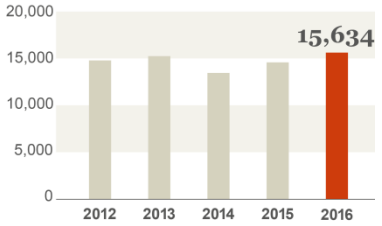
WE STRIVE FOR GLOBAL LEADERSHIP IN PSYCHIATRY AND NEUROLOGY BY IMPROVING THE LIVES OF PATIENTS

ANNUAL REPORT 2016

Lundbeck

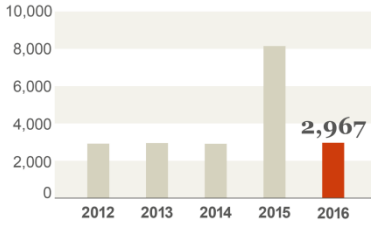
5 YEARS PERFORMANCE

REVENUE (DKKm)



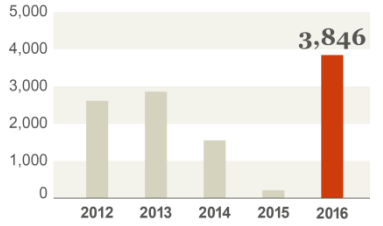
2,099 EURm 2,323 USDm

RESEARCH AND DEVELOPMENT COSTS (DKKm)



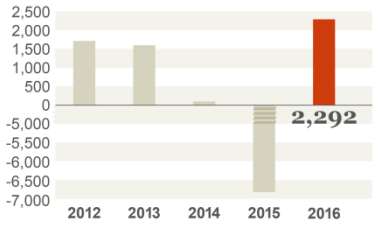
398 EURm 441 USDm

OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA) (DKKm)



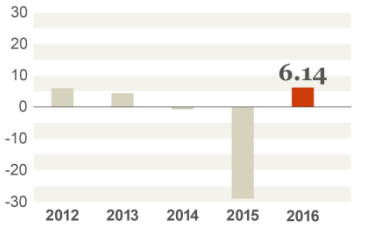
516 EURm 572 USDm

PROFIT/(LOSS) FROM OPERATIONS (EBIT) (DKKm)



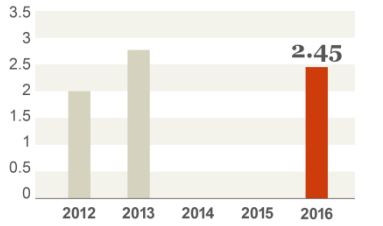
308 EURm 341 USDm

EARNINGS PER SHARE, BASIC (EPS) (DKK)



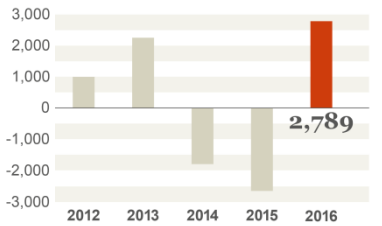
0.82 EUR 0.91 USD

PROPOSED DIVIDEND PER SHARE (DKK)



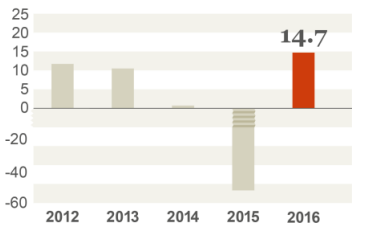
0.33 EUR 0.36 USD

CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES (DKKm)

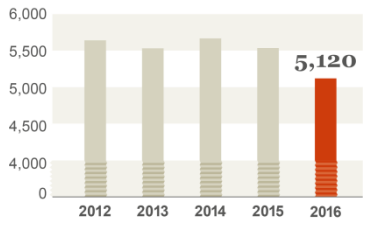


374 EURm 414 USDm

EBIT MARGIN (%)



AVERAGE NUMBER OF EMPLOYEES



4,983
Number of employees end 2016

CONTENTS

MANAGEMENT REVIEW

FINANCIAL STATEMENTS

PREFACE

In 2016, we established a new strategic direction for Lundbeck with a strong focus on four disease areas in order to create value for patients, society and our investors.

2016 has been a great beginning on a new journey with strong growth in our key products and on the US market, a significant reduction of our cost base and consequently a much better financial result than we anticipated in the beginning of the year.

We have seen strong growth of our five key products: Abilify Maintena®, Brintellix®/Trintellix®, Northera®, Onfi® and Rexulti®. And we have been able to help even more people living with psychiatric and neurological disorders. These disorders continue to represent huge unmet medical needs and also continue to be associated with a huge burden for society.

Lundbeck has been at the forefront of neuroscience research for more than 70 years and has leading expertise in depression, schizophrenia, Parkinson's disease and Alzheimer's disease.

In 2016, we saw positive development in our pipeline with the initiation of the clinical phase III programme of Lu AF35700 in patients with treatment resistant schizophrenia, as well as identification of new antibodies with the potential to stop or delay the progression of Parkinson's and Alzheimer's diseases respectively.

We have also finalized the clinical programme for idalopirdine for the treatment of Alzheimer's disease. The efficacy profile in the clinical studies did not demonstrate efficacy and hence did not suffice to support a regulatory submission.

Neuroscience research is an area associated with higher risks and lower success rates compared to research in other disease areas, and as a consequence, we have to deal with setbacks in our drug developing efforts. We will keep our focus and are confident that some of the more than 20 research and development projects from our pipeline one day will make it to the market and create great value for patients with psychiatric and neurological disorders.

During 2016, we have improved the profitability and cash flow of the company significantly and as a result, we are now well underway to meet our financial targets for 2018 - 2020. The ability to develop innovative treatments and make them available for patients around the world is what makes Lundbeck able to improve the lives of patients, offer an attractive return to our shareholders and contribute positively to the societies we operate in.

On behalf of Lundbeck's Board of Directors, Executive Management and all employees, we would like to thank all our shareholders, customers and business partners for the interest and trust they have shown in our company throughout 2016.

We are looking forward to 2017, where our focused efforts are expected to lead us to helping more patients worldwide, to progressing in our pipeline of new and innovative treatments and to increasing our profits.

KÅRE SCHULTZ
President & CEO

LARS RASMUSSEN
Chairman of the Board

MANAGEMENT REVIEW

2016 has been a very successful year for Lundbeck. We have seen continued solid revenue growth in the important US market and in sales of our key products. Further, we have shown strong improvement in our profitability.

2016 was a year of continued progress for Lundbeck with strong growth of our five key products: Abilify Maintena® (schizophrenia), Brintellix®/Trintellix® (depression), Northera® (symptomatic neurogenic orthostatic hypotension), Onfi® (Lennox-Gastaut syndrome) and Rexulti® (depression/ schizophrenia). Key products generated revenue of DKK 6,541 million for the year, corresponding to 42% of total revenue.

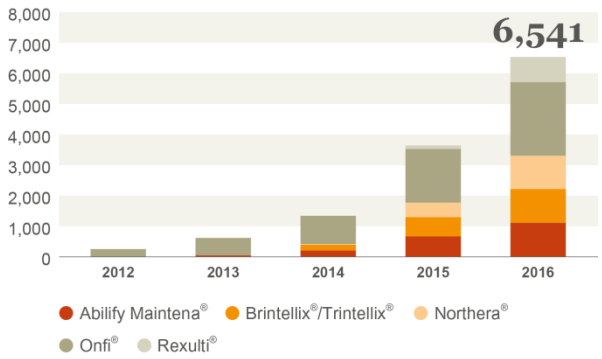
Overall, we achieved our financial expectations for 2016 with total revenue reaching DKK 15,634 million and operating profit (EBIT) reaching DKK 2,292 million. This is in line with our expectations communicated in the third quarter report 2016.

We saw positive development in Lundbeck's pipeline in 2016 with the initiation of the clinical phase III programme of Lu AF35700 in patients with treatment resistant schizophrenia.

In September, we communicated that the first clinical phase III study investigating idalopirdine for the treatment of Alzheimer's disease was not successful. In February 2017, the two remaining studies in the clinical phase III programme evaluating the safety and efficacy of idalopirdine were finalized. In line with the results seen in the first study, idalopirdine was safe and well tolerated. The efficacy profile in all three clinical studies do however not demonstrate efficacy as observed in the positive clinical phase II study and hence do not suffice to support a regulatory submission.

2016 was also the year where Lundbeck introduced a new strategy in order to significantly improve profitability and the company's value creation.

TOTAL REVENUE FROM KEY PRODUCTS 2012-2016 (DKKm)



TOTAL REVENUE 2016

DKKm	2016	2015	Growth	Growth in local currencies
Abilify Maintena®	1,114	669	67%	67%
Azilect®	343	1,457	(76%)	(77%)
Brintellix®/Trintellix®	1,105	629	76%	79%
Cipralex®/Lexapro®	2,518	2,591	(3%)	(2%)
Northera®	1,087	475	129%	128%
Onfi®	2,409	1,757	37%	34%
Rexulti®	826	117	608%	608%
Sabril®	1,342	985	36%	36%
Xenazine®	1,571	2,201	(29%)	(31%)
Other pharmaceuticals	2,994	3,195	(6%)	(4%)
Other revenue	325	518	(37%)	(37%)
Total revenue	**15,634**	**14,594**	**7%**	**7%**

Management review of the parent company is available in note 1 in the financial statements of the parent company.

REVENUE (DKK MILLION)

15,634 +7%

Revenue for 2016 reached DKK 15,634 million compared to DKK 14,594 million for 2015.

"2016 was also the year where Lundbeck introduced a new strategy in order to significantly improve profitability and the company's value creation.

2016 FINANCIAL PERFORMANCE

Sales performance

Revenue for 2016 reached DKK 15,634 million compared to DKK 14,594 million for 2015. This is an increase of 7%, which is driven by positive development in our key products. Growth from key products reached 79% (78% in local currencies). We expect continued strong growth for key products going forward.

Our product portfolio also includes Cipralex®/Lexapro® (depression), Azilect® (Parkinson's disease), Ebixa® (Alzheimer's disease), Sabril® (epilepsy) and Xenazine® (chorea associated with Huntington's disease) as well as other products where sales are included under 'Other pharmaceuticals'.

US

Revenue from the US reached DKK 8,404 million in 2016, which is an increase of 32% compared to DKK 6,353 million in 2015. This was driven by the uptake of Rexulti® and Northera® as well as growth in other US products offsetting the decline in sales of Xenazine®. The US constituted 55% of total revenue (excluding 'Other revenue') compared to 45% last year. The two most recent product launches in the US, Northera® and Rexulti®, both showed solid sales uptake. Northera® was made available in the US market in autumn 2014. Sales from Northera® reached DKK 1,087 million, corresponding to a growth of 129%. Rexulti® revenue reached DKK 826 million.

DKKm	2016	2015	Growth	Growth in local currency
Abilify Maintena®	452	324	40%	39%
Brintellix®/Trintellix®	591	403	47%	46%
Northera®	1,087	475	129%	128%
Onfi®	2,409	1,757	37%	34%
Rexulti®	826	117	608%	608%
Sabril®	1,342	985	36%	36%
Xenazine®	1,557	2,182	(29%)	(31%)
Other pharmaceuticals	140	110	28%	27%
Total revenue	**8,404**	**6,353**	**32%**	**30%**

International Markets

Revenue from International Markets, which comprise all of Lundbeck's markets outside of Europe and the US, reached DKK 3,993 million in 2016 compared to DKK 3,827 million in 2015. In local currencies, sales were up 7% as the positive underlying performance driven by Abilify Maintena® and Brintellix®/Trintellix® is mitigating the reduced revenue from products like Azilect® and Ebixa®. International Markets constituted 26% of total revenue (excluding 'Other revenue') compared to 27% last year. The macroeconomic situation in Venezuela is also impacting negatively and adjusting for this impact, revenue increased by approximately 9%.

DKKm	2016	2015	Growth	Growth in local currencies
Abilify Maintena®	154	64	140%	144%
Azilect®	120	175	(31%)	(30%)
Brintellix®/Trintellix®	294	121	143%	159%
Cipralex®/Lexapro®	1,758	1,698	4%	4%
Ebixa®	490	576	(15%)	(11%)
Other pharmaceuticals	1,177	1,193	(1%)	2%
Total revenue	**3,993**	**3,827**	**4%**	**7%**

Europe

Revenue from Europe reached DKK 2,912 million in 2016, which is a decline of 25% compared to DKK 3,896 million in 2015. This was caused by the handing back of Azilect® to Teva Pharmaceutical Industries Ltd. (Teva) and generic erosion on older products. Adjusting for Azilect®, key products are replacing the sales decline of other mature products. Europe constituted 19% of total revenue (excluding 'Other revenue') compared to 28% last year.

DKKm	2016	2015	Growth	Growth in local currencies
Abilify Maintena®	508	281	80%	83%
Brintellix®/Trintellix®	220	105	109%	118%
Cipralex®/Lexapro®	760	893	(15%)	(14%)
Other pharmaceuticals	1,424	2,617	(46%)	(45%)
Total revenue	**2,912**	**3,896**	**(25%)**	**(25%)**

Costs and profits

Total costs for 2016 were DKK 13,342 million compared to DKK 21,410 million for the same period last year. Costs in 2015 included the impairment loss on product rights mainly related to Rexulti®, which was recognized as research and development (R&D) costs, as well as restructuring costs, which combined reached close to DKK 7 billion. The underlying decrease in total costs of approximately 10% can primarily be ascribed to positive effects from changes in product mix and the ongoing restructuring programme initiated in August 2015.

EBIT for 2016 reached DKK 2,292 million compared to a loss of DKK 6,816 million in 2015. The EBIT margin increased significantly and reached 14.7% in 2016.

Tax[1]

The reported tax rate for 2016 has increased from 18.7% to 43.9%. The rate for 2015 was a gain due to the deficit caused by the restructuring programme. The higher tax rate compared to the Danish corporate income tax rate is caused by:

- Amortization of Northera® product rights, which is not deductible for tax purposes and thus creates a permanent difference.
- Lundbeck's increased activity in the US resulting in an increased profit in the US. The corporate tax rate in the US is higher than the Danish tax rate and not fully offset by the tax loss realized in Denmark.

Net profit and EPS

Net profit for 2016 reached DKK 1,211 million compared to a net loss of DKK 5,694 million in 2015. The reported net profit for 2016 corresponds to an EPS of DKK 6.14 per share versus a negative EPS of DKK 28.96 per share last year.

Cash flow

Lundbeck had a positive cash flow from operating and investing activities of DKK 2,789 million in 2016 compared to a cash outflow from operating and investing activities of DKK 2,645 million last year. The improved position is driven by the increased profitability and a positive development in working capital.

For details on the financial statements, see page 38.

1) Please find Lundbeck's policy on tax on www.lundbeck.com/global/sustainability/society

OUTLOOK 2017

Lundbeck expects revenue to be DKK 16.3-17.1 billion in 2017. The outlook is based on an assumption of unchanged exchange rates. Lundbeck expects EBIT to be DKK 3.4-3.8 billion in 2017.

FINANCIAL FORECAST 2017

DKK billion	2016 actual	2017 forecast
Revenue	15.6	16.3-17.1
EBIT	2.3	3.4-3.8

FINANCIAL TARGETS 2018-2020

In February 2016, Lundbeck introduced three financial targets in order to describe what Lundbeck strives for on the journey to realize the strategy and to govern the company's path towards increased profitability and enhanced cash flow generation.

EBIT margin

Lundbeck foresees significantly increased profitability in the coming years. Our target is to reach an EBIT margin of 25%.

ROIC

By increasing earnings and keeping investment and net working capital requirements low, Lundbeck aims to generate a return on invested capital (ROIC) of 25%. ROIC is a calculation that assesses Lundbeck's efficiency at allocating the capital under its control to profitable investments. Return on invested capital gives a sense of how well Lundbeck is using its money to generate returns.

Cash-to-earnings

The cash-to-earnings ratio illustrates the cash generation ability of our earnings. Lundbeck expects to finance most of its own activities in line with most other companies in the industry. Lundbeck targets a cash-to-earnings ratio of more than 90%.

FINANCIAL TARGETS 2018-2020

Key figures	Definition	Target
EBIT margin (%)	Profit from operations as a percentage of revenue	25%
ROIC (%)	Profit from operations (EBIT) after tax as a percentage of average invested capital	25%
Cash-to-earnings	Cash flow from operating and investing activities as a percentage of net profit/(loss) for the year	>90%

DIVIDEND

For 2016, the Board of Directors has proposed the dividend payout ratio to be 40% of Lundbeck's net result, corresponding to a dividend of DKK 2.45 per share. The dividend payout is to be approved at the Annual General Meeting 30 March 2017.

Also, the Board of Directors has revised Lundbeck's dividend policy communicated in February 2016 and has increased the dividend payout ratio from the current 30%-40% of net result to 60%-80% of net result from 2017 and onwards.

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, including 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.

EVENTS & MILESTONES 2016

February

- US Food and Drug Administration's (FDA) Psychopharmacologic Drugs Advisory Committee supports the effectiveness of Brintellix®/Trintellix® (vortioxetine) in treating certain aspects of cognitive dysfunction in Major Depressive Disorder (MDD).

March

- Lundbeck starts clinical phase III programme with Lu AF35700 in patients with treatment resistant schizophrenia.
- Lundbeck and Takeda Pharmaceutical Company Limited (Takeda) receive Complete Response Letter (CRL) by the US FDA for the supplemental new drug application (sNDA) for Brintellix®/Trintellix® (vortioxetine).

September

- The General Court of the European Union upholds the European Commission's 2013 decision against Lundbeck.
- US FDA approves labelling update of Rexulti® (brexpiprazole) for maintenance treatment of schizophrenia.
- Lundbeck publishes unsatisfactory headline conclusions from the first out of three clinical phase III studies on idalopirdine in Alzheimer's disease.

October

- US FDA approves the Carnexiv™ (carbamazepine) injection as intravenous replacement therapy for oral carbamazepine formulations.

November

- US FDA accepts for review an sNDA to expand labelling of Abilify Maintena® (aripiprazole once-monthly) for the treatment of bipolar I disorder.

STRATEGY REVIEW

In 2016, Lundbeck announced its new focused strategy to increase the company's performance and long-term value creation for patients, society and shareholders. The strategy is an important step towards fulfilling our vision for global leadership in psychiatry and neurology by improving the lives of patients.

Lundbeck's new strategy is focusing on three important elements:

- Four disease areas
- Independent drug development and commercialization
- Profitable growth

Focus on four disease areas
Lundbeck focuses its efforts on depression, schizophrenia, Parkinson's disease and Alzheimer's disease. Within these four disease areas, we have expertise throughout the value chain, a proven ability to bring novel treatments to the market and a promising portfolio that has the potential to improve patients' lives.

The four diseases are among the most disabling in the world and represent an alarmingly high and increasing burden for society. The four diseases are currently causing 76 million years lived with disability (YLDs) globally,[1] and the total cost of mental illness is expected to increase to 6 trillion dollars in 2030 – more than twice the total costs of cancer, diabetes and cardiovascular diseases combined.[2]

The focus on depression, schizophrenia, Parkinson's disease and Alzheimer's disease provides Lundbeck with the opportunity to make a difference for millions of people all over the world and to grow the company in the years to come.

Focus on own drug development and commercialization
Lundbeck has a number of important and valuable partnerships and will in the years to come benefit greatly from the collaboration with partners working in neuroscience research.

Going forward we will strive to develop and commercialize innovative and improved treatments on our own. This independent approach will ensure that Lundbeck captures the full value of the products we develop.

In 2016, Lundbeck began this strategy of independent development with the promising project Lu AF35700 for the treatment of 'treatment resistant schizophrenia'.

Focus on profitable growth
Going forward, Lundbeck will grow its business with a strong focus on profitability. In 2015, we announced the start of a global restructuring programme, and today we are well on our way to significantly improve Lundbeck's profitability. The focus on optimizing Lundbeck's profitability will continue and ensure that we have a profitable presence in our markets and make profitable investment decisions. As a consequence of the strategy, in the next few years we will expand our commercial organization in the world's biggest pharmaceutical markets, USA, China and Japan, seek further opportunities in emerging markets, and optimize our presence in established markets.

1) Global Disease Burden 2015, Lancet, Vol 388, 8 October 2016
2) World Economic Forum 2011

HOW WE CREATE VALUE

Our focused strategy consists of a simple framework: our vision describes what we strive for; our principles are based on Lundbeck's unique culture and guide our actions; and our strategic objectives define the strategic focus for decisions and how we execute our strategy in the years to come.

STRATEGIC PROGRESS

Throughout 2016, Lundbeck has implemented a number of initiatives to ensure that the new strategy is embedded and owned by people across the organization. This work will continue in 2017, where we also expect to see the first full-year impact of the strategy on Lundbeck's performance and our ability to create long-term value for patients, society and our shareholders.

VISION

Lundbeck strives for global leadership in psychiatry and neurology by improving the lives of patients.

OUR PRINCIPLES

We are focused on innovating treatments for depression, schizophrenia, Parkinson's disease and Alzheimer's disease while creating value for all our stakeholders.

We are passionate about helping patients and communities affected by psychiatric and neurological disorders.

We are responsible and overcome challenges by demonstrating respect, open-mindedness and integrity.

STRATEGIC OBJECTIVES

Four disease areas: We will strive for leadership in the treatment of depression, schizophrenia, Parkinson's disease and Alzheimer's disease.

Innovation: We will develop innovative treatments that address unmet patient needs.

Globalization: We will expand and optimize our global organization.

Profitability: We will grow our business with a strong focus on profitability created by independent development and commercialization of future products.

Organization: Lundbeck will be a specialized company with strong cross-functional collaboration.

Four disease areas

Lundbeck focuses its efforts on the four disease areas where we have the opportunity to lead the innovation and development of improved treatments. All four diseases are characterized by huge unmet medical needs and are diseases where Lundbeck has expertise and competitive advantages throughout the value chain. For other psychiatric and neurological disorders, Lundbeck will adopt an opportunistic approach, if compounds developed to treat the four diseases also prove to help patients with related psychiatric and neurological disorders.

Value drivers	Value barriers
• Increased recognition of burden of the four diseases • Economic growth increases ability to invest in healthcare systems and treatments • Strong R&D expertise in the four disease areas	• Pressure on healthcare budgets makes societies reluctant to pay for new and better treatments • Insufficient healthcare systems to diagnose and treat patients • Stigma and discrimination

Strategic initiatives

- Be among the leaders in the improvement of pharmaceutical treatments within depression, schizophrenia, Parkinson's disease and Alzheimer's disease
- Develop a strong R&D pipeline based on own research combined with early-stage external opportunities
- Develop and market more efficient and safer treatments for patients living with depression and schizophrenia
- Develop and market innovative disease-modifying and symptomatic treatments for patients living with Parkinson's disease and Alzheimer's disease

Performance in 2016

- Lu AF35700 clinical phase III programme initiated for treatment resistant schizophrenia
- Negative CRL received for Brintellix®/Trintellix® sNDA for cognitive dysfunction – US FDA regulatory dialogue ongoing
- US FDA approves labelling update on Rexulti® for maintenance treatment of schizophrenia
- First study on idalopirdine for symptomatic treatment of Alzheimer's disease did not meet the primary endpoint
- Development candidates selected within two potential disease-modifying projects in Parkinson's disease and Alzheimer's disease

Innovation

For the last 70 years, Lundbeck has conducted research in psychiatric and neurological disorders, and today we are among the leading pharmaceutical companies within neuroscience research. The core of the value we create is derived from the improved treatments we discover, develop and distribute. Today, treatments for psychiatric and neurological disorders are primarily symptomatic, but we believe that in the future we will be able to discover new pharmaceuticals targeting the underlying mechanisms of these disorders. This approach will allow us to treat the symptoms more effectively and also to potentially alter the course of the disorders.

Value drivers	Value barriers
• Strong pipeline • Strong expertise in neuroscience • New insights to treat underlying biological mechanisms • Digitalization provides new approaches to improve value for patients	• Increased cost to invent new treatments • Limited acknowledgement of patient-relevant outcomes beyond traditional endpoints

Strategic initiatives

- Research and develop innovative pharmaceutical treatments drawing on our leading expertise within depression, schizophrenia, Parkinson's disease and Alzheimer's disease
- Better understand the need of the patients through increased partnerships with patient organizations and disease communities
- Patients' unmet needs are the foundation of our research efforts
- Research and develop innovative treatments targeting well-defined patient segments
- Apply innovative approaches to optimize development

Performance in 2016

- Global Project Teams established to cover all aspects of the value chain in the development of new and innovative treatments
- Early-stage licensing strategy initiated based on unmet needs and underlying biological targets
- Global Patient Advocacy Summit with 30 patient advocacy groups
- External collaboration based on innovative technologies to support research platform

Globalization

Today, we have an established corporate presence in more than 50 countries and have made our pharmaceutical treatments available in more than 100 countries. With a global reach, we are able to increase the value of the pharmaceuticals we commercialize. Our ability to provide treatments to patients in a given country depends on how robust the healthcare system is. We expect to create value by working with societies around the world, improving access for patients to better treatments and by balancing and expanding our global organization accordingly.

	Value drivers	Value barriers
US	• Accounts for almost half of the global market • Willingness to reward innovation	• Current infrastructure limits Lundbeck's ability to capture the full value of the US market
International Markets	• Economic growth increases focus on investing in healthcare systems • Demographics	• Limited healthcare infrastructure to diagnose and treat psychiatric and neurological disorders
Europe	• Lundbeck has a long heritage in Europe and strong relations with the medical community	• Increased focus on reducing healthcare budgets limits access for new treatments

Strategic initiatives

- Expand our organization in the US, China and Japan
- Optimize and drive our business in established markets based on a sustainable and profitable presence
- Continue to expand our organization in key emerging markets in line with the increased demand for the treatment of psychiatric and neurological disorders

Performance in 2016

- 61% of revenue in 2016 derived from US, China and Japan
- Profitability increased in established markets
- Increased share of revenue outside European markets

Profitability

We will grow our business with a strong focus on profitability created by independent development and commercialization of future products. The ability to create a growing business and deliver profitable results is what makes Lundbeck able to improve treatments for patients, contribute to the societies we operate in and offer an attractive return to our shareholders.

Value drivers	Value barriers
• Restructuring programme on track • Opportunities to expand globally • Key products with huge potential	• Generic competition on mature portfolio • Price pressure and market access restrictions

Strategic initiatives

- Reduce cost base by DKK 3 billion in 2017 compared to the expected annualized cost base before the restructuring programme in 2015
- Increase profitability of product portfolio and maximize uptake on key products
- Existing alliances will have high priority in order to maximize the value of our partnered products
- Increase our profit through independent development and commercialization of future products

Performance in 2016

- Restructuring programme on track
- Profit from operations reached DKK 2,292 million
- EBIT margin for 2016 increased to 14.7%

Organization

Lundbeck is a mid-sized pharmaceutical company with a highly specialized organization and a strong cross-functional collaboration. In order to generate value, we focus on being an attractive workplace for engaged employees with the required level of expertise and passion to improve the lives of patients with psychiatric and neurological disorders.

Value drivers	Value barriers
• Focused on psychiatry and neurology throughout the value chain • Proven track record in developing and commercializing leading treatments for psychiatric and neurological disorders	• Increased competition for talents

Strategic initiatives

- Restructure to reduce cost base
- R&D organization focused on four disease areas
- Cost-efficient administration and supply chain
- Commercial organization balanced to capture market potential and increase profitability
- Ensure that the organization has the required level of capabilities to meet business needs
- Continue to be an attractive workplace with engaged employees
- Ensure strong cross-functional collaboration across the organization

Performance in 2016

- Majority of the restructuring programme announced in August 2015 finalized
- Highly loyal and committed employees and good overall employee satisfaction results
- Strategy successfully communicated
- Key competencies identified to strengthen implementation of strategy

KEY DISEASE AREAS

Lundbeck has a diversified portfolio of actively promoted drugs and a pipeline of product candidates within our four key disease areas: depression, schizophrenia, Parkinson's disease and Alzheimer's disease. Our strategy has increased emphasis on organic growth and internal development.

DEPRESSION

World market size[1]	USD 13.2bn in 2015 (DKK ~90bn)
Lundbeck treatments for depression	Total DKK 5.5bn Brintellix®/Trintellix® DKK 1.1bn Cipralex®/Lexapro® DKK 2.5bn Other products DKK 1.9bn

Background

In the early 1960s, Lundbeck launched the antidepressant Saroten®. This marked the start of Lundbeck's interest in antidepressants that would later lead to the discovery of citalopram and the development of Cipramil®, which was launched in 1989, and later Cipralex®/Lexapro®, which was launched in 2002. Cipralex®/Lexapro® grew to become a major share of Lundbeck's business as well as becoming the leading antidepressant in the world.

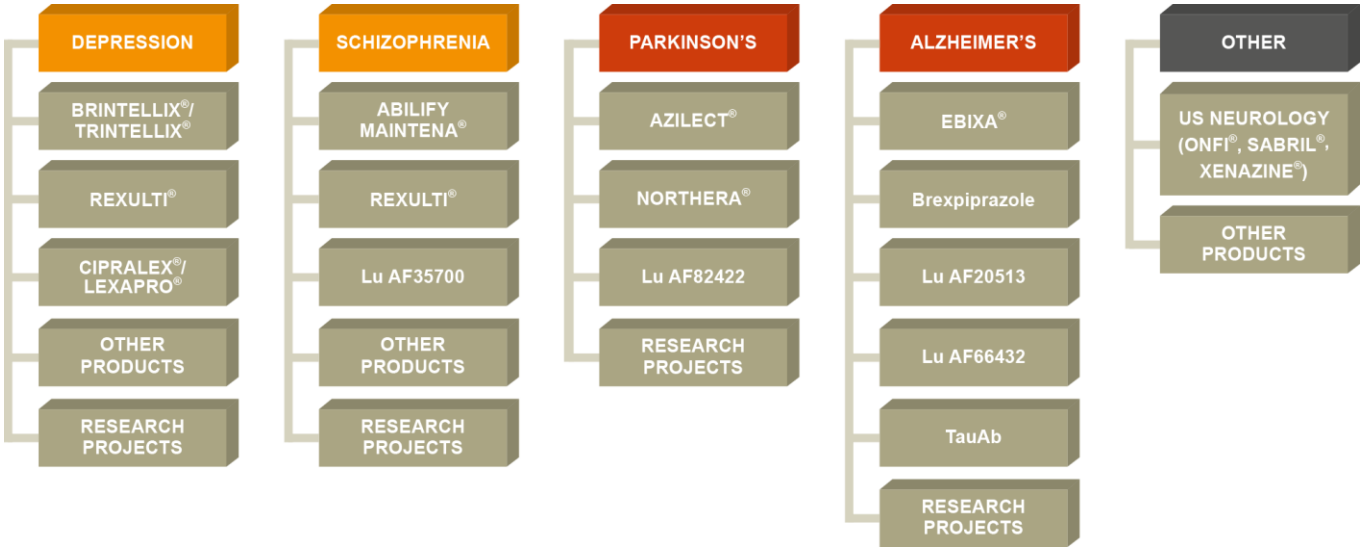
In 2014, Brintellix®/Trintellix® was launched in the US and in some European and other International Markets for the treatment of MDD.

In August 2015, together with our partner Otsuka Pharmaceutical Co., Ltd. (Otsuka), we launched Rexulti® in the US for the treatment of adjunct MDD.

Disease description and demographics

Depression is a serious medical condition associated with a series of symptoms including melancholy and loss of energy, as well as suicidal thoughts. These symptoms have a great impact on daily life.

Depression includes a range of symptoms, including cognitive impairment.[2] The cognitive symptoms of depression may go unrecognized by both healthcare providers and patients.[3] Common cognitive complaints include difficulty concentrating, indecisiveness and forgetfulness.[2] These symptoms are common and in many cases they can persist between major depressive episodes.[2,3]



1) IMS Health
2) Diagnostic and Statistical Manual of Mental Disorders (DSM-5). (5th ed., 155-188). America Psychiatric Association, 2013
3) Conradi, H., Ormel, J., & De Jonge, P. (2011). Presence of individual (residual) symptoms during depressive episodes and periods of remission: A 3-year prospective study. Psychological Medicine, 41(06), 1165-1174

According to a three-year prospective study of people treated for depression, cognitive symptoms (defined as diminished ability to think or concentrate and/or indecisiveness) were reported 94% of the time during major depressive episodes and 44% of the time between major depressive episodes (or during periods of partial remission).[1]

Depression is found worldwide in people of all age groups and from all social backgrounds and among both men and women. Depression typically first appears in people aged 20–25 years.[2]

Currently, it is estimated that 350 million people worldwide suffer from depression.[3] The World Health Organization (WHO) now lists depression as the leading disability worldwide and a major contributor to the overall global burden of disease.[3] One study found that up to 65% of individuals suffering from depression rated their condition as being severely disabling. Despite this, many people with depression remain untreated.[4]

Current approaches and unmet needs

While several pharmacological treatments are available, more than 50%[5] of patients remain symptomatic following first-line treatment. One third of people fail to achieve remission after four rounds of treatment with established compounds.[5]

Both in clinical practice and clinical research, the main focus in depression has been on mood symptoms. Primary measures in clinical trials, e.g. The Montgomery–Åsberg Depression Rating Scale (MADRS), reflect changes in a range of symptoms with an emphasis on mood symptoms. However, the range of symptoms patients experience includes cognitive symptoms, such as difficulty concentrating, forgetfulness and inability to make decisions.

The tolerability of antidepressants and patients' concerns about side-effects negatively affect treatment outcomes. Patients with MDD who experience at least one severe side-effect are twice as likely to discontinue treatment prematurely. Additional treatment strategies are therefore needed to prevent and treat the common and debilitating symptoms of depression.

Brintellix®/Trintellix® (vortioxetine)

Brintellix®/Trintellix® was approved by the US FDA in October 2013 and by the European Medicines Agency (EMA) in Europe in December 2013. In early 2014, together with our partner Takeda, Lundbeck launched Brintellix®/Trintellix® in the US. Later in 2014 and in 2015, Lundbeck launched Brintellix®/Trintellix® in a number of additional markets. In 2016, Brintellix®/Trintellix® was furthermore launched in markets like Brazil, Spain, Italy and France. Brintellix®/Trintellix® generated revenue of DKK 1,105 million in 2016.

Brintellix®/Trintellix® is an inhibitor of serotonin (5-HT) reuptake and is also an agonist at 5-HT1A receptors, a partial agonist at 5-HT1B receptors and an antagonist at 5-HT3, 5-HT1D and 5-HT7 receptors. Brintellix®/Trintellix® is considered to be the first compound with this combination of pharmacodynamic activity. The interplay between the receptor pathways explaining the antidepressant effect of Brintellix®/Trintellix® is not yet fully understood and has not yet been definitively established. Brintellix®/Trintellix® was discovered by Lundbeck researchers in Denmark.

In March 2016, Lundbeck and Takeda announced that the US FDA issued a CRL for the sNDA to include new data in the US label of Brintellix®/ Trintellix® for treating certain aspects of cognitive dysfunction in adults with MDD. The CRL does not apply to the use of Brintellix®/Trintellix® in MDD. However, Lundbeck and Takeda were pleased that the US FDA recognized the importance of cognitive dysfunction in MDD and view it as a legitimate target for drug development. Lundbeck and Takeda are still in active dialogue with the US FDA to resolve the outstanding matters.

Rexulti® (brexpiprazole)

Rexulti® was discovered by Otsuka and co-developed by Otsuka and Lundbeck. The efficacy of Rexulti® may be mediated through a combination of partial agonist activity at serotonin 5-HT1A and dopamine D2 receptors, and antagonist activity at serotonin 5-HT2A receptors. In addition, Rexulti® exhibits high affinity for noradrenaline alpha1B/2C receptors.

1) Conradi, H, Ormel, J, & De Jonge, P (2011). Presence of individual (residual) symptoms during depressive episodes and periods of remission: A 3-year prospective study. Psychological Medicine, 41(06), 1165-1174
2) Andrade L, Caraveo-Anduaga JJ, Berglund P, et al. The epidemiology of major depressive episodes: Results from the International Consortium of Psychiatric Epidemiology (ICPE) Surveys. Int J Methods Psychiatr Res 2003; 12(1): 3–21. Erratum in: Int J Methods Psychiatr Res 2003; 12(3): 165
3) World Health Organization: http://www.who.int/mediacentre/factsheets/fs369/en/
4) Kessler R, Aguilar-Gaxiola S, Alonso J, et al. The global burden of mental disorders: An update from the WHO World Mental Health (WMH) Surveys. Epidemiol Psychiatr Soc 2009; 18(1): 23–33
5) Rush AJ et al. Acute and Longer-Term Outcomes in Depressed Outpatients Requiring One or Several Treatment Steps. A STAR*D Report, 2006

The drug was approved in the US in July 2015 and launched in August as adjunctive therapy to antidepressants in adults with depression and as a treatment in adults with schizophrenia. In 2016, Rexulti® generated revenue of DKK 826 million.

The future
Lundbeck's research efforts within the area of depression are geared towards meeting currently unmet needs such as treatment resistance, improved functionality as well as higher efficacy and tolerability. Recent efforts to address treatment resistance have led to an increased attention on a major transmitter in the human brain called glutamate.

Representing a novel area in depression-targeted research, our research programmes actively pursue pharmacological opportunities to interfere with the glutamatergic system in a safe and efficacious way. Moreover, Lundbeck seeks to unravel the neurobiological mechanisms that underlie the role of this transmitter in patients with depression.

To further address and adjust the underlying mechanisms of depression, we study networks in the brain that are involved in the interpretation of external stimuli leading to internal processing of emotions. Here, advanced technologies allow us to visualize brain activity during pleasurable as well as adverse experiences, both in humans and pre-clinical species. With these tools at hand, our goal is to identify innovative drug targets that are directly involved in mood-related mechanisms, e.g. reward-related pathways. In addition to developing the pharmaceutical agents, we invest in identifying biological markers that can support the diagnosis, as well as monitor treatment responses and predict treatment outcome.

Bearing in mind that different biological factors, as well as environmental, can lead to the development of depression, it is critical to identify the causative processes of the disorder in order to optimize efficacy rates of each treatment.

SCHIZOPHRENIA

World market size[1]	USD 21.5bn in 2015 (DKK ~142bn)
Lundbeck treatments for schizophrenia	Total DKK 3.0bn Abilify Maintena® DKK 1.1bn Rexulti® DKK 0.8bn Other products DKK 1.1bn

Background
In 1959, Lundbeck launched Truxal® – one of the first antipsychotics in the world, which through the 1960s and 1970s became Lundbeck's most sold product. In 1996, Serdolect® was launched for the treatment of schizophrenia. The product is still registered in 37 countries (as of November 2015). In 2011, Lundbeck launched Saphris®/Sycrest® for the treatment of bipolar I disorder in Europe and schizophrenia and/or bipolar I disorder outside of Europe. Saphris®/Sycrest® was licensed from Merck & Co., Inc. in 2010.

In February 2013, Abilify Maintena® was approved by the FDA in the US and by the European Medicaines Agency (EMA) in Europe in November 2013 for the treatment of schizophrenia. We launched the product together with our partner Otsuka in the US in 2013. In 2015, Lundbeck further strengthened its position in treatments for schizophrenia with the launch of Rexulti® in the US, also together with Otsuka.

In 2016, Rexulti® was submitted for approval for the treatment of schizophrenia in Australia and Canada, and it has been decided to submit Rexulti® for the treatment of schizophrenia in Europe in 2017 as well.

Disease description and demographics
Schizophrenia is a chronic, severe and disabling psychiatric disorder. The disease is marked by so-called positive symptoms (hallucinations and delusions) and so-called negative symptoms (depression, blunted emotions and social withdrawal), as well as by disorganized thinking.

1) IMS Health

Schizophrenia affects people regardless of race, culture or social class. It typically starts in early adulthood (from age 20), but it can develop at any age from late teens and onwards. Schizophrenia affects both men and women, although men tend to develop the condition slightly earlier in life. The risk of an individual developing schizophrenia during his or her lifetime is approximately 1%.[1]

The WHO estimates that over 21 million people suffer from schizophrenia. Schizophrenia is one of the top 20 causes of disability worldwide.[2] It is among the most financially costly illnesses in the world and, together with other psychotic illnesses, has shown to account for a significant proportion of total national healthcare and social budgets.[3,4]

Current approaches and unmet needs
Atypical antipsychotics are the predominant drug class for treating schizophrenia. The primary goals of medical treatment of schizophrenia are to reduce the frequency and severity of psychotic episodes, maintain the reduction of these symptoms over the long term, and improve patients' functional capacity, thereby enhancing quality of life for patients and their caregivers.

Studies have demonstrated that as many as 75% of patients with schizophrenia have difficulty in taking their oral medication on a regular basis, which can lead to worsening of symptoms and increased risk of relapse.[5]

Abilify Maintena® (aripiprazole once-monthly)
Abilify Maintena® was approved by the FDA in the US in February 2013 and by the EMA in Europe in November 2013. Lundbeck launched the product in the US in 2013 together with our partner Otsuka. Since then it has been launched in a number of other countries. Abilify Maintena® is the first once-monthly injection of a dopamine D2 partial agonist and is available globally. Revenue reached DKK 1,114 million in 2016.

Rexulti® (brexpiprazole)
Rexulti® was discovered by Otsuka and co-developed by Otsuka and Lundbeck. The mechanism of action for Rexulti® in the treatment of MDD or schizophrenia is unknown. However, the efficacy of Rexulti® may be mediated through a combination of partial agonist activity at serotonin 5-HT1A and dopamine D2 receptors, and antagonist activity at serotonin 5-HT2A receptors. In addition, Rexulti® exhibits high affinity for noradrenaline alpha1B/2C receptors.

The drug was approved in the US by the US FDA in July 2015 and launched in August as adjunctive therapy to antidepressants in adults with depression and as a treatment in adults with schizophrenia. In 2016, Rexulti® generated revenue of DKK 826 million.

In September 2016, Lundbeck and Otsuka announced that the US FDA approved the labelling update of Rexulti® (brexpiprazole) to reflect clinical data for maintenance treatment of schizophrenia. The approval was based on results from a long-term randomized withdrawal trial in adults with schizophrenia aged 18 to 65 years.

Lu AF35700 in clinical phase III
In March 2016, Lundbeck announced that the investigational compound Lu AF35700, a novel antipsychotic, entered a clinical phase III programme which is planned to consist of two pivotal trials. Two doses of Lu AF35700 (10 and 20 mg) are given to patients with treatment resistant schizophrenia. The primary endpoint is a change from baseline to week 10 in the Positive and Negative Syndrome Scale (PANSS) total score. Additional endpoints include Clinical Global Impression – Severity of Illness (CGI-S) score and Personal and Social Performance Scale (PSP).

1) Tsuang MT, Farone SV. Schizophrenia. Second edition. Oxford University Press Inc, New York: 2005
2) WHO: http://www.who.int/mediacentre/factsheets/fs397/en/
3) Rössler W, Salize HJ, van Os J, Riecher-Rössler A. Size of burden of schizophrenia and psychotic disorders. Eur Neuropsychopharmacol 2005; 15 (4): 399–409
4) Lindström E, Eberhard J, Neovius M, Levander S. Costs of schizophrenia during 5 years. Acta Psychiatr Scand Suppl 2007; 116 (435): 33–40
5) Weiden et al. Psychiatr Serv 1995;46:1049–1054

The first study is planned to enrol approximately 1,000 patients in around 15 countries including the US and Canada and is expected to last around three years. The pivotal clinical programme with Lu AF35700 is a global programme and consists of several studies involving more than 2,000 patients.

Lu AF35700 has a novel pharmacological profile with predominant D1 vs. D2 dopamine receptor occupancy, and a high occupancy of 5-HT2A and 5-HT6 serotonin receptors. The relatively low dopamine D2 receptor occupancy of Lu AF35700 is expected to result in reduced burden of adverse events, such as extrapyramidal side-effects (EPS), prolactin elevation, dysphoria/anhedonia and depressed mood. In completed safety trials, Lu AF35700 was generally well tolerated with a beneficial safety profile. In November 2015, the US FDA granted 'fast track designation' for Lu AF35700 – an important first step to ensure a potential expedited approval of the compound.

The future
Lundbeck's schizophrenia research programmes focus on key biological mechanisms underlying the disorder with the aim of addressing patients' current unmet needs. These include deficits in cognition as well as positive and negative symptoms, both of which affect a person's ability to function normally.

The field of genetics has brought novel insights into schizophrenia research over the past decade, as advanced analytical tools have revealed several hereditary risk factors. One of these genetic risk factors are the so-called copy number variants (CNVs) which represent either a duplication or a deletion of whole regions of DNA that comprise several genes. Lundbeck is committed to understanding the biological mechanisms related to these genes and to using genetically engineered research tools to identify novel treatments with the potential to revert these mechanisms to a healthy state.

Another focus area of our schizophrenia research addresses the communication between different brain regions, also referred to as connectivity. Here, we are especially interested in certain types of cells in the brain, the so-called interneurons.

Interneurons play an important role in synchronizing brain activity, thereby allowing signals to be communicated between different brain regions. Evidence hints towards an interneuronal dysfunction related to schizophrenia, and reinstating the properties of these cells to a normal status is at the core of several of our research programmes. To monitor such biological processes, we develop and test quantitative laboratory tools that can measure these mechanisms in humans as well as in pre-clinical species.

PARKINSON'S DISEASE

World market size[1]	USD 4.0bn in 2015 (DKK ~26.5bn)
Lundbeck treatments for Parkinson's disease	Total DKK 1.4bn Azilect® DKK 0.3bn Northera® DKK 1.1bn

Background
At the beginning of 2005, Lundbeck was given approval to market Azilect® (rasagiline) in Europe for the treatment of Parkinson's disease. Azilect® was licensed from Teva in November 1999. The sales rights of Azilect® for European markets were transferred back to Teva at the beginning of 2016 in accordance with the agreement. However, sale of Azilect® is currently ongoing in four Asian markets (Hong Kong, Philippines, South Korea and Thailand) and contributes significantly to our business in this region.

Disease description and demographics
Parkinson's disease is a progressive, degenerative disorder characterized by resting tremor, muscular rigidity, bradykinesia and postural instability. The motor symptoms are caused by the degeneration of dopamine-producing cells in the brain. In the late stage of the disease, patients deteriorate strongly and are often confined to a chair or bed.

Many Parkinson's disease patients also suffer from disease-related non-motor symptoms, e.g. low blood pressure, sensory problems, sleep disorders, psychiatric problems and dementia.

1) IMS Health

The non-motor symptoms are largely caused by dysfunction of non-dopaminergic neurotransmitter systems.

Parkinson's disease is the second most common of the neurodegenerative disorders. It is estimated to affect approximately 6 million patients worldwide[1] with four to 20 new cases reported per 100,000 people per year.[2] Parkinson's disease usually develops in people in their late 50s and early 60s, though rarer forms of the disease can develop before the age of 40.[3] One study of five European countries found that 1.6% of the population aged 65 or over had Parkinson's disease.[4] In the US alone, the prevalence of diagnosed patients will likely double from 2010 to 2040 due to increased life expectancy.[5]

Current approaches and unmet needs
Available therapies for Parkinson's disease treat symptoms of the disease. Drugs that enhance brain dopamine levels or stimulate dopamine receptors remain the mainstay of treatment for motor symptoms. These drugs include levodopa, dopamine agonists, monoamine oxidase type B inhibitors, and, less commonly, amantadine.

Northera® (droxidopa)
In 2014, Lundbeck acquired Chelsea Therapeutics International Ltd. and as a result also acquired Northera®, which was approved by the US FDA early in 2014. Lundbeck launched the product in the US in September 2014, and in 2016 sales reached DKK 1,087 million.

Northera® is indicated for the treatment of orthostatic dizziness, light-headedness, or the 'feeling that you are about to black out' in adult patients, with symptomatic neurogenic orthostatic hypotension caused by primary autonomic failure (Parkinson's disease, multiple-system atrophy and pure autonomic failure), dopamine beta hydroxylase deficiency or non-diabetic autonomic neuropathy.

The future
The neurodegeneration in Parkinson's disease is predicted to result from spreading of a pathological misfolded protein, alpha synuclein. Lundbeck has in collaboration with Genmab A/S developed a new antibody, Lu AF82422, targeting alpha synuclein. Expectations are that Lu AF82422 can reduce or prevent the spreading of alpha synuclein in the brain and thereby limit the progression of Parkinson's disease. Lu AF82422 is planned to be tested in humans in 2018.

Several familiar (genetic) forms of Parkinson's disease have been identified. Mutations with elevated kinase activity in the Leucine-Rich Repeat Kinase 2 (LRRK2) increase the risk factors for the development of Parkinson's disease. Inhibition of LRRK2 activity is being investigated as a potential neuroprotective for treatment of Parkinson patients with high LRRK2 activity.

ALZHEIMER'S DISEASE

World market size[6]	USD 5.3bn in 2015 (DKK ~35bn)
Lundbeck treatments for Alzheimer's disease	Total DKK 0.8bn Ebixa® DKK 0.8bn

Background
In 2002, Lundbeck obtained approval for Ebixa® (memantine) for the treatment of moderately severe to severe Alzheimer's disease. In 2005, the label was extended to also cover treatment of moderate Alzheimer's disease. Ebixa® was licensed from Merz Pharma GmbH & Co. KGaA in August 2000.

Disease description and demographics
Alzheimer's disease is the most common cause of dementia and may contribute to 60%-70% of cases.[1] The post-mortem pathology is characterized by two specific findings: amyloid plaques (extracellular deposits containing a protein called beta amyloid peptide) and neurofibrillary tangles (intracellular, abnormally twisted forms of the protein tau). Both of these abnormal protein deposits have been implicated in the pathogenesis of Alzheimer's disease.

1) The Global Burden of Disease Study 2015, Lancet.com, online 8 October, 2016 (http://thelancet.com/pdfs/journals/lancet/PIIS0140-6736(16)31678-6.pdf)
2) De Lau, Lonneke ML& Breteler, Monique MB Epidemiology of Parkinson's disease, The Lancet Neurology, 2006; 5(6):525 - 535.
3) Grimes DA. Parkinson's disease: a guide to treatments, therapies and controlling symptoms. London: Constable & Robinson Ltd., 2004.
4) de Rijk MC, Tzourio C, Breteler MM, et al. Prevalence of parkinsonism and Parkinson's disease in Europe: the EUROPARKINSON Collaborative Study. European Community Concerted Action on the Epidemiology of Parkinson's disease. J Neurol Neurosurg Psychiatry 1997; 62(1):10–15.
5) International Parkinson and Movement Disorder Society (http://onlinelibrary.wiley.com/doi/10.1002/mds.25292/full)
6) IMS Health

Those with Alzheimer's live an average of eight years after their symptoms become noticeable to others, but survival can range from four to 20 years, depending on age and other health conditions.[2] Over the course of the disease large areas of the brain degenerate, resulting in cellular loss and dysfunction, a gradual loss of memory, problems with reasoning or judgment, disorientation, difficulty in learning, loss of language skills and a decline in the ability to perform routine tasks. People with Alzheimer's disease can also experience changes in their personalities and behavioural problems, such as agitation, anxiety, delusions and hallucinations.

These changes increasingly impact the person's daily life, reducing their independence until ultimately they are entirely dependent on others, resulting in an enormous impact on the patient's caregiver. Most caregivers are close relatives who provide care in the home – a demanding and exhausting role that represents a huge emotional and physical burden.

Alzheimer's disease is the most common neurodegenerative disorder and occurs most frequently in people over 65 years. [1,2] Around 48 million people have dementia worldwide and there are 7.7 million new cases every year.[1]

With the demographic shift towards an increasingly elderly population, it is predicted that the number of people affected by dementia will almost double every 20 years. The total number of people with dementia is projected to reach 75.6 million in 2030 and by 2050 it is thought that 135.5 million people will have the condition.[1]

Dementia is one of the major causes of disability and dependency among older people worldwide. WHO estimates that the total global societal costs of dementia is USD 604 billion, which corresponds to 1% of the worldwide gross domestic product (GDP).[1]

Current approaches and unmet needs
Acetylcholinesterase inhibitors (AChEIs) and memantine are the only approved treatment of Alzheimer's disease, with some AChEIs approved from mild to severe stages of the disease and memantine from the moderate to severe stage of the disease.

The most pressing unmet needs in Alzheimer's disease are improved symptom treatment and disease-modifying treatments. The current approaches to disease-modifying treatments rely on reduction of the beta amyloid peptide. As the amyloid deposits appear in the brain a decade before diagnosis of the disease, methods for early diagnosis have become particularly important for disease modification and the focus of intense investigations.

Brexpiprazole – clinical phase III
In the second half of 2013, Lundbeck and Otsuka began two pivotal studies with Rexulti® for patients with agitation associated with Alzheimer's disease type dementia. The studies planned to recruit around 650 patients. Enrolment of patients has progressed as scheduled, and the studies are expected in Q2 2017. The US FDA has granted 'fast track designation' for this programme.

Lu AF20513 – clinical phase I
Lu AF20513 is an active vaccine inducing high-affinity polyclonal antibodies that target the beta amyloid peptide, a protein that can exert toxic effects in the brain and is predicted to play a central role in the pathology of Alzheimer's disease. Lu AF20513 will generate a polyclonal response towards the beta amyloid peptides in comparison to monoclonal antibody treatment strategies. In March 2015, Lundbeck began a first-in-man, open label, dose-escalation, multiple-immunization study with Lu AF20513. The study is expected to be completed during 2017.

1) WHO: http://www.who.int/mediacentre/factsheets/fs362/en/
2) Alzheimer's Association:
http://www.alz.org/alzheimers_disease_what_is_alzheimers.asp

The future

Lundbeck's late-discovery projects are focused on reducing the impact of the two main pathological mechanisms in Alzheimer's disease; beta amyloid plaques and tau tangles. The therapeutic approaches involve small-molecule drugs and antibody-based therapies. Methods and technologies to improve early diagnosis and optimize trial design for future clinical combination treatments in Alzheimer's disease are investigated in public-private partnerships involving several pharmaceutical industries.

BACE (beta-site amyloid precursor protein cleaving enzyme) was identified in 1999 and is an enzyme that initiates the production of the Alzheimer's disease associated peptide beta amyloid. Lundbeck expects to have first-in-human dose of its BACE project, Lu AF66432, sometime during 2017 as a potential disease-modifying treatment for Alzheimer's disease that fits well with our Alzheimer's disease portfolio.

Additionally, Lundbeck has a TauAb project, which is planned to enter first-in-human dose sometime during 2018. In a healthy brain, tau has an important function, acting as a form of 'scaffolding' to keep cells stable, but in Alzheimer's disease, tau loses its normal form and breaks away from the cell.

KEY PRODUCTS

PRODUCT	TOTAL REVENUE (DKKm)	% OF TOTAL REVENUE	GROWTH	COMMENT
Abilify Maintena® (aripiprazole once-monthly)	1,114	7%	67%	Once-monthly intramuscular injection indicated for the treatment of schizophrenia. Lundbeck markets Abilify Maintena® in Europe and the US in collaboration with Otsuka. Launched in the US in 2013, hereafter launched in European markets.
Brintellix®/Trintellix® (vortioxetine)	1,105	7%	76%	Indicated for the treatment of MDD. Lundbeck markets Brintellix®/Trintellix® in Europe and International Markets and the US in collaboration with Takeda as our co-promotion partner. Launched in the first markets in 2014.
Northera® (droxidopa)	1,087	7%	129%	Indicated for the treatment of symptomatic neurogenic orthostatic hypotension in adult patients. Northera® is the only US FDA-approved therapy for this condition. Lundbeck markets Northera® in the US and launched the product in 2014.
Onfi® (clobazam)	2,409	16%	37%	Indicated as adjunctive treatment of Lennox-Gastaut syndrome for people aged two years or older. Launched in the US in 2012.
Rexulti® (brexpiprazole)	826	5%	608%	Indicated for adjunctive therapy for the treatment of adults with major depressive disorder and as a treatment for adults with schizophrenia. Launched in the US in 2015 in collaboration with Otsuka.

RISK MANAGEMENT

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

The principal aim of Lundbeck's risk management is to strike the right balance between risk exposure and value creation. Our risk management processes are continually updated and adapted to match internal and external requirements. This gives our Executive Management an accurate and complete overview of activities and resources, and a clear basis for decision-making on our overall risk-exposure-derived opportunities.

Although Lundbeck's risk management teams report to a central Risk Office, we believe that risks are best assessed by decentralized and specialized units, which are monitored and reassessed centrally. The decentralized units have detailed and extensive knowledge of the risks within their area of responsibility and systematically identify, quantify, respond to and monitor risks.

Lundbeck assesses the likelihood of an event occurring and the potential impact on the company in terms of financial loss or reputational damage. Risk identification, evaluation, qualification, recording and reporting are carried out by our decentralized units and are continually reviewed by the risk management team through clearly defined reporting, decision-making, follow-up procedures, workshops and risk roundtables. The overall risk exposure is then evaluated by our central Risk Office.

RISK REPORTING AND ASSESSMENT

Risk reporting is an integral part of Lundbeck's overall reporting process. Our corporate risk register provides a consolidated picture of our risk exposure by detailing each risk, risk category and type. The risk descriptions give details of the event, its current status, the status of the response, an assessment of likelihood and potential impact, and the name of the person responsible for managing the risk. Our reporting process defines six risk categories, which are further defined as belonging to three risk types: 'external', 'actionable' and 'strategic'.

Using this information, the Risk Office assesses the overall risk exposure and discusses it with Executive Management. Finally a two-dimensional risk 'heat map' is reviewed by our Audit Committee and shared with the Board of Directors annually.

R&D RISKS

R&D in Lundbeck is focused on developing innovative pharmaceuticals. However, there are risks involved in developing new pharmaceuticals and treatments for complex diseases. During the R&D process, there is the risk that new products will be delayed or do not materialize. In each of our late-stage pipeline projects, we consider whether starting new clinical studies or giving additional support to ongoing studies could lead to more successful outcomes. Understanding and mitigating the strategic risks associated with the development of new products is a crucial element of Lundbeck's overall risk management strategy.

MARKET RISKS

The pharmaceutical market, especially in Europe, has been and will most likely continue to be characterized by attempts by authorities to cap or reduce increasing healthcare costs. These cost-containment measures are structured in several ways, such as regulation of prices or reimbursement, or by having to engage in lengthy and resource-consuming market access processes in each country. Lundbeck is engaged in understanding the price development in the important US market, addressing this through dialogue with our stakeholders and incorporating it in our financial planning models.

We are working with healthcare authorities around the world to document the value of our pharmaceuticals, through health-economic assessments and other initiatives. And we are constantly looking for ways to adapt to the changing market conditions.

INFRASTRUCTURE, IT AND RESOURCE RISKS

It is crucial for patients to always have access to the pharmaceuticals they require. As a pharmaceutical manufacturer, we must ensure reliability of supply. We monitor supply carefully and maintain an inventory in order to respond to any interruption in production. To reduce production risks, we have production and packaging facilities at four independent sites: Lumsås and Valby (Denmark), Nice (France) and Padova (Italy). Having a number of alternative facilities increases our production

flexibility so we can respond to volatile market demand. In rare cases, pharmaceutical companies are forced to recall a product from the market due to safety or quality issues. At Lundbeck, we have systems, policies and procedures to ensure a swift and effective response should such a situation arise.

It is also crucial that we are able to protect the proprietary knowledge that underpins our success. We have increased our focus on information security to protect our intellectual property (IP) rights and to avoid infringing third-party rights. We have developed secure internal information systems and procedures to ensure smooth and safe flow of information and critical data around our global network.

Lundbeck continually evaluates the risks associated with the use, ownership, operation, involvement, influence and adoption of information technology (IT). Sensitive information and data are key elements of Lundbeck's business and require a sufficient and solid security strategy. The responsible department ensures that updated processes are in place to mitigate IT risks and that partners comply with the required standards when handling sensitive information on behalf of Lundbeck.

In light of the upcoming European Data Protection Law requirements, Lundbeck is engaged in assessing, planning for and implementing systems, processes and guidelines to ensure adherence to these new rules and regulations.

As a knowledge-based company, Lundbeck's success depends on having the right employees with the right competencies. We seek to motivate, engage and retain our employees through competitive remuneration and employee benefits as well as through individual recognition and development opportunities. Monitoring employee satisfaction and evaluation of performance help us to improve our ways of working.

REPUTATIONAL RISKS

As a leading pharmaceutical company, we know that coverage of new clinical studies in publications, or even letters to editors, can influence the perception of products and manufacturers. To build confidence and trust in our capabilities, we invest in creating factual and scientific information resources for the benefit of healthcare professionals and patients.

Strong corporate governance is an essential part of the way we manage our business and is also integral to protecting our reputation. We have the right systems and processes in place to ensure proactive risk management, and we deliver fast and accurate reports on the risk profile of marketed products as well as on operational, tactical and strategic financial planning.

Our Code of Conduct is pivotal to Lundbeck's approach to compliance. It helps ensure that we comply with international laws and regulations, pharmaceutical industry association standards and corporate reporting requirements. We conduct regular audits of our business against our Code of Conduct. We revise our procedures to meet changing regulations, to implement best practice and to respond to audit observations.

Marketing of pharmaceutical products is strictly regulated and we are committed to comply with these regulations. Our employees and third parties involved in the marketing of our products are trained to comply with all relevant laws and regulations. We have systems in place to provide fair, accurate and comprehensive information on our products.

At Lundbeck, we are committed to having an open and honest dialogue about ethical dilemmas. Our Compliance Hotline allows people to report any legal or other concerns they have so that the company can quickly address them. The hotline can be used by both internal and external stakeholders and is a part of our efforts to continually improve our approach to compliance.

LEGAL RISKS

Lundbeck relies on its ability to protect its intellectual rights for new pharmaceuticals. We must also operate our business without infringing the rights of others. For pharmaceutical companies, patenting and the patent application process are extremely complex, both legally and scientifically. We take great care to develop and retain competencies in this high-risk, highly technical area. We believe our IP rights are valid and enforceable and defend these rights wherever they may be violated.

The Group is involved in a number of legal proceedings including patent disputes. In the opinion of Management, the outcome of these proceedings will not have a material impact on the Group's financial position or cash flows beyond the amount already provided for in the financial statements.

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

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

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

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

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

FINANCIAL RISKS

Most of Lundbeck's commercial transactions are settled in foreign currencies. The main currency risk at the moment concerns fluctuations of the US dollar (USD), the Japanese yen (JPY) and the Canadian dollar (CAD). Lundbeck hedges a significant part of the Group's currency risk for a period of 12-18 months. Fluctuations in currency exchange rates, including impact from currency devaluations, are an inherent risk for Lundbeck, as we also operate in volatile countries. Lundbeck monitors and takes actions to safeguard net financial exposure at an acceptable level. In 2016, a loss related to Venezuela and Egypt was recognized due to devaluations in those countries.

Interest rate risks arise in connection with our debt portfolio and cash reserves. We reduce these risks by seeking short duration on both assets and liabilities. There are also credit risks associated with the sale of goods and cash reserves. To reduce these risks we avoid concentrating our credit risk and we diversify receivables by trading with a large number of creditworthy trading partners. In addition, we only deal with banks that have an 'investment grade' credit rating.

SUSTAINABILITY AND CORPORATE GOVERNANCE

SUSTAINABILITY

Lundbeck's sustainability activities are driven by understanding our stakeholders' expectations while seizing new opportunities and making a positive difference in the societies in which we operate.

Lundbeck has chosen to disclose the mandatory annual statutory report on sustainability in the form of a Communication on Progress report to the UN Global Compact on www.lundbeck.com.[1]

1) www.lundbeck.com/upload/global/files/pdf/sustainability/COP/COP_2016.pdf

CORPORATE GOVERNANCE

Corporate governance at Lundbeck concerns the way in which our company is managed and controlled, while creating value for our company and stakeholders.

Lundbeck has chosen to disclose the mandatory annual corporate governance report on www.lundbeck.com.[2]

2) www.lundbeck.com/upload/global/files/pdf/corporate_governance/2016/corporate_governance_report.pdf

EXECUTIVE MANAGEMENT*

KÅRE SCHULTZ
President & CEO

- Born 1961
- Joined Lundbeck in 2015

Directorships
- Royal Unibrew A/S (C)
- LEGO A/S (M)

Holding of shares
- 30,000

ANDERS GERSEL PEDERSEN
Executive Vice President, R&D

- Born 1951
- Joined Lundbeck in 2000

Directorships
- ALK-Abelló A/S (M)
- Bavarian Nordic A/S (DC)
- Genmab A/S (DC)

Holding of shares
- 56,034

LARS BANG
Executive Vice President, Supply Operations & Engineering

- Born 1962
- Joined Lundbeck in 1988

Directorships
- Fertin Pharma A/S (M)
- OB Holding (M)

Holding of shares
- 60,303

ANDERS GÖTZSCHE
Executive Vice President, CFO

- Born 1967
- Joined Lundbeck in 2007

Directorships
- Rosborg Møbler A/S (C)
- Veloxis Pharmaceuticals A/S (M)

Holding of shares
- 21,796

JACOB TOLSTRUP
Executive Vice President, Corporate Functions

- Born 1972
- Joined Lundbeck in 1999

Directorships
- None

Holding of shares
- None

STAFFAN SCHÜBERG
Executive Vice President, CCO

- Born 1969
- Joined Lundbeck in 1995

Directorships
- Dizlin Medical Design AB (M)
- PhRMA (M)

Holding of shares
- 10,862

* For more information about Executive Management and their competencies, please visit www.lundbeck.com.
* C = Chairman, DC = Deputy Chairman, M = Member.

BOARD OF DIRECTORS•

LARS RASMUSSEN
Chairman

- Born 1959
- CEO, Coloplast A/S
- Elected at the 2013 Annual General Meeting
- Considered independent

Lundbeck Committees
- Audit Committee (M)
- Remuneration Committee (C)
- Scientific Committee (C)

Directorships
- William Demant Holding A/S (M)

Holding of shares
- 20,000

LARS HOLMQVIST

- Born 1959
- Senior Advisor within healthcare at Bain Capital
- Elected at the 2015 Annual General Meeting
- Considered dependent

Lundbeck Committees
- Audit Committee (M)

Directorships
- ALK-Abelló A/S (M)
- BPL Ltd. (M)
- Lundbeckfonden (M)
- Tecan AG (M)

Holding of shares
- 15,000

LENE SKOLE
Deputy Chairman

- Born 1959
- CEO, Lundbeck Foundation and directorships in two subsidiaries
- Elected at the 2015 Annual General Meeting
- Considered dependent

Lundbeck Committees
- Remuneration Committee (M)
- Scientific Committee (M)

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

Holding of shares
- 8,808

JESPER OVESEN

- Born 1957
- Elected at the 2015 Annual General Meeting
- Considered independent

Lundbeck Committees
- Audit Committee (C)

Directorships
- Scandinaviska Enskilda Banken AB (DC)
- ConvaTec Group PLC (M)
- Sunrise Communications Group AG (M)

Holding of shares
- None

• For more information about the Board of Directors and their competencies, please visit www.lundbeck.com.
• C = Chairman, DC = Deputy Chairman, M = Member.

TERRIE CURRAN

- Born 1969
- President Worldwide Markets I&I, Celgene
- Elected at the 2014 Annual General Meeting
- Considered independent

Lundbeck Committees
- Remuneration Committee (M)

Directorships
- None

Holding of shares
- None

JØRN MAYNTZHUSEN

- Born 1966
- Project Director
- Elected by employees in 2008

Holding of shares
- 822

MONA ELISABETH ELSTER

- Born 1962
- Senior Laboratory Technician
- Elected by employees in 2010

Holding of Lundbeck shares
- None

HENRIK SINDAL JENSEN

- Born 1969
- Principal Scientist
- Elected by employees in 2014

Holding of Lundbeck shares
- None

THE LUNDBECK SHARE

2016 was an eventful year for Lundbeck with a noteworthy, yet mixed flow of news. 2016 was also a mixed year for the Lundbeck share with the share price increasing by 22% and ending the year at DKK 287.30.

In 2016, the share price increased 22%, peaking and ending the year at DKK 287.30. In comparison, the Danish capped index, OMXC20 CAP, declined by 13%, and the MSCI European Pharmaceutical Index declined by 14%.

Turnover
Total trading in Lundbeck shares amounted to DKK 19.8 billion in 2016, while the average daily turnover was DKK 78.4 million, which represents an increase of 80% compared to last year. A total of 81,058,285 million shares were traded in 2016, equivalent to 321,660 shares per day or an increase of 23% compared to 2015.

Lundbeck has an American Depository Receipt (ADR) programme in the US. The ADR volume declined in the beginning of 2016, but has been relatively stable since Q2 2016. At the end of 2016, 592,323 million ADRs were outstanding, representing 0.3% of the total shares or 1% of the free float.

Share capital
The Lundbeck share is 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 2016, Lundbeck's total share capital amounted to DKK 988,098,605 which is the equivalent of 197,619,721 shares.

Composition of shareholders
According to the Lundbeck share register, the company had approximately 20,000 shareholders at the end of 2016 representing approximately 99% of the outstanding shares. Lundbeckfonden (LFI A/S) is the company's largest shareholder, holding 137,351,918 shares at the end of the year. This equals 70% of the share capital and voting rights of Lundbeck. Lundbeckfonden is the only shareholder to report a holding in excess of 5% of the share capital.

At the end of 2016, investors in North America held 51% of the free float compared to 55% in 2015; European (excluding Danish) investors' share was unchanged 23%; Danish investors held 11% compared to 5% in 2015; rest of the world held 1% of the free float (not registred in 2015), and finally other investors, including private, held 14% compared to 17% in 2015.

At year-end, Lundbeck's Board of Directors and Executive Management held a total of 223,625 Lundbeck shares, corresponding to 0.1% of the total shares outstanding.

Lundbeck and the equity market
Through the Investor Relations 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 2016, Lundbeck's Investor Relations team held more than 200 meetings, primarily in North America, Europe and Japan, and presented at more than 10 investor conferences.

Lundbeck is currently covered by 17 sell-side analysts, including the major global investment banks that regularly produce research reports on Lundbeck. A list of analysts covering Lundbeck can be found on www.lundbeck.com.[1]

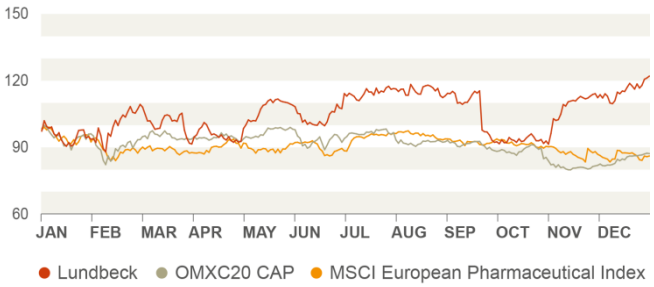
Each year, as Lundbeck's interim and full-year reports are announced, we conduct roadshows at which members of our Executive Management and Investor Relations team inform investors and analysts about the company's latest development. Our investor presentations are available for download on www.lundbeck.com.[2]

1) http://investor.lundbeck.com/analysts.cfm
2) http://investor.lundbeck.com/downloads.cfm

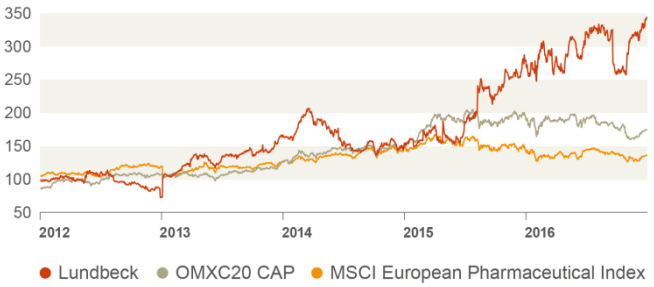
FINANCIAL CALENDAR 2017

30 March 2017	Annual General Meeting
10 May 2017	First quarter report 2017
9 August 2017	Second quarter report 2017
8 November 2017	Third quarter report 2017
February 2018	Fourth quarter report and annual report 2017

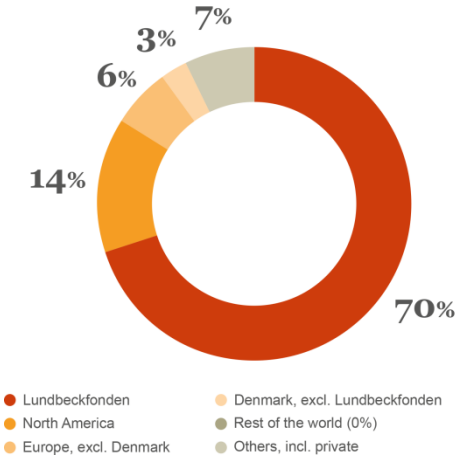
STOCK PERFORMANCE 2016



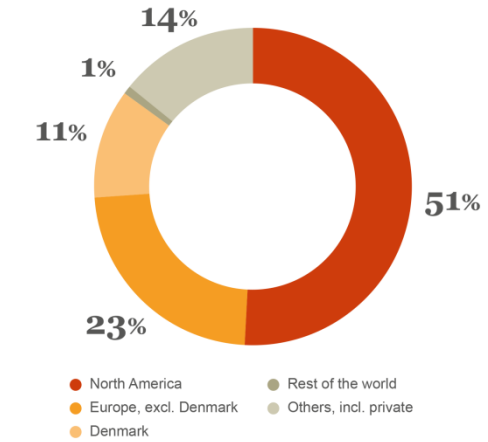
STOCK PERFORMANCE 2012-2016



COMPOSITION OF OWNERSHIP, END 2016



COMPOSITION OF FREE FLOAT, END 2016



SHARE RATIOS

	2016	2015	2014	2013
Earnings per share, basic (EPS) (DKK)	6.14	(28.96)	(0.78)	4.35
Earnings per share, diluted (DEPS) (DKK)	6.14	(28.96)	(0.78)	4.35
Cash flow from operating activities per share, diluted (DKK)	15.84	1.00	8.18	19.11
Net asset value per share, diluted (DKK)	49.08	44.43	68.67	68.48
Proposed dividend per share (DKK)	2.45	0.00	0.00	2.77
Dividend payout ratio (%)	40	-	-	64
Dividend yield (%)	0.9	0.0	0.0	2.0
Share price, year-end (DKK)	287.3	235.4	122.8	137.0
Share price, high (DKK)	287.3	235.4	173.6	141.7
Share price, low (DKK)	206.9	120.4	111.5	85.1
Price/Earnings, diluted (DKK)	46.83	-	-	31.53
Price/Cash flow, diluted (DKK)	18.14	235.11	15.02	7.17
Price/Net asset value, diluted (DKK)	5.85	5.30	1.79	2.00
Market capitalization, year-end (DKKbn)	56.78	46.45	24.12	26.88
Annual trading, million shares	81.0	65.2	51.0	60.6
Average trading per trading day, thousands of shares	321.7	262.0	205.8	244.3

SHARE FACTS

Number of shares, end 2016	197,619,721
Share capital, end 2016 (DKK)	988,098,605
Nominal value (DKK)	5
Holding of treasury shares	271,187
Free float (%)	30
IPO	18 June 1999
Stock exchange	NASDAQ Copenhagen
ISIN code	DK0010287234
Ticker	LUN.CO (Reuters), LUN DC (Bloomberg)
ADR programme	Sponsored level 1 programme
ADR trading code	HLUYY

SUMMARY FOR THE GROUP 2012-2016

Income statement (DKKm)	2016	2015	2014	2013	2012
Revenue	15,634	14,594	13,468	15,258	14,802
Research and development costs[1]	2,967	8,149	2,911	2,951	2,919
Operating profit before depreciation and amortization (EBITDA)	3,846	210	1,552	2,861	2,614
Profit/(loss) from operations (EBIT)	2,292	(6,816)	99	1,599	1,726
Net financials	(135)	(190)	(155)	(127)	(65)
Profit/(loss) before tax	2,157	(7,006)	(56)	1,472	1,661
Profit/(loss) for the year	1,211	(5,694)	(153)	855	1,165

Assets (DKKm)					
Non-current assets	12,686	13,665	16,251	12,286	12,382
Inventories	1,528	2,217	1,991	1,893	1,730
Receivables	3,779	3,922	3,726	3,611	3,649
Cash, bank balances and securities	2,217	1,521	3,669	5,859	3,802
Total assets	**20,210**	**21,325**	**25,637**	**23,649**	**21,563**

Equity and liabilities (DKKm)					
Equity	9,694	8,785	13,526	13,481	13,198
Non-current liabilities	2,740	4,792	4,909	3,650	3,384
Current liabilities	7,776	7,748	7,202	6,518	4,981
Total equity and liabilities	**20,210**	**21,325**	**25,637**	**23,649**	**21,563**

Cash flow statement (DKKm)					
Cash flows from operating activities	3,126	197	1,610	3,760	2,112
Cash flows from investing activities	(337)	(2,842)	(3,396)	(1,500)	(1,105)
Cash flows from operating and investing activities (free cash flow)	2,789	(2,645)	(1,786)	2,260	1,007
Cash flows from financing activities	(2,006)	501	589	(141)	(719)
Interest-bearing debt, cash, bank balances and securities, net at year-end	326	(2,249)	326	3,699	1,893

1) Comparative figures for 2012 for research and development have not been restated to reflect the reclassification to sales and distribution costs and to research and development costs of costs previously recognized in administrative expenses.

SUMMARY FOR THE GROUP 2012-2016

CONTINUED

Key figures	2016	2015	2014	2013	2012
EBIT margin (%)	14.7	(46.7)	0.7	10.5	11.7
Research and development ratio[1] (%)	19.0	55.8	21.6	19.3	19.7
Return on equity (%)	13.1	(51.1)	(1.1)	6.4	9.0
Equity ratio (%)	48.0	41.2	52.8	57.0	61.2
Invested capital (DKKm)	9,368	11,034	13,200	9,782	11,306
Return on invested capital (ROIC) (%)	13.2	(45.4)	0.0	9.3	11.2
Net debt/EBITDA	(0.1)	10.7	(0.2)	(1.3)	(0.7)
Cash-to-earnings (%)	230.3	n/a	n/a	264.4	86.4
Effective tax rate (%)	43.9	18.7	(171.5)	41.9	29.9
Purchase of intangible assets, gross (DKKm)	104	2,719	4,225	1,204	1,349
Purchase of property, plant and equipment, gross (DKKm)	238	237	240	311	301
Purchase of financial assets, gross (DKKm)	16	9	62	7	68
Average number of employees	5,120	5,534	5,665	5,530	5,639

Share data [2, 3]					
Number of shares for the calculation of EPS (millions)	197.2	196.5	196.3	196.1	196.1
Earnings per share, basic (EPS) (DKK)	6.14	(28.96)	(0.78)	4.35	5.92
Earnings per share, diluted (DEPS) (DKK)	6.14	(28.96)	(0.78)	4.35	5.92
Proposed dividend per share (DKK)	2.45	0.00	0.00	2.77	2.00
Cash flow from operating activities per share, diluted (DKK)	15.84	1.00	8.18	19.11	10.73
Net asset value per share, diluted (DKK)	49.08	44.43	68.67	68.48	67.09
Market capitalization (DKKm)	56,776	46,445	24,117	26,879	16,260
Price/Earnings, diluted (DKK)	46.83	n/a	n/a	31.53	14.00
Price/Cash flow, diluted (DKK)	18.14	235.11	15.02	7.17	7.72
Price/Net asset value, diluted (DKK)	5.85	5.30	1.79	2.00	1.24

1) Comparative figures for 2012 for research and development have not been restated to reflect the reclassification to sales and distribution costs and to research and development costs of costs previously recognized in administrative expenses.

2) The calculation is based on a share denomination of DKK 5.

3) Comparative figures including number of shares have been restated using a factor 0.9991 for the effect of employees' exercise of warrants.

SUMMARY FOR THE GROUP 2012-2016

CONTINUED

Definitions	
Interest-bearing net cash	Cash, bank balances and securities less interest-bearing debt
EBIT margin[1]	Profit from operations as a percentage of revenue
Return on equity[1]	Net profit/(loss) for the year as a percentage of shareholders' equity (average)
Equity ratio[1]	Shareholders' equity, year-end, as a percentage of total assets
Invested capital	Shareholders' equity plus net interest-bearing debt
Return on invested capital (ROIC), incl. goodwill	Profit from operations after tax as a percentage of average invested capital
Net debt/EBTIDA[1]	Net interest-bearing debt as a percentage of EBITDA
Cash-to-earnings	Cash flow from operating and investing activities as a percentage of net profit/(loss) for the year
Earnings per share, basic (EPS)[1]	Net profit/(loss) for the year divided by average number of shares, excl. treasury shares
Earnings per share, diluted (DEPS)[1]	Net profit/(loss) for the year divided by average number of shares, excl. treasury shares, incl. warrants, fully diluted
Cash flow from operating activities per share, diluted[1]	Cash flow 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[1]	Total number of shares, year-end, multiplied by the official price quoted on NASDAQ Copenhagen, year-end
Price/Earnings, diluted[1]	The official price quoted on NASDAQ Copenhagen, year-end, divided by earnings per share, diluted
Price/Cash flow, diluted[1]	The official price quoted on NASDAQ Copenhagen, year-end, divided by cash flow 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

1) Definitions according to the Danish Society of Financial Analysts' *Recommendations & Financial Ratios 2015.*

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

PRIMARY NOTES

SECONDARY NOTES

OTHER NOTES

INCOME STATEMENT

1 January – 31 December 2016

	Notes	2016 DKKm	2015 DKKm
Revenue	3	15,634	14,594
Cost of sales	4, 8, 22	4,082	5,395
Gross profit		**11,552**	**9,199**
Sales and distribution costs	4, 8	5,488	6,706
Administrative expenses	4, 8, 18	805	1,160
Research and development costs	4, 8	2,967	8,149
Profit/(loss) from operations (EBIT)		**2,292**	**(6,816)**
Financial income	19	172	288
Financial expenses	19	307	478
Profit/(loss) before tax		**2,157**	**(7,006)**
Tax on profit/(loss) for the year	11	946	(1,312)
Profit/(loss) for the year	12	**1,211**	**(5,694)**
Earnings per share, basic (EPS) (DKK)	20	6.14	(28.96)
Earnings per share, diluted (DEPS) (DKK)	20	6.14	(28.96)

STATEMENT OF COMPREHENSIVE INCOME

1 January – 31 December 2016

	Notes	2016 DKKm	2015 DKKm
Profit/(loss) for the year		**1,211**	**(5,694)**
Actuarial gains/losses	24	(42)	16
Tax	11	3	(4)
Items that will not be reclassified subsequently to profit or loss		**(39)**	**12**
Exchange rate gains/losses on investments in foreign subsidiaries		(180)	341
Exchange rate gains/losses on additions to net investments in foreign subsidiaries		241	555
Deferred exchange gains/losses, hedging	26	(308)	(93)
Exchange gains/losses, hedging (transferred to the hedged items)	26	15	80
Exchange gains/losses, transferred from hedging to financial items		3	5
Fair value adjustment of available-for-sale financial assets		8	79
Tax	11	8	(140)
Items that may be reclassified subsequently to profit or loss		**(213)**	**827**
Other comprehensive income	21	**(252)**	**839**
Comprehensive income		**959**	**(4,855)**

BALANCE SHEET – ASSETS

At 31 December 2016

	Notes	2016 DKKm	2015 DKKm
Goodwill		4,599	4,475
Product rights		4,029	5,134
Other rights		133	83
Projects in progress		78	102
Intangible assets	7	**8,839**	**9,794**
Land and buildings		1,430	1,491
Plant and machinery		458	502
Other fixtures and fittings, tools and equipment		129	109
Prepayments and assets under construction		145	144
Property, plant and equipment	7	**2,162**	**2,246**
Available-for-sale financial assets		48	68
Other receivables		72	56
Deferred tax assets	13	1,565	1,501
Financial assets		**1,685**	**1,625**
Non-current assets		**12,686**	**13,665**
Inventories	22	**1,528**	**2,217**
Trade receivables	14	3,102	3,046
Income taxes receivable		210	310
Other receivables	14	288	406
Prepayments		179	160
Receivables		**3,779**	**3,922**
Securities	15	**17**	**17**
Cash and bank balances	15	**2,200**	**1,504**
Current assets		**7,524**	**7,660**
Assets		**20,210**	**21,325**

BALANCE SHEET – EQUITY AND LIABILITIES

At 31 December 2016

	Notes	2016 DKKm	2015 DKKm
Share capital	23	988	987
Share premium	23	-	349
Foreign currency translation reserve		1,164	1,157
Currency hedging reserve		(230)	(4)
Retained earnings		7,772	6,296
Equity		**9,694**	**8,785**
Retirement benefit obligations	24	311	313
Deferred tax liabilities	13	548	492
Other provisions	6	173	300
Mortgage debt	25	1,685	2,059
Bank debt	25	-	1,619
Other debt		23	9
Non-current liabilities		**2,740**	**4,792**
Retirement benefit obligations	24	2	2
Other provisions	6	743	984
Mortgage debt	25	85	83
Bank debt	25	103	-
Trade payables		3,650	4,349
Income taxes payable		157	71
Other payables	5	3,036	2,259
Current liabilities		**7,776**	**7,748**
Liabilities		**10,516**	**12,540**
Equity and liabilities		**20,210**	**21,325**

STATEMENT OF CHANGES IN EQUITY

At 31 December 2016

	Notes	Share capital DKKm	Share premium DKKm	Foreign currency translation reserve DKKm	Currency hedging reserve DKKm	Retained earnings DKKm	Equity DKKm
2016							
Equity at 1 January		**987**	**349**	**1,157**	**(4)**	**6,296**	**8,785**
Profit/(loss) for the year		-	-	-	-	1,211	1,211
Other comprehensive income	21	-	-	7	(226)	(33)	(252)
Comprehensive income		**-**	**-**	**7**	**(226)**	**1,178**	**959**
Capital increase through exercise of warrants	23	1	36	-	-	-	37
Buyback of treasury shares	23	-	-	-	-	(155)	(155)
Incentive programmes	10	-	-	-	-	53	53
Tax on other transactions in equity	11	-	-	-	-	15	15
Reclassified to retained earnings		-	(385)	-	-	385	-
Other transactions		**1**	**(349)**	**-**	**-**	**298**	**(50)**
Equity at 31 December		**988**	**-**	**1,164**	**(230)**	**7,772**	**9,694**
2015							
Equity at 1 January		**982**	**252**	**392**	**2**	**11,898**	**13,526**
Profit/(loss) for the year		-	-	-	-	(5,694)	(5,694)
Other comprehensive income	21	-	-	765	(6)	80	839
Comprehensive income		**-**	**-**	**765**	**(6)**	**(5,614)**	**(4,855)**
Capital increase through exercise of warrants	23	5	97	-	-	-	102
Buyback of treasury shares	23	-	-	-	-	(22)	(22)
Incentive programmes	10	-	-	-	-	34	34
Other transactions		**5**	**97**	**-**	**-**	**12**	**114**
Equity at 31 December		**987**	**349**	**1,157**	**(4)**	**6,296**	**8,785**

CASH FLOW STATEMENT

1 January – 31 December 2016

	Notes	2016 DKKm	2015 DKKm
Profit/(loss) from operations (EBIT)		2,292	(6,816)
Adjustment for non-cash operating items etc.	17	1,154	7,878
Change in working capital		463	(534)
Cash flows from operations before financial receipts and payments		**3,909**	**528**
Financial receipts		35	232
Financial payments		(98)	(331)
Cash flows from ordinary activities		**3,846**	**429**
Income taxes paid		(720)	(232)
Cash flows from operating activities		**3,126**	**197**
Purchase of intangible assets	7	(104)	(2,719)
Proceeds from sale of intangible assets		-	107
Purchase of property, plant and equipment	7	(238)	(237)
Proceeds from sale of property, plant and equipment		8	12
Purchase of financial assets		(16)	(9)
Proceeds from sale of financial assets		13	4
Cash flows from investing activities		**(337)**	**(2,842)**
Cash flows from operating and investing activities (free cash flow)		**2,789**	**(2,645)**
Repayment of loans	25	(1,888)	-
Proceeds from borrowings	25	-	429
Buyback of treasury shares	23	(155)	(22)
Employee bonds		-	(8)
Capital increase through exercise of warrants	23	37	102
Cash flows from financing activities		**(2,006)**	**501**
Net cash flow for the year		**783**	**(2,144)**
Cash and bank balances at 1 January		1,504	3,651
Unrealized exchange gains/losses on cash and bank balances		(87)	(3)
Net cash flow for the year		783	(2,144)
Cash and bank balances at 31 December	15	**2,200**	**1,504**

	Notes	2016 DKKm	2015 DKKm
Interest-bearing debt, cash, bank balances and securities, net is composed as follows:			
Cash and bank balances	15	2,200	1,504
Securities	15	17	17
Interest-bearing debt		(1,891)	(3,770)
Interest-bearing debt, cash, bank balances and securities, net at 31 December		**326**	**(2,249)**

NOTES 1-2

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of H. Lundbeck A/S have been prepared to give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2016. Executive Management believes that the following accounting policies are significant to the financial statements. The general accounting policies are described in note 29.

Licensing income and income from research collaborations
Licensing income and royalties from out-licensed products are recognized in the income statement under revenue when the following criteria have been met:
- The most significant risks and benefits associated with the asset sold are transferred to the buyer.
- Lundbeck surrenders management control of the asset sold.
- Revenue from the individual payments in an overall agreement can be clearly separated and calculated reliably at fair value.
- It is probable that Lundbeck will receive payment for the asset sold.
- Lundbeck has no further delivery obligations in respect of the asset sold.

Non-refundable downpayments and milestone payments relating to research collaborations are recognized in the income statement under revenue when the following criteria have been met:
- The payment relates to research results already obtained.
- The buyer has gained access to and possession of the research results.
- The revenue from the individual payments in an overall agreement can be clearly separated and calculated reliably at fair value.
- It is probable that Lundbeck will receive payment.

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

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements of H. Lundbeck A/S involves the use of accounting estimates and judgements.

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

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

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

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

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

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

NOTE 2

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

Valuation of intangible assets
Goodwill and product rights represent a significant part of the Group's total assets. The major part of the value of these assets arose through the acquisition of businesses or the acquisition of rights. On acquisition, the individual assets and liabilities are re-assessed to ensure that both recognized and unrecognized values are measured at fair value. Especially for intangible assets, for which there is often no active market, the calculation of fair value may involve uncertainty. Goodwill and intangible assets are tested for impairment at least annually or if there is indication of impairment. The value in use of the assets is calculated by discounting the estimate made by Management of the expected cash flows during a forecasting period of nine years with due consideration to patent expiry. For the calculation of the value in use of the assets, the Group uses its discount rate and Management's expectations for growth and terminal value in the period over and above five years. These factors are crucial for the assessment of any impairment and thus for the final calculation of the fair value of intangible assets.

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

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

In the impairment test, the discounted expected future cash flows (value in use) for the cash-generating unit (CGU) are compared with the carrying amounts of goodwill and other net assets. Lundbeck has identified only one CGU as all the assets of the Group and the related cash inflows from its activities, including cash inflows from alliances with partners, are in all material aspects considered to be for the benefit of the Lundbeck Group.

If the carrying amount exceeds the discounted expected future cash flows, an impairment loss is recognized in the income statement.

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

Therefore, the full value at 31 December 2016 of deferred tax assets relating to significant net operating losses in Denmark realized in 2015 and 2016 and a deferred tax asset regarding the impairment of product rights in 2015 has been capitalized in the amount of DKK 841 million.

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

NOTE 3

3. 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 reporting segment. The business segment reflects the internal management reporting.

The tables below show the Group's revenue broken down by key products and geographical regions.

2016	Europe DKKm	USA DKKm	Int. Markets DKKm	Group DKKm
Abilify Maintena®	508	452	154	1,114
Azilect®	223	-	120	343
Brintellix®/Trintellix®	220	591	294	1,105
Cipralex®/Lexapro®	760	-	1,758	2,518
Northera®	-	1,087	-	1,087
Onfi®	-	2,409	-	2,409
Rexulti®	-	826	-	826
Sabril®	-	1,342	-	1,342
Xenazine®	14	1,557	-	1,571
Other pharmaceuticals	1,187	140	1,667	2,994
Other revenue				325
Total revenue	**2,912**	**8,404**	**3,993**	**15,634**
Of this amount:				
Downpayments and milestone payments				12
Royalty				601
Income from divestment of ownership interests				14

Of total revenue, DKK 21 million derives from sales in Denmark.

2015	Europe DKKm	USA DKKm	Int. Markets DKKm	Group DKKm
Abilify Maintena®	281	324	64	669
Azilect®	1,282	-	175	1,457
Brintellix®/Trintellix®	105	403	121	629
Cipralex®/Lexapro®	893	-	1,698	2,591
Northera®	-	475	-	475
Onfi®	-	1,757	-	1,757
Rexulti®	-	117	-	117
Sabril®	-	985	-	985
Xenazine®	19	2,182	-	2,201
Other pharmaceuticals	1,316	110	1,769	3,195
Other revenue				518
Total revenue	**3,896**	**6,353**	**3,827**	**14,594**
Of this amount:				
Downpayments and milestone payments				32
Royalty				286
Income from divestment of ownership interests				130

Of total revenue, DKK 27 million derives from sales in Denmark.

Non-current assets[1]	2016 DKKm	2015 DKKm
Denmark	3,227	3,668
USA	4,475	4,579
Other countries	3,407	3,904
Total	**11,109**	**12,151**

1) Exclusive of deferred tax and retirement benefit assets.

NOTE 4

4. STAFF COSTS

Wages and salaries etc.

	2016 DKKm	2015 DKKm
Cost of sales	510	513
Sales and distribution costs	2,208	2,769
Administrative expenses	417	704
Research and development costs	895	1,389
Total	**4,030**	**5,375**

Executives[1]

	2016 DKKm	2015 DKKm
Short-term staff benefits	71	51
Retirement benefits	11	8
Other social security costs	1	1
Share-based incentive programmes	6	12
Total	**89**	**72**

1) Executives are persons who report directly to Executive Management.

Executive Management

The members of Executive Management participate in a short-term incentive programme that provides an annual bonus for the achievement of pre-determined targets of the preceding financial year. The CEO may receive up to nine months' base salary as a bonus on condition of achievement of exceptional results. The other members of Executive Management may receive up to six months' base salary as a bonus on condition of achievement of exceptional results.

In February 2016, Executive Management was increased from three to six members.

	Salary DKKm	Cash bonus DKKm	Pension DKKm	Other benefits DKKm	Share-based incentive programmes DKKm	Total DKKm
2016						
Kåre Schultz, President and CEO	7.5	5.3	1.9	0.3	22.8	37.8
Lars Bang, Executive Vice President, Supply Operations & Engineering	3.3	1.5	0.9	0.2	1.1	7.0
Anders Götzsche, Executive Vice President, CFO	3.8	1.8	1.0	0.2	3.9	10.7
Anders Gersel Pedersen, Executive Vice President, R&D	4.1	1.9	1.1	0.2	4.2	11.5
Staffan Schüberg, Executive Vice President, CCO	3.4	1.6	0.9	0.2	1.5	7.6
Jacob Tolstrup, Executive Vice President, Corporate Functions	2.1	0.9	0.5	0.2	0.7	4.4
Total	**24.2**	**13.0**	**6.3**	**1.3**	**34.2**	**79.0**
2015						
Kåre Schultz[1], President and CEO	4.6	3.5	1.2	0.2	-	9.5
Anders Götzsche, Executive Vice President, CFO	3.7	1.6	1.0	0.2	4.9	11.4
Anders Gersel Pedersen, Executive Vice President, R&D	4.1	1.7	1.0	0.2	5.3	12.3
Total	**12.4**	**6.8**	**3.2**	**0.6**	**10.2**	**33.2**

1) Kåre Schultz joined H. Lundbeck A/S in May 2015.

Board of Directors

The total remuneration of the Board of Directors for 2016 amounted to DKK 4.9 million (DKK 8.9 million in 2015). The amount includes fees for participation in the Audit Committee of DKK 0.7 million (DKK 0.7 million in 2015), the Remuneration Committee of DKK 0.7 million (DKK 0.7 million in 2015) and the Scientific Committee of DKK 0.1 million (DKK 0.4 million in 2015). The total remuneration for 2015 includes a fee of DKK 3.5 million paid to the chairman of the Board of Directors due to increased operational duties. The remuneration for 2016 is consistent with the remuneration presented at the Annual General Meeting held on 31 March 2016.

NOTES 4-6

4. STAFF COSTS – CONTINUED

The members of the Board of Directors held a total of 44,630 Lundbeck shares at 31 December 2016 (29,460 shares in 2015).

The total remuneration of the chairman of the Board of Directors amounted to DKK 1.4 million (DKK 4.9 million in 2015). The remuneration for 2015 included a fee for increased operational duties. The total remuneration of the deputy chairman of the Board of Directors amounted to DKK 0.9 million (DKK 1.0 million in 2015). The amounts include fees for participation in Board committees.

Number of employees

	2016	2015
Average number of full-time employees in the financial year	**5,120**	**5,534**
Number of full-time employees at 31 December		
In Denmark	1,589	1,609
In other countries	3,394	3,648
Total	**4,983**	**5,257**

5. OTHER PAYABLES

Other payables amounted to DKK 3,036 million at 31 December 2016 (DKK 2,259 million in 2015). Of this amount, DKK 1,702 million (DKK 981 million in 2015) relates to sales discounts and rebates in the US. The remaining amount mainly relates to VAT, employee-related obligations and market-to-market adjustments on hedging contracts.

6. OTHER PROVISIONS

	Returns DKKm	Other provisions DKKm	Total DKKm
2016			
Provisions at 1 January	141	1,143	1,284
Effect of foreign currency exchange differences	9	2	11
Provisions charged	109	221	330
Provisions used	(23)	(561)	(584)
Unused provisions reversed	(3)	(122)	(125)
Provisions at 31 December	**233**	**683**	**916**
Provisions break down as follows:			
Non-current provisions	104	69	173
Current provisions	129	614	743
Provisions at 31 December	**233**	**683**	**916**

	Returns DKKm	Other provisions DKKm	Total DKKm
2015			
Provisions at 1 January	102	376	478
Effect of foreign currency exchange differences	9	12	21
Provisions charged	64	1,252	1,316
Provisions used	(33)	(425)	(458)
Unused provisions reversed	(1)	(72)	(73)
Provisions at 31 December	**141**	**1,143**	**1,284**
Provisions break down as follows:			
Non-current provisions	62	238	300
Current provisions	79	905	984
Provisions at 31 December	**141**	**1,143**	**1,284**

NOTES 6-7

6. OTHER PROVISIONS – CONTINUED

Of other provisions at 31 December 2016, DKK 523 million (DKK 935 million in 2015) related to restructuring programmes. As a consequence of the restructuring programme initiated in 2015, a provision of DKK 1,134 million for severance payments and other restructuring costs was recognized in 2015.

In addition, provisions comprise expenses for e.g. legal disputes and returns.

Of the total provisions at 31 December 2016, DKK 4 million (DKK 7 million in 2015) related to share price-based incentive programmes (debt-based programmes). Further details on the incentive programmes are provided in note 10 *Incentive programmes*.

7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets	Goodwill DKKm	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
2016					
Cost at 1 January	4,475	15,390	1,722	120	21,707
Effect of foreign currency exchange differences	124	75	2	-	201
Transfers	-	-	95	(95)	-
Additions	-	16	15	73	104
Disposals	-	(2)	(28)	-	(30)
Cost at 31 December	**4,599**	**15,479**	**1,806**	**98**	**21,982**
Amortization and impairment losses at 1 January	-	10,256	1,639	18	11,913
Effect of foreign currency exchange differences	-	20	3	-	23
Amortization	-	1,046	54	-	1,100
Impairment losses	-	130	5	2	137
Disposals	-	(2)	(28)	-	(30)
Amortization and impairment losses at 31 December	**-**	**11,450**	**1,673**	**20**	**13,143**
Carrying amount at 31 December	**4,599**	**4,029**	**133**	**78**	**8,839**

Intangible assets	Goodwill DKKm	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
2015					
Cost at 1 January	4,076	12,311	1,742	127	18,256
Effect of foreign currency exchange differences	399	696	8	1	1,104
Transfers	-	-	95	(95)	-
Additions	-	2,615	17	87	2,719
Disposals	-	(232)	(140)	-	(372)
Cost at 31 December	**4,475**	**15,390**	**1,722**	**120**	**21,707**
Amortization and impairment losses at 1 January	-	3,976	1,610	-	5,586
Effect of foreign currency exchange differences	-	280	4	-	284
Amortization	-	1,123	63	-	1,186
Impairment losses	-	5,109	99	18	5,226
Disposals	-	(232)	(137)	-	(369)
Amortization and impairment losses at 31 December	**-**	**10,256**	**1,639**	**18**	**11,913**
Carrying amount at 31 December	**4,475**	**5,134**	**83**	**102**	**9,794**

The value of the Northera® product rights amounted to DKK 2,600 million when purchased in 2014. The carrying amount was DKK 2,205 million at 31 December 2016 (DKK 2,589 million in 2015). The value is affected by the development in the USD/DKK exchange rate. The remaining amortization period is four years (five years in 2015).

1) In 2016, product rights not yet commercialized amounted to DKK 0 million (DKK 130 million in 2015).
2) Other rights and projects in progress include items such as the IT system SAP. The amounts include directly attributable internal expenses.

NOTE 7

7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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
2016					
Cost at 1 January	4,082	1,671	963	150	6,866
Effect of foreign currency exchange differences	14	(3)	1	-	12
Transfers	43	57	18	(118)	-
Additions	21	31	67	119	238
Disposals	(5)	(15)	(87)	-	(107)
Cost at 31 December	**4,155**	**1,741**	**962**	**151**	**7,009**
Depreciation and impairment losses at 1 January	2,591	1,169	854	6	4,620
Effect of foreign currency exchange differences	12	(3)	-	-	9
Transfers	1	1	(2)	-	-
Depreciation	97	100	45	-	242
Impairment losses	27	30	17	-	74
Disposals	(3)	(14)	(81)	-	(98)
Depreciation and impairment losses at 31 December	**2,725**	**1,283**	**833**	**6**	**4,847**
Carrying amount at 31 December	**1,430**	**458**	**129**	**145**	**2,162**

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
2015					
Cost at 1 January	4,019	1,660	981	196	6,856
Effect of foreign currency exchange differences	47	11	3	-	61
Transfers	72	74	22	(168)	-
Additions	23	65	27	122	237
Disposals	(79)	(139)	(70)	-	(288)
Cost at 31 December	**4,082**	**1,671**	**963**	**150**	**6,866**
Depreciation and impairment losses at 1 January	2,173	1,151	808	-	4,132
Effect of foreign currency exchange differences	36	8	2	-	46
Depreciation	123	104	60	-	287
Impairment losses	335	44	49	6	434
Disposals	(76)	(138)	(65)	-	(279)
Depreciation and impairment losses at 31 December	**2,591**	**1,169**	**854**	**6**	**4,620**
Carrying amount at 31 December	**1,491**	**502**	**109**	**144**	**2,246**

1) At 31 December 2016, the carrying amount of mortgaged land and buildings was DKK 1,239 million (DKK 1,303 million in 2015).

NOTE 7

7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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

Intangible assets and property, plant and equipment in use with definite useful lives are tested for impairment if there is any indication of impairment. Indications of impairment include the following:
• Research and development results for a product
• Changes to expected cash flow due to expectations of decrease in sales
• Changes in technology
• Limitations of future use

Methodology
All subsidiaries are considered to be fully integrated in the Group as no entity has a significant independent inflow of cash. Accordingly, the impairment test was performed based on one CGU.

In the impairment test, the discounted expected future cash flows (value in use) for the CGU are compared with the carrying amounts of goodwill and other intangible assets. The expected future cash flows are based on a forecasting period of nine years, which is the period used by Management for decision making, with due consideration of patent expiry. The assumptions used in the impairment test are based on benchmarked external data and historic trends. The key parameters in the calculation of the value in use are revenue, earnings, working capital, discount rate and the preconditions for the terminal period. A negative growth of five percent is projected in the terminal period due to patent expiry. In addition, the four category elements in the table below are taken into consideration when determining the key parameters.

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

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

The calculation of the value in use for the Group is based on a discount rate after tax of 7.4% (9.8% in 2015). The calculation of the discount rate includes a market adjustment premium.

2016 testing outcome
For 2016, the impairment test resulted in an impairment loss of DKK 140 million relating to idalopirdine as a result of unfavorable study results. Of this amount, DKK 130 million relating to the idalopirdine product rights was recognized in research and development costs and DKK 10 million relating to a few other assets was recognized in cost of sales.

NOTES 7-9

7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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

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

Furthermore, an impairment loss of DKK 434 million relating to property, plant and equipment was recognized in cost of sales in the amount of DKK 285 million, in sales and distribution costs in the amount of DKK 11 million, in administrative expenses in the amount of DKK 37 million and in research and development costs in the amount of DKK 101 million.

8. AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

	2016 DKKm	2015 DKKm
Amortization, depreciation and impairment losses are specified as follows:		
Cost of sales	1,258	1,561
Sales and distribution costs	46	101
Administrative expenses	22	103
Research and development costs	228	5,261
Total	**1,554**	**7,026**

9. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Acquisition of Chelsea Therapeutics International, Ltd.
In the second quarter of 2014, Lundbeck completed the purchase of all shares in Chelsea Therapeutics International, Ltd. for USD 6.44 per share in cash and non-transferable contingent value rights (CVRs) that may pay up to an additional USD 1.50 per share upon achievement of certain sales milestones. The CVRs for 2015 and 2016 were not achieved, which reduced the potential additional payment by USD 1.00 to USD 0.50 per share.

Joint taxation
H. Lundbeck A/S and Danish subsidiaries are part of a Danish joint taxation scheme with Lundbeckfonden, 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.

NOTE 9

9. CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

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

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

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

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

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

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

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

NOTE 10

10. INCENTIVE PROGRAMMES

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

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

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

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

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

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

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

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

NOTE 10

10. INCENTIVE PROGRAMMES – CONTINUED

Warrant programmes	2008	2009	2010	2010	2011	2012[1] 20%	2012[1] 30%	2012[1] 50%	2012	2014[2]	2016[2]
Number of persons included in the programme	87	98	101	16	112	4	4	4	102	3	1
Total number of warrants granted	405,234	534,058	765,979	24,971	849,085	155,750	233,629	389,380	692,003	1,355,000	400,000
Number of warrants granted to Executive Management	219,618	333,811	507,885	-	381,224	155,750	233,629	389,380	-	1,355,000	400,000
Vesting date	06.05.11	16.03.12	16.03.13	16.03.13	31.03.14	31.03.15	31.03.16	31.03.17	31.03.15	30.04.17	30.04.17
Exercise period begins	06.05.11	16.03.12	16.03.13	16.03.13	01.04.14	01.04.15	01.04.16	01.04.17	01.04.15	01.05.17	01.05.17
Exercise period ends	05.05.16	15.03.17	15.03.18	15.03.18	31.03.19	31.12.18	31.12.18	31.12.18	31.03.20	30.04.20	30.04.20
Exercise price, DKK	115.00	102.00	97.00	97.00	121.00	113.00	113.00	113.00	113.00	141.00	141.00
Fair value at the date of grant, DKK	35.55	40.37	29.86	24.30	30.10	21.05	22.40	21.99	24.11	26.06	85.28

1) As from 2012, the exercise price of DKK 113.00 is revalued by 4.00% p.a. adjusted for dividend payout.
2) As from 2014, the exercise price of DKK 141.00 is revalued by 4.00% p.a. adjusted for dividend payout.

Share and RSU programmes	2012	2012	2013	2014	2015	2016
Number of persons included in the programme	104	5	113	107	129	126
Total number of shares/RSUs granted	230,503	15,178	540,562	205,702	130,777	120,549
Number of shares/RSUs granted to Executive Management	101,107	-	98,629	-	-	20,484
Vesting date	31.03.15	31.03.15	31.05.16	31.05.17	01.12.18	01.02.20
Fair value at the date of grant, DKK	113.20	99.05	110.70	138.81	202.78	237.56

NOTE 10

10. INCENTIVE PROGRAMMES – CONTINUED

Warrants	Executive Management Number	Executives Number	Other Number	Total Number	Average exercise price DKK
2016					
1 January	1,038,184	88,270	407,877	1,534,331	134.79
Grant	400,000	-	-	400,000	155.56
Transfers	23,701	36,714	(60,415)	-	-
Exercised	(141,592)	(47,830)	(129,018)	(318,440)	117.75
Cancelled/expired	-	-	(38,396)	(38,396)	114.21
31 December	**1,320,293**	**77,154**	**180,048**	**1,577,495**	144.66
2015					
1 January	1,038,184	366,713	1,041,840	2,446,737	121.14
Transfers	-	(63,338)	63,338	-	-
Exercised	-	(215,105)	(697,301)	(912,406)	111.95
31 December	**1,038,184**	**88,270**	**407,877**	**1,534,331**	134.79

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

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

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

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

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

Fair value, liability and expense recognized in the income statement
The warrants, shares and RSUs granted/offered are recognized in the income statement for 2016 at an expense corresponding to the fair value at the time of grant/offer for the part of the vesting period that concerns 2016. The total expense recognized in respect of equity-based programmes amounted to DKK 53 million (DKK 34 million in 2015). At 31 December 2016, the fair value of equity-based programmes was DKK 340 million (DKK 317 million in 2015).

The SARs granted are recognized in the income statement at an expense corresponding to the value adjustment for the year based on the Black-Scholes method, and the RCUs granted/offered are 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 debt-based programmes amounted to DKK 1 million (DKK 12 million in 2015). The expense covers all debt-based programmes in force in 2016. At 31 December 2016, the total provision in respect of debt-based programmes was DKK 4 million (DKK 7 million in 2015). The provision covers all debt-based programmes in force at 31 December 2016.

The total expense recognized in the income statement for all incentive programmes amounted to DKK 54 million for 2016 (DKK 46 million in 2015).

NOTES 11-12

11. TAX ON PROFIT/(LOSS) FOR THE YEAR

	2016 DKKm	2015 DKKm
Current tax	902	208
Prior-year adjustments, current tax	(12)	(14)
Prior-year adjustments, deferred tax	17	20
Change in deferred tax for the year	10	(1,499)
Change in deferred tax as a result of changed income tax rates	3	117
Total tax for the year	**920**	**(1,168)**
Tax for the year is composed of:		
Tax on profit/(loss) for the year	946	(1,312)
Tax on other comprehensive income	(11)	144
Tax on other transactions in equity	(15)	-
Total tax for the year	**920**	**(1,168)**

For a specification of tax on other comprehensive income, see note 21 *Other comprehensive income*.

Explanation of the Group's effective tax rate relative to the Danish corporate income tax rate	DKKm	%
2016		
Profit/(loss) before tax	**2,157**	
Calculated tax, 22%	475	22.0
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	453	21.0
Non-deductible expenses/non-taxable income and other permanent differences	75	3.5
Research and development incentives	(16)	(0.8)
Non-deductible amortization of product rights	172	8.0
Change in valuation of net tax assets	(218)	(10.1)
Prior-year tax adjustments etc., total effect on operations	5	0.3
Effective tax/tax rate for the year	**946**	**43.9**

Explanation of the Group's effective tax rate relative to the Danish corporate income tax rate	DKKm	%
2015		
Profit/(loss) before tax	**(7,006)**	
Calculated tax, 23.5%	(1,646)	23.5
Tax effect of:		
Differences in the income tax rates of foreign subsidiaries from the Danish corporate income tax rate	161	(2.3)
Non-deductible expenses/non-taxable income and other permanent differences	66	(0.9)
Research and development incentives	(43)	0.6
Non-deductible amortization of product rights	172	(2.4)
Change in valuation of net tax assets	(106)	1.5
Change in deferred tax as a result of changed income tax rates	117	(1.7)
Prior-year tax adjustments etc., total effect on operations	5	(0.1)
Non-deductible losses/non-taxable gains on shares and other equity investments	(38)	0.5
Effective tax/tax rate for the year	**(1,312)**	**18.7**

12. DISTRIBUTION OF PROFIT

The Board of Directors proposes distribution of dividends for 2016 of 40% (0% in 2015) of the net profit for the year allocated to the shareholders, equivalent to DKK 2.45 per share (DKK 0.00 per share in 2015) or DKK 484 million (DKK 0 in 2015), inclusive of dividends on treasury shares. Total dividends are based on the current share capital.

In addition, the Board of Directors proposes that if warrants are exercised during the period from the Board of Directors' approval of the consolidated financial statements and the approval by the Annual General Meeting, total dividends be increased to maintain the proposed dividends per share of DKK 2.45. The total number of exercisable warrants was 280,903 at 31 December 2016.

NOTE 13

13. DEFERRED TAX

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 currency exchange differences DKKm	Adjustment of deferred tax at beginning of year DKKm	Movements during the year DKKm	Balance at 31 December DKKm
2016					
Intangible assets	53	1	5	55	114
Property, plant and equipment	(39)	(10)	(4)	(19)	(72)
Inventories	(61)	16	19	(70)	(96)
Provisions	(1,558)	(166)	(40)	370	(1,394)
Other items	734	1	81	260	1,076
Tax loss carryforwards etc.	(2,671)	(43)	2	(692)	(3,404)
Total temporary differences	**(3,542)**	**(201)**	**63**	**(96)**	**(3,776)**
Deferred (tax assets)/tax liabilities[1]	(928)	(31)	18	56	(885)
Research and development incentives	(81)	(7)	(1)	(43)	(132)
Deferred (tax assets)/tax liabilities	**(1,009)**	**(38)**	**17**	**13**	**(1,017)**
2015					
Intangible assets	5,002	100	(10)	(5,039)	53
Property, plant and equipment	289	(24)	83	(387)	(39)
Inventories	(21)	1	(48)	7	(61)
Provisions	(1,325)	(5)	167	(395)	(1,558)
Other items	565	(7)	(52)	228	734
Tax loss carryforwards etc.	(1,375)	(247)	(34)	(1,015)	(2,671)
Total temporary differences	**3,135**	**(182)**	**106**	**(6,601)**	**(3,542)**
Deferred (tax assets)/tax liabilities[1]	602	(70)	20	(1,480)	(928)
Research and development incentives	(145)	(34)	-	98	(81)
Deferred (tax assets)/tax liabilities	**457**	**(104)**	**20**	**(1,382)**	**(1,009)**

1) Movements during the year include an increase in deferred tax of DKK 3 million (DKK 117 million in 2015) as a result of changed income tax rates.

NOTE 13

13. DEFERRED TAX – CONTINUED

Deferred (tax assets)/tax liabilities	2016 Deferred tax assets DKKm	2016 Deferred tax liabilities DKKm	2016 Net DKKm	2015 Deferred tax assets DKKm	2015 Deferred tax liabilities DKKm	2015 Net DKKm
Intangible assets	(176)	311	135	(252)	408	156
Property, plant and equipment	(140)	63	(77)	(142)	73	(69)
Inventories	(76)	38	(38)	(88)	51	(37)
Provisions	(310)	-	(310)	(442)	-	(442)
Other items	(234)	403	169	(216)	384	168
Tax loss carryforwards etc.	(764)	-	(764)	(704)	-	(704)
Research and development incentives	(132)	-	(132)	(81)	-	(81)
Deferred (tax assets)/tax liabilities	**(1,832)**	**815**	**(1,017)**	**(1,925)**	**916**	**(1,009)**
Set off within legal tax entities and jurisdictions	267	(267)	-	424	(424)	-
Total net deferred (tax assets)/tax liabilities	**(1,565)**	**548**	**(1,017)**	**(1,501)**	**492**	**(1,009)**

Of the recognized deferred tax assets, DKK 896 million (DKK 785 million in 2015) related to tax losses and research and development incentives to be carried forward. The utilization of tax loss carryforwards is subject to Lundbeck generating future positive taxable income against which the losses may be offset.

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

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

Unrecognized deferred tax assets	2016 DKKm	2015 DKKm
Unrecognized deferred tax assets at 1 January	345	462
Additions	6	1
Utilized	(213)	(118)
Unrecognized deferred tax assets at 31 December	**138**	**345**

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

NOTES 14-15

14. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables

	2016 DKKm	2015 DKKm
Receivables	3,135	3,111
Writedowns	(33)	(65)
Total	**3,102**	**3,046**

Due dates of trade receivables not written down		
Not due	2,528	2,472
Overdue by up to three months	421	252
Overdue by between three months and up to six months	42	166
Overdue by between six months and up to twelve months	29	89
Overdue by more than twelve months	82	67
Total	**3,102**	**3,046**

Other receivables

Other receivables amounted to DKK 288 million (DKK 406 million in 2015), the greater part of which was not yet due. No writedowns were made as no losses are expected on other receivables.

Credit risks

Lundbeck's products are sold primarily to distributors of pharmaceuticals, pharmacies and hospitals. Historically, losses sustained on debtors have been insignificant. This was also the case in 2016. In 2016, writedowns decreased compared with 2015 mainly due to utilization. An internal assessment has confirmed that overdue balances do not represent a material risk of loss.

The Group has one customer in the US contributing approximately DKK 2.3 billion (DKK 2.2 billion in 2015) to total revenue. No other single customer contributed 10% or more to total revenue. The Group has no significant reliance on specific customers. Internal procedures for evaluating specific credit risks from new customer relationships and changes to the risk profile of existing relationships ensure that the risk of loss is reduced to an acceptable level.

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

Market risks

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

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

15. CASH RESOURCES

	2016 DKKm	2015 DKKm
Cash and bank resources	2,200	1,504
Cash and bank balances at 31 December	**2,200**	**1,504**
Securities with a maturity of less than three months[1]	-	13
Securities with a maturity of more than three months[1]	17	4
Securities at 31 December	**17**	**17**
Cash, bank balances and securities at 31 December	**2,217**	**1,521**

1) The securities portfolio is classified as financial assets measured at fair value through profit or loss.

Liquidity risks and capital structure

The credit risk of cash and derivatives (forward exchange contracts and currency options) is limited because Lundbeck deals only with banks with a high credit rating. To further limit the risk of loss, internal limits have been defined for the credit exposure accepted towards the banks with which Lundbeck collaborates. Pursuant to the Group's Treasury Policy, the credit lines are presented to the Board of Directors for approval.

NOTES 15-16

15. CASH RESOURCES – CONTINUED

The Treasury Policy covers financial resources, foreign currency exposure and the securities and loan portfolios. It 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, commitment lines and types of business.

Pursuant to its Treasury Policy, Lundbeck must be able to raise a minimum of DKK 1 billion at two weeks' notice. 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 2015, Lundbeck obtained a two-year revolving credit facility of DKK 2.0 billion with a group of Danish banks. At 31 December 2016, the facility was unutilized. At 31 December 2015, DKK 500 million of this facility was utilized. A committed credit facility of EUR 150 million with the European Investment Bank obtained in 2013 was fully repaid in 2016. At 31 December 2015, it was fully utilized. In addition, Lundbeck has a number of uncommitted credit facilities to cover its day-to-day operations. Lundbeck manages its capital structure based on a wish to carry an investment grade rating.

The securities portfolio consists of Danish mortgage bonds with a limited credit risk.

Liquidity exceeding the requirement for business development and general business purposes is primarily distributed as dividends. Lundbeck currently pursues a policy of distributing between 30% and 40% of the profit for the year as dividends, but may deviate from this policy in exceptional cases.

In 2016, a number of minor operational changes were made to the Group's Treasury Policy.

16. CONTRACTUAL OBLIGATIONS

Rental and lease obligations
The Group has obligations amounting to DKK 503 million (DKK 372 million in 2015) in the form of rentals and leasing of operating equipment.

Future rental and lease payments	Land and buildings DKKm	Operating equipment DKKm	Total DKKm
2016			
Within one year	78	43	121
Between one and five years	185	59	244
After five years	138	-	138
Total	**401**	**102**	**503**
2015			
Within one year	64	44	108
Between one and five years	118	60	178
After five years	86	-	86
Total	**268**	**104**	**372**

Rental and lease payments recognized in the income statement amounted to DKK 157 million (DKK 282 million in 2015).

Other purchase obligations
The Group has undertaken purchase obligations in the amount of DKK 339 million (DKK 200 million in 2015).

Research and development milestones and collaborations
Research and development milestone obligations amounted to DKK 706 million (DKK 683 million in 2015). The total amount of the milestone obligations may increase in line with the development of the projects.

In addition, the Group is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 102 million (DKK 33 million in 2015).

NOTES 16-20

16. CONTRACTUAL OBLIGATIONS – CONTINUED

Other contractual obligations
The Group has entered into various service agreements amounting to DKK 113 million (DKK 120 million in 2015).

At 31 December 2016, the Group's capital contribution obligations amounted to DKK 4 million (DKK 7 million in 2015).

17. ADJUSTMENT FOR NON-CASH OPERATING ITEMS ETC.

	2016 DKKm	2015 DKKm
Amortization, depreciation and impairment losses	1,554	7,026
Incentive programmes	53	34
Change in retirement benefit obligations	(40)	(8)
Change in other provisions	(381)	790
Income from sale of ownership interests	29	48
Other adjustments	(61)	(12)
Total	**1,154**	**7,878**

18. AUDIT FEES

Deloitte Statsautoriseret Revisionspartnerselskab	2016 DKKm	2015 DKKm
Statutory audit	9	8
Tax consulting	1	1
Other services	3	3
Total	**13**	**12**

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

19. NET FINANCIALS

	2016 DKKm	2015 DKKm
Net interest gains/(losses) on financial assets and financial liabilities measured at amortized cost	(50)	(99)
Net gains/(losses) on available-for-sale financial assets, incl. dividends	7	(39)
Net exchange gains/(losses)	(73)	(36)
Net gains/(losses) on other financial items	(19)	(16)
Net financials	**(135)**	**(190)**

As a result of the devaluation of the Venezuelan currency in February 2016 and the ensuing decline in transactions settled at the official exchange rate, the receivables have been re-assessed. As it is highly unlikely that the receivables will be settled at the official exchange rate, an exchange rate loss of DKK 125 million has been recognized.

Interest income from financial assets measured at amortized cost amounted to DKK 10 million (DKK 9 million in 2015), and interest expenses on financial liabilities measured at amortized cost amounted to DKK 60 million (DKK 108 million in 2015).

20. EARNINGS PER SHARE

	2016	2015
Profit/(loss) for the year (DKKm)	**1,211**	**(5,694)**
Average number of shares ('000 shares)	197,392	196,495
Average number of treasury shares ('000 shares)	(205)	(23)
Average number of shares, excl. treasury shares ('000 shares)	**197,187**	**196,472**
Average number of warrants, fully diluted ('000 warrants)	223	238
Average number of shares, fully diluted ('000 shares)	**197,410**	**196,710**
Earnings per share, basic (EPS) (DKK)	**6.14**	**(28.96)**
Earnings per share, diluted (DEPS) (DKK)	**6.14**	**(28.96)**

Warrants not in the money are not included in the calculation of earnings per share, diluted (DEPS). Longer term, the warrants may have a dilutive effect on earnings per share, basic and on earnings per share, diluted.

For additional information on incentive programmes, see note 10 *Incentive programmes*.

NOTE 21

21. OTHER COMPREHENSIVE INCOME

	Before tax DKKm	Tax DKKm	After tax DKKm
2016			
Other comprehensive income recognized under foreign currency translation reserve in equity			
Exchange rate gains/losses on investments in foreign subsidiaries	(180)	-	(180)
Exchange rate gain/losses on additions to net investments in foreign subsidiaries	241	(54)	187
Total	**61**	**(54)**	**7**
Other comprehensive income recognized under currency hedging reserve in equity			
Deferred exchange gains/losses, hedging	(308)	68	(240)
Exchange gains/losses, hedging (transferred to revenue)	15	(3)	12
Exchange gains/losses, transferred from hedging to financial items	3	(1)	2
Total	**(290)**	**64**	**(226)**
Other comprehensive income recognized under retained earnings in equity			
Fair value adjustment of available-for-sale financial assets	8	(2)	6
Actuarial gains/losses	(42)	3	(39)
Total	**(34)**	**1**	**(33)**
Recognized in other comprehensive income	**(263)**	**11**	**(252)**

	Before tax DKKm	Tax DKKm	After tax DKKm
2015			
Other comprehensive income recognized under foreign currency translation reserve in equity			
Exchange rate gains/losses on investments in foreign subsidiaries	341	-	341
Exchange rate gains/losses on additions to net investments in foreign subsidiaries	555	(131)	424
Total	**896**	**(131)**	**765**
Other comprehensive income recognized under currency hedging reserve in equity			
Deferred exchange gains/losses, hedging	(93)	22	(71)
Exchange gains/losses, hedging (transferred to revenue)	167	(39)	128
Exchange gains/losses, hedging (transferred to research and development costs)	(10)	2	(8)
Exchange gains/losses, hedging (transferred to intangible assets)	(77)	18	(59)
Exchange gains/losses, transferred from hedging to financial items	5	(1)	4
Total	**(8)**	**2**	**(6)**
Other comprehensive income recognized under retained earnings in equity			
Fair value adjustment of available-for-sale financial assets	79	(11)	68
Actuarial gains/losses	16	(4)	12
Total	**95**	**(15)**	**80**
Recognized in other comprehensive income	**983**	**(144)**	**839**

Exchange rate gains/losses on investments in foreign subsidiaries, a loss of DKK 180 million (a gain of DKK 341 million in 2015), and exchange rate gains/losses on additions to net investments in foreign subsidiaries, a gain of DKK 241 million (DKK 555 million in 2015), are primarily driven by developments in USD/DKK and GBP/DKK exchange rates.

NOTES 22-23

22. INVENTORIES

	2016 DKKm	2015 DKKm
Raw materials and consumables	284	254
Work in progress	409	414
Finished goods and goods for resale	835	1,549
Total	**1,528**	**2,217**
Indirect costs of production	**298**	**365**
Writedown for the year	**55**	**101**
Inventories calculated at net realizable value	**2**	**5**

The total cost of goods sold included in cost of sales amounted to DKK 3,036 million (DKK 3,932 million in 2015).

23. SHARE CAPITAL

The share capital of DKK 988 million at 31 December 2016 is divided into 197,619,721 shares at a nominal value of DKK 5 each.

Share capital	2016 DKKm	2015 DKKm	2014 DKKm	2013 DKKm	2012 DKKm
At 1 January	987	982	981	980	980
Capital increase through exercise of warrants	1	5	1	1	-
At 31 December	**988**	**987**	**982**	**981**	**980**

Issued shares	2016 Number	2015 Number
At 1 January	197,301,281	196,388,875
Capital increase through exercise of warrants	318,440	912,406
At 31 December	**197,619,721**	**197,301,281**

Treasury shares	Shares of DKK 5 nom. Number	Nominal value DKKm	Proportion of share capital %	Cost DKKm
2016				
Shareholding at 1 January	-	-	-	-
Share buyback	623,926	3	0.32	155
Shares used for funding incentive programmes	(352,739)	(2)	(0.18)	(85)
Shareholding at 31 December	**271,187**	**1**	**0.14**	**70**
2015				
Shareholding at 1 January	-	-	-	-
Share buyback	177,364	1	0.09	22
Shares used for funding incentive programmes	(177,364)	(1)	(0.09)	(22)
Shareholding at 31 December	**-**	**-**	**-**	**-**

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.

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.

In 2016, the parent company acquired treasury shares at a value of DKK 155 million (DKK 22 million in 2015), corresponding to 623,926 shares (177,364 shares in 2015). The shares were acquired to fund Lundbeck's long-term share-based incentive programmes. A total of 352,739 shares were used for this purpose in 2016 (177,364 shares in 2015). At 31 December 2016, the portfolio of treasury shares counted 271,187 shares (0 shares in 2015).

In 2016, employees exercised warrants totalling DKK 37 million (DKK 102 million in 2015). The share premium in this connection was DKK 36 million (DKK 97 million in 2015). The total share premium relates to the exercise of warrants in 2016 and earlier and amounted to DKK 385 million at 31 December 2016 (DKK 349 million in 2015). The share premium of DKK 385 million has been reclassified to retained earnings.

NOTE 24

24. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Defined contribution plans

The major defined contribution plans cover employees in Australia, Belgium, Canada, Denmark, Finland, Korea, Sweden, the UK and the US. The cost of defined contribution plans, representing contributions to the plans, amounted to DKK 220 million in 2016 (DKK 260 million in 2015).

Defined benefit plans

The Group has defined benefit plans in a few countries. The most important plans comprise 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 those of 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	2016 DKKm	2015 DKKm
Present value of funded defined benefit plans	365	406
Fair value of plan assets	(292)	(320)
Funded defined benefit plans, net	**73**	**86**
Present value of unfunded defined benefit plans	217	199
Defined benefit plans at 31 December	**290**	**285**
Other obligations of a retirement benefit nature	23	30
Retirement benefit obligations and similar obligations at 31 December	**313**	**315**
Retirement benefit obligations and similar obligations break down as follows:		
Non-current obligations	311	313
Current obligations	2	2
Retirement benefit obligations and similar obligations at 31 December	**313**	**315**

Assumptions for the most important plans	2016 %	2015 %
Discount rate	1.40-2.75	2.20-3.85
Inflation rate	1.90-2.20	1.90
Pay rate increase	2.40-2.50	2.40-4.00
Pension increase	1.90-3.20	1.90-3.00
Age-weighted staff resignation rate	0-8	0-8
Expected return on plan assets	2.75	3.85

Discount rate and inflation rate are the most significant assumptions used in the calculation of the obligation for defined benefit plans. An increase in the discount rate of 0.25 of a percentage point would result in a decrease in the obligation of approximately DKK 25 million (DKK 23 million in 2015) 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 9 million (DKK 8 million in 2015) and vice versa. The sensitivity analysis indicates how the development in the obligation would be as a result of a change in the individual assumptions. However, the assumptions will most likely be correlated and consequently result in a different obligation.

	2016 DKKm	2015 DKKm
The fair value of the plan assets breaks down as follows:		
Shares	42	46
Bonds	34	42
Property	14	17
Insurance contracts	191	207
Other assets	11	8
Total	**292**	**320**

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

NOTE 24

24. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

	2016 DKKm	2015 DKKm
Change in present value of funded defined benefit plans		
Present value of funded defined benefit plans at 1 January	406	394
Effect of foreign currency exchange differences	(37)	26
Past service costs	(2)	-
Pension expenses	6	7
Interest expenses relating to the obligations	12	13
Experience adjustments	(33)	(7)
Adjustments relating to financial assumptions	61	(3)
Adjustments relating to demographic assumptions	(4)	-
Benefits paid	(27)	(15)
Employee contributions	2	2
Settlements	(14)	(6)
Curtailments	(5)	(5)
Present value of funded defined benefit plans at 31 December	**365**	**406**
Change in fair value of plan assets		
Fair value of plan assets at 1 January	320	291
Effect of foreign currency exchange differences	(32)	19
Interest income on plan assets	9	10
Experience adjustments	8	-
Administration fees	(1)	(1)
Contributions	14	20
Benefits paid	(14)	(15)
Employee contributions	2	2
Settlements	(14)	(6)
Fair value of plan assets at 31 December	**292**	**320**

	2016 DKKm	2015 DKKm
Change in present value of unfunded defined benefit plans		
Present value of unfunded defined benefit plans at 1 January	199	183
Transferred from other plans	-	15
Effect of foreign currency exchange differences	(1)	1
Pension expenses	4	6
Interest expenses relating to the obligations	4	5
Experience adjustments	(3)	1
Adjustments relating to financial assumptions	27	(7)
Adjustments relating to demographic assumptions	2	-
Benefits paid	(6)	(5)
Curtailments	(9)	-
Present value of unfunded defined benefit plans at 31 December	**217**	**199**
Specification of expenses recognized in the income statement		
Past service costs	(2)	-
Pension expenses	10	13
Curtailments	(14)	(5)
Finance costs	7	8
Administration fees	1	1
Total	**2**	**17**
Specification of amount recognized in the statement of comprehensive income		
Actuarial (gains)/losses	42	(16)
Total	**42**	**(16)**
Realized return on plan assets	**17**	**10**

The benefit under unfunded defined benefit plans is paid directly by the Group. For funded defined benefit plans, the future contribution in some countries depends upon the development in salaries, administrative fees and regular premiums, and in other countries upon on the surplus/deficit according to local requirements. The weighted average duration of the obligation is 17 years (16 years in 2015). The expected contribution for 2017 to defined benefit plans is DKK 18 million (DKK 20 million for 2016).

NOTES 24-25

24. RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

Other obligations of a retirement benefit nature

An obligation of DKK 23 million (DKK 30 million in 2015) was recognized in the Group to cover other obligations of a retirement benefit nature, which primarily include termination benefits in a number of subsidiaries. The benefit payments are conditional upon specified requirements being met.

25. MORTGAGE AND BANK DEBT

Mortgage debt

	2016 DKKm	2015 DKKm
Mortgage debt maturing within the following periods from the balance sheet date:		
Within one year	85	83
Between one and two years	86	87
Between two and three years	87	99
Between three and four years	88	99
Between four and five years	88	100
After more than five years	1,336	1,674
Mortgage debt at 31 December	**1,770**	**2,142**
Mortgage debt breaks down as follows:		
Non-current liabilities	1,685	2,059
Current liabilities	85	83
Mortgage debt at 31 December	**1,770**	**2,142**

	Currency	Expiry of commitment	Fixed/ floating	Weighted average effective interest rate[1] %	Amortized cost DKKm	Nominal value DKKm	Fair value DKKm
2016							
Mortgage debt, bond loan	DKK	2035	Fixed 5-7 years	1.21	1,354	1,360	1,398
Mortgage debt, bond loan	DKK	2037	Fixed 4 years	0.82	416	405	418
Total					**1,770**	**1,765**	**1,816**
2015							
Mortgage debt, bond loan	DKK	2035	Fixed 6-8 years	1.48	1,418	1,450	1,451
Mortgage debt, bond loan	DKK	2037	Fixed 5 years	1.09	436	422	428
Mortgage debt, bond loan	DKK	2037	Floating	0.54	276	283	276
Mortgage debt, bond loan	DKK	2034	Floating	0.83	12	12	12
Total					**2,142**	**2,167**	**2,167**

1) Calculated on the basis of the interest rate in force until the next fixing, after which time the anticipated interest rate is used until expiry of the commitment.

Amortized cost is calculated as the proceeds received less instalments paid, plus or minus amortization of capital gains or losses. Fair value is calculated by applying the market value of the underlying bonds at 31 December.

Bank debt

	2016 DKKm	2015 DKKm
Bank debt maturing within the following periods from the balance sheet date:		
Within one year	103	-
Between one and two years	-	500
Between three and four years	-	1,119
Bank debt at 31 December	**103**	**1,619**
Bank debt breaks down as follows:		
Non-current liabilities	-	1,619
Current liabilities	103	-
Bank debt at 31 December	**103**	**1,619**

NOTES 25-26

25. MORTGAGE AND BANK DEBT – CONTINUED

	Currency	Expiry of commitment	Fixed/ floating	Weighted average effective interest rate %	Amortized cost DKKm	Nominal value DKKm	Fair value DKKm
2016							
Overdraft facilities	Various	2017	Floating	2.09	103	103	103
Total					**103**	**103**	**103**
2015							
Bank loan	EUR	2019	Floating	2.31	1,119	1,119	1,119
Bank loan	DKK	2017	Floating	1.35	500	500	500
Total					**1,619**	**1,619**	**1,619**

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

26. FINANCIAL INSTRUMENTS

Foreign currency risks

Foreign currency management is handled centrally by the parent company. Currency management focuses on risk minimization and is carried out in conformity with the Group's Treasury Policy as approved by the Board of Directors.

The parent company hedges a significant part of the Group's anticipated cash flows for a period of 12-18 months using forward exchange contracts and in some cases currency options. The forward contracts and currency options are classified as hedging instruments when meeting the accounting criteria for hedge accounting according to IAS 39 *Financial Instruments: Recognition and Measurement*. Unhedged cash flows are sold spot. Changes in the fair value of all instruments meeting the criteria for hedge accounting are recognized in other comprehensive income as they arise. At maturity of the hedge contracts, the final effect is transferred from other comprehensive income and recognized in the income statement.

Forward exchange contracts that do not meet the hedge accounting criteria are classified as trading contracts, and changes in the fair value are recognized as financial items as they arise.

Net forward exchange contracts outstanding, hedging

Forward exchange contracts (against DKK)	Contract value according to hedge accounting DKKm	Exchange gains/losses recognized in other comprehensive income DKKm	Exchange gains/losses recognized in the income statement/ balance sheet DKKm	Fair value at year-end DKKm	Average hedge prices of existing forward exchange contracts DKK	Maturity end date
2016						
CAD	459	(12)	1	(12)	506.86	Dec. 2017
JPY	332	7	(29)	7	6.16	Nov. 2017
USD	7,591	(277)	24	(277)	671.77	May 2018
Other currencies	931	(12)	(11)	(12)		Dec. 2017
Total		**(294)**	**(15)**	**(294)**		
2015						
CAD	378	17	2	21	517.43	Dec. 2016
JPY	339	(9)	(9)	(12)	5.46	Aug. 2016
USD	2,996	(15)	(22)	(26)	673.27	Nov. 2016
Other currencies	698	3	(51)	7		Dec. 2016
Total		**(4)**	**(80)**	**(10)**		

At 31 December 2016, the net loss on fair value of DKK 294 million was recognized in other comprehensive income. At 31 December 2015, the net loss on fair value of DKK 10 million was recognized in other comprehensive income in the amount of DKK 4 million and in the income statement in the amount of DKK 6 million.

NOTE 26

26. FINANCIAL INSTRUMENTS – CONTINUED

Monetary assets and monetary liabilities for the major currencies at 31 December

	2016 DKKm	2015 DKKm
Monetary assets		
CAD	114	142
EUR	1,091	1,272
GBP	215	312
JPY	86	103
USD	3,510	2,871
Monetary liabilities		
CAD	86	80
EUR	1,047	2,089
GBP	310	484
JPY	6	6
USD	4,934	3,965

Monetary assets and monetary liabilities include trade receivables, other receivables, securities, cash, mortgage debt, bank debt, employee bonds, trade payables, other payables, deferred tax and income taxes.

Estimated impact on profit/(loss) for the year and equity from a 5% increase in year-end exchange rates of the major currencies

	CAD DKKm	GBP DKKm	JPY DKKm	USD DKKm
2016				
Profit/(loss) for the year	1	(20)	4	31
Equity	(22)	(24)	(12)	(94)
2015				
Profit/(loss) for the year	2	(8)	5	1
Equity	(12)	(18)	(13)	235

The profit impact includes foreign currency exchange differences which relate to intra-group balances, and which are not eliminated in the consolidated financial statements.

The equity impact includes primarily exchange rate adjustments of balance sheet items in foreign subsidiaries, exchange rate adjustments of intercompany dividends, exchange rate adjustments of additions to net investments in foreign subsidiaries, foreign currency exchange differences on outstanding hedging contracts and the total profit impact.

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

Interest rate risks

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. 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).

An interest rate change on mortgage and bank debt of one percentage point would reduce/increase profit for the year before tax and equity by DKK 0 million in 2017 (up to DKK 19 million in 2016) on an annual basis.

In the bond market, investments may only be made in Danish government and mortgage bonds, money market funds consisting of Danish government and mortgage bonds and in bonds issued by Danish banks guaranteed by the Danish state. For managing the interest rate risk on the securities portfolio (the securities portfolio consists of bonds and money market deposits), Lundbeck applies a duration target capped at five years for the entire portfolio. At 31 December 2016, the securities portfolio had a duration of 24 months (six months at 31 December 2015), which translates into a gain/loss of DKK 0 million (DKK 0 million in 2015) if interest rates should fall/rise by one percentage point.

There were no derivatives related to interest rate risks during 2016 and 2015 because the distribution of debt carrying floating and fixed interest at the given times was deemed to be satisfactory.

NOTE 26

26. FINANCIAL INSTRUMENTS – CONTINUED

Classification of and maturity dates for financial assets and financial liabilities

	Within 1 year DKKm	Between 1 and 5 years DKKm	After 5 years DKKm	Total DKKm	Effective interest rates %
2016					
Financial assets					
Securities	-	17	-	17	0-1
Financial assets measured at fair value through profit or loss	**-**	**17**	**-**	**17**	
Derivatives to hedge future cash flows	30	-	-	30	0
Financial assets used as hedging instruments	**30**	**-**	**-**	**30**	
Receivables[1]	3,570	72	-	3,642	0
Other cash resources	2,200	-	-	2,200	(1)-10
Loans and receivables	**5,770**	**72**	**-**	**5,842**	
Available-for-sale financial assets	**-**	**48**	**-**	**48**	0
Total financial assets	**5,800**	**137**	**-**	**5,937**	
Financial liabilities					
Derivatives to hedge future cash flows	324	-	-	324	0
Financial liabilities used as hedging instruments	**324**	**-**	**-**	**324**	
Mortgage debt	85	349	1,336	1,770	1-2
Bank debt	103	-	-	103	0-3
Other payables	6,519	23	-	6,542	0
Financial liabilities measured at amortized cost	**6,707**	**372**	**1,336**	**8,415**	
Total financial liabilities	**7,031**	**372**	**1,336**	**8,739**	

	Within 1 year DKKm	Between 1 and 5 years DKKm	After 5 years DKKm	Total DKKm	Effective interest rates %
2015					
Financial assets					
Securities	17	-	-	17	0-1
Financial assets measured at fair value through profit or loss	**17**	**-**	**-**	**17**	
Derivatives to hedge future cash flows	48	-	-	48	0
Financial assets used as hedging instruments	**48**	**-**	**-**	**48**	
Receivables[1]	3,714	56	-	3,770	0
Other cash resources	1,504	-	-	1,504	(1)-10
Loans and receivables	**5,218**	**56**	**-**	**5,274**	
Available-for-sale financial assets	**-**	**68**	**-**	**68**	0
Total financial assets	**5,283**	**124**	**-**	**5,407**	
Financial liabilities					
Derivatives to hedge future cash flows	59	-	-	59	0
Financial liabilities used as hedging instruments	**59**	**-**	**-**	**59**	
Mortgage debt	83	385	1,674	2,142	0-2
Bank debt	-	1,619	-	1,619	1-3
Other payables	6,620	9	-	6,629	0
Financial liabilities measured at amortized cost	**6,703**	**2,013**	**1,674**	**10,390**	
Total financial liabilities	**6,762**	**2,013**	**1,674**	**10,449**	

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

The amounts in the tables are exclusive of interest. At 31 December 2016, the expected interest expenses on mortgage and bank debt for the following 12 months totalled DKK 27 million (DKK 59 million in 2015).

NOTES 26-27

26. FINANCIAL INSTRUMENTS – CONTINUED

Financial assets and financial liabilities measured or disclosed at fair value	Level 1 DKKm	Level 2 DKKm	Level 3 DKKm
2016			
Financial assets			
Securities[1]	17	-	-
Available-for-sale financial assets[1]	2	-	46
Derivatives[1]	-	30	-
Total	**19**	**30**	**46**
Financial liabilities			
Mortgage debt[2]	1,816	-	-
Bank debt[2]	103	-	-
Derivatives[1]	-	324	-
Total	**1,919**	**324**	**-**
2015			
Financial assets			
Securities[1]	17	-	-
Available-for-sale financial assets[1]	24	-	44
Derivatives[1]	-	48	-
Total	**41**	**48**	**44**
Financial liabilities			
Mortgage debt[2]	2,167	-	-
Bank debt[2]	-	1,619	-
Derivatives[1]	-	59	-
Total	**2,167**	**1,678**	**-**

1) Measured at fair value.
2) Disclosure of fair value.

27. RELATED PARTIES

Lundbeck's related parties

- The parent company's principal shareholder, Lundbeckfonden, Scherfigsvej 7, 2100 Copenhagen, Denmark.
- Companies in which Lundbeckfonden exercises controlling influence, i.e. ALK-Abelló A/S and Falck A/S.
- Members of the parent company's Executive Management and Board of Directors as well as close relatives of these persons.
- Companies in which members of the parent company's 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:

- Refund of residual tax of DKK 201 million in 2016 regarding 2015 (DKK 183 million in 2015 regarding 2014) for the parent company and Danish subsidiaries.
- Interest expense of DKK 0 million in 2016 (interest income of DKK 1 million in 2015).

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.

NOTES 27-28

27. RELATED PARTIES – CONTINUED

Transactions and balances with Executive Management and the Board of Directors
In 2016, there were no transactions with members of Executive Management and the Board of Directors other than those outlined in note 4 *Staff costs* and note 10 *Incentive programmes*. At 31 December 2016 and 31 December 2015, there were no balances with Executive Management and the Board of Directors.

Transactions and balances with other related parties
In 2016, Lundbeck paid a consultancy fee of DKK 2 million (DKK 2 million in 2015) to Lundbeck International Neuroscience Foundation, an independent commercial foundation established by H. Lundbeck A/S in 1997. Other than this, there have been no material transactions or balances with other related parties.

28. SUBSIDIARIES

	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 China Holding A/S[1], Denmark, including	Other	100
- Lundbeck Pharmaceuticals (Tianjin) Co., Ltd., China	Production	100
- Lundbeck Pharmaceuticals Consulting (Shanghai) Co., Ltd., China	Research and development	100
Lundbeck Export A/S, Denmark	Sales and distribution	100
Lundbeck Insurance A/S, Denmark	Other	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	Sale services	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	Sales and distribution	100
UAB Lundbeck Lietuva, Lithuania	Sales and distribution	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
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 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

1) In 2016, the share of voting rights and ownership was increased from 67% to 100%.

NOTES 28-29

28. SUBSIDIARIES – CONTINUED

	Purpose	Share of voting rights and ownership %
Lundbeck RUS OOO, 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	Sales and distribution	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 Pharmaceutical GmbH, Switzerland (under liquidation)	Other	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
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 Ireland Limited, Ireland (under liquidation)	Sales and distribution	100
- Lundbeck Pharmaceuticals Services, LLC, USA	Sales and distribution	100
- Lundbeck Research USA, Inc., 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 the direct or ultimate parent company.

CNS Pharma AB, Sweden was liquidated in 2016.

In 2015, two new subsidiaries were established: Lundbeck HK Limited, Hong Kong and Lundbeck Romania SRL, Romania. Chelsea Therapeutics Limited, UK (a subsidiary of Chelsea Therapeutics International, Ltd., USA) was dissolved.

29. GENERAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and Danish disclosure requirements for annual reports of listed companies, including the Danish Statutory Order on Adoption of IFRS.

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

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

Please also see note 1 *Significant accounting policies* and note 2 *Significant accounting estimates and judgements*.

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

IASB has issued IFRS 9 *Financial Instruments*, which was endorsed by the EU in 2016. The standard is effective for annual reporting periods beginning on or after 1 January 2018. IFRS 9 *Financial Instruments* is part of IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and will change the classification, presentation and measurement of financial instruments and hedging requirements. Based on Lundbeck's initial assessment, the impact of this standard is limited.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and is effective for annual reporting periods beginning on or after 1 January 2018. The standard was endorsed by the EU in 2016. Entities will apply a five-step model to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met. Lundbeck has assessed how the standard will impact current and new agreements. The new standard may have an effect on the timing of recognizing revenue in respect of milestone payments from a few collaborations and licensing arrangements. Earlier recognition may apply as it is highly probable that no significant reversal of the revenue will occur. The standard will not affect Lundbeck's business in any other respects. However, the implementation will result in a few additional disclosures.

NOTE 29

29. GENERAL ACCOUNTING POLICIES – CONTINUED

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

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

RECOGNITION AND MEASUREMENT

Consolidated financial statements
The consolidated financial statements comprise the parent company H. Lundbeck A/S and entities controlled by the parent company.

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

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

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

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

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

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 the income statement under net financials except in case of hedge accounting. In case of hedge accounting, such differences are recognized in the same item as the hedged item.

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

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

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. Positive and negative fair values are included in other receivables and other payables respectively.

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

NOTE 29

29. GENERAL ACCOUNTING POLICIES – CONTINUED

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

Changes in the fair value of derivatives not qualifying for hedge accounting are recognized in the income statement under net financials as they arise.

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

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

INCOME STATEMENT

Revenue
Revenue comprises invoiced sales for the year less returned goods, discounts and revenue-based taxes consisting mainly of value added taxes and revenue-based drug taxes. Moreover, revenue includes licensing income and royalties from out-licensed products, non-refundable downpayments and milestone payments relating to research and development collaborations, and collaborations on commercialization of products.

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

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

Cost of sales
Cost of sales comprises cost of goods sold, which includes the cost of raw materials, transport 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 management, HR, IT and finance functions as well as amortization/depreciation, 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. salaries, amortization/depreciation, impairment losses and other indirect costs as well as costs relating to research and development collaborations.

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

Development costs are recognized in the income statement as they are incurred. Development costs are capitalized only if a number of specific criteria are deemed to have been met.

See note 1 *Significant accounting policies* for a description of the conditions for capitalizing development costs.

Net financials
Net financials comprise:
- Interest income and expenses for the year.
- Realized and unrealized market value adjustments of financial assets, including short-term securities that are included in the Group's documented investment strategy.
- Realized and unrealized gains and losses on unhedged items denominated in foreign currencies, forward exchange contracts and other derivatives not used for hedge accounting.
- Realized fair value adjustments and prolonged impairment losses on and dividends from available-for-sale financial assets.
- Other financial income and expenses.

NOTE 29

29. GENERAL ACCOUNTING POLICIES – CONTINUED

Tax
The parent company and Danish subsidiaries are jointly taxed with the principal shareholder, Lundbeckfonden, 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 income statement as regards the amount that can be attributed to the net profit or loss for the year and in other comprehensive income as regards the amount that can be attributed to items in other comprehensive income. The effect of foreign currency exchange differences on deferred tax is recognized in the balance sheet as part of the movements in deferred tax.

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

BALANCE SHEET

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

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

Development projects
Development costs are recognized in the income statement 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 the remaining patent protection period of the rights concerned. Ongoing development projects are tested for impairment at least annually, or if there is indication of impairment.

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

Product rights are amortized over the economic lives of the underlying products, which in all material aspects are currently between six and ten years. Licences are amortized over the period of agreement. Amortization commences when the asset is ready to be brought into use, i.e. at the time of commercialization.

Amortization is recognized in the income statement 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.

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

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.

NOTE 29

29. GENERAL ACCOUNTING POLICIES – CONTINUED

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 re-assessed annually.

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

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

Available-for-sale financial assets
Available-for-sale financial assets are financial assets that are not derivative financial instruments and that are either classified as available for sale or cannot be classified as loans or receivables, financial assets measured at fair value through profit or loss, or as held-to-maturity financial assets.

On initial recognition, available-for-sale financial assets are measured at fair value with the addition of costs directly attributable to the acquisition. The assets are subsequently measured at fair value at the balance sheet date, and changes to the fair value are recognized in other comprehensive income with the exception of dividends and prolonged impairment losses, which are taken to the income statement. When the assets are sold, the accumulated fair value adjustments recognized in other comprehensive income are recycled to net financials or to revenue if the fair value adjustment concerns investments in research enterprises.

Inventories
Raw materials, packaging and goods for resale are measured at the latest known cost at the balance sheet date, which is equivalent to cost computed according to the FIFO method. Work in progress and finished goods manufactured by Lundbeck are measured at cost, i.e. the cost of raw materials, consumables, direct labour and indirect costs of production. Indirect costs of production include materials, labour, 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 payments 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 loss calculated on the basis of an individual assessment. A provision account is used for this purpose.

Securities
On initial recognition, securities, including the bond portfolio, that are included in the Group's documented investment strategy for excess liquidity and recognized under current assets are measured at fair value at the value date. The securities are subsequently measured at fair value at the balance sheet date, corresponding to the market value at the balance sheet date. Both realized and unrealized gains and losses are recognized in the income statement under net financials.

NOTE 29

29. GENERAL ACCOUNTING POLICIES – CONTINUED

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/(loss) for the year* in the statement of changes in equity.

Treasury shares

Cost and selling prices of treasury shares as well as dividends are recognized directly in equity under retained earnings.

Share-based payments

Share-based incentive programmes in which employees may opt to buy shares in the parent company and in which shares are granted to employees (equity programmes) are measured at the equity instruments' fair value at the date of offer/grant and recognized under staff costs when or as the employee obtains the right to buy/receive the shares. The balancing item is recognized directly in equity under other transactions.

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

Retirement benefit obligations

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

The present value of the Group's liabilities relating to future pension payments according to defined benefit plans is measured on an actuarial basis once a year on the basis of the pensionable period of employment up to the time of the actuarial valuation. The calculation of present value is based on assumptions of the future developments of salary, interest, inflation, mortality and disability rates and other factors. Present value is computed exclusively for the benefits to which the employees have earned entitlement through their employment with Lundbeck. Pension expenses, finance costs and administration fees are recognized in the income statement under staff costs. Actuarial gains and losses are recognized in the statement of comprehensive income as they are calculated and cannot subsequently be recycled through profit or loss.

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

Corporate income tax and deferred tax

Current tax payables and receivables 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, except for temporary differences arising either on initial recognition of goodwill or from a transaction that is not a business combination and with the temporary difference ascertained at the time of the initial recognition affecting neither the financial result nor the taxable income. The tax value of the assets is calculated based on the planned use of each asset.

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

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 the income statement. However, if the tax deducted exceeds the related cumulative expense, it indicates that the tax deduction relates not only to an operating expense, but also to an equity item. In such a case, the excess of the associated current or deferred tax is 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 calculated according to the provisions of the Danish Corporate Tax Act on interest deductibility limitations are allocated between the jointly-taxed companies according to a joint taxation agreement and are allocated between the companies that are subjected to deductibility limitation in proportion to their share of the total limitation. Deferred tax liabilities in respect of these balances are recognized in the balance sheet, whereas deferred tax assets are recognized only if the criteria for recognition of deferred tax assets are met.

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

NOTES 29-31

29. GENERAL ACCOUNTING POLICIES – CONTINUED

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

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

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

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

Return obligations imposed on the company are recognized in the balance sheet under other provisions.

Debt
Mortgage debt, bank debt and debt to credit institutions are recognized at the time of the raising of the loan at proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at 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 the income statement under net financials over the loan period.

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

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

CASH FLOW STATEMENT

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

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

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

SEGMENT INFORMATION

Lundbeck is engaged in research, development, production and sale of pharmaceuticals for the treatment of psychiatric and neurological disorders.

Business segments are identified based on internal management reporting. In Lundbeck, the internal management reporting follows the Group's accounting policies. In accordance with the internal management reporting, on the basis of which Management evaluates and allocates resources, the Group's activities are in the business segment of pharmaceuticals for the treatment of psychiatric and neurological disorders.

Executive Management makes decisions in respect of the future strategy, draws up action plans and defines targets for the Group's future operations.

The geographic distribution is shown for revenue and is based on the external customers' geographical location.

30. EVENTS AFTER THE BALANCE SHEET DATE

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

31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 8 February 2017.

FINANCIAL STATEMENTS OF THE PARENT COMPANY

CONTENTS

NOTES

INCOME STATEMENT

1 January – 31 December 2016

	Notes	2016 DKKm	2015 DKKm
Revenue		5,816	6,438
Cost of sales	3	2,118	3,426
Gross profit		**3,698**	**3,012**
Sales and distribution costs	3	1,692	3,321
Administrative expenses	3, 4	450	744
Research and development costs	3	2,796	7,756
Profit/(loss) from operations (EBIT)		**(1,240)**	**(8,809)**
Income from investments in subsidiaries	5	1,919	297
Financial income		1,028	1,385
Financial expenses		528	539
Profit/(loss) before tax		**1,179**	**(7,666)**
Tax on profit/(loss) for the year	6	(176)	(1,784)
Profit/(loss) for the year	7	**1,355**	**(5,882)**

BALANCE SHEET – ASSETS

At 31 December 2016

	Notes	2016 DKKm	2015 DKKm
Product rights		1,413	1,752
Other rights		84	39
Projects in progress		59	79
Intangible assets	8	**1,556**	**1,870**
Land and buildings		1,240	1,304
Plant and machinery		228	266
Other fixtures and fittings, tools and equipment		42	38
Prepayments and assets under construction		109	119
Property, plant and equipment	8	**1,619**	**1,727**
Investments in subsidiaries	5	4,905	4,896
Receivables from subsidiaries		10,289	8,032
Other investments		46	66
Other receivables		5	6
Deferred tax assets	9	878	773
Financial assets		**16,123**	**13,773**
Non-current assets		**19,298**	**17,370**
Inventories	10	**725**	**727**
Trade receivables		445	571
Receivables from subsidiaries		1,188	980
Joint taxation contribution		182	259
Other receivables		108	97
Prepayments		48	90
Receivables		**1,971**	**1,997**
Cash and bank balances		**1,723**	**906**
Current assets		**4,419**	**3,630**
Assets		**23,717**	**21,000**

BALANCE SHEET – EQUITY AND LIABILITIES

At 31 December 2016

	Notes	2016 DKKm	2015 DKKm
Share capital		988	987
Share premium		-	349
Proposed dividends		484	-
Retained earnings		7,765	6,639
Equity		**9,237**	**7,975**
Other provisions	11	-	126
Mortgage debt	12	1,685	2,059
Bank debt	12	-	1,619
Payables to subsidiaries		8,372	4,883
Non-current liabilities		**10,057**	**8,687**
Other provisions	11	512	640
Mortgage debt		85	83
Bank debt		103	-
Trade payables		1,645	1,777
Payables to subsidiaries		1,487	1,458
Other payables		591	380
Current liabilities		**4,423**	**4,338**
Liabilities		**14,480**	**13,025**
Equity and liabilities		**23,717**	**21,000**

STATEMENT OF CHANGES IN EQUITY

At 31 December 2016

	Notes	Share capital DKKm	Share premium DKKm	Proposed dividends DKKm	Retained earnings DKKm	Equity DKKm
Equity at 1 January		**987**	**349**	**-**	**6,639**	**7,975**
Profit/(loss) for the year		-	-	484	871	1,355
Deferred exchange gains/losses, hedging		-	-	-	(106)	(106)
Exchange gains/losses, hedging (transferred to the hedged items)		-	-	-	15	15
Exchange gains/losses, transferred from hedging to financial items		-	-	-	3	3
Tax on items in comprehensive income	6	-	-	-	20	20
Comprehensive income		**-**	**-**	**484**	**803**	**1,287**
Capital increase through exercise of warrants		1	36	-	-	37
Buyback of treasury shares		-	-	-	(155)	(155)
Incentive programmes		-	-	-	82	82
Tax on other transactions in equity	6	-	-	-	11	11
Reclassified to retained earnings		-	(385)	-	385	-
Other transactions		**1**	**(349)**	**-**	**323**	**(25)**
Equity at 31 December		**988**	**-**	**484**	**7,765**	**9,237**

For further details, see note 23 *Share capital* in the consolidated financial statements.

NOTES 1-2

1. MANAGEMENT REVIEW OF THE PARENT COMPANY

The following is considered material to the understanding of the financial statements of the parent company.

Research and development costs
In September 2016, an impairment loss of DKK 140 million related to unfavorable idalopirdine study results was recognized in research and development costs. Of this amount, DKK 130 million relates to product rights and the remaining amount relates to minor associated assets.

Financial income and expenses
Financial income and expenses are impacted by exchange gains and losses on translation of receivables from and payables to subsidiaries that are considered part of the overall investment in subsidiaries. The net gain amounts to DKK 299 million.

In addition, a loss of DKK 202 million relating to the ineffectiveness of USD hedging has been recognized. The parent company handles all hedging activities on Group level, and as the main USD exposure is related to the business in the US, there is no ineffectiveness of USD hedging at Group level.

Furthermore, as a result of the devaluation of the Venezuelan currency in February 2016 and the ensuing decline in transactions settled at the official exchange rate, the receivables have been re-assessed. As it is highly unlikely that the receivables will be settled at the official exchange rate, an exchange rate loss of DKK 125 million has been recognized.

Treasury shares
See note 23 *Share capital* in the consolidated financial statement for details on the development in and holding of treasury shares.

Sustainability and corporate governance
See *Sustainability and corporate governance*, page 27.

2. ACCOUNTING POLICIES

The annual report of the parent company H. Lundbeck A/S has been prepared in accordance with the provisions of the Danish Financial Statements Act for class D enterprises. The annual report is presented in Danish kroner (DKK).

Changes in accounting policies
In 2016, the accounting policies have been changed in respect of recognition of exchange gains/losses on translation of receivables from and payables to subsidiaries that are considered part of the overall investment in subsidiaries. These exchange gains/losses, which were previously recognized in the statement of changes in equity, are now recognized in the income statement. The change has been implemented as a result of changes to the Danish Financial Statements Act. Comparative figures have been restated.

If the change in accounting policies had not been made, financial income would have been DKK 302 million lower, financial expenses would have been DKK 4 million lower and profit for the year would have been DKK 232 million lower. The changes do not have any effect on equity or total assets.

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 policies for the consolidated financial statements with the exception of the changes to accounting policies as a result of changes to the Danish Financial Statements Act and the exceptions stated below.

Income statement
Income from investments in subsidiaries
Dividends from subsidiaries are recognized in the parent company's income statement when the parent company's right to receive such dividends has been approved, less any writedowns of the equity investments.

Exchange gains/losses on translation of receivables from and payables to subsidiaries
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 the income statement under financial items.

NOTES 2-3

2. ACCOUNTING POLICIES – CONTINUED

Balance sheet

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, securities and investments are measured at cost, corresponding to fair value plus directly attributable costs. They are subsequently measured at fair value at the balance sheet date, and changes to the fair value are recognized under net financials in the income statement.

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 other financial assets.

Cash flow statement

As allowed under section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared as it is included in the consolidated cash flow statement.

3. STAFF COSTS

Wages and salaries, etc.

	2016 DKKm
Short-term staff benefits	1,116
Retirement benefits	108
Other social security costs	18
Share-based incentive programmes	52
Total	**1,294**

	2016 DKKm	2015 DKKm
The year's staff costs are specified as follows:		
Cost of sales	357	355
Sales and distribution costs	61	136
Administrative expenses	232	375
Research and development costs	644	836
Total	**1,294**	**1,702**

Executives[1]

	2016 DKKm
Short-term staff benefits	52
Retirement benefits	9
Share-based incentive programmes	6
Total	**67**

1) Executives are persons who report directly to Executive Management.

Executive Management

See note 4 *Staff costs* and note 10 *Incentive programmes* in the consolidated financial statements.

Board of Directors

See note 4 *Staff costs* in the consolidated financial statements.

Number of employees

	2016
Average number of full-time employees in the financial year	1,585
Number of full-time employees at 31 December	1,578

Incentive programmes

See note 10 *Incentive programmes* in the consolidated financial statements.

NOTES 4-7

4. AUDIT FEES

Deloitte Statsautoriseret Revisionspartnerselskab	2016 DKKm	2015 DKKm
Statutory audit	2	2
Other services	2	3
Total	**4**	**5**

5. INVESTMENTS IN SUBSIDIARIES

	2016 DKKm
Cost at 1 January	4,896
Capital contributions to subsidiaries	9
Cost at 31 December	**4,905**

Income from investments in subsidiaries is dividends, which amounted to DKK 1,919 million (DKK 297 million in 2015).

See note 28 *Subsidiaries* in the consolidated financial statements for an overview of all subsidiaries.

6. TAX ON PROFIT/(LOSS) FOR THE YEAR

	2016 DKKm	2015 DKKm
Current tax, joint taxation contribution	(87)	(229)
Prior-year adjustments, current tax	(15)	(16)
Prior-year adjustments, deferred tax	3	14
Change in deferred tax for the year	(108)	(1,667)
Change in deferred tax as a result of a change in the Danish corporate income tax rate	-	115
Total tax for the year	**(207)**	**(1,783)**
Tax for the year is composed of:		
Tax on profit/(loss) for the year	(176)	(1,784)
Tax on items in comprehensive income	(20)	1
Tax on other transactions in equity	(11)	-
Total tax for the year	**(207)**	**(1,783)**

7. DISTRIBUTION OF PROFIT

	2016 DKKm	2015 DKKm
Proposed distribution of profit/allocation of loss for the year		
Proposed dividends for the year	484	-
Transferred to distributable reserves	871	(5,882)
Total profit/(loss) for the year	**1,355**	**(5,882)**
Proposed dividend per share (DKK)	**2.45**	**0.00**

The Board of Directors proposes that if warrants are exercised during the period from the Board of Directors' approval of the financial statements and the approval by the Annual General Meeting, total dividends be increased to maintain the proposed dividends per share of DKK 2.45. The total number of exercisable warrants was 280,903 at 31 December 2016.

NOTE 8

8. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets	Product rights[1] DKKm	Other rights[2] DKKm	Projects in progress[2] DKKm	Total intangible assets DKKm
Cost at 1 January	8,263	1,707	97	10,067
Transfers	-	74	(74)	-
Additions	-	9	56	65
Disposals	-	(21)	-	(21)
Cost at 31 December	**8,263**	**1,769**	**79**	**10,111**
Amortization and impairment losses at 1 January	6,511	1,668	18	8,197
Amortization	209	33	-	242
Impairment losses	130	5	2	137
Disposals	-	(21)	-	(21)
Amortization and impairment losses at 31 December	**6,850**	**1,685**	**20**	**8,555**
Carrying amount at 31 December	**1,413**	**84**	**59**	**1,556**

1) In 2016, product rights not yet commercialized amounted to DKK 0 million (DKK 130 million in 2015).
2) Other rights and projects in progress primarily include items such as the IT system SAP. The amounts include directly attributable internal expenses.

Property, plant and equipment	Land and buildings DKKm	Plant and machinery DKKm	Other fixtures and fittings, tools and equipment[1] DKKm	Prepayments and assets under construction DKKm	Total property, plant and equipment DKKm
Cost at 1 January	3,384	1,037	672	125	5,218
Transfers	39	45	17	(101)	-
Additions	7	5	7	91	110
Disposals	(4)	(11)	(20)	-	(35)
Cost at 31 December	**3,426**	**1,076**	**676**	**115**	**5,293**
Depreciation and impairment losses at 1 January	2,080	771	634	6	3,491
Transfer	1	1	(2)	-	-
Depreciation	83	58	19	-	160
Impairment losses	27	28	3	-	58
Disposals	(5)	(10)	(20)	-	(35)
Depreciation and impairment losses at 31 December	**2,186**	**848**	**634**	**6**	**3,674**
Carrying amount at 31 December	**1,240**	**228**	**42**	**109**	**1,619**

1) Including leasehold improvements.

Impairment of intangible assets and property, plant and equipment

For details on impairment testing and the impairment loss recognized regarding idalopirdine, see note 7 *Intangible assets and property, plant and equipment* in the consolidated financial statements.

Pledged assets

The carrying amount of mortgaged land and buildings was DKK 1,239 million at 31 December 2016 (DKK 1,303 million in 2015). No other assets have been pledged.

NOTES 9-13

9. DEFERRED TAX

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	(1,096)	-	336	(760)
Property, plant and equipment	271	-	(38)	233
Inventories	283	-	(73)	210
Other items	(1,235)	190	433	(612)
Tax loss carryforwards etc.	(1,738)	(176)	(1,149)	(3,063)
Total temporary differences	**(3,515)**	**14**	**(491)**	**(3,992)**
Deferred (tax assets)/tax liabilities	**(773)**	**3**	**(108)**	**(878)**

10. INVENTORIES

	2016 DKKm	2015 DKKm
Raw materials and consumables	198	203
Work in progress	327	305
Finished goods and goods for resale	200	219
Total	**725**	**727**
Indirect costs of production	**230**	**284**
Writedown for the year	**35**	**82**

11. OTHER PROVISIONS

	2016 DKKm
Provisions at 1 January	766
Provisions charged	250
Provisions used	(468)
Unused provisions reversed	(36)
Provisions at 31 December	**512**
Provisions break down as follows:	
Non-current provisions	-
Current provisions	512
Provisions at 31 December	**512**

Of other provisions at 31 December 2016, DKK 507 million (DKK 754 million in 2015) related to restructuring programmes. As a consequence of the restructuring programme initiated in 2015, a provision of DKK 930 million for severance payments and other restructuring costs was recognized. Furthermore, the parent company has entered into agreements with individual subsidiaries, under which the parent company will cover expected losses and obligations concerning the restructuring programmes. The provisions in the parent company therefore cover such losses and obligations.

12. MORTGAGE AND BANK DEBT

Mortgage debt falling due after more than five years from the balance sheet date amounted to DKK 1,336 million (DKK 1,674 million in 2015). At 31 December 2016 and 2015, the entire bank debt fell due within five years from the balance sheet date.

13. FINANCIAL INSTRUMENTS

See note 26 *Financial instruments* in the consolidated financial statements.

NOTES 14-15

14. CONTRACTUAL OBLIGATIONS

Rental and lease obligations
The parent company has obligations amounting to DKK 136 million (DKK 63 million in 2015) in the form of rentals and leasing of operating equipment. Of this amount, DKK 113 million (DKK 39 million in 2015) falls due after more than one year. Rental and lease payments recognized in the income statement amounted to DKK 27 million (DKK 41 million in 2015).

Other purchase obligations
The parent company has undertaken purchase obligations in the amount of DKK 206 million (DKK 115 million in 2015).

Research and development milestones and collaborations
Research and development milestone obligations amounted to DKK 706 million (DKK 683 million in 2015). The total amount of the milestone obligations may increase in line with the development of the projects.

In addition, the parent company is part of multi-year research and development collaboration projects comprising minimum collaboration obligations in the order of DKK 102 million (DKK 33 million in 2015).

Other contractual obligations
The parent company has entered into various service agreements amounting to DKK 107 million (DKK 93 million in 2015).

At 31 December 2016, the parent company's capital contribution obligations amounted to DKK 4 million (DKK 7 million in 2015).

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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 letters of intent to the banks in the amount of DKK 20 million (DKK 19 million in 2015) on behalf of subsidiaries.

Joint taxation
H. Lundbeck A/S is part of a Danish joint taxation scheme with Lundbeckfonden, 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.

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

NOTES 15-17

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES – CONTINUED

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

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

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

Industry obligations
H. Lundbeck A/S has return obligations normal for the industry. Management does not expect any major loss from these obligations.

16. RELATED PARTIES

For information on related parties exercising controlling influence on H. Lundbeck A/S, see note 27 *Related parties* in the consolidated financial statements.

H. Lundbeck A/S is included in the consolidated financial statements of Lundbeckfonden.

H. Lundbeck A/S has not entered into any transactions with related parties that were not on an arm's length basis.

17. EVENTS AFTER THE BALANCE SHEET DATE

See note 30 *Events after the balance sheet date* in the consolidated financial statements.

MANAGEMENT STATEMENT

Today, we considered and approved the annual report of H. Lundbeck A/S for the period 1 January – 31 December 2016.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU, and the financial statements of the parent company have been prepared in accordance with the Danish Financial Statements Act. In addition, the annual report has been prepared in accordance with Danish disclosure requirements for annual reports of listed companies.

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

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

We recommend that the annual report be approved at the Annual General Meeting.

Copenhagen, 8 February 2017

EXECUTIVE MANAGEMENT

Kåre Schultz
President and CEO

Lars Bang
Executive Vice President, Supply Operations & Engineering

Anders Götzsche
Executive Vice President, CFO

Anders Gersel Pedersen
Executive Vice President, R&D

Staffan Schüberg
Executive Vice President, CCO

Jacob Tolstrup
Executive Vice President, Corporate Functions

BOARD OF DIRECTORS

Lars Rasmussen
Chairman of the Board

Lene Skole
Deputy Chairman of the Board

Terrie Curran

Mona Elisabeth Elster
Employee representative

Lars Holmqvist

Henrik Sindal Jensen
Employee representative

Jørn Mayntzhusen
Employee representative

Jesper Ovesen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of H. Lundbeck A/S

OPINION

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

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

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January 2016 – 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Rebates, discounts and allowances in the US

Refer to notes 2, 5 and 29 in the consolidated financial statements.

The Group provides rebates and discounts to customers in the US 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 revenue. The period passing between the sales to distributors and the final determination of the sales price may be several months and requires the unsettled amounts to be recognized as an accrual.

The arrangements are complex and require significant judgement and estimation by Management in establishing an appropriate accrual. This includes estimation of sales volumes subject to the rebates and estimation of applicable rebate rates.

At 31 December 2016, Management determined an accrual of DKK 1,702 million (2015: DKK 981 million) necessary.

How the matter was addressed in the audit

Based on our risk assessment, we have evaluated and tested the appropriateness of the Group's processes for determining the accrual.

We obtained Management's accruals calculations under the reimbursement arrangements and evaluated the accuracy of the calculations and assumptions made by Management. We validated inputs and key assumptions and recalculated the rebate percentages, both to internal and third party data.

INDEPENDENT AUDITOR'S REPORT

– continued

We performed an analysis of the accruals balance by testing to payment trends, obtained and discussed with Management the Group's estimate of the period from sale to payment of rebates, the volumes and rebate rates used, and analyzed expenses by reference to actual rebates paid in prior periods. We also considered the historical accuracy of the Group's accruals by comparing the actual rebate expenses with the related amounts accrued.

Carrying value of goodwill and intangible assets
Refer to notes 2, 7, 8 and 29 in the consolidated financial statements.

At 31 December 2016, the Group has intangible assets of DKK 8,839 million comprising primarily product rights of DKK 4,029 million and goodwill of DKK 4,599 million (2015: DKK 5,134 million and DKK 4,475 million, respectively). An impairment loss of DKK 130 million regarding idalopirdine product rights has been recognized in 2016.

The carrying value of intangible assets and goodwill relies on the discounted expected future cash flows (value in use) which are complex and require significant judgement and estimation by Management. The estimates used for impairment evaluation include timing of product launches, patent expiry, profit margins and discount rate assumptions. There is a risk that the assets will be impaired if these future cash flows deviate significantly from the Group's expectations.

How the matter was addressed in the audit
Based on our risk assessment, we have evaluated and tested the appropriateness of the Group's processes for evaluating intangible assets impairments.

We obtained the Group's impairment test and assessed Management's assumptions, including impact of the expiry of patents and timing of product launches. We assessed:

- the impairment model applied to ensure consistency with previous years;
- the forecast of future cash flows by discussing it with key employees;
- significant judgements;
- discount rates by engaging our valuation specialists to test the Group's weighted average cost of capital (WACC).

We obtained and evaluated Management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions.

For idalopirdine, we evaluated Management's basis for the impairment of all assets related to the product rights.

We also evaluated the impairment testing disclosures.

Restructuring provision
Refer to notes 6 and 29 in the consolidated financial statements.

In 2015, the Group initiated a restructuring programme and recorded a provision for severance payments.

Provision for restructuring can be subjective and require significant judgement and estimation by Management in determining the remaining provision, primarily concerning the remaining employee reductions and costs per employee.

At 31 December 2016, the restructuring provision totalled DKK 523 million (2015: DKK 935 million).

How the matter was addressed in the audit
Based on our risk assessment, we have evaluated and tested the appropriateness of the Group's processes for determining the restructuring provision.

We analyzed and challenged Management's assumptions for the remaining provision, including the remaining employee reductions and associated costs per employee. We have audited the costs charged to the provision during 2016. We also evaluated the presentation and disclosure of the restructuring provision in the consolidated financial statements.

Deferred tax assets and tax liabilities
Refer to notes 2 and 13 in the consolidated financial statements.

Measurement of deferred tax assets requires significant judgement and estimation by Management in assessing the expected future utilization of tax losses and tax credits.

INDEPENDENT AUDITOR'S REPORT

– continued

Further, the Group operates in a multinational tax environment with complex tax legislation and transfer pricing rules. Tax audits of several years may be ongoing in a number of jurisdictions at any point in time. Tax provisioning requires significant judgment and estimation by Management in assessing the level of provisions required for tax exposures and uncertain tax positions. At 31 December 2016, the Group recognized provisions of DKK 365 million in respect of tax exposures and uncertain tax positions (2015: DKK 347 million).

How the matter was addressed in the audit
Based on our risk assessment, we have evaluated and tested the appropriateness of the Group's processes for assessing the recoverability of tax losses and tax credits carried forward.

We evaluated Management's assumptions used for reasonableness, including the projections of future taxable profit in the jurisdictions with tax losses and tax credits carried forward, the planned initiatives and the expiry of the tax losses and tax credits carried forward. We obtained and evaluated sensitivity analyses to quantify the possible impact of changes in key assumptions.

We evaluated the presentation and disclosure of the deferred tax assets in the consolidated financial statements.

Based on our international tax and transfer pricing knowledge, we have evaluated the appropriateness of the Group's tax provision processes.

We analyzed and challenged the assumptions used by Management for determining tax provisions. In evaluating the judgements, we have reviewed and assessed the correspondence with tax authorities, the status of tax audits and the judgements made in tax returns.

We also evaluated the presentation and disclosure of the provision for tax exposures and contingencies in the consolidated financial statements.

STATEMENT ON THE MANAGEMENT REVIEW
Management is responsible for the Management review.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

– continued

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

AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent 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's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding

INDEPENDENT AUDITOR'S REPORT

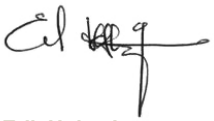
– continued

independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent 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.

Copenhagen, 8 February 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



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