to settle share options by cash 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 to settle share options by shares and a total of 16,200 options were exercised.

5. Incentive programmes - continued

Outstanding options characteristics	Options units	Exercise price, DKK	Vesting date	Exercise period begins	Exercise period ends
2013 Plan	1,300	487	01.03.2016	01.03.2016	01.03.2020
2014 Plan	5,025	776	01.03.2017	01.03.2017	01.03.2021
2015 Plan	10,500	846	01.03.2018	01.03.2018	01.03.2022
2016 Plan	8,620	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	20,091	1,025	01.03.2020	01.03.2020	01.03.2022
2018 Plan	30,873	793	01.03.2021	01.03.2021	01.03.2023
2018 Plan - one-time	43,341	793	01.03.2021	01.03.2021	01.03.2023
2019 Plan	23,738	1,127	01.03.2022	01.03.2022	01.03.2024
31 December 2019	160,556				

	2019	2018
Average remaining life of outstanding share options at year end (years)	3.1	4.3
Exercise prices for outstanding share options at year end (DKK)	487-1,183	462-1,127

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:

	2019 Plan	2018 Plan
Average share price (DKK)	1,072	745
Expected exercise price (DKK) ¹	1,154	802
Expected volatility rate ²	32% p.a.	29% p.a.
Expected option life	4 years	4 years
Expected dividend per share	-	-
Risk-free interest rate	-0.44% p.a.	-0.16% p.a.
Calculated fair value of granted share options (DKK)	233	150

1) The exercise price is equivalent to the average market price of the 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.

2) The expected volatility rate is based on the historical volatility.

PERFORMANCE SHARE PROGRAMME

The ALK Group has established 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.

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%. In the 2017 and 2018 plans, including the special incentive plan 2018, for a number of performance shares (13,608) the payout can be increased by 300%.

Outstanding conditional and performance shares, units	Board of Management	Other key personnel	Total
1 January 2019	11,301	30,546	41,847
Additions	3,200	10,797	13,997
Exercises	-932	-3,377	-4,309
Cancellations	-	-1,709	-1,709
31 December 2019	13,569	36,257	49,826
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

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 1,072 per share (DKK 745 per share in 2018). Performance shares are considered sufficiently covered by treasury shares.

Outstanding performance shares have the following characteristics:

Outstanding conditional and performance shares, units	Vesting date	Performance shares units
2017 Plan	01.03.2020	11,685
2018 Plan	01.03.2021	15,932
2018 Plan one-time	01.03.2021	8,708
2019 Plan	01.03.2022	13,501
31 December 2019		49,826

5. Incentive programmes - continued

Falck

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

The short-term incentive plan is a variable cash payment subject to the achievement of annual targets. Its role is to drive and reward exceptional performance of Falck, and specific, focused activities.

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 Group CEO.

Group

Recognised expenses, DKKm	2019	2018
Recognised expenses concerning equity-based schemes	72	45
Recognised expenses concerning debt-based schemes	3	1
Total recognised expenses	75	46

6. Depreciation, amortisation and impairment

DKKm	2019	2018
Depreciation, amortisation and impairment are specified as follows:		
Cost of sales	1,931	1,783
Research and development costs	83	154
Sales and distribution costs	144	130
Administrative expenses	141	247
Other operating items, net	271	-
Total	2,570	2,314

7. Fees to auditors appointed at the annual meeting

DKKm	2019	2018
Administrative expenses include fees to the Group auditors appointed at the annual meeting, Deloitte, in the amount of:		
Statutory audit	24	21
Tax advisory services	4	3
Other services	17	6
Total	45	30

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.

The fee for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab, Denmark amounted to DKK 19m and consisted of assistance relating to M&A, finance, optimisation and IT strategy projects and workshops, ERP system analysis, other auditor's reports on various statements for public authorities, and other accounting and tax advisory services.

8. Other operating items, net

DKKm	2019	2018
Integration, retention and transaction costs (Lundbeck)	-514	-
Settlement cost, legal fees and fine (Falck)	-223	-
Impairment of goodwill (Falck)	-266	-
Gain on sales of assets, net	116	85
Loss from sales of assets and related land	-2	-11
Change in value of biological assets and related land	15	7
Other operating income	39	80
Legal settlements in Australia	-	242
Legal settlements in the US	-	-334
Total	-835	69

Change in value of biological assets and related land includes impairment of property, plant and equipment of DKK 5m.

9. Financial items

Group

DKKm	2019	2018
Financial income		
Interest on financial assets measured at amortised cost	78	77
Interest on financial assets measured at fair value through profit or loss	206	129
Interest on receivables from associates	2	5
Dividends from associates	50	-
Dividends from portfolio investments	168	132
Gains on financial assets at fair value through profit or loss	3,615	1,308
Exchange gains	50	234
Other financial income	96	20
Total financial income	4,265	1,905
Financial expenses		
Interest on financial liabilities measured at amortised cost	238	282
Interest component, discounted liabilities	36	8
Losses on financial assets at fair value through profit or loss	542	2,147
Fair value adjustment of contingent consideration	20	-
Exchange losses	90	49
Other financial expenses	32	111
Total financial expenses	958	2,597
Net financials	3,307	-692

Subsidiaries (Lundbeck, ALK, Falck)

DKKm	2019	2018
Financial items are specified as follows:		
Financial income		
Interest on financial assets measured at amortised cost	78	77
Gains on financial assets at fair value through profit or loss	20	27
Exchange gains	36	21
Other financial income	17	17
Total financial income	151	142
Financial expenses		
Interest on financial liabilities measured at amortised cost	256	411
Losses on financial assets at fair value through profit or loss ¹	55	96
Interest component, discounted liabilities	36	8
Fair value adjustment of contingent consideration	20	-
Exchange losses	85	39
Other financial expenses	31	108
Total financial expenses	483	662
Net financials	-332	-520

1) Including interest on shareholder loans of DKK 31m (DKK 131m in 2018)

Lundbeckfonden Ventures and Emerge

DKKm	2019	2018
Financial items are specified as follows:		
Financial income		
Interest on financial assets measured at fair value through profit or loss	2	5
Gains on financial assets at fair value through profit or loss	1,507	725
Exchange gains	-	54
Other financial income	79	-
Total financial income	1,588	784
Financial expenses		
Losses on financial assets at fair value through profit or loss	136	627
Exchange losses	-	4
Total financial expenses	136	631
Net financials	1,452	153

9. Financial items - continued

Invest etc.

DKKm	2019	2018
Financial items are specified as follows:		
Financial income		
Interest on financial assets measured at fair value through profit or loss ¹	237	260
Dividends from associates	50	-
Dividends from portfolio investments	168	132
Gains on financial assets at fair value through profit or loss	2,088	556
Exchange gains	14	159
Other financial income	-	3
Total financial income	2,557	1,110
Financial expenses		
Interest on financial liabilities measured at amortised cost ¹	13	2
Losses on financial assets at fair value through profit or loss	351	1,424
Exchange losses	5	6
Other financial expenses	1	3
Total financial expenses	370	1,435
Net financials	2,187	-325

1) Including interest on shareholder loans of DKK 31m (DKK 131m in 2018)

10. Tax on profit for the year

DKKm	2019	2018
Current tax	680	1,484
Prior-year adjustment, current tax	374	-39
Prior-year adjustment, deferred tax	-359	178
Change of deferred tax for the year	350	-292
Change of deferred tax as a result of changed income tax rates	2	-
Total tax for the year	1,047	1,331
Tax for the year is composed of:		
Tax on profit for the year	1,097	1,470
Tax on other comprehensive income	-24	-131
Tax on other transactions in equity	-26	-8
Total tax for the year	1,047	1,331

Tax on other comprehensive income, DKKm	2019	2018
Actuarial gains/losses	17	-3
Currency translation, foreign subsidiaries	17	-18
Currency translation on additions to net investments in foreign subsidiaries	-13	34
Value adjustment of interest hedging instruments	-4	-6
Adjustment, deferred exchange gains/losses, hedging	74	71
Exchange gains/losses, hedging (transferred to the hedged items)	-67	53
Total tax on other comprehensive income	24	131

Explanation of the Group's effective tax rate relative to the Danish tax rate 2019	DKKm	%
Profit before tax	6,665	
Calculated tax, 22%	1,466	22
Tax effect of:		
Differences in income tax rates of foreign subsidiaries from Danish corporate income tax rate	131	2
Non-deductible/non-taxable items and other permanent differences	-213	-3
Research and development activities (tax credits)	-13	-
Non-deductible amortisation of intangibles	103	2
Foreign-derived intangible income benefit	-140	-2
Impairment of goodwill	57	1
Prior-year tax adjustments etc., total effect on operations	15	-
Change in valuation of net tax assets	-84	-1
Deduction for grants	-251	-4
Other taxes and adjustments	24	-
Change of deferred tax as a result of changed income tax rates	2	
Effective tax for the year	1,097	17

10. Tax on profit for the year - continued

Explanation of the Group's effective tax rate relative to the Danish tax rate 2018	DKKm	%
Profit before tax	4,405	
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	87	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	100	2
Deduction for grants	-4	-
Other taxes and adjustments	23	1
Effective tax for the year	1,470	33

11. Grants for the year

DKKm	2019	2018
Travel grants and research abroad	5	4
Lundbeckfonden Running Costs	-	10
Lundbeckfonden Scholar	24	6
Lundbeckfonden PhD	-	31
Lundbeckfonden Postdoc	87	48
Lundbeckfonden Fellowships	100	50
Lundbeckfonden International Postdoc	-	25
Ascending Investigators	100	-
Professorship	232	-
Sabbatical leave for research	1	2
Visiting Professorship	4	3
Lundbeckfonden Scientific Meetings	2	2
Personal grants	555	181
Talent and teaching prizes	2	1
The Brain Prize	8	8
Prizes	10	9
Thematic and strategic grants	20	252
Internationalisation programmes	6	34
Ad hoc	60	67
Strategic grants	86	353
Scientific Teaching and Communication	11	27
Other purposes	4	1
Grants authorised, gross	666	571
Descendants	-	-
Reversed grants/repayments	-9	-4
Grants for the year, net	657	567

Donations to descendants amount to DKK 196,200 (DKK 196,200 in 2018).

12. Intangible assets

DKKm	Goodwill	Intangible assets from acquisitions	Product rights	Patent and license rights	Other intangible assets	Ongoing projects	Total
Cost at 1 January 2019	10,736	3,503	16,239	266	3,265	136	34,145
Currency translation	93	11	97	4	8	-	213
Reclassifications/transfers	-	-	-	-	58	-58	-
Additions on acquisitions	909	1	15,274	-	-	-	16,184
Additions	-	-	-	-	85	73	158
Disposals	-	-4	-	-30	-49	-17	-100
Disposals on divestments	-69	-2	-	-21	-3	-	-95
Cost at 31 December 2019	11,669	3,509	31,610	219	3,364	134	50,505
Amortisation and impairment at 1 January 2019	-1,604	-2,731	-12,743	-178	-2,735	-20	-20,011
Currency translation	-12	-10	-137	-3	-4	-	-166
Amortisation	-	-185	-854	-26	-173	-	-1,238
Impairment	-266	-	-	-	-29	-	-295
Amortisation and impairment on disposals	-	4	-	20	46	17	87
Disposals on divestments	2	2	-	17	3	-	24
Amortisation and impairment at 31 December 2019	-1,880	-2,920	-13,734	-170	-2,892	-3	-21,599
Carrying amount at 31 December 2019	9,789	589	17,876	49	472	131	28,906

Product rights at 31 December 2019 includes product rights not yet commercialised amounting to DKK 15,956m. Please refer to note 31.1 for more information about additions on acquisitions.

12. 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 2018	10,683	3,551	15,089	265	3,195	115	32,898
Currency translation	182	4	280	1	5	1	473
Reclassifications/transfers	-	-	-	-	57	-57	-
Additions on acquisitions	-	6	-	-	-	-	6
Additions	-	-	1,066	-	166	77	1,309
Disposals	-30	-9	-196	-	-154	-	-389
Disposals on divestments	-98	-45	-	-	-1	-	-144
Transferred to assets classified as held for sale	-1	-4	-	-	-3	-	-8
Cost at 31 December 2018	10,736	3,503	16,239	266	3,265	136	34,145
Amortisation and impairment at 1 January 2018	-1,669	-2,547	-11,868	-153	-2,520	-20	-18,777
Currency translation	-10	-2	-220	-1	-3	-	-236
Amortisation	-	-233	-813	-24	-196	-	-1,266
Impairment	-	-	-38	-	-156	-	-194
Amortisation and impairment on disposals	30	9	196	-	139	-	374
Disposals on divestments	45	39	-	-	-	-	84
Transferred to assets classified as held for sale	-	3	-	-	1	-	4
Amortisation and impairment at 31 December 2018	-1,604	-2,731	-12,743	-178	-2,735	-20	-20,011
Carrying amount at 31 December 2018	9,132	772	3,496	88	530	116	14,134

Product rights at 31 December 2018 includes product rights not yet commercialised amounting to DKK 1,066m.

12. Intangible assets - continued

Except for goodwill and the Falck trademark in the amount of DKK 514m (DKK 514m at 31 December 2018), 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; Lundbeck (DKK 5,278m), ALK (DKK 559m) and Falck (DKK 3,952m).

The recoverable amounts for the cash-generating units (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.

The impairment tests for 2019 identified a need for impairment on goodwill of DKK 266m related to Falck's Healthcare business unit. The impairment loss within Healthcare was primarily related to top-line pressure due to the loss of large clients in Denmark and Norway.

The impairment tests for 2018 did not result in recognition of any impairment losses on goodwill.

METHODOLOGY USED FOR LUNDBECK

All subsidiaries are considered part of one single CGU as that is the way in which Management makes decisions and assesses business performance. All subsidiaries are considered fully integrated into the Lundbeck Group as no entity has significant independent or separately identifiable inflows of cash. Most cash inflows are based on the output from research and development activities performed by headquarters on behalf of the entire Lundbeck Group. Accordingly, an impairment test was performed based on Lundbeck having one single CGU.

The expected future cash flows are based on a forecast period of nine years, which is the period used by Management for decision making, with due consideration of patent expiry. The assumptions used in the impairment test are based on benchmarked external data and historical trends.

The key parameters in the calculation of the value in use are revenue, earnings, working capital, discount rate and the preconditions for the terminal period.

Negative growth of 5% is projected in the terminal period due to patent expiry. In addition, the four category elements below are taken into consideration when determining the key parameters.

- *Financial elements:* Prices, rebates, quantities, patient population, market shares, competition, fill rates, prescription rates and Lundbeck costs
- *Market elements:* Healthcare reforms, price reforms, market access, pharma restrictions, launch success, product positioning, competing pharmaceuticals and generics on the market
- *R&D elements:* R&D spend, collaborations, pipeline success rate, product labelling and liaison with regulatory bodies
- *Other elements:* Supply chain effectiveness, reputation and strength and abilities of partners

The calculation of the value in use for the Lundbeck Group is based on a discount rate after tax of 7.93% (7.97% at 31 December 2018).

METHODOLOGY USED FOR ALK

Goodwill has been tested at an aggregated level. The ALK Group is considered as one cash-generating unit as the individual companies and business units in the ALK Group cannot be evaluated separately because the value-adding processes are generated across corporations and entities.

In the calculation of the value in use of the cash-generating unit, future free net cash flow is estimated based on Board of Directors-approved financial forecast in line with the ALK Group's strategy.

The budget and the strategy plans are based on specific future business initiatives for which the risks relating to key parameters have been assessed and recognised in estimated future free cash flows. The key parameters in the calculation of the value in use are revenue, earnings, working capital, capital expenditure, discount rate and the preconditions for the terminal value. Estimates are based on historical data and expectations on future changes in the markets and products. These expectations are based on a number of assumptions including expected product launches, volume forecasts, price information and profitability of both the ALK Group's business as well as geographical expansions.

For financial years after the forecast period (2020-2026), the cash flows in the most recent period have been extrapolated adjusted for a growth factor of 1.5% during the terminal period. The forecast period is longer than 5 years in line with the ALK Group's long-term strategic planning horizon.

12. Intangible assets - continued

The discount rate used is 10% pre-tax and 7.5% after tax (2018: 11% pre-tax and 8% after tax).

METHODOLOGY USED FOR FALCK

Impairment tests are generally carried out per business segment which is the lowest level of cash-generating units 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, Roadside Assistance and Healthcare, and on the CGUs within the Portfolio Business segment, Global Assistance and Industrial Fire Services.

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

Value-in-use cash flow projections are based on financial forecasts for 2020 and business plans for the following 4 years approved by the Executive Committee.

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 2020 are estimated on the basis of 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 (2020 - 2024) in line with the terminal growth expectations.

Roadside Assistance is affected by the changes taking place in the automobile market towards fewer private roadside assistance subscriptions, and the increase in roadside assistance programmes offered by car manufacturers. Revenue is expected to decrease from 2020 to 2024.

Healthcare is affected by the current transformation including pruning and renegotiation of large contracts. Consequently, revenue is expected to increase from 2020 to 2021, decrease from 2021 to 2022 and increase from 2022 to 2024.

EBITA margin

When estimating the CGU's EBITA margin in the financial forecast for 2020, 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 1,000m from 2017 to 2020.

EBITA in Ambulance improved in 2019, primarily due to cost optimisation initiatives and contract pruning. Improvements are expected to continue in 2020, when new contracts will have a full run-rate effect combined with the effect of new operating models.

Current performance in Healthcare continues to be impacted by the wider business transformation, i.e., transition costs and loss of larger contracts. The forecast for 2020 is based on continued improvement in underlying performance, driven by this transformation.

12. Intangible assets - continued

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 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		
	Goodwill	Customer contracts	Brands	Total	Total Growth (avg.)	Margin (avg.)	Growth	EBITA margin	After tax	Pre-tax
2019, DKKm										
Ambulance	1,539	74	514	2,127	1.8%	4.8%	1.8%	4.8%	7.7%	10.6%
Roadside Assistance	1,517	-	-	1,517	-5.0%	17.7%	0.5%	17.7%	7.0%	9.3%
Healthcare	590	1	-	591	0.2%	2.5%	1.9%	3.2%	7.2%	9.2%
Portfolio Businesses										
Industrial Fire Services	249	-	-	249	1.9%	7.1%	1.9%	7.8%	8.2%	10.8%
Global Assistance	57	-	-	57	2.1%	5.4%	2.1%	5.4%	7.5%	9.6%
Total	3,952	75	514	4,541						

	Carrying amount				Forecasting period		Terminal period	Applied discount rate		
	Goodwill	Customer contracts	Brands	Total	Total Growth (avg.)	Margin (avg.)	Growth	EBITA margin	After tax	Pre-tax
2018, DKKm										
Ambulance	1,578	136	514	2,228	1.8%	5.0%	1.8%	5.0%	7.2%	10.4%
Roadside Assistance	1,519	119	-	1,638	-5.0%	15.2%	0.5%	15.2%	6.4%	8.6%
Healthcare	859	2	-	861	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	4,269	258	514	5,041						

12. 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.

	Forecasting period				Terminal period				Discount rate (after tax)	
	Growth		Margin		Growth		Margin			
	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
2019										
Ambulance	1.8%	8.0%	4.8%	1.9%	1.8%	4.7%	4.8%	2.3%	7.7%	3.1%
Roadside Assistance	-5.0%	11.5%	17.7%	8.5%	0.5%	14.8%	17.7%	12.0%	7.0%	7.3%
Healthcare	0.2%	-	2.5%	-	1.9%	-	3.2%	-	7.2%	-
Portfolio Businesses										
Industrial Fire Services	1.9%	0.3%	7.1%	2.1%	1.9%	3.0%	7.8%	2.6%	8.2%	2.2%
Global Assistance	2.1%	10.6%	5.4%	4.0%	2.1%	27.0%	5.4%	4.8%	7.5%	10.8%
	Forecasting period				Terminal period				Discount rate (after tax)	
	Growth		Margin		Growth		Margin			
	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
2018										
Ambulance	1.8%	12.1%	5.0%	1.9%	1.8%	4.7%	5.0%	2.3%	7.2%	3.2%
Roadside 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%

12. 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. Furthermore, prior impairment losses are reviewed for possible reversal at each reporting date.

An updated impairment test was performed of an intangible asset impaired in 2015 as indications of impairment reversal were identified. Due to significant uncertainties pertaining to key assumptions and due to limited increases in expected earnings from the impaired asset, no impairment reversal was performed.

In 2019, impairment of DKK 29m relates to a planning system within Ambulance.

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.

IMPAIRMENT TESTING TOTAL

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

Impairment loss per intangible asset category, DKKm	2019	2018
Goodwill	266	-
Products rights	-	38
Other intangibles assets	29	156
Impairment loss total	295	194

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

Impairment loss recognised in the income statement, DKKm	2019	2018
Research and development costs	-	70
Administrative expenses	29	124
Other operating items, net	266	-
Impairment loss total	295	194

13. Property, plant and equipment

DKKm	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Prepayments and assets under construction	Total
Cost at 1 January 2019	6,025	2,668	3,788	269	699	13,449
Currency translation	15	4	17	-1	2	37
Reclassifications/transfers	65	139	25	-	-229	-
Additions on acquisitions	-	17	32	4	-	53
Additions	59	62	168	7	381	677
Disposals	-34	-173	-227	-14	-11	-459
Disposals on divestments	-	-4	-46	-19	-	-69
Transferred to right-of-use assets	-572	-	-401	-	-	-973
Cost at 31 December 2019	5,558	2,713	3,356	246	842	12,715
Depreciation and impairment at 1 January 2019	-2,711	-1,922	-2,977	-170	-102	-7,882
Currency translation	-4	-3	-11	1	1	-16
Depreciation	-175	-154	-227	-19	-	-575
Impairment for the year	-25	-11	-	-	-	-36
Depreciation and impairment on disposals	41	139	205	13	10	408
Disposals on divestments	-	1	41	11	-	53
Transferred to right-of-use assets	32	-	202	-	-	234
Depreciation and impairment at 31 December 2019	-2,842	-1,950	-2,767	-164	-91	-7,814
Carrying amount at 31 December 2019	2,716	763	589	82	751	4,901
Carrying amount of property, plant and equipment provided as loan collateral	791	-	-	-	-	791

Impairment amounted to DKK 36m, of which DKK 30m related to divestment of ALK's part-share of a formulation production line for tablets to production partner.

13. Property, plant and equipment - continued

DKKm	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Prepayments and assets under construction	Total
Cost at 1 January 2018	5,407	2,593	4,054	293	727	13,074
Currency translation	17	10	19	-2	12	56
Reclassifications/transfers	217	95	18	-	-330	-
Additions	674	48	164	11	291	1,188
Disposals	-224	-78	-414	-30	-1	-747
Disposals on divestments	-66	-	-48	-3	-	-117
Transferred to assets classified as held for sale	-	-	-5	-	-	-5
Cost at 31 December 2018	6,025	2,668	3,788	269	699	13,449
Depreciation and impairment at 1 January 2018	-2,631	-1,814	-2,993	-153	-91	-7,682
Currency translation	-3	-1	-6	1	-	-9
Depreciation	-198	-171	-376	-39	-	-784
Impairment for the year	-9	-9	-30	-11	-11	-70
Depreciation and impairment on disposals	129	73	399	29	-	630
Disposals on divestments	1	-	27	3	-	31
Transferred to assets classified as held for sale	-	-	2	-	-	2
Depreciation and impairment at 31 December 2018	-2,711	-1,922	-2,977	-170	-102	-7,882
Carrying amount at 31 December 2018	3,314	746	811	99	597	5,567
Carrying amount of property, plant and equipment provided as loan collateral	833	-	-	-	-	833

The addition of land and buildings of DKK 674m in 2018 includes the correction of DKK 458m as mentioned in note 37. The change of leased buildings from operational leasing to financial leasing was a non-cash addition with no impact on the statement of cash flow for 2018.

14. Right-of-use assets

DKKm	Land and buildings	Other fixtures and fittings, tools and equipment	Total
Value at 1 January 2019 previously disclosed under property, plant and equipment	540	199	739
Addition on transition to IFRS 16 at 1 January 2019	1,772	216	1,988
Adjusted value at 1 January 2019	2,312	415	2,727
Currency translation	-	5	5
Additions on acquisitions	45	-	45
Additions	175	143	318
Disposals	-348	-11	-359
Remeasurement of lease obligation	-62	-	-62
Depreciation	-307	-117	-424
Carrying amount at 31 December 2019	1,815	435	2,250

Amounts recognised in the income statement, DKKm	2019
Expenses relating to short-term leases, not capitalised	67
Expenses related to low value leases, not capitalised	170
Interest expenses relating to lease liabilities	41
Depreciation	424

Right-of-use assets were impacted by DKK 266m which was transferred out of leased buildings into owned buildings when a purchase option for office buildings in Denmark was exercised in 2019.

For disclosures of the lease liabilities, see note 26.3 *Lease liabilities*.

15. Biological assets

DKKm	2019	2018
Fair value at 1 January	59	-
Currency translation	4	-
Additions	58	52
Change in fair value	20	7
Fair value at 31 December	141	59

At 31 December 2019, the Group owns 1,517 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 - 40 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. The cash flows are discounted using an interest rate of 4.5 - 5.25%.

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

16. Financial assets

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 Directors. 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 relating to 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 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 relate to 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, the investments 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. The instruments can be used both for risk management purpose and as an alternative to selling or buying the underlying assets.

Other things being equal, a 10% decrease/increase in equity prices would decrease/increase profits after tax by DKK 787m and DKK 610m respectively (decrease by DKK 885m and increase by DKK 881m in 2018).

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

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 2019, investments in associates included in Lundbeckfonden's investment strategy amount to DKK 4,178m (DKK 2,440m at 31 December 2018). The associates are not individually material. Consequently, financial information about the associates are not disclosed.

16. Financial assets - 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 2019	13,131	3,125	16,256	70	143	213	2
Reclassification to securities, current assets, 1 January 2019	-347	-	-347	-	-	-	-
Carrying amount at 1 January 2019, adjusted	12,784	3,125	15,909	70	143	213	2
Additions	8,211	397	8,608	-	57	57	-
Disposals	-7,143	-86	-7,229	-1	-14	-15	-2
Value adjustments, year-end	1,933	1,372	3,305	-9	-	-9	-
Reclassification to securities, current assets	-167	-	-167	-	-	-	-
Carrying amount at 31 December 2019	15,618	4,808	20,426	60	186	246	-

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

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 prior to the right being exercised, multiplied by an already agreed multiple, typically less net debt in the relevant companies. When recognised 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.

The fair value of derivatives is determined by applying recognised measurement techniques, whereby assumptions are based on the market conditions prevailing on the balance sheet date.

The fair value of contingent consideration is calculated as the discounted cash outflows from future milestone payments, taking probability of success into consideration.

16. Financial assets - continued

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

31 December 2019, DKKm	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets, Invest				
Danish mortgage and government bonds	1,993	-	-	1,993
Credit bonds	2,181	-	-	2,181
Equities	9,789	-	331	10,120
Private equity funds and other unlisted funds	-	271	1,053	1,324
Total financial assets, Invest	13,963	271	1,384	15,618
Lundbeckfonden Ventures and Emerge				
Equities	2,753	-	1,350	4,103
Receivables from sale of portfolio companies	-	-	653	653
Other receivables	-	-	52	52
Total Lundbeckfonden Ventures and Emerge	2,753	-	2,055	4,808
Other financial assets	20	-	40	60
Securities (current assets)	518	-	-	518
Total financial assets	17,254	271	3,479	21,004
Financial liabilities				
Derivative financial instruments	-	216	-	216
Liabilities relating to acquisitions and non-controlling interests	-	-	1,461	1,461
Total financial liabilities	-	216	1,461	1,677

Financial assets measured at fair value through other comprehensive income

31 December 2019, DKKm	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	84	-	84
Total financial assets	-	84	-	84

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
Liabilities relating to acquisitions and non-controlling interests	-	-	243	243
Total financial liabilities	-	168	243	411

Financial assets 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

16. Financial assets - continued

Financial assets measured at fair value according to level 3, DKKm	2019	2018
Carrying amount at 1 January	2,914	3,142
Additions	655	356
Disposals	-283	-346
Reclassification, from level 3 to level 1 in connection with IPO's	-51	-378
Fair value adjustment	244	140
Carrying amount at 31 December	3,479	2,914

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 4.25-6.00% or cost if under construction	If required rate of return is reduced by 0.25pp the fair value will be increased by DKK 60m
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 14m
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 12m
Receivables including receivables from sale of portfolio companies	Expected discounted cash flow	Discount rate (WACC of 7.4%)	If group of investments increase by 1%-point the fair value will be increased by DKK 17m
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
2019								
Non-current assets	2,258	-	-337	186	15,372	-	-2,984	14,495
Current assets	-896	-	-3	61	668	-	66	-104
Other	1,438	-	-121	-1,922	-51	-	-661	-1,317
Provisions in subsidiaries	-1,452	-	-57	-61	-462	-	387	-1,645
Tax loss carryforwards etc.	-6,192	-	47	185	-7,206	-	4,352	-8,814
Total	-4,844	-	-471	-1,551	8,321	-	1,160	2,615
Deferred (tax assets)/tax liabilities	-1,152	-	-17	-359	1,915	-	281	668
Research and development activities (tax credits)	-73	-	-2	-	-	-	71	-4
Deferred (tax assets)/tax liabilities	-1,225	-	-19	-359	1,915	-	352	664
2018								
Non-current assets	1,661	-	8	-349	5	63	870	2,258
Current assets	-652	-59	12	234	-	-	-431	-896
Other	821	-	-34	225	-	-	426	1,438
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	-4,790	-59	-15	1,597	-164	127	-1,540	-4,844
Deferred (tax assets)/tax liabilities	-988	-13	-1	178	-38	28	-318	-1,152
Research and development activities (tax credits)	-90	-	-9	-	-	-	26	-73
Deferred (tax assets)/tax liabilities	-1,078	-13	-10	178	-38	28	-292	-1,225

In accordance with IFRIC 23 *Uncertainty over Income Tax Treatments*, movements in adjustment of deferred tax 1 January 2019 include reclassifications to income tax receivable and payable at a net amount of DKK 358m (tax base of net DKK 1,626m) relating to net accrual for uncertain tax positions.

17. Deferred tax – continued

DKKm	2019	2018
Deferred tax assets relate to the following items:		
Non-current assets	-41	59
Current assets	281	268
Provisions and payables	195	104
Other	200	111
Provisions in subsidiaries	396	356
Tax value of tax loss carryforwards etc.	2,163	1,488
Research and development activities (tax credits)	4	73
Offset within legal tax entities and jurisdictions	-1,963	-510
Total	1,235	1,949
Deferred tax liabilities relate to the following items:		
Non-current assets	3,602	747
Current assets	207	37
Other	53	450
Offset within legal tax entities and jurisdictions	-1,963	-510
Total	1,899	724
Deferred tax, net	-664	1,225

Of the recognised deferred tax assets, DKK 2,167m (DKK 1,561m at 31 December 2018) relates 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. The recognition of tax losses is based on estimates of the expected taxable income in loss-making entities, supported by reports from external analysts when available.

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	2019	2018
Unrecognised deferred tax assets:		
Unrecognised deferred tax assets at 1 January	377	328
Prior-year adjustments	-24	-
Additions through acquisitions	454	-
Additions	171	142
Utilised	-3	-93
Unrecognised deferred tax assets at 31 December	975	377

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

18. Inventories

DKKm	2019	2018
Raw materials and consumables		
Raw materials and consumables	447	456
Work-in-progress	1,531	756
Manufactured goods and goods for resale	1,308	1,558
Total	3,286	2,770
Indirect costs of production		
Indirect costs of production	942	648
Impairment loss for the year	57	52
Inventories calculated at net realisable value	270	121
The total cost of goods sold is included in cost of sales in the amount of	2,934	3,156

Inventories at 31 December 2019 of DKK 1,012m (DKK 253m at 31 December 2018) are expected to be utilised after more than 12 months.

19. Trade receivables and other receivables

DKKm	2019	2018
Trade receivables and other receivables:		
Trade receivables	4,709	4,525
Other receivables	756	504
Derivative financial instruments	84	54
Receivables from associates	-	30
Prepayments	413	400
Total	5,962	5,513
Trade receivables:		
Receivables	5,010	4,787
Loss allowance	-301	-262
Total	4,709	4,525

19. Trade receivables and other receivables - continued

Trade receivables, DKKm	Expected loss rate %	Receivables, gross	Loss allowance	2019 Total	2018 Total
Days past due					
Not due	0%	3,718	13	3,705	3,456
1 months to 6 months	18%	1,064	191	873	877
6 month to 12 months	47%	93	44	49	144
More than 12 months	39%	135	53	82	48
Total		5,010	301	4,709	4,525

DKKm	2019	2018
Allowance for doubtful trade receivables:		
Allowance at 1 January	262	465
Change in accounting policies (IFRS 9)	-	28
Losses recognised	-143	-406
Adjustment for the year	179	160
Currency translation	5	17
Reversal	-2	-2
Allowance at 31 December	301	262

OTHER RECEIVABLES

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

DKKm	2019	2018
Specification of other receivables by due date:		
Not due	753	459
Overdue by up to 3 months	1	31
Overdue by more than 3 months and up to 6 months	1	-
Overdue by more than 6 months and up to 12 months	1	-
Overdue by more than 12 months	-	14
Total	756	504

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	2019	2018
Contract assets (not invoiced)	415	496
Contract assets impairments	-19	-17
Total	396	479
Expected loss rate	5%	3%

21. Cash resources

DKKm	2019	2018
Fixed-term deposits	62	194
Other cash resources	4,965	5,464
Cash and bank balances at 31 December	5,027	5,658
Securities with a maturity of less than 3 months	259	198
Securities with a maturity of more than 3 months	259	3,352
Securities at 31 December	518	3,550
Cash, bank balances and securities at 31 December	5,545	9,208

At 31 December 2019, DKK 31m (DKK 30m at 31 December 2018) of the Group's bank deposits are provided for security in connection with derivative financial instruments.

At 31 December 2018, DKK 73m of the Group's securities were held in a Swedish subsidiary which were 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.

21. Cash resources - continued

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 Directors 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 3,236m. The present statutes of Lundbeckfonden was approved by the Board of Directors on 28 March 2019. 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	2019	2018	2017	2016	2015
Capital base at 1 January	3,114	3,109	2,965	2,888	2,728
Increase in capital base	122	5	144	77	160
Capital base at 31 December	3,236	3,114	3,109	2,965	2,888

23. Other reserves

DKKm	2019	2018
Reserve for future grants:		
Balance at 1 January	1,250	1,000
Grants for the year	-657	-567
Transferred to provision for future grants	657	817
Balance at 31 December	1,250	1,250
Currency translation reserve:		
Balance at 1 January	394	117
Currency translation for the year concerning foreign subsidiaries and additions to net investments in foreign subsidiaries	116	159
Reclassification of exchange rate adjustment from divestment of discontinued operations	-	102
Tax in relation hereto	4	16
Balance at 31 December	514	394
Hedging reserve:		
Balance at 1 January	-66	355
Adjustment, deferred exchange gains/losses, hedging, recognised in other comprehensive income	-333	-322
Deferred fair value of interest rate swaps	8	-
Exchange gains/losses, hedging, transferred to revenue	322	-242
Exchange gains/losses, hedging, transferred to the balance sheet	-17	-
Value adjustment of interest hedging instruments	9	25
Tax in relation hereto	3	118
Balance at 31 December	-74	-66
Other reserves at 31 December	1,690	1,578

24. Non-controlling interests

DKKm	2019	2018
Non-controlling interests at 1 January	5,112	4,566
Correction of errors and changes in accounting policies	-	19
Share of profit/loss for the year	651	1,074
Share of other comprehensive income for the year	8	-63
Incentive programmes	20	14
Dividend	-744	-502
Buyback of shares from non-controlling interests	-6	-8
Sale of treasury shares	6	5
Change in non-controlling interests	169	-51
Adjustment of provision for acquisition of non-controlling interests	-39	7
Capital increase	868	3
Exchange rate adjustment from divestment of discontinued operations	-	43
Tax on other transactions in equity	16	5
Non-controlling interests at 31 December	6,061	5,112

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

	Non-control- ling interests	Percentage of votes	Registered office
H. Lundbeck A/S	30.9%	69.0%	Copenhagen
ALK-Abelló A/S	58.8%	67.2%	Hørsholm
Falck A/S	40.8%	59.2%	Copenhagen

Capital increase in 2019 of DKK 868m relates to Falck.

The minority shareholder's share of goodwill in Falck is partly recognised in the consolidated financial statements. Thus, goodwill of DKK 1,971m at 31 December 2019 (DKK 2,155m at 31 December 2018) is not recognised in the consolidated financial statements.

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

DKKm	Lundbeck		ALK		Falck	
	2019	2018	2019	2018	2019	2018
Statement of comprehensive income:						
Revenue	17,036	18,117	3,274	2,915	13,824	13,988
Profit (loss) for the year	2,667	3,907	-50	-170	-362	-561
Total comprehensive income	2,671	3,652	-56	-129	-335	-542
Profit (loss) for the year attributable to non-controlling interests	823	1,207	-29	-100	-143	-29
Balance sheet:						
Non-current assets	26,719	11,362	3,247	2,866	7,454	7,391
Current assets	9,038	11,649	2,248	1,999	3,351	3,445
Non-current liabilities	10,923	1,184	1,385	960	4,775	6,752
Current liabilities	10,280	7,576	934	726	4,119	4,041
Equity	14,554	14,251	3,176	3,179	1,911	43
Carrying amount of non-controlling interests of equity	4,494	4,402	1,868	1,868	-307	-1,162
Statement of cash flows:						
Cash flows from operating activities	2,609	5,973	132	-95	772	817
Cash flows from investing activities	-7,755	-2,899	-157	250	372	-271
Cash flows from financing activities	4,548	-1,607	-57	-28	-1,187	-997
Net cash flow for the year	-598	1,467	-82	127	4	-69
Dividends paid to the non-controlling interests during the year	736	490	-	-	8	15

25. Provisions

DKKm	Note	2019	2018
Provisions can be specified as follows:			
Pensions and similar obligations	25.1	593	487
Liabilities relating to acquisitions and non-controlling interests	25.2	1,461	243
Other provisions	25.3	1,512	1,124
Total		3,566	1,854
Provisions break down as follows:			
Non-current		2,141	1,142
Current		1,425	712
Total		3,566	1,854

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 DKK703m in 2019 (DKK701m in 2018).

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 current and former employees in Germany, Switzerland and the UK.

DKKm	2019	2018
Retirement benefit obligations and similar obligations:		
Present value of defined benefit plans	785	663
Fair value of plan assets	-288	-258
Defined benefit plans at 31 December	497	405
Other pension-like obligations	96	82
Retirement benefit obligations and similar obligations at 31 December	593	487
Retirement benefit obligations and similar obligations break down as follows:		
Non-current liabilities	593	486
Current liabilities	-	1
Retirement benefit obligations and similar obligations at 31 December	593	487

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	2019	2018
Discount rate	0.65-2.00	1.70-3.00
Inflation rate	1.75-2.00	1.75-3.00
Pay rate increase	0.00-3.00	0.00-2.90
Pension increase	1.75-2.80	1.75-3.20
Age-weighted staff resignation rate	0.00-8.00	0.00-8.00
Expected return on plan assets	2.00-2.80	3.00-3.20

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 36m (DKK 30m at 31 December 2018) and vice versa. An increase in the inflation rate of 0.25 %-point would result in an increase in the obligation of approximately DKK 10m (DKK 9m at 31 December 2018) 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	2019	2018
The fair value of the plan assets breaks down as follows:		
Shares	17	20
Bonds	23	23
Property	5	5
Insurance contracts	46	46
Other assets	9	6
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	2019	2018
Change in present value of defined benefit plans:		
Present value of defined benefit plans at 1 January	663	683
Effect of foreign exchange differences	14	3
Past service costs	-	1
Pension expenses	11	11
Interest expenses relating to the obligations	13	13
Experience and assumptions adjustments	107	-12
Benefits paid	-19	-36
Unused provisions, reversed	-1	-
Dividends paid and other adjustments	-1	-
Employee contributions	1	1
Settlements	-	-2
Curtailments	-3	-
Reclassified to and from other balance sheet accounts	-	1
Present value of funded pension obligations at 31 December	785	663
Change in fair value of plan assets:		
Fair value of plan assets at 1 January	258	266
Effect of foreign exchange differences	13	1
Interest income on plan assets	7	6
Experience adjustments	10	5
Contributions	9	9
Disbursements	-9	-27
Employee contributions	1	1
Administration fee	-1	-1
Settlements	-	-2
Fair value of plan assets at 31 December	288	258
Realised return on plan assets	17	11

25. Provisions - continued

25.1 Pensions and similar obligations - continued

DKKm	2019	2018
Specification of expenses recognised in the income statement:		
Past service costs	-	1
Pension expenses	11	11
Interest expenses relating to the obligations	6	7
Curtailments	-3	-
Actuarial (gains)/losses	1	1
Total expenses recognised	15	20
Specification of amount recognised in the statement of comprehensive income:		
Actuarial (gains)/losses	97	-19
Total expenses recognised	97	-19

The expected contribution for 2020 for the defined benefit plans is DKK 24m (DKK 23m in 2018).

OTHER OBLIGATIONS OF A RETIREMENT BENEFIT NATURE

An obligation at 31 December 2019 of DKK 96m (DKK 82m at 31 December 2018) 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	2019	2018
Liabilities:		
Liabilities related to acquisition of non-controlling interests	215	135
Payable considerations and contingent consideration	1,246	108
Liabilities at 31 December	1,461	243
Non-current portion:		
Liabilities related to acquisition of non-controlling interests	-	-
Payable considerations and contingent consideration	1,135	10
Non-current portion at 31 December	1,135	10
Current portion:		
Liabilities related to acquisition of non-controlling interests	215	135
Payable considerations and contingent consideration	111	98
Current portion at 31 December	326	233
Liabilities related to acquisition of non-controlling interests:		
Liabilities at 1 January	135	219
Currency translation	1	3
Disposals on divestment	-	-42
Provisions used during the year	-16	-25
Dividends paid and other adjustments	-	-3
Adjustments and interest recognised in equity relating to business combinations after 1 January 2010	95	-17
Liabilities related to acquisition of non-controlling interests at 31 December	215	135
Classification of liabilities for acquisition of non-controlling interests by expected maturity		
Within 1 year	215	135
Liabilities related to acquisition of non-controlling interests at 31 December	215	135

25. Provisions – continued

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

DKKm	2019	2018
Outstanding consideration and earn-outs:		
Liabilities at 1 January	108	80
Currency translation	1	-
Provisions charged	14	81
Provisions used during the year	-96	-54
Additions on acquisitions	1,224	1
Unused provisions reversed	-5	-
Outstanding considerations and earn-outs at 31 December	1,246	108
Classification of outstanding consideration and earn-outs by expected maturity:		
Within 1 year	111	98
Between 1 and 5 years	1,135	10
Liabilities concerning acquisition of non-controlling interests at 31 December	1,246	108

In addition to the upfront payment made in connection with the acquisition of Abide Therapeutics, Inc., Lundbeck is required to pay up to USD 150m in future development and sales milestones dependent on predefined milestones being reached. The fair value of the contingent consideration has been recognised as a liability in the purchase price allocation in the amount of USD 20m, equivalent to DKK 137m.

In addition to the upfront payments made in connection with the acquisition of Alder BioPharmaceuticals, Inc., Lundbeck is required to pay a contingent value right (CVR) of USD 2.00 per share upon European approval of eptinezumab. The CVR has a value of up to USD 236m. The fair value of the CVR has been recognised as a liability in the purchase price allocation in the amount of USD 160m, equivalent to DKK 1,076m.

In connection with Falck assuming an obligation to acquire non-controlling interests, a concurrent right was obtained for Falck to acquire the same non-controlling interests in the agreed period. The consideration for obligations and rights to acquire non-controlling interests is determined on the basis of profit prior to the right being exercised, multiplied by an already agreed multiple, typically less net debt in the relevant companies. When recognised 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	2019	2018
Other provisions at 1 January	1,124	1,054
Currency translation	11	19
Addition on acquisitions	463	-
Provisions charged	524	319
Provisions used during the year	-209	-226
Unused provisions reversed	-254	-60
Reclassified to and from other balance sheet accounts	-147	18
Other provisions at 31 December	1,512	1,124
Other provisions at 31 December can be specified as follows:		
Non-current provisions	413	646
Current provisions	1,099	478
Total	1,512	1,124

Of other provisions at 31 December 2019, DKK 246m (DKK 446m at 31 December 2018) relates to provision regarding returns and DKK 337m (DKK 243m at 31 December 2018) relates to restructuring programmes in Lundbeck.

Furthermore, other provisions at 31 December 2019 comprise liability regarding incentive programmes of DKK 81m (DKK 160m at 31 December 2018) and liabilities for e.g. legal disputes.

26. Debt to financial institutions and others

DKKm	Note	2019	2018
Debt to financial institutions and others can be specified as follows:			
Debt to financial institutions etc.		13,532	5,722
Lease liabilities		2,234	610
Total		15,766	6,332
Can be specified as follows:			
Non-current liabilities			
Mortgage debt	26.1	699	751
Bank debt etc.	26.2	10,422	4,668
Lease liabilities	26.3	1,756	280
Total		12,877	5,699
Current liabilities			
Mortgage debt	26.1	33	32
Bank debt etc.	26.2	2,033	72
Lease liabilities	26.3	478	330
Repo debt	26.5	345	199
Total		2,889	633
Total debt		15,766	6,332

26.1 Mortgage debt

DKKm	2019	2018
Mortgage debt by maturity:		
Within 1 year	33	32
Between 1 and 5 years	403	422
More than 5 years	296	329
Mortgage debt at 31 December	732	783

DKKm	Currency/ Expiry	Fixed/floating	Weighted average effective interest rates	Amortised cost	Nominal value	Fair value
2019						
Mortgage debt, Falck	DKK/2045	Fixed	1.2%	281	281	282
Mortgage debt, Falck	DKK/2044	Fixed/Floating	2.9%	174	174	177
Mortgage debt, ALK	DKK/2035	Floating	1.2%	277	277	281
Total				732	732	740
2018						
Mortgage debt, Falck	DKK/2045	Fixed	1.2%	298	298	303
Mortgage debt, Falck	DKK/2044	Fixed/Floating	3.0%	192	192	194
Mortgage debt, ALK	DKK/2035	Floating	1.2%	293	293	302
Total				783	783	799

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 others - continued

26.2 Bank debt etc.

DKKm	2019	2018
Bank debt by maturity:		
Within 1 year	2,033	72
Between 1 and 5 years	10,421	4,665
More than 5 years	1	3
Total	12,455	4,740

Falck's primary debt financing is a syndicated bank loan of DKK 2,898m (DKK 3,344m) which expires in June 2021. The syndicated loan is expected to be refinanced before July 2020.

Lundbeck's DKK loan has been swapped into USD by cross-currency swaps with a one-year tenor and an average fixed interest rate of 2.58%. Of the USD loan (totalling USD 500m), USD 450m has been swapped into fixed interest by interest rate swaps with a four year tenor and an average fixed interest rate of 1.56%.

Subordinated shareholder loans in Falck of DKK 846m at 31 December 2018 were converted to equity in March 2019.

DKKm	Currency	Expiry	Fixed/floating	Weighted average effective interest rates	Carrying amount	Fair value
2019						
Bank debt, Falck	DKK	2021	Floating	1.3%	1,396	1,400
Bank debt, Falck	EUR	2021	Floating	1.3%	1,549	1,549
Bank debt, Lundbeck	DKK	2020	Floating	0.65%	2,000	2,000
Bank debt, Lundbeck	USD	2023	Floating	2.8%	3,326	3,326
Bank debt, Lundbeck	EUR	2023	Floating	0.55%	3,736	3,736
Other bank and finance loans, ALK	EUR	2022	Fixed	1.8%	448	448
Total					12,455	12,459
2018						
Bank debt, Falck	DKK	2019-2021	Floating	3.3%	1,864	1,869
Bank debt, Falck	EUR	2019-2021	Floating	2.5%	1,502	1,505
Bank debt, Falck	EUR	2019-2021	Fixed	1.6%	21	21
Bank debt, Falck	USD, other	2019-2021	Fixed/floating	2.7%	59	59
Other loans, Falck	DKK	2021	Fixed	10.0%	846	846
Other bank and finance loans, ALK	EUR	2022	Fixed	1.8%	448	448
Total					4,740	4,748

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

26. Debt to financial institutions and others – continued

26.3 Lease liabilities

DKKm	2019	2018
Leasing liabilities by maturity:		
Within 1 year	478	330
Between 1 and 5 years	1,427	280
More than 5 years	329	-
Total	2,234	610

In 2019, the Group paid DKK 739m for lease agreements, of which, interest expenses amounted to DKK 41m.

26.4 Development in mortgage debt and bank debt, etc.

DKKm	Balance at 1 January	Additions through acquisitions	Cash flow, net	Transferred to liabilities held for sale	Non-cash changes	Balance at 31 December
2019						
Long-term borrowings	5,419	-	6,582	-	-880	11,121
Short-term borrowings	104	2,053	-109	-	18	2,066
Lease liabilities	610	-	-698	-	2,322	2,234
Total	6,133	2,053	5,775	-	1,460	15,421
2018						
Long-term borrowings	5,901	-	-786	-	304	5,419
Short-term borrowings	242	-	-136	-2	-	104
Lease liabilities	207	-	-62	-	465	610
Total	6,350	-	-984	-2	769	6,133

In 2019, conversion of subordinated shareholder loans of DKK 846m (excluding interest) is included in non-cash changes of long-term borrowings.

Furthermore in 2019, non-cash changes of lease liabilities, DKK 2,323m, included lease liability of DKK 1,980m related to the right-of-use assets according to IFRS 16 implemented from 1 January 2019.

26.5 Repo debt

At 31 December 2019, repo debt totalling DKK 345m (DKK 199m at 31 December 2018) fell due in January 2020 (January 2019). The debt carries a fixed rate of interest from the date of conclusion at negative 0.55% (negative 0.30% at 31 December 2018).

27. Contract liabilities

DKKm	2019	2018
Stepped-pricing contracts	72	49
Prepayments	1,192	1,154
Total	1,264	1,203
Within 1 year	1,192	1,154
More than 1 year	72	49
Total	1,264	1,203
Revenue recognised from amounts included in contract liabilities at the beginning of the year	966	1,356
Revenue recognised from performance obligations satisfied in previous years	-31	-16

28. Other payables

DKKm	2019	2018
Trade payables	4,699	5,040
Other payables	4,625	4,792
Derivative financial instruments	216	168
Total	9,540	10,000

Sales discounts and rebates in the US amounted to DKK 1,057m at 31 December 2019 (DKK 1,493m at 31 December 2018) and are included in other payables. The remaining amount relates mainly to VAT, employee-related obligations and legal settlements.

29. Adjustment for non-cash operating items

DKKm	2019	2018
Depreciation, amortisation and impairment	2,570	2,314
Gain on reduction of ownership interest	-	-48
Incentive programmes	227	45
Change in retirement benefit obligations	-2	2
Change in other provisions	-27	37
Gain on divestment from sale of non-currents assets	-111	-34
Change in valuation of biological assets	-20	-7
Other adjustments	-59	39
Total	2,578	2,348

30. Working capital changes

DKKm	2019	2018
Change in inventories	166	-406
Change in contract assets	80	-12
Change in receivables	-434	642
Change in contract liabilities	66	-164
Change in liabilities	-1,286	656
Total	-1,408	716

31. Acquisitions and divestments

31.1 Acquisitions of businesses etc.

DKKm	Lundbeck La Jolla Research Center, Inc.	Lundbeck Seattle BioPharma- ceuticals, Inc.	Other	2019	2018
Assets:					
Product rights	1,853	13,421	-	15,274	-
Other intangible assets	-	-	1	1	6
Property, plant and equipment, including right-of-use assets	22	76	-	98	-
Inventories	-	668	-	668	-
Other receivables	9	55	-	64	-
Securities	-	152	-	152	-
Cash and bank balances	80	2,341	9	2,430	-
Equity and liabilities:					
Deferred tax	-299	-1,611	-	-1,910	-
Lease liabilities, non- current	-10	-27	-	-37	-1
Provisions	-	-462	-1	-463	-
Borrowings	-	-2,053	-	-2,053	-
Lease liabilities, current	-5	-9	-	-14	-
Trade payables	-12	-280	-	-292	-
Other payables	-2	-686	-	-688	-
Net assets acquired	1,636	11,585	9	13,230	5
Goodwill	230	679	-	909	-
Purchase price	1,866	12,264	9	14,139	5
Adjustment for cash and bank balances acquired	-80	-2,341	-9	-2,430	-
Contingent considerations and deferred payments	-137	-1,076	-	-1,213	-
Acquisition of Prex- ton Therapeutics BV	-	-	-	-	745
Consideration relating to prior-year acquisitions	-	-	20	20	54
Cash consideration for acquisitions	1,649	8,847	20	10,516	804

31. Acquisitions and divestments - continued

31.1 Acquisitions of businesses etc. – continued

Acquisitions in 2019

Acquisitions 2019	Main activity	Ownership and voting rights acquired	Purchase price, DKKm
Lundbeck La Jolla Research Center, Inc.	Development of pharmaceuticals	100%	1,866
Lundbeck Seattle BioPharmaceuticals, Inc.	Development of pharmaceuticals	100%	12,264
Minor acquisitions		100%	9
Total acquisitions			14,139
Profit of acquired companies after date of acquisition			-340
Full-year revenue including acquisitions			34,134
Full-year profit including in acquisitions			5,067

ABIDE THERAPEUTICS, INC. (LUNDBECK LA JOLLA RESEARCH CENTER, INC.)

On 29 May 2019, Lundbeck acquired Abide Therapeutics, Inc., a US company, by acquiring all its shares. The company has subsequently changed its name to Lundbeck La Jolla Research Center, Inc.

Lundbeck has acquired a company with a unique discovery platform and employees with specialist knowledge as well as a portfolio of compounds, including the product rights to ABX-1431; a first-in-class, small-molecule inhibitor of monoacylglycerol lipase (MGLL) currently being investigated in clinical trials for the treatment of neurological disorders, including the treatment of Tourette's Syndrome, as well as various compounds in the pre-clinical phase. The entity will continue as a drug discovery company, and the acquisition is consequently considered a business combination in accordance with IFRS 3 Business Combinations. In compliance with the requirements of IFRS 3 Business Combinations, the following information is disclosed:

Lundbeck made a net upfront payment of approximately USD 250m (DKK 1,649m) to the former owners of Abide Therapeutics, Inc. In addition, Lundbeck is required to pay up to USD 150m in future development and sales milestones. The development milestone will be triggered when statistically significant results in a phase II clinical trial in Tourette's Syndrome have been obtained or the first patient has been enrolled in a phase III clinical trial in Tourette's Syndrome, in

each case for a MGLL product that contains the lead compound. The sales milestones will be triggered at the first commercial sale and when product revenue reaches a certain threshold. Future milestone payments may consequently be in the range USD 0-150m. At the time of acquisition, the fair value of the contingent consideration was USD 20m (DKK 137m).

Future development and sales milestones were recognised as a contingent consideration at fair value at the acquisition date. Key inputs to the fair value are the milestone payments, probability of success weighted by the possible outcomes and Lundbeck's weighted average cost of capital (WACC). The probability of success used for the calculation of the fair value of milestones is based on the BIO/MedTracker 2016 publication.

The acquisition price paid for Abide Therapeutics, Inc. exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, and accordingly the positive difference of DKK 230m has been recognised as goodwill. The goodwill is primarily explained by the acquisition of the unique discovery platform and the specialist knowledge and networks of the employees. Goodwill is not tax-deductible.

Lundbeck has changed the initial purchase price allocation relating to the acquisition of Abide Therapeutics, Inc. This has resulted in a decrease of goodwill and deferred tax liability in the amount of DKK 185m mainly related to a change in the state tax rate applied and a larger than expected net operating loss (NOL).

Lundbeck La Jolla Research Center, Inc. has not contributed any revenue in 2019 and is recognised in the consolidated income statement for 2019 at a loss of DKK 91m. Had the company been acquired as of 1 January 2019, the consolidated net profit for 2019 would have been approximately DKK 2,612m.

Transaction costs relating to the acquisition of Abide Therapeutics, Inc. amount to approximately DKK 6m and are recognised in the income statement under administrative expenses.

ALDER BIOPHARMACEUTICALS, INC. (LUNDBECK SEATTLE BIOPHARMACEUTICALS, INC.)

On 22 October 2019, Lundbeck acquired Alder BioPharmaceuticals, Inc., a US company, by acquiring all its shares. The company has subsequently changed its name to Lundbeck Seattle BioPharmaceuticals, Inc.

31. Acquisitions and divestments - continued

31.1 Acquisitions of businesses etc. – continued

Lundbeck has acquired a clinical-stage biopharmaceutical company that discovers, develops and seeks to commercialise therapeutic antibodies. It has active ongoing research activities and early-stage commercial activities. The assets acquired mainly comprise the lead compound eptinezumab, other research candidates and inventories. The company has an experienced organisation structured to pursue the objective of successfully discovering, developing and commercialising drugs. Following the expected launch of eptinezumab, the company may be able to generate profit for Lundbeck, and the acquisition is consequently considered a business combination in accordance with IFRS 3 Business combinations. In compliance with the requirements in IFRS 3 Business Combinations, the following information is disclosed:

Lundbeck acquired Alder BioPharmaceuticals, Inc. for an upfront consideration of USD 18.00 per share along with one non-tradeable Contingent Value Right (CVR) of USD 2.00 per share. This corresponds to a cash consideration of USD 1,668m on a fully diluted basis (DKK 11,188m) and a contingent consideration of USD 236m at nominal amount, representing USD 160m at fair value (DKK 1,583m, representing DKK 1,076m at fair value). The cash consideration paid, net, amounted to USD 1,319m on a fully diluted basis (DKK 8,847m). The CVR amount is payable upon approval of eptinezumab by the European Medicines Agency (EMA).

The CVR was recognised as a contingent consideration at fair value at the acquisition date. Key inputs to the fair value of the CVR are the promise to pay a fixed price per share acquired, probability of success weighted by the possible outcomes and Lundbeck's WACC. The probability of success used for calculating the fair value of the CVR is based on the BIO/MedTracker 2016 publication.

Lundbeck Seattle BioPharmaceuticals, Inc. is developing eptinezumab for the preventive treatment of migraine in adults. Eptinezumab is an investigational monoclonal antibody (mAb) that is administered as a quarterly 30-minute IV infusion. Eptinezumab was designed for immediate and complete bioavailability with high specificity and strong binding for suppression of calcitonin gene-related peptide (CGRP), a neuropeptide believed to play a key role in mediating and initiating migraines. The company submitted a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) for eptinezumab in February 2019, and the FDA has set a Prescription Drug User Fee Act (PDUFA) action date of 21 February 2020. If approved by the FDA, it will be the first IV CGRP therapy for migraine prevention.

Lundbeck expects to submit eptinezumab for approval to regulatory authorities in the European Union during 2020, followed by submissions for approval in other regions around the world, including China and Japan.

The acquisition price paid for Alder BioPharmaceuticals, Inc. exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, and accordingly the positive difference of DKK 679m has been recognised as goodwill. The recognised goodwill represents employees who will continue in Lundbeck after the acquisition and the synergies Lundbeck expects to realise by exploiting existing product launch opportunities. Goodwill is not tax-deductible.

Lundbeck Seattle BioPharmaceuticals, Inc. has not contributed any revenue in 2019 and is recognised at a loss of DKK 249m in the consolidated financial statements for 2019. Had the company been acquired at 1 January 2019, the consolidated net profit for 2019 would have been approximately DKK 2,221m.

Transaction costs relating to the acquisition of Alder BioPharmaceuticals, Inc. amount to approximately DKK 168m, which are recognised in the income statement under other operating items, net.

The amounts in the table represent the purchase price allocation to the identifiable assets, liabilities and contingent consideration and consequently also to goodwill at the acquisition date.

Acquisition in 2018

In 2018, Lundbeck acquired Prexton Therapeutics BV. The acquisition was considered a purchase of assets and consisted of the foliglurax product rights valued at DKK 712m, tax assets of DKK 39m and net liabilities totalling DKK 6m at the time of purchase.

No other significant acquisitions were made during 2018.

31. Acquisitions and divestments - continued

31.2 Divestment of businesses

Divestment of businesses include divestment of subsidiaries and operations.

DKKm	2019	2018
Assets		
Goodwill	67	53
Other intangible assets	4	7
Property, plant and equipment	15	86
Deferred tax	5	-
Other non-current assets	33	-
Other current assets	44	39
Cash and bank balances	20	38
Equity and liabilities		
Non-current liabilities	-	-42
Current liabilities	-23	-56
Deferred tax	-	-2
Net assets divested	165	123
Gain and losses on divestment of business, net	1	-44
Sales price	166	79
Adjustment for cash and bank balances transferred	-20	-38
Sales price receivable	5	-29
Transaction costs	-16	-12
Cash flows from divestment of subsidiaries and operations	135	-

In 2019, Falck divested its shares in Falck Centra Medyczne SP Z.O.O, Falck Consulting & Technology B.V., Falck Emergency Norway A/S and Falck Chile Holding S.A. A total loss on the divestment of enterprises, including transaction costs of DKK 30m was recognised in the income statement.

Furthermore, ALK has sold its North American Veterinary Business Unit to Spectrum Veterinary LLC. The operation was previously an integrated part of ALK's subsidiaries in North America. A gain of DKK 15m was recognised in the income statement.

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. A total loss on the divestment of enterprises, including transaction costs of DKK 56m, was recognised in the income statement.

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 Lundbeck, ALK and Falck based on policies and guidelines approved by the Board of Directors or the Board of Directors in the subsidiaries.

See also note 16 *Financial assets*, 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 Lundbeck, ALK and Falck and in Invest.

Monetary assets and monetary liabilities for the principal currencies at 31 December, DKKm

	2019	2018
Monetary assets		
CAD	78	50
CHF	101	231
CNY	111	261
EUR	4,899	3,121
GBP	483	351
JPY	153	82
USD	6,713	5,573
Monetary liabilities		
CAD	-	1
EUR	6,787	3,801
GBP	117	47
USD	5,534	49

32. Financial risks and financial instruments - continued

32.1 Exchange rate risks – continued

Monetary assets and monetary liabilities include trade receivables, other receivables, financial assets, cash, bank debt (including interest rate swaps), lease liabilities, trade payables, other payables, deferred taxes and income taxes. The balances exclude all intra-group balances, and from 2019 the Group also excludes monetary assets and monetary liabilities in entities where the currency of the assets/liabilities and the functional currency are identical. The comparative figures for 2018 have been restated accordingly.

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

DKKm	CAD	CHF	CNY	GBP	JPY	USD
2019						
Profit	5	4	-	13	8	428
Equity	-11	5	-15	5	8	-92
2018						
Profit	3	10	10	6	4	397
Equity	-16	11	-10	6	4	8

The profit impact includes foreign exchange differences relating to intra-group balances that are not eliminated in the consolidated financial statements. The calculation of the estimated impact is based on the functional currency of the entities where the monetary assets and liabilities are located.

The equity impact includes primarily exchange rate adjustment of bank loans in foreign currencies, foreign exchange differences on outstanding hedging contracts and the total profit impact of monetary assets and monetary liabilities excluding exchange differences relating to intra-group balances. From 2019, the Group does not include exchange rate adjustments of equity in foreign subsidiaries or exchange rate adjustments of additions to net investments in foreign subsidiaries. The comparative figures for 2018 have been restated accordingly.

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 note 26 *Debt to financial institutions and others*.

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 2019, the Group's portfolio of bonds had a duration of 0.6 year (1.5 year at 31 December 2018). Other things being equal, an increase of 1%-point in interest rates would decrease the Group's profit after tax by DKK 4m (decrease of DKK 66m at 31 December 2018).

At 31 December 2019, 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 1,993m (DKK 1,949m at 31 December 2018). Other than this, there were no derivatives at 31 December 2019 and 31 December 2018 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 primarily related to Lundbeck and Falck. Lundbeck's exposure to interest rate risk derives mainly from the EUR drawdown under the revolving credit facility. The interest rate on the USD drawdown is to a large extent fixed by interest rate swaps for the full expected loan period. The interest rate exposure therefore primarily relates to developments in the interest rate of EUR; see note 26.2 for further details.

Falck's syndicated loan of DKK 2,898m carry variable interest. The interest rate risk was partly (74% at 31 December 2018) hedged with interest rate swaps that expired in 2019 and were not renewed due to expected refinancing in 2020.

An increase in the interest rate of 1%-point on debt to financial institutions and others would decrease the Group's profit after tax by DKK 47m (DKK 13m at 31 December 2018).

32. Financial risks and financial instruments - continued

32.3 Categories and maturity dates for financial assets and financial liabilities

31 December 2019, 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	-	784	1,593	2,377	1,993	-1 - 3%
Credit bonds	-	1,089	1,316	2,405	2,181	0 - 37%
Financial assets, Lundbeckfonden Ventures and Emerge						
Receivables from sale of portfolio companies	231	308	114	653	653	
Other receivables	54	-	-	54	52	8%
Securities (current assets)	638	-	-	638	518	-1 - 37%
Financial assets at fair value through profit or loss	285	2,181	3,023	5,489	4,879	
Derivatives to hedge future cash flows and net investment in foreign subsidiaries	84	-	-	84	84	
Financial assets used as hedging instruments	84	-	-	84	84	
Receivables	6,132	346	-	6,478	6,478	
Fixed-term deposits	62	-	-	62	62	0 - 3%
Other cash resources	4,965	-	-	4,965	4,965	-1 - 10%
Financial assets measured at amortised cost	11,159	346	-	11,505	11,505	
Total financial assets	11,528	2,527	3,023	17,078	16,468	

31 December 2019, 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	103	-	-	103	103	
Financial liabilities at fair value through profit or loss	103	-	-	103	103	
Derivatives to hedge future cash flows and net investment in foreign subsidiaries	113	-	-	113	113	
Financial liabilities used as hedging instruments	113	-	-	113	113	
Debt to financial institutions etc.	2,624	10,872	605	14,101	13,532	0 - 3%
Leasing liabilities	517	1,351	507	2,375	2,234	1 - 4%
Liabilities relating to acquisitions and non- controlling interests	326	1,135	-	1,461	1,461	
Other payables and non- disbursed grants	11,061	780	-	11,841	11,841	
Financial liabilities measured at amortised cost	14,528	14,138	1,112	29,778	29,068	
Total financial liabilities	14,744	14,138	1,112	29,994	29,284	

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 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)	611	3,017	-	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	5,273	145	-	5,418	5,418	
Fixed-term deposits	194	-	-	194	194	0 - 4%
Other cash resources	5,464	-	-	5,464	5,464	-1 - 4%
Financial assets measured at amortised cost	10,931	145	-	11,076	11,076	
Total financial assets	11,043	1,955	2,760	15,758	15,018	

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	
Debt to financial institutions etc.	610	5,351	735	6,696	5,723	1 - 10%
Leasing liabilities	336	301	-	637	609	1 - 7%
Liabilities relating to acquisitions and non-controlling interests	233	10	-	243	243	
Other payables and non-disbursed grants	10,771	609	-	11,380	11,380	
Financial liabilities measured at amortised cost	11,950	6,271	735	18,956	17,955	
Total financial liabilities	12,118	6,271	735	19,124	18,123	

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.

	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
2019					
CAD	300	-9	-17	492.68	Oct 2020
CNY	289	-2	-25	93.79	Oct 2020
JPY	344	2	-17	6.15	Nov 2020
USD	2,594	-72	-210	640.47	Oct 2020
Other currencies	1,364	-22	-31	-	Dec 2020
Forward contracts	4,891	-103	-300		
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		

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 recog- nised in other compre- hensive income	Fixed interest rate	Expiry
2019					
DKK interest rate swap	-	-	4	-	-
EUR interest rate swap	-	-	5	-	-
USD interest rate swap	3,004	8	8	1.56	Jul 2023
DKK interest rate swap	600	-	-42	0.25	Jul 2029
Interest rate collar/interest rate swap		8	-25		
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		

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
2019				
Options on indices	-3,474	-186	-100	Jan 2020
Options on shares	154	31	1	Feb 2020
Share contracts	-3,320	-155	-99	
2018				
Options on indices	83	-89	1	Jun 2019
Options on shares	113	20	-14	Jun 2019
Share contracts	196	-69	-13	

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

LEASE OBLIGATIONS

After the implementation of IFRS 16 *Leases* from 1 January 2019, leases are recognised in the balance sheet as right-of-use assets and a corresponding lease liability.

At 31 December 2018, lease obligations amounted to DKK 1,730m which related to rentals of land and buildings and plant, fixtures, fittings, tools and equipment.

OTHER CONTRACTUAL OBLIGATIONS

DKKm	2019	2018
Purchase obligations	1,966	395
Collaterals and repo	423	231
Research and development milestones obligations	1,750	1,700
Research and development collaborations	10	31
Performance bonds in connections with a number of contracts	625	343
Capital contribution obligations	818	858
Other contractual obligations, including service agreements	290	255

CONTINGENT ASSETS AND LIABILITIES

Pending legal proceedings

The Group is involved in a number of legal proceedings, including patent disputes, the most significant of which are described below. In the opinion of Management, the outcome of these proceedings will not have a material impact on the Group's financial position or cash flows beyond the amount already provided for in the financial statements, or it is too uncertain 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). In 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 the third quarter of 2013. An oral hearing was conducted by the European Court of Justice in January 2019. The Advocate General is expected to deliver her opinion to the European Court in March 2020, and a final judgment is expected during 2020 after the delivery of the opinion. 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. Health authorities in the UK and The Netherlands have taken formal protective steps against Lundbeck with the principal purpose of preventing potential claims from being time-barred under the applicable statutes of limitation. Lundbeck expects no further material development in these matters until after the European Court of Justice has issued its final judgment.

In Canada, H. Lundbeck A/S and its subsidiary Lundbeck Canada Inc. are involved in three product liability class-action lawsuits relating to Ciprallex®/Celexa® (two cases alleging various Celexa®-induced birth defects and one case against several SSRI manufacturers (incl. Lundbeck) alleging that SSRI (Celexa®/Lexapro®) induces autism birth defect); two relating to Abilify Maintena® (alleging i.a. failure to warn about compulsive behaviour side effects); and one relating to Rexulti® (also alleging i.a. failure to warn about compulsive behaviour side effects).

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

The cases are in the preliminary stages and as such there is significant uncertainty as to how these lawsuits will be resolved. Lundbeck strongly disagrees with the claims raised.

In 2018, the Group entered into settlements with three of the four generic companies involved in an Australian federal court case, in which Lundbeck was pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. Lundbeck received AUD 51.7m (DKK 242m) in 2018. In Lundbeck's case against the final generic company, Sandoz Pty Ltd, the Federal Court found that Sandoz Pty Ltd had infringed Lundbeck's escitalopram patent between 2009 and 2012 and awarded Lundbeck AUD 26.3m in damages. Sandoz' appeal of the decision was heard on 8-10 May 2019 and a decision is expected in the first half of 2020. In the meantime, the Australian Patent Office has issued a license to exploit the patent to Sandoz for the entire period of infringement. The license may potentially remove the damages awarded to Lundbeck. Lundbeck has appealed this license decision.

Together with Takeda, Lundbeck has instituted patent infringement proceedings against 16 generic companies that have applied for marketing authorisation for generic versions of Trintellix® in the US. Two opponents have now withdrawn and the cases against the remaining 14 opponents continue. Decisions are expected shortly before the end of March 2021. Lundbeck has strong confidence in its vortioxetine patents. The FDA cannot grant marketing authorisation 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.

Together with Otsuka, Lundbeck has instituted patent infringement proceedings against several generic companies that have applied for marketing authorisation for generic versions of Rexulti® in the US. Lundbeck has strong confidence in the Rexulti® patents. The FDA cannot grant marketing authorisation in the US to the generic companies before the patents expire unless the generic companies receive decisions in their favour.

In February 2019, Alder BioPharmaceuticals, Inc. (now a wholly owned subsidiary of Lundbeck LLC and since renamed Lundbeck Seattle BioPharmaceuticals, Inc. (Alder)) terminated a Development and Manufacturing Services Agreement (DMSA) with Lonza Ltd. (Lonza), based on material breaches of that agreement by Lonza. In April 2019, Lonza filed a claim for arbitration with the American Arbitration Association (AAA), asserting claims for breach of contract and declaratory judgment arising from the termination. Lonza disputed the material breaches asserted by Alder, denying that Alder is entitled to terminate the DMSA without further payment,

and is seeking monetary damages representing Lonza's calculation of the fee due upon termination for convenience. In May 2019, Alder filed an answer to Lonza's claim with the AAA, in which Alder disputed Lonza's claims and asserted counterclaims arising from Lonza's breach of the DMSA. In June 2019, Lonza filed its reply to the counterclaims. The arbitration hearing is scheduled for September 2020.

In June 2018, Lundbeck announced that its US subsidiary Lundbeck LLC had reached an agreement in principle to resolve the US Department of Justice (DOJ) investigation related to Lundbeck LLC's relationship with and donations to independent patient assistance charitable foundations, which called for a payment of USD 52.6m. In April 2019, Lundbeck finalised this settlement, executed a Settlement Agreement and made a payment of USD 52.6m. Lundbeck LLC is pleased to have reached a final resolution that will allow the company to put this matter behind it. The Settlement Agreement does not include any admission by Lundbeck LLC that it violated any law. The resolution of this matter will allow Lundbeck LLC to continue its focus on providing innovative medications to patients.

Product return obligations

The Group has product return obligations normal for the industry. Management does not expect any major losses from these obligations apart from the amount already recognised.

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 791m (DKK 833m at 31 December 2018) out of mortgage debt of DKK 732m (DKK 783m at 31 December 2018).

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 pledged as collateral for Falck's debt. The debt amounted to DKK 2,898m at 31 December 2019 (DKK 3,344m at 31 December 2018).

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 2019 amounted to DKK 392m (DKK 201m at 31 December 2018).

34. Related parties

Lundbeckfonden is a commercial 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 Directors
- Companies in which the company's Executive Management and Board of Directors exercise controlling influence
- Associates

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

Transactions with associates

Receivables from and payables to associates are shown in the balance sheet.

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

At 31 December 2019, there were no activities presented as discontinued operations.

In 2019, Falck decided to keep the Healthcare staffing business as a part of the Healthcare business unit. As a result, the staffing business is no longer presented as discontinued operations and comparative figures have been restated.

On 20 September 2018, Falck divested Falck Safety Services to the Danish private equity company, Polaris. The consideration paid consisted of a cash payment of DKK 534m and an interest bearing, deferred payment of DKK 50m due in 2019. A loss on the divestment of DKK 408m was recognised in the profit for the year from discontinued operations.

In 2018 cash flows from investing activities comprised primarily considerations related to prior-year acquisitions in Malaysia and Thailand for a net amount of DKK 94m.

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

In the comparative figures for 2018, Falck Safety Services and Healthcare non-core activities have been presented as discontinued operations. The profit for the period and cash flows from discontinued operations have been disclosed separately in the income statement and in the statement of cash flows.

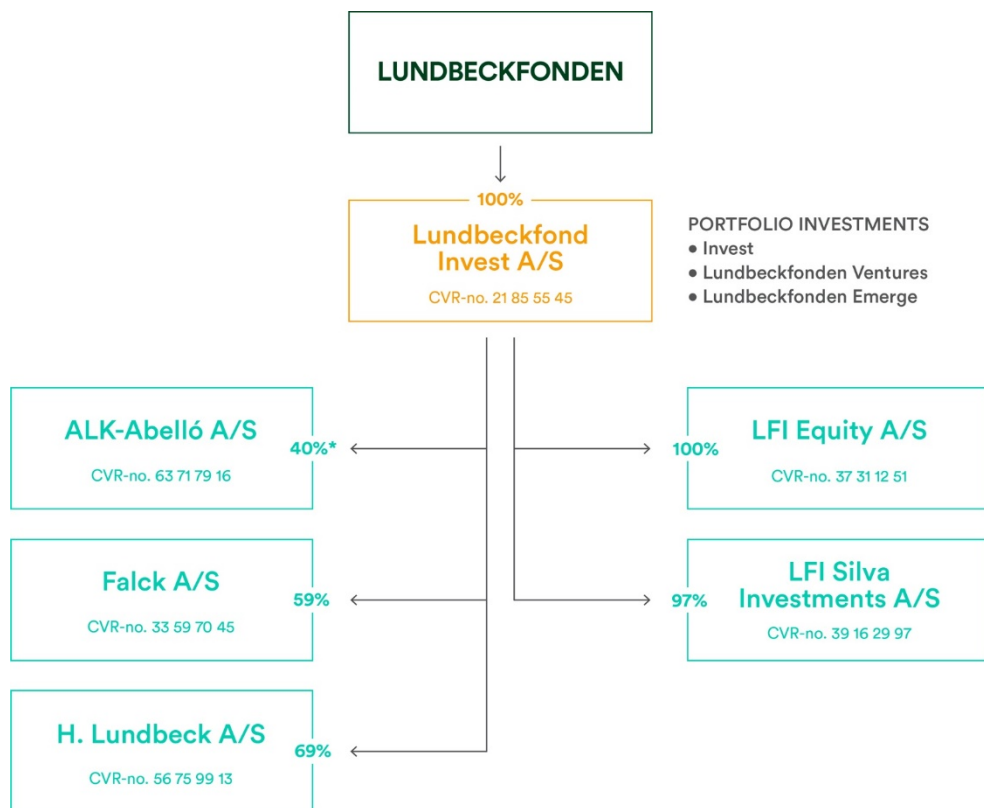
DKKm	2019	2018
Revenue	-	646
Cost of sales	-	-427
Gross profit	-	219
Sales and distribution costs	-	-40
Administrative expenses	-	-123
Other operating items, net	-	2
Operating profit	-	58
Financial income and expenses, net	-	-3
Profit before tax	-	55
Tax on profit for the year	-	-21
Profit for the year	-	34
Loss on divestment of discontinued operations	-	-45
Profit for the year from discontinued operations	-	-11

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

DKKm	2019	2018
Cash flows from operating activities	-	20
Cash flows from investing activities	-	-47
Cash flows from financing activities	-	5
Cash consideration from divestment of discontinued operations	47	404
Cash flows from discontinued operations	47	382

DKKm	2019	2018
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	47	-50
Adjustment for cash and bank balances divested	-	-118
Cash consideration from divestment of discontinued operations	47	404

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	59%
- 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., including	United Kingdom	80%
- Forth Photonics Trustees Limited	United Kingdom	100%
- Forth Photonics Limited	United Kingdom	100%
- DYSIS Medical INC	United States	100%
- Forth Photonics Hellas S.A	Greece	100%
Insusense ApS	Denmark	75%
Associates of Lundbeckfond Invest A/S¹⁾		
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, including	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%

36. Group overview - continued

Company name	Country	Ownership	Company name	Country	Ownership
Lundbeck China Holding A/S in voluntary liquidation	Denmark	100%	Lundbeck Pharma d.o.o.	Slovenia	100%
Lundbeck Export A/S	Denmark	100%	Lundbeck South Africa (Pty) Limited, including	South Africa	100%
Lundbeck Insurance A/S	Denmark	100%	- H. Lundbeck (Proprietary) Limited	South Africa	100%
Lundbeck Pharma A/S	Denmark	100%	Lundbeck España S.A.	Spain	100%
Lundbeck Eesti A/S	Estonia	100%	H. Lundbeck AB	Sweden	100%
OY H. Lundbeck AB	Finland	100%	Lundbeck (Schweiz) AG	Switzerland	100%
Lundbeck SAS	France	100%	Lundbeck İlaç Ticaret Limited Şirketi	Turkey	100%
Sofipharm SA, including	France	100%	Lundbeck Group Ltd. (Holding), including	United Kingdom	100%
- Laboratoire Elaiapharm SA	France	100%	- Lundbeck Limited	United Kingdom	100%
Lundbeck GmbH	Germany	100%	- Lundbeck Pharmaceuticals Ltd.	United Kingdom	100%
Lundbeck Hellas S.A.	Greece	100%	- Lifehealth Limited, including	United Kingdom	100%
Lundbeck HK Limited	Hong Kong	100%	- Lundbeck UK LLP ²⁾	United Kingdom	100%
Lundbeck Hungária KFT	Hungary	100%	Lundbeck USA Holding LLC, including	United States	100%
Lundbeck India Private Limited	India	100%	- Lundbeck LLC, including	United States	100%
Lundbeck (Ireland) Ltd.	Ireland	100%	- Chelsea Therapeutics International, Ltd., including	United States	100%
Lundbeck Israel Ltd.	Israel	100%	- Lundbeck NA Ltd	United States	100%
Lundbeck Italia S.p.A.	Italy	100%	- Lundbeck Pharmaceuticals, LLC	United States	100%
Lundbeck Pharmaceuticals, Italy S.p.A., including	Italy	100%	- Lundbeck Research USA, Inc.	United States	100%
- Archid S.a.	Luxembourg	100%	- Lundbeck La Jolla Research Center, Inc., including	United States	100%
Lundbeck Japan K. K.	Japan	100%	- Abide Therapeutics (UK) Limited	United Kingdom	100%
Lundbeck Korea Co., Ltd.	Republic of Korea	100%	- Lundbeck Seattle BioPharmaceuticals, Inc., including	United States	100%
SIA Lundbeck Latvia	Latvia	100%	- Alder Biopharmaceuticals Pty., Ltd.	Australia	100%
UAB Lundbeck Lietuva	Lithuania	100%	- Alder Biopharmaceuticals Limited	Ireland	100%
Lundbeck Malaysia SDN. BHD.	Malaysia	100%	- Alderbio Holding LLC ("ANEV")	United States	100%
Lundbeck México, SA de CV	Mexico	100%	Lundbeck de Venezuela, C.A.	Venezuela	100%
Lundbeck B.V.	Netherlands	100%			
Prexton Therapeutics B.V., including	Netherlands	100%	Subsidiaries of ALK-Abelló A/S		
- Prexton Therapeutics S.A	Switzerland	100%	ALK-Abelló Nordic A/S	Denmark	100%
Lundbeck New Zealand Limited	New Zealand	100%	ALK e-com A/S	Denmark	100%
H. Lundbeck AS	Norway	100%	ALK-Abelló Ltd.	United Kingdom	100%
Lundbeck Pakistan (Private) Limited	Pakistan	100%	ALK-Abelló S.A.	France	100%
Lundbeck America Central S.A.	Panama	100%	ALK-Abelló Arzneimittel GmbH	Germany	100%
Lundbeck Peru S.A.C.	Peru	100%	ALK-Abelló Allergie-Service GmbH	Austria	100%
Lundbeck Philippines Inc.	Philippines	100%	ALK-Abelló AG	Switzerland	100%
Lundbeck Business Service Centre Sp.z.o.o.	Poland	100%	ALK AG (in liquidation)	Switzerland	100%
Lundbeck Poland Sp.z.o.o.	Poland	100%	ALK ilaç ve Alerji Ürünleri Ticaret Anonim Şirketi	Turkey	100%
Lundbeck Portugal - Produtos Farmacêuticos Unipessoal Lda	Portugal	100%	ALK-Abelló B.V.	Netherlands	100%
Lundbeck Romania SRL	Romania	100%	ALK-Abelló S.A.	Spain	100%
Lundbeck RUS OOO	Russia	100%	ALK-Abelló S.p.A.	Italy	100%
Lundbeck Singapore PTE. LTD.	Singapore	100%	ALK-Abelló sp. z.o.o.	Poland	100%
Lundbeck Slovensko s.r.o.	Slovakia	100%	ALK-Abelló, Inc.	United States	100%

36. Group overview - continued

Company name	Country	Ownership	Company name	Country	Ownership
ALK-Abelló, Source Materials, Inc.	United States	100%	K&G Taxi-Krankentransporte und Dienstleistungs GmbH	Germany	100%
OKC Allergy Suppliers Inc.	United States	100%	Promedica Rettungsdienst Bremehaven/Bremen GmbH	Germany	100%
OKC Crystal Laboratory Inc.	United States	100%	Promedica Rettungsdienst GmbH	Germany	100%
ALK-Abelló Pharmaceuticals, Inc.	Canada	100%	Promedica Rettungsdienst Waldeck-Frankenberg GmbH & Co. KG	Germany	70%
ALK Medical Consulting Services Company Limited	China	100%	Falck Services Ltd.	Mauritius	100%
ALK Slovakia s.r.o.	Slovakia	100%	Falck Eurasia B.V.	Netherlands	100%
Subsidiaries of Falck A/S			Falck Holding B.V.	Netherlands	100%
Ambulance			Falck Russia Holding B.V. ³⁾	Netherlands	49%
Falck (Victoria) Pty. Ltd.	Australia	100%	Inprevo B.V. ³⁾	Netherlands	49%
Falck Pty. Ltd.	Australia	100%	Falck Brann og Redningstjeneste AS	Norway	100%
Falck Investments NV	Belgium	88%	EMI Central America Holding S.A.	Panama	80%
Falck Brasil 747 Participações Ltda.	Brazil	100%	EMI Holdings Management S.A.	Panama	100%
BHM Solutions Integrales de Logistica en Salud S.A.S.	Colombia	100%	EMI Panama S.A.	Panama	80%
Empresa de Medicina Integral EMI S.A. Servicio de Ambulancia Prepagada - Grupo EMI S.A.	Colombia	100%	Falck Medycyna Sp. z.o.o.	Poland	100%
Haces Inversiones y Servicio S.A.S.	Colombia	100%	Falck SCI Portugal - Segurança Contra Incêndios S.A	Portugal	65%
Falck Emergency a.s.	Czech Republic	100%	Falck Medical Vladivostok LLC ³⁾	Russia	49%
Falck Danmark A/S	Denmark	100%	Falck Emergency AS	Slovakia	100%
Falck Fire Services A/S	Denmark	100%	Falck Healthcare a.s.	Slovakia	100%
Falck Global A/S	Denmark	100%	Falck SK a.s.	Slovakia	100%
Global Life Care A/S	Denmark	100%	Falck Záchraná a.s.	Slovakia	100%
KPC Ejendomme af 6. juni 2002 A/S ⁴⁾	Denmark	25%	Falck VL Servicios Sanitarios S.L. ³⁾	Spain	49%
Life Care One A/S	Denmark	100%	Falck Lanka (Pvt) Ltd. ³⁾	Sri Lanka	50%
Response A/S	Denmark	100%	Falck Ambulans AB	Sweden	100%
Traffilog Nordic ApS ³⁾	Denmark	49%	Falck Services AB	Sweden	100%
EMI Ecuador S.A. - Emergencia Medica Integral	Ecuador	100%	Falck Sverige Holding AB	Sweden	100%
EMI El Salvador S.A. de C.V.	El Salvador	80%	Svensk Sjöambulans AB ³⁾	Sweden	50%
ASG Ambulanz Leipzig GmbH	Germany	100%	Falck EMS UK Ltd.	UK	100%
Falck Arbeitsgemeinschaft Rettungsdienst Plauen GmbH & Co. oHG	Germany	100%	Falck India Ltd.	UK	100%
Falck Notfallrettung und Krankentransport GmbH	Germany	100%	Falck UK Ambulance Service Ltd.	UK	100%
Falck Rettungsdienst GmbH	Germany	100%	Falck UK Ltd.	UK	100%
G.A.R.D. Gemeinnützige Ambulanz und Rettungsdienst GmbH	Germany	100%	Hospital & Healthcare Cars Ltd.	UK	100%
G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Bremen mbH	Germany	100%	Luvtel S.A.	Uruguay	100%
G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Cuxhaven GmbH	Germany	100%	Portovenus S.A.	Uruguay	16%
G.A.R.D. Gesellschaft für Ambulanz und Rettungsdienst Hamburg-Ost GmbH	Germany	100%	UCM Uruguay S.A.	Uruguay	100%
G.A.R.D. Verwaltungsgesellschaft für Ambulanz und Rettungsdienst mbH	Germany	100%	Care Ambulance Service, Inc.	USA	89%
			Falck Northern California Corp.	USA	100%
			Falck Northwest Corp.	USA	100%
			Falck Rocky Mountain, Inc.	USA	100%
			Falck Southeast Corp.	USA	100%

36. Group overview - continued

Company name	Country	Ownership	Company name	Country	Ownership
Falck Southeast II Corp.	USA	100%	Global assistance		
Falck USA Inc.	USA	100%	Falck Global Assistance (China) Ltd.	China	100%
FCA Corp.	USA	89%	Falck Global Assistance A/S	Denmark	100%
Lifestar Response Corporation	USA	100%	Falck Global Assistance Oy	Finland	100%
Lifestar Response of Alabama, Inc.	USA	100%	Falck India Pvt. Ltd. (India)	India	100%
Lifestar Response of Maryland, Inc.	USA	100%	Falck Services Pvt. Ltd. (India)	India	100%
Pulse EMS, LLC 3)	USA	50%	Falck Global Assistance Norway AS	Norway	100%
Rapid Response Emergency Services, LLC	USA	100%	Falck Global Assistance Singapore Pte. Ltd.	Singapore	100%
Transitional Health Solutions, Inc.	USA	100%	Falck Global Assistance Spain S.L.	Spain	100%
Centro Medico Integral CEMICA S.A.	Venezuela	100%	Falck Global Assistance AB	Sweden	100%
Emergencia Medica Integral EMI Centro S.A.	Venezuela	100%	Falck Global Assistance (Thailand) Ltd. 3)	Thailand	49%
			Falck Global Assistance Ltd. 3)	Thailand	49%
Roadside Assistance			Falck Saglik AS	Turkey	100%
Falck Assistance A/S	Denmark	100%	Access Transport Services Holding, Inc.	USA	100%
Falck Autoabi OÜ	Estonia	100%	Access OnTime Language Services, LLC	USA	100%
Falck Oy	Finland	100%	Falck Global Assistance, LLC	USA	100%
UAB Falck Lietuva	Lithuania	100%			
Falck Redning AS	Norway	100%	Industrial Fire Services		
Falck Försäkringsaktiebolag	Sweden	100%	Falck Fire Services BE NV	Belgium	100%
Falck Investment Sverige AB	Sweden	100%	Falck Fire & Safety do Brasil S.A.	Brazil	65%
Falck Räddningskår AB	Sweden	100%	Falck France SAS	France	65%
Falck Secure AB	Sweden	100%	Falck Fire Services DE GmbH	Germany	100%
S Reg AB	Sweden	100%	Falck Operations Services DE GmbH	Germany	100%
			Falck Servizi Industriali di Emergenza S.r.l.	Italy	65%
Healthcare			Falck Fire Services Polska Sp. z.o.o.	Poland	100%
ActivCare A/S	Denmark	100%	Falck Fire Services S.R.L.	Romania	100%
ActivCare Privat A/S	Denmark	52%	Falck Fire Services a.s.	Slovakia	100%
Falck Health Care Holding A/S	Denmark	52%	Falck Security Services s.r.o.	Slovakia	100%
Falck Healthcare A/S	Denmark	52%	Falck Emergency Services s.l.	Spain	65%
Falck Helse AS	Norway	52%	Falck SCI, S.A.	Spain	65%
AB Previa	Sweden	52%	Falck Räddningstjänst AB	Sweden	100%
Alviva AB	Sweden	52%	Falck Fire Consulting Ltd.	UK	93%
Doc Care AB	Sweden	52%	Falck Fire Services UK Ltd.	UK	100%
Falck Hälsopartner AB	Sweden	52%			
Falck Health Care Holding AB	Sweden	52%	Group		
Falck Healthcare AB	Sweden	52%	Falck Treasury A/S	Denmark	100%
Ofelia Vård AB	Sweden	52%			
Skandinavisk Hälsovård AB	Sweden	52%			
Svensk Närsjukvård AB	Sweden	52%			

(1) Associates recognised in *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 their direct or ultimate parent company

(3) Associates and joint ventures of Falck

(4) Fully consolidated

37. General accounting policies

The consolidated financial statements for 2019 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 DKK million, 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 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments* from 1 January 2019.

IFRS 16 *Leases*

The Group has adopted the modified retrospective approach for the implementation of IFRS 16 *Leases* from 1 January 2019, and therefore comparative information has not been restated. As a consequence, on adoption of IFRS 16 *Leases*, the Group recognised material lease liabilities and right-of-use assets in relation to these leases, which had previously been classified as operating leases under the principles of IAS 17 *Leases*. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet at 1 January 2019.

At the date of initial application, lease liabilities were measured at the present value of the remaining lease payments using the incremental borrowing rate. Right-of-use assets were measured at an amount equal to the lease liabilities plus prepayments made to the lessor before the commencement date less lease incentives received. The selected implementation approach has no impact on the equity at 1 January 2019.

In implementing IFRS 16, the Group has applied the following reliefs and expedients:

- Relied on the definition under IAS 17 and IFRIC 4 to determine whether contracts at the date of initial application contain a lease

- Not recognised right-of-use assets and lease liabilities related to low value and short-term leases. Short-term leases are defined as leases with a remaining contract period of 12 months or less at the date of initial application
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded initial direct costs from the recognition of right-of-use assets at the date of initial application
- Relied on the assessment of whether a contract is onerous under IAS 37 at the date of initial application instead of performing an impairment review under IAS 36
- For leases held under finance lease as at 31 December 2018 the carrying amount continues under IFRS 16
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The table below is a reconciliation of total operating lease commitments at 31 December 2018 and the lease liabilities recognised at 1 January 2019. Total operating lease commitments at 31 December 2018 have been adjusted due to the corrections listed below.

DKK m	
Future rental and lease payments at 31 December 2018	1,730
Leases of low value assets	-204
Leases with remaining lease term of 12 months or less	-138
Value of reasonably certain extensions	797
Service components	-18
Other	-24
Lease liabilities before discounting at 1 January 2019	2,143
Effect from discounting	-130
Additional lease liabilities from initial application of IFRS 16 at 1 January 2019	2,013
Finance lease obligations at 31 December 2018	610
Lease liabilities at 1 January 2019	2,623

At 31 January 2019, the weighted average incremental borrowing rate applied to the lease liabilities was 2.2%.

At 1 January 2019, the Group recognised right-of-use assets of DKK 2,727m, of which, DKK 739m was reclassified from finance leased assets under IAS 17 and DKK -25m was reclassified from pre-payments to right-of-use assets and other payables. A corresponding lease liability of DKK 2,623m was recognised, of which DKK 610m was reclassified from lease liabilities under IAS 17.

37. General accounting policies - continued

The impact on operating profit in 2019 was positive by DKK 29m due to a reduction in operating costs of DKK 399m being offset by depreciations of DKK 370m. However, the impact from IFRS 16 on profit before tax was negative by DKK 12m.

IFRIC 23 *Uncertainty over income tax treatments*

The interpretation clarifies the accounting for uncertainties in income taxes and states that an entity should determine whether uncertain tax positions are assessed separately or as a group and the approach that reflects the most likely outcome is followed.

The application of IFRIC 23 has not resulted in changes to the Group's net provision or equity at 1 January 2019 compared to 31 December 2018. Changes to the opening balances solely relate to other balance sheet items. Both tax assets and tax liabilities have increased as the provision for uncertain tax positions have been recognised as a net amount prior to 2019. From 1 January 2019, the uncertain tax positions are recognised on a gross basis.

Interest income and expenses and penalties are recognised as an uncertain tax position on the balance sheet as tax liabilities and assets respectively upon the receipt of ruling from the tax authorities and correspondingly reflected in the income statement as financial items.

As uncertain tax positions are now recognised on a gross basis, and not as previously at a net amount, total assets and total liabilities have increased by DKK 158m at 1 January 2019. At the same time, the amounts for uncertainties over tax treatments were reclassified from deferred tax assets and liabilities to income tax receivable and payable at a net amount of DKK 358m, see note 17. In accordance with the transitional provisions of IFRIC 23, comparative figures have not been restated.

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.

None of the new standards and interpretations or amendments of these are expected to have a material impact on future consolidated financial statements.

RESTATEMENT OF PREVIOUS YEARS

Reclassifications

In 2019, Falck decided to keep the Healthcare staffing business and as a result, it is no longer presented as discontinued operations and comparative figures have been restated.

Furthermore, reclassifications have been made between the cost functions which primarily relates to amortisation of customer contracts.

See note 38 for more information about the reclassifications.

Corrections

In connection with the preparation of Falck's consolidated financial statements, the following three issues related to prior years have been identified and corrected in prior years financial information:

- At the end of 2018, Falck entered into a framework agreement that changed the related leased buildings from operational leasing to financial leasing with effect from the end of December 2018.
- A 25% ownership share in KPC Ejendomme af 6. juni 2002 A/S previously classified as an investment in associates have been classified as an investment in subsidiaries, as Falck has an exercisable option to purchase the remaining 75% of the shares. The reclassification of the investment means that KPC Ejendomme af 6. juni 2002 A/S is now fully consolidated in the financial statement with effect from 2007 when the option became exercisable.
- In 2018, a new system for subscription revenue in Denmark was commissioned. In the transition between the old system and the new system, revenue and EBITA was overstated by DKK 55m in 2018.

The above have been corrected by adjusting each of the affected financial statement line items for the financial year 2018 as presented below.

Furthermore, the five-year summary has been corrected by adjusting each of the line items affected in the five-year summary for the financial years 2015 - 2018.

The corrections resulted in a decrease in profit for the year 2018 of DKK 33m, as well as an increase in total assets of DKK 654m and a decrease in equity of DKK 9m at 31 December 2018.

37. General accounting policies - continued

Leased buildings

The change of leased buildings from operational leasing to financial leasing with effect from the end of December 2018 had no impact on profit for the year and the statement of cash flow for 2018.

Property, plant and equipment at 31 December 2018 were impacted by an increase of DKK 458m with a corresponding increase in lease liabilities of DKK 458m. The lease liabilities are split between an increase of non-current lease liabilities of DKK 185m and an increase in current lease liabilities of DKK 273m.

KPC Ejendomme af 6. juni 2002 A/S

The entity has been fully consolidated in the financial statement resulting in an increase in operating profit for 2018 of DKK 19m and an increase in profit for the year 2018 of DKK 10m.

The main balance sheet items impacted by the correction are an increase of property, plant and equipment of DKK 292m, a decrease of investment in associates of DKK 17m, and a decrease in other assets of DKK 28m. Furthermore, the interest-bearing debt increased by DKK 208m, deferred tax liability increased by DKK 16m and total equity increased by DKK 34m.

The entity is fully consolidated in the statement of cash flow resulting in an increase in cash flows from operating activities of DKK 20m for 2018.

Subscription revenue

During the transition to a new subscription system and migration of data, errors in the recognised revenue occurred and trade receivables were overstated. The correction has resulted in a decrease in operating profit for 2018 of DKK 55m and a decrease in profit for the year 2018 of DKK 43m. The trade receivables decreased by DKK 55m and income tax liability decreased by DKK 12m.

See note 38 for the effect of the changes due to the corrections.

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 are recognised at cost, i.e. no goodwill or negative goodwill 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.

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.

37. General accounting policies - continued

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 hedged items, 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, derivatives and contingent consideration measured at fair value are classified according to the fair value hierarchy as belonging to levels 1-3 depending on the valuation method applied.

INCENTIVE PROGRAMMES

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

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

37. General accounting policies - continued

If the share option agreements entitles 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 upon transfer of control, which is when delivery has taken place. 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 expenses relating to lease liabilities
- 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 or qualifying for hedge accounting
- Realised and unrealised fair value adjustments and dividends from equity investments classified as other financial assets measured at fair value through profit or loss
- 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
- Fair value adjustment of contingent consideration
- Interest expenses and income related to uncertain tax positions are recognised on the balance sheet as tax liabilities and tax assets respectively upon the receipt of ruling from the tax authorities and correspondingly reflected in the income statement as financial items gross.
- 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. Other operating items include integration and transaction costs relating to material acquisitions, income and expenses relating to legal settlements and 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 at least annually or when if there is indication of impairment.

Development projects

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

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

Product rights and other intangible assets

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

Product rights are amortised over the economic lives of the underlying products, which in all material aspects are currently between five and twelve 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 recognised in the income statement.

Right-of-use assets are recognised at the commencement date of the contract if it is or contains a lease. Right-of-use assets are recognised at cost less accumulated depreciation and impairment. Cost is defined as the lease liability adjusted for any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight-line basis over the lease term, unless it is reasonably certain that a purchase option will be exercised at the end of the lease term. In that case, the assets are depreciated over the full, expected useful life.

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

Investments in associates that are included in Lundbeckfondens 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.

37. General accounting policies - continued

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.

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 cost less 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 cost, corresponding to 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 cash flow 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 cost, corresponding to 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 Directors and announced to the recipient. Authorised grants not yet disbursed are recognised in non-current or current liabilities, respectively.

37. General accounting policies - continued

Reserve for future grants

In accordance with the Danish Act on Commercial Foundations, a reserve for future grants has been set up in order for Board of Directors 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 Directors will re-evaluate the size of the reserve.

Hedging reserve

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

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

Currency translation reserve

Foreign exchange adjustments arising on the translation of financial statements for subsidiaries and associates which are not part of Lundbeckfondens' 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.

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 future developments of salary, interest, inflation, mortality and disability rates and other factors. Present value is computed exclusively for the benefits to which the employees have earned entitlement through their employment with the Group. Pension expenses, finance costs and administration fees are recognised in the income statement under staff costs. Actuarial gains and losses are recognised in the statement of comprehensive income as they are calculated and cannot subsequently be recycled through profit or loss.

The present value of the defined benefit plan liability is recognised 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, taking into consideration, where relevant, the provisions of IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

37. General accounting policies - continued

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.

A provision (and any related receivable) is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority (and a future inflow of funds from a tax authority). The provisions (and receivables) are measured at the best estimate of the amount expected to become payable (and receivable).

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 within a foreseeable future (5 years).

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 Corporation 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.

Provisions

Provisions consist of different types of provisions, including provisions for product returns, pending lawsuits and restructuring. See note 2 for a description of accounting estimates and judgments relating to pending lawsuits.

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

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

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

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.

37. General accounting policies - continued

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 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.

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

Contingent consideration recognised in connection with the acquisition of businesses is measured at fair value.

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

Lease liabilities

On initial recognition, lease liabilities are measured as the present value of future payments, including payments relating to reasonably certain extensions. The lease payments contain fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a rate.

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 the lease as a finance charge.

If the interest rate cannot be determined in the agreement, the lease payments are discounted using the Group's incremental borrowing adjusted for the functional currency and length of the lease term. The lease liability is remeasured if or when the future payment or lease term changes.

Changes to lease agreements after initial recognition are accounted for either as a modification to an existing agreement, a separate agreement or a partial disposal depending on the nature of the change. Changes will result in changes to both the lease liability and the right-of-use asset.

Short term lease expenses and low value assets are classified as operating expenses in the income statement.

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 at the end of the year.

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

37. General accounting policies - continued

Cash comprises cash and bank balances.

Cash flows denominated in foreign currencies, including cash flows in foreign subsidiaries, are translated at the average exchange rates for the year as 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:	$\text{Operating profit} \times 100 / \text{Revenue}$
Return on equity:	$\text{Profit for the year} \times 100 / \text{Average equity}$

Net wealth

Net wealth of Lundbeckfonden's net assets is estimated based on fair value at the balance sheet date. For the valuation of Lundbeckfonden's investment activities, please refer to the accounting policies above under *Financial assets*. The fair value of Lundbeckfonden's shares in H. Lundbeck A/S and ALK-Abelló 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. Restatement of comparative figures

Income statement 2018, DKKm	Before adjustment etc.	Reclassified assets held for sale	Other reclassifications	Correction	After adjustment
Revenue	34,302	773	-	-55	35,020
Cost of sales	-15,871	-709	237	-8	-16,351
Gross profit	18,431	64	237	-63	18,669
Research and development costs	-3,673	-	-	-	-3,673
Sales and distribution costs	-6,792	-	-221	-	-7,013
Administrative expenses	-2,949	-18	-16	27	-2,956
Other operating items, net	69	-	-	-	69
Operating profit	5,086	46	-	-36	5,096
Financial income	1,904	1	-	-	1,905
Financial expenses	-2,588	-3	-	-6	-2,597
Income/loss from investments in associates	1	-	-	-	1
Profit before tax	4,403	44	-	-42	4,405
Tax on profit for the year	-1,469	-10	-	9	-1,470
Profit for the year from continuing operations	2,934	34	-	-33	2,935
Profit for the year from discontinued operations	23	-34	-	-	-11
Profit for the year	2,957	-	-	-33	2,924

38. Restatement of comparative figures – continued

Balance sheet at 31 December 2018, DKKm	Before adjustment etc.	Reclassified assets held for sale	Other reclassi- fications	Correction	After adjustment
Assets:					
Goodwill	8,737	395	-	-	9,132
Intangible assets from acquisitions	771	1	-	-	772
Property, plant and equipment	4,814	3	-	750	5,567
Investments in associates	64	-	-	-17	47
Trade receivables and other receivables	5,503	93	-	-83	5,513
Contract assets	471	8	-	-	479
Cash and bank balances, subsidiaries	4,964	7	-	4	4,975
Assets classified as held for sale	507	-507	-	-	-
Total assets	55,410	-	-	654	56,064
Lundbeckfondens share of equity	29,329			-38	29,291
Non-controlling interests share of equity	5,083	-	-	29	5,112
Total equity	34,412	-	-	-9	34,403
Liabilities:					
Debt to financial institutions, non-current	5,232	-	-	187	5,419
Debt to financial institutions, current	282	-	-	21	303
Lease liability, non-current	95	-	-	185	280
Lease liability, current	57	-	-	273	330
Deferred tax	708		-	16	724
Income tax	169	9	-	-12	166
Other payables, current	9,920	87	-	-7	10,000
Total liabilities	20,902	96	-	663	21,661
Liabilities relating to assets classified as held for sale	96	-96	-	-	-
Equity and liabilities	55,410	-	-	654	56,064

38. Restatement of comparative figures – continued

Balance sheet at 31 December 2017, DKKm	Before adjustment etc.	Correction	After adjustment
Assets:			
Property, plant and equipment	5,088	303	5,391
Investments in associates	56	-17	39
			-
Trade receivables and other receivables	6,595	-25	6,570
Cash and bank balances, subsidiaries	2,139	5	2,144
Total assets	53,886	266	54,152
Lundbeckfondens share of equity	28,142	-15	28,127
Non-controlling interests share of equity	4,566	39	4,605
Total equity	32,708	24	32,732
Liabilities:			
Debt to financial institutions, non-current	5,842	206	6,048
Debt to financial institutions, current	776	28	804
Deferred tax	802	13	815
Other payables, current	8,693	-5	8,688
Total liabilities	20,851	242	21,093
Equity and liabilities	53,886	266	54,152

39. Events after the balance sheet date

On 27 March 2020, it was announced that Lundbeck's AMBLED study did not show a statistically significant reduction in OFF time (primary endpoint) nor an improvement of dyskinesia (secondary endpoint). Consequently, Lundbeck has decided to terminate the development programme of foliglurax and to write-down the full value of the programme of approximately DKK 750m.

Following the balance sheet date the Group has observed significant volatility in the valuation of financial assets measured at fair value, which primarily can be attributed to the global COVID-19 crisis. Given the continued market volatility, the precise impact has not been determined, though a loss on financial items for the year is likely. Please refer to page 10 in the Management Review for outlook considerations for the Group, including the impact of COVID-19.



Parent financial statements

OF LUNDBECKFONDEN

FINANCIAL STATEMENTS

OF THE PARENT FOUNDATION

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INCOME STATEMENT

FOR THE PERIOD 1 JANUARY – 31 DECEMBER

DKKm	Note	2019	2018
Dividend from Lundbeckfond Invest A/S		97	349
Financial income	2	689	238
Financial expenses	2	-122	-497
Profit from investment activities		664	90
Other income		1	-
Staff costs	3	-29	-28
Other external costs	4, 5	-40	-33
Depreciations and amortisations		-3	-4
Profit before tax		593	25
Tax on profit for the year	6	-10	-12
Profit for the year	7	583	13

BALANCE SHEET

AT 31 DECEMBER

Assets, DKKm	Note	2019	2018
Other intangible assets		2	1
Intangible assets	8	2	1
Property and equipment		68	71
Tangible assets	9	68	71
Investments in subsidiaries	10	4,048	4,063
Other securities and investments	11, 14	4,801	4,684
Financial assets		8,849	8,747
Non-current assets		8,919	8,819
Receivables from subsidiaries		3	1
Income tax		1	4
Other receivables		11	19
Receivables		15	24
Cash and bank balances		115	268
Current assets		130	292
Assets		9,049	9,111

Equity and liabilities, DKKm	Note	2019	2018
Capital base	12	3,236	3,114
Reserve for future grants		1,250	1,250
Retained earnings		3,146	3,342
Equity		7,632	7,706
Pension obligations etc.	13	13	14
Provisions		13	14
Payable grants, long-term		470	432
Non-current liabilities		470	432
Payable grants, short-term		921	837
Repo debt		-	115
Other payables		13	7
Current liabilities		934	959
Liabilities		1,404	1,391
Equity and liabilities		9,049	9,111

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 2019		3,114	1,250	3,342	7,706
Grants, net	15	-	-657	-	-657
Profit for the year	7	122	657	-196	583
Equity at 31 December 2019		3,236	1,250	3,146	7,632
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

NOTES

1. Accounting policies

The financial statements for Lundbeckfonden (the parent foundation) for 2019 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 DKK million, 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	2019	2018
Financial income		
Interest income, etc.	102	87
Gain from securities and other equity investments	587	151
Total financial income	689	238
Financial expenses		
Interest expenses, etc.	3	1
Loss on securities and other equity investments	119	496
Total financial expenses	122	497

3. Staff costs

DKKm	2019	2018
Wages and salaries, incl. holiday allowance	27.6	26.4
Pension contributions	1.4	1.1
Other social security costs	0.2	0.1
Total staff costs	29.2	27.6
Average number of employees during the year	20	20
Number of employees at year-end	21	22

DKKm	2019	2018
Remuneration of the Executive Management (excluding remuneration received from subsidiaries)	5.4	4.6
Remuneration of the Board of Directors, including committee fees (excluding remuneration received from subsidiaries)	3.9	3.5

Members of Executive Management and the Board of Directors, 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	2019	2018
Lundbeckfonden - Staff costs, other external costs and depreciations	72	65
Lundbeckfond Invest A/S - Staff costs and other external costs	224	39
Total costs	296	104
The costs can be allocated to Lundbeckfondens activities as follows:		
Strategic investments and administration	55	48
Invest	22	17
Lundbeckfonden Ventures	184	9
Lundbeckfonden Emerge	8	6
Grants and prizes	27	24
Total costs	296	104

5. Fees to auditors appointed at the annual meeting

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

DKKm	2019	2018
Statutory audit	0.3	0.3
Other services	0.1	0.1
Total fees	0.4	0.4

6. Tax on profit for the year

DKKm	2019	2018
Current tax	10	12
Total tax for the year	10	12

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 395m (DKK 211m at 31 December 2018).

7. Proposed distribution of profit

DKKm	2019	2018
Capital base	122	5
Reserve for future grants	657	817
Retained earnings	-196	-809
Profit for the year	583	13

8. Intangible assets

Other intangible assets, DKKm	2019	2018
Cost at 1 January	4	4
Additions	1	-
Cost at 31 December	5	4
Amortisation at 1 January	-3	-3
Amortisation for the year	-	-
Amortisation at 31 December	-3	-3
Carrying amount at 31 December	2	1

9. Tangible assets

Property and equipment, DKKm	2019	2018
Cost at 1 January	89	89
Reclassification/transfer	2	-
Cost at 31 December	91	89
Depreciation at 1 January	-18	-14
Reclassification/transfer	-2	-
Depreciation for the year	-3	-4
Depreciation at 31 December	-23	-18
Carrying amount at 31 December	68	71

10. Investments in subsidiaries

DKKm	Lundbeckfond Invest A/S	Other subsidiaries	Total
Cost at 1 January 2019	4,046	29	4,075
Cost at 31 December 2019	4,046	29	4,075
Impairment at 1 January 2019	-	-12	-12
Impairment	-	-15	-15
Impairment at 31 December 2019	-	-27	-27
Carrying amount at 31 December 2019	4,046	2	4,048
Dividend received in 2019	97	-	97

Subsidiaries, DKKm	Registered office	Ownership	Profit for the year 2019	Equity at 31 December 2019
Lundbeckfond Invest A/S	Copenhagen	100%	5,415	24,317
Insusense ApS	Copenhagen	75%	-2	2

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

11. Other securities and investments

DKKm	Bonds and corporate loans	Equities	Unlisted investment funds	Total
Carrying amount at 1 January 2019	2,802	1,873	9	4,684
Additions	1,328	2,017	-	3,345
Disposals	-2,052	-1,654	-1	-3,707
Value adjustments for the year	5	473	1	479
Carrying amount at 31 December 2019	2,083	2,709	9	4,801
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

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.

At 31 December 2018, bonds in repo transactions was provided as collateral for repo debt. The value of bonds in repo transactions provided as collateral at 31 December 2018 amounted to DKK 115m.

12. Capital base

DKKm	2019	2018	2017	2016	2015
Capital base at 1 January	3,114	3,109	2,965	2,888	2,728
Increase in capital base	122	5	144	77	160
Capital base at 31 December	3,236	3,114	3,109	2,965	2,888

13. Pension obligations

DKKm	2019	2018
Obligations at 1 January	14	15
Adjustment for the year	-1	-1
Obligations at 31 December	13	14

14. Financial instruments

Equity contracts, DKKm	Contractual value	Share option gains/losses recognised in the income statement	Market value 31 December	Expiry
2019				
Options on shares	56	4	-3	Jan 2020
Equity contracts	56	4	-3	
2018				
Options on shares	-	2	-	-
Equity contracts	-	2	-	

15. Grants, net

DKKm	2019	2018
Grants for the year	666	571
Reversed grants/repayments for the year	-9	-4
Net grants for the year	657	567

16. Related parties

Lundbeckfonden defines related parties as Lundbeckfonden's Board of Directors 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 Directors. Lundbeckfonden receives dividends from Lundbeckfond Invest A/S, which are recognised in the income statement.

Lundbeckfonden received payment for administration costs, net amount DKK 7m in 2019 (DKK 4m in 2018) from Lundbeckfond Invest A/S. At 31 December 2019 Lundbeckfonden has a receivable from Lundbeckfond Invest A/S amounting to DKK 3m (DKK 1m at 31 December 2018).

For information on remuneration paid to the members of the Executive Management and Board of Directors, 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 Directors and the Executive Management have today considered and approved the annual report of Lundbeckfonden for the financial year ended 31 December 2019.

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 2019, and of the Group's and the Foundation's activities and the Group's cash flows for the financial year 1 January – 31 December 2019.

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, 23 April 2020

EXECUTIVE MANAGEMENT

Lene Skole

BOARD OF DIRECTORS

Jørgen Huno Rasmussen
Chairman

Steffen Kragh
Deputy 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 Directors 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 2019, 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 2019 and of the results of its operations and cash flows for the financial year 1 January - 31 December 2019 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 2019 and of the results of its operations for the financial year 1 January - 31 December 2019 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 exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional 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, 23 April 2020

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Erik Holst Jørgensen
State-Authorised Public Accountant
MNE no 9943

Lundbeckfonden
Scherfigsvej 7
DK-2100 København Ø

CVR-no. 11814913

Phone +45 39 12 80 00
Email mail@lundbeckfonden.com
Web www.lundbeckfonden.com