Annual Report 2021

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Audrey Craven
Migraine patient and advocate

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Audrey Craven is an Irish national and has been living with migraine most of her adult life. Read her story on page 4.

Photo: Søren Svendsen, Sune Høegh, David Coleman, and Joanna Janczur.

Our Business

We are tirelessly dedicated to restoring brain health, so every person can be their best.

KEY RESOURCES

Diverse talent pool
5,300 highly specialized employees across 50+ countries

Manufacturing
4 state-of-the-art production sites

Research & Development
Premier neuroscience pipeline and expertise

Products
Strong CNS legacy with a strategic product portfolio registered in 100+ countries

Sustainable sourcing
Responsibly and sustainably sourced raw materials

Ownership
Solid majority foundation ownership with long-term commitment to brain health

Partnerships
Long-standing partnerships across the value chain

WHAT WE DO

Development
We conduct clinical studies globally on new drug candidates, and we work to develop safe, reliable, efficient and sustainable manufacturing processes.

Advocacy
We enter partnerships to co-create and publish evidence that fights stigma, and we advocate for systemic change.

Production
We strive to create the best supply chain in the pharmaceutical industry through continuous improvement of reliability, quality, sustainability and cost.

Research
We work to understand the underlying disease biology and identify new targets in the brain for innovative, transformative drug candidates.

Diversity & Inclusion
We create the context, culture, and systems where all Lundbeck employees can be their authentic self and perform at their best.

Marketing & Sales
We conduct scientific and promotional events to educate healthcare professionals about brain health and the safe and effective use of our products.

SOCIETAL CHALLENGES

Unmet patient needs
- Pressured healthcare systems
- Access inequality and barriers
- Stigmatization of brain disease
- Neglected rare diseases

Business ethics
- Patient safety and product quality
- Corruption and unethical marketing
- Increasing demand for transparency

Climate change & circularity
- Transition to zero emissions future
- Scaling circular solutions
- Environment and biodiversity under pressure

People & communities
- Lack of gender equality
- Disrespect for human rights
- Safe and inclusive working conditions

VALUE CREATED

People
Passionate and engaged employees

Medicine
Continuous supply of products

Sustainable business
Strong ESG ratings

Shareholder value
Sustained profitable growth

Increased quality of life for patients

7
million patients treated daily

Increased disease awareness and improved access to brain health

#1
A highly rated and trusted partner among key stakeholders

20%
of revenue re-invested into R&D

PATIENT PERSPECTIVE

Ruled, but not ruined, by migraine

We are sharing the voices of people living with brain diseases, because patients are at the heart of all we do. Read Audrey's full story on → www.lundbeck.com

Lying on the floor of her darkened bathroom, paralyzed by searing head pain, nausea and diarrhea, Audrey Craven of Dublin, Ireland, felt as isolated as one can feel. She wanted to be with her three young children, make dinner for her family, participate in life. But the migraine kept her on the bathroom floor, unable to move, speak or think.

There, on the cool floor tiles, Audrey understood that her symptoms would eventually improve; the fatigue and brain fog she felt during the "migraine hangover" days would recede; and there would come a time when she finally felt like herself again. And then, after just a few days, the whole thing would start up again. The dread of that repeating cycle sometimes made her feel lost and alone in her migraine. "That's the killer. Because you're just coming through, you're just coming back on your feet and you know you will have to go through it again," she says.

At that time, there were no online support groups and no migraine patient organizations in Ireland. Her family was sympathetic but didn't fully understand the severity of her symptoms. Her friends were supportive, but sometimes implied she could do more to power through her headache. And the medical community was often downright dismissive. Audrey longed to connect with someone who understood what she was going through. Someone who could help her see a way off the bathroom floor.

"When I was in that very dark space and place, I made a little promise. If I ever got a handle on my own migraine, I'd do something about the dearth of information and support for people like me."

FROM MIGRAINE PATIENT TO MIGRAINE ADVOCATE

Audrey eventually received a proper diagnosis and treatment plan that helped her manage her disease more effectively. She became involved with patient support groups and went on to fulfill her promise by establishing Ireland's first migraine voluntary patient organization, the Migraine Association of Ireland (MAI).

Audrey is proud of how she has helped others in the migraine community. But she knows that this is her unique story and making the transition from migraine patient to migraine advocate isn't as simple as picking yourself up and getting on with it. The understanding that there are so many people with migraine wanting, but unable, to get on with it is what fuels her.

> "You feel so disempowered with this hidden disability that is underdiagnosed and undertreated"

"When you've seen doctor after doctor and when the medication isn't effective, it's impossible not to get disheartened. How do you pick yourself up? I think a lot of people can't and they can start to feel helpless," she says. "That's why if you're in a position to have a voice on behalf of those who are feeling so isolated in the darkened room, unable to advocate for themselves – never mind anyone else – you do it. Sometimes in helping others you help yourself."

2021 in Brief

We continue to make good progress on our Expand and Invest to Grow strategy and revitalizing our pipeline. Our strategic brands continued to grow across the world. We also saw continued solid revenue growth in International Markets and Europe.

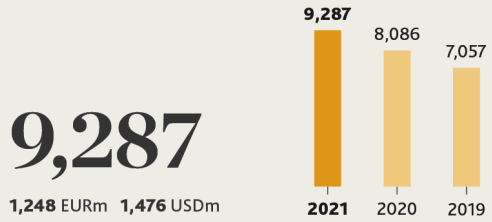
IN THIS SECTION

Zaigham Hussain
Operator, Drops Team

Financial Highlights

In a challenging year, Lundbeck saw continued solid performance and strong growth from strategic brands.

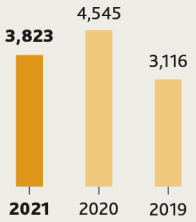
REVENUE FROM STRATEGIC BRANDS
DKKm



9,287
1,248 EURm **1,476** USDm

In aggregate, strategic brands grew 18% in local currencies, representing 57% of total revenue, which amounted to DKK 16,299 million in 2021.

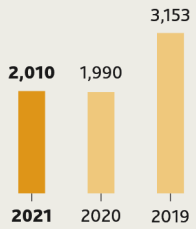
RESEARCH AND DEVELOPMENT COSTS
DKKm



3,823
514 EURm **608** USDm

Compared to 2020, the R&D costs declined 16%, while adjusted for the impairment of foliglurax of DKK 792 million in 2020, the R&D costs increased by 2%.

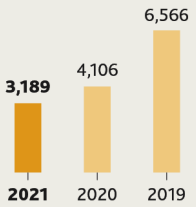
PROFIT FROM OPERATIONS (EBIT)
DKKm



2,010
270 EURm **320** USDm

EBIT grew 1% compared to 2020, and EBIT margin reached 12,3%. This is in line with the guidance range communicated in the Annual Report 2020.

NET DEBT
DKKm



3,189
429 EURm **507** USDm

Net debt has decreased from DKK 4,106 million at year-end 2020 to DKK 3,189 million at the end of 2021.

2021 Key Events

The National Hospital in Denmark (Rigshospitalet) and Lundbeck announced a partnership to find new ways to treat brain diseases.

Lundbeck made the decision to continue the phase III clinical trial for treatment of agitation in patients with Alzheimer's-type dementia.

Lundbeck announced a detailed action plan to reduce emissions and set 15-year climate target towards achieving net-zero carbon emissions across the entire value chain.

Lundbeck announced a strategic partnership with Rgenta Therapeutics to discover therapies targeting ribonucleic acid (RNA) regulation and splicing of disease-causing genes.

Shipment of first Lundbeck product donations to IHP partner clinics in Lebanon, Gaza and the West Bank was completed.

Lundbeck convened nearly 80 advocacy groups from more than 20 countries for the annual #1Voice Summit, providing participants an opportunity to share best practices and collaborate on how to amplify the voices of people with brain disease.

Because COVID-19 restrictions prevented corporate participation in the Copenhagen Pride Parade, Lundbeck held its own Pride Parade, celebrating the diversity of our workforce.

Lundbeck announced a collaboration with Inscopix to leverage sophisticated camera technology to map the brain on a neuronal level.

Across the globe, Lundbeck colleagues recognized World Mental Health Day and recommitted to fighting stigma and raising awareness of inequalities in mental healthcare.

Supplemental New Drug Application (sNDA) approved for Rexulti® to treat schizophrenia in pediatric patients ages 13-17.

Lundbeck announced the launch of a phase II study for potential new treatment of multiple system atrophy (MSA).

Lundbeck announced the launch of a phase II study for potential migraine prevention treatment.

Through an agreement with AprilBio, Lundbeck expanded its expertise in neuroimmunology, extended our neuroinflammation platform and gained rights to an innovative phase-I-ready biotherapeutic candidate.

Lundbeck reports positive results for Vyepti® from the DELIVER study in patients with migraine and prior preventive treatment failures.

Lundbeck's product Vyepti® was approved by health authorities in Canada, the U.A.E., Kuwait, Switzerland, Singapore and Australia.

Lundbeck announced that Vyepti® is recommended for approval in the EU by the Committee for Medicinal Products for Human Use (CHMP) for the preventive treatment of migraine in adults.

Lundbeck became a member of the Biopharma Sustainability Roundtable.

Sustainability Highlights

ACCESS TO BRAIN HEALTH

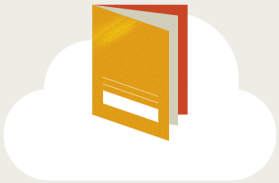
937

patients estimated to have been reached with our donation partnership in low- and middle-income countries.

BUSINESS ETHICS COMPLIANCE

99.7%

employees completed the annual e-learning on the Code of Conduct.



CLIMATE ACTION

▼16%

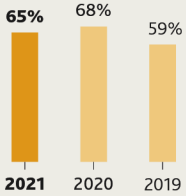
reduction in scope 1 & 2 carbon emissions vs. 2019 SBTi target baseline.

▲26%

estimated increase in scope 3 carbon emissions vs. 2019 SBTi target baseline.

CHEMICAL RECYCLING

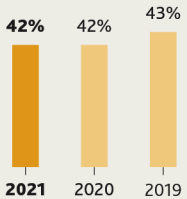
65%



We outperformed the target to recover and reuse 60% of the organic compounds used in chemical production. Targets are set annually based on expected production volume and mix.

WOMEN IN MANAGEMENT

42%

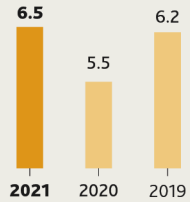


The level of women in management is high with a gender split for people managers globally of 42% women and 58% men.

HEALTH & SAFETY

6.5

Frequency of lost time accidents per one million working hours.



We have seen an increase in our accident rate this year compared to previous years. Even though a smaller share of the accidents were serious, we are determined to bend this curve.

Read more in our Sustainability Report

LETTER TO SHAREHOLDERS

Our Expand and Invest to Grow strategy launched in 2019 is beginning to show tangible results. We have made good progress on expanding our early- and mid-stage pipeline, based around our expanded operating space. Our newest strategic brand, Vyepti®, continues to grow and gain momentum due to its proven efficacy for patients.

We are well on our way with the strategic reorientation of our business to discover and develop transformative medications for indications in niche neurology and psychiatry treated by specialists, and rare diseases in neurology, so we can best deliver to patients and maintain a leadership position among Europe based pharmaceutical companies of our size and scope. As we continue to forge ahead with our Expand and Invest to Grow strategy, we are pleased with our progress.

SHOWING GOOD GROWTH MOMENTUM

We are effectively maximizing our existing brands, showing good growth momentum across all regions of the world. Our newest launch, Vyepti® is increasing pace in the U.S. and was launched in the U.A.E. and Kuwait in 2021. It was also approved in Canada, Australia, Singapore, Switzerland and is currently under review in several countries around the world. We are investing behind the global launch of Vyepti® as our first independent global launch.

We are expanding our brands through new indications development for Vyepti® in episodic cluster headache and Rexulti® in agitation in Alzheimer's disease to further drive growth. Rexulti®/Rxulti® was approved by the Food and Drug Administration (FDA) in the U.S. after the submission of an sNDA for the treatment of schizophrenia in pediatric patients 13 to 17 years of age.

Our largest brand, Brintellix®/Trintellix®, continues to grow, and the most recent launch in Japan in 2019 has garnered 5.5% market share in the anti-depressant market, just two years after market entry.

ENSURING HIGHER PROBABILITIES OF SUCCESS

Three years ago, we set out to rebuild our pipeline and now we have a more robust mid-stage pipeline, with several compounds having moved into phase II in 2021. Multiple focused phase Ib studies are guiding the future development of other promising compounds within an interesting phase I portfolio. Our journey to transform research and development (R&D) has strong momentum. Last year, we identified four biological clusters that our therapies of the future would address. We have stringently focused our R&D projects around these promising areas of central nervous system (CNS) biology and have implemented stronger derisking through experimental medicine and biomarker approaches to ensure higher probabilities of success as compounds eventually move towards the mid- and late-stage pipeline.

To accelerate our advancements into neuroimmunology, we acquired a promising CD40L inhibitor from AprilBio, with a phase I study expected to start in 2022. Earlier in the year, we entered a strategic partnership with Rgenta Therapeutics to explore RNA-targeted therapies in our four biological clusters. We are also continuing our joint phase III studies with Otsuka Pharmaceutical Co., Ltd. (Otsuka) of brexpiprazole for agitation in Alzheimer's disease and for the treatment of post-traumatic stress disorder (PTSD).

PREPARING FOR THE FUTURE

As we execute our strategy, we will inevitably face challenges. We are navigating a decline of revenue from Northera® post-loss of exclusivity and Vyepti®'s pace of uptake has been impacted by the pandemic. At the same time, we have ongoing global industry changes that are putting increased pressure on pricing.

We spent a good part of the year ensuring our business is best prepared for the future to address these and other challenges that may come our way. Although we have strong growth prospects for the coming 5-7 years for the great portfolio of existing brands we have today, we have taken steps to ensure our business model and ways of working are most effective.

Using learnings from the pandemic and best practices in the industry, we have taken action to reorient our business to ensure it is better prepared to work using global technology platforms and to develop globally available products. We have also taken steps based on learnings from the pandemic to ensure we are ready for a more digital future when it comes to customer engagement.

Throughout the year, the pandemic continued to impact our ability to engage with healthcare providers and patients, particularly in the U.S., which saw varying levels in vaccine uptake across the country. Despite the pandemic impact fluctuating to varying degrees in different geographies over the course of the year, we are pleased with our results; overall the strategic brands continued to grow in local currencies and mature brands continued to perform well.

We have great talent, aligned and dedicated to restoring brain health. It is our team's dedication to helping patients with brain disease that has made Lundbeck successful in the past and will ensure we are successful in the future. We want to take this opportunity to thank Lundbeck´s employees for their dedication, hard work and all that they do to ensure that Lundbeck is best placed to restore brain health for decades to come.

Lars Søren Rasmussen
Chairman of the Board

Deborah Dunsire
President and CEO

Our Business

Our goal continues to be providing innovative treatments for patients that create value for the company. Achieving our fullest potential as a mid-size, highly specialized pharmaceutical company requires that we thoughtfully concentrate our efforts where we can make the most difference for patients and in areas that provide for sustainable long-term growth.

IN THIS SECTION

Ulla Bang Therkelsen
Senior Laboratory Technician

STRATEGY UPDATE

Since launching our Expand and Invest to Grow strategy in 2019, we continue to make strong progress, fueled by our purpose, to restore brain health so every person can be their best.

DELIVERING ON OUR PROMISES

We have taken significant strides to expand our operating space through the acquisitions of Abide and Alder in 2019, which gave us the platforms needed to expand our areas of focus in neuroscience. With the 2020 launch of Vyepti® in the U.S. and the global roll-out which was initiated in 2021, we are beginning to establish a new frontier in migraine prevention and expanding our presence into protein-based therapies. Furthermore, we are continuously expanding our existing portfolio of medicines into new markets.

The changes we made to how we approach R&D enables us to de-risk our internal pipeline compounds in early development. We utilize an experimental medicine approach to identify the effects of a drug in carefully selected patient populations, to find the most efficient clinical pathway powered by biomarkers and study designs and advance the most promising drug candidates into full development.

The geographical expansion of Vyepti® and the continuing efforts to grow and expand Brintellix®/Trintellix®, Rexulti®/Rxulti® and Abilify Maintena®, along with several other life cycle management projects, are all crucial to our future.

We have made choices on where to accelerate and enhance the use of digital within our operations and R&D. Also, we have taken steps to fortify our winning culture with increased agility, collaboration, diversity and inclusion. These are just a few of the many actions that are helping us deliver on the promise of our strategy to yield sustainable, long-term profitable growth.

CREATING VALUE THROUGH OUR UNIQUE POSITION

Our goal continues to be providing innovative treatments for patients that create value for Lundbeck. Achieving our fullest potential as a mid-size, highly specialized pharmaceutical company requires that we thoughtfully concentrate our efforts where we can make the most difference for patients.

While we maximize the great medicines and brands that we already have, we simultaneously focus on growing our pipeline with treatments for brain diseases for which there are few, if any, treatment options. We operate within niche diseases affecting subpopulations of people where there is a high, unmet medical need. By focusing on niche and rare disease neurology and psychiatry indications, we can best take advantage of our size and strong relationships with specialist healthcare providers to deliver powerful solutions to challenging diseases.

We currently promote medicines that, in some countries, both primary care physicians and specialists treat. We will continue to promote these excellent medicines, working with our partners to reach these larger numbers of physicians.

Just as important to growing our pipeline and selling our medicines, is the manufacturing of our medicines, whether internally or via external contract manufacturing. We have strong internal capabilities within small and large molecules to support our R&D pipeline, including monoclonal antibody design, process and formulation development capabilities, as well as end-to-end internal small molecule manufacturing facilities.

Our three priorities across Production, Development & Supply remain quality, reliability and cost. We have a robust track-record on all three parameters and ambitious goals to continuously improve performance with a strong focus on operational excellence and sustainable sourcing.

We aim to build on what we have achieved and capitalize further on the strong fundamentals that are deeply ingrained in Lundbeck; our rich heritage of developing and producing life-changing treatments for patients, our deep scientific knowledge in psychiatry and neurology and our patient-centric mindset. We will focus on embracing new biologies and technologies, adjusting and learning as we forge ahead.

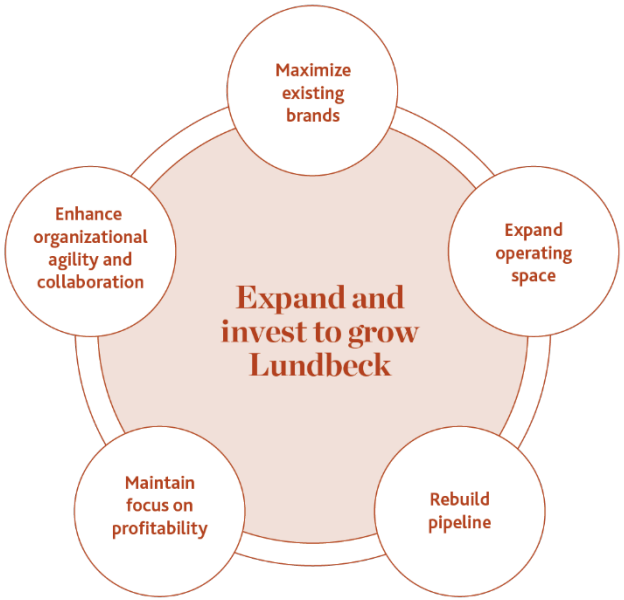


Figure 1: Lundbeck's strategic imperatives

In the future, we will work with even more agility and collaboration across geographies, simplifying our processes and accelerating our ability to test and learn for faster, higher-quality decision making. This will fully leverage our diverse talent, knowledge and skillsets so that we can pursue solving some of the biggest brain disease challenges with the greatest patient reward.

EXPAND AND INVEST TO GROW: OUR STRATEGIC IMPERATIVES

Our strategic imperatives guide us towards reaching our objective to expand and invest to grow.

Maximize existing brands

Our strategic brands continue to show solid growth, both in volume and value, across all regions. At the same time, several of our mature brands have shown remarkable resiliency. Our commercial teams continue to accelerate our efforts in growing our mature and strategic brands across more geographies, thereby maximizing our existing brands to drive growth in the coming years.

Our strategic brands

Brintellix®/Trintellix® is a prescription medication used to treat major depressive disorder (MDD). The brand delivered solid growth in 2021 despite the flattening in total prescriptions of MDD medications in the U.S. during the pandemic.

Rexulti®/Rxulti® is a prescription medication used as an adjunctive therapy to antidepressants for the treatment of MDD. We will continue to maximize this medication with launches in hopefully six additional markets in 2022.

Abilify Maintena® is one of the most prescribed long acting injectable treatments for patients with schizophrenia. In some European countries it is the market leader.

Vyepti® is an infusion treatment for the prevention of migraine in adults. This is our newest strategic brand, launched in the U.S. in April 2020.

We will continue to expand our geographical reach with approval in additional countries – in 2021 it was approved for use in Australia, Canada, the U.A.E., Kuwait, Switzerland and Singapore.

Our mature brands

Our portfolio of mature brands is large. In the U.S., Northera®, Onfi®, Sabril® and Xenazine® are declining after the initial loss to generics. The larger group of mature brands is remarkably resilient having high levels of trust and brand recognition in many markets around the world. And some of the products show continued growth, for example Cipralex®/Lexapro®.

We continue our strong partnerships with Otsuka and Takeda Pharmaceutical Company Limited (Takeda) to engage healthcare professionals treating a broad range of psychiatric diseases, with keen commercial execution against our portfolio of strategic and mature brands.

In the coming years, we will further strengthen and reinforce our field force ensuring that they have the digital tools and capabilities needed to help them to expand their networks and collaborate even better with patients and customers.

We continue to ensure patients receive the full benefit of our medicines through continued clinical activities, life cycle management programs, proactive patient safety efforts, medical activities and value positioning, and also through advocacy efforts.

Expand operating space

We expanded our operating space through the acquisitions of Alder and Abide in 2019, which have given us the platforms needed to expand our areas of focus in neuroscience towards targeted indication groups of niche and rare neurology and psychiatry. Furthermore, we continue to invest in maximizing our strategic brand franchises Brintellix®/Trintellix®, Rexulti®/Rxulti®, Abilify Maintena® and Vyepti®, and we are continuously expanding our existing portfolio of medicines into new markets and additional indications.

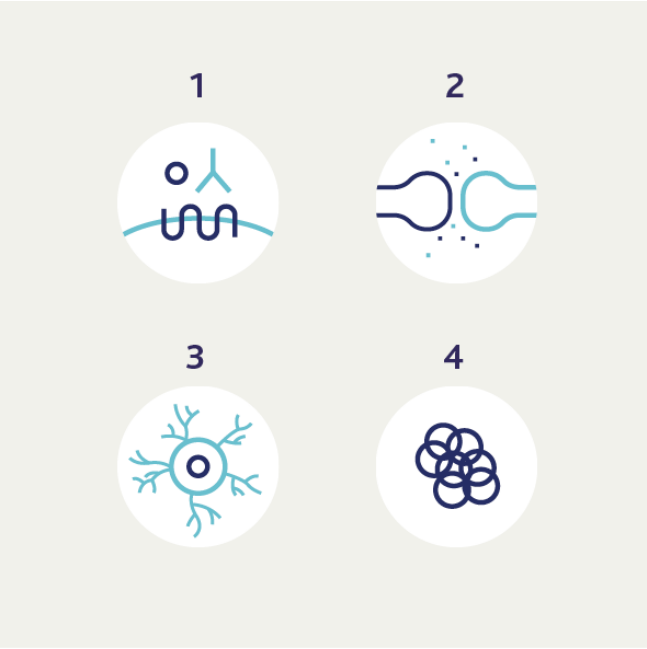


Figure 2: Lundbeck's R&D focus on four biological clusters

Most notably through the forthcoming global launch of Vyepti® and further indications in development for Vyepti® and Rexulti®/Rxulti®.

We have assessed and identified the most promising biological clusters on which to focus our R&D efforts that enable us to treat our targeted indication groups. These four biology clusters are:

1. **Hormonal / neuropeptide signaling**: Targeting selected pathways of pain signals and stress response;
2. **Circuit / neuronal biology**: Targeting neurotransmission / synaptic dysfunction to restore brain circuits and reduce neurological, psychiatric, and pain symptoms;
3. **Neuroinflammation / neuroimmunology**: Targeting neuronal loss due to an overactive immune system, relevant across many niche and rare neurological disorders;
4. **Protein aggregation, folding, and clearance**: Targeting neurodegenerative proteinopathies involved in a range of neurodegenerative diseases, e.g. Alzheimer's and Parkinson's as well as rare diseases.

Our focus in niche and rare neurology and psychiatry provides for a broad range of business development opportunities across all stages of development. We will continue to pursue external innovation through acquisitions, strategic partnerships and in-licensing. Access to technologies and novel early-stage assets will complement the four biological clusters and ensure we have the best possible starting point for developing differentiated medicines to patients with high unmet needs. Access to later-stage products will seek to leverage our existing global commercial infrastructure and provide for sustainable growth.

Rebuilding the pipeline

The R&D organization is transforming, adopting an agile mindset to enable the team to be more flexible when necessary. In this way, we will more effectively and efficiently rebuild our pipeline with a balance of first-in-class and best-in-class drug candidates, to enable a steady stream of breakthrough and differentiated medicines across all phases of the pipeline.

We continue to orient R&D towards specialist treated disease indications that address high unmet needs in niche and rare disease neurology and psychiatry. We will use our four biological clusters in our in-house discovery research to target the high unmet needs within our expanded operating space and to deliver impactful neuroscience medicines of the future. Drawing on our experimental medicine expertise, we now detect signals and gain more objective evidence to test efficacy earlier in development – de-risking the path to the market. We complement the rebuild of our pipeline with the right blend of external innovation, mix of acquisitions, partnerships and licenses for new medicines that fit with our refined focus on niche neuroscience indications.

Maintain focus on profitability

Safeguarding a consistent level of profitability ensures our ability to make strategic investments in our business. We increase cost efficiency across the organization whenever we can by further leveraging the knowledge and capabilities in our Group Business Services center (GBS) in Poland.

We will continue to harness the power of technology and pull digital capabilities into our ways of working to drive greater efficiency. With our current product portfolio and projects in our pipeline it is our ambition to reach an EBIT margin of more than 25% by 2024.

Enhance organizational agility and collaboration

We work as global function teams, building on each other's strengths and harnessing the full power of our functions and departments across borders for greater outcomes. Working cross-functionally and cross-geographically allows us full clarity and alignment in terms of prioritization and decision making and provides greater opportunity for our people through the transfer of knowledge and talent development. We work in alignment with our priorities and shared purpose, grounded in our beliefs.

We will continue to infuse the organization with more flexible and agile ways of working both in terms of how we work and the way we work, simplifying our processes and accelerating our ability to test and learn for faster, higher-quality decision making.

By leveraging digital technologies and capabilities where it can make us faster and more effective, we can make the best use of our talent and competencies across functions that will enable the development of best or first-in-class products and get them to patients faster.

Just as much as we need a global and cross functional working organization, we need a diverse and inclusive one too. We aim to enrich our decision making through diversity of thought across all that we do. Diversity comes from having inclusive teams made up of people with different perspectives and experiences - and that comes from having an organization of people with different nationalities, race, gender and sexual orientation. We have a zero-tolerance approach to harassment, racism and discrimination of any kind and clear processes for employees and stakeholders to voice their concerns and have them addressed.

Equally important, we will continue to ensure sustainable business practices following leading environmental, social and corporate governance criteria. Our ability to successfully deliver on our strategy takes the entire Lundbeck team collaborating around our shared purpose of restoring brain health, so every person can be their best.

OUR LONG-TERM AMBITION

Over the past two years, we have made strategic choices around where we put our efforts across our entire business. With the choices we made, we have lofty ambitions for what the future should look like when we succeed.

Our ambition is to be #1 in Brain Health in the eyes of the patients we tirelessly serve – *so what does that mean*?

WHAT DOES IT MEAN TO BE #1 IN BRAIN HEALTH?

We aim to be the leader in brain health, in the eyes of our patients. We know we are well on our way when:

We have top quartile financial results in our peer group. By focusing on our patients and our products, top financial performance will follow.

We have a premier neuroscience pipeline filled with assets that will make a difference to our patients.

We have an established and focused commercial footprint around commercially attractive patient segments in niche and rare neurology and psychiatry.

We are best in class in terms of how we use digital technologies to improve patient outcomes.

We are a company leveraging diversity, where top talents within neuroscience aspire to work

We continue to deliver sustainable growth in revenue and profitability.

And finally, **we are on track to be carbon neutral before 2050**. Giving back to society is equally as important as financial performance.

The culmination of all this together is what will make us #1 in Brain Health, serving the people who need new medicines to help them conquer brain diseases. It will take every brain being fully “in the game” to achieve it. We continue to prioritize and act, year by year to stay on track.

2021 PERFORMANCE REVIEW AND 2022 OUTLOOK

2021 saw continued solid growth of our strategic brands, which mitigated the impact from the loss of exclusivity on Northera® in the U.S. early in the year. We also saw continued solid revenue growth in International Markets and in Europe. We continue to make good progress on our Expand and Invest to Grow strategy and revitalizing our pipeline.

Overall, revenue and EBIT reached mid-range of the financial guidance provided in February 2021 as a result of solid product sales.

Revenue reached DKK 16,299 million in 2021. EBIT grew 1% compared to 2020 and reached DKK 2,010 million. EBIT margin reached 12,3%. Net profit ended at DKK 1,318 million for the year (DKK 1,581 million in 2020), a decrease of 17%.

We continue to see strong growth in our strategic brands which include Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Rexulti®/Rxulti® (depression/schizophrenia) and our newest product, Vyepti® (prevention of migraine) which was introduced in April 2020 in the U.S. In 2021, we continued the global roll-out program. We expect to launch in additional 15 markets in 2022, incl. the E.U.

In aggregate, strategic brands grew 18% in local currencies reaching DKK 9,287 million in 2021 or 57% of total revenue.

The newest product in the portfolio, Vyepti®, continues its strong momentum since its launch in April 2020 in the U.S. and reached DKK 492 million in 2021 compared to DKK 93 million in 2020.

In 2019, Lundbeck set up commercial operations in Japan in order to co-commercialize Trintellix® together with Takeda. In 2021, the product continues to be very successful in Japan and holds 5.5% market share after two years of being on the market, making it one of the most successful Brintellix®/Trintellix® launches to date.

Lundbeck's early-stage pipeline continued to strengthen with several projects entering first-in-man testing (phase I) and with two projects entering Proof of Concept (phase II) testing, Lu AF82422 and Lu AG09222. Additionally, the clinical program for Vyepti® provided very positive results from the DELIVER trial.

Our top priority is to provide innovative treatments that create value for patients as well as for Lundbeck.

Now, with the global launch of Vyepti®, we are in the process of building a migraine and specialty pain franchise and we are transforming our R&D organization to build a pipeline around high unmet medical needs, in specialist neuroscience indications.

TOTAL REVENUE 2021

DKKm	2021	2020	Growth	Growth in local currencies
Abilify Maintena®	2,420	2,271	7%	8%
Brintellix®/Trintellix®	3,526	3,102	14%	16%
Rexulti®/Rxulti®	2,849	2,620	9%	14%
Vyepti®	492	93	429%	446%
Strategic brands	**9,287**	**8,086**	**15%**	**18%**
Cipralex®/Lexapro®	2,346	2,380	(1%)	3%
Northera®	665	2,553	(74%)	(72%)
Onfi®	505	642	(21%)	(17%)
Sabril®	657	777	(15%)	(11%)
Other pharmaceuticals	2,439	2,738	(11%)	(10%)
Other revenue	347	491	(29%)	(28%)
Effects from hedging	53	5	(960%)	-
Total revenue	**16,299**	**17,672**	**(8%)**	**(5%)**

FINANCIAL PERFORMANCE

2021 PRODUCT PORTFOLIO

Our strategic brands are Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Rexulti®/Rxulti® (depression/schizophrenia) and Vyepti® (migraine prevention).

Our product portfolio also includes Azilect® (Parkinson's disease), Cipralex®/Lexapro® (depression), Ebixa® (Alzheimer's disease), Northera® (symptomatic neurogenic orthostatic hypotension), Onfi® (Lennox-Gastaut syndrome), Sabril® (epilepsy) and Xenazine® (chorea associated with Huntington's disease) as well as other mature products.

Read more on pages 30-31.

SALES PERFORMANCE

Revenue reached DKK 16,299 million in 2021 compared to DKK 17,672 million in 2020. The decline in sales is mainly a consequence of generic erosion of Northera®. Excluding Northera®, sales grew by 6% in local currencies. The strategic brands (Abilify Maintena®, Brintellix®/Trintellix®, Rexulti®/Rxulti® and Vyepti®) grew 18% in local currencies and reached DKK 9,287 million or 57% of total revenue.

EUROPE

Revenue reached DKK 3,499 million in 2021 compared to DKK 3,329 million in 2020. In general, Europe sees robust underlying demand offsetting a continuous negative average price development and continued generic erosion on the mature product portfolio. The strategic brands increased by 14% in local currencies and reached DKK 2,198 million or 63% of sales. The largest markets in Europe are Spain, Italy, France, Switzerland and Greece.

Europe constituted 22% of total revenue (excluding effects from hedging and Other revenue), which is a small increase from last year.

Abilify Maintena® is Lundbeck's largest product in the region. Sales uptake of Abilify Maintena® is robust with revenue reaching DKK 1,175 million. Abilify Maintena® is the second most prescribed long-acting injectable treatment for patients with schizophrenia in many markets. Spain, Italy and France are the largest European markets for Abilify Maintena®.

Brintellix®/Trintellix® revenue grew 19% in local currencies reaching DKK 998 million. Brintellix® is Lundbeck's second largest product in Europe and realized solid growth across many markets. The solid growth in Europe has in some markets been dampened by a negative impact from the COVID-19 pandemic.

Rexulti®/Rxulti® revenue reached DKK 25 million following a growth of 39% in local currencies. The product was recently launched in Italy, where it has a volume share of 0.6% by October 2021*, and the Czech Republic, thereby adding to growth. Rexulti®/Rxulti® is co-promoted with Otsuka in most markets.

REVENUE – EUROPE

DKKm	2021	2020	Growth	Growth in local currencies
Abilify Maintena®	1,175	1,081	9%	9%
Brintellix®/Trintellix®	998	837	19%	20%
Rexulti®/Rxulti®	25	18	39%	39%
Strategic brands	**2,298**	**1,936**	**14%**	**14%**
Cipralex®	530	523	(1%)	(2%)
Other pharmaceuticals	771	870	(11%)	(11%)
Total revenue	**3,499**	**3,329**	**5%**	**5%**

* IQVIA

NORTH AMERICA

Revenue reached DKK 8,245 million in 2021 compared to DKK 9,790 million in 2020. Sales were impacted by generic erosion of mature neurology products, especially Northera® as well as depreciation of currencies. Excluding Northera®, sales increased by 4.7% reported. The COVID-19 pandemic continues to impact business in the region and especially Trintellix® since that product relies heavily on switches and new-to-brand prescriptions which are significantly less likely in telehealth visits. The strategic brands increased by 18% in local currencies and reached DKK 6,022 million or 73% of sales. North America constituted 52% of total revenue (excluding effects from hedging and Other revenue), which is a small decrease from last year.

Abilify Maintena® revenue reached DKK 1,019 million, representing Lundbeck's share of total net sales. In the U.S., Abilify Maintena® has a stable volume market share of around 21% and in Canada it reached 32.7% by October 2021 representing a slight increase from January 2021*.

Trintellix® sales reached DKK 1,789 million in revenue for Lundbeck representing a growth in local currencies of 9%. The volume market share in the U.S. is unchanged at 0.9% by October 2021. In Canada, the volume share has increased from 1.4% of the total anti-depressant market in January to 1.7% in October 2021. The value market share of the total anti-depressant market in the U.S. has increased from 24.2% to 26.7%. In Canada, the value market share of the total anti-depressant market has increased from 7.7% in January 2021 to 10.1% in October*.

Lundbeck's share of **Rexulti®** revenue reached DKK 2,725 million with a growth of 12% in local currencies. In the U.S., Rexulti® has a volume market share of 2.2% by October 2021 which is unchanged from January 2021*. However, the value share has increased from 14.6% to 15.5%. In Canada, the product has reached volume share of 3.1% representing a slight increase. Patient data suggest that more than 3/4 of prescriptions in the U.S. are prescribed for MDD.

Vyepti® was approved by the FDA on 21 February 2020 and in Canada in January 2021 for the preventive treatment of migraine in adults. The product was made available in the U.S. on 6 April 2020 and reached sales of DKK 489 million in 2021 in line with expectations. Vyepti® can be obtained via selected specialty distributors and specialty pharmacies. Around 110 million insured U.S. individuals have access to Vyepti® without any branded step-edits. In total, more than 235 million individuals have access to Vyepti®. We expect to launch in Canada in 2022. It is still early in the launch, and the uptake has been affected by the general decline in physician-administered medicines during the pandemic. Nonetheless, we see increasing numbers of patients being treated with Vyepti®, and we are encouraged by the positive feedback from clinicians and patients, who have used the product, on the positive effects and the ease of use. Based on the current momentum and the positive feedback, we expect continued strong growth for the product.

Northera® sales reached DKK 665 million for the year following the launch of several generic versions in February 2021. Sabril® revenue reached DKK 657 million. Onfi® revenue reached DKK 505 million.

REVENUE – NORTH AMERICA

DKKm	2021	2020	Growth	Growth in local currencies
Abilify Maintena®	1,019	980	4%	7%
Trintellix®	1,789	1,682	6%	9%
Rexulti®	2,725	2,537	7%	12%
Vyepti®	489	93	426%	443%
Strategic brands	**6,022**	**5,292****	**14%**	**18%**
Northera®	665	2,553	(74%)	(72%)
Onfi®	505	642	(21%)	(17%)
Sabril®	657	777	(15%)	(11%)
Other pharmaceuticals	396	526	(25%)	(24%)
Total revenue	**8,245**	**9,790**	**(16%)**	**(12%)**

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IQVIA
**
In 2020, Northera® was included in strategic brands and revenue from strategic brands was therefore DKK 7,845 million.

INTERNATIONAL MARKETS

Revenue from International Markets, which comprises all Lundbeck's markets outside of Europe and North America, reached DKK 4,155 million in 2021. The growth of 6% in local currencies was driven by Rexulti®/Rxulti® and Brintellix®/Trintellix®. The biggest markets are China, Japan, South Korea, Australia and Brazil. China and Japan constitute approximately 40% of the regional revenue. The strategic brands increased by 27% in local currencies and reached DKK 1,067 million or 26% of sales. In local currencies, all products grew compared to last year. Other pharmaceuticals declined by 5%.

International Markets constituted 26% of total revenue (excluding effects from hedging and Other revenue), which is a small decrease from last year.

Abilify Maintena® reached DKK 226 million in revenue representing a growth of 8% (4% in local currencies). Sales mainly derived from Australia where Abilify Maintena® shows robust sales performance.

Brintellix®/Trintellix® reached DKK 739 million in revenue or an increase of 32% in local currencies. Brintellix®/Trintellix® realized solid growth across several markets including China and Japan. China, Brazil, Japan, South Korea and Mexico are the largest markets for Brintellix®/Trintellix® in the region. In China, Brintellix® has a value share of 1.4% by October 2021*. In Japan, Trintellix® is showing very strong momentum and has reached a volume market share of 5.5% by December 2021*.

Rexulti®/Rxulti® reached DKK 99 million in sales and grew by 55% in local currencies. In International Markets, the product has its highest sales in Australia followed by Brazil.

Vyepti® received approval in the U.A.E. in December 2020 and in Kuwait in May 2021. In June 2021, The Australian Therapeutic Goods Administration (TGA) approved Vyepti® for the preventive treatment of migraine in adults with a very strong label. Vyepti® was introduced in the U.A.E. towards the end of September 2021.

Cipralex®/Lexapro® generated revenue of DKK 1,699 million representing a growth of 4% in local currencies. Japan, China, South Korea, Brazil and Hong Kong are the largest markets for Cipralex®/Lexapro® in the region.

Other pharmaceuticals generated revenue of DKK 1,389 million. **Azilect®** is promoted by Lundbeck in some countries in Asia. Azilect® generated revenue of DKK 135 million following a growth of 13%. **Ebixa®** generated revenue of DKK 397 million, which is 20% lower compared to 2020 following the inclusion of Ebixa® into Volume-Based Procurement (VBP) in China in the fourth quarter of 2020.

REVENUE – INTERNATIONAL MARKETS

DKKm	2021	2020	Growth	Growth in local currencies
Abilify Maintena®	226	210	8%	4%
Brintellix®/Trintellix®	739	583	27%	32%
Rexulti®/Rxulti®	99	65	52%	55%
Strategic brands	**1,067**	**858**	**24%**	**27%**
Cipralex®/Lexapro®	1,699	1,730	(2%)	4%
Other pharmaceuticals	1,389	1,469	(5%)	(4%)
Total revenue	**4,155**	**4,057**	**2%**	**6%**

* IQVIA

EXPENSES AND PROFITS

In 2021, total costs declined by 9% to DKK 14,289 million compared to DKK 15,623 million last year. Adjusted for non-core costs, total costs declined by 3% to DKK 12,782 million mainly as a result of pandemic-related cost avoidance.

Cost of sales declined by 12% to DKK 3,648 million in 2021 and the gross margin was 77.6% compared to 76.4% in 2020. Cost of sales was negatively impacted by the inclusion of Vyepti® amortizations, but reduced royalty costs mitigated some of the effect. Sales and distribution costs were DKK 5,885 million, a decline of 1% compared to 2020 mainly because of COVID-19-related cost avoidance. Sales and distribution costs corresponded to 36.1% of revenue, compared to 33.6% last year. Administrative expenses declined 3% to DKK 933 million, corresponding to 5.7% of total revenue. Selling, general & administrative expenses (SG&A) for 2021 reached DKK 6,818 million compared to DKK 6,912 million in 2020. The SG&A ratio for the period was 41.8%, compared to 39.1% last year.

R&D costs were 3,823 million for 2021 with a R&D ratio of 23.5%. Compared to 2020, the R&D costs declined 16%, while adjusted for the impairment of foliglurax of DKK 792 million in 2020, the R&D costs increased by 2%.

Total operational costs (OPEX) reached DKK 10,641 million compared to DKK 11,457 million in 2020. Adjusted for the impairment of foliglurax product rights last year, OPEX consequently did not change.

In 2021, Core EBIT* declined by 21% to DKK 3,517 million and the Core EBIT margin was 21.6%. Reported EBIT reached DKK 2,010 million compared to DKK 1,990 million in 2020 which was impacted by the impairment of the foliglurax product rights in 2020. The reported EBIT margin increased from 11.3% to 12.3%.

TAX

The effective tax rate for 2021 was 16.6% compared to 17.0% in 2020**. The tax rate is positively impacted by increased R&D deductions in Denmark, foreign-derived intangible income (FDII) benefits and recognition of tax credits in the U.S.

PROFIT AND EPS

Profit for 2021 reached DKK 1,318 million compared to DKK 1,581 million in 2020. The reported net profit corresponded to an EPS of DKK 6.63 versus an EPS of DKK 7.96 last year. Core EPS was DKK 12.57 for 2021, compared to a Core EPS of DKK 18.92 in 2020.

CASH FLOWS

Cash flows from operating activities amounted to DKK 2,272 million in 2021 compared to DKK 3,837 million in 2020. The development compared to last year primarily relates to reduced EBITDA due to Northera® loss of exclusivity, the Lonza liability settlement, negative impact from working capital due to inventory build-up and a higher cash tax payment related to intercompany transfer of product rights in 2020.

Lundbeck's net cash flows from investing activities were an outflow of DKK 610 million in 2021 compared to an outflow of DKK 467 million in 2020.

In 2021, the net cash outflow reached DKK 1,674 million compared to an inflow of DKK 976 million in 2020. The net cash flow is impacted by repayment of bank loans net of DKK 2,279 million.

Net debt has decreased from DKK 4,106 million at year-end 2020 to DKK 3,189 million at the end of 2021. Interest bearing debt was DKK 5,468 million at the end of 2021.

*
For definition of the measure "Core EBIT" and "Core EBIT margin", see page 110 *Core reconciliation*

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Please find Lundbeck's tax policy on https://www.lundbeck.com/content/dam/lundbeck-com/masters/global-site/pdf/Lundbeck_Tax_Policy_2022.pdf

DISCLAIMER

Forward-looking statements are subject to risks, uncertainties and inaccurate assumptions. This may cause actual results to differ materially from expectations. Various factors may affect future results, incl. interest rates and exchange rate fluctuations, delay or failure of development projects, production problems, unexpected contract breaches or terminations, governance-mandated or market-driven price decreases for products, introduction of competing products, Lundbeck's ability to successfully market both new and existing products, exposure to product liability and other lawsuits, changes in reimbursement rules and governmental laws, and unexpected growth in expenses.

DIVIDEND

The Board of Directors proposes a dividend of 30% of net profit for 2021 in line with our pay-out policy of 30-60%. This corresponds to DKK 2.00 per share. The dividend pay-out is subject to approval at the Annual General Meeting on 23 March 2022.

GUIDANCE 2022

Lundbeck's financial results for 2022 are expected to be driven by the continued strong growth of Abilify Maintena®, Brintellix®/Trintellix®, Rexulti®/Rxulti® and Vyepti®.

Lundbeck's total revenue is expected to reach between DKK 16.7 billion and 17.3 billion in 2022. Core EBIT is expected to reach between DKK 3.6 billion and 4.0 billion and EBIT is expected to be in the range between DKK 2.2 billion and 2.6 billion.

Lundbeck has foreign currency risks mainly in USD, CNY and CAD. The financial guidance for 2022 is based on the current hedging rates for those currencies; i.e. USD/DKK (6.34), CNY/DKK (0.96) and CAD/DKK (5.01) and includes an expected hedging loss of approximately DKK 200 million.

Based on our assumptions for product and geographical mix, it is estimated that a 5% change of the USD/DKK exchange rate will impact revenue by around DKK 250 million.

The financial guidance for 2022 is summarized below:

FINANCIAL GUIDANCE 2022

DKK	FY 2021 actual	FY 2022 guidance
Revenue	16,299 m	16.7 – 17.3 bn
EBITDA	3,720 m	4.0 – 4.4 bn
Profit from operation (EBIT)	2,010 m	2.2 – 2.6 bn
Core EBIT	3,517 m	3.6 – 4.0 bn

OUR SCIENCE AND INNOVATION

Over the past year, we consistently demonstrated leadership in the CNS space through our unique approach to science and innovation. It's an approach rooted in our commitment to persist in a challenging space, shaped by our agile mindset and defined by our bold vision of better lives for people with brain diseases.

EXECUTING THE R&D STRATEGY

In 2021, Lundbeck advanced the R&D strategy established in 2020, sharpening our focus on leading-edge science, de-risking and optimizing clinical development and supporting the commercialization of truly global products.

Central to the approach of rebuilding the pipeline is the utilization of an experimental medicine approach that allows us to de-risk the pipeline and advance only the most promising drug candidates into full development. We executed this throughout the year and were able to initiate two important studies: A phase II proof-of-concept study program of Lu AF82422 for treatment of Multiple System Atrophy and a phase II proof-of-concept study of Lu AG09222 for migraine prevention.

We also advanced our ambition to become a truly global developmental organization, registering and launching Vyepti® in a number of markets.

Also in 2021, we established several important partnerships that strengthen our developmental capabilities through external innovation. In October 2021, we entered into an agreement with the South Korean biopharmaceutical company AprilBio and gained exclusive worldwide rights to APB-A1 (now Lu AG22515), a phase-I-ready biotherapeutic for the treatment of neuroimmune diseases. Lu AG22515 is a novel and well-differentiated anti-CD40 ligand (CD40L) antibody-like drug candidate. Modulating the CD40L/CD40 interaction holds great promise for treatment of a wide range of immune-related nervous system disorders. The agreement bolsters our neuroinflammation/neuroimmunology discovery platform, strengthening the biology cluster focus of our future therapies.

In August 2021, we entered a strategic research collaboration with the U.S.-based company Rgenta Therapeutics to discover small molecules targeting RNA regulation and splicing of disease-causing genes. Lundbeck gained access to technology that targets RNA pathways, and with this exciting platform we aim to pursue novel targets previously inaccessible.

DEVELOPMENTAL PIPELINE

We believe that what fuels innovative drug discovery is a focus on the most promising science – to be in touch with and at the leading edge of where the neuroscience field is headed in our understanding of the brain and the pathophysiology that underpins brain health.

Through pursuit of novel targets within the four biological clusters upon which we are focused, we are advancing truly innovative solutions to areas of significant unmet need in brain diseases.

HORMONAL / NEUROPEPTIDE SIGNALING

Eptinezumab – development and regulatory status

Eptinezumab is a monoclonal antibody (mAb) that binds to the calcitonin gene-related peptide (CGRP), a neuropeptide believed to play a key role in mediating and initiating migraine, with high specificity and potency. Eptinezumab is administered as a quarterly 30-minute intravenous (IV) infusion, providing immediate and complete bioavailability.

In February 2020, Vyepti® (eptinezumab) was approved by the FDA as the first FDA-approved IV treatment for the treatment of migraine in adults. The recommended dose is 100 mg every 3 months; some patients may benefit from a dose of 300 mg. Eptinezumab was subsequently approved in the U.A.E. in December 2020, Canada in January 2021, Kuwait in May 2021, Australia in June 2021, Singapore in September 2021 and Switzerland in October 2021.

In December 2020, the filling of eptinezumab was accepted by the European Medicines Agency (EMA) for marketing authorization application (MAA) review. In addition, eptinezumab currently is under regulatory review in Argentina, Brazil, Chile, Columbia, Indonesia, Israel, Hong Kong, Philippines, Saudi Arabia, South Africa, Taiwan, Thailand and the UK.

In November 2021, we announced positive results from the phase IIIb DELIVER study assessing the efficacy and safety of Vyepti® (eptinezumab) 100mg and 300mg IV infusion in patients with chronic or episodic migraine who had experienced two to four previous preventive treatment failures due to lack of efficacy or intolerable side effects.

During the first half of 2021, Lundbeck initiated the SUNLIGHT and SUNRISE phase III clinical trials. These trials will support registration for migraine prevention in Asia, including China and Japan, and are progressing as planned and are expected to complete in 2022 and 2023.

In December 2020, Lundbeck initiated the ALLEVIATE phase III clinical trial investigating the efficacy of eptinezumab in patients with episodic cluster headache. The trial is progressing as planned and is expected to complete in 2023. The primary outcome in the trial is change from baseline in number of weekly attacks, averaged over weeks 1-2.

Lu AG09222 (former ALD 1910)
Following supportive phase I target engagement data, a phase II proof-of-concept study in migraine prevention commenced in November 2021. Lu AG09222 is a monoclonal antibody (mAb) designed to bind pituitary adenylate cyclase-activating polypeptide (PACAP), thereby effectively preventing PACAP from activating its receptors. PACAP has emerged as an important signaling molecule in the pathophysiology of migraine and represents an attractive novel target for treating migraine. Lu AG09222 may hold potential as a migraine prevention treatment and could provide another mechanism-specific therapeutic option for migraine patients and their physicians.

CIRCUITRY / NEURONAL BIOLOGY

Brexpiprazole – phase III in Alzheimer's agitation
In April 2021, Lundbeck and Otsuka announced the decision to continue the recruitment of patients in a third phase III clinical trial of brexpiprazole in the treatment of agitation in patients with dementia of the Alzheimer's type (NCT03548584). The decision to continue the trial is based on the results of an independent interim analysis, which support progressing the trial to the planned full enrollment of 330 patients. The study is designed to assess the safety, tolerability and efficacy of brexpiprazole in the treatment of patients with agitation in Alzheimer's dementia. The trial consists of a continuous 12-week double-blind treatment period with a 30-day follow-up. The trial population is planned to include 330 male and female patients, aged 55–90 years, with a diagnosis of probable Alzheimer's disease.

The continuation of the study enables Lundbeck and Otsuka to further explore the efficacy of brexpiprazole to address the high medical need in patients suffering from agitation in Alzheimer's type dementia. Completion of the trial is expected in the first half of 2022.

The primary outcome in the study is change in the Cohen-Mansfield Agitation Inventory (CMAI) Total score. The key secondary outcome measure is change in the Clinical Global Impression – Severity of Illness (CGI-S) score, as related to symptoms of agitation.

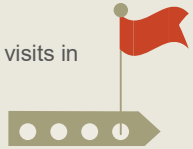
DECENTRALIZED CLINICAL TRIALS

In 2021, we maintained our COVID crisis-management plans across our portfolio of ongoing clinical trials. The goal was to provide continuity of clinical trial supplies to patients and ensure patient visits and study assessments were conducted as planned.

Patient visits continued at clinics where possible and remote visits were implemented in cases where travel restrictions were in place.

In 2021, we also embarked on our first pre-planned Hybrid Decentralized trial, where patients have the choice of either visiting their trial site or selecting to have remote visits in their own home setting.

The first study is the Lu AG09222 phase II proof-of-concept study in migraine prevention and we had first patient visits in November 2021.



Brexpiprazole – phase III in Post-Traumatic Stress Disorder (PTSD)
PTSD is a psychiatric disorder that can develop as a response to traumatic events, such as interpersonal violence, combat, life-threatening accidents or natural disasters.

Core features of PTSD include a variety of symptoms, such as re-experiencing phenomena (i.e. flashbacks and nightmares), avoidance behavior, numbing (i.e. amnesia, anhedonia, withdrawal, negativism) and increased arousal (i.e. insomnia, irritability, poor concentration, hypervigilance). Psychiatric co-morbidities are common, and PTSD sufferers can also present with substance abuse, mood and other anxiety disorders, impulsive and dangerous behavior and self-harm.

Lundbeck and Otsuka reported positive phase II data for the combination treatment of brexpiprazole and sertraline for the treatment of PTSD in November 2018. On basis of these data, Lundbeck and Otsuka initiated two pivotal phase III trials (NCT04124614; n=577 and NCT04174170; n=733), investigating the use of brexpiprazole in combination with sertraline in the treatment of PTSD subsequent to an End of Phase II meeting with the FDA in May 2019. The execution of those two ongoing studies is challenged by the COVID-19 pandemic, primarily impacting enrollment activities and Lundbeck and Otsuka are exploring options on how best to address these COVID-19 challenges.

Brexpiprazole – sNDA for treatment of schizophrenia in adolescents
In December 2021, the FDA approved Lundbeck's and Otsuka's sNDA for the treatment of schizophrenia in adolescents with Rexulti® (brexpiprazole). More specifically, Rexulti®/Rxulti® is now approved for the treatment of schizophrenia in pediatric patients 13 to 17 years of age.

Currently, Rexulti® is approved in the U.S. for treatment of schizophrenia in adults and adjunctive treatment of major depressive disorder in adults. The submission was completed one year earlier than planned, with the hope of benefitting adolescent patients with schizophrenia who need more treatment options. The acceleration of the program was made possible by doing an extrapolation analysis using data from prior studies in adult patients, pharmacokinetic results from adult and pediatric trials, and 6-month data from the ongoing open-label, long-term trial in adolescent schizophrenia patients (Trial 331-10-236).

Aripiprazole – 2-Month Injectable (LAI) formulation
Dosing every second month can add important benefits in terms of convenience for patients and may increase treatment adherence as well as minimizing the risk of missing doses. It may also reduce the potential need for medication monitoring by healthcare professionals, family and caregivers.

In July 2019, Lundbeck and Otsuka initiated a pivotal phase 1b study (NCT04030143) to determine the safety, tolerability and pharmacokinetics of multiple-dose administrations of aripiprazole to adult participants with schizophrenia or bipolar I disorder. The study was an open-label, multiple-dose, randomized, parallel-arm, multicenter study. In addition to the assessment of safety and tolerability, the objective was to establish the similarity of aripiprazole concentrations on the last day of the dosing interval and the exposure in the last dosing interval following the final administration of aripiprazole into the gluteal muscle site. The study showed that the new 2-Month formulation was safe and tolerable, and provided effective plasma concentrations of aripiprazole for two months.

No further clinical studies are expected to be required and as a next step the regulatory agencies in the U.S. and the EU will be approached. Scale-up of manufacturing capacity is progressing at Otsuka with regulatory submission gated on completing build and validation of new manufacturing capacity at Otsuka.

Lundbeck and Otsuka are planning to submit the aripiprazole 2-Month injectable formulation to the EMA for MAA review by mid-2022. In addition, Lundbeck and Otsuka will submit the New Drug Application (NDA) for review by the FDA in mid-2022.

Lu AG06466 – phase Ib
Lu AG06466 (former ABX1431) is an inhibitor of the monoacylglycerol lipase (MAGL) and selective modulator of the endocannabinoid system. It works to reduce excessive neurotransmission and neuroinflammation that are known pathophysiological hallmarks for a range of psychiatric and neurological disorders.

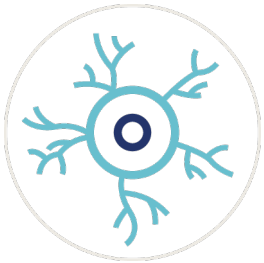
A phase Ib study was initiated in September 2020 with the purpose to investigate the effect of Lu AG06466 after multiple doses in patients with PTSD (NCT04597450).

Additional phase Ib investigational studies were initiated in fibromyalgia patients in June 2021 (NCT04974359), in multiple sclerosis spasticity in September 2021 (NCT04990219), and in focal epilepsy in September 2021 (NCT05081518).

Trials across these indications will assess a variety of common and innovative biomarkers to develop tools to help guide further late-stage development and will guide decision making for future development.

Lu AF28996 – phase I
Lu AF28996 is a small molecule with agonistic properties towards D1 and D2 receptors. Continuous D1 and D2 dopamine receptor stimulation may play an important role in motor control of Parkinson's disease patients.

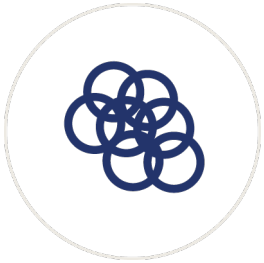
A Phase 1b study was initiated in February 2020 on Lu AF28996 with the purpose to investigate the safety and tolerability as well as pharmacokinetics of Lu AF28996 in patients with Parkinson's disease (NCT04291859).



NEUROINFLAMMATION / NEUROIMMUNOLOGY

With the October 2021 agreement with AprilBio, Lundbeck took a significant leap forward in our neuroinflammation / neuroimmunology discovery platform. Through the agreement, we gained exclusive worldwide rights to APB-A1 (now Lu AG22515), a phase-I-ready biotherapeutic for the treatment of neuroimmune diseases.

Lu AG22515 is a novel and well-differentiated anti-CD40 ligand (CD40L) antibody-like drug candidate. Modulating the CD40L/CD40 interaction holds great promise for treatment of a wide range of autoimmune-related CNS disorders.



PROTEIN AGGREGATION, FOLDING AND CLEARANCE

Lu AF82422 – phase II
Lu AF82422 is a monoclonal antibody (mAb) targeting the pathological form of the protein alpha-synuclein that is believed to play a pivotal role in the development and progression of MSA, Parkinson's disease and other neurodegenerative disorders.

DIGITAL HEALTH TOOLS IN CLINICAL TRIALS

In 2021, three different digital health tools were implemented in four phase Ib studies of Lu AG06466 and Lu AG06479. The digital health tools include a sleep and seizure monitoring actigraphy wristband, a sleep monitoring EEG headband, and digital insoles that are placed in the patient's shoes for gait assessment.

The inclusion of these tools represents Lundbeck's aim to explore the benefits of digitally obtained endpoints. The tools also allow Lundbeck to combine sensor data and novel algorithms, providing objective insights into previously undiscovered domains.

By targeting pathological alpha-synuclein with an antibody that will inhibit aggregation and potentially clear pathological alpha-synuclein from the brain, the project aims to demonstrate delay of disease progression with a therapeutic effect on disease burden and function. A phase II proof-of-concept study program on Lu AF82422 commenced in November 2021 to investigate the safety and efficacy of Lu AF82422 in MSA. Orphan drug designation for MSA was granted by EMA in April 2021.

Lu AF87908 – phase I

Lu AF87908 is a monoclonal antibody (mAb) targeting the pathological form of the hyper-phosphorylated tau protein, which is believed to play a pivotal role in the development and progression of Alzheimer's disease and other tau-driven neurodegenerative disorders (primary tauopathies). Lu AF87908 binds to a specific tau epitope (pS396-tau) which is a dominating phosphorylation site in pathological tau.

A Phase I program on Lu AF87908 commenced in September 2019 to investigate the safety and tolerability as well as pharmacokinetics of a single dose of Lu AF87908, in healthy subjects and patients with Alzheimer's disease (NCT04149860).

OTHER PROJECTS

In July 2021, Lundbeck announced the licensing of global rights for idalopirdine to Denovo Biopharma, including all rights to develop, manufacture and commercialize idalopirdine for all indications. Denovo Biopharma aims to explore idalopirdine using its biomarker platform, applying a precision medicine approach to develop innovative therapies. Lundbeck holds the right to re-acquire idalopirdine, while the rights in China would be shared with Denovo Biopharma. Idalopirdine was previously developed by Lundbeck, in collaboration with Otsuka, for cognitive symptoms in Alzheimer's disease. The idalopirdine-project did not reach a successful outcome in a phase III trial in 2017.

COMMITMENT TO DIVERSITY IN CLINICAL TRIALS

Lundbeck understands that brain diseases wreak havoc without bias. Whether it be genetics, age, race, sex, ethnicity, socioeconomics or access to healthcare, understanding and fully evaluating the multitude of factors that influence a person's health are key to both the development of good medicine and equitable advances in brain health. As part of our ongoing commitment to sustain a diverse clinical trial infrastructure, the Lundbeck Diversity Steering Team established the below Clinical Trial Diversity Principles and committed to tracking and monitoring progress against them.

Develop & Execute a Clear Strategy to Achieve Diversity in Our Trials Globally
We aim for each trial to be designed with intention to ensure participants mirror the full diversity of the patient population in the country or region AND the disease we are studying. This will require a concentrated effort to involve underrepresented populations in our marketed regions through focused patient-inclusion criteria; attention to the diversity of clinical trial sites and investigators; removal of barriers that could impede the participation of certain groups in clinical trials; and use of real-world data to inform development efforts and improve understanding of diseases and products.

Collaborate with Patient Advocacy Groups Choosing to Make Diversity a Priority
Lundbeck has a longstanding focus on community outreach, and we are committed to expanding partnerships with organizations that possess a like-minded focus on diversity. In collaboration with external partners, we strive to establish trust with diverse patient and caregiver populations, gain deeper insight into unmet patient needs and build awareness about open clinical trials to further enhance the diversity of our clinical trials.

Implement Integrated Oversight Approach to Inform, Analyze and Act
We aim to continuously inform and reform our internal thinking and processes by actively monitoring clinical trial diversity targets and utilizing real-world data to ensure we are driving inclusion of underrepresented populations in our clinical trials.

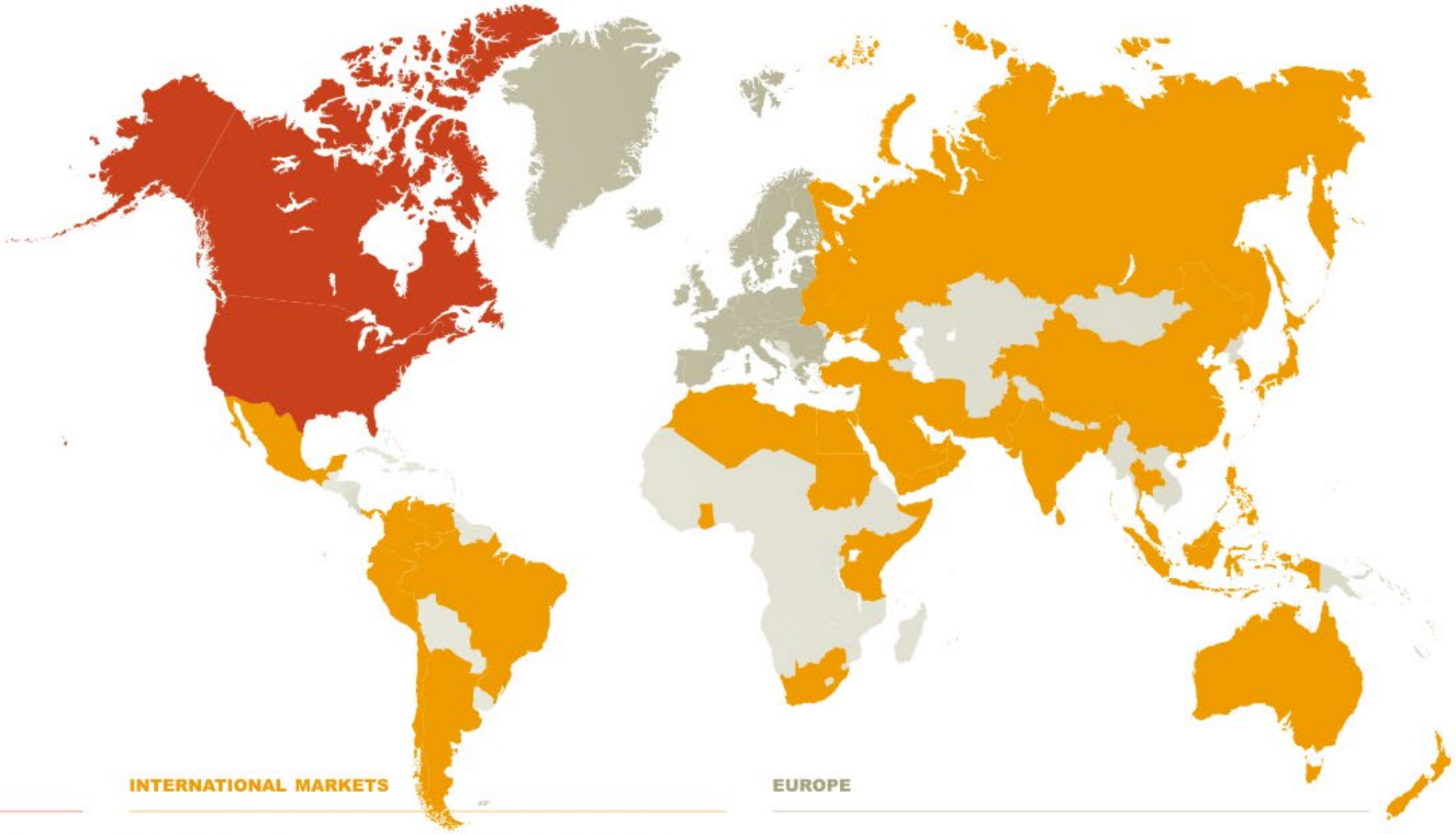
Pipeline

PROJECT	BIOLOGY	AREA	PHASE I	PHASE II	PHASE III	FILING / LAUNCH
Eptinezumab (anti-CGRP mAb)[1]	**Hormonal / neuropeptide signaling**	Migraine prevention				
Eptinezumab (anti-CGRP mAb)		Migraine prevention (Asia)[2]				
Eptinezumab (anti-CGRP mAb)		Episodic cluster headache				
Lu AG09222 (anti-PACAP mAb)[3]		Migraine prevention				
Brexpiprazole[4]	**Circuitry / neuronal biology**	Agitation in Alzheimer's disease				
Brexpiprazole[4]		PTSD[5]				
Aripiprazole 2-month injectable formulation[6]		Schizophrenia & bipolar I disorder				
Lu AF28996 (D1/D27 agonist)		Parkinson's disease				
Lu AG06466 (MAGL inhibitor)[8]		Focal epilepsy/PTSD[5]/MS spasticity[9]				
Lu AF82422 (anti-α-synuclein mAb)	**Protein aggregation, folding and clearance**	Synucleinopathies (MSA[10])				
Lu AF87908 (anti-Tau mAb)		Tauopathies				

1) CGRP: Calcitonin gene-related peptide
2) Three phase III clinical trials, supporting registration in Asia, including China and Japan: SUNLIGHT, SUNRISE, and SUNSET trials
3) PACAP: Pituitary adenylate cyclase activating peptide
4) Acts as a partial agonist at 5-HT1A and dopamine D2 receptors at similar potency, and an antagonist at 5-HT2A and noradrenaline alpha1B/2C receptors
5) Post-traumatic stress disorder
6) Pivotal phase Ib study finalized; Lundbeck and Otsuka Pharmaceutical are planning to submit the aripiprazole 2-month injectable formulation to the European Medicines Agency (EMA) for marketing authorization application (MAA) review and to submit the NDA for review by the U.S. FDA
7) Dopamine receptor D1 and D2
8) MAGL: Monoacylglycerol lipase i ("MAGlipase")
9) Spasticity in participants with Multiple Sclerosis
10) Multiple system atrophy

Markets

Lundbeck's products are registered in more than 100 countries and we have employees in more than 50 countries. Our largest markets are the U.S., China, Canada, Spain, Italy, Japan, France, South Korea, Australia and Brazil.



NORTH AMERICA

REVENUE (DKKm)
8,245

SHARE OF GROUP REVENUE
52%

REVENUE FROM STRATEGIC BRANDS (DKKm)
6,022

STRATEGIC BRANDS
Abilify Maintena®
Brintellix®/Trintellix®
Rexulti®/Rxulti®
Vyepti®

INTERNATIONAL MARKETS

REVENUE (DKKm)
4,155

SHARE OF GROUP REVENUE
26%

REVENUE FROM STRATEGIC BRANDS (DKKm)
1,067

STRATEGIC BRANDS
Abilify Maintena®
Brintellix®/Trintellix®
Rexulti®/Rxulti®

EUROPE

REVENUE (DKKm)
3,499

SHARE OF GROUP REVENUE
22%

REVENUE FROM STRATEGIC BRANDS (DKKm)
2,198

STRATEGIC BRANDS
Abilify Maintena®
Brintellix®/Trintellix®
Rexulti®/Rxulti®

Products

STRATEGIC BRANDS

Abilify Maintena®
(aripiprazole once-monthly)

Monthly intramuscular injection indicated for the treatment of schizophrenia. Lundbeck markets Abilify Maintena® in the U.S. in collaboration with Otsuka Pharmaceutical Co., Ltd. and in Europe and International Markets either alone or in collaboration with Otsuka Pharmaceutical Co., Ltd. First launched in the U.S. in 2013, hereafter launched in close to 40 countries.

REVENUE (DKKm)

2,420 ▲7%

% OF TOTAL REVENUE

15%

Brintellix®/Trintellix®
(vortioxetine)

Indicated for the treatment of Major Depressive Disorder (MDD). Lundbeck markets Brintellix®/Trintellix® in Europe and International Markets. In the U.S., Takeda Pharmaceutical Company Limited is our co-promotion partner. Launched in the first markets in 2014 and now available in approximately 60 countries.

REVENUE (DKKm)

3,526 ▲14%

% OF TOTAL REVENUE

22%

Rexulti®/Rxulti®
(brexpiprazole)

Indicated for adjunctive therapy for the treatment of adults with Major Depressive Disorder (MDD) and as a treatment for adults with schizophrenia. Launched in the U.S. in 2015 in collaboration with Otsuka Pharmaceutical Co., Ltd. hereafter in a number of other countries.

REVENUE (DKKm)

2,849 ▲9%

% OF TOTAL REVENUE

17%

Vyepti®
(eptizumab)

Indicated for the preventive treatment of migraine in adults. Approved by the U.S. FDA in early 2020. In 2021, Vyepti® was approved in Canada, Switzerland, the U.A.E., Kuwait, and Australia. End of 2021, Vyepti® was also recommended for approval in the EU by the Committee for Medicinal Products for Human Use (CHMP).

REVENUE (DKKm)

492 ▲429%

% OF TOTAL REVENUE

3%

Products

MATURE BRANDS

Cipralex®/Lexapro®
(escitalopram)

Indicated for the treatment of depression. First launched in 2002 and today available in more than 100 countries around the world.

REVENUE (DKKm)
2,346 ▼1%

% OF TOTAL REVENUE
14%

Northera®
(droxidopa)

Indicated for the treatment of symptomatic neurogenic orthostatic hypotension in adult patients. Northera® is the only U.S. FDA- approved therapy for this condition. Lundbeck markets Northera® in the U.S. and launched the product in 2014.

REVENUE (DKKm)
665 ▼74%

% OF TOTAL REVENUE
4%

Onfi®
(clobazam)

Indicated as adjunctive treatment of Lennox-Gastaut syndrome for people aged two years or older. Launched in the U.S. in 2012.

REVENUE (DKKm)
505 ▼21%

% OF TOTAL REVENUE
3%

Sabril®
(vigabatrine)

Indicated for the treatment of refractory complex partial seizures (rCPS) and infantile spasms (IS). Launched in the U.S. in 2009.

REVENUE (DKKm)
657 ▼15%

% OF TOTAL REVENUE
4%

Other pharmaceuticals

Ebixa® (dementia), Azilect® (Parkinson's disease), Xenazine® (chorea), Deanxit® (depression), Cipramil® (depression and anxiety) and Cisordinol® (psychosis) are among the biggest of our other mature brands.

REVENUE (DKKm)
2,439 ▼11%

% OF TOTAL REVENUE
15%

SUMMARY FOR THE GROUP 2017-2021

Statement of profit or loss (DKKm)	2021	2020	2019[1]	2018[1]	2017[1]
Revenue	16,299	17,672	17,036	18,117	17,234
Research and development costs	3,823	4,545	3,116	3,277	2,705
Reversal of impairment loss	-	-	-	-	3,766
Operating profit before depreciation and amortization (EBITDA)	3,720	4,783	4,823	6,436	9,190
Profit from operations (EBIT)	2,010	1,990	3,153	4,846	8,174
Net financials, expenses	429	84	127	12	131
Profit before tax	1,581	1,906	3,026	4,834	8,043
Profit for the year	1,318	1,581	2,313	3,553	5,560

Assets (DKKm)	2021	2020	2019[1]	2018[1]	2017[1]
Non-current assets	26,041	25,924	29,095	13,944	13,893
Inventories	2,775	2,163	2,204	1,753	1,376
Receivables	3,558	4,018	3,822	3,261	3,791
Cash, bank balances and securities[2]	2,279	3,924	3,012	6,635	3,677
Total assets	**34,653**	**36,029**	**38,133**	**25,593**	**22,737**

Equity and liabilities (DKKm)	2021	2020	2019[1]	2018[1]	2017[1]
Equity	18,279	16,973	16,782	16,833	15,117
Non-current liabilities	7,556	9,044	11,071	1,184	1,141
Current liabilities	8,818	10,012	10,280	7,576	6,479
Total equity and liabilities	**34,653**	**36,029**	**38,133**	**25,593**	**22,737**

Statement of cash flows (DKKm)	2021	2020	2019	2018	2017
Cash flows from operating activities	2,272	3,837	2,609	5,981	4,045
Cash flows from investing activities	(610)	(467)	(7,755)	(2,907)	(1,830)
Cash flows from operating and investing activities (free cash flow)	1,662	3,370	(5,146)	3,074	2,215
Cash flows from financing activities	(3,336)	(2,394)	4,548	(1,607)	(2,235)
Interest-bearing debt, cash, bank balances and securities, net, year-end – net cash/(net debt)[2]	(3,189)	(4,106)	(6,566)	6,635	3,677

1) 2017-2019 have been restated to reflect the reversal of an impairment loss on the Rexulti® product rights in 2017.
2) In 2020 and 2021, securites amounted to DKK 0.

SUMMARY FOR THE GROUP 2017-2021

CONTINUED

Key figures	2021	2020	2019[1]	2018[1]	2017[1]
EBIT margin (%)	12.3	11.3	18.5	26.7	47.4
Research and development ratio (%)	23.5	25.7	18.3	18.1	15.7
Return on equity (%)	7.5	9.4	13.8	22.2	44.8
Equity ratio (%)	52.7	47.1	44.0	65.8	66.5
Invested capital (DKKm)	21,468	21,079	23,348	10,198	11,440
Net debt/EBITDA	0.9	0.9	1.4	(1.0)	(0.7)
Effective tax rate (%)	16.6	17.0	23.6	26.5	30.9
Purchase of intangible assets, gross (DKKm)	202	114	88	1,149	480
Purchase of property, plant and equipment, gross (DKKm)	410	364	356	300	245
Purchase of financial assets, gross (DKKm)	-	17	18	1,524	1,509
Average number of employees	5,488	5,717	5,475	5,060	4,980

Share data	2021	2020	2019[1]	2018[1]	2017[1]
Number of shares for the calculation of EPS (millions)	198.7	198.7	198.7	198.7	197.5
Earnings per share, basic (EPS) (DKK)	6.63	7.96	11.64	17.88	28.14
Earnings per share, diluted (DEPS) (DKK)	6.63	7.96	11.64	17.87	28.10
Proposed dividend per share (DKK)	2.00	2.50	4.10	12.00	8.00
Cash flows from operating activities per share, diluted (DKK)	11.44	19.31	13.13	30.09	20.44
Net asset value per share, diluted (DKK)	92.01	85.42	84.45	84.67	76.03
Market capitalization (DKKm)	33,626	41,582	50,660	56,825	62,700
Price/Earnings, diluted (DKK)	25.47	26.25	21.86	15.97	11.21
Price/Cash flow, diluted (DKK)	14.76	10.82	19.38	9.48	15.41
Price/Net asset value, diluted (DKK)	1.84	2.44	3.01	3.37	4.14

1) 2017-2019 have been restated to reflect the reversal of an impairment loss on the Rexulti® product rights in 2017.

SUMMARY FOR THE GROUP 2017-2021

CONTINUED

Definitions	
Interest-bearing debt	Debt and financial instruments (including financial leases) carrying interest
Interest-bearing net cash	Cash, bank balances and securities less interest-bearing debt
EBIT margin[2]	Profit from operations as a percentage of revenue
EBITDA	Profit before interest, tax, depreciation, amortization and gain on divestment of properties
Return on equity[2]	Net profit/(loss) for the year as a percentage of shareholders' equity (average)
Equity ratio[2]	Shareholders' equity, year-end, as a percentage of total assets
Invested capital	Shareholders' equity, year-end, plus net interest-bearing debt
Net debt	Interest bearing debt less cash, bank balances and securities
Net debt/EBITDA[2]	Net interest-bearing debt divided by EBITDA
Earnings per share, basic (EPS)[2]	Net profit/(loss) for the year divided by average number of shares, excl. treasury shares
Earnings per share, diluted (DEPS)[2]	Net profit/(loss) for the year divided by average number of shares, excl. treasury shares, incl. warrants, fully diluted
Cash flows from operating activities per share, diluted[2]	Cash flows from operating activities divided by average number of shares, excl. treasury shares, incl. warrants, fully diluted
Net asset value per share, diluted	Shareholder's equity, year-end, divided by number of shares, year-end, excl. treasury shares, incl. warrants, fully diluted
Market capitalization[2]	Total number of shares, year-end, multiplied by the official price quoted on Nasdaq Copenhagen, year-end
Price/Earnings, diluted[2]	The official price quoted on Nasdaq Copenhagen, year-end, divided by earnings per share, diluted
Price/Cash flows, diluted[2]	The official price quoted on Nasdaq Copenhagen, year-end, divided by cash flows from operating activities per share, diluted
Price/Net asset value, diluted	The official price quoted on Nasdaq Copenhagen, year-end, divided by net asset value per share, diluted

EBITDA calculation (DKKm)	2021	2020	2019[1]	2018[1]	2017[1]
EBIT	2,010	1,990	3,153	4,846	8,174
+ Depreciation, amortization and impairment losses	1,710	2,793	1,670	1,638	1,258
- Gain on divestment of properties recognized in other operating expenses, net	-	-	-	(48)	(242)
EBITDA	**3,720**	**4,783**	**4,823**	**6,436**	**9,190**

1) 2017-2019 have been restated to reflect the reversal of an impairment loss on the Rexulti® product rights in 2017.

2) Definitions according to the Danish Finance Society's Recommendations & Financial Ratios.

Governance

Lundbeck has established a business ethics compliance structure consisting of the elements needed to ensure that we are doing the right thing. We continually improve processes and sustain a compliance culture.

From left to right
Michal Marczynski, Project Manager
Sandra Kroll, Agile Transformation Lead
Patrycia Talar-Gancarczyk, Process Excellence Specialist

IN THIS SECTION

CORPORATE GOVERNANCE

Corporate governance concerns the way Lundbeck is managed and controlled, while creating value for both the company and its stakeholders. More information on the mandatory annual Corporate Governance report is disclosed on www.lundbeck.com in accordance with section 107(b) in the Danish Financial Statements Act.*

Lundbeck has a two-tier board structure consisting of the Board of Directors and the Executive Management. The two bodies are separated, and no person serves as a member of both.

The Board of Directors has ten members, of which seven are elected at the Annual General Meeting for a one-year term and three are elected by Lundbeck's employees for a four-year term. The current members of the Board of Directors** bring deep industry knowledge and solid top management experience to Lundbeck, which are essential for the Board to perform its tasks.

Lundbeck's Board of Directors is responsible for approving the corporate strategy and its implementation, setting goals for Executive Management, and for ensuring that members of Executive Management and other senior managers have the right qualifications. The Board of Directors also evaluates management performance and remuneration.

Furthermore, the Board of Directors has the overall responsibility for ensuring that adequate internal and external controls are in place, and for identifying and addressing any relevant risks. These responsibilities are defined in the Danish Companies Act and stipulated in the rules of procedures for the Board of Directors.

The Board of Directors regularly evaluates the Lundbeck's strategy, business, performance, financial strategies and policies, and ensures that day-to-day management is carried out in accordance with such policies.

The Board of Directors analyzes Lundbeck's need for capital on an ongoing basis, including an assessment of Lundbeck's capital structure.

There is no universal answer to the question of what the optimum capital structure is for a specific company because the relationship between equity and interest-bearing debt relies on the specific characteristics that apply within the particular industry in which the business operates and, by extension, the operating and financial risk.

However, companies in the pharmaceutical industry are often particularly well-funded which may be explained by the extended development projects and risks associated with research activities.

The Board of Directors pursues the policy that equity beyond the level which, based on a conservative estimate, would be considered sufficient to support the underlying business should be distributed to the shareholders. The distribution to our shareholders takes place through annual dividends and if appropriate share buyback programs. Our dividend policy is currently to pay out 30-60 % of the net profits as dividend to the shareholders.

The Board of Directors has established a self-evaluation procedure covering, among other things, board composition, contribution and results, Board agenda and discussions, cooperation between the Board of Directors and Executive Management, committee work and structure.

The 2021 Board evaluation was built on the previous evaluations performed in 2019 and 2020 where all members of the Board of Directors and Executive Management participated. It was conducted as an in-house online survey and the result showed an increase to an already high level of satisfaction with the collaboration and interaction between the Board of Directors and Executive Management. The collaboration was described as transparent, constructive, effective, and involving.

The survey also included an update of the competencies on the Board. We saw an increase of competencies and knowledge relevant for the future strategic path of the company, e.g. scientific knowledge and experience, which is now at a satisfactory level.

More details regarding the work performed by the Board of Directors, the evaluation procedure and results hereof can be found at www.lundbeck.com***. Also, the remuneration of Lundbeck's Executive Management and Board of Directors can be found at www.lundbeck.com****.

*
https://www.lundbeck.com/content/dam/lundbeck-com/masters/global-site/pdf/corporate-governance/2021/corporate_governance_report.pdf

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Detailed description of the Board members and their competencies and qualifications can be found on https://www.lundbeck.com/global/about-us/our-leadership/board-of-directors

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Detailed description of the Board of Directors' work, evaluation procedure and results can be found on https://www.lundbeck.com/global/about-us/corporate-governance/board-tasks

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Detailed description of the remuneration can be found on https://www.lundbeck.com/global/about-us/corporate-governance/remuneration

DISCLOSURE REGARDING CHANGE OF CONTROL

The EU Takeover Bids Directive, as partially implemented in the Danish Financial Statements Act, requires listed companies to disclose information about significant agreements that may be affected in case of a completed takeover bid, in particular in relation to disclosure of change-of-control provisions.

Lundbeck discloses that the Group has a major partnership agreement in place under which an acquiring entity must divest any competing product according to an agreed process and, in the absence of such divesture, Lundbeck's partner may terminate the agreement. The Lundbeck Group may be met with demands for repayment on its debt portfolio should Lundbeckfond Invest A/S hold less than 50% of the share capital or voting rights in H. Lundbeck A/S (change of control).

In the event Lundbeck is acquired or merges, certain Executive Management members may, depending on the impact on their position, be entitled to terminate employment with Lundbeck with a three (3) months' notice and receive a compensation of up to eighteen (18) months' remuneration.

Given the ownership structure of Lundbeck the risks are considered remote. For information about the ownership structure of Lundbeck, see page 47-48.

SUSTAINABILITY AND COMPLIANCE

In this section we present a short summary of aspirations, management, due diligence and targets.

We publish an annual Sustainability Report at the same time as the release of the Annual Report. Here you can find detailed information and an Environmental, Social and Governance (ESG) factbook. Our mandatory annual statutory reporting on sustainability and diversity of management in accordance with section 99a, 99b, 99d and 107d in the Danish Financial Statements Act, and the EU Sustainable Finance Taxonomy is in our Sustainability Report.*

* https://www.lundbeck.com/content/dam/lundbeck-com/masters/global-site/pdf/Sustainability_Report_2021.pdf

Lundbeck's sustainability activities aim to mitigate risks and adverse impacts related to our business activities and contribute to solving societal challenges where we can. We remain committed to the UN Global Compact Principles and contribute to addressing seven of the Sustainable Development Goals.

OUR MOST MATERIAL SUSTAINABILITY ISSUES

Sustainability is an imperative to Lundbeck and an integral part of our strategy and culture. Our most material sustainability issues are reflected in the SDGs that we significantly impact. Our biggest contribution to sustainable development, is our medical treatments and the good health and wellbeing they bring to people. Closely related to this is being compliant in all aspects of patient safety and taking a strict stance on anti-corruption in our collaborations with business partners, healthcare professionals and regulators. Our other material issues include taking a leading role in climate action, environmental management in general, and promoting an ethical, safe, motivating and inclusive culture in our entire value chain.

MANAGING SUSTAINABILITY

Executive Management governs the sustainability strategy and reviews progress on targets and approves new initiatives in quarterly sessions. We continuously set ambitious targets, report progress on the targets and disclose a set of externally reviewed non-financial indicators across all areas of corporate sustainability and business ethics compliance.

SUSTAINABILITY REVIEW OF 2021

Our activities related to the Access to Brain Health strategy gained momentum in 2021. We successfully completed the first year of our product donation partnership with International Health Partners (IHP), shipping medicine for treatment of more than 900 patients at NGO clinics in Lebanon, Gaza and the West Bank. In December, we signed a Letter of Intent with IHP covering the next three year outlining our shared aim to increase access to brain health to vulnerable people in the Middle east and Africa region.

One of the 2021 target for business ethics was that all employees at work globally should complete the Annual Code of Conduct training. This was achieved with a 99.7% completion rate.

We announced last year that we will have net zero emissions no later than 2050 and that we have set a new Science-Based target to reduce carbon emissions drastically over the next 15 years. We will reduce carbon emissions from production and company car fleet (scope 1 and 2) by almost two-thirds, and work with our suppliers to reduce our carbon footprint outside our premises (scope 3) by nearly a fifth. We can report significant progress on reducing scope 1 and 2 and have achieved a 16% reduction against the baseline year 2019. This is mainly due to fewer emission from company cars, as sales employees have been less on the road due to the COVID-19 pandemic.

With regards to scope 3 emissions, we estimate an increase in emissions by 28% compared to the baseline year of 2019. We currently calculate the majority of our scope 3 emissions based on fixed emission factors and spend data. As we have increased our clinical trial and other service purchasing as part of our business strategy, the calculated emissions have also increased. In 2021, a detailed action plan for scope 3 has been developed, including plans to progress actual emission data collection setting reduction targets with main suppliers. With this plan, we are confident that we will reach our 15-year reduction target.

In 2021, we achieved a recycling rate of solvents used in our production of 65%. This means we exceeded the target of 60% for the year. We also exceeded our annual target of 62% for recycling of general waste, achieving 74%.

Diversity & Inclusion is very important to Lundbeck and the level of women in management remains high in 2021 with a gender split for people managers globally of 42% women and 58% men. From 2022, we set ourselves a tougher target to improve the share of women in senior management and we will start reporting on this KPI going forward.

All in all, 8 out of 10 the sustainability targets for 2021 are achieved or on track. More detailed information about our sustainability policies, efforts and results is available in our Sustainability Report*.

In 2021, we had a frequency of lost time accident rate of 6.5%, not reaching our target of 5%. Even though a smaller share of the accidents is serious, we are determined to bend this curve.

* https://www.lundbeck.com/content/dam/lundbeck-com/masters/global-site/pdf/Sustainability_Report_2021.pdf

BUSINESS ETHICS AND CODE OF CONDUCT

We pursue our business purpose guided by our Code of Conduct that forms a fundamental part of our Sustainability Strategy. The Code of Conduct conveys Lundbeck's commitments and the expectations to its employees for areas that are critical to the pharmaceutical industry.

In 2021, we consolidated the global standards that assist us in upholding the Code of Conduct into a concise Compliance Program. It outlines the needed governance and continuous activities, for instance the annual assessment of risk, training, and monitoring, as well as management's review of the program's effectiveness. It builds on the trust we have in our employees and is founded on our core belief "Responsible – we act with respect and integrity in everything we do".

ETHICS BROUGHT TO LIFE BY PEOPLE

Our ethics are formed at the top in the Compliance Committee with Executive Management members and key compliance functions who review and maintain Lundbeck's ethical standards. The translation into operational requirements is driven by our Global Compliance Organization consisting of Headquarter compliance functions and the 17 Regional Compliance Officers who represent our global affiliates. Collectively, they help prevent misconduct, detect compliance issues and take prompt corrective and preventive action. They support Lundbeck's Senior Management who are held accountable for ethics and compliance within their organization.

Every year, we invest in the development of global awareness campaigns and specific compliance training. We involve people from the global organization in the development to keep the initiatives relevant, engaging and ensure people know how to act.

Our audits and monitoring efforts aim to validate the understanding of the requirements and capture suggestions for improvements of processes and controls. Specific feedback is provided to ensure local management ownership and follow-up.

Lastly, our Chief Compliance Officer provides regular briefings on current developments at meetings within the Board of Directors and more detailed within the Audit Committee.

STAYING ATTUNED WITH SOCIETAL EXPECTATIONS

The regulatory landscape Lundbeck operates in is constantly changing. The Compliance Programs help us stay attuned with societal expectations. As a recent example, we have defined our Data Ethics Policy in response to an update in the Danish Financial Statements Act.

Our Data Ethics Policy states the principles we commit to apply beyond staying compliant with current data protection regulations. It is especially relevant in the development or application of fast-moving, innovative digital technologies. The Data Ethics Policy will help us make ethical and responsible decisions on the use of data with maximal benefit and minimal harm for individuals and society. You can read more and find our Data Ethics Policy on Lundbeck.com*.

OPEN DIALOGUE AND ACCESS TO RAISING CONCERNS

We encourage everyone to have ongoing dialogue on compliance and ethics with their colleagues and manager. However, we realize that some questions, dilemmas or concerns might not be discussed openly. Our Compliance Hotline** is a secure line that is open for everyone to raise concerns about a potential violation of the Code of Conduct. It is a cornerstone in our Compliance Program that helps protecting Lundbeck.

All reports are investigated in line with our global procedure that safeguards individuals who report concerns, participate in investigations or are suspected of misconduct. Our investigations are guided by principles that manifest Lundbeck's beliefs, including:

- Protection of good-faith reporters against retaliation
- Confidentiality
- Cooperation
- Proportionality
- Communication

* https://www.lundbeck.com/global/sustainability/responsible-business-conduct
** https://www.lundbeck.com/global/compliance-hotline

RISK MANAGEMENT

Lundbeck's risk management processes ensure close monitoring, systematic risk assessment and the ability to identify, manage and report internal and external risks in a changing environment.

RISK MANAGEMENT GOVERNANCE STRUCTURE

Lundbeck is exposed to risks throughout the value chain, from the initial stages of developing innovative pharmaceuticals in our in-house facilities to the proven pharmaceuticals reaching the patients.

Lundbeck's risk management processes are continually updated and adapted to match internal and external requirements, where risks related to trends, global economic developments, geopolitics and long-term forecasts are assessed as part of Lundbeck's long-term strategic planning. With this understanding of the wider context and an accurate and complete overview of Lundbeck's activities and resources, Executive Management has a clear basis for decision-making on our overall risk-exposure and mitigating actions.

The overall responsibility of risk management lies with the Board of Directors. Oversight of compliance within the established enterprise risk management framework is delegated to the Audit Committee.

RISK MANAGEMENT FRAMEWORK

In Lundbeck, enterprise risk management is considered an integral part of doing business, which is reflected in the risk management process.

The process starts in the decentralized teams within each Executive Management areas, which have detailed and extensive knowledge of the risks within their areas of responsibility. They systematically identify, quantify, respond to and monitor risks. They are ideally placed to mitigate our risk exposure in the first instance.

Each area shares the risks with the central Risk Office on a semi-annual basis. The central Risk Office provides the risk framework and conducts interviews with management, risk contributors and risk responsible individuals. This represents an integral part in the alignment of risks reported to the Risk Office. In cooperation with each Executive Management area, the Risk Office assesses the likelihood of an event occurring and the potential impact on the Group in terms of financial loss. The key risk overview is presented to Executive Management for their assessment and approval, before it is reported to the Audit Committee and approved by the Board of Directors.

The corporate risk register kept by the Risk Office provides a consolidated overview of Lundbeck's risk exposure by detailing each risk, risk category and type. The risk descriptions provide details on the event, its current status, the status of the response and the likelihood and potential impact. Our reporting process defines six risk categories:

- Research and Development
- Market, Commercial, and Strategy
- Supply, Quality and Product Safety
- IT security
- Legal and Compliance
- Financial

Lundbeck has developed a concise process covering day-to-day risk identification, monitoring, mitigation and reporting within each Executive Management area, all the way to the final reporting to Executive Management. This process enables Executive Management to control Lundbeck's risk appetite when deciding strategy and practice, and when making day-to-day decisions.

KEY RISKS

RISK AREA	DESCRIPTION	POTENTIAL CONSEQUENCES	MITIGATING ACTIONS
RESEARCH AND DEVELOPMENT RISKS	Exposure to delays of regulatory approval or failure in the development of new and innovative medicines. Exposure to delays is higher due to COVID-19. Increased regulatory requirements for clinical trials. Data requirements from production of non-clinical and clinical studies.	Delays or failure of new products could impact patients who cannot benefit from these products and decrease earnings for the company and its shareholders. Delay in regulatory approval may impact the patient's drug access. Issues with data integrity can lead to delays in studies and production – ultimately leading to withdrawals and failure to gain approval.	Clinical trials are run and evaluated throughout the research and development phase. Ongoing evaluation of the product pipeline, regulatory requirements and product benefit. Robust quality management system is in place to ensure consistent quality, data integrity and the compliance of clinical trials and clinical safety activities.
MARKET, COMMERCIAL AND STRATEGY RISKS	Price pressure, new legislation, regulation of reimbursement and healthcare reforms in key markets, etc. Market dynamic change resulting from COVID-19.	Market restrictions could impact patients' access to Lundbeck products. Changes in market conditions and health care reforms could affect the pricing landscape as well as rebates and discounts. These changes could impact Lundbeck's results.	Understanding the price development in main markets. Working with healthcare authorities around the world to document the value of our pharmaceuticals. Monitor political developments and requirements.
SUPPLY, QUALITY AND PRODUCT SAFETY RISKS	Disruption of production or supply or unpredictable demand and stock-out. Loss of licenses to manufacture or sell pharmaceuticals. Defects in product quality or safety.	Product shortage, not giving patients needed access to the pharmaceuticals they require.	Systems, policies and procedures are in place to ensure product supply, quality and safety. Dual sourcing strategy and high level of safety stock of key products. Robust pharmacovigilance system.
IT SECURITY RISKS	Cyber-attacks and cyber fraud. System down-time.	Disruption or compromise of IT security could affect all parts of Lundbeck's operations and product supply to patients. Data loss.	IT policies and procedures are in place to safeguard processes and data. Cyber-attack testing is being performed on a regular basis. Annual testing of IT disaster recovery plan.
LEGAL AND COMPLIANCE RISKS	Intellectual property rights. Non-compliance with laws, industry standards, regulations and our Code of Conduct. Exposure to legal claims or investigations.	Infringement of intellectual property rights could decrease earnings for shareholders. Loss, expiration or invalidation of intellectual property rights could decrease earnings for shareholders. Non-compliance with laws, industry standards, regulations, or our Code of Conduct could affect our 'license to operate' and impact our reputation and earnings for shareholders.	Policies are in place to safeguard intellectual property rights. The Code of Conduct Compliance Program and global organization are pivotal in sustaining our compliance culture. Ongoing monitoring is conducted, and annual training is provided to all employees. Third parties are committed to observe our legal and ethical standards in mutually binding agreements and are subject to monitoring. Global Compliance Hotline and investigation procedure.
FINANCIAL RISKS	Fluctuations in exchange rates incl. impact from currency devaluations.	Lundbeck's cash flow and earnings could be impacted in cases of fluctuations in key currencies.	Treasury policy. Monitoring the financial exposure and hedging a significant part of Lundbeck's currency risk up to 18 months in advance.

Board of Directors*

LARS SØREN RASMUSSEN
Chairman

- Born 1959
- Elected 2013
- Considered independent

Lundbeck committees
- Audit Committee (M)
- Remuneration & Nomination Committee (C)

Directorships
- Coloplast A/S (C)
- Danish Industry (DI) Committee on Diversity (C)
- Danish Committee of Corporate Governance (C)
- Life Science Council under the Danish Ministry of Industry, Business and Financial Affairs (C)

Holding of shares
20,000

LENE SKOLE-SØRENSEN
Deputy Chairman

- Born 1959
- CEO, Lundbeck Foundation
- Elected 2015
- Considered dependent

Lundbeck committees
- Remuneration & Nomination Committee (M)
- Scientific Committee (M)

Directorships
- ALK-Abelló A/S (DC)
- Falck A/S (DC)
- Ørsted A/S (DC)
- Tryg A/S (M)
- Tryg Forsikring A/S (M)

Holding of shares
8,808

LARS ERIK HOLMQVIST

- Born 1959
- Elected 2015
- Considered dependent

Lundbeck committees
- Audit Committee (M)

Directorships
- Biovica International AB (C)
- Lundbeck Foundation (M)
- ALK-Abelló A/S (M)
- Vitrolife AB (M)
- Naka UK topco Ltd. (M)

Holding of shares
15,000

JEREMY MAX LEVIN

- Born 1953
- CEO, Ovid Therapeutics
- Elected 2017
- Considered independent

Lundbeck committees
- Scientific Committee (C)

Directorships
- Ovid Therapeutics (C)
- Opthea (C)
- BIO (the Biotechnology Innovation Organization) (M)

Holding of shares
None

JEFFREY BERKOWITZ

- Born 1966
- CEO, Real Endpoints
- Elected 2018
- Considered independent

Lundbeck committees
- Remuneration & Nomination Committee (M)
- Scientific Committee (M)

Directorships
- PharmaTwoB (C)
- Click Therapeutics (M)
- Esperion Therapeutics, Inc. (M)
- Zealand Pharma A/S (M)
- Uniphar PLC (M)

Holding of shares
None

Per 31.12 2021
C = Chairman, DC = Deputy Chairman, M = Member
*For more information about the Board of Directors and their competencies, please visit https://www.lundbeck.com/global/about-us/our-leadership/board-of-directors

Board of Directors*

ILSE DOROTHEA WENZEL

- Born 1969
- Elected 2021
- Considered independent

Lundbeck committees
- Audit Committee (C)

Directorships
- Supervisory Board of Fresenius Medical Care AG & Co. KGaA (M)

Holding of shares
None

SANTIAGO ARROYO

- Born 1960
- Elected 2021
- Considered independent

Lundbeck committees
- Scientific Committee (M)

Directorships
- Marinus Pharmaceuticals (M)

Holding of shares
None

HENRIK SINDAL JENSEN

- Born 1969
- Director, Corporate Business Development & Licensing
- Elected by employees in 2018

Holding of shares
None

RIKKE KRUSE ANDREASEN

- Born 1971
- Senior Laboratory Technician
- Elected by employees in 2018

Holding of shares
5

LUDOVIC TRANHOLM OTTERBEIN

- Born 1973
- Director, Research Informatics & Operations
- Elected by employees in 2018

Directorships
- Lundbeck Foundation (M)

Holding of shares
300

Per 31.12 2021
C = Chairman, DC = Deputy Chairman, M = Member
*For more information about the Board of Directors and their competencies, please visit https://www.lundbeck.com/global/about-us/our-leadership/board-of-directors

Executive Management*

DEBORAH DUNSIRE
President and CEO

- Born 1962
- Joined Lundbeck in 2018

Directorships
- Syros Pharmaceuticals (M)
- Ultragenyx Pharmaceutical Inc. (M)

Holding of shares
7,739

LARS BANG
Executive Vice President,
Product Development & Supply

- Born 1962
- Joined Lundbeck in 1988

Directorships
- O.B. Holding Aps (M)

Holding of shares
49,177

ANDERS GÖTZSCHE **
Executive Vice President, CFO

- Born 1967
- Joined Lundbeck in 2007

Directorships
- Obsidian Therapeutics (M)
- DFDS (M)
- Rosborg Møbler A/S (C)

Holding of shares
49,404

ELISE HAUGE ***
Executive Vice President,
People & Communication

- Born 1967
- Joined Lundbeck in 2019

Directorships
CBS Executive Fonden (M)

Holding of shares
1,225

Per 31.12 2021
C = Chairman, DC = Deputy Chairman, M = Member
* For more information about Executive Management and their competencies, please visit https://www.lundbeck.com/global/about-us/our-leadership/executive-management
** Anders Götzsche steps down as CFO by the end of March 2022
*** Elise Hauge (Executive Vice President, People & Communication) and Keld Flintholm Jørgensen (Executive Vice President, Corporate Strategy & Business Development) participate in the Executive Management in their respective roles but are not members of the Executive Management as registered with the Danish Business Authority

Executive Management*

KELD FLINTHOLM JØRGENSEN **
Executive Vice President,
Corporate Strategy & Business Development

- Born 1971
- Joined Lundbeck in 2019

Directorships
None

Holding of shares
None

PER JOHAN LUTHMAN
Executive Vice President,
Research & Development

- Born 1959
- Joined Lundbeck in 2019

Directorships
None

Holding of shares
4,439

JACOB TOLSTRUP
Executive Vice President,
Commercial Operations

- Born 1972
- Joined Lundbeck in 1999

Directorships
Pharmacosmos A/S (C)

Holding of shares
287

Per 31.12 2021
C = Chairman, DC = Deputy Chairman, M = Member
* For more information about Executive Management and their competencies, please visit https://www.lundbeck.com/global/about-us/our-leadership/executive-management
** Elise Hauge (Executive Vice President, People & Communication) and Keld Flintholm Jørgensen (Executive Vice President, Corporate Strategy & Business Development) participate in the Executive Management in their respective roles but are not members of the Executive Management as registered with the Danish Business Authority

THE LUNDBECK SHARE

2021 was an eventful year for Lundbeck with solid financial results and continued progression against our Expand and Invest to Grow strategy.

The Lundbeck share price began the year at DKK 208.80 (closing price end 2020), reached a year high of DKK 258.10 (16 February), recorded a year low of DKK 152.45 (14 December) and ended the year at DKK 168.85. This is a decrease of 19% for the year. In comparison, the Danish OMXC25 index increased by 17%, while the MSCI European Pharmaceutical Index increased by 20%.

TURNOVER

Total trading in Lundbeck shares amounted to DKK 22.9 billion in 2021, while the average daily turnover was DKK 91.1 million, a decrease of 17% compared to 2020. A total of 117 million shares were traded in 2021, equivalent to 464,493 shares per day, a decrease of 7% compared to 2020.

Lundbeck has an American Depository Receipt (ADR) Level 1 program. The ADR volume decreased slightly during 2021. At the end of 2021, 208,407 ADRs were outstanding, representing 0.1% of the total shares or 0.3% of the free float.

SHARE CAPITAL

Lundbeck shares are listed on the Copenhagen Stock Exchange, Nasdaq Copenhagen. All shares belong to the same class and rank equally. The shares are negotiable and there are no restrictions on their transferability. Each share has a nominal value of DKK 5 and carries one vote. At the end of 2021, Lundbeck's total share capital amounted to DKK 996 million, which is equivalent to 199.2 million shares.

COMPOSITION OF SHAREHOLDERS

According to the Lundbeck share register, the company had approximately 66,000 shareholders at the end of 2021, representing approximately 99% of the outstanding shares. The Lundbeck Foundation (Lundbeckfond Invest A/S) is the company's largest shareholder, holding 137,351,918 shares at the end of 2021, which equals 69% of the share capital and voting rights.

The Lundbeck Foundation is the only shareholder to report a holding in excess of 5% of the share capital. At the end of 2021, investors in North America held 28% of the free float compared to 32% in 2020; European (excl. Danish) investors held 27% compared to 31% in 2020; Danish investors held 17% compared to 14% in 2020; rest of the world held 2%, compared to 4% in 2020, and other investors, incl. private, held 27% compared to 19% in 2020.

In order to fund our long-term share-based incentive programs, Lundbeck acquired treasury shares in 2021 at a value of DKK 34 million (DKK 29 million in 2020), corresponding to 144,000 shares (114,000 shares in 2020).

At the end of 2021, Lundbeck's Board of Directors and Executive Management held a total of 156,384 Lundbeck shares compared to 137,883 Lundbeck shares by the end of 2020. The total number of shares in 2021 corresponds to 0.08% of the total shares outstanding.

LUNDBECK AND THE EQUITY MARKET

Through the Investor Relations (IR) function, Lundbeck aspires to provide a fair and accurate view of its activities by providing ongoing communications with prospective and existing shareholders and equity analysts. Through regular meetings and dialogue, we convey relevant information about our vision and goals, business areas and financial development.

In 2021, IR activity was materially impacted by the global pandemic with lockdowns and travel restrictions. Lundbeck's Investor Relations team held more than 250 meetings, most of them based on digital platforms such as Teams and Zoom. Lundbeck has also participated/presented at 12 investor conferences, again most of which were virtual.

Lundbeck is currently covered by 18 sell-side analysts, incl. the major global investment banks that regularly produce research reports on Lundbeck. A list of analysts covering Lundbeck is available on www.lundbeck.com*.

After the announcement of our interim and full-year reports, members of Lundbeck's Executive Management and Investor Relations team always conduct roadshows to inform investors and analysts about the company's latest developments. Our investor presentations are available for download on www.lundbeck.com**.

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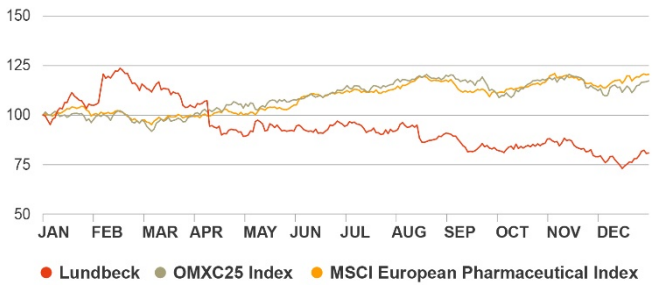
https://www.lundbeck.com/global/investors/the-share/analyst-coverage
**
https://www.lundbeck.com/global/investors/reports-and-presentations

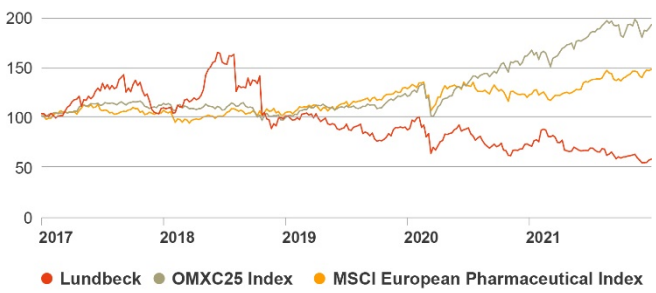
Financial calendar 2022

23 March 2022	Annual General Meeting 2022
26 March 2022	Dividends for 2021 at the disposal of shareholders
11 May 2022	Financial statements for the first three months of 2022
17 August 2022	Financial statements for the first six months of 2022
9 November 2022	Financial statements for the first nine months of 2022

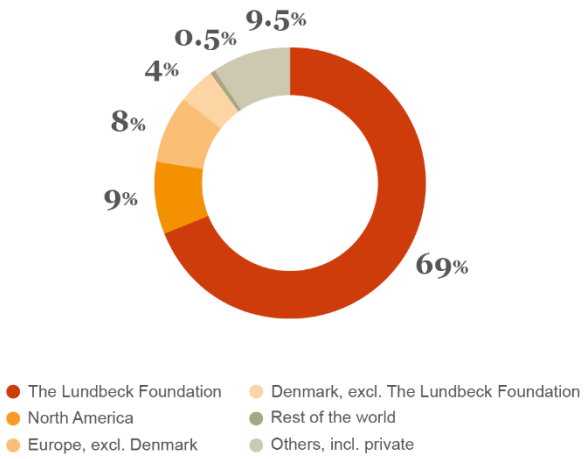
STOCK PERFORMANCE 2021



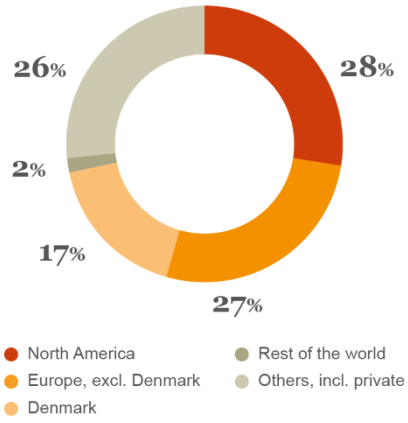
STOCK PERFORMANCE 2017-2021



COMPOSITION OF OWNERSHIP, END 2021



COMPOSITION OF FREE FLOAT, END 2021



SHARE RATIOS

	2021	2020	2019	2018	2017
Earnings per share, basic (EPS) (DKK)	6.63	7.96	11.64	17.88	28.14
Earnings per share, diluted (DEPS) (DKK)	6.63	7.96	11.64	17.87	28.10
Cash flow from operating activities per share, diluted (DKK)	11.44	19.31	13.13	30.09	20.44
Net asset value per share, diluted (DKK)	92.01	85.42	84.45	84.67	76.03
Proposed dividend per share (DKK)	2.00	2.50	4.10	12.00	8.00
Dividend payout ratio (%)	30	31	35	67	29
Dividend yield (%)	1.2	1.2	1.6	4.2	2.5
Share price, year-end (DKK)	168.85	208.80	254.4	285.4	315.0
Share price, high (DKK)	258.10	302.4	306.9	475.9	411.8
Share price, low (DKK)	152.45	178.15	217.2	257.0	315.0
Price/Earnings, diluted (DKK)	25.47	26.25	21.86	15.97	11.21
Price/Cash flow, diluted (DKK)	14.76	10.82	19.38	9.48	15.41
Price/Net asset value, diluted (DKK)	1.84	2.44	3.01	3.37	4.14
Market capitalization, year-end (DKKm)	33,626	41,582	50,660	56,825	62,700
Annual trading, million shares	117	108.9	84.4	99.2	107.7
Average trading per trading day, thousands of shares	464.5	435.7	340.4	400.1	429.2

SHARE FACTS

Number of shares, year-end	199,148,222
Share capital, year-end (DKK)	995,741,110
Nominal value per share (DKK)	5
Holding of treasury shares	502,115
Free float (%)	31
IPO	18 June 1999
Stock exchange	Nasdaq Copenhagen
ISIN code	DK0010287234
Ticker	LUN.CO (Reuters), LUN DC (Bloomberg)
ADR-program	Sponsored level 1 program
ADR trading code	HLUYY

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

NOTES

STATEMENT OF PROFIT OR LOSS

1 January – 31 December

	Notes	2021 DKKm	2020 DKKm
Revenue	2	16,299	17,672
Cost of sales	3	3,648	4,166
Gross profit		**12,651**	**13,506**
Sales and distribution costs	3	5,885	5,946
Administrative expenses	3	933	966
Research and development costs	3	3,823	4,545
Other operating expenses, net		-	59
Profit from operations (EBIT)		**2,010**	**1,990**
Financial income	4	14	277
Financial expenses	4	443	361
Profit before tax		**1,581**	**1,906**
Tax on profit for the year	5	263	325
Profit for the year		**1,318**	**1,581**
Earnings per share, basic (EPS) (DKK)	12	6.63	7.96
Earnings per share, diluted (DEPS) (DKK)	12	6.63	7.96

STATEMENT OF COMPREHENSIVE INCOME

1 January – 31 December

	Notes	2021 DKKm	2020 DKKm
Profit for the year		**1,318**	**1,581**
Actuarial gains/losses	13	(1)	(1)
Tax	12	-	1
Items that will not be reclassified subsequently to profit or loss		**(1)**	**-**
Exchange rate gains/losses on investments in foreign subsidiaries		960	(1,007)
Exchange rate gains/losses on additions to net investments in foreign subsidiaries		(157)	(21)
Hedging of net investments in foreign subsidiaries	19	(127)	356
Deferred exchange gains/losses, hedging	19	(340)	313
Deferred fair value of interest rate swaps	19	63	(90)
Exchange gains/losses, hedging (transferred to revenue)	19	(53)	(5)
Tax	12	137	(124)
Items that may be reclassified subsequently to profit or loss		**483**	**(578)**
Other comprehensive income		**482**	**(578)**
Total comprehensive income		**1,800**	**1,003**

STATEMENT OF FINANCIAL POSITION – ASSETS

At 31 December

	Notes	2021 DKKm	2020 DKKm
Goodwill	6	5,377	4,845
Product rights	6	17,097	17,632
Other rights	6	143	90
Projects in progress	6	133	171
Intangible assets		**22,750**	**22,738**
Land and buildings	7	1,179	1,219
Plant and machinery	7	467	444
Other fixtures and fittings, tools and equipment	7	165	122
Prepayments and assets under construction	7	612	492
Right-of-use assets	8	484	456
Property, plant and equipment		**2,907**	**2,733**
Other financial assets		57	116
Other receivables		134	104
Deferred tax assets	5	193	233
Financial and other assets		**384**	**453**
Non-current assets		**26,041**	**25,924**
Inventories	9	**2,775**	**2,163**
Trade receivables	10	2,459	2,553
Income taxes receivable		183	217
Other receivables		289	868
Prepayments		627	380
Receivables		**3,558**	**4,018**
Cash and bank balances	11	**2,279**	**3,924**
Current assets		**8,612**	**10,105**
Assets		**34,653**	**36,029**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

At 31 December

	Notes	2021 DKKm	2020 DKKm
Share capital	12	996	996
Foreign currency translation reserve		874	134
Hedging reserve	19	(162)	95
Retained earnings		16,571	15,748
Equity		**18,279**	**16,973**
Retirement benefit obligations	13	288	288
Deferred tax liabilities	5	1,448	1,614
Provisions	15	92	139
Bank debt and bond debt	17	4,783	5,397
Lease liabilities	8	453	416
Other payables	18	492	1,190
Non-current liabilities		**7,556**	**9,044**
Retirement benefit obligations	13	1	2
Provisions	15	1,405	1,672
Bank debt	17	-	2,000
Trade payables		3,914	3,740
Lease liabilities	8	86	77
Income taxes payable		519	675
Other payables	18	2,893	1,846
Current liabilities		**8,818**	**10,012**
Liabilities		**16,374**	**19,056**
Equity and liabilities		**34,653**	**36,029**

STATEMENT OF CHANGES IN EQUITY

At 31 December

	Notes	Share capital DKKm	Foreign currency translation reserve DKKm	Hedging reserve DKKm	Retained earnings DKKm	Total equity DKKm
2021						
Equity at 1 January		**996**	**134**	**95**	**15,748**	**16,973**
Profit for the year		-	-	-	1,318	1,318
Other comprehensive income	12	-	740	(257)	(1)	482
Comprehensive income		**-**	**740**	**(257)**	**1,317**	**1,800**
Distributed dividends, gross	12	-	-	-	(498)	(498)
Dividends received, treasury shares		-	-	-	1	1
Buyback of treasury shares	12	-	-	-	(34)	(34)
Incentive programs	14	-	-	-	37	37
Tax on other transactions in equity	5	-	-	-	-	-
Other transactions		**-**	**-**	**-**	**(494)**	**(494)**
Equity at 31 December		**996**	**874**	**(162)**	**16,571**	**18,279**
2020						
Equity at 1 January		**996**	**882**	**(75)**	**14,979**	**16,782**
Profit for the year		-	-	-	1,581	1,581
Other comprehensive income	12	-	(748)	170	-	(578)
Comprehensive income		**-**	**(748)**	**170**	**1,581**	**1,003**
Distributed dividends, gross		-	-	-	(816)	(816)
Dividends received, treasury shares		-	-	-	1	1
Capital increase through exercise of warrants		-	-	-	1	1
Buyback of treasury shares	12	-	-	-	(29)	(29)
Incentive programs	14	-	-	-	30	30
Tax on other transactions in equity	5	-	-	-	1	1
Other transactions		**-**	**-**	**-**	**(812)**	**(812)**
Equity at 31 December		**996**	**134**	**95**	**15,748**	**16,973**

STATEMENT OF CASH FLOWS

At 31 December

	Notes	2021 DKKm	2020 DKKm
Profit from operations (EBIT)		**2,010**	**1,990**
Adjustment for non-cash items:			
Amortization, depreciation and impairment losses		1,710	2,793
Incentive programs		37	30
Change in provisions		(447)	(307)
Other adjustments		(152)	(39)
Change in working capital:			
Change in inventories		(572)	(265)
Change in receivables		540	(428)
Change in short-term debt		(273)	675
Cash flows from operations before financial receipts and payments		**2,853**	**4,449**
Financial receipts		68	11
Financial payments		(200)	(298)
Cash flows from ordinary activities		**2,721**	**4,162**
Income taxes paid		(449)	(325)
Cash flows from operating activities		**2,272**	**3,837**
Purchase of intangible assets	6	(202)	(114)
Purchase of property, plant and equipment	7	(410)	(364)
Sale of property, plant and equipment		2	1
Purchase of other financial assets		-	(17)
Sale of other financial assets		-	27
Cash flows from investing activities		**(610)**	**(467)**
Cash flows from operating and investing activities (free cash flow)		**1,662**	**3,370**

	Notes	2021 DKKm	2020 DKKm
Proceeds from loans and issue of bonds	17	400	3,701
Repayment of bank loans and borrowings	17	(3,123)	(5,169)
Repayment of lease liabilities	8	(82)	(83)
Buyback of treasury shares	12	(34)	(29)
Capital increase through exercise of warrants		-	1
Dividends paid in the financial year, net		(497)	(815)
Cash flows from financing activities		**(3,336)**	**(2,394)**
Net cash flows for the year		**(1,674)**	**976**
Cash and bank balances at 1 January		3,924	3,008
Unrealized exchange gains/losses on cash and bank balances		29	(60)
Net cash flows for the year		(1,674)	976
Cash and bank balances at 31 December		**2,279**	**3,924**
Interest-bearing debt, cash and bank balances, net, is composed as follows:			
Cash and bank balances	11	2,279	3,924
Interest bearing debt		(5,468)	(8,030)
Interest-bearing debt, cash and bank balances, net, at 31 December – net cash/(net debt)		**(3,189)**	**(4,106)**

NOTE 1

1 BASIS OF PREPARATION

1.1 Reporting entity

H. Lundbeck A/S (herein denominated the "Parent company" or "Company") is domiciled in Denmark. The Company's registered office is at Ottiliavej 9, 2500 Valby. These consolidated financial statements comprise the Parent company and its subsidiaries (together referred to as the "Group" or "Lundbeck"). The Group is engaged in research, development, production and sale of pharmaceuticals for the treatment of psychiatric and neurological disorders. See note 2 *Revenue and segment information*.

1.2 Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act. The consolidated financial statements were approved by the Board of Directors and authorized for issue on 9 February 2022.

The statement of financial position is also referred to as "balance sheet".

Details of the Group's accounting policies are included in note 25 *Significant accounting policies* and in note 1.7 *New standards and amendments issued but not yet effective*.

1.3 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in Danish kroner (DKK), which is also the functional currency of the Parent company. All amounts have been rounded to the nearest DKK million, unless otherwise indicated.

1.4 Principal accounting policies

The consolidated financial statements have been prepared to give a true and fair view of the Group's financial position at 31 December 2021 and financial performance for the year. The significant accounting policies are described in note 25 *Significant accounting policies*. Management believes that the accounting policies listed in note 1.5 *Use of judgments and estimates* are principal to the financial statements.

1.5 Use of judgments and estimates

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 recognized prospectively.

Management believes that the following accounting estimates, assumptions and judgments are significant to the consolidated financial statements.

Principal accounting policies	Key accounting estimates, assumptions and judgments	Notes
Provision for discounts and rebates	Estimate of discounts and rebates in the U.S.	2, 15
Income taxes and deferred income taxes	Judgment and estimate of deferred tax assets and liabilities and provision for uncertain tax positions	5
Impairment of product rights	Estimate of the value-in-use methodology for impairment of product rights	6
Provisions for legal disputes, contingent assets and liabilities	Estimate of ongoing legal disputes, litigations and investigations	15,16
Other payables - contingent consideration	Assumptions and estimates used in the calculation of the fair value related to contingent consideration from the businesses acquired in 2019	18

1.6 Changes in significant accounting policies

New and amended standards adopted by the group

Effective 1 January 2021, a number of amendments to the accounting standards were implemented.

None of the amendments have a material impact on the accounting policies and/or on the consolidated financial statements, consequently, no changes to the accounting policies or retrospective adjustments have been made as a result of adopting these standards and/or amendments.

NOTES 1-2

1 BASIS OF PREPARATION - CONTINUED

1.7 New standards and amendments issued but not yet effective
A number of new standards and amendments are effective for annual periods beginning after 1 January 2021 though not mandatory for annual reporting periods ending on 31 December 2021. Earlier application is permitted; however, the new or amended standards have not been early adopted by the Group.

The amended standards are as follows:
- A number of narrow-scope amendments to IFRS 3 *Business Combinations*, IAS 16 *Property, Plant and Equipment,* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and some annual improvements on IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments* and IFRS 16 *Leases*
- Classification of liabilities as current or non-current (Amendments to IAS 1 *Presentation of Financial Statements*)
- Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2)
- Definition of Accounting Estimate (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)
- Amendment to IAS 12 *Income taxes* - deferred tax related to assets and liabilities arising from a single transaction.

The Group expects to adopt the new standards, improvements, amendments and interpretations when they become mandatory.

None of the amended standards are expected to have significant impact on the accounting policies and/or on the consolidated financial statements.

1.8 European Single Electronic Format (ESEF)
The Annual Report is prepared in XHTML format, and the consolidated financial statements are tagged using inline eXtensible Business Reporting Language (iXBRL). The iXBRL tags comply with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation. Where a financial statement line item is not defined in the ESEF taxonomy, an extension to the taxonomy has been created. Extensions are anchored to elements in the ESEF taxonomy, except for extensions which are subtotals.

The Annual Report submitted to the Danish Financial Supervisory Authority consists of the XHTML document together with certain technical files, all included in a ZIP file named HLUNDBECK-2021-12-31-en.zip.

2 REVENUE AND SEGMENT INFORMATION

The Group is engaged in research, development, production and sale of pharmaceuticals for the treatment of psychiatric and neurological disorders, which is the Group's single business (operating) segment. The business segment reflects the way in which Management makes decisions and assesses the business performance.

The Group is organized in geographical regions. The tables below show the Group's revenue from external customers broken down by key products and geographical regions.

2021	Europe DKKm	North America DKKm	International Markets DKKm	Group DKKm
Abilify Maintena®	1,175	1,019	226	2,420
Brintellix®/Trintellix®	998	1,789	739	3,526
Cipralex®/Lexapro®	530	117	1,699	2,346
Northera®	-	665	-	665
Onfi®	-	505	-	505
Rexulti®/Rxulti®	25	2,725	99	2,849
Sabril®	-	657	-	657
Vyepti®	-	489	3	492
Other pharmaceuticals	771	279	1,389	2,439
Revenue by product	**3,499**	**8,245**	**4,155**	**15,899**
Other revenue				347
Effects from hedging				53
Total revenue				**16,299**
Of this amount:				
Royalty				775
Down payments and milestone received				13

NOTES 2-3

2 REVENUE AND SEGMENT INFORMATION - CONTINUED

2020	Europe DKKm	North America DKKm	International Markets DKKm	Group DKKm
Abilify Maintena®	1,081	980	210	2,271
Brintellix®/Trintellix®	837	1,682	583	3,102
Cipralex®/Lexapro®	523	127	1,730	2,380
Northera®	-	2,553	-	2,553
Onfi®	-	642	-	642
Rexulti®/Rxulti®	18	2,537	65	2,620
Sabril®	-	777	-	777
Vyepti®	-	93	-	93
Other pharmaceuticals	870	399	1,469	2,738
Revenue by product	**3,329**	**9,790**	**4,057**	**17,176**
Other revenue				491
Effects from hedging				5
Total revenue				**17,672**
Of this amount:				
Royalty				752
Down payments and milestone received				32

In 2021, Denmark generated local revenue from external customers in the country of domicile in the amount of DKK 30 million (DKK 29 million in 2020). The U.S generated local revenue of DKK 7,456 million (DKK 8,804).

The U.S. and Denmark are the only countries where sales contribute 10% or more of total revenue.

In 2021, no single customer contributes 10% or more of total revenue. In 2020, one customer in the U.S. contributed to approximately DKK 1.8 billion of total revenue.

Intangible assets and property, plant and equipment by geographic region	2021 DKKm	2020 DKKm
Denmark	11,070	11,452
USA	12,778	12,487
Other countries	1,809	1,532
Total	**25,657**	**25,471**

3 EMPLOYEE COSTS

Breakdown of employee costs	2021 DKKm	2020 DKKm
Short-term employee benefits	3,996	4,249
Retirement benefits	256	244
Social security costs	332	353
Equity- and cash-settled incentive programs	41	34
Severance and other costs from restructuring activities	100	15
Total	**4,725**	**4,895**

For details on payments related to share-based incentive programs, see note *14 Incentive programs*. For details on provisions for severance and other costs from restructuring activities, see note *15 Provisions*.

Employee costs for the year are included in the following functions in the statement of profit or loss:

Employee costs	2021 DKKm	2020 DKKm
Cost of sales	720	703
Sales and distribution costs	2,477	2,550
Administrative expenses	588	628
Research and development costs	940	1,014
Total	**4,725**	**4,895**

Information on employees

	2021	2020
Average number of full-time employees in the financial year	**5,488**	**5,717**
Number of full-time employees at 31 December		
In Denmark	1,751	1,728
In other countries	3,597	3,900
Total	**5,348**	**5,628**

NOTE 3

3 EMPLOYEE COSTS – CONTINUED

Remuneration of the registered Executive Management

	Salary DKKm	Cash bonus DKKm	Pension DKKm	Other benefits DKKm	Equity- and cash-settled incentive programs DKKm	Total DKKm	Tax indemni-fication[1] DKKm	Total after tax indemni-fication DKKm
2021								
Deborah Dunsire[1], President and CEO	9.9	8.0	-	0.2	4.2	22.3	34.3	56.6
Lars Bang, Executive Vice President, Product Development & Supply	4.1	1.3	1.1	0.2	2.3	9.0	-	9.0
Anders Götzsche, Executive Vice President, CFO	5.1	1.6	1.3	0.2	0.5	8.7	-	8.7
Per Johan Luthman, Executive Vice President, Research & Development	4.0	1.3	1.1	0.2	1.8	8.4	-	8.4
Jacob Tolstrup, Executive Vice President, Commercial Operations	4.0	1.3	1.0	0.2	2.2	8.7	-	8.7
Total	**27.1**	**13.5**	**4.5**	**1.0**	**11.0**	**57.1**	**34.3**	**91.4**
2020								
Deborah Dunsire[1], President and CEO	9.6	9.1	-	0.4	3.9	23.0	2.7	25.7
Lars Bang, Executive Vice President, Product Development & Supply	4.0	1.8	1.1	0.2	2.2	9.3	-	9.3
Anders Götzsche, Executive Vice President, CFO	5.0	2.4	1.3	0.2	2.3	11.2	-	11.2
Per Johan Luthman, Executive Vice President, Research & Development	3.8	1.7	1.0	0.2	1.1	7.8	-	7.8
Jacob Tolstrup, Executive Vice President, Commercial Operations	3.9	1.7	1.0	0.2	1.9	8.7	-	8.7
Total	**26.3**	**16.7**	**4.4**	**1.2**	**11.4**	**60.0**	**2.7**	**62.7**

1) According to the employment agreement with Deborah Dunsire, Lundbeck is entitled to pay the difference in taxation on investment return from personal assets between the U.S. and Denmark.

Each of the registered Executive Management members participates in a short-term incentive program that provides an annual cash bonus based on the achievement of predetermined targets for the preceding financial year. The short-term incentive payment levels will be determined by the Board of Directors from year to year. The CEO has a target of up to 100% and a maximum of up to 117% of the fixed annual base salary. The other registered Executive Management members have a target of up to 33.33% and a maximum of up to 50% of the fixed annual base salary. All registered Executive Management members may receive payment below target and potentially no payment in case of performance below target.

Remuneration of key management personnel

	2021 DKKm	2020 DKKm
Short-term employee benefits	104	96
Retirement benefits	10	11
Other social security costs	1	1
Equity- and cash-settled incentive programs	12	11
Total	**127**	**119**

Key management personnel are defined as persons who report directly to the registered Executive Management.

Remuneration of the Board of Directors

The total remuneration of the Board of Directors for 2021 amounted to DKK 8.5 million (DKK 7.5 million in 2020). The amount includes fees for participation in the Audit Committee of DKK 0.7 million (DKK 0.7 million in 2020), the Remuneration Committee of DKK 0.7 million (DKK 0.7 million in 2020), the Scientific Committee of DKK 0.9 million (DKK 0.7 million in 2020) and travel allowances of DKK 1.1 million (DKK 0.8 million in 2020) for board members with permanent residence outside of Europe. The remuneration for 2021 is consistent with the remuneration approved at the Annual General Meeting held on 23 March 2021.

The members of the Board of Directors held a total of 44,113 Lundbeck shares at 31 December 2021 (47,313 shares in 2020).

The total remuneration of the chairman of the Board of Directors amounted to DKK 1.7 million (DKK 1.7 million in 2020). The total remuneration of the deputy chairman of the Board of Directors amounted to DKK 1.2 million (DKK 1.2 million in 2020). These amounts include fees for participation in Board committees.

NOTES 4-5

4 FINANCIAL INCOME AND EXPENSES

	2021 DKKm	2020 DKKm
Interest income from financial assets measured at amortized costs	7	6
Gain on other financial assets, measured at fair value through profit or loss, incl. dividends	7	92
Fair value adjustment of contingent consideration	-	102
Exchange gains	-	76
Other financial income	-	1
Financial income	**14**	**277**
Interest expenses from financial liabilities measured at amortized costs	146	173
Interest expenses relating to lease liabilities	7	8
Loss on other financial assets, measured at fair value through profit or loss, incl. dividends	65	12
Fair value adjustment of contingent consideration	133	99
Exchange losses	31	-
Other financial expenses	61	69
Financial expenses	**443**	**361**
Net financials, expenses	**429**	**84**

5 INCOME TAXES

Tax on profit for the year

	2021 DKKm	2020 DKKm
Current tax	342	735
Prior-year adjustments, current tax	(51)	1
Prior-year adjustments, deferred tax	36	(41)
Change in deferred tax for the year	(200)	(284)
Change in deferred tax as a result of changed income tax rates	(1)	36
Total tax for the year	**126**	**447**
Tax for the year is composed of:		
Tax on profit for the year	263	325
Tax on other comprehensive income	(137)	123
Tax on other transactions in equity	-	(1)
Total tax for the year	**126**	**447**

For a specification of tax on comprehensive income, see note 12 *Equity*.

Uncertain tax positions

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.

Uncertain tax positions comprise of a liability of DKK 497 million and an asset of DKK 66 million (a liability of DKK 484 million and an asset DKK 78 million in 2020). 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.

NOTE 5

5 INCOME TAXES - CONTINUED

Explanation of the Group's effective tax rate

	DKKm	%
2021		
Profit before tax	**1,581**	
Calculated tax, 22%	348	22.0
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	33	2.1
Non-deductible expenses/non-taxable income and other permanent differences	72	4.6
Research and development incentives	(76)	(4.8)
Foreign-derived intangible income benefit	(32)	(2.0)
Non-deductible amortization of product rights	16	1.0
Change in valuation of net tax assets	(82)	(5.2)
Change in deferred tax as a result of changed income tax rates	(1)	(0.1)
Prior-year tax adjustments etc., total effect on operations	(15)	(1.0)
Effective tax/tax rate for the year	**263**	**16.6**

	DKKm	%
2020		
Profit before tax	**1,906**	
Calculated tax, 22%	419	22.0
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	20	1.0
Non-deductible expenses/non-taxable income and other permanent differences	59	3.1
Research and development incentives	(69)	(3.6)
Foreign-derived intangible income benefit	(26)	(1.4)
Non-deductible writedown on intangible assets	111	5.8
Non-deductible amortization of product rights	101	5.3
Change in valuation of net tax assets	(286)	(15.0)
Change in deferred tax as a result of changed income tax rates	36	1.9
Prior-year tax adjustments etc., total effect on operations	(40)	(2.1)
Effective tax/tax rate for the year	**325**	**17.0**

NOTE 5

5 INCOME TAXES – CONTINUED

Deferred tax balances

Temporary differences between assets and liabilities as stated in the consolidated financial statements and in the tax base	Balance at 1 January DKKm	Effect of foreign exchange differences DKKm	Adjustment of deferred tax at beginning of year DKKm	Additions through acquisitions DKKm	Movements during the year DKKm	Balance at 31 December DKKm
2021						
Intangible assets	12,836	744	71	-	(652)	12,999
Property, plant and equipment	728	8	(78)	-	122	780
Inventories	(75)	(2)	-	-	(54)	(131)
Provisions	(1,411)	(75)	20	(273)	133	(1,606)
Other items[1]	(545)	(22)	(47)	39	(59)	(634)
Tax loss carryforwards etc.	(5,828)	(190)	211	-	(31)	(5,838)
Total temporary differences	**5,705**	**463**	**177**	**(234)**	**(541)**	**5,570**
Deferred (tax assets)/tax liabilities	1,385	88	36	(49)	(118)	1,342
Research and development incentives	(4)	-	-	-	(83)	(87)
Deferred (tax assets)/tax liabilities	**1,381**	**88**	**36**	**(49)**	**(201)**	**1,255**
2020						
Intangible assets	15,708	(981)	5	-	(1,896)	12,836
Property, plant and equipment	753	(15)	6	-	(16)	728
Inventories	597	(15)	(582)	(178)	103	(75)
Provisions	(1,645)	102	49	(164)	247	(1,411)
Other items[1]	(546)	36	(8)	-	(27)	(545)
Tax loss carryforwards etc.	(7,191)	380	366	164	453	(5,828)
Total temporary differences	**7,676**	**(493)**	**(164)**	**(178)**	**(1,136)**	**5,705**
Deferred (tax assets)/tax liabilities	1,831	(119)	(41)	(38)	(248)	1,385
Research and development incentives	(4)	-	-	-	-	(4)
Deferred (tax assets)/tax liabilities	**1,827**	**(119)**	**(41)**	**(38)**	**(248)**	**1,381**

1) Movements during the year include DKK 0 million (DKK -1 million in 2020) recognized in equity.

NOTE 5

5 INCOME TAXES – CONTINUED

Deferred (tax assets)/tax liabilities	2021 Deferred tax assets DKKm	2021 Deferred tax liabilities DKKm	2021 Net DKKm	2020 Deferred tax assets DKKm	2020 Deferred tax liabilities DKKm	2020 Net DKKm
Intangible assets	(107)	3,175	3,068	(105)	3,156	3,051
Property, plant and equipment	(5)	187	182	(8)	179	171
Inventories	(96)	53	(43)	(94)	68	(26)
Provisions	(384)	-	(384)	(339)	-	(339)
Other items	(202)	39	(163)	(195)	53	(142)
Tax loss carryforwards etc.	(1,318)	-	(1,318)	(1,330)	-	(1,330)
Research and development incentives	(87)	-	(87)	(4)	-	(4)
Deferred (tax assets)/tax liabilities	**(2,199)**	**3,454**	**1,255**	**(2,075)**	**3,456**	**1,381**
Offset within legal tax entities and jurisdictions	2,006	(2,006)	-	1,842	(1,842)	-
Total net deferred (tax assets)/tax liabilities	**(193)**	**1,448**	**1,255**	**(233)**	**1,614**	**1,381**

Management estimates future income according to budgets, forecasts, business plans and initiatives scheduled for the coming years, which supports the recognition of deferred tax assets. When forecasting the utilization of tax assets, the Group applies the same assumptions as for impairment testing. See note 6 *Intangible assets*.

Accordingly, at 31 December 2021, all deferred tax assets relating to tax losses carried forward in Denmark from 2015, 2016, 2018 and 2021 were capitalized in the amount of DKK 884 million (DKK 777 million in 2020).

U.S. tax losses and tax credits stemming from acquisitions have been recognized at an amount of DKK 521 million (DKK 553 million in 2020) equalling the expected utilization within a foreseeable future, whereas an amount of DKK 56 million (DKK 132 million in 2020) has not been recognized in the balance sheet.

Unrecognized deferred tax assets

	2021 DKKm	2020 DKKm
Unrecognized deferred tax assets at 1 January	184	507
Additions through acquisitions	-	-
Prior-year adjustments	-	(37)
Additions	8	1
Recognized	(90)	(287)
Unrecognized deferred tax assets at 31 December	**102**	**184**

Unrecognized deferred tax assets primarily relate to net operating losses and tax credits not expected to be utilized within a foreseeable future.

NOTE 6

6 INTANGIBLE ASSETS

Intangible assets	Goodwill DKKm	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
2021					
Cost at 1 January	4,845	30,253	1,731	171	37,000
Effect of foreign exchange differences	347	1,209	9	1	1,566
Transfers	-	-	110	(121)	(11)
Additions	-	102	18	82	202
Additions through acquisitions, change in opening balance	185	-	-	-	185
Disposals	-	(90)	(29)	-	(119)
Cost at 31 December	**5,377**	**31,474**	**1,839**	**133**	**38,823**
Amortization and impairment losses at 1 January	-	12,621	1,641	-	14,262
Effect of foreign exchange differences	-	572	8	-	580
Amortization	-	1,274	68	-	1,342
Disposals	-	(90)	(21)	-	(111)
Amortization and impairment losses at 31 December	**-**	**14,377**	**1,696**	**-**	**16,073**
Carrying amount at 31 December	**5,377**	**17,097**	**143**	**133**	**22,750**

1) In 2021, product rights not yet commercialized amounted to DKK 5,992 million (DKK 5,890 million in 2020).

2) Other rights and projects in progress include items such as the IT system SAP. The amounts include directly attributable internal expenses.

In 2021, Lundbeck adjusted the goodwill related to the acquisition of Alder BioPharmaceuticals (subsequently renamed to Lundbeck Seattle BioPharmaceuticals, Inc.) due to the identification of accounting errors in the purchase price allocation in prior years related to the fair value of a future milestone payment to a third party of Alder BioPharmaceuticals of DKK 273 million (see note 18 *Other payables*) and an unrecognized prepayment of DKK 39 million.

The 2021 changes to the purchase price allocation are (a) a net increase in goodwill of DKK 185 million, (b) an increase in other payables of DKK 273 million, (c) an increase in prepayments of DKK 39 million, and (d) a net decrease in deferred tax liabilities of DKK 49 million.

Due to immateriality, the accounting errors are recognized in 2021 and not as an adjustment to prior years.

Intangible assets	Goodwill DKKm	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
2020					
Cost at 1 January	5,278	31,610	1,826	134	38,848
Effect of foreign exchange differences	(409)	(1,357)	(12)	(1)	(1,779)
Transfers	-	-	55	(55)	-
Additions	-	-	21	93	114
Additions through acquisitions, change in opening balance	(24)	-	-	-	(24)
Disposals	-	-	(159)	-	(159)
Cost at 31 December	**4,845**	**30,253**	**1,731**	**171**	**37,000**
Amortization and impairment losses at 1 January	-	10,878	1,712	3	12,593
Effect of foreign exchange differences	-	(597)	(10)	-	(607)
Transfers	-	-	3	(3)	-
Amortization	-	1,548	63	-	1,611
Impairment losses	-	792	-	-	792
Disposals	-	-	(127)	-	(127)
Amortization and impairment losses at 31 December	**-**	**12,621**	**1,641**	**-**	**14,262**
Carrying amount at 31 December	**4,845**	**17,632**	**90**	**171**	**22,738**

In 2020, Lundbeck changed the initial purchase price allocation relating to the acquisition of Alder BioPharmaceuticals (subsequently renamed to Lundbeck Seattle BioPharmaceuticals, Inc.) due to prepayments to a supplier expensed prior to the acquisition date and due to a reassessment of the inventory valuation. This resulted in a decrease in goodwill of DKK 24 million, comprising of an increase in prepayments of DKK 164 million and a decrease in inventories, net of tax, of DKK 140 million.

NOTE 6

6 INTANGIBLE ASSETS - CONTINUED

Description of material product rights

Vyepti®
Tthe eptinezumab product rights (Vyepti®), which is an investigational monoclonal antibody (mAb) for migraine prevention targeting the calcitonin gene-related peptide (CGRP) was acquired in 2019. The value of the product rights was DKK 13,421 million at the time of acquisition. The carrying amount of DKK 12,107 million, net of amortization, at 31 December 2021 (DKK 12,076 million in 2020) was affected by developments in the USD/DKK exchange rate.

Rexulti®
Rexulti® is a prescription medication used as an adjunctive therapy to antidepressants for the treatment of MDD and as a treatment for adults with schizophrenia in certain markets. Rexulti® is co-marketed in a partnership collaboration with Otsuka Pharmaceuticals Co., Ltd. The total carrying amount of the Rexulti® product rights amounted to DKK 2,497 million, net of amortization, at 31 December 2021 (DKK 2,823 million in 2020).

Portfolio of compounds including the product rights to ABX-1431
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, and various compounds in the pre-clinical phase, was acquired in 2019. The value of the portfolio of compounds recognized as product rights was DKK 1,853 million at the time of acquisition. During 2020, the Parent company H. Lundbeck A/S acquired all intellectual property rights from Lundbeck La Jolla Research Center, Inc. The carrying amount at 31 December 2021 was DKK 1,871 million (DKK 1,871 million in 2020).

Amortization and impairment losses
Amortization and impairment losses for the year are included in the following functions in the statement of profit or loss:

Amortization and impairment losses	2021 DKKm	2020 DKKm
Cost of sales	1,305	1,584
Sales and distribution costs	8	33
Administrative expenses	5	18
Research and development costs	32	800
Total	**1,350**	**2,435**

In March 2020, it was announced that the phase IIa study (AMBLED) of its novel selective positive allosteric modulator of the glutamate 4 receptor (mGlu4 PAM), foliglurax, for the treatment of Parkinson's disease did not meet the primary study endpoint. Consequently, Lundbeck recognized an impairment loss of DKK 792 million relating to the foliglurax product rights. The impairment loss was included in research and development costs in 2020.

Impairment testing
Goodwill
The Group is considered a single cash-generating unit (CGU) as this is how Management makes decisions and assesses business performance. All subsidiaries are considered fully integrated into the Group as no entity has significant independent or separately identifiable inflow of cash. Most cash inflows are based on the output from research and development activities performed by headquarters on behalf of the entire Group. Accordingly, an impairment test is annually performed based on Lundbeck having one single CGU.

Product rights
In addition to the impairment test for goodwill (based on the CGU), the Group performs impairment tests of product rights not yet commercialized and for product rights available for use, in case an indication of impairment is identified.

Methodology
Goodwill
In the impairment test of the CGU, based on the fair value less cost of disposal, the market price of Lundbeck is compared with its carrying amount.

Product rights
In the impairment tests of product rights, based on value-in-use, the discounted expected future cash flows for the specific asset tested are compared with the carrying amount of the intangible asset. The expected future cash flows are based on a forecast period, 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 cash flow period.

NOTE 6

6 INTANGIBLE ASSETS - CONTINUED

Significant assumptions and estimates are applied to the discounted expected future cash flows from the product right.

The four category elements in the table below are taken into consideration when determining the key parameters for the value-in-use calculation.

Financial elements	Market elements
Prices	Healthcare reforms
Rebates	Price reforms
Quantities	Market access
Patient population	Pharma restrictions
Market shares	Launch success
Competition	Product positioning
Fill rates	Competing pharmaceuticals
Prescription rates	Generics on the market
Lundbeck costs (including promotion costs)	

R&D elements	Other elements
R&D spend	Supply chain effectiveness
Collaborations	Strength and abilities of partners
Pipeline success rate	
Product labelling	
Liaison with regulatory bodies	

The assumptions are based on past experience, external source of information and industry-relevant observations for each product right.

The calculation of the value-in-use for product right is based on a discount rate after tax of 6.2% (7.3% in 2020).

2021 testing outcome
The impairment tests performed in 2021 did not result in the recognition of any impairment loss.

2020 testing outcome
The impairment tests performed in 2020 did not result in the recognition of any impairment loss other than the impairment loss on the foliglurax product rights recognized in March 2020.

Impact of possible changes in key assumptions
If the budgeted revenue had been 5% lower than Management's estimates, the head room would continue to be positive. If the discount rate after tax applied to cash flows had been 1% higher, the head room would continue to be positive.

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The method and types of assumptions used in preparing the sensitivity analyses did not change compared to the prior period. The potential changes in key assumptions are considered within historic variations experienced by the Group and thus considered reasonably possible.

NOTE 7

7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Land and buildings[1] DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment DKKm	Prepayments and assets under construction DKKm	Total property, plant and equipment DKKm
2021					
Cost at 1 January	3,495	2,002	833	492	6,822
Effect of foreign exchange differences	-	2	11	(1)	12
Transfers	61	86	53	(189)	11
Additions	10	41	49	310	410
Disposals	(29)	(81)	(102)	-	(212)
Cost at 31 December	**3,537**	**2,050**	**844**	**612**	**7,043**
Depreciation and impairment losses at 1 January	2,276	1,558	711	-	4,545
Effect of foreign exchange differences	-	1	9	-	10
Depreciation	109	100	49	-	258
Impairment losses	-	3	-	-	3
Disposals	(27)	(79)	(90)	-	(196)
Depreciation and impairment losses at 31 December	**2,358**	**1,583**	**679**	**-**	**4,620**
Carrying amount at 31 December	**1,179**	**467**	**165**	**612**	**2,423**

1) No land and buildings were mortgaged at 31 December 2021 and at 31 December 2020.

Property, plant and equipment	Land and buildings[1] DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment DKKm	Prepayments and assets under construction DKKm	Total property, plant and equipment DKKm
2020					
Cost at 1 January	3,381	1,906	853	419	6,559
Effect of foreign exchange differences	(1)	(6)	(16)	(2)	(25)
Transfers	91	68	21	(180)	-
Additions	29	46	34	255	364
Disposals	(5)	(12)	(59)	-	(76)
Cost at 31 December	**3,495**	**2,002**	**833**	**492**	**6,822**
Depreciation and impairment losses at 1 January	2,176	1,468	717	-	4,361
Effect of foreign exchange differences	(1)	(5)	(7)	-	(13)
Depreciation	104	100	45	-	249
Impairment losses	1	7	-	-	8
Disposals	(4)	(12)	(44)	-	(60)
Depreciation and impairment losses at 31 December	**2,276**	**1,558**	**711**	**-**	**4,545**
Carrying amount at 31 December	**1,219**	**444**	**122**	**492**	**2,277**

Depreciation and impairment losses

Depreciation and impairment losses for the year are included in the following functions in the statement of profit or loss:

Depreciation and impairment losses	2021 DKKm	2020 DKKm
Cost of sales	159	152
Sales and distribution costs	34	26
Administrative expenses	21	31
Research and development costs	63	64
Total	**277**	**273**

NOTES 8-10

8 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Amounts recognized in profit or loss	2021 DKKm	2020 DKKm
Expenses relating to short-term leases, not capitalized	2	2
Depreciation of right-of-use assets, land and buildings	83	85
Interest expenses relating to lease liabilities	7	8
Total	**92**	**95**

Land and buildings	2021 DKKm	2020 DKKm
Cost at 1 January	596	545
Effect of foreign exchange differences	14	(20)
Additions	45	34
Disposals during the year	(11)	(19)
Adjustments to right-of-use assets during the year	61	56
Cost at 31 December	**705**	**596**
Depreciation and impairment losses at 1 January	140	69
Effect of foreign exchange differences	6	(6)
Depreciation	83	85
Depreciation and impairment on disposals	(8)	(8)
Depreciation and impairment losses at 31 December	**221**	**140**
Carrying amount at 31 December	**484**	**456**

Development in lease liabilities	Balance at 1 January DKKm	Cash outflow DKKm	Non-cash flow DKKm	Balance at 31 December DKKm
2021				
Lease liabilities	493	(82)	128	539
Total lease liabilities	**493**	**(82)**	**128**	**539**
2020				
Lease liabilities	516	(83)	60	493
Total lease liabilities	**516**	**(83)**	**60**	**493**

The total cash outflow from recognized lease agreements amounted to DKK 89 million (DKK 91 million in 2020) and includes repayment of lease liabilities and interest.

The maturity analysis of lease liabilities is provided in the table ”Classification of and contractual maturity dates for financial assets and financial liabilities” in note 19 *Financial instruments*.

9 INVENTORIES

	2021 DKKm	2020 DKKm
Raw materials and consumables	207	206
Work in progress	1,534	1,155
Finished goods and goods for resale	1,034	802
Total	**2,775**	**2,163**

Inventories recognized as cost of sales amounted to DKK 2,337 million (DKK 2,618 million in 2020).

Inventories of DKK 1,071 million at 31 December 2021 are expected to be recovered after more than 12 months (DKK 722 million in 2020).

10 TRADE RECEIVABLES

	2021 DKKm	2020 DKKm
Trade receivables	2,484	2,579
Writedowns	(25)	(26)
Trade receivables, net	**2,459**	**2,553**

Credit risks

Lundbeck’s products are sold primarily to distributors of pharmaceuticals, pharmacies and hospitals. The payment conditions for the customers, including credit periods and any payment of interest in case of non-payment, vary, but are always based on industry practice in the relevant market. As a result of special trading conditions in specific markets, the credit period may be up to approximately 200 days and for one customer 360 days. The weighted average credit period is approximately 50 days.

NOTES 10-11

10 TRADE RECEIVABLES - CONTINUED

In April 2020, Lundbeck purchased a “key buyer” credit insurance covering around 100 of the largest customers of the Group. The credit insurance was bought to protect against insolvency, protracted default and political risk as a result of uncertainties created by the pandemic. The credit insurance was not renewed in 2021 due to assessment that the pandemic did not materially increase the credit risk.

Changes to the Group’s customer portfolio are limited. When collaboration is established with a new customer, credit assessment is done either by Lundbeck or an external credit rating agency. At the time of revenue recognition, Lundbeck assesses the full lifetime expected credit losses. In addition, undue and due receivables are analyzed in an ongoing process. Based on the credit assessment, receivables analysis, historical and industry experience, it is estimated whether the receivables are recoverable or writedowns are needed. Historically, losses on debtors have been insignificant.

Fluctuations in foreign exchange rates, including the impact from currency devaluations, represent an inherent risk as Lundbeck also operates in volatile economies. Lundbeck monitors and takes action to mitigate risks associated with receivables.

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

11 CASH RESOURCES

	2021 DKKm	2020 DKKm
Cash and bank balances	**2,279**	**3,924**

Liquidity risk and capital structure
The credit risk on cash and bank balances and derivatives (forward exchange contracts, currency options and interest rate swaps) is limited as Lundbeck only deals with banks with a solid credit rating. The counterparty risk towards banks with a short-term credit rating lower than A-1 (Standard & Poor’s) is kept to a minimum, only allowing balances necessary for operating needs within the immediate future. To further limit the risk of loss, internal limits have been defined for the credit exposure accepted towards the banks with whom Lundbeck collaborates. Credit lines are part of the Treasury Policy.

The Treasury Policy covers financial resources, foreign currency exposure, interest rate risk, securities, loan and bond portfolios as well as capitalization of subsidiaries. The Treasury Policy is presented to the Audit Committee annually for subsequent approval by the Board of Directors. In addition, the Board of Directors approves the framework for selecting financial collaboration partners and the credit lines and types of transactions allowed.

Pursuant to its Treasury Policy, Lundbeck must ensure that a minimum of DKK 1.0 billion is held in cash or cash equivalents. If this amount is not available in cash, fixed-term deposits or bonds, Lundbeck will enter into committed credit facilities with its banking partners.

In 2019, Lundbeck entered into two loan agreements with its strategic banks; a revolving credit facility (RCF) of EUR 1.5 billion and a term loan of DKK 2 billion. The term loan was repaid in February 2021, following a year of strong cash flow generation.

The RCF expires in 2025 and has an option, at the lenders' discretion, to extend the maturity for up to one additional year. The flexible structure of the RCF enables Lundbeck to repay the debt in full at short notice, normally not more than three months, and still maintain the facility until expiration of the credit commitment. The RCF is subject to covenants, and no breaches were encountered during the year.

At 31 December 2021, Lundbeck had unutilized committed credit facilities of DKK 10.1 billion. In addition, Lundbeck has a number of uncommitted credit facilities to cover its day-to-day operations.
At 31 December 2021 and 31 December 2020, these credit facilities were unutilized.

NOTES 11-12

11 CASH RESOURCES - CONTINUED

In October 2020, Lundbeck issued a seven-year eurobond in the amount of EUR 500 million with a fixed coupon of 0.875%. The bond was issued under Lundbeck´s euro medium-term note (EMTN) program of EUR 2 billion.

In addition, Lundbeck has a number of uncommitted credit facilities to cover the day-to-day operations. At 31 December 2021 and 31 December 2020, these credit facilities were unutilized.

When managing the capital structure, Lundbeck's main objective is to support the Expand and invest to grow strategy; use capital resources for required research and development and for investments to realize the strategy; and to generate long-term attractive return for the shareholders. Lundbeck also wishes to be a strong financial counterparty to debt providers and other stakeholders by maintaining the investment grade credit rating (BBB-).

To maintain or adjust the capital structure, Lundbeck may adjust dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets to reduce debt or increase debt. To minimize the refinancing risk, Lundbeck strives to have diversified funding, both in terms of duration and source.

Lundbeck defines capital as total equity and net interest-bearing debt (see notes *17 Bank debt, bond debt and borrowings* and 8 *Right-of-use assets and lease liabilities*) and after deducting cash resources. At 31 December 2021, total equity amounted to DKK 18,279 million compared with DKK 16,973 million at 31 December 2020. Net interest-bearing debt amounted to DKK 3,189 million at 31 December 2021 compared with DKK 4,106 million at 31 December 2020.

12 EQUITY

Share capital

The share capital of DKK 996 million at 31 December 2021 is divided into 199,148,222 shares at a nominal value of DKK 5 each.

Share capital	2021 DKKm	2020 DKKm
At 1 January	996	996
Capital increase through exercise of warrants	-	-
At 31 December	**996**	**996**

Issued shares	2021 Number	2020 Number
At 1 January	199,148,222	199,136,725
Capital increase through exercise of warrants	-	11,497
At 31 December	**199,148,222**	**199,148,222**

Treasury shares

Treasury shares	Shares of DKK 5 nom. Number	Nominal value DKKm	Proportion of share capital %	Cost DKKm
2021				
Shareholding at 1 January	449,896	2	0.23	135
Share buyback	144,000	1	0.07	34
Shares used for funding incentive programmes	(91,781)	-	(0.05)	(31)
Shareholding at 31 December	**502,115**	**3**	**0.25**	**138**
2020				
Shareholding at 1 January	435,019	2	0.22	135
Share buyback	114,000	1	0.06	29
Shares used for funding incentive programmes	(99,123)	(1)	(0.05)	(29)
Shareholding at 31 December	**449,896**	**2**	**0.23**	**135**

NOTE 12

12 EQUITY - CONTINUED

The Parent company has only one class of shares, and all shares rank equally. The shares are negotiable instruments with no restrictions on their transferability.

In 2021, the Parent company acquired treasury shares at a value of DKK 34 million (DKK 29 million in 2020), corresponding to 144,000 shares (114,000 shares in 2020). The shares were acquired to fund Lundbeck's long-term share-based incentive programs. A total of 91,781 shares were used for this purpose in 2021 (99,123 shares in 2020).

The Board of Directors is authorized to issue new shares and raise the share capital of the Parent company as set out in article 4 of the Parent company's Articles of Association.

The share capital is in compliance with the capital requirements of the Danish Companies Act and the rules of Nasdaq Copenhagen.

Distribution of profit

The Board of Directors is proposing distribution of dividends for 2021 of 30% (31% in 2020) of the net profit for the year allocated to the shareholders, equivalent to DKK 2.00 per share (DKK 2.50 per share in 2020) or DKK 398 million (DKK 498 million in 2020), inclusive of dividends on treasury shares. Total dividends are based on the current share capital.

Earnings per share

	2021	2020
Profit for the year (DKKm)	**1,318**	**1,581**
Average number of shares ('000 shares)	199,148	199,146
Average number of treasury shares ('000 shares)	(487)	(416)
Average number of shares, excl. treasury shares ('000 shares)	**198,661**	**198,730**
Average number of warrants, fully diluted ('000 warrants)	-	3
Average number of shares, fully diluted ('000 shares)	**198,661**	**198,733**
Earnings per share, basic (EPS) (DKK)	**6.63**	**7.96**
Earnings per share, diluted (DEPS) (DKK)	**6.63**	**7.96**

At 31 December 2021, no warrants were outstanding.

Tax on other comprehensive income

	Before tax DKKm	Tax DKKm	After tax DKKm
2021			
Other comprehensive income recognized under foreign currency translation reserve in the statement of changes in equity			
Exchange rate gains/losses on investments in foreign subsidiaries	960	-	960
Exchange rate gains/losses on additions to net investments in foreign subsidiaries	(157)	36	(121)
Hedging of net investments in foreign subsidiaries	(127)	28	(99)
Total	**676**	**64**	**740**
Other comprehensive income recognized under hedging reserve in the statement of changes in equity			
Deferred exchange gains/losses, hedging	(340)	75	(265)
Deferred fair value of interest rate swaps	63	(14)	49
Exchange gains/losses, hedging (transferred to revenue)	(53)	12	(41)
Total	**(330)**	**73**	**(257)**
Other comprehensive income recognized under retained earnings in the statement of changes in equity			
Actuarial gains/losses	(1)	-	(1)
Total	**(1)**	**-**	**(1)**
Recognized in other comprehensive income	**345**	**137**	**482**

NOTES 12-13

12 EQUITY - CONTINUED

	Before tax DKKm	Tax DKKm	After tax DKKm
2020			
Other comprehensive income recognized under foreign currency translation reserve in the statement of changes in equity			
Exchange rate gains/losses on investments in foreign subsidiaries	(1,007)	-	(1,007)
Exchange rate gains/losses on additions to net investments in foreign subsidiaries	(21)	3	(18)
Hedging of net investments in foreign subsidiaries	356	(79)	277
Total	**(672)**	**(76)**	**(748)**
Other comprehensive income recognized under hedging reserve in the statement of changes in equity			
Deferred exchange gains/losses, hedging	313	(69)	244
Deferred fair value of interest rate swaps	(90)	20	(70)
Exchange gains/losses, hedging (transferred to revenue)	(5)	1	(4)
Total	**218**	**(48)**	**170**
Other comprehensive income recognized under retained earnings in the statement of changes in equity			
Actuarial gains/losses	(1)	1	-
Total	**(1)**	**1**	**-**
Recognized in other comprehensive income	**(455)**	**(123)**	**(578)**

Exchange rate gains/losses on investments in foreign subsidiaries, a gain of DKK 960 million (a loss of DKK 1,007 million in 2020), and exchange rate gains/losses on additions to net investments in foreign subsidiaries, a loss of DKK 157 million (DKK 21 million in 2020), are primarily driven by developments in USD/DKK and GBP/DKK exchange rates.

13 RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Defined contribution plans

The major defined contribution plans cover employees in Australia, Canada, Denmark, Finland, South Korea, Sweden, the UK and the U.S. The cost of defined contribution plans, representing contributions to the plans, amounted to DKK 246 million in 2021 (DKK 234 million in 2020).

Defined benefit plans

The Group has defined benefit plans in a few countries. The most important plans comprise current and former employees in Germany and the UK.

The defined benefit plan in Germany is unfunded and administered by Lundbeck Germany. The defined benefit plan in the UK is funded and constituted under a trust, whose assets are legally separated from the Group. Both plans entitle the employees to an annual pension on retirement based on the service and salary level until retirement.

Retirement benefit obligations and similar obligations	2021 DKKm	2020 DKKm
Present value of defined benefit plans	539	530
Fair value of plan assets	(285)	(275)
Defined benefit plans at 31 December	**254**	**255**
Other obligations of a retirement benefit nature	35	35
Retirement benefit obligations and similar obligations at 31 December	**289**	**290**
Retirement benefit obligations and similar obligations break down as follows:		
Non-current obligations	288	288
Current obligations	1	2
Retirement benefit obligations and similar obligations at 31 December	**289**	**290**

NOTE 13

13 RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

Actuarial assumptions

The following were the key actuarial assumptions at the reporting date.

Key assumptions for the most significant plans	2021 %	2020 %
Discount rate	1.00-1.80	0.70-1.70
Inflation rate	2.10-3.30	1.75-2.85
Pay rate increase	0-2.50	0.00-2.50
Pension increase	2.10-5.00	1.75-5.00
Age-weighted employee resignation rate	0-8	0-8
Expected return on plan assets	1.80	1.70

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each country.

Sensitivity analysis

The most significant assumptions used in the calculation of the obligation for defined benefit plans are discount rate and inflation rate. An increase in the discount rate of 0.25 of a percentage point would result in a decrease in the obligation of approximately DKK 21 million, before tax (DKK 22 million in 2020) and vice versa. An increase in the inflation rate of 0.25 of a percentage point would result in an increase in the obligation of approximately DKK 8 million, before tax (DKK 8 million in 2020) and vice versa. The sensitivity analysis indicates how a change in the individual assumptions would change the obligation. However, the assumptions will most likely be correlated and consequently result in a different obligation.

Fair value of plan assets	2021 DKKm	2020 DKKm
Shares	61	56
Bonds	40	38
Property	16	17
Insurance contracts	152	147
Other assets	16	17
Total	**285**	**275**

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

The amounts recognized in the balance sheet and the movements in the net defined benefit obligation over the year are as follows.

Change in present value of defined benefit plans	2021 DKKm	2020 DKKm
Present value of defined benefit plans at 1 January	530	537
Effect of foreign exchange differences	20	(16)
Pension expenses	7	7
Interest expenses relating to the obligations	7	7
Experience adjustments	(7)	4
Adjustments relating to financial assumptions	4	9
Adjustments relating to demographic assumptions	(3)	-
Benefits paid	(20)	(19)
Employee contributions	1	1
Present value of defined benefit plans at 31 December	**539**	**530**

Change in fair value of plan assets	2021 DKKm	2020 DKKm
Fair value of plan assets at 1 January	275	275
Effect of foreign exchange differences	18	(13)
Interest income on plan assets	5	5
Experience adjustments	(7)	12
Administration fees	(1)	(1)
Contributions	8	7
Benefits paid	(14)	(11)
Employee contributions	1	1
Fair value of plan assets at 31 December	**285**	**275**

NOTES 13-14

13 RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

Net expense recognized in profit or loss	2021 DKKm	2020 DKKm
Pension expenses	7	7
Finance costs	2	2
Administration fees	1	1
Total	**10**	**10**

Amount recognized in other comprehensive income	2021 DKKm	2020 DKKm
Actuarial (gains)/losses	1	1

	2021 DKKm	2020 DKKm
Realized return on plan assets	(2)	17

The benefit under unfunded defined benefit plans is paid directly by the Group. In some countries, the future contribution to funded defined benefit plans depends on the development in salaries, administrative fees and regular premiums, and in other countries on the surplus/deficit according to local requirements. The weighted average duration of the obligation is 15 years (15 years in 2020). The expected contribution to defined benefit plans for 2022 is DKK 12 million (DKK 14 million for 2021).

Other obligations of a retirement benefit nature
In 2021, an obligation of DKK 35 million (DKK 35 million in 2020) was recognized to cover other obligations of a retirement benefit nature, which primarily include post-employment benefits in a number of subsidiaries. These benefit payments are conditional upon specified requirements being met.

14 INCENTIVE PROGRAMS

In order to attract, retain and motivate key employees and align their interests with those of its shareholders, Lundbeck has established a number of long-term incentive programs. Lundbeck uses equity- and cash-settled programs.

Equity-settled programs
In 2021, equity-settled incentive programs consisted of restricted share units (RSUs).

In February 2021 (February 2020), Lundbeck established an RSU programme for Lundbeck's registered Executive Management and key employees, as part of Lundbeck's recurring long-term incentive programme. Four of the members of the registered Executive Management (four members for the 2020 program) and 135 key employees employed with H. Lundbeck A/S or a Lundbeck subsidiary were granted RSUs (131 key employees for the 2020 program). The participants were selected on the basis of job level. All the RSUs vest three years after grant (for the 2020 program will vest three years after grant). Vesting is subject to the Board of Directors' decision on vesting, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the Group during the vesting period. The fair value of the RSUs has been calculated on the basis of a share price of DKK 250.97 (DKK 274.56 for the 2020 program) reduced by an expected dividend yield of 2.00% p.a. The fair value at the time of the grant was DKK 236.21 per RSU (DKK 258.41 for the 2020 program).

The RSUs granted to the registered Executive Management and key employees in 2017 vested in 2021. The RSUs granted to the registered Executive Management and key employees in 2016 vested in 2020.

RSU programs	2021	2020	2019	2018	2017
Number of persons included in the program	139	135	139	133	127
Total number of RSUs granted	160,273	139,119	127,899	107,321	131,516
Number of RSUs granted to the registered Executive Management	34,781	29,923	28,128	24,783	47,911
Vesting date	01.02.24	01.02.23	01.02.22	01.02.22	01.02.21
Fair value at the date of grant, DKK	236.21	258.41	269.71	291.03	268.65

At 31 December 2021, no warrants were outstanding (no warrants in 2020). No new warrant programs were granted in 2021. In 2020, all remaining warrants granted (from the 2012 program) were exercised or expired and the weighted average share price of the warrants exercised during 2020 was DKK 284.52.

NOTE 14

14 INCENTIVE PROGRAMS - CONTINUED

Warrant programs	Granted in 2012
Number of persons included in the program	102
Total number of warrants granted	692,003
Number of warrants granted to the registered Executive Management	-
Vesting date	31.03.15
Exercise period begins	01.04.15
Exercise period ends	31.03.20
Exercise price, DKK	113.00
Fair value at the date of grant, DKK	24.11

Warrants	Registered Executive Management Number	Executives Number	Other Number	Total Number	Average exercise price DKK
2020					
1 January	-	3,458	23,527	26,985	113.00
Exercised	-	(3,458)	(8,039)	(11,497)	113.00
Expired	-	-	(15,488)	(15,488)	113.00
31 December	**-**	**-**	**-**	**-**	

Cash-settled programs
In 2021, the cash-settled programs consisted of restricted cash units (RCUs).

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

In February 2021 (February 2020), 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 to the registered Executive Management and key employees of the Parent company and its non-U.S. subsidiaries in February the same year. The RCUs granted to the CEO, a total of 33,621 (30,012 for the 2020 program), and the RCUs granted to the key employees, a total of 1,505 (1,526 for the 2020 program), will vest three years after grant (for the 2020 program will vest three years after grant). Vesting is subject to the Board of Directors' decision on vesting, to Lundbeck achieving certain strategic and financial targets specified by the Board of Directors and to continuing employment with the 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 250.97 per RCU (DKK 258.41 for the 2020 program).

The RCUs granted in 2017 vested in 2021, after which the program was settled. The RCUs granted in 2016 vested in 2020, after which the program was settled.

Fair value, liability and expense recognized in the statement of profit or loss
The RSUs granted are recognized in profit or loss for 2021 at an expense corresponding to the fair value at the time of grant for the part of the vesting period that concerns 2021.

The total expense recognized in respect of equity-settled programs amounted to DKK 37 million (DKK 30 million in 2020). At 31 December 2021, the fair value of the remaining equity-settled programs was DKK 91 million (DKK 89 million in 2020).

The RCUs granted are recognized in the income statement at an expense corresponding to the value adjustment for the year based on the performance of the Lundbeck share. The total expense recognized in respect of cash-settled programs amounted to DKK 4 million (DKK 4 million in 2020) and covers all cash-settled programs in force in 2021. At 31 December 2021, the total liability in respect of cash-settled programs was DKK 11 million (DKK 7 million in 2020) and covers all cash-settled programs.

The total expense recognized in profit or loss for all incentive programs amounted to DKK 41 million in 2021 (DKK 34 million in 2020).

NOTES 15-16

15 PROVISIONS

	Discounts and rebates DKKm	Product returns DKKm	Other provisions DKKm	Total DKKm
2021				
Provisions at 1 January	1,002	179	630	1,811
Effect of foreign exchange differences	76	10	21	107
Provisions charged	1,790	101	407	2,298
Provisions used	(1,945)	(205)	(498)	(2,648)
Unused provisions reversed	-	-	(71)	(71)
Provisions at 31 December	**923**	**85**	**489**	**1,497**
Provisions break down as follows:				
Non-current provisions	-	38	54	92
Current provisions	923	47	435	1,405
Provisions at 31 December	**923**	**85**	**489**	**1,497**

Discounts and rebates

The most significant sales deductions are in the U.S. and comprise discounts and rebates given in connection with sales under the U.S. Federal and State Government Healthcare programs, primarily Medicaid.

Management's estimate of discounts and rebates is based on a calculation which includes a combination of historical product/population utilization mix, price increases, program/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.

Product returns

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 recognized.

Other provisions

Of other provisions at 31 December 2021, DKK 253 million (DKK 161 million in 2020) relates to restructuring programs. This amount includes the restructuring costs announced during 2021 of around DKK 200 million, which was recognized in sales and distribution costs in October 2021.

In addition, other provisions comprise liabilities relating to items such as legal disputes.

16 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Pending legal proceedings

Lundbeck is involved in a number of legal proceedings, including patent disputes, the most significant of which are described below. The outcome of these proceedings is not expected to have a material impact on the 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 financial position and/or cash flows.

In June 2013, Lundbeck received the European Commission's decision that agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining Lundbeck EUR 93.8 million (approximately DKK 700 million). Lundbeck paid and expensed the fine in the third quarter of 2013. In March 2021, the European Court of Justice rejected Lundbeck's final appeal of the European Commission's decision. 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 an umbrella organization of Dutch health insurance companies 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. In September 2021, the UK proceedings were transferred from the High Court to the Competition Appeal Tribunal at the request of the parties. Lundbeck expects that the UK health authorities will now pursue their alleged claims. Further, in late October 2021, Lundbeck received a writ of summons from a German health care company claiming compensation for an alleged loss of profit plus interest payments, allegedly resulting from Lundbeck's conclusion of agreements with two of the four generic competitors, which were comprised by the EU Court of Justice ruling. Lundbeck is preparing its defence and it may take several years before a final conclusion is reached by the German courts. Lundbeck disagrees with the claims and will defend itself against the claims.

NOTE 16

16 CONTINGENT ASSETS AND CONTINGENT LIABILITIES - CONTINUED

In Canada, Lundbeck is involved in three product liability class-action lawsuits relating to Cipralex®/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, three 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). 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, Lundbeck entered into settlements with three of 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 51.7 million (DKK 242 million) in 2018. In Lundbeck's case against the last of the four generic companies, 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 26.3 million in damages. Sandoz' appeal of the decision was heard in May 2019 and the Full Federal Court has in August 2020 allowed Sandoz' appeal and decided that Sandoz is not liable for damages. Lundbeck's application for special leave to appeal the decision to the High Court was granted in February 2021, and the appeal was heard on 8 October 2021. A decision is expected within 3 – 6 months from the hearing. If Lundbeck's appeal is successful, the case will go back to the Federal Court for recalculation and Lundbeck's appeal of the Australian Patent Office's decision to grant Sandoz a license will be restarted.

Together with Takeda, Lundbeck instituted patent infringement proceedings against 16 generic companies in response to their filing of Abbreviated New Drug Applications ("ANDAs") with the U.S. FDA seeking to obtain marketing approval for generic versions of Trintellix® in the U.S. Two opponents have since withdrawn and Lundbeck has settled with eight opponents. As communicated by Lundbeck in company release no. 706 dated 1 October 2021, the cases against the six remaining opponents (the "ANDA Filers") has been decided by the U.S. District Court for the District of Delaware (the 'Court'). The Court found that Lundbeck's patent protecting the active ingredient in Trintellix®, vortioxetine (U.S. Patent No. 7,144,884) is valid. The active ingredient patent expires on 17 June 2026, with an expected six-month paediatric exclusivity period extending to 17 December 2026. Assuming the ruling is confirmed at appeal, final approval will not be granted to the relevant ANDA Filers until after expiration of the active ingredient patent, including any extension or additional periods of exclusivity. A total of seven other patents asserted at trial were found by the Court to be valid or their validity was not challenged during the trial. The Court decided that none of the seven other patents were infringed by the relevant ANDA Filers, except that Lupin was found to infringe a patent covering Lundbeck's process for manufacturing vortioxetine. Unless and until the Court's ruling is reversed on appeal, the patents found not infringed by a particular ANDA Filer will not prevent that ANDA Filer from receiving final approval. For details on each of the patents comprised by the case, please see the company release no. 706. The Court's decision has been appealed by Lundbeck to the U.S. Court of Appeals for the Federal Circuit. Lupin has appealed with respect to the process patent and the ANDA Filers have cross appealed with respect to the validity of two of the seven other patents.

Together with Otsuka Pharmaceutical, Lundbeck has instituted patent infringement proceedings against several generic companies that have applied for marketing authorization for generic versions of Rexulti® in the U.S. Lundbeck has strong confidence in the Rexulti® patents. The U.S. FDA cannot grant marketing authorization in the U.S. to the generic companies before the patents expire, unless the generic companies receive decisions in their favour. Trial is scheduled to begin on 25 July 2022. The compound patent, including patent term extensions, will expire in the U.S. on 23 June 2029. A patent for the specific formulation used will expire 12 September 2032.

Lundbeck received a Civil Investigative Demand ("CID") from the U.S. Department of Justice ("DOJ") in March 2020. The CID seeks information regarding the sales, marketing, and promotion of Trintellix. Lundbeck is cooperating with the DOJ.

In the U.S., Lundbeck is involved in three product liability lawsuits relating to Lexapro® (alleging Lexapro® induces birth defects). The cases are in the preliminary stages. Lexapro was marketed by Forest Labs. in the U.S. Lundbeck will vigorously defend against the claims raised.

Joint taxation

H. Lundbeck A/S and Danish subsidiaries are part of a Danish joint taxation scheme with Lundbeckfonden (Lundbeckfond Invest A/S including subsidiaries of Lundbeckfond Invest A/S), according to which the Company has partly a joint and several liability and partly a secondary liability with respect to corporate income taxes etc. for the jointly-taxed companies. In addition, H. Lundbeck A/S has partly a joint and several liability and partly a secondary liability with respect to any obligations to withhold tax on interest, royalties and dividends for these companies. However, in both cases the secondary liability is capped at an amount equal to the share of the capital of the Company directly or indirectly owned by the ultimate parent company. The total tax obligation under the joint taxation scheme is shown in the financial statements of Lundbeckfond Invest A/S.

NOTE 17

17 BANK DEBT, BOND DEBT AND BORROWINGS

Bank debt and bond debt maturing within below periods from the balance sheet date	2021 DKKm	2020 DKKm
Within one year	-	2,000
Between three and four years	1,083	1,698
After more than five years	3,700	3,699
Bank debt and bond debt at 31 December	**4,783**	**7,397**
Bank debt and bond debt break down as follows:		
Non-current bank debt and bond debt	4,783	5,397
Current bank debt and bond debt	-	2,000
Bank debt and bond debt at 31 December	**4,783**	**7,397**

For maturity analysis of loans, see note 19 *Financial instruments*.

	Currency	Expiry of commitment	Fixed/ floating	Weighted average effective interest rate %	Amortized cost DKKm	Nominal value DKKm	Fair value DKKm
2021							
Bank loan	USD	Jun 2025	Floating	0.93	1,083	1,083	1,083
Issued bonds	EUR	Oct 2027	Fixed	0.88	3,700	3,718	3,755
Total					**4,783**	**4,801**	**4,838**
2020							
Bank loan	DKK	Oct 2021	Floating	0.80	2,000	2,000	2,000
Bank loan	USD	Jun 2024	Floating	1.11	1,698	1,698	1,698
Issued bonds	EUR	Oct 2027	Fixed	0.88	3,699	3,720	3,781
Total					**7,397**	**7,418**	**7,479**

The DKK 2 billion bank loan was fully repaid in February 2021.

The USD funding has been swapped into fixed interest rates by interest rate swaps. The nominal amounts of the interest rate swaps follow the expected repayment profile of the USD debt until they expire in 2023.

The total outstanding amount of the interest rate swaps as of 31 December 2021 was USD 305 million, and the average interest rate was 1.56% for the fixed legs and 0.12% for the floating legs.

The eurobond is issued with a fixed coupon until October 2027.

Amortized cost is calculated as the proceeds received less instalments paid, plus or minus amortization of capital gains or losses

Development in bank debt, bond debt and borrowings

Development in bank debt, bond debt and borrowings	Balance at 1 January DKKm	Cash inflow DKKm	Cash outflow DKKm	Non-cash flow DKKm	Balance at 31 December DKKm
2021					
Bank loans	3,698	400	(3,123)	108	1,083
Issued bonds	3,699	-	-	1	3,700
Total bank debt and bond debt	**7,397**	**400**	**(3,123)**	**109**	**4,783**
2020					
Bank loans	9,062	-	(5,169)	(195)	3,698
Issued bonds	-	3,701	-	(2)	3,699
Total bank debt and bond debt	**9,062**	**3,701**	**(5,169)**	**(197)**	**7,397**

NOTES 18-19

18 OTHER PAYABLES

	2021 DKKm	2020 DKKm
Contingent consideration	386	1,108
Other payables	106	82
Non-current payables	**492**	**1,190**
Contingent consideration	1,237	-
Other payables	1,656	1,846
Current payables	**2,893**	**1,846**

Contingent consideration recognized through acquisitions
As part of the acquisition of Alder BioPharmaceuticals, Inc. (subsequently renamed Lundbeck Seattle 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 233 million (USD 236 million in 2020). At 31 December 2021, the fair value of the CVR amounted to DKK 1,237 million (DKK 1,059 million in 2020).

The CVR was recognized 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 (weighted average cost of capital).

As part of the acquisition of Alder BioPharmaceuticals, Inc. (subsequently renamed Lundbeck Seattle BioPharmaceuticals, Inc.), Lundbeck is required to pay a sales milestone dependent on predefined milestones being reached. The fair value of contingent consideration is calculated as the discounted cash outflows (DCF method) from future milestone payments, taking probability of success into consideration.

The probability of success of 83.2% used for the calculations of the fair value of the CVR and the sales target milestone is based on the BIO/MedTracker 2016 publication.

As part of the acquisition of Abide Therapeutics, Inc., Inc. (subsequently renamed Lundbeck La Jolla Research Center, Inc.), Lundbeck is required to pay up to USD 100 million in sales milestones (USD 150 million in 2020) dependent on predefined milestones being reached. At 31 December 2021, the fair value of the contingent consideration amounted to DKK 60 million (DKK 49 million in 2020).

Contingent consideration is recognized 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.

19 FINANCIAL INSTRUMENTS

Foreign currency risks
Foreign currency management is handled centrally by the Parent company. Currency management focuses on risk mitigation and is carried out in conformity with the Group's Treasury Policy, as approved by the Board of Directors. Foreign currency risks managed by derivatives and loans in 2021 comprise cash flow risk in several currencies and USD translation risk emanating from net investments in foreign subsidiaries.

The Parent company hedges a part of the Group's anticipated revenue in selected currencies for a period of 12-18 months using forward exchange contracts and currency options. Hedging is performed on a rolling basis each month. The forward exchange contracts and currency options are classified as hedging instruments when meeting the accounting criteria for hedge accounting according to IFRS 9 *Financial Instruments*. Unhedged cash flows are sold spot. Changes in the fair value of all instruments meeting the criteria for hedge accounting are recognized in the statement of comprehensive income as they arise, together with the forward points and option premiums. At maturity of the hedge contracts, the final effect is transferred from other comprehensive income and recognized in the profit or loss or balance sheet together with the hedged item.

Forward exchange contracts and currency options that do not meet the hedge accounting criteria are classified as trading contracts, and changes in the fair value are recognized under financial income or financial expenses as they arise.

Cash flow timing and changes to the forecasted amounts are the main sources for evaluating the risk of hedge ineffectiveness. When concluding a hedge transaction, and each time presenting the financial statements thereafter, it is assessed whether the hedged exposure and the hedging instrument are still financially correlated. If the hedged cash flows are no longer expected to be realised, the accumulated value change is transferred to financial income or financial expenses.

Lundbeck did not have any hedge ineffectiveness in 2021 or 2020.

NOTE 19

19 FINANCIAL INSTRUMENTS - CONTINUED

Forward exchange contracts (against DKK)	Contract amount according to hedge accounting	Fair value at year-end recognized in the statement of comprehen-sive income/ other receivables	Fair value at year-end recognized in the statement of comprehen-sive income/ other payables	Realized exchange gains/losses for the year recognized in the statement of profit or loss/ statement of financial position	Average hedge prices of existing forward exchange contracts	Maturity
	DKKm	DKKm	DKKm	DKKm	DKK	
2021						
CAD (sell position)	393	-	(12)	(23)	499.04	Oct. 2022
CNY (sell position)	505	-	(33)	(28)	95.53	Oct. 2022
JPY (sell position)	252	-	(1)	14	5.69	Nov. 2022
USD (sell position)	3,030	1	(109)	116	631.25	Nov. 2022
Other currencies	1,136	15	(27)	(26)		Dec. 2022
Total		**16**	**(182)**	**53**		
2020						
CAD (sell position)	383	2	(1)	7	475.46	Dec. 2021
CNY (sell position)	458	3	(5)	-	91.71	Oct. 2021
JPY (sell position)	294	8	-	5	6.04	Oct. 2021
USD (sell position)	3,337	225	-	(55)	648.01	Oct. 2021
Other currencies	1,172	14	(41)	48		Dec. 2021
Total		**252**	**(47)**	**5**		

Currency option contracts (against DKK)	Contract amount according to hedge accounting	Fair value at year-end recognized in the statement of comprehen-sive income/ other receivables	Fair value at year-end recognized in the statement of comprehen-sive income/ other payables	Realized exchange gains/losses for the year recognized in the statement of profit or loss/ statement of financial position	Average hedge price range of existing option contracts[1]	Maturity
	DKKm	DKKm	DKKm	DKKm	DKK	
2021						
AUD (sell position)	82	1	(2)	-	462.18 - 498.24	Nov. 2022
CAD (sell position)	137	-	(2)	-	498.99 - 536.51	Dec. 2022
JPY (sell position)	43	-	-	-	5.49 - 6.01	Oct. 2022
USD (sell position)	571	1	(15)	-	634.07 - 670.85	Nov. 2022
		2	**(19)**			

1) Lundbeck's option structures all consist of a purchased put option and a sold call option, which protects against downside movements in currency and limits the upside. The hedge price range is shown net of premium.

Net foreign exchange contracts, trading

There were no outstanding forward exchange contracts relating to trading at 31 December 2021 and no material impact from trading contracts was recognized in financial income or financial expenses in 2021.

Hedges of net investment

Lundbeck has hedged part of the translation risk emanating from its net investments in foreign subsidiaries in the U.S. by taking out bank debt in USD. Thereby, Lundbeck decreases the negative impact that a weaker USD would have on the value of its U.S. assets, as a decrease in the value of the debt portfolio will offset part of this impact. Lundbeck designates the USD bank debt as hedge of net investment, and the exchange rate adjustments are recognized in other comprehensive income. The hedges of net investment are considered to be effective as long as the carrying amount of the net assets in the foreign operation is (at least) equal to the notional amount on the hedging instrument. For more information about the net investment hedges, see note 17 *Bank debt, bond debt and borrowings*.

NOTE 19

19 FINANCIAL INSTRUMENTS - CONTINUED

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

	CAD DKKm	CNY DKKm	USD DKKm
2021			
Profit for the year	3	3	9
Equity	(23)	(32)	(235)
2020			
Profit for the year	4	(2)	(78)
Equity	(18)	(25)	(330)

The shown sensitivities only comprise impact from Lundbeck's financial instruments and reflect a relative change of the exchange rates at 31 December 2021 and 2020.

The sensitivity analysis includes derivatives, bank loans, trade receivable, trade payables, intercompany lending and borrowing as those are the financial instruments where the Group has the most currency exposure.

The profit impact comprises financial instruments that remained open at the balance sheet date and which have an impact on profit in the current financial year. It 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 financial instruments are located. The profit impact is limited as the largest liabilities are exchange rate adjusted in other comprehensive income, being part of Lundbeck's hedging structure.

The equity impact includes financial instruments that remained open at the balance sheet date and which are exchange rate adjusted in other comprehensive income. The equity effect in 2021 and 2020 primarily consists of exchange rate adjustments on bank loans in USD (for 2020 also including cross-currency swaps) that are designated as hedges of net investment and foreign exchange differences on outstanding cash flow hedging contracts.

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

Interest rate risks

Lundbeck ensures that the interest rate risk is managed according to the Treasury Policy. Interest rate risk relates mainly to outstanding interest-bearing debt with floating interest rates.

Interest rate risk management is handled centrally by the Parent company. Through the Group's Treasury Policy, the Board of Directors has approved the limits for borrowing and investment. Loans secured by property must be approved by the Board of Directors. Only a limited part of the total loan portfolio is allowed to have floating interest rates, and to hedge the interest rate risk on loans, the Board of Directors has approved the use of Interest Rate Swaps (IRS), Caps, Floors and Forward Rate Agreements (FRAs).

Lundbeck's exposure to interest rate risk is low, as the EUR 500 million bond has a fixed coupon and the USD funding has been swapped into fixed interest through interest rate swaps. For more information about interest rate swaps, see note 17 *Bank debt, bond debt and borrowings*.

An interest rate change on bank debt and bond debt, including interest rate swaps, of +/- 1 percentage point would decrease/increase profit for the year before tax by DKK 2 million (DKK 15 million in 2020) and increase/decrease equity by DKK 19 million at 31 December 2021 (DKK 56 million in 2020).

The below table includes undiscounted cash flows, including interest payments, and assumes that the liabilities will be repaid at their contractual maturity dates.

See note 18 *Other payables* for details on the obligations relating to contingent consideration and note 17 *Bank debt, bond debt and borrowings* for details on the bank debt and bond debt.

NOTE 19

19 FINANCIAL INSTRUMENTS - CONTINUED

Classification of and contractual maturity dates for financial assets and financial liabilities

2021	Within 1 year DKKm	Between 1 and 5 years DKKm	After 5 years DKKm	Total DKKm	Effective interest rates %
Financial assets					
Derivatives to hedge future cash flows - FX	19	-	-	19	0
Derivatives to hedge future cash flows - interest	5	4	-	9	0-2
Derivatives to hedge net investments	-	-	-	-	0-2
Financial assets measured at FVTOCI[1]	**24**	**4**	**-**	**28**	
Other financial assets	-	-	57	57	0
Other financial assets measured at FVTPL[2]	**-**	**-**	**57**	**57**	
Receivables[3]	2,707	134	-	2,841	0
Cash and bank balances	2,279	-	-	2,279	(1)-10
Financial assets measured at amortized cost	**4,986**	**134**	**-**	**5,120**	
Total financial assets	**5,010**	**138**	**57**	**5,205**	
Financial liabilities					
Derivatives to hedge future cash flows - FX	202	-	-	202	0
Derivatives to hedge future cash flows - interest	24	9	-	33	0-2
Financial liabilities measured at FVTOCI[1]	**226**	**9**	**-**	**235**	
Contingent consideration[4]	1,237	33	353	1,623	
Other financial liabilities measured at FVTPL[2]	**1,237**	**33**	**353**	**1,623**	
Bank and bond debt	45	1,260	3,751	5,056	0-2
Lease liabilities	86	266	187	539	1-8
Trade and other payables	5,320	101	-	5,421	0
Financial liabilities measured at amortized cost	**5,451**	**1,627**	**3,938**	**11,016**	
Total financial liabilities	**6,914**	**1,669**	**4,291**	**12,874**	

2020	Within 1 year DKKm	Between 1 and 5 years DKKm	After 5 years DKKm	Total DKKm	Effective interest rates %
Financial assets					
Derivatives to hedge future cash flows - FX	252	-	-	252	0
Derivatives to hedge future cash flows - interest	15	7	-	22	0-2
Derivatives to hedge net investments	209	-	-	209	0-2
Financial assets measured at FVTOCI[1]	**476**	**7**	**-**	**483**	
Other financial assets	-	-	116	116	0
Other financial assets measured at FVTPL[2]	**-**	**-**	**116**	**116**	
Receivables[3]	2,941	104	-	3,045	0
Cash and bank balances	3,924	-	-	3,924	(1)-10
Financial assets measured at amortized cost	**6,865**	**104**	**-**	**6,969**	
Total financial assets	**7,341**	**111**	**116**	**7,568**	
Financial liabilities					
Derivatives to hedge future cash flows - FX	47	-	-	47	0
Derivatives to hedge future cash flows - interest	46	58	-	104	0-2
Financial liabilities measured at FVTOCI[1]	**93**	**58**	**-**	**151**	
Contingent consideration[4]	-	1,087	21	1,108	
Other financial liabilities measured at FVTPL[2]	**-**	**1,087**	**21**	**1,108**	
Bank and bond debt	2,063	1,865	3,786	7,714	0-2
Lease liabilities	77	229	187	493	1-8
Trade and other payables	5,896	82	-	5,978	0
Financial liabilities measured at amortized cost	**8,036**	**2,176**	**3,973**	**14,185**	
Total financial liabilities	**8,129**	**3,321**	**3,994**	**15,444**	

1) Fair value through other comprehensive income.

2) Fair value through profit or loss.

3) Including other receivables recognized in non-current assets.

4) See note 18 Other payables.

NOTES 19-20

19 FINANCIAL INSTRUMENTS - CONTINUED

Financial assets and financial liabilities measured or disclosed at fair value	Level 1 DKKm	Level 2 DKKm	Level 3 DKKm
2021			
Financial assets			
Other financial assets[1]	22	-	35
Derivatives[1]	-	41	-
Total	**22**	**41**	**35**
Financial liabilities			
Contingent consideration[1]	-	-	1,623
Derivatives[1]	-	243	-
Bank debt[2]	-	1,083	-
Bond debt[2]	3,755	-	-
Total	**3,755**	**1,326**	**1,623**
2020			
Financial assets			
Other financial assets[1]	81	-	35
Derivatives[1]	-	697	-
Total	**81**	**697**	**35**
Financial liabilities			
Contingent consideration[1]	-	-	1,108
Derivatives[1]	-	365	-
Bank debt[2]	-	3,698	-
Bond debt[2]	3,781	-	-
Total	**3,781**	**4,063**	**1,108**

1) Measured at fair value.

2) Disclosed at fair value.

The fair value of securities is based on publicly quoted prices of the invested assets. The fair value of derivatives is calculated by applying recognized measurement techniques, whereby assumptions are based on the market conditions prevailing at the balance sheet date. The fair value of contingent consideration is calculated as the discounted cash outflows (DCF method) from future milestone payments, taking probability of success into consideration. The fair value adjustment of contingent consideration amounts to a net loss of DKK 133 million and is the result of changes in the time value of the contingent value rights and of the sales milestones dependent on predefined milestones being reached. Total contingent consideration amounted to DKK 1,623 million at 31 December 2021 (DKK 1,108 million at 31 December 2020). Besides the fair value adjustment and the adjustment of the sales milestone (see note 18 *Other payables*), the only change in contingent consideration is exchange rate adjustments of DKK 109 million.

The carrying amount of other receivables, trade receivables, prepayments, bank debt, other debt, trade payables and other payables is believed to be equal to or close to fair value.

20 AUDIT FEES

	2021 DKKm	2020 DKKm
Statutory audit	9	10
Assurance engagements other than audit	1	-
Tax advisory	2	4
Other services	4	1
Fee to PricewaterhouseCoopers	**16**	**15**

The fee for non-audit services provided to the Group by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab, Denmark, amounted to DKK 3 million (DKK 4 million in 2020) and consisted of people service project, other assurance services and other accounting and tax advisory services.

Certain subsidiaries of the Group are not subject to audit by PricewaterhouseCoopers.

NOTES 21-22

21 CONTRACTUAL OBLIGATIONS

Research and development milestones and collaborations
The Group has entered into a number of agreements relating to research and development as well as other collaborations. According to the agreements, Lundbeck is committed to pay certain milestones. At 31 December 2021, potential future milestone payments covering the coming ten-year period totalled up to DKK 1,031 million (DKK 300 million in 2020).

Sales milestones
Lundbeck is committed to pay certain commercial sales milestones. The amounts depend on future sales.

Other purchase obligations
The Group has undertaken purchase obligations relating to property, plant and equipment in the amount of DKK 68 million (DKK 126 million in 2020).

22 RELATED PARTIES

Lundbeck's related parties
- The Parent company's principal shareholder, Lundbeckfonden (Lundbeckfond Invest A/S), Scherfigsvej 7, 2100 Copenhagen, Denmark.
- Companies in which Lundbeckfonden exercises controlling influence, including ALK-Abelló A/S and Falck A/S.
- Members of the Parent company's registered Executive Management and Board of Directors as well as close relatives of these persons.
- Companies in which members of the Parent company's registered Executive Management and Board of Directors as well as close relatives of these persons exercise controlling influence.

Transactions and balances with Lundbeckfonden
There have been the following transactions and balances with Lundbeckfonden:
- Payment of dividends of DKK 343 million in 2021 (DKK 563 million in 2020).
- Payment of provisional tax of DKK 28 million in 2021 (DKK 101 million in 2020) for the Parent company and Danish subsidiaries.
- Refund of residual tax of DKK 131 million in 2021 (DKK 64 million in 2020) for the Parent company and Danish subsidiaries.
- Interest income of DKK 1 million in 2021 (expense of DKK 1 million in 2020).

Lundbeckfonden exercises controlling influence on H. Lundbeck A/S.

Transactions and balances with the ALK group
There have been no transactions or balances with the ALK group.

Transactions and balances with the Falck group
There have been no material transactions or balances with the Falck group.

Transactions and balances with the registered Executive Management and the Board of Directors
In addition to the transactions with members of the registered Executive Management and the Board of Directors outlined in notes 3 *Employee costs* and 14 *Incentive programs*, the Parent company has paid dividends on shares held by members of the registered Executive Management and the Board of Directors in H. Lundbeck A/S. At 31 December 2021 and 31 December 2020, there were no balances with the registered Executive Management and the Board of Directors.

Transactions and balances with other related parties
Other than the above, there have been no material transactions or balances with other related parties.

NOTE 23

23 LIST OF SUBSIDIARIES

The list below shows the subsidiaries in the Group.

	Purpose	Share of voting rights and ownership %
Lundbeck Argentina S.A., Argentina	Sales and distribution	100
Lundbeck Australia Pty Ltd, Australia, including	Sales and distribution	100
- CNS Pharma Pty Ltd, Australia	Sales and distribution	100
Lundbeck Austria GmbH, Austria	Sales and distribution	100
Lundbeck S.A., Belgium	Sales and distribution	100
Lundbeck Brasil Ltda., Brazil	Sales and distribution	100
Lundbeck Canada Inc., Canada	Sales and distribution	100
Lundbeck Chile Farmacéutica Ltda., Chile	Sales and distribution	100
Lundbeck (Beijing) Pharmaceuticals Consulting Co., Ltd., China	Sale services	100
Lundbeck Colombia S.A.S., Colombia	Sales and distribution	100
Lundbeck Croatia d.o.o., Croatia	Sale services	100
Lundbeck Czech Republic s.r.o., Czech Republic	Sales and distribution	100
Lundbeck Export A/S, Denmark	Sales and distribution	100
Lundbeck Pharma A/S, Denmark	Sales and distribution	100
Lundbeck Eesti A/S, Estonia	Sales and distribution	100
OY H. Lundbeck AB, Finland	Sales and distribution	100
Lundbeck SAS, France	Sales and distribution	100
Sofipharm SA, France, including	Other	100
- Laboratoire Elaiapharm SA, France	Production	100
Lundbeck GmbH, Germany	Sales and distribution	100
Lundbeck Hellas S.A., Greece	Sales and distribution	100
Lundbeck HK Limited, Hong Kong	Sales and distribution	100
Lundbeck Hungária KFT, Hungary	Sales and distribution	100
Lundbeck India Private Limited, India	Sales and distribution	100
Lundbeck (Ireland) Ltd., Ireland	Sales and distribution	100
Lundbeck Israel Ltd., Israel	Sales and distribution	100
Lundbeck Italia S.p.A., Italy	Sales and distribution	100
Lundbeck Pharmaceuticals, Italy S.p.A., Italy, including	Production	100
- Archid S.A., Luxembourg	Sales and distribution	100
Lundbeck Japan K.K., Japan	Sale services	100
Lundbeck Korea Co., Ltd., Republic of Korea	Sales and distribution	100
SIA Lundbeck Latvia, Latvia	Sale services	100
UAB Lundbeck Lietuva, Lithuania	Sale services	100
Lundbeck Malaysia SDN. BHD., Malaysia	Sales and distribution	100
Lundbeck México, SA de CV, Mexico	Sales and distribution	100
Lundbeck B.V., The Netherlands	Sales and distribution	100
Prexton Therapeutics B.V., The Netherlands, including	Other	100
- Prexton Therapeutics S.A., Switzerland	Other	100
Lundbeck New Zealand Limited, New Zealand	Other	100
H. Lundbeck AS, Norway	Sales and distribution	100
Lundbeck Pakistan (Private) Limited, Pakistan	Sales and distribution	100
Lundbeck America Central S.A., Panama	Sales and distribution	100
Lundbeck Peru S.A.C., Peru	Sales and distribution	100
Lundbeck Philippines Inc., Philippines	Sales and distribution	100
Lundbeck Business Service Centre Sp.z.o.o., Poland	Other	100
Lundbeck Poland Sp.z.o.o., Poland	Sales and distribution	100
Lundbeck Portugal - Produtos Farmacêuticos Unipessoal Lda, Portugal	Sales and distribution	100
Lundbeck Romania SRL, Romania	Sales and distribution	100
Lundbeck RUS LLC, Russian Federation	Sale services	100
Lundbeck Singapore PTE. LTD., Singapore	Sales and distribution	100
Lundbeck Slovensko s.r.o., Slovakia	Sales and distribution	100
Lundbeck Pharma d.o.o., Slovenia	Sales and distribution	100
Lundbeck South Africa (Pty) Limited, South Africa, including	Sales and distribution	100
- H. Lundbeck (Proprietary) Limited, South Africa	Other	100
Lundbeck España S.A., Spain	Sales and distribution	100
H. Lundbeck AB, Sweden	Sales and distribution	100
Lundbeck (Schweiz) AG, Switzerland	Sales and distribution	100
Lundbeck İlaç Ticaret Limited Şirketi, Turkey	Sales and distribution	100
Lundbeck Group Ltd. (Holding), UK, including	Other	100
- Lundbeck Limited, UK	Sales and distribution	100
- Lundbeck Pharmaceuticals Ltd., UK	Other	100
- Lifehealth Limited, UK	Other	100
- Lundbeck UK LLP, UK[1]	Other	100

NOTES 23-24

23 LIST OF SUBSIDIARIES – CONTINUED

	Purpose	Share of voting rights and ownership %
Lundbeck USA Holding LLC, USA, including	Other	100
- Lundbeck LLC, USA, including	Sales and distribution	100
- Chelsea Therapeutics International, Ltd., USA, including	Other	100
- Lundbeck NA Ltd., USA	Other	100
- Lundbeck Pharmaceuticals LLC, USA	Other	100
- Lundbeck Research USA, Inc., USA	Other	100
- Lundbeck La Jolla Research Center, Inc., USA, including	Research and development	100
- Abide Therapeutics (UK) Limited, UK	Other	100
- Lundbeck Seattle BioPharmaceuticals, Inc., USA, including	Research and development	100
- Alder Biopharmaceuticals Pty., Ltd., Australia	Other	100
- Alder Biopharmaceuticals Limited, Ireland	Other	100
- Alderbio Holdings LLC ("ANEV"), USA	Other	100
Lundbeck de Venezuela, C.A., Venezuela	Sales and distribution	100

1) 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.

24 SUBSEQUENT EVENTS

In January 2022, Lundbeck announced that the European Commission has granted marketing authorization for Vyepti® in the European Union (EU) for the prophylactic treatment of migraine in adults who have at least four migraine days per month. The approval follows the positive opinion on 11 November 2021 from the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP). The marketing authorization is valid in all EU Member States, Iceland, Norway, and Liechtenstein.

The approval will result in an increase in the fair value of the contingent consideration payable of approximately DKK 300 million, which will be expensed as financial items in 2022.

NOTE 25

25 SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, unless otherwise mentioned (see note 1.7 *New standards and amendments issued but not yet effective*).

Basis of consolidation
The consolidated financial statements comprise the Parent company H. Lundbeck A/S and entities controlled by the Parent company.

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 recognized in profit or loss under financial income or financial expenses.

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 balance sheet date and the rates at the time of recognition or settlement are recognized in profit or loss under financial income or financial expenses.

On recognition of foreign subsidiaries having a functional currency different from that used by the Parent company, items in the profit or loss are translated at monthly average exchange rates, and non-monetary and monetary balance sheet items are translated at the exchange rates at the balance sheet date. Exchange differences arising when translating the profit or loss and the balance sheet of foreign subsidiaries are recognized in other comprehensive income.

Exchange gains/losses on translation of receivables from and payables to subsidiaries that are considered part of the Parent company's overall net investment in subsidiaries are recognized in other comprehensive income.

Exchange gains/losses on that part of the bank debt in foreign currency which is used for hedging of the net investments in subsidiaries and which provides an effective hedging of the exchange gains/losses of the net investments are recognized in other comprehensive income

Statement of cash flows
The consolidated statement of cash flows is presented in accordance with the indirect method and shows the composition of cash flows, divided into operating, investing and financing activities, and cash and bank balances at the beginning and end of the year.

Cash 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 line item in the statement of cash flows.

Financial instruments
Forward exchange contracts and other derivatives are initially recognized 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 recognized 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 hedge accounting are recognized in other comprehensive income. On recognition of hedged items, income and expenses relating to such hedging transactions are transferred from other comprehensive income and recognized in the same line item as the hedged item.

Changes in the fair value of derivatives not qualifying for hedge accounting are recognized in the statement of profit or loss under financial income or financial expenses as they arise.

Securities, equity investments recognized 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.

NOTE 25

25 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Statement of profit or loss

Revenue

Revenue comprises invoiced sales less expected return of goods for the year, discounts, rebates and revenue-based taxes. Revenue is recognized when the goods are delivered at the agreed destination (point in time), meaning that control of products has transferred to the buyer and it is probable that the Group will collect the consideration to which it is entitled for transferring the products.

Revenue is measured at the amount of consideration to which the Group expects to be entitled to in exchange for transferring the products. Revenue is recognized net of sales deductions, including product returns as well as discounts, rebates and revenue based taxes.

Moreover, revenue includes licensing income and royalties from out-licensed products, non-refundable down payments and milestone payments relating to research and development collaborations, and income from collaborations on commercialization of products.

Sales-based licensing and royalty income from out-licensed products are recognized in profit or loss under revenue, when the Group provides access to its product rights as it exists throughout the license period. As the performance obligations are satisfied over time, revenue is also recognized over time.

When the Group provides a customer the right to use the product rights as it exists at the point in time at which the license is granted, revenue is recognized at a point in time when control is transferred to the licensee and the license period begins when the customer's rights to the intellectual property is transferred.

Non-refundable down payments and milestone payments received relating to research collaborations are recognized in profit or loss under revenue.

Cost of sales

Cost of sales comprises cost of goods sold, which includes the cost of raw materials, transportation costs, consumables and goods for resale, direct labour and indirect costs of production, including operating costs, and amortization/depreciation and impairment losses relating to product rights and manufacturing facilities.

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 for direct distribution, marketing and promotion. Also included are salaries and other costs for the sales, distribution and marketing functions, amortization/depreciation and impairment losses and other indirect costs.

Administrative expenses

Administrative expenses comprise expenses incurred 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 amortization/depreciation and impairment losses and other indirect costs.

Research and development costs

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

Research costs are always recognized in profit or loss as they are incurred.

Due to a very long development period and the significant uncertainties inherent in the development of new products, development costs are expensed as incurred in line with industry practice. Consequently, the development costs do not qualify for capitalization as intangible assets until marketing approval by a regulatory authority is obtained or considered highly probable.

Other operating expenses

Other operating expenses comprise other income and expenses relating to operating activities of a secondary nature to the Group. Other operating expenses include integration and transaction costs relating to material acquisitions, income and expenses relating to legal settlements and material gains and losses on the sale or retirement of items of property, plant and equipment.

Financial income and financial expenses

Financial income and financial expenses include interest income and expenses, net gain or loss on securities and other financial assets, including dividends, fair value adjustment of contingent consideration, fair value adjustment of other financial liabilities, foreign currency gains or losses and other financial income and expenses.

Interest income or expense is recognized using the effective interest method.

NOTE 25

25 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income tax

The Parent company and Danish subsidiaries are jointly taxed with the principal shareholder, Lundbeckfonden (Lundbeckfond Invest A/S), and its Danish subsidiaries. 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).

Tax for the year, which consists of the year's current tax and the change in deferred tax, is recognized in the statement of profit or loss 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 in equity. The effect of foreign exchange differences on deferred tax is recognized in the statement of financial position as part of the movements in deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a tax authority will accept an uncertain tax treatment. The Group measures its tax balances based on either the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

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

Current tax payables and receivables, including contributions payable and receivable under the Danish joint taxation scheme, are recognized in the balance sheet, computed as tax calculated on the taxable income for the year adjusted for provisional tax paid.

Deferred tax is recognized on all temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recognized on temporary differences arising either on initial recognition of goodwill or from a transaction that is not a business combination, 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 assets.

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 income tax rates or tax rules are recognized in profit or loss.

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

Changes in deferred tax concerning expenses for share-based payments are generally recognized in profit or loss. 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 recognized directly in equity.

Deferred tax in respect of recaptured losses previously deducted in foreign subsidiaries is recognized 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 recognized in the balance sheet, whereas deferred tax assets are recognized only if the criteria for recognition of deferred tax assets are met.

Statement of financial position

Intangible assets

Goodwill

On initial recognition, goodwill is measured and recognized as the excess of the cost over the fair value of the acquired assets, liabilities and contingent liabilities.

Development projects

Development costs are recognized in profit or loss as they are incurred unless the conditions for capitalization have been met. Development costs are capitalized only if the development projects are clearly defined and identifiable and where the technical rate of utilization of the project, the availability of adequate resources and a potential future market or development opportunity can be demonstrated. Furthermore, such costs are capitalized 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 amortized over the estimated useful life. The maximum amortization 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.

NOTE 25

25 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Product rights are amortized over the economic lives of the underlying products, which in all material aspects follow the patent terms, which are currently between five and fifteen years. Other rights are amortized over the period of agreement. Amortization commences when the asset is ready to be brought into use.

Amortization is recognized in profit or loss under cost of sales and research and development costs, respectively.

Borrowing costs to finance the manufacture of intangible assets are recognized 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 licences are measured as the difference between the selling price less cost to sell and the carrying amount at the time of sale. In general, amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

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

Borrowing costs to finance the construction of property, plant and equipment are recognized in the cost price, if such borrowing costs relate to the production period. Other borrowing costs are expensed.

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

• Buildings	30 years
• Installations	10 years
• Plant and machinery	3-10 years
• Other fixtures and fittings, tools and equipment	3-10 years
• Leasehold improvements, max.	10 years

Depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate. Costs incurred that increase the recoverable amount of an 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 recognized in profit or loss; normally in a separate line item or, if considered immaterial to the understanding of the consolidated financial statements, in the same line item as the associated depreciation.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term. Depreciation is recognized in profit or loss. Right-of-use assets are presented as part of property, plant and equipment.

Impairment
Intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill acquired in a business combination are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they may be impaired. The annual impairment test is performed irrespective of whether there is any indication of impairment.

Intangible assets and property, plant and equipment in use with finite useful lives are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

NOTE 25

25 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Impairment losses are reversed only if the assumptions and estimates underlying the impairment calculation have changed. Indications of impairment or reversal of impairment include the following:
- Research and development results for a product
- Changes in expected cash flows due to lower sales expectations
- Changes in technology
- Changes in assumptions about future use
- Changes in market and legal risks
- Changes in cost structure

Other financial assets
Equity investments that are not investments in associates are classified as other financial assets.

On initial recognition, equity investments are measured at fair value. Subsequently, they are measured at fair value at the balance sheet date, and changes to the fair value are recognized under financial income or financial expenses or in 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 Lundbeck are measured at cost, i.e. the cost of raw materials, consumables, direct labor and indirect costs of production. Indirect costs of production include materials, labor, maintenance of and depreciation on 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 realizable value if it is lower than the cost price. The net realizable value of inventories is calculated as the selling price less costs of completion and costs incurred to execute the sale. The net realizable value is determined having regard to marketability, obsolescence and expected selling price developments.

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

Other receivables recognized in financial assets are financial assets with fixed or determinable cash flows that are not quoted in an active market and are not derivative financial instruments.

On initial recognition, receivables are measured at fair value and subsequently at amortized cost, which usually corresponds to the nominal value less writedowns to counter the risk of losses. Writedowns are calculated using the 'full lifetime expected credit losses' method, whereby the likelihood of non-fulfilment throughout the lifetime of the financial instrument is taken into consideration. A provision account is used for this purpose.

Securities
On initial recognition, securities (including the bond portfolio), which are included in the Group's documented investment strategy for excess liquidity and recognized under current assets, are measured at fair value. Subsequently, the securities are measured at fair value at the balance sheet date. The fair value is based on officially quoted prices of the invested assets. Both realized and unrealized gains and losses are recognized in profit or loss under financial income or financial expenses.

Equity
Dividends
Proposed dividends are recognized as a liability at the time of adoption of the dividend resolution at the Annual General Meeting (the time of declaration). Dividends expected to be paid in respect of the year are included in the line item *Profit for the year* in the statement of changes in equity.

Treasury shares
Acquisition and sale of treasury shares as well as dividends are recognized directly in equity under retained earnings.

Share-based payments
Share-based incentive programs in which shares are granted to employees and in which employees may opt to buy shares in the Parent company (equity-settled programs) are measured at the equity instruments' fair value at the date of grant and recognized under employee costs as and when the employees obtain the right to receive/buy the shares. The offsetting item is recognized directly in equity under retained earnings.

NOTE 25

25 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Share price-based incentive programs in which employees have the difference between the agreed price and the actual share price settled in cash (cash-settled programs) are measured at fair value at the date of grant and recognized under employee costs as and when the employees obtain the right to such difference settlement. The cash-settled programs are subsequently remeasured on each balance sheet date and upon final settlement, and any changes in the fair value of the programs are recognized under employee costs. The offsetting item is recognized under liabilities until the time of the final settlement.

Retirement benefit obligations and similar obligations

Defined contribution plans

Payments to defined contribution plans are recognized in profit or loss at the due date, and any contributions payable are recognized in the balance sheet under current liabilities.

Defined benefit plans

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 Lundbeck. Pension expenses, finance costs and administration fees are recognized in profit or loss under employee costs. Actuarial gains and losses are recognized in other 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 recognized less the fair value of the plan assets, and any net obligation is recognized in the balance sheet under non-current liabilities. Any net asset is recognized 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*.

Provisions

Provisions mainly consist of provisions for discounts and rebates, product returns, pending lawsuits and restructuring. A provision is a liability of uncertain timing or amount.

Unsettled discounts and rebates are recognized as provisions, when the timing or amount is uncertain. Where absolute amounts are known, the discounts and rebates are recognized as trade payables.

Return obligations imposed on the Group are recognized as provisions in the balance sheet.

Amounts relating to pending lawsuits are recognized when the outflow is probable and the amount is measured as the best estimate of the costs required to settle the liabilities at the balance sheet date.

In connection with restructurings in 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.

Debt

Bank debt and bond debt are recognized at the time of raising of the loan/issuing of the bonds at the fair value of the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost, which is equivalent to the capitalized value when the effective rate of interest is used. The difference between the proceeds and the nominal value is recognized in profit or loss under financial income or financial expenses over the loan period.

Other payables

Other payables include contingent consideration, payables to shareholders, debt to public authorities, etc.

Contingent consideration is recognized as part of the business combination and is recognized at fair value considering the passage of time and changes in the applied probability of success. The fair value is assessed at each reporting date and the effect of any adjustments relating to the timing of payment and the probability of success is recognized under financial income or financial expenses.

Payables to shareholders and other debts are measured at amortized cost.

Lease liabilities

Lease liabilities are recognized at the present value of future payments in accordance with the lease agreements and include the present value of future payments relating to reasonably certain extensions. Interest on the lease liabilities is calculated using Lundbeck's incremental borrowing rate and recognized under financial income or financial expenses. The lease liabilities are reduced by any instalments paid to the lessor.

Lundbeck uses the same incremental borrowing rate for lease agreements with similar characteristics.

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.

FINANCIAL STATEMENTS OF THE PARENT COMPANY

CONTENTS

NOTES

STATEMENT OF PROFIT OR LOSS

1 January – 31 December

	Notes	2021 DKKm	2020 DKKm
Revenue	1	11,298	10,733
Cost of sales	2	2,732	2,532
Gross profit		**8,566**	**8,201**
Sales and distribution costs	2	3,247	3,110
Administrative expenses	2	634	648
Research and development costs	2	3,600	5,027
Other operating expenses, net		-	8
Profit from operations (EBIT)		**1,085**	**(592)**
Income from investments in subsidiaries	3	223	757
Financial income	4	256	743
Financial expenses	4	617	273
Profit before tax		**947**	**635**
Tax on profit for the year	5	127	(80)
Profit for the year	6	**820**	**715**

STATEMENT OF FINANCIAL POSITION – ASSETS

At 31 December

	Notes	2021 DKKm	2020 DKKm
Product rights	7	9,357	9,850
Other rights	7	122	68
Projects in progress	7	104	132
Intangible assets		**9,583**	**10,050**
Land and buildings	8	993	1,040
Plant and machinery	8	180	197
Other fixtures and fittings, tools and equipment	8	50	25
Prepayments and assets under construction	8	425	295
Right-of-use assets	9	188	194
Property, plant and equipment		**1,836**	**1,751**
Investments in subsidiaries	3	10,539	10,534
Receivables from subsidiaries		5,839	4,819
Other investments		56	114
Other receivables		4	4
Financial assets		**16,438**	**15,471**
Non-current assets		**27,857**	**27,272**
Inventories	10	**1,848**	**1,303**
Trade receivables		709	587
Receivables from subsidiaries		2,006	1,388
Joint taxation contribution		48	130
Other receivables		115	747
Prepayments		116	84
Receivables		**2,994**	**2,936**
Cash and bank balances		**1,263**	**3,171**
Current assets		**6,105**	**7,410**
Assets		**33,962**	**34,682**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

At 31 December

	Notes	2021 DKKm	2020 DKKm
Share capital		996	996
Proposed dividends		398	498
Hedging reserve		(81)	176
Retained earnings		12,567	12,144
Equity		**13,880**	**13,814**
Deferred tax liabilities	5	239	137
Bank debt and bond debt	13	4,783	5,397
Lease liabilities	9	174	182
Payables to subsidiaries	14	9,066	6,226
Other payables		20	20
Non-current liabilities		**14,282**	**11,962**
Provisions	11	240	132
Bank debt		-	2,000
Trade payables		2,062	2,092
Lease liabilities	9	14	13
Payables to subsidiaries		2,786	3,791
Other payables		698	878
Current liabilities		**5,800**	**8,906**
Liabilities		**20,082**	**20,868**
Equity and liabilities		**33,962**	**34,682**

STATEMENT OF CHANGES IN EQUITY

At 31 December

	Notes	Share capital DKKm	Proposed dividends DKKm	Hedging reserve DKKm	Retained earnings DKKm	Equity DKKm
Equity at 1 January		**996**	**498**	**176**	**12,144**	**13,814**
Profit for the year	6	-	398	-	422	820
Distributed dividends, gross		-	(498)	-	-	(498)
Dividends received, treasury shares		-	-	-	1	1
Deferred exchange gains/losses, hedging		-	-	(340)	-	(340)
Deferred fair value of interest rate swaps		-	-	63	-	63
Exchange gains/losses, hedging (transferred to revenue)		-	-	(53)	-	(53)
Buyback of treasury shares		-	-	-	(34)	(34)
Incentive programs		-	-	-	34	34
Tax on transactions in equity	5	-	-	73	-	73
Equity at 31 December		**996**	**398**	**(81)**	**12,567**	**13,880**

See note 12 *Equity* in the consolidated financial statements.

NOTES 1-3

1 REVENUE

Revenue by region	2021 DKKm	2020 DKKm
Europe	3,761	3,636
North America	4,994	4,806
International markets	2,338	2,187
Total	**11,093**	**10,629**
Other revenue	152	99
Effects from hedging	53	5
Total revenue	**11,298**	**10,733**

2 EMPLOYEE COSTS

Breakdown of employee costs	2021 DKKm	2020 DKKm
Short-term employee benefits	1,396	1,456
Retirement benefits	125	126
Social security costs	20	27
Equity- and cash-settled incentive programs	34	29
Severance and other costs from restructuring activities	100	2
Total	**1,675**	**1,640**

Employee costs for the year are included in the following functions in the statement of profit or loss:

Employee costs	2021 DKKm	2020 DKKm
Cost of sales	428	414
Sales and distribution costs	177	105
Administrative expenses	347	391
Research and development costs	723	730
Total	**1,675**	**1,640**

Information on employees

	2021	2020
Average number of full-time employees in the financial year	**1,721**	**1,738**
Number of full-time employees at 31 December	**1,732**	**1,709**

Remuneration of the Registered Executive Management

See notes 3 *Employee costs* and 14 *Incentive programs* in the consolidated financial statements.

Remuneration of the Board of Directors

See note 3 *Employee costs* in the consolidated financial statements.

Incentive programs

See note 14 *Incentive programs* in the consolidated financial statements.

3 INVESTMENTS IN SUBSIDIARIES

	2021 DKKm
Cost at 1 January	10,738
Capital contributions to subsidiaries	5
Cost at 31 December	**10,743**
Impairment at 1 January	204
Impairment at 31 December	**204**
Carrying amount at 31 December	**10,539**

In 2021, income from investments in subsidiaries relates to dividends amounting to DKK 223 million. In 2020, income from investments in subsidiaries related to dividends received, proceeds from liquidation of subsidiaries and impairment losses recognized related to investments in subsidiaries amounting to DKK 757 million.

See note 23 *List of subsidiaries* in the consolidated financial statements for an overview of subsidiaries.

NOTES 4-6

4 FINANCIAL INCOME AND EXPENSES

	2021 DKKm	2020 DKKm
Financial income	256	743
Financial expenses	617	273
Net financials, expenses/(income)	**361**	**(470)**

In 2021, out of total financial income and expenses, DKK 246 million (DKK 233 million in 2020) and DKK 49 million (DKK 56 million in 2020), respectively, are related to intra-group interest income and expenses.

Financial income and financial expenses are impacted by a net exchange loss of DKK 163 million relating to translation of receivables from and payables to subsidiaries that are considered part of the overall investment in subsidiaries. Further, financial income and financial expenses are impacted by a loss of DKK 127 million relating to the translation of external loans used for hedging net investments in foreign operations in the U.S.

5 INCOME TAXES

Tax on profit for the year

	2021 DKKm	2020 DKKm
Current tax, joint taxation contribution	3	12
Prior-year adjustments, current tax	(51)	(2)
Prior-year adjustments, deferred tax	47	8
Change in deferred tax for the year	55	(49)
Total tax for the year	**54**	**(31)**
Tax for the year is composed of:		
Tax on profit for the year	127	(80)
Tax on transactions in equity	(73)	49
Total tax for the year	**54**	**(31)**

Deferred tax balances

Temporary differences between assets and liabilities as stated in the financial statements and in the tax base	Balance at 1 January DKKm	Adjustment of deferred tax at beginning of year DKKm	Movements during the year DKKm	Balance at 31 December DKKm
Intangible assets	3,715	68	1,025	4,808
Property, plant and equipment	471	(68)	28	431
Inventories	350	-	13	363
Other items	(381)	-	(119)	(500)
Tax loss carryforwards etc.	(3,532)	210	(695)	(4,017)
Total temporary differences	**623**	**210**	**252**	**1,085**
Deferred (tax assets)/tax liabilities	**137**	**47**	**55**	**239**

The major assumptions relating to the recognition and measurement of tax assets are described in note 5 *Income taxes* in the consolidated financial statements.

Movements in deferred tax	2021 DKKm	2020 DKKm
Balance at 1 January	137	178
Movements related to transactions recognized in profit or loss	102	(41)
Balance at 31 December	**239**	**137**

6 DISTRIBUTION OF PROFIT

Proposed distribution of profit for the year	2021 DKKm	2020 DKKm
Proposed dividends for the year	398	498
Transferred to/from distributable reserves	422	217
Total profit for the year	**820**	**715**
Proposed dividend per share (DKK)	**2.00**	**2.50**

See note 12 *Equity* in the consolidated financial statements for details on treasury shares.

NOTES 7-8

7 INTANGIBLE ASSETS

Intangible assets	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
Cost at 1 January	16,441	1,659	132	18,232
Transfers	-	99	(99)	-
Additions	102	16	71	189
Disposals	(89)	(25)	-	(114)
Cost at 31 December	**16,454**	**1,749**	**104**	**18,307**
Amortization and impairment losses at 1 January	6,591	1,591	-	8,182
Amortization	594	57	-	651
Disposals	(88)	(21)	-	(109)
Amortization and impairment losses at 31 December	**7,097**	**1,627**	**-**	**8,724**
Carrying amount at 31 December	**9,357**	**122**	**104**	**9,583**

1) At 31 December 2021, product rights not yet commercialized amounted to DKK 6,341 million (DKK 6,239 million in 2020).

2) Other rights and projects in progress primarily include items such as the IT system SAP. The amounts include directly attributable internal expenses.

For details on material product rights and impairment testing, see *note 6 Intangible assets* in the consolidated financial statements.

8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Land and buildings DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment DKKm	Prepayments and assets under construction DKKm	Total property, plant and equipment DKKm
Cost at 1 January	3,176	1,135	531	295	5,137
Transfers	41	22	36	(99)	-
Additions	6	10	3	229	248
Disposals	(28)	(80)	(63)	-	(171)
Cost at 31 December	**3,195**	**1,087**	**507**	**425**	**5,214**
Depreciation and impairment losses at 1 January	2,136	938	506	-	3,580
Depreciation	93	44	14	-	151
Impairment losses	-	3	-	-	3
Disposals	(27)	(78)	(63)	-	(168)
Depreciation and impairment losses at 31 December	**2,202**	**907**	**457**	**-**	**3,566**
Carrying amount at 31 December	**993**	**180**	**50**	**425**	**1,648**

Pledged assets

No land and buildings were mortgaged at 31 December 2021. No other assets have been pledged.

NOTES 9-11

9 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Amounts recognized in profit or loss	2021 DKKm	2020 DKKm
Expense relating to short-term leases, not capitalized	2	1
Depreciation of right-of-use assets, land and buildings	13	13
Total	**15**	**14**

Land and buildings	2021 DKKm	2020 DKKm
Cost at 1 January	220	216
Adjustment to right-of-use assets during the year	7	4
Cost at 31 December	**227**	**220**
Depreciation and impairment losses at 1 January	26	13
Depreciation	13	13
Depreciation and impairment losses at 31 December	**39**	**26**
Carrying amount at 31 December	**188**	**194**

Maturity analysis of lease liabilities	2021 DKKm	2020 DKKm
Within 1 year	14	13
Between 1 year and 5 years	54	52
After 5 years	120	130
Lease liabilities at 31 December	**188**	**195**

10 INVENTORIES

	2021 DKKm	2020 DKKm
Raw materials and consumables	162	143
Work in progress	1,342	868
Finished goods and goods for resale	344	292
Total	**1,848**	**1,303**

11 PROVISIONS

	2021 DKKm
Provisions at 1 January	132
Provisions charged	284
Provisions used	(125)
Unused provisions reversed	(51)
Provisions at 31 December	**240**

The Parent company has entered into agreements with individual subsidiaries, under which the Parent company will cover expected losses and obligations concerning the restructuring programs. The provisions in the Parent company therefore cover such losses and obligations.

At 31 December 2021, provisions of DKK 240 million (DKK 132 million in 2020) related to restructuring programs.

NOTE 12

12 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Pending legal proceedings
H. Lundbeck A/S (the "Company") is involved in a number of legal proceedings, including patent disputes, the most significant of which are described below. The outcome of these proceedings is not expected to have a material impact on the 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 financial position and/or cash flows.

In June 2013, the Company received the European Commission's decision that agreements concluded with four generic competitors concerning citalopram violated competition law. The decision included fining the Company EUR 93.8 million (approximately DKK 700 million). The Company paid and expensed the fine in the third quarter of 2013. In March 2021, the European Court of Justice rejected the Company's final appeal of the European Commission's decision. 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 an umbrella organization of Dutch health insurance companies have taken formal protective steps against the Company with the principal purpose of preventing potential claims from being time-barred under the applicable statutes of limitation. In September 2021, the UK proceedings were transferred from the High Court to the Competition Appeal Tribunal at the request of the parties. The Company expects that the UK health authorities will now pursue their alleged claims. Further, in late October 2021, the Company received a writ of summons from a German health care company claiming compensation for an alleged loss of profit plus interest payments, allegedly resulting from the Company's conclusion of agreements with two of the four generic competitors, which were comprised by the EU Court of Justice ruling. The Company is preparing its defense and it may take several years before a final conclusion is reached by the German courts. The Company disagrees with the claims and will defend itself against the claims.

In Canada, the Company is involved in three product liability class-action lawsuits relating to Cipralex®/Celexa® (two cases alleging various Celexa®-induced birth defects and one case against several SSRI manufacturers (incl. the Company) alleging that SSRI (Celexa®/Lexapro®) induces autism birth defect, three 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). The cases are in the preliminary stages and as such there is significant uncertainty as to how these lawsuits will be resolved. The Company strongly disagrees with the claims raised.

In 2018, the Company entered into settlements with three of four generic companies involved in an Australian federal court case, in which the Company was pursuing patent infringement and damages claims over the sale of escitalopram products in Australia. The Company received AUD 51.7 million (DKK 242 million) in 2018. In the Company's case against the last of the four generic companies, Sandoz Pty Ltd, the Federal Court found that Sandoz Pty Ltd had infringed the Company's escitalopram patent between 2009 and 2012 and awarded the Company AUD 26.3 million in damages. Sandoz' appeal of the decision was heard in May 2019 and the Full Federal Court has in August 2020 allowed Sandoz' appeal and decided that Sandoz is not liable for damages. The Company's application for special leave to appeal the decision to the High Court was granted in February 2021, and the appeal was heard on 8 October 2021. A decision is expected within 3 – 6 months from the hearing. If the Company's appeal is successful, the case will go back to the Federal Court for recalculation and the Company's appeal of the Australian Patent Office's decision to grant Sandoz a license will be restarted.

Together with Takeda, the Company instituted patent infringement proceedings against 16 generic companies in response to their filing of Abbreviated New Drug Applications ("ANDAs") with the U.S. FDA seeking to obtain marketing approval for generic versions of Trintellix in the U.S. Two opponents have since withdrawn and the Company has settled with eight opponents. As communicated by the Company in company release no. 706 dated 1 October 2021, the cases against the six remaining opponents (the "ANDA Filers") has been decided by the U.S. District Court for the District of Delaware (the 'Court'). The Court found that the Company's patent protecting the active ingredient in Trintellix®, vortioxetine (U.S. Patent No. 7,144,884) is valid. The active ingredient patent expires on 17 June 2026, with an expected six-month paediatric exclusivity period extending to 17 December 2026. Assuming the ruling is confirmed at appeal, final approval will not be granted to the relevant ANDA Filers until after expiration of the active ingredient patent, including any extension or additional periods of exclusivity. A total of seven other patents asserted at trial were found by the Court to be valid or their validity was not challenged during the trial. The Court decided that none of the seven other patents were infringed by the relevant ANDA Filers, except that Lupin was found to infringe a patent covering the Company's process for manufacturing vortioxetine. Unless and until the Court's ruling is reversed on appeal, the patents found not infringed by a particular ANDA Filer will not prevent that ANDA Filer from receiving final approval. For details on each of the patents comprised by the case, please see the company release no. 706. The Court's decision has been appealed by the Company to the U.S. Court of Appeals for the Federal Circuit. Lupin has appealed with respect to the process patent and the ANDA Filers have cross appealed with respect to the validity of two of the seven other patents.

Together with Otsuka Pharmaceutical, the Company has instituted patent infringement proceedings against several generic companies that have applied for marketing authorization for generic versions of Rexulti® in the U.S. The Company has strong confidence in the Rexulti® patents. The U.S. FDA cannot grant marketing authorization in the U.S. to the generic companies before the patents expire, unless the generic companies receive decisions in their favour. Trial is scheduled to begin on 25 July 2022. The compound patent, including patent term extensions, will expire in the U.S. on 23 June 2029. A patent for the specific formulation used will expire 12 September 2032.

NOTES 12-18

12 CONTINGENT ASSETS AND CONTINGENT LIABILITIES - CONTINUED

Joint taxation
The Parent company is part of a Danish joint taxation scheme with Lundbeckfonden (Lundbeckfond Invest A/S including subsidiaries), according to which the Company has partly a joint and several liability and partly a secondary liability with respect to corporate income taxes, etc. for the jointly-taxed companies. In addition, the Parent company has partly a joint and several liability and partly a secondary liability with respect to any obligations to withhold tax on interest, royalties and dividends for these companies. However, in both cases the secondary liability is capped at an amount equal to the share of the capital of the company directly or indirectly owned by the ultimate parent company. The total tax obligation under the joint taxation scheme is shown in the financial statements of Lundbeckfond Invest A/S.

Letters of intent
The Parent company has entered into agreements to cover operating losses in certain subsidiaries.

As collateral for bank guarantees, the Parent company has issued letter of intent to the banks in the amount of DKK 7 million (DKK 6 million in 2020) on behalf of subsidiaries.

13 BANK DEBT AND BOND DEBT

Bank debt and bond debt falling due after more than five years from the balance sheet date amounted to DKK 3,700 million at 31 December 2021 (DKK 3,699 million in 2020).

14 PAYABLES TO SUBSIDIARIES

Payables to subsidiaries falling due after more than five years from the balance sheet date amounted to DKK 9,066 million at 31 December 2021 (DKK 6,226 million in 2020).

15 FINANCIAL INSTRUMENTS

Foreign currency management is handled by the Parent company. See note 19 *Financial instruments* in the consolidated financial statements.

The fair value of derivatives at year-end is disclosed in note 19 *Financial instruments* in the consolidated financial statements. The fair value adjustment recognized in equity is disclosed in the statement of changes in equity in the financial statements of the Parent company. All fair value adjustments are initially recognized in equity.

16 AUDIT FEES

	2021 DKKm	2020 DKKm
Statutory audit	3	4
Assurance engagements other than audit	1	-
Tax advisory	2	3
Other services	3	1
Fee to PricewaterhouseCoopers	**9**	**8**

17 CONTRACTUAL OBLIGATIONS

Research and development milestones and collaborations
The Parent company has entered into a number of agreements relating to research and development as well as other collaborations. According to the agreements, the Company is committed to pay certain milestones. At 31 December 2021, potential future milestone payments covering the coming ten-year period totalled up to DKK 1,031 million (DKK 300 million in 2020).

Sales milestones
The Company is committed to pay certain commercial sales milestones. The amount depends on future sales.

Other purchase obligations
The Company has undertaken purchase obligations relating to property, plant and equipment in the amount of DKK 48 million (DKK 82 million in 2020).

18 RELATED PARTIES

For information on related parties exercising controlling influence on the Parent company, see note 22 *Related parties* in the consolidated financial statements.

The Parent company is included in the consolidated financial statements of Lundbeckfonden.

NOTES 18-20

18 RELATED PARTIES - CONTINUED

The Parent company had transactions with subsidiaries during 2021. The Parent company's share of ownership of all subsidiaries is 100%. The Parent company did not enter into any transactions with other related parties that were not on an arm's length basis.

19 SUBSEQUENT EVENTS

See note 24 *Subsequent events* in the consolidated financial statements.

20 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Parent company H. Lundbeck A/S have been prepared in accordance with the Danish Financial Statements Act applying to enterprises in reporting class D. The financial statements are presented in Danish kroner (DKK). All amounts have been rounded to the nearest DKK million, unless otherwise indicated.

The accounting policies for the financial statements of the Parent company remain unchaged from the previous financial year.

Differences relative to the accounting policies for the consolidated financial statements
The Parent company's accounting policies for recognition and measurement are consistent with the accounting policies for the consolidated financial statements with the exceptions stated below. For a description of the accounting policies of the Group, please refer to the consolidated financial statements.

Statement of profit or loss
Income from investments in subsidiaries
Income from investments in subsidiaries includes dividends from subsidiaries, which are recognized in the Parent company's statement of profit or loss when the Parent company's right to receive such dividends has been approved. Further, income from investments in subsidiaries includes proceeds from liquidation of subsidiaries and any impairment losses or reversals of impairment losses on investments in subsidiaries.

Exchange gains/losses
Exchange gains/losses on translation of receivables from and payables to subsidiaries that are considered part of the overall investment in subsidiaries are recognized in profit or loss under financial income or financial expenses.

Exchange gains/losses on that part of the bank debt in foreign currency which is used for hedging of the net investments in subsidiaries and which provides an effective hedging of the exchange gains/losses of the net investments are recognized in profit or loss under financial income or financial expenses.

Statement of financial position
Investments in subsidiaries
Investments in subsidiaries are measured at cost in the Parent company's financial statements. Where the recoverable amount of the investments is lower than cost, the investments are written down to this lower value. In addition, cost is written down to the extent that dividends distributed exceed the accumulated earnings in the subsidiary since the acquisition date.

Other financial assets
On initial recognition, investments are measured at cost, corresponding to fair value plus directly attributable costs. Subsequently, they are measured at fair value at the balance sheet date. Any fair value adjustments on equity investments recognized in other comprehensive income in the consolidated financial statements are recognized under financial income or financial expenses in the Parent company's statement of profit or loss.

Statement of changes in equity
Pursuant to the Danish Financial Statements Act, entries recognized in the statement of comprehensive income in the consolidated financial statements are recognized directly in the statement of changes in equity in the Parent company's financial statements, except for entries concerning exchange gains/losses on translation of receivables from and payables to subsidiaries, entries providing an effective hedge against foreign exchange gains/losses on the net investment and entries concerning other financial assets.

Statement of cash flows
In accordance with the exemption clause in section 86(4) of the Danish Financial Statements Act, no separate statement of cash flows has been prepared for the Parent company as it is included in the consolidated statement of cash flows.

MANAGEMENT STATEMENT

The Board of Directors and the registered Executive Management have today considered and adopted the Annual Report of H. Lundbeck A/S for the financial year 1 January – 31 December 2021.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and the Parent company financial statements have been prepared in accordance with the Danish Financial Statements Act. Management review has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the Parent company financial statements give a true and fair view of the financial position at 31 December 2021 of the Group and the Parent company and of the results of the Group and Parent company operations and consolidated cash flows for the financial year 1 January - 31 December 2021.

In our opinion, Management review includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent company, of the results for the year and of the financial position of the Group and the Parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

In our opinion, the Annual Report of H. Lundbeck A/S for the financial year 1 January to 31 December 2021 identified as HLUNDBECK-2021-12-31-en.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

We recommend that the Annual Report be approved at the Annual General Meeting.

Copenhagen, 9 February 2022

REGISTERED EXECUTIVE MANAGEMENT

Deborah Dunsire
President and CEO

Lars Bang
Executive Vice President, Product, Development & Supply

Anders Götzsche
Executive Vice President, CFO

Per Johan Luthman
Executive Vice President, Research & Development

Jacob Tolstrup
Executive Vice President, Commercial Operations

BOARD OF DIRECTORS

Lars Søren Rasmussen
Chairman of the Board

Lene Skole-Sørensen
Deputy Chairman

Santiago Arroyo

Jeffrey Berkowitz

Lars Erik Holmqvist

Jeremy Max Levin

Ilse Dorothea Wenzel

Rikke Kruse Andreasen
Employee representative

Henrik Sindal Jensen
Employee representative

Ludovic Tranholm Otterbein
Employee representative

INDEPENDENT AUDITOR'S REPORTS

To the shareholders of H. Lundbeck A/S

Report on the audit of the financial statements

Our opinion
In our opinion, the consolidated financial statements (pages 51-92) give a true and fair view of the group's financial position at 31 December 2021 and of the results of the group's operations and cash flows for the financial year 1 January to 31 December 2021 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent company financial statements (pages 93-103) give a true and fair view of the Parent company's financial position at 31 December 2021 and of the results of the Parent company's operations for the financial year 1 January to 31 December 2021 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited
The consolidated financial statements of H. Lundbeck A/S for the financial year 1 January to 31 December 2021 comprise the consolidated statement of profit or loss and statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes, including summary of significant accounting policies.

The Parent company financial statements of H. Lundbeck A/S for the financial year 1 January to 31 December 2021 comprise the statement of profit or loss, the statement of financial position, the statement of changes in equity, and the notes, including summary of significant accounting policies.

Collectively referred to as the "financial statements".

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 financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment
We were first appointed auditors of H. Lundbeck A/S on 24 March 2020 for the financial year 2020. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 2 years, including the financial year 2021.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORTS

CONTINUED

Key audit matter	*How our audit addressed the key audit matter*
Sales deductions in the U.S. As of 31 December 2021, Management has recognized a provision for discounts and rebates of DKK 923 million (2020: DKK 1,002 million). The Group provides rebates and discounts to customers in the U.S. that fall under certain government mandated reimbursement arrangements, of which the most significant is Medicaid. These arrangements result in deductions to gross sales in arriving at net revenue. The period passing between the sales to distributors and payment of the related rebates under the U.S. Federal and State Government Healthcare programs may be several months and require the unsettled amounts to be recognized as a provision. We focused on these arrangements because they are complex and require significant estimation by Management in establishing an appropriate provision for the unsettled amounts. This includes estimation of sales volumes subject to the rebates, estimation of applicable rebate percentages, and estimation of the lag time described above. We refer to note 1.5, 15 and 25 in the consolidated financial statements.	We evaluated and tested relevant controls related to the provision for rebates and discounts in the U.S., including applicable IT systems and Management's monitoring controls. We obtained Management's calculations under the reimbursement arrangements and evaluated the accuracy of the calculations made. Further, we assessed and tested key data inputs and significant assumptions and recalculated the rebate percentages. We obtained and assessed the Group's estimate of the period from sale to payment of rebates, and rebate percentages applied, and inquired Management about their estimation process. We considered the Group's historical provisions by comparing the actual rebate with the rebate percentage estimate used by Management to recognize the provision, including performing a retrospective review of the prior period provision compared to subsequent payments to evaluate the accuracy of Management's estimate and to identify any potential management bias. We evaluated the presentation and disclosures of sales deductions in the U.S. in the consolidated financial statements.
Impairment of product rights As of 31 December 2021, the Group has product rights of DKK 17,097 million (2020: DKK 17,632). Product rights are tested when there is an indication of impairment, and product rights not yet commercialized are tested annually for impairment. The recoverability of the carrying value of product rights is contingent on future cash flows and/or the outcome of research and development activities. The determination of the recoverable amounts includes significant estimates, which are highly sensitive and depend upon key assumptions, including the probability of technical and regulatory success, amount and timing of projected future cash flows, patent expiry, and discount rate assumptions. Changes in these assumptions could have an impact on the recoverable amount of product rights. We focused on this area as the amounts involved are material and there is a risk that the product rights will be impaired if the key assumptions deviate negatively from the expectations. We refer to note 1.5, 6 and 25 in the consolidated financial statements.	We evaluated the design and tested the operating effectiveness of the Group's controls for assessing impairment indicators and the recoverability of the carrying value of product rights. For product rights with impairment indicators and product rights not yet commercialized, we among others: • Tested Management's process for determining the recoverable amount; • Evaluated the appropriateness of the methodology used in the impairment tests; • Evaluated Management's assumptions used in the impairment tests, including the probability of technical and regulatory success, amount and timing of projected future cash flows, and impact of the expiry of patents; • Tested the underlying data used in the impairment tests, including reconciliation of the cash flows to Management approved Long Term Plan and forecasts; and • Included our in-house valuation experts to assess the valuation techniques used and to assist with the evaluation of certain key assumptions, including the discount rates applied. Moreover, we evaluated the disclosures of impairment testing in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORTS

CONTINUED

Statement on Management review
Management is responsible for Management review (pages 3-50 and pages 110-111, respectively).

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

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

Moreover, we considered whether Management review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management review is in accordance with the consolidated financial statements and the Parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management review.

Management's responsibilities for the 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 further requirements in the Danish Financial Statements Act and for the preparation of Parent company 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Parent company'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 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 Parent company'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 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

INDEPENDENT AUDITOR'S REPORTS

CONTINUED

or conditions may cause the Group or the Parent company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF Regulation

As part of our audit of the financial statements we performed procedures to express an opinion on whether the Annual Report of H. Lundbeck A/S for the financial year 1 January to 31 December 2021 with the filename HLUNDBECK-2021-12-31-en.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the consolidated financial statements.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for all financial information required to be tagged using judgment where necessary;
- Ensuring consistency between iXBRL tagged data and the consolidated financial statements presented in human-readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

INDEPENDENT AUDITOR'S REPORTS

CONTINUED

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the consolidated financial statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited consolidated financial statements.

In our opinion, the Annual Report of H. Lundbeck A/S for the financial year 1 January to 31 December 2021 with the file name HLUNDBECK-2021-12-31-en.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Hellerup, 9 February 2022

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Lars Baungaard
State Authorized Public Accountant
mne23331

Torben Jensen
State Authorized Public Accountant
mne18651

CORE RECONCILIATION

Part of Management review

As a general rule, Lundbeck adjusts for amortization of product rights and for each non-recurring item that Management deems exceptional and which accumulates or is expected to accumulate to an amount exceeding a DKK 100 million threshold. Lundbeck's core reporting is a non-IFRS performance measurement. Lundbeck's core results, including core operating income (core EBIT) and core EPS, exclude:

Amortization of product rights

Impairment of intangible assets and property, plant and equipment as well as inventory valuation adjustment

Major restructuring costs

Acquisition and integration costs, including:

- Accounting adjustments relating to the consolidation of material acquisitions and disposals of associates, products and businesses
- Costs associated with the integration of newly acquired companies
- Retention costs
- Transaction costs
- Legal fees and settlements, including:
- Legal costs (external), charges (net of insurance recoveries) and expenses relating to settlement of litigations, government investigations and other disputes
- Income from settlement of litigations and other disputes

Core results	Reported result DKKm	Amortization of product rights DKKm	Impairment and inventory valuation DKKm	Major restructuring DKKm	Acquisition and integration costs DKKm	Legal fees and settlements DKKm	Divestments/ sales milestones DKKm	Core result DKKm
1 January - 31 December 2021								
Revenue	16,299	-	-	-	-	-	-	16,299
Cost of sales	3,648	(1,274)	-	(37)	-	-	-	2,337
Gross profit	**12,651**	**1,274**	**-**	**37**	**-**	**-**	**-**	**13,962**
Sales and distribution costs	5,885	-	-	(162)	-	-	-	5,723
Administrative expenses	933	-	-	(31)	-	-	-	902
Research and development costs	3,823	-	-	(3)	-	-	-	3,820
Other operating expenses, net	-	-	-	-	-	-	-	-
Profit from operations (EBIT)	**2,010**	**1,274**	**-**	**233**	**-**	**-**	**-**	**3,517**
Net financials, expenses	429	-	-	-	-	-	-	429
Profit before tax	**1,581**	**1,274**	**-**	**233**	**-**	**-**	**-**	**3,088**
Tax on profit for the year	263	276	-	51	-	-	-	590
Profit for the year	**1,318**	**998**	**-**	**182**	**-**	**-**	**-**	**2,498**
Earnings per share, basic (EPS) (DKK)	6.63	5.02	-	0.92	-	-	-	12.57

CORE RECONCILIATION

Part of Management review

CONTINUED

Divestments/milestones, including:

- Income/expenses from discontinued operations
- Gains/losses on divestments of assets
- Received or expensed upfront sales and development milestones

The adjusted core result is taxed at the underlying corporate tax rate.

Core results	Reported result DKKm	Amortization of product rights DKKm	Impairment and inventory valuation DKKm	Major restructuring DKKm	Acquisition and integration costs DKKm	Legal fees and settlements DKKm	Divestments/ sales milestones DKKm	Core result DKKm
1 January - 31 December 2020								
Revenue	17,672	-	-	-	-	-	-	17,672
Cost of sales	4,166	(1,548)	(47)	-	-	-	-	2,571
Gross profit	**13,506**	**1,548**	**47**	**-**	**-**	**-**	**-**	**15,101**
Sales and distribution costs	5,946	-	-	-	-	-	-	5,946
Administrative expenses	966	-	-	-	-	-	-	966
Research and development costs	4,545	-	(792)	-	-	-	-	3,753
Other operating expenses, net	59	-	-	-	(59)	-	-	-
Profit from operations (EBIT)	**1,990**	**1,548**	**839**	**-**	**59**	**-**	**-**	**4,436**
Net financials, expenses	84	-	-	-	-	-	-	84
Profit before tax	**1,906**	**1,548**	**839**	**-**	**59**	**-**	**-**	**4,352**
Tax on profit for the year	325	244	11	-	14	-	-	594
Profit for the year	**1,581**	**1,304**	**828**	**-**	**45**	**-**	**-**	**3,758**
Earnings per share, basic (EPS) (DKK)	7.96	6.56	4.17	-	0.23	-	-	18.92

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